Brandes Quarterly Letter

FIRST QUARTER 2017

Dear Clients and Friends,

Traveling the world to visit clients and to research companies, we've noticed that nearly every meeting eventually leads to a discussion of what's happening in Washington. From our offices in San Diego, Dublin, Milwaukee, Singapore and Toronto, the most common questions we've heard centered on increased U.S. protectionism, new immigration policies and the U.S. stock market's continued rise.

While we don't claim to have any unique insights into U.S. politics, it is clear that by most measures the first 100 days of the Trump administration could be described as *unusual* and certainly *unpredictable*. Yet the U.S. stock market seemed to have simply shrugged off the unpredictability and continued to set record highs. Furthermore, it is notable that the market's lack of volatility, based on historical standards, and continued rise seem at odds with the apparent political controversy and uncertainty.

For many, it's enticing to speculate on how the new administration's stance on policy issues will affect U.S. and world markets, but we consider any type of speculation to be not particularly relevant to the long-term investor. Since the founding of our firm over 40 years ago, our focus always has been on analyzing companies and assessing the potential impact of policy changes on valuations and industry dynamics. Although the mainstream media and much of the market appear fixated on trying to predict the winners and losers from potential regulatory and policy changes, it is important to remember that companies are dynamic organizations. *Managements can and often do adapt to the macroeconomic hand they are dealt*. That doesn't mean there will not be winners and losers in the changing political landscape, only that such effects are not likely to be as great as are often implied by share-price movements.

Following extensive media coverage of U.S. politics in 2016, the world now turns its attention to a handful of important elections, such as in the Netherlands, France and Germany. Given the somewhat surprising outcomes of the "Brexit" referendum in the United Kingdom and the U.S. presidential election, we aren't going to hazard any election predictions. However, if the past is prologue, the elections and the speculation leading up to them will likely increase volatility. This could translate into opportunities at the company level, particularly within Europe where valuations have already appeared significantly discounted relative to those in the United States (click here to see the chart).

We realize that volatility, whenever it does return (and we are fairly confident it will), can be difficult to live through. However, it is worth noting that volatility is typical for equity markets and, in fact, is useful when seeking to acquire companies at discounts to our estimates of their long-term intrinsic value. Moreover, if one tried to avoid, or meaningfully reduce, volatility over the past year by shifting in and out of equities, there were plenty of geopolitical uncertainties that may have prompted such moves. However, attempts to time the market tended to be a losing battle. The

Brandes Institute recently published a paper on the topic and we encourage you to read it, particularly in light of the interesting times in which we live (click here to view the paper).

As a global investment manager, we are continually inundated with research, recommendations, and commentary covering nearly every imaginable investment topic. Our job is not only to try to separate fact from fiction but, even more important, to remain acutely aware of the elements that drive long-term value creation. We tend to be very skeptical when the market adopts a common narrative. Our focus is on understanding long-term competitive dynamics and valuing companies with a business owner's mindset.

In an environment where political news seems to garner nearly all the headlines, we hope this letter helps you understand how our focus on value at the company level continues to guide our investment decisions amid current market dynamics. As markets, economies and political landscapes continue to shift, our commitment to our clients is unchanged—to build portfolios, company by company, which have the potential to provide attractive long-term returns. We appreciate your continued confidence in us.

Brandes Investment Partners

U.S. economy.

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