BESTINVER
Asset Management

15

Quarterly Newsletter

Nº 15, OCTOBER 2011

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BESTINVER
Asset Management

Bestinver’s objective focuses on beating inflation over the long term and, as far as possible, those indices comparable with our funds.

As the accompanying table shows, the historical cumulative figure for each of the funds has comfortably achieved this aim. Nonetheless, following an adverse quarter for stock markets, the funds have gone into negative numbers for the year, in a market more driven by psychological factors than fundamentals.

CUMULATIVE RETURNS*

	Inception	15 years	10 years	5 years	3 years	1 year	YTD	Q3
Bestinfond**	1447.21%	680.27%	220.16%	2.06%	27.14%	-6.45%	-13.62%	-18.39%
Índice (80% MSCI World / 14% IGBM / 6% PSI)	329.18%	156.45%	30.82%	-26.13%	-6.87%	-7.77%	-13.17%	-11.86%
Bestinver Internacional	221.15%		119.22%	7.24%	37.72%	-5.20%	-13.90%	-18.27%
MSCI World Index (Eur)	-2.10%		-19.07%	-24.10%	-2.25%	-4.73%	-13.76%	-10.38%
Bestinver Bolsa	352.22%		200.76%	-9.02%	1.16%	-10.55%	-13.96%	-18.39%
Índice (70% IGBM / 30% PSI)	53.90%		24.44%	-36.25%	-22.22%	-18.35%	-14.47%	-17.66%
Bestinver Mixto	211.15%		120.09%	-3.69%	2.51%	-7.83%	-10.59%	-14.40%
Índice (45% IGBM / 17.5% PSI / 37.5% EONIA)	49.30%		25.03%	-24.17%	-14.53%	-12.23%	-9.50%	-11.80%
Bestinver Mixto Internac.	10.37%				30.20%	-3.69%	-10.74%	-14.42%
Índice (70% MSCI World / 30% EONIA)	-10.89%				-0.58%	-2.90%	-8.98%	-6.72%
Bestinver Renta	85.01%		40.34%	10.11%	5.51%	-0.21%	-0.90%	-1.58%
Índ. (90% EONIA / 8% MSCI W. / 1.4% IGBM / 0.6% PSI)	65.94%		26.02%	13.01%	2.30%	-0.49%	-1.17%	-1.18%
Bestinver Hedge Value Fund	-3.37%				49.90%	-7.96%	-13.58%	-17.95%
MSCI World Index (Eur)	-28.36%				-2.25%	-4.73%	-13.76%	-10.38%

→ Figures at the close of: 30/09/2011. Source: Bestinver

	Inception	10 years	5 years	3 years	1 year	YTD	Q3
Bestinver Ahorro	372.20%	153.95%	6.61%	22.32%	-4.78%	-10.67%	-14.57%
Índice (35% EONIA / 65% ÍNDICE B. GLOBAL)	141.68%	45.70%	-15.59%	-4.83%	-5.96%	-10.30%	-9.27%
Bestinver Global	44.51%		0.76%	26.27%	-6.52%	-13.64%	-18.42%
Índice (80% MSCI World / 14% IGBM / 6% PSI)	-9.79%		-28.42%	-6.87%	-7.78%	-13.17%	-11.86%
Bestinver Previsión	17.66%		9.96%	5.40%	-0.27%	-0.95%	-1.57%
Índice (90% EONIA / 8% MSCI W. / 1.4% IGBM / 0.6% PSI)	15.95%		10.74%	2.31%	0.29%	0.21%	0.05%

→ Figures at the close of: 30/09/2011. Source: Bestinver

ANNUALIZED RETURNS*

	Inception	15 years	10 years	5 years	3 years	1 year
Bestinfond**	15.76%	14.68%	12.34%	0.41%	8.33%	-6.45%
Index (80% MSCI World / 14% IGBM / 6% PSI)	8.10%	6.48%	2.72%	-5.88%	-2.34%	-7.77%
Bestinver Internacional	8.86%		8.17%	1.41%	11.26%	-5.20%
MSCI World Index (Eur)	-0.15%		-2.09%	-5.37%	-0.75%	-4.73%
Bestinver Bolsa	11.53%		11.64%	-1.87%	0.38%	-10.55%
Índice (70% IGBM / 30% PSI)	3.17%		2.21%	-8.61%	-8.04%	-18.35%
Bestinver Mixto	8.24%		8.21%	-0.75%	0.83%	-7.83%
Index (45% IGBM / 17.5% PSI / 37.5% EONIA)	2.83%		2.26%	-5.38%	-5.10%	-12.23%
Bestinver Mixto Internacional	1.92%			1.47%	9.19%	-3.69%
Index (70% MSCI World / 30% EONIA)	-2.20%			-2.95%	-0.19%	-2.90%
Bestinver Renta	3.94%		3.45%	1.95%	1.80%	-0.21%
Index (90% EONIA / 8% MSCI W. / 1.4% IGBM / 0.6% PSI)	3.23%		2.00%	2.06%	0.76%	-0.49%
Bestinver Hedge Value Fund	-0.85%				14.45%	-7.96%
MSCI World Index (Eur)	-4.26%				-0.75%	-4.73%

