The Real Alternative

Dear Clients and Friends,

Oliver Murray
Chief Executive Officer

I attended an industry conference recently, at which the usual discussions about the need for asset managers to grow and achieve scale occurred. The consensus seemed to be that in this industry, scale is king. While overall industry flows in 2024 and in the first half of 2025 were strong, a closer look reveals a more nuanced picture: Traditional long-only strategies have been experiencing net redemptions, whereas alternative strategies, including private credit and private equity, have been growing nicely. This led the moderator at the conference to pose a question that has since stayed with me: *Can anyone still make the case for traditional long-only active managers?* The room—filled with representatives from many firms pursuing scale, style diversification, and alternative strategies—responded with silence. Only a few boutique firms, including Brandes, advocated traditional approaches. Nevertheless, the prevailing belief was clear: The future belongs to those who embrace complexity, scale, and product proliferation.

As CEO of Brandes, a firm that has remained steadfast in its commitment to value investing philosophy for over 50 years, I've spent the weeks since the conference reflecting on that moment. Should we follow the crowd? Or is there still a compelling case for firms like ours—focused, disciplined, and independent?

I believe there is. In fact, I believe that firms like Brandes are fast becoming the real *alternative* in today's investment world.

Pursuing Alpha

Let's begin with client outcomes. Over the past 30 years (6/30/95 to 6/30/25), which is approximately how long one of our longest-standing clients has invested with us, our Brandes International Equity Strategy has returned 8.72% (net of fees) annually. By comparison, the MSCI EAFE has gained 5.61% annually and the MSCI ACWI EX USA Index has increased 5.76% annually. Importantly, this is not alpha generated through leverage, illiquidity, or opaque structures. Rather, I believe it's the result of disciplined, fundamental investing—with a strategy that in my view is transparent, liquid, and easy to understand. And it raises, in my mind, a better question than the one posed at the conference: *Do "alternative" approaches, with their added complexity and costs, deliver superior net-of-fee results over the long term?*

Annualized total returns as of June 30, 2025	1 Year	5 Years	10 Years
Brandes International Equity Composite (net)	25.03%	17.54%	7.54%
Brandes International Equity Composite (gross)	25.57%	18.05%	8.04%
MSCI EAFE Index	17.73%	11.15%	6.50%

Source: Brandes, MSCI. Past performance is not a guarantee of future results. One cannot invest directly in an index.

Rethinking Scale and Complexity

There's no denying that scale has benefits. But it's not the only path to success, and in my opinion, it's not always the best one.

At Brandes, we've collaborated with firms like Northern Trust, SEI, and State Street to tap into the operational advantages of their considerable scale, all while preserving our independence as a firm. Our recent entry into the active ETF space is a testament, in my view, to how mid-sized firms can innovate and grow—just like their large counterparts can—without compromising their core identity.

But scale often comes with trade-offs, most notably product sprawl and an inevitable dilution of focus. The industry's rapid embrace of alternatives, particularly private equity and private credit, is often framed as the democratization of these strategies for retail investors. Yet, it remains to be seen whether the added complexity and higher fees will translate into superior returns for those investors over the long run.

When asked recently whether Brandes plans to enter the alternatives space, I replied: With everyone else rushing in, our long-only, value-driven approach is quickly becoming the real alternative.

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The Power of Perspective

Firms with significant scale often tout that they have "boots on the ground" in markets around the world, implying that proximity to the "action" gives them an edge in investment decision-making compared to firms like Brandes. I beg to differ.

Maintaining our investment teams in San Diego, instead of in a global financial center, was intentional. We believe the distance from market noise helps us maintain the objectivity required for value investing. We are not distracted by the latest trends or pressured by consensus thinking that can sway asset managers in financial hubs or those close to the action. We are focused on identifying potentially undervalued businesses and holding them until the market recognizes their worth.

Talking about our location brings back memories of two moments when being away from the action proved to be a real advantage.

Back in 2002, I opened our Canadian sales office in Toronto—right on Bay Street, Canada's equivalent of Wall Street. A few months later, Nortel, the darling of the Canadian index, was in free fall. The stock had fallen from approximately $120 to $60 from July 2000 to November 2000, stabilized there for a while, and then by July 2002, plummeted to around $2. The mood in Canada, especially on Bay Street, was grim. Nearly everyone owned Nortel, and nearly everyone was disappointed.

I remember riding the commuter train into the city, overhearing conversations filled with disbelief and frustration. Then in June, I got a call from Brent Woods, who headed up our Research Team in San Diego. He told me that one of our Investment Committees had decided to invest in Nortel, and that Brandes would soon become its largest shareholder. I'll admit, I was taken aback. We had just opened a new office focused on business development, and now we had to explain why we decided to invest in what was likely the most hated stock in Canada!

The reaction from my Bay Street contacts was swift: "You know it's never going back to $80, right?" But that was never our thesis. We didn't think it was worth $80. We thought it was worth significantly more than its market price at the time. And we were right. Over the next several months, Nortel's share price improved and we sold it, marking a successful investment decision that we made on behalf of our clients.

Had our Investment Committee members been commuting to Toronto every day like I was, would they have had the conviction to act? Maybe. But maybe not. And if we had been chasing scale or trying to protect our business development goals, might I have tried to talk them out of it?

That's why our structure matters. That's why being based in San Diego—and being an independent firm—matters. It gives us the distance and the discipline to act when some others are caught up in the noise.

Fast forward to 2023, and a similar story unfolded. This time, we made an investment in Allied Irish Bank (AIB). Louis Lau, one of the analysts on our Financials research team, brought the idea forward after careful analysis. Irish banks were still deeply unpopular post the global financial crisis. AIB had been effectively nationalized, and public sentiment, particularly in Ireland, was still raw.

During an internal call, one of our Dublin-based colleagues raised an eyebrow. Understandably so. Over the years, the Irish media had run stories suggesting the art on AIB's walls was worth more than the bank itself. But our Investment Committees weren't swayed by headlines. They focused on the fundamentals and the work that Louis had presented. And because we've built a firm where investment decisions are grounded in analysis, not public or popular opinions, we were able to act.

It reminded me of Nortel. Different country, different decade, but same principle: When you're not chasing trends or trying to please the crowd, you can make decisions that others can't or won't.

That's what makes Brandes different. That's what makes us, in a very real sense, the *real alternative*.

The Real Alternative

In a world where complexity is marketed as sophistication and scale is often seen only as a strength, we believe there is enduring value in simplicity, focus, and discipline. At Brandes, we don't chase trends. We're not trying to be all things to all investors. We're doing what we believe is right; what we've always done since the firm was founded: value investing, consistently in an independent, purpose-built firm.

When you're not chasing trends or trying to please the crowd, you can make decisions that others can't or won't.

And in today's environment, where the spotlight is on "alternatives" and achieving scale, what we offer may just be the most compelling alternative of all.

Thank you for your continued trust.

Warm regards,

Oliver Murray
Chief Executive Officer
Brandes Investment Partners

Click here for the Brandes International Equity GIPS Report.

Alpha: A measure of performance based on the excess return of an investment relative to the return of a benchmark index.

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