Fund Report

VBF Class A and VBF Class C

Second Quarter / 2009

Investidor Profissional
Desde 1988

Index

The change in the market prices of the assets in VBF Class A portfolio was 44.9% and in VBF Class C was 43.9%, net of all costs, in the second quarter of 2009.

VBF Class A and VBF Class C's largest individual positions continue to be Itaúsa, Saraiva, Lojas Renner, Totvs, InBev/Ambev and Globex. The highlight in the quarter was the appreciation of the Globex portion, which culminated with the sale of the company's controlling stake to the Pão de Açúcar Group.

Globex

The long-awaited change in control finally took place. In the process, three alternatives were offered to Globex shareholders:

a) To sell for 80% of the price paid to the controlling shareholders, for payment in 4 years.

b) To accept the same conditions offered to the controllers with a 20% discount, receiving part in cash and part in shares, convertible in the course of the next 18 months into Pão de Açúcar Group stock, with a compensation if Pão de Açúcar shares are quoted below R$ 40.00 on the date of conversion.

c) To continue as Globex shareholders.

We are still studying the matter. Alternative (a) does not make sense for us. The fundamental difference between (b) and (c) is in the risk/return ratio. Alternative (c) presents potential for greater gains, because the valuation of the operation was low and possible gains in Globex for Pão de Açúcar will tend to be diluted within a much larger company. In addition, Pão de Açúcar's CEO, Cláudio Galeazzi, has an excellent track-record in restructuring operations.

On the other hand, this alternative gives rise to a number of corporate and operational issues, the answers to which are not yet clear. In the course of the next 30 days we should have a definition. At current prices, reasonably determined for the offer made by the Pão de Açúcar Group, the position in Globex corresponds to approximately 6.4% of VBF Class A and 8.0% of VBF Class B.

Lojas Renner

The company's shares appreciated by about 50%[1] (73%[1] since the R$12.50 recorded in the latest "trough"). Apparently, this time the comments regarding risks were seasoned with a more balanced view. We realized a significant part of our position, but given the appreciation, the percentage of both VBF Class A and VBF Class C invested in the company was 8.4%.

Saraiva

The company's stock rose more than 50%[1] during this period. Although first quarter results were good, they were not all that surprising. The extremely depressed level of previous quotations is certainly a better explanation for the rise. Even at the present levels, we still believe that this is one of the cheapest stocks in the Brazilian market, given the quality of the company. We reduced our position, especially within the project of introducing a more diversified base of investors and more liquidity to the stock. The participation of the company's stock in VBF Class A was 7.8% and VBF Class C was 9.4%.

Itaúsa

Considering that the shares rose less than the market (and VBF) and the investment case remains unchanged, we bought more shares so as to maintain the same percentage of the portfolio invested in the company. At the end of the quarter, Bank of America announced that its position in Banco Itaú, received when BankBoston was sold, will be maintained, despite the process of restructuring and sale of assets it is going through. For those concerned with the short term, the declaration removes a possible "drag down" factor in the stock price. For us, it was an opportunity to use part

(1) In R$.

of the gains made in other investments to increase our position in one of the best companies in Brazil at attractive prices.

Real Estate Sector

The reversal of expectations came earlier, and with great strength. The positions in the sector, which had been increased from 4% to 7% in both Classes in the first quarter, were reduced back to previous levels. Even though we continue to be very optimistic about the sector in the medium to long term, the present prices of the best companies certainly already anticipate their prospects to a great extent, while the risks we see remain the same, considering that they are primarily related to the business model of the developers and, in some cases, they are of a corporate nature. The development of the sector will certainly bring more diverse models; and although the quality of most of the companies brought to market is historically low, and the prices high, in the course of time opportunities end up appearing.

We will continue increasing our knowledge of the sector in the hope of taking advantage of such opportunities. For the time being, we are gradually building a position in a related company, Duratex (of the Itaúsa Group – not included in the above-mentioned aggregate data of the real-estate sector in our portfolio). The merger with Satipel, proposed at the end of the period, only increased our "predilection" for the position.

Shareholders meetings

The GSM season was very busy. The increase in the number of companies – including those where there is no defined controlling stake, requiring as a consequence greater coordination and preparation – helped to make it busier and is the inevitable result of a healthy movement in Brazil. What we hope is not inevitable is the concentration of such meetings in the last two weeks of April.

