Fund Report

VBF Class A and VBF Class C

Third Quarter / 2008

20 YEARS

INVESTIDOR PROFISSIONAL SINCE 1988

Index

Summary

Our third Fund Report of 2008 for VBF investors comes amid great instability in worldwide markets, leading not only to comparisons with past crises, but also to moments of panic and irrationality.

On one hand we do not want to convey to our readers another summary or opinion on what caused the financial crisis that has been devastating markets globally. But on the other, we deem it important to explain how we are taking on this adverse situation and how we intend to sail through such rough waters. This is what the introductory essay "Going Forward?" is about.

In "Losses and Gains", despite the near-exclusive interest in the "international crisis", we insist that there are also important internal issues to be discussed, especially corporate governance at Brazilian companies.

In the investments section, as announced in the previous report, we bring an update on Globex (GLOB3), an important position in all IP funds. On September 30th, Globex represented 14.3% of the portfolio in VBF Class A and 3.8% in VBF Class C.

The Directors of IP Brazil Fund SPC wish to announce the appointment of Elsen Christian de Carvalho Carmo as a Director of the Fund and that Pedro Henrique Chermont de Miranda has left the Board of Directors of the Fund, with effect from June 30, 2008.

Introduction

"I like to shoot fish on a barrel. But I like to do it after the water has run out."

Warren Buffett

Going forward

Hungarian writer Albert Szent-György tells an interesting story, immortalized in a poem by Czech author Miroslav Holub.

At the end of the past century, a young lieutenant in the Hungarian army participating in military maneuvers in Switzerland sent a detachment on a reconnaissance mission by the Alps. Time passed by and the unit did not come back. It was very cold and the wind was merciless. The wind chill was getting worse by the minute. Snow soon arrived. Heavily. It fell non-stop for two days. And the detachment was still unaccounted for.

The lieutenant suffered, as he feared for the worse. He had deployed his own unit to a sad ending on the icy mountains.

On the third day, a welcome surprise. The group returned alive. Tired and weak. But safe and sound.

A delighted and curious lieutenant asked: "How wonderful, boys. God be praised! Where were you after all? How did you manage to get here?".

- "Lieutenant, it was tough. We got lost, night fell and the snow came. We were terrified. We completely lost hope in surviving. But suddenly, one of the soldiers found a map in his pants' pocket! A true miracle... Of course this calmed us down. We set the base amid the storm and withstood the blizzard. Then it was very easy: we analyzed the map to understand approximately where we were and we headed back here".

Still curious, the lieutenant asked to see the map and analyzed it calmly. After looking carefully, he shouted: "Boys, this is the Pyrenees map, not the Alps..."

There are many ways to interpret this story. The one we deem most interesting to our goals is quite simple. At critical moments, when we quickly need to give pragmatic and effective meaning to situations that are new and potentially adverse, it is far more important to have "a" map on hand than "the right" map.

First, due to the peace of mind and calm that the "map" brings us, preserving our rationality and preventing us from hesitating when we need a clear mind in order to act – or even wait.

Second, because old, familiar references work very well as a starting point from which we build a new intelligibility, setting the route. This happens because of the leads that the new environment offers us, and the answers we reap by gradually interacting with the new surroundings.

The "map" is the base on which we let our "contextual intelligence" flow, making sense of cues brought by the new environment.

Sometimes, small structural similarities between the Alps and the Pyrenees are an excellent starting point that can be the difference between arriving back safe and sound or rot on the heights.

At IP, we are lucky to be able to draw on a simple "map", which we take off our pockets on each and every occasion. Or better: it is usually more efficient in moments such as now, when the rationality of a battered and bruised market simply wanes.

Independence. Rationality. Patience. Discipline. Conservativeness. Long-term horizon. And the mandate to buy stakes in good businesses that have honest and competent managers, requiring a discount, a significant safety margin compared with its value. It can't get any simpler.

In the words of Seth Klarman, the manager of Baupost Group and whose simple and to-the-point book "Margin of Safety" we recommend for those who do not mind spending $1,200-1,500 on it at Amazon or eBay (for this reason, it is the most-frequently stolen book from U.S. libraries):

"Many investors lack a strategy that equips them to deal with a rise in volatility and declining markets. Momentum investors become lost when the momentum wanes. Growth investors – who pay a premium for the fastest growing companies – don't know what to do when the expected growth fails to materialize. Highly leveraged investors, like some quant funds in the headlines, were recently forced to sell regardless of value when their methodology produced losses rather than gains. Counting on a government bailout for every market crisis seems a dicey proposition, especially when supposedly impossible events happen on Wall Street every few years.

