



# Value vs. Glamour: The Value Premium in Non-U.S. Markets

(Revised to reflect data as of June 30, 2006)

December 2006

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## I. Introduction

Out-of-favor “value” stocks often are associated with companies experiencing hard times, operating in mature industries, or facing similarly adverse circumstances. Alternatively, fast-growing “glamour” firms frequently function in dynamic industries with a relatively high profile. This stark contrast in attributes leads to a natural question: which stocks perform better, value or glamour?

Academics Josef Lakonishok, Andrei Shleifer, and Robert Vishny (collectively, LSV) conducted an in-depth review of U.S.-based value and glamour stocks in 1994’s “Contrarian Investment, Extrapolation, and Risk.”<sup>1</sup> Using data from 1968 through 1994, LSV grouped U.S. stocks into value and glamour segments based on price-to-book, price-to-cash flow, and price-to-earnings ratios, as well as sales growth. The researchers concluded that, for a broad range of definitions of value and glamour, value stocks consistently outperformed glamour stocks by wide margins.<sup>2</sup>

In a paper entitled “Value vs. Glamour: Updated and Expanded,” the Brandes Institute duplicated LSV’s methodology and lengthened its time period through April 2006. We found that value stock outperformance remained substantial, even when the study’s sample was adjusted to include Nasdaq stocks and exclude “micro caps.” For example, annualized five-year returns for the lowest price-to-book (value) stocks in our Nasdaq-inclusive, cap-screened sample averaged 17.9% over the 1968 to 2006 period, while returns for the highest price-to-book (glamour) stocks averaged 10.4%.

Encouraged by our findings, we concluded “Value vs. Glamour: Updated and Expanded” with select issues for further investigation. Most significantly, we asked if value stocks tended to outperform glamour stocks in markets outside the United States. Indeed, some critics of LSV’s study had argued that results for U.S. stocks simply could be the product of random chance. Would an examination of value stocks and glamour stocks in non-U.S. markets rebut this contention?

Eugene Fama of the University of Chicago’s Graduate School of Business and Kenneth French from MIT’s Sloan School of Management tackled this question in 1998’s “Value versus Growth: The International Evidence.” The researchers found that, from 1975 to 1995, value stocks outperformed glamour stocks in 12 of 13 major national equity markets. In their opinion, this laid to rest the possibility that the value outperformance noted by LSV was sample-specific happenstance. “[R]ather than being unusual,” Fama and French concluded, “the higher average returns on value stocks in the United States are a local manifestation of a global phenomenon.”<sup>3</sup>

In this paper, we build upon Fama and French’s 1998 work, examining value stocks and glamour stocks from a non-U.S. perspective. Using the same methodology we applied in “Value vs. Glamour: Updated and Expanded,” we study equities traded in 13 developed markets around the world. Unlike Fama and French, who focused only on large-cap non-U.S. stocks, we supplement our analysis of large caps with a parallel review of small-cap stocks from markets outside the United States. We find that, for non-U.S. markets in general, both large-cap and small-cap value stocks outperformed their glamour counterparts substantially and consistently over time. Additionally, we find that value tended to outperform glamour on a country-by-country basis, as well.

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<sup>1</sup> At the time of publication, Lakonishok taught at the University of Illinois, Shleifer at Harvard University, and Vishny at the University of Chicago.

<sup>2</sup> Lakonishok, Josef, Andrei Shleifer, and Robert Vishny. 1994. “Contrarian Investment, Extrapolation, and Risk.” *Journal of Finance* 49 (December): page 1541-1578.

<sup>3</sup> Fama, Eugene F. and Kenneth R. French. 1998. “Value versus Growth: The International Evidence.” *Journal of Finance* 53 (December): page 1975-1999.

The next section reviews the methodology our study employed. In subsequent sections, we explore our results in detail.

## II. Methodology

Our study drew on the Worldscope database, a comprehensive collection of stock prices and financial information for publicly traded companies around the world. To build our sample, we started with all common stocks traded in each of the 22 non-U.S. markets listed below. We included these 22 markets because each is recognized as a developed market – however, only 14 of these countries offered enough historical data to conduct our full analysis.<sup>4</sup>

Surveyed Countries	
Australia	Italy
Austria	Japan
Belgium	Netherlands
Canada	New Zealand
Denmark	Norway
Finland	Portugal
France	Singapore
Germany	Spain
Greece	Sweden
Hong Kong	Switzerland
Ireland	United Kingdom

Worldscope includes companies with market capitalizations ranging from hundreds of billions of dollars to less than \$1 million. To sharpen the relevance of our sample, we excluded the smallest 50% of all companies in each country. This removed micro caps, or firms with prohibitively small market capitalizations, and yielded a sample that more accurately represented a truly “investable” universe in our opinion.

After removing each country’s micro caps, we divided the remainder of the sample into large-cap and small-cap components. Specifically, we grouped the largest 30% of the remaining companies in a large-cap segment and assigned the smallest 70% to a small-cap segment. This segmentation enabled us to examine differences in the relationship between value and glamour at the large- and small-cap levels.

We studied returns using LSV’s approach, which can be condensed into three basic steps. First, the sample of companies in the initial year of the study was divided into deciles based on price-to-book ratios (P/B). Second, the aggregate performance of each decile was tracked through the next five years. Finally, the first and second steps were repeated for each of the remaining years in the study and returns for all years were averaged to compare value stocks with glamour stocks.<sup>5</sup>

We applied this approach separately to the large-cap and small-cap stocks in each country, beginning on June 30, 1980 (the year of Worldscope’s inception). To study returns for large-cap stocks in the United Kingdom, for example,

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<sup>4</sup> For eight of the listed countries – Austria, Belgium, Denmark, Ireland, New Zealand, Norway, Portugal, and Spain -- limits on sufficient data precluded them from our full study.

<sup>5</sup> While these definitions of “value” and “glamour” follow academic precedent, we recognize their limitations. The definitions are not designed to be suggestive of the way in which value or glamour managers actually pick stocks.

we started by sorting all stocks in the large-cap segment of our U.K. sample as of June 30, 1980 into deciles based on their price-to-book ratios. U.K. large caps with the highest P/B ratios were grouped in decile 1. For each consecutive decile, P/B ratios decreased; this culminated in stocks with the lowest P/B values forming decile 10.<sup>6</sup> In essence, this process created 10 separate portfolios, each with inception dates of June 30, 1980. The lower deciles, which consisted of higher-P/B U.K. large caps, represented glamour portfolios. In contrast, the higher deciles – those filled with lower-P/B stocks – represented value portfolios.

From there, we tracked annual performance for deciles 1 through 10 over the subsequent five years. Additionally, we constructed new deciles based on the large-cap U.K. sample as of June 30, 1981, and every subsequent June 30 through 2001. For each group, decile-by-decile performance was recorded for the five years after the inception date.

After completing this process, we had created 22 groups of P/B deciles, and tracked five years of decile-by-decile performance for each one. In our final step, we averaged the performance data across these 22 groups to compare value and glamour among large-cap stocks in the United Kingdom.

Section IV explores our findings for the large-cap and small-cap segments of each of the 14 countries in our study. First, however, we examine the relationship between value stocks and glamour stocks in non-U.S. markets in general.

### **III. The Value Premium in Non-U.S. Markets**

To study the relationship between value and glamour stocks in non-U.S. markets in general, we aggregated data from six of the 14 countries in our survey: the United Kingdom, Japan, France, Germany, Canada, and Australia. In our opinion, these six markets – which contribute more than 70% of the market cap of the MSCI World Index ex USA<sup>7</sup> as of June 30, 2006 – are representative of developed non-U.S. markets in the North America, Europe, and Asia/Pacific regions. Additionally, Worldscope data for these markets was relatively robust, which contributed to the statistical significance of our findings.

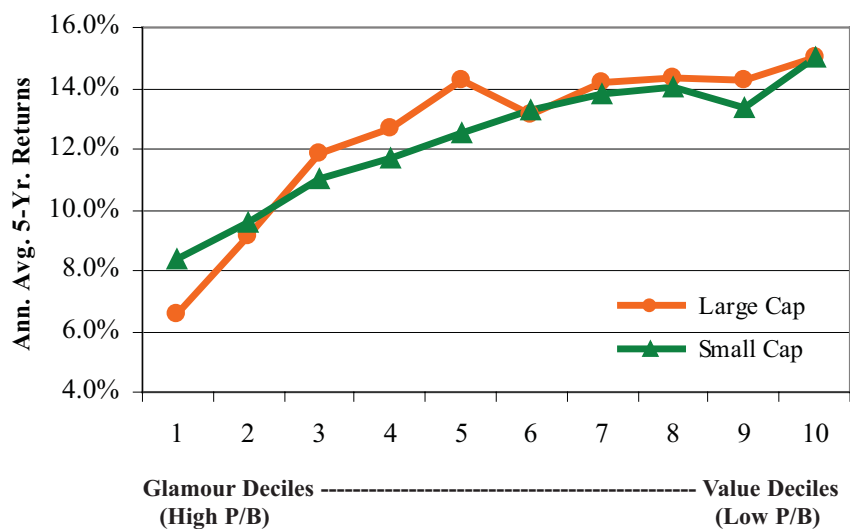
On an aggregate basis, value stocks in these six countries outperformed their glamour counterparts substantially in both the large-cap and small-cap segments. As the following chart indicates, annualized average 5-year U.S.-dollar returns for glamour deciles were significantly outdistanced by returns for deciles at the value end of the spectrum. For example, large-cap stocks in decile 1 – those with the highest P/B ratios – posted average returns of 6.6%. In contrast, large-cap stocks in decile 10, or those with the lowest P/B ratios, registered average gains of 14.9%. These annualized figures are equivalent to cumulative rates of return of 37.5% and 101.5%, respectively.

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<sup>6</sup> Stocks with negative P/Bs were excluded from our analysis.

<sup>7</sup> The MSCI World Index ex USA is an unmanaged index that consists of equities from developed markets around the world, excluding the United States. This index is often used as a benchmark for global equity portfolios and includes dividends and distributions, but does not reflect fees, brokerage commissions, or other expenses of investing.

### Annualized Average 5-Year Returns, 1980-2006



Source: Worldscope via FactSet, The Brandes Institute; as of 6/30/06

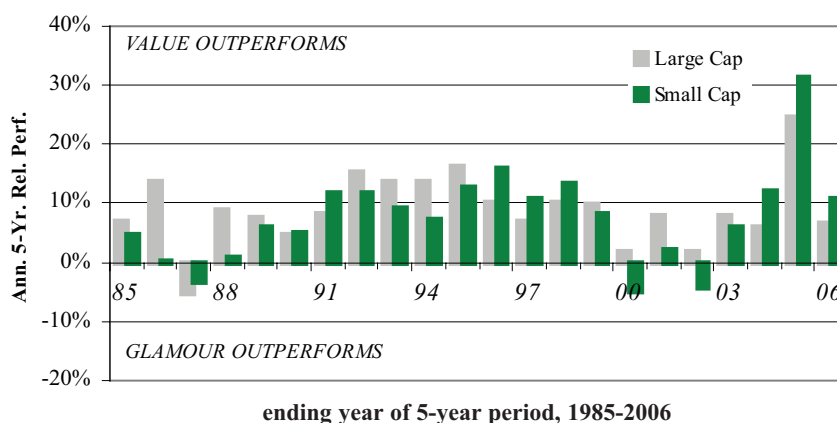
The chart above illustrates that *average* returns for value stocks exceeded *average* returns for glamour stocks by a wide margin between the years 1980 and 2006. But how consistent was value stock outperformance year to year? Did value stocks beat glamour stocks fairly regularly, or did the relationship between the two exhibit more volatility?

To answer these questions, we examined our findings on a rolling 5-year basis. In other words, we studied the relative performance of value stocks versus glamour stocks for each of the 5-year periods under review, from the period starting on June 30, 1980 through the period beginning on June 30, 2001. For each period, we calculated relative performance by subtracting the annualized 5-year returns of stocks in decile 1 (glamour stocks) from the annualized 5-year returns of stocks in decile 10 (value stocks).

Effectively, this segmented our review of the relationship of value and glamour into 22 rolling 5-year periods, starting with the 1980 through 1985 period and ending with the 2001 through 2006 span. As the chart below shows, value stocks bested glamour stocks in nearly every one of these periods, for both the large-cap and small-cap segments of our six-country grouping. In addition, value's margin versus glamour was typically substantial: outperformance averaged 9.0% for large-cap stocks and 7.6% for small-cap stocks. In our opinion, this illustrates the consistency of value stock outperformance over time.

As shown on the next page, the 5-year period of 2000-2005 marks the greatest discrepancy between value and glamour stock performance over the entire period of our study. We believe this 5-year span reflects an extreme market environment characterized by sharp declines for glamour stocks that began with the bursting of the global technology stock bubble in 2000. During this period, we believe renewed enthusiasm for value stocks contributed to considerable outperformance.

