Quarterly Report

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Most certainly the saddest news, and that affected us most in the quarter, was the death of the great Ruy, a friend, partner and a long-time Saraiva executive, but above all, an idol. In a world crowded with starched bankers who push "no risk" Collateralized Debt Obligations - Squared to ill-informed clients, Ruy was an example of authenticity, transparency, simplicity, ethics and competence. In the almost two decades during which we had the pleasure and the privilege of sharing a close relationship with the great Ruy, everything he said he would do, he did.

The best investment and risk control is to choose the people with whom you do business. Ruy was a true "triple A".

For those who wish to know him, be inspired by him or use him as an example for formation, we recommend our post in Buysiders.com[1] (in English) and the following sources (in Portuguese):

1- http://www.estantevirtual.com.br/praxislivros/Ruy-Mendes-Goncalves-A-Espinha-Que-Ninguem-Verga-o-Manife-29042218 (out-of-print of a book he wrote many moons ago).

2- The following children's books, that we recommend:

- http://www.estantevirtual.com.br/abaporulivros/Ruy-Gentileza-Nair-de-Medeiros-Barbosa-O-Gol-da-Vitoria-Novo-42433942
- http://www.estantevirtual.com.br/sebocapricho/Gentileza-Ruy-e-Nair-de-Medeiros-Barbosa-Os-Dias-Felizes-de-Pagu-46990113
- http://www.estantevirtual.com.br/estantepopular/Ruy-Gentileza-Nair-de-Medeiros-Barbosa-O-Sonho-de-Beto-46149729

[1] http://blog-en.investidorprofissional.com.br/2011/09/09/ruy-mendes-goncalves/

At the present time, we are going through a "global leadership vacuum", in which countries, national and supranational entities act as "local magicians", trying to take rabbits out of top hats instead of pursuing solutions of a structural nature – with a high political and social cost – which necessarily encompass issues such as sovereignty, monetary and fiscal policy restrictions, foreign exchange, social security, employment, regulatory legislation etc. While the expectation of really effective solutions fails to appear on the horizon, the world and the markets fluctuate at the whim of the news, in the expectation that the worst is yet to come.

Keeping in mind that looking top-down is only of interest to us in order to gauge an important part of the risks, the resources we possess to adjust our portfolios to this scenario of uncertainties are quite simple:

- maintaining the cash position at comfortable levels;
- keeping our investor base always aligned (a base of sophisticated, aligned investors, with a long-term horizon) so that we can carry out our mandate with the patience and discipline that the moment calls for, demanding an even greater safety margin, both qualitative (risks) and quantitative (price); and
- making use of the 10% of "international space[1]", buying assets of solid, diversified and liquid companies.

In the course of a couple of cloudy, confusing years, we have only done what we said we would do: we raised cash and waited, pulling the trigger only selectively, waiting for good, well-managed businesses with good governance to come our way, to fall into our net, with attractive prices.

At times of crisis and volatility, many investors with shorter investment horizons feel anxious and fearful; they get desperate, react and intervene too much in their own portfolios. They think and rethink their strategies and torture themselves too much with short-term results.

Our investment philosophy, which is simple, only encourages us to sit tight, to favor liquidity and to continue getting prepared: doing research, reflecting, revisiting our truths and "passing" our turn at each round, just waiting for the few investments that really mean excellent opportunities.

Portfolio

The variation in the market prices of VBF Class A in the 3rd quarter of 2011 was -17.7%, VBF Class C -17.5%, VBF-Brazilian Equities -17.5% and IP-Value Brazil, which holds positions in international companies up to 10% of its NAV, was -18.0%.

The main positive contributions to the portfolios in the period came from the following holdings, in this order: Brasil Foods, Odontoprev, and Ambev; while the negative ones came from Itaúsa, Porto Seguro and Aliansce.

Our main purchases in the period were Natura, Itaúsa and Dasa, followed by adjustments in Totvs. The main sales were adjustments in the size of our positions in Ambev and Brasil Foods, which had a very positive performance from the relative point of view, and from the viewpoint of tactical management of the portfolios, ended up working partially as a source of funds for the marginal purchase of assets that seemed to us to show more attractive price vs. value distortions.

In the IP-Value Brazil fund, our allocation in global assets was kept close to the regulatory limit of 10%,

[1] This is only valid for IP-Value Brazil class.

and had a -0.5% effect on the Fund's results.

In the course of the quarter, we reduced our cash position a little further – that is, we sought to take advantage of the fall in prices of some selected assets, which resulted in an increase in our exposure to equities.

We continued to advance in our research efforts and allocated a good deal of time to our less liquid positions: Dimed (a drugstore chain and drug distributor) and Saraiva (our old acquaintance, operating in the publishing and retail segments – the latter through its chain of bookstores and its online operation), seeking to make our contribution from the angle of strategy and capital allocation, while strengthening our relationship with the companies even further.

It makes sense to expect that, given our preference for good business models with which we are familiar and have experience, our Brazilian asset portfolios will present, as a rule, a certain bias toward the "domestic economy". The composition of our portfolios strongly reflects this habit of ours.

More than that, we are inveterate in this respect – during the quarter we started two new positions with "exposure to domestic consumer goods": Natura (cosmetics) and Dasa (healthcare), seizing the opportunity presented by the market's fears of a macro nature (economic slowdown, consumer indebtedness, the risk of inflation, foreign investment flow etc.) and of a micro nature (in Natura, greater competition, maturity of the business model, logistics and execution challenges; in Dasa, governance issues, new management and business model).

As we have described on other occasions, we seek to invest preferably in companies that are capable not only of generating consistently high returns, but also of recurrently reinvesting and reusing their capital at rates of return substantially higher than their capital costs. These are the "compounding machines".

Alternatively, we seek to invest in shares of "cash machines", companies that have business models (and dominant positions in the value chain of the sectors in which they operate) that allow them to generate a great deal of cash with very low total and marginal investment.

This type of investment makes sense, provided of course the excess cash is consistently well invested, returning to the shareholders in the form of dividends or stock repurchases at attractive prices. Alternative uses for this cash – in large-scale mergers and acquisitions, new complementary lines of business etc. – may even create value for the shareholders, but usually do not. In general, they are a use of capital whose execution is exponentially more difficult than simply returning money to the shareholders. Next we will comment on one of the most typical examples of a "cash machine", followed by a traditional example of a "compounding machine".

Natura

This company is, to this day, a real machine for "growing dividends". Its margins are extremely high, while the need for additional investment required by the business to generate marginal profit (and cash) is extremely low in relation to its revenue.

This is an exemplary company, a responsible leader of its supply chain, and a powerful brand with a premium appeal (and premium margins), reaching almost all segments of a gigantic country where per capita consumption of cosmetics is the highest in the world, especially if adjusted for income.

