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IP-PARTICIPAÇÕES

THIRTY YEARS

An old legend says that the secret to succeeding in investing is surviving the first thirty years¹. The point is that over a longer time span, investors have more mistakes to learn from — both their own and others', and can observe enough cycles, crises and patterns, as to be better equipped to avoid catastrophic capital losses in the future².

In September, IP celebrated its thirty-year anniversary. We are immensely privileged to be a part of this journey and feel honored, as an institution, to have reached this important milestone. We also share Bezos' maxim: it's still day one, and we're just getting started!

Over the years, generations have changed, but one aspect has remained constant: the care and dedication with which we manage the company and funds entrusted to us. We would like to express eternal gratitude from all at IP to its founders: Christiano Fonseca Filho and Roberto Vinhães, who, in 1988, created a company that has changed the lives of so many people and left significant and long-lasting marks on our culture – each in their own way.

Like every long-running company, we have also had to deal with problems over the decades. Among mistakes, successes and several lessons learned, IP's culture is stronger than ever. The challenges we have overcome reinforced our values and philosophy,

showed us the directions we must follow and, above all, reminded us of the ones we must avoid.

PRINCIPLES, GOALS AND TRANSPARENCY

Many who have visited IP's headquarters have noticed, atop a table in every room, a small display. Five years ago, we made our principles and goals available in a document to everyone working at the company and visiting our office. Why?

Firstly, because any long-term plan needs a strong foundation. The document acts as a clear and objective reference to the younger generations, as well as a silent "guardian" of the company's culture. In other words, everyone can benchmark their daily actions against our shared beliefs: are our actions aligned to the principles we agreed to and are committed to follow?

Secondly, what better way to be consistent with our values than to expose any eventual contradictions to the outside world? *If you're going to talk the talk, you've got to walk the walk.*

Our main goal is to manage resources in the safest and most profitable way. There is no denying the fact that good returns are a result of a well-defined culture and clear processes. As clients of our own funds, we strive to perpetuate our philosophy and IP over time. Thirty years is a good milestone to reiterate and share these values, now with a greater reach through our report.

¹ We've heard this joke circulate around over the years. Most recently, Tom Gayner said his mentor, Ned Reynolds, told him so at the beginning of his career.

² Everything times zero is zero...

Our “Principles” and “Goals” are attached at the end of this report. We highly recommend it — especially to our investors. As is the case in the companies we analyze and invest in, more important than following the short-term results of the business is to fully understand the main determinants of long-term progress.

THE FIRST RULE OF FISHING

There are mainly two ways market participants try to make money from stocks:

- Buy shares expecting someone to pay more for them in the future. The focus is usually on price (“cheap” stocks) or on the perception that the stock has momentum and therefore will soon trade at even higher prices.
- Buy shares to benefit from future cash flows and the evolution of the business’ value. Of course, for attractive returns, what is paid today to purchase the stock has to be sufficiently lower than what is received in return — the company’s future cash flows.

The first alternative is tricky. Since the earnings come from *buying cheap* and *selling dear*, it is implied that the individual will repeatedly outsmart or anticipate the behavior of other market participants in order to make money off of everyone else. Quite a heroic assumption.

At IP, we choose the second alternative – the only alternative we regard as investing. As price and value tend to converge over longer timeframes, the real driver in share prices is the business’ ability to grow per-share intrinsic value.

If our goal is to benefit from increasing business value over time, the logical conclusion is that we should allocate most of our time to analyze truly outstanding business models. As Munger has said many times: “The first rule of fishing is: fish where the fish are”.

That is what we have tried to do. As a consequence of searching for better quality businesses, we were naturally drawn to certain business models we could only find abroad. This decision has served us well.

Time has shown us that analyzing outstanding business models is always a great use of our time – even if we do not see a clear opportunity in the short term. Our aim is to gradually build a better understanding of a long list of great businesses — how the company has executed its strategy through the years, how the competitive environment works, what does management’s and controllers’ track record and incentive structure look like — so as to be ready when a favorable moment arrives. This accrued knowledge slowly translates into conviction (or not!), to ensure we can invest decisively when the opportunity comes knocking.

Over the years, we have assembled a wish list of companies we consider our “dream team”. These are businesses we know and deeply admire, but that frequently — and understandably — trade at higher prices than we might otherwise hope. Thankfully, our dear friend volatility ensures that there is a fairly high probability that, sooner or later, the market will give us a chance to buy the stocks in our wish list at reasonable prices.