### Annualized Average Rolling<sup>8</sup> 5-Year Relative Performance of Value vs. Glamour



Source: Worldscope via FactSet, The Brandes Institute; as of 6/30/06

A final interesting point involves the relative volatility of returns for value stocks and glamour stocks. As we discussed above, for both large-cap and small-cap stocks, returns for the low-P/B value deciles were substantially higher than returns for the high-P/B glamour deciles. However, as the table below indicates, the standard deviation of returns for value deciles was similar to or even lower than the equivalent figure for glamour deciles. As a result, Sharpe ratios for value deciles significantly exceeded those for glamour deciles.<sup>9</sup>

### Decile-By-Decile Return, Standard Deviation, and Sharpe Ratio, 1980-2006

	decile	Large Cap			Small Cap		
		ann. return	stan. dev.	Sharpe ratio	ann. return	stan. dev.	Sharpe ratio
<b>Glamour Deciles</b>	1	6.6%	22.4%	0.00	8.4%	24.4%	0.07
	2	9.2%	26.4%	0.10	9.6%	25.0%	0.12
	3	11.9%	26.4%	0.20	11.0%	25.5%	0.17
	4	12.7%	26.9%	0.23	11.7%	24.7%	0.21
	5	14.3%	27.0%	0.29	12.5%	26.1%	0.23
	6	13.2%	25.0%	0.26	13.3%	27.4%	0.24
	7	14.2%	22.2%	0.34	13.8%	25.8%	0.28
	8	14.4%	21.5%	0.36	14.0%	24.8%	0.30
<b>Value Deciles</b>	9	14.3%	18.8%	0.41	13.4%	21.8%	0.31
	10	15.0%	18.7%	0.45	15.1%	19.4%	0.44

Source: Worldscope via FactSet, The Brandes Institute; as of 6/30/06

In essence, this means that value stocks in both cap segments of our six-country sample posted higher returns with similar or even less volatility than glamour stocks. Accordingly, on a risk-adjusted basis, value's outperformance versus glamour was even more pronounced.

<sup>8</sup> Rolling periods represent a series of overlapping, smaller time periods within a single, longer-term time period. A hypothetical example is the 20-year time period from 12/31/82 through 12/31/02. This long-term period consists of 16 smaller five-year "rolling" segments. The first segment is the five-year period from 12/31/82 to 12/31/87. The next rolling segment is the five-year period from 12/31/83 to 12/31/88, and so on.

<sup>9</sup> A higher Sharpe ratio indicates that an investment earned more "risk premium" per unit of volatility. The ratio is calculated by subtracting the risk-free rate from an investment's average return, and then dividing the remainder by the standard deviation of the return. We used the average rate of 91-day U.S. Treasury bills as our risk-free rate to simulate the perspective of a U.S. investor.

Overall, we believe the “value premium” we identified among U.S. stocks also was evident in non-U.S. markets in general. Over the 1980 to 2006 period, value stocks substantially outperformed glamour stocks in a combined sample of six of the world’s largest non-U.S. markets. This outperformance was visible among both large caps and small caps, and it demonstrated consistency over time.

#### IV. Country-by-Country Findings

The value premium identified in our six-country sample also was evident when results for the six countries were viewed individually, on a local currency basis. As the table below indicates, the low-P/B value stocks in decile 10 substantially outdistanced the high-P/B glamour stocks in decile 1 for both the large-cap and small-cap segments of each country.

#### Annualized Average 5-Year Returns, 1980-2006

	Large Cap		Small Cap	
	decile 1	decile 10	decile 1	decile 10
<b>Six-Country Sample</b>	6.6%	15.0%	8.4%	15.1%
<b>Australia</b>	9.6%	17.2%	5.0%	17.2%
<b>Canada</b>	-7.5%	12.0%	5.8%	12.3%
<b>France</b>	13.2%	19.5%	10.0%	17.6%
<b>Germany</b>	7.1%	14.7%	4.4%	15.8%
<b>Japan</b>	0.9%	11.1%	4.0%	12.2%
<b>U.K.</b>	11.3%	16.3%	10.0%	16.5%

Source: Worldscope via FactSet, The Brandes Institute; as of 6/30/06

Results for the other countries we studied were less clear. In nations such as Greece and Italy, we noted that large-cap value stocks seemed to outperform large-cap glamour stocks fairly consistently, with returns for value deciles generally outdistancing returns for glamour deciles. In countries such as Hong Kong and the Netherlands, we found no clear pattern of value stock outperformance.

For all of these nations, however, the number of companies in the samples we worked with was small. Accordingly, we hesitated to draw firm conclusions regarding the relationship between value stocks and glamour stocks in these countries. Instead, we noted that the existence of the value premium seems probable in the first group, and that our results for the second group are inconclusive. The table below summarizes our country-by-country findings for large caps; small cap results followed a similar distribution.

#### Summary of Country-by-Country Findings: Large Cap

value premium evident	value premium probable	results inconclusive	glamour premium probable	glamour premium evident	data not statistically robust
Australia					Austria
Canada	Greece				Belgium
France	Italy	Finland			Denmark
Germany	Singapore	Hong Kong			Ireland
Japan	Sweden	Netherlands			New Zealand
U.K.	Switzerland				Norway
					Portugal
					Spain

Source: Worldscope via FactSet, The Brandes Institute; as of 6/30/06

To review comprehensive findings for all of the countries we studied, please see the appendix. For each country with a sufficient sample size, we offer a full-page analysis of sample size, decile-by-decile results, and the relative performance of value stocks versus glamour stocks over time. For countries with limited sample sizes, we provide the same data; however, the small and inconsistent sample sizes preclude us from conducting meaningful analysis. Please see page 23 in the appendix.

## **V. Conclusion**

In this paper, we examined the performance of value stocks and glamour stocks in non-U.S. markets over the 1980 to 2006 period. Using an approach created by Josef Lakonishok, Andrei Shleifer, and Robert Vishny in 1994's "Contrarian Investment, Extrapolation, and Risk," we studied returns for large-cap and small-cap stocks traded in 14 developed, non-U.S. markets.

Our findings indicate that the value premium we had identified among U.S. stocks also was evident in non-U.S. markets in general. This outperformance was present among both large caps and small caps, demonstrated consistency over time, and was even more pronounced on a risk-adjusted basis. In addition, value stocks appeared to outdistance glamour stocks substantially in a majority of the individual countries we examined.

We believe that these results – in conjunction with the findings outlined in our U.S.-focused paper, "Value vs. Glamour: Updated and Expanded" – suggest that, in markets around the world, out-of-favor value stocks offer significant potential for superior returns.

## APPENDIX

### Part A: Select Country-By-Country Data, 1980-2006

		6/30/2001 sample		decile 1 (glamour)		decile 10 (value)	
		# of co's	avg. mkt. cap (US\$)	ann. return	stan. dev.	ann. return	stan. dev.
Australia	Large	33	\$8,416	9.6%	29.1%	17.2%	20.1%
	Small	76	\$820	5.0%	29.1%	17.2%	20.1%
Canada	Large	55	\$8,163	-7.5%	30.1%	12.0%	24.4%
	Small	126	\$1,057	5.8%	30.1%	17.3%	24.4%
Finland	Large	15	\$9,974	17.9%	64.4%	18.5%	32.1%
	Small	35	\$438	7.0%	64.4%	23.1%	32.1%
France	Large	55	\$18,221	13.2%	35.4%	19.5%	36.7%
	Small	126	\$1,121	10.2%	35.4%	17.6%	36.7%
Germany	Large	61	\$15,669	7.1%	31.3%	14.7%	26.3%
	Small	142	\$984	4.4%	31.3%	15.8%	26.3%
Greece	Large	18	\$2,564	19.5%	62.8%	31.4%	67.6%
	Small	40	\$378	-6.6%	62.8%	19.0%	67.6%
Hong Kong	Large	34	\$10,691	18.2%	44.0%	22.3%	44.6%
	Small	79	\$750	10.7%	44.0%	14.0%	44.6%
Italy	Large	30	\$15,238	14.0%	38.3%	24.7%	51.3%
	Small	68	\$1,351	5.0%	38.3%	14.6%	51.3%
Japan	Large	246	\$9,516	0.9%	25.1%	11.1%	26.4%
	Small	573	\$875	4.0%	25.1%	12.2%	26.4%
Netherlands	Large	23	\$36,005	7.5%	30.5%	16.0%	33.9%
	Small	54	\$2,099	10.9%	30.5%	13.0%	33.9%
Singapore	Large	18	\$5,427	9.6%	36.3%	15.3%	46.3%
	Small	42	\$628	9.9%	36.3%	13.0%	46.3%
Sweden	Large	18	\$9,839	9.9%	34.5%	23.9%	38.1%
	Small	42	\$1,156	9.5%	34.5%	18.8%	38.1%
Switzerland	Large	28	\$19,552	2.1%	35.6%	11.4%	29.0%
	Small	63	\$953	11.4%	35.6%	14.5%	29.0%
U.K.	Large	118	\$17,654	11.3%	25.8%	16.3%	19.2%
	Small	274	\$884	10.0%	25.8%	16.5%	19.2%

Source: Worldscope via FactSet, The Brandes Institute; as of 6/30/06

### Part B: In-Depth Country-By-Country Data, 1980-2006

Non-Statistically Robust Samples

Country	page
Australia	9
Canada	10
Finland	11
France	12
Germany	13
Greece	14
Hong Kong	15
Italy	16
Japan	17
Netherlands	18
Singapore	19
Sweden	20
Switzerland	21
United Kingdom	22

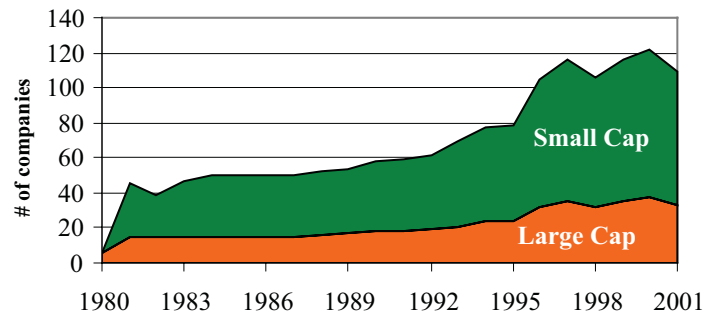
Non-Statistically Robust Samples

Country	page
Austria	24
Belgium	25
Denmark	26
Ireland	27
New Zealand	28
Norway	29
Portugal	30
Spain	31

## Australia

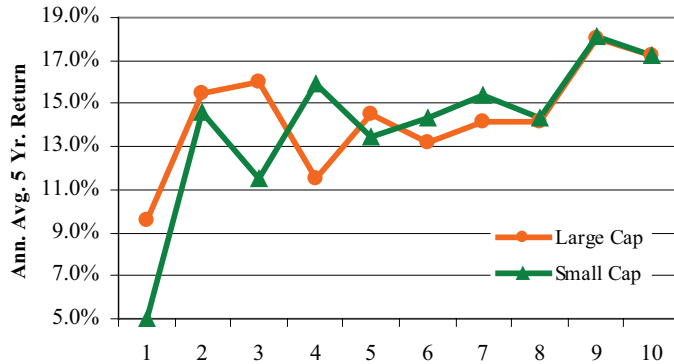
Our sample size for Australia stayed constant through much of the study period. In the mid- to late-90s, the sample expanded somewhat. As of June 30, 2001, Australia's large-cap sample consisted of 33 companies, while the small-cap sample included 76 firms.

### Sample Size



Source: Worldscope, The Brandes Institute; as of 6/30/06

### Annualized Average 5-Year Returns, 1980-2006



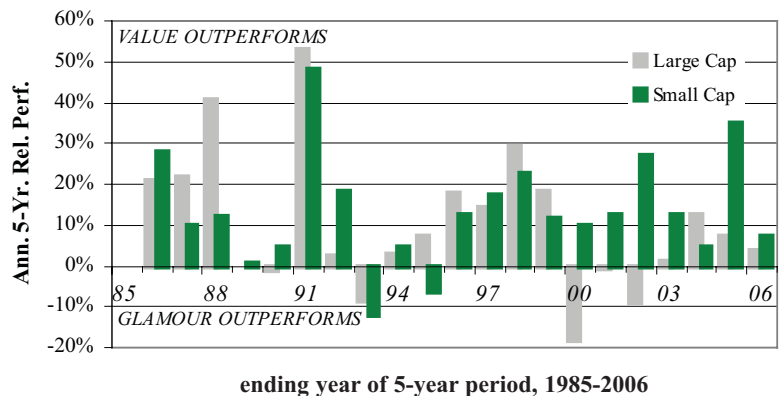
Australia's decile 1 large-cap stocks posted average returns of 9.6%, while the large caps in decile 10 registered average gains of 17.2%. While this pointed to a significant premium for decile 10 versus decile 1, returns for deciles 2 through 9 were relatively flat. Australia's small-cap stocks displayed similar results.

Glamour Deciles ----- Value Deciles

Source: Worldscope, The Brandes Institute; as of 6/30/06

For both large-cap and small-cap stocks in Australia, value bested glamour in a clear majority of the rolling 5-year periods in the 1980 to 2006 span. In addition, value's margin versus glamour was typically substantial: outperformance averaged 10.8% for large-cap stocks and 13.3% for small-cap stocks. In our opinion, this suggests that Australia's value stocks consistently outperformed their glamour counterparts over time.

