Allocation Brazil

High Volatility Still Prevailing

Tension in Europe and USA likely to overshadow positive economic news

While key indicators of economic activity in Europe, USA and Asia point to an acceleration of growth in 4Q10, prospects for the international environment up to the year-end cause concern, since chances are that the problems affecting some of the "peripheral" countries in the Euro Zone as well as the USA will continue to weigh on the financial markets. In the Euro Zone, Ireland is likely to remain a major source of volatility in the next few weeks due to the instability of its financial system and the political debility of its current administration.

Nevertheless, even more relevant is the renewed market pressure on Greece, Portugal, Spain and Italy, which has led to the resurfacing of fears on the future of the Euro. Meanwhile, in the USA, legislation on temporary tax breaks to individuals expires at the end of this year and must be renewed. However, the Obama administration is likely to face difficulties in rapidly getting this from the new Congress. In all, despite the possible positive news from the economic front, the international environment is likely to weigh on the financial markets.

Main local risk is the deterioration of inflation expectations, while doubts on the economic policy mix might bring volatility

In Brazil, Dilma's election was expected to maintain a high degree of economic predictability and indeed, the appointment of the new administration's economic team underscores the perception of continuity. However, some contradictory signs have generated doubts regarding the economic policy mix in the new administration. For example, the pro-cyclical structure of government spending is not aligned with the supposed goal to reduce real interest rates to around 2% to 3% in coming years. Another example of contradiction is Dilma´s commitment to control inflation vis-avis the pressure on the integration between the Central Bank and the other economic authorities, which might reduce the BCB´s autonomy.

In this context, a decision on the minimum wage, to be taken by the end of the year, and the Central Bank´s attitude towards the deterioration of inflation expectations are key factors and could lead to an increase in market volatility. Hence, from the point of view of the macro-economic agenda, prospects for the financial markets in the next few weeks appear more uncertain than usual.

In the face of this, we have changed our portfolio by reducing its size by two names, eliminating CSN and Tractebel. We have also substituted Guararapes for Lojas Americanas so as to reap the benefits of Christmas more efficiently, and we have also increased the weights of Bradesco and Hering (both from 5 to 10%).

Suggested Portfolio – December/10

LONG/OVERWEIGHT

Stock	Ticker	Traded Vol.*	Weight %
Bradesco	BBDC4	171.1	10%
Hering	HGTX3	29.2	10%
Lojas Americanas	LAME4	44.4	5%
Lojas Renner	LREN3	62.0	5%
MRV	MRVE3	52.3	5%
PDG Realty	PDGR3	95.7	10%
Petrobras	PETR4	850.3	20%
Telesp	TLPP4	4.6	5%
Tiete	GETI4	10.1	10%
Vale	VALE5	721.0	20%
Total	-	-	**100%**

Source: Banif - Ixe Securities Research
**Average trading volume (R$ mn) in the past 90 days*

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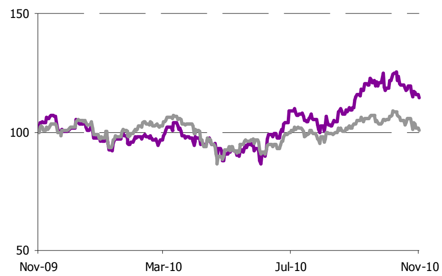
"LONG"/Overweight – Suggested Portfolio

Stock x IBOV

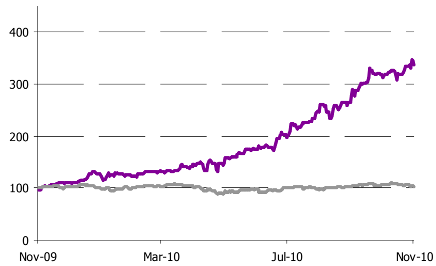
Company	Ticker	Current Price	52 - week High	52 - week Low	Performance YTD	Performance 12M
Bradesco	BBDC4	33.57	37.2	25.3	12.9%	14.3%

Catalyst: We expect a continuation of the positive trend in results reported 9M10. ROE in 3Q remained high at 22% and insurance continued to contribute significantly to the bottom line (almost 1/3). We believe in a continuation of the high spread between the basic interest rate and rates passed through to clients.



