QUARTERLY REPORT

3rd QUARTER 2017 IP-Participações

INDEX

IP-PARTICIPAÇÕES

Given the recent rise of the Brazilian stock market, it is natural that some investors question whether they should participate more actively in this 'movement'. In this context, it is important to discuss our investments, especially considering the IP-Participações fund which up until about nine years ago invested exclusively in Brazilian companies and has gradually broadened its horizons.

In the universe of the outstanding Brazilian companies - those that matter to our fund - the recent appreciation has made the risk/return equation even more unfavorable. Prices, which already reflected the high quality of these businesses, now imply an even more promising future. The pattern observed in the past five years remains unchanged: excess capital seeking opportunities and very few outstanding businesses.

Among the companies with the highest share price increases in the past twelve months, we unsurprisingly notice a predominance of state-owned companies, steel companies and businesses which delivered historically low margins and returns. Given the improving economic environment, investors' perspectives for these businesses have decompressed: from really bad to bad, or from bad to average. Think of a business with returns on capital historically ranging at 4% that increases to 8%. Despite the profit doubling, it likely remains a bad business.

It is only natural that, during specific times, certain strategies, types of companies and industries stand out and provide differentiated returns. Is China boosting commodity prices? Buy commodity producers. Is Brazil in the spotlight and the flow of IPOs is steady? Buy into all and immediately 'flip' them. Has a businessman with a golden touch listed his enterprise? Buy his company and ideas and hope for the best. Will the real devalue? Buy exporters. Will Brazil privatize and improve the management of state-owned companies? Buy state-owned companies. And so forth. The problem is that, all of a sudden – and much too frequently - conditions change, China slows down, markets swing, brilliant ideas prove too risky, the real appreciates, political conditions shift and advances once deemed certain are not implemented. What used to work no longer does.

For many investors, the temptation to shift to strategies that are 'working' is huge. In our experience, however, this approach is a treacherous one. Sooner or later, most are surprised by sudden changes and suffer permanent losses, resulting in a lasting hit to cumulative returns. When the music stops playing, no one wants to be the one holding a hot potato…

On the other hand, our philosophy of holding stakes in companies with superior business models, managed by skilled and aligned people at reasonable prices has been tested and proven over time. Here, the process, discipline and weight attributed to qualitative properties are much more important than the outlook on markets and economies. As Buffett has said several times – and we never tire in repeating – avoiding permanent capital losses is the chief rule to higher returns in the medium and long term.

	Cumulative Return					Annualized Return			
	12 months	**3 years**	**5 years**	**7 years**	**9 years**	**3 years**	**5 years**	**7 years**	**9 years**
IP-Participações	16.9%	52.8%	86.7%	142.9%	331.2%	15.2%	13.3%	13.5%	17.6%
Ibovespa	27.3%	37.3%	25.5%	6.5%	20.8%	11.1%	4.7%	0.9%	2.1%
IBrX	27.4%	38.2%	47.0%	41.0%	86.3%	11.4%	8.0%	5.0%	7.2%
S&P 500 (in R$)	15.6%	65.1%	172.9%	378.2%	331.8%	18.2%	22.2%	25.0%	17.6%
CDI	11.6%	43.3%	69.8%	107.2%	151.7%	12.7%	11.2%	11.0%	10.8%

Despite the environment described above, our fund has benefited from the appreciation of a few companies in the Brazilian market this year. These are companies where we find a good risk/return equation and that have passed our filters for quality and valuation. By the end of the third quarter, Itaúsa shares appreciated 38%, B3 45% and Energisa 41%. On the other hand, Panvel (Dimed) shares fell 32%, affecting IP-Participações' return in approximately 5% YTD, mainly due to its low liquidity.

As stock markets have significantly appreciated – both in Brazil and abroad – we have slightly increased our cash levels. We remain, however, optimistic with regard to our invested companies and their future return perspectives. No matter where the markets shift to, we will continue to benefit from the cash flows and evolution of outstanding businesses, such as Itaúsa/Itaú, Panvel, Berkshire Hathaway, Alphabet, Amazon, Wells Fargo, Energisa, Danaher, B3, AB-Inbev, among others.

In this report, instead of focusing on a single company, as in the previous report (Alphabet), we will comment more broadly on some of our other investments: Panvel, Wells Fargo, Energisa and Amazon.

PANVEL (DIMED)

As mentioned in our 4Q16 report, Panvel's shares increased more than we would have liked in 2016. Given the lack of liquidity, we prefer prices to follow the evolution of the business, without exaggerations.