### Annualized Rolling 5-Year Relative Performance of Value vs. Glamour

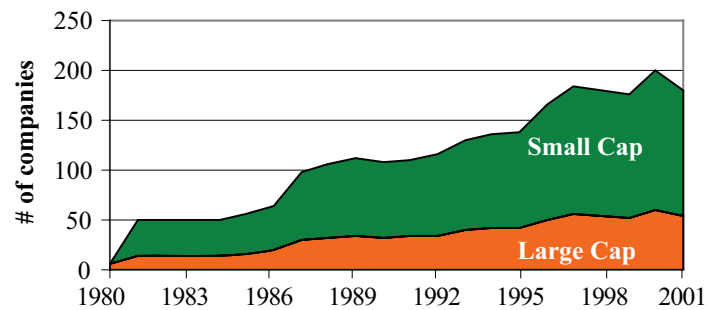


Source: Worldscope, The Brandes Institute; as of 6/30/06

## Canada

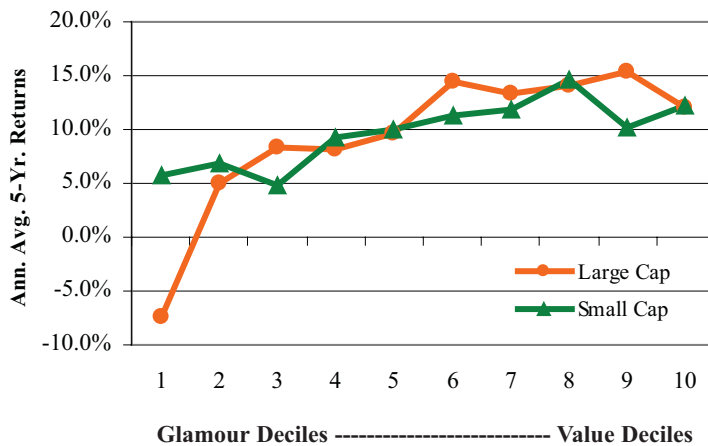
Our sample size for Canada grew throughout the study period. As of June 30, 2001, Canada's large-cap sample consisted of 55 companies, while the small-cap sample included 126 firms.

### Sample Size



Source: Worldscope, The Brandes Institute; as of 6/30/06

### Annualized Average 5-Year Returns, 1980-2006

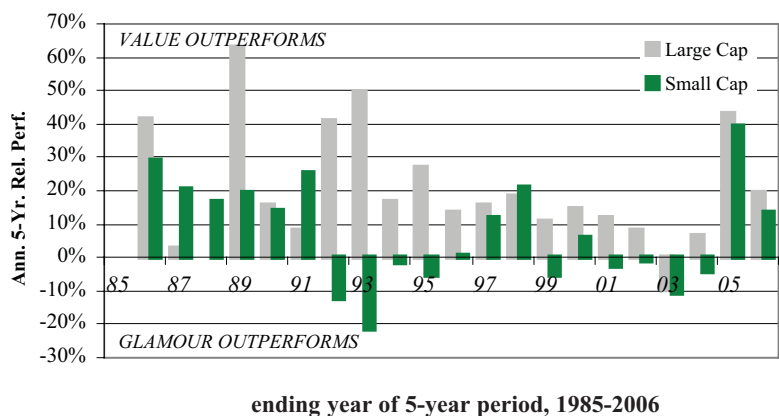


Source: Worldscope, The Brandes Institute; as of 6/30/06

Decile-by-decile returns for Canada clearly pointed to the existence of a value premium. Large caps in decile 1, for example, posted average returns of  $-7.5\%$  while large caps in decile 10 registered average gains of  $12.0\%$ . Results for small caps were not as dramatic, but returns did tend to increase from decile 1 to decile 10.

For both large-cap and small-cap stocks in Canada, value bested glamour in a clear majority of the rolling 5-year periods in the 1980 to 2006 span. In addition, value's margin versus glamour was substantial, particularly among large caps. Outperformance averaged  $20.9\%$  for large-cap stocks and  $7.3\%$  for small-cap stocks.

### Annualized Rolling 5-Year Relative Performance of Value vs. Glamour

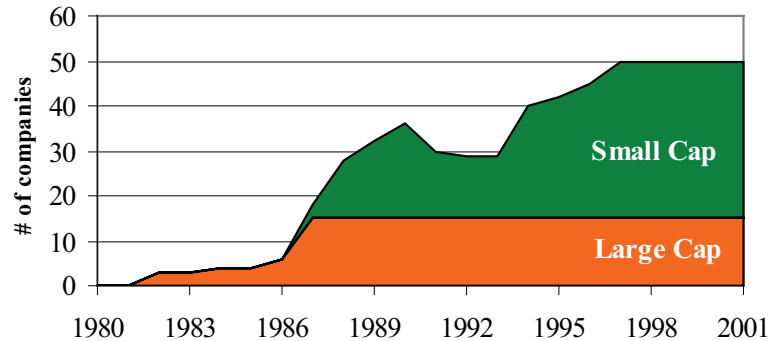


Source: Worldscope, The Brandes Institute; as of 6/30/06

## Finland

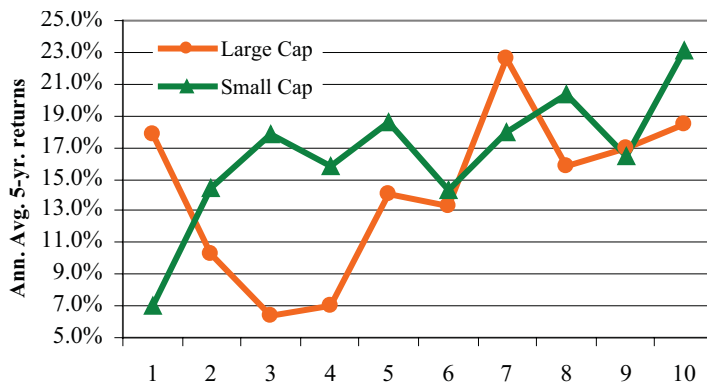
Our sample size for Finland grew throughout the study period. As of June 30, 2001, Finland's large-cap sample consisted of 15 companies, while the small-cap sample included 35 firms.

### Sample Size



Source: Worldscope, The Brandes Institute; as of 6/30/06

### Annualized Average 5-Year Returns, 1980-2006



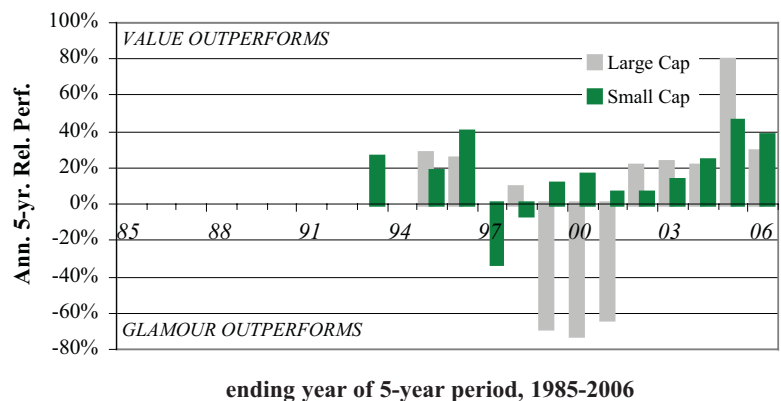
Glamour Deciles ----- Value Deciles

Source: Worldscope, The Brandes Institute; as of 6/30/06

No clear pattern of value stock outperformance existed for our Finland sample. For both small caps and large caps, stocks in deciles 4 through 8 tended to earn the highest returns. However, the small size of the Finland sample tempered the significance of these results.

For small-cap stocks in Finland, value bested glamour in a clear majority of the rolling 5-year periods in the 1988 to 2006 span. In addition, value's margin versus glamour was typically substantial: outperformance averaged 15.7% for small-cap stocks. For large-cap stocks, the results were less robust, with value outperformance of only 2.9%. However, due to the small size of our Finland sample, we hesitated to draw firm conclusions from the data.

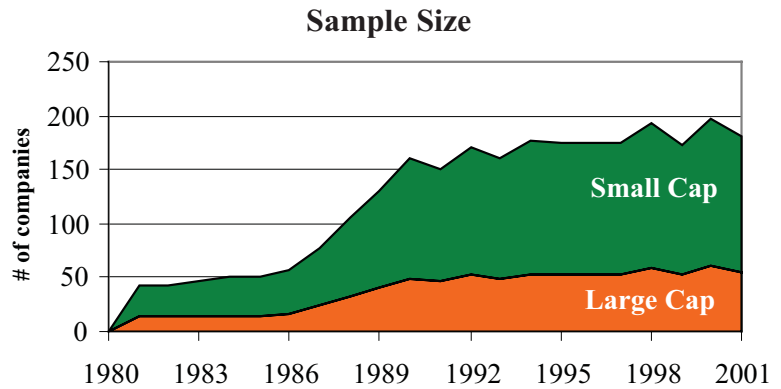
### Annualized Rolling 5-Year Relative Performance of Value vs. Glamour



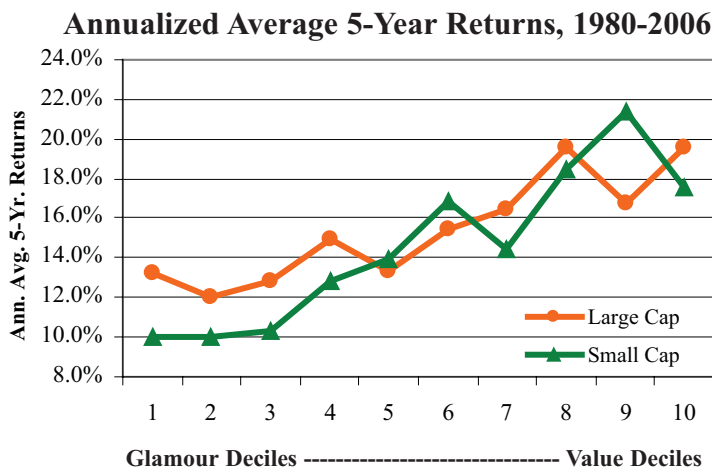
Source: Worldscope, The Brandes Institute; as of 6/30/06

## France

Our sample size for France grew throughout the study period. As of June 30, 2001, France's large-cap sample consisted of 55 companies, while the small-cap sample included 126 firms.



Source: Worldscope, The Brandes Institute; as of 6/30/06

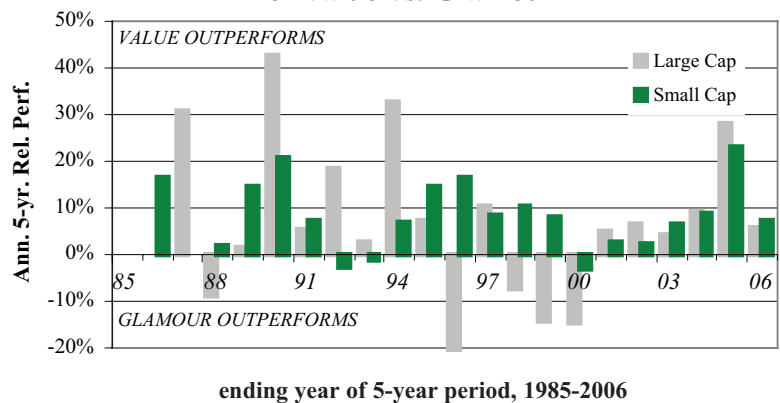


Decile-by-decile returns for France clearly pointed to the existence of a value premium. Large caps in decile 1, for example, posted average returns of 13.2% while large caps in decile 10 registered average gains of 19.5%. Results for small caps followed a similar pattern.

Source: Worldscope, The Brandes Institute; as of 6/30/06

For both large-cap and small-cap stocks in France, value bested glamour in a clear majority of the rolling 5-year periods in the 1980 to 2006 span. In addition, value's margin versus glamour was typically substantial: outperformance averaged 7.2% for large-cap stocks and 8.5% for small-cap stocks. In our opinion, this suggests that France's value stocks consistently outperformed their glamour counterparts over time.

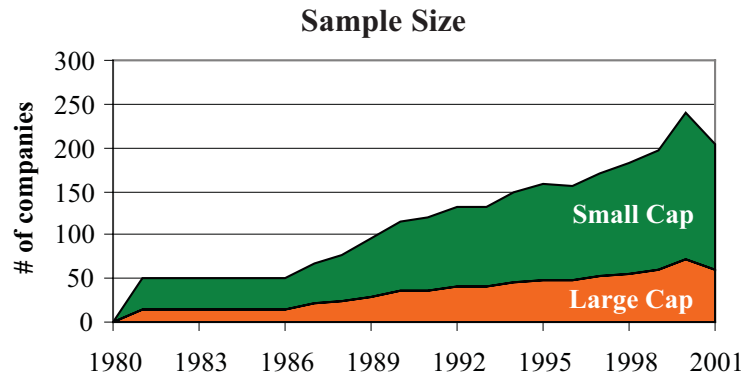
## Annualized Rolling 5-Year Relative Performance of Value vs. Glamour



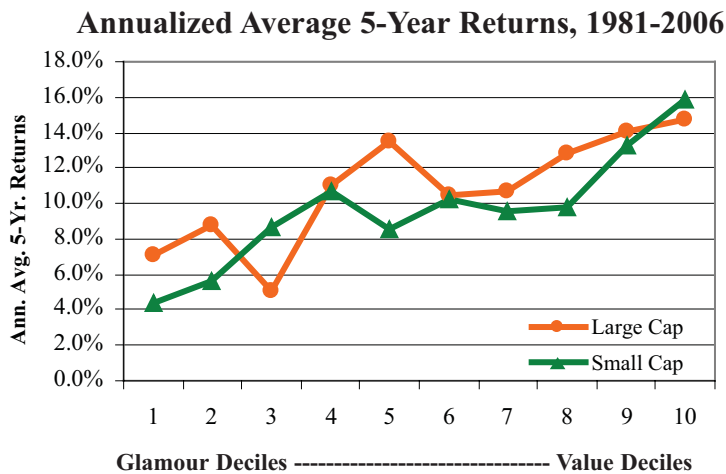
Source: Worldscope, The Brandes Institute; as of 6/30/06

## Germany

Our sample size for Germany grew throughout the study period. As of June 30, 2001, Germany's large-cap sample consisted of 61 companies, while the small-cap sample included 142 firms.