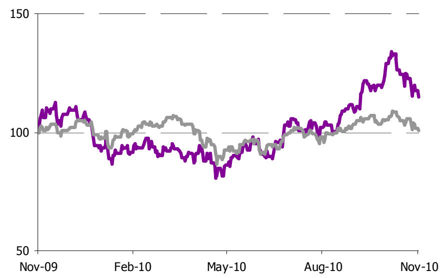
Company	Ticker	Current Price	52 - week High	52 - week Low	Performance YTD	Performance 12M
Hering	HGTX3	30.19	30.8	8.8	214.5%	252.6%

Catalyst Hering has maintained impressive levels of sales growth and solid results since 2008, repeated in 3Q10 with an impressive SSS growth of 33.6%. Together with accelerated sales growth, margins for EBITDA and Net income are also presenting expansion, as new stores are maturing quickly. The company will finish 2010 with 337 Hering stores spread throughout 150 cities in Brazil. In addition, the company has recently reviewed its expansion plan, which now aims at reaching 405 stores by end 2011, one year ahead of original expectations. Additionally, a recent market study conducted by the company indicates that the current level of demand could support at least 200 extra stores, without considering further economic growth. With a healthy cash position and stores in a format smaller than those of its competitors, we believe Hering is in a good position to achieve its objectives. Risk: The continued and high appreciation of the share over the last year poses a ST market risk.



Company	Ticker	Current Price	52 - week High	52 - week Low	Performance YTD	Performance 12M
Lojas Americanas	LAME4	16.25	19.3	11.2	5.2%	12.7%

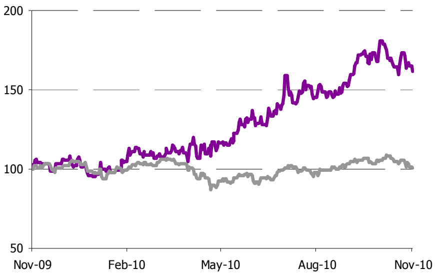
Catalyst 3Q results surprised the market in a positive way, with a significant improvement in operational margins and a reduction of working capital needs, which boosted growth in earnings. The company has been presenting a solid level of SSS growth in 2010, despite last year's strong comparison base and the current process of accelerated organic expansion. There will be 70 store openings during the year (35 in 4Q alone), at the top range of guidance and keeping the company on path to achieve its expansion plan of 400 new stores in the 4-year period of 2010 to 2013. Moreover, positive factors such as i) low average sales ticket; ii) broad assortment of products; iii) penetration in all social classes and iv) nationwide presence; makes the company the best positioned in the sector to benefit from the Christmas season in the current buoyant economy. Risks: strong competition in e-commerce for its subsidiary B2W and P/E multiple higher than the sector average.



"LONG"/Overweight – Suggested Portfolio

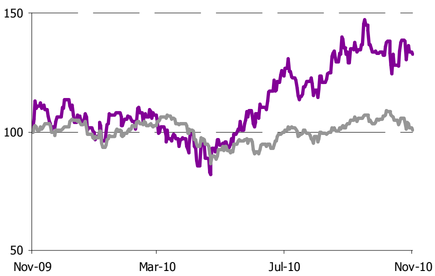
Stock x IBOV

Company	Ticker	Current Price	52 - week High	52 - week Low	Performance YTD	Performance 12M
Lojas Renner	LREN3	60.03	68.0	34.4	55.7%	61.6%



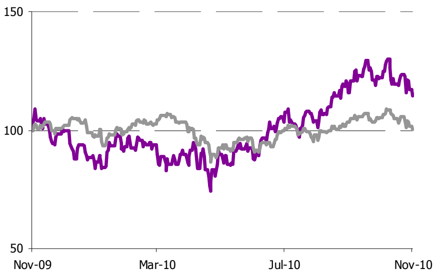
Catalyst: Currently, Lojas Renner's main challenge is to bring sales growth back to higher levels whilst keeping margins stable. Third quarter results proved that this is feasible, with SSS returning to double digits and financial services helping to bring margins to a healthy level. Furthermore, new store formats are being launched, including compact street stores with around 1,200 square meters of sales area (versus 2,100 in the traditional format) and even smaller women's exclusive stores (around 700 sqm), allowing a faster expansion to regions where the company is not yet present. Renner announced an ambitious expansion plan to open 30 stores in 2011 (20 compact) and 160 stores in five years (100 compact), more than doubling the 134 stores expected for the end of 2010. Finally, another good growth opportunity comes from the e-commerce platform, which started in 4Q to include apparel, accessories and footwear in addition to the existing mix of underwear, wristwatches and fragrances. Risks: execution risk related to the new compact store format and margin compression due to pre-operating expenses of new stores.

