BESTINVER
Asset Management

08

Quarterly Newsletter

Nº 8, JANUARY 2010.

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BESTINVER
Asset Management

As the fourth quarter of the year draws to a close, it's time to look back and take stock of the year that has come and gone.

Undoubtedly, 2009 was a profoundly significant year for both our customers and ourselves, as other years in recent memory (1999 for instance). After navigating through a rather difficult 2008, in 2009 we remained true to our investment philosophy, continuing to work in the same way as we have over the last 20 years. Going against the market trends, we continued to stand behind the companies that we held —and still hold— in our portfolios, making sure that their intrinsic value continued to be greater than that indicated by the market. We believed then —as we believe now— that the problem in 2008 lay not so much in the companies and in the business they engaged in as in the selling panic that certain investors fell prey to (understandably under the circumstances, but which we cannot share). It is in times like this when remaining calm, redoubling one's efforts to confirm the worthiness of businesses over the long term and taking advantage of the sizeable gaps between prices and values can generate considerable opportunities. With 20/20 hindsight, we see how these exceptional circumstances have given rise to one of the best investment opportunities we have ever witnessed or indeed are likely to witness over the next few years. Those investors who, in keeping with this view, held on to their stock holdings during 2009 should now be very close to their early 2008 levels, or perhaps even higher, as in the case of our Bestinver Hedge Value Fund (BHVF).

The weighted-average return on all Bestinver funds in 2009 was 56.21%, of which the most profitable was BHVF, with a return of 98.3%. Funds under our management grew in 2009, partly as a result of a strong performance by the funds themselves, partly due to a net influx of capital, for which we must thank our customers for their support, their long-term vision and their confidence in our ability.

Focusing on the last quarter of 2009, we saw a continuation of the positive trend that began at the beginning of March. Our model portfolio (as reflected in our Bestinfond FI and Bestinver Global FP funds) achieved a quarterly return of 6.3%, outpacing the 4.08% return on the benchmark (70% MSCI World Index, 20% IGBM 10% PSI).

Year on year, Bestinfond's return was 60.2%, considerably ahead of its benchmark, which rose by 24.2% in 2009. During this time, we maintained our strategy of avoiding risk-laden industries such as the financial sector where the likelihood of suffering a permanent erosion of value is still very high, regardless of any rallies we may have seen in recent months.

It is important to remember that strong returns accrue when one adheres to the long-term view, even if over short periods such as 2008, one may be dragged down when the surrounding environment is very negative.

