QUARTERLY INVESTOR
NEWSLETTER

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BESTINVER
Asset Management

an acciona Company

Dear Investor,

Due to the sharp downturn in our target stock markets our funds have turned in negative results over the first quarter of 2008. Taking Spain as an example, the IBEX has experienced its worst quarter in six years and the funds sector has been plagued by net redemptions of close to € 14 billion euros, making it the worst quarter on record.

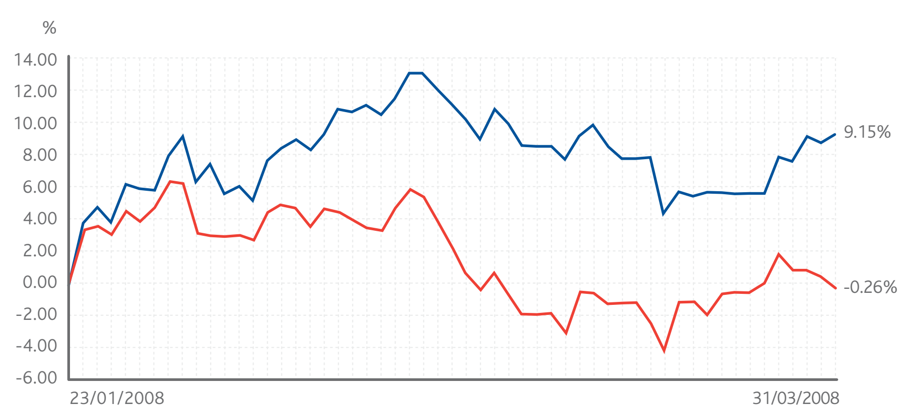
Following an immensely trying 2007 for all value investors (a year in which two-digit returns vanished during the second half), the outlook has remained gloomy during the first quarter of 2008: in some European and Asian countries, markets fell sharply up to 19%, with North America witnessing a 10% decline and a depreciating dollar. Only a handful of South American markets managed to scrape into positive figures (Mexico, with 1.87%).

Our **investment strategy** (reflected in our Bestinfond mutual fund and our Bestinver Global pension fund) has witnessed **negative returns of 11% vs. a drop of 15.25% in its benchmark index** (70% MSCI and 30% IGBM). Despite this, average annual returns over the last 15 years still stand at 19.33%.

Our portfolio has turned in a mixed bag of results over the first quarter. Although the downward spiral hit 18% towards the end of January, it has been beating the benchmark indices hands down since the lows seen on 23 January, as we can see in the chart below. February and March have brought a clear recovery in the funds. In February, for example, according to Morningstar Bestinver Bolsa (Iberian portfolio) proved to be the most profitable of the 150 Spanish mutual funds currently available.

BESTINFOND
INDEX (70% MSCI 30% IGBM)

Time Chart
(23/01/2008-31/03/2008)

