BESTINVER
Asset Management

09

Quarterly Newsletter

Nº 9, APRIL 2010.

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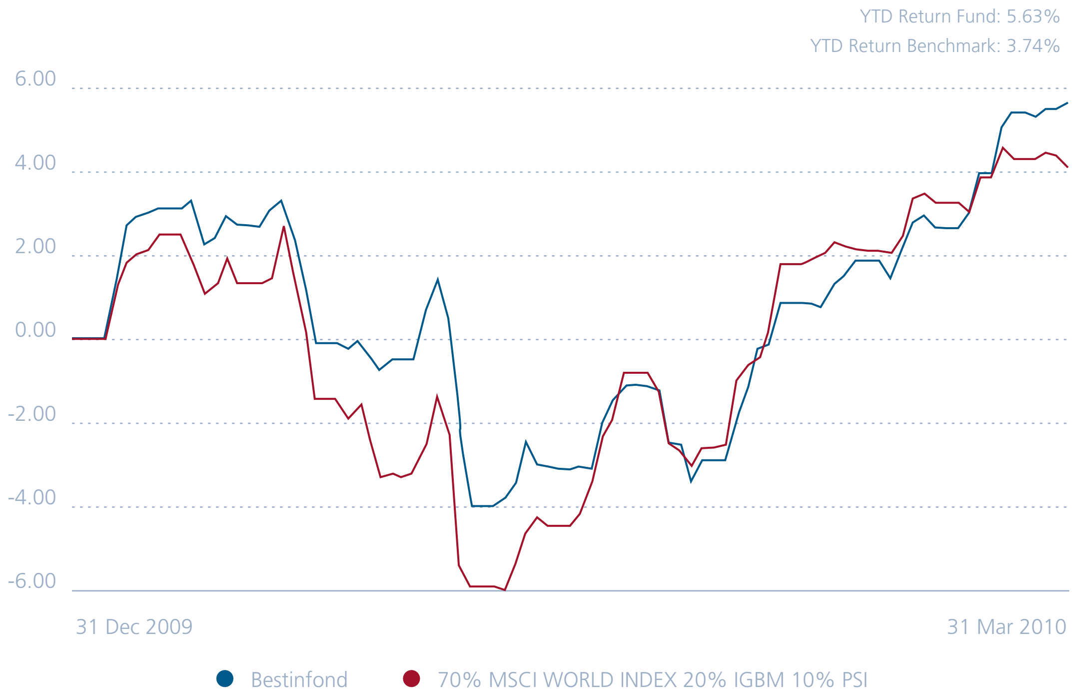
BESTINVER
Asset Management

During the first quarter of 2010, our funds maintained the positive performance seen throughout 2009. The performance of the Iberian Portfolio relative to the benchmark index has been particularly noteworthy. So far this year (at the end of the quarter) the yield of the Iberian Portfolio is -0.04% compared to -9.55% for the IGBM Index and -4.35% for the PSI Index.

Our model portfolio, represented by Bestinfond (70% international holdings/30% Iberian holdings) and the pension fund, Bestinver Global, has achieved a yield of 5.63% for the first quarter of 2010, compared to 3.74% for the benchmark index (70% MSCI World Index, 20% IGBM and 10% PSI).

