



BRANDES
INVESTMENT PARTNERS

BRANDES U.S. SMALL CAP EQUITY FUND

2010 ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

VALUE SPECIALISTS



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BRANDES U.S. SMALL CAP EQUITY FUND

- ▶ *This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Fund. The annual financial statements are in a separate booklet. You may obtain a copy of the annual financial statements at your request, and at no cost, by calling toll-free 1-888-861-9998, by writing to us at Brandes Investment Partners & Co., 20 Bay Street, Suite 400, Toronto, ON, M5J 2N8, or by visiting our website: www.brandesinvestments.ca or the SEDAR website: www.sedar.com.*

You may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure relating to the Fund.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

Our objective for this Fund is to grow capital for investors over the long term by investing in securities of smaller capitalized U.S. companies.

As portfolio sub-advisor in respect of this Fund, Brandes Investment Partners L.P. ("Brandes LP") uses a Graham & Dodd value approach when selecting the actual securities. This means that, on behalf of the fund, they select securities of companies which, in their estimation have a higher value (intrinsic value) than is currently reflected in the stock market.

Brandes LP's intention is to create a portfolio of the best undervalued stocks available, in their estimation, diversified in ways described in the prospectus.

Risk

As an investor in this Fund, you should be prepared for short-term performance fluctuations, and be a patient, long-term holder.

There were no significant changes to the level or type of risk you would expect from the Fund over the course of the year. It continues to have a moderate to high risk level. Refer to the prospectus for a complete list of all risks.

Results of Operations from January 1 to December 31, 2010

Markets & Effect

U.S. markets showed signs of recovery during the year on optimism that modest economic growth could lead to increasing corporate profits going forward. Increased focus by investors on macroeconomic issues made it a difficult environment for active managers to distinguish themselves from their peers and their benchmarks. However, we continued to invest in what we consider to be excellent businesses, with very attractive margins of safety. We believe having the ability and willingness to think and act differently than the market gives us a better chance to add value for our clients over the long term.

Performance

The Fund outperformed its benchmark, with Class A units gaining 28.0% versus a gain of 20.2% for the Russell 2000 index ("Index"). The Fund's return is after the deduction of fees and expenses (management expense ratio), while the benchmark returns do not include any costs of investing. See the "Past Performance" section for the returns of the other classes, which may vary because of differences in management fees and expenses.

Overweight positions versus the index in the textiles, apparel, & luxury goods industry, and holdings in the machinery industry contributed most to performance. Holdings in the food & staples retailing industry weighed on performance for the year.

It is important to remember that we will continue to apply long-term Graham and Dodd value investment principles to security selection. We continue to focus on building portfolios on a company by company basis. By sticking to this process we believe we put ourselves in a good position to deliver long-term results.

Asset Mix

Over the recent reporting period, the Fund's asset mix did not change significantly. At December 31, 2010, equities made up 94.5%, with approximately 5.5% in cash and other net assets.

The Fund's most significant industry exposure change was an increase to holdings in the food products industry to 7.5% from 2.7% at December 31, 2009.

In line with our bottom-up investment philosophy, we continue to build the portfolio on a company-by-company basis. We only compare the Fund to the Index in the course of ensuring that it remains appropriately diversified. As a result, the Fund's industry weightings were quite different from the Index during the period. For example, at December 31, 2010 the Fund's largest industry exposure was in the household durables industry at 11.1%, versus 0.7% for the Index.

We typically allocate less than 5% of the Fund to any one security, at the time of purchase. Therefore, the addition or deletion of an individual security does not constitute a substantial change to the portfolio.

Flows & Fees

The Fund's Net Asset Value decreased by 9.9% to \$16.3 million at December 31, 2010, from \$18.1 million at December 31, 2009. Of this change, an increase of \$4.4 million was due to positive investment performance (net of investment income), which was offset by a decrease of \$6.2 million from negative flows.

For Class A units, the December 31, 2010 management expense ratio ("MER") of 2.57% remained unchanged from last year. However, it is expected the MER will increase in the future as a result of the Harmonized Sales Tax. Please refer to the "Sales Tax and GST Harmonization" section for more additional discussion on this new tax.

