(A free translation of the original in Portuguese)

JARDIM BOTÂNICO INVESTIMENTOS

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SECTION 1 THEMATIC ANALYSIS

I. FAILURE OF INTERNAL CONTROLS: LESSONS LEARNED FROM THE SADIA CASE

When it comes to corporate governance, there is a general tendency for the analysis to focus on aspects related to minority shareholder's protection against potential misconducts by controlling shareholders and/or managers. Little attention has been given to the internal process dynamics in building financial or operational decisions. In some cases, inefficiency, lack or outright disregard for these processes can result in losses that far exceed those resulting from controlling shareholders' abuses or even financial fraud.

A case that illustrates this theme's importance took place in 2008, in the wake of the international financial crisis, when Sadia announced fourth-quarter losses of approximately R$2 billion. These losses resulted from currency derivatives transactions ("2x1" transactions), which, in theory, were supposed to hedge the company's export revenues. It should be noted that our analysis of the case seeks solely to demonstrate how decision processes and a company's internal controls are essential governance variables, in regards to risk prevention, and there isn't, on our part, any value judgment of people or decisions involved in this case.

When examining the report prepared by CVM (Brazil's securities regulator) in the Sanctioning Administrative Proceeding, instated to determine the liability of the company's management, we were faced with situations in which, despite a well-defined financial policy, an established Finance Committee and managers with considerable financial expertise, the processes of decision making, control and supervision weren't successful in avoiding the incurred losses. Some of the report's items are enlightening and indicate potential failures in the process, which should be taken into consideration when analyzing governance in companies we invest in.

We must initially consider if the derivatives transactions were carried out by mistake or imprudence, since, based on the report, these transactions do not seem to fit the definition of hedge. In fact, the transactions only protected Sadia against currency fluctuations within a pre-defined band, above these limits this hedge would disappear. The CFO's explanation was that these contracts had a lower cost than plain vanilla transactions, when taking into consideration the market scenarios presented at the time. We see two problems here: (1) the CFO chose the cheapest transaction, despite the fact it wasn't a contract that would protect from abrupt fluctuations in currency exchange rates, i.e., it was speculative and not a hedge, even though the probability of loss seemed minimal at the time; and (2) blind faith in the correct pricing of futures markets, as if scenarios couldn't change abruptly.

But perhaps more surprising, was the fact that the Chairman, also member of the Finance Committee, stated he was totally unaware of these transactions and claimed, in his defense, that "the Board had other professional commitments and did not exclusively perform the role of Board Members of the company." Furthermore, the report confirms the Finance Committee did not meet monthly to assess risk factors, as determined by the company's financial policy. In other words, with an established Finance Committee and financial guidelines, investors were led to believe the company was equipped with controls to avert or at least reduce the probability of losses of such a scale. The only control over transactions was done by the Risk Manager, who would prepare reports on a monthly basis (or when requested) for the CFO, precisely the person in charge of executing the financial policy. The transactions that went beyond the CFO's authority limitations were approved by the Finance Committee only after they had already taken place.

Additionally, members of the Board assumed the Chairman closely oversaw the CFO's performance, when in fact he did not recognize this role. Thus, supervision process was unclear. The financial department, despite its strategic importance, was much less supervised than other departments, and this monitoring was reduced to a few presentations of the CFO to the Finance Committee and Board.

Control failures of the Finance Committee and Board over the financial department's transactions led to a recurrent non-compliance with the financial policy, by means of: breach of internal limits, absence of stop-loss mechanisms, lack of stress tests, negligence of established committees, disregard to established restrictions while closing hedge contracts, of which the Board was unaware, and use of currency transactions, which, despite their intended protection, exposed the company to significant risk of losses.

Members of the Finance Committee, in turn, claimed in their defense that they performed their duties as expected, since they received information from the CFO that the company was in full conformity to its financial policy. In other words, it was expected that the CFO himself, who was also in charge of carrying out the transactions, would monitor the incurred risk and its periodic compliance to guidelines. In reality, there was no control system in which an independent agent was responsible for supervision and direct reporting to the Finance Committee.

