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## Quarterly Newsletter

N° 10, JULY 2010



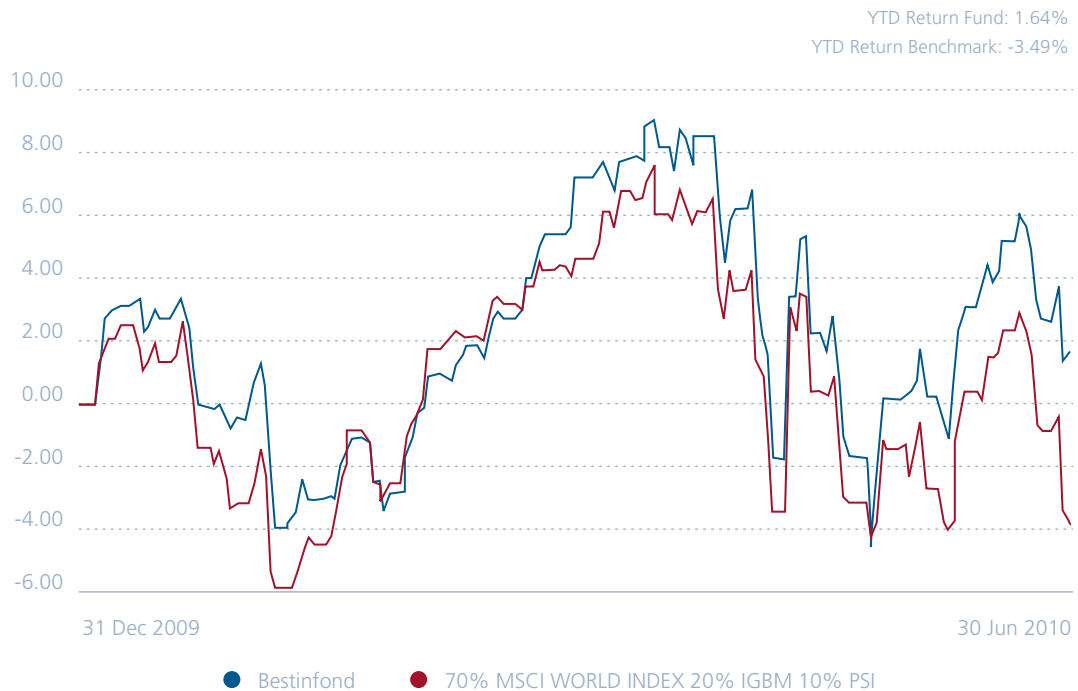


During the second quarter of 2010, stock markets all over the world have entered into negative numbers dragged by the uncertainty caused by the financing problems of certain European economies. In this environment, Bestinver's funds have been able to maintain a positive attitude towards their reference indexes: 2.4% for the national portfolio (Bestinver Bolsa) and 2.9% for the international portfolio. We need to take into account that the value strategy followed by Bestinver obtains its best relative results in this market environment when the speculative component is inferior compared to the one in the final phases of the rising markets.

Bestinver's model portfolio, reproduced in Bestifond (70% international portfolio / 30% iberian portfolio) and in Bestinver Global, the pension fund, has shrunk back 3.78% during the second quarter of the year compared to the decrease of 6.70% of its reference index (70% MSCI World Index, 2% IGBM and 10% PSI). Despite this partial result, Bestifond rises 1.64% in annual terms.