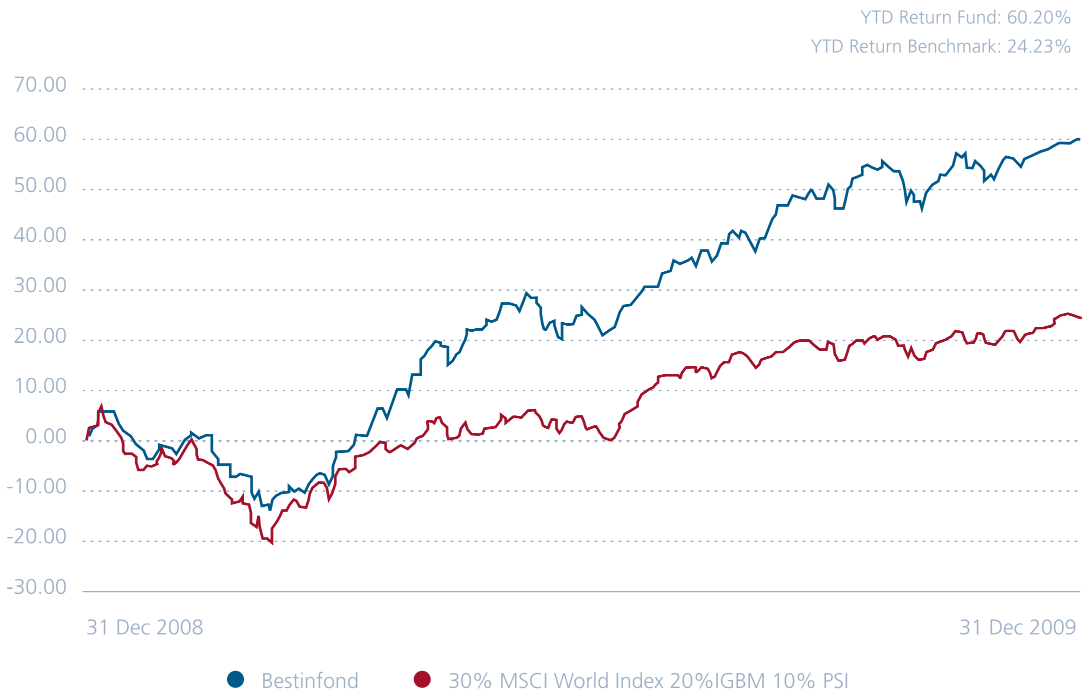
BESTINVER - AVERAGE ANNUAL RETURNS

	15 years	10 years	7 years	5 years	3 years	1 year
Bestinfond	16.5%	14.6%	14.9%	8.1%	-3.2%	60.2%
B.Internacional		8.9%	12.8%	8.0%	-3.2%	71.8%
B.Bolsa		15.7%	16.3%	9.8%	-2.9%	34.6%
B.Mixto		11.3%	11.2%	7.2%	-0.9%	26.2%
B.Renta		4.1%	3.8%	3.5%	2.4%	7.0%
B.Mixto Internac.					-1.85%	54.0%

→ Data as of 31/12/2009. Source: Bestinver

BESTINFOND

2009 Performance

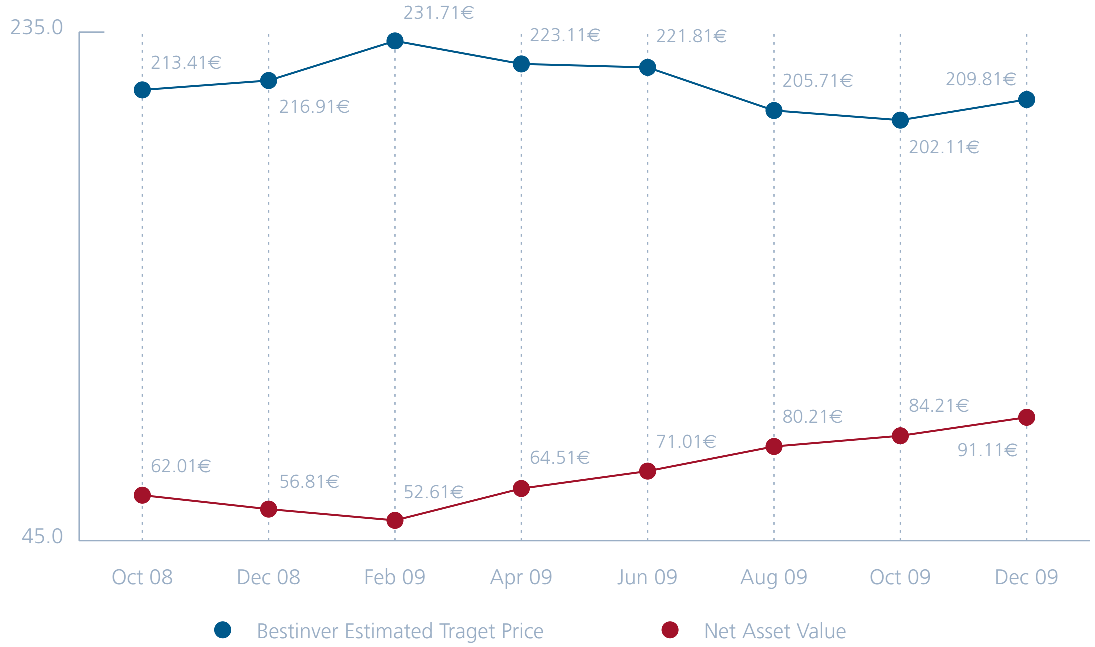


→ Bestinfond invests 70% of its portfolio in international equities, and 30% in Iberian equities.

Bestinfond's target price rose by 5.6% during the last quarter, pushing its upside to 130%. This implies that our portfolio is currently worth some 43 cents, or that we are paying €0.43 for each euro that the fund is estimated to be worth by Bestinver.

BESTINFOND

Gap between Target Price and NAV



→ MONTHLY data published in the Client Zone of our website: www.bestinver.es

BESTINFOND	30-Sep-09	31-Dec-09	Var % 31-Dec-09
Target Price (€/share)	198.6	209.8	5.6%
Net Asset Value (€/share)	85.7	91.1	6.3%
Upside	132%	130%	
P/E (estimated 2010 free cash-flow)	6.5 x	6.5 x	

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THE CURRENT SITUATION

After a rather complicated start to the year, we saw how the trend we anticipated at the beginning of the year whereby the market was beginning to discriminate between companies materialised in the form of the performance we witnessed in 2009.