BESTINFOND

Evolution in 2010

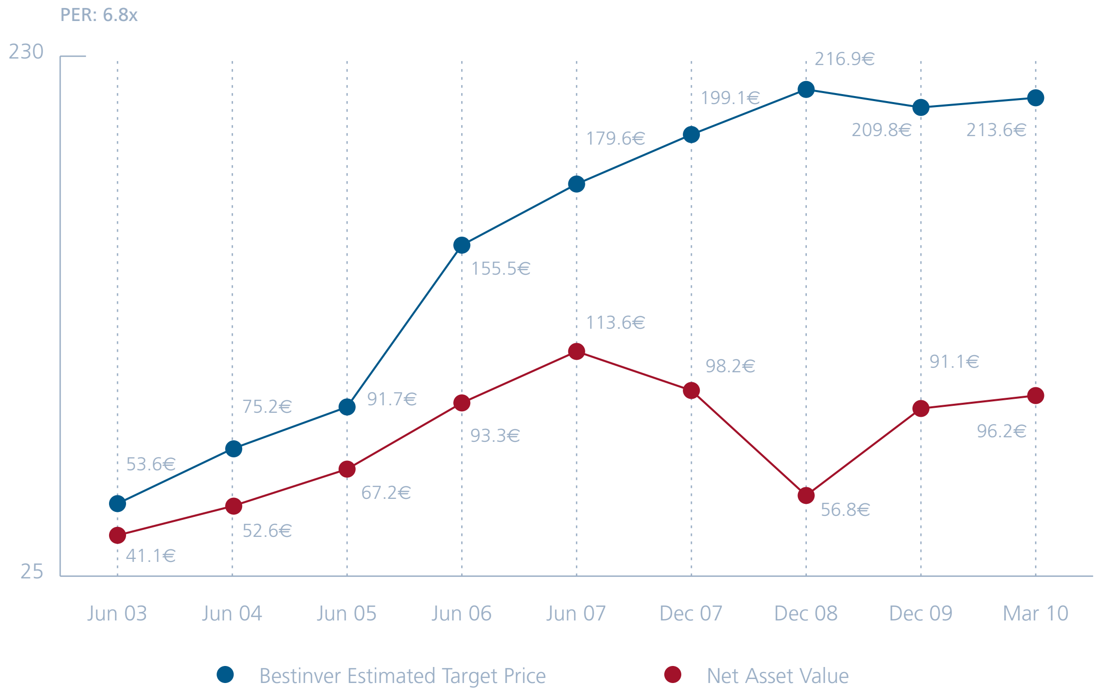


→ Bestinfond invests 70% of its portfolio in international equities and 30% in Iberian equities.

The target price of Bestinfond has increased by 1.8% in the last quarter, giving the fund an upside potential of 122%. The difference between the price and the value of the fund estimated by Bestinver represents an attractive investment opportunity.

BESTINFOND

Evolution of the difference between target price and net asset value



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BESTINFOND	30-Dec-09	31-Mar-10	Var % 31-Mar-10
Target Price (€/share)	209.8	213.6	1.8%
Net Asset Value (€/share)	91.1	96.2	5.6%
Upside Potential	130%	122%	
PER (estimated free cash flow 2011)	6.5 x	6.8 x	

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The following table shows fund yields for different time periods. Although the three-year yields remain negative, we have managed to recover most of the lost ground. For longer periods, where the irrationality of 2008 is more diluted, the funds have obtained satisfactory yields and are clearly above their benchmark indexes.

BESTINVER AVERAGE ANNUAL YIELDS

	15 Years	10 Years	7 Years	5 Years	3 Years	1 Year
Bestinfond	17.6%	14.0%	15.4%	7.6%	-4.4%	84.5%
B. Internacional		8.6%	17.0%	7.1%	-3.4%	101.7%
B. Bolsa		14.3%	15.8%	8.1%	-6.3%	47.7%
B. Mixto		10.4%	10.9%	6.0%	-3.2%	35.6%
B. Mixto Internac.					-1.8%	73.9%
B. Renta		4.1%	3.8%	3.4%	2.0%	7.9%

→ Figures at the close of the day: 31/3/2010. Source: Bestinver

THE CURRENT ENVIRONMENT

In the first months of the year, the figures indicate that the **economic recovery** remains on course, although uncertainties persist that need to be taken into account. The **Greek** solvency crisis is the most significant, chiefly because of the impact it may have on peripheral economies and, in particular, on Spain. While these events can give rise to short-term market upheavals, the long-term impact on our investments and on their business development is limited, taking into consideration the quality of the companies held in the portfolio and the exposure to areas with healthy and reasonable growth. Although solutions for the problems in Greece have taken a while to materialize, they should be sufficient to prevent an extreme adverse outcome for the country and its creditors.