Source: Worldscope, The Brandes Institute; as of 6/30/06

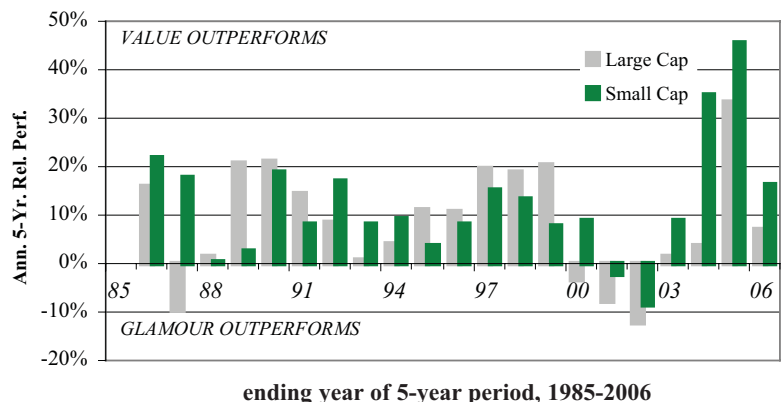


Decile-by-decile returns for Germany clearly pointed to the existence of a value premium. Large caps in decile 1, for example, posted average returns of 7.1% while large caps in decile 10 registered average gains of 14.7%. Results for small caps followed a similar pattern.

Source: Worldscope, The Brandes Institute; as of 6/30/06

For both large-cap and small-cap stocks in Germany, value bested glamour in a clear majority of the rolling 5-year periods in the 1981 to 2006 span. In addition, value's margin versus glamour was typically substantial: outperformance averaged 8.6% for large-cap stocks and 12.2% for small-cap stocks. In our opinion, this suggests that Germany's value stocks consistently outperformed their glamour counterparts over time.

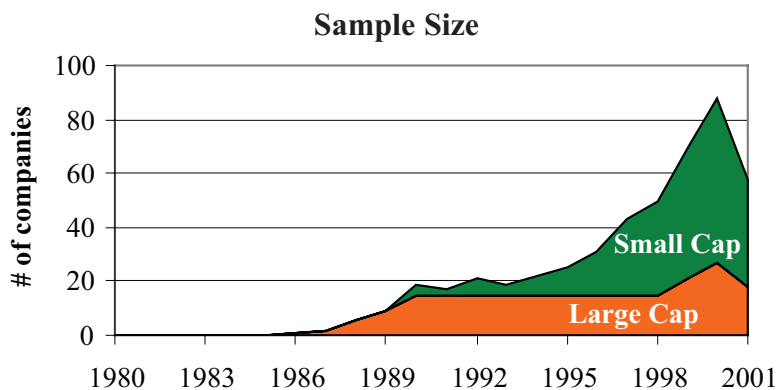
## Annualized Rolling 5-Year Relative Performance of Value vs. Glamour



Source: Worldscope, The Brandes Institute; as of 6/30/06

## Greece

Greece's sample size was negligible in the first few years of the study period. The sample began to expand in the late 1980s and through the 1990s. As of June 30, 2001, Greece's large-cap sample consisted of 18 companies, while the small-cap sample included 40 firms.



Source: Worldscope, The Brandes Institute; as of 6/30/06

### Annualized Average 5-Year Returns, 1986-2006

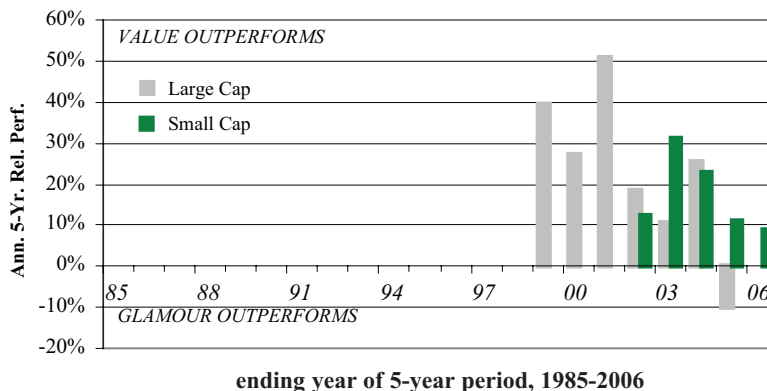


At first glance, evidence of a value premium in Greece appeared strong. Decile 1 large-cap stocks, for example, posted average returns of 19.5%, while the large caps in decile 10 registered average gains of 31.4%. However, due to the small size of our Greece sample, we hesitated to draw firm conclusions from the data.

Source: Worldscope, The Brandes Institute; as of 6/30/06

For both large- and small-cap stocks in Greece, value stocks outperformed glamour stocks in all but one rolling 5-year period under review. However, the small size of our Greece sample tempered the significance of these results.

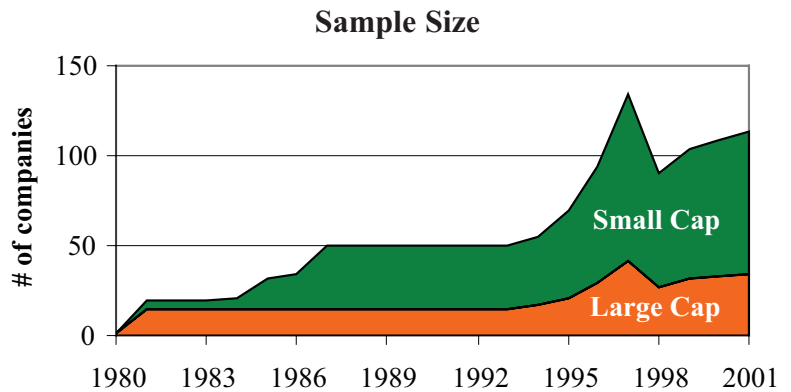
### Annualized Rolling 5-Year Relative Performance of Value vs. Glamour



Source: Worldscope, The Brandes Institute; as of 6/30/06

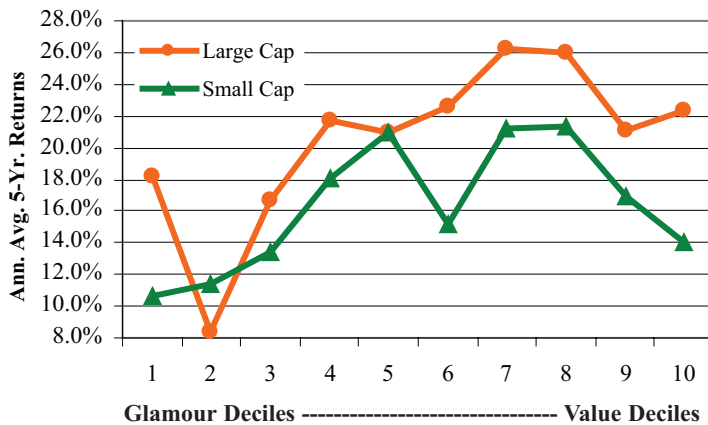
## Hong Kong

Our sample size for Hong Kong stayed constant through much of the study period. In the mid- to late-90s, the sample expanded and then contracted. As of June 30, 2001, Hong Kong's large-cap sample consisted of 34 companies, while the small-cap sample included 79 firms.



Source: Worldscope, The Brandes Institute; as of 6/30/06

## Annualized Average 5-Year Returns, 1980-2006

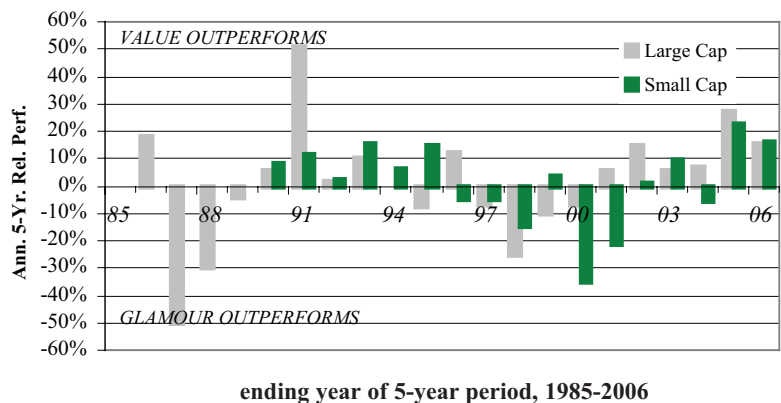


Source: Worldscope, The Brandes Institute; as of 6/30/06

No clear pattern of value stock outperformance existed for our Hong Kong sample. For both small caps and large caps, stocks in deciles 4 through 8 tended to earn the highest returns. However, the small size of the Hong Kong sample tempered the significance of these results.

For both large- and small-cap stocks in Hong Kong, the relative performance of value versus glamour seemed fairly balanced over time. Again, however, we hesitated to draw firm conclusions from these results because of the small size of our sample.

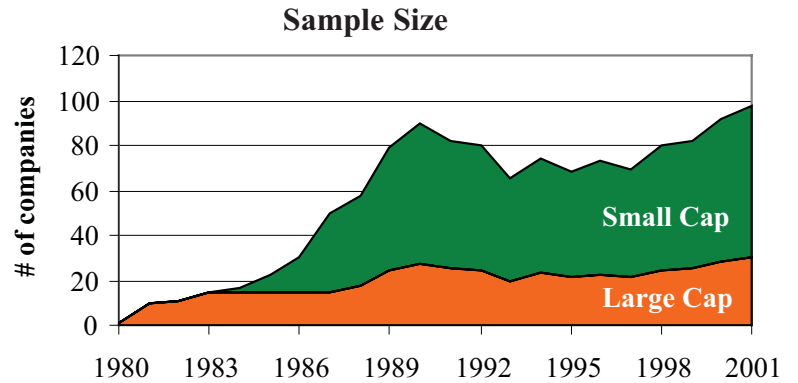
## Annualized Rolling 5-Year Relative Performance of Value vs. Glamour



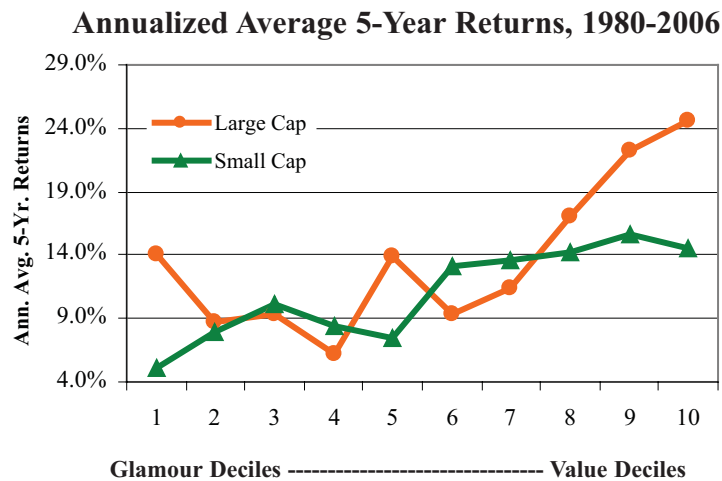
Source: Worldscope, The Brandes Institute; as of 6/30/06

## Italy

Our sample size for Italy grew throughout the study period. As of June 30, 2001, Italy's large-cap sample consisted of 30 companies, while the small-cap sample included 68 firms.



Source: Worldscope, The Brandes Institute; as of 6/30/06

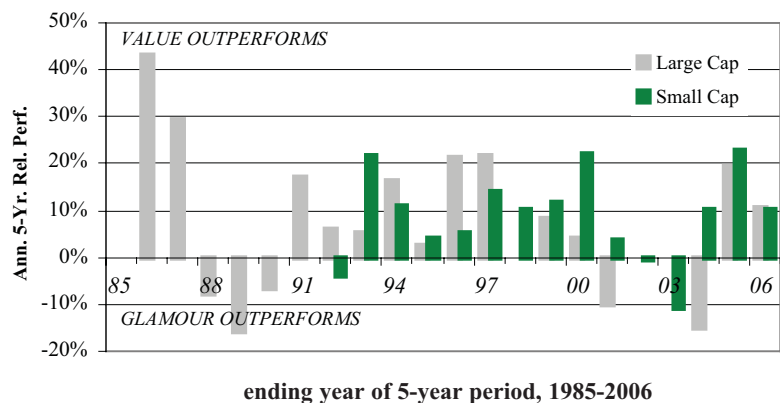


Source: Worldscope, The Brandes Institute; as of 6/30/06

At first glance, evidence of a value premium in Italy appeared strong. Decile 1 large-cap stocks, for example, posted average returns of 14.0%, while the large caps in decile 10 registered average gains of 24.7%. However, due to the small size of our Italy sample, we hesitated to draw firm conclusions from the data.

