A brief word on the Ukraine crisis

This letter was in final draft when we learned that Russia had commenced its invasion of Ukraine on February 24th, 2022. We are deeply saddened by the loss of life and the disruption being forced upon the people of Ukraine. We have communicated extensively with our clients and friends since the start of the invasion and have commented on restrictions taken by governments and financial institutions around the world. We are taking all necessary and prudent steps to respond in a reasoned and thoughtful way. On March 3rd, we announced a moratorium on allocating new capital to Russian securities for the foreseeable future.

This quarter's letter on the *Enduring Value of Graham Principles* was not intended to be a commentary on this current conflict. Nevertheless, there are some observations that may provide important context as one tries to understand the investment ramifications of this tragic and unfolding event. Shocked and horrified as we are to see such aggression in Europe for the first time since the end of WWII, we believe that the long-term investor must find the courage to stay focused and remain committed to their long-term investment plan.

Benjamin Graham writing in 1972 and commenting on the many unanticipated events and shocks to the stock markets over his 57-year career noted: *Through all their vicissitudes and casualties, as earth-shaking as they were unforeseen, it remained true that sound investment principles produced generally sound results. We must act on the assumption that they will continue to do so.* We find this sage advice particularly relevant for these uncertain times.

The Enduring Value of Graham Principles

Dear Clients and Friends,

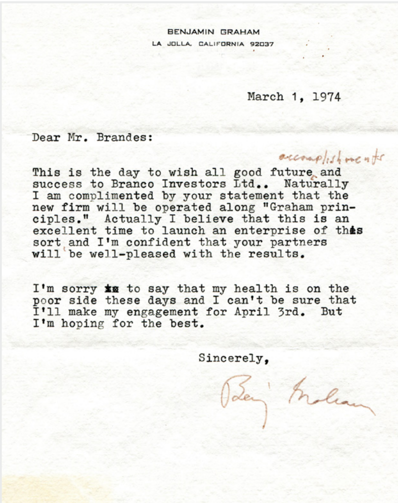
Regular readers of our quarterly letters will know that at Brandes, we pay a lot of attention to the writings of Benjamin Graham. Indeed, we even offer a course to all of our colleagues that is a study of Graham's classic book, *The Intelligent Investor*.

How can a book on investing that was first written in the 1950s be remotely relevant in today's modern world? For us, Graham's investing principles are as enduring and relevant today as they were when he first wrote them. But we get it - in this hyper world of cryptocurrencies, SPACs and Reddit stocks—referring to long-term thinking, seeking a margin of safety[1], being diversified, and having a keen focus on investment versus speculation sounds old fashioned and disconnected from the so-called new normal.

We reference Graham's investment principles not because we are impervious to change or new ideas; we reference them because they still make a lot of sense to us. For example, one of Graham's central concepts is the principle of Margin of Safety— this can be as basic as buying a new dress when it's on sale. Would anyone argue with buying a dress, or a car, or a plane ticket when there is a sale? Similarly, the idea of diversification is rooted in the age-old adage of not putting all your eggs into one basket. Who would argue with that?

The Brandes organization has a solid Graham history. The firm was founded by Charles Brandes in 1974 after Charles had the good fortune of spending time with Benjamin Graham while Charles was a young stockbroker and Ben was spending his

[1] The margin of safety for any security is the discount of its market price to what the firm believes is the intrinsic value of that security



BENJAMIN GRAHAM
LA JOLLA, CALIFORNIA 92037

March 1, 1974

Dear Mr. Brandes:

accomplishments

This is the day to wish all good future and success to Branco Investors Ltd.. Naturally I am complimented by your statement that the new firm will be operated along "Graham principles." Actually I believe that this is an excellent time to launch an enterprise of this sort and I'm confident that your partners will be well-pleased with the results.

I'm sorry to say that my health is on the poor side these days and I can't be sure that I'll make my engagement for April 3rd. But I'm hoping for the best.

