Due Diligence Report

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Brandes Investment Partners, L.P.
International Equity

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Organization/People:

Brandes Investment Partners, L.P. ("Brandes") is an Investment Advisory firm that was founded in March 1974. It was originally formed as a sole proprietorship. Brandes is now a Delaware limited partnership.

Brandes is 100% beneficially owned by senior professionals of the firm. Twenty two partners have direct or indirect equity interests in Brandes. The long-term goal of the firm is to expand both the number and financial interest of employees who are eligible to participate in order to reward contributing investment professionals as if they were owners of the firm. Since there is a willingness to distribute equity interest, Manager Strategy feels that there is ample motivation and desire among all of Brandes' employees to see the firm and investors succeed. Manager Strategy believes key reasons for low turnover include a profit sharing plan for all eligible employees, a competitive annual bonus program, the firm's independent status, the firm's collegial decision-making process, and the opportunity to participate in partnership equity.

As of June 30, 2009, employees totaled 504. Few investment professionals have left Brandes.

The Executive Committee, chaired by Charles Brandes, is the functional equivalent of a "Board of Directors" for the organization and is responsible for the ongoing strategic initiatives of the firm.

The Executive Committee consists of the following five members:
- Charles H. Brandes, CFA -Chairman
- Jeffrey A. Busby, CFA -Executive Director
- Glenn R. Carlson, CFA -Chief Executive Officer
- Gary Iwamura, CPA -Director of Finance
- Brent V. Woods, CFA -Managing Director - Investments

Investment decisions that impact all portfolios for a particular product are the responsibility of the appropriate individual investment committee. The individual committees of Brandes effectively function as the "Portfolio Management Team" for the firm's respective multiple equity products. The committees are responsible for purchase/sale decisions and portfolio composition.

After re-assessing capacity in each of its closed equity products, the manager decided to re-open this strategy to existing clients, effective November 1, 2007. Capacity for this product is limited, however, and subject to ongoing review. Brandes applies its investment philosophy consistently in all market conditions and in security markets around the globe. As one of the first U.S. firms to emphasize a global approach to value investing, Brandes has searched the world's markets for compelling investment opportunities since the firm's founding in 1974.

Investment Philosophy/Process:

Brandes is a bottom-up, global investment manager that employs a deep value approach. In short, the firm believes that a strategy of buying businesses at a discount to the firm's estimate of their true value is designed to produce competitive long-term results. Brandes believes that a security's price and its intrinsic value often detach from one another in the short term. The firm's equity approach is to view a stock as a small piece of a business that is for sale. Thus the firm focuses on the fundamental characteristics of a company in order to develop an estimate of its intrinsic value. The firm's intrinsic value estimate is based on a thorough analysis of a company's fundamental characteristics, including balance sheet and cash flow.

Because of the volatile nature of the overall market - where sentiment can shift rapidly between sweeping optimism and overwhelming uncertainty - prices of stocks tend to fluctuate more than the intrinsic value of the companies they represent. By choosing stocks that are selling at a discount to estimated intrinsic business value, Brandes seeks to establish both a margin of safety and significant upside potential. This combination of rational fundamental analysis and the discipline to seek to take advantage of market price irrationality is central in Brandes' efforts to provide long-term attractive returns.

Because the firm doesn't want to miss any potential opportunities, Brandes' search for undervalued stocks begins at a very broad level. Analysts use computer databases to screen companies across the globe. Characteristics focused on at this stage include price/earnings, price/book, liquidity, and market capitalization. To help ensure the firm's investment search is exhaustive, analysts also review third-party research and monitor news feeds such as wire services and the financial press. As a result of the firm's screening process, these companies tend to have similar traits, such as low valuation ratios. Often, these companies are also out of favor and have stock prices that may have been depressed by recent developments. In other cases, a company might simply belong to an unexciting industry that the investment community has largely ignored.