These are points we seek to include in our governance analysis. It is part of our job to understand the internal dynamics of the Boards of Directors, Fiscal Committees, internal committees and responsibilities of each department, so we can determine whether operational and financial policies are in accordance with the companies' business model, whether decisions are being taken with due regard to pre-established policies and, most importantly, whether there are well-defined steps and effective mechanisms to control these decisions.

SECTION 2 PORTFOLIO'S RISK-RETURN ANALYSIS

I. JB FOCUS FIA – Flagship Fund (calculated in BRL)

The fund's performance since inception, in September 16, 2005, has been of 177.0%, or 18.4% p.a.

Table 1: Risk/Return Ratio since inception

	JB Focus FIA	Ibovespa	IGC
Annual Return	18.4%	11.3%	12.9%
Annual Standard Deviation	20.7%	30.3%	29.3%

Source: Economática and BNY Mellon.

In the period from January and August 2011, the fund had a negative result of 10.3% compared to a 15.1 decline of the MSCI Br. and 18.5% drop of the Ibovespa measured in USD. We reiterate that, due to our strong focus on capital preservation, the typical performance of our portfolio tends to consist of significantly smaller losses than those of market indices.

In the table below, we see the main positive and negative contributions during the January-August period:

Table 2: JB Focus FIA Contributions (Jan-Aug 2011)

Positive		Negative	
Odontoprev ON	0.8%	Saraiva PN	-3.0%
Caixa	0.8%	Itaúsa PN	-2.6%
AES Tiête ON	0.5%	Met. Gerdau PN	-2.4%

Source: JBI

Odontoprev (11.7% *YTD*)

2011 has produced excellent results despite being the last year of the merger with Bradesco Dental (BD). That is to say that some BD portfolios are still under review, resulting in a higher than average churn level, which makes the addition of 150,000 new customers in the last quarter quite impressive. However, this addition comes amid a contribution from BD in the increase in the number of dental plans in SMEs (small and mid-size enterprises). More synergy gains stemming from declines in claims volume and administrative expenses are expected in 2012, when the cycle of integration with BD ends. We have slightly decreased the company's position in the portfolio in light of recent gains in the stock.

Saraiva (- 39.4% YTD)

The company has been facing a stream of negative news in its two businesses. In its Publishing House, growth in educational systems has sparked fear of textbook replacement. However, in addition to the fact that the company has already developed its own education system, the penetration of this method in public schools is still incipient and won't result in reduction or even less in stagnation in the pace of government purchases of textbooks in the short to medium term.

In the Book Retailer segment, the closing of Borders and the announcement of Amazon's arrival in Brazil were interpreted as a threat to Saraiva's leadership. However, the company doesn't have much in common with Borders, since the latter made the strategic mistake of not investing in ecommerce. Saraiva has been investing in this segment for years, diversifying its product mix, attracting traffic and expanding sales. In regards to Amazon, we believe they will face serious logistical challenges to replicate its successful sales model in Brazil.

Saraiva's fundamentals remain solid. The bookseller continues to report healthy growth (8.3% SSS in 2Q11 vs. 2Q10) and diluting expenses. The Publishing house is celebrating its performance in the National Textbook Program2012: R$205MM in sales compared to the expected R$160MM-170MM – a 24.6% share of government purchases.

However, Saraiva continues to be a small cap of low visibility in the market, which, in face of negative news, forces large investors with small positions to sell off. We maintain our confidence in the company's investment thesis and favorable outlook.

Pão de Açúcar – CBD (-6.0% YTD)

At the end of June we reduced by half our position in CBD due to the share's high price increase following the merger proposal with Carrefour. On July 12, Casino's Board of Directors met in Paris (with Abílio Diniz, CBD's Chairman) and unanimously concluded (with exception of Abílio, who abstained from voting) that the proposal went against the interests of CBD and its shareholders. Public dispute between the two controlling shareholders raised some concerns, especially regarding the company's strategic positioning and how current management would be affected, losing focus on day-to-day operations. After evaluating several possible scenarios and revising our valuation, we decided to liquidate the position. In our base case, the stock is trading at fair value, which leads to a low margin of safety, which, associated with corporate uncertainties, led us to this decision.