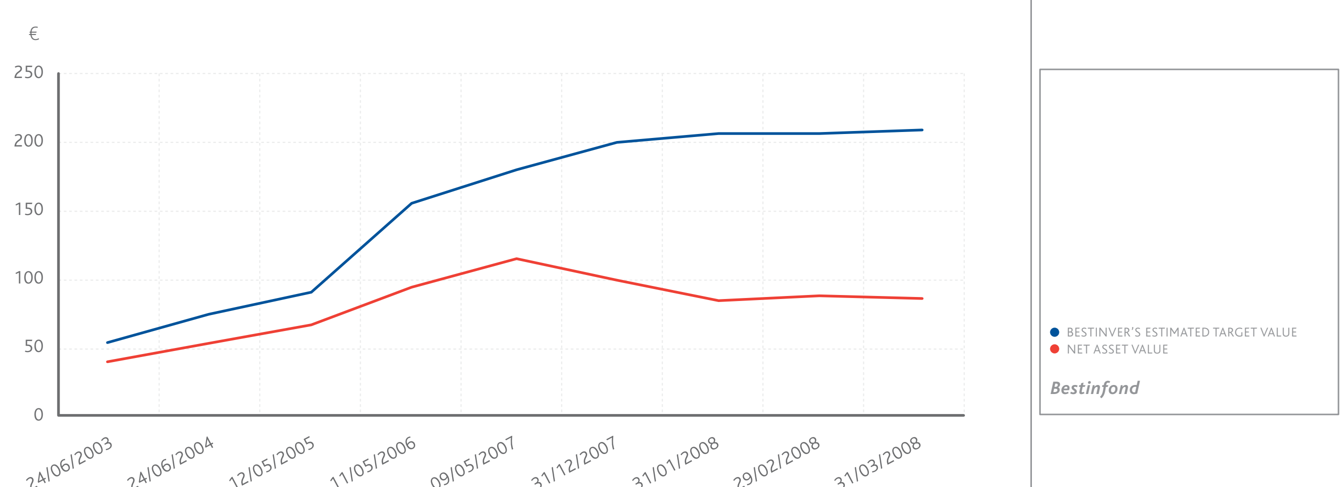


The value of our funds

Regardless of the short-term performance of Bestinfond, thanks to an appropriate stock turnover ratio, **its target value has increased** over the quarter and currently enjoys an upside of 135%. It is really worth mentioning that we are talking about the biggest upside potential ever seen since the fund was constituted 15 years ago, something we have emphasised to our clients in the last few months. The chart below shows a significant distortion between price and value.

"We are talking about the biggest upside potential ever seen since the fund was constituted 15 years ago"

BESTINFOND	31/12/07	31/03/08	Chg %
Target price (€/sh)	**198.5**	**207.2**	**4.4%**
NAV (€/sh)	98.2	87.4	-11.0%
Upside potential	102%	137%	
P/E (estimated free cash flow 2009)	7.4 x	6.3 x	



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The current outlook

It cannot be denied that the correction experienced by our funds since July 2007 – with November, December and January bearing the brunt – has been characterised by sharp drops. The underlying reason has been the disposals carried out by highly leveraged institutions in many of the companies that make up our portfolio. These institutional investors, many of whom have little experience, have been forced to sell due to the credit crunch that western economies are currently facing. The question is essentially this: would you be happy if your partner had no choice but to sell you his half of an extremely profitable business he shared with you at a really low price because he desperately needed to pay off his debts? This is exactly the situation we have been seeing since last summer. Due to the glaring distortion between the value and price of our funds, managers have made their largest personal investment in the funds over the quarter, as we have announced on our website.

As we see it, **we are not facing a liquidity crisis, but a crisis of confidence.** There is enough liquidity in the system, as can be seen from the share buybacks of companies and directors alike, $3 trillion of sovereign funds or the abundance of mergers and acquisitions. What investors are now lacking is the inclination to invest in toxic credit assets or in highly leveraged businesses, and it all boils down to a lack of confidence, particularly among financial institutions. The hefty inflation seen in the property markets of many western economies has weakened the financial system and confidence has now given way to paranoia. We believe that the FED's interest rates cuts will only add fuel to the fire because it will create further inflation and delay the recession that the economy is going to have to face in any case. Once again we can see how monetary policy, which is often set capriciously and is based on the consensus agreement of analysts, creates bubbles that can be difficult to control.

"The hefty inflation seen in the property markets of many western economies has weakened the financial system and confidence has now given way to paranoia"

In stark contrast to the view held by many, recessions are not a bad thing as they allow economies to purge excesses. Nevertheless, we would highlight that a flexible labour market in the US and its economic diversification have actually allowed it to enjoy a certain degree of economic growth, despite the real estate market experiencing the sharpest drop of the last 40 years.

Just as we avoided investing in technological securities in 1999 following the dot-com bubble, since 2002 we have also been warning our clients of the credit bubble that was evolving in many western countries and have steered well clear of direct or indirect exposure to the banking and real estate sectors. The crash of the UK's fourth largest mortgage lender and the fourth largest US investment bank, coupled with the demise of endless Spanish property developers, gives some idea of the sheer scale of the problem and the enormous losses being suffered by investors who failed to avoid those companies.