→ Figures at the close of: 30/09/2011. Source: Bestinver

	Inception	10 years	5 years	3 years	1 year
Bestinver Ahorro	10.97%	9.77%	1.29%	6.95%	-4.78%
Index (35% EONIA / 65% ÍNDICE B. GLOBAL)	6.09%	3.84%	-3.33%	-1.64%	-5.96%
Bestinver Global	5.54%		0.15%	8.08%	-6.52%
Index (80% MSCI World / 14% IGBM / 6% PSI)	-1.52%		-6.47%	-2.35%	-7.78%
Bestinver Previsión	2.44%		1.92%	1.77%	-0.27%
Index (90% EONIA / 8% MSCI W. / 1.4% IGBM / 0.6% PSI)	2.22%		2.06%	0.76%	0.29%

→ Figures at the close of: 30/09/2011. Source: Bestinver

* The benchmark indexes of Bestinfond, Bestinver Bolsa, Bestinver Mixto and Bestinver Renta are weighted indexes that take into account investment levels in each market, as well as the percentage of investment in equities and fixed income, in the case of balanced funds.

All yields for Bestinver funds are shown net, after commissions and fees, and include dividend reinvestments.

This information is for information purposes only. Past yields are no guarantee of future returns.

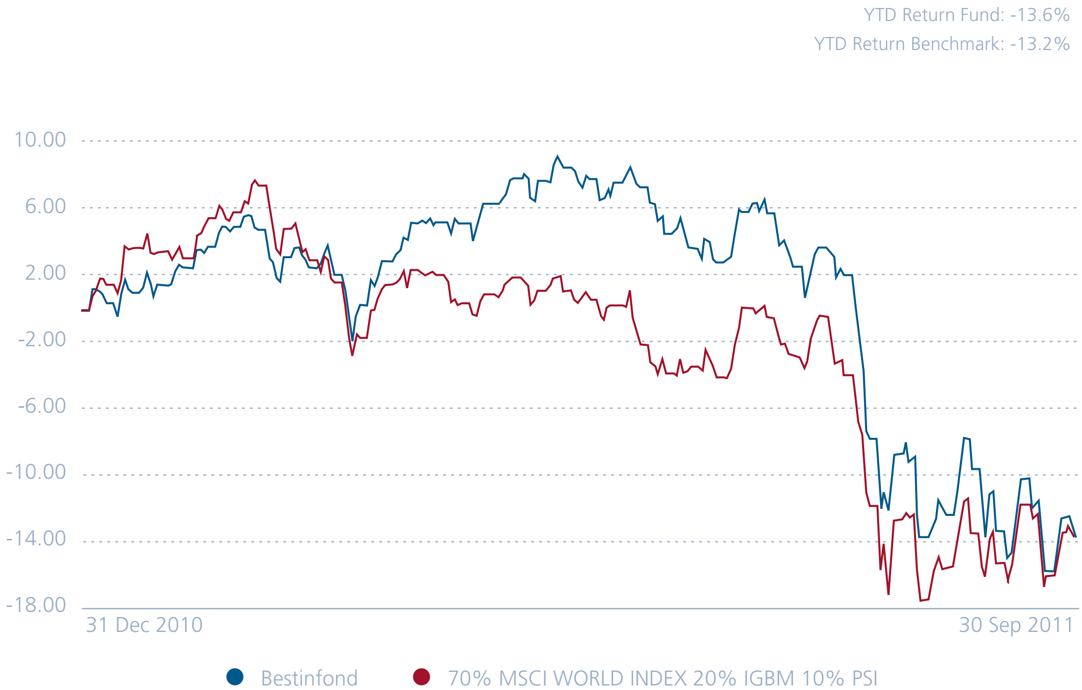
** Bestinfond invested exclusively in Spanish Equities until 12 May 2005.

OUR MODEL PORTFOLIO (BESTINFOND)

Our model portfolio in the form of Bestinfond (80% international portfolio / 20% Iberian portfolio), as well as the pension fund Bestinver Global, has an overall return in the third quarter of 2011 of -18.4% compared to -11.9% for its benchmark index (70% MSCI World Index, 20% IGBM and 10% PSI). For 2011 as a whole it has posted negative returns of 13.6% against a fall of 13.2% for its benchmark.