By the time the market drops and bad news is on the front pages, it is usually too late for investors to react. It is crucial to have a strategy in place before problems hit, precisely because no one can accurately predict the future direction of the stock market or economy. Value investing, the strategy of buying stocks at an appreciable discount from the value of the underlying businesses, is one strategy that provides a road map to successfully navigate not only through good times but also through turmoil. Buying at a discount creates a margin of safety for the investor – room for imprecision, error, bad luck or the vicissitudes of volatile markets and economies. Following a value approach won't be easy for everyone, especially in today's media-dominated, short-term oriented markets, in that it requires deep reservoirs of patience and discipline. Yet it is the only truly risk averse strategy in a world where nearly all of us are, or should be, risk averse."

In extreme situations, it makes all the difference to have very clear principles coupled with a simple, hands-on philosophy executed with discipline.

We'll spare our reader with one more summary and/or opinion on what caused the current chaos (long-term investors have endured our ramblings before). We think it's important however to present how we're facing it and what we plan to do about it.

Some friends talk to us half-mockingly that as someone that has lived through Brazil's/Emerging Markets' countless crisis over the last 20 years, we should be prepared to face the current scenario. That's partially true. Our leverage aversion, conservative character, emotional and practical experience came handy. We had no leverage, our counterparty risk was limited to sovereign securities and stocks held in custody under the funds' names.

After hoarding cash in July/August, we reduced exposure (no market insights here, just enforcement of value discipline), entering the eye of the storm with a comfortable cash position.

But every crisis has new components, and this one is no exception. This time there's an aspect that makes it quite different for us as well: there's no clear macro-economic model to be aimed at. It's not like derailing emerging economies struggling to emulate the US. It's the US drifting, and some of the core assumptions of its model shaken to the ground.

This is the closest we've got to the end of the world as we know it, at least from the investments stand point. Not because of the price swings or panicked faces, but because it exposed the systems flaws to a degree that makes it very likely that fundamental global changes will be made. That's always dangerous territory, as for the need for change doesn't necessarily comes attached with good solutions. A statement attributed to Venezuela President Chavez illustrates the risks we fear the most: "I nationalize strategic companies and get criticized, but when Bush does it, it's OK." Our take: really nasty people can build self-serving arguments and sell them to the masses under current circumstances.

And in addition to the expected increase in regulation in general, several of the traditional "ism's" may stage a come back, haunting us. Interventionism, nationalism, protectionism. As well as beligerence. And we sould always keep in mind that regulated economies have also shown us their flaws and limitations.

It became crystal clear that markets didn't work that well after all, although many will continue to defend the Efficient Market Theory, use VAR and to reel off Greek letters, just as some people still believe in witchcraft and other more controversial super-natural forces.

The better analogy we can come up with is the fall of the Berlin Wall. An era is over, the task is daunting. The world order will be revamped. The US will have to consume less and produce more, in a major way. We're talking culture here. The financial system, a central cog will have to be redesigned, rebuilt and booted. The "awe" factor of the crisis here is a plus, but it is still likely that it will take time. The world map has changed.

The Western world lacks leaders with standing and clear, sensible vision. Despite the evident increase in countries interdependence, it lacks minimum unity on goals and cohesion. And in this sense, the pre-election period in the United States also did not help much.

All in all, it's indeed difficult to coordinate a group when interests diverge, governance is terrible and the interdependent elements do not even share an understanding of how and to what extent they are interdependent.

Europe tries to sketch a coordination effort. But it seems a rather fragile institutional arrangement. On the other hand, Putin and the Chinese clearly are on a roll. They certainly can lead, but how good would this world be for "us"? And will the new US president be up to the task?

Most prices have come down. Sharply. Most deservedly so. The probability of tax increases in the US has gone up, as well as the magnitude of them. Production and consumption are likely to be rebalanced in a global level. A slowdown seems inevitable. Those who have ever played with an NPV model (net present value of a cash flow) knows TVM (the Time Value of Money).

Zooming in on Brazil, besides the global drag effect (we don't subscribe to decoupling – we believe globalization is inevitable, for good and bad) some corporate governance issues arised that unfortunately confirmed our fears that we're still in stage 4 or 5 (at the most) of a 10 stages race. Risk premia should be built into prices. The folly and irresponsibility of the IPO fever has became blindly clear.

But we remain optimistic on the long-term perspectives for quite a few companies in different sectors of the economy. These companies have staying power and cash at hand to keep growing in their lightly penetrated and fragmented markets. And at current prices, already look compelling.

That global imbroglio will require some workout, although since the investment banks are at the core of it, there can be some wholesale solution to different problems. On the positive side (for us) the freaking out of some investors and capital starvation of some companies start to present some opportunities.

So, what should we do?

As we lack a new "map", we took our old one off the pocket.