Recent Developments

Brandes Investment Partners L.P. continued to manage the investment portfolio of the Fund but as the sub-advisor to Brandes Investment Partners & Co. ("BIP & Co.") acting as the Fund's Portfolio Manager.

There are no other known changes at this time to the strategic positioning of the Fund, or the manager, portfolio advisor, to the policies or the composition of the Independent Review Committee.

International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian accounting standards and interpretations for publicly accountable enterprises in 2011. Brandes has developed a changeover plan to IFRS. The key elements of the changeover plan include assessment of significant IFRS and Canadian GAAP differences, analysis and conclusion on accounting policy choices, identification of additional disclosure requirements under IFRS, and preparation of the financial statements in accordance with IFRS with comparatives.

Based on its current assessment of the differences between IFRS and Canadian GAAP, Brandes has presently determined that there will be no significant impact to the Net Assets or Net Assets per unit as a result of the changeover. It is expected that the impact of IFRS will be limited to additional disclosure and potentially modification to the presentation of unitholder interests and certain other items. This present determination is subject to change if new standards or new interpretations of existing standards are issued before the changeover.

In September 2010, the AcSB approved a one year deferral of adoption of IFRS for investment companies currently applying *Accounting Guideline 18, Investment Companies*, which include investment funds. In January 2011, the AcSB made a decision to extend the deferral of IFRS adoption by investment companies for an additional year to January 2013. The result is a two-year deferral of IFRS adoption by investment companies compared to other publicly accountable entities. The AcSB noted in its *Decision Summary* that the deferral is a result of the delay in the International Accounting Standards Board's ("IASB") investment company project and that a final standard would likely not be issued before January 2012, the previous mandatory IFRS changeover date for investment companies in Canada.

Investment funds may continue to apply existing Canadian GAAP standards until fiscal years beginning on or after January 1, 2013. Accordingly, the Fund will adopt IFRS for the fiscal period beginning January 1, 2013, and will issue the first financial statements under IFRS, including comparative information, for the interim period ending June 30, 2013.

Sales Tax and GST Harmonization

Effective July 1, 2010, the British Columbia and Ontario provincial governments proceeded to harmonize their Provincial Sales Tax ("PST") with the federal Goods and Services Tax ("GST") to become the new Harmonized Sales Tax ("HST"). HST is applicable to GST-taxable services charged to the Fund. HST is calculated separately for each class of each Fund in proportion to the amounts invested by residents of HST-participating provinces when compared to non-participating provinces. HST participating provinces refer to the provinces of Ontario, British Columbia, Nova Scotia, New Brunswick or Newfoundland and Labrador or any other province that in the future begins to apply HST. The net effect is the application of a "blended rate" of GST/HST to each class of each Fund and an increase in taxes applied to the Fund for services charged to the Fund.

Related Party Transactions

Manager and Portfolio Advisor

The Fund is managed and advised by Brandes Investment Partners & Co. which provides (or arranges for) investment management, distribution, marketing and promotion of the Fund. BIP & Co. receives a monthly management fee based on the daily average net assets of each Class of the Fund. In addition, BIP & Co. is entitled to be reimbursed by the Fund for certain operating expenses.

Brandes Investment Partners, L.P., of San Diego, continued to be the Manager's portfolio sub-advisor in respect of the Fund. BIP & Co. pays Brandes LP a monthly investment management fee to provide the Fund with investment management services.

Forward-Looking Statement

This document may contain forward-looking statements relating to anticipated future events, results, performance, decisions, circumstances, opportunities, risks or other matters. Forward-looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as “may”, “will”, “should”, “could”, “expect”, “anticipate”, “intend”, “plan”, “believe”, or “estimate” or other similar expressions. These statements require us to make assumptions and are subject to inherent risks and uncertainties. Our predictions and other forward-looking statements may not prove to be accurate, or a number of factors could cause actual events, results, performance, etc. to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. These factors could include, among others, market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas

in which the fund may invest, and the risks detailed from time to time in the fund’s simplified prospectus. Forward-looking statements are not guarantees of future performance. For these reasons, it is important that readers do not place undue reliance on our forward-looking statements and should be aware that the Fund may not update any forward-looking statements whether as a result of new information, future events or otherwise.