Sincerely,

Benj Graham

winters in La Jolla, California. In the teeth of the brutal 1973-1974 bear market, Charles decided to launch his firm "along Graham principles." A prized artifact at our firm is a letter from Ben to Charles dated March 1, 1974. The letter is proudly displayed alongside a first edition copy of *The Intelligent Investor* in our office. In the letter, Graham wrote: "Actually I believe that this is an excellent time to launch an enterprise of this sort and I am confident that your partners will be well-pleased with the results."

Charles often told us that what attracted him to Graham principles was that they made perfect sense to him. This was especially the case as he observed the excesses of the late 1960s and early 1970s—the "go-go" and "Nifty-Fifty" era. The market was off huge in 1973-74 and he knew that there had to be a better way to help clients toward their long-term financial goals.

Almost 50 years later, we have to acknowledge that investment markets should be more efficient than they were in the 1970s. Information is readily available to all market participants on a 24/7 basis. The computing power available to today's market participants is on a scale unimaginable to the few people in the 1960s who had access to mainframe computers. Why then in 2021 did we see a repeat of the 1970s excesses with unsustainable valuations for some of the biggest companies in the world and historically wide dispersion between value and growth stocks?

When we stack our nearly 50 years of applying Graham principles on top of the 57 years that Graham had under his belt before publishing the fourth and final edition of *The Intelligent Investor*, we offer the following observations:

First Observation—despite 24/7 availability of company and market information, markets are not always efficient in the short-term. Ben Graham famously wrote about Mr. Market and how on some days Mr. Market was overly optimistic and would pay more for a share of a business than what it was worth. And, on other days, Mr. Market was so depressed, he would offer to sell a share of a business for less than it was worth. In our 50 years of navigating global investment markets, there is no indication that Graham's manic-depressive Mr. Market has become any more rational. Indeed, there's an argument to be made that the constant access to company and market information may cause some market participants to act on their optimism or pessimism even more quickly than in previous decades.

We understand that when Graham referred to Mr. Market, he was referring to all investors and we know that includes us. We are theoretically subject to the same biases and emotions as all other investors. We contend that investment markets are still inefficient, and we've taken Graham's investment principles and built an investment process that seeks to exploit some of those inefficiencies—we seek to exploit the value premium. However, to guard against the very same biases and emotions that Graham wrote about, we intentionally use investment teams as opposed to a single decision maker. We believe that there's much less chance for a team of experienced investment professionals to behave like Mr. Market in the same way and at the same time. By having diverse inputs at the point of decision, we believe that the team will respond more rationally more often than a single decision maker will.

Second Observation—*Margin of Safety* is a timeless concept. Recognizing that investment markets can be irrational and erratic, Graham wanted to find a way of increasing the investor's odds of success. Every investor wants to buy low and sell high. However, if you overpay for an investment in the first instance, your chances of selling higher are reduced. On the other hand, if you can purchase an investment for less than it's worth, your chances of selling higher are increased. Graham called the difference

The Go-Go Years and the Nifty Fifty

Driven by explosive economic growth and millions of new stock market investors, in the mid-1960's with a roaring bull market, the term "go-go" was used to describe short-term trading and turning over stocks for quick gains.

The Nifty Fifty was a term used throughout the 1960's to describe a group of the largest US companies. In a bull market with seemingly only upward momentum, the concept was simple—buy and hold 50 of the best companies in the US. These companies were the blue-chip companies, household names, great American businesses.

In the early 1970s, Nifty Fifty companies were trading at hugely inflated and unsustainable price/earnings (PE) ratios. This ultimately led to the painful market correction of 1973/1974.

between the price paid and the value received, the Margin of Safety. The bigger the margin, the greater the room for price appreciation potential and the greater the potential protection against price decline.