Self-servingly enough, we believe the best solution is to have shares in the best managed companies, preferably high on intelligence, brands and systems. Asset light and nimble, and yet "entrenched" in their economic moats. There's the obvious risk that we're behaving like the man that only has a hammer: everything is treated like a nail. But our reasoning goes like that: those companies seem more likely to continue to generate returns in the new order, whatever it might be. It is way more difficult for governments to seize/run/tax them. They're more fluid/mobile. They have revenues in multiple geographies and currencies. They depend less on discretionary credit. They are needed.

We choose to invest in "inevitable" companies. Businesses that do not need much capital. And have robust balance sheets.

In this credibility crisis that is affecting from banks to governments, companies to currencies, to enjoy some diversification through companies with solid franchises and competitive advantages and the capacity to make money in any new order is extremely desirable. When we can do it at attractive prices, it's a no-brainer.

Fortunately, we have the cash to express this vision. Starting in July, we reduced our exposure by bringing our funds to a cash level of approximately 24% in Class A and 31% in Class C, much above the historical levels of IP funds.

Conclusion

The ongoing world crisis, whose magnitude is unprecedented and whose effects are still uncertain, laid bare the excesses and the vulnerability of the capitalist system as we know it.

Throughout this year, more than 10 large financial institutions worldwide, boasting venerable auras and grandiosity, proxies of stability and safe havens for many investors, died along the way. The crisis of confidence that ensued helped remind us how much the independent asset management model, when alignment is truly enforced, enables and strongly reinforces the possibility of choosing among counterparties.

Forging ahead

Our "map" to traverse the coming periods is the same one we have always had. It is neither mind-blowing, nor creative. It is widely disseminated, and without any glamour.

Again. Independence. Rationality. Patience. Discipline. Conservativeness. Long-term horizon. And the determination to buy stakes in good businesses that have honest and competent managers, exacting a discount to their value. It can't get any simpler.

In times like these it is easy to single out severe distortions as international capital flows, de-leveraging, redemptions and forced sales lead prices to disconnect completely from the value of assets. But it does not mean we will rush in. The moment calls for caution, provided that the dominance of these technical and psychological factors may leave things even more interesting for patiently-waiting investors.

But it is too naive to think that the market will surge when things start to improve. Price formation has to do with the balance between supply and demand for assets, and not with present results. And some of today's prices already discount far more than the drop in forecasts for results. Thus, why shouldn't we act?

What a legitimately scared market considers a loss, we see as an opportunity to exercise one of our very few (if only) but decisive competitive advantages: time horizon arbitrage. For those worried about the coming quarter, half-year or year, the uncertainty that we are witnessing is just unbearable. Not to mention that in true copycat fashion, being sensible now equates to selling at any price. It really seems that the "map" guiding everybody was printed backwards. At the best time to invest, they disappear.

Given that cash was hoarded between July and August, keeping an exposure at a much lower level than usual enabled us to pick some good opportunities. We chose among the best-managed companies that have solid competitive positions, in businesses with excellent long-term perspectives and that are lightly capital-intensive, those with market prices absolutely wide of mark. We have been drawing not only on available cash, but also taking advantage of the situation to make some interesting swaps for better assets or even more liquid assets.

As a result, when the market inevitably rallies, we will have built a portfolio with exceptional quality, like we have not had in a long time – because of the inflated prices of assets.

We are witnessing a very delicate moment for the world. But by looking through the perspective that interests us the most as investors, we may be facing a historic opportunity to buy exceptional assets at very attractive prices. This is usually the seed of expressive compounded returns in the future.

Our proposition as an asset manager is to diligently invest the assets of third parties (and our own too) without being worried about consistently producing, year-on-year (much less month-on-month), the greatest returns in the industry or offer the smallest volatility in the market.

Our goal is to offer high absolute returns in the long-term, above the cost of opportunity of our investors, but always adjusted for the risk we are willing to take. And as our longtime investors know it, our vision of risk is much broader than the idea of "volatility".

We see in the diligent search for great distortions, instead of leveraging, the best way to seek long-term results with low risk. In Buffet's own words: "I like to shoot fish on a barrel. But I like to do it after the water has run out."

Today and during its 20-year existence, IP remains bound by its values of rationality, ethics, discipline and conservativeness. And that is how we are going to manage the company and the funds in these new times, sure, as usual, that in order to arrive first, you need to arrive.

Losses and Gains

The Brazilian capital market ends this third quarter of 2008 with one important gain in matters of corporate governance, but also two dangerous losses.

The gain comes from the CVM's Guidance Opinion no. 35, which deals with managers' fiduciary duties in merger, absorption and stock absorption operations involving a controlling corporation and its subsidiaries.