The good health of the companies in our portfolios, which are able to generate very good capital returns in an adverse economic climate (such as that in 2008), together with the global economic recovery, make us continue to feel very encouraged regarding their future business performance and, we hope, their stock performance.

Within this global economic recovery, special mention must be made of China's role, an economy based on savings and productivity whose activity levels are close to the highs of 2008, as evidenced by the most recent figures for imports (at an all-time high) and exports (just 4.4% below their maximum). Stimulus plans resulted in noticeable growth of the Chinese economy in 2009, in turn leading to measures aimed at ensuring that growth can be sustained. An example of this was the recent increase in banks' reserve requirement in a country where credit growth has largely been limited to strategic sectors and real estate, and where loans and deposits have remained very much in balance, thus indicating that loan growth is backed up by economic growth. Herman Chan, Bestinver's analyst in Shanghai, shares his impressions of China:

Our vision of China

China will end 2009 with an economy that is growing by over 8% in what is undoubtedly quite an achievement considering the acute crisis in which most of the other economies have been immersed. In 2010, China will likely overtake Japan, becoming the second-largest economy in the world, behind the US.

In the longer term, after a decade of awesome economic growth, we believe that China will continue on a similar trajectory given that the underlying foundations on which its growth is based are sustainable. This argument is based on three fundamental points. First, debt —both public and private, is very low, allowing abundant capital to be channelled into projects of every sort and helping to expand and improve the country's productive fabric, which is the main driving force behind its economic growth. Second, urbanisation is intense (some 20 million people migrate from the rural areas to the cities every year), which contributes to natural growth by boosting domestic consumption. The pace of modernisation of the services, financial and consulting sectors, logistics, information technology, entertainment, culture, etc. is also rapid. This segment of the economy is the most intensive in the use of human capital, allowing the huge numbers of workers that are leaving the rural areas to find jobs in the cities. Third, China's inherent structure, which is strongly work-oriented and focused on achieving economic prosperity in a way that encourages entrepreneurial undertakings, allows companies to make rapid progress along the learning curve and adopt the most advanced technologies available, a factor that is key to sustained growth of productivity.

	GDP	Contribution to		
	growth %	Consumption	Investment	Exports
2007	13.0%	5.3%	5.1%	2.6%
2008	9.0%	4.1%	4.1%	0.8%
1Q09	6.1%	2.0%	4.3%	-0.2%
6M09	7.1%	3.8%	6.2%	-2.9%
9M09	7.7%	4.0%	7.3%	-3.6%
2009F	8.4%	4.1%	5.9%	-1.6%


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344


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0

International Portfolio

Our international portfolio continued to perform very well in the fourth quarter, appreciating by 8.7%, ahead of its benchmark index, the MSCI, which gained 5.6%. Over 2009 as a whole, the portfolio achieved a revaluation of 71.9%, far ahead of the MSCI's 23% gain. Long-term returns were also significantly higher than those of the index, with an annual yield gap of 9.05% and 14.24% over the last five and 10 years, respectively.

Our portfolio's relative performance vis-à-vis the market confirms our view, which we defended when the world stock markets were in a meltdown, that the market had not discriminated and that it would do so sooner or later. Now, the market may be inefficient in the short run, but in the long term it tends to be efficient. This is the fundamental premise on which our investment strategy is based.

During the fourth quarter, we raised our valuations on 59 companies, lowering them on three. The impact on the aggregate valuation of the fund is +5.3%, from €41.50 to €43.70. Therefore, after several quarters during which we had lowered the valuation of the fund in order to focus on company quality even more than usual in order to make it more defensive, albeit at the expense of some upside, in the fourth quarter, we resumed our strategy of value creation. Furthermore, we achieved this despite continuing to give priority to quality.

