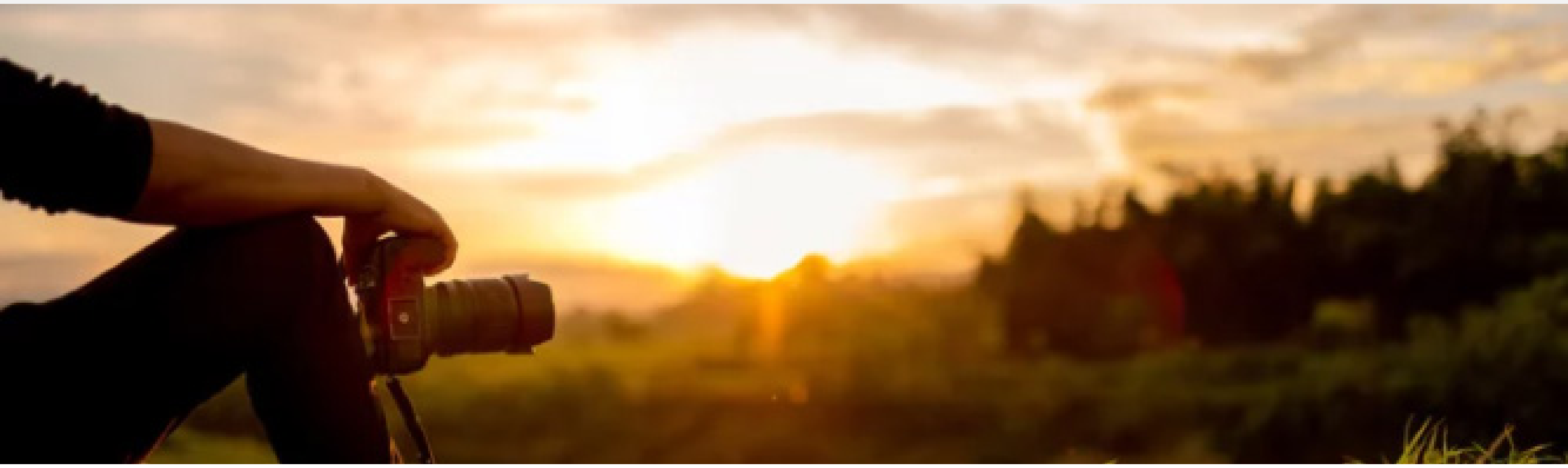


Value Is in the Eye of the Beholder

Dear Clients and Friends,

In our over 45 years of navigating the investing world, there is one tendency that we have observed time and again: the desire to categorize managers and investments into neat boxes to make quick observations. Of course, not all managers, value or growth, are created equal—nor do they all fit neatly into style boxes. Among value managers, for example, some *are deep value*, some are *classic value*, while others may describe themselves as *pragmatic value* managers. Even within these narrower categories, no managers are identical and many often migrate from one category to another over time.

In 1984, Warren Buffett wrote an article titled *The Superinvestors of Graham-and-Doddsville* in honor of the 50th anniversary of Graham and Dodd's 1934 book, *Security Analysis*. In it, he made the case for value investing by demonstrating the superior long-term performance of several investment practitioners that were in the direct professional lineage of Graham and Dodd. The records of Walter Schloss, Tom Knapp (Tweedy, Brown), Bill Ruane (Sequoia), and Charlie Munger were detailed, along with that of Buffett himself. While the main point of the essay was to highlight the market inefficiency allowing diligent investors to buy companies at large discounts to their true worth, Buffett also made another very important point: these legendary investors managed client assets to enviable records with practically no overlap. They shared a common philosophy but they each found value from their own point of view. Just as the saying goes, "beauty is in the eye of the beholder"—there is no agreed upon definition of what constitutes beauty. What is beautiful to one person may appear unattractive to another person and vice versa. We think this is also true for value investments. With this comparison in mind, we caution against trying to pigeonhole value managers into a particular definition of value or to attempt to make definitive judgements based on such categorizations.

Brandes is a fundamental research-driven value manager. We seek to identify securities that trade at a discount to our estimates of their intrinsic values, which in turn we determine by thinking like long-term owners of the businesses. In our view, any business can be an attractive investment opportunity, if the price is right. As such, we do not outright exclude companies that are labeled as growth, quality, or some other statistically defined category. In fact, we believe that growth and quality can be important components of the intrinsic value of a business. If we can acquire a business with growth and quality characteristics at a suitable discount, we will naturally consider it for inclusion in client portfolios.

