Quarterly Report

September 2010

Investidor Profissional
DESDE 1988

Index

"In order to block an invasion, concrete is better and cheaper than a wall of human bodies" **André Maginot**

"Nothing is built on rock, everything is built on sand, but our duty is to build as if the sand were rock" **Jorge Luís Borges**

SAND CASTLES, CONCRETE WALLS – PART 1

The Maginot Line was one of the most ingenious and extensive fortification systems ever built.

It was designed by the French State at the end of the nineteen-twenties and built in the thirties, with a view to protecting the country against another frontal invasion from Germany. The purpose of the Line was to act as a first, formidable shield that would at least delay the enemy's advance, allowing the timely deployment of the French army for the conflict. It received the name "Maginot" thanks to the French press, which associated the gigantic enterprise, which took almost a decade, to the war veteran and then minister, André Maginot, who vehemently supported its construction.

It was not exactly a continuous "line" or great wall, but a defensive complex composed of three interdependent fortified belts, which stretched along the French border from Switzerland up to Longuyon, close to where it meets Belgium and Luxembourg. In all, there were over 100 forts, placed at intervals of 5 to 10 km and supported by smaller fortifications and bunkers. Both the forts and the bunkers were, in essence, underground: only the observation domes and the armament were exposed to the enemy.

The fortifications were protected by advance control posts, barbed wire, and anti-tank blocks built of cement and iron, in addition to minefields and ditches over 3 meters deep.

The larger forts, called *gros ouvrages*, had rotating towers, retractable steel domes, reinforced batteries at varying depths, and heavy artillery pieces. They were true underground citadels, with a capacity for up to 1,200 men, and equipped, at 30 meters from ground level, with accommodations, kitchens, refectories, generators, water reservoirs, ample ammunition magazines, and even small electric trains to transport soldiers, armament and ammunition between the sectors of a combat unit.

The Line was interconnected by almost 100 km of underground tunnels. In order to mitigate the effect of enemy actions using gas (chlorine, mustard, phosgene, etc.) like those carried out by Germany during the First World War, the forts had a modern filtering and ventilation system, which expelled the air from inside in the event of an attack, and also cleared the environment of cannon smoke and the smell from diesel-fueled machines.

However, despite all this technology, defensive power and war potential, the Maginot Line would come to be known in history as one of the biggest military, strategic and political blunders of all times, an extremely expensive white elephant that proved to be "absolutely useless" against the German Blitzkrieg of 1939.

Putting it briefly, instead of attacking the French fortifications directly, the Germans went round the Line. They ignored (once again) Belgian and Dutch neutrality. They took the hitherto impregnable Eben Emael fortress in Belgium (at that time, the largest and best equipped in the world, even possessing a "moat", the Albert Canal). With the way open, they crossed the dense, semi-mountainous Ardennes forest (considered unsurmountable until then) with tanks, to come face to face with an astonished and still disorganized French army, and a panicking population. At the same time, they blocked the Allied front at Dunkirk, and in less than a month they were in Paris –

a feat they had not achieved during the First World War. In just 42 days, France, whose army was viewed as "the best in the world", was signing the armistice.

Retrospectively, the consensus is to declare that the Maginot Line failed because it was designed to respond to the battle technologies and strategies of the 1914-1918 war, which had been won by the infantry ("it would have been invincible in 1914"). For the "war of movement", with air support and the use of tanks as independent moving units, it had become obsolete even before building had started.

However, from the operational viewpoint, it can be argued that the Maginot Line was, in general, successful: it did in fact prevent a frontal attack on France by Germany; and in its Alpine version it repelled Italy fairly easily. Very few fortifications were conquered and none of the *gros ouvrages*, the largest and best equipped forts, fell to the enemy. When, on June 25, 1940, there came the order to cease resistance, only the small La Ferté fort had been defeated.

But History was unforgiving. Before the German offensive, the Allied propaganda had turned the Maginot line into an "unsurmountable great wall". The people of France and England, and even some factions of their politicians and the military, believed in the impregnability of the French shield. A "Maginot mentality" was created, which gave the French a certain comfort and feeling of security. The confidence resulting from the protection to the perimeter, so formidable, concrete and tangible, seems to have helped to disarm, *a priori*, the French resistance.

Curiously, Hitler's Germany had two great defensive systems destroyed by the Allied forces – the Siegfried Line (Westwall) and the colossal Atlantic Wall (from the French coast to Norway) – but these did not even come close to attaining the historical prominence of the French fortifications.

More generally, the Maginot Line won eternal fame as a metaphor for "a grand fiasco". An "imaginary, mirage wall". In short: the name "Maginot" ended up acquiring the broad sense of sinking a mountain of money in senseless defensive efforts for "retrospective prevention" of past crises.

Today, its forts have "alternative" uses, such as mushroom plantations, refuges for bats, or tourist attractions that hark back to a past of little glory.

As investors, what can we usefully extract from this period in history?