From a less obvious but no less important point of view, it should be observed that, due to a unique legacy related to taxation, logistics, exchange rate and inflation, Natura is not only a company dedicated to consumer goods, but also to "infrastructure". In Brazil the traditional, formal distribution channels for cosmetics (department stores, specialized perfume stores, discount stores, supermarkets, drugstores etc.), which are so strong and dominant in developed countries, are still incipient, absolutely sub-structured. In this country, there are no Macy's, Sephora, Wal-Mart and CVS pushing from one side, while Maybeline, Olay and L´Oréal, or else Clarins, Clinique, Estée Lauder and Lancôme push from the other. The result: by building and nurturing its own sales channel with very high quality, while positioning itself close to the final consumer, with attractive products and brands, in a context in which the international premium cosmetics giants (with "superior" image, technology, and research) could not gain scale in the country, the company managed to invent a "broad niche" (from the house maid to the lady of the house) and capture a large part of the value created for itself.

With its over 1.3 million individuals who act as sales agents, one can say that Natura is a "commercial infrastructure" provider for entrepreneurial consumers, and more efficient in terms of dissemination, density and service level than a chain of stores or a shopping-mall.

The skillful control and management of its distribution channel is one of the keys to Natura's success in both absolute and relative terms.

The market questions – and this makes sense – the longevity of the direct sales model, observing the "not so steep" growth curves in the more mature markets of companies like Avon, Mary Kay, or even the Swedish company Oriflame (and perpetuating the sector's recent deceleration in Brazil). The difficulty of replicating this model profitably in Latin America should be observed, with the undeniable increase in competition in Brazil, which this time is not due to its rival Avon, but rather results from (i) the growth of formal and alternative channels, (ii) the better structured entry of strong niche competitors (supported by heavy investments in the media), and (iii) the success of alternative third-world models, such as the Boticário franchises. Finally, one should consider the logistics and execution challenges faced by the company itself, in view of its intention to continue expanding the channel, to broaden its offerings in the respective categories (Natura does not sell nail varnish, for example), to engage in new categories, to explore new segments of the public and to move even further into regionalization.

In our view, the company has several value creation levers (volume, price/mix, margins and working capital), apart from its balance sheet flexibility, which more than offset these risks and "facts". More important still: some of the entry barriers that protect its high returns, such as channel and brand name, must be regularly "watered" with incentives, relationship, marketing and innovation – and the company is well positioned in this respect. Other barriers, like the causes that will perpetuate the lack of a premium market with some scale in the country, are much more structural, and difficult to address within a reasonable time horizon. Finally, companies that are cash-flow machines tend not to pay great attention to their costs at times of strong "spontaneous" organic growth. When they make a little effort at times considered "critical" and after a period of greater difficulty, growth is resumed on a new cost base, operating leverage appears and the effect of each real (R$) of income on the profit becomes disproportionally greater.

Itaúsa

In the last quarter, we have increased the number of shares we hold in the company by approximately 38% in the VBF Portfolio and 26% in Value Brazil – while always maintaining the size of the position within what we consider compatible with the Funds' objectives. We have already commented on this investment in the past, and recent reports from other fund managers have also addressed this case. Anyway, it is worth making some quick comments.

The reaction of market participants, during the current year, to the rise in default and a possible credit bubble seems exaggerated to us. As was very pertinently pointed out during the announcement of Banco Itaú's results, the portfolio of loans to small and micro companies, which had shown a local deterioration since the end of 2010, besides not being of a size significant enough to compromise all the rest, has short terms that generally range from 4 to 8 months. The problem has been addressed since the beginning of the year, and the "crop" of new loans generated in this segment in 2011 has already been granted under more restrictive parameters and with wider spreads.

Due to the short term of such loans, and because it is October already, the trend is for those impacts not yet absorbed by the results to be perceived in the coming quarters. Up to now, the levels of total default have been moderate, and the management's expectations are for a deterioration which, though undesirable, seems to be part of a normal business cycle. In addition, the big Brazilian banks have always worked with coverage rates – a "cushion" – of around 1.8 times the balance of operations over 90 days overdue.

The increases in provisions for doubtful receivables will probably amount to a few billion reais, which is almost irrelevant for a bank whose market capitalization at the beginning of the year was over R$ 170 billion. The cumulative increase in these provisions in the 1st half of 2011 was a little less than R$ 2 billion, and even so Banco Itaú made a profit of R$ 7 billion in the period, an increase of a little more than 7% over the same period of 2010. The response from investors? The bank lost over R$ 43 billion in market cap. Even though we may see a future increase in default in other segments of the credit portfolio, and even though there are always adjustments to be made – like in any other company – it seems very unlikely to us that anything would justify such a big drop in the bank's stock prices. In fact, a question should be asked here: if a general deterioration occurred in the credit portfolios of the large Brazilian banks, would retailers' credit operations – which in some cases contribute significantly to their results – not suffer at all? Because judging from the optimism that is embedded in recent valuations of some of these companies, it seems to us that there is little margin for greater errors.

10 Years of IP Global
"Today is Yesterday's Tomorrow"

It seems like yesterday that we decided to start to put into practice and validate our knowledge of international companies acquired in the research process we had carried out for our local funds since the beginning of the nineties. Just as when we set up Investidor Profissional over 23 years ago, to invest in Brazilian shares based on a long-term, value-oriented philosophy, many people thought we were naïve dreamers or even madmen. Looking from the viewpoint of our own "business", in the short term these opinions made sense. But tomorrow always comes, and our values have always included doing what makes sense in the long term and what pleases us. Ten years on, we have BDRs of international companies listed at the Bovespa (albeit with little liquidity) and the ability of local funds to invest in assets abroad. In short, a scenario that is in fact much more globalized. Moreover, we really believe that our quality as investors has evolved significantly because we have not only a global vision, but a whole decade of **experience** in this sphere. And we clearly had fun. We must thank all those who believed in us and supported us in this enterprise.

The fluctuation in market prices for IP-Global's positions in the 3rd quarter of 2011 resulted in a variation of -5.7% in the share price, in dollar terms, and -5.8% YTD. This quarter (more precisely, on August 1st) Investidor Profissional's management of the global portfolio completed 10 years. The cumulative return since the inception of the Fund amounts to 70.1% in dollar terms.

In the precise 10-year period, the portfolio's return amounted to 81.2% in dollars. In the same period, the S&P 500 returned 28.3% (total return, i.e., including reinvestment of dividends); an investment in 10-year US Treasury bonds returned 86.0% (total return); and the MSCI World index rose 52.9%. On the one hand, we are the first to recognize that it is not a stellar return, in absolute or relative terms. However, we would not like to let go the opportunity to reiterate the point that it is highly unlikely that we will have a really extraordinary return, defined as somewhere around 20% a year, **over a 10-year period** (which would imply multiplying the net worth by six in the period). History and common sense show that this would be highly unlikely, considering the levels of risk we take and continue willing to take. It should be recalled that, in the course of these 10 years, the Fund rarely had under 20% of its resources invested in cash or in short-term fixed-income investments, and at several times this percentage was over 50%. In our opinion, profitability is one thing and performance is another. With the latter, we are a bit happier.