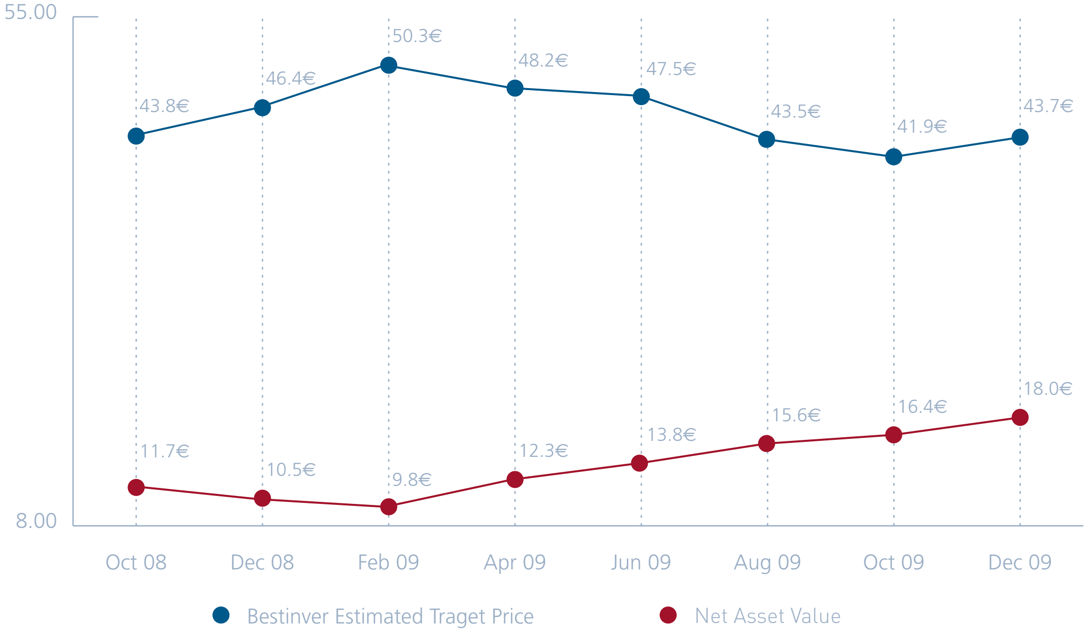
An example of this strategy is the Dutch information services multinational, **Wolters Kluwer**, which today is one of our biggest holdings in our international portfolio. **Wolters Kluwer** is the market leader in most of the sectors where it is present, most of its business is subscription-based, making it relatively inelastic to cycles, and overall, the return on capital employed is extremely high thanks to very substantial entry barriers. In exchange, we have taken advantage of rallies to sell off companies whose return on capital employed was lower and whose entry barriers were less solid. An example of this is **Leoni**, a German supplier to the automotive industry, in which we no longer hold positions after riding it up to €17 per share from a low of €7.

One of the highlights of the quarter was the bid made for one of the companies we hold, **Océ**, the Dutch printer maker. We received a tender offer from Canon in Japan valuing Océ at €8.6 per share, a price more than 70% higher than the last closing price prior to the bid, and not very removed from our fair value of €9.4. This is one more instance demonstrating that our valuations are essentially correct, with a small error margin, although it is true that we had lowered Océ's valuation throughout the year.

After the significant rally of 2009, the international portfolio is now trading at a P/E ratio of 6.2x and thus still has an upside of 143%. This is tantamount to saying that price/value for Bestinver Internacional is 41 cents, and is equivalent to paying €0.41 for each euro that we estimate the fund to be worth.

BESTINVER INTERNACIONAL

Gap between Target Price and NAV



→ MONTHLY data published in the Client Zone of our website: www.bestinver.es

BESTINVER INTERNACIONAL	30-Sep-09	31-Dec-09	Var % 31-Dec-09
Target Price (€/share)	41.5	43.7	5.3%
Net Asset Value (€/share)	16.6	18.0	8.7%
Upside	150%	143%	
P/E (estimated 2010 free cash-flow)	6.0 x	6.2 x	

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Iberian Portfolio

During the fourth quarter, the domestic portfolio fell by -0.4%, compared to the +1% gain in the IGBM. For 2009 as a whole, the return on the portfolio was 34.6%, ahead of the IGBM's 27.2% rise. Similarly, long-term returns on the portfolio were higher than those for the index, with gaps of 4.51% and 13.58% over the last 5 and 10 years, respectively.