In the Brazilian market, such operations have been the largest source of inequitable treatment of minority shareholders. All one has to do is to recall recent negotiations that included premiums of 200% to 300% between shares held by controllers and preferred shares held by minority shareholders. These operations were made feasible by the absorption of subsidiaries into their controlling companies, using exchange ratios that valued the subsidiaries far below their economic value.

Among the more active minority shareholders, the absorption of subsidiaries is seen as the "great coup" or as the controller's "escape route" from the excellent Instruction no. 361/02, which balanced forces between controllers and minority shareholders when companies are delisted. If the controlling companies had proposed delisting their subsidiaries, it is certain that they would never reach – with the low prices proposed – the acceptance of the required 2/3 of outstanding shares.

In outline, it is the CVM's understanding that the managers of subsidiaries will be fulfilling their fiduciary obligations if they take all necessary measures for the exchange ratio to be negotiated in an independent manner. For that purpose, following international experience regarding the interpretation of managers' fiduciary obligations, the CVM recommends the following:

"(i) that a special independent committee be set up in order to negotiate the transaction and submit its recommendations to the Board of Directors...; or

ii) that the operation be conditional upon the approval of a majority of non-controlling shareholders, including the holders of shares without voting rights or with restricted voting rights".

Despite the controversy about the opinion, we consider the CVM's decision praiseworthy. What worries us, however, is the degree to which companies will adhere to an opinion of this kind, as well as the CVM's legal power to punish non-compliance with it. On the other hand, the vote of the Collegial Council that approved the issue of the Opinion gives us some clues as to how the agency will deal with this matter. In the vote, it becomes clear that the CVM's technical bodies should place "such transactions as a **priority within their risk-based supervision systems**, submitting them to **immediate and rigorous examination** in order to verify compliance with the law".*

Furthermore, the vote says: "...in any **case where the special committee is not formed**, if this happens, (the CVM) shall **immediately and strictly** verify the procedures adopted by the members of the Board of Directors in the decision taking process."*

Therefore, it seems to us that the regulatory entity has taken a fundamental step in order to restrain or at least reduce the chances of such transactions being **inequitable** for minority shareholders. We anxiously await the next operation involving the absorption of a subsidiary in order to see how the managers will behave.

As an example, VCP recently announced the result of its understandings with the Safra group concerning Aracruz's shareholder control. In case of transference of the shareholder participations of the two groups to a holding company, the next step should include an operation to absorb Aracruz into VCP, which would then be controlling Aracruz with 56% of the common shares.

It was in the announcement of this operation for the acquisition of Aracruz's shareholder control by VCP, in August, that we saw one of the two losses in Brazilian corporate governance.

As is common knowledge, the transaction for the acquisition of 28% of Aracruz's ON shares by VCP –

*Our emphasis

which already held 28% of these shares (purchased in 2001 from the Mondi group) – was already announced with the following disclaimer: "In view of the fact that the stock transfers resulting from this sale will be only between members of Aracruz's present controlling block, the acquisition of the shares by VID and VCP **does not** require the presentation, to the other holders of common shares issued by Aracruz, of a public offering for the acquisition of their shares, since **there will be no sale of Aracruz's control.**"

This is the long-standing debate over the supposedly faulty wording of Article 254-A of the Corporations Law. This article is the one that led market participants to think they could count on an 80% tag-along for their common shares in the event of a change in control.

Our view, which coincides with that of many other market participants, is that Article 254-A would guarantee equitable treatment to minority shareholders, enabling them to access the intrinsic and strategic value of the companies in which they invest. In addition, it would ensure that a partner would not receive exorbitant premiums (over 25%) in relation to the others.

But the devil is in the detail. Six years after the overhaul of the Corporations Law, which included this article, we see that its wording has a prevailing legal interpretation that stock transfers among the members of a controlling block **do not** give tag-along rights to minority shareholders ("the law does not only require a change in control; it requires a sale by the party holding it")[1].

It is difficult to believe that one party would be willing to pay extremely high amounts for the stakes of the other participants in a controlling block, if such premium were not justified precisely by the fact that the buyer would then hold the control of the corporation. The argument is even more difficult when one sees the same shares available in the market at lower prices. Thus, minority shareholders see the profile of the control of their corporation change without this giving them the exit right mentioned in the law.

This already seemed to be a problem some time ago, but the specific case of Aracruz has given rise to fears that another dangerous precedent might be set: the operation brings up the discussion of what should or not should be considered "successive acquisition of stakes in the controlling block in such a way as to be characterized as a sale of control"[2]. This is because VCP bought a 28% stake in the ONs in 2001, and now, seven years later, by purchasing another 28%, it achieves what it had already announced as its goal: to become the controller. Is it possible that this operation does not fit into what is said in CVM Instruction 361/02, paragraph 4, article 29?