A simple metric illustrates this point. In the last twelve months, the prices of the companies that make up our wish list have fluctuated, on average, 56% between their lowest and highest levels. The values of these businesses certainly have not changed that much over such a short period. Opportunities always come to investors who wait.

PORTFOLIO

Given the confusion resulting from the Brazilian electoral environment – which doesn’t come as a surprise – our funds are in a privileged position: we are slowly planting new seeds that can yield good returns at a later date.

If, on the one hand, the current diagnoses for the Brazilian economy are almost unanimous (most candidates speak of the need for a pension reform, expenditure control, tax reform, etc.), on the other hand, the adjustments necessary to the economy are far from trivial.

Fortunately, Brazil still is a society with great interaction between businessmen, the press, politicians, and institutions, who openly discuss and seek solutions to the country’s problems. The traditional checks and balances are working – though substantially below the desirable speed. This will not be the “end” of the country. That said, Argentina’s recent example is a valuable lesson: there is no time to waste.

Our approach is simple. Great businesses not only survive but also thrive during crises. We have no obligation to invest in Brazilian companies, only the choice. If we have the opportunity to buy shares in outstanding and resilient companies at attractive prices, we will reallocate part of our capital to do so.

This is what has been happening. After a long period of low attractiveness, we have taken advantage of the volatility to gradually increase our investments in some companies in the Brazilian market. Patience has finally proven its worth.

Above all, whether in Brazil or abroad, we maintain the highest level of selectivity in the companies that make up our funds. This will continue to be one of the key drivers of performance over time.

PRINCIPLES

OWNERSHIP

IP is much more than just a job. It is our company. IP's interests should always be above that of any individual.

FOCUS IN THE LONG TERM

IP's decisions are focused in the long term, whether related to investments, investor relations, talent, compensation, fund structures, as well as fiscal, tax and legal matters.

PROCESSES

Following well-defined processes is the only way we can assess whether we are going in the right direction and whether we will achieve our long-term goals.

INDEPENDENT AND RATIONAL THINKING

We do what makes sense to us and what is in line with our principles and goals. We do not follow trends.

ETHICS

We never do anything that we wouldn't like to be front page news. Our reputation is our most valuable asset. We have built it over many years but know it could be lost in days.

ALIGNMENT OF INTERESTS

We are in the same boat as our clients: our personal resources are invested alongside theirs in the same funds.

INVESTMENTS

Our priority is to preserve capital. We seek to invest wisely and carefully, closely adhering to our philosophy. "To finish first, first you need to finish."

MERITOCRACY

The compensation of each individual is based on their performance and their importance to the company.

EXCELLENCE

It is essential to always "raise the bar", to self-motivate, to deliver above expectations and never be satisfied with the status quo. We seek to hire people who are better than ourselves, train them, challenge them and keep them in our team to perpetuate our culture.

TEAMWORK

Our team must work like a well-oiled machine that is tested and improved every day. We do this through frequent discussions – which can be harsh at times – but always well founded and never personal.

TOTAL TRANSPARENCY

Feedback should be accurate, honest and done in a respectful and constructive manner. We work in an informal environment, with minimal hierarchy and zero politics, where we all can and must express our opinions.

EFFICIENCY

We should seek efficiency, common sense and simplicity. We have to value and respect our most limited resource: time. A day only has 24 hours.

COMMITMENT AND RESPONSIBILITY

Our rules are simple and clear, so there are no excuses: commitments must be honored.

OUR GOALS

- Achieve high long-term returns, maintaining a conservative approach, seeking to invest in the best businesses with the best people and without geographic restrictions.
- Have clients who understand our investment philosophy, helping us achieve excellent long-term returns.
- Maintain an operational and administrative structure of the highest level in terms of risk management, processes and technology, allowing everyone to work efficiently, focused on their activities.
- Maintain a team of few, highly competent and ethical individuals who are loyal, humble, and love what they do, valuing their work far beyond the financial compensation it provides.
- Pass on our values to the next generations that will perpetuate IP and its culture, as well as to the society in which IP operates.

RANDOM

“If I have seen further, it is by standing on the shoulders of giants.”

— *Isaac Newton*

“D’you know where you are? You’re in the jungle, baby!”

— *Excerpt from “Welcome to the Jungle”, do Guns N’ Roses*

“Government’s view of the economy could be summed up in a few short phrases (...) If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it.”

