



QUARTERLY REPORT

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FIRST QUARTER / 2013



INVESTIDOR  
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## INDEX

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<b>IP - Brazilian Equities</b>	<b>4</b>
<b>IP-Global</b>	<b>6</b>
<b>PIPA - 2013</b>	<b>8</b>
<b>Fact Sheets</b>	<b>9</b>
IP-Brazilian Equities	9
IP-Global	10
<b>Miscellaneous</b>	<b>11</b>

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The change in the market price of IP-Brazilian Equities holdings during the first quarter of 2013 was 3.8%.

We do not try to guess the future. Our north is the quality and price of the businesses in which we invest. Still, given the apparent optimistic consensus for the companies that we admire, it is prudent to take a look at what can go wrong. The problematic governance in most countries is a reason for concern and a warning to the challenges that businesses may face in the future.

The investment environment continues to deteriorate in Brazil. The government's juggling in order to meet the fiscal targets at the end of 2012 drew criticism even from the former minister Delfim Netto, who dubbed the action a "deplorable operation in alchemy". The uncertainty created by the consecutive interventionist measures worries businesses and hinders investments. Despite the negative reactions, there are no big signs of change. For business leaders who are not crying to the government for advantages, all they can do is read the newspaper each morning to find out if their sector was benefited or hampered, and whether their projects remain feasible.

The idea to take advantage of the global crisis about a year and a half ago to lower interest rates and devalue the currency appears to have reached its limit. According to Economics 101, prices rise when demand outstrips supply and inflation indexes are useful to those responsible for economic policies to detect and fight this malaise. For the Brazilian government, however, it seems that the goal is not to spot inflationary pressures or to identify their causes, but instead to find ways to push down inflation numbers through economic intervention. The government's

belief in price manipulation has reached a point where requests to postpone bus ticket increases are seen as something ordinary.

Not far from here, amid a decadent economy, the Argentine government had the brilliant idea to freeze prices to control inflation. Without the possibility of passing on cost increases to consumers, the companies see their margins fall, invest less and resist while they can. The parasite (government) feeds itself with the blood of the host (companies) without knowing that it can die. The populist speeches and measures persist though. And when the host refuses to play the parasite's game – as was the case with Vale, which called off a project in that country, useless court orders prevent the mining company from "removing tools and machines" in an effort to block the company's departure. The chaotic world created by Ayn Rand in Atlas Shrugged seems quite realistic nowadays.

For more than a decade, a similar path is trailed in Venezuela. It would have been fairer to see Hugo Chavez alive so he could reap the "grand finale" of the economic decadence and unsustainability he created. For a foreigner thinking about investing in Brazil, the Brazilian government's praises to Chavez certainly don't bring much confidence.

Worldwide, in an attempt to block the appreciation of their currencies, central banks have desperately amassed reserves (mostly U.S. dollars), and have become increasingly concerned with the future value of such reserves. For those who watch the U.S. government spending annually \$1 trillion more than it collects, being "financed" mostly by itself – as Treasuries are given to the Fed in exchange for newly printed dollars –, accumulating dollars exclusively looks like a risky strategy in the long run.

Adam Smith, in *The Wealth of Nations*, said that money should not be confused with wealth. In his words, “the wealth of a country consists, not in its gold and silver only, but in its lands, houses, and consumable goods of all different kinds.” In other words: its assets, companies, etc.

Directly or indirectly, the central banks from China, Hong Kong, Israel, South Korea, Czech Republic and Switzerland have been buying not just gold, but also expanding their allocation towards equities – mostly to U.S. companies. This is something most wouldn’t even consider years ago.

Nowadays with few investments in stocks and more than \$10 trillion in total reserves, any movement towards equities by the central banks would be relevant. One consequence could be the worsening of asset inflation, which would be positive for our investments in the short term but would make finding attractive investments even more challenging in the future.

## PORTFOLIO

During the past few quarters we laid out our strategy for the current environment. We continue to invest in the excellent companies we still can find at reasonable prices. Businesses that should, in crisis scenarios, not only survive but also become stronger relative to their competitors.

Meanwhile, we continue to stay away from businesses linked to commodities, those controlled by the government or those excessively influenced by the government, such as utilities.