"Paragraph 4 – For the purposes of this Instruction, the sale of control is understood to be a transaction, or a set of transactions, involving the sale of negotiable securities with voting rights, ..., carried out by the controlling shareholder or persons that are members of the controlling group, by which a third party, or a set of third parties representing the same interest, acquires the company's controlling power as defined in article 116 of Law 6.404/76" .

If this operation does not fit into this provision, what kind of operation would? It is difficult to say, but in view of this difficulty all investors can do is to demand larger discounts when purchasing common shares of companies with shared controlling power. And even start to discount the value of companies that take on a new partner in their shareholder control.

Other recent transactions, involving the absorption of some "New Market companies", clearly showed how fragile shareholder rules are in Brazil. In our opinion, said operations, even if they are positive from the viewpoint of adding value to all parties, include a breach of contractual rule: they rode rough-shod over by-law clauses of the companies absorbed – the so-called poison pills.

This device, a real craze in Brazilian IPOs, seems to us to render a huge disservice to investors. Since their creation, we have looked upon these poison pills as a palliative to the discomfort of controllers that are ill prepared to face the potential administrative instability

(1) and (2) Excerpts from the vote of CVM chairman Marcelo Trindade, in process RJ2007/7230.

that results from fragmented control. In our opinion, the pills aim at making hostile acquisition of control as expensive as possible, determining that whoever acquires a stake that is greater than 15% or 20% of a company is forced to make an offer to all shareholders at very high prices. In practice, the poison pill seeks to make a so-called hostile takeover unfeasible.

We wondered what the dominant shareholders or original controllers of companies with a poison pill would do to “sell” the company if they agreed to the price offered. Because even if the majority wished to sell their shares, it seemed that the poison pill fixed a minimum value too high for the sale of the company. However, in fact, it fixes the minimum value only in cases in which the dominant shareholder or controller does not agree to the value offered. If there is an agreement, the acquisition is made disguised as an absorption, or integration of businesses.

We are not defending the poison pill here. On the contrary. It would be better if they had never appeared, but even a bad rule cannot be disrespected or ignored, under risk of the famous lack of legal safety appearing and, once again, making investors raise the discount they demand for the shares in order to acquire them with a reasonable safety margin.

GLOBEX

At the beginning of last year, we made a significant investment in Globex, Ponto Frio's controlling shareholder.

On that occasion, we increased our participation with the purchase of common shares with voting rights that had no liquidity at all, and preferred shares with low shareholder protection and low liquidity. This is a typical long-term participation comprising part of the portfolio that we can call PIPE (Private Investment in Public Equity).

When we analyzed a possible investment in Globex at that time, we could see two great opportunities to be pursued: Corporate Governance and Operational Restructuring.

Starting on the corporate governance side, the evolution since then has been significant. The company unified its shareholder structure into common shares with voting and tag-along rights, changing its by-laws to prepare for a possible entry into the Novo Mercado, which created a more comfortable position for all shareholders. The last corporate governance issue to be addressed was, undoubtedly, to increase the liquidity of the shares.

That being said, at the beginning of 2008 the company started a process that would culminate in a secondary public offering, with a view to increasing the stock's free float in the market and, consequently, its liquidity. However, the capital market scenario started deteriorating and the offering was suspended. As there was no need for liquidity for the controllers, nor for the other long-term shareholders, it was decided to postpone the offering to a more favorable time.

On the operating side there has been constant progress, but always respecting the expected speed for a complex retail restructuring. At the beginning of last year, after a new CEO, Manoel Amorim, was hired, the team of executives started being put together in order to implement the necessary changes.

We would like to call your attention to three crucial initiatives that in our view will make it possible to achieve a steady, profitable growth path for Globex:

1 – Systems: without the support of systems it is impossible to manage a retail operation, especially if we take into account Ponto Frio's size and complexity. Last year, the present team of executives inherited a company that was still lacking adequate management software for the challenge and the level of competitiveness we find today in the retail segment. The modernization project, with the implementation of SAP, was started in 2008 and is expected to last until next year. With the conclusion of this stage, we may count on significant operating gains, thanks to cost reductions in almost all the company's areas.

2 – Refurbishing of stores: after a long period with few investments, a large part of Ponto Frio's chain of stores was very much out-of-date. The refurbishing of the store base is now of extreme importance in order to re-position the Ponto Frio brand-name as a reference in information technology, as the store undoubtedly plays a fundamental role in the client's consumer experience. A new layout has already been defined, as well as a new team responsible for expansion, which has already managed to significantly reduce the investment per square meter in these modernization projects. By the end of the year, a large number of stores are expected to be already in conformity with the new model.