The positive side is still **China**, which continues to drive the global economic recovery with a growth forecast of 9% for 2010 (see table). In spite of the important role played by emerging countries in the recovery, consolidation must be based on the normalization of the U.S. economy, an adjustment that we believe is currently underway. The **U.S.** economy is much more flexible than the European economy and, consequently, the adjustment of the **real-estate market**, as well as the **deleveraging** process, are occurring much faster, which leads us to believe that it will emerge from the crisis ahead of most of the developed world. In an economy in which consumption represents 70%, recent figures have been surprisingly strong, with an increase of more than 3% compared to the same quarter in the previous year. Nevertheless, certain imbalances persist, especially in regard to the labor market and the swollen fiscal deficit, which require a more extended period of time to be resolved.

Global growth recommences:

Real GDP	Average 1990-2005	Forecast 2010	2011
World	3.5	3.7	3.2
G7	2.3	2.4	1.5
U.S.	2.9	3.0	1.5
Canada	2.5	3.3	2.2
Japan	1.5	3.0	1.0
Eurozone	1.9	1.5	1.5
U.K.	2.4	1.0	1.5
China	9.6	9.0	8.0
Brazil	2.5	5.0	3.0
Mexico	3.2	3.5	1.5

→ Source: Bestinver

In this context we feel that equity investments continue to be the best option, now that other investment vehicles, such as deposits and sovereign debt, are offering very limited horizon yields, with increasing risks and minimal returns. Moreover, if as everything seems to indicate, we are entering into a period of inflation in the medium term, equities would be the preferred assets, essentially because they are the only ones that incorporate inflation. The case of Argentina is only too well-known, where bonds fell 70% since 2000 and have still not recovered as of today, while stock market investors recovered their investments in 2003, after a drop of 60% in the Merval index.


350
371
344


$100
80
60
40
20
0

Our International Portfolio

Our international portfolio has shown positive performance during the first quarter, with an appreciation of 8%, although this is slightly below the MSCI benchmark index, which rose 8.9%. Taking a longer period into consideration and, more specifically, since the crisis broke out in mid-2007, our international portfolio has outperformed the index, with an accumulated drop of 17.7%, compared to 26.8% for the MSCI. Over an even longer term, the difference in yield in favor of our portfolio is 7.1% and 13.74% annually for the last 5 and 10 years, respectively.

During the first quarter, we have raised valuations for 37 companies and lowered them for 20. The impact on the aggregate valuation of the fund has been +2.9%, from €43.7 to €44.9, on top of the improvement of 5.3% in the previous quarter, consolidating the change in tendency to once again create value. We cannot stress enough that this has been achieved in spite of the continued emphasis on quality and even, to a certain extent, at the expense of our goal to maximize upside potential.

The most significant variations in valuations within the portfolio have been the improvement of **BMW**, as a result of achieving better than expected earnings and free cash flow generation and the improvement of **Thales**, due to our favorable analysis of the merits of the strategic plan recently presented by the company.

After receiving a take-over-bid in the fourth quarter of 2009 for one of our holdings in the fund, the Dutch company Océ, on March 31 we received a new take-over-bid for another of our investments, **Sperian**, the French multinational personal protective equipment manufacturer. On this occasion, the buyer was a risk capital fund, which valued the company at €70 per share, a price that is 17% higher than the trading price immediately prior to the bid, 40% higher than at the end of 2009 and 250% higher than last year's lows, although the bid was still below our valuation.

After the excellent performance over the last four quarters, the international portfolio is now trading at a PER of 6.5x and, therefore, still has an upside potential of 131%. In other words, we continue to find ourselves in a remarkable situation, where the price/value ratio of Bestinver International is 43 cents (euro), which implies paying 0.43 per euro (of the value estimated by Bestinver) of the fund.