To gain a deeper understanding of these candidates, each company undergoes rigorous analysis. Analysts draw on everything from published financial statements to personal company visits. Each of the firm's analysts specializes in a particular industry, and the firm believes that concentrated focus allows them to shed even more light on the companies they evaluate. The analyst's goal is to be an expert on every company he or she covers. Analysts formally present the most compelling opportunities to the firm's investment committees. The investment committee assigns intrinsic value estimates to companies and decides which companies will be held in portfolios. As a result, no single individual is in charge of purchase and sale decisions. Instead, the entire team participates in the decision-making process. The committee also sets buy and sell price targets, security-by-security target weightings, and diversification constraints.

The firm's investment committee develops and maintains "guideline portfolios" for each product. The portfolio management team is responsible for investing portfolios within those guidelines, taking into account client-specific restrictions and guidelines, existing portfolio securities, and cash availability in client portfolios.

Individual portfolio managers have discretion to accommodate client-specific requirements. Brandes uses a bottom-up stock selection process. Accordingly, weightings for sectors, industries, regions, and countries are not the product of top-down forecasts or opinions, but merely stem from the firm's company-by-company search for compelling investment opportunities. To help reduce risk and ensure diversification, the firm limits portfolio exposure to individual countries and industries and to emerging markets. At the time of purchase, weightings for individual countries and industries typically do not exceed the greater of 20% of the total portfolio or 150% of the country or industry's weight in the benchmark. In addition, at the time of purchase, weightings for emerging markets countries typically do not exceed a total of 20%.

An equity security is typically sold when another security with a meaningfully higher discount to valuation is identified and available. This generally occurs in three ways:

- A partial or full sale may occur in order to buy other securities that the firm believes have a higher discount to valuation
- A full sale of a position often occurs when a security's price is close to its current intrinsic value estimate.
- A full or partial sale may occur if the firm's assessment of intrinsic value declines, making the valuation less attractive.

The firm's investment time horizon is typically three to five years. Brandes does not change its investment process due to short-term movements in the market. The firm believes the consistent application of its philosophy has rewarded patient, long-term investors with favorable performance results and limited risk.

Performance Expectations:

Brandes invests in companies based on observable valuation metrics using traditional Graham & Dodd principles. If, based on those principles and associated observable valuations and company fundamentals, an investment is believed to offer a relatively attractive discount and longer-term margin of safety, Brandes will invest with relatively little attention paid to near-term impediments, catalysts, or market factors/sentiment. As such, the firm is often early in and early out of stocks and sectors/industries, as it wants to move into less favorable areas of the market and exit them as they become popular and valuations no longer offer an attractive discount to assessed intrinsic value. Given Brandes' deep-value, long-term focused approach, its performance can be relatively volatile, as its focus is often out of sync with that of the markets. In extreme risk-aversion downward markets, its willingness to invest in higher risk stocks with assessed high margins of safety and return potential can cause it to underperform. In more typical down markets, the focus on valuation can help limit relative downside risk. Overall, the portfolio's performance can be highly sensitive to inflection points in the market given that the approach often seeks to take advantage of opportunities created by sentiment-driven market momentum. As such, Brandes' performance can often be very distinct from that of the overall market and its peers and is often "hot" and "cold' in nature. While the approach can often result in periods of outsized returns, it can also result in prolonged periods of significant underperformance. While in relation to its domestic portfolios, Brandes' international portfolios have historically experienced less volatility and tracking error versus market benchmarks and peer groups, investors in the international strategy should be aware of these characteristics and potential volatility and performance patterns.

In general, Brandes tends to underperform when the market's focus is on momentum factors based on either extenuated perceived performance potential or risks. Brandes generally performs well when the market moves away from such momentum-based factors and returns its focus to individual company fundamentals and valuations.

Conclusion:

In summary, Manager Strategy remains confident in the Brandes International Equity strategy. The bedrock of the firm remains its deep investment team and commitment to their intrinsic value investment philosophy, which has remained unchanged. Based on the demonstrated consistency in philosophy, process and performance characteristics, Manager Strategy maintains its Recommended stance on the Brandes International Equity strategy.

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. Investing in emerging markets normally accentuates these risks.

Price to Book Ratio (P/B ratio) *- A ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.*

Price to Earnings Ratio (P/E ratio) *- a valuation ratio of a company's current share price compared to its per-share earnings.*