Yet despite the delicate situation currently facing the financial system, **our professional outlook on a worldwide scale is based on global GDP growth of 3-4.5%,** with the exact numbers depending on growth in emerging markets and the intensity of the US recession. However, we are talking about a growth rate that will prove more than enough for our companies which are multinational with interests in a variety of regions.

The significant current account surplus held by most Asian countries and the surge in raw material prices - which benefits many Middle Eastern and South American nations - have both put emerging countries into a highly advantageous position, which is in turn helping to offset the gloomy scenario created by the Western financial crisis. Asia, for example, represents 24% of the world economy and enjoys an impressive growth rate. On this particular continent, we have been watching events in China, a country that produces 25% of manufactured goods worldwide and which is set to overtake Germany as the world's third largest economic power in 2008. Its economy is based on savings and productivity – a very healthy and sustainable long-term approach.

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Naturally, its growth as a power is not without risk (infrastructure, the environment, civil rights, rural population, bureaucracy, modernisation of its financial system, and so on), but it cannot be denied that the country appears to be heading in the right direction. **Events in China over the next 15 years will have a strong impact both on financial businesses and goods.** At Bestinver, we have for some time been conducting research into how best to realise a close-up analysis of China is affecting our companies and the dynamics of the business world in general.

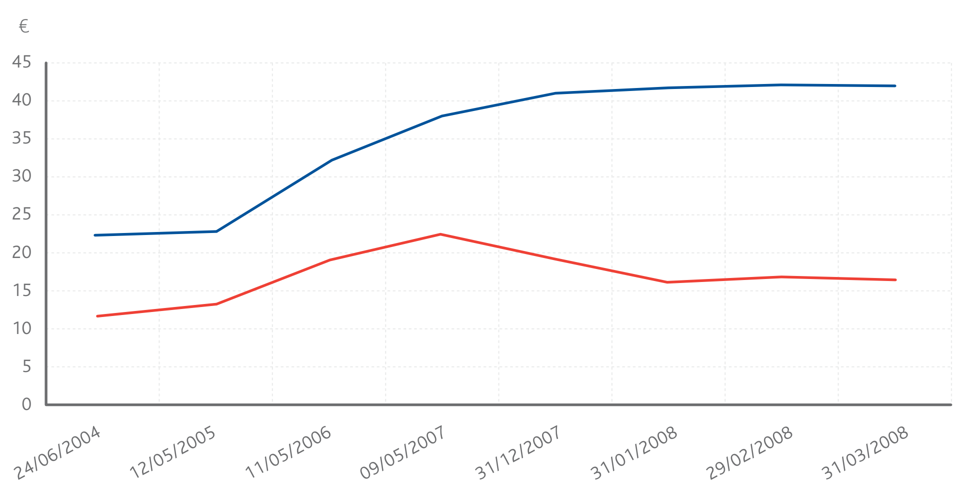
Our international portfolio

At present, we hold a well-diversified international portfolio made up of 80 securities that are currently priced at six times their estimated free cash-flow for 2009. This is an extraordinarily low ratio, which provides some idea of the fantastic long-term opportunities we are introducing into the portfolio. Despite recent stock market falls, recently published quarterly results for many of our companies have triggered impressive gains in their share prices, occasionally reaching two-digit growth in just one day. We believe that the market will gradually take note of the hidden value of our companies and this will have a positive effect on the returns of our funds. Further proof that the companies in our portfolio are undervalued is the fact that we have seen three takeover bids during the first quarter of 2008. Yet again, value is the driving force behind investment approach. Whenever we consider that there is significant upside we are careful not to sell all our position in that particular stock. The portfolio is highly diversified both in terms of sectors and countries, with these being a natural consequence of our individual selection process of opportunities we have pinpointed throughout the world, particularly in Europe.

***The value of our international portfolio has increased** over the quarter, as we can see below:*

BESTINVER INTERNACIONAL	31/12/07	31/03/08	Chg %
Target price (€/sh)	**41.2**	**42.5**	**3.2%**
NAV (€/sh)	18.9	16.6	-12.3%
Upside	117%	156%	
P/E (estimated free cash flow 2009)	6.9 x	5.9 x	

International portfolio = 100% B. Internacional, 70% B. Mixto Internacional, 70% Bestinfond, 49% B. Ahorro, 7% B. Renta and 3% B. Previsión.