II. NEW INVESTMENT: VIVO

Company Overview

The merger between Telesp (fixed-line provider in the State of São Paulo) and Vivo, leader in mobile services in Brazil, formed a new company that will operate under Vivo brand. Both companies were controlled by Telefonica, which consolidated its businesses in Brazil.

This new company will be/have:

- The largest telecommunication company in Brazil and second largest in Latin America;
- Leader in mobile services in Brazil;
- A base of over 15MM installed fixed lines and 11MM lines in service in São Paulo;
- 23% market share in Brazil's fixed broadband services;
- 41% of mobile data transmission market;
- With recent approval of new regulations for cable TV industry, it will control TVA's operations (2nd largest cable company in Brazil).

Operational Highlights

- Mobile Services:

Between 2005 and June 2011, mobile market grew at an average rate of 19% p.a. Much of this growth is due to prepaid plans, which led the mobile penetration to reach, in June 2011, 114% of the Brazilian population. It is expected that in coming, a significant share of this base will migrate to postpaid plans, and Vivo is well positioned to capture such growth.

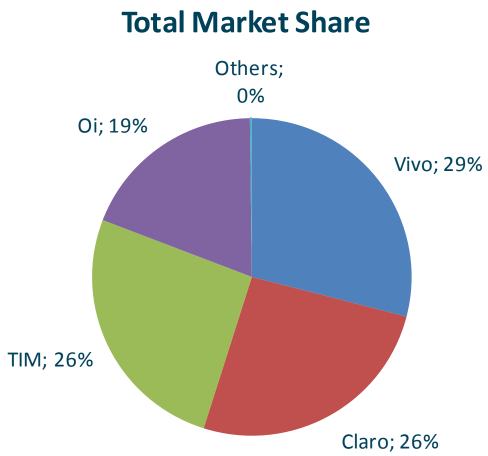
Table 3: Subscriber growth

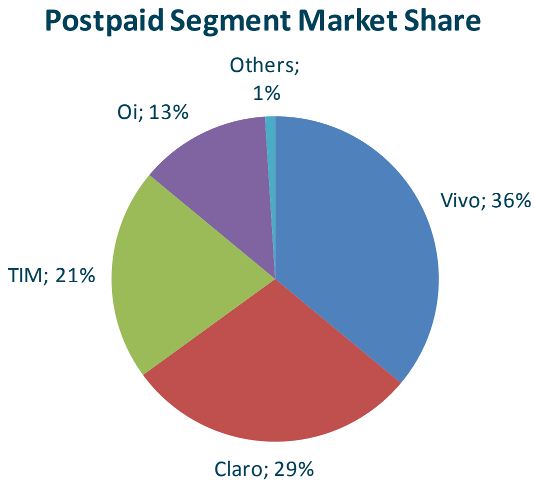
CAGR (08 – 1H11) – Prepaid Market Subscribers	15.8%
CAGR (08 – 1H11) – Prepaid Vivo Subscribers	15.2%
CAGR (08 – 1H11) – Postpaid Market Subscribers	14.8%
CAGR (08 – 1H11) – Postpaid Vivo Subscribers	23.9%

Source: Vivo and Teleco

Vivo is Brazil's market leader, in absolute terms and in the postpaid segment, as shown in the chart below. This leadership is due to its countrywide coverage and network's quality. By the end of this year, the company is expected to provide 3G technology to over 2,800 cities (or 85% of Brazil's population), making it possible to offer improved services (of higher value) to its customer base.

Chart 1: Market Share





Source: Teleco

Also note the company's participation in the data transmission segment (another evidence of the quality of its infrastructure), which considering the mini-modem and M2M (mobile-data transmission) the company has a 41.7% market share (33.5% in 1Q10)

In terms of competition, although the market is characterized by low fees and/or handset subsidies, Vivo directs its business strategy to quality service and national coverage. The company believes this is what distinguishes it in the market, and therefore it doesn't need to be price aggressive with its plans.

