



# Investing is a People Business

Dear Clients and Friends,

At Brandes, we are gearing up to celebrate our 50th anniversary in 2024. Since our founding, we've seen a lot of market cycles. We've experienced robust periods that required us to close all our strategies to new deposits to preserve capacity for our existing clients. We then saw a decade plus of growth investing dominance, during which many in our industry were convinced that value investing was dead, and the core principles of value would never work again. However, with almost five decades under our belt, we believe that the culture we've built, the infrastructure we've carefully assembled, and the people we've selected to work with us have allowed us to deliver on our promise to our clients—to endeavor to provide consistent and reliable exposure to value in their portfolios.

Investing is a people business, and we believe Ted Kim, our automotive analyst, embodies the attributes of independence of thought, a diversity of background and experiences, and a calm temperament that we think are essential qualities needed to stay dedicated to value investing through good and bad times.

Ted is a soft-spoken, thoughtful value investor who came to the United States from South Korea when he was 12 years old. He is a self-professed student of the automotive industry and reads constantly about the companies in the industry and its changing customer preferences. Over his many years in the business, he has seen massive changes. He recently noted: "The advent of electric vehicles (EVs), the emergence of Tesla, and the fall from dominance of the traditional Big 3 automakers in the United States are multi-year seismic shifts that I believe have a profound impact on how a long-term investor should evaluate companies in the industry."

Ted Kim is a Director, Investments Group, an Analyst and Team Leader on the Industrials Research Team, as well as a member of the Global Large-Cap Investment Committee. He is a limited partner of the firm's parent company. Before joining Brandes in 2000, Ted was a Product and Manufacturing Engineer with Ford Motor Company. He holds an MBA from the Kellogg Graduate School of Management at Northwestern University, an MS in system design and management from the Massachusetts Institute of Technology and a BS in mechanical engineering from the Massachusetts Institute of Technology.

In a typical year, Ted consumes hundreds of sell-side research reports and articles written by industry experts and consultants, listens to industry-related podcasts, and interacts with C-suite executives of automotive companies on various continents. He also attends several major industry conferences each year. All of this helps him to stay on top of potential opportunities and threats within the industry. Ted explains that: "Reading reports and listening to podcasts helps me stay informed about the industry and its trends, while attending conferences and interacting with C-suite executives provides me with insights into operations, strategic initiatives, and competitive positioning of the companies in the industry."

Like many of our investment professionals, Ted wears a few hats when it comes to managing portfolios for our clients. Ted is a Team Leader, an Analyst, and an Investment Committee member.

## Team Leader Role

Every month, our Managing Director of Investments, Ken Little, and our sector team leaders meet to discuss industry insights, news flow, and relevant factors impacting each area of coverage. This meeting serves as a vital feedback loop, formalizing communication from the investment committees to our research analysts. During these discussions, team leaders review workload and adjust analyst resources as needed. This helps ensure that every sector receives the attention it deserves, and our analysts can then focus on identifying the best investment candidates from around the world for our investment committees to consider.

Our investment process begins with the rigorous screening of potentially undervalued companies using a variety of metrics customized for each sector and industry. These metrics may include commonly used data points such as price/earnings, price/cash flows, price/book, and enterprise-value-to-free-cash-flow ratios but often include more industry-specific metrics. For example, our financials analysts may focus on adjusted book value and net interest margins when examining a bank, while our health care analysts often consider enterprise value plus capitalized research and development when evaluating a pharmaceutical company. Our analysts generate ideas from a variety of sources, including meetings with management teams, presentations at investment conferences, monitoring industry news, examining external research reports, and suggestions from team leaders and investment committee members. This ensures that our potential investment opportunities are thoroughly vetted before undergoing rigorous analysis.

Our analysts then conduct extensive research on these potential investments to develop an estimate of each company's intrinsic value. They examine financial statements and other publicly available information to gain a deep understanding of a company and often interview management teams to gather quantitative and qualitative information that help them develop a long-term outlook for the company. Although Ted is our resident specialist on automotive companies, he relishes sharing his detailed work with his colleagues on an investment committee. According to Ted, "Having my work peer reviewed by colleagues who I know to be seasoned value investors is really a rigorous devil's advocate process. They challenge my work, they poke at my assumptions, and ultimately, they make me a better analyst. Because of this investigation and debate that takes place for every stock, I know that my assumptions need to be supported with data, and the investment case presented clearly with all the major positives and potential risks taken into consideration. I think our clients are well served by this important step in our process. I am a firm believer that two heads are better than one and, in our case, three to five heads are even better still. In addition, as pragmatic investors, we understand that there is not a "one-size-fits-all" formulaic approach to valuing businesses. Across sectors, we routinely apply multiple valuation approaches to triangulate and validate our fair value estimate of a candidate for investment. Our structure is designed to embrace this approach."

