

Fixed Income Bulletin

All data as of March 31, 2011

POINT OF VIEW

The fixed income markets appeared to be dominated more by “macro” driven events throughout calendar year 2010 than by “micro” fundamental security level analysis. Significant events that weighed on the collective market’s mind included early year fears of a double dip U.S. recession, concerns surrounding the European sovereign/banking system, fears about the state of municipal finances, and concerns about inflation in China. These broad concerns seemed to overshadow many of the “micro” issues for good portions of the year. As we entered into 2011, one question that we had was whether we would see a continuation of “beta” driven markets or whether fundamentals and individual security selection would return as the principal driver of performance? The answer through the end of the first quarter of 2011 seems to be a qualified “yes” to both. The global level of macro uncertainty ratcheted higher with political uprisings in North Africa and the Middle East, the horrific earthquake and tsunami in Japan, and another round of sovereign debt stress in peripheral Eurozone countries. The U.S. fixed income markets, however, largely took the global headline risks in stride and continued to deliver positive absolute and returns relative to U.S. Treasuries during the first quarter of 2011 driven by improving U.S. economic and corporate specific fundamentals.

Most, if not all, of the drivers of global headline risk during the past three months remain fluid, evolving stories and the full extent of their impact on the global economy is yet unknown. There does not seem to be much question that the global market risk backdrop appears to be sequentially worse than it was

BRANDES FIXED INCOME (NET) PERFORMANCE SUMMARY*

Annualized Returns as of March 31, 2010

	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Brandes Core Plus Fixed Income	9.92%	6.31%	5.67%	6.45%
Barclays Capital U.S. Aggregate Bond Index	5.12%	5.30%	6.03%	5.56%
Relative Performance	4.80%	1.01%	-0.36%	0.89%
Brandes Corporate Focus Fixed Income	11.70%	5.38%	4.53%	6.14%
Barclays Capital U.S. Intermediate Credit Bond Index	6.32%	6.59%	6.36%	5.91%
Relative Performance	5.38%	-1.21%	-1.83%	0.23%

*See disclosure pages for performance calculation disclosures. Past performance is not a guarantee of future results.

Fixed Income Portfolios

in the fourth quarter of 2010. Since fixed income investors are a generally cynical and skeptical bunch, one question that undoubtedly should be asked is whether there is a proper level of concern about valuations in the U.S. credit market when adjusted for peripheral risks and potential return volatility? Outside of the impact on energy prices, the recent macro headlines have largely not affected U.S. corporate fundamentals. Cash on hand and interest coverage remains at decade highs, balance sheet leverage is back in-line with levels seen in the early 2000s, and EBITDA margins are near 20-year highs. Additionally, the low level of interest rates has enticed many companies to lock in favorable all-in interest costs, reducing near-term refinancing risks. In short, the solid state of U.S. balance sheets, the high levels of cash available to corporations, and the reduced borrowing needs, all argue for the continuation of the low default environment for the foreseeable future even in the face of global macro headwinds. The credit rating agencies – which some would argue as the ultimate lagging indicator of credit quality – have recently taken note of the improved credit fundamentals exhibited by many companies. During the first quarter we have seen the ratio of upgrades to downgrades from the rating agencies exceed 1 (meaning upgrades exceed downgrades) for the first time in about three years. Also, favorable outlook changes as a percentage of outlook changes by the rating agencies have been above 75% the past two quarters. Looking back over the past 25 years, prior cycles show ratings uplifts to be multi-year trends and it appears that we may have just started down that path. Of course, past performance is not a guarantee of future results.

Many market participants believe that the next move in interest rates will be higher. If we accept the premise that the next move in rates is indeed higher, it is important as a fixed income investor to understand both the “why” and the “how” of a rate move. Rising rates don’t guarantee tighter yield spreads, but credit can continue to outperform if rates rise, particularly if the rate rise is viewed as the result of positive momentum in the U.S. economy. The “how” is also an important consideration. Volatility – either to the upside or downside – will likely hamper risk markets broadly as liquidity will undoubtedly suffer. A gradual rise in rates, however, could very well prove supportive to credit spreads. To illustrate further, we can look at two examples from the last decade:

- First, prior to the 2008-2009 credit market collapse, the period of late 2001 through 2002 was considered the worst corporate market environment in decades. The credit market began to regain its footing in late 2002/early 2003, and went on a sustained run of positive annual excess returns until 2007. During a 12-month period from May 2003 through May 2004 the 10-year U.S. Treasury rate rose +1.28% (from 3.37% to 4.65%) and the return on the Barclays U.S. Treasury Bond Index was -2.64%. The credit market, however, benefitting from positive fundamentals, posted an excess return during this same period of +2.01%, and the Brandes Core Plus Fixed Income composite posted a positive absolute return of +5.35%.

