

1. Each week, analysts present investment candidates to the investment committees for review. For each company, the analyst submits a full valuation report and answers any questions posed by committee members.
2. Investment committee members, drawing on their knowledge and experience, work together to estimate each company's "intrinsic value," or its "true worth."
3. Each company's market price is tracked and compared with its intrinsic value estimate. Companies are ranked primarily by their "margin of safety," or the discount (in %) between their estimated intrinsic value and their market price. Other considerations for purchasing securities may include dispersion and penetration of positions among accounts.
4. Generally, portfolios are constructed by purchasing shares of the 35 to 85 companies we consider to have the most solid margins of safety. Each purchase is typically held until its market price reaches its intrinsic value estimate.

Company's Symbol*	Intrinsic Value (per share)	Market Price (per share)	Margin of Safety
CHB	\$9.50	\$3.44	64%
IS	\$75.00	\$35.51	53%
JAB	\$46.50	\$22.81	51%
GRC	\$4.00	\$1.91	52%
BVW	\$27.00	\$14.60	46%
EWB	\$12.50	\$7.33	41%
WJB	\$31.50	\$18.74	41%
CNS	\$26.00	\$15.81	39%
JAD	\$9.50	\$5.92	38%
DCE	\$17.00	\$10.67	37%
RJG	\$38.50	\$24.20	37%
GSH	\$23.00	\$15.16	34%
GI	\$31.50	\$21.05	33%
KL	\$13.50	\$9.22	32%
JM	\$37.50	\$25.32	33%
AMM	\$60.00	\$41.13	32%
VSP	\$43.00	\$29.86	31%
WP	\$74.50	\$53.34	28%

\*All data and company symbols are hypothetical and for illustrative purposes only and not a recommendation to purchase or sell any security. Any resemblance between hypothetical company symbols and real company symbols is unintentional.

### Why rank companies by margin of safety?

To help facilitate our bottom-up stock selection process, we rank companies by their margins of safety (other factors may include dispersion and penetration of positions among accounts). For each of the companies we cover, the ranking helps us compare our estimated intrinsic value with the up-to-date price of the company's stock. Using the ranking, our portfolio managers can quickly and dispassionately determine which stocks to purchase for new and existing accounts.

### What does "margin of safety" mean?

We define the margin of safety as the difference between a company's market price and its intrinsic value. In our opinion, the market will eventually realize the true worth of the company, and its price should climb towards its intrinsic value over the long term. Of course, we recognize that this won't hold true for every stock we purchase, and that diversification is critical to help reduce risk. Accordingly, we typically build portfolios of 35 to 85 stocks we deem to be attractively priced.

### How is intrinsic value calculated?

To estimate intrinsic value, we draw on research and analysis of current and historical fundamental company information. The company's product lines, for example, are studied in detail, and its strengths and weaknesses relative to its competitors are appraised. Historical profit margin figures are gathered and evaluated, with particular attention paid to results during difficult times. Financial strength is measured using metrics such as ratios of debt-to-equity and price-to-cash flow.

From there, we typically estimate intrinsic value by focusing on earnings, cash flow, and other indicators of the company's wealth creation potential. Finally, this value is divided by the number of shares outstanding to arrive at an estimate of intrinsic value per share.

**Debt-to-Equity:** total debt of a corporation divided by the corporation's common equity.

**Price-to-Cash Flow:** Price per share divided by cash flow per share.

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