BESTINFOND

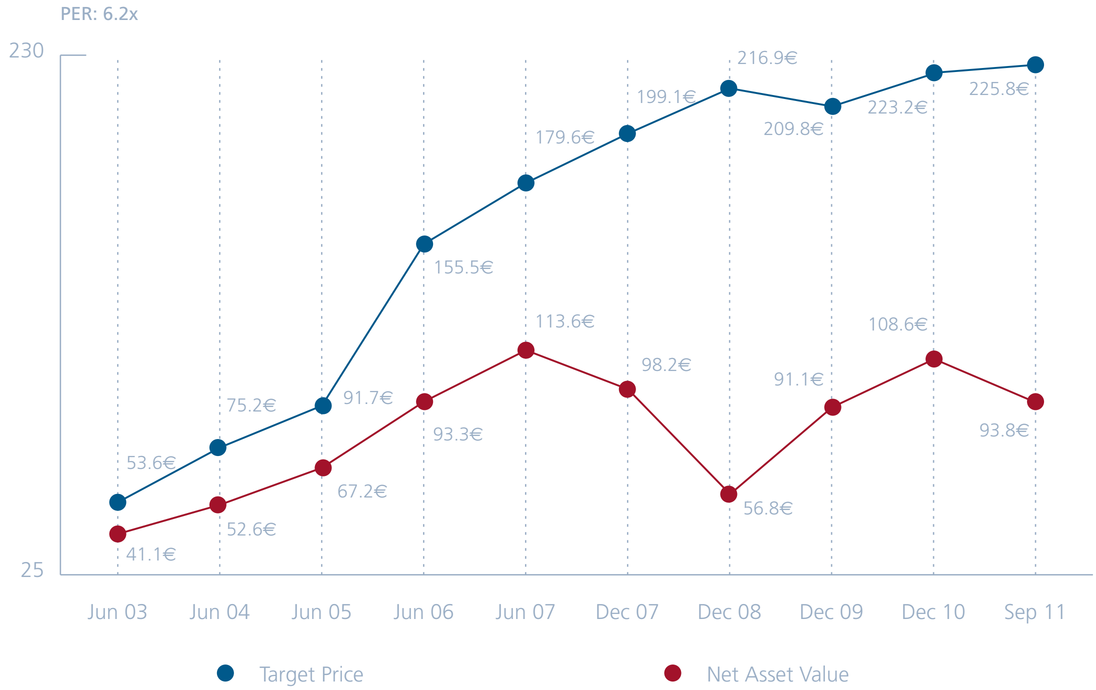
Evolution in 2011



→ Bestinfond invests 80% of its portfolio in international equities and 20% in Iberian equities.

BESTINFOND

Evolution of the difference between target price and net asset value



→ Information published MONTHLY in the Client Zone on our website www.bestinver.es

BESTINFOND	30-jun-11	30-sep-11	Var % 30-sep-11
Target Price (€/share)	227.6	225.8	-0.8%
Net Asset Value (€/share)	114.9	93.8	-18.4%
Upside Potential	98%	141%	
PER (estimated free cash flow 2011)	7.6 x	6.2 x	

→ Information published MONTHLY in the Client Zone on our website www.bestinver.es

Bestinfond's target price has remained stable in the third quarter (-0.8%), which gives an upside potential of 141%. The price to value ratio represents buying each euro of value for 41 cents.

ASSESSMENT OF THE GLOBAL ECONOMY

Following the recent publication of growth forecasts by the International Monetary Fund (see accompanying table), the debate over what future growth will be for the world economy again takes on added significance.

Overview of the World Economic Outlook Projections

(Percent change unless noted otherwise)

	Year over Year						Q4 over Q4		
			Projections		Difference from June 2011 WEO Projections		Estimates	Projections	
	2009	2010	2011	2012	2011	2012	2010	2011	2012
World Output	**-0.7**	**5.1**	**4.0**	**4.0**	**-0.3**	**-0.5**	**4.8**	**3.6**	**4.1**
Advanced Economies	**-3.7**	**3.1**	**1.6**	**1.9**	**-0.6**	**-0.7**	**2.9**	**1.4**	**2.2**
United States	-3.5	3.0	1.5	1.8	-1.0	-0.9	3.1	1.1	2.0
Euro Area	-4.3	1.8	1.6	1.1	-0.4	-0.6	2.0	1.1	1.6
Germany	-5.1	3.6	2.7	1.3	-0.5	-07	3.8	1.6	2.0
France	-2.6	1.4	1.7	1.4	-0.4	-0.5	1.4	1.4	1.7
Italy	-5.2	1.3	0.6	0.3	-0.4	-1.0	1.5	0.4	0.4
Spain	-3.7	-0.1	0.8	1.1	0.0	-0.5	0.6	0.7	1.7
Japan	-6.3	4.0	-0.5	2.3	0.2	-0.6	2.5	0.5	2.0
United Kingdom	-4.9	1.4	1.1	1.6	-0.4	-0.7	1.5	1.5	1.7
Canada	-2.8	3.2	2.1	1.9	-0.8	-0.7	3.3	1.4	2.5
Other Advanced Economies	-1.1	5.8	3.6	3.7	-0.4	-0.1	4.8	3.8	3.9
Newly Industrialized Asian Economies	-0.7	8.4	4.7	4.5	-0.4	0.0	6.0	5.2	4.7
Emerging and Developing Economies	**2.8**	**7.3**	**6.4**	**6.1**	**-0.2**	**-0.3**	**7.4**	**6.4**	**6.4**
Central and Eastern Europe	-3.6	4.5	4.3	2.7	-1.0	-0.5	5.3	2.9	2.7
Commonwealth of Independent States	-6.4	4.6	4.6	4.4	-0.5	-0.3	4.6	3.8	3.9
Russia	-7.8	4.0	4.3	4.1	-0.5	-0.4	4.4	4.0	3.6
Excluding Russia	-3.0	6.0	5.3	5.1	-0.3	0.0	...	...	...
Developing Asia	7.2	9.5	8.2	8.0	-0.2	-0.4	9.0	8.1	8.1
China	9.2	10.3	9.5	9.0	-0.1	-0.5	9.8	9.3	9.1
India	6.8	10.1	7.8	7.5	-0.4	-0.3	9.2	7.0	7.5
ASEAN-5	1.7	6.9	5.3	5.6	-0.1	-0.1	6.0	5.4	5.6
Latin America and the Caribbean	-1.7	6.1	4.5	4.0	-0.1	-0.1	5.4	4.1	3.9
Brazil	-0.6	7.5	3.8	3.6	-0.3	0.0	5.0	3.8	3.8
Mexico	-6.2	5.4	3.8	3.6	-0.9	-0.4	4.2	3.7	3.2
Middle East and North Africa	2.6	4.4	4.0	3.6	-0.2	-0.8	...	...	...
Sub-Saharan Africa	2.8	5.4	5.2	5.8	-0.3	-0.1	...	...	...
Memorandum									
European Union	-4.2	1.8	1.7	1.4	-0.3	-0.7	2.1	1.3	1.9
World Growth Based on Market Exchange Rates	-2.3	4.0	3.0	3.2	-0.4	-0.5	...	...	...