For both large- and small-cap stocks in Italy, value bested glamour in nearly all of the rolling 5-year periods from the late 1980s through 2006. In addition, value's margin versus glamour was typically substantial: outperformance averaged 7.7% for large-cap stocks and 8.7% for small-cap stocks. Again, however, the small size of our Italy sample tempered the significance of these results.

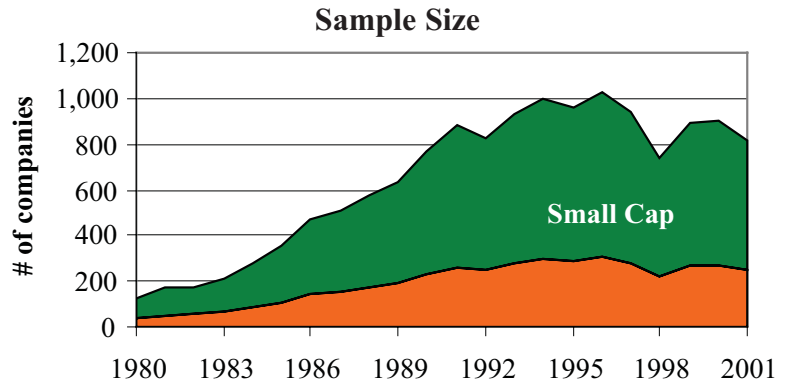
## Annualized Rolling 5-Year Relative Performance of Value vs. Glamour



Source: Worldscope, The Brandes Institute; as of 6/30/06

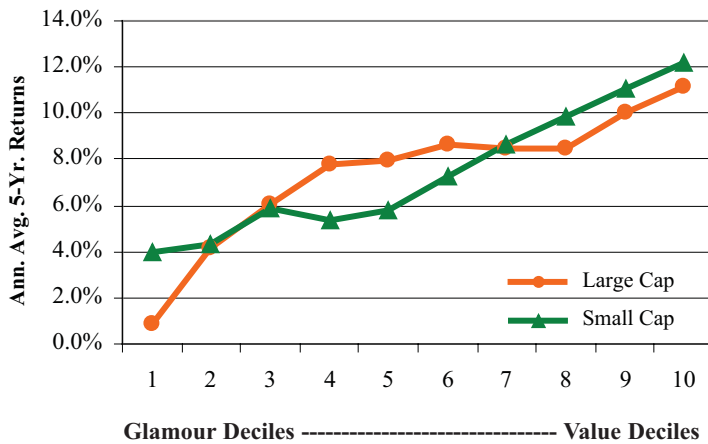
## Japan

Our sample size for Japan grew throughout the study period before contracting somewhat in the late 1990s. As of June 30, 2001, Japan's large-cap sample consisted of 246 companies, while the small-cap sample included 573 firms.



Source: Worldscope, The Brandes Institute; as of 6/30/06

### Annualized Average 5-Year Returns, 1980-2006

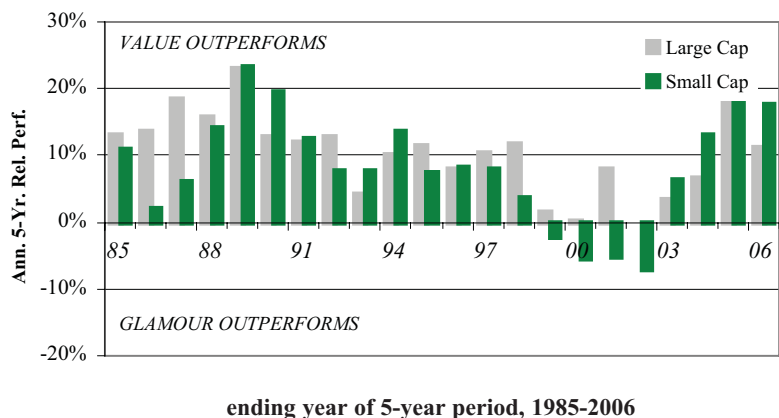


Source: Worldscope, The Brandes Institute; as of 6/30/06

Decile-by-decile returns for Japan clearly pointed to the existence of a value premium. Large caps in decile 1, for example, posted average returns of 0.9% while large caps in decile 10 registered average gains of 11.1%. Results for small caps followed a similar pattern.

For both large-cap and small-cap stocks in Japan, value bested glamour in a clear majority of the rolling 5-year periods in the 1980 to 1998 span, and again post-2002. In addition, value's margin versus glamour was typically substantial: outperformance averaged 10.4% for large-cap stocks and 8.4% for small-cap stocks. In our opinion, this suggested that Japan's value stocks consistently outperformed their glamour counterparts over time.

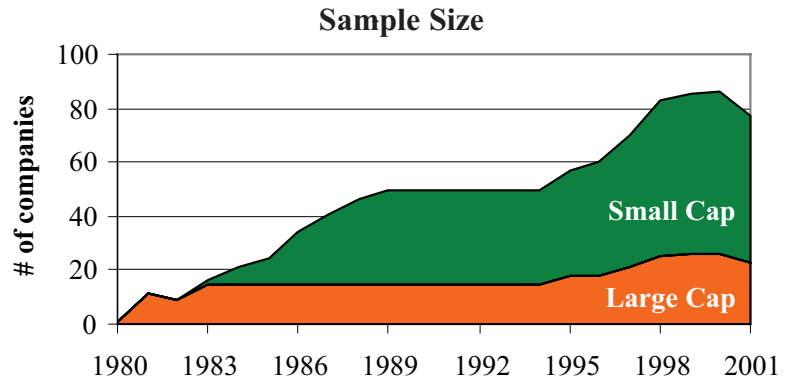
### Annualized Rolling 5-Year Relative Performance of Value vs. Glamour



Source: Worldscope, The Brandes Institute; as of 6/30/06

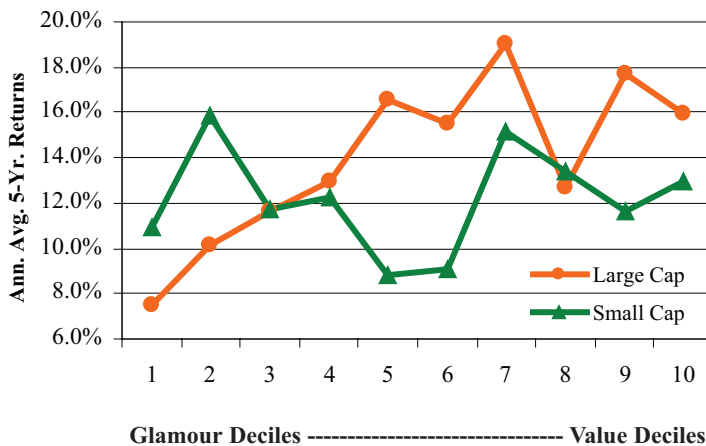
## Netherlands

Our sample size for the Netherlands grew throughout the study period. As of June 30, 2001, the country's large-cap sample consisted of 23 companies, while the small-cap sample included 54 firms.



Source: Worldscope; The Brandes Institute; as of 6/30/06

### Annualized Average 5-Year Returns, 1980-2006

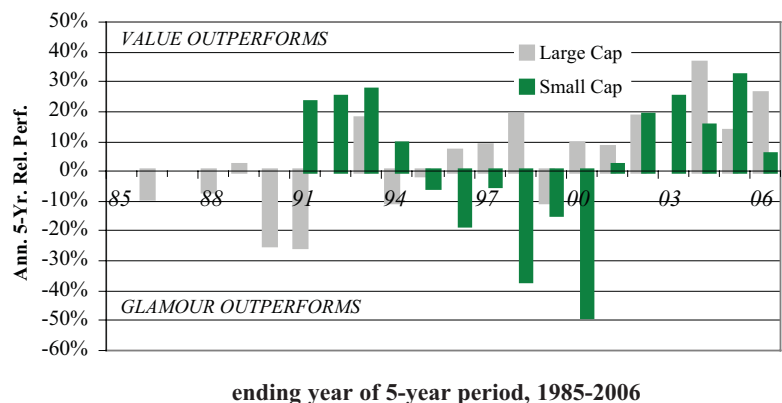


Source: Worldscope, The Brandes Institute; as of 6/30/06

The Netherlands' decile 1 large-cap stocks posted average returns of 7.5%, while the large caps in decile 10 registered average gains of 16.0%. While this pointed to a significant premium for decile 10 versus decile 1, returns for deciles 4 through 10 were mixed. No clear pattern of value stock outperformance existed for the country's small-cap stocks. For both market cap segments, the small size of our sample tempered the significance of our results.

For both large- and small-cap stocks in the Netherlands, the relative performance of value versus glamour seemed fairly balanced over time. Again, however, we hesitated to draw conclusions from these results because of the small size of our sample.

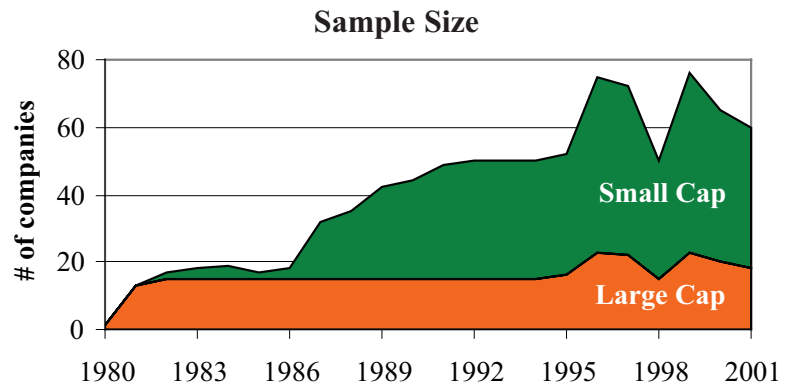
### Annualized Rolling 5-Year Relative Performance of Value vs. Glamour



Source: Worldscope, The Brandes Institute; as of 6/30/06

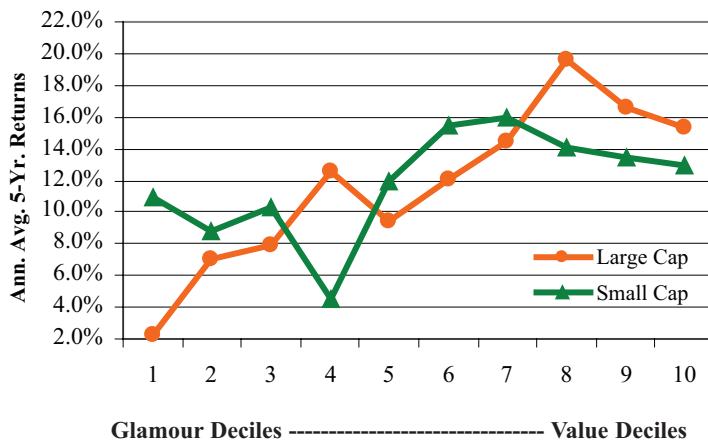
## Singapore

Our sample size for Singapore grew throughout the study period. As of June 30, 2001, Singapore's large-cap sample consisted of 18 companies, while the small-cap sample included 42 firms.



Source: Worldscope, The Brandes Institute; as of 6/30/06

### Annualized Average 5-Year Returns, 1980-2006

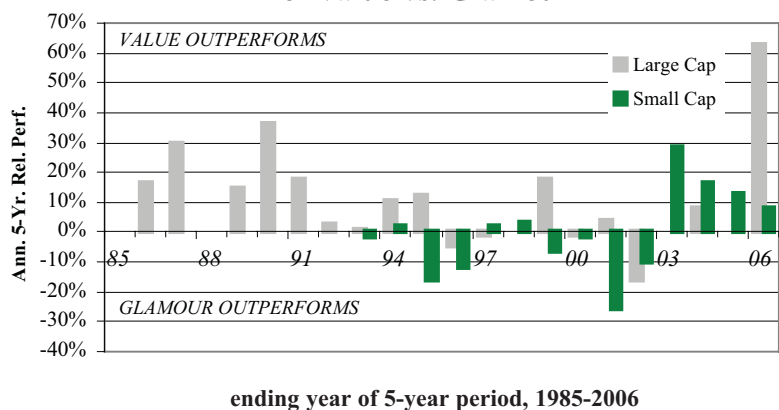


Source: Worldscope, The Brandes Institute; as of 6/30/06

No clear pattern of value stock outperformance existed for Singapore's small-cap stocks. For large caps, decile 1 stocks posted average returns of 2.2%, while the stocks in decile 10 registered average gains of 15.3%. While this pointed to a significant premium for decile 10 versus decile 1, the small sample size for both of our market cap segments tempered the significance of our results.

For large-cap stocks in Singapore, value seemed to outperform glamour consistently over the rolling 5-year periods we analyzed. Conversely, among small caps, glamour stocks tended to post stronger returns than glamour stocks. Because of the small size of our Singapore sample, however, we hesitated to draw firm conclusions from these findings.

