INVESTIDOR PROFISSIONAL

Fund Report

IP-Equity Hedge Brazil

fourth quarter / 2004

Index

COMMENTARY

IP-Equity Hedge Brazil recorded a depreciation of 0.79% in the quarter. In the year 2004, the Fund accumulated an appreciation of 2.42%. Since its inception, on December 29, 2003, the Fund has accumulated an appreciation of 2.45%.

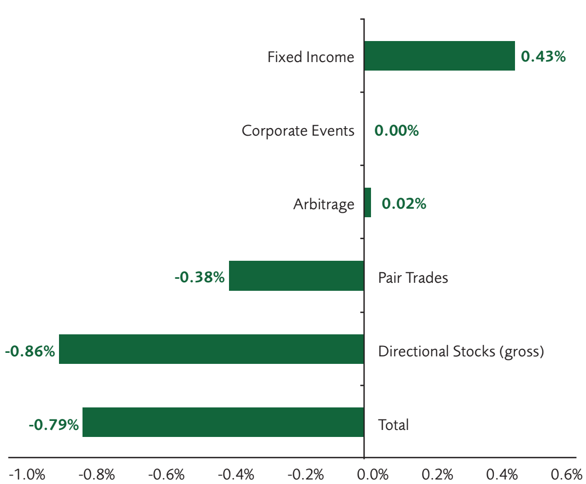
The main foundation of the Fund's management strategy is bottom-up analysis, whose objective is to identify distortions between the price and fair value of assets. This is complemented by the identification of catalysts for price/fair value convergence in the assets.

The bottom-up strategy seeks opportunities especially in extreme market movements, in which the prices of assets move significantly away from their fair values. This strategy frequently implies positions contrary to the market consensus, and may cause losses in the short term.

In the quarter under analysis, the negative result came from the widening of the already significant distortions between the price and fair value of some assets. Among the main negative contributions to the short-term performance, we would highlight two short-selling operations, which are explained in detail later in the report. Despite the negative result of the period, the fundamentals of these operations remain sound, as well as the prospects for gain in the medium term.

In the quarter, the Fund's gross exposure was increased significantly as a higher number of distortions were identified, reaching the highest level in the Fund's history, at 47.4%. This leaves the management team more optimistic with regard to the year 2005.

Fourth Quarter 2004 Results



In the quarter, the Fund recorded losses in directional operations and pair trades, as shown in the chart below.

The quarter's main negative contributions came from two short-selling operations, whose rationale is described below:

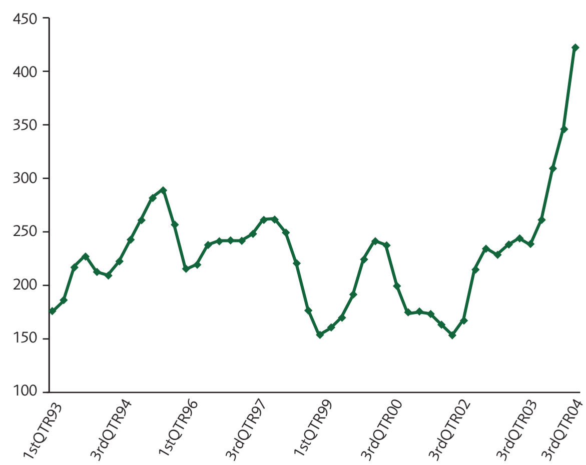
Short position in Companhia Siderúrgica Tubarão

The Fund's average exposure: 2.5%

One of the quarter's negative highlights was the short position in CST. Because of the excellent moment in the cycle and consequently the strong results momentum, all the steel sector stocks have appreciated substantially. After this appreciation, a significant distortion was identified between the price and the fair value of CST's stock.

Due to an imbalance between the world supply and demand for steel products, flat steel prices have risen very abruptly and significantly. The chart below shows the behavior of prices of the steel slabs exported by CST, and illustrates this strong rise.

CST - Slab Price (US$/Ton)



Source: CST

We believe the present level of flat-steel prices is unsustainable in the medium to long term. CST's return on capital invested is close to 30%[1], which is extremely high and is not sustainable in view of the low barrier to entry in the sector and the capacity additions expected in the next few years. As prices give way (abruptly or gradually), the company is expected to book less substantial results.

The company is trading today at prices significantly above its fair value (DCF). This fact is reinforced by the recent negotiations involving strategic shareholders

[1] Based on projected results for 4th Quarter 2004 and 1st Quarter 2005.

in the company. In 2004, CVRD and the block of Japanese shareholders sold their stakes in CST for the average price of approximately US$ 40 per lot of 1,000 shares, as did the Employee's Fund (the latter a few weeks ago). A detail worth noting is that the shares sold for US$ 40 made part of the CST shareholders agreement and enjoyed guaranteed access to the strategic value, representing much more valuable assets than the preferred shares without tag-along rights, which are currently trading in the market in a range of US$55-60 (footnote: base Dec/30/04).