Risk reviewed for the nth time

As we have already said in the past, we are not the greatest fans of the Greek letter soup used by many to measure risk, nor do we abide by the textbooks advocating CAPMs, VARs and other formal quantitative models. The question we are always trying to answer when assessing risk is this: "if we are wrong, can we stand the consequences?" If there is something we are proud of, it is the fact that we have always come out of crises with "ammunition to spare". As we have said in previous reports: "to finish first, first you must finish"...

The downgrading of US bonds by S&P and the umpteenth recurrence of problems faced by big banks, from the height of their hypocrisy and supposedly precise, sophisticated risk control systems, have once again brought the subject to the forefront. The festival of picturesque comments was memorable. "Securities that carried no risk now carry it". We cannot see how to escape from the logic that, if the security "now carries" risk, it is because it already did. As, in fact, everything does. The "magic word" that is almost always missing is "perception". We come back to the point where risk measurement is one of those utopian human wishes, such as the belief in omnipresent, omniscient and omnipotent gods who help the good and punish the bad. It would be great if it was that way, but unfortunately our wishes create illusions, false and temporary sensations of comfort, dangers and manipulations. Despite all academic efforts, we maintain our belief that risk is a concept, not a quantitative datum that can be measured, not even retrospectively. People confuse probability with risk. As Warren Buffett has said, the fact that we would like to have an answer does not mean that it exists.

The positive aspect is the fact that all this gave the politicians another "nudge" to see if they would realize that they are killing the goose that lays the golden eggs (we, their subjects ...).

This is our view: the present crisis, like in fact almost all of them, will serve as a "system purifying" event. Tough in the short term, but positive in the medium term[1].

> "The national budget must be balanced. Public debts should be reduced, the arrogance of the authorities should be moderated and controlled. Payments to foreign governments should be reduced if the nation does not want to go bankrupt. People should learn to work again instead of living on the public account".
>
> *Marcus Tulius Cicero, Rome, 55 BC*

No matter how serious the fiscal situations in the USA, Europe, Japan etc., are – the result of bankrupt governance schemes – and despite the possible unpleasant consequences in the short to medium term, the past indicates that we should overcome them. It is enough to remember the post-war situation in Europe, the fall of the USSR, China at its Maoist peak etc.

KISS = *"Keep It Simple Stupid"*

Recent events and revelations brought to light the various failures of regulators in the most varied markets. Many still criticize the lack of laws and regulations: they have no practical experience and/or they are talking based on personal interests that go against reason (i.e. they are cynical). One of the greatest problems is precisely the excess of laws and regulations, which generate a complexity that makes most businesses, from employment relationships to financial transactions, too opaque – and unnecessarily so.

We live under the rubble of centuries of accumulated rules, created in the most diverse circumstances and according to the most varied interests. In many cases, nobody knows or manages to understand what would or would not be permitted, and people go round and round in circles in order to avoid the issue, making the processes increasingly complex, unproductive and incomprehensible. It is high time to "reshuffle the cards and hand them out again", focusing on simplicity and mechanisms that can reduce as much as possible the possibilities of corrupting institutions and leading them astray.

Portfolio

This quarter was much more fun than the preceding ones. At several times we felt like a child with a gift voucher at a mega toy shop: very excited, with the great excitement being what to choose. We loved it!

Following our strategy, described here in past reports[2] since 2008, as the prices of our "gold basket" (gold itself and shares of companies primarily in gold mining and that do not hedge the price of the metal in relation to their production) rose, and stocks in general fell, we

[1] In the long term, we believe that the cyclical aspect of human nature is (still?) extremely significant. This aspect, combined with our ingenuity, leads us to believe that, at least for time horizons in the present human scale, the economic future and market prices will be a growing, fluctuating line – not synchronized together, *bien entendu*...

[2] For further details, please see reports for the 2nd and 3rd quarters of 2010, accessible online at http://www.investidorprofissional.com.br/en/src/home.php

made a gradual move from exposure in gold to shares.

In the course of the quarter we made a net sale[3] of a little over 20% of our gold basket position. We increased our position in Berkshire and AB-InBev by 10%, and in Thermo-Fisher by 30%. In the case of Microsoft, although we reduced the position by approximately 15% because of some covered calls that were exercised against us when the security was at around US$ 27 per share, it remains our largest position and we are short in puts with a strike price of US$ 25, which are at-the-money. In fact, these transactions well illustrate one of the tactics we have been using in some positions: the sale of short-term calls and puts, when the stock prices come close to points of increase or reduction in the positions, and implicit volatilities are high (which has occurred often in recent times).

There were also, once again, positive contributions from sporadic currency transactions (Japanese yen vs. dollar and real vs. dollar), at moments of great conviction. It should be stressed that these trades are of a sporadic and opportunistic nature, and cannot be compared in size to those effected by funds focused on trading these assets. They basically occur when we think the market is giving us a "slap in the face", that is, when the privilege of being at a certain distance makes us believe that there is a great distortion. Along the same lines, we are putting together a short position in long-term fixed-rate US Treasury securities.

The trade book was also lively, with options in old acquaintances such as Google, 3M and Johnson & Johnson. Finally – and it could not be otherwise – we started rebuilding the position in the great pariahs of the moment: building material retailers and banks; one of the latter being in the USA, and the other our good old Itaú (through Itaúsa), taking advantage not only of the fall of its stock price in reais but also of the fall of the real against the dollar.

Berkshire Hathaway

Three interesting points about the company in the quarter. The first was the sharp rise (as much as 25% intraday) in Bank of America's stock price (followed by falls when the market went haywire) on announcement of an investment of US$ 5 billion by Berkshire in bonds and warrants issued by the bank. This is an effect that has already become a routine, and makes us think of how much Warren Buffett and his company have become the most important rating agency of the present time. It is much more selective, the opinions are "given" by persons who are much more senior, and their interests are certainly more aligned.

Regarding the matter of the investment itself, it is a good thing to remember that, as in most cases, if we want to access the same deal Buffett gets we must do it (as we do) through Berkshire's shares. Although the emphasis of the "big media" was on the 6% p.a. coupon, the charm of the deal is clearly in the 700 million warrants (the right to purchase Bank of America's shares for 10 years) at the pre-established price of US$ 7.14 per share. Putting it in context, on the eve of the announcement the bank's shares were at US$ 7.00, and at the beginning of the year they had remained for quite a long time at the US$ 14.00 level. This means that, if Bank of America's shares fall, Berkshire has a security that returns 6% p.a. On the other hand, if the shares return, for example, to the prices of the beginning of this year **at any time** in the next 10 years, it doubles its capital. Next time you speak to your banker, ask for an investment with "guaranteed principal" like this one...

The second important point about the company in the quarter was the appointment of Ted Weschler as the third investment manager (counting Buffett as the first and Todd Combs, announced at the end of 2010, as the second) to manage the company's positions.

From what we managed to find out – and in fact it could not be different – Weschler has an exceptional

[3] In the course of the quarter, we made some changes in assets in the basket, in addition to some trades with options on these assets in order to take advantage of a rise in the implicit volatilities.

profile. He has already been a private equity manager, has experience in re-structuring and in management of complex risks such as those relating to asbestos liabilities, and in the last 11 years he was managing a fund (Peninsula) that returned over 1,000% in the period. His strategy seems to be similar to ours in several aspects: concentration of assets and attention in relatively few investments over time, and moderate use of derivatives and shorts to control risk and take advantage of opportunities. Also, coincidentally, he is 50 years of age.

