Quarterly Report

Fourth Quarter / 2012

INVESTIDOR
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DESDE 1988

INDEX

The Brazilian stock market seems to operate in two different worlds. One is home to companies with good business models, governance and people (management and controlling shareholders), whose shares rose sharply in the past few years. The other, where we see a much weaker performance, has the Ibovespa and companies without the attributes we seek.

Asset	Jan/2010 to Dec/2012*
Ibovespa	-24%
IP-Participações	34%

"Core" companies
we hold or have held

Asset	Jan/2010 to Dec/2012*
Redecard ON**	25%
Itaúsa PN	-14%
Natura ON	57%
Ambev ON	173%
Totvs ON	53%
Odontoprev ON	120%
Saraiva PN	-39%
Panvel ON	322%
Lojas Renner ON	91%
Amil ON	95%
Aliansce ON***	153%
Multiplan ON	68%

"Popular" companies
without the attributes we seek

Asset	Jan/2010 to Dec/2012*
Usiminas PN	-54%
Vale PN	-4%
Gerdau PN	-45%
Gol PN	-56%
Petrobras PN	-50%
Banco do Brasil ON	-10%
Eletrobras PN	-65%
LLX ON	-79%
MMX ON	-62%
OGX ON	-78%
Oi PN	-26%

* Returns are in USD terms.
** Redecard was taken private at R$ 35,00 on September 24th, 2012.
*** Aliansce began trading on January 28th, 2010.

This uneven performance can be explained. The main reason has precisely to do with the companies' differing qualities. Over time, the best ones tend to provide higher returns. Recently, they were further helped by the quick growth in the purchasing power of Brazilians.

Another explanation is that the Brazilian stock market became more mature. After the surges seen in 2009 (when "everything went up"), investors started to separate the wheat from the chaff. Those who managed to spot quality sooner enjoyed good results in the past three years.

Lastly, the limited number of "quality companies" and the consensus around them – combined with a higher allocation of resources towards stocks in Brazil – has sucked in this "new" capital, lifting multiples.

VALUE INVESTING VS. GREATER FOOL INVESTING

The problem is that this consensus yields a less favorable risk-return scenario for most of the good stocks – given that prices largely outpaced profit growth for these companies.

It does not seem to us that the favored companies are already trading at "bubble-like" prices. However, consensuses are dangerous and it is our duty to be watchful.

In addition to frequently being wrong, consensuses usually clear the way for prices to detach from reality and for the market to show a "manic-depressive" personality.

When this happens, the results from "following the trend" are commonly fantastic in the short term. More and more investors and funds are attracted to the exciting short-term returns or are compelled to join in for fear of suffering redemptions if they don't. Then comes the confusion between cause and effect, linking the apparent success to underlying skills. Happy investors and clients allocate more resources, portfolios are replicated, new acquisitions are made, prices soar and the cycle goes on. With each iteration of the cycle, short-term results reassure clients and participants, consensuses are strengthened and prices skyrocket.

It may well be that as prices rally ahead some participants start to question the risk-return going forward. But the concern quickly wears off. Resources keep coming, record levels are reached and the unease wanes – the flow is too strong. There is no room for sustained drops. "Just Follow the Money – Fool!" There must always be someone down the road – a "Greater Fool" – to whom they will be able to sell such assets at even higher prices. Until there will be none.

We do not believe that there is an asset class or a group of companies (in the case of the stock market) whose qualities allow its shares to <u>always</u> outperform the market, <u>regardless of their prices</u> – as if they had a "divine right". As we commented in past reports, the "digestion" of extreme prices on the U.S. stock market early in the past decade took more than 10 years and not by chance resulted in low returns for investors.

Most of Brazil's good companies will have to keep delivering flawless results for the current prices to make sense. In many cases the risk-return equation is doubtful and there is hardly a margin of safety to make up for negative surprises.

What then must we do?

We could bet that there will be no headwind in the coming years, and that companies will keep delivering fantastic operating results without hiccups. If that were the case and if the price-earnings ratios did not change, the gains would come from stocks rising on pace with improved results. We do not, however, base our investments on "exit multiples". We do not rely on the existence of a "greater fool" willing to bid higher than us, betting on continuous growth for the following years. Our investments are grounded in future cash flows and are only made if they pass the old test: would we want to hold them if the market were to close for five years?

According to our view of current investment opportunities, there are three major alternatives to tackle the problem of excessive prices at most of Brazil's good companies.

The first route – which we obviously don't consider – would be to "lower the bar", selling our good companies to buy lower quality ones whose stocks have performed poorly, therefore making them "cheap". In this case, despite the eventual short-term rallies, in a few years the proverb that "you get what you pay for" would prevail.