While in Brazil the most interesting discussions took place in the sphere of capital allocation, the biggest debates in the British season were related to executive compensation. Although the amounts involved are high in absolute terms, they are much lower than those seen in the United States, especially with regard to the variable portion. In fact, this is a characteristic that is not only British, but also European. On the other hand, US executives have succeeded in creating a situation in which compensation seems to us excessive and disconnected from performance, but is supported by arguments such as "this is the market standard" and "we must pay above the average in order to attract and retain the best executives". Obviously, when everyone tries to be above the average, in the absence of a limiting factor, the average rises indefinitely. As globalization advances, we are likely to move towards a greater standardization of the matter on both sides of the Atlantic; and given the growth in the segment of companies without defined controlling shareholders, this discussion should arrive, in full strength, in Brazil very soon. This is a subject that we consider extremely important and to which we have always dedicated, and will continue to dedicate, a lot of study and attention.[2]

Berkshire Hathaway

Once again, members of the IP team took part in the event (we have been shareholders for a long time through the IP-Global Fund). Unfortunately for us, the event has gradually changed into a tourist attraction, with 35,000 people participating this year in a marathon that starts on Friday afternoon, and, along with barbecues and outings, includes the famous Q&A session with Buffett & Munger. As a lot has been reported about it, we will limit ourselves to one of Buffett's answers, when he was asked for the n^{th} time about his succession:

"My post will be split in two, one of CEO and another of CIO. The Board has the names." Next came the question: "Why not announce the names straight away and bring them in to be trained?" – to which Buffett replied: "I spend practically the whole of my days reading and

(2) We presented a conceptual debate on this subject, especially regarding the difficulties in establishing a "correct" compensation system, in the introduction to our Report for the fourth quarter of 2008, under the title "Own-Goal".

speaking on the phone. Then I play bridge on the computer. I don't see any point in taking highly qualified people away from their jobs to watch me while I do that."

We consider the above passage particularly significant for everything it disputes. One of the best and certainly the biggest manager in the world does not seek support in a big organization, full of complexities and fulfilling the commonly accepted standards. On the contrary, he bases himself on a voracious appetite for information coming from sources that have been deliberately selected and cultivated throughout his life; and on common sense, patience, discipline and an "escape valve", to avoid "overdoing it ". Easier said than done.

Conclusion

It is important to put prospects into line. Historically, it is not common for IP Funds to yield similar returns to that of the Ibovespa in short periods of accelerated rise. Rationally, it cannot be expected either, given that the percentage invested in equities is lower than 100% and tends to fall as the market rises. A historical analysis shows us that long-term outperformance was built during the great falls, when we fall less.

Evidently, the ideal thing would be to rise together with the Ibovespa during the great rises, like what happened this time, but obviously if we knew beforehand when a big rise would occur...

The reduction in the percentage of the long position reduces risks but also the earnings potential. The ideal scenario for us would be a greater market realization that would leave us comfortable to acquire larger positions. On the other hand, not only do the shares of companies such as Lojas Renner, Saraiva, Totvs and Itaúsa, at current prices, still have a great deal of "fat" for rises, based on what they are today, but also they continue generating value – regardless of whether the optimistic scenario continues – considering their intrinsic qualities.

We reiterate that the big risk we see (and unfortunately it is materializing) as a consequence of the crisis is that it is used to advance ideas that have already proved flawed but that benefit certain groups.

At a recent conference in New York, David Einhorn, Greenlight Capital's excellent manager, presented his thesis of the "AAA Curse", with which we fully agree. While many analysts say that the insolvency of AIG (the largest insurer in the world) occurred because it had turned into a hedge fund, Einhorn questions whether the correct way of analyzing the issue is not the opposite: that is, it went broke precisely because it was not a hedge fund, but rather a regulated institution with AAA rating, generating a false impression and complacence on the part of its trading partners, which would hardly have occurred if it were in fact a hedge fund. But the issue is not limited to AIG. Fannie Mae and Freddie Mac, the giants that promoted the US real-estate bubble, besides being GSEs (Government Sponsored Entities) and supposedly supervised by regulating agencies specially created for that purpose, were also AAA, as were the single-line insurers that gave support to the AAA rating for many CDO issues that turned out to be problematic.

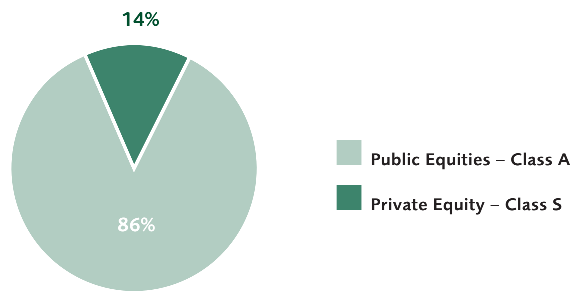
The tendency towards optimism after a "decompression" of bad news is innate to human beings, but, being aware of that, we are proceeding with double caution. As we stressed above, our work is to compare prices with values in the light of risks. Prices usually move ahead of events, and in many cases they anticipate prospects to an exaggerated degree. The evidence is that many things still have to be tidied up after the "big party"; and it is worth finding the best bedrooms so that we can sleep well during this phase.