Last but not least, the announcement, on September 26, that Berkshire might repurchase its own shares. Although this intention had also been declared in 2000, the repurchase itself did not occur in fact, because the stock prices shot up soon after. Something similar may occur this time, because on the day of the announcement Berkshire's stock rose over 8%, reaching the price limit established by the company. But Buffett and Berkshire are not the kind that would use this trick just to give the shares a "push". The question "why?" is very pertinent. The first items in the list of possibilities are the traditional ones in cases of repurchases:

- The perception of the management – in this case, Buffett, who fundamentally, besides being manager, is also **the largest** partner – that the shares are cheap.
- Signaling to the market and/or its shareholders.
- Leaving an option open, just in case.

All of these may certainly be the answer, or part of it, but we wonder whether there is nothing else. Running a great risk of seeming naïve and **looking at it from the perspective of the last 10 years**, it does not seem to us that attractive investment opportunities are lacking **at the moment**, even on the scale in which Buffett operates[4].

The famous rule of keeping investments within his circle of competence does not seem to be the case either - even because he has been continuously widening this circle and its geographical scope (large holdings in South Korea, China, Israel, and even Brazilian fixed-income securities, have been through his portfolio in the recent past).

It could also be an indication that Buffett is not interested in drastically increasing the position in listed companies where he has investments, such as Coca Cola, American Express, Wal-Mart, Procter & Gamble, Nestlé, Tesco. After all, taken together, these companies have a free-float that exceeds US$ 1 **trillion** (money that only a US Democrat can imagine how to spend).

Our tendency, in the short space of time we have had to reflect on the matter, goes towards the hypothesis that Berkshire, in Buffett's always cautious view, might have reached the limit of management complexity. The company today has dozens of operating subsidiaries, and even though delegation effectively occurs and is extremely efficient, there are limits. One factor would be the disappointment over David Sokol, mentioned in our last report[5], to the extent that he seemed to be the CTSO (Chief Trouble-Shooting Officer), which would have emphasized this aspect and made it tangible to Buffett.

If this is the determining factor, it means recognizing a significant limit[6]. To us, one of the great attractions in Berkshire is access to exclusive deals, such as the purchase of whole companies, investments in "packages" that include long-term warrants, such as those of Goldman and G.E., and the Bank of America deal mentioned above. Obviously, the other values, such as the quality of the entrepreneurial culture and the unique capital structure (on this scale) – where tens of billion of dollars in float coming from insurance operations offer leverage at a negative **nominal** cost – also remain.

The last and the darker possibility we raised would be a variant or enhancement of the third "standard" option listed above. Being aware of the obvious fact that his

[4] This issue brings up the hugeness of the "beast". Berkshire generates approximately US$ 1.5 billion of operating cash flow **per month.**
[5] Also discussed in posts at Buysiders.com: http://blog-en.investidorprofissional.com.br/2011/05/03/the-woodstock-of-capitalism-2011/
[6] Obviously, recognizing the existence of a limit may be sad, but as a practical matter, in the medium and long terms, it is better than simply ignoring it.

end is ever closer, and always setting an example in matters of foresight, fiduciary responsibility and opportunism, Buffett might have prepared the ground for his successor(s) to cushion a possible negative impact caused by his absence on Berkshire's stock prices.

To close the quarterly comments on the company, it is important to review the "negative" points raised by the market during the quarter, which led the stock prices to such attractive levels:

1- The "reading of the tea leaves" in Berkshire's release, when Weschler was hired, that the day when Buffett would no longer be in executive command of the company was closer; and

2- The impact of the losses in the company's insurance operations caused by the Japanese catastrophes, in the order of low single digits of billions of dollars.

It should be stressed that point 1 above has been raised for years, and that Buffett is 81 years of age[7]. With regard to the second point, the characteristics of the insurance business and the low impact make it insignificant. We place these points in the same "box" we place BusinessWeek, which claims that "A decade of disaster has made predicting loss impossible". [8] The name of the box: "duh!"

Microsoft

This company, our largest position, has published its 2nd quarter results, thus completing the fiscal year of 2011 (which ends on June 30). Once again, good figures in relation to our expectations.

The net profit (after taxes) for the year was US$ 23 billion, for revenues of US$ 70 billion.

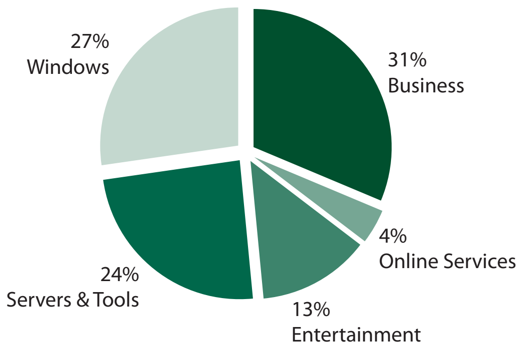
At the end of September, the company announced an increase in the quarterly recurring dividends to US$ 0.20 (US$ 0.80 per share per year), which at the current stock price of around US$ 25.00 implies a dividend yield of 3.2%. This may be compared with the present levels of interest paid by the US government in dollars (zero in the short term, lower than 2% for 10 years, and around 3% for 30-year bonds) – and these public-sector bonds coupons are fixed[9]. Meanwhile, Microsoft's dividends have been growing, and we expect them to continue to do so.

Considering the quantity of shares issued by the company and the US$ 23 billion profit, these dividends correspond to a distribution of approximately 30% of last fiscal year's profit. It should be observed that in the course of the last 10 years the company has distributed a little over 100% of the net profit for the period, part of that in the form of dividends and part in the form of repurchases of its own stock. The latter is carried out aggressively. While most of the technology companies we follow dilute their shareholders with a strong net issue of new shares, both for the remuneration of their executives and to fund acquisitions, Microsoft has been gradually and consistently reducing the number of shares outstanding. From 2002 to 2011, this reduction was around 23%. Put another way, a shareholder who held 1% of Microsoft, for example, and did not sell shares, now has approximately 1.3%; that is, they will receive an additional 30% of future results. And this was not a "lean" wait, because in this period the company paid US$ 64 billion in dividends, which is almost US$ 8.00 per current share.

To remind you of our investment case for the company: the great difference in perception we observe is that many take Microsoft as a company whose main clients are individuals. This would make the competition with companies such as Apple, Facebook and Google a great risk. Our point of view is a little different. We see Microsoft as more like a "utility (a company supplying essential services, such as water or power), but not regulated and with low capex (capital expenditure) requirements".

[7] Some people imagine that Buffett wants to break the record set by Rose Blumkin, who managed Berkshire's subsidiary Nebraska Furniture Mart until the age of 103.
[8] It is worthwhile recalling one of the "Miscellaneous" quotes in our 1Q2011 report: "Fund consultants like to require style boxes such as 'long-short', 'macro', 'international equities'. At Berkshire our only style box is 'smart'." - Warren Buffett, Berkshire Hathaway 2010 annual report.
[9] Except for the TIPS, US Treasury securities whose coupons are indexed to the official US inflation. They are liquid, but much less common than fixed-rate Treasuries.

