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Lessons and picks in value investing from Charles Brandes

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Billionaire value investor Charles Brandes is a disciple of Benjamin Graham, the father of value investing

The investment firm founded by billionaire value investor Charles Brandes is sitting on a record amount of cash in its U.S. fund. But Brandes Investment Partners is finding attractive opportunities in much more far-flung places, including Russia.

At a one-day investing boot camp in San Diego last week, the billionaire investor and his staff gave MBA students from the University of Toronto's Rotman School of Management a peek behind the curtain at the investment firm's current thoughts on the markets. Mr. Brandes is a disciple of Benjamin Graham, the father of value investing, as well as Mr. Graham's colleague at Columbia University, David Dodd.

Brandes director and senior analyst Brent Fredberg lamented that discovering a value opportunity in the United States is akin to finding the proverbial needle in a haystack. Brandes is aggressively seeking spots to deploy cash, but struggling to come up with attractive options, added research associates at the firm.

The Brandes U.S. Value Equity Composite Fund, however, is overweight tech – a sector seldom the domain of value hunters – as well as financials.

"Generally, it's been very rare that a Graham and Dodd value manager would be in tech, but that doesn't mean we ever eliminate the possibility," said Mr. Brandes, who emphasized that the firm is keen on "different tech – boring tech."

Microsoft and Western Digital Corp. were among the names highlighted by Mr. Fredberg.

The firm maintains sizeable stakes in Citigroup Inc., Bank of America and JPMorgan Chase & Co. A normalization of net interest margins and an easing of the regulatory and litigation overhang should provide structural uplifts for the banks, Mr. Fredberg said.

However, the firm's enthusiasm on banks does not extend north of the border.

"Looking at the possibilities of great sources of value that are in our portfolio, the Canadian financials are not there," Mr. Brandes said.

Brandes Investment Partners is finding the risk-reward proposition in Europe and emerging markets to be much more attractive, as a whole.

The firm's weightings of China and India, the two most popular emerging markets, is dramatically lower than that of the MSCI Emerging Markets index, but higher in unloved markets such as Brazil, South Korea, and Russia.

Brandes Investment Partners is highly constructive on large Russian oil companies, whose price performance hasn't reflected the U.S. dollar revenues generated by these firms, director Louis Lau said.

"People are pricing in pretty dire outcomes, and in some cases, nationalization by the Russian government which we don't think is going to happen," managing director Kenneth Little added.

And although European equities have come back into favour, with equity funds receiving significant inflows in 2015, pockets of value are still abundant, according to Mr. Brandes.

"The valuations in some European companies still remain very attractive to long-term investors," he said.

In this area of the world, the firm is concentrated on food and consumer staples companies, along with integrated oil and gas.

Its global fund's weighting of oil and gas stocks fell below 10 per cent in the second half of 2014, but the depth of the collapse in oil prices prompted the firm to increase its exposure to this segment near the end of the year.

"Oil and gas has been becoming a heck of a lot more interesting than it was at $100 a barrel for us, now we're strongly looking at oil and gas companies around the world and seeing what would be the long-term company to invest in," Mr. Brandes said.

However, oil and gas senior analyst Chris Duncan struck a more cautious note, saying that the sector might be in the "early innings of a normalization of valuations."

Mr. Brandes remains cautious on fixed-income assets, calling the space a difficult place to find value. The