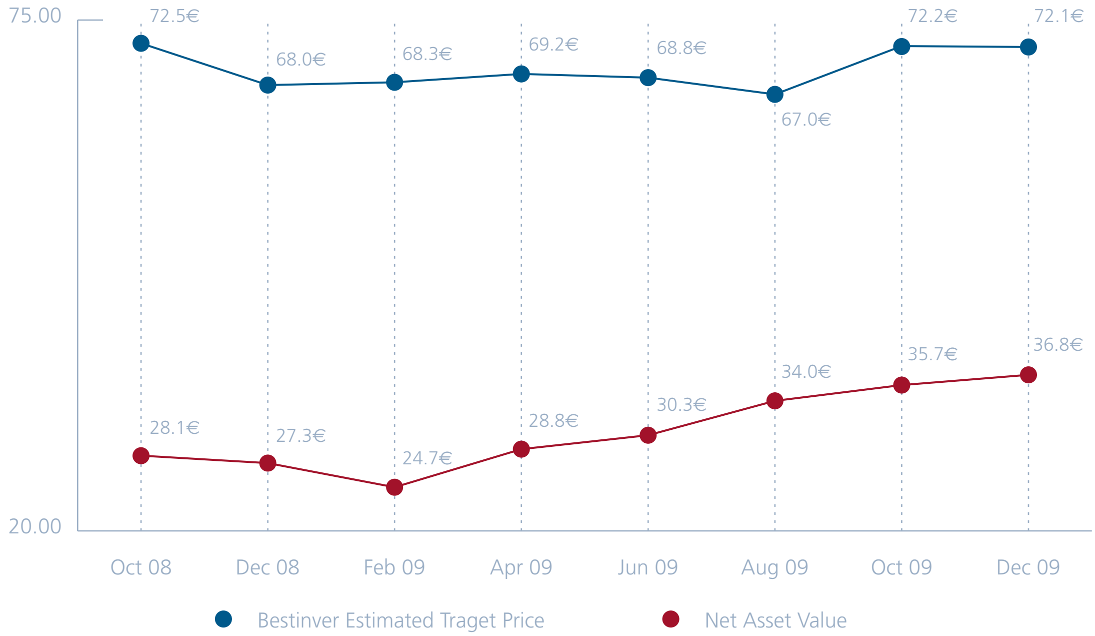
We should like to point out the asset disposals that some of the companies in which we have significant holdings engaged in during this quarter. These sales were carried out at valuations that were very similar to Bestinver's. One such case was **Cintra**, which sold its parking lots and Chilean motorway concessionaires; another was **Gas Natural**, which sold its gas distribution assets in Spain. In two other cases, specifically the sale of Gatwick airport by **Ferrovial**'s subsidiary, **BAA**, and certain electricity generation assets in Latin America owned by Gas Natural, valuations were somewhat lower than our own. However, in both cases, the sales took place in very unfavourable conditions due to the current economic climate and, more important, were "forced" sales, in BAA's case, by the British competition authority, and in Gas Natural's, by the banks financing the purchase of **Unión Fenosa** in order to shed debt after the acquisition. It is worth stressing that these examples of private deals once more confirm that Bestinver's valuations, which are a key element in our investment strategy, tend to be correct. Thus, if we extrapolate these examples to the company valuations, we find that our estimates for the aggregate value of the funds and, consequently, their upside, are accurate.

During the fourth quarter, we raised our valuation on 26 companies, lowering it on 10. The impact on the fund's aggregate valuation was +5%, from €68.7 per share to €72.1. The most significant change was the 72% increase in our fair value for Iberpapel as a result of its sizeable investments in the energy sector. Similarly, we raised our valuation for Técnicas Reunidas by 33% due to the company's sharp growth.

Following the 34.6% climb in 2009, the domestic portfolio now trades at a P/E of 7.7x, and its upside currently stands at 96%. The price/value ratio is thus 51 cents per euro.

BESTINVER BOLSA

Gap between Target Price and NAV



→ MONTHLY data published in the Client Zone of our website: www.bestinver.es

BESTINVER BOLSA	30-Sep-09	31-Dec-09	Var % 31-Dec-09
Target Price (€/share)	68.7	72.1	5.0%
Net Asset Value (€/share)	36.9	36.8	-0.4%
Upside	86%	96%	
P/E (estimated 2010 free cash-flow)	8.1 x	7.7 x	