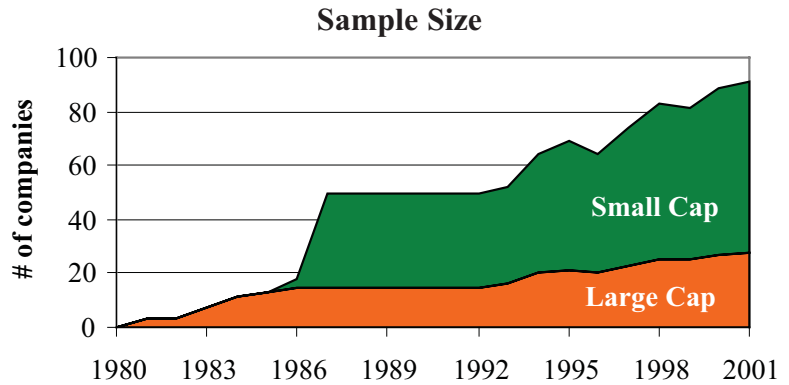
### Annualized Rolling 5-Year Relative Performance of Value vs. Glamour



Source: Worldscope, The Brandes Institute; as of 6/30/06

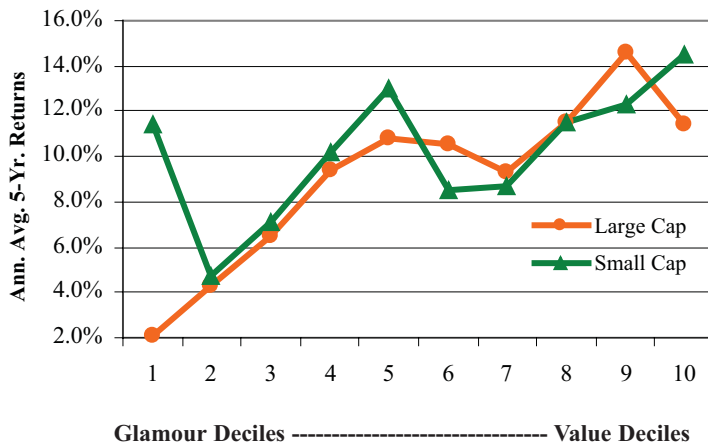
## Switzerland

Our sample size for Switzerland grew throughout the study period. As of June 30, 2000, Switzerland's large-cap sample consisted of 27 companies, while the small-cap sample included 62 firms.



Source: Worldscope; The Brandes Institute; as of 6/30/06

### Annualized Average 5-Year Returns, 1981-2006

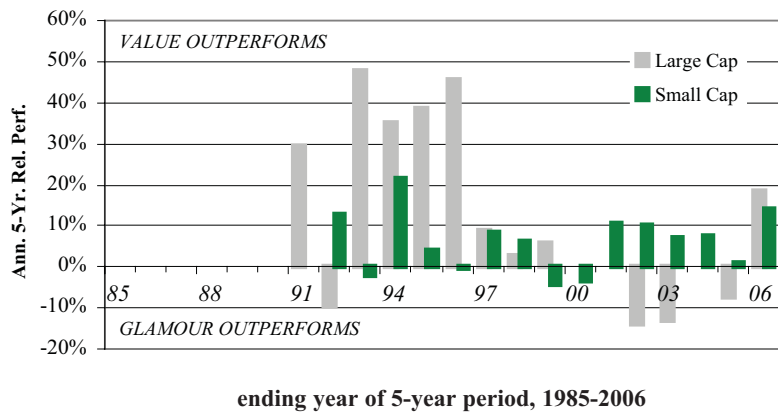


Source: Worldscope; The Brandes Institute; as of 6/30/06

Decile-by-decile returns for Switzerland clearly pointed to the existence of a value premium. Large caps in decile 1, for example, posted average returns of 3.0% while large caps in decile 10 registered average gains of 12.0%. Results for small caps followed a similar pattern. The small size of our Switzerland sample, however, tempered the significance of these findings.

For both large- and small-cap stocks in Switzerland, value bested glamour in a majority of the rolling 5-year periods from the late 1980s through 2005. Outperformance averaged 13.1% for large-cap stocks and 5.7% for small-cap stocks. Again, however, we hesitated to draw firm conclusions from this data due to the small size of our Switzerland sample.

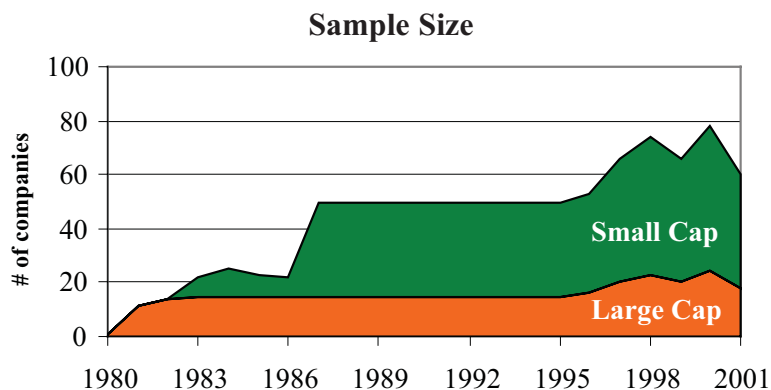
### Annualized Rolling 5-Year Relative Performance of Value vs. Glamour



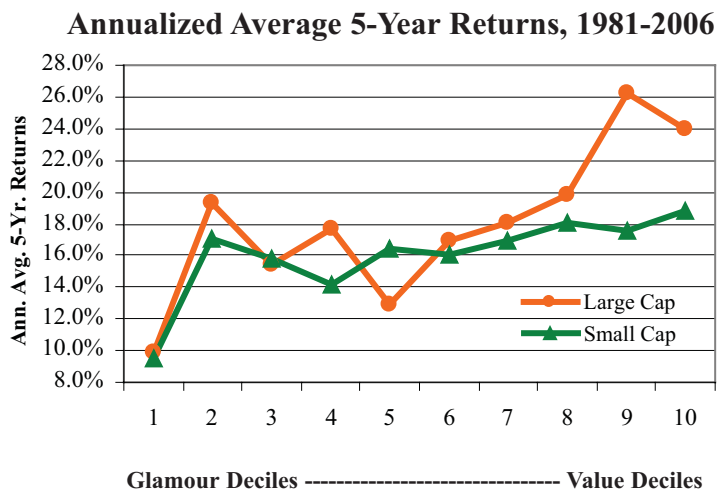
Source: Worldscope; The Brandes Institute; as of 6/30/06

## Sweden

Our sample size for Sweden grew throughout the study period. As of June 30, 2001, Sweden's large-cap sample consisted of 18 companies, while the small-cap sample included 42 firms.



Source: Worldscope, The Brandes Institute; as of 6/30/06

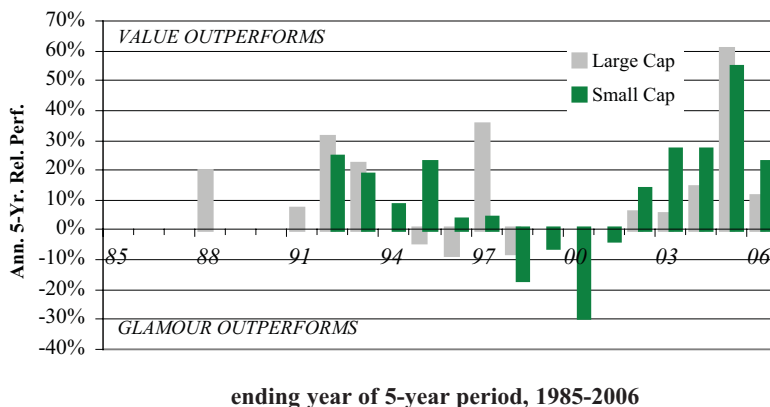


Source: Worldscope, The Brandes Institute; as of 6/30/06

Decile-by-decile returns for Sweden clearly pointed to the existence of a value premium. Large caps in decile 1, for example, posted average returns of 9.9% while large caps in decile 10 registered average gains of 23.9%. Results for small caps followed a similar pattern. The small size of our Sweden sample, however, tempered the significance of these findings.

For both large- and small-cap stocks in Sweden, value bested glamour in a majority of the rolling 5-year periods from the late 1980s through 2006. Outperformance averaged 14.8% for large-cap stocks and 11.3% for small-cap stocks. Again, however, we hesitated to draw firm conclusions from this data due to the small size of our Sweden sample.

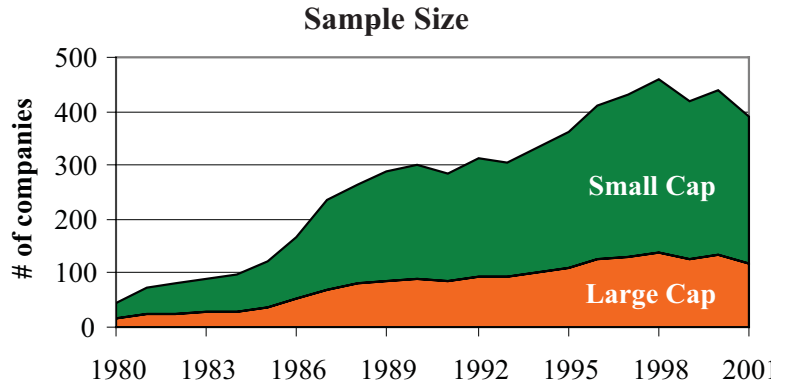
## Annualized Rolling 5-Year Relative Performance of Value vs. Glamour



Source: Worldscope, The Brandes Institute; as of 6/30/06

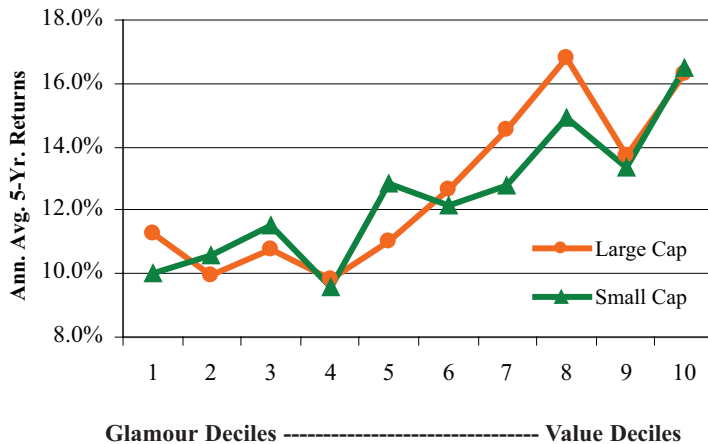
## United Kingdom

Our sample size for the United Kingdom grew throughout the study period. As of June 30, 2001, the U.K.'s large-cap sample consisted of 118 companies, while the small-cap sample included 274 firms.



Source: Worldscope, The Brandes Institute; as of 6/30/06

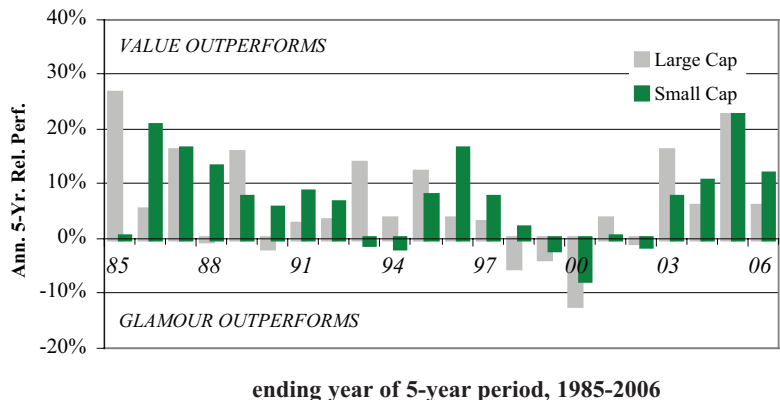
## Annualized Average 5-Year Returns, 1980-2006



While returns for deciles 2 through 9 were somewhat erratic, overall results for the U.K. pointed to the existence of a value premium among both small caps and large caps. Large caps in decile 1, for example, posted average returns of 11.3% while large caps in decile 10 registered average gains of 16.3%. Results for small caps followed a similar pattern.

Source: Worldscope, The Brandes Institute; as of 6/30/06

## Annualized Rolling 5-Year Relative Performance of Value vs. Glamour



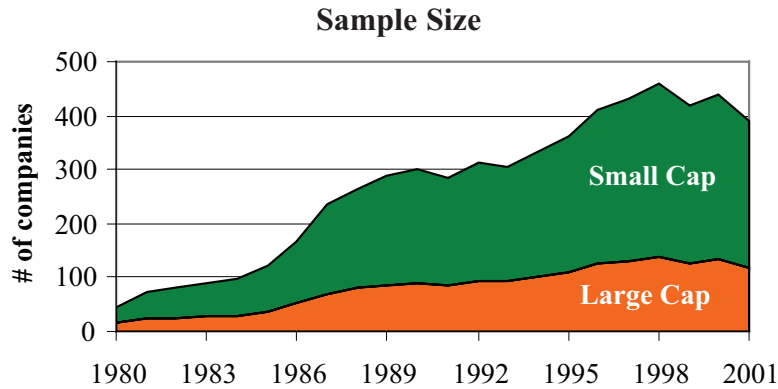
For both large- and small-cap stocks in the United Kingdom, value bested glamour in a majority of the rolling 5-year periods from the late 1980s through 2006. Outperformance averaged 6.4% for large-cap stocks and 7.3% for small-cap stocks. In our opinion, this indicated that U.K. value stock outperformance demonstrated consistency over time.

