



# Value Exposure May Benefit a Diversified Portfolio's Long-Term Risk and Return Profile

Dear Clients and Friends,

Having been in the asset management business for over half a century, we've observed several notable market phenomena, one of which is that investment styles tend to cycle in and out of favor. The duration of each cycle may vary and the catalysts for shifts in style leadership can be unpredictable, but as the famous quote often attributed to Mark Twain says: "History doesn't repeat itself, but it often rhymes." Indeed, over the past 50 years, we've seen investment styles fall in and out of favor numerous times.

In our opinion, the cyclical nature of investment styles underscores the importance of diversification. In this letter, we explore how the Brandes International Equity Strategy could influence the risk and return profile of a diversified portfolio across various cycles. To illustrate this, we created a hypothetical equal-weighted portfolio consisting of the MSCI EAFE Growth Index, the MSCI ACWI ex USA Quality Index, and the MSCI EAFE Momentum Index. We then added the Brandes International Equity Strategy to this portfolio (allocating 25% to each component) to compare its risk and return profiles before and after the addition.

During the "long winter" for the value investment style—from 12/31/06 to 9/30/20, which marked the longest and largest underperformance of MSCI EAFE Value relative to MSCI EAFE Growth since their inception—many investors decided to abandon value due to its disappointing performance. While having value exposure (represented by Brandes International Equity) over this particular period did diminish the hypothetical portfolio's returns (see Exhibit 2), maintaining a consistent value exposure over the long term helped enhance returns and reduce tracking error (see Exhibit 4).

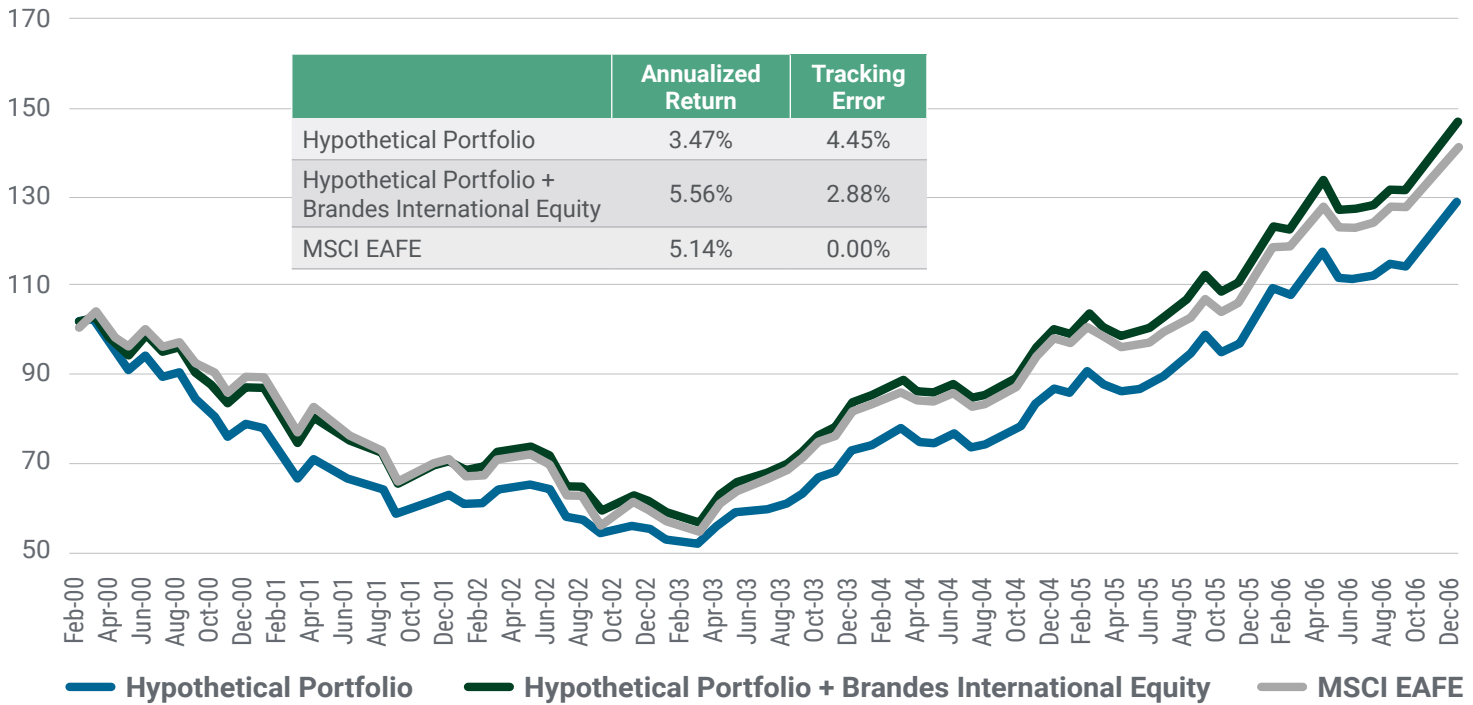
## **Prior to Global Financial Crisis: Value-Led Cycle (2/29/00 to 12/31/06)**