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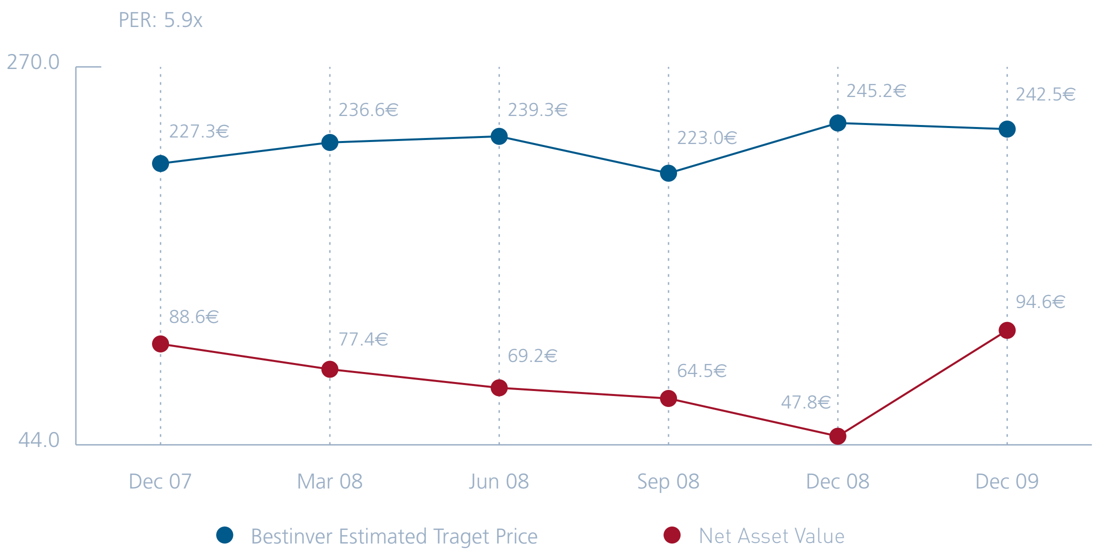
RWX 61.01 2.18 –3.6
XLE 74.61 2.21 27.3
XLF 30.63 1.49 –16.6
GII 63.49
XLV
1.58 –4.7
1.38 5.1

Bestinver Hedge Value Fund

Bestinver Hedge Value Fund reported a positive return in the fourth quarter, posting a 9% gain compared to 5.6% for the MSCI. At 2009 year end, the fund's annual return was 98.3%, contrasting sharply with the benchmark's 23% return. The fund's net asset value is now approaching its end of 2007 maximum.

The target price of the fund rose by 6.7% during the quarter, going from €227.3 to €242.5. As at December 31, 2009, the fund was trading at a P/E of 5.9x, offering an upside of 156% and a price/value ratio of 39 cents per euro.

HEDGE FUND



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HEDGE FUND	30-Sep-09	31-Dec-09	Var % 31-Dec-09
Target Price (€/share)	227.3	242.5	6.7%
Net Asset Value (€/share)	86.8	94.6	9%
Upside	162%	156%	
P/E (estimated 2010 free cash-flow)	5.7 x	5.9 x	

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Financial Report
Annual Review

Conclusion

After two very difficult years both for the global economy and for asset management, we affirm our investment philosophy. We have taken advantage of the crisis to improve our management methods and make them stronger. After these improvements, we do not think it likely that we shall see declines like those we saw during the recent crash, even when faced with a repeated market scenario of the greatest pessimism combined with the lowest liquidity.

It must also be said that as a company, Bestinver has used this crisis to make improvements in other areas, both commercial and administrative, that might have begun to encounter difficulties in dealing with the sharp growth in assets under management prior to the shakeout. We sincerely believe that we are now in an altogether enviable position from which to face any and all future challenges.

BESTINVER
Asset Management

All Bestinver returns are expressed in € and are net, after expenses and commissions.

Text by Fernando Bernad Marrase (Bestinver fund manager).

All of Bestinver's investment funds are co-managed by the three fund managers: Francisco García Paramés, Alvaro Guzmán de Lázaro, and Fernando Bernad Marrase.

This quarterly newsletter and prior newsletters can be found on our website.

Upside: A fund's scope for revaluation at any given time, in the opinion of Bestinver's fund managers, calculated as the difference between current P/E and target P/E. It does not refer to a fund's earnings over a specified period because even if a fund obtains a specific return, the aim of the fund managers is to increase or at least maintain its upside.

P/E: Price to free cash-flow of the fund, based on P/E of each company estimated by Bestinver's fund managers (adjusted for debt, timing within the cycle, share price, exchange rates, etc.).

Price: The net asset value of the shares in the fund at any particular time. For international stocks, the net asset value used is that of the B.Internacional fund. For Iberian stocks, the net asset value used is that of the B.Bolsa fund.

Target Price: The net asset value that shares in a fund might be expected to reach based on the intrinsic value, as estimated by Bestinver's fund managers, of all the stocks in the portfolio.


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110

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