Quarterly Report

March 2010

Investidor Profissional

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Introduction

The last few months were a period of much study and few operations. Following a time with plenty of clear opportunities, since the last quarter of 2009 we have found ourselves in a phase with few new situations in which we could have great convictions.

During the first quarter of 2010, we took part in six conferences in Brazil and the USA, including some focusing directly on investors and some to do with companies themselves and sector professionals. There were over 200 presentations and there were advances both in getting to know companies and sectors better and in identifying potential new opportunities. In the short term, however, we did not find any that would fit the "easy as falling off a log" category (high value and low price) that we like so much. As the historic Peter Sellers character would say in the fantastic film "Being There", "there's a time for planting and a time for reaping".

We take the opportunity to thank readers for their participation and suggestions in the Buysiders.com website, IP's blog. We have recently started using Investidor Profissional's pages in Facebook (http://www.facebook.com/InvestidorProfissional) and in Twitter (http://www.twitter.com/invprof) to publicize the new articles released in Buysiders.com. This is still an embryonic use of these tools, but it may make things easier for those who are already well acquainted with them.

Art and Investment

Last but not least, we have a novelty to share with our readers.

IP has recently launched the Investidor Profissional Art Award (known by its Portuguese acronym PIPA).

This initiative has a lot to do with our deepest conviction that it is necessary to think "out of the box", be it in investment strategies, be it in the investment process. We have always thought it important to question the conventional ways of looking at companies, the market and even our own role as managers. This has enabled us to establish a closer relationship with those who share our "world view". The report is part of that, the Buysiders website, ditto. That is why we want to share with you here the idea of the award.

Just as we have benefited from finding companies that the market did not look at with due attention, we intend, using the "PIPA", to give stimulus and acknowledgement to artists, their ideas and viewpoints that have not yet achieved recognition, and offer them the opportunity to exhibit their work at the MAM-Rio (Modern Art Museum). One of them, the one elected by the award jury, will have the additional opportunity of seeking an artist's residency abroad and will also be granted a significant award in money.

The award was created in partnership with the MAM, whose continuous process of improvement we are supporting with this initiative.

It is as we said above: in our understanding, the quest for fundamental values, the capacity to think independently and look ahead, and the synthesis of different inputs that are apparently not interrelated, are all fundamental characteristics that are common to art and to the investment process.

For all those who feel stimulated to participate in the project in some way, we are ready to receive suggestions or fresh inputs through the PIPA website (www.premiopipa.com.br) and/or the PIPA's Facebook page (www.facebook.com/premioPIPA).

The variation in the market prices of VBF Class A in the first quarter of 2010 was 1.8%, VBF Class C 1.9% and IP-Value Brazil, which holds positions in international companies up to 10% of its NAV, was 1.4%.

Odontoprev

With the capital reduction approved at the March 25th GSM, the company has concluded its cash distribution, amounting to just over R$ 13 per share since the transaction with Bradesco was announced last October, which was commented on in detail in the 2009 4Q Report.

Prospects

Lately, in addition to all the efforts applied to studying specific companies and sectors, we have allocated more than the habitual amount of time we dedicate to macro and political questions. In fact, we have "worked" more than ever and studied much more than the historical average. Mainly thanks to the maturity reached by the IP model, we have spent less time on commercial and managerial issues.

It is important to make it clear that we have not changed at all our fundamental belief in the way we should operate. Much to the contrary. But we always seek to take care not to allow the "execution mode" to prevent the basic assumptions from being revalidated from time to time. And recent times have clearly called for a revalidation. What is the risk of a swerve towards a more populist agenda, where property rights are less respected? After all, we have lived with movements like the "landless people's movement", and with growing rumors of coercion against certain companies and entrepreneurs, as well as restrictions to the press and controversial constitutional amendments proposed by the government. We have the example of "Chavismo", which has not been repelled by the Brazilian government, indicating a lower degree of aversion than we would like to a regime that is so primitive and harmful to society. What are the risks involved in the renewal of concessions, or in the creation of new and yet heavier taxes, rates and "contributions"?

Our conclusion up to now? If we have not reached (and are not even close to) an "all in" position, like the famous Warren Buffett declaration regarding the US economy – when he put forward the proposal for the acquisition (already closed) of Burlington – we are moderately optimistic regarding the Brazilian economy in the medium term. By fits and starts, the institutionalization of Brazilian politics is taking place. Even the worst elements are not succeeding in perpetrating greater and more lasting damage to the extent of annulling the advances achieved in the last 16 years and the good things that have been happening. Our fears of a greater and longer negative discontinuity in the fundamentals are relatively low.

President Lula is an example of the fact that, with a certain degree of common sense, even historical opponents of a liberal capitalist society end up surrendering to most of the evidence contrary to their ideological beliefs. The government's efforts to continue the initiatives of the previous Administration in order to make the real-estate market viable are another example. This is a sector that keeps the economy spinning, but one which did not have "wealthy sponsors", as the popular car project did. Fortunately, the logical thing happened and things are moving.

In economic terms, in addition to the (already commonplace) commodities, the domestic market development case becomes better consolidated day by day, based – by order of solidity and importance – on the demographic profile, the formalization of the economy, credit expansion, and a not-so-bad political scenario.

Companies and their businesses do not exist in the void, and whenever we identify "clouds of change" on the horizon, we pay much greater attention. So far, so good...

So we should explain why we do not "fill up the bucket" in view of such good fundamentals for the Brazilian economy, and manageable disturbances. As always, we have to weigh up the asset price factor. The present levels, in general, already take into account a large portion of the prospects listed. Turbulence does happen, and when it does, many people panic. The best moments to fill the bucket are these: good fundamentals plus panic caused by the situation of the moment. Until then, we maintain our positions in companies that not only have fundamentals that lead them to consistently surpass market expectations, but also have a good cash reserve.

The variation in the market price for IP-Global's positions in the 1st quarter of 2010 was 4.5% in dollars, net of all costs.

Gold

In the course of the quarter we considered, with greater attention, the idea of gold as an important hedge for global structural problems. Right at the beginning of the year, we even reduced our positions in gold and mining companies slightly, during the rally that occurred. However, as prices fell back a little and we advanced in our analyses, we started to restore this position, which has been important for quite some time. The change is that we are increasing the relative weight of mining companies in detriment to gold itself, as a result of the gradual increase in our knowledge of the companies, and the expectation of greater leverage in results given the increasing consolidation of a firm gold price level. Gold + mining companies together represent IP Global's second biggest position today.