Bestinver Internacional

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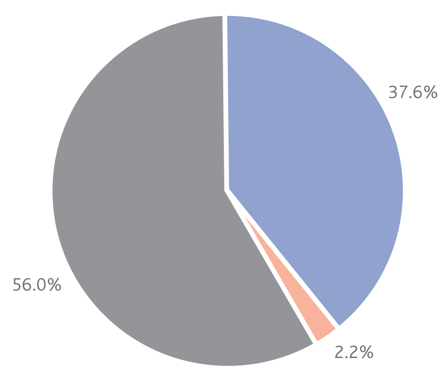
Our Iberian portfolio

Worthy of particular mention against the backdrop of the property boom is Spain, where the old relationship between price and supply appears to be obsolete. Spain is the second largest consumer of cement worldwide and has the world's most developed banking culture thanks to an unprecedented property and credit boom based on negative real interest rates. We forecast short-term difficulties in finding a replacement for the sector largely responsible for Spanish growth over the last 12 years and Spain currently ranks second in terms of unemployment within the EU. More than likely, we will see a significant increase in spending on infrastructure in order to mitigate the effects of the fall in residential construction.

Our Iberian portfolio has avoided investing in the same sectors since 2002, namely those directly affected by domestic demand: consumption, banking, property developers and real estate. The portfolio has a strong defensive slant, with predominantly non-cyclical and export-oriented number of companies, with marginal exposure to cyclical businesses.

Another feature of our Iberian portfolio is its high degree of concentration. This can be put down to our unrivalled knowledge of the companies in a country where we have been investing for over 20 years. To put it another way: we are able to make significant investments in certain companies thanks to the enormous confidence we have in our own valuations. Moreover, we have been able to confirm that our decision to include Portugal in the portfolio has indeed added value. With an average weight of 12%, it has been responsible for at least 25% of the returns of the Iberian portfolio in 2007.

The ability to avoid certain sectors and a suitable concentration in export oriented and non-cyclical companies will allow us to continue enjoying strong future returns, **even if the indices are underperforming.**



Iberian Portfolio: Business type according to Bestinver's valuation

- SPAIN NON CYCLICAL
- SPAIN CYCLICAL
- EXPORT ORIENTED

An example would be Construcciones y Auxiliar de Ferrocarriles (CAF.MC), a non-cyclical export orientated company whose future in the long-term is practically guaranteed. It manufactures and sells high-speed trains, commuter trains, metro trains, locomotives and trams. The company is impeccably managed and enjoys a clear competitive edge and solid financial results. It was founded 148 years ago in Guipúzcoa as an iron manufacturer and has since become one of the leading players in the rail industry with projects in place around the world: in 2007, 40% of its sales were produced outside Spain.

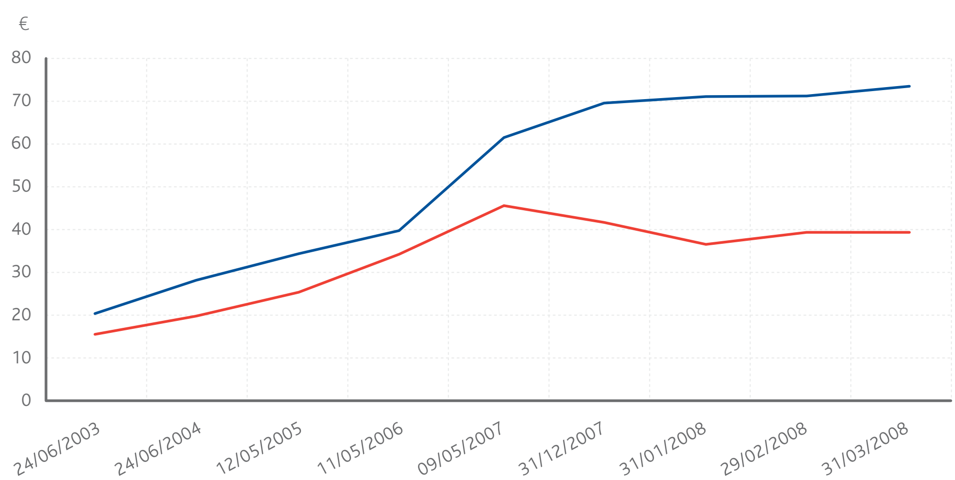
CAF's story is an outstanding example of what Value Investing stands for. Over the first phase of its international expansion (1994-2000), the company experienced only minor fluctuations, with its share price quoting at around €20. It was truly an "uninteresting" stock and was largely ignored by analysts. Bestinver started to buy CAF's shares in 1994 and we have been shareholders ever since. We currently hold a significant stake in the company. CAF has seen its profits multiply eightfold and its share price increase fourteen fold – almost four times more than the IBEX. Investors who have remained in this fund have been highly rewarded. We are confident that opportunities like CAF will enable us to continue generating value in our Iberian portfolio.

