Fund Report

VBF Class A and VBF Class C

First Quarter / 2009

Investidor Profissional
Since 1988

Index

Summary

In this first quarterly report of 2009, despite the almost universal interest in the unfolding of the crisis and the prospects for recovery, both in Brazil and in the main world economies, we do not fail to give due attention to important debates that have been occurring in our capital markets. In the introductory part of this report, we have chosen to make a short comment on the delicate subject of poison pills, and the possibility of removing the entrenched clauses from companies' by-laws.

In the Investments section we present comments on VBF Classes A and C's performances and on some of the current positions.

ON POISON PILLS

A debate that has been growing in the market lately is that regarding the famous “poison pills” – conditions placed in companies’ by-laws, especially during the "IPO party", that govern concentrations of shareholders in the companies’ capital. In general, the clauses determine that a public offering for all shareholders must be made by those who actively go beyond a certain level of participation, at prices based on rules also defined in the by-laws.

Like everything in life, this stipulation has its pros and cons. In its favor, we see the protection it gives shareholders in general against a furtive takeover that might imply unfair transfer of value. On the negative side, we see the risk of leaving managers with little or no interest in the company’s long-term results in a dominant position, characterizing the so-called "agent conflict". This is, no doubt, a great risk, as we pointed out in the “Miscellaneous” section of IP– Participações' 1996 report, in the words of Robert Monks, in his “Power and Accountability”:

“The corporation has now become so powerful that it has outstripped the limitations of accountability, becoming something of an externalizing machine, in the same way that a shark is a killing machine – no malevolence, no intention to harm, just something designed with sublime efficiency for self-preservation”.

If the question ended there, it would be easy. Given the typical permitted limits of 15% to 20%, it would be enough to guarantee investors' right to organize (to us, something that seems deficient in the US market, for example) for a reasonable balance to be reached. But it does not end there.

Eager to continue the party in a frantic and clearly unsustainable rhythm, during the IPO fever, intermediaries came up with an “idea” to persuade controlling shareholders who were doubtful with regard to the possibility of losing control: an entrenched clause, which specified that those who voted in favor of any change in the poison pill conditions would then be jointly responsible in the obligation to make the offer in the conditions established in the by-laws. Obviously, quality was sacrificed to quantity, bringing to the market companies and entrepreneurs that did not have the same beliefs presumed to exist in the spirit of the "Novo Mercado"[1]. Moreover, a great obstacle to consolidation processes was created. We have seen and taken part in discussions regarding cases in which a deal was attractive to all those involved – controllers, managers and minority shareholders of both the parties in question – but for each shareholder individually it was more attractive to vote against the initiative and to sell in the public offering prescribed in the by-laws. Unfair? Immoral? The rule is clear, it was in the by-laws, in the prospectuses, it was approved at a GSM and used as a sales argument. It is enough to place oneself in the position of an investor on the other side of the world that has done his homework, studied the documents in depth so as to give a good foundation to his decision, and counted on the rule within a consolidation investment thesis. Once again: would that be unfair? Immoral?

We understand, and in many cases we share, the feeling of frustration in relation to the limitations established, but the latter seems to us less important than the moral values involved. Entrenched clauses, especially when they are so significant, so widely disseminated and manipulated by so many investors, lawyers, bankers, auditors and regulators, should be untouchable.

In short, is it worth losing the credibility of entrenched clauses in order to repair past mistakes? No matter how painful the alternative is, it seems to us that following this path would bring even more perverse long-term effects.

1 Novo Mercado is a listing segment designed for shares issued by companies that voluntarily undertake to abide by corporate governance practices and transparency requirements in additional to those already requested by the Brazilian Law and CVM (Brazilian Securities and Exchange Commission).

The change in the market prices of the assets in both VBF Class A and VBF Class C portfolios was 5.8%, net of all costs, in the first quarter of 2009.

The fluctuation of the percentage invested in both VBF Classes from the beginning to the end of the quarter was not very significant (from 78.5% to 82.7% in Class A and from 80.7% to 81.9% in Class C). Obviously this percentage is not a variable that we actively control, but rather the result of our ability (or otherwise) to identify opportunities that will satisfy our qualitative and quantitative requirements, within the Fund's restrictions in respect of the regulations and risk control.