— *Ronald Reagan*

“Hard times create strong men. Strong men create good times. Good times create weak men. And, weak men create hard times.”

— *G. Michael Hopf*

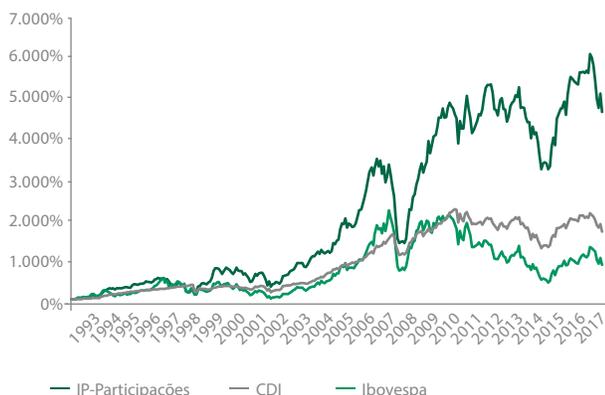
“We are continually faced with a series of great opportunities brilliantly disguised as insoluble problems”

— *John W. Gardner*

PERFORMANCE

PERFORMANCE IP-PARTICIPAÇÕES CLASS

SINCE FEBRUARY 26TH, 1993⁽¹⁾



CUMULATIVE RETURNS (USD)

	IP-Part. Class (%)	Ibovespa (%)	CDI (%)
5 years	1.79	-12.03	-2.99
10 years	78.05	-45.56	6.82
15 years	507.31	264.93	293.82

PORTFOLIO COMPOSITION

Geographic breakdown		% portfolio
International Assets		46
Brazilian Assets		32
Cash		22

Company breakdown		% portfolio
Top 5		39
Next 5		23
Other		17
Cash		22

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.

PERFORMANCE OF THE LAST 12 MONTHS (USD)

	IP-Part. Class (%)	Ibovespa (%)	CDI (%)
August 18	-7.98	-12.10	-8.67
July 18	6.22	11.78	3.23
June 18	-4.07	-8.12	-2.58
May 18	-8.29	-16.96	-6.35
April 18	-6.56	-3.67	-4.02
March 18	-3.24	-2.36	-1.86
February 18	-1.44	-2.05	-2.10
January 18	8.40	16.27	5.23
December 17	-0.96	4.67	-0.87
November 17	0.80	-2.69	1.04
October 17	-0.35	-3.30	-2.70
September 17	0.28	4.19	-0.03
12 months	-17.15	-17.61	-18.69

ANNUAL RETURNS (USD)

	IP-Part. Class (%)	Ibovespa (%)	CDI (%)
2018 (YTD)	-16.95	-19.71	-16.54
2017	10.08	24.98	8.30
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 ⁽¹⁾	3.34	-13.77	-5.21
1994 ⁽¹⁾	142.54	58.97	-7.32
1993 ⁽¹⁾⁽²⁾	50.54	63.92	65.65

(1) 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.

(2) Performance since inception at 26/Febr/1993.

TERMS AND CONDITIONS

IP-PARTICIPAÇÕES CLASS

Minimum subscription	USD 100,000.00
Minimum Additional	USD 100,000.00
Minimum Balance	USD 100,000.00
Grace Period	none
Subscription NAV	NAV of the next business day following the date of investment.
Redemption	<ul style="list-style-type: none">• Request: daily.• 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	<ul style="list-style-type: none">• 2% p.a. of the fund's Net Asset Value.• Accrued daily and paid monthly.
Performance Fee	<ul style="list-style-type: none">• 15% of the increase of the Net Asset Value per Share.• Accrued daily and paid semi-annually or on redemption, subject to high water mark.

ADDITIONAL INFORMATION

IP-PARTICIPAÇÕES CLASS

Investment Manager

Investidor Profissional Gestão de Recursos Ltda.
Phone: 21 2104.0506 / Fax: 21 2104.0561
www.ip-capitalpartners.com
contactus@ip-capitalpartners.com

Net Asset Value Calculator

BNY Mellon Serviços Financeiros DTVM S/A
CNPJ: 02.201.501/0001-61
Av. Presidente Wilson, 231 - 11º andar
Rio de Janeiro, RJ - CEP 20030-905
www.bnymellon.com.br/sf
Customer Service (SAC): 21 3974.4600
Ombudsman: 0800 725.3219

Brazilian Custodian

BNY Mellon Banco S.A.

Auditor

KPMG



IP-CAPITAL PARTNERS.COM

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