We also believe that value is driven by the available investable opportunity set. We are very cognizant of the fact that until recently, we had experienced a decade-plus period where the performance dispersion between growth and value styles (as represented by the MSCI value and growth indices for major markets) was at near its widest levels. Now, almost a year after value stocks made a comeback in November 2020, the valuation discounts for value stocks relative to growth stocks remain at historically high levels across most metrics (see table).

Given this persistent and prolonged valuation dispersion, it is not surprising that a value manager like Brandes finds attractive investment candidates in what is generally referred to as the deep-value space. This being said, it would be erroneous to assume that we will always be positioned within the deep-value category. As the investable universe evolves, you may see our portfolios display what may be better described as classic-value or even core-value characteristics.

Value Stocks Relative Valuations to Growth
Percentile Rank (100th Is Least Expensive)

12/31/2006

	Global	International	US
Price to Book	7%	8%	2%
Price to Earnings (P/E)	48%	58%	43%
Dividend Yield	77%	56%	81%
Price to Cash Flow	17%	32%	21%
Forward P/E	22%	10%	51%
EV/Sales	12%	4%	26%
EV/EBITDA	49%	50%	48%

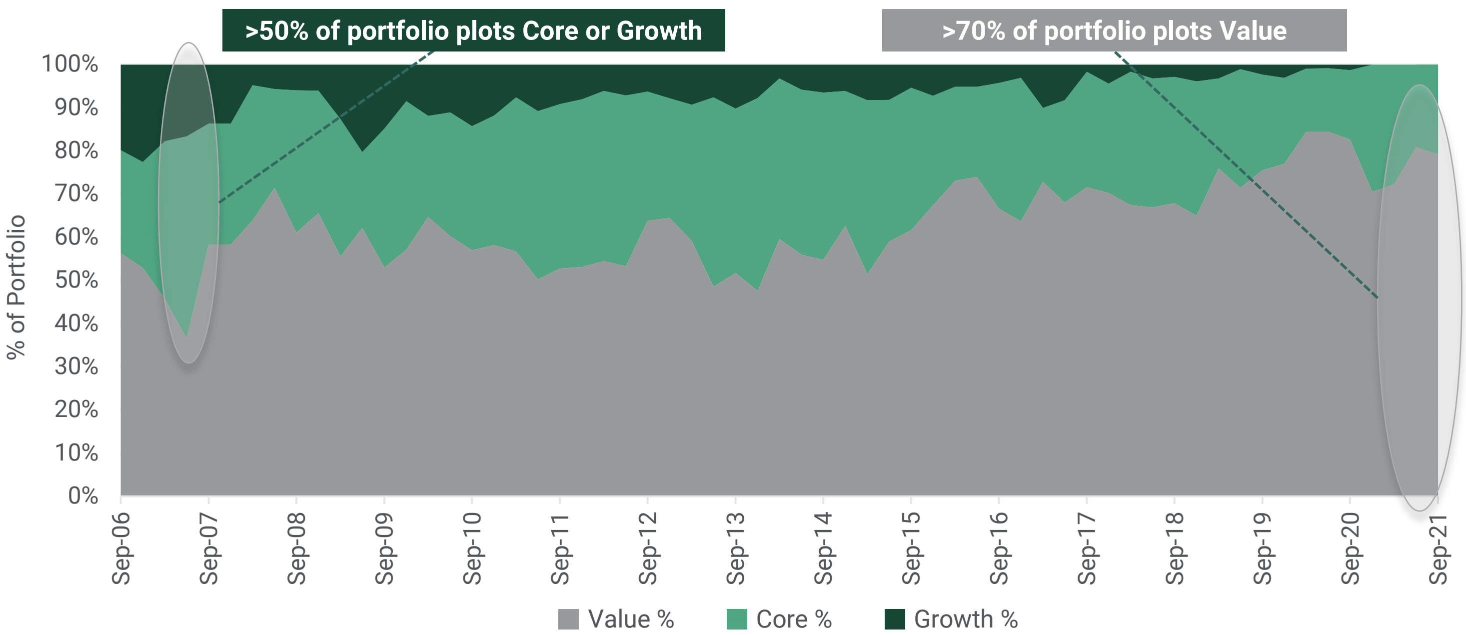
9/30/2021

	Global	International	US
Price to Book	97%	98%	94%
Price to Earnings (P/E)	99%	99%	96%
Dividend Yield	99%	99%	100%
Price to Cash Flow	95%	98%	91%
Forward P/E	96%	99%	95%
EV/Sales	92%	92%	94%
EV/EBITDA	95%	100%	90%

