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IP-PARTICIPAÇÕES

“If you’ve got the power to raise prices without losing business to a competitor, you’ve got a very good business.” – Warren Buffett

Among many virtues that define a company’s profitability, pricing power is by far the most notable. Some factors help explain this phenomenon, but it mostly boils down to one word: differentiation. The more unique a company’s product or service, the harder it is to replicate its business. The stronger its competitive edge, the greater its capacity to increase prices and make extraordinary gains. Pricing power may also have a broader meaning: a company which retains its productivity and efficiency gains rather than passing them onto customers, is, in practice, indirectly exercising its pricing power.

In addition to differentiation, other factors also contribute to pricing power, such as:

- A demand structurally greater than supply (e.g. a property on Manhattan’s 5th Avenue).
- An offered benefit disproportionately superior to the price charged (e.g. Amazon Prime).
- A price representing only a small fraction of the value chain of a product or service (e.g. Visa and Mastercard).
- An everyday and essential product or service in people’s lives (e.g. Colgate).

The emblematic examples of Chanel and Disney help put this concept into numbers:

- In 1955, Chanel’s Classic Flap Bag cost US\$220 (approximately US\$2,000 in today’s prices). Nowadays, the same bag costs US\$4,900, almost two and a half times the 1955 price adjusted for inflation. In a period of 62 years, Chanel increased the price 1.4% per year in real terms¹
- In 1971, the entry ticket to the Magic Kingdom Park in Orlando cost US\$3.50 (about US\$21 in today’s prices). In 2017, the same ticket costs over five times more in real terms: a trifle US\$110. In other words, Disney ensured an annual real price increase of 3.7% in its main park during the period.²

Who wouldn’t want to invest in businesses like these? The truth, however, is that this is a privilege for few. Rare are the businesses that possess such enormous advantages to allow the use of pricing power for so long. After all, how do you replicate Disney’s parks and characters or such an iconic and desired luxury brand as Chanel?

In the universe of good businesses there are different magnitudes of pricing power. In practice, competition, substitute goods, market potential and other forces ensure a limit always exists. Most businesses enjoy pricing power for only a while - understanding the company’s trajectory is vital to establish the evolution of its profitability.

¹ Source: <https://baghunter.com/pages/chanel-bag-values-research-study>

² Source: <http://time.com/3721999/disney-world-magic-kingdom-ticket-price/>

This quarter, we decided to bring this topic to light. We have observed several companies – in Brazil and abroad –exercising pricing power and, in some cases, recklessly. It is natural for investors to view this strategy in a positive light and, therefore, little is said about when price increases are misused, undermining the sustainability and continuity of the business.

Consumers on one side, shareholders on the other

What is the purpose of a business? How does it create value for shareholders and society? In the excellent book “The Blue Line Imperative”³, the authors argue that companies should pursue two goals:

- Generate happiness (or utility) for customers.
- Obtain returns above the cost of capital.

The price lies in between these two goals. The company must attain returns greater than its cost of capital while selling a product or service for a price consumers are willing to pay.

By exercising pricing power, the company puts its products to the test in search of a new equilibrium between shareholders and consumers. However, to be well executed – so both goals above are still met – the price increase requires a counterpart. Customers must receive something in return if the strategy is not to be a mere value transfer between stakeholders. There are numerous alternatives: better quality products, improved purchasing experience, higher

investments in research and innovation, segmentation or premiumization, etc. This is the only way to exercise pricing power in a sustainable way.

A good example is the case of U.S. railroads, as discussed in our 3Q14⁴ report . The sector’s price increases as of 2004 accompanied a strong acceleration in investments. Since the industry’s deregulation, railroads generated a one-digit return on capital. After the sector’s consolidation and given their need to increase capacity, renovate the network and invest in more efficient locomotives, railroads increased freight prices to sufficiently compensate the major investments made in subsequent years.

In the Brazilian education sector, for instance, the situation has been different. Many institutions took advantage of the demand created by the government’s student funding program (FIES) to increase tuition prices without offering an additional benefit to consumers. In this case, the increase in profits was at the expense of not just one, but two stakeholders: the students and the government.