Nokia

Fourth quarter results validated the expectation that, despite all the visibility (and profitability for Apple) of the iPhone, the "owner" of the global market is still Nokia. This is a very complex and dynamic market, but the fact is that neither Apple nor RIMM (Blackberries) are companies with the brand, scale, distribution or even DNA for mass global markets. This is another game that, quite frankly, seems to us better for companies like Nokia, Samsung, etc...

We think it is important to point out that, at least up to now, Nokia does not constitute an important position, but one that seems to us well worth following in order to understand the evolution prospects for mobile technology – one of the key drivers for almost all economies, regardless of the stage reached (given its impact on e-commerce, means of payment, entertainment, security, politics, etc...).

Prospects

We remain quite cautious. The improvement observed in the symptoms are a result of the "liquidity flooding" measures taken since the second half of 2008 – and not of a frontal attack on the fundamental causes that weakened the markets. Populist policies in the main economies continue to set the tone of governments. They all seek an exchange-rate depreciation as a way to improve their trade balances and boost their economies. Obviously, in a scenario like this, this brings us to a race towards the bottom.

Economics is far from being an exact science. The FED, still the great protagonist of the world economy, seeks a narrow path between the precipice of depression and the "dragon" of inflation. In difficult situations like this, the stronger aversion tends to prevail. "Helicopter" Ben was given this nickname because of his thesis in relation to Depression, where he concluded that the solution was to "print" money until the economic agents lost their fear and returned to economic activity. It makes sense, but the risk is obvious. A loose monetary policy brings inflation, with a few years' lag. The most likely scenario at the moment is that of constant growth in the inflationary risk in the USA, borne by many people who focus on the American Government's gains arising from the depreciation of its debt – largely fixed-rate, in Dollars. In a scenario like this, the majority lose. Or rather, feel in their pockets the costs of the party, the incompetence, hypocrisy, and irresponsibility of the past. Those with greater power to adjust prices and hold long-term fixed-rate liabilities gain – or suffer less. It is not for nothing that we maintain significant positions in Berkshire, gold mining companies and multinational companies that are able to adjust their prices in whatever currency – such as Nestlé, Thermo-Fisher, Pfizer, ABI...

An interesting exercise is to try building a counter-case. What could go so right as to neutralize the clouds on the horizon? We imagine events that would radically alter our general perception:

1. Reduction in conflicts based on religious extremism.
2. Radical productivity gain in the healthcare sector – which every day consumes an ever greater part of societies' resources – in line with what happened to the production of clothes and food.
3. A pick-up in the speed at which knowledge and education are disseminated. This is where we see the strongest driver and the one most often present, which has made itself keenly felt in the last two decades with the advances in telecommunications in general, and the Internet in particular.
4. Improved public governance systems. The predominant government models today seem to us clearly deficient and a much greater threat to the well-being of mankind than the famous global warming, for example (which, if true, reflects a flaw in public governance itself). A reduction in the general hypocrisy is the greatest target to be pursued and the event that would bring the greatest gains to mankind.

Unfortunately, for certain problems, the speed of progress seems to be lower than what is needed to avoid more acute crises, which are historical catalysts for many necessary changes.

Obviously, the short list above says much more about our lack of capacity than about the real probabilities of results. One of the determining factors for advances in History lies in the fact that some societies and civilizations sometimes change on account of a single individual. But, for each case like the US rally of the eighties and nineties, there is a USSR, just to mention the biggest and most recent examples. After all, "lost civilizations" is a very commonplace expression (about 494,000 quotations in Google in 0.28 seconds...).

"Let's hope for the best but prepare for the worst..."

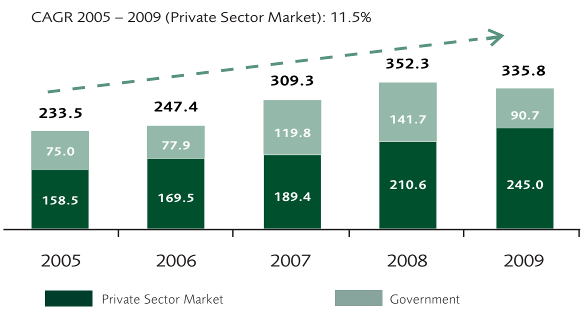
Last but not least, for those interested in an inside view of the crisis, in the value of an independent view and in yet another report on the general institutional blindness (to say the least), we strongly recommend the videos and articles written by Michael Lewis when publicizing his book "The Big Short" (which we also emphatically recommend). The links to the relevant videos and articles can be found in the following page of Buysiders.com: http://www.buysiders.com/2010/04/04/easter-bonus-michael-lewis/

SARAIVA

The first billion we never forget. The company has recently recorded a market cap. of over R$ 1 billion. Although this fact is merely symbolic, we recall that a good part of our position was put together when the market cap. was measured in tens of millions. At the same time, the company's revenues also exceeded R$ 1 billion in 2009, and the dividends received by shareholders (including interest on equity) were over 20% (a payout of 38% of earnings).

Although Editora Saraiva's net profit reported in 2009 was lower than that in 2008 (R$ 53 million vs. R$ 72 million), there are reasons for very positive expectations for 2010. The 2009 result suffered a negative impact at the publishing house, as expected, due to the "weak year" in the three-year cycle of government purchases.

GROSS REVENUE (R$ MILLION)



Source: the company

On the other hand, there was the positive impact of the sale of a property (R$ 10 million before tax) and growth in the private sector market, which is evident in the previous chart.

As made clear in the table below, the tendency is for there to be a strong favorable wind in the next two years (2010 referring to the 2011 National Textbook Program (NTP), and 2011 referring to the 2012 Program).

Excluding the non-recurrent gains from the sale of real estate, and the inventory write-off due to the alteration in Portuguese orthography (R$ 3.5 million before tax), the publishing business (excluding Livraria Saraiva's net equity and equity-account results) booked a return on equity of over 25% (a good result considering the "weak year").

In the retail sector (Livraria Saraiva and Saraiva.com), prospects are also good. Not only is the business more closely linked to economic growth than the book publishing segment, but also the maturing of the Siciliano absorption should contribute to a much better performance. In 2009, the results suffered a negative impact both from the economy (in the first semester) and from the expenses and investments involved in the absorption and renewal of Siciliano.