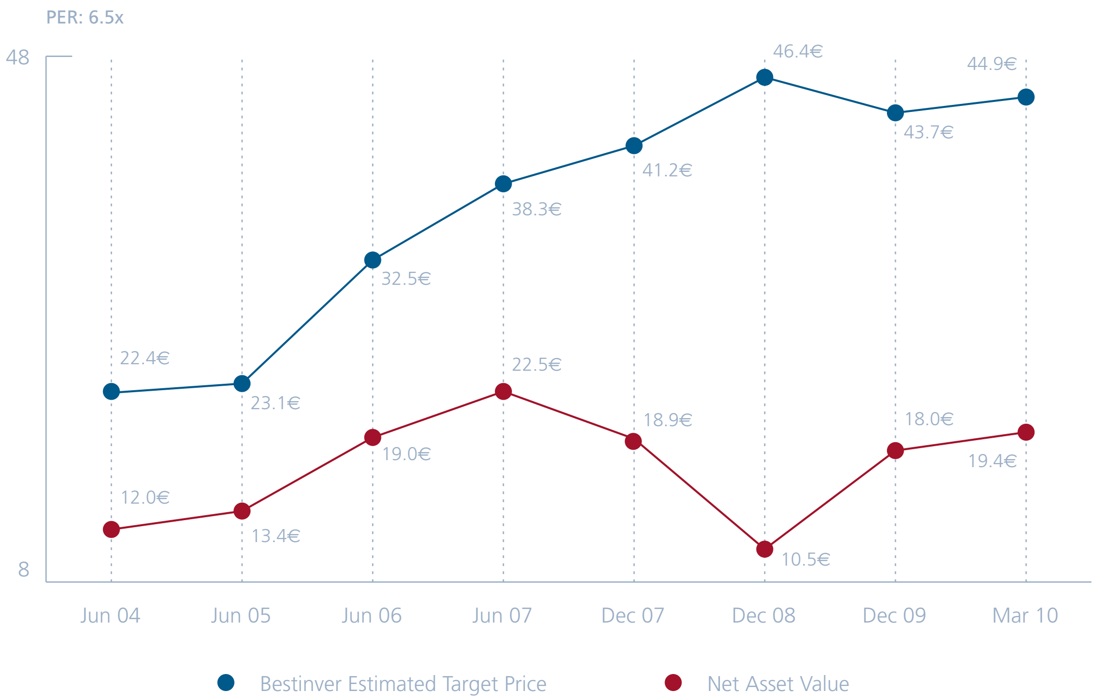
Finally, after the latest events and developments in Europe, it is worth pointing out the analysis we have made of the exposure of the International Portfolio to the different economies, calculated according to the geographic breakdown of the sales of our companies.

INTERNATIONAL PORTFOLIO	
INTERNACIONAL (NO EURO)	45.0%
USA	13.0%
Emerging	13.0%
UK	12.0%
Switzerland	7.0%
EURO ZONE	50.0%
France, Germany and other Northern European	31.0%
Italy	15.5%
Spain, Portugal, Greece and Ireland	3.5%
CASH	5.0%

The bottom line is that the international portfolio is widely diversified and exposed to economies that are in good condition; our exposure to Italy is the only area that could be affected by a worsening of the situation. However, it is important to point out that this exposure consists of very stable assets (over 60% belong to the electrical and computer services sectors), which are also extremely undervalued, compensating for any monetary uncertainty.

BESTINVER INTERNACIONAL

Evolution of the difference between target value and net asset value



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BESTINVER INTERNACIONAL	31-Dec-09	31-Mar-10	Var % 31-Mar-10
Target Price (€/share)	43.7	44.9	2.8%
Net Asset Value (€/share)	18.0	19.4	8%
Upside Potential	143%	131%	
PER (estimated free cash flow 2011)	6.2 x	6.5 x	

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Our Iberian Portfolio

During the first quarter, the net asset value of the domestic portfolio has remained stable, compared to a drop of 8% for the benchmark index (70% IGBM and 30% PSI). This improvement in performance, notable for having occurred in such a short period of time, is due to the limited exposure to securities exposed to the Spanish economy, or to those that have high levels of debt (or involve business activities that are leveraged by nature), stocks that have performed particularly poorly in the last quarter.