After a period of largely ignoring valuations, especially for tech-related businesses, investors started paying attention again to company fundamentals post-tech bubble, prompting a value-led cycle (MSCI EAFE Value vs. MSCI EAFE Growth) that lasted nearly seven years. Adding the Brandes International Equity Strategy to the hypothetical diversified portfolio would have enhanced return, while reducing tracking error.

Annualized total return as of June 30, 2024	1-year	5-year	10-year
Brandes International Equity Composite (net)	18.00%	8.84%	4.85%
Brandes International Equity Composite (gross)	18.52%	9.31%	5.35%
MSCI EAFE Index	11.54%	6.46%	4.33%

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.

**Exhibit 1 – Returns and Tracking Error (2/29/00 to 12/31/06)**

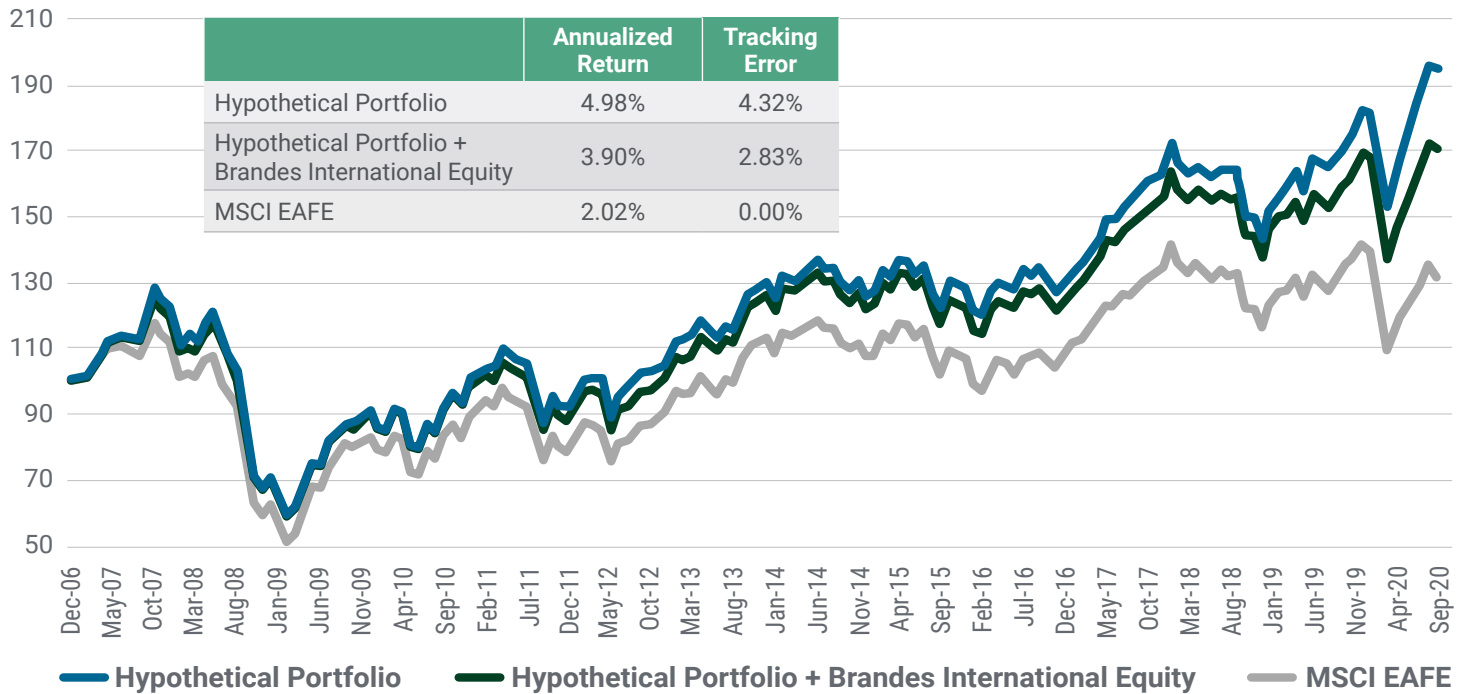


As of 12/31/2006; Source: Morningstar. 100 = 02/29/2000. Hypothetical Portfolio consists of MSCI EAFE Growth, MSCI ACWI ex USA Quality Index, and MSCI EAFE Momentum; with equal weighting to each component (one-third each) as of the chart's starting date (rebalanced semi-annually). Hypothetical Portfolio + Brandes International Equity consists of MSCI EAFE Growth, MSCI ACWI ex USA Quality Index, MSCI EAFE Momentum, and Brandes International Equity Strategy; with equal weighting to each component (25% each) as of the chart's starting date (rebalanced semi-annually). Brandes performance is net of fees. Past performance is not a guarantee of future results. Please note that all indices are unmanaged and are not available for direct investment. This hypothetical example is for illustrative purposes only and does not represent any specific investment. Actual results will vary. [Click here](#) for the Brandes International Equity GIPS Report.

### The Long Winter for Value: Growth-Led Cycle (12/31/06 to 9/30/20)

The low-growth economic environment, growing popularity of index investing, and easy money made available by central banks worldwide led to a willingness among investors to “pay up” for any growth potential. Amid the long winter for value, many investors reduced their value allocations, and some traditional “value” managers allowed their investing styles to drift in hopes of improving short-term performance and asset gathering. The valuation gap between value and growth widened to historical highs across various metrics (e.g., price/book, price/earnings, price/cash flows, enterprise value/earnings before interest, taxes, depreciation, and amortization), and many wondered about the “death of value investing.”

Exhibit 2 – Returns and Tracking Error (12/31/06 to 9/30/20)