## BESTINFOND

Evolution in 2010



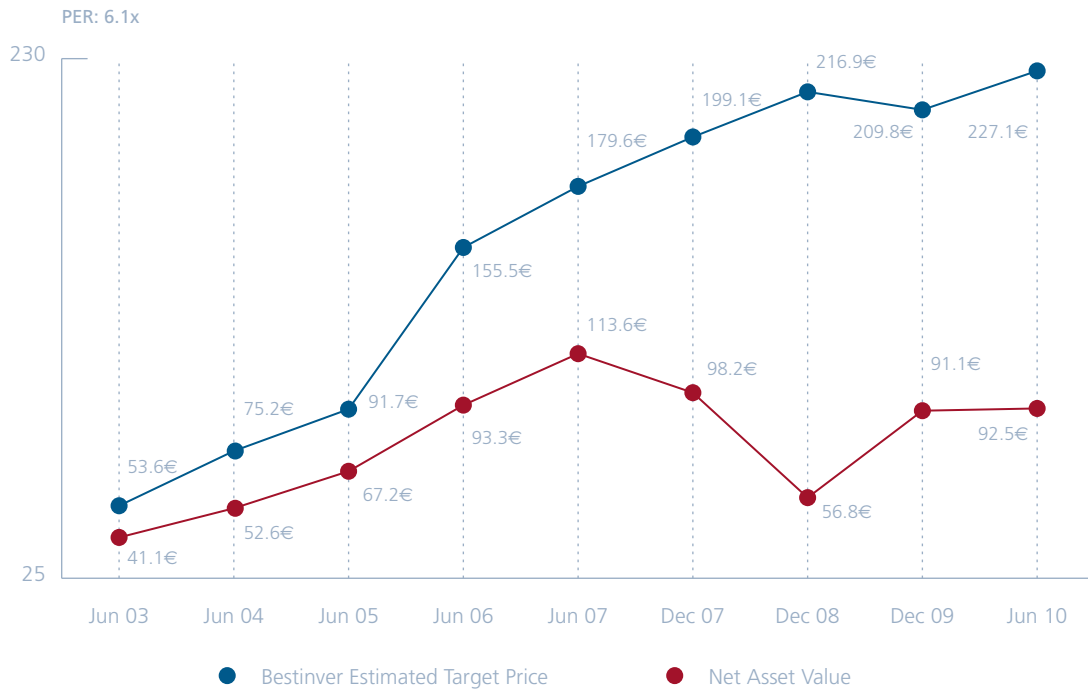
→ Bestinfond invests 70% of its portfolio in international equities and 30% in Iberian equities.

Although the second quarter involved a slight decrease of the fund price, we continued creating value for our participants increasing the upside potential until it reached 145% (in case of the Bestinfond). This is an increase of 6.3% in comparison with the previous quarter.

This target price represents the second mayor potential the fund has ever had and, therefore, constitutes a good investment opportunity in the long term.

## BESTINFOND

Evolution of the difference between target price and net asset value



→ Information published MONTHLY in the Client Zone on our website [www.bestinver.com](http://www.bestinver.com)

BESTINFOND	31-Mar-10	30-Jun-10	Var % 30-Jul-10
Target Price (€/share)	213.6	227.1	6.3%
Net Asset Value (€/share)	96.2	92.5	-3.8%
Upside Potential	122%	145%	
PER (estimated free cash flow 2011)	6.8 x	6.1 x	

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Regardless of having endured during these last years the irrationality of a largely decreasing market, the following performance matrix shows that, in the long term and through the persistent search of value, consistent yields can be achieved that end up being superior to those of the market.

## BESTINVER ANNUAL AVERAGE PROFITABILITY

	15 Years	10 Years	7 Years	5 Years	3 Years	1 Year
Bestifond	16.6%	13.8%	12.2%	5.5%	-7.5%	30.4%
B.Internacional		8.2%	12.5%	6.2%	-5.9%	39.0%
B.Bolsa		13.2%	11.5%	4.3%	-11.3%	8.9%
B.Mixto		9.5%	7.7%	3.3%	-7.1%	7.0%
B.Mixto Internac.					-3.6%	29.6%
B.Renta		4.0%	3.3%	3.0%	1.3%	2.8%