The second alternative, which we like and execute for VBF Portfolio, is to combine the opportunities still found at quality companies with a good dose of cash to take advantage of opportunities as soon as they come.

Finally, a third alternative – that we currently execute for our domestic funds but not for VBF Portfolio – pleases us as well: besides holding cash, allocating part of the portfolio to investments in excellent companies outside Brazil that feature the qualities we seek, at more attractive prices.

Portfolio

The change in market price of VBF Portfolio's holdings resulted in a 9.0% return in the fourth quarter of 2012 and 15.5% for the full year.

In this quarter we had the opportunity to attend the year-end convention of Panvel – the second-largest position in the fund. More than 400 people (including directors, store managers and employees) were preparing for the fast-paced holiday season in a large theater. During the convention, we saw the company's culture strong among its employees (long-standing workers as well as new hires). There was the public acknowledgement and promotion of the best performing employees, and the screening of end-of-year campaigns (commercials[1], billboards, new brand concepts and products, etc). The event was well organized and with a heavy motivational charge and left us optimistic about the company's future.

The pharmacy industry is having a bout of prosperity that should stretch over the coming years. As we commented in previous reports, we believed that our stake in Panvel was trading below reasonable prices (considering the business development and outlook). In 2012, sales are expected to expand more than 20% and profits even further, despite expenses coming from new stores and a new distribution center.

In the past quarter, Panvel ON (Dimed) rose 56.7%, or 158.3% throughout the year (in BRL terms). Despite the many positive signs, we are happy with the size of the investment in our funds and therefore did not buy one single share during the rally.

The recent performance brought the stock to levels closer to its exchange-traded peers. Still, given the opportunities that lie ahead for the company and its ongoing projects, we are confident about the value that is going to be created.

Just over five years ago, Panvel traded at R$ 25.00/share. Had we sold our position then even at double its market price (R$ 50.00/share), we would be regretful today. Two years ago, the stock hovered around R$ 70.00 and the same would have happened had we exited at R$ 140.00. Currently the price is R$ 270.00 and the dilemma is similar. Our priority in helping the business remains unchanged.

Another noteworthy issue is the slight reduction in our investment in Saraiva. This move triggered a notice to the market because our total holding of the preferred stock is now below 5%. The sale was made as we took advantage of a rally in the stock to allocate to other positions. Our admiration for Saraiva is intact, as well as our trust in the current direction of the company. After a few years when we saw little urgency in important matters and a capital allocation different from what we deemed desirable, today we are impressed with the positive turnaround carried out by the new generation of the controlling families (with the help of two new board members, one of whom appointed by IP and other shareholders).

In closing, we would like to reaffirm our trust in the investments in the fund. We hold a combination of excellent companies that have good upside potential and a comfortable cash position to quickly take advantage of opportunities.

[1]Links: http://www.youtube.com/watch?v=7vQwoywtjTk and http://www.youtube.com/watch?v=su_ATwGgsTg

The change in the market price of IP-Global's positions resulted in a 0.3% variation in the NAV per share for the fourth quarter of 2012 and 10.4% for the full year. Since its inception in 2001, the accumulated return of IP-Global has amounted to 102.6% in dollars.

Portfolio

Berkshire

Of all the news seen during the period, the highlight was the repurchase of another 1 billion dollars worth of stock by Berkshire Hathaway. It took place after Buffett doubled to 20% the premium-to-equity ratio he would be willing to pay. Buffett has always championed well-executed repurchases[1], but this was his most relevant action in this respect.

Tech Trade

The "tech trade" worked out nicely. It amounted to a long position in a basket of technology companies such as Cisco, Microsoft, Nokia and HP, and a short position in Apple stock. Apple, which traded above 700 US dollars, fell to about 500 US dollars. HP's performance put a drag on the position, but gains from sales of options with high implicit volatility helped offset part of the loss. In the end, the trade was good. We are now rooting for a new surge in Apple in order to rebuild the position. Otherwise, we will go on with a long-only basket.

Microsoft

We maintained the position as the war for the success of the new Windows 8 began. Our first impression of the Surface RT was negative – confusing communication and setup. Once these obstacles were overcome, many positive aspects could be noticed. It is nice and intuitive to use. The laptop format featuring a touch screen is interesting, although it hardly constitutes a sustainable competitive barrier. The integration of Microsoft services and their attention to security are also positive.

It is still early for a complete assessment. Google, with its Chrome laptop, is a new player that in our opinion has potential to surprise in this market.