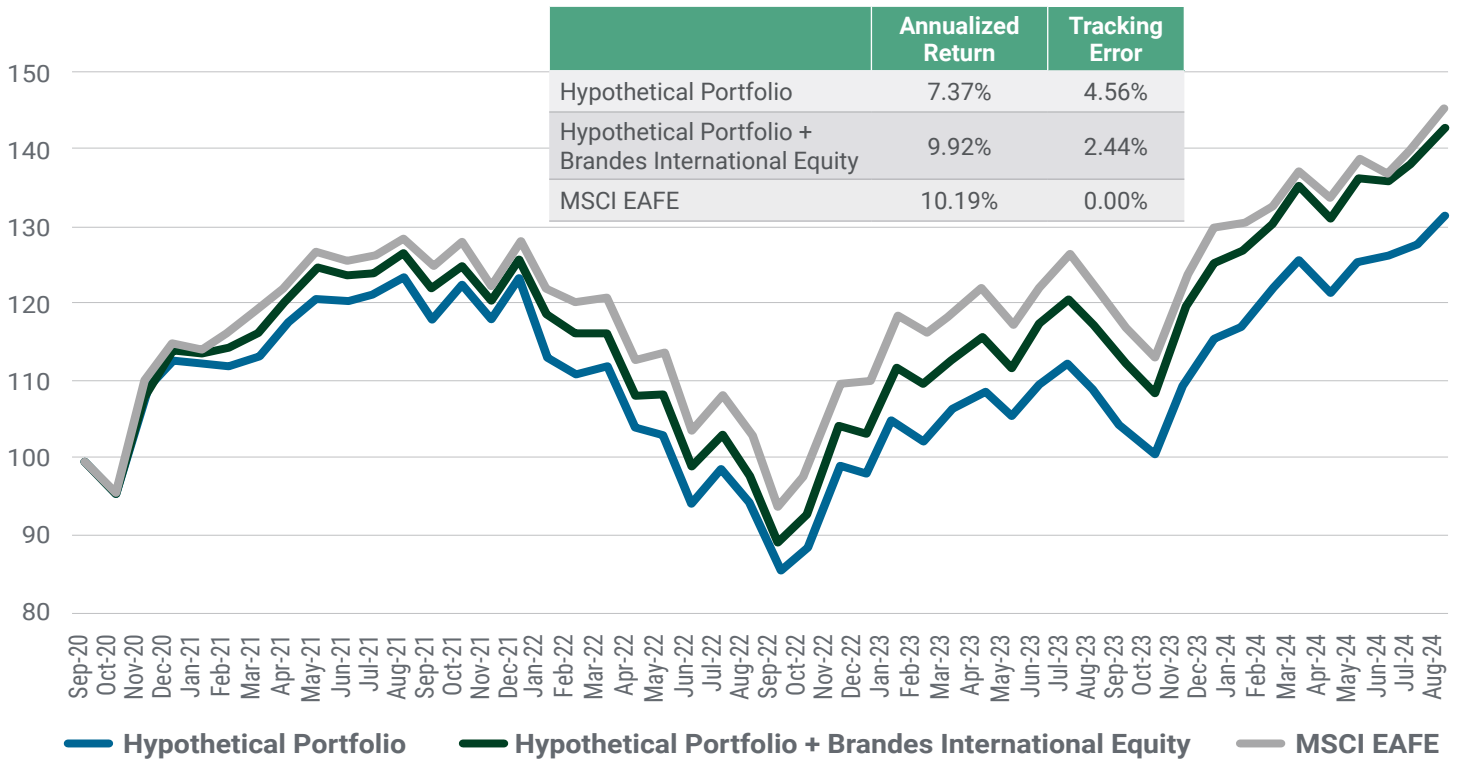


As of 9/30/2020; Source: Morningstar. 100 = 12/13/2006. Hypothetical Portfolio consists of MSCI EAFE Growth, MSCI ACWI ex USA Quality Index, and MSCI EAFE Momentum; with equal weighting to each component (one-third each) as of the chart’s starting date (rebalanced semi-annually). Hypothetical Portfolio + Brandes International Equity consists of MSCI EAFE Growth, MSCI ACWI ex USA Quality Index, MSCI EAFE Momentum, and Brandes International Equity Strategy; with equal weighting to each component (25% each) as of the chart’s starting date (rebalanced semi-annually). Brandes performance is net of fees. Past performance is not a guarantee of future results. Please note that all indices are unmanaged and are not available for direct investment. This hypothetical example is for illustrative purposes only and does not represent any specific investment. Actual results will vary.

### Current Value-Led Cycle (9/30/20 to 8/31/24)

After being out of favor for more than a decade, value stocks made a remarkable comeback in the fourth quarter of 2020, driven by optimism about post-COVID economic recovery, rising inflation, and higher interest rates. Although the recovery of value stocks has not been linear, with bouts of growth outperformance during the cycle, incorporating the Brandes International Equity Strategy into the hypothetical diversified portfolio could have generated higher return and lower tracking error. It is important to note that even after value's outperformance, the valuation discount for value stocks relative to growth remains historically high across various metrics.

Exhibit 3 – Returns and Tracking Error (9/30/20 to 8/31/24)