GOVERNMENT PURCHASE CYCLE

School Level	**Market Potential**	**% of Market Potential Acquired**		
	#Books (MM)	**NTP 2010**	**NTP 2011**	**NTP2012**
Primary Education – 1st and 2nd Year (Portuguese and Math)	11,2	100%	100%	100%
Primary Education – 2nd Year (Science, History and Geography)	9,7	100%	13%*	13%*
Primary Education – 3rd to 5th Year	49,8	100%	13%*	13%*
Primary Education – 6th to 9th Year	67,0	13%*	100%	13%*
Foreign Language (English or Spanish)	**13,4**	-	**100%**	**100%**
Secondary Education	53,4	13%*	13%*	100%
Foreign Language (English or Spanish)	**7,6**	-	-	**100%**
Philosophy and Sociology	**15,2**	-	-	**100%**

Performance	**1st – 5th years (NTP2010)**	**6th – 9th years (NTP2008)**	**Secondary Education (NTP2009)**
Market Share in the last cycle	11,6%	13,1%	27,1%
Average Price (R$)	4,74	5,35	9,68

Source: FNDE/MEC/INEP
*Replacement Record

In 2010, both factors are expected to contribute positively above the average.

The online operation, despite the importance it has already attained, continues performing below our expectations, with growth of 24%. This rate is good for an operation that already exceeds R$ 300 million, but this is a fast-growing market in which we believe Saraiva could play an even more outstanding role. According to eBit, the Brazilian e-commerce market grew by approximately 30% in 2009, and companies like Ponto Frio.com and Extra.com, of the Pão de Açúcar group, recorded growth of over 50%.

On the other hand, the advances in the company's online strategy are clear, which leads us to believe that the operation's growth this year may be better in both absolute and relative terms. The re-designing that was done made the website much faster and more intuitive. The new "one-click shopping" function (a first in Brazil), which allows registered clients to shop with only one click, is another advance that shows the effort to take advantage of the online opportunity – which includes the company's presence in social networks, such as Facebook; the facility enabling films to be downloaded; and mobile shopping (the application for the iPhone is very practical).

Our expectations regarding this front have clear foundations. On the one hand, there is the publishing business. Although it provides high returns on capital employed, it is also a high-inertia business whose growth is relatively low. On the other hand, the conventional retail business may grow (and has been growing) faster, but has intrinsically lower (though attractive) returns. The online opportunity, however, which the company has gradually been developing and maturing over the last ten years and more, combines the best of both worlds: high returns on capital employed and high growth potential. And it seems clear to us that the business has already reached critical mass, or, to use another expression from physics, "escape speed". With yearly sales of several hundred million Reals, the online opportunity is today a reality that is both respected and embraced by the whole company, also reflecting the development of e-commerce in Brazil.

Livraria Saraiva's return on equity (including Saraiva.com), discounting expenses for adjusting the Siciliano operation, was around 6%; that gives a good idea of the potential for further advances in view of the maturing of the investments made in 2009 and the improvement in the economic scenario.

The cherry on the cake, which will produce good and significant surprises in the future (as one can see in e-commerce today), lies in the company's transaction database, one of the richest in Brazil. It encompasses more than a decade of online transactions, in addition to those effected in the conventional stores using the Saraiva Plus card. The card already has 3.5 million members and offers tangible benefits. To get an idea of this potential, it is enough to observe the pricing given by the market to companies whose core activity is fidelity programs.

Berkshire

The company made a great contribution to the performance of our portfolios in the quarter – the largest contribution to IP-Global and the second largest to IP-Value Brazil. In our last report we said that, after many years following Warren Buffett's company (IP-Global's largest position and IP-Value Brazil's largest in the international market), the time had finally arrived when we believed we were seeing a great opportunity offered by the market.

To the points always made, such as the perception of excessive dependence on Buffett and a lack of understanding of the core business model, questions relating to the Burlington acquisition were added. What we saw was another validation of how the market in general is inefficient and ill informed, even in the case of such a large and famous company as Berkshire (market cap. of around US$ 150 billion before the transaction). This deficient information materialized in several ways.

The first – and the funniest – happened when a reporter asked Buffett if he was surprised at the approval of the deal by Berkshire's shareholders. Another, with immediate effects that were much more tangible, was the rally of over 10% (that is, a gain of over US$ 15 billion) in two days – Berkshire's stock was then included in the S&P500 theoretical portfolio. The concentration of stock in the hands of Buffett, Munger and their families was considered an impediment. As part of the deal, Berkshire's class B shares (the poor man's Berkshire), which already represented 1/30 of a class A "full" share, were split another 50 times (now one A share = 1,500 B shares), and are now trading at more "normal" unit prices (currently in the US$ 80 range).

Obviously, the price rise was not founded exclusively on psychological factors. Given the large volume of contracts and ETFs linked to the S&P500, the inclusion of an asset in the index generates an automatic ("dumb") demand for the paper.

With the estimated inclusion of over 50,000 Burlington investors among Berkshire's shareholders, and the company's inclusion in the S&P 500, one may expect the level of knowledge about the company to increase, reducing the discount that is made because of the risk (the certainty!) that one day soon Buffett will no longer be there.

This year's much awaited annual report focused on welcoming the new shareholders and explaining the company to them, warning them especially about the risks of following the company in the media and sell-side reports, as against developing one's own opinion based on the rich range of annual reports offered over the years. Some other points seem noteworthy to us:

- Buffett's concern in making explicit and arguing in favor of a firm and fair social contract for regulated utility companies (energy producers and distributors, railroad operators), which today comprise a very important portion of Berkshire's capital. The "work as a whole" seems to us a very good preparatory effort to position the company for a future scenario of low growth with inflationary risk in the USA.
- After discussing and giving examples of the usual problems in mergers and acquisitions operations, Buffett suggests an interesting solution: "Every Board, when contemplating a transaction of this nature, should hire an advisor whose remuneration would be linked to the NON-conclusion of the operation". It would thus have access to a well-structured and aligned opposite view. We cannot fail to stress the difference here between our complaints expressed in the "Merge!" chapter of our last report (which was certainly, to a large extent, the result of our exposure to, and – we hope –absorption of, Buffett's experiences and teachings) and the brilliance of the "good old man" when he presented this simple and extremely interesting solution.