Among the main changes to the portfolio during the quarter, we highlight the reduction in Banco Bradesco and complete sale of the positions in Duratex and Porto Seguro – all driven by the appreciation of the stocks. We reallocated especially to Natura, Cyrela and another company that we prefer not to mention yet.

We continue to keep a sizable cash position in the fund, which allows us to invest only in what we are confident in and capitalize on eventual shocks in the market in order to buy good companies at more attractive prices. As Buffett has said over and over: “The less prudence with which others conduct their affairs, the greater the prudence with which we should conduct our own affairs”.

## PERFORMANCE

The change in the market price of IP-Global positions resulted in a 10.4% change in the NAV per share for the first quarter of 2013. Since its inception in 2001, the accumulated return of IP-Global has amounted to 123.6% in dollars.

## INFLATION

The excellent video<sup>1</sup> made by Professor Charles Watson for PIPA made us reflect on inflation. Not consumer price inflation, but that of artists and asset managers. During the quarter, it was interesting to notice the existence of hundreds of managers registered with the CVM, the Brazilian equivalent to the Securities & Exchange Commission. Meanwhile, every day more art galleries, fairs and exhibitions seek the public's attention. In theory, it sounds great. But what about the quality? As Mr. Watson would say, do they work for the love of art or the love of money?

The truth is that everyone tries to surf the same wave, but as Mr. Watson says, "no one stopped to think 10 minutes about the subject..."

This would be our top criticism for contemporary art and asset management. On one hand, SP-Arte, ArtRio, Miami Basel, Frieze etc. On the other, industrialized conferences by investment banks. It's too much activity and too little reflection. This shouldn't be the spirit. Finding an artist or a good company demands time, contemplation and reflection.

## PORTFOLIO

The first quarter saw little activity in the portfolio. The recovery in the U.S. and the optimism in the market were intact and reflected in the appreciation of the fund's positions. We decreased the exposure with sales of small positions in consumer businesses and a reduction in technology-related stocks (which also appreciated considerably). Conversely, we increased the two largest positions in the fund: Berkshire Hathaway and Microsoft.

## PERSPECTIVES

We are optimistic about the medium and long term. We may be in luck, as it appears that cyclical energy prices (mostly linked to oil) are likely to start helping. We are far from specialists in this field, but we know professionals who have worked in the industry for years. The main indication is that exploration in North America, both of tar sands in Canada and natural gas held in rocks in the U.S. is growing fast – potentially making the U.S. a net exporter of oil and its by-products. The reports say that the investments in infrastructure occur at Chinese-like speed – and that its effects will be more concrete soon.

Many of these effects are predictable and, as usual, many are unpredictable.

One of the strongest and quickest impacts would be a very welcome deflationary pressure, especially when the "China Effect" loses steam and the Central Banks need to start reviewing their zero interest policy.

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<sup>1</sup>Link to the video: <http://www.pipa.org.br/2013/03/um-cha-com-charles-novo-video-especial-do-pipa/>

Another effect, which is less immediate and likely, would be a greater distancing by the U.S. from the Middle East, a move that could trigger relevant (and unforeseeable) consequences.

Still regarding deflationary pressure, Japan's entry into the currency war is not negligible.

For Europe, "no news is good news". It looks like the necessary changes will take years due to cultural issues.

In summary: the market, especially the U.S., is less attractive today than it was a year ago because of recent bull markets. But it remains attractive. It would be natural for the pace of rising stock prices to cool, but markets don't work in a "natural" manner. We are still eyeing defensive positions such as gold and short positions on Treasuries, but our priority is to find quality companies to buy now and fill our portfolio entirely. Presently we are about 80% long and the strategies with options made up for approximately 0.2% of the fund during the quarter.

## PIPA PRIZE

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In the first quarter we launched PIPA 2013.

The experience from the past three editions motivated us to reduce the number of nominated artists this year in order to not dilute the attention given to each one. Therefore, for 2013 we limited the number of artists that each member of the committee may nominate from five to just three.

The result from this change was seen last week, when we published the nominated artists for 2013. There were 55 artists nominated, compared to 117 in 2012.