With respect to the domestic portfolio, we can only reiterate that our exposure to cyclical segments of the Spanish economy is practically nonexistent and we have focused our investments on companies with an international presence or in the export business, as well as Portuguese companies, since we expect Spain to suffer from a much deeper and more prolonged economic crisis than the rest of the global economies.

In our analysis of the geographic exposure of the Iberian Portfolio (calculated according to the geographic breakdown of the sales of our companies) we have found that our combined exposure to Spain and Portugal is 32.5%. This represents a very limited risk which, furthermore, consists of highly stable assets (foodstuffs, electrical and telecommunications sectors, etc.) that adapt more easily to difficult environments.

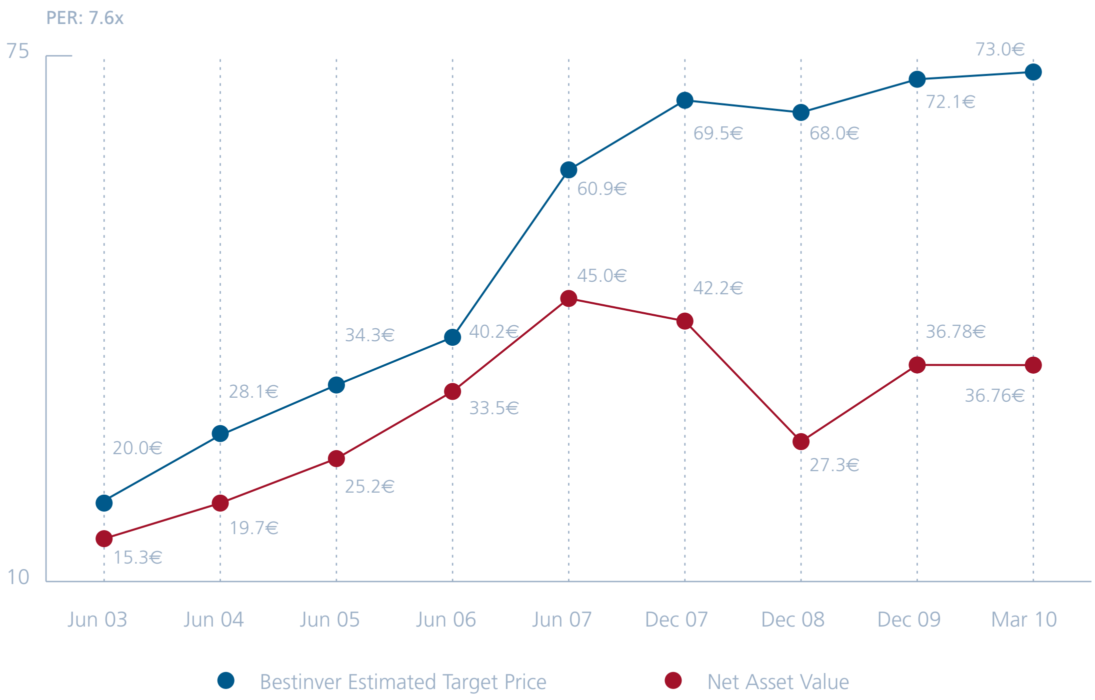
THE IBERIAN PORTFOLIO	
International Market	62.5%
Spain	24.0%
Portugal	8.5%
CASH	5.0%

During the fourth quarter we have raised valuations for 20 companies and lowered them for 16. The impact on the aggregate value of the fund has been +1.2%, from €72.1 per share to €72.9. Practically all of the variations in valuations have been relatively insignificant.

After rising 34.6% in 2009, the domestic portfolio is now trading at a PER of 7.6x and therefore still has an upside potential of 98%. As a result, the price/value ratio is 50 cents for each Euro of the target price.

BESTINVER BOLSA

Evolution of the difference between target value and net asset value



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BESTINVER BOLSA	31-Dec-09	31-Mar-10	Var % 31-Mar-10
Target Price (€/share)	72.1	73.0	1.2%
Net Asset Value (€/share)	36.78	36.76	-0.1%
Upside Potential	96%	98%	
PER (estimated free cash flow 2011)	7.7 x	7.6 x	

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The long term yield has outperformed the index by 5.34% and 13.82% annually in the last 5 and 10 years, respectively.

