



Brandes

observes:

THE BRANDES
PERSPECTIVE
OCTOBER 2011

Brandes Global Equity Portfolio Offers Return on Equity at Bargain Prices

What is a fair price to pay for a company's return on equity (ROE)?¹ And is it possible to buy ROE "on sale?"

Analysts at the Brandes Institute investigated these questions and found a clear correlation between higher ROE levels and higher price-to-book (P/B) ratios — investors have had to pay more for greater levels of ROE. Right now, ROE is relatively inexpensive vs. historical levels. In addition, stocks within the Brandes Global Equity strategy are trading below those historical levels.

Now may be a good time to consider investing in the Brandes Global Equity strategy.

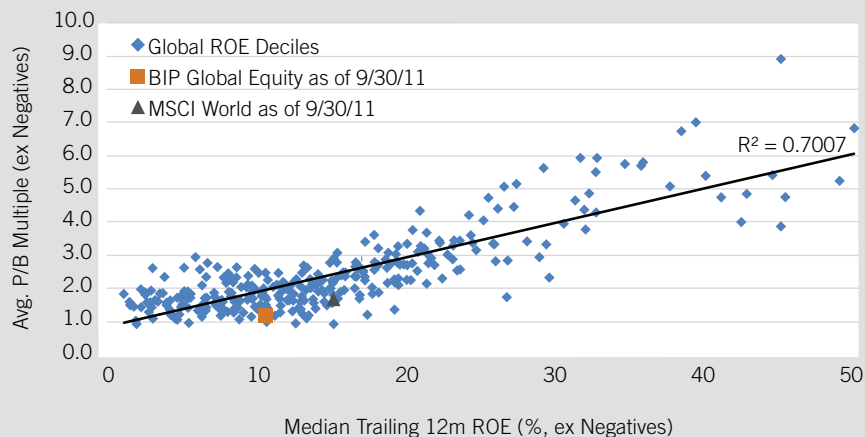
Methodology and Results

Using the largest 15% of companies globally, Institute analysts divided stocks into deciles based on ROE each June 30 between 1981 and 2011. Next, they calculated the average P/B of companies in each ROE decile. Using these variables, they did a regression analysis to determine the relationship between them. Exhibit 1, on the following page, illustrates the findings.

¹Keep in mind that ROE is one measure of a company's efficiency in using shareholder equity to generate profits. Generally, the higher the ROE, the better.



Exhibit 1: Brandes Global Equity Portfolio Holds Stocks with High ROE at Low Price-to-Book
 Higher ROE Has Corresponded with Higher P/B Ratios
 (June 30, 1981 to June 30, 2011)



Source: The Brandes Institute, as of 9/30/2011. Past performance is not a guarantee of future results.

The Brandes Global Equity portfolio's ROE is 10.7%, yet its P/B ratio is only 1.2x – roughly a 37% discount vs. the historical average.

An R² above 0.7 confirms the strength of the relationship between ROE and P/B. More importantly, note the red square that shows the Brandes Global Equity portfolio currently is trading below historical averages.

The Brandes Global Equity portfolio's ROE is 10.7%, yet its P/B ratio is only 1.2x – roughly a 37% discount vs. the historical average. Historically, a 10.7% ROE “costs” about 1.9x P/B. As of June 30, that decile 7 P/B multiple is about 1.5x.

Quality Plus Attractive Valuation Equals Potentially Compelling Opportunity

Exhibit 2: Most Recent and Historical ROE Global Universe
 FOR DECILES 1 THROUGH 10 (JUNE 30, 1981 TO JUNE 30, 2011)

Decile	1	2	3	4	5	6	7	8	9	10
6/30/2011	45%	27%	21%	17%	15%	12%	10%	9%	6%	3%
Average (1981-2011)	36%	24%	20%	17%	15%	13%	11%	8%	6%	3%

Most Recent and Historical P/B Ratios Global Universe
 FOR DECILES 1 THROUGH 10 (JUNE 30, 1981 TO JUNE 30, 2011)

Decile	1	2	3	4	5	6	7	8	9	10
6/30/2011	5.4	2.9	2.5	2.3	2.0	1.7	1.5	1.3	1.2	1.1
Average (1981-2011)	5.0	3.3	2.7	2.3	2.1	1.9	1.9	1.8	1.8	1.6

Source: Brandes Institute, as of 6/30/2011. Past performance is not a guarantee of future results.

Conclusion

Brandes believes valuations drive future returns. We believe the current P/B ratio of the Brandes Global Equity strategy, which stands at a 37% discount vs. the historical average, inspires confidence.

Return on Equity (ROE): Net income divided by shareholder equity.

Price-to-Book Ratio (P/B): Price per share divided by book value per share.

The foregoing reflects the thoughts and opinions of Brandes Investment Partners® exclusively and is subject to change without notice.

International and emerging markets investing is subject to certain risks such as currency fluctuation and social and political changes; such risks may result in greater share price volatility. The information provided in this material should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any security transactions, holdings, or sectors discussed were or will be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance discussed herein. Market conditions may impact performance. The performance results presented were achieved in particular market conditions which may not be repeated. Moreover, the current market volatility and uncertain regulatory environment may have a negative impact on future performance.

The portfolio characteristics shown relate to a single account as of date noted, deemed by Brandes to be generally representative of its standard account noted. Not every account will have these exact characteristics. The actual characteristics with respect to any particular account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Data is updated on a quarterly basis.

Strategies discussed herein are subject to change at any time by the investment manager in its discretion due to market conditions or volatility. International and emerging markets investing is subject to certain risks such as currency fluctuation and social and political changes; such risks may result in greater share price volatility. Please note that all indices are unmanaged and are not available for direct investment.

Brandes Investment Partners® is a registered trademark of Brandes Investment Partners, L.P. in the United States and Canada.

Brandes Investment
Partners, L.P.
11988 El Camino Real,
Suite 500
P.O. Box 919048
San Diego, CA
92191-9048
858.755.0239