Benchmark Index

Russell 2000 Index: This index measures the performance of 2000 of the smallest U.S. companies based on total market capitalization.

FINANCIAL HIGHLIGHTS

FOR THE PERIODS ENDED DECEMBER 31, 2006 TO 2010

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five periods ended December 31, as applicable. In the year a fund or class is established, 'period' represents inception to December 31 of that year. In all other cases, 'period' represents year ended December 31.

The Fund's Net Assets per Unit (\$) (Note 1)

		Increase (decrease) from operations					Distributions			Net assets, end of period	
		Net assets, beginning of period (Note 2)	Total revenue	Total expenses	Realized gains (losses) for the period	Unrealized gains (losses) for the period	Total increase (decrease) from operations	From income excluding dividends	From capital gains		Total annual distribution
Class A	2010	5.73	0.07	(0.17)	0.15	1.33	1.38	-	-	-	7.34
	2009	3.79	0.06	(0.12)	(2.07)	4.12	1.99	-	-	-	5.73
	2008	7.57	0.11	(0.16)	(1.55)	(2.34)	(3.94)	-	-	-	3.79
	2007	12.12	0.13	(0.28)	0.09	(4.46)	(4.52)	-	-	-	7.57
	2006	10.91	0.11	(0.29)	0.63	0.90	1.35	-	(0.23)	(0.23)	12.14
Class F	2010	6.11	0.08	(0.11)	0.19	1.50	1.66	-	-	-	7.91
	2009	4.00	0.07	(0.07)	(2.60)	4.47	1.87	-	-	-	6.11
	2008	7.90	0.12	(0.10)	(1.62)	(2.18)	(3.78)	-	-	-	4.00
	2007	12.49	0.14	(0.17)	(0.15)	(5.07)	(5.25)	-	-	-	7.90
Class I	2006	11.30	0.13	(0.19)	0.61	0.98	1.53	-	(0.41)	(0.41)	12.52
	2010	6.46	0.08	-	0.04	1.88	2.00	-	-	-	8.49
	2009	4.19	0.06	-	(4.75)	6.73	2.04	(0.03)	-	(0.03)	6.46
	2008	8.29	0.12	-	(1.62)	(2.03)	(3.53)	(0.07)	-	(0.07)	4.19
	2007	13.02	0.14	-	(0.39)	(4.86)	(5.11)	(0.06)	-	(0.06)	8.29
Class L	2006	11.99	0.12	-	0.71	1.34	2.17	(0.01)	(0.89)	(0.90)	13.05
	2010	6.65	0.07	(0.14)	0.18	1.81	1.92	-	-	-	8.58
	2009	4.37	0.07	(0.10)	(2.39)	4.70	2.28	-	-	-	6.65
	2008	8.65	0.13	(0.13)	(1.64)	(2.64)	(4.28)	-	-	-	4.37
	2007	13.73	0.13	(0.26)	1.84	(4.98)	(3.27)	-	-	-	8.65
Class M	2006	12.47	0.13	(0.25)	0.71	1.19	1.78	-	(0.47)	(0.47)	13.77
	2010	4.47	0.05	(0.07)	0.13	1.22	1.33	-	-	-	5.80
	2009	2.93	0.07	(0.05)	(2.50)	10.75	8.27	-	-	-	4.47
	2008	5.78	0.08	(0.07)	(1.10)	(1.76)	(2.85)	-	-	-	2.93
	2007	9.16	0.09	(0.11)	0.02	(3.39)	(3.39)	-	-	-	5.78
2006	8.34	0.08	(0.11)	0.47	0.80	1.24	-	(0.40)	(0.40)	9.16	

1. Net Assets per Unit is calculated as follows:

(a) The financial information presented in the Net Assets per Unit table is derived from the Fund's audited annual financial statements. The Net Assets per Unit presented in the financial statements ("Net Assets") differs from the net asset value calculated for fund pricing purposes ("Net Asset Value"). An explanation of the differences can be found in the notes to the financial statements.