Coincidentally, in the New Yorker magazine with cover date of October 18, 2010 (just before this report was released), James Surowiecki, the author of "The Wisdom of Crowds", went to the core of the question when he discussed the rise of the online film rental company Netflix in detriment to Blockbuster: "*Blockbuster dealt with its thousands of stores as if they were a protective moat, when they were in fact the entrepreneurial equivalent of the Maginot Line. The so familiar 'sunk cost' fallacy only made things worse. Various studies show that, once decision takers invest in a project, they tend to continue investing because of the money that has already been committed. Instead of drastically reducing both the size and the number of stores, Blockbuster continued to bury capital in a bottomless pit*". And the bottomless pit became a tomb – because on September 23 the company applied for Chapter 11 …

So as not to tire our reader, we will explore in the next report three ranges of subjects that interest us as investors: in the first place, issues such as entry barriers/competitive advantages, capital allocation (productivity, discipline, a conservative posture), our ability to estimate the magnitude and durability of the return on capital employed, the correct identification/monitoring of risks and value drivers, operational efficiency, organization culture. Subsequently, we resort to the metaphor to rethink the sense of security that guides our actions as shareholders and executives, especially in times of calm. Our most deep-rooted beliefs and frameworks most often prove to be nothing more than sand castles. Finally, we conclude by addressing the margin of safety concept, our insurance against chance and our evaluation errors.

To acquire awareness of the fragility of our ways of understanding – even if we reinvest in them for years on end – gives us a precious degree of freedom, which lets us play the game without being played by it. Where we would like to find unsurmountable concrete walls underpinning our convictions, there are mere sand blocks that turn to powder with time and circumstance.

As Surowiecki illustrates so well, the retail business is no doubt a good example: "location, location, location" has been the sector's foundation stone and strategy mantra for centuries. Today, opening stores in the "best locations" is no longer necessarily the best capital allocation. Worse than that, the sunk cost of the stores and the need to dilute their fixed costs sometimes become a great quicksand, absorbing capital and attention in the fierce competition with e-commerce. Asset becomes liability. And what was thought to be concrete, true and absolute crumbles like sand.

IP-Value Brazil, VBF Class A and VBF Class C

The variation in the market prices of VBF Class A in the third quarter of 2010 was 11.5%, VBF Class C 11.6% and IP-Value Brazil, which holds positions in international companies up to 10% of its NAV, was 11.9%.

The main positive contributions to the portfolio in the period came from Itaúsa, Odontoprev, and Aliansce. The main negative contributions came from Pão de Açúcar (a leftover from Globex shares) and CEB.

In the course of the quarter, we significantly reduced our position in a set of stocks linked to domestic consumption, which, due to the segment's sharp and almost indiscriminate rise in prices, no longer offered us a wide enough margin of safety to justify the investment. No doubt the momentum and the potential operational leverage of some of these assets tend to be favorable this semester (and duly powered up by the effect of the election year on incomes), but our reading is that their prices already reflect very optimistic scenarios for sales growth and margin expansion, for which we prefer not to "pay in advance" – especially because it is possible to list clear execution and capital allocation risks, to which we attribute a considerable probability of occurring in the medium term, and which are far from being recognized and duly discounted by the market.

At the same time, we have increased our position in some companies in the financial service sector (Porto Seguro, Redecard and Cielo) and the shopping-mall sector (Aliansce). In the latter case, we took advantage of a window of opportunity presented by a drop in prices in order to reap the benefits of enhancing our diligence, especially with regard to governance (a real international jigsaw puzzle) and capital allocation.

We still have a significant cash position – and, in the IP-Value Brasil Fund, we are using all of our investment capacity (up to 10% of the Fund's resources) in global assets, among which we highlight the "gold" package and solid, diversified companies, as detailed below, where we discuss in detail the IP-Global portfolio. We continue to exercise our patience and discipline while the prices of several quality assets start to diverge from their fundamentals.

As usual, we have invested a great deal of time in enhancing our knowledge and in developing closer relations with companies and regulatory bodies in certain sectors: financial services, consumer goods, health services, and industrial/infrastructure.

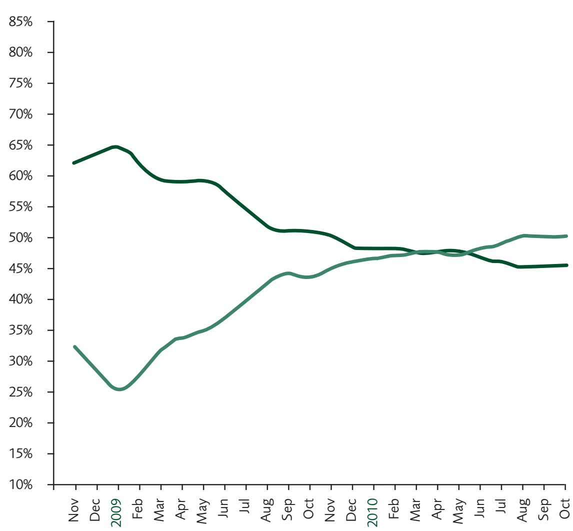
We have also dedicated a great deal of time to collaboration in relation to some of the portfolio's strategic positions, such as Dimed and Saraiva, which at present prices have excellent return prospects with low risk. The distortion between the values that the market recognizes and that we recognize in these two assets is still very significant. As both companies' markets are really booming, we have tried to make a contribution by offering support, within our means, for strategic decisions and capital allocation.