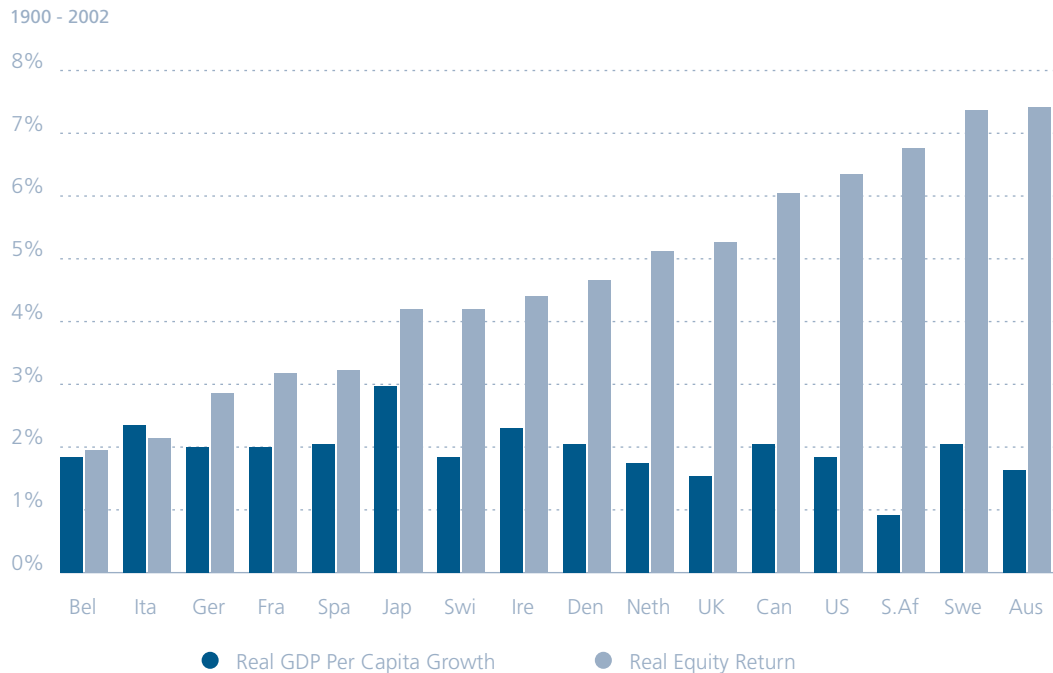
→ Data of 30/6/2010.

Source: Bestinver

## CURRENT ENVIRONMENT

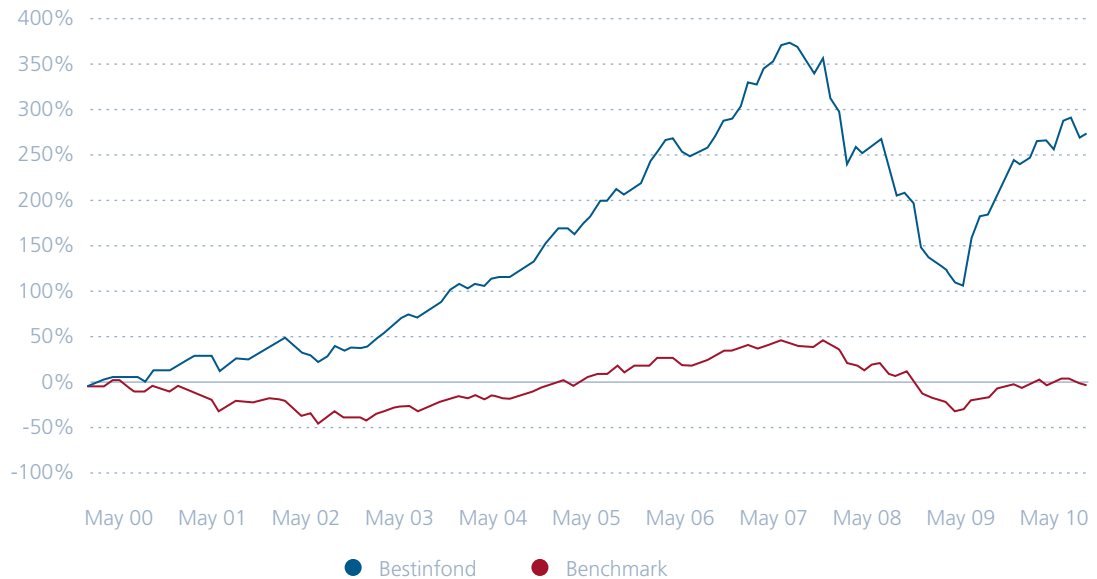
During the first half of 2010, we suffered a highly volatile market marked by the events related to the enormous debt and the increased deficit of certain European Union States. This circumstance has fundamentally influenced the development of the Iberian portfolio. In spite of having a minimal periodical component, it was dragged along by the indiscriminating sales of those investors who understood that the Spanish economic situation was very damaged, due to which no good yields could be expected when investing in Spanish companies. Although this is correct in a short term, its effect is temporary. Phases of uncertainty increase the aversion to risk, which activates the irrational behaviour of many investors.