(b) Net Assets per Unit of a class is based on the number of units outstanding for that class at the relevant time. The Increase (Decrease) from Operations per Unit of a class is based on the weighted average number of units outstanding for that class during the period.

(c) Distributions per Unit of a class are based on the number of units outstanding for the class on the record dates for the distributions. Distributions were reinvested in additional units of the Fund.

2. As of January 1, 2007, the Fund adopted the *CICA Handbook, Section 3855, Financial Instruments – Recognition and Measurement* ("Section 3855"). The adoption of Section 3855 impacts the valuation and disclosure of the Net Assets of an investment fund for financial reporting purposes.

The provisions of Section 3855 have been applied retroactively without restatement of prior periods. Accordingly, the Net Assets per Unit at the beginning of 2007 has been adjusted.

Ratios and Supplemental Data (Note 3)

		Net asset value (\$000)	Number of units outstanding (000)	Management Expense Ratio (MER) (%) (Note 4)	MER before waiver or absorption (%) (Note 4)	Portfolio turnover rate (%) (Note 5)	Trading expense ratio (%) (Note 6)	Net asset value per unit
Class A	2010	14,216	1,935	2.57	2.87	49.93	0.12	7.35
	2009	11,930	2,078	2.57	2.84	81.97	0.31	5.74
	2008	7,800	2,041	2.57	2.70	55.06	0.32	3.82
	2007	5,860	773	2.60	2.76	58.66	0.35	7.58
	2006	9,360	771	2.70	2.87	55.81	0.26	12.14
Class F	2010	1,216	154	1.52	1.86	-	-	7.92
	2009	1,557	254	1.52	1.82	-	-	6.12
	2008	2,359	585	1.52	1.66	-	-	4.03
	2007	2,378	300	1.54	1.66	-	-	7.92
	2006	2,971	237	1.70	1.76	-	-	12.52
Class I	2010	904	106	0.00	0.00	-	-	8.50
	2009	4,646	718	0.00	0.00	-	-	6.47
	2008	18,036	4,269	0.00	0.00	-	-	4.23
	2007	26,636	3,205	0.00	0.00	-	-	8.31
	2006	23,779	1,822	0.00	0.00	-	-	13.05
Class L	2010	-	-	1.89	1.96	-	-	8.58
	2009	-	-	1.89	1.89	-	-	6.66
	2008	-	-	1.89	1.89	-	-	4.40
	2007	-	-	1.91	1.91	-	-	8.67
	2006	357	26	1.92	1.92	-	-	13.77
Class M	2010	-	-	1.37	1.40	-	-	5.80
	2009	-	-	1.37	1.37	-	-	4.48
	2008	-	-	1.37	1.37	-	-	2.95
	2007	-	-	1.38	1.38	-	-	5.79
	2006	-	-	1.37	1.37	-	-	9.16

MANAGEMENT FEES

BIP & Co., the Manager, provides or arranges for investment management, distribution, marketing and promotion of the Fund. In consideration for the services provided, BIP & Co. receives a monthly management fee based on the daily average Net Asset Value of Class A, Class F, Class L and Class M. Management fees for Class I are negotiated and paid directly by the unitholders, not by the Fund.

For the year ended December 31, 2010, the Fund paid BIP & Co. management fees of \$343,435. Approximately 45% of Class A management fees and 0% of Class L management fees were used to fund commission payments to registered brokers and dealers for distributing Class A and Class L units. BIP & Co. does not pay any commission in connection with the distribution of Class F, Class I and Class M units.

3. The financial information presented in the Ratios and Supplemental Data table is derived from the Fund's Net Asset Value and is provided as at December 31 of the years shown.

4. The management expense ratio ("MER") is calculated as the total management fees and operating expenses paid by each class of the Fund, including GST/HST and interest and excluding commissions and other portfolio transaction costs, as a percentage of the average daily Net Asset Value of each class of the Fund on an annualized basis. Any management fee distributions paid by a class of the fund that effectively reduced management fees payable by some unitholders are not deducted from expenses to determine the overall MER of that class.