CST, Acesita, Belgo Mineira and Vega do Sul are on the threshold of a merger, which will give rise to Arcelor Brasil. A likely hypothesis is that the exchange ratios between the subsidiaries will be based on their Economic Value. In addition to trading above fair value (DCF), the recent negotiations carried out at levels much lower than market value (parameters for the Economic Value of the shares) may have a negative effect on the company at the time of the merger.

In addition to the medium-term fundamentals, several possible negative catalysts reinforce the prospects of the short position. Among them, the following deserve mention:

• The formation of Arcelor Brasil in 2005.

• A sharp rise in the prices of raw materials in the 2nd and 3rd quarters of 2005

• The end of the de-leverage / compression effect on the company's multiples, considering that the company has already reduced its debt substantially and a new cycle of investments will be started in 2005

• Reversal of the rising trend in contract prices, which are currently situated at unsustainable levels.

Despite the negative result in the period, the operation's fundamentals remain sound.

Short position in shares recently distributed in public offerings

The Fund's Average Exposure: 3.0%

There is a very clear valuation gap today between companies recently distributed in initial public offerings (IPOs) and other companies in the market. While the market value of "IPO companies" incorporates a scenario of very high growth and profits, in addition to minimizing several significant risks, other quality companies in the market are trading significantly below their conservative fair value, in a scenario in which potential growth is not priced in.

This distortion may be explained by a series of factors; the following should be highlighted:

• A strong marketing effort carried out by the placement managers

• A high level of corporate governance – which is not unique to IPO companies

• Prospects for profitable growth – which is questionable in some cases

However, more important than understanding the reasons is studying these companies' fundamentals in detail, in order to assess the sustainability of the movement. In the opinion of Investidor Profissional, this great distortion is not fundamentally justifiable and will tend to correct itself over time, as:

• The priced-in growth gap between the IPO companies and others in the market does not materialize

• Significant risks in the IPO companies, which are minimized at present, do materialize

Among the risks which may be minimized, the following should be stressed:

• New players – Some of the businesses have a low entry barrier and tend to gain competition over time.

• Restructuring / turn-around among competitors – Some of the businesses have benefited from competitors' unfavorable situations. In some cases the turn-around is already starting to appear.

• Lower return during growth – The natural path for a company is to start operations in the most attractive (or most profitable) market. Very often, profitability in new markets is below that in the original market.

• Regulatory risks – Regulatory interventions do not occur frequently, which may lead investors to minimize this risk. However, in the case of some companies, it is a significant risk.

Due to the distortion between the price and fair value of stocks recently distributed in public offerings, a short position in a basket of IPO companies was put together, containing the companies with greater distortions between price and fair value.

Despite the negative result in the quarter, the operation's fundamentals remain sound.

Long position in Braskem

The Fund's Average Exposure: 2.0%

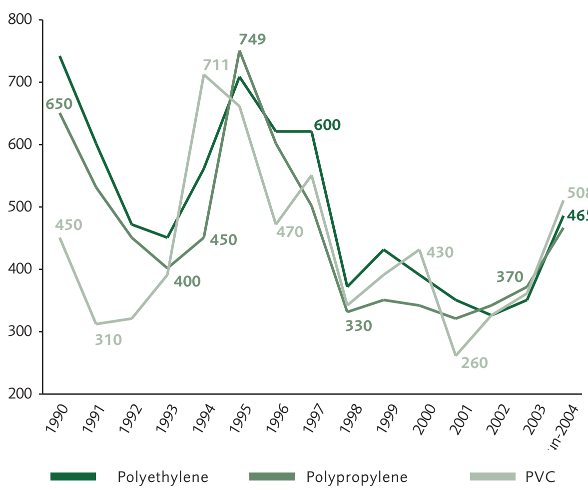
One of the positive highlights in the quarter was the long position in Braskem, the largest petrochemical company in Latin America.

At the end of the third quarter, it was possible to put together a position at very attractive price levels (EV/Ebitda 05: 3.2), even considering normalized price levels for petrochemical products.

The improvement in the domestic market scenario has also been favoring the company. The domestic market, which absorbed 75% of the company's sales in 2003, presented very high growth rates in the course of 2004: the thermoplastic resin segment, in which Braskem holds a leading position in most products, grew more than 15% in the period from January to October.