3 – E-commerce: finally, in our opinion, the internet division has always been one of the greatest opportunities to be pursued, but at the same time it could turn into a source of risk if used unwisely. The growth of e-commerce over traditional retail is unquestionable, a natural movement that is already

evident in developed countries and is starting to pick up speed in Brazil. The traditional and well recognized Ponto Frio brand, together with the power of negotiating with suppliers that already exists, makes Pontofrio.com an operation with great potential.

According to research data, e-commerce sales in the first semester of 2008 were situated around R$3.8 billion. Considering this figure, B2W would have reached a market share of about 55% in the first semester of 2008, while Pontofrio.com achieved a market share of less than 3%. These figures show that the growth potential for Pontofrio.com is very high indeed.

According to recent surveys, about 12 million people have already made purchases over the internet in Brazil. Sales in this market have been growing 49% a year on average in the last five years. Even so, penetration rates are still low. Sales still represent less than 3% of total retail turnover in the country.

E-commerce is a relatively new segment within the retail business. Undoubtedly, the pioneers suffered until they found the most appropriate operating model. Having the opportunity to re-think it, with the good fortune of learning from recent successful experiences, Globex has sought to build its new e-commerce platform with the characteristics that are to be seen in the winners in this segment.

These common characteristics start with the importance of management by highly capable people who know the business. We may say that this is a people business. The asset is not in stores, nor in plants. It is in the capacity and dedication of the people involved in the operation, which is very dynamic. The fight for the client takes place every minute of the day. Information is received in real time, and the great differential is to know what metrics should be followed and how to react to them. Here the game must be won every day, and you run the risk of losing the client with just one click. As it is still a new segment, people's experience in conducting operations that already exist is also important, so as to reduce the speed in implementing them.

In order to meet these challenges, Globex has hired a team of executives with long, successful experience in the segment. They had all worked together in the past, which reduces any risk relating to integration or harmony among them. They were responsible for the implementation and execution of the greatest case of success in e-commerce in Brazil.

When these executives were hired, an aggressive stock options plan with long-term maturity was created, with the aim of aligning and motivating the whole team.

A second characteristic can be observed in several cases in Brazil and abroad. Winning e-commerce businesses are those that were founded on an entrepreneurial spirit. With a light structure, acting in a way that is practically independent from the structure of the mother-corporation, it is possible to move the business out of inertia and into the rapid growth necessary to achieve the desired profitability. We should make no mistake in this regard: this is a business involving scale. Growth must be high in order to achieve the necessary critical mass.

Amazon and B2W are examples that show that the business maturity curve is very much dependent on the scale achieved. In the first years results are low, as are returns. Without losing sight of the long-term potential return and survival of the business, in the short term the focus should always be on growth. When a certain size is reached, we see high returns, which only illustrates the quality of the business.

There was no lack of work for Globex's management in these last 18 months. We believe that the most important initiatives have already started to be implemented and the results will appear in the course of time.

Since we made our investment, the intrinsic value of the business has advanced gradually, thanks to the adoption of all these initiatives, even though the company's shares have behaved with tremendous volatility in this same period, without reflecting the company's real value. Most of this volatility can be explained by the market's own dynamic in this period, but also, to a great extent, by the very low liquidity of the stock.

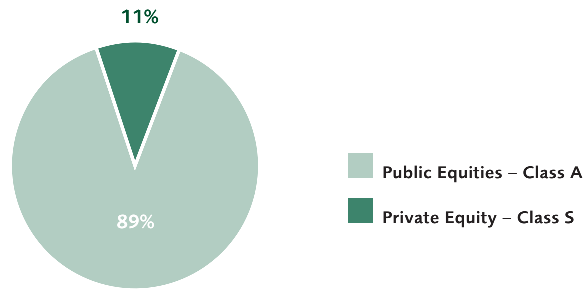
The shares have suffered a sharp fall this year and continue to trade at a large discount in relation to the company's value, especially if we consider all the operational measures already taken in the period, and the increased level of protection to minority shareholders. The company's strategic value is high, because it is a valuable and unrepeatable asset within the Brazilian retail sector, which makes us optimistic in relation to its potential contribution to the Funds.