- Fixed-line Services

The fixed voice business has entered an apparently irreversible shrinking process. In recent years, as noted below, the LIS (lines in service) had a decline of more than 500,000 lines.

Table 4: Number of Vivo's fixed lines

	2008	2009	2010	1S11
Installed Lines	14.697k	14.832k	15.028k	15.028k
Lines in Service	11.662k	11.258k	11.296k	11.130k
LIS Variation	-2.5%	-3.5%	0.3%	-1.5%

Source: Vivo.

In addition to changes in the habit of consumers, the company has been facing strong competition from Net, which was able to attract many of Vivo's subscribers with triple play promotions (fixed line + mobile + internet).

- Broadband

Table 5: Total broadband subscribers: Brazilian market vs. Vivo

	2007	2008	2009	2010	1S11
Total Subscribers – Market	7,718k	10,016k	11,380k	13,799k	15,213k
Annual growth		30%	14%	21%	22%
Total Subscribers – Vivo	2,068k	2,555k	2,636k	3,317k	3,470k
Annual growth		24%	3%	26%	17%

Source: Vivo and Teleco.

Broadband services are the "trigger" for the growth of fixed-line business. We strongly believe in the sale of packages and these "combos" will have the broadband as its main product. Since 2009, Vivo has been investing in its network, installing optic fiber in strategic areas in São Paulo in order to meet, on equal terms, Net's competition and, in near future, GVT and TIM. Telesp's fiber optic network has already reached 600,000 households and is expected to end 2012 with close to 1 million subscribers.

Table 6: Brazil's Broadband Market Share

	2007	2008	2009	2010	1S11
Oi	40.0%	38.2%	37.0%	31.6%	30.5%
Net Serviços	18.4%	22.1%	25.3%	25.5%	25.4%
Vivo	26.8%	25.5%	23.2%	24.0%	22.8%
GVT	3.2%	4.5%	5.9%	7.9%	8.8%
CTBC	2.4%	2.2%	2.0%	1.7%	1.7%
Other	9.2%	7.5%	6.7%	9%	11%

Source: Teleco.

When we observe the share distribution of Brazil's broadband market, we note that despite the fact that Vivo has maintained its position as third largest broadband provider, its relative share has been falling because it only offers services in the State of São Paulo, while the rest of the country has been growing at higher rates in recent years. However, the company is poised to continue growing in the country's main market.

An important point in our observation of the company's fixed-line business is the adherence of current Vivo's customers to "combo" plans, that is, plans that offer more than one service. For instance: the customer buys broadband and/or cable TV services and keeps the fixed-line service.

The company's ability to sell these packages will be key in defining the future of fixed-line business.

Table 7: Broadband Penetration over Lines in Service

	2007	2008	2009	2010	1S11
BB/LIS	17%	22%	23%	29%	31%

Source: Vivo.

- Pay TV (PTV)

In late 2006, Telefonica made a deal with Grupo Abril similar to the one Telmex made with Globo, and purchased a large stake in TVA's capital. In the event of the Brazilian law allows foreign ownership of cable companies, Telefonica also bought an option to acquire its control. With recent approval of this legislation, the company is expected to take control of TVA as early as the start of 2012. Although it is still of minor relevance in Vivo's earnings, pay TV business is poised to be one of the company's greatest strengths when selling product packages.

In the table below, the relation between Vivo TV subscribers over lines in service indicates there is significant space for growth in this service.

Table 8: Pay TV Penetration over Lines in Service

	2007	2008	2009	2010	1S11
***PTV*/LIS**	1.3%	4.0%	4.1%	4.3%	6.1%

Source: Vivo.

Financial Highlights

The company reported, for the first time, its consolidated figures in the second quarter of 2011. As such, the break between mobile and fixed line revenues was as follows:

Table 9: Vivo Revenues

			Pro-forma		
	2Q11	**1Q11**	**2Q10**	**1H10**	**1H11**
Net Revenue (R$ MM)	8,231	7,976	7,713	15,202	16,207
Mobile (R$ MM)	4,295	4,164	3,912	7,597	8,459
Fixed Line (R$ MM)	3,937	3,811	3,801	7,606	7,748

Source: Vivo.