In addition, the company should benefit from a strong results momentum. The petrochemical sector has a peculiar cyclical pattern. Contrary to other cyclical sectors, such as pulp and paper or steel, its price cycles are extremely long. This is due to the long period of time needed for a petrochemical project to be carried out. Taking this into account, Braskem has strong results ahead, which may last until the end of 2006 (see chart below).

Naphtha-Plastic Resins Spread – US$/ton



Source: CMAI

The combination of positioning, results momentum, attractive prices and tag-along rights represented a good purchase opportunity.

This operation has already been liquidated, with a significant profit for the Fund.

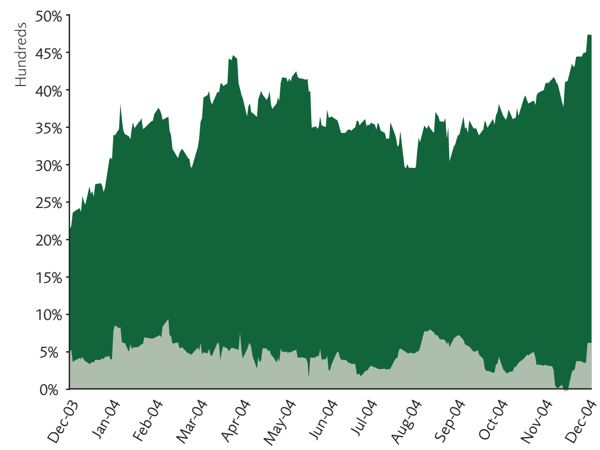
Long position in Banco do Brasil subscription warrants

The Fund's Average Exposure: 2.0%

The long position in Banco do Brasil subscription warrants (BBAS12 and BBAS13), as detailed in the last quarterly report, also made a positive contribution.

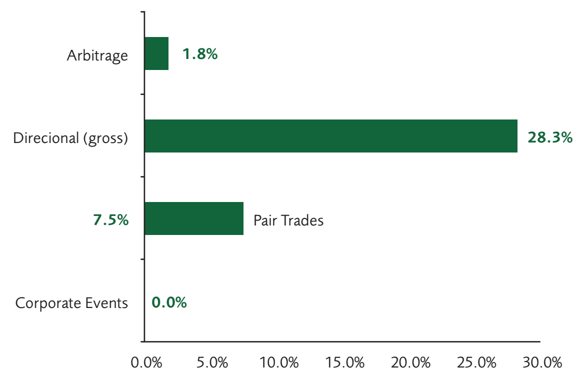
EXPOSURE

In the quarter, the average level of the fund's exposure was increased significantly (see chart below). At the end of the quarter, gross exposure amounted to 47.4% and net exposure, 6.2%.



Exposure per strategy can be observed in the chart below. Exposure in arbitrage, directional and pair trade strategies was increased, as new opportunities were perceived.

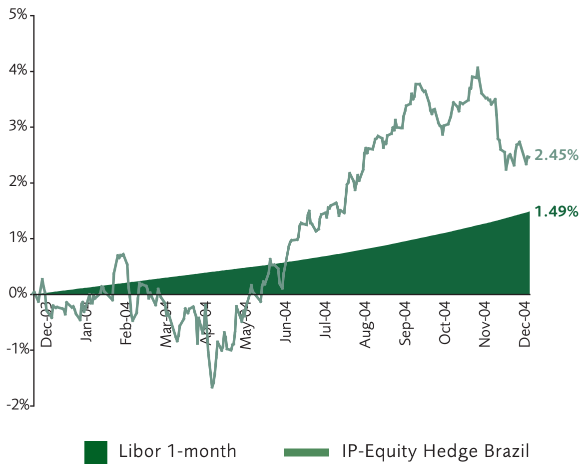
The Fund's Exposure – December 30, 2004



This increase in the Fund's exposure reflects the higher number of opportunities perceived and leaves the management team more optimistic regarding the year 2005.

PERFORMANCE ANALYSIS - DECEMBER 2004

IP-Equity Hedge Brazil x Libor 1-month



	IP-Equity Hedge Brazil	Libor 1-month
December-04	-1.02%	0.20%
November-04	0.48%	0.18%
October-04	-0.25%	0.15%
September-04	0.73%	0.14%
August-04	1.08%	0.14%
July-04	1.27%	0.11%
June-04	0.37%	0.10%
May-04	0.21%	0.09%
April-04	-0.36%	0.09%
March-04	-0.43%	0.10%
February-04	0.72%	0.09%
January-04	-0.39%	0.10%
2004 (YTD)	2.42%	1.49%
Since inception(*)	2.45%	1.49%

(*) 2003, Dec 29th

INFORMATION

Structure

IP Investment Fund, Ltd. 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 and Brazilian Custodian: Banco Itaú S.A.