Performance – VBF Class A Portfolio

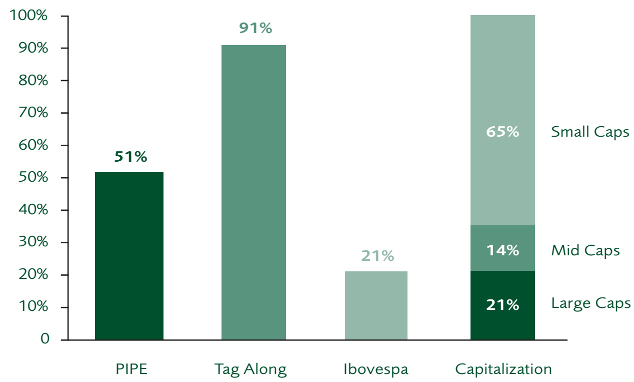
	VBF Class A	Performance (USD)[3]			
	% Invested Equities	VBF Class A	VBF Class S (Mills)	VBF Class S (Casa Show)	Classes A+S+S[2]
September 08	76.09%	-22.50%	-14.90%	-14.08%	-21.69%
August 08	76.97%	-11.22%	-3.97%	-4.10%	-10.52%
July 08	84.68%	-7.93%	1.33%	1.32%	-7.13%
June 08	98.73%	-6.30%	3.17%	1.92%	-5.74%
May 08	98.93%	12.61%	3.24%	0.73%	12.18%
April 08	95.78%	5.63%	3.50%	2.46%	5.53%
March 08	98.25%	-11.97%	-3.98%	-3.53%	-11.66%
February 08	98.58%	6.82%	4.31%	-	6.75%
January 08	97.15%	-8.91%	0.35%	-	-8.68%
December 07	98.90%	2.55%	0.49%	-	2.50%
November 07	98.36%	-5.38%	-1.80%	-	-5.29%
October 07	97.69%	7.68%	4.53%	-	7.61%
2008 (YTD)	-	-39.52%	-8.26%	-15.28%	-39.53%
2007 [1]	-	30.59%	4.03%	-	30.51%
Since inception [1]	-	-21.03%	-4.56%	-15.28%	-18.38%

(1) Inception VBF Class A 2007, Mar 06
(2) Inception VBF Class S 2007, July 06
(3) Net of all fees

Break-down Public Equities x Private Equity

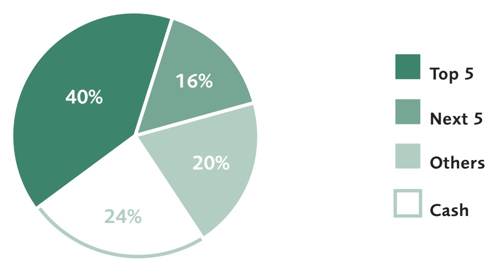


VBF Class A – Equity holding characteristics*



* PIPE: Private Investment in Public Equity/Tag Along: % with tag along rights/Ibovespa: % in the index/ Capitalization: small (smaller than US$1b), Mid (between US$1b and US$3b), Large (larger than US$3b)

VBF Class A – Portfolio Concentration



Structure

IP Brazil Fund SPC, VBF Segregated Portfolio is an exempted company registered as a segregated portfolio company, incorporated under the provisions of the Companies Law of August 3, 2006 of the Cayman Islands.

Investment Manager: Investidor Profissional Gestão de Recursos Ltda.
Net Asset Value Calculator: Mellon Serviços Financeiros DTVM S.A.
Brazilian Custodian: Banco Bradesco S.A
Bank: UBS AG, Stamford Branch, CT (USA)
Registrar and Transfer Agent: UBS Fund Services (Cayman) Ltd.
Auditor: KPMG
Inception Date of Classs A: March 06, 2007

Terms and Conditions

Subscription: On scheduled rounds. Closing day of the first round was March, 2007.
Minimum Initial Investment: US$ 1,000,000.00
Redemption: Lock-up Period of 18 months. Redemption dates on the last Business Day of each calendar quarter, with a three months prior notice
Maximum Redemption: Limit of 10% of the issued shares of the class in each quarter of the first five years after the lock-up period and 15% thereafter.

Terms and Conditions (cont.)

Management Fees: (i) 1.0% per annum of the Net Asset Value of the VBF Segregated Portfolio allocated to fixed income investments, including but not limited to cash, and (ii) 2.0% per annum of the Net Asset Value of the VBF Segregated Portfolio allocated to the remaining Investments.
Any Management Fee and Incentive Fee payable in respect of any Class S Shares representing Designated Investments will not be paid until the realization or deemed realization of the Designated Investments.
Incentive Fees:

- 20% computed on returns in excess of IPCA+9%, with catch-up mechanism:
  – between IPCA+9% and IPCA+10% p.a.: 100%
  – above IPCA+10% p.a.: 20%
  note: IPCA is the Brazilian Broad Consumer Price Index
- High-water-mark mechanism avoiding double charging for same performance
- Accrued daily and paid semi-annually

Additional Information

For additional information regarding of VBF, please contact us by phone at (55 21) 2104-0506 or by e-mail at contactus@investidorprofissional.com