RELATIVE VALUE BASED ON VARIOUS FUNDAMENTAL RATIOS, DECEMBER 31, 1974 TO SEPTEMBER 30, 2021 | Source: MSCI via FactSet. Global: MSCI World Value Index and MSCI World Growth Index. International: MSCI EAFE Value Index and MSCI EAFE Growth Index. US: MSCI USA Value Index and MSCI USA Growth Index. Past performance is not a guarantee of future results. For each fundamental ratio, we calculate the average ratio of the value index and divide it by the average ratio of the growth index to determine the relative valuation. We then compare the relative valuations as of the noted dates (12/31/06 for the left table and 9/30/21 for the right) with the whole period to determine the percentile ranks (100% means that the value discount vs. growth has never been this high based on the respective metric; 99% means that the value discount vs. growth is higher than it has been for 99% of the time during the period, etc.). EV: Enterprise Value. EBITDA: Earnings before interest, taxes, depreciation and amortization.

To illustrate this, we have analyzed the historic positioning of our Global Equity Strategy, one of our flagship strategies with an extensive track record. As you can see in the table below, the strategy's exposure to deep value, core and growth (as defined by Morningstar) has changed considerably over the past 15 years. In recent years (consistent with the investable opportunity set), we have had very little exposure to growth and a high allocation to deep value. While we have remained consistently value over this period, *where* we found attractive value potential shifted depending on the available opportunities.

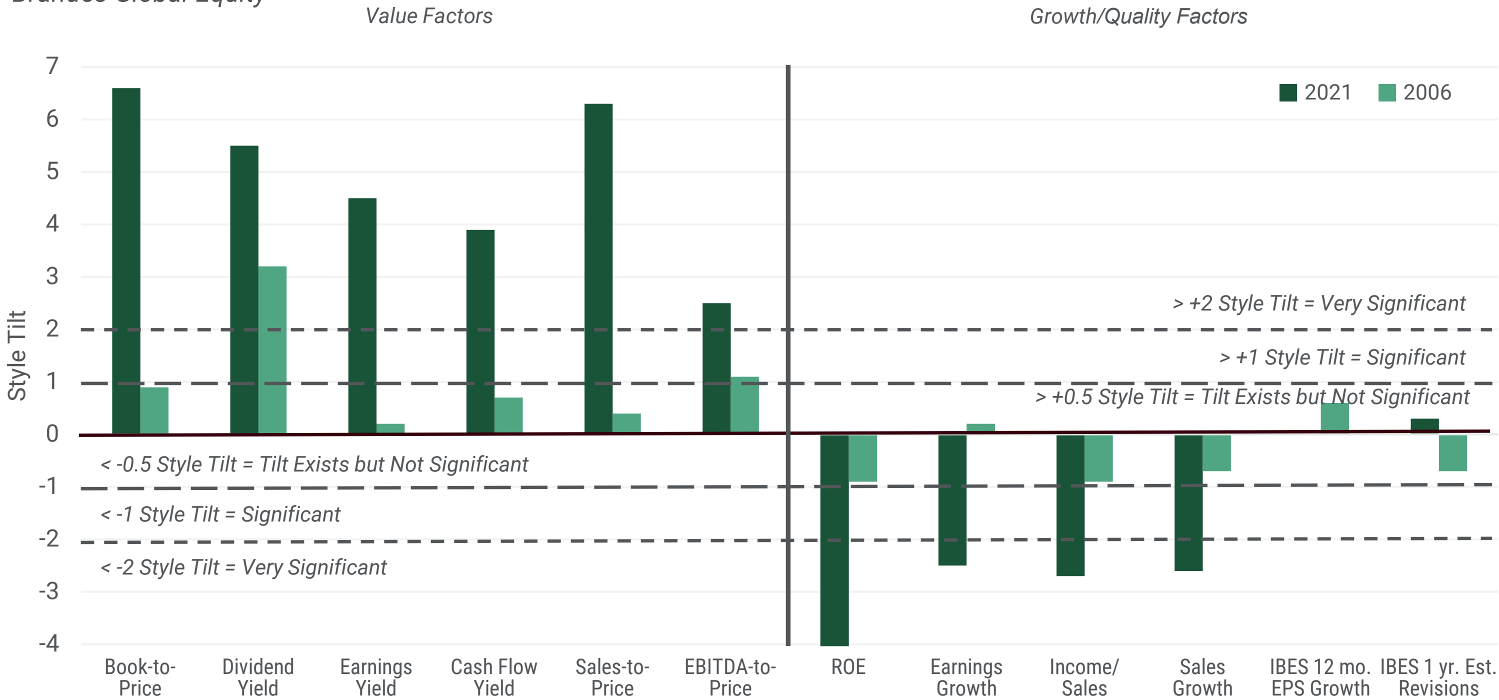
Morningstar Holdings-Based Style Exposure
Value, Core, Growth Style Categorization