The Manager, at its sole discretion, waives management fees or absorbs expenses. Such waivers and absorptions can be terminated at any time. The MERs of the Fund are shown both with and without the waiver and absorptions.

5. Portfolio turnover rate is calculated at the Fund level based on the lesser of purchases or proceeds of sales of securities for the period, excluding cash, short term notes and bonds having maturity dates at acquisition of one year or less, divided by the average value of the portfolio securities for the period.

The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turn-over rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.

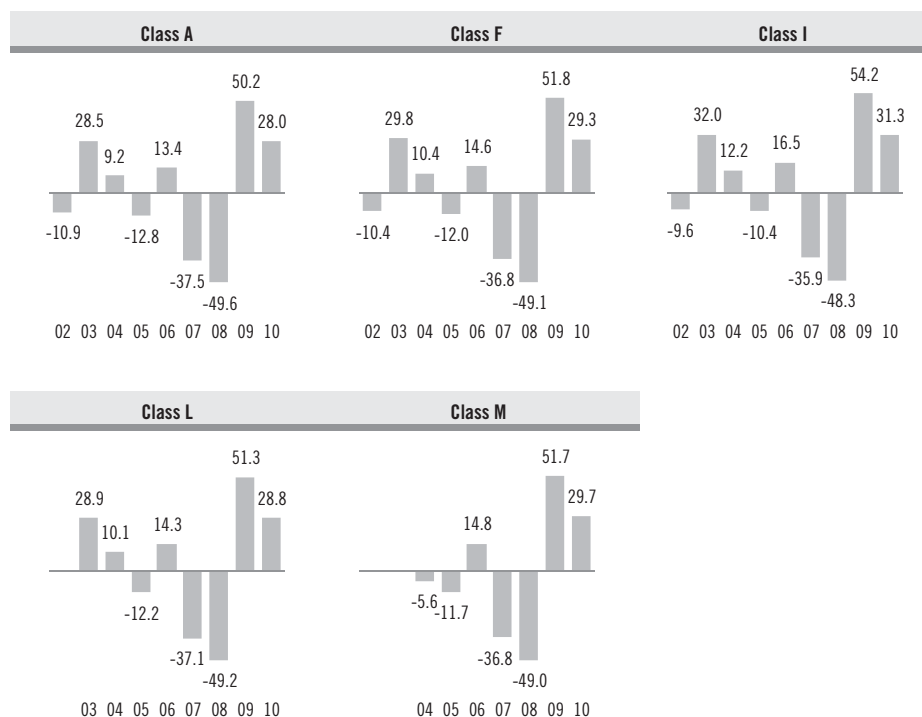
6. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average Net Asset Value of the Fund. The trading expense ratio is calculated at the Fund level and applies to all classes of the Fund.

PAST PERFORMANCE

This section shows the historical performance for each class of the Fund for the periods ended December 31. Historical performance is based on the change in Net Asset Value per unit, assuming reinvestment of all distributions. Management fees, operating expenses and applicable taxes have been taken into account before calculating performance, except in the case of Class I units where the management fee is calculated outside of the Fund. Historical performance does not take into account the potential impact on returns of purchases, redemptions, distribution fees or other optional charges or income taxes payable by an investor. Keep in mind that past performance does not necessarily indicate how the Fund will perform in the future.

Year-by-Year Returns (%)

The bar chart shows how the performance of each class of the Fund has changed from year to year. It illustrates in percentage terms how much an investment in each class of the Fund made on January 1 of each year, or on the inception dates, would have grown or decreased by the last day of each financial year.



Note:
 2002 Class A, F and I returns are from July 2, 2002 to December 31, 2002
 2003 Class L returns are from July 2, 2003 to December 31, 2003
 2004 Class M returns are from June 29, 2004 to December 31, 2004

Annual Compound Returns (%)

The table shows the historical annual compound total return for each class of the Fund as compared to the benchmarks listed below. The returns are for periods ended December 31, 2010. For a discussion of the relative performance of the Fund as compared to the index, please refer to the “Results of Operations” section in the “Management Discussion of Fund Performance” on page 4.