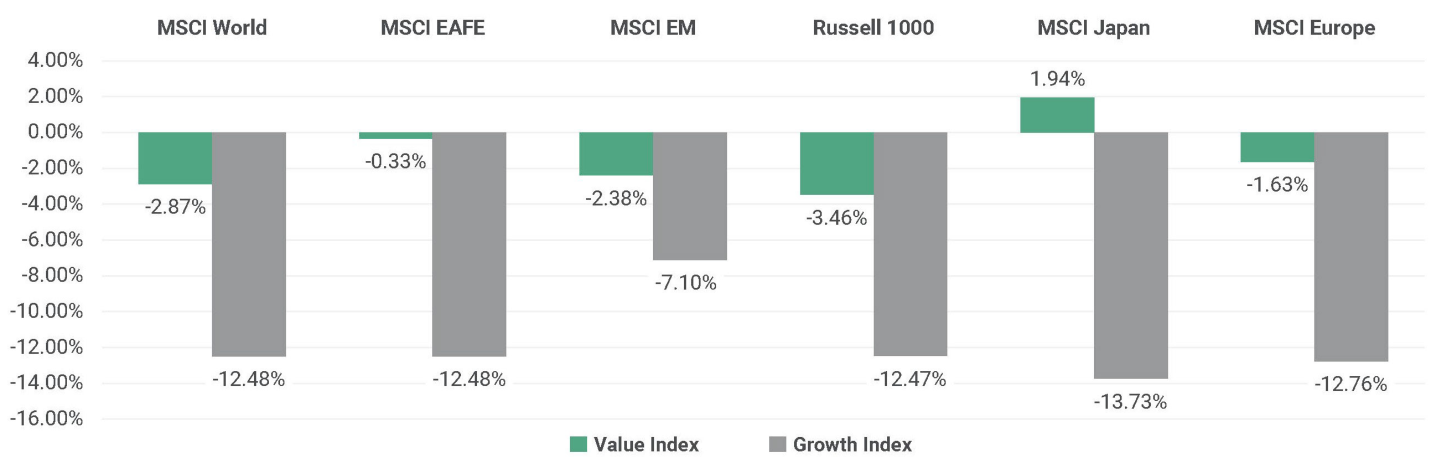
Although Graham was a legendary and successful investor, he knew that when investing in businesses, there can be unforeseen events and these unknowns can thwart even the best investment idea. Therefore, he encouraged investors to be prudent—to recognize that you cannot know how the future will unfold. By demanding a significant Margin of Safety before investing, the defensive investor has built a cushion that will help protect her from future unknowns.

Over the past five decades, the Margin of Safety concept has been deeply embedded into the investment process at Brandes. Like all professional investors, we scour annual reports for businesses. We build detailed financial models. We study industry dynamics. We dig deep into the competitive landscape, and we consider the economic conditions in which the business operates. Once our analyst has completed this extensive fundamental research, each member of our investment committee peer reviews that work. Therefore, before we ever commit client capital to an investment, our investment team and the analyst challenge each other on the assumptions built into the model. Through this dialogue we hope to mitigate biases and emotions as we strive to identify a fair value or intrinsic value for that business.

Third Observation—with investing, there is no “sure thing” or a “get rich quickly” approach. It might seem ludicrous that this is our third observation, but the history of investing is replete with investment fads, bubbles, scam artists, and investment ideas that in hindsight were clearly too good to be true. Graham identified this as the difference between investment and speculation. Graham argued that an investment is made after a sound analysis of the opportunity using a tried and tested investment philosophy. Speculation, on the other hand, is akin to the roll of a dice. With speculation, hope (for a superior outcome) replaces reasoned analysis.

While we agree with Graham on the important difference between investment and speculation, we have to acknowledge that investors are human and are subject to the same biases and emotions that impact every other aspect of our lives. We have built the Brandes organization to try to counteract the natural human biases and emotions that can derail an otherwise sound investment process. We are proud that despite some very challenging periods for value investors, Brandes has remained steadfast in our disciplined value investing approach. The past dozen years or so will likely be remembered as the coldest winter for value investors—for that entire period, value meaningfully underperformed its growth counterpart. There were certainly shades of the Nifty Fifty era where ignoring the price paid was rewarded and for an extended period. Buying high and selling higher was possible.