Let us look at the breakdown of revenues in the fiscal year of 2011:



What immediately stands out is the fact that over ¾ of the company's revenues (and certainly a higher percentage of the profits) come from business in which the buyer of the product is a company or a professional[10]. This aspect is very relevant, considering that Apple's "coolness factor" does not affect IT managers of companies outside the niches traditionally dominated by Apple (artistic production, education etc.). The fact is that for companies, Apple's solutions are much more expensive than those based on the WinTel platform (computers with Windows operating systems and Intel processors), the availability of applications is practically nil, and the level of training required in order to even think of any change of platform, both for the IT areas and for the final user, would make a large-scale change even more expensive. What we have seen in fact in the last few years was Apple abandoning the production of corporate servers and focusing, with great success, on personal computers, more expensive and with a touch of sophistication.

In short, we see Apple as a B2C and hit-driven company, that is, depending on frequently getting new products right – products that enjoy great success among its legion of followers. The frequency with which the company has "got it right" in the last few years has been fantastic, but history shows that this is a risky strategy. Apple is trying to escape from this risk with the iTunes Store business (here including the "apps"), but it still has a long way to go. It is a great company, but in our opinion, it is more expensive and carries more risks than Microsoft.

On the regulation side, no matter how hard governments have tried to regulate and intimidate companies in the sector, and to control their prices and profitability, unlike a liter of water or one kWh, software programs are amorphous and dynamic entities. At least up to now, the companies in the sector have always found a way to exercise their pricing power.

The low need for capex may be observed in the numbers. Over the last 10 years, the company has invested US$ 30 billion in internal development and acquisitions. Placing these numbers in context, we remind you that the net profit of the **last** fiscal year amounted to US$ 23 billion, and that in the last 10 years the company distributed US$ 64 billion in dividends and repurchased US$ 115 billion (net of any stock issues). Remember that, while doing so, the company did not give up growth: Microsoft sold US$ 30 billion in fiscal year 2002, and in 2011 it sold US$ 70 billion – 150% growth.

The table below, with data from three large corporate software suppliers, seeks to illustrate the profitability of the business, its characteristic as a net cash generator, and the apparent discount applied by the market to Microsoft's stock price.

	Net Margin		Δ Sharecount 10 years	Net Cash	Price / Earnings
	Last FY	2002 - 2004			
Oracle (ORCL - US$)	25%	25%	-11%	$ 15 B	16x @ $27
SAP (SAP - EUR)	15%	17%	-15%	€ -1 B	25x @ €37
Microsoft (MSFT - US$)	33%	22%	-23%	$ 41 B	9x @ $25

The first column shows the net margin reported in the latest fiscal year of each company. Even SAP, which recorded the lowest net margin (15%), shows a number that many businesses dream of. The 33% achieved by Microsoft is beyond most companies' wildest dreams.

[10] A part of the sales of Windows is indirectly linked to the choice of individuals for their personal use, when they choose a PC that is pre-loaded with Windows, instead of Apple or Linux, for example. We take this fact into account.

The second column shows the compound net margin for the three-year period 2002-2004. The point here is to show that the high margins of the last few years were not abnormal. Going back 10 years in time, and considering the three first years of the decade as if they were a single fiscal year, the high margins were already there.

The third column shows the variation in the number of shares outstanding for each company in the course of the last 10 years. It should be observed that in all cases there was a fall, which means the enterprises generated more than sufficient cash to grow, to pay dividends and also to repurchase their own shares, increasing the stake of those that did not sell their shares in the period.

The fourth column shows that these repurchases were not effected at the cost of a change in balance sheet profile, that is, with an increase in debt. Microsoft and Oracle have net excess cash in the tens of billions of dollars. SAP has a small debt of EUR 1 billion, equivalent to a few months' profits for the company.

The fifth column shows what seems to us the great discrepancy. Though the indicators shown by Microsoft in the other columns are the best of the group, according to the Price/Earnings ratio it is the cheapest. We speculate here that one of the reasons for this might be the exaggerated perception by the capital markets of the company's exposure to B2C products, that is, those in which the final consumer takes the decision to buy, and where it is exposed to competitors whose names enjoy greater visibility than Oracle and SAP, such as Apple, Google and Yahoo.

Mobility

Another point raised in our "counter-case" exercises is the migration of **part** of computing to mobile devices, such as smartphones, tablets etc. This is an unquestionable fact, but one that deserves three relevant considerations:

a) Behind every mobile task there is an infrastructure. Hence the importance of that ¼ of Microsoft's sales that corresponds to revenues from "servers and tools". One of the most recent versions of Windows is the Azure, which works remotely in Microsoft's servers and allows online development of systems and applications.

b) Some tasks - such as creating tables, writing texts, editing photos and videos, and other activities that depend on larger screens - are more conveniently carried out in devices such as desktops or notebooks (although they may, in certain cases and depending on the need/urgency, be carried out in mobile devices). Others, such as messaging, GPS etc., can doubtlessly be carried out more conveniently in mobile devices. But even these, in many cases, and if possible, are better carried out in "larger screens[11]": planning a route on a map, keeping 6 messaging windows open... What varies is the size. After all, this is a matter of ergonomics, where in many cases the answer is "and" rather than "or". We can take soup with a coffee spoon or teaspoon and/or stir the tea with the handle of a soupspoon, but most people, if they can, will prefer to have both. A clear example of how the debate is fluid and baseless can be seen when we observe that the great majority of PTMCAs[12] and statistics exclude Kindles[13] from the debate about - and from the numbers for - tablets.

c) While in terms of format the current desktop computers are large tablets, and in terms of processing capacity mobile phones are small computers, from the viewpoint of the supplying companies – and therefore the investment case – what is of greater interest is who supplies the software and if they are making a profit. It is in this

[11] Portable devices that project larger images either directly on the retina, or even connected directly to the brain, are real possibilities - but still outside the practical time horizon for our investment case, when adjusted for the probability of becoming products commercially available on a large scale in the next few years. Microsoft is one of the leaders in interface research and Kinect is today the most advanced practical example in terms of mass market.
[12] As a way of "paying homage" to the creators and lovers of EBITDA, we are launching the acronym PTMCA: People the Market Calls Analysts ;-)
[13] Tablets sold with great success by Amazon, primarily focusing on the reading of text files.

aspect that the fact that Microsoft obtains the bulk of its revenue from corporate clients becomes more relevant. One wonders if the IT departments and specialized system suppliers will wish to change their processes, systems and suppliers to the platform of a new supplier. To this day, Apple, which came from the "high end", has failed (and has apparently given up this war). Linux, which is free, had limited success (problems with support, patents etc.). Microsoft's competitive advantage in this aspect seems very attractive to us.

Piracy in emerging markets - threat or opportunity?