Finally, the spectacular result obtained in 2009. The book value grew 20%, reaching US$ 131 billion. The "float" (the amount received from insured parties but not yet paid out, and therefore free for investment) reached US$ 62 billion. As a result, the "capital", which we identify as one of the fundamental benchmarks in our valuation of the company, reached US$ 193 billion, close to the current market cap. (US$ 201 billion with BRK.A at US$ 121,800.00, on March 31st, 2010).

But there's more good news. The two other critical valuation variables were extraordinary. The float grew almost 6% and its cost was negative – which has been the rule over the years and has an explosive effect on the value of the business.

Other significant data were the US$ 30 billion cash position, and the fact that the results were obtained with US$ 30 billion invested in industrial and services businesses, which suffered from the recession and had net results of around US$ 1 billion. This represents a return on equity of around 3%, clearly below the historical figure and the medium-term potential, and shows that the insurance and investment operations did the heavy work during the year. But there have been, and certainly will be, times when the opposite occurs. And this diversification, extremely well thought out and carried out, is a factor that we see as a differential (yet another) in Berkshire.

All this with the best governance we have ever seen in these 30 years as investors. If we assume that the float growth will continue, even at lower rates and with zero (instead of negative) cost, the size, the liquidity and the risk profile remain as one of the best large-scale investments available. With or without crises.

Even so, we reduced the position a little – with the rise of around 25% observed in the quarter, the upside was obviously reduced and the participation in the portfolio would have become too big (we will very likely be criticized in the future for this). But it remains the largest international position.

Redecard

This company operates in the credit card area, directly or indirectly rendering services such as accrediting commercial establishments, transaction capture, transmission, processing, financial settlement and advances on receivables for the establishments ("pre-payment"). The business has attractive characteristics.

Relatively little capital is needed to put together the infrastructure required, but once the network of accredited stores is created (which takes some time), it is possible to generate a lot of cash. In other words, the operation has very high returns on capital employed. It is not necessary to invest heavily in order to process a larger number of transactions – that is, the business is easy to scale up, which in theory, in addition, enables growing returns. The company is exposed to a market that grows approximately 20% per year, driven by the strong trend to migrate from the use of cash to more practical "electronic money" alternatives, as well as the population's growing tendency to use banks and the expansion of domestic consumption. Finally, within Brazil, the sector is dominated by only two companies (Redecard and Cielo/Visanet), with a joint market share of almost 90%.

It seemed too good to be true. In spite of that, the quotations for both companies took into account "blue sky" scenarios from 2007 to the end of 2008. Because of either the risk of possible greater competition (with capital trying to flow to wherever it is best remunerated), or especially government decisions adopted at the stroke of a pen, there was a reasonable probability of rupture with the existing business model, which could destroy a great deal of value.

The uncertainty about the business model, which could go through significant and painful changes, and the prices that did not recognize these challenges, were the main reasons for us to maintain short positions in the sector's companies – in decreasing volumes from mid-2008 to the beginning of 2009.

The listing of both companies exposed the business's high yield to their clients and to society as a whole, which in fact culminated in strong pressure from all sides for those companies to share a greater part of their gains with their clients.

We have always studied the sector with great curiosity. We have always believed that, if the companies managed to maintain at least a good part of their high returns, we would be able to take on significant (long) investments, given that the business model combines several aspects that we consider attractive.

Fortunately, we advanced little by little with our studies, while the quotations of both companies remained at a standstill in the last two years, despite the excellent growth in the business. In the case of Redecard, in two years its net revenue (including "pre-payment") grew by over 50%, while the net profit almost doubled.

Over time, we have become more and more convinced that an important part of the business value in this field is linked to the capacity to "access" the final establishment. Redecard is controlled by Itaú Unibanco (with just a little over 50% of its capital), while Cielo is controlled by Bradesco (with 26% of the capital), Banco do Brasil (23%) and Santander (7%). The banks are extremely important partners for the companies in the sector. Access to financing and maintaining the banking domicile are just some of the services that allow the bank to create a solid relationship with commercial establishments. Proof of that is that a significant percentage of the new stores registered by Redecard and Cielo originates from the respective controlling banks. Either due to the size of the fee received by the banks for new registrations, to the size of the interchange rate (percentage of the transaction kept by the bank issuing the card) or to other aspects, evidently the bigger the individual participation of the controlling bank in the respective companies, the greater the alignment between minority shareholders and controlling banks will be. This was recently confirmed, in 2009, by Banco Santander's decision to compete directly in the sector through a new company. For these reasons, and also for the Itaú group's solid history, we opted for Redecard as the candidate company for an investment.

Considering that the value of the business lies in having "access" to the final establishment and that the banks have the necessary ramification to reach the smallest establishments (which are responsible for the great profitability of the business), the construction of a vast network is probably no small undertaking. Banco Santander itself, which has significant ramification, had already said a few months ago that it was aiming at only something like a 10% market share in the next few years, which is small if compared to the sector's general growth. In addition, the recent announcement that Banco Santander was not going to fight for much lower fees than those prevailing at present brought additional comfort. Considering that the Brazilian banking sector is very rational, however, nothing could be more reasonable.

The risks, however, do exist and may generate significant discontinuities in the current business model. Not only for that reason, but also because we are pursuing our studies further, we will be on the alert for the various risks present. Among these risks are changes imposed by the government, such as (i) strict regulations, (ii) break-up of the vertical integration of the transaction capture structure, (iii) end of exclusivity of the flags and its impacts, or even the price fight among the sector's players and the development of technologies that will allow less "friction"/cost per transaction. The greatest fear, however, comes from other sectors – such as the telecom sector, for example. What prevents the large telecom companies, which already have a data network and access to the commercial establishments, from joining the banks in capturing transactions as well? Here again we find support in the better alignment that exists at Redecard and in the fact that, as the establishment network grows, it will be possible to reduce the fees charged, thus raising the barriers for newcomers. Anyway, we have an excellent investment in Itaúsa, which would benefit (though obviously with a much more diluted impact) if this occurred.

A last aspect to be considered: besides the attractive price (somewhere around 13 x earnings) and the high percentage of earnings distributed as dividends (corresponding to a dividend yield of about 6% to 7%), it was possible, until a few weeks ago, to lend the long position and receive in return, as a "bonus", about 15% per year! Not bad at all…

Analyzing the balance between positive and negative points, and considering that the stock prices have not accompanied the development of the business and the mitigation of the risks on the horizon, we decided to make an investment in Redecard, which has been increasing since the beginning of the year.