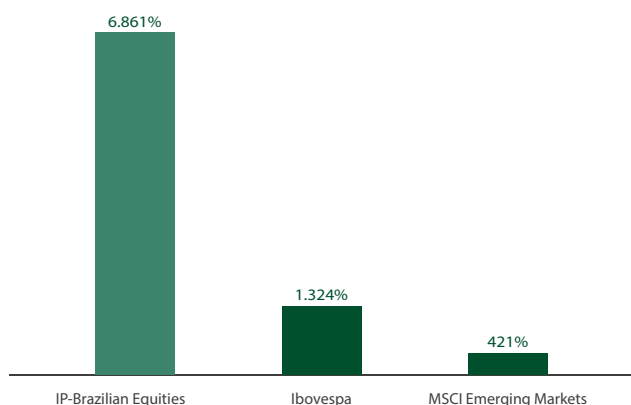
The announcement of the four finalists, who will expose on MAM-Rio, will be on June 22<sup>nd</sup>.



# IP-BRAZILIAN EQUITIES

## PERFORMANCE (US\$)

Since February 26<sup>th</sup>, 1993 <sup>(1)</sup>



<sup>(1)</sup> For the period before IP-Brazilian Equities inception, on April 2010, for reference, we show the Brazilian investment vehicle (IP-Participações) performance in U.S. 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
Overlap with the Ibovespa portfolio	56
Small Cap (smaller than US\$ 1bi)	25
Mid Cap (between US\$ 1bi and US\$ 5bi)	20
Large Cap (larger than US\$ 5bi)	55

## CONCENTRATION AND MONTHLY ATTRIBUTION

	%	Monthly Attribution (%)
Top 5	43	1.15
Next 5	16	-0.46
Other	5	-1.00
Cash	36	0.05

## OBJECTIVE

The investment objective of IP-Brazilian Equities 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 IP-Brazilian Equities 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 Fund SPC, VBF Segregated Portfolio, IP-Brazilian Equities Class is an exempted company, incorporated under the provisions of the Companies Law of August 3<sup>rd</sup>, 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 IP-Brazilian Equities:** April 1<sup>st</sup>, 2010

## ADDITIONAL INFORMATION

For additional information, please contact us by phone at (55 21) 2104-0506 or by e-mail at [contactus@investidorprofissional.com](mailto:contactus@investidorprofissional.com)

## LAST 12 MONTHS RETURNS (US\$)<sup>(1)</sup>

Period	IP-Br. Equities (%)	Ibovespa (%)	MSCI EM (%)
March 13	-0.26	-3.74	-1.92
February 13	1.38	-3.28	-1.24
January 13	2.68	0.77	1.39
December 12	5.86	9.37	4.90
November 12	2.35	-2.92	1.28
October 12	0.64	-3.59	-0.60
September 12	3.47	4.04	6.05
August 12	1.45	2.35	-0.29
July 12	3.20	1.77	2.02
June 12	1.07	-0.20	3.91
May 12	-7.83	-17.54	-11.16
April 12	-5.14	-7.70	-1.17
Last 12 months	8.36	-20.96	2.09

## ANNUAL RETURNS (US\$)<sup>(1)</sup>

Period	IP-Br. Equities (%)	Ibovespa (%)	MSCI EM (%)
2013 (YTD)	3.82	-6.18	-1.79
2012	15.50	-1.42	18.63
2011	-9.41	-27.26	-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\$)<sup>(1)</sup>

Period	IP-Br. Equities (%)	Ibovespa (%)	MSCI EM (%)
Last 5 years	12.27	-4.19	1.35
Last 10 years	31.13	24.07	17.72
Last 15 years	19.25	6.88	8.81
Since Inception <sup>(2)</sup>	23.88	14.35	8.69

<sup>(1)</sup> For the period before IP-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.

<sup>(2)</sup> 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.

