

FUND REPORT

VBF CLASS A AND VBF CLASS C

THIRD QUARTER / 2009



INVESTIDOR
PROFESIONAL

DESDE 1988

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The change in the market prices of the assets in VBF Class A portfolio was 25.4% and in VBF Class C was 27.5%, net of all costs, in the third quarter of 2009.

The percentage invested in stocks fell to 73% in VBF Class A and 71% in VBF Class C. Again, the reduction does not represent a global assessment per se, but it results from our inability to find alternatives **at prices that could ensure a good margin of safety** for a greater exposure.

In short, Brazilian stocks **in general** (and with a low standard deviation) seem to be priced based on a positive, turbulence-free scenario. And our experience tells us that turbulence is more frequent than we would like it to be.

LUPUS

We wrote the following one year ago:

"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."

Fast-forward 12 months and despite the widespread

optimism, we are apprehensive. There is no doubt that the decrease in interest rates, the outlook for the pre-salt oil and the benefits of Brazil's growing role in the globalized world have been contributing positively and should continue that way. But two factors concern us: the State's hypertrophy and prices. Stock prices **in general** reached a reasonable level for a scenario of harmonious growth. But political trends seem to drive us away from harmony.

The continuous increase in the State's size compared with the economy as a whole is mathematically unsustainable. In our opinion, this is unsustainable and tends to generate a serious cost if not reversed. Also, its effects are delayed given the inertness of economic mechanisms. We will only feel the consequences of what is being made in a few years.

We have been studying the health sector globally and an analogy is clear: governments are like the immune system. They are central to life, defending the organism from predators and incompatible elements. When they are uncontrolled and exaggerate, such as autoimmune diseases, they attack healthy cells and organs, leading the organism to death if they are not controlled. In our opinion, many countries are suffering from autoimmune diseases.

ITAÚSA

This is our largest position and its price rose much in line with the market: 23% (including dividend) while the Ibovespa gained 19.5% in the quarter (both in BRL).

On one hand, the jumbo offer by the Brazilian branch of Santander, and Banco do Brasil's supposed offer of approximately 8% in the New York stock exchange, point to stiffer competition. On the other, these also indicate the scope of the opportunity.

Also, Banco do Brasil's aggressive growth tends to be another positive factor for other banks in the medium

term as, according to the Minister of Finance (who represents the controlling shareholder, the Federal Government), it is lending more at lower rates, thus stoking competition in the short term. This tends to be positive because in an inevitable moment of reversal, the worst credits will be naturally transferred from the fastest and risk control-focused banks, which balk at refinancings, to slower and bureaucratic institutions, where social and "developmental" aspects (a term that sounds derogatory at present) are part of the agenda.

Why did we pick Itaúsa? For its operating and corporate quality. In less than a year, we had three concrete examples of Itaúsa's advantages, and two are exclusively bank-related, besides price (Itaúsa trades at a discount to its interest in Banco Itaú). The discount of Itaúsa shares compared with Itaú-Unibanco remains at around 20% (23.39% on August 31, 2009) based on the bank's preferred share. That is without adding the control premium that Itaúsa, the largest shareholder and controller, would be entitled to.

During the quarter, the group announced its third relevant deal in less than a year (Unibanco on November 3, 2008; Duratex/Satipel on June 22; and Porto Seguro on August 24, 2009). Just like the other cases, the holders of Itaúsa common and preferred shares benefited from the company's position as group controller. Given that the transactions were positive based on a corporate standpoint, the next question would be: "do they make sense financially?" In the three cases, the combination of the prices that were paid and the strategic and cost-based gains is clear.

TOTVS

Totvs is one of the positions that we have been building for more than a year, and currently it has a relevant weight in both VBF Classe A and Class C portfolios.

We reaped the benefits of a significant rise since we started this position and we remain optimistic on its long-term prospects. This is one of the assets that we want to keep for a long time – a unique combination of product, market, business model and competitive

position, backed by a daring and competent staff. We may adjust the position's size based on market prices.

DURATEX

Another case that supports the expression "good surprises come in good companies." The skillful merger with Satipel, which was criticized by many, was successful. Despite the criticism, with which we disagree, the shares rose 30% (in BRL) in the period and outperformed the market.