Nevertheless, the relation between the growing GDP per capita and the yields of the shares (this being both the yields due to dividend as well as the surplus value) is very widespread. When data from 16 countries between 1900 and 2002 are used as basis for a study, the result will be a correlation of -0.37 (J. R. Ritter, Economic growth and equity returns, 2004). Two fundamental reasons of the many different ones that explain this negative correlation are: on the one hand, the GDP includes all goods and services produced while the returns of the shares only take into account the profits; on the other, we need to take into account that a multinational company can obtain a large part of its profits in places other than its fiscal residence.



The yields of the investment in variable interests were much questioned during these last months, anyhow. There was even talk of the "lost decade" and, actually, of a higher yield of the bonds over the shares when the market was at its lowest point, at the beginning of 2009. We cannot forget that at the start of this decade, we also experienced a decreasing market, which was caused by the fall of the dot-com companies. At that moment, we insisted in our investment strategy betting on the traditional economy and investing in companies with comprehensible businesses, of which the intrinsic value was superior to their quotation price. Due to this, during 1999, we obtained inferior results compared to those of the market. Nevertheless, as can be seen in the chart, by maintaining our investment strategy stable, this tendency was inverted and the differential between the market and Bestifond grew bigger. We, therefore, obtained yields of 266.07% in comparison to -0.2% of its benchmark.

## LOST DECADE?



### How can we defend our purchasing power in the current economic climate?

Towards the end of the 1970s, Latin-America experienced a boom motivated by a fast growth of the credit that streamed through North-American banks thanks to the surplus generated by the OPEC. From 1980 onward, the petroleum price stopped rising and originated a credit crisis. The various governments tried to interrupt it in a very similar way as how nowadays the occidental countries are trying to do: through public deficit and by printing money. As a consequence of these policies, the currency started to lose purchasing power. If we take the situation in Mexico as an example: between 1979 and 1987, the currency lost 95% of its value in reference to the dollar. In this situation, the best way to protect the purchasing power is by investing in assets that include inflation and that have an intrinsic return, contrary to raw materials. This way, the **investment in real assets through the stock market** turned out to be the best alternative.

At first, the currency depreciated more rapidly than the stock exchange valued. This is why the Mexican market hit the bottom in dollar terms in 1983. Nevertheless, and after a period during which the stock exchanged is dragged by the panic of the currency devaluation and the lack of confidence in the system, the investor realizes that the companies continue working and generating positive results (the society continues needing services and products to live) thanks to their capacity of incorporating the new situation into their production process (moving the new costs to their final prices and maintaining their capacity to generate added value intact). This way, the Mexican market hit the roof soon, in 1987, multiplying by 160 in nominal terms at the beginning of 1988 and getting practically at level in USD. Notwithstanding the stock market crash that same year, we see how the purchasing power of the savers was maintained through the stock market, while the investors in bonds (denominated in local currency) or in Mexican pesos lost 95% of their investment permanently.