In this context, we take the opportunity to reiterate our vision and focus, which consist of identifying opportunities that combine companies with specially attractive business models and/or competitive advantages, good governance, and attractive prices, wherever they are.

InBev

The company took advantage of the improvement in the markets in January to stretch out its debt profile. As a result, the greatest fears of the market were mitigated, and the company's stock made a recovery, rising from levels of EUR 16.50 to over EUR 20. In addition, we also maintain a position in AmBev, which we consider less attractive, given the present relation between prices, but still attractive. Although the difference in characteristics between the companies is significant (in matters of shareholder rights, markets, currency exposure and leverage), we believe that we know how to take these differences into account in appraising the respective values. The fact that this distortion in perception exists leads us to wonder whether we are making some valuation mistake or whether it is the effect of a lack of arbitrators in the market.

Itaúsa

Comparing the beginning and the end of the quarter, the stock hardly moved. But in the course of the quarter there were significant fluctuations that enabled us not only to increase the position substantially, to over 12% in both VBF Classes, but also to obtain a positive 1.3% contribution to both funds.

Saraiva

This company published yet another excellent yearly result in 2008, confirming its quality as a good business, managed by honest and competent professionals. Over the last 5 years, Saraiva's average ROE was 28%, and the company has succeeded in re-investing a good part of the results.

Despite the good performance, some people question the fact that the company has been investing more in Livraria Saraiva (the bookstore segment), a business that is considered "worse" than Editora Saraiva (the publishing company) because historically it has presented lower returns. Without a doubt, the publishing business has proved to be better over the years, but the same reasons that make it so exceptional – focus on sectors that it masters, and in which it has managed to overcome the entry barriers created by the long period for investments to mature, as well as the intangible values of titles and collections – also make growth slow and difficult. It is not enough to just put new cash in. It is more a question of making long-term strategic movements and taking advantage of occasional opportunities, such as the case of the acquisition of Editora Atual. The more pertinent question in relation to Saraiva's investments to us seems to be whether the investment in the bookstore company of part of the cash generated by the publishing house makes economic sense.

Parallel to the traditional quality of the results booked by Editora Saraiva, Livraria Saraiva offers increasing proof of the coming to maturity of its modernization and growth process that started over 10 years ago. The evolution of the ROE makes this clear. From a negative average level in the first half of the decade (2000 to 2004), the company moved to a level of 18%, from 2005 to 2008. With the purchase of Siciliano, the company has taken another important step, and as the benefits of consolidating operations appear in the course of the years 2009/2010, it is reasonable to expect continuing good results.

Our doubt, in fact, is related to the allocation of Livraria Saraiva's investments between its physical stores and Saraiva.com. Given the restrictions in terms of funds, and especially of time, it might be justified to give greater emphasis to the dot-com business, as it has greater returns and scale. But it is not a simple issue. If, on the one hand, the dot-com's costs are lower and the return is higher, it certainly benefits from the strength of the brand that is generated by the bookstores. Given the confidence we have in the company's management, we make our suggestions, but respect their decisions. In any case, the dot-com has already booked sales of R$ 247 million in 2008, equivalent to 32% of the whole of the bookstore segment's sales.

The position in Saraiva remained significant, approximately 8.5% in both VBF Classes. In our view, the fall in the stock price during the quarter was totally disconnected from the company's fundamentals and prospects. At price levels of R$ 15.00 we have a market capitalization of just over R$ 400 million, in comparison with an R$ 80 million profit in 2008, which was obtained,as always, with low leverage, and sales of R$ 352 million for the publishing company and R$ 767 million for the bookstore company. According to our valuation, each of the two businesses, independently, is worth a good deal more than the market capitalization. Were it not for the Fund's liquidity restrictions, we would have been aggressive buyers of the shares at the price levels observed during the quarter.