SEPTEMBER 30, 2006 TO SEPTEMBER 30, 2021 | The portfolio characteristics shown relate to a single account as of date noted, deemed by Brandes to be generally representative of its standard account noted. Not every account will have these exact characteristics. The actual characteristics with respect to any particular account will vary based on a number of factors including but not limited to: (i) the size of the account, (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Data is updated on a quarterly basis.

This observation is confirmed when you look at the following charts from Style Analytics. In these charts, any style tilt[1] greater than 2.00 is considered very significant. In 2021, this portfolio exhibits an overwhelming tilt to value factors, while showing a negative tilt to quality and growth factors, putting it in what many would call the deep-value category. In contrast, in 2006, a period in which the valuation dispersion between value and growth was narrower (see previous table showing percentile ranks for valuations), the strategy—using the same investment approach and the same research engine—had a significantly different tilt, namely one that skewed much more to core or growth.

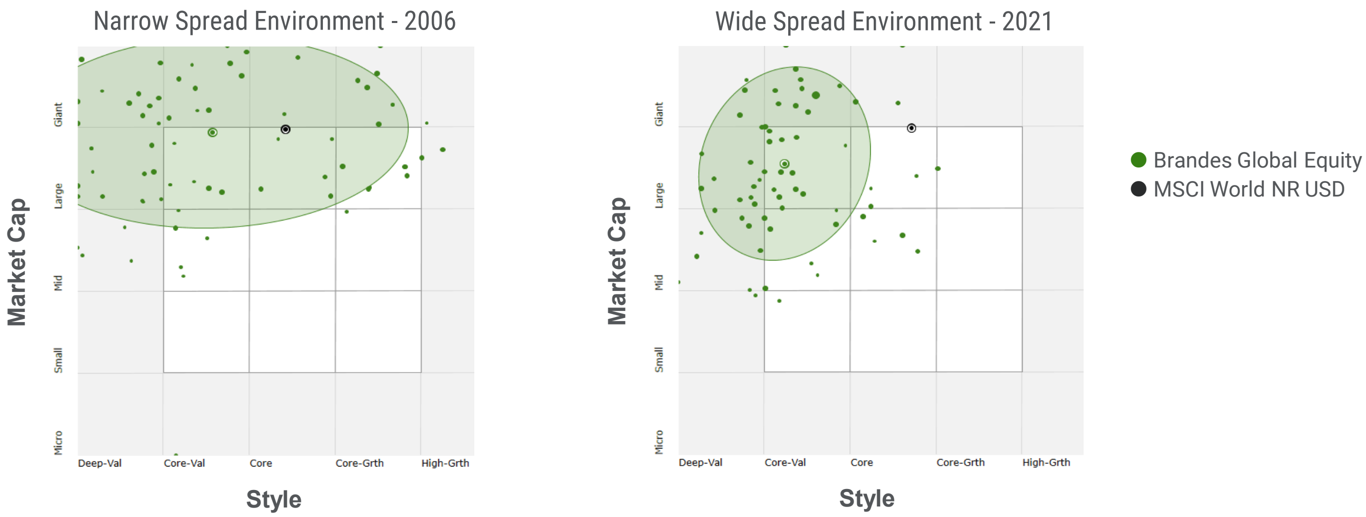
Style Skyline – Value and Growth/Quality Tilts
Brandes Global Equity