Finally, in order to continue bringing to the Funds managed by IP a broader and differentiated perspective in relation to local and international investment risks and opportunities, the management team made several trips abroad, focusing mainly on consumer goods (especially food & beverages), infrastructure, the real-estate market, shopping malls and technology.

The variation in market prices for IP-Global's positions in the 3rd quarter of 2010 was 7.3%, gross of management and performance fees; and 6.8% YTD. Since IP started managing the Fund, on August 1, 2001, it has accumulated a return of 72.3%, always gross of management and performance fees.

From our point of view, the quarter was characterized by the continued and intensified evolution of the "surrounding philosophical conditions" highlighted in the last report: "Luis Obama Chavez" continues following the curve of every populist in the USA. The chart below, from the website www.pollster.com, leaves very little doubt that "when the rubber meets the ground, money talks, bullshit walks".

National Job Approval: Barack Obama



In addition to the clearly contrary trend, the regressions crossed over, indicating a greater contingent for rejection than for approval.

In a recent interview, Paul Volker, a former FED chairman whom we greatly esteem, mentioned that although many people think that big money is the great driver for decisions, public opinion is stronger. Our interest in the matter, at least in relation to the management of IP-Global, is not at all philosophical. Those who have accompanied us for longer know about our concern regarding the size of governments, both with respect to taxation and to excessive regulation. We were long convinced that, in general, we were at a point that was far beyond the optimum. Then the 2008 crisis, generated by perverse incentives and excessive and badly designed government regulations, paradoxically made the "pendulum" move even further in the populist/socialist direction, which is very pretty on paper and in discourse, but a repeated failure in practice.

But the reaction has clearly started. A sign in the USA that we consider favorable is the growth of the movement known as the "Tea Party" – but, it should be stressed: only with regard to the proposals for the US economy. The ten main points that were defined and published in April, after a broad online debate and vote, were as follows:

1. **Identify constitutionality of every new law**: Require each bill to identify the specific provision of the Constitution that gives Congress the power to do what the bill does. (82.03%)

2. **Reject emissions trading**: Stop the "cap and trade" administrative approach used to control carbon dioxide emissions by providing economic incentives for achieving reductions in the emissions of carbon dioxide. (72.20%)

3. **Demand a balanced federal budget**: Begin the Constitutional amendment process to require a balanced budget with a two-thirds majority needed for any tax modification. (69.69%)

4. **Simplify the tax system**: Adopt a simple and fair single-rate tax system by scrapping the internal revenue code and replacing it with one that is no longer than 4,543 words – the length of the original Constitution. (64.9%)

5. **Audit federal government agencies for constitutionality**: Create a Blue Ribbon taskforce that engages in an audit of federal agencies and programs, assessing their Constitutionality, and identifying duplication, waste, ineffectiveness, and agencies and programs better left for the states or local authorities. (63.37%)

6. **Limit annual growth in federal spending**: Impose a statutory cap limiting the annual growth in total federal spending to the sum of the inflation rate plus the percentage of population growth. (56.57%)

7. **Repeal the health care legislation passed on March 23, 2010**: Defund, repeal and replace the Patient Protection and Affordable Care Act. (56.39%)

8. **Pass an 'All-of-the-Above' Energy Policy**: Authorize the exploration of additional energy reserves to reduce American dependence on foreign energy sources and reduce regulatory barriers to all other forms of energy creation. (55.5%)

9. **Reduce Earmarks**: Place a moratorium on all earmarks until the budget is balanced, and then require a 2/3 majority to pass any earmark. (55.47%)

10. **Reduce Taxes**: Permanently repeal all recent tax increases, and extend current temporary reductions in income tax, capital gains tax and estate taxes, currently scheduled to end in 2011. (53.38%)

Obama's response, besides blaming the bankers, markets and other monsters of his boring and obsolete rhetoric, has been to declare that not to raise taxes or increase expenditure means stopping paying pensions to veterans and other populist tales, without, unfortunately, addressing practical issues such as inefficiency and corruption in governments, and even less the issue of perverse incentives. But reality has passed through the gate and is now approaching the door.

An interesting argument, and one that is especially interesting to us, is related to the issue of whether or not the earnings obtained abroad by US companies should be taxed. The present legislation, in many cases, provides for taxation by Uncle Sam of earnings of overseas subsidiaries of US companies (which have already been taxed based on the legislation of the place at which they were generated) at the time the funds are sent to the USA. The obvious consequence is the existence of many hundreds of billions of Dollars (with estimates over US$ 1 trillion) belonging to US companies and invested in other countries. Consistent with his discourse, Obama has been repeatedly criticizing companies and denying the possibility of making changes in taxation. On their part, consistent with all the rest, the companies invest the funds outside the USA. Recently, Cisco's CEO (with approx. US$ 30 billion in its cash position outside the USA) declared that, if the rule is not changed soon, the company will invest this cash in long-term projects outside the USA. Money talks, bullshit walks.