Although current revenues show a balance between mobile (52%) and fixed-line revenues (48%), the long-term trend is for wireless revenues to be between 60% and 65% of consolidated revenues.

With respect to the EBITDA margin, there was an immediate positive impact with the merger, due to lower interconnection costs between the two providers. The company reported, at the time of the merger, that it expected operational gains between R$3 billion and R$4 billion during next four years.

Table 10: Telefonica's EBITDA

	Pro-forma				
	2 Q11	1 Q11	2 Q10	1H10	1H11
EBITDA	3,063	2,840	2,807	5,356	5,903
EBITDA Margin	37.2%	35.6%	36.4%	35.2%	36.4%

Source: Vivo.

Investment Thesis

We decided to invest in Vivo due to a combination of growth and shareholders' compensation, which seemed very attractive and was not reflected in the stock's market value:

- Integrated model that allows for growth, especially in data transmission (mobile and fixed) and voice (mobile), above Brazil's average GDP growth;
- Strong cash generation, low leverage and tax gains in the merger between Vivo and Telesp generate a very positive outlook in terms of shareholders' value through dividend payout.

The integrated model provides significant flexibility for the company to face a highly competitive market. Its ability to meet the continuously evolving business trends is a winning characteristic, in our opinion. Today, the company is able to offer service packages that go from a simple voice plan to a combination of six different services (fixed and mobile voice, fixed and mobile broadband and pay TV).

The company is market leader in mobile voice/data transmission. This market has had exceptional growth rates in recent years and shows no signs of cooling down in the medium term. Each day, companies launch new devices (tablets, smartphone, netbooks, etc.) that entice consumers. In order for these devices to function properly, the consumer must have a good data service (internet access). This has been forcing a change in consumer's profile (more postpaid) and, as a result, in the industry itself. We believe Vivo is best positioned to capture most of these new customers/users.

Anotherpoint we consider of great importance in our investment decision are the tax gains that will result from the merger. These gains will not only promote a significant increase in the company's earnings but should leverage the flow of funds to be distributed among shareholders.

The deal's total goodwill was R$20bn (R$9bn deductible), which, added to Telesp's and Vivo's assets (R$ 9bn and R$10bn, respectively), building a solid base (R$42bn net asset value) for dividends payment and new tax deductions.

In our projections, the company's results were enhanced with tax deductions (our conservative estimates show an effective rate of income tax/social contribution around 25%). In our model, the present value of the tax gains is of R$3.5bn.

As such, the company is expected to pay significant dividends, which should result in a yield (based on our average acquisition price) of around 8.5% to 9.0%. The company projects these gains to start having effect in the fourth quarter of 2011.

III. Brief Comparative Analysis: Brazilian Banks vs. International Banks

For some time, investors worldwide have been watching the banking sector with some concern and this has been reflected in share prices of listed banks. However, the reality of Brazilian banks is very different from that of foreign banks.

Concerns about liquidity and solvency levels began in the 2008 crisis (and culminated in the collapse of Lehman Brothers in September of that year) and doubts about real value of assets recorded in their balance sheets versus the level of equity capital were well illustrated by the phrase attributed to Jacob Frenkel, AIG's vice-president at the time: "*The left side of the balance sheet has nothing right and the right side of the balance sheet has nothing left*".

The fact that most banks passed the stress test that the European Central Bank carried out (only 7 out of 91 banks failed it) wasn't enough to calm investors. These seven banks would need additional capital of around €2.5 billion – and this result was much better than market forecasts – but all eyes went to the other 16 banks that were in the "danger zone", according to the test.

With confirmation that the U.S. economy was growing at a much slower pace than expected, new fears arose for the banking sector, first due to a decrease in credit-related revenue growth; and later due to pressure for increased regulation in U.S. banks (mainly by increasing minimum capital requirements).