Sometimes, price and value eventually converge and early in 2022, many growth stocks declined in price as the market began to recognize some value stocks may have been underpriced.



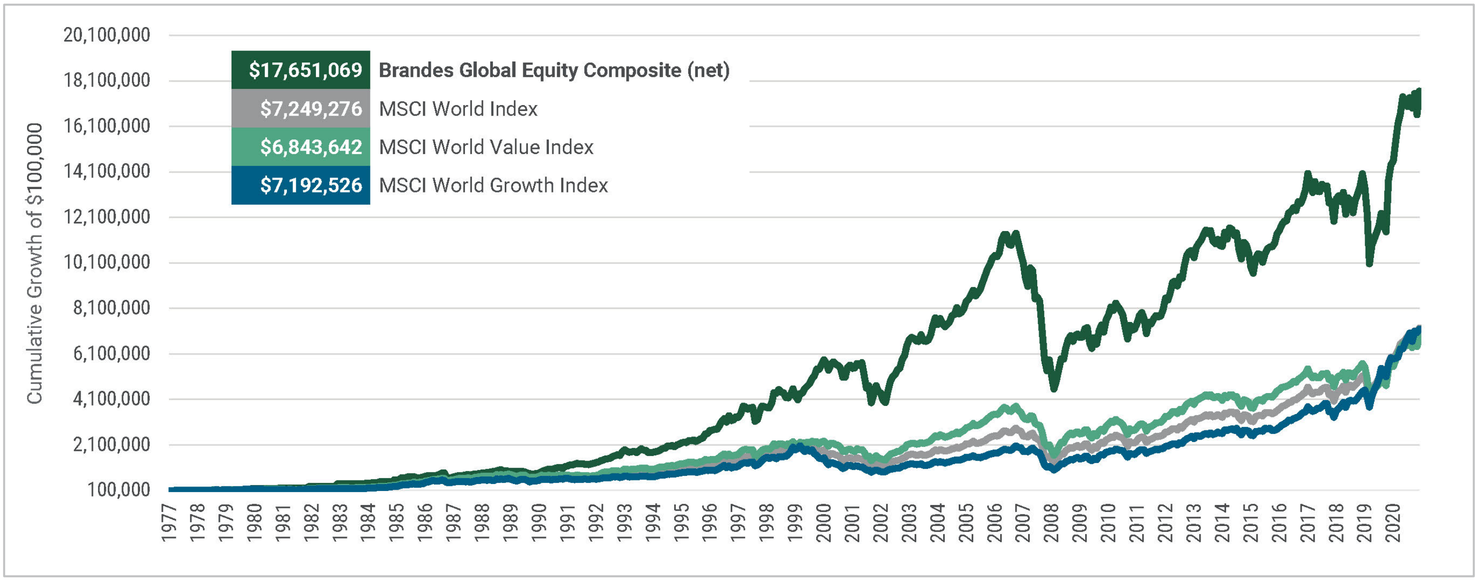
	MSCI World	MSCI EAFE	MSCI EM	Russell 1000	MSCI Japan	MSCI Europe
Value Index Performance Relative to Growth	**9.61%**	**12.15%**	**4.72%**	**9.01%**	**15.67%**	**11.13%**

CUMULATIVE GROWTH AND VALUE INDEX RETURNS - 12/31/2021 TO 2/28/2022. Source: Brandes, FactSet, MSCI, Russell. Past performance is not a guarantee of future results. It is not possible to invest directly in an index.

Investing is a humbling business, and the markets can make even the soundest investment approach look wrong for long periods. However, we believe that a consistent application of a sound investment approach with embedded techniques designed to mitigate personal biases and emotion is the most promising in the long run.