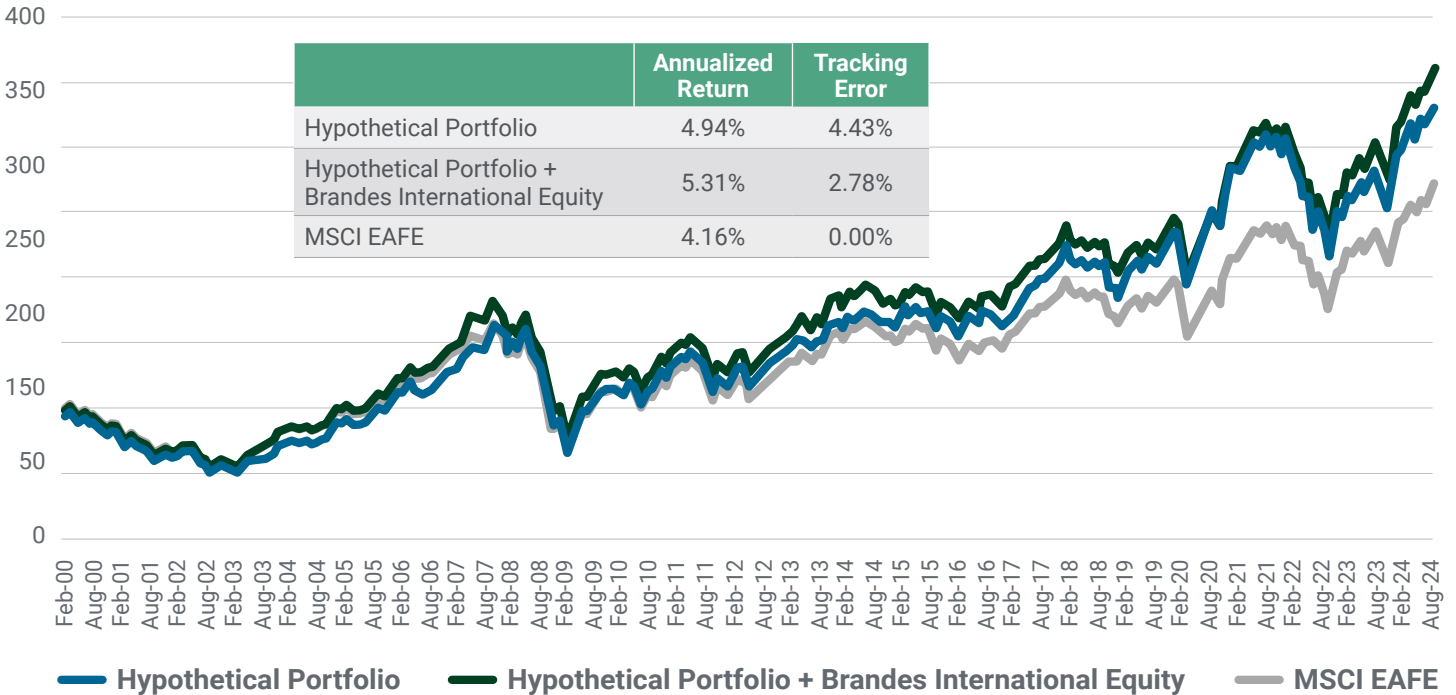


As of 8/31/2024; Source: Morningstar. 100 = 9/30/2020. Hypothetical Portfolio consists of MSCI EAFE Growth, MSCI ACWI ex USA Quality Index, and MSCI EAFE Momentum; with equal weighting to each component (one-third each) as of the chart's starting date (rebalanced semi-annually). Hypothetical Portfolio + Brandes International Equity consists of MSCI EAFE Growth, MSCI ACWI ex USA Quality Index, MSCI EAFE Momentum, and Brandes International Equity Strategy; with equal weighting to each component (25% each) as of the chart's starting date (rebalanced semi-annually). Brandes performance is net of fees. Past performance is not a guarantee of future results. Please note that all indices are unmanaged and are not available for direct investment. This hypothetical example is for illustrative purposes only and does not represent any specific investment. Actual results will vary.

### Summary – Value Exposure May Benefit a Diversified Portfolio Over the Long Term

Despite the long value winter accounting for over half of the past 25 years, having value exposure was beneficial to both risk and return of a diversified portfolio across the three periods discussed above (see Exhibit 4).

Exhibit 4 – Returns and Tracking Error (2/29/00 to 8/31/24)



As of 8/31/2024; Morningstar. 100 = 02/29/2000. Hypothetical Portfolio consists of MSCI EAFE Growth, MSCI ACWI ex USA Quality Index, and MSCI EAFE Momentum; with equal weighting to each component (one-third each) as of the chart’s starting date (rebalanced semi-annually). Hypothetical Portfolio + Brandes International Equity consists of MSCI EAFE Growth, MSCI ACWI ex USA Quality Index, MSCI EAFE Momentum, and Brandes International Equity Strategy; with equal weighting to each component (25% each) as of the chart’s starting date (rebalanced semi-annually). Brandes