Performance – VBF Class A Portfolio

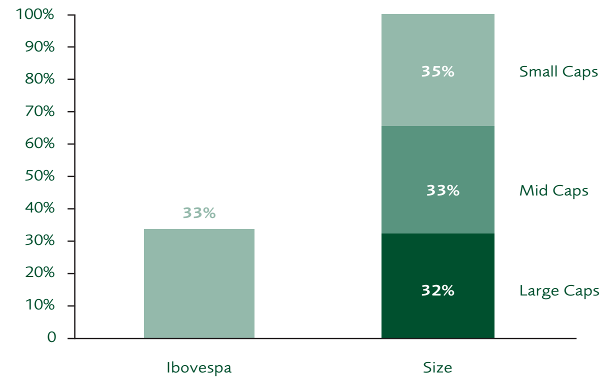
VBF Class A		Performance (US$)[3]			
	% Invested Equities	VBF Class A	VBF Class S (Mills)	VBF Class S (Casa Show)	Classes A+S+S[2]
June 09	77.31%	-0.37%	0.94%	1.21%	-0.17%
May 09	80.05%	15.74%	14.85%	9.94%	15.34%
April 09	79.22%	25.67%	6.15%	5.93%	22.46%
March 09	82.65%	6.05%	2.56%	2.80%	5.48%
February 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%
2009 (YTD)	-	53.32%	23.39%	19.91%	48.00%
2008	-	-57.28%	-25.46%	-22.64%	-54.54%
2007 [1]	-	30.59%	4.03%	-	30.51%
Since inception [1]	-	-14.46%	-4.32%	-7.24%	-12.19%

(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

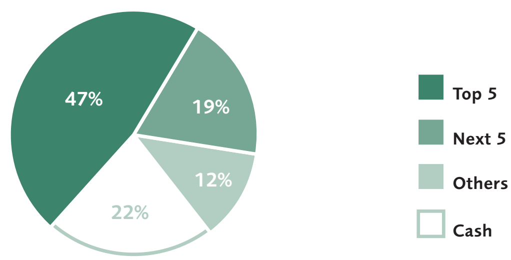


VBF Class A – Equity holding characteristics*



* 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

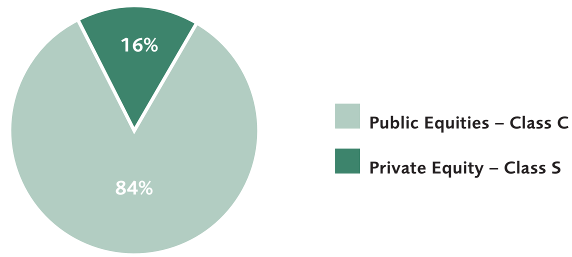
Performance – VBF Class C Portfolio

	VBF Class C	Performance (US$)			
	% Invested Equities	VBF Class C	VBF Class S (Casa Show)	VBF Class S (Mills)	Classes C+S+S [2]
June 09	87.63%	-0.41%	1.27%	0.92%	-0.17%
May 09	77.83%	15.24%	10.45%	14.57%	14.67%
April 09	77.46%	25.34%	6.32%	6.08%	21.85%
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%
2009 (YTD)	-	52.25%	21.37%	22.97%	46.49%
2008	-	-41.12%	-29.90%	1.80%	-40.92%
2007 [1]	-	-3.15%	-	-	-3.15%
Since inception [1]	-	-13.18%	-14.91%	25.18%	-16.18%

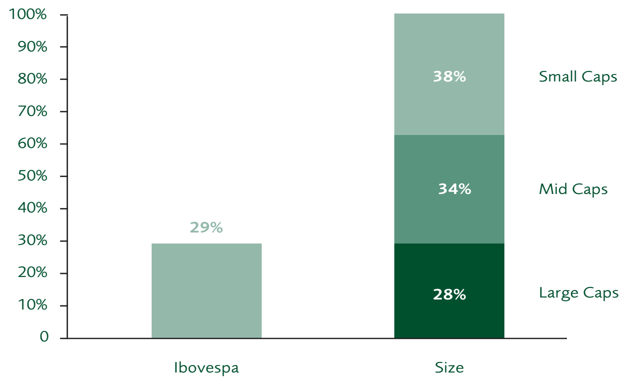
(1) Inception VBF Class C 2007, Nov 09

(2) Inception VBF Class S 2008, Mar

Break-down Public Equities x Private Equity



VBF Class C – Equity holding characteristics*



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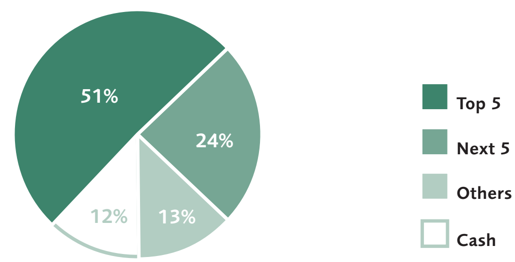

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Bank: UBS AG, Stamford Branch, CT (USA)

Registrar and Transfer Agent: UBS Fund Services (Cayman) Ltd.

Auditor: KPMG

Inception Date of Classs C: November 09, 2007

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Miscellaneous

One should not think about the result. One does not travel to reach a destination, but to travel. – Johann W. Goethe

People exaggerate the value of things they haven't got. Everybody worships truth and unselfishness because they don't know what they are like – George Bernard Shaw

Capitalism is the outstanding belief that the wickedest of men will do the most wickedest things for the greatest good of everyone – Keynes

It's very hard to change a system when the guy whose hand is on the switch benefits enormously and, perhaps, disproportionally from that system. – Warren Buffett

A people that values its privileges above its principles soon loses both – Eisenhower

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