Lojas Renner

Renner has recently published its figures for the year 2009. Once again it was a positive surprise. What was made clear was the management's remarkable capacity to take advantage of a crisis and a difficult scenario (from the end of 2008 to the middle of 2009) to give the company a boost and make it emerge better than before. We observed significant improvements on all fronts of the operation, which translated into greater margins, even in a year when the operational leverage coming from the growth in sales per square foot was low, due to the troubled first semester.

Gross margins rose thanks to the better trading practices implemented in the purchasing sector and to fewer discounts offered, resulting from well composed collections and better inventory control. Renner is now able to separate its stores into different groups, depending on local taste, sizes and climate. A very important tool in this process is Retek, an inventory management system that has been used since 2005.

The company's expenses remain under control and were kept stable in the year, but we hope they will gradually be diluted, with the maturing of the stores and the continuous growth in sales per square foot (especially in the areas where Renner has been operating for a short time and continues to gain "share of mind" among consumers, such as in the North-East).

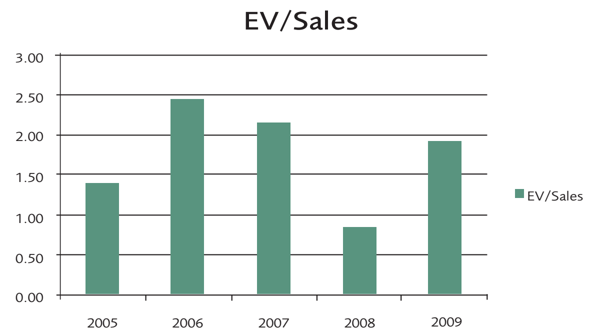
The financial products and services area was also responsible for many happy moments in 2009. The division's pre-tax contribution to the results increased by R$ 20 million in relation to the previous year and is already approaching R$ 100 million (approximately one third of the company's total). New products, such as "Quick Draw", contributed to the increase, without compromising the operation's default levels. In 2010, the launching of the co-branded card (currently being tested) will be one of the most significant events in the financial operation in the last few years. Clients will be able to use their Renner card with the Visa and Mastercard flags for purchases outside Renner, increasing the company's receivables portfolio and the possibilities of financing clients through rotating credit in other purchase events. The plan is to reach one million new cards in the first year of the operation.

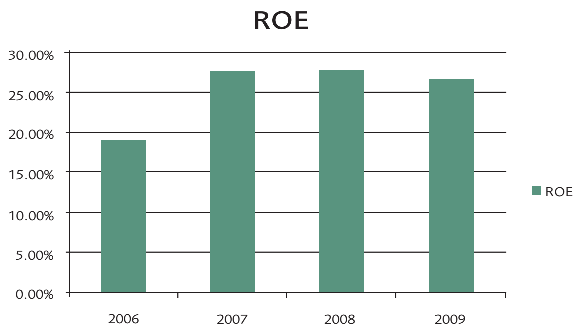
All these improvements are by-products of a guideline of Renner's executives, adopted about one and a half years ago: to implement well defined processes in all areas. The hiring of a new IT vice-president (Balbinot, formerly at InBev) seems to have been decisive. Today, areas such as the composition of collections, negotiations with suppliers and in-store operations have already been through this transformation. Even so, according to the management, they are only halfway there. We hope that, as these actions mature, Renner will continue to become even more efficient, fast and competitive.

Everything we have said up to now refers to clear vectors for the expansion of the company's margins. But what about future growth in sales? In addition to the natural maturing of the existing stores, some attractive opportunities have arisen recently. This year, the company will inaugurate a new compact store format, about 40% smaller than an average Renner store today. The model is intended for smaller towns (or even districts of large towns), but focused on the same Renner public (B, C+). There is thought to be potential for over 100 additional units. Another opportunity is that of new traditional stores outside shopping malls, in areas of high population density (like the one that will be inaugurated at Avenida Paulista, with 3,000 sq.m.). New brands have been presented this year, including one that is exclusively for pregnant women and another for footwear. There is also an idea to set up smaller stores, focused on the young public, which would carry one of Renner's brands and would benefit from Renner's negotiating power with shopping malls.

Last but not least, Renner started its e-commerce operation last month, catalyzing the large volume of visits to its website: www.lojasrenner.com.br. At first, the categories offered will be perfumes, beauty care, watches and lingerie. As soon as an adequate level of standardization of clothing sizes is agreed upon with suppliers, new categories will be added.

We can say that Renner today remains well ahead of its competitors and that the prospects for growth and improved returns on the business could not be better. Although we realized part of the profits during the big price rise after the climax of the crisis (the share rose from R$ 12.85 on February 20, 2009 to R$ 40.80 on March 31, 2010), when we "filled the bucket", LREN is still one of the top five positions of IP-Value Brazil.



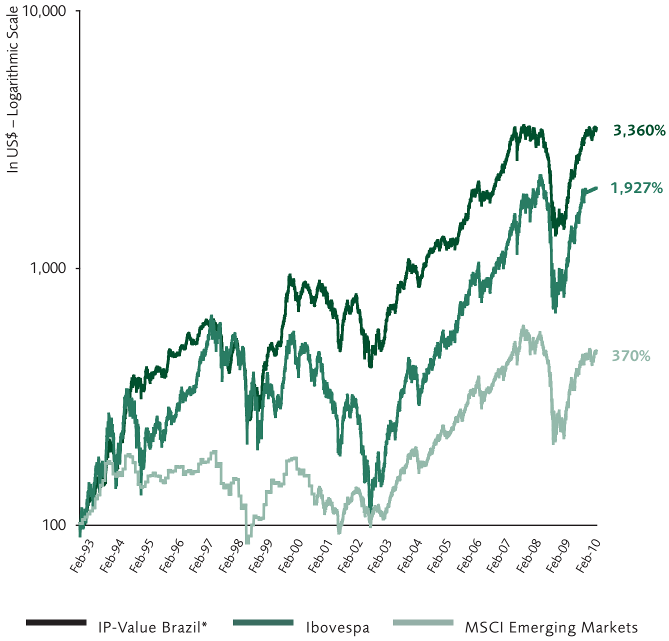


Food for Thought

The Italian political scientist Antonio Gramsci was, as is well known, a great thinker. Gramsci's Marxist convictions do not invalidate many of his ideas and observations. One of his lucubrations is about the significance of the dominant power exercised through ideology and culture, where the values of the bourgeoisie become the "consensus". Everyone then identifies with this consensus, helping to maintain the status quo. Although Gramsci was obviously referring to the class struggle between the proletariat and the bourgeoisie, one wonders whether this has not been replaced by (or at least is not comparable to) the present situation between the big shots of corporate America (including, of course, the big banks) and the "rest", here including most investors? Or people in government versus those they govern, in general?