The Consumer Dictatorship

Even if a price increase makes sense and is well planned, there is no guarantee of success – everything depends on consumer acceptance. This issue is further aggravated once we acknowledge that at no time in history have consumers had as much power as today. Ubiquitous access to information on products and the

³ Written by two INSEAD Business School MBA professors: Kevin Kaiser and S. David Young. <https://www.amazon.com/Blue-Line-Imperative-Managing-Really/dp/1118510887/>

⁴ Link: http://www.ip-capitalpartners.com/relatorio/2014_09_RG_Consolidado.pdf

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frictionless comparison of prices makes it harder for consumers to accept price increases.

U.S. media companies, more specifically those that own content and cable TV channels, exemplify this reality. In this sector, charging more for content has been the standard for decades – increases which were always duly passed on to final customers. Fueled by the offer of new channels and more sophisticated - and expensive - content, more dollars per subscriber were extracted from consumers over time. In 2010, the pay TV ecosystem (which includes cable, satellite and telecom companies) reached its highest penetration in U.S. households – approximately 89%. Since then this strategy became difficult, especially with the rise of Netflix and other over-the-top content distribution platforms, such as Amazon Video and Hulu. Letting go of pricing power, however, is not easy and providers have kept increasing prices. As monthly subscriptions linger at around US\$100⁵, a growing number of consumers are giving up the service. Pay TV penetration fell from 89% to 84% since 2010, and last year the sector lost 795,000 clients (0.8% of the total)⁶.

The Dark Side of Pricing Power

Although the power to increase prices is extremely valuable, its continued use may make companies vulnerable. Naturally, the higher the margins and returns of a business, the more alert competitors will be. This is the essence of capitalism: there will always

be someone willing to charge less or bring more utility to consumers than you.

In the previous example, by rising prices, content companies are in fact helping new market participants. Luckily, many consumers still see TV and online streaming products as complementary. The price difference, however, is increasingly blatant – US\$1,200 for pay TV versus US\$120 on Netflix⁷ and US\$99 on Amazon Prime – while the quality and content gap among the platforms has narrowed. With such an enormous price gap, exercising pricing power is dangerous.

Netflix currently has nearly 50 million subscribers in the U.S., more than twice the country's largest cable TV company – Comcast – and over half of the total number of subscribers in the United States. The company is definitely no longer a small nuisance in the sector.

In the previous quarter, we decided to end our investment in Oracle due to reasons similar to those mentioned above. For years, Oracle took advantage of its dominant position in the database business to offer its customers a high performance product but at an increasingly higher price⁸. Due to the high switching cost of this business, where clients are almost held hostage by their dependence to the product, it was easy for the company to exercise its pricing power. The consequence has been Oracle's outstanding historical results (annual growth of 12% in free cash flow per

⁵ Average amount paid per subscriber in the U.S., including additional connections and packages. Source: <http://fortune.com/2016/09/23/average-cable-tv-bill/>

⁶ Source: <http://www.broadbandtvnews.com/2017/03/17/us-pay-tv-providers-lost-795000-subs/>

⁷ Some may argue that for a fair comparison the cost of broadband internet – approximately US\$600 per year – should be added so that Netflix can be accessed. Nevertheless, for many consumers, the internet cost will exist anyway (with or without Netflix). Even so, the annual cost of Netflix + Internet would come to around US\$720, 40% lower than cable TV.

⁸ The database business accounts for 40% to 50% of Oracle's operating income.

share over the past 15 years) and enviable profitability (it generates around US\$33 in free cash flow for every US\$100 in revenue).

However, the database market is changing, led by the massive growth in open source solutions and cloud-based services. Innovative companies with large demands for data analysis such as Uber, Snap, and Waze, among others, do not base their operations on Oracle databases, which is concerning. Even though Oracle is progressing in the transition of its App Division (ERP, CRM, SCM, HCM, etc.)⁹ to cloud solutions, the continuous use of pricing power in its core segment has put the company in a complicated situation. However, reducing prices to adapt to a new market reality would give up a chunk of its profitability, a hard decision for any CEO.