- Second, during the 12-month period from June 2005 through June 2006 U.S. Treasury rates rose +1.22% (3.92% to 5.14%) and the return on the Barclays U.S. Treasury Index was -1.68%. Even though momentum in the credit market from the beginning of the 2002 recovery had begun to lose some steam, the credit market still posted an excess return of +0.20%, and the Brandes Core Fixed Income composite posted an absolute return of +1.96%.

In each example above, the period of rising rates was orderly (“how”) and accompanied by a period of solid corporate fundamentals (“why”). The examples above are not meant to suggest that if interest rates rise in the coming months that the Brandes fixed income portfolios cannot or will not post negative returns; but rather, to illustrate if you examine the driving forces behind rate increases it is not a foregone conclusion that a diversified fixed income portfolio will post negative returns.

As we move into the second quarter of 2011 the credit market appears to be “fairly” valued given the global macro headwinds, the solid U.S. corporate fundamentals, and the anticipated conclusion of the Federal Reserve’s accommodative monetary policy. A value proposition that is described as broadly “fair value” for the market, however, should not be construed to represent a lack of opportunity. It simply means that we believe that the universal lift to all credit is fading. If this is an accurate characterization, it should bode well for our security specific bottom-up, value investment process.

PERFORMANCE COMMENTS

- The Brandes Core Plus and Corporate Focus portfolios both posted gains and outperformed their respective benchmark indices in the first quarter.
- Holdings among corporate bonds (both investment-grade and non-investment grade) were large contributors to relative and absolute performance during the quarter. The principal drivers of performance in the corporate bond sector were bonds of industrial issuers and financials, with strong performance exhibited from building products companies, homebuilders, and regional banks. Additional strong performance was seen in the collateralized mortgage obligation (“CMO”) sector with a positive contribution from mortgage trust interest-only (“IO”) securities.
- The portfolios’ underweight allocation to agency mortgage-backed securities and commercial mortgage-backed securities detracted slightly from performance relative to the benchmark, as portfolios had little to no exposure to these sectors and the sectors posted positive returns relative to U.S. Treasuries. Please note, however, that these factors had considerably less impact on returns than the outperformance contribution from CMO holdings.

- Portfolio activity in the first quarter was moderate. We established new positions in a consumer products company, a tobacco company, a U.K. cable company, a U.S. utility, and a food products company. We also purchased a regional bank and added to two existing regional bank holdings. Within the structured products sector we added a mortgage trust IO security and a floating rate security backed by private student loans.
- During the first quarter a number of securities reached our estimates of their intrinsic value and were sold from the portfolios. Full sales included a healthcare company, a tobacco company, and a chemical company. Additionally, we sold a number of structured products holdings that also reached our estimates of their intrinsic value.
- The duration of the portfolios at the end of the quarter remained short of that of the benchmark. Duration decisions and yield curve exposures modestly detracted from performance versus the benchmark during the quarter. The portfolios' excess yield compared to the benchmark helped relative returns. As of March 31, 2011 the portfolios' most substantial weighting was in the corporate bond sector.

INVESTMENT APPROACH

Brandes applies a value driven, bottom-up, security selection approach to global fixed income and equity markets. We believe above-market returns can be realized by investing in issuers which, in our opinion, have been excessively punished by the market, have an identifiable margin of safety, and have sufficient resources to meet outstanding debt obligations. From our perspective, unexpected, short-term market events can provide potential opportunities, not immediate exit points.

By focusing on fundamental analysis of the underlying businesses, we seek securities that are trading at a discount, or "margin of safety," to what we believe to be their fair or intrinsic value. We take a long-term view (two to five years) in assessing fixed income opportunities. Our goal is to enhance investment returns relative to the respective product's benchmark without assuming disproportionate risk.

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Unlike bonds issued or guaranteed by the U.S. government or its agencies, stocks and other bonds are not backed by the full faith and credit of the United States. Stock and bond prices will experience market fluctuations. Please note that the value of government securities and bonds in general have an inverse relationship to interest rates. Bonds carry the risk of default, or the risk that an issuer will be unable to make income or principal payment. There is no assurance that private guarantors or insurers will meet their obligations. The credit quality of the investments in the portfolio is no guarantee of the safety or stability of the portfolio.

Investments in Asset-backed and Mortgage-backed securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments.

There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. 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 same time of investment.

Rolling periods represent a series of overlapping, smaller time periods within a single, longer-term time period. For example, over a 20-year period, there is one 20-year rolling period, eleven 10-year rolling periods, sixteen 5-year rolling periods, and so forth.

Although the statements of fact and data in this report have been obtained from, and are based upon, sources that are believed to be reliable, we cannot guarantee their accuracy, and any such information may be incomplete or condensed.

Past performance is not a guarantee of future results. No investment strategy can assure a profit or protect against loss.