Lojas Renner

In the course of the first quarter, the story of the previous quarter was repeated. The company was very frank in admitting the impacts caused by the crisis and the climate on the results, which continued to be very positive but without the excellence we are used to. As we continue to see the same structural advantages, we took advantage of the weak stock quotations in order to increase the company's participation in the portfolio, from approximately 3.4% in VBF Class A and 6.3% in VBF Class C to slightly above 9% in both funds.

Real estate Sector

We have significantly increased our exposure to this sector, from approximately 4% to almost 7% in both VBF Classes. Although we do not think our level of knowledge enables us to understand it as well as we would like to, the combination of the foreign investors' exaggerated aversion at the end of 2008 – which drew the sector's stock prices down to much more reasonable levels – with the current political enthusiasm in relation to this sector, seems very attractive to us. Obviously, we have carefully studied the companies in the sector, in which we have reasonable experience, acquired in the international market over the years and from our investment in Rossi Residencial back in the nineties. The situation seems to us similar to that recently described by Warren Buffet: "We are not able to say whether a cow weighs 300 or 400 kg, but we are absolutely convinced that it weighs over 100..."

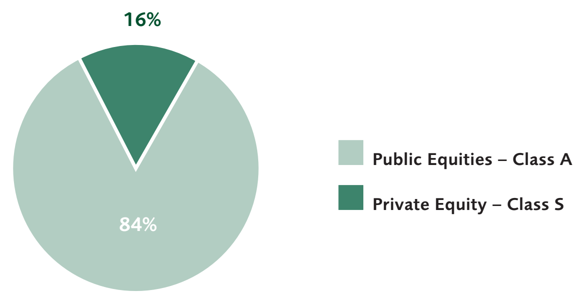
In our last report, we mentioned our mistake regarding the size of our positions in Globex and Springs/Coteminas. The position in Springs has already been totally liquidated; and the Coteminas position has been reduced to approximately 3.6% of both VBF Classes, a level that seems adequate to us, considering the present prices and the fact that we are more aligned with the controlling shareholder. The position in Globex is at levels of approximately 6.1% of VBF Class A and 6.6% of VBF Class C, sizes we consider adequate, especially in view of the present prices in relation to the company's value, and the recent corporate events. It should be recalled that the company has tag-along rights, and board members of the caliber of Pedro Malan, Francisco Gros and Marcelo Trindade.

Performance – VBF Class A Portfolio

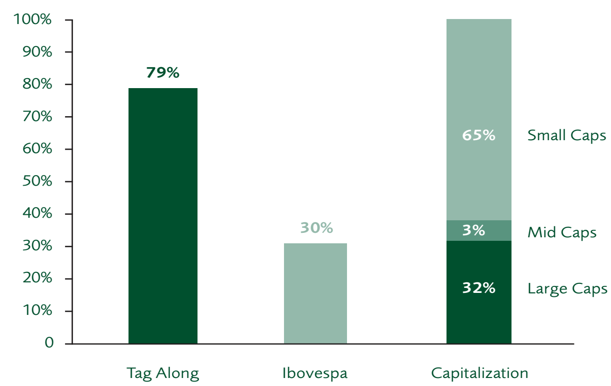
VBF Class A		Performance (USD)[3]			
	% Invested Equities	VBF Class A	VBF Class S (Mills)	VBF Class S (Casa Show)	Classes A+S+S[2]
March 09	82.65%	6.05%	2.56%	2.80%	5.48%
February 09	80.81%	-2.13%	-2.88%	-2.24%	-2.21%
January 09	79.73%	1.94%	0.68%	1.23%	1.76%
December 08	78.45%	1.23%	-0.36%	0.22%	0.99%
November 08	76.43%	-6.53%	-9.62%	-7.91%	-6.96%
October 08	72.07%	-25.33%	-9.77%	-1.05%	-22.64%
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%	0.0246	5.53%
2009 (YTD)	-	5.80%	0.27%	1.73%	4.96%
2008	-	-57.28%	-25.46%	-22.64%	-54.54%
2007 [1]	-	30.59%	4.03%	-	30.51%
Since inception [1]	-	-40.97%	-22.25%	-21.30%	-37.72%