At Brandes, our analysts are tasked with doing thorough, objective research to help the investment committees estimate the fair value for a business. Our analysts don't have to obsess about getting their "picks" into the portfolio, as they are evaluated principally on the quality of their work. According to Ted: "This helps remove personal biases that could come into play when an analyst is motivated to get a certain number of "picks" into the portfolio." Therefore, this approach allows analysts to keep a sharp focus on producing the best possible analysis and providing the most accurate assessment of a company's fair value. This structure also means that analysts can be equally effective by helping the investment committees avoid companies and areas where opportunities are not attractive.

### Brandes follows a three-step investment process:

- 1. Analysis:** Our analysts search the investment universe to identify attractively priced companies and subsequently perform a thorough analysis to develop estimates of intrinsic value for the most promising opportunities.
- 2. Valuation:** The relevant investment committee vigorously debates the analysts' research and valuation recommendations and establishes a final intrinsic value estimate.
- 3. Portfolio Construction:** Driven primarily by margins of safety (the margin of safety for any security is the discount of market price to our estimate of intrinsic value), the relevant investment committee builds a portfolio of the most attractive investment opportunities, which our client portfolio management and trading professionals implement at the individual client portfolio level.

## Valuation and Investment Committees

We believe thorough research and analysis is key to making informed investment decisions. Our investment committees, which formally meet once each week, are made up of experienced professionals who bring a diverse range of perspectives and experience to the table. They work together to carefully review and investigate the research and valuation estimates produced by our analysts. During the Valuation stage, the investment committee members engage in a deep-dive discussion and investigation to arrive at a final intrinsic value estimate for each potential investment. This process is designed to deepen their understanding of the businesses and increase their conviction in their fair value estimates. It is also a forward-looking process, considering the company’s fundamentals and drivers of value rather than solely relying on statistical models that are backward-looking.

### Investment Committees

- Global Large-Cap Investment Committee
- International Large-Cap Investment Committee
- Emerging Markets Investment Committee
- All-Cap Investment Committee
- Fixed Income Investment Committee
- Small-Cap Investment Committee
- Small-Mid Cap Investment Committee

In the Portfolio Construction stage, the investment committees examine existing and potential investments from an overall portfolio perspective, with a primary focus on margin of safety. Target weightings for individual securities are also driven by margin of safety, with the larger allocations typically given to investments that offer greater margins. Other factors, such as material ESG (environmental, social and governance) issues and diversification guidelines, may also influence the allocation decisions.

With his investment committee hat on, Ted has to look beyond his automotive specialist role and play a portfolio manager role. When asked about the investment committee role, Ted was keen to stress that “Collectively and individually, we have been in this business for multiple decades. We’ve seen many different market cycles and we’ve learned a few things along the way. I really appreciate the investment committee structure and prefer it over a single manager approach. This is a humbling business, and your investment style can be out of favor for long periods of time. Keep in mind that the recent growth cycle lasted for almost 15 years (January 2007 to November 2020). In tough periods like that, it’s difficult for any individual to remain committed to an investment process. There are natural human tendencies that encourage you to just do something different, make a change, or succumb to ‘it’s different this time’ mentality. I personally find a lot of comfort in being able to talk through these issues and concerns with a group of colleagues who I respect and whom I know to be solid value investors. The team dynamic and the psychological support that the group provides allows us to maintain an unwavering and sharp focus on delivering consistent exposure to value. I like that I can confidently say to our clients that while value may cycle in and out of favor, you can be sure that your Brandes portfolio is firmly focused on value.”



*Ted Kim, CFA, Director - Investments Group  
Oliver Murray, Managing Director – Portfolio Management/Client Services*

### Ted Kim on his fellow Global-Large Cap Investment Committee members:

“Brent is not only knowledgeable about the technology companies his team covers, but he also brings important perspective on how technology impacts other industries. Brian is not afraid to disagree with analysts or other committee members; that often leads to healthy debates on how we value companies and make portfolio decisions. Ken is very consistent on how he values all the companies and when he asks a question or brings up an issue, it’s often an area that provides additional insight to our discussion.”