The problem worsened to such an extent that, in the U.S., for instance, following Black Monday on August 8, 2011, we saw the shares of Bank of America (BofA) and Citibank plummet 20% and 16%, respectively, despite the absence of news from the two banks. Citi shares were traded at 0.46x P/BV and BofA at 0.32x P/BV — both giving back over half of their gains since the 2008 crisis (when they were traded at around 0.10x P/BV).

More recently, with the deterioration of the Greek crisis, these concerns have only increased. Investors are currently evaluating European banks at levels only seen after the Lehman collapse: according to a Bloomberg index based on 46 banks, these institutions are currently trading at 0.56x P/BV.

In Brazil, the situation was the same and bank shares have had a poor performance since the end of last year. Itaú Unibanco shares have had an even worse performance (see Chart 2): in the last 12 months, the bank's non-voting shares (ITUB4) have maintained a difference of almost 10 percentage points over the Financial Sector Index (IFNC).

Chart 2: Itaú Unibanco PN (ITUB4) vs. Financial Sector Index (IFNC) measured in BRL

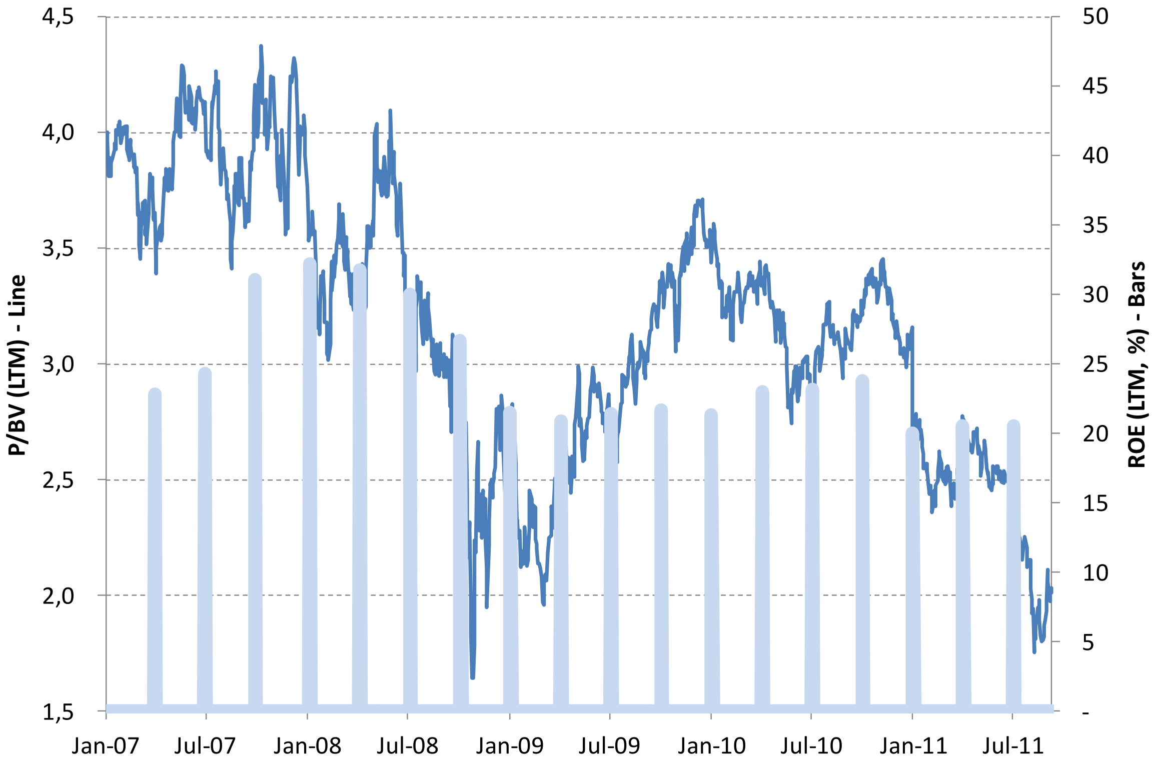
Source: Economática and JBI. (1) Base 100 on September 8, 2010.