Western Union

Another development was the acquisition of a considerable stake in Western Union. We have been interested in the payment systems business for a long time (PayPal via eBay, Visa, MasterCard, Redecard, Cielo etc.) and Western Union is the world's largest company in cash-to-cash payments (mostly used by migrant workers and their families).

The company operates in more than 500 thousand locations worldwide, which form a comprehensive web that hampers the entry of new competitors. The fact that it is located near the sender and the receiver contributes to this position, as it allows them to save on transport. Brand recognition is another differential because, although each payment is relatively small, it is important to the involved parties. Anti-money laundering rules are another barrier to the entry of competitors. Whenever these becomes stricter, Western Union's scale to dilute the costs of implementation and control shows up as an advantage.

Since it started trading independently of conglomerates, the company has proved to be a disciplined

[1]Check the link below for a good source of texts about share repurchase from Berkshire Annual Report. http://www.valueinvestingworld.com/2012/09/warren-buffett-on-share-repurchases.html

capital allocator. It also pays dividends and buys back stock consistently.

Our acquisition followed a sharp drop triggered by comments by the company's managers. According to them, the next few years will see promotions to fend off competitors focused on certain "routes" and the closure of stores incapable of complying with company rules.

When the dust settled, prices stabilized and then recovered somewhat. Meanwhile, we broadened our studies about this company.

Perspectives

With global interest rates at low levels and given the repeated pledges by policy makers to keep them that way, the search for yield in other assets is set to increase. The stocks of truly-globalized companies with good competitive positions remain attractive amid this scenario. We maintain the core positions and seek opportunities in volatility trades, whose result is asymmetrically positive compared to the risks they bear.

Prêmio Investidor Profissional de Arte

The fourth quarter was marked by the announcement of the winner of PIPA 2012 by the Prize Jury, composed by Gilberto Chateaubriand (collector), Luiz Camillo Osório (curator of MAM/RJ), Rowan Geddis (coordinator at Gasworks), Moacyr dos Anjos (curator of the São Paulo Biennial and Nabuco researcher) and Waltércio Caldas (Artist).

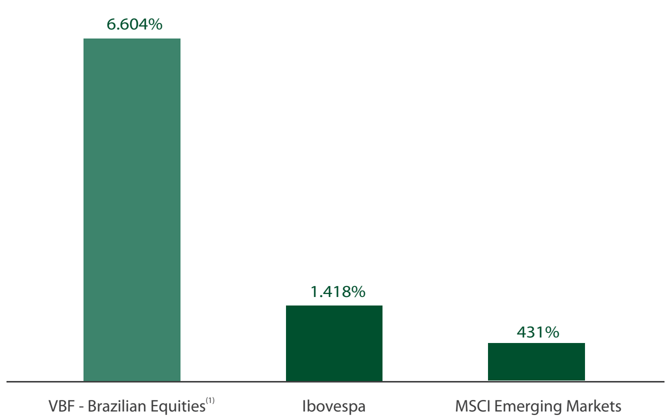
Among the four finalists – Thiago Rocha Pitta, Matheus Rocha Pitta, Rodrigo Braga and Marcius Galan – the Jury picked Marcius, whose work was highly conceptual as well as critical of the art system. The winner was awarded 100 thousand reais, which includes 3 months at Gasworks in London.

Rodrigo Braga, who presented a photography-based work, won the popular vote and received 20 thousand reais.

Performance - VBF Portfolio Brazilian Equities Class

Performance (US$)[(1)]

Since February 26th, 1993 (1)



(1) For the period before VBF-Brazilian Equities inception, on April 2010, for reference, we show the Brazilian investment vehicle (IP-Participações) performance in dollar terms. The returns up to April 2010 are net of all fees and after that, gross of performance fee.

Equity Holding Characteristics

	% of total equities
Companies that are part of the Ibovespa	67
Small Cap (smaller than US$ 1bi)	19
Mid Cap (between US$ 1bi and US$ 5bi)	29
Large Cap (larger than US$ 5bi)	52

Concentration and Monthly Attribution

	%	Monthly Attribution (%)
Top 5	40	3.56
Next 5	16	1.12
Other	6	0.43
Cash	38	0.75

Objective

The investment objective of the VBF Segregated Portfolio is to provide sophisticated investors with substantial returns in a trailing five years investment horizon by investing in companies listed on the São Paulo Stock Exchange.

Strategy

The strategy of the VBF Segregated Portfolio is to identify and invest in high quality companies that present significant discounts between the market price and intrinsic value of the underlying business.