At the same time, the images registered by the robot camera that documented each liter of oil spilt from the well in the Gulf of Mexico were replaced by those of sturdy French strikers protesting against the rise in social security contributions and higher retirement ages. Excellent sign... Another step forward, in September we saw the Swedish government, a classical benchmark for socialism, migrate a bit more towards the right. The patient is finally showing signs of life.

We continue to hold our view that, in the medium term, the acceleration of technological changes (we prefer not to talk about advances in order to maintain the controversy over populist discourses) – especially in communications – makes it more difficult for governments to maintain the level of incoherence, hypocrisy and inefficiency shown by the models implemented with special force in the course of the last century. As a general rule, companies with a global business based on intangible assets, such as information, intellectual properties, brands and processes, seem to us to have a great advantage. As we have seen above, they are more fluid, less dependent on local idiosyncrasies.

Of course, all these things have been pondered for a long time (for those who have not yet had the experience, it is worth reading Atlas Shrugged, by Ayn Rand, written in the fifties). But history seems to indicate that, from time to time, a critical mass is formed leading to greater consequences. Day by day we are led closer to the conclusion that we are at one of those moments – and this does not imply an optimistic nor a pessimistic evaluation – when investing more attention may have a disproportional effect.

As a practical consequence of this view, we continue to keep the fund's largest position in the "gold package" (gold and gold-mining companies) and, taking advantage of the effects of almost 10 years of disillusionment with technology companies, gradually increasing our positions in the latter. It is always good to remember that the gold position has a particularly strategic role in the portfolio; that is, in the event of a general melt-down, it may be a value reserve that will then enable us to "fill the bucket" with assets at sale prices.

The fact is that we have started to believe that the great upward movement in the prices of gold and of emerging market assets (especially those of Brazil) is already giving signs of having entered a phase of irrational acceleration (which is usually quick), and on the other hand, the prices of global "big business" reflect the negative status reached by same in the last few years. As a consequence of the combination of the "right-wing reaction" in the "developed world" with the supply of stocks of high-quality global companies at attractive prices, we increased IP-Global's long exposure (including gold), which rose from 76.3% to 82.1%, and the net exposure from 66.5% to 71.4%. The maturity of the largest basket of put options that we had sold also contributed to this change (and to the performance in the quarter). As most of the assets rose and volatility fell, "we collected the chips we had won and left the table".

Finally, we continue purchasing Microsoft (MSFT) stock, which has become IP-Global's largest individual position, overtaking Berkshire. We discuss the company in the Investments section of our report.

JOHNSON & JOHNSON (IP-GLOBAL, IP-VALUE BRAZIL)

Johnson & Johnson is a company that has existed for over 100 years, which has a global presence, operates in the health and consumer goods area, and displays many of the qualities we seek so diligently in our investments: excellent business model, executives aligned with shareholders' interests, good governance and attractive price.

The 48 consecutive years of increasing dividends and enviable growth did not occur by chance. Behind such great success and excellent profitability levels is a sound business model, which rests on the pillars of focus on clients' needs and the continuous development of innovative products with state-of-the-art technology.

The revenues are divided among the USA (50%), Europe (25%), and the rest of the world (25%) – the latter having presented the highest growth in the last few years. They may also be segmented into 3 different businesses. In the Diagnosis and Medical Devices business (38% of the 2009 revenues), the company develops and sells products such as equipment that enables a detailed visualization of the heart in three dimensions for the treatment of heart diseases; equipment that counts the number of cancer cells in blood samples; advanced instruments that permit minimally invasive surgery; contact lenses; and kits for the control of diabetes. In the Pharmaceutical business (36% of revenues), they develop and sell a great number of drugs for the treatment of various illnesses. In the Consumer Goods business (26% of revenues), they develop and sell products for topical use (Band-Aid), women's products (Carefree, O.B.), products for oral hygiene (Listerine, Reach) and for skin care, non-prescription medicines (Tylenol, Mylanta, Nicorette), shampoos, sweeteners (Splenda), and many others.

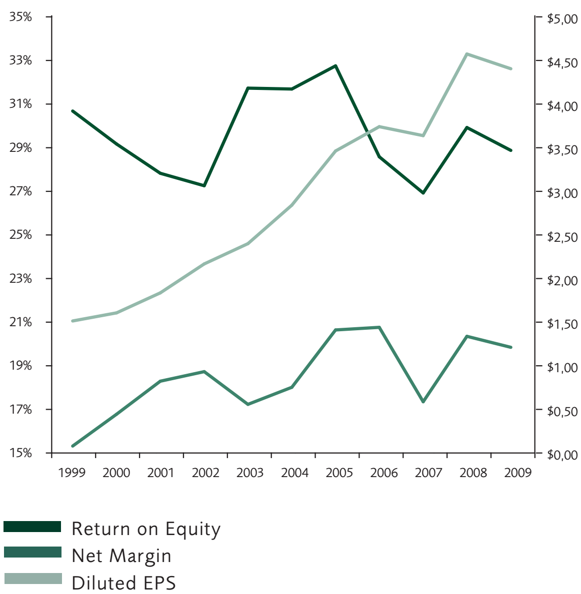
Approximately 25% of sales come from products introduced in the last five years. This combination of unique products, constant innovation and well-known brands is reflected in the high net margins and returns booked by the company in the last decade.