(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

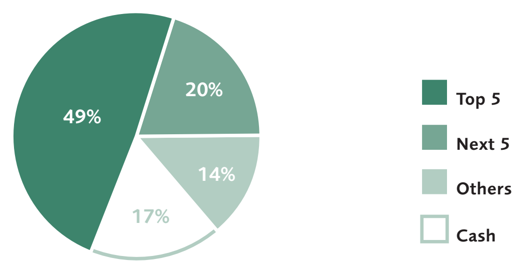


VBF Class A – Equity holding characteristics*



* 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

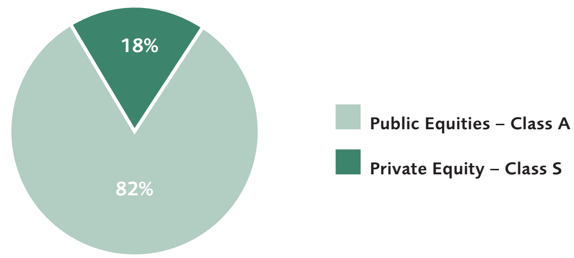
Performance – VBF Class C Portfolio

	VBF Class C	Performance (USD)			
	% Invested Equities	VBF Class C	VBF Class S (Casa Show)	VBF Class S (Mills)	Classes C+S+S (2)
March 09	81.91%	6.03%	2.95%	2.50%	5.43%
February 09	80.93%	-2.14%	-2.06%	-2.84%	-2.17%
January 09	79.84%	2.00%	1.21%	0.67%	1.82%
December 08	80.75%	2.23%	0.30%	0.52%	1.88%
November 08	81.29%	-6.06%	-7.43%	-8.02%	-6.36%
October 08	76.52%	-18.50%	-10.94%	10.11%	-17.86%
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%
2009 (YTD)	-	5.84%	2.05%	0.26%	5.02%
2008	-	-41.12%	-29.90%	1.80%	-40.92%
2007 (1)	-	-3.15%	-	-	-3.15%
Since inception (1)	-	-39.64%	-28.46%	2.06%	-39.91%

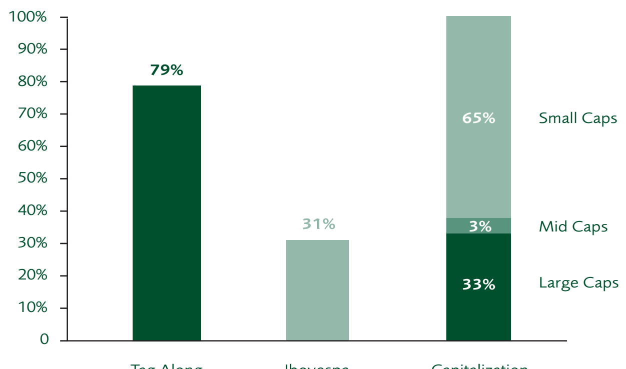
(1) Inception VBF Class C 2007, Nov 09

(2) Inception VBF Class S 2008, Mar

Break-down Public Equities x Private Equity



VBF Class C – Equity holding characteristics*



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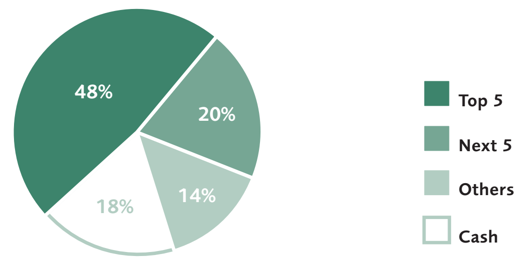
VBF Class C – Portfolio Concentration



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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

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.

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Additional Information

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Miscellaneous

"I don't make movies to make money. I make money to make movies" – Walt Disney

"Why I do what I do?" – Ray Ozzie

"I never, ever thought of myself as a businessman. I was interested in creating things I would be proud of" – Richard Branson

"A great many people think they are thinking when they are merely rearranging their prejudices" – William James

"There are two levers to keep a man in motion: fear and self-interest" – Napoleon Bonaparte

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