Many are those that now predict a process of recession in major economies within the worldwide context. And very few are those, like Warren Buffett, who still hold onto hopes that larger economies, such as that of the USA, are unlikely to go into recession, though they do acknowledge that they will grow at a slower pace.

Everybody is aware of Bestinver's position regarding the importance of the "macro-economy" in our investment process and the small amount of time we devote to it. We are convinced that it is far more important to gain an in-depth knowledge of what is going on inside a company than to try and guess what the economy as a whole will do. And we put this into practice by spending over 90% of our time on studying companies.

However, since the debate is open and our fellow investors are not indifferent to it, we will dedicate the introduction to this quarterly newsletter to this issue.

From an initial objective overview, the first thing that we observe in connection with the figures for world growth is that this stands at 4% for 2011 according to the IMF. We do not know whether this is likely to be 4% or plus or minus half a percentage point, but whatever the case it appears positive to us to start with. And the forecasts for 2012 are identical to those for 2011: growth of 4% again.

Moving on with the analysis we see that the growth figures are worse than what the specialists in this field were discounting a few months ago due to a worsening situation as regards resolving the debt crises experienced by (in particular) Europe and the USA. This is also reasonable considering the problems a large slice of the world is having in making the necessary adjustments and restoring healthy growth.

And to conclude we note the substantial uneven nature of the drivers of world growth. On the one hand there are the emerging economies (50% of world GDP), which are expected to grow in 2011 and 2012 at an average of 6.4% and 6.1% respectively in contrast to the weak growth of the developed economies (50% of world GDP), which are set to grow at a rate of 1.6% and 1.9% for the same years.

In light of the above figures, it might be more interesting to examine the causes of such disparate growth rates.

If we take the weaker side first, the developed economies, we can see that the essential reasons behind the low growth are:

- Overborrowing by the economies
- Lower competitiveness compared to developing countries
- Delay in taking the steps to remedy the problem (though there are exceptions, as in the case of Ireland)

On the other hand, the strong (and healthy) growth in the emerging countries is fundamentally attributable to:

- Economies with little borrowings and which manage to save
- High productivity
- Growing domestic consumption (in relation to their incomes / savings)

It seems that the answer to the problems facing the first group, although we might be falling into the temptation of oversimplifying, lies with the second group (productivity, low borrowings and the capacity to consume).

When it comes to trying to predict what world growth will be, it is probably necessary to look at what should happen within both groups.

In the case of the developed economies with growth problems, this has a difficult, slow and painful solution; it appears that we already have the example of certain countries, actually smaller ones (as with Ireland), which have implemented courageous measures and are already on course to grow. The scale of the problem (debt) and the courage it takes to take steps such as Ireland has done make it a tough path to follow, but the recipe seems to be the right one, as the growth figures that Ireland is already displaying prove.

If we look at the group of economies that are growing, it appears that this is not by chance, but instead the consolidation of a cycle begun some years ago after taking suitable economic measures (not borrowing, stimulating competitiveness, etc.). Of particular importance here (and we examined this at length in quarterly newsletter No. 10) is the case of China.

The future of this country could be one of the most important factors affecting world growth, as its influence extends far beyond its borders, and what happens in China will be key for the rest of the world.

In fact only recently a report came into our hands from CLSA www.clsa.com (an Asian research house with a presence in the zone since 1986 and more than 1,500 analysts on the ground) which offered a clear explanation of the key reasons to be confident that growth in the Chinese economy will be healthy and sustainable.

The title of the report speaks for itself: Don't Panic! (part two).

The basic message is that, while it is growing less strongly than in previous years, the Chinese economy is still showing that it is in a very healthy state, thus ensuring sound growth levels for some time ahead.