Company	Ticker	Current Price	52 - week High	52 - week Low	Performance YTD	Performance 12M
MRV	MRVE3	16.95	18.68	9.66	22.3%	35.9%



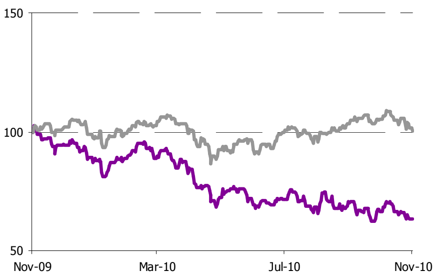
Catalyst: In 3Q10, MRV reached all-time high results. The main highlights were: (i) Launches PSV at R$1 bn, up 58% YoY, (ii) Revenues at R$881 mn, up 96% YoY, (iii) EBITDA at R$270 mn, up 115% YoY and (iv) Net Income at R$216 mn, up 110% YoY. Based on solid and consistent operational and financially performance and an encouraging outlook for 2011- 12, we keep MRV´s stocks in our suggested portfolio. Risk: rise in the price of raw materials.

Company	Ticker	Current Price	52 - week High	52 - week Low	Performance YTD	Performance 12M
PDG Realty	PDGR3	10.39	11.43	6.16	21.4%	17.0%



Catalyst: PDG released strong operational and financial results for 3Q10. Launched PSV was R$2.0 bn, reaching R$4.9 bn in 9M10, achieving 70% of its total guidance for 2010 of R$7 bn. For 2011, the company already announced an aggressive guidance of R$9.5 bn, up 35% YoY. Speed sales were very good at 33%, 300 bps above 2Q10. The financial highlight was an EBITDA growth of 31% (22% above forecast). This impressive performance, coupled with a bold guidance, leads us to maintain PDG stock in our portfolio. Risk: possible additional working capital needed due to higher guidance of launches for 2011.

Company	Ticker	Current Price	52 - week High	52 - week Low	Performance YTD	Performance 12M
Petrobras	PETR4	24.59	38.8	23.8	-31.1%	-34.5%



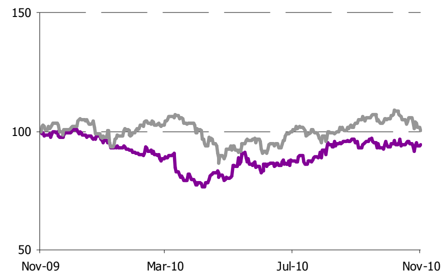
Catalyst: The share under performed the Ibovespa by 12% since the end of the capital increase. We believe that after this period, when prevailing negative views on specific terms of the operation dissipates, investors should focus on the company's low multiples comparison to peers and its long-term prospects. Expectations are for oil production and refining to increase substantially, with a growing domestic market for its products. Risk: Political noise regarding the change in top management.

"LONG"/Overweight – Suggested Portfolio

Stock x IBOV

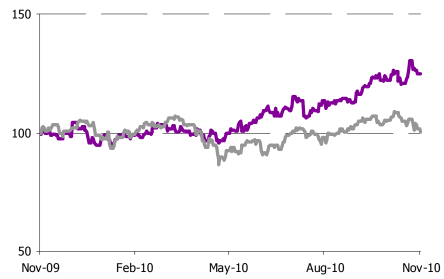
Company	Ticker	Current Price	52 - week High	52 - week Low	Performance YTD	Performance 12M
Telesp	TLPP4	40.11	42.3	31.8	2.4%	3.4%

Catalyst: We believe the news flow about the VIVO/Telesp merger could boost TLPP4. In our view, there is a very attractive potential gain between the companies not yet priced in. Telesp's shares continue to trade at attractive multiples and high upside potential to our fair value. Risk: The merger conditions could hurt minorities.



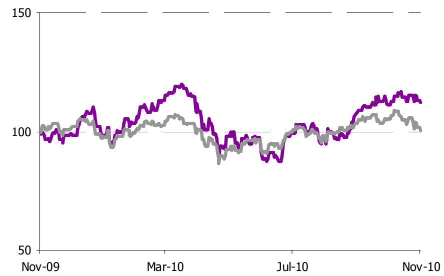
Company	Ticker	Current Price	52 - week High	52 - week Low	Performance YTD	Performance 12M
Tiete	GETI4	23.51	25.1	16.3	29.7%	36.7%

Catalyst: We maintain Tiete in our portfolio because we expect it to continue paying good dividends in the next few years due to its premium contract to sell most of its energy to Eletropaulo. Additionally, we believe that generators should continue to present better performance than distributors in coming years. Risk: In the long-term, the company will need to sell energy through regular auctions held by the government, which could mean lower prices than those obtained in their current contract with Eletropaulo, which ends in 2015.