Performance – IP-Value Brazil Class

Performance



* IP-Value Brazil is an offshore mirror of IP-Participações, a long-only equities fund based in Brazil and managed by Investidor Profissional. Both funds hold the same positions, the only difference being cash, held in dollars for IP-Value Brazil and in reals for IP-Participações. Although IP-Participações had its inception on 02/26/1993, its offshore mirror was not created until 12/29/1995. For reference, we show IP-Participações performance in dollar terms for the period between 02/26/1993 and 12/29/1995. To make it easy to differentiate, every time we show an IP-Value Brazil performance number affected by IP-Participações' performance, it will be in italics.

Performance (US$)	IP-Value Brazil (2)	Ibovespa	MSCI EM
March 10	3.35%	7.54%	8.08%
February 10	4.93%	3.87%	0.37%
January 10	-6.48%	-10.14%	-4.71%
December 09	4.68%	1.95%	3.03%
November 09	7.09%	7.42%	4.30%
October 09	4.89%	2.88%	0.13%
September 09	9.01%	15.64%	9.09%
August 09	2.56%	2.35%	-0.33%
July 09	13.49%	10.59%	11.32%
June 09	-0.31%	-1.41%	-1.33%
May 09	16.44%	22.42%	17.14%
April 09	25.53%	23.31%	16.66%
2010 (YTD)	1.41%	0.37%	3.38%
2009	127.67%	143.95%	77.42%
2008	-57.06%	-55.52%	-53.18%
2007	54.10%	73.43%	39.78%
2006	45.32%	46.41%	32.59%
2005	23.13%	44.09%	34.76%
2004	28.11%	28.16%	26.28%
2003	87.65%	141.04%	56.36%
2002	-26.36%	-45.44%	-6.05%
2001	-7.58%	-25.00%	-2.37%
Last 12 months	120.50%	121.34%	81.55%
Last 60 months	177.41%	294.34%	110.05%
Since 02/26/1993 (1)	3360.19%	1926.99%	369.95%
Annualized Return (1)	23.43%	19.57%	9.63%
Historical Volatility	25.20%	43.69%	36.43%
Sharpe Ratio (3)	0.80	0.37	0.18

(1) Inception of IP-Participações
(2) Performance numbers of IP-Value Brazil and IP-Participações are net of all fees
(3) Sharpe Ratio is: (Annualized Return minus the annual 3-month T-bill return)/Annual Volatility

Equity holding characteristics

	%
International Assets	14%
Ibovespa	32%
Small Caps (smaller than US$ 1bi)	33%
Mid Caps (between US$ 1bi and US$ 3bi)	28%
Large Caps (larger than US$ 3bi)	39%

Portfolio Concentration

	%	Monthly Attribution
Top 5	38.2%	1.99%
Next 5	15.5%	0.37%
Other	17.3%	0.85%
Cash	29.0%	0.14%

The Fund

IP-Value Brazil is a Class of IP Investment Fund Ltd, which is an open-ended investment fund organized as a limited liability exempted company, incorporated under the provisions of the Companies Law (2001 revision) of the Cayman Islands.

Objective

Obtain significant long-term absolute returns by investing long only in the Brazilian and international equity market.

Strategy

• **We follow a disciplined, value oriented long-term approach.** We do thorough fundamental analysis to identify companies that are trading at far less than their intrinsic value.

• Our aim is to find Brazilian companies with the best combinations of:

- Perfectly understandable business;
- Above average long-term prospects;
- Managed by people that are competent , honest and aligned with minority investors ;
- Trading at attractive prices.

• We do not associate risk with the inevitable short-term fluctuations in the market quotes of our positions.

• **We believe our main competitive advantage is having a different investment horizon than that of the market as whole, and sticking to it with discipline.** By focusing on the long-term and having a deep knowledge of the companies we invest in, we are able to take advantage of short-term market overreactions.

Terms and conditions

Subscription: Daily
Minimum Initial Investment: US$ 100,000.00
Minimum Additional: US$ 100,000.00
Minimum Redemption: US$ 100,000.00
Minimum Balance Left: US$ 100,000.00

Redemption: Last business day of each calendar quarter, subject to a previous notice of 30 business days. Payment of redemption proceeds shall generally be made within 10 business days following the Redemption Day.

Performance Fee: 15% of the increase of the Net Asset Value per Share, accrued daily and paid monthly or on redemption, subject to a high-water mark

Management Fees: 2% per year of the Net Asset Value per Share, accrued daily and paid monthly

Additional information

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

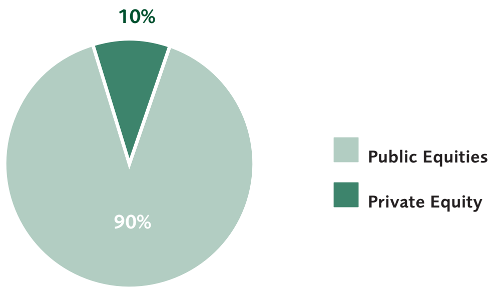
Performance – VBF Portfolio

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)
March 10	61.77%	3.06%	1.45%	1.81%	2.91%
February 10	66.10%	5.77%	3.33%	3.39%	5.52%
January 10	64.60%	-6.63%	-7.32%	-17.93%	-8.53%
December 09	66.26%	3.06%	0.44%	0.65%	4.75%
November 09	66.78%	6.78%	-0.56%	-0.23%	5.90%
October 09	65.89%	5.41%	1.74%	2.03%	4.97%
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%
2010 (YTD)	-	1.78%	-2.85%	-13.62%	0.82%
2009	-	127.84%	36.80%	35.07%	112.22%
2008	-	-57.28%	-25.46%	-22.64%	-54.54%
2007 (1)	-	30.59%	4.03%	-	30.51%
Since inception (1)	-	29.37%	3.06%	-9.74%	26.94%