In 2017, the exaggeration has been in the opposite direction. Panvel's common shares declined 32.5% by the end of the third quarter. Due to restricted liquidity, share prices are extremely volatile over short periods of time. In the long term, however, there is no escape: price will converge to the fundamentals of the company. Regardless of recent price variations, Panvel's results remain solid.

In the last three quarters, Panvel recorded a higher same-store sales growth than the industry leader - Raia Drogasil - despite having a more mature mix of stores. Of its 383 stores, approximately 80% are mature, compared with Raia Drogasil's 64%.

	Same-Store Sales		Inflation (12-month IPCA)
	Panvel	**Raia Drogasil**	
2Q17	8.3%	6.1%	3.0%
1Q17	10.8%	10.5%	4.6%
4Q16	13.4%	13.2%	6.3%
3Q16	11.0%	13.5%	8.5%
2Q16	12.2%	14.5%	8.8%
1Q16	12.0%	16.0%	9.4%

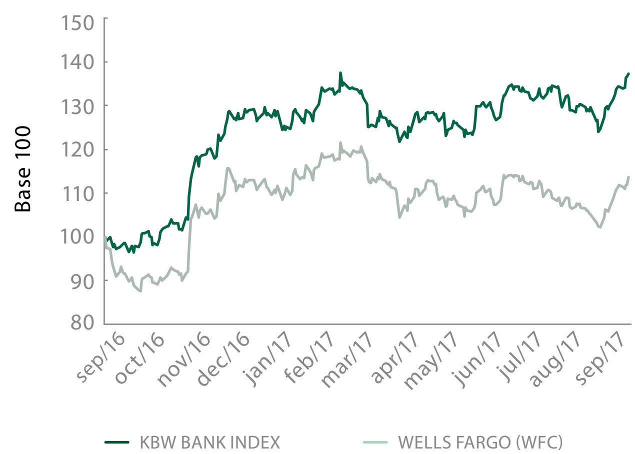
Additionally, Panvel has gradually accelerated its store openings. In recent years, 15 to 20 stores were opened per year. In the last 12 months, 30 new stores were opened (excluding closures and transfers) – a pace that should accelerate to 40 stores in 2017. We believe that in combination, store openings and organic growth have the potential to grow Panvel's retail business (approximately 87% of the company's consolidated revenue) double digits for several years.

As mentioned in other reports, if the past is any indication, the results tend to reward the more patient shareholders. Share illiquidity, although an inconvenience, does not prevent us from participating in the development of the company. Besides, there is always the possibility that this problem is mitigated in the future.

WELLS FARGO

In the 4Q16 report, we commented on the scandal involving the Wells Fargo accounts opened without client consent. At the time, we had a medium-sized position in our fund. After a significant rise in share prices, we closed the investment at the beginning of 2017.

Recently, the company's market value declined once again, widening the gap further to other American banks' share performance. Since September 2016, the U.S. banking sector index has returned 37.4%, while Wells Fargo shares have appreciated 13.8%[1].



The image crisis has cost Wells Fargo dearly. The company was a darling of the American financial industry given its track record, conservative credit policy, high ROE, cheapest funding in the industry, and for being less complex than other major players. For these reasons, it has always traded at a premium to most listed banks. The situation has now reversed: the company is trading at a discount to its peers.

The positive points mentioned above have not changed with the recent crisis. On the downside, revenue growth should be slightly lower. However, the company plans to reduce its cost base by

[1] Period started on September 8, 2016, when the Wells Fargo scandal came to light.

U$ 2 billion[2] in the next two years, which should offset the slower revenue growth.

Another encouraging aspect is how the new leadership has dealt with this institutional crisis amid the harassment promoted by the American media. Unlike Wells Fargo's former CEO, John Stumpf, who mistakenly minimized the problem, current management has attacked the problem head-on. In addition to carrying out the biggest clawback in U.S. history by recovering US$180 million in previously paid bonuses to its executives, the bank is also scanning its past to locate other clients that may have been harmed.

Furthermore, the loan portfolio has been managed more conservatively. In recent years, the bank has reduced riskier credit modalities, such as vehicle and student financing. Along with credit cards, these are the fastest growing types of credit granted in the U.S., and have shown high default rates, even amid the low unemployment environment. At Wells Fargo, these loans account for only 11% of the total portfolio – a figure well below other listed banks.

Finally, given the excess capital after Basel III compliance, if growth slows in the future, profit payout should increase for shareholders[3]. Not bad, though we still would prefer to reinvest profit given the bank's two-digit ROE.

The recent drop in prices presented a good opportunity to buy back shares we had previously sold, with more visibility on problems that are now clearing up.

