

# Investment Team Corner

*In conversation with Alex Yee, Analyst in the Technology Group*



In the fast-evolving world of technology, the concept of value investing frequently appears incongruent with the sector's rapid expansion and what we consider high valuations. To unravel this paradox, we spoke with Alex Yee, a technology analyst at Brandes. With an eye on emerging trends, such as AI (artificial intelligence), and the effects of legislation, Alex explains the Brandes approach to seeking opportunities that others might overlook. Alex has 13 years of experience and has been with Brandes for five years.

**As a technology analyst at a value-focused firm, how busy are you, given that technology stocks are sometimes overlooked by value investors? Also, is the belief that value investing and the technology sector are incompatible a myth, and how do you screen for value opportunities in technology?**

The technology team has stayed quite busy this year. I do believe the idea that value and tech are incompatible is a myth. At Brandes, we take a holistic approach to the tech sector. Our approach involves quantitative screens backed by qualitative research, studying the technology, considering market trends, and having discussions with various market participants. Making sure that we understand the real-world drivers and phenomena that are driving the more quantitative numbers that we are looking at is the key.

**Chip manufacturing has become a big part of your coverage. The CHIPS Act signed in 2022 offers substantial financial incentives to boost U.S. semiconductor manufacturing. How does this legislation influence your work in valuing tech businesses?**

In our valuation process for tech companies, we closely examine the potential impact of government incentives. These include seeking to understand their broader effects on semiconductor manufacturing capacity, capital expenditures, and sales of semiconductor capital equipment. These aspects significantly influence our analytical approach. However, it's important to note that beyond government incentives, other dynamic factors are also at play. We're paying attention to secular trends such as AI and electrification, and how these trends affect the demand for semiconductor devices.

**With the current hype around AI, and AI chip-designing firms such as Nvidia, having what Brandes considers rich valuations, how do you as a value investor participate in this trend?**

We acknowledge that valuations in the global tech sector have risen over the past year and approach the trend with caution. Often, these valuations do not offer the margin of safety that we, as value investors, seek. (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.) However, we recognize the potential of AI technology to fundamentally transform industries, markets, and even our everyday lives. This potential forms the basis of our optimistic outlook on AI. Therefore, our strategy involves appreciating the long-term structural changes AI is likely to bring, while simultaneously being mindful of the current valuations and the risks they entail.

**When considering the range of Brandes' products and strategies, and looking across the broad technology sector, where are you seeing the best value opportunities?**

To start, given that we believe valuations are high across the tech sector, it is important for us to take a more cautious approach. We are finding opportunities in more specific areas rather than across entire sectors or market segments. Our approach is centered on in-depth, bottom-up research, evaluating opportunities on a case-by-case basis. We have identified some promising investments in foundries, Asian memory, and certain IT services. Our current strategy is to focus on idiosyncratic opportunities, aligning with our fundamental, bottom-up approach.

The securities identified and described do not represent all securities purchased, sold, or recommended for client accounts. The viewer should not assume that an investment in the securities identified was or will be profitable. Holdings are subject to change.

The portfolio characteristics shown relate to a single account deemed by Brandes to be generally representative of the strategy as of date 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.

Past performance is not a guarantee of future results.

The information provided in this material should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any security transactions, holdings or sectors discussed were or will be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance discussed herein. Strategies discussed are subject to change at any time by the investment manager in its discretion due to market conditions or opportunities. Brandes Investment Partners does not guarantee that the information supplied is accurate, complete or timely, or make any warranties with regard to the results obtained from its use. The Brandes investment approach tends to result in portfolios that are materially different than their benchmarks with regard to characteristics such as risk, volatility, diversification, and concentration. International and emerging markets investing is subject to certain risks such as currency fluctuation and social and political changes; such risks may result in greater share price volatility.

The foregoing reflects the thoughts and opinions of Brandes Investment Partners® exclusively and is subject to change without notice. Brandes Investment Partners® is a registered trademark of Brandes Investment Partners, L.P. in the United States and Canada.

**United States:** Issued by Brandes Investment Partners, L.P., 4275 Executive Square, 5th Floor, La Jolla, CA 92037.

**Singapore/Asia:** FOR INSTITUTIONAL/ACCREDITED INVESTOR USE ONLY. Issued by Brandes Investment Partners (Asia) Pte. Ltd., The Gateway West, 150 Beach Road #35-51, Singapore 189720. Company Registration Number 201212812M. ARBN: 164 952 710. This document is for “institutional investors” or “accredited investors” as defined under the Securities and Futures Act, Chapter 289 of Singapore and may not be distributed to any other person. This document is being provided for information purposes only. Incorporated in Singapore in 2012, Brandes Investment Partners (Asia) Pte. Ltd. (Brandes Asia) provides portfolio management services to clients in Asia (as permitted under local law). Brandes Investment Partners, L.P., a U.S. registered investment adviser and a sister entity to Brandes Asia, provides research, portfolio construction and other support to Brandes Asia.

**Ireland/Europe:** FOR PROFESSIONAL INVESTOR USE ONLY. Issued by Brandes Investment Partners (Europe) Limited (Brandes Europe), Alexandra House, The Sweepstakes, Ballsbridge, Dublin, D04 C7H2, Ireland. Registered in Ireland Number 510203. Authorised and regulated by the Central Bank of Ireland. This report is being provided for information purposes only, no representation or warranty is made, whether express or implied as to the accuracy or completeness of the information provided. To the fullest extent permitted by law Brandes Europe shall not be liable for any loss or damage suffered by any person as a result of the receipt of this report. Recipients of this report should obtain their own professional advice. The distribution of this report may be restricted by law. No action has been or will be taken by Brandes Europe to permit the possession or distribution of this report in any jurisdiction where action for that purpose may be required. Accordingly, this report may not be used in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons to whom this report is communicated should inform themselves about and observe any such restrictions. This information is being issued only to, and/or is directed only at (i) persons who have professional experience in matters relating to investments or (ii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc.”) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or to whom it may otherwise lawfully be communicated (all such persons together being referred to as “Relevant Persons”). This communication must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this communication relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. This report is a confidential communication to, and solely for the use of, the persons to whom it is distributed to by Brandes Europe.

**Canada:** Distributed by Brandes Investment Partners & Co., 6 Adelaide Street East, Suite 900, Toronto, ON, M5C 1H6. This communication is for information purposes only and should not be regarded as a sales communication or as advice regarding any financial product or service.