Meanwhile, its competitive edge continues to deteriorate. In 2010, AWS's revenue was negligible – just under US\$500 million – and many competitors (including Oracle) did not pay much attention. What were only ripples became a tsunami: last year AWS's revenue totaled more than US\$12 billion, a US\$4.3 billion (or 55%) increase from 2015. Aurora – AWS's database service – is considered its fastest growing product in history. Microsoft and Google have also strongly advanced in the cloud segment, creating close relationships with corporate customers, in an architecture which may allow them to gradually leave their Oracle legacy behind.¹⁰

Premium = Power?

There is a tendency to believe that exercising pricing power is natural in products and services aimed at the premium market, especially because charging more is part of the essence of the business. Many believe high-income consumers are less sensitive to price increases making the strategy even more enticing. This can be dangerous. In practice, it does not matter if a product costs \$10 or \$10,000, what matters is that stakeholders are satisfied with the equilibrium.

In the U.S. credit card market, American Express has been challenging this balance. During the last decade, its competitors have narrowed the gap and replicated most of the company's positioning in the premium card market. Amex cards' differential in terms of status, rewards and services has decreased in that period. Of all competitors, the market leader – Chase – is the most bothersome. Last year, Chase launched the Sapphire Reserve card to compete on equal terms with Amex Platinum. The success of the card was so resounding that the bank's fourth-quarter profit was hit by a US\$200 million charge due to the massive adoption of Sapphire Reserve (by purchasing the card, Chase customers won 100,000 miles, a cost booked as marketing expenses by the bank)¹¹.

To make matters worse, earlier this year, Chase, Visa and Amazon launched the Amazon Prime Rewards card with 5% cash-back (the highest cash back

⁹ ERP: Enterprise Resource Planning. CRM: Customer Relationship Management. SCM: Supply Chain Management. HRM: Human Capital Management.

¹⁰ Until today, Oracle has only made shy attempts in the Infrastructure as a Service (IaaS) segment. Investing in this area poses yet another dilemma for the company, since it would require massive CAPEX to obtain uncertain success faced with three well-established players.

¹¹ Chase recently decided to reduce the initial 100,000 bonus to 50,000 miles, due to the strong adherence of new customers.

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value among branded cards) on purchases made on Amazon.com¹².

To defend itself, American Express increased the benefits of its Platinum card by, for example, offering a monthly credit of US\$15 on Uber¹³ and five times more miles for airline tickets purchased through Amex Travel. However, along with the benefits came an unwelcome surprise: the card annual fee jumped from US\$450 to US\$550, while Chase Sapphire Reserve's fee costs US\$450.

We find it difficult to understand why a company would increase prices in such a fierce competitive environment. Only time will tell if they're doing the right thing.

Don't provoke the big bad stakeholder

It is hard to imagine an industry which has increased prices more than the pharmaceutical sector in the United States. There are several factors that encourage the exercise of pricing power, such as patents, market consolidation, mounting regulatory barriers, distorted incentives and low price transparency along the value chain. Recently, companies seem to have taken it too far, attracting the attention of the press and the public's rage.

According to a survey by Express Scripts, price increases of brand-name drugs in the United States averaged 208% from 2008 to 2016¹⁴. Including

generics, overall drug prices rose 29%, twice as much as the period's inflation¹⁵.

Apart from the obvious harm to patients, the sector's price increases created an unnecessary conflict with its paying sources, particularly the government. Considering that U.S. drug expenditure per capita is twice the average of that of OECD countries¹⁶, it is not surprising that the U.S. government has been unsatisfied with pharmaceutical companies' aggressive price policy. The problem for the pharmaceutical companies is that the government's retaliation arsenal is vast. President Donald Trump's recent declaration sets the tone of what may be to come:

"We're the largest buyer of drugs in the world, and yet we don't bid properly. We're going to save billions over a period of time. And we're going to do that with a lot of industries".