Global Large-Cap Investment Committee	Areas of Specialization	Years with Firm
Brent Fredberg	Technology	23
Ted Kim, CFA	Automotive	22
Ken Little, CFA	Basic Materials	26
Brian Matthews, CFA	Communication Services	21

We believe that our clients benefit from a team approach to building portfolios. In addition to the potential benefits that Ted mentions, we think that having analysts serve on investment committees leads to better overall outcomes. Each committee member brings his or her own knowledge and experiences to the decision-making process. For example, Ted’s area of specialization brings important insights into valuing cyclical businesses whereas other

committee members bring different areas of specialization. When asked about this, Ted mentioned: “My fellow investment committee member, Brent Fredberg, is highly knowledgeable on technology companies and is immersed in the issues affecting that broad industry. Over the past few decades, the product of the automotive industry has shifted from being solely a mechanical product to one that now sits alongside a very advanced computer. As a result, the automotive industry has become much more technology focused and intertwined with factors and issues Brent has been integrating into his fundamental work for years. Having the ability to hear his perspectives helps me to identify important issues when valuing a car company and I am convinced that our clients benefit from this diversity of experiences and insights.”

## The Automotive Industry and the Emergence of Tesla

Since we’ve introduced you to Ted, we should give you some of our perspectives on the automotive industry and make a few comments about Tesla as the leading electric vehicle company in the industry. Tesla is not currently in any of our portfolios and given its current valuation characteristics, it’s unlikely to be anytime soon. Nonetheless, Ted still follows Tesla closely and seeks to understand the issues relating to the company’s valuation. Ted commented that: “Given its dominance in the global EV market and its sometimes-unorthodox approach to issues such as pricing and future product launches, it’s important that I try to understand the business since what Tesla does will likely have a big impact on other companies in the sector.”

The bull and bear case for Tesla is well documented across the financial media. However, we thought it might be helpful to understand how having a view on Tesla can assist us in investing elsewhere in the sector. For instance, in recent months, Tesla has bucked the trend in the industry: While most players are trying to hold firm on prices, Tesla has started to discount its prices in order to grow its market share. The firm may or may not be successful with this strategy, but regardless of that outcome, this has implications for all the other car companies—both EV-focused and traditional. Therefore, when we are valuing other automakers, we need to pay greater attention to their pricing strategy and consider a range of potential scenarios. What if the company slips into a pricing war? What if they have to offer discounts or low/zero interest-rate financing deals? Zero-percent financing is one thing when you can borrow at close to zero interest rates, but it is an entirely different thing in a rising interest-rate environment when borrowing costs are much higher.

On Tesla, Ted makes the following observations: “At current valuations, Tesla would need to increase the number of cars it sells each year from around 1.5 million to the 10-15 million range and remain as one of the most profitable automobile companies to justify its current price, in my opinion. This implies that Tesla will become possibly the largest car company in the world (based on the number of automobiles sold) in less than 10 years.”

To put some perspective on Tesla’s current valuation, the following table highlights the top 10 auto manufacturers in the world, based on 2022 autos sold and compares their existing market capitalization to that of Tesla. As of this writing, the market capitalization of Tesla was roughly equal to the total combined market capitalization of these 10 leading automotive companies even though they sold approximately 38 times more cars in aggregate than Tesla in 2022.

## Global Automotive Market Breakdown

Auto Manufacturer	Market Capitalization (\$ millions)	# of Cars Sold in 2022 (millions)	Market Cap / Cars Sold
Toyota	\$191,000	10.5	\$18,190
Volkswagen	\$72,923	8.3	\$8,828
Stellantis	\$49,726	5.8	\$8,515
Ford	\$48,369	4.2	\$11,516
GM	\$46,277	4.2	\$11,018
Honda	\$47,352	4.1	\$11,549
Hyundai Motor	\$35,683	3.9	\$9,046
Nissan	\$14,621	3.3	\$4,417
Kia Corporation	\$26,238	2.9	\$9,036
BMW	\$73,714	2.4	\$30,714
<b>Top 10 Total</b>	<b>\$605,903</b>	<b>49.7</b>	<b>Average \$12,283</b>
Tesla	\$612,300	1.3	\$471,000

Companies highlighted are held by Brandes Investment Partners; Market Capitalization as of 5/25/2023  
Sources: FactSet, Companies’ Annual Reports, Brandes. Holdings subject to change.

Note that Ted is not making any judgement on the quality of Tesla's cars or the brilliance of Tesla's management team. Rather, he's applying simple yet powerful logic to the investment equation. At its current stock price, Tesla needs to be selling approximately 7-10 times more cars in less than a decade in order to justify today's valuation, from his perspective. The bulls have argued that it is not all about volume and that Tesla will find other revenue opportunities such as FSD (Full Self-Driving) features that are highly profitable. That may happen, but given the large purchase price of a car, such extra costs have not been widely accepted by consumers in the automotive industry. It remains to be seen whether such approaches will become more mainstream and, if so, whether such opportunities will be available for other automakers as well. When deploying client capital to an investment, we want to have confidence that it can generate an adequate return on that investment. One simply has greater confidence when you can buy a company at a discount to its estimated fair value than one where everything must continue to go right and, in the case of Tesla, continue to dominate its sector for the next decade and longer.