Source: Worldscope, The Brandes Institute; as of 6/30/06

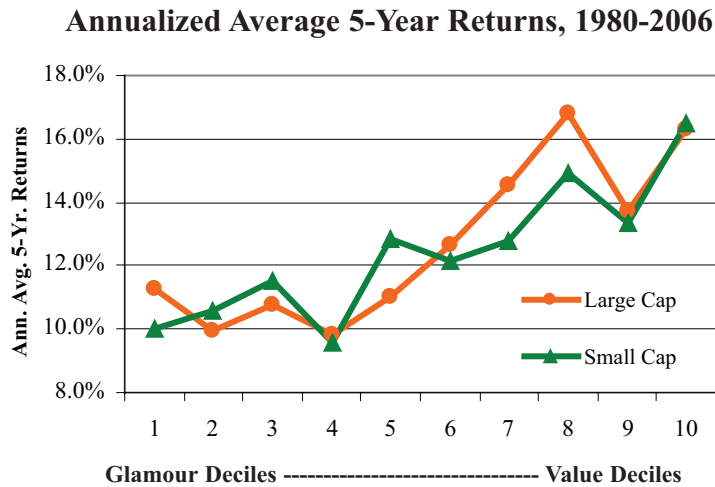
## **COUNTRIES WHERE SAMPLES ARE NOT STATISTICALLY ROBUST**

For the following countries, the sample size was negligible in the duration or greater part of the study period. For example, in three countries (Ireland, New Zealand, and Portugal) the equity sample size never reached 50 securities. For the other countries, while the sample sizes may be statistically robust at points in time, they are not consistently robust across the study time frame. These other countries also exhibit insufficient performance data for meaningful analysis.

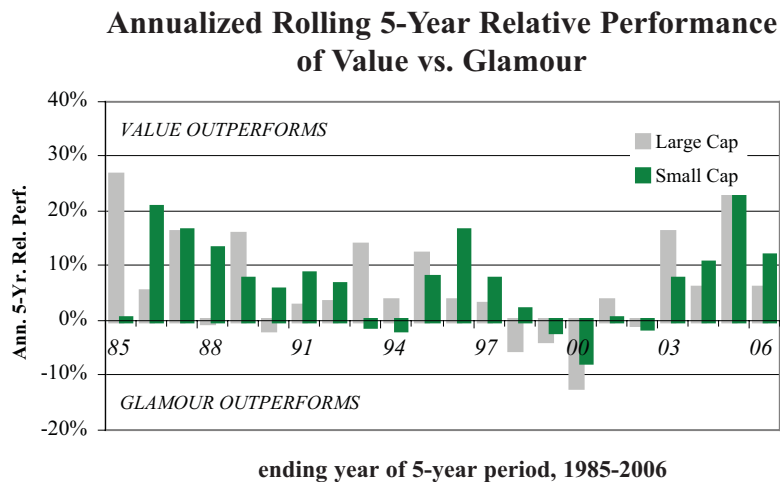
# Austria



Source: Worldscope, The Brandes Institute; as of 6/30/06

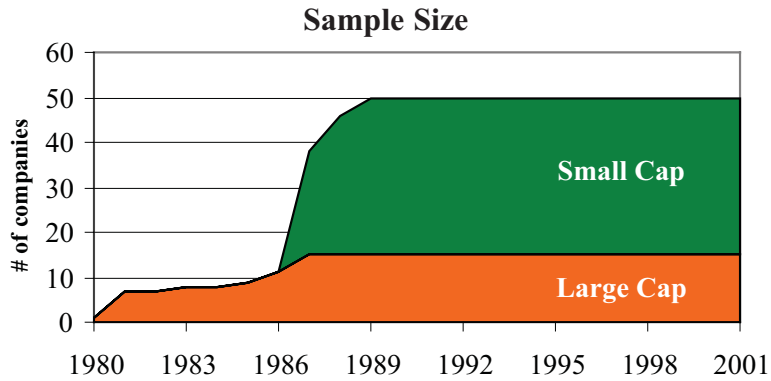


Source: Worldscope, The Brandes Institute; as of 6/30/06



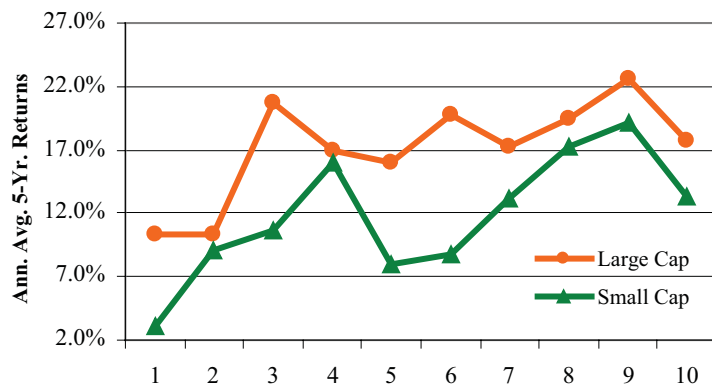
Source: Worldscope, The Brandes Institute; as of 6/30/06

# Belgium



Source: Worldscope, The Brandes Institute; as of 6/30/06

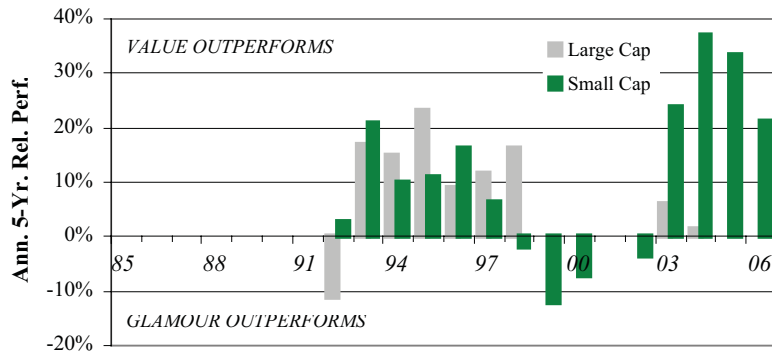
### Annualized Average 5-Year Returns, 1980-2006



Glamour Deciles ----- Value Deciles

Source: Worldscope, The Brandes Institute; as of 6/30/06

### Annualized Rolling 5-Year Relative Performance of Value vs. Glamour

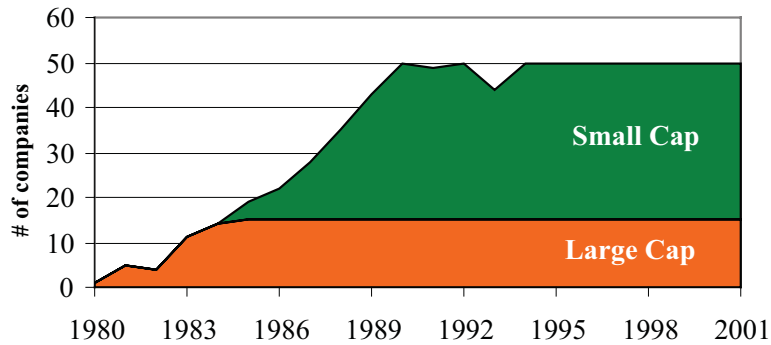


ending year of 5-year period, 1985-2006

Source: Worldscope, The Brandes Institute; as of 6/30/06

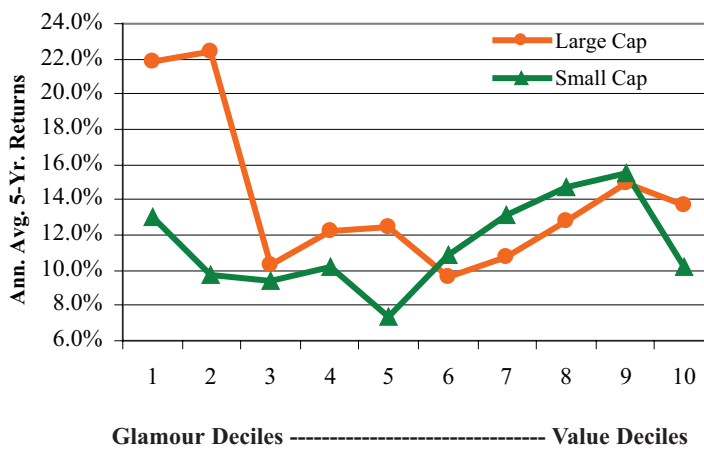
# Denmark

## Sample Size



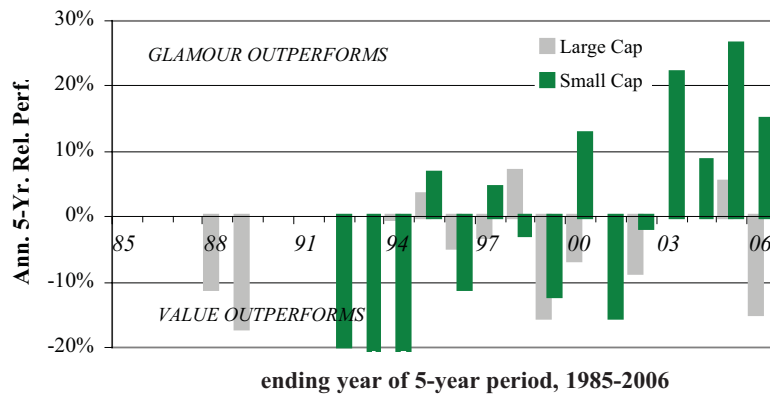
Source: Worldscope, The Brandes Institute; as of 6/30/06

## Annualized Average 5-Year Returns, 1980-2006



Source: Worldscope, The Brandes Institute; as of 6/30/06

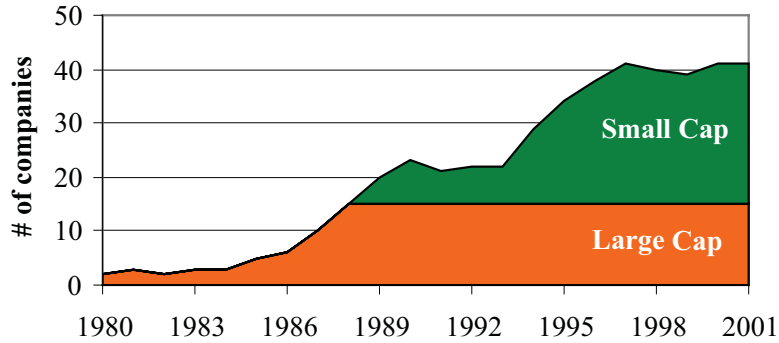
## Annualized Rolling 5-Year Relative Performance of Value vs. Glamour



Source: Worldscope, The Brandes Institute; as of 6/30/06

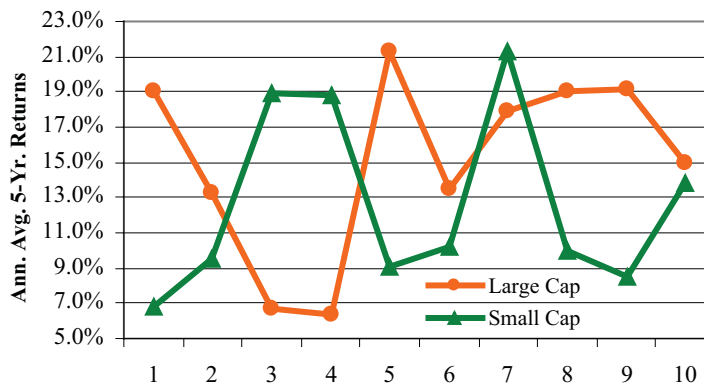
# Ireland

## Sample Size



Source: Worldscope, The Brandes Institute; as of 6/30/06

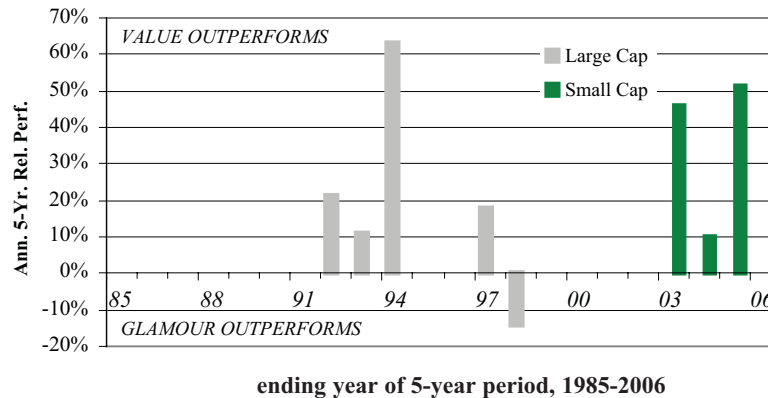
## Annualized Average 5-Year Returns, 1980-2006



Glamour Deciles ----- Value Deciles

Source: Worldscope, The Brandes Institute; as of 6/30/06

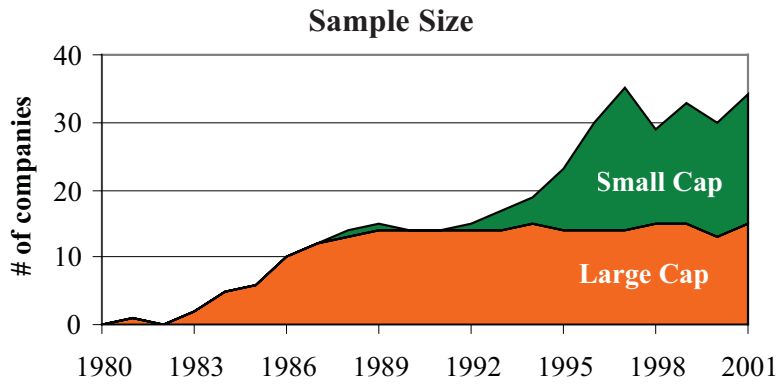
## Annualized Rolling 5-Year Relative Performance of Value vs. Glamour