Trump refers primarily to Medicare Part D, Medicare's prescription-drug benefit program for senior citizens, regulated by the George W. Bush administration in 2003, currently benefiting around 41 million Americans. Although it represents 29% of prescription drug revenue in the United States¹⁷, the US Government does not take advantage of its huge bargaining power, since the responsibility of getting the best prices with drug manufacturers lies with the private insurance companies who manage the program.

¹² Exclusive for Prime members.

¹³ In December, the credit rides with Uber will increase to US\$35.

¹⁴ Source: Express Scripts Drug Trend Report 2016. Link to the report: <http://lab.express-scripts.com/lab/drug-trend-report>.

¹⁵ Source: Bureau of Labor Statistics.

¹⁶ Source: OECD Health Statistics (2014).

¹⁷ Source: Overview of Medicare Spending (<http://kff.org/medicare/issue-brief/the-facts-on-medicare-spending-and-financing/>).

Nothing a legislative stroke of pen can't solve to return part of the price increase to the government and the population¹⁸. According to a study by Carleton University¹⁹, the Medicare program entitles its beneficiaries to an average discount of 17% on list prices of prescription drugs sold in the U.S., while other government programs, such as Medicaid and Veterans Health Administration, grant discounts of 52% and 54%, respectively.

One day this party will end...

The opposite is also true: shareholder value is also created by lowering prices!

The retail sector has numerous business models and various forms of differentiation and positioning. In an extremely competitive sector, many competitive advantages are apparent and replicable – but not all of them. In a universe with many losers, there are few winners with such extraordinary advantages that serve as a lesson for companies in all sectors.

In this context, the cash & carry segment deserves attention. This market gained prominence over the past decades, both in the United States and Brazil, for indulging consumers in an effective way: differentiation through low prices, limited assortment, scale, simple store formats and exclusivity via an annual fee.

A businessman in the cash & carry segment thinks

as follows: *"I will pass on virtually all productivity and efficiency gains to my customers, but my increase in inventory turnover will more than offset this, ensuring a high return on capital."* Within the sector, Costco has best incorporated this concept. A seemingly anecdotal example can help us better understand the company and the philosophy of its founder, James Sinegal: at Costco, the hot dog and soda combo has cost US\$1.50 since 1985. Sinegal says the following:

"A typical retailer might look at this hot dog and say 'Gee, I'm charging five bucks for this. I wonder if I can get five and a quarter for it'. We look at it and say: it's US\$ 1.50 and is there any way we can reduce the price?"

This is one of the beauties of Costco's model: it forfeits its pricing power, creates great value for customers and shareholders and drives the competition crazy. It may sound easy, but temptation is hard to resist, especially in a low-margin business, where a slight price increase can significantly impact profits.

The numbers speak for themselves. Costco's operating margin is 3.1% lower than that of its main competitor – Sam's Club – but its revenue per square meter is 77% higher. Its gross margin is 13%²⁰ (Brazilian cash & carry companies operate with a gross margin of around 15%) and the company's return on invested capital is around 13%. This is the *"Lollapalooza Effect"* which motivated Charlie Munger to become a shareholder: persistently lower prices attract more consumers; the

¹⁸ Not all drugs are 100% subsidized.

¹⁹ Link to the study: <https://carleton.ca/sppa/wp-content/uploads/Mirror-Mirror-Medicare-Part-D-Released.pdf>.

²⁰ Including annual membership fees.

more consumers, the greater the company's scale and bargaining power; with more scale, even lower prices are possible and thus, the cycle continues.

Today, an average Costco store posts an impressive US\$166 million in revenue. In the last 10 years, the company's shares have appreciated by 286% (14.5% p.a.), versus 103% of the S&P 500 (7.3% p.a.) – including reinvested dividends.