This assertion is based on the following points:

- Very high savings rates (30%)
- The Chinese economy as a whole has a low level of debt (<65% of GDP)
- There is little chance of experiencing a credit bubble: credit is only accessible to state-owned companies, even though 2/3 of the economy depends on private companies, meaning that there is not, nor has there been, any possibility of overborrowing by the private sector.
- Loans to deposits ratio for the entire financial system of 0.66 (compared to 1.40 for Spain and other countries in Europe)
- "Informal" (unofficial) funding mechanisms are the only way for the population and private companies to borrow. By their very nature such loans are secure and cannot be extended (the reverse of the case with bank credit).
- The economy is growing due to domestic consumption and investment rather than the effect of exports (the impact of exports on growth in 2011 is zero and negative in 2012).
- An absence of debt in the real estate sector. 53% of property owners pay for the purchase without borrowing (100% cash) and of the rest, they pay almost half in ready money (44% of the price of the property) and borrow the other half of the price of the property. Furthermore, 55% of the population lives in second tier cities, where the price of a square metre is 70% cheaper than in the major cities (with respect to which the great fear exists that they might be provoking a property bubble). The principal cities only account for 4% of real estate transactions.

- Domestic consumption growth. As a consequence of the increase in disposable income in broad areas of China (in the last decade inflation-adjusted disposable income grew by 152%) domestic consumption is expanding at rates of close to 16% for 2011.

Finally one should point out that two economies exist, which explains the confusion and diversity of opinions with respect to the future of China. Thus in China there is one economy controlled by the State (state-owned) and also the private sector, where the state-owned economy provokes gloomy predictions by many analysts, whereas the private sector is the real driving force for growth in the Chinese economy.

The Chinese state-owned companies, which are run by the government and the CCP, have been responsible for certain failed investments, such as the famous "ghost town" city of Kangbashi. The state-owned companies represent 1/3 of the economy and do not form the economy's growth base.

On the other hand the private sector, which accounts for 2/3 of China's economy, is responsible for the real "healthy" growth and business in it is conducted with extremely low levels of borrowing and in conditions of very strong competition, to such an extent that the people who run companies that are world leaders (as Muhtar Kent, CEO of Coca Cola recently stated) consider that China is the ultimate paradise for competitiveness and the epitome of freedom to do business.

We conclude by quoting Peter Lynch, who said that "gaining a rough sense of the macro picture can increase the probabilities of success, but it does not guarantee them" and that "success comes to a good investor from, among other things, having an in-depth knowledge of companies".

Aside from this quarterly newsletter, we remain true to Peter Lynch's philosophy of researching companies in depth and trying to gain a rough sense of the macro picture.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Our International Portfolio

Our international portfolio has fallen back by 18.3% in the third quarter of 2011, which compares to a decrease of 10.4% for the benchmark index, the MSCI. The differing performance in the quarter is due to the fact that the European stock markets have suffered the biggest falls and dragged our portfolio down with them, given that most of the stocks in which we invest are listed on European markets. So far this year the international portfolio has accumulated a descent of 13.9% against a figure of -13.8% for the MSCI. In the long term the difference in return in favour of our portfolio is one of an annual 6.8% and 10.3% for the last 5 and 10 years respectively.

As we have already done so in this newsletter, we do not propose to go into explanations again of how it is that our view of the world economy is less pessimistic than the consensus. Yet we would like to take the opportunity to go over the geographical exposure of the businesses in our portfolio again, as this is particularly relevant following a quarter of poorly performing stock markets in Europe. The geographical exposure of our investments is actually quite a lot more diversified than it might appear to be:

Geographical exposure of the international portfolio

Spain, Portugal, Ireland and Greece	3%
Italy	12%
Rest of the eurozone	25%
UK, Switzerland and other countries in Europe	17%
North America	18%
Asia, Latin America and others	19%
Cash	5%
Total	**100%**

It is important to remember that the breakdown of geographical exposure is not something we arrange in advance. Although we prefer businesses and companies with a global presence, we also invest in companies that are exposed to countries that might be experiencing certain economic difficulties but represent excellent investment opportunities. It could be that it is precisely such difficulties which make them such opportunities. By way of an example we could take the department stores Debenhams, where its business almost exclusively focuses on the United Kingdom. Although there is no doubt that the United Kingdom is facing a macroeconomic situation which is far less favourable than it is for China, we believe that Debenhams is an excellent investment opportunity given its attractive value, our confidence in the management team and certain competitive advantages that relate to the location of its stores. This all explains why the company is producing fine results in a difficult environment.

Over the quarter we have upgraded our valuation for 34 companies and downgraded 8. The impact on the overall valuation of the fund has been one of -1.9%, from €47.3 down to €46.4. This negative impact largely arises from the fact that we have downgraded our valuation of two of our least substantial investments but we have done so to a very considerable degree as a "rationalizing" exercise. These two companies (McClatchy and Charles Vögele) currently have a very low joint weight (0.6%).

The cases mentioned above are, however, the exception. As we have been pointing out in previous newsletters, the great majority of our investments are in companies with sound businesses, which are producing positive results, have very solid balance sheets and are very attractively priced in the market. An itemisation is given below of the most important parameters:

Weighted Average Figures

Return On Capital Employed (ROCE)	48%
Free Cash Flow Yield	27%
Weight of companies with net cash on the balance sheet	46%
Weight of companies with low borrowings (< 2x ebitda)	40%
Dividend yield (2012 dividend estimate)	3,4%

To sum up, we have a portfolio which yields excellent returns on the capital invested, where the companies enjoy very undemanding or comfortable cash situations and their market prices are historically low.