The evidence we can present to support this belief is to refer to our Global Equity strategy. Launched in 1978, this strategy has posted average annualized returns (net of fees) of 12.47% compared to just over 10.22% for the MSCI World Index. The compounding effect of 225 basis points of outperformance over 40 plus years is dramatic.

Cumulative Growth of $100,000



12/31/1977 (COMPOSITE INCEPTION) TO 12/31/2021. Source: Brandes, MSCI. Hypothetical cumulative total return – net of management fees. Please see the accompanying GIPS Report®. This hypothetical example is for illustrative purposes only. It does not represent the performance of any particular investment. Actual results may vary. Past performance is not a guarantee of future results. It is not possible to invest directly in an index. The inception date for the MSCI World Growth and Value Indices is December 8, 1997. Data shown prior to this date is the result of backtesting performed by MSCI. There may be frequent material differences between backtested and actual performance.

In closing, while we do all we can to keep our biases and emotions in check as we put our clients' capital to work, we have to acknowledge that we are very happy to see the value investment style make a strong bounce back so far in 2022. And we hope that this pro-value cycle will persist for many months and indeed years to come. However, we don't invest based on hope. We seek to make reasoned decisions, attempt to adjust for natural biases and emotions, and focus on building portfolios one company at a time while seeking an attractive margin of safety. This approach has served our clients and us well for nearly 50 years. Given time, it has worked, and as Charles Brandes and Benjamin Graham observed all those years ago, it makes sense.

Thank you,
Brandes Investment Partners

Global Equity GIPS® Report available here.

Basis Point: Equal to 1/100th of 1%.

Cryptocurrency: A digital asset based on a decentralized network distributed across a large number of computers.

Meme/Reddit Stocks: Shares of companies that have gained a following on social media.

Price/Earnings: Price per share divided by earnings per share.

SPAC: A special purpose acquisition company (SPAC) is a publicly traded company created for the purpose of acquiring or merging with an existing company.

Value Premium: The potential outperformance of value stocks relative to growth stocks.

The MSCI EAFE Growth Index with gross dividends captures large and mid cap securities across developed market countries, excluding the United States and Canada, exhibiting growth style characteristics, defined using long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend. **The MSCI EAFE Value Index** with net dividends captures large and mid cap securities across developed market countries, excluding the United States and Canada, exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield. **The MSCI Emerging Markets Growth Index** with gross dividends captures large and mid cap securities exhibiting growth style characteristics, defined using long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend. **The MSCI Emerging Markets Value Index** with gross dividends captures large and mid cap securities exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield. **The MSCI Europe Growth Index** captures large and mid cap securities across developed Europe exhibiting growth style characteristics, defined using long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend. **The MSCI Europe Value Index** captures large and mid cap securities across developed Europe exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield. **The MSCI Japan Value Index** captures large and mid cap Japanese securities exhibiting overall value style characteristics, defined using book value to price, 12-month forward earnings to price and dividend yield. **The MSCI Japan Growth Index** captures large and mid cap securities exhibiting overall growth style characteristics in Japan, defined using long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend. **The MSCI World Index** with net dividends captures large and mid cap representation of developed markets. **The MSCI World Growth Index** with gross dividends captures large and mid cap securities across developed market countries exhibiting growth style characteristics, defined using long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend. **The MSCI World Value Index** with net dividends captures large and mid cap securities across developed market countries exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield. **The Russell 1000 Growth Index** with gross dividends measures performance of the large cap growth segment of the U.S. equity universe. Securities are categorized as growth or value based on their relative book-to-price ratios, historical sales growth, and expected earnings growth. **The Russell 1000 Value Index** with gross dividends measures performance of the large cap segment of the U.S. equity universe. Securities are categorized as growth or value based on their relative book-to-price ratios, historical sales growth, and expected earnings growth. MSCI has not approved, reviewed or produced this report, makes no express or implied warranties or representations and is not liable whatsoever for any data in the report. You may not redistribute the MSCI data or use it as a basis for other indices or investment products.

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