ENERGISA

The environment for investments in the electric power industry in Brazil has been surprisingly favorable in the last two years. The likelihood that such environment should continue has increased after all the missteps of the previous government and the industry's urgent need to attract investments.

For the past two years, we have sought to deepen our understanding of the industry's regulatory framework and its changes over time. In addition, we attempted to investigate the few well-managed companies of the industry. Some of our initial conclusions are:

- Even though - at first glance - the sector appears to be 'unsexy', given its pre-determined/regulated returns, some companies have delivered results worthy of compounders, either by intelligently reinvesting capital or managing assets more efficiently.
- The regulatory environment for basic services in Brazil - such as electricity, sanitation and natural gas - is very inconsistent. Though concerned about unexpected changes, the ground rules in the electricity sector seem to have been perfected over time and are currently fairly mature.

[2] Equivalent to approximately 9% of EBT.
[3] Wells Fargo's current payout is roughly 60%, considering profits and share buybacks.

Among our investment options, Energisa, primarily focused on distribution, caught our attention for several reasons:

- Owner-minded family control, managed by a competent and aligned CEO.

- High quality assets (where energy consumption grows faster than GDP, providing ample reinvestment opportunities), such as the concessions located in the states of *Mato Grosso* and *Mato Grosso do Sul*, which account for nearly half of the group's revenue.

- A long-standing track record of surpassing the mandated EBITDA for most of its concessions.

- An appropriate valuation, with expected returns of high single digits in real terms, according to our assumptions.

The first of these points was the most important in starting a small/medium sized position in the fund. In our conversations with former employees, competitors, regulators and service providers, the positive evaluations of the company's CEO, Ricardo Botelho, were unanimous. In an industry where investment and reinvestment opportunities are expected to be abundant in the coming years, the presence of a CEO with a deep understanding of the business and a long-term commitment with the company will be especially important.

AMAZON

In the 3Q16, we wrote a report on Amazon's business model and on some of its opportunities in the coming years, such as Prime Now, AmazonGlobal, and the potential revenue from advertisements. A year later, the number of new fronts opened by the company is truly astonishing. Among them, the biggest acquisition in its history stands out: Whole Foods.

With regard to the acquisition, it is worth noting that the challenges are substantial, particularly concerning the cultural integration between both companies. Whole Foods has nearly 90,000 employees (while Amazon has just over 380,000) and a very different culture from Amazon – skillfully documented in the book Conscious Capitalism, by John Mackey, co-founder of the company.

While Whole Foods' culture values the sustainable balance between all stakeholders, Amazon's culture is much more aggressive. At Amazon, contributors must pour blood, sweat and tears to please their most important stakeholder: the customer. Only time will tell if the new Whole Foods will be able to absorb the best of both worlds.

On the bright side, the acquisition will finally give Amazon firepower in perishable category. The AmazonFresh subscription program, targeting this category, has been around for ten years, but remains a niche service within the company's consolidated figures. With a unique logistics system and supply chain, perishable products are handled independently from the other distribution centers of the group. For this reason, gains of scale earned in other categories are not shared with sales from perishable products. Now, with Whole Foods' 466 stores and 11 distribution centers[4], the scale, supply chain know-how and higher density delivery routes will be an additional strength to Amazon's operations.

In addition to the acquisition, the insane pace at which the company innovates and tests new projects stands out. Despite being a gigantic company, Amazon has successfully entered new businesses and effectively developed new initiatives. The company's entrepreneurial capacity has increasingly generated value to its customers and, as usual, tormented its competitors.

Below are some selected projects launched in the past 12 months that deserve note:

Amazon Go: the pilot project of a checkout-free convenience store in Seattle.

Amazon Prime Air: the delivery of online purchases using a drone (first delivery in England in December 2016[5]).

AmazonFresh Pickup: the possibility to order online and collect products at a company pickup location (two in Seattle, for now), without leaving the car. After Amazon automatically recognizes the car's license plate, an employee loads the trunk with the order. Orders can be placed within 15 minutes of pickup.

Prime Wardrobe: intended to facilitate the return of clothes, shoes and accessories. Products are ordered on Amazon's website – at no upfront charge – and, after receiving their order, customers have seven days to decide which items they will buy. Unwanted items are returned at no additional cost (free pickup at the customer's home or returned at an UPS location). The fewer products customers return, the larger the discount on the total purchase (up to 20% off).

Prime Reload: Prime members can earn 2% cash back on purchases with their debit cards.