The quality of our international portfolio becomes evident when one notes how most of the companies in it are capable of overcoming a severe crisis relatively quickly. 49% of our international portfolio comprises companies that are today (in 2011) generating profits greater than those obtained at the peak of the last bull cycle (in 2007). Notable examples among these are BMW, which is this year forecast to make 60% more than in 2007, or Schindler, which is set to achieve results for 2011 that will be 20% up on 2007 (in constant currency terms). Among this group of companies are also some that belong to the holding companies Exor and CIR/Cofide, as well as Willis, Aon, Fuchs and Virgin Media. 25% is invested in companies which, in 2011, are posting results similar to those made prior to the crisis. And only 20% are companies with results that remain lower than the previous high. Bearing in mind the severity of the crisis, we think that this is a very positive performance.

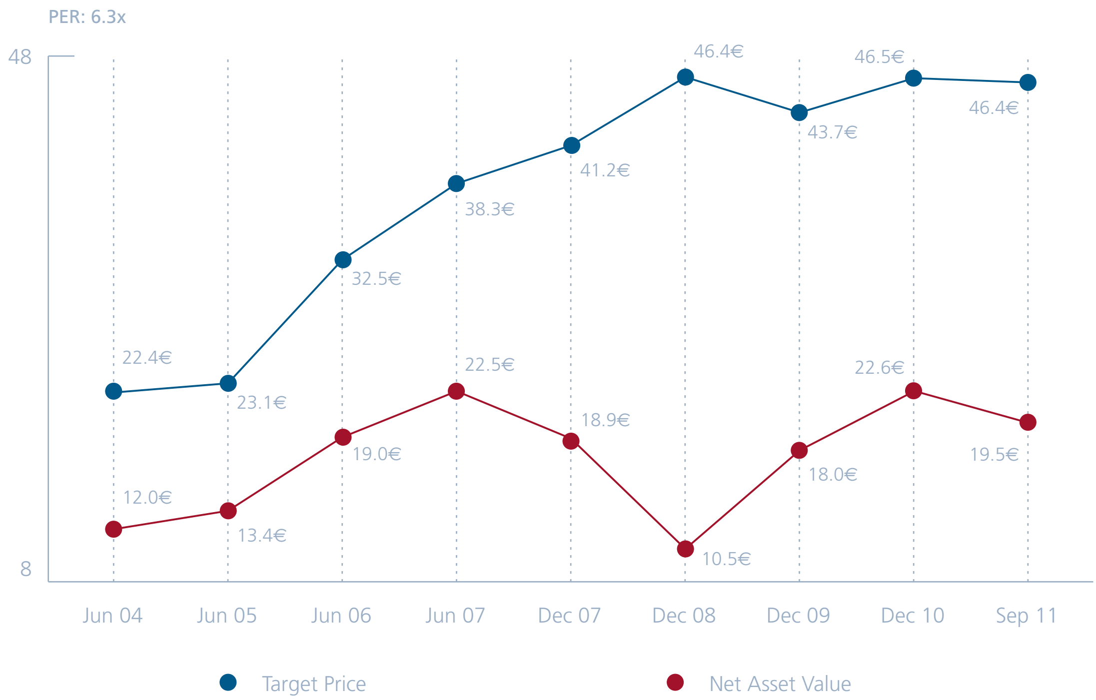
It is very interesting to observe how the companies themselves seem to agree with us that the current market price represents a great investment opportunity, as is evidenced by the fact that almost half of the value of the international portfolio is invested in companies that are carrying out share buybacks. Apart from being a clear sign of management confidence in the outlook for their companies, this is a value-adding exercise that is exactly on a par with what we do at Bestinver. In other words, given that we are investors in these companies because they are cheap, the companies that buy back their own shares at current market prices are improving the value per share of the other shares in circulation.

Sure enough, as ever, at Bestinver we are making the most of falls to add value and selling off shares in those companies that have not fallen back or which have done so very little, as is the case with Ahold or Next, and buying into those which have gone down the most, such as Exor, Rexel or Panalpina. Even though this has not been reflected this year in the target price of the fund in the last quarter, owing to the process of "rationalization" which we have described above, the target price is thus more conservative and therefore more soundly based.

The international portfolio is priced at a PER of 6.3x with upside of 138%. This means that the price to value ratio for Bestinver Internacional is 0.42, which implies paying 42 cents for each euro (of value estimated by Bestinver) in the fund.

BESTINVER INTERNACIONAL

Evolution of the difference between target value and net asset value



→ Information published MONTHLY in the Client Zone on our website www.bestinver.es

BESTINVER INTERNACIONAL	30-jun-11	30-sep-11	Var % 30-sep-11
Target Price (€/share)	47.3	46.4	-1.9%
Net Asset Value (€/share)	23.8	19.5	-18.3%
Upside Potential	98%	138%	
PER (estimated free cash flow 2011)	7.6 x	6.3 x	

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BESTINVER Asset Management

Our Iberian Portfolio

During the third quarter of 2011 the Net Asset Value of the domestic portfolio fell 18.4%, which compares to –17.7% for the benchmark index (70% IGBM and 30% PSI). So far this year in 2011 the Iberian portfolio is down 14%, against -14.6% for the index. The long term return is beating that on the index by an annual 6.7% and 9.4% for the last 5 and 10 years respectively.