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 3rd, 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 VBF-Brazilian Equities Class: April 1st, 2010

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

Last 12 months returns (US$)[(1)]

Period	VBF-Br Equities (%)	Ibovespa (%)	MSCI EM (%)
December 12	5.86	9.88	4.90
November 12	2.35	-3.43	1.28
October 12	0.64	-3.74	-0.60
September 12	3.47	3.75	6.05
August 12	1.45	2.61	-0.29
July 12	3.20	1.72	2.02
June 12	1.07	-0.24	3.91
May 12	-7.83	-16.65	-11.16
April 12	-5.14	-8.43	-1.17
March 12	-6.20	-7.65	-3.33
February 12	7.29	6.33	6.01
January 12	9.96	18.57	11.36

Annual returns (US$)[(1)]

Period	VBF-Br Equities (%)	Ibovespa (%)	MSCI EM (%)
2012 (YTD)	15.50	-1.95	18.63
2011	-9.41	-26.88	-18.17
2010	26.93	5.59	19.20
2009	151.54	145.16	79.02
2008	-54.98	-55.47	-53.18
2007	61.41	73.43	39.82
2006	53.41	46.41	32.55
2005	34.94	44.09	34.54
2004	41.49	28.16	25.95
2003	96.42	141.04	56.28
2002	-28.41	-46.01	-6.00
2001	-6.97	-23.98	-2.37
2000	2.88	-18.08	-30.61
1999	105.66	69.55	66.41
1998	-25.54	-38.44	-25.34
1997	-10.81	34.47	-11.19
1996	35.97	53.23	5.55
1995	3.34	-13.77	-5.21
1994	142.54	58.97	-7.32
1993	50.54	63.95	71.13

Annualized returns (US$)[(1)]

Period	VBF-Br Equities (%)	Ibovespa (%)	MSCI EM (%)
Last 5 years	8.55	-3.76	-0.62
Last 10 years	30.82	25.57	17.23
Last 15 years	19.92	8.37	9.39
Since Inception (2)	23.98	14.91	8.90

(1) For the period before VBF-Brazilian Equities inception, on April 2010, for reference, we show the Brazilian investment vehicle (IP-Participações) performance in dollar terms. The returns up to April 2010 are net of all fees and after that, gross of performance fee.
(2) Inception of IP-Participações.

Terms and Conditions

Subscription: Daily

Minimum Initial: USD 1,000,000

Redemption Day: The Redemption Day shall be 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.

Minimum: USD 100,000

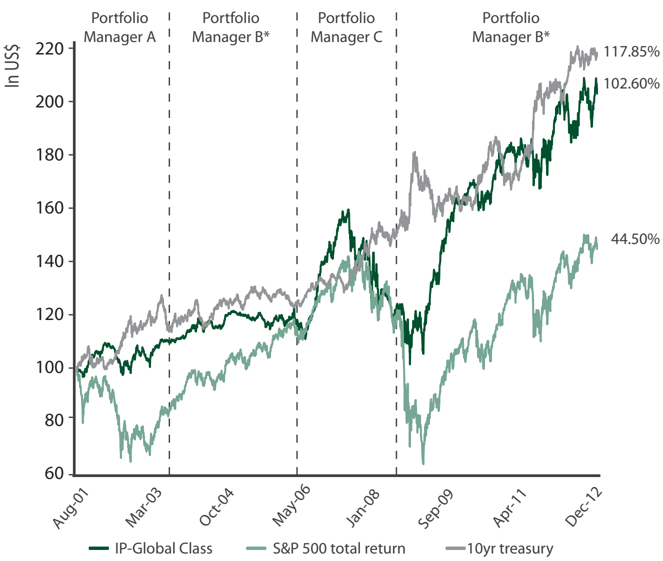
Minimum Balance Left: USD 1,000,000

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

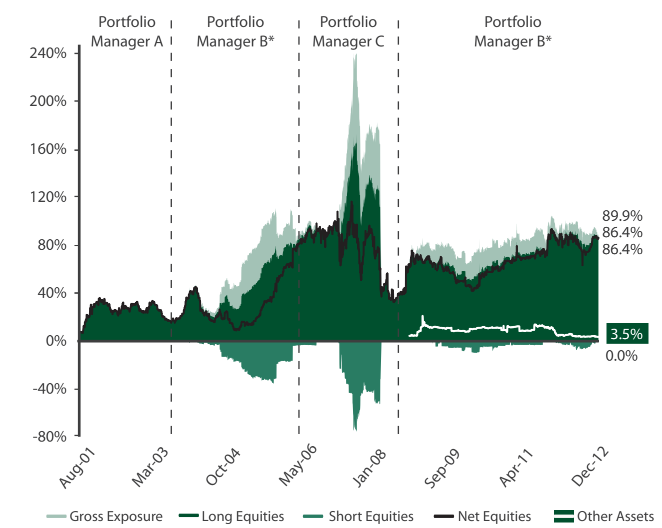
Performance Fee: 20% computed on returns in excess of Libor+6%, accrued daily and paid semi-annually or on redemption, subject to a high-water mark. The Incentive Fee will be paid through the automatic redemption of a number of Shares of each subscription in respect of which an Incentive Fee is payable, corresponding to the value of the accrued and unpaid Incentive Fee.