AS OF SEPTEMBER 30, 2021 AND DECEMBER 31, 2006 | Source: eVestment; The Style Skyline highlights graphically key Style Tilts for a fund against a selected benchmark. The Style Tilt is a relative measure, where Tilts greater than 1 (or less than negative 1) are considered significantly different from the benchmark (MSCI World Index). The portfolio characteristics shown relate to a single account as of date noted, deemed by Brandes to be generally representative of its standard account noted. Not every account will have these exact characteristics. The actual characteristics with respect to any particular account will vary based on a number of factors including but not limited to: (i) the size of the account, (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Data is updated on a quarterly basis.

When we dig a little deeper, we note that while our portfolio consistently plots as value, the individual stock components that make up that data point can look quite different. In the chart below, you can see that while our portfolio has always been in the value camp, the companies that make up this measure exhibit varying degrees of core and core-growth characteristics.

Our Value Tilt Evolves as Valuation Spreads Change



AS OF DECEMBER 31, 2006 AND SEPTEMBER 30, 2021 | Source: Morningstar. The Morningstar Holdings-based Style Map uses a 10-factor model to determine the style of an individual stock. Separate value and growth "style scores," each based on five factors, are calculated for each stock. In calculating each score, the methodology places 50 percent weight on the forward-looking measure and 50 percent weight on four historical-based measures. These four measures are equally weighted. The five value factors are price-to-projected earnings, price-to-book, price-to-sales, price-to-cash flow, and dividend yield. The growth score is calculated independent of price, using these five factors: long-term projected earnings growth, historical earnings growth, sales growth, cash flow growth, and book value growth. Securities are classified as value or growth based upon the dominant score. If neither score is dominant, the stock will be classified as "core." Each security is plotted on the style map representing its "style score", with the size of the dot corresponding to the position size of the security in the portfolio (i.e. the larger the dot, the large the allocation in the portfolio). The style attributes of stocks within the portfolio are also "rolled up" to determine the portfolio's overall investment style. This is represented by the "centroid" plot (i.e. the dot with the circle around it) on the style map. The portfolio characteristics shown relate to a single account as of date noted, deemed by Brandes to be generally representative of its standard account noted. Not every account will have these exact characteristics. The actual characteristics with respect to any particular account will vary based on a number of factors including but not limited to: (i) the size of the account, (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Data is updated on a quarterly basis.

These charts help support our contention that we go *where* the value is. Our definition of value is not governed by a specific set of valuation metrics; rather, it is a product of our rigorous fundamental, bottom-up research *and* the available investment opportunities. This is why we resist when some try to pigeonhole us into a particular definition of value. At the risk of creating yet another label, perhaps one could use *pragmatic value* to describe us. Our research-driven approach allows us to find opportunities wherever they lie on the value spectrum. When dispersion levels between value and growth are unusually wide, as they have in the past years, we would expect our portfolios would reflect that by likely falling into the deep value category. Likewise, when there are plenty of wonderful companies offered at reasonable prices, our portfolios may skew toward quality. Approaching value in a pragmatic way means our portfolios may pivot over time between deep-value, core value and core depending on the investable opportunity set.

Value Investing ≠ The Value Factor

The prevalence of style boxes, systematic and quantitative approaches, as well as factor analysis have brought forth the notion that value investing is the same as the value factor. In some cases, that has been simplified even further to equate value investing with only buying stocks with low multiples, especially low price-to-book. Additionally, there has been a popular sentiment recently that the foundation of value investing articulated by Ben Graham and David Dodd in *The Intelligent Investor, Security Analysis,* and *The Interpretation of Financial Statements* is no longer relevant given the evolution of business models and the role of intangible investments.