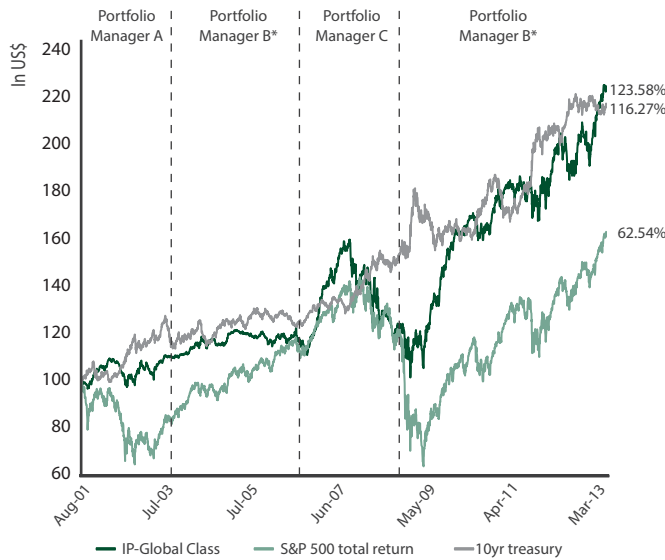
**Minimum:** USD 100,000

**Minimum Balance Left:** USD 1,000,000

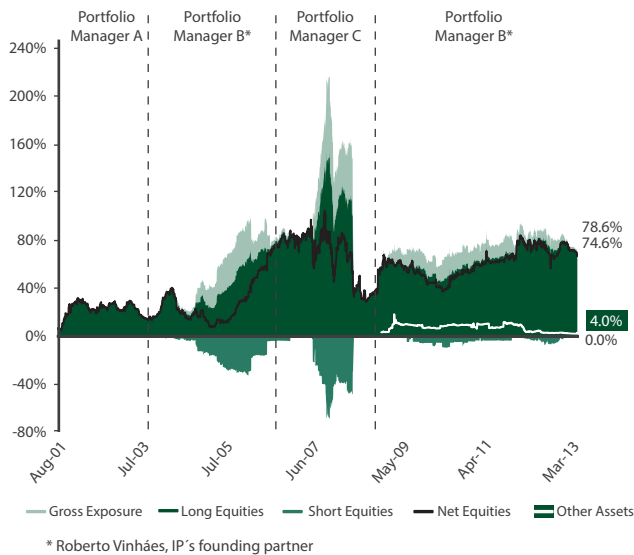
**Management Fee:** 2.0% per annum of the Net Asset Value of the IP-Brazilian Equities  
**Performance Fee:** 20% computed on returns in excess of Libor+6%, accrued daily and paid semi-annually or on redemption, subject to a high-water mark. The Incentive Fee will be paid through the automatic redemption 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.

# IP-GLOBAL

## PERFORMANCE



## EXPOSURE



## 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 is a Class of IP Global 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 <sup>(1)</sup> (%)	S&P 500 Total Return <sup>(2)</sup> (%)	10 Yr Treasury <sup>(3)</sup> (%)	Libor 3 months (%)
March 13	2.11	3.75	0.45	0.02
February 13	1.92	1.36	1.41	0.02
January 13	6.04	5.18	-1.98	0.02
December 12	1.75	0.91	-1.08	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
Last 12 months	10.56	13.96	7.17	0.26

## ANNUAL RETURNS (US\$)

Period	IP-Global <sup>(1)</sup> (%)	S&P 500 Total Return <sup>(2)</sup> (%)	10 Yr Treasury <sup>(3)</sup> (%)	Libor 3 months (%)
2013 (YTD)	10.36	10.61	-0.15	0.05
2012	10.42	16.00	5.12	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 <sup>(1)</sup> (%)	S&P 500 Total Return <sup>(2)</sup> (%)	10 Yr Treasury <sup>(3)</sup> (%)	Libor 3 months (%)
Last 5 years	12.35	5.84	7.16	0.57
Last 10 years	8.02	8.69	6.25	1.54
Since Inception <sup>(4)</sup>	7.27	4.33	6.95	1.51

(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, please contact us by phone at (55 21) 2104-0506 or by e-mail [contactus@investidorprofissional.com](mailto:contactus@investidorprofissional.com)

## MISCELLANEOUS

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*"In this environment, clients' immediate needs are very clear: to save money, preserve capital and reduce costs. We help them do that, and our ability to deliver that kind of value is why they are continuing to choose IBM."*

Samuel J. Palmisano, 2008 IBM Annual Report.

*"You promised me Mars colonies. Instead, I got Facebook"*

Buzz Aldrin, MIT Technology Review.

*"I'd like to die on Mars, just not on impact."*

Elon Musk

*"Delay is the deadliest form of denial."*

C. Northcote Parkinson

*"There is no avoidance in delay."*

Aeschylus, Agamemnon

*"What is right is not always popular and what is popular is not always right."*

Albert Einstein

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