(1) Inception VBF Class A 2007, Mar 06
(2) Inception VBF Class S Mills 2007, July 06
(2) Inception VBF Class S Casa Show 2008, February 29
(3) Net of all fees

Break-down Public Equities x Private Equity

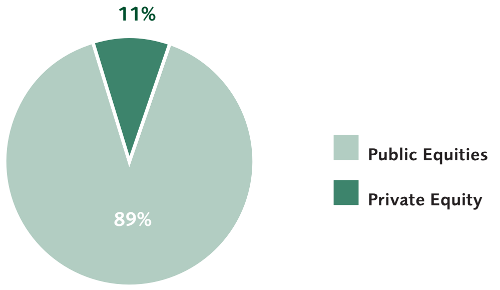


VBF Class C

Performance (US$)(3)	% Invested Equities	VBF Class C	VBF Class S (Mills)	VBF Class S (Casa Show)	Classes C+S+S(2)
March 10	60.05%	3.01%	1.81%	1.43%	2.87%
February 10	64.68%	5.69%	3.44%	3.25%	5.44%
January 10	63.13%	-6.40%	-19.13%	-6.03%	-6.60%
December 09	70.66%	4.95%	0.68%	0.49%	4.40%
November 09	66.54%	6.74%	-0.24%	-0.31%	5.80%
October 09	65.64%	5.43%	2.11%	0.07%	4.88%
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%
2010 (YTD)	-	1.90%	-14.83%	-1.59%	0.34%
2009	-	129.18%	37.42%	34.36%	111.65%
2008	-	-41.12%	-29.90%	1.80%	-40.92%
2007 (1)	-	-3.15%	-	-	-3.15%
Since inception (1)	-	33.18%	-17.95%	34.61%	21.51%

(1) Inception VBF Class C 2007, November 09
(2) Inception VBF Class S Mills 2008, October 08
(2) Inception VBF Class S Casa Show 2008, February 29
(3) Net of all fees

Break-down Public Equities x Private Equity



VBF Portfolio

Equity holding characteristics

	% VBF Class A	% VBF Class C
Ibovespa	35%	35%
Small Caps (smaller than US$ 1bi)	35%	35%
Mid Caps (between US$ 1bi and US$ 3bi)	33%	33%
Large Caps (larger than US$ 3bi)	32%	32%

Portfolio Concentration

	VBF Class A	Monthly Attribution	VBF Class C	Monthly Attribution
Top 5	38%	1.89%	37%	1.83%
Next 5	15%	0.37%	15%	0.36%
Other	10%	0.24%	9%	0.26%
Cash	37%	0.56%	39%	0.56%

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 (closed)
Inception Date of Class C: November 09, 2007 (closed)
Inception Date of Class IP Brazilian Equities: April 01, 2010

Investment objective

The investment objective of the VBF Segregated Portfolio is to provide sophisticated investors with substantial long-term returns comprised of capital appreciation (capital gains, dividends and interest income) by investing principally in companies listed on the São Paulo Stock Exchange ("BOVESPA"), which in the Investment Manager's opinion are trading at a substantial discount to their intrinsic value.

Investment strategy

The strategy of the VBF Segregated Portfolio is to identify and invest in companies whose prevailing share prices, in the Investment Manager's judgment, do not reflect their intrinsic values, and to hold such investments until such fair value is reflected in their market prices. While the VBF Segregated Portfolio may invest in any securities that in the

Investment strategy (cont.)

Investment Manager's judgment meets the underlying objective of long-term capital appreciation. In addition, up to 20% of aggregate assets of the VBF Segregated Portfolio Class C and 15% in Class A may participate in Designated Investments (Class S). These may include unlisted equities.

No Designated Investments will be made in respect of the VBF Segregated Portfolio – IP Brazilian Equities Class Shares.

Terms and conditions for IP Brazilian Equities class

Subscription: Daily

Minimum Initial Investment: USD 1,000,000.00

Minimum Redemption Value: USD 100,000.00

Minimum Holding: USD 1,000,000.00

Redemption Day: the last Business Day of the third subsequent month following receipt by the Registrar and Transfer Agent of the Redemption Form.

Management Fees: 2.0% per annum of the Net Asset Value of the VBF Segregated Portfolio.

Incentive Fees:

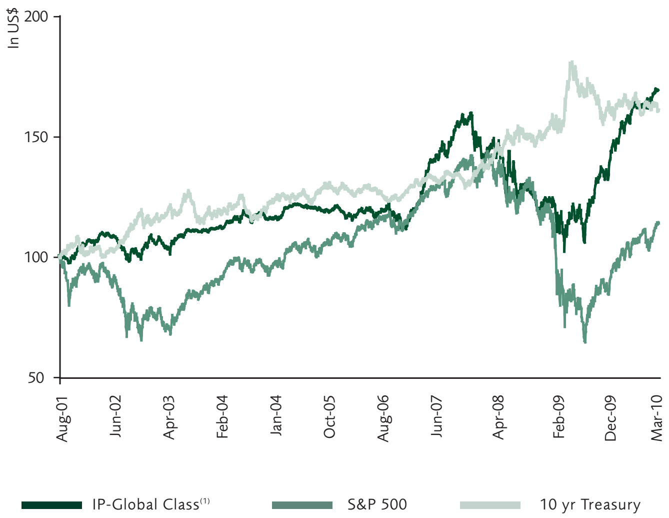
- 20% computed on returns in excess of Libor+6%
- High-water-mark mechanism avoiding double charging for same performance
- Accrued daily and paid semi-annually

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 – IP-Global Class

IP-Global Class of IP Investment Fund is the master fund for all IP's global strategy portfolios including IP-Fund Class of IP Brazil Fund SPC.

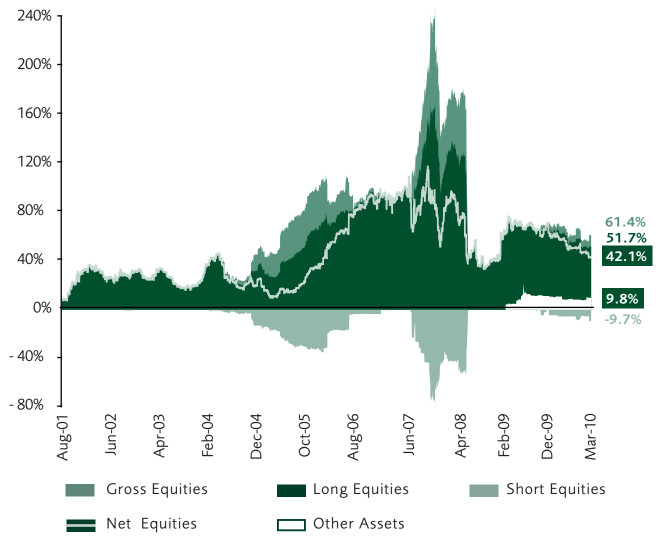


(1) Net of all costs since inception until November, 2003, since then gross of performance fees and since July, 2008 also gross of management fees.