And what is the reason for our opinion? The anticipation that Itaúsa received in the transaction for its control premium, by converting its common shares of "old Duratex" (whose capital was divided into common and preferred) into common shares of "New Duratex" (whose capital is 100% comprised of common shares, in keeping with Bovespa's Novo Mercado) is questionable.

Given some weaknesses on the Novo Mercado (in fact true to any system with previously-set rules that are exposed to human ambition) like those seen in extreme cases such as Cosan, the anticipation of control premium may generate an expropriation of values without a counterpart. But analyzing this specific case and taking into account the financial rationale and the reputation of Grupo Itaúsa, it is clear that the deal was highly positive. The risk involves seeing this kind of action used by ill-intentioned controllers in other transactions in the market.

SARAIVA

The outcome of the Federal textbook program for elementary and high school levels was announced by the Government. The results of the publishing company exceeded expectations at absolute and relative levels, even though this is a weaker year than 2008 due to the government's three-year purchasing cycles. It is important to note that it was much better than 2006, the last comparable year.

At the bookstore operations, the efforts towards remodeling the network that was acquired through Siciliano still show good results. When this step ends, we expect further relevant gains from improvements in logistics and on the online front.

LOJAS RENNER

After the economic clouds parted (once again), Lojas Renner rose sharply (99% year-to-date and 157% since last November's rock bottom, both in BRL). As a result of the reduction in the margin of safety embedded in Renner stock prices, we gradually reduced the exposure to the company, from 8% to approximately 6% in both VBF Class A and Class C.

GLOBEX

End of the journey. Following the acquisition of the company by Grupo Pão de Açúcar, we opted for a gradual change of our shares. By the end of the quarter, we had received the equivalent of 83.3% of the sale of our position (which amounted to 6.4% of VBF Class A and 8% of VBF Class C net asset value at the end of the past quarter) in cash and the remaining 16.7% were paid in class B preferred shares of Pão de Açúcar. Of these shares, 32% have already been converted into class A preferred shares (negotiable) and the remainder will be converted as follows: 28% on 01/07/2010, 20% on 07/07/2010 and 20% on 01/07/2011. In addition, we are entitled to the difference if the Pão de Açúcar shares are below the reference price of R\$40.00 – updated by the CDI rate – on the date these installments are converted. Certainly this was not expected when the bulk of the investment was made in April 2007, but all the losses have already been registered.

COTEMINAS/SPRINGS

Another embarrassing error that was tackled when we implemented some changes at IP in July of last year. This was finally liquidated. As Warren Buffett would say, "indefensible." We are left with a joke about the old Belgian airline "SABENA": *Such A Bad Experience, Never Again...*

CONSENSUS, SPECIALISTS AND PRICES

One year ago, at a large conference held in São Paulo, "sophisticated" investors were surveyed on their investment recommendations to the next 12 months.

Most of them agreed that companies to a large extent exposed to the Brazilian domestic market should be avoided at all costs. We believe that in the subsequent 12 months, this was the best-performing sector for stocks. This year, the segment led every positive expectation for the next 12 months...

In the last weekend of September, the web site of The Wall Street Journal had the following headline: *"Emerging Markets are Looking Up"*.

The 2008 peak that preceded the 55% plunge in the Ibovespa (in dollars) last year occurred shortly after Brazil became "Investment Grade". Ultimately our internal metric for monitoring market euphoria is blinking red alert as more and more prospectus for new public offerings pile up every morning on our reception desk.

By comparing prices with values, we reach the same conclusion: It is time to "chill out." Currently, the Funds' exposures are near all-time lows.

CONCLUSION

We will again use what we wrote one year ago: *"...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"*.

Certainly the results of most companies this year, specially in the third quarter will be much better than those of one year ago. The base for comparison was just too low, amounting to a period of slow economic activity. Since then, many cost reductions were made. But this is one of the parts of the problem that are widely known, and must be to a large extent embedded in prices. The issue now is how the global economy will fare as "the life-giving resources are removed."