Mexico stock exchange index (Pesos), 1979-1988										
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988 (Feb)
Maximum	1,651	1,432	1,479	796	2,452	4,366	11,197	47,101	343,545	178,486
Minimum	1,066	1,107	862	496	837	2,885	3,710	12,802	60,281	139,620

Mexico stock exchange index (USD), 1979-1988										
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988 (Feb)
Maximum	70	62	63	29	15	24	25	51	220	77
Minimum	48	48	34	5	5	16	16	25	47	62

→ Source: Acciones y Valores de México; Marc Faber



# Our International Portfolio

Our international portfolio has suffered a fall of 1.3% in the second quarter of the year, less than the 4.2% shrinkage of the MSCI, the benchmark. Nevertheless, from the beginning of the year up to now, our international portfolio accumulates a 6.6% revaluation, which can be compared to MSCI's 4.4%. On even a longer term, the profitability difference in favour of our portfolio is of 8.4% and of 13.3% annually in the last 5 and 10 years respectively.

During the second quarter we have **improved the valuation in 49 companies, and we have lowered it in 4**. The impact on the added valuation of the fund was of +5.6%, from €44.90 to €47.50, the second highest in the existence of the fund. The most significant variations in valuation within the portfolio were the improvement of **Clariant**, thanks to the fact that the company is improving its competitive position and its profitability aims in most parts of the segments in which it is present. We have also significantly improved the valuation of **Stef-TFE**, thanks to the quick expansion rhythm of the company, which is gaining quota from the largest part of its competitors. Ultimately, we need to mention the improvement in valuation of **Virgin Media**, also due to its expansion rhythm in the last quarters, which is much higher than foreseen.

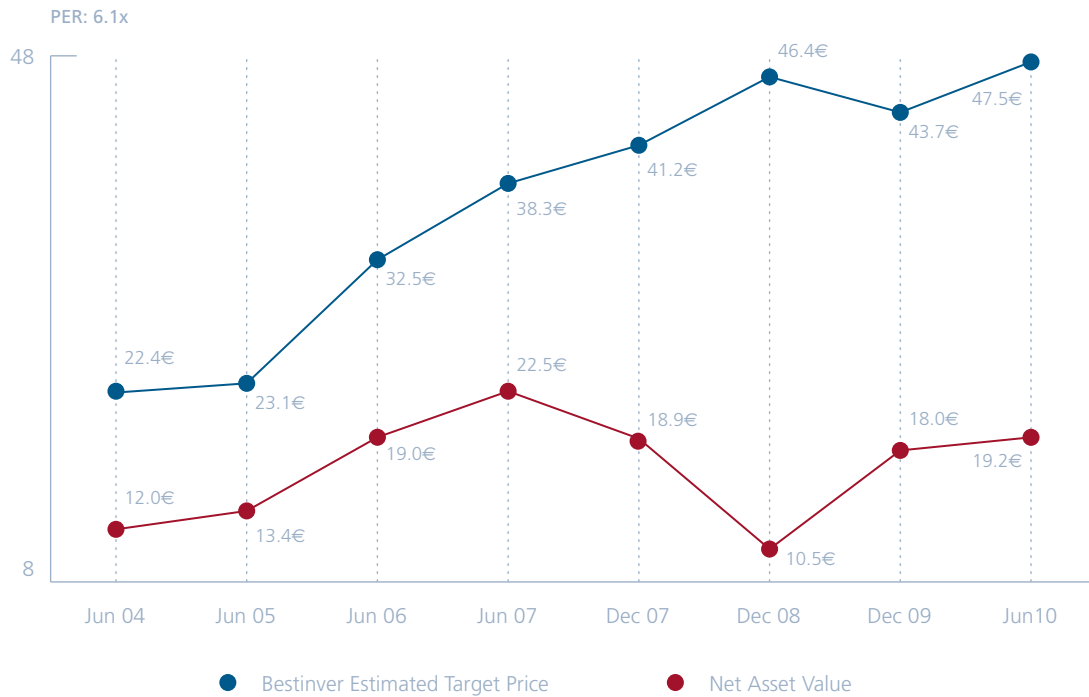
After receiving, on 31st March 2010, a take over bid for **Sperian** from a risk capital fund of €70 per share, which was 40% over the option price on the quotation price at the end of 2009, and 250% over last year's minimum, a competitive process started which ended with a final offer from the American multinational Honeywell, for €117 per share. This offer was 67% superior to the first one and even superior to our valuation of the company.