performance is net of fees. Past performance is not a guarantee of future results. Please note that all indices are unmanaged and are not available for direct investment. This hypothetical example is for illustrative purposes only and does not represent any specific investment. Actual results will vary.

We do not know when a style cycle will turn or what the next catalyst for the shift in style leadership will be. However, we believe incorporating value exposure—especially through a partnership with a manager such as Brandes that has maintained a consistent approach to value—may benefit a diversified portfolio from a long-term risk and return perspective.

Thank you,  
 Brandes Investment Partners

For term definitions: <https://www.brandes.com/termdefinitions>.

Tracking error: The standard deviation of the difference between the returns of a portfolio and its benchmark.

The MSCI ACWI ex USA Quality Index aims to capture the performance of quality growth stocks in the MSCI ACWI ex USA Index, which captures large and mid cap representation across developed and emerging markets excluding the United States. Quality growth stocks are identified by high return on equity, stable year-over-year earnings growth, and low financial leverage.

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

The MSCI EAFE 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 EAFE Momentum Index is designed to reflect the performance of an equity momentum strategy. It does so by emphasizing stocks with high price momentum, while maintaining reasonably high trading liquidity, investment capacity, and moderate index turnover. The index is based on the MSCI EAFE, which includes large and mid-cap stocks across 23 Developed Markets (DM) countries.

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.

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