Amazon Instant Pickup: Amazon's first vending machine system. Through the Amazon app, Prime members order items which are then ready for pickup in up to two minutes. There are hundreds of items available: battery chargers, beverages, pens, notebooks, snacks, etc. For now, they are only available in six universities in the U.S. (22 by the end of 2017).

Hub by Amazon: in order to facilitate the flow of incoming deliveries in hotels and residential and commercial buildings, Amazon installs lockers

[4] Of these 11 distribution centers, three are exclusively intended for the management of fish and seafood, which are a good example of how perishable items are a separated logistics case.
[5] https://www.amazon.com/41Amazon-Prime-Air/b?node=8037720011

inside these locations[6]. Unlike the more than 2,000 Amazon lockers spread throughout U.S. cities, these lockers may also receive orders from other e-commerce retailers[7].

Subscribe with Amazon: Amazon's digital subscription marketplace. Amazon's members can subscribe and manage their subscriptions of the Wall Street Journal, Washington Post, Dropbox, among others, in a single place.

Extension of the Amazon Echo product line: In addition to Amazon Echo and Echo Dot –voice command-driven devices that use the Alexa system – Amazon recently launched Echo Show and Echo Spot, with built-in screens. Users can now search images and videos, make video calls and, most importantly, have greater convenience to buy online using voice commands.

Partnership with Kohl's, initially in Chicago and Los Angeles:

- Amazon products (Kindle, Kindle Fire, Fire TV, Amazon Echo, etc.) can now be purchased at 10 Kohl's stores.

- Amazon customers can now return products purchased online at 82 Kohl's stores.

As usual, neither life nor investments are a bed of roses. Like Google and Facebook, Amazon's supremacy is increasingly getting attention from governments and antitrust agencies. The ability to innovate and enhance its bundle of customer services and benefits continues to fuel the company's rapid growth. Naturally, complaints from competitors – who cannot compete on equal terms – only increase, creating an additional challenge for the company before regulators. This is undoubtedly a risk, but one that we believe to be manageable. It is better to be on this side of the battle than on the competitors' side.

[6] https://thehub.amazon.com
[7] By receiving goods from competitors, Amazon has a valuable database with information on consumers' buying patterns outside its ecosystem.

MISCELLANEOUS

In October, the Brazilian market lost a great investor. Pedro Damasceno built, together with his partners at Dynamo, a path that stands out not only for its enormous success, but particularly for its values, generosity and humility. At IP, some had known him for more than 20 years, others for much less, but we all share great admiration. We dedicate our miscellaneous section to his memory, highlighting a few of his statements, found in the books Fora da Curva[8] and Conversas com Gestores de Ações Brasileiros[9].

"Avoiding big mistakes should be one of the main objectives of an investor. If the investor avoids nonsense, chooses minimally good companies, and can afford long-term capital, time will be on his side."

"People in Brazil tend to look only at a fund's return; few spend time figuring out how it got there."

"Instead of trying to guess how the world or Brazil will be in the future, we adapt ourselves and adapt the portfolio to the world in front of us."

"We are very hard on ourselves, including on how we measure our performance. For instance, return since inception only works for those who invested on the first day. We prefer the moving average of three and five years."

[8] Organized by Florian Bartunek, Giuliana Napolitano and Pierre Moreau.
[9] Written by Luciana Seabra.

"A frequent criticism of Dynamo is that we overanalyze and underinvest; in other words, our risk exposure is too low. Since we hit more than we miss, if we bought more shares, our return would be higher. True, but that is easy to say looking through the rearview mirror. We evaluate risk differently. Price volatility is not an appropriate measure of risk because, among other things, we have a long-term investment horizon. Therefore, if the share price of a company we believe to be promising falls, we take advantage and buy more shares."

"I often hear from friends: 'I want to make money to stop working at 40'. We do not want to stop working. We like it here."

"Dynamo is more than a company, it is a life project."

— Pedro Damasceno

PERFORMANCE

PERFORMANCE **IP-PARTICIPAÇÕES CLASS**

PERFORMANCE

Since February 26th, 1993[2]

LAST 12 MONTHS RETURNS (US$)

	IP-Part. Class[2] (%)	Ibovespa (%)	MSCI EM (%)
October 17	-0.35	-3.30	3.51
September 17	0.28	4.19	-0.37
August 17	-0.04	6.90	2.27
July 17	5.55	10.74	6.04
June 17	-0.63	-1.65	1.07
May 17	-1.13	-5.45	2.98
April 17	-0.57	-0.30	2.21
March 17	-1.09	-4.64	2.55
February 17	2.63	4.00	3.07
January 17	5.47	11.91	5.95
December 16	10.89	1.40	-0.16
November 16	-6.46	-10.70	-4.60
12 months	14.38	11.11	26.91

EQUITY HOLDING CHARACTERISTICS

	% portfolio
International Assets	41
Small Cap (smaller than US$ 1bi)[1]	14
Mid Cap (between US$ 1bi and US$ 5bi)[1]	0
Large Cap (larger than US$ 5bi)[1]	19

CONCENTRATION

	% portfolio
Top 5	39
Next 5	20
Other	14
Cash	23

STRUCTURE

IP-Participações Class is a class of the IP Fund SPC, VBF Segregated Portfolio, which 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.