For a company that is always reinventing itself, it is absolutely natural that there should be very high outlays for research and development (R&D), which are nothing other than investments, but are booked in the results as costs. Contrary to many other businesses that incur costs and also require the use of part of the cash-flow in order to continue growing, Johnson & Johnson's "costs/investments" are responsible not only for the maintenance/evolution of the existing products, but also for the development of new products that will contribute to the company's future growth.

The result is that a good part of the cash-flow can be distributed to shareholders without jeopardizing the company's growth. Whatever is not distributed can be allocated to the acquisition of companies with strong brands and innovative products and technologies, giving even greater support to growth. In the course of time, such acquisitions have proved to be correct, as Johnson & Johnson's extensive distribution network can create clear benefits for such companies as they become "plugged in" to the system, generating cost efficiencies and/or increased revenues thanks to the more widespread distribution of sales points.

From 1999 to 2009 the company generated approximately US$ 89 billion in cash, already discounting investments of US$ 25 billion to replace depreciated assets, and expenses of US$ 8 billion for long-term incentive plans for the executives. During the same period, the company returned US$ 56 billion to its shareholders – in the form of dividends and stock repurchase – or 63% of the cash-flow for the period. The balance of about US$ 33 billion was used for acquisitions.

The fact is that, be it through "expenditure/investments" in R&D or through acquisitions, the company managed to raise its revenues from US$ 27 billion to US$ 62 billion in the last decade, and its cash-flow jumped from US$ 3.5 billion to US$ 13 billion, while at the same time it distributed to its shareholders 63% of its cash-flow for the period. Few companies can show such impressive numbers.



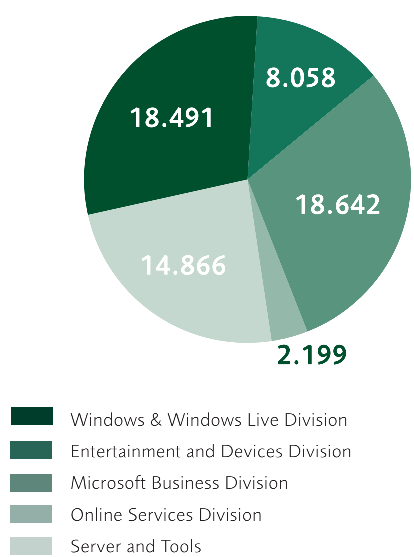
The past was undoubtedly brilliant, but for the company's shareholders it is much more important that the future should also be brilliant. The higher life expectancy and the ageing of the population in developed countries, and the growing demand in emerging countries, in addition to the capacity to develop and acquire new technologies and unique products, are important foundations that should support the company's growth in the future.

After 10 years, the company's market capitalization (discounting short-term investments and its net cash position) rose from approximately US$ 145 billion to US$ 158 billion, a performance that does not reflect the fantastic evolution in the results. Even though we recognize that the company was trading at high multiples at the end of last century, we believe that we managed to make the investment at a price (US$ 60/share) that will enable us to obtain attractive returns.

Microsoft (IP-Global, IP-Value Brazil)

We have been investing a great deal of time in seeking a counter-case for MSFT at current prices, but it has been difficult. There are obviously negative points, but putting together all those we have managed to raise, combining them with the positive ones and applying our view on risk distribution, the opportunity seems very attractive to us.

Briefly, at US$ 25.00 per share, MSFT trades at a market cap of US$ 215 billion, with a net cash position of US$ 31 billion, which implies a current EV/FCF of 10 (the company's fiscal year ends on June 30). The company has several significant businesses with excellent competitive characteristics, a good governance record, highly competitive culture, global presence and vast regulatory/antitrust experience. These aspects are reflected in low capital intensiveness, good expense control while giving due attention to medium and long-term investments, and good capital allocation discipline (which many consider too conservative). Over the years, the company has diversified its sources of results. For the year ending on June 30, 2010, the revenue mix per area of activity was as follows:



Windows & Windows Live Division (Windows operating system, Windows Live and Internet Explorer) – US$ 18.5 billion in FY2010

Server and Tools – IT Infrastructure – US$ 15 billion in FY2010

Online Services Division (Bing, MSN portals and channels, as well as an online advertising platform with offerings for both publishers and advertisers.) Essentially competing with Yahoo and Google – US$ 2.2 billion in FY2010

Microsoft Business Division – Essentially Microsoft Office (Word, Excel, PowerPoint) and Microsoft Dynamics which provide products for business solutions for financial management, customer relationship management ("CRM"), supply chain management, and analytics applications for small and mid-size businesses, large organizations, and divisions of global enterprises. A competitor of Oracle, SAP, IBM, TOTVS... – US$ 18.6 billion in FY2010