A point that some people raise is that a significant part of the growth in the technology sector, as in many others, is expected to come from emerging markets, where piracy is greater (fact). This point seems weak to us. Not only because part of the emerging markets does not use pirate software (once again, the advantage of being stronger in the corporate market than in the consumer market), but also because of the migration of software to the famous "cloud", where what is sold is online access to systems – much less practical for "pirate copying", at least up to now.

Optionality

One of the beauties of the case from our point of view is the possibility of the company creating new products and markets that will generate substantial value for its shareholders, for which we would not be paying anything. Obviously, one can make the opposite case, of the market applying a discount to the price based on the hypothesis that the company will "squander" more than generate cash in the course of time. That is really a matter of opinion.

Our expectations that this account will be positive are based not only on the aggregate history (there are many cases of extraordinary failure and success in the company's history), but also on the technologies studied and developed by Microsoft at present, at the most varied stages: from conception to the market. We have already commented here in a past report (4^{th} quarter 2010) on the Kinect, a remote gesture-driven interface, available commercially so far for the Xbox, and in a more open, not-for-profit form. Soon we will have Windows 8. As far as we have managed to find out, this may be a great advance, integrating even more intuitive interfaces than those of touch-sensitive tablets and smartphones, without giving up "spiritual comfort" for companies' technology departments and a silent majority of users.

In addition to the more obvious and visible examples, there are many others. For instance, last September 21, 2011 a very discreet press release informed:

"Swedish, the largest health system in the Greater Seattle area, plans to implement Microsoft Amalga, a health intelligence platform, to improve care coordination across organizational boundaries and help manage population health as patients move among care settings. The adoption of Amalga is designed to strengthen the health system's relationships with patients and providers across the community, help improve patient transitions and care quality, and position Swedish for growth in the era of accountable care. Swedish also plans to use Amalga for population management, bringing together inpatient, outpatient and payer payment data to provide a unified view of a patient population to caregivers, allowing them to specify personalized or group care plans, track progress of cohorts over time, and report on outcomes via dashboards"

The healthcare area is the largest segment of the US economy. Far from us to infer that Microsoft will dominate this area directly. The idea is only to make one think about the scale of possibilities.

Real Asset

To close the theme of this report, we would like to stress the possibility that, in these times of crisis, Microsoft is in fact a Real Asset, a "safe haven" and a possible goal of the successive waves of "flight-to-quality". Taking advantage of the more than two decades that IP has existed, and revisiting our market memories, we remember clearly when we went through crises in the Brazilian market, like those triggered by Nahas[14], Collor[15], Mexico, Russia, Asia, Argentina, Brazil, Nasdaq and 9/11. At those times, when the solvency of the Brazilian government and of the local currency at the time (Cruzado, Cruzeiro Novo etc.) were seriously questioned, we always sought "real assets" that would not only preserve value after the crisis, but that were also capable of operating and generating cash and value the "day after". From this point of view, Microsoft is perfect in our opinion. The company operates practically in the whole world, in the most varied currencies, and generates cash daily. In addition, its assets are spread throughout millions of servers worldwide. It is practically impossible to destroy it completely. If the world stops turning, in order to restart it companies like Microsoft and Cisco will necessarily do the reboot.

Prospects

After the initial, eternal caveat about the level of risk we are willing to run and the unpredictability of things, we conclude with the idea that it seems reasonable to suppose that the return for the next 10 years will be greater than in the last 10, if we maintain **our** risk control. The reasons for this optimism are not just our greater experience or any other change in endogenous factors, but also the fact that in today's prices in the global markets, especially the "developed" ones, much lower expectations are embedded than just over 10 years ago, when the Fund began. It is worth remembering that at those times we did not even have to take our shoes off when boarding a plane in the USA…

Have a good decade and happy 2021!

[14] The "Nahas scandal", an alleged fraud scheme that brought down Rio's stock exchange in 1989.
[15] Then-president Collor's economic plan in 1990, which, among other unorthodox measures, confiscated 80% of the balances in savings and checking accounts, as well as in "overnight" investments.

Investidor Profissional Art Award

A recent New York Times article about Steve Jobs[1]' retirement from the post of Apple's CEO made an analysis of what might have caused the emergence of a person capable of causing such a profound revolution in so many different industries, such as computing, software, music, films and telephony. The article follows the path of "social environment that encourages diversity, experimentation, risk-taking, and combining skills from many fields into products that he calls 'recombinant mash-ups', ... innovation, broadly defined, is the crucial ingredient in all economic progress — higher growth for nations, more competitive products for companies, and more prosperous careers for individuals."

Another way of saying that art is the basis for everything.

As scheduled, the exhibition of the four finalists for the Investidor Profissional Art Award - PIPA 2011 opened on September 10, in the Rio de Janeiro Modern Art Museum (MAM-Rio) – very beautiful and better every day – with the exhibition of the works of Andre Komatsu, Eduardo Berliner, Jonathas de Andrade and Tatiana Blass. This year, the artists chose to exhibit a larger amount of work, the area for the exhibition was increased, and the result seemed very interesting to us, brilliantly addressing issues of temporality, limits, social structures, human insertion in the environment, reality etc. We strongly recommend a visit - the exhibition will be open until November 20. In the next hall there is a large international exhibition of the artist Louise Bourgeois.

The year's targets had already been met by the end of the quarter: 15,000 friends on the Award's page in Facebook (over 23,800 on October 25, 2011), and at least 30,000 unique visitors (each person is only counted once) in the Brazilian website and 3,000 unique visitors in the English language website. Having achieved the goals for online insertion, which we consider important as this is an efficient way of disseminating and facilitating access for all to the artists and their works, we were even happier for the fact that the data implied records for Brazilian contemporary art. More than meeting numerical goals, we are fulfilling the objective of expanding the universe of people who participate, reflect and interact. Finally, once again, we showed that Brazil's fundamental problems (in culture, health, sports, transport...) do not result from an intrinsic lack of skill among our people, nor lack of money. What is lacking is processes, organization and discipline. Along these lines, we conclude by highlighting part of a recent interview given by Roberto Minczuk, the conductor of the Brazilian Symphony Orchestra:

"... experience shows that a good orchestra is capable of influencing several aspects of a country's culture. I say this not only for what it adds to the cultural capital itself, disseminating a new musical expression, but also through another less obvious aspect. **In my opinion, the greatest value an orchestra can add is the example of a solid institution, which has in its essence principles such as discipline, team spirit, and the constant quest for quality and competitiveness."**

[1] We wrote this report before Mr. Jobs' sad passing. Our small homage can be read in Buysiders.com at http://blog-en.investidorprofissional.com.br/2011/10/06/technology-and-magic/.