As usual, we are investing in quality businesses that have global quality at prices that offer comfort. Without enough alternatives, we "sit" on our cash and keep

studying with discipline. Even though governments may maintain their support, the potential price-return ratio seems to be worse than one year ago. We are holding positions which we would be comfortable with should the stock market close for a few years. As we have seen many times in these 21 years, "to arrive first, first you need to arrive."

PERFORMANCE – VBF CLASS A PORTFOLIO

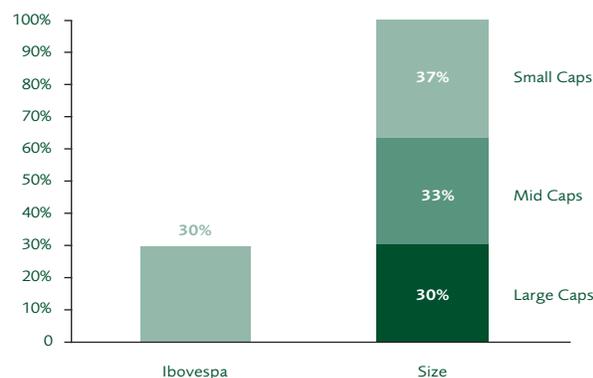
VBF Class A	Performance (US\$) ⁽¹⁾				
	% Invested Equities	VBF Class A	VBF Class S (Mills)	VBF Class S (Casa Show)	Classes A+S+S ⁽²⁾
September 09	72.68%	7.78%	5.83%	6.01%	7.54%
August 09	64.99%	2.22%	-0.87%	-0.48%	1.84%
July 09	77.16%	13.81%	4.01%	4.22%	12.44%
June 09	77.31%	-0.37%	0.94%	1.21%	-0.17%
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%
2009 (YTD)	-	92.25%	34.64%	31.83%	82.26%
2008	-	-57.28%	-25.46%	-22.64%	-54.54%
2007 ⁽¹⁾	-	30.59%	4.03%	-	30.51%
Since inception ⁽¹⁾	-	7.26%	4.41%	1.98%	8.13%

(1) Inception VBF Class A 2007, Mar 06

(2) Inception VBF Class S 2007, July 06

(3) Net of all fees

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)

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 Class A: March 06, 2007

TERMS AND CONDITIONS

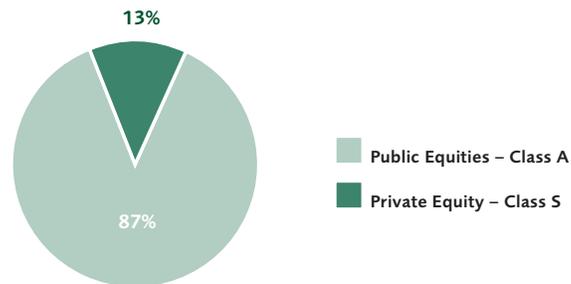
Subscription: Closing day of the first round was March, 2007.

Minimum Initial Investment: US\$ 1,000,000.00

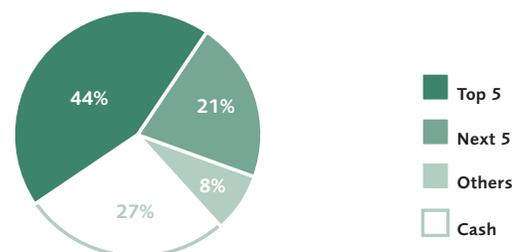
Redemption: Lock-up Period of 18 months. Redemption dates on the last Business Day of each calendar quarter, with a three months prior notice

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.