Entertainment and Devices Division – Xbox 360 platform, Windows Phone, Windows automotive – US$ 8 billion in FY2010

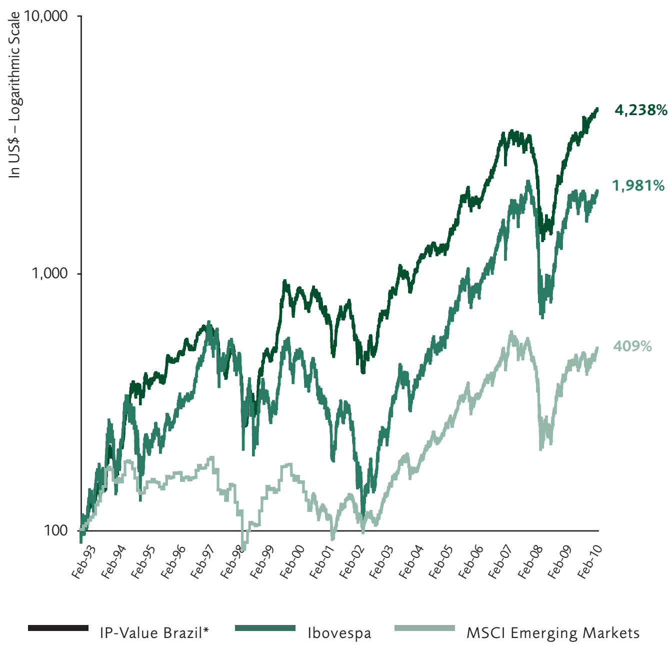
The main points of risk raised by the market that we managed to ascertain are as follows:

- Competition with Facebook/Google/Apple. A fact. The company is facing and has always faced a great number of visible and invisible competitors (Gates used to say that the greatest threat to MSFT will come from two kids who may be in a garage at any time). This is a risk that is always present and inevitable, and that must be taken into consideration together with the price and the size of the position. The main mitigating factors are the high switching costs of the company's products, business diversity, and the competition record (Lotus, Borland, Yahoo, Oracle, IBM, AOL, Netscape, Apple, Linux, in every incarnation, open-source in general, Sony, and Nintendo, to mention just a few) which gave rise to the strong competitive culture. The critical question here seems to us to be whether something has changed, whether the company has lost its punch or has become excessively bureaucratic. Based on our research, this does not seem to be the case.
- Sales of shares of the company by Bill Gates. A fact. Gates has been systematically selling his shares. For 2010, the plan registered at the SEC amounts to 40 million shares - approximately US$ 1 billion. A lot of money, but it seems to us not to be very significant within the specific context of his personal wealth, the size of the company, his present involvement (low) and the size of his stake (7.2% of the company, or US$ 15.2 billion).

Finally, in the course of the last 5 years (from June 2005 to 2010), the company distributed US$ 20.4 billion in dividends and US$ 68.5 billion in repurchases, reducing the number of shares by 19% (already considering the issue of new shares related to incentive plans). Money talks, bullshit walks...

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
September 10	5.28%	10.62%	11.13%
August 10	1.00%	-3.35%	-1.91%
July 10	5.26%	10.92%	8.40%
June 10	5.49%	0.38%	-0.72%
May 10	-7.32%	-12.10%	-8.75%
April 10	14.56%	-0.56%	1.23%
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%
2010 (YTD)	27.13%	4.44%	12.03%
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	49.50%	18.23%	20.54%
Last 60 months	195.27%	189.97%	84.87%
Since 02/26/1993 [1]	*4237.62%*	1981.43%	409.27%
Annualized Return [1]	*2.38%*	1.91%	1.02%
Historical Volatility	*25.32%*	43.79%	36.43%
Sharpe Ratio [3]	*0.03*	0.03	0.06

(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

	% In Equities
International Assets	10%
Ibovespa	26%
Small Caps (smaller than US$ 1bi)	22%
Mid Caps (between US$ 1bi and US$ 3bi)	25%
Large Caps (larger than US$ 3bi)	52%

Portfolio Concentration

	%	Monthly Attribution
Top 5	39.3%	2.33%
Next 5	17.9%	0.89%
Other	25.5%	1.92%
Cash	17.3%	0.13%

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

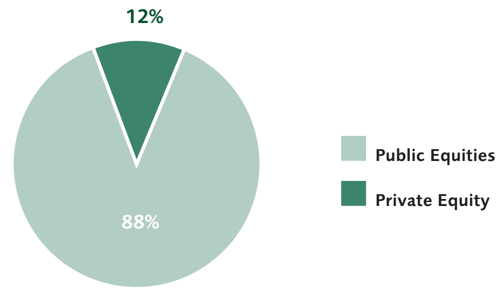
For additional information regarding of IP-Value Brazil Class, please contact us by phone at (55 21) 2104-0506 or by e-mail at contactus@investidorprofissional.com