Continuing his comments on Tesla, Ted observed: "While it's possible that sales increase tenfold or other revenue opportunities materialize, I don't think it's likely to happen as quickly as the market anticipates. Therefore, despite being a dominant player in the EV space and offering an excellent product, the business and the financial metrics are such that the current valuation is not, in my opinion, justified. As dyed-in-the-wool value investors, the price one pays for a company is key to us. Over time, we typically get the opportunity to purchase great businesses for less than what we believe is their fair value and we will also invest in decent businesses if we can purchase them at a significant discount to estimated value. What we will never do is knowingly buy a business for more than we think it's worth as we believe this would place too much downside risk on our client's capital."

This discipline—striving to never overpay for a business—is important to value investors. If the market loves Tesla and bids up the price, other businesses in the sector may get overlooked and trade at a discount to their fair value estimates. Ted describes this discipline as follows: "It's intuitive to me that it's less risky to buy a company that trades at a discount to its fair value than to buy a business that is trading above its fair value. As value investors, we love investing when we can see a discount to fair value—we call it the "margin of safety" or MOS. The bigger the MOS, all else equal, the more attractive the potential investment. No matter which way I value Tesla today, it is difficult to make the case that there is currently a margin of safety. Of course, other investors employing a different investment philosophy may disagree, but in our view, Tesla is not appropriate for a value investor's portfolio at this time. However, in the fullness of time, we'd be happy to buy Tesla if it offers an attractive margin of safety."

In contrast to Tesla, select legacy automakers' stocks trade at single-digit multiples of earnings, which imply that they could face declining profits and or limited growth. While, in our opinion, the current level of profitability caused by high car prices and low inventory is not sustainable and that the transition to a market dominated by electric vehicles will be costly and difficult to navigate, we also believe that the market's view is too negative for some companies. A growing number of legacy automakers have shown that they can design and sell competitive electric vehicles and their strong balance sheets should allow them to make the necessary investments to remain competitive. Based on current stock prices, just maintaining the current level of sales volume and historical average margins could cause their valuations to increase substantially because the assumptions imbedded in the current stock prices are quite low. In analyzing and investing in the legacy automakers, we are careful in terms of selecting companies that we believe have adequate resources to compete effectively in key markets as well as realistic strategies to remain profitable companies in the future.

At Brandes, we firmly believe that investing is a people business. We have built an environment and culture that fosters the development of investment professionals like Ted Kim, who embody the temperament we believe is needed to consistently build value portfolios over the long term. Our investment process is driven by the experience and research of our analysts, who support our investment committees in building portfolios of what we consider attractively valued businesses. This process helps ensure that our investment decisions are based on rigorous research and debate, and that our portfolios are consistently constructed with a focus on value that is deeply rooted in the concept of margin of safety.

As we prepare to celebrate our 50th anniversary, we are proud to have weathered many market cycles while continuing to evolve in response to changing market conditions. We believe that our people, process, and commitment to value investing are what set us apart. When you hire a value manager, you want to be confident that when value does well your value manager does even better. We leave you with the charts below for our Global Equity strategy (managed by the investment committee that Ted Kim is a member of).