Next dates on the Investidor Profissional Art Award - PIPA calendar

October 17

Announcement of the PIPA Online winner[2]

October 19

End of Popular Voting

October 24

Announcement of the winner of the Popular Vote[3]

October 27

Announcement of the winner chosen by the PIPA Official Jury[4]

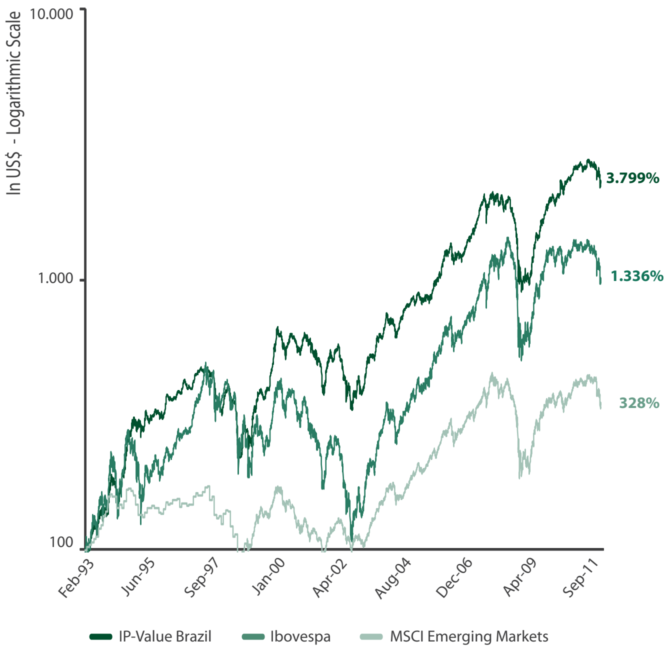
November 20

End of the PIPA 2011 Exhibition

[2] Video of the PIPA Online 2011 announcement: http://www.pipaprize.com/?p=13805
[3] Video of the PIPA Popular Vote 2011 announcement: http://www.pipaprize.com/?p=13954
[4] Video of the PIPA 2011 Official Jury winner announcement: http://www.pipaprize.com/?p=13973

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 11	-13.68%	-20.73%	-14.56%
August 11	-2.14%	-5.83%	-8.90%
July 11	-2.97%	-5.45%	-0.38%
June 11	-1.26%	-2.27%	-1.50%
May 11	-1.65%	-2.70%	-2.58%
April 11	2.40%	-0.18%	3.12%
March 11	5.10%	3.82%	5.90%
February 11	0.25%	1.96%	-0.92%
January 11	-4.62%	-4.35%	-2.22%
December 10	4.91%	5.43%	6.63%
November 10	0.19%	-5.02%	-2.64%
October 10	4.41%	1.57%	2.91%
2011 (YTD)	-18.10%	-32.16%	-21.28%
2010	39.52%	6.23%	19.69%
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%	34.54%
2004	28.11%	28.16%	25.95%
2003	87.65%	141.04%	56.36%
2002	-26.36%	-46.01%	-6.05%
2001	-7.58%	-23.98%	-2.37%
Last 12 months	-10.12%	-31.00%	-15.89%
Last 60 months	107.88%	68.29%	28.69%
Since 02/26/93	3798.72%	1336.09%	328.33%
Annualized Return[(1)]	22.13%	15.65%	8.26%

(1) Inception of IP-Participações.

(2) Performance numbers of IP-Value Brazil and IP-Participações are net of all fees.

Equity Holding Characteristics

	% In Equities
International Assets	10%
Overlap with the Ibovespa portfolio [(1)]	38%
Small Caps (smaller than US$ 1bi) [(1)]	19%
Mid Caps (between US$ 1bi and US$ 5bi) [(1)]	29%
Large Caps (larger than US$ 5bi) [(1)]	52%

(1) As a percentage of the Brazilian equities book.

Portfolio Concentration

	%	Monthly Attribution
Top 5	35%	-4.95%
Next 5	21%	-2.92%
Other	26%	-4.30%
Cash	18%	-1.51%

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: The last Business Day of the second subsequent month following receipt by the Registrar and Transfer Agent of the Redemption Form. 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 semi-annualy 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.

Subscription Fee: Up to 2% to offset the current rate of the Brazilian tax on foreign exchange transactions ("IOF").

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 Performance

	Br Equities	Class A (closed)				Class C (closed)			
Performance (US$)[1]	**VBF Brazilian Equities Class**	**VBF Class A**	**Class S [3] (Mills)**	**Class S [4] (Casa Show)**	**All Classes Combined**	**VBF Class C**	**Class S [3] (Mills)**	**Class S [4] (Casa Show)**	**All Classes Combined**
September 11	-13.34%	-13.58%	-	-14.36%	-13.59%	-13.43%	-	-15.17%	-13.49%
August 11	-1.68%	-1.65%	-	-2.19%	-1.66%	-1.62%	-	-2.11%	-1.64%
July 11	-3.19%	-3.23%	-	0.23%	-3.17%	-3.12%	-	0.24%	-3.00%
June 11	-0.89%	-1.03%	-	1.17%	-1.00%	-0.83%	-	1.18%	-0.76%
May 11	-1.35%	-1.33%	-	-0.57%	-1.32%	-1.34%	-	-0.56%	-1.32%
April 11	2.42%	2.41%	-	3.41%	2.42%	2.48%	-	3.52%	2.52%
March 11	5.41%	5.52%	-	2.00%	5.46%	5.51%	-	1.99%	5.39%
February 11	0.13%	0.10%	-	0.68%	0.11%	0.13%	-	0.67%	0.14%
January 11	-4.75%	-4.66%	-	-0.55%	-4.60%	-4.64%	-	-0.55%	-4.50%
December 10	5.07%	5.03%	-	2.99%	5.00%	4.37%	-	2.96%	4.32%
November 10	0.75%	0.90%	-	-0.98%	0.87%	0.90%	-	-0.97%	0.83%
October 10	4.40%	4.66%	9.53%	-0.53%	5.22%	4.01%	9.14%	-0.54%	4.24%
2011 (YTD)	-16.95%	-17.17%	-	-10.81%	-17.07%	-16.66%	-	-11.47%	-16.49%
2010	24.75%	27.70%	515.08%	-7.68%	52.09%	22.93%	490.32%	-8.88%	30.02%
2009	-	127.84%	36.80%	35.07%	112.22%	129.18%	34.36%	37.42%	111.65%
2008	-	-57.28%	-25.46%	-22.64%	-54.54%	-41.12%	1.80%	-29.90%	-40.92%
2007	-	30.59%	4.03%	-	30.51%	-3.15%	-	-100.00%	-3.15%
Since inception[2]	3.60%	34.46%	552.52%	-13.96%	58.81%	33.89%	707.47%	-22.29%	31.50%

(1) Net of all fees

(2) Inception dates: VBF Class A, March 6, 2007; VBF Class S Mills, July 6 2007; VBF Class S Casa Show, February 29, 2008
VBF Class C, September 9, 2007; VBF Class S Casa Show, February 29, 2008; VBF Class S Mills, October 8, 2008
VBF Brazilian Equities, April 1, 2010

(3) Total realization of VBF Class S Mills in October 25, 2010

(4) Class S (Private equity) corresponds to 1.7% of VBF Class A portofolio and to 3.6% of VBF Class C portfolio

Equility Holding Characteristics

	% VBF Br Equities Class	% VBF Class A	% VBF Class C
Overlap with the Ibovespa portfolio	41%	42%	42%
Small Caps (smaller than US$ 1bi)	20%	20%	20%
Mid Caps (between US$ 1bi and US$ 5bi)	33%	33%	33%
Large Caps (larger than US$ 5bi)	47%	47%	47%

Concentration and Monthly Attribution

Concentration	% VBF Br Equities Class	% VBF Class A	% VBF Class C
Top 5	39%	39%	39%
Next 5	23%	23%	23%
Other	17%	17%	17%
Cash	21%	21%	21%

Monthly Attribution	% VBF Br Equities Class	% VBF Class A	% VBF Class C
Top 5	-5.12%	-5.16%	-5.10%
Next 5	-4.60%	-4.58%	-4.60%
Other	-3.71%	-3.70%	-3.70%
Cash	0.10%	-0.12%	-0.02%

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

Inception Date of Class C: November 09, 2007

Inception Date of Class IP Brazilian Equities: April 01, 2010

VBF Classes A and C are closed.