During this quarter, an important negative news item went public: the start of a process of creditors in bankruptcy at one of our investments, the German multinational **Böwe Systec**. This concerns one of the few cases in which we invest in a company with a solid competitive position but that is very much in debt. This originated the inability of shunning the crisis which, jointly, weighed down the demand in its market. Nevertheless, and taking into account that our investment philosophy tends to avoid, generally speaking, companies that are indebted, the weight it had in the portfolio was of only 0.4%. Therefore, the damage it produced was fairly limited. At this point, we would like to mention that 56% of the companies present in our international portfolio are in the opposite situation of Böwe Systec, meaning that they have a cash position. Only 14% has a significant debt, being in most cases with companies and businesses that are hardly cyclical. We obviously think that with the somewhat more conservative emphasis we are following these last two years, these kinds of situations should not repeat themselves.

The international portfolio is now trading at a PER of 6.1x and has therefore an upside of 147%. Meaning, we are still in such a flamboyant situation that the price/value relation in Bestinver Internacional is of 40 euro cents, which implies paying 0.40 for each euro (the estimated value for Bestinver) of the fund.

## BESTINVER INTERNACIONAL

Evolution of the difference between target price and net asset value



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BESTINVER INTERNACIONAL	31-Mar-10	30-Jun-10	Var % 30-Jun-10
Target Price (€/share)	44.9	47.5	5.7%
Net Asset Value (€/share)	19.4	19.2	-1.3%
Upside Potential	131%	147%	
PER (estimated free cash flow 2011)	6.5 x	6.1 x	

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In US  
Merrill Lynch

Standard & Poor's  
market as the  
transaction  
in millions (\$)

2002/03/04  
2003/04/05  
2004/05/06



# Our National Portfolio

During the second quarter, the NAV value of the national portfolio fell 10.37%, compared to a fall of 12.8% of the reference index (70% IGBM and 30% PSI). The profitability in the long term is superior to that of the index in 5.55% and 13.03% annually in the last 5 and 10 years, respectively.

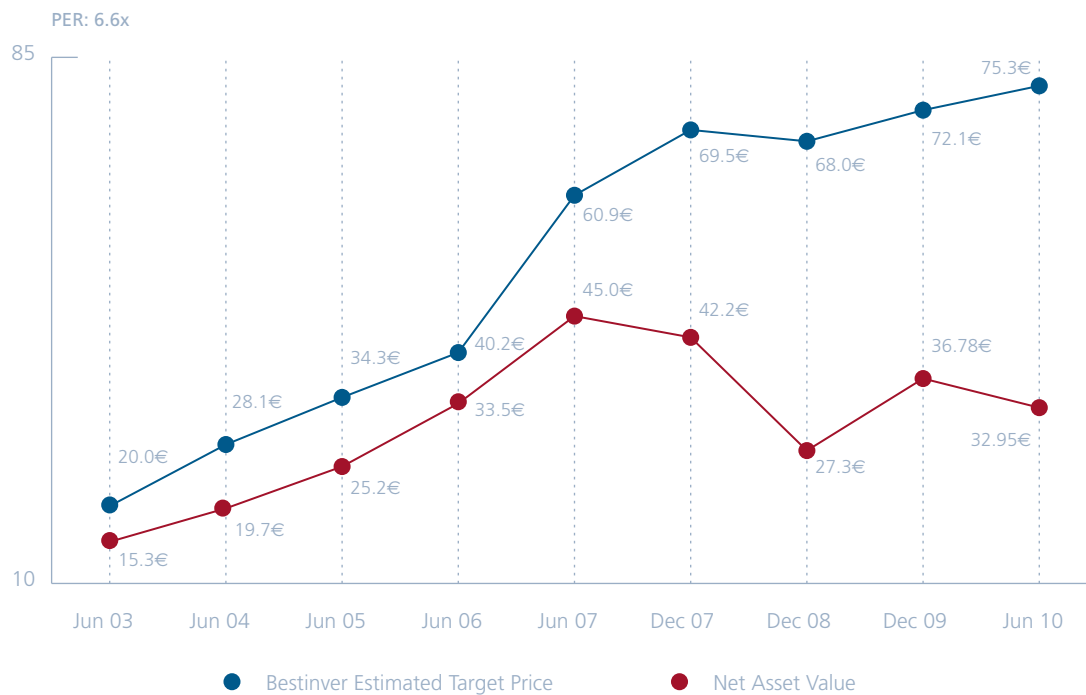
The financial problems the Spanish economy has to face, which we at Bestinver have warned about for several years, have become more evident for the whole of the market. This explains why the behaviour of the Spanish stock market has been much worse than most of the European markets. Although our iberian portfolio has an almost void exposure to the cyclical segment of the Spanish economy, its behaviour has nevertheless been equally affected, although somewhat less. This is shown by a cumulative fall during this year of 10.41% (meaning, the one suffered in the second quarter since during the first quarter it remained stable), compared to a fall of 19.7% of the reference index (70% IGBM and 30% PSI). In spite of this relatively better behaviour, we think the market is penalising some of our investments because of being companies listed in Spain, irrespective of the fact that most parts of their businesses take place outside the country. In the long term, we expect the market to make a better distinction, and therefore that the behaviour of our iberian portfolio will be not only better than that of the index but will also produce very positive returns.