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]
September 10	65.80%	4.88%	7.59%	3.68%	5.14%
August 09	65.90%	0.81%	8.09%	-0.03%	1.19%
July 10	65.99%	5.49%	9.39%	2.64%	5.81%
June 10	64.10%	4.35%	19.29%	1.08%	5.54%
May 10	62.67%	-6.26%	-6.80%	-4.89%	-6.52%
April 10	62.58%	3.70%	307.41%	3.01%	23.79%
March 10	61.77%	3.06%	1.45%	1.81%	2.93%
February 10	66.10%	5.77%	3.33%	3.39%	5.56%
January 10	64.60%	-6.63%	-7.32%	-17.93%	-8.96%
December 09	66.26%	5.29%	0.44%	0.65%	4.75%
November 09	66.78%	6.78%	-0.56%	-0.23%	5.90%
October 09	65.89%	5.41%	1.73%	2.03%	4.97%
2010 (YTD)	-	15.14%	461.56%	-8.99%	36.48%
2009	-	131.89%	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]	-	46.36%	495.74%	-4.90%	71.83%

(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

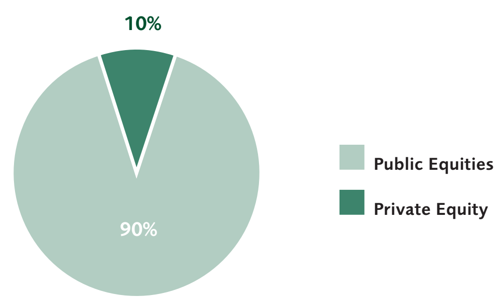


VBF CLASS C

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]
September 10	66.30%	2.18%	7.49%	3.67%	2.55%
August 10	65.90%	0.81%	8.09%	-0.03%	1.19%
July 10	66.11%	5.50%	9.15%	2.64%	5.60%
June 10	64.20%	4.35%	18.65%	1.23%	4.91%
May 10	62.72%	-6.40%	-7.46%	-4.88%	-6.54%
April 10	62.54%	3.75%	294.75%	3.00%	14.35%
March 10	60.05%	3.01%	1.43%	1.81%	2.91%
February 10	64.68%	5.69%	3.25%	3.44%	5.51%
January 10	63.13%	-6.40%	-6.03%	-19.13%	-11.11%
December 09	70.66%	4.95%	0.49%	0.68%	4.40%
November 09	66.54%	6.74%	-0.31%	-0.24%	5.80%
October 09	65.64%	5.43%	0.07%	2.11%	4.88%
2010 (YTD)	-	15.20%	440.91%	-10.15%	18.58%
2009	-	133.54%	34.36%	37.42%	111.65%
2008	-	-41.12%	1.80%	-29.90%	-40.92%
2007 [1]	-	-3.15%	-	-	-3.15%
Since inception [1]	-	50.56%	639.88%	-13.43%	43.61%

(1) Inception VBF Class C 200 , 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
Small Caps (smaller than US$ 1bi)	22%	21%
Mid Caps (between US$ 1bi and US$ 3bi)	26%	26%
Large Caps (larger than US$ 3bi)	52%	53%

PORTFOLIO CONCENTRATION

	VBF Class A	Monthly Attribution	VBF Class C	Monthly Attribution
Top 5	36%	2.13%	36%	1.92%
Next 5	15%	1.19%	16%	1.09%
Other	15%	1.22%	15%	1.06%
Cash	34%	0.33%	34%	0.27%

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.

IP's investment team follows a disciplined value-oriented, long-term approach. Thorough fundamental analysis is carried out in order to identify companies that are trading at far less than their intrinsic values.

In some investment cases of the portfolio IP may act as an active investor. Members of the investment team maintain close contact with the managers of the top holdings in order to understand their motivations, better anticipate their behavior, and, in some cases, help in the matters in which IP has competitive know-how.

Investment strategy (cont.)

Portfolio turnover is low; purchases are only made after the team has carried out extensive analysis, leading to a firm conviction regarding the investment. Holdings are usually maintained for more than two years.

VBF invests in a concentrated manner, since the team does not believe in diluting the best investment ideas with inferior ones.

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:

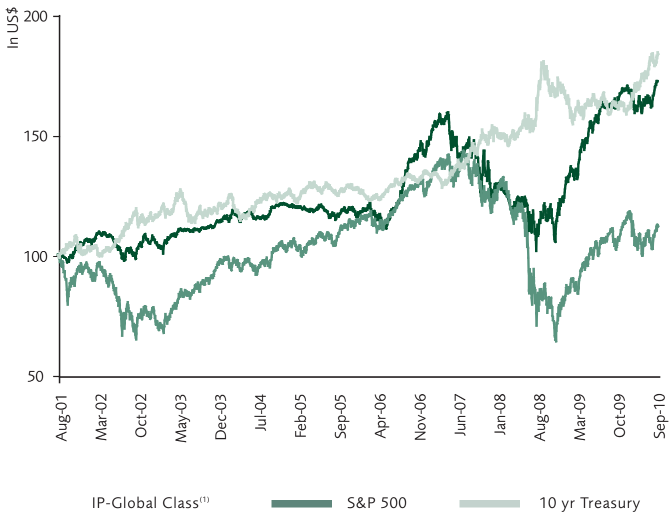
- 20% computed on returns in excess of Libor+6%
- High-water-mark mechanism avoiding double charging for same performance
- Accrued daily and paid semi-annually

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.

