



Arizona State Retirement System

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Ian Sunder, CFA, Portfolio Manager
Patrick Feller, Associate Portfolio Manager

Brandes Investment Partners

Overview

- Founded in 1974
- Assets under management: \$ 76 billion*
- International Equity assets: \$ 36 billion*
- Located in San Diego, California
- 100% Employee owned

*as of 12/31/03

Investment Style & Process

- Value-oriented style implemented through a bottom-up, fundamental analysis process
- Detailed company specific research to determine intrinsic business values
- Invest in companies selling at a discount to intrinsic value (margin of safety)
- Long-term investment horizon (3-5 years)

Topic 1 – Mandate & Contribution to ASRS

- **ASRS Portfolio Value (12/31/03):** \$935.53 million
- **Portfolio Inception Date:** September 30, 1998
- **Investment Mandate:** Active international equity benchmarked to the MSCI EAFE Gross Index

Performance Objectives:

- Exceed benchmark by 2%, net of fees (annualized)
- Above median manager in International Equity universe

Topic 1 - Continued

Fees

First \$50 Million @	0.55%
Next \$50 Million @	0.50%
Next \$50 Million @	0.45%
Next \$50 Million @	0.40%
Balance over \$200 Million @	0.35%

Topic 2 – Performance

	<u>Quarter</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Inception*</u>
Portfolio Return*	19.3%	52.1%	2.7%	11.9%	14.7%
Benchmark Return	17.1%	39.2%	-2.6%	0.3%	3.9%
Total Value Added	2.2%	12.9%	5.3%	11.6%	10.8%

* Net of fees as of 12/31/03; Inception date 09/30/98.

Performance objectives have been met.

Topic 3 – Attribution Analysis

	<u>Quarter</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Inception*</u>
Country Weightings	2.1	6.7	4.7	4.6	4.1
Stock Selection	1.7	9.0	2.8	9.0	8.3
Currency	-2.0	-2.1	-1.7	-1.1	-1.1
Fees (%)	-0.1	-0.5	-0.4	-0.4	-0.4
Other	<u>0.5</u>	<u>-0.2</u>	<u>-0.1</u>	<u>-0.5</u>	<u>-0.1</u>
Total Value Added	2.2	12.9	5.3	11.6	10.8

*Inception date 09/30/98

Topic 4 – Key Performance Factors

- Japanese holdings: *Hitachi, Komatsu, TDK*
- Telecom related stocks: *Alcatel, Deutsche Telekom, Telefonica, Nortel*
- Financials: *Banca Intesa, Banco Bilbao Viz Argentaria, Zurich Financial Services*
- Emerging market stocks: *Eletrobras, Lukoil, SABMiller*

Topic 5 – Best and Worst Contributors

<u>Company</u>	<u>Absolute Return %</u>	<u>Weight %</u>	<u>Contribution ROR</u>
Alcatel	152.9	1.93	2.51
E.A.D.	116.6	1.02	2.07
Hitachi	56.3	2.70	1.49
Komatsu	96.0	1.98	1.49
Eletrobras	164.1	1.49	1.48

<u>Company</u>	<u>Absolute Return %</u>	<u>Weight %</u>	<u>Contribution ROR</u>
Invensys	-59.8	0.35	-0.82
Alstom	-33.5	Sold	-0.14
KT Corp.	-7.8	0.90	-0.12
Imperial Chem.	-1.0	1.18	-0.02
British Energy	-4.3	0.01	-0.00

Topic 6 –Significant Over/Under Weights

<u>Industry</u>	<u>Over/Under Weight*</u>
Diversified Telecom Services	13.1%
Pharmaceuticals	-5.2%
Diversified Financials	4.2%
Electronic Equip. & Instruments	2.8%
Electric Utilities	2.4%

*All industry allocations are a residual of our stock selection process.

Topic 7 - Risks

- Portfolio allocations are a residual of our bottom-up, fundamental analysis-driven stock selection process. This can result in significant over/under weights relative to the EAFE Index.
- Potential poor performance of over-weighted industries/countries or strong performance of under-weighted industries/countries can produce lower than index returns.
- Company specific risk is minimized through diversification and rigorous financial analysis.

Topic 8 – Investment Horizon

- As long-term investors we have no near term focus, and invest in companies with a 3 to 5 year investment horizon.
- The strong performance of international markets in 2003 has resulted in a narrowing of the discount between stock prices and their fair values.

Topic 9 – Expectations vs. Actual Events of last year

- As long term value-oriented investors, we find financial markets to be inefficient in the pricing of securities in the short term.
- Last year's strong performance is indicative of that inefficiency and we expect this to be an enduring feature of global stock markets.

Topic 10 – Significant Organizational Changes

- Personnel Changes
 - Equity investment professional additions: 1
 - Equity investment professional departures: 2
- Effective December 31, 2003, we closed our Global Small Cap and International Small Cap portfolios to new investors.
- Brandes Investment Partners is 100% beneficially owned by senior professionals of the firm.

Topic 11 – Insurance Coverage

The firm carries Errors and Omissions and Fiduciary Liability insurance with Gulf Insurance Company in the amount of \$15 million. This policy provides coverage for the firm in the event of negligent acts, errors, omissions, misstatements and breach of fiduciary duty. We also carry Fidelity (ERISA) Bonding with Hartford Fire, Great American, Zurich American and Travelers P&C Company of America Insurance Companies in the amount of 10% of each plans' assets up to \$500,000. These and various state required insurance policies are acquired as necessary. None of our coverage has changed substantially since being hired by ASRS.

Topic 13 – Emerging Markets

ASRS assets in developed markets: 85.7%

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Emerging market stocks are included on an opportunistic basis when we find attractively valued businesses in those markets relative to opportunities in developed markets.

Topic 14 – Currency Hedging

Percent of portfolio currency hedged: 0.0%

Effects of currency hedging: N/A

We do not hedge currency exposure in our portfolios.

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