The falls for the portfolio in the quarter have been similar to that on the Spanish and Portuguese stock market even though the geographical exposure to these economies is limited:

Geographical exposure of the Iberian portfolio

Spain, Portugal, Ireland and Greece	37%
Italy	1%
Rest of the eurozone	18%
UK, Switzerland and other countries in Europe	7%
North America	11%
Asia, Latin America and others	20%
Cash	6%
Total	**100%**

We would also like to remind readers that the exposure which we have to Spain and Portugal is to a great extent mostly in businesses that are not sensitive to the economic cycle, whether this applies to regulated businesses, pharmaceuticals or foods. And we reiterate that they are, in any case, very attractively priced. However, among the investments that have been the worst hit by falls in the quarter are companies with global businesses and very little or no exposure to Spain and Portugal, but which are cyclical, such as Portucel/Semapa and Acerinox. The falls owe themselves to fears that there might be a profound global recession, and we have made the most of them to add to our investment. Both companies are sector leaders with solid balance sheets and priced at, or close to, lows not seen for several years.

Besides Portucel/Semapa and Acerinox, we have taken the opportunity to buy into other companies that have fallen heavily, such as Sonae and Técnicas Reunidas. Sonae is a family holding company whose core business is the clear sector leader in Portugal in food distribution, and this leading position has gradually been augmented in recent years by a growing market share. It is priced in the market at close to its historical low or, expressed another way, 75% below its high of 2008. Técnicas Reunidas is an engineering company controlled by the Lladó family, with businesses over the entire world. Its activities show an extremely high ROCE and it has net disposable cash equalling one third of its current market value at a time when it is also priced closed to its low and 60% below the high of 2007. We have financed part of this buying activity by selling off shares in companies which have performed well compared to the market in recent months and which have stable or virtually stable prices, such as Ferrovial, EDP or Unipapel under our on-going strategy of adding value.

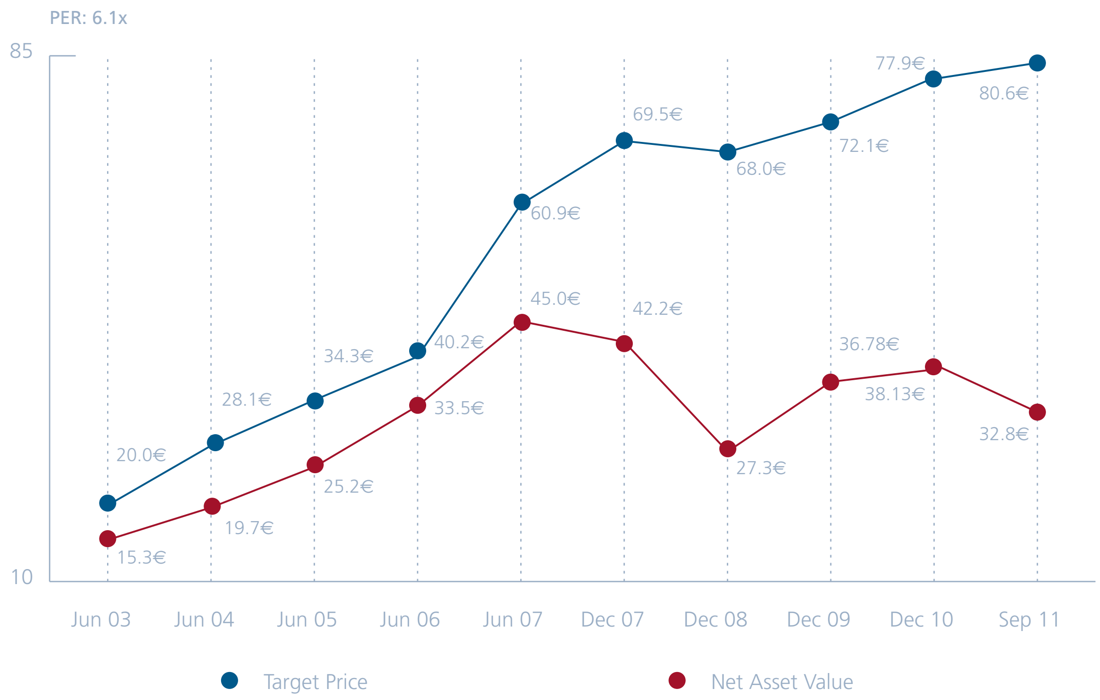
We would like to draw attention to a statistic which reflects the solidity of the businesses which make up the Iberian portfolio and which concerns the performance of their results since the crisis began. It is that 56% of the Iberian portfolio comprises companies which are set to achieve better results in 2011 than they did in 2007, which was the last year before the crisis arrived and when the economic climate was more favourable. Among these are Ferrovial, Sonae, Repsol, Técnicas Reunidas and Portucel. 12% of the portfolio is invested in companies which will manage results that are similar to those for 2007. And 26% is invested in companies which still have not succeeded in reaching their previous profits record. Considering the seriousness of the crisis, we believe that this is a highly positive performance.