However, often forgotten—or not even known—is that Graham touched on this in *Security Analysis*, originally written in 1934, saying:

> "It may be pointed out that under modern conditions the so-called 'intangibles' e.g. good-will or even a highly efficient organization are every whit as real from a dollars-and-cents standpoint as are buildings and machinery. Earnings based on these intangibles may be even less vulnerable to competition than those which require only a cash investment in productive facilities. Furthermore, when conditions are favorable the enterprise with the relatively small capital investment is likely to show a more rapid rate of growth. Ordinarily, it can expand its sales and profits at slight expense and therefore more rapidly and profitably for its stockholders than a business requiring a large plant investment per dollar of sales.
>
> We do not think, therefore, that any rules may reasonably be laid down on the subject of book value in relation to market price, except the strong recommendation already made that the purchaser know what he is doing on this score and be satisfied in his own mind that he is acting sensibly."

We believe restricting oneself to a particular opportunity set or approach, for example using price-to-book as a screen to exclude companies, is too simplistic and poses a risk of overlooking otherwise bona fide value opportunities. Of course, as a fundamental research-intensive manager, we have never relied solely on using one financial metric. On the contrary, we always scour the investment universe for potentially undervalued businesses using a holistic valuation approach. While we are uncompromising when it comes to demanding a discount and therefore our portfolios have been consistently ''value" by nature, we are ready, willing, and able to consider investments across the value spectrum.

Thank you,

Brandes Investment Partners

[1] Style Tilt definition and interpretation: In order to be able to tell how different a portfolio is from the benchmark, the tilt needs to be "normalized". This is done by first defining a "raw" factor tilt as the difference between a portfolio's weighted average factor and the benchmark's weighted average factor, divided by the weighted standard deviation of that factor across the "market universe" of stocks. This calculation is similar, but not identical, to a Z-Score and the "raw" factor tilts can then be put onto a standardized scale. A sample size adjustment is then made to allow for direct comparison.

The resulting Style Tilts™ can then be interpreted as a measure of the deliberateness or significance of a Style orientation, and very importantly, provides a consistent approach/framework for legitimately and objectively comparing the Style Tilts™ with other portfolios of differing size, distribution, construction approach, investment region, and across manager universes.

As a general rule of thumb, for any individual Style Tilt™ (whether "Standard" or Country/Sector Adjusted):

- Style Tilts™ less than -0.5 or more than +0.5 indicate a tilt exists but is not significant.
- Style Tilts™ less than -1 or more than +1 are significant.
- Style Tilts™ less than -2 or more than +2 are very significant.

Book to Price Ratio: Compares a company's market value to its book value. The market value of a company is its share price multiplied by the number of outstanding shares.

Cash Flow Yield: Annual cash flow per share divided by the share price.

Dividend Yield: Dividends per share divided by price per share.

Earnings Growth: The average annual growth rate of earnings (adjusted for amortizations of intangibles, extraordinary charges and credits) over a trailing three years.

Earnings Per Share (EPS): Net profit divided by the number of common shares outstanding.

Earnings Yield: Annual earnings (adjusted for amortizations of intangibles, extraordinary charges and credits) per share divided by the share price.

EBITDA to Price: EBITDA (earnings before interests, taxes, depreciation and amortization) per share divided by price per share.

EV/Sales: Enterprise value divided by sales.

EV/EBITDA: Enterprise value divided by earnings before interest, taxes, depreciation and amortization.

Forward Price/Earnings: Price per share divided by earnings per share expected over the next 12 months or next fiscal year.

IBES 12 m E Gr: IBES consensus forecast growth of earnings over the next 12 months. IBES stands for the institutional brokers' estimate system.

IBES 1 Yr Rev: IBES balance of earnings forecast revisions for the next annual reporting period. IBES stands for the institutional brokers' estimate system.

Income/Sales: Income divided by sales; also called profit margin.

Price/Book: Price per share divided by book value per share.

Price/Cash Flow: Price per share divided by cash flow per share.

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

Return on Equity (ROE): Net income divided by shareholder's equity.

Sales Growth: A metric that measures the ability of your sales team to increase revenue over a fixed period of time.

Sales to Price: Net sales per share divided by price per share.

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 USA Value Index** captures large and mid cap US securities exhibiting overall value style characteristics. **The MSCI USA Growth Index** captures large and mid cap securities exhibiting overall growth style characteristics in the US. **The MSCI World Index** with net dividends captures large and mid cap representation of developed markets. **The MSCI World Value Index** 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 MSCI World Growth Index** 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.

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