The similarities between Costco's and Amazon's models are noteworthy. In our 3Q16 report, we mentioned a few reasons why we have invested in Amazon. One of the most curious aspects of the company's strategy has been to pass on to customers most of its operating gains of scale – through lower prices and greater benefits. While the vast majority of CEOs would not have resisted the temptation to seek heftier short-term margins, Bezos continues to bet on accelerated growth and “total domination” – with the option to indirectly exercise some pricing power in the long run.

In Brazil, Arezzo&Co's strategy is worthy of mention. In its main brand (Arezzo), the company kept prices virtually unchanged for its basic category (approximately 20% of sales volume) between 2012 and 2015²¹. In the last few years, they launched a handbag line that currently represents 18% of Arezzo's total revenue. The entry into the handbag category

allowed the company to pressure competitors in the shoe segment, acquire market share. The decision proved further successful given the severe crisis Brazil has been facing in recent years: while competitors were passing on cost increases, Arezzo protected itself and maintained a close relationship with its consumers, offering shoes at an even more accessible range.

In 2016, revenue from the Brazilian footwear industry contracted by 16%²². In the same period, Arezzo brand's revenue rose 9%, while the group's consolidated revenue grew 8%.

At the end of the day, enjoy in moderation

Lastly, let's take a look at Gillette: a company that became inebriated by its pricing power, selling razors at an exorbitant cost. Between 2007 and 2016, the company's volumes contracted 1.4%, while its average price rose 34% (excluding the effect from product mix)²³. During the same period, Gillette's market share in the U.S. razor segment fell from 70% to 54%. In addition to the Dollar Shave Club (acquired by Unilever), there is another new market participant making a lot of noise – like Harry's and its 5 million customers²⁴ ²⁵. These two players already hold 12% of the U.S. razor market²⁶. Even in a business with such strong competitive advantages, Gillette's price increases paved the way for the barbarians to reach the gate.

²¹ Given the period's 32% inflation, in fact, shoe prices significantly fell in real terms.

²² Source: Brazilian Shoe Manufacturers Association (Ablac).

²³ The volume and average price mentioned include all Gillette products, such as shaving creams, deodorants, etc.

²⁴ We recommend that readers watch Harry's excellent commercial, available on YouTube:

<https://www.youtube.com/watch?v=eYWCUGmGuss>.

²⁵ According to the company's latest corporate presentation.

²⁶ Source: Euromonitor.

MISCELLANEOUS

“Gillette Slashing Razor Blade Prices by as Much as 20%”

— *Wall Street Journal*, April 4, 2017

“Invert. Always invert.”

— *Charlie Munger*

“I only hope that we never lose sight of one thing – that it was all started by a mouse.”

— *Walt Disney*

“You know you’re priced right when your customers complain—but buy anyway.”

— *John Harrison (Is that really true??)*

“The moment you make a mistake in pricing, you’re eating into your reputation or your profits.”

— *Katharine Paine*

“Pricing has covered up a multitude of other disappointments over the past 15 years (in the pharmaceutical industry).”

— *Geoffrey Porges, biotechnology analyst at Leerink Partners LLC*

“On the face of it, shareholder value is the dumbest idea in the world. Shareholder value is a result, not a strategy.”

— *Jack Welch*

“Pricing is the exchange rate you put on all the tangible and intangible aspects of your business. Value for cash.”

— *Patrick Campbell*

“Pricing is the moment of truth – all of marketing strategy comes to focus on the pricing decision.”

— *Raymond Corey*

“So everything we do is from the lens of the brand. We are building the brand. We have to invest in the brand, because the brand is the most important thing (...) when you think about stores that have brands, whether it’s Starbucks or Nike or maybe Louis Vuitton, those brands have real equity. People will go that extra mile, walk the extra 200 or 500 yards to go to Starbucks and go past a Dunkin’ Donut or a McDonald’s or drink some other flavored hot water because they value the brand and the brand experience.”

— **Leslie Wexner, founder and CEO of L Brands**

“We should not abuse our pricing power. Some people are not stupid. They first look on the Internet to see the pricing and the differences of pricing more than ever. And as you know, and it doesn’t please to everybody, but we are committed to our so-called fair pricing, meaning that excluding tax we are managing to try to have a pricing equivalent around the world, to create confidence and trust with our consumer for prices”.