Performance (US$)	IP-Global Class[1]	S&P500	10Y Treasury	3-month Libor
March 10	1.90%	6.03%	-1.68%	0.02%
February 10	0.83%	3.10%	-0.17%	0.02%
January 10	1.72%	-4.57%	2.97%	0.02%
December 09	-0.28%	2.97%	-5.13%	0.02%
November 09	4.28%	6.00%	2.31%	0.02%
October 09	1.26%	-1.86%	0.65%	0.02%
September 09	3.57%	3.73%	0.87%	0.02%
August 09	2.02%	3.61%	1.24%	0.04%
July 09	7.97%	7.56%	0.68%	0.04%
June 09	0.28%	0.20%	-0.34%	0.06%
May 09	5.24%	5.59%	-2.71%	0.07%
April 09	7.53%	9.57%	-3.56%	0.09%
12 months	42.48%	49.77%	-6.31%	0.45%
2010 (YTD)	4.52%	4.33%	1.07%	0.06%
2009	38.31%	29.56%	-11.91%	0.71%
2008	-17.93%	-38.30%	25.31%	3.05%
2007	1.83%	6.22%	9.60%	5.50%
2006	18.46%	15.23%	2.05%	6.71%
2005	-2.89%	5.43%	3.47%	3.65%
2004	7.24%	11.11%	4.89%	1.66%
2003	8.12%	28.50%	0.92%	1.24%
2002	-1.29%	-22.11%	15.58%	1.83%
2001	6.04%	-5.05%	1.88%	1.11%
Since Inception	68.67%	13.63%	60.94%	28.42%

(1) Net of all costs since inception until November, 2003, since then gross of performance fees and since July, 2008 also gross of management fees.
(2) Inception of IP-Global Class 08/01/2001

Exposure



Portfolio Concentration

	% Portfolio	Monthly Attribution
Top 5	38.1%	1.44%
Next 5	19.8%	0.72%
Other Investments	-7.6%	-0.29%
Fixed Income	49.4%	0.03%
Total	**100%**	**1.90%**

Portfolio Breakdown

	% Portfolio	Monthly Attribution
Long Equities	51.7%	2.25%
Short Equities	-9.7%	-0.34%
Fixed Income	49.4%	0.03%
Other Assets	9.8%	-0.04%
Total	**101%**	**1.90%**

The following information refers to IP Fund Class of IP Brazil Fund SPC.

Terms and Conditions

Subscription: Daily

Minimum Initial: US$ 1,000,000

Minimum Additional: US$ 100,000

Redemption: If the Redemption Form is received by the Registrar and Transfer Agent on or before the 15th day of each calendar month the Redemption Day is the 15th day of the second subsequent calendar month. If the Redemption Form is received after the 15th day of each calendar month the Redemption Day is postponed by one month.

Minimum: US$ 100,000

Minimum Balance Left: US$ 1,000,000

Fees

Management Fee: Up to 1,5% p.a. on the Net Asset Value per Share, accrued daily and paid monthly.

Performance Fee: 15% of the increase of the Net Asset Value per Share, accrued daily and paid semi-annually or on redemption, subject to a high-water mark. The Incentive Fee will be paid through the automatic redemption of a number of Shares of each subscription in respect of which an Incentive Fee is payable, corresponding to the value of the accrued and unpaid Incentive Fee.

Additional Information

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

Miscellaneous

The problem with socialism is that eventually you run out of other people's money." – Margaret Thatcher

"If you want to know where the next crisis will be, then look at where the leverage is being created today. And nowhere is there more leverage being created at the moment than on sovereign balance sheets. What is happening is an experiment never undertaken before." – Martin Barnes

"The best way to think about investments is to be in a room with no one else and just think (...) What you are looking for is some way to get one good idea a year. (...) Wall Street makes it money on activity. You make your money on inactivity" – Warren Buffett

We highlight below a few quotes from the always interesting annual report by Seth Klarman about what lessons investors should have learnt from the 2008 crisis, with which we agree 100%:

- *"Nowhere does it say that investors should strive to make every last dollar of potential profit; consideration of risk must never take a backseat to return."*
- *"Risk is not inherent in an investment...Do not trust financial market risk models. Reality is always too complex to be accurately modeled. Attention to risk must be a 24/7/365 obsession, with people – not computers – assessing and reassessing the risk environment in real time. Despite the predilection of some analysts to model the financial markets using sophisticated mathematics, the markets are governed by behavioral science, not physical science."*
- *"Do not accept principal risk while investing short-term cash: the greedy effort to earn a few extra basis points of yield inevitably leads to the incurrence of greater risk, which increases the likelihood of losses and severe illiquidity at precisely the moment when cash is needed to cover expenses, to meet commitments, or to make compelling long-term investments."*
- *"A broad and flexible investment approach is essential during a crisis. Opportunities can be vast, ephemeral, and dispersed through various sectors and markets. Rigid silos can be an enormous disadvantage at such times."*
- *"Be sure that you are well compensated for illiquidity – especially illiquidity without control – because it can create particularly high opportunity costs."*
- *"Having clients with a long-term orientation is crucial. Nothing else is as important to the success of an investment firm."*
- *"To not only learn but also effectively implement investment lessons requires a disciplined, often contrary, and long-term-oriented investment approach. It requires a resolute focus on risk aversion rather than maximizing immediate returns, as well as an understanding of history, a sense of financial market cycles, and, at times, extraordinary patience."*

"Only the paranoids survive" – Andy Grove

Av. Ataulfo de Paiva, 255 / 9º andar   Leblon
Rio de Janeiro   RJ   Brasil   22440-032
Tel. (55 21) 2104 0506   Fax (55 21) 2104 0561
faleconosco@investidorprofissional.com.br
www.investidorprofissional.com.br