	1-Year	3-Year	5-Year	Since Inception
Class A	28.00	(1.05)	(7.24)	(3.34)
Class F	29.33	0.00	(6.24)	(2.33)
Class I	31.31	1.52	(4.80)	(0.75)
Russell 2000 Index¹	20.24	2.45	1.15	2.94
Class L	28.82	(0.33)	(6.55)	(1.56)
Russell 2000 Index²	20.24	2.45	1.15	4.63
Class M	29.65	0.09	(6.16)	(7.39)
Russell 2000 Index³	20.24	2.45	1.15	1.19

¹“Since inception” corresponds to inception date for Class A, F, and I of July 2, 2002

²“Since inception” corresponds to inception date for Class L of July 2, 2003

³“Since inception” corresponds to inception date for Class M of June 29, 2004

SUMMARY OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2010

Top 25 Positions

The portfolio does not contain any short positions. The investment portfolio may change due to ongoing portfolio transactions of the investment fund. An updated listing is available on a quarterly basis.

	Company	Fund (%)
1.	Cash & Cash Equivalents	4.9
2.	Rent-A-Center, Inc.	4.1
3.	Seneca Foods Corporation Cl. A	3.8
4.	Briggs & Stratton Corporation	3.8
5.	Alexander & Baldwin, Inc.	3.7
6.	Fresh Del Monte Produce Inc.	3.7
7.	JAKKS Pacific Inc.	3.6
8.	Stewart Information Services Corporation	3.2
9.	Tecumseh Products Company Cl. A	2.9
10.	Stanley Black & Decker Inc.	2.6
11.	Tesoro Corporation	2.6
12.	Superior Industries International Incorporated	2.4
13.	Palomar Medical Technologies, Inc.	2.4
14.	Masco Corp.	2.4
15.	International Flavours & Fragrances Inc.	2.2
16.	Spartech Corporation	2.2
17.	Kenneth Cole Productions Incorporated Cl. A	2.1
18.	KB Home	1.9
19.	Quiksilver Incorporated	1.9
20.	SUPERVALU Inc.	1.8
21.	The Medicines Company	1.8
22.	BigBand Networks Inc.	1.8
23.	The Ryland Group, Inc.	1.7
24.	M.D.C. Holding, Inc.	1.7
25.	Lennar Corporation Cl. B	1.7
	% of Fund	66.9
	Total Number of Companies	59
	Total Net Asset Value (\$MM)	\$16

Industry Exposure

Industry	Fund (%)	†Russell 2000 Index (%)
Household Durables	11.1	0.7
Food Products	7.5	1.2
Machinery	6.7	3.3
Textiles, Apparel & Luxury Goods	6.2	2.1
Health Care Equipment & Supplies	5.2	3.2
Insurance	5.1	2.6
Specialty Retail	5.0	3.3
Thrifts & Mortgage Finance	4.5	1.4
Chemicals	4.3	2.5
Leisure Equipment & Products	4.1	0.7
Commercial Banks	4.0	5.8
Building Products	3.8	0.7
Marine	3.7	0.1
Auto Components	3.6	1.0
Communications Equipment	3.0	3.0
Oil, Gas & Consumable Fuels	2.6	4.2
Food & Staples Retailing	1.8	0.9
Pharmaceuticals	1.8	1.6
Capital Markets	1.7	2.2
Electric Utilities	1.5	1.3
Automobiles	1.5	0.0
IT Services	1.4	2.0
Road & Rail	1.3	1.1
Real Estate Management & Development	1.3	0.2
Biotechnology	0.8	3.3
Life Sciences Tools & Services	0.5	0.7
Distributors	0.3	0.2
Cash & Cash Equivalent	4.9	-
Other Net Assets	0.6	-
% of Total	100.0	49.3
Total Number of Industries	27	66

†Source: Russell via FactSet

Note: Rounding to one decimal place may result in individual figures totalling more or less than 100%



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