BREAK-DOWN PUBLIC EQUITIES X PRIVATE EQUITY



VBF CLASS A – PORTFOLIO CONCENTRATION



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

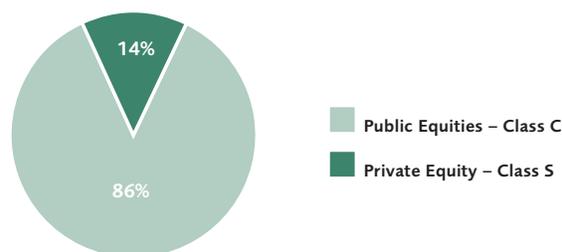
PERFORMANCE – VBF CLASS C PORTFOLIO

	VBF Class C	Performance (US\$)			
	% Invested Equities	VBF Class C	VBF Class S (Casa Show)	VBF Class S (Mills)	Classes C+S+S ⁽²⁾
September 09	70.84%	7.79%	6.27%	5.73%	7.55%
August 09	64.93%	2.51%	-0.51%	-0.87%	2.05%
July 09	85.72%	15.36%	4.41%	4.00%	13.62%
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%
2009 (YTD)	-	94.06%	33.99%	34.04%	82.70%
2008	-	-41.12%	-29.90%	1.80%	-40.92%
2007 ⁽¹⁾	-	-3.15%	-	-	-3.15%
Since inception ⁽¹⁾	-	10.67%	-6.07%	36.45%	4.54%

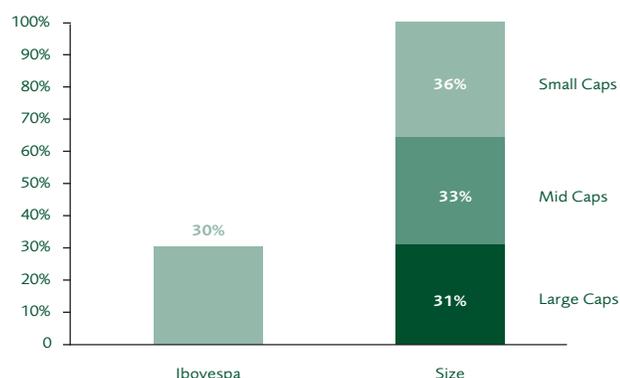
(1) Inception VBF Class C 2007, Nov 09

(2) Inception VBF Class S 2008, Mar

BREAK-DOWN PUBLIC EQUITIES X PRIVATE EQUITY

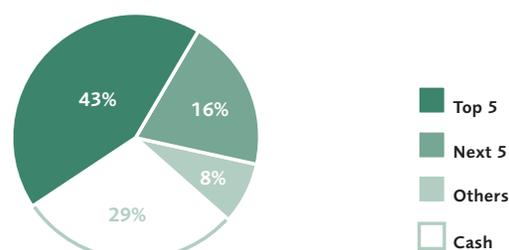


VBF CLASS C – EQUITY HOLDING CHARACTERISTICS*



* Ibovespa: % in the index/Capitalization: small (smaller than US\$1b), Mid (between US\$1b and US\$3b), Large (larger than US\$3b)

VBF CLASS C – PORTFOLIO CONCENTRATION



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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 Class C: November 09, 2007

TERMS AND CONDITIONS

Subscription: 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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TERMS AND CONDITIONS (CONT.)

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- note: IPCA is the Brazilian Broad Consumer Price Index
- High-water-mark mechanism avoiding double charging for same performance
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MISCELLANEOUS

"...the hardest thing to do is change an organization that's been around a long time, has thousands of workers and has a set corporate culture and way of doing things. Even if the employees know intuitively that the government is bloated and archaic, very few would vote to slim down and flatten out the organization. After all, who would willingly agree to kill their own job, their gravy train?" – Rodney O. Lain (1968 – 2002)

"One thing that happens to us when we get overconfident is that we start to blur the line between the things that we control and the things we don't". – Malcolm Gladwell, author of Tipping Point, Blink and Outliers

"The truly efficient labourer will not crowd his day with work but will saunter to his task, surrounded by a wide halo of ease and leisure, and then do what he loves best." – Henry David Thoreau

"To feel things one needs emotion. To do and undo them, one needs a certain degree of passion. But to understand them, only reason will work. Action without understanding turns into pure agitation." – Roberto Campos (It was already used in the nineties, but I think it fits the present times very well.)

"Culture eats strategy for breakfast." – Mark Fields – Executive of Ford Motor Company

ANNOUNCEMENT

The Directors of IP Brazil Fund SPC wish to announce the appointment of Rodolfo Santos Marinho as a Director of the Fund with effect June 3, 2009 and that Isabella Saboya de Albuquerque has left the Board of Directors of the Fund with effect from April 30, 2009.



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