Bank: UBS AG, Stamford Branch, CT (USA)

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

Auditor: Deloitte & Touche

Inception Date: 29/12/2003

Investment Objective

The Fund's objective is to provide sophisticated investors returns above the one-month Libor in periods of one year through operations in the Brazilian equity market, while limiting the Brazilian currency and government default risk, by investing most of the principal in U.S. Treasury Bills and USD money market funds. The Fund expects to maintain little or no correlation to main equity indices.

Investment Strategy

The investment strategy is to seek distortions between the trading price and intrinsic value of the Brazilian equity assets. In order to identify those distortions, the main tool used will be the value-oriented, bottom-up analysis.

The Fund will hold long positions when it identifies assets that are under-valued by the market and short positions when it identifies assets that are over-valued by the market, always in comparison with the intrinsic value estimated by Investidor Profissional.

In addition, the Fund will seek arbitrage opportunities between assets issued by a company or group of companies.

The Fund will also invest opportunistically in shares of companies involved in corporate events, including, without limitation, changes in the shareholder control, mergers, spin-offs and absorptions.

Terms and Conditions

Subscription: Daily, in the first business day immediately following receipt of cleared funds and the Subscription Agreement.

Minimum Initial: US$ 100,000

Minimum Additional: US$ 50,000

Redemption: The Redemption Day for the IP Equity Hedge Brazil Class Shares shall be:

If the original Redemption Form duly completed and signed is received by the Registrar and Transfer Agent on or before the 10th day of each calendar month (or the preceding Business Day, if eventually this day is not a Business Day) the Redemption Day will be the last Business Day of such calendar month.

Or

If the original Redemption Form duly completed and signed is received by the Registrar and Transfer Agent after the 10th day of each calendar month, the Redemption Day will be the last Business Day of the calendar month immediately following such calendar month.

Payment of redemption proceeds shall generally be made whitin 5 Business Days following the Redemption Day

Minimum Redemption: US$ 50,000

Minimum Balance Left: US$ 100,000

Fees

Management Fee: 2% per year of the Net Asset Value per Share, accrued daily and paid monthly.

Performance Fee: 20% above the one-month Libor, accrued daily and paid monthly or in the redemption, subject to a high water mark.

Additional Information

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

MISCELLANEOUS

• *"The essence of a speculative bubble is a sort of feedback, from price increases, to increased investor enthusiasm, to increased demand, and hence further price increases. The high demand for the asset is generated by the public memory of high past returns, and the optimism those high returns generate for the future. The feedback can amplify positive forces affecting the market, making the market reach higher levels than it would if it were responding only directly to these positive forces. Moreover, a bubble is not indefinitely sustainable. Prices cannot go up forever, and when price increases end, then the increased demand that the price increases generated ends too. Then, a downward feedback can replace the upward feedback."* - Robert Shiller - Cowles Foundation Discussion Paper No. 1303 /May 2001

• *"If everybody is thinking alike, then somebody isn't thinking."* - George S. Patton, Jr.

• *"I've been through at least half a dozen periods where people think they're never going to get a chance to buy securities at intelligent prices. But it always changes."* - Warren Buffett

• *"People say they want their managers to think like shareholders and try to compensate them so they will. Well, it´s pretty easy to think like a shareholder if they become one."* - Warren Buffett

• *"We like to put a lot of money in things we feel strongly about. And that gests back to diversification. We think diversification, as practiced generally, makes very little sense for anyone who knows what they're doing. Diversification serves as protection against ignorance. If you want to make sure that nothing bad happens to you relative to the market, you should own everything. There's nothing wrong with that. It's a perfectly sound approach for somebody who doesn't know how to analyze businesses.*

But if you know how to value businesses, it's crazy to own 50 stock or 40 stock or 30 stocks, probably-because there aren't that many wonderful businesses understandable to a single human being in all likelihood. To forego buying more of some super-wonderful business and instead put your money into #30 or #35 on your list of attractiveness just strikes Charlie and me as madness." - Warren Buffett.

Partners:

Roberto Vinháes
Christiano Fonseca Filho
Pedro Chermont
João Emílio Ribeiro Neto
Isabella Saboya
Bruno Levacov
Elsen Carvalho

Av. Ataulfo de Paiva, 255 / 9° andar Leblon
22440-032 Rio de Janeiro RJ Brasil
Tel. (55 21) 2104 0506 Fax (55 21) 2104 0561
contactus@investidorprofissional.com
www.investidorprofissional.com