During the second quarter we improved the valuation of 25 companies and have lowered it for 11. The impact in the valuation added to the fund was of 3.2%, from €72.90 per share to €75.30. The most significant variations from a negative point of view are the decreases of the valuation of the pharmaceutical companies **Almirall** and **Rovi**, whose results will be affected by the recent measures taken by the Spanish government. And from the positive point of view, the most significant improvements were those of **Miquel i Costas**, for the improvement of the result perspectives for the next years, and **Portucel**, thanks to, fundamentally, the impact of the improvement of the American dollar compared to the euro. And the improvement of our new valuation of **Portugal Telecom** has to be particularly mentioned, as it coincides with another corporative operation valuable to our fund, this being the offer presented by the Spanish Telefónica for the branch of mobile telecommunications it shares with Vivo, the Portuguese telecommunication company in Brazil. Effectively, after 2 consecutive improvements since the first offer, Telefónica now offers €7,150 million for the share of Portugal Telecom in Vivo. This offer is over 2.5 times the quotation price of the day previous to the offer on the Sao Paolo stock exchange, and almost 60% superior to our valuation of €4,500 million. Furthermore, this operation is a new example that our valuations are realistic and can even in certain cases be conservative.

The national portfolio is now trading at a PER of 6.6x and has therefore an upside of 128%. Therefore, the price/value relation is of 44 cents per objective value euro.

## BESTINVER BOLSA

Evolution of the difference between target price and net asset value



→ Information published MONTHLY in the Client Zone on our website [www.bestinver.com](http://www.bestinver.com)

BESTINVER BOLSA	31-Mar-10	30-Jun-10	Var % 31-Mar-10
Target Price (€/share)	73.0	75.3	3.2%
Net Asset Value (€/share)	36.8	32.9	-10.4%
Upside Potential	98%	128%	
PER (estimated free cash flow 2011)	7.6 x	6.6 x	

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EnergySelSect	XLE	74.61	2.21	27.3
IndSelSect	XLF	30.63	1.49	-16.6
SE/Macq Glb Infst	GII	63.49	1.08	24.8
hCrSelSect	XLV	36.57	1.48	15.4
SelSect	XLI	38.57	1.48	15.4
Sml Cap	EWG	32.17	1.48	15.4
/Bank	EWB	47.20	1.48	15.4
Capital	EWK	41.00	1.48	15.4
Insurance	EWI	41.00	1.48	15.4
Health	EWJ	41.00	1.48	15.4
Telecom	EWK	41.00	1.48	15.4
Utilities	EWU	41.00	1.48	15.4
Real Estate	EWRE	41.00	1.48	15.4
Commodities	EWOC	41.00	1.48	15.4
International	EWI	41.00	1.48	15.4
Emerging	EWEM	41.00	1.48	15.4
Developing	EWEM	41.00	1.48	15.4
Global	EWG	41.00	1.48	15.4