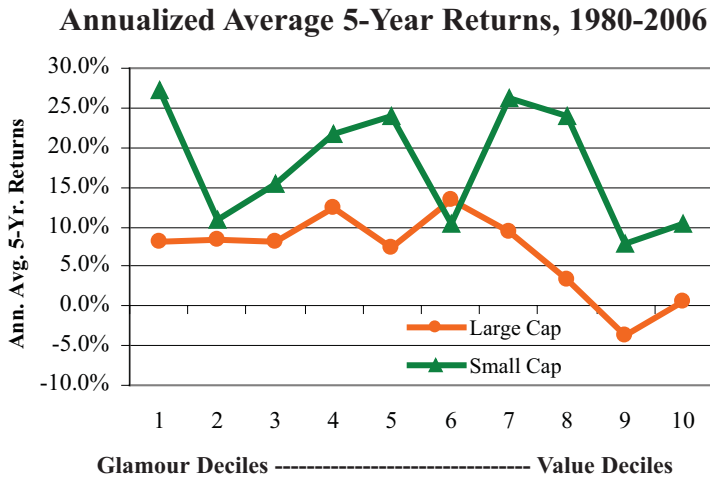
ending year of 5-year period, 1985-2006

Source: Worldscope, The Brandes Institute; as of 6/30/06

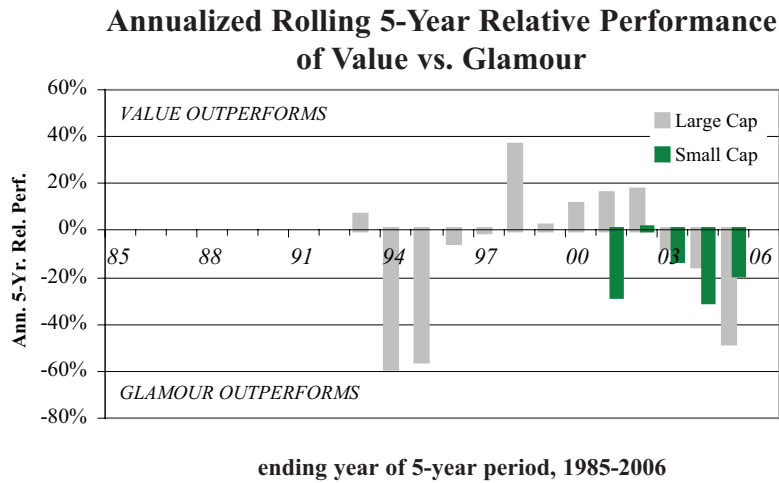
New Zealand



Source: Worldscope, The Brandes Institute; as of 6/30/06

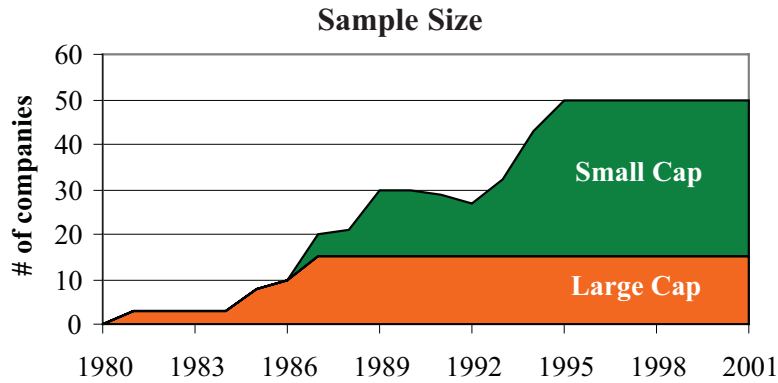


Source: Worldscope, The Brandes Institute; as of 6/30/06



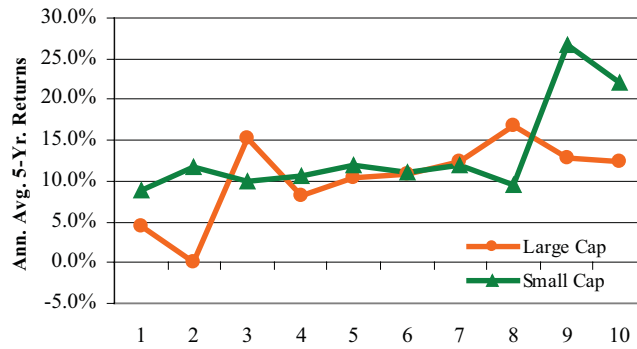
Source: Worldscope, The Brandes Institute; as of 6/30/06

# Norway



Source: Worldscope, The Brandes Institute; as of 6/30/06

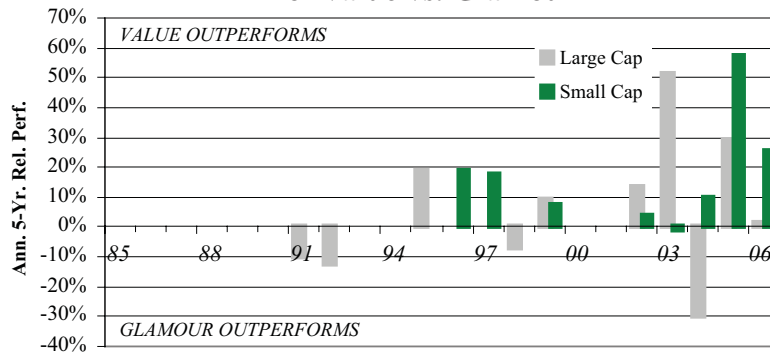
### Annualized Average 5-Year Returns, 1980-2006



Glamour Deciles ----- Value Deciles

Source: Worldscope, The Brandes Institute; as of 6/30/06

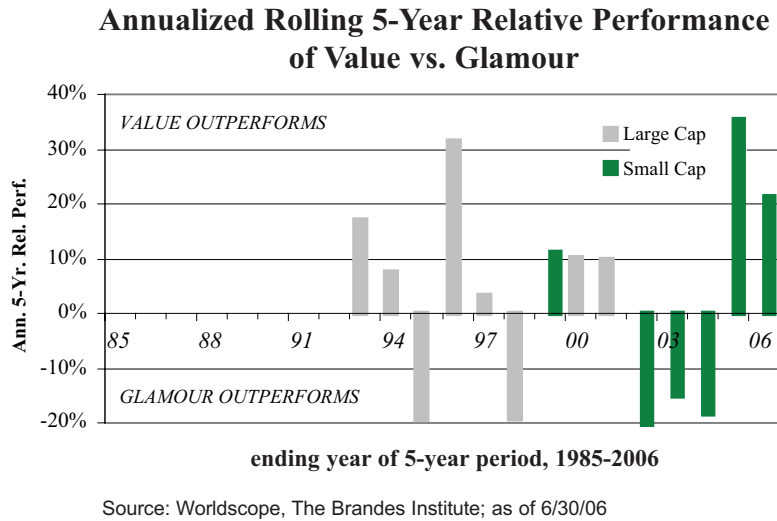
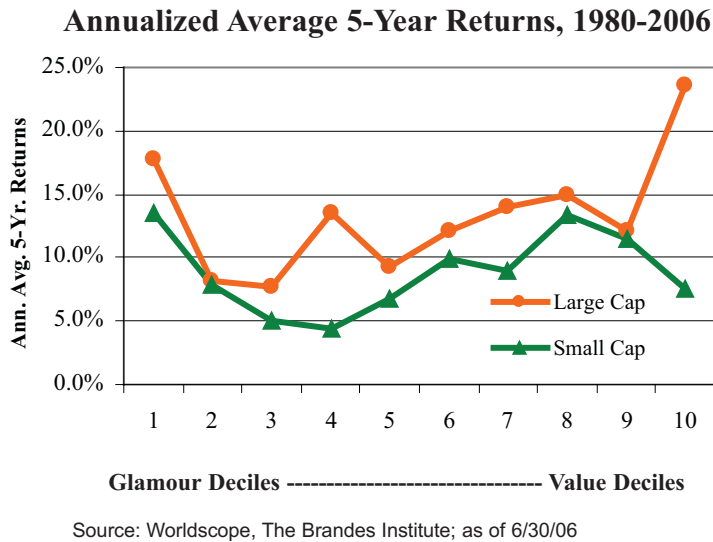
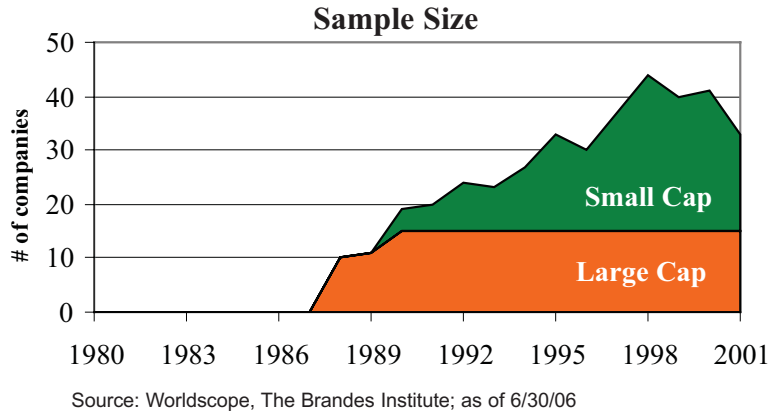
### Annualized Rolling 5-Year Relative Performance of Value vs. Glamour



ending year of 5-year period, 1985-2006

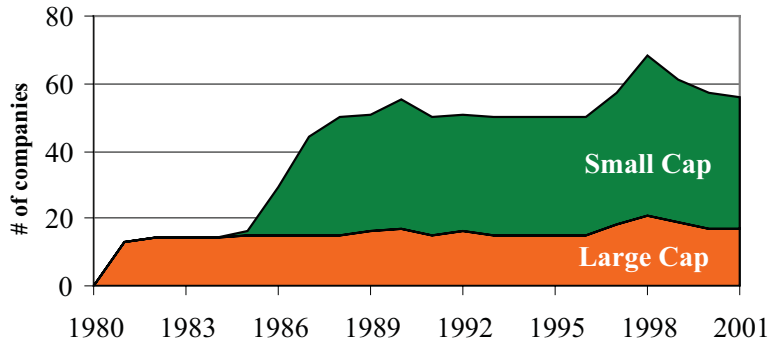
Source: Worldscope, The Brandes Institute; as of 6/30/06

# Portugal



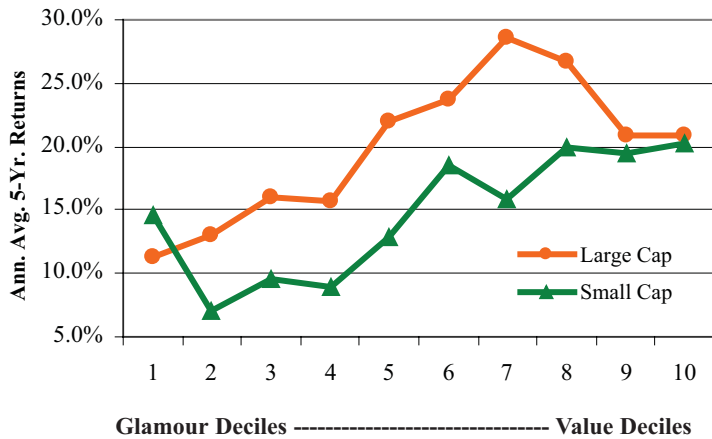
# Spain

### Sample Size



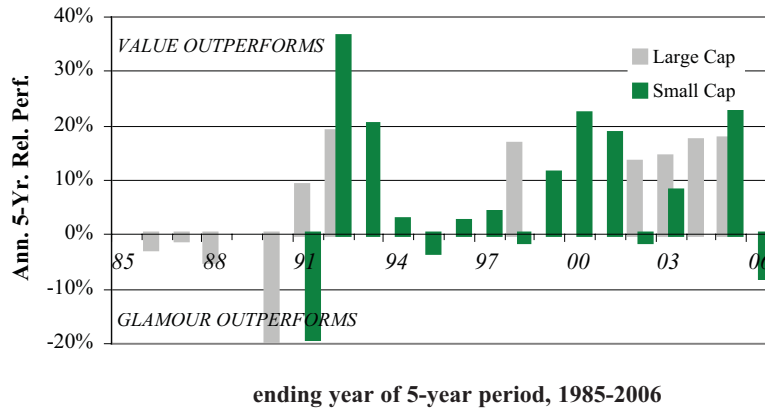
Source: Worldscope, The Brandes Institute; as of 6/30/06

### Annualized Average 5-Year Returns, 1980-2006



Source: Worldscope, The Brandes Institute; as of 6/30/06

### Annualized Rolling 5-Year Relative Performance of Value vs. Glamour



Source: Worldscope, The Brandes Institute; as of 6/30/06