OBJECTIVE AND STRATEGY

IP-Participações Class aims to provide absolute returns through long positions in both Brazilian and foreign companies that exhibit interesting combinations of criteria, such as: (i) excellent business models, (ii) a competent and ethical management team, (iii) an alignment of interests between management and minority shareholders, and (iv) prices that provide a good margin of safety and allow for substantial absolute return over a minimum 5-year investment horizon.

ANNUAL RETURNS (US$)

	IP-Part. Class[2] (%)	Ibovespa (%)	MSCI EM (%)
2017 (YTD)	10.27	22.71	33.23
2016	49.33	66.46	11.11
2015	-24.67	-41.03	-14.60
2014	-4.05	-14.37	-1.82
2013	-6.16	-26.29	-2.27
2012	18.23	-1.42	18.63
2011	-10.47	-27.26	-18.17
2010	39.52	5.59	19.20
2009	127.67	145.16	79.02
2008	-57.06	-55.47	-53.18
2007	54.10	73.43	39.82
2006	45.32	46.41	32.55
2005	23.13	44.09	34.54
2004	28.11	28.16	25.95
2003	87.65	141.04	56.28
2002	-26.36	-46.01	-6.00
2001	-7.58	-23.98	-2.37
2000	-0.99	-18.08	-30.61
1999	136.73	69.55	66.41
1998	-25.64	-38.44	-25.34
1997	-11.53	34.47	-11.19
1996	32.57	53.23	5.55
1995	3.34	-13.77	-5.21
1994	142.54	58.97	-7.32
1993	50.54	63.92	65.65

ANNUALIZED RETURNS (US$)

	IP-Part. Class[2] (%)	Ibovespa (%)	MSCI EM (%)
Last 5 years	4.11	-4.15	5.18
Last 10 years	4.74	-4.88	0.93
Last 15 years	18.09	14.98	12.79
Since Inception[3]	17.87	10.45	7.78

(1) Only Brazilian companies were taken into account in the market capitalization breakdown.
(2) For the period before IP-Participações Class inception, on December 1995, for reference, we show the Brazilian investment vehicle (IP-Participações) results in dollar terms. The returns are net of all fees.
(3) Inception of the Brazilian investment vehicle, IP-Participações: 02/26/1993.

TERMS AND CONDITIONS

	IP-PARTICIPAÇÕES CLASS
Subscription	Daily
Minimum Initial	US$ 100,000.00
Minimum Additional	US$ 100,000.00
Minimum Balance Left	US$ 100,000.00
Redemption	The redemption day shall be the last business day of the second subsequent month following receipt by the RTA of the redemption form. Payment of redemption proceeds shall generally be made within 10 business days following the redemption day.
Management fee	• 2% p.a. of the Net Asset Value. • Accrued daily and paid monthly.
Performance fee	• 15% of the increase of the Net Asset Value per Share. • Accrued daily and paid semi-annualy or on redemption, subjetct to high water mark.

ADDITIONAL INFORMATION

	IP-PARTICIPAÇÕES CLASS
Investment Manager	Investidor Profissional Gestão de Recursos Ltda. Phone: +55 21 2104.0506 www.ip-capitalpartners.com contactus@ip-capitalpartners.com
Net Asset Value Calculator	BNY Mellon Serviços Financeiros DTVM S/A Phone: +55 21 3974.4600 www.bnymellon.com.br/sf
Brazilian Custodian	Banco BNY Mellon S.A.
Bank	UBS AG, Stamford Branch, CT (USA)
Registrar and Transfer Agent	MUFG Alternative Fund Services (Cayman) Ltd Main Officer: Sherie Dawkins Email: SDawkins@mfsadmin.com OL-Investidor-IR@mfsadmin.com Phone: +345 914 6164
Auditor	KPMG

IP CAPITAL PARTNERS

IP-CAPITAL PARTNERS.COM

RUA DIAS FERREIRA
190 - 702 . LEBLON
RIO DE JANEIRO . RJ - BRASIL
CEP 22431.050