In the second quarter we upgraded or valuation for 30 companies, while we downgraded 5. The impact on the overall valuation of the fund was +2%, and stands at €80.6. In general terms, the changes in valuation are scant when viewed individually.

The domestic portfolio stands at a PER of 6.1x, with upside potential of 146% and a price to value ratio of 41 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	30-jun-11	30-sep-11	Var % 30-sep-11
Target Price (€/share)	79.0	80.6	2.0%
Net Asset Value (€/share)	40.2	32.8	-18.4%
Upside Potential	97%	146%	
PER (estimated free cash flow 2011)	7.6 x	6.1 x	

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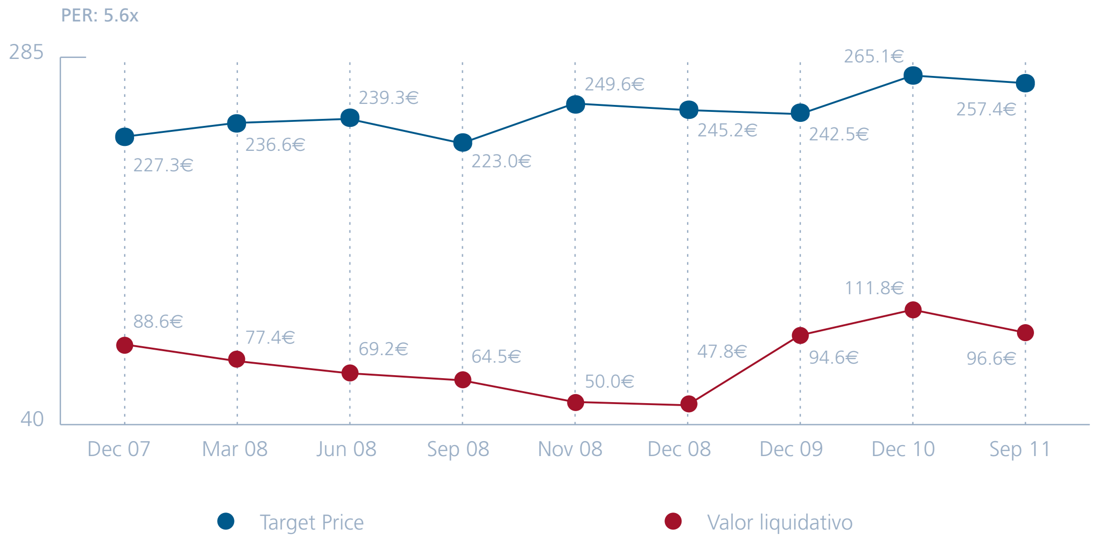
1.58 –4.7
1.38 5.1
2.18 –3.6
RWX 61.01 2.21 27.3
EnergySelSect XLE 74.61 1.49 –16.6
nclSelSect XLF 30.63
TSE/Macq Glb Infst GII 63.49
thCrSelSect XLV

Bestinver Hedge Value Fund

The Net Asset Value of Bestinver Hedge Value Fund has dropped by 18,8% during the third quarter of 2011, against a fall of 10.4% for the MSCI. So far this year the Hedge Value Fund has fallen a total of 13.6%, thus performing almost identically to Bestinfond and very similarly to the comparable figure of -13.8% for the MSCI. Since it was launched in September 2007, however, the Hedge Value Fund has seen a cumulative fall of 3.4%, which is less than the decrease of 14% for Bestinfond and the drop of 28.4% for the MSCI.

During the quarter the fund's target price has held practically stable at €257.4. the fund stands at a PER of 5.6x and offers upside potential of 166%, as well as a price to value ratio of 38 cents for each euro of the target price.

HEDGE FUND



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BESTINVER HEDGE VALUE FUND	30-jun-11	30-sep-11	Var % 30-sep-11
Target Price (€/share)	257.1	257.4	0.1%
Net Asset Value (€/share)	117.8	96.6	-18.8%
Upside Potential	118%	166%	
PER (estimated free cash flow 2011)	6.9 x	5.6 x	

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Financial Report
Annual Review

Conclusion

The third quarter has produced sharp falls in world stock markets and in our portfolios. The doubts about the solvency of certain countries in southern Europe and fears of a global recession have been the prime causes for this. At Bestinver we do not seek to put forward macroeconomic predictions, which is an activity where, as has been proven, it is extremely hard to forecast correctly on a consistent basis. Our task consists of identifying competitive advantages and valuing businesses on the basis of reasonably conservative suppositions and investing when the markets provide us with a counterparty at prices below our valuation.

And we are finding particularly attractive investment opportunities, precisely because the discounts on offer are historically substantial in comparison with our valuations. This gives us reason to be optimistic. That said, our world outlook does not contemplate a debacle, essentially because we believe that the growth being enjoyed by China and other major economies in the global context is of the sustainable kind. But, as we like to emphasize, it is the valuations of companies and the quality of our portfolio that makes us surer and more confident. Even if a gloomier scenario of overpowering world recession should materialize, the valuations which the market is yielding for us following the recent falls appear to represent a great chance to invest.

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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.


120
110
100

15

BESTINVER
Asset Management

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