Performance - IP-Global Class

Performance



Exposure



* Roberto Vinháes, IP´s founding partner

Objective

Provide sophisticated investors with substantial medium to long-term absolute returns by investing globally with no restrictions regarding geographic or asset class exposure levels and with strong focus on capital preservation.

Strategy

Investing among strategies, asset classes and geographies based on opportunities for medium to long-term value creation with limited use of leverage. Given our history and equity expertise, it is expected that over time the fund will have a relevant equity exposure and investments in other asset classes will be done mostly for hedging purposes.

Structure

IP-Global Class 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.

Investment Manager: Investidor Profissional Gestão de Recursos Ltda.

Net Asset Value Calculator: BNY Mellon Serviços Financeiros DTVM S.A.

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

Auditor: KPMG

Last 12 months returns (US$)

Period	IP-Global[1](%)	S&P 500 Total Return[2](%)	10 Yr Treasury[3](%)	Libor 3 months (%)
December 12	1.75	-0.77	-0.50	0.02
November 12	1.35	0.58	1.21	0.02
October 12	-2.73	-1.85	-0.34	0.02
September 12	0.31	2.58	-0.61	0.02
August 12	3.96	2.25	-0.28	0.03
July 12	0.99	1.39	2.11	0.03
June 12	2.03	4.12	-0.65	0.02
May 12	-7.10	-6.01	4.05	0.03
April 12	0.05	-0.63	2.82	0.02
March 12	2.28	3.29	-2.12	0.03
February 12	2.58	4.32	-0.89	0.03
January 12	5.05	4.48	0.95	0.03

Annual returns (US$)

Period	IP-Global[1](%)	S&P 500 Total Return[2](%)	10 Yr Treasury[3](%)	Libor 3 months (%)
2012 (YTD)	10.42	14.07	5.72	0.30
2011	1.67	2.11	19.36	0.24
2010	11.82	15.06	8.79	0.24
2009	38.31	26.46	-10.99	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	28.68	1.15	0.86
2002	-1.29	-22.10	15.42	1.26
2001	6.04	-5.00	1.88	0.76

Annualized returns (US$)

Period	IP-Global[1](%)	S&P 500 Total Return[2](%)	10 Yr Treasury[3](%)	Libor 3 months (%)
Last 5 years	7.38	1.33	8.55	0.67
Last 10 years	6.96	7.06	6.48	1.56
Since Inception[4]	6.49	3.33	7.18	1.54

(1) Gross of performance fee
(2) Dividends are assumed reinvested in the S&P 500 Index.
(3) Assumes an investment continually reinvested into a 10 years constant maturity security (Bloomberg: F08210YR Index)
(4) Inception: August 1st, 2001

Terms and Conditions

Subscription: Daily

Minimum Initial: US$ 1,000,000

Minimum Additional: US$ 100,000

Redemption: The Redemption Day shall be the Wednesday (or if such day is not a Business Day, the Business Day immediately following such day) of the calendar week following the calendar week during which the Registrar and Transfer Agent receives the signed Redemption Form for the Shares being redeemed. Payment of redemption proceeds shall generally be made within 5 business days following the redemption day.

Minimum: US$ 100,000

Minimum Balance Left: US$ 1,000,000

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 IP-Global Class, please contact us by phone at (55 21) 2104-0506 or by e-mail contactus@investidorprofissional.com

Miscellaneous

"In almost every case, the solution that enables customer success will be implemented and built upon architectures that leverage technology to solve business challenges, as IT underlines every business process as well as every business model and every budget becomes an IT budget ."
John Chambers – Chairman e CEO Cisco

"There is good news and bad news that comes with permanent capital. We have permanent capital, but other investors that we compete with for assets can be much more cavalier with their capital than we can afford to be. Private equity funds are often willing to pay much more than we are because we think of investing like owners of the business, and they're thinking of it as a call option."
Jim Tisch – CEO Loews

"Buying a company is like walking into a room that is pitch black, with danger lurking everywhere."
Jim Tisch – CEO Loews

INVESTIDOR PROFISSIONAL
DESDE 1988

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