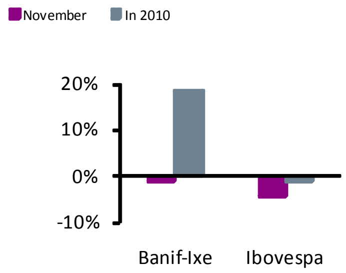


Company	Ticker	Current Price	52 - week High	52 - week Low	Performance YTD	Performance 12M
Vale	VALE5	48.00	50.9	36.8	16.0%	15.6%

Catalyst: We continue to have a positive view on Vale and the iron ore market. 3Q results came in strongly with record volumes of iron ore and pellets, as well as record high revenues, EBITDA and Earnings. Operating outlook remains strong, as iron ore fundamentals are still in place with strong volumes and prices. The spot price for iron ore in China has shown an upward trend in the past month and we do not see prices below US$90-100/t, given that China's average cost of US$90/ton places a floor to prices. We believe that current measures in China to reduce energy consumption will push forward the demand for high-grade ores, increasing demand for Vale's products. 3Q10 results showed an increase in revenues from non-ferrous operations but the full impact of the end of Strikes at the Canadian nickel and copper operations will show in 4Q10. In the 3Q10 conference call, the company announced its plans to invest US$24 bn during 2011, not including possible investments via acquisitions, used mainly in organic expansion projects. Risks: 1) Global economic slowdown; 2) increase in freight rates; 3) appreciation of the Real and 4) noise relating to possible change in Vale's CEO.

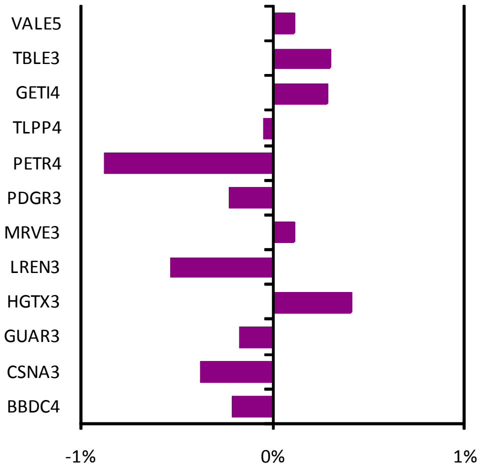


Banif - Ixe (LONG) x Ibovespa



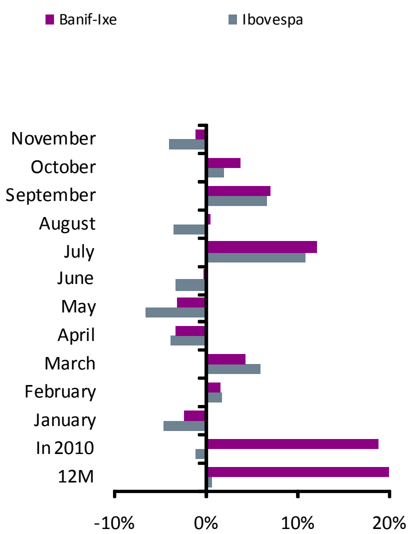
Source: Economática

Weighted performance in November/10



Source: Economática. Weighted performance of the stocks from the recommended portfolio

Banif-Ixe x Ibovespa Evolution



2009	**Banif-Ixe**	**IBOV**	**Banif-Ixe - Ibov**
Apr-09	16.17%	15.55%	0.62%
May-09	9.64%	12.49%	-2.86%
Jun-09	-5.95%	-3.26%	-2.70%
Jul-09	8.03%	6.41%	1.61%
aug-09	5.72%	3.15%	2.57%
Sept-09	9.75%	8.90%	0.85%
Oct-09	0.57%	0.05%	0.52%
Nov-09	8.83%	8.93%	-0.10%
Dec-09	1.05%	1.87%	-0.82%
2010	**Banif-Ixe**	**IBOV**	**Banif-Ixe - Ibov**
Jan-10	-2.57%	-4.65%	2.08%
Feb-10	1.53%	1.68%	-0.15%
Mar-10	4.30%	5.82%	-1.52%
Apr-10	-3.37%	-4.04%	0.67%
May-10	-3.18%	-6.64%	3.46%
Jun-10	-0.25%	-3.35%	3.10%
Jul-10	12.13%	10.80%	1.33%
Ago-10	0.42%	-3.51%	3.93%
Sep-10	7.01%	6.58%	0.43%
Oct-10	3.67%	1.79%	1.88%
Nov-10	-1.26%	-4.20%	2.94%
In 2010	**18.76%**	**-1.29%**	**20.05%**
12M	**20.01%**	**0.55%**	**19.46%**
18M	**54.84%**	**26.73%**	**28.11%**

Source: Economática and Banif - Ixe Securities Research

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