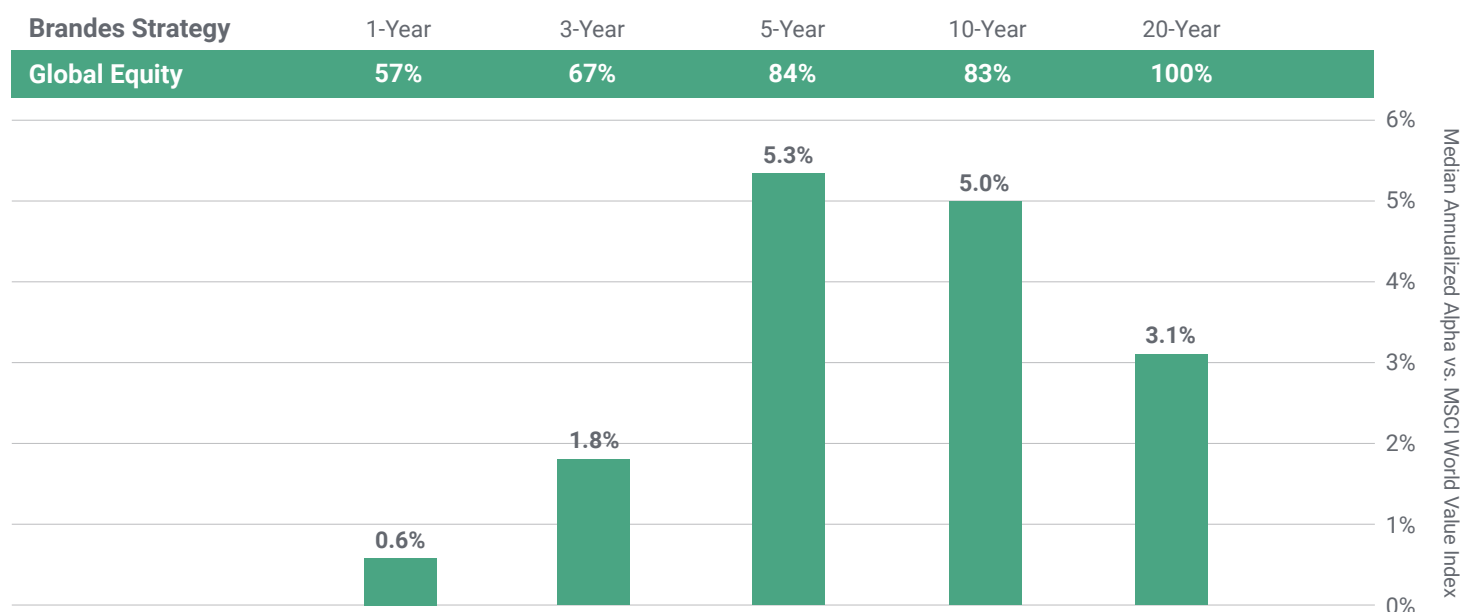
Annualized total return as of March 31, 2023	1-year	5-year	10-year
Brandes Global Equity Composite (net)	2.24%	5.89%	7.19%
Brandes Global Equity Composite (gross)	2.72%	6.44%	7.77%
MSCI World Index	-7.02%	8.00%	8.85%
MSCI World Value Index	-5.05%	4.99%	6.54%

Past performance is not a guarantee of future results. One cannot invest directly in an index. Returns include reinvestment of all dividends and are reduced by any applicable foreign withholding taxes, without provisions for income taxes, if any.

## Brandes Global Equity

*Median Relative Performance When Value Outperforms the Benchmark - Brandes Global Equity vs. Value Index, Net*

**Percentage of Time Brandes Global Equity Outperformed the MSCI World Value Index When the Value Index Outperformed the MSCI World Index (Based on Rolling Performance Since Inception, Net)**



Global Equity (vs. MSCI World Value as of 12/31/1984)

MEDIAN ROLLING RELATIVE RETURNS (VS. RELEVANT VALUE INDEX) NET OF MANAGEMENT FEES FROM STRATEGY INCEPTION TO DECEMBER 31, 2022 | Source: Brandes, eVestment. For each rolling period, the composite return was subtracted from the value index return and the results were ranked in descending order. Each bar represents the midpoint of all relative returns (so that half of all returns were greater than the value shown). All values for periods of one year or greater represent rolling periods measured quarterly. Rolling periods represent a series of overlapping, smaller time periods within a single, longer-term time period. For example, over a 20-year period, there is one 20-year rolling period, eleven 10-year rolling periods, sixteen 5-year rolling periods, and so forth. Past performance is not a guarantee of future results. It is not possible to invest directly in an index. Brandes Global Equity performance dates to 12/31/1984, the first quarterly performance period of record. MSCI World Value Index inception: 12/8/1997, performance shown prior to inception is the result of back-testing by the index provider. There may be frequent material differences between back-tested performance and actual results.

If you would like to speak with Ted or learn more about how we are purpose-built for value, please contact your Brandes relationship manager or connect with us through [www.brandes.com](http://www.brandes.com).

Thank you,

Brandes Investment Partners

**Adjusted Book Value:** The measure of a company's valuation after liabilities—including off-balance sheet liabilities—and assets adjusted to reflect true fair market value.

**Enterprise Value:** Market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents.

**Enterprise Value/Free Cash Flow:** Compares the enterprise value of a company to its free cash flow.

**Free Cash Flow (FCF):** Operating cash flow less capital expenditures.

**Net Interest Margin:** Interest income generated by a financial institution minus the amount of interest paid to its lenders, divided by average earning assets.

**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.

The MSCI World Index with net dividends captures large and mid cap representation of developed markets.

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.

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