It is true we cannot attribute ITUB4's poor performance exclusively to weakness in international markets. Itaú Unibanco can also be partially "blamed" for this movement since earnings have been below average historical figures for a few quarters: (i) full effects of the merger between Itaú and Unibanco is taking longer than expected; (ii) non-interest expenses are higher than expected; and (iii) bank's recurring return fell from 25% to about 20% (going even lower than its main Brazilian competitor).

In our opinion, this decline was exaggerated. It is important to separate what is a result of international "contagion" from what the bank's fundamentals show. From the sector standpoint, Brazilian banks have much healthier capitalization levels than European or U.S. banks. The vast majority has a BIS (Bank for International Settlements) ratio well above minimum level required by the Brazilian Central Bank (11%). Moreover, despite reduction in the expansion rate compared to 2010, we continue to see credit growing in Brazil at very attractive rates (20% in the 12 months through July) despite economic slowdown and rising interest rate cycle (that recently came to a close). And, most importantly, this expansion was followed by a palatable increase in default rates (30bps) that is being partially offset by wider spreads (3.1pp).

ITUB4 has been trading at 2x P/BV (based on its net asset value of June 2011). In early August, it traded at 1.7x P/BV, very close to the levels reached during the worst of the 2008 crisis. In our opinion, such low price levels (both in 2008 and now) make no sense given Itaú Unibanco's fairly stable pattern of returns (see details in Chart 3) of around 25%.

Chart 3: P/BV x ROE for ITUB4



Source: Economática and JBI. (1) P/BV calculated based on the last net asset value available on the date; (2) ROE calculated based on earnings of previous 12 months and divided by average asset value in the period.

Furthermore, a quick analysis of the main financial indicators of Itaú Unibanco, announced in the June 2011 earnings, don't seem to portray a situation that is compatible with these multiples:

- Solid BIS ratio of 16.1% (stable in relation to June 2010);
- Index of Tangible Capital rose from 11.5% in June 2010 to 12.1% (in itself higher than the BIS ratio of 11% required by the BCB);
- Loan portfolio increased 22% year over year;
- Funds raised with customers rose 15.1% year over year;
- Defaults (+90 days) increased only 30bps since the start of the year and is 1.4p.p. lower than 2009 high;
- Default rate between 30 and 90 days has fallen since 1Q11 and is 70bps better than 2 years ago;
- Coverage ratio (measured by bad debt provision on the balance of loans that are more than 90 days overdue) is at 166%. Itaú Unibanco, always very conservative, has over R$5 billion as additional bad debt provision, calculated based on its model for expected losses;
- This bad debt provision balance represents 7.5% of total loan portfolio. At the height of the 2008 crisis, this figure was 10.2%.

We prefer to invest in Itaú Unibanco through its controlling company Itaú Investimentos S/A (ITSA4) because of the discount it trades to the shares of the bank itself. Today we estimate this discount is around 17%, which means buying the bank at 1.4x P/BV 2012. According to our model, to justify ITSA4's current price, we need to assume a 19% ROE over the next 5 years and a 15% ROE in perpetuity – assumptions we consider conservative for Itaú Unibanco.

To summarize:

- Unlike many banks outside Brazil, Itaú has excess capital;
- Although credit growth rate fell from 25% p.a. to 20% p.a. (and could still fall to 15% p.a.), they are still very attractive;
- Credit can still expand, mainly because some segments, such as mortgages, still represent a small fraction of total credit (in Itaú's case, only 3%);
- Unlike what happens outside of Brazil, mortgages are essentially used as a means to finance a home, not as an investment;
- Itaú has no funding problems since it has a very large client base in its retail operation;
- The bank has little exposure to European assets, therefore it is not expected to be directly affected by a worsening of the European situation;
- If the scenario deteriorates to the point of a liquidity crisis similar to the one we saw in 2008, there is very little risk of decline for the bank's shares, in our opinion, since they are already trading at multiples close to those of that period.

We, therefore, maintain ITSA as our main investment in the fund.