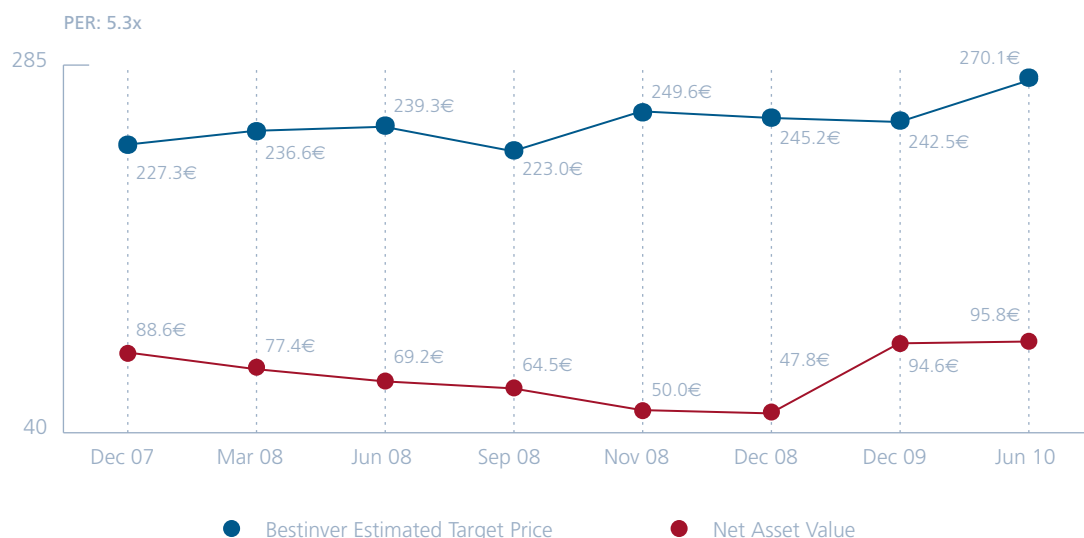
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# Bestinver Hedge Value Fund

In the second quarter of 2010, Bestinver Hedge Value Fund showed a negative profitability of 6.0%, compared to 4.2% of MSCI. From the beginning of the year up to now, Bestinver Hedge Value Fund cumulates a positive profitability of 1.3%, compared to 4.4% of MSCI.

During the quarter, the objective value of the fund rose 7.1%, from €252.10 to €270.10. By 30th June, the fund was trading at a PER of 5.3x, offering an upside of 182% and a price/value relation of 35 cents per value euro.

## HEDGE FUND



→ Information published MONTHLY in the Client Zone on our website [www.bestinver.com](http://www.bestinver.com)

BESTINVER HEDGE VALUE FUND	31-Mar-10	30-Jun-10	Var % 31-Mar-10
Target Price (€/share)	252.1	270.1	7.1%
Net Asset Value (€/share)	102.0	95.8	-6.0%
Upside Potential	147%	182%	
PER (estimated free cash flow 2011)	6.1 x	5.3 x	

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Financial Report

Annual Review

# Conclusion

During a negative quarter for the stock markets, and especially for the Spanish one, we were able to create value increasing the target price, both in our international portfolio as well as in our national portfolio. This took place thanks to the fact that, in general, our companies are producing positive results, in some cases exceeding our expectations. This has led us to improve the valuation of these companies. We have also created value because of our traditional turnover policy towards the companies with the best potential ratio of revaluation and quality. And, as a last point, due to the inclusion of a new investment idea with a very appealing potential. With all this, we hope our funds will continue producing very positive results.

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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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