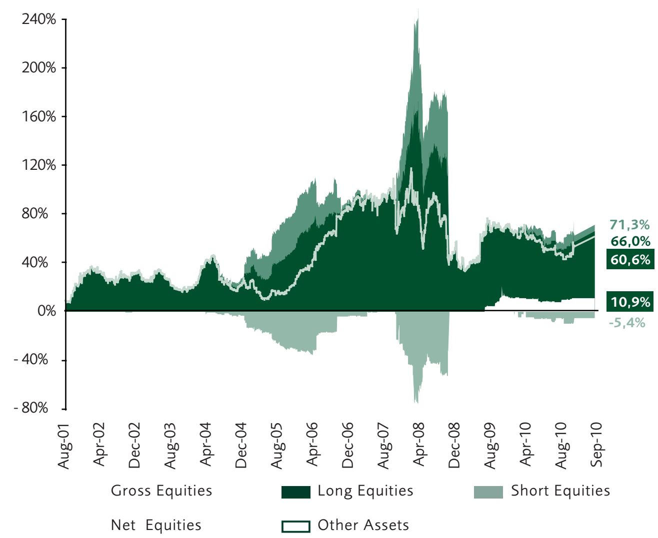


(1) Net of all costs since inception until November, 2003, since then gross of performance fees and since July, 2008 also gross of management fees.

Performance (US$)	IP-Global Class[1]	S&P500	10Y Treasury	3-month Libor
September 10	6.43%	8.92%	-0.14%	0.02%
August 10	-0.83%	-4.51%	4.58%	0.03%
July 10	1.30%	7.01%	0.29%	0.04%
June 10	-0.50%	-5.23%	3.48%	0.05%
May 10	-3.91%	-7.99%	3.55%	0.04%
April 10	-0.09%	1.58%	1.79%	0.03%
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%
12 months	12.41%	10.16%	11.33%	0.34%
2010 (YTD)	6.75%	2.85%	15.46%	0.27%
2009	38.31%	29.56%	-11.91%	0.69%
2008	-17.93%	-38.30%	25.31%	3.05%
2007	1.83%	6.22%	9.60%	5.30%
2006	18.46%	15.23%	2.05%	5.21%
2005	-2.89%	5.43%	3.47%	3.65%
2004	7.24%	11.11%	4.89%	1.64%
2003	8.12%	28.50%	0.92%	1.22%
2002	-1.29%	-22.11%	15.58%	1.79%
2001	6.04%	-5.05%	1.88%	1.11%
Since Inception	72.28%	12.01%	83.86%	26.23%

(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	44.7%	3.80%
Next 5	23.5%	1.65%
Other Investments	3.3%	0.39%
Fixed Income	28.6%	0.60%
Total	**100%**	**6.43%**

Portfolio Breakdown

	% Portfolio	Monthly Attribution
Long Equities	64.6%	5.79%
Short Equities	-4.1%	-0.37%
Fixed Income	28.6%	0.60%
Other Assets	10.9%	0.42%
Total	**100%**	**6.43%**

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

According to the newspaper O Estado de São Paulo, *"On January 10, 2006, the city of Fortaleza prepared to receive the exhibition Geijitsu Kakuu, of the Japanese artist Souzousareta Geijutsuka. The Ceará Museum of Contemporary Art undertook widespread dissemination of the artist's curriculum… Souzousareta Geijutsuka means "invented artist". Too late, the press discovered that the Japanese artist did not exist, but was an invention of Yuri Firmeza, a 23-year-old plastic artist. The press advisor was Irina, Firmeza's girlfriend at the time… 'What we wanted was to question the whole art system, including the media. But also the role of the art critic and the Museum in legitimating artists".* Any resemblance with a series of "legitimated" public offerings may not be a coincidence …

"We're blessed to have a business in which we sell moments of happiness for a few cents at a time a few billion times per day" – Muhtar Kent, Coca-Cola's CEO.

"Some of the largest financial institutions are 'virtually unmanageable' and, while new regulation is needed, it won't prevent another crisis" – Peter Weinberg, former chief executive of Goldman Sachs International (http://video.ft.com/v/615707051001/Peter-Weinberg-on-flawed-Wall-Street).

"I read about how Zappos is focused on customer service. It isn't. It's focused on company culture, which leads to customer service. We don't talk about customer service; we allow it to happen on its own by having the right people." – Aaron Magness, Zappos' director of business development and brand marketing. Zappo's is an online shoe store founded in 1999 and bought by Amazon.com in July 2009 in exchange for 10 million AMZN shares (at the time worth approx. US$ 900 million).

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