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 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 Manager's judgment meets the underlying objective of long-term capital appreciation.

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 second 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

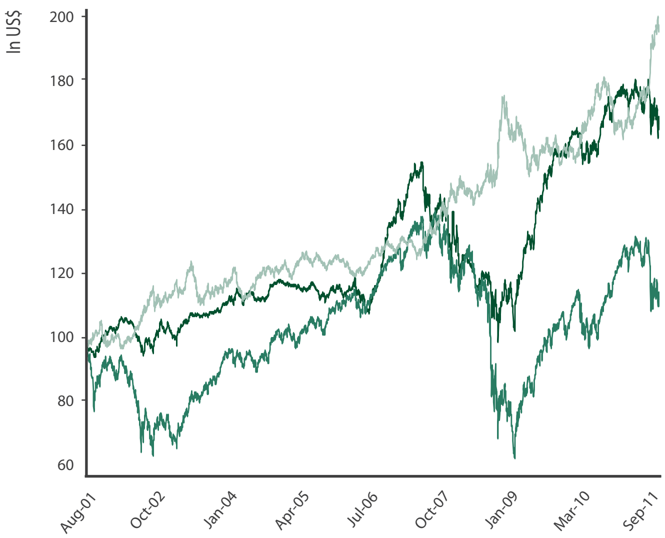
Subscription Fee: Up to 2% to offset the current rate of the Brazilian tax on foreign exchange transactions ("IOF").

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

Performance

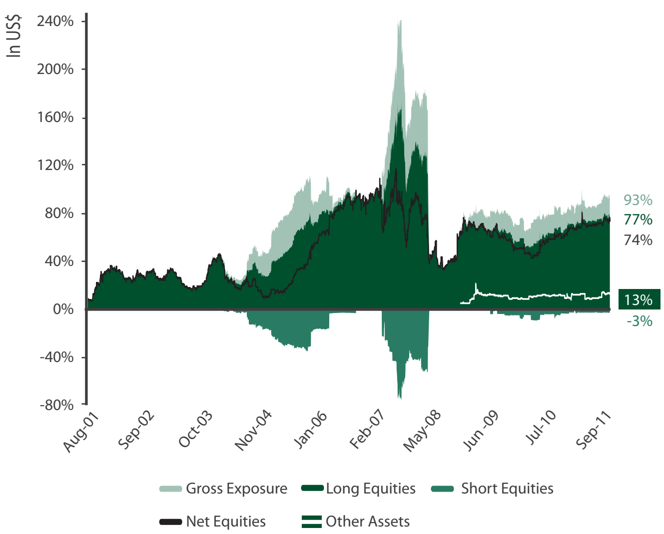


Performance (US$)	IP-Global Class[1]	S&P 500	10 Yr Treasury[2]	3-month Libor
September 11	-5.47%	-7.03%	3.29%	0.02%
August 11	-1.01%	-5.43%	6.31%	0.02%
July 11	0.76%	-2.03%	3.67%	0.01%
June 11	-1.68%	-1.67%	-0.85%	0.02%
May 11	-1.29%	-1.13%	2.73%	0.01%
April 11	3.31%	2.96%	1.92%	0.01%
March 11	-1.39%	0.04%	-0.16%	0.02%
February 11	0.82%	3.43%	0.13%	0.02%
January 11	0.26%	2.35%	0.30%	0.02%
December 10	4.79%	6.70%	-4.56%	0.02%
November 10	-2.87%	0.01%	-1.80%	0.02%
October 10	2.92%	3.80%	-0.68%	0.02%
Last 12 months	-1.30%	1.14%	10.30%	0.20%
2011 (YTD)	-5.77%	-8.70%	18.50%	0.15%
2010	11.82%	13.93%	7.68%	0.24%
2009	38.31%	27.75%	-10.64%	0.48%
2008	-17.93%	-37.00%	23.09%	2.09%
2007	1.83%	5.49%	10.00%	3.79%
2006	18.46%	15.79%	2.21%	3.70%
2005	-2.89%	4.91%	3.30%	2.53%
2004	7.24%	10.88%	4.84%	1.15%
2003	8.12%	28.76%	1.01%	0.86%
2002	-1.29%	-22.15%	15.58%	1.26%
2001	6.04%	-5.00%	1.88%	0.76%
Since 01/08/01	70.05%	13.29%	103.27%	18.31%

(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%	-2.21%
Next 5	25%	-1.63%
Others Investments	17%	-1.58%
Cash	14%	-0.05%
Total	**100%**	**-5.47%**

Portfolio Breakdown

	% Portfolio	Monthly Attribution
Long Equities	77%	-4.23%
Short Equities	-3%	0.08%
Cash	14%	-0.05%
Other Assets	13%	-1.27%
Total	**100%**	**-5.47%**

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 bymphone at (55 21) 2104-0506 or by e-mail at contactus@investidorprofissional.com

Miscellaneous

"Credibility is not a gift - it has to be earned. It is built up one step at a time and supported by facts, and by consistency. Even more, credibility is never owned; it is rented, because it can be taken away at any time." - Pedro Aspe, former Finance Minister of Mexico.

"And to think that there was so much stress just because Nero set Rome on fire. Today, compared to Bush, Obama, Chavez... that chap would be Man of the Year, a Nobel Prize winner etc..." - Anonymous.

"Well, shake it up, baby, now
(Shake it up, baby)
Twist and shout
(Twist and shout)

C'mon, c'mon, c'mon, c'mon, baby, now
(Come on baby)
Come on and work it on out
(Work it on out)
...
Well, shake it, shake it, shake it, baby, now
(Shake it up baby)
Well, shake it, shake it, shake it, baby, now
(Shake it up baby)
Well, shake it, shake it, shake it, baby, now
(Shake it up baby)."
The Beatles.

"Emerging-market crises have been too quickly forgotten, which only makes them more likely to happen." - The Economist.

"Only two things are infinite, the universe and human stupidity, and I'm not sure about the former."
Albert Einstein - Scientist.

"While photographs may not lie, liars may photograph." - Lewis Hine - Sociologist and Photographer.

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