



Brandes

observes:

THE BRANDES
PERSPECTIVE
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Brandes International 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 International Equity strategy are trading below those historical levels.

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

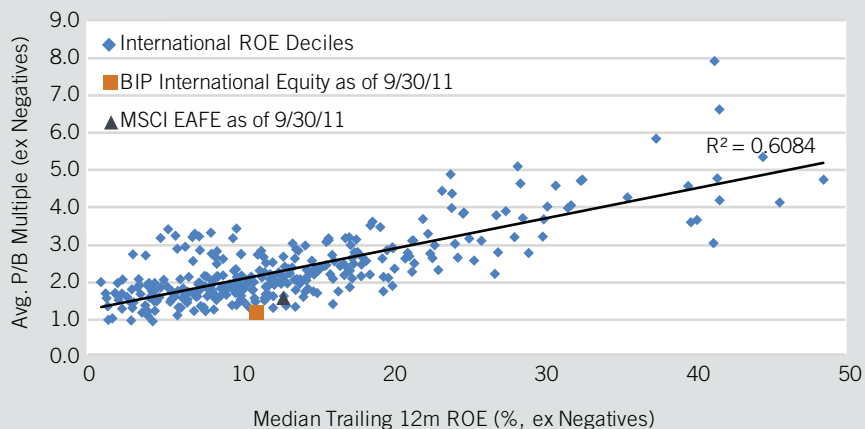
Methodology and Results

Using the largest 15% of companies outside the United States, 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 International 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 International Equity portfolio's ROE is 11.1%, yet its P/B ratio is only 1.1x – roughly a 45% discount vs. the historical average.

An R² above 0.6 confirms the strength of the relationship between ROE and P/B. More importantly, note the red square that shows the Brandes International Equity portfolio currently is trading below historical averages.

The Brandes International Equity portfolio's ROE is 11.1%, yet its P/B ratio is only 1.1x – roughly a 45% discount vs. the historical average. Historically, a 11.1% ROE “costs” about 2.0x P/B. As of June 30, that decile 6 P/B multiple is about 1.4x.

Quality Plus Attractive Valuation Equals Potentially Compelling Opportunity

Exhibit 2: Most Recent and Historical ROE International 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	42%	25%	20%	16%	14%	12%	10%	8%	6%	3%
Average (1981-2011)	34%	22%	17%	15%	13%	11%	9%	7%	5%	3%

Most Recent and Historical P/B Ratios International 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	4.1	2.5	2.1	2.0	1.7	1.4	1.3	1.1	1.0	0.9
Average (1981-2011)	4.2	2.8	2.4	2.2	2.0	2.0	1.9	1.9	1.8	1.5

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

Conclusion

Brandes believes that valuations drive future returns. We believe the current P/B ratio of the Brandes International Equity strategy, which stands at a 45% 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.

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