— **Gary Saage, CFO of Richemont**

“The accounting is fiction. One of the fictions here is the marketing cost. The marketing cost gets booked over 12 months. The benefit of the card gets booked over 7 years. The (Sapphire Reserve) card was so successful it cost us \$200 million, but we expect that to have a good return on it. I wish it was a \$400 million loss.”

— **Jamie Dimon, CEO of JP Morgan Chase**

“For builders, the same yearning for freedom exists. Freedom to build fast. Freedom to understand your data better. And the freedom to unshackle yourselves from customer hostile database vendors.”

— **Andy Jassy, CEO of Amazon Web Services (AWS)**

“Our profitability is not our customer’s problem. We don’t take the point of view that we’re going to price products at a particular margin. We price products competitively and if that means on that product that we lose money that’s ok. We need to take care of the customer and earn trust and we’ll figure out over time if we can or if we can’t ever make money with that product. If we can’t we’ll stop selling it, but we’re not going to make customers pay for any of our inefficiencies.”

— **Jeff Bezos**

“Our policy is to reduce price, extend the operations, and improve the article. You will notice that the reduction of price comes first. We never consider any costs as fixed.

Therefore we first reduce the price to the point where we believe more sales will result. Then we go ahead and try to make the prices. We do not bother about the costs.

The new prices forces the costs down. The more usual way is to take the costs and then determine the price; and although that method may be scientific in the narrow sense, it is not scientific in the broad sense, because what earthly use is it to know the cost if it tells you cannot manufacture at a price at which the article can be sold?”

— **Henry Ford (just to illustrate it, the price of Ford’s first Model T car cost US\$950 in the year it was launched, in 1908. Price fell 72% to US\$269 in 1923 - approximately US\$3,832 in today’s value)**²⁷

²⁷ Information from the book ‘The Rise and Fall Of American Growth’, by Robert J. Gordon.

PERFORMANCE

PERFORMANCE IP-PARTICIPAÇÕES CLASS

PERFORMANCE

Since February 26th, 1993⁽²⁾



EQUITY HOLDING CHARACTERISTICS

	% portfolio
International Assets	35
Small Cap (smaller than US\$ 1bi) ⁽¹⁾	18
Mid Cap (between US\$ 1bi and US\$ 5bi) ⁽¹⁾	0
Large Cap (larger than US\$ 5bi) ⁽¹⁾	17

CONCENTRATION

	% portfolio
Top 5	41
Next 5	20
Other	10
Cash	28

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.

LAST 12 MONTHS RETURNS (US\$)

	IP-Part. Class ⁽²⁾ (%)	Ibovespa (%)	MSCI EM (%)
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
October 16	3.56	13.51	0.25
September 16	-0.01	0.62	1.32
August 16	2.94	0.99	2.52
July 16	2.60	10.22	5.09
June 16	16.35	19.06	4.10
May 16	-4.38	-13.70	-4.15
April 16	5.72	11.08	1.02
12 months	42.83	45.83	17.65

ANNUAL RETURNS (US\$)

	IP-Part. Class ⁽²⁾ (%)	Ibovespa (%)	MSCI EM (%)
2017 (YTD)	7.06	10.99	11.98
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	2.76	-10.27	1.16
Last 10 years	7.82	-0.79	3.05
Last 15 years	14.35	8.83	9.95
Since Inception ⁽³⁾	18.21	10.26	7.19

(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	<ul style="list-style-type: none">• 2% p.a. of the 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-annualy or on redemption, subjectct 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
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Net Asset Value Calculator	BNY Mellon Serviços Financeiros DTVM S/A Phone: +55 21 3974.4600 www.bnymellon.com.br/sf
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Brazilian Custodian	Banco BNY Mellon S.A.
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Bank	UBS AG, Stamford Branch, CT (USA)
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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
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Auditor	KPMG
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