CAF share price performance since 1998

Over the quarter, the value of our Iberian portfolio has increased*, as we can see in the following table:*

BESTINVER BOLSA	31/12/07	31/03/08	Chg %
Target price (€/sh)	**69.6**	**73.2**	**5.2%**
NAV (€/sh)	42.2	39.5	-6.4%
Upside	65%	85%	
P/E (estimated free cash flow 2009)	9.1 x	8.1 x	

Iberian portfolio = 100% B. Bolsa, 70% B. Mixto, 30% Bestinfond, 21% B. Ahorro, 3% B. Renta and 3% B. Previsión.



BESTINVER'S ESTIMATED TARGET PRICE
NET ASSET VALUE

Bestinver Bolsa

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Correction, slowdown, crisis... opportunity!

Amid the financial psychosis we are currently witnessing, it is worth remembering that value is the key feature shared by those investors who are able to beat the indices in the long-term. To focus on value means waiting for this value to gradually increase every quarter, every six months or every year... and forgetting about the price. After all, it is essentially this value - and not short-term market fluctuations - that ultimately allows you to enjoy index-beating returns over the next five, ten or fifteen years. For example, if you had invested $6,000 in the company of legendary value investor Warren Buffet in 1965, you would now have $24 million. In other words, an annual rate of 21% over 42 years (Bestinfond has achieved 19% over the last 15 years). The same money invested in the US S&P 500 index would have become a "mere" $400,000, representing a 10% annual rate of return. Just a few weeks ago, it was reported that Mr Buffet is the world's richest man, with a personal fortune of $62 billion.

"It is in times of crisis that we are able to acquire different securities at highly attractive prices"

In future quarterly newsletters we will discuss inflation and the pros and cons of investing in different securities as we know it will be an interesting subject to write about. For now, let us not forget that it is in times of crisis that the best opportunities arise and we are able to acquire different securities at highly attractive prices. We remain extremely positive about our companies and **advise you to forget about "market noise"**, as experience has taught us that it is value that prevails over all other factors in the long term.

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- All Bestinver returns are expressed in local currency, as net after expenses and commissions.

- Text written by Ignacio Pedrosa Taboada (Chief Marketing Officer)

- **Upside:** The fund's scope for revaluation in the opinion of Bestinver fund managers, calculated as the difference between current P/E and target P/E. It is not about the earnings of the fund in a particular period, as, although the fund may be achieving a particular level of return, the goal of the fund managers is to increase this potential, or, at least, to keep it constant.
- **P/E:** Price of free cash-flow at which the fund is trading, based on the P/E estimated by Bestinver's fund managers for each company (includes adjustments such as debt, changes in the cycle, exchange rates, etc.)
- **Price:** The net asset value of the shares in the fund. For the international stock market, the net asset value of the B. Internacional fund is used; whilst for the Iberian stock market, the net asset value of the B. Bolsa fund is used.
- **Target price:** The net asset value that shares in a fund could reach based on the intrinsic value, in the opinion of Bestinver's fund managers, of all the stocks in the portfolio.

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