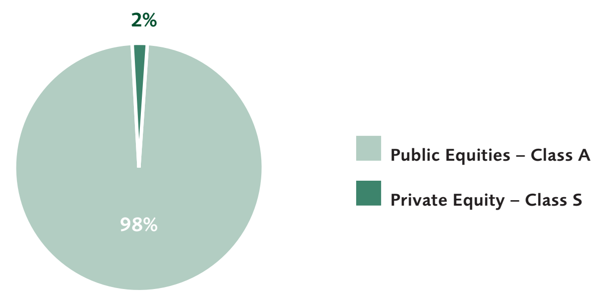
Performance – VBF Class C Portfolio

	VBF Class C	Performance (US$)		
	% Invested Equities	VBF Class C	VBF Class S (Casa Show)	Classes C + S [2]
September 08	68.67%	-19.47%	-14.07%	-19.38%
August 08	66.02%	-8.04%	-4.10%	-7.98%
July 08	73.84%	-6.84%	1.31%	-6.73%
June 08	89.13%	-3.06%	1.92%	-3.00%
May 08	90.20%	15.78%	0.73%	15.59%
April 08	83.53%	5.07%	2.54%	5.04%
March 08	83.90%	-8.67%	-3.53%	-8.60%
February 08	83.14%	8.71%	-	8.71%
January 08	77.38%	-6.89%	-	-6.89%
December 07	76.01%	-1.54%	-	-1.54%
November 07	64.84%	-1.64%	-	-1.64%
2008 (YTD)	-	-24.78%	-15.22%	-24.61%
2007 [1]	-	-3.15%	-	-3.15%
Since inception [1]	-	-27.15%	-15.22%	-26.98%

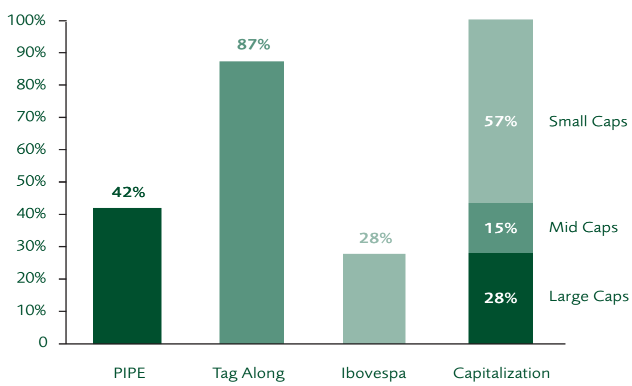
(1) Inception VBF Class C 2007, Nov 09

(2) Inception VBF Class S 2008, Mar

Break-down Public Equities x Private Equity



VBF Class C – Equity holding characteristics*



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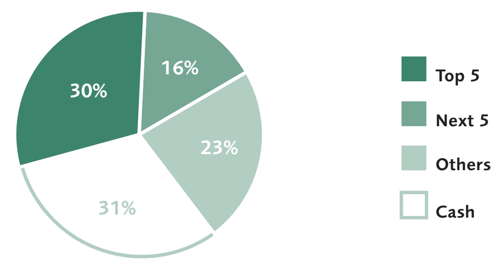
VBF Class C – Portfolio Concentration



Structure

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Net Asset Value Calculator: Mellon Serviços Financeiros DTVM S.A.
Brazilian Custodian: Banco Bradesco S.A
Bank: UBS AG, Stamford Branch, CT (USA)
Registrar and Transfer Agent: UBS Fund Services (Cayman) Ltd.
Auditor: KPMG
Inception Date of Classs C: November 09, 2007

Terms and Conditions

Subscription: On scheduled rounds. Closing day of the first round was March, 2007.
Minimum Initial Investment: US$ 1,000,000.00
Redemption: Lock-up Period of 18 months. Redemption dates on the last Business Day of each calendar quarter, with a three months prior notice
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Miscellaneous

"Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria. The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell." – Sir John Templeton

"I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful." – Warren Buffett

"The most common cause of low prices is pessimism. We want to do business in such an environment not because we like pessimism, but because we like the prices it produces. It's optimism that is the enemy of the rational buyer." – Warren Buffett

"As happens in Wall Street all too often, what the wise man does at the beginning, the fool does in the end. We don't know how far up a bubble can go. Be careful that everyone will turn into pumpkins at midnight (and there's not clock on the wall)" – Warren Buffett

"The four most expensive words in the English language are "This time it's different." – Sir John Templeton

"Money is always there, but the pockets change" – Gertrude Stein

"Life's not about waiting for the storm to pass. It's about learning to dance in the rain." – Anonymous

"Man is, and always was, a block-head and dullard, much readier to feel and digest than to think and consider" – Thomas Carlyle

"When one door closes, another opens. But we often look so regretfully upon the closed door that we don't see the one that has opened for us." – Alexander Graham Bell

"I can calculate the motions of heavenly bodies, but not the madness of people". – Sir Isaac Newtow

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