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BRANDES CORE PLUS FIXED INCOME: The net returns, calculated in USD, presented for the Brandes Core Plus Fixed Income composite were calculated on a time-weighted and asset-weighted, total return basis, including reinvestment of all dividends, interest and income, realized and unrealized gains or losses and are net of brokerage commissions, execution costs, and any applicable foreign withholding taxes, without provision for federal and state income taxes, if any. As of 4/1/2006 all custodial fees are treated as administrative fees. This composite was created in 2000. Securities transactions are accounted for on the trade date. Dividend and interest income is accounted for on an accrual basis. Cash and cash equivalents are included in performance returns. Accounts are included in the composite when the market value is \$1 million or greater. The Brandes Core Plus Fixed Income composite results include all actual, fee-paying and non-fee-paying, fully discretionary Core Plus Fixed Income accounts under management by Brandes Investment Partners after one full calendar month beginning 12/31/1999 (except for the Brandes Core Plus Fixed Income pooled account which was fully invested at its inception), that have substantially the same investment objectives, policies, techniques and restrictions. Brandes' investment advisory fees are detailed in Part II of its Form ADV. For the period 12/31/1999 through 12/31/2000 and for the last 2 quarters of 2003, a hypothetical fee based on the highest fee charged by the firm for this product during that period was applied to calculate net of fee returns. The weighted annualized management fee (including the hypothetical fee) during the period 12/31/1999 through 12/31/2009 was 0.32% per year.

BRANDES CORPORATE FOCUS FIXED INCOME: The net returns, calculated in USD, presented for the Brandes Corporate Focus Fixed Income composite were calculated on a time-weighted and asset-weighted, total return basis, including reinvestment of all dividends, interest and income, realized and unrealized gains or losses and are net of brokerage commissions, execution costs, and any applicable foreign withholding taxes, without provision for federal and state income taxes, if any. As of 4/1/2006 all custodial fees are treated as administrative fees. This composite was created in 2001. Securities transactions are accounted for on the trade date. Dividend and interest income is accounted for on an accrual basis. Cash and cash equivalents are included in performance returns. Accounts are included in the composite when the market value is \$1 million or greater. The Brandes Corporate Focus Fixed Income composite results include all actual, fee-paying and non-fee-paying, fully discretionary Corporate Focus Fixed Income accounts under management by Brandes Investment Partners after one full calendar month beginning 6/30/2000 (except for the Brandes Corporate Focus Fixed Income pooled account which was fully invested at its inception), that have substantially the same investment objectives, policies, techniques and restrictions. Brandes' investment advisory fees are detailed in Part II of its Form ADV. For the period 6/30/2000 through 12/31/2005, a hypothetical fee based on the highest fee charged by the firm for this product during that period was applied to calculate net of fee returns. The weighted annualized management fee (including the hypothetical fee) during the period 6/30/2000 through 12/31/2009 was 0.36% per year.

GENERAL DISCLOSURES FOR ALL PRODUCTS ABOVE:

In June 2002, Brandes Investment Partners, L.P. changed its organizational structure from a limited partnership to a limited liability corporation formed under the name Brandes Investment Partners, LLC. With this change, Brandes Fixed Income Group (formerly Brandes Fixed Income Partners, Inc.) became a unit of Brandes Investment Partners, LLC rather than a separate subsidiary. On October 18, 2004, Brandes Investment Partners, LLC became a Delaware limited partnership with the name Brandes Investment Partners, L.P.

Brandes has been verified for the annual periods 1995 through 2009 by Ernst & Young, LLP. A copy of the verification reports, a complete list and description of Brandes' composites and additional information regarding policies for calculating and reporting returns are available upon request. Brandes Investment Partners, L.P. is a registered, independent investment management firm.

As of January 1, 2006, Brandes Investment Partners has been divided into two separate divisions: the SMA Division of Brandes Investment Partners, which acts as a discretionary manager to SMA or "wrap fee" program clients, including those who may invest in an SMA product; and the non-SMA Division of Brandes Investment Partners, which acts as a discretionary manager for all other types of clients which may include pooled investment vehicles, institutional accounts and high net worth clients outside of wrap fee programs. Although the divisions may share portfolio management and other personnel, each division serves a particular target market, may trade in a different manner and may offer investment advice which differs from the other depending upon the individualized needs of the clients served.

INDEX DEFINITIONS:

The Barclays Capital U.S. Aggregate Bond Index is an unmanaged index consisting of U.S. dollar-denominated, fixed-rate, taxable bonds. The U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS. The U.S. Aggregate rolls up into other Barclays Capital flagship indices such as the multi-currency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt. The U.S. Aggregate Index was created in 1986, with index history backfilled to January 1, 1976. The index is a total return index which reflects the price changes and interest of each bond in the index.

The Barclays Capital U.S. Intermediate Credit Bond Index is an unmanaged index consisting of U.S. dollar-denominated, publicly issued, fixed-rate corporate securities. The index includes Securities in the intermediate maturity range of the U.S. Credit Index. The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. The index is a total return index which reflects the price changes and interest of each bond in the index.