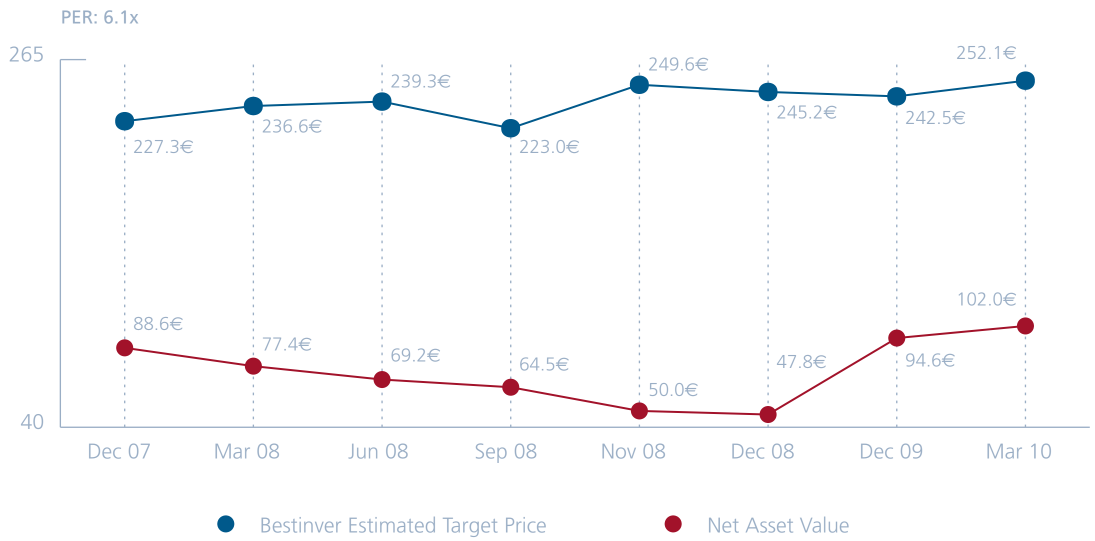
1.58 -4.7
1.38 5.1
RWX 61.01 2.18 -3.6
XLE 74.61 2.21 27.3
XLF 30.63 1.49 -16.6
GII 63.49
XLV

Bestinver Hedge Value Fund

During the first quarter, the Bestinver Hedge Value Fund produced a positive yield of 7.8%, compared to 8.9% for the benchmark index, the MSCI World Index. The net asset value is almost back up to the highs reached at the end of 2007.

During the quarter, the target price of the fund rose by 3.9%, from €242.5 to €252.1. At 31 March, the fund was trading at a PER of 6.1x, offering an upside potential of 147% and a price/quality ratio of 40 cents for each Euro of the target price.

HEDGE FUND



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BESTINVER HEDGE VALUE FUND	31-Dec-09	31-Mar-10	Var % 31-Mar-10
Target Price (€/share)	242.5	252.1	4%
Net Asset Value (€/share)	94.6	102.0	7.8%
Upside Potential	156%	147%	
PER (estimated free cash flow 2011)	5.9 x	6.1 x	

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Financial Report
Annual Review

Conclusion

In a quarter that has been positive for the stock markets, on the whole, our global portfolio has shown a similar performance, in spite of last year being an exceptional year for our investments, in which we far outperformed the indexes (+71,9% vs. +23% for the MSCI). However, the Spanish stock market is an exception among the majority of the global markets, with a drop this quarter of nearly 10%. At Bestinver, as we have stated repeatedly, this has not taken us by surprise and our domestic portfolio has not been dragged down by the declines, although some of the individual investments have been affected and, in our opinion, unfairly punished. In conclusion, this has been a quarter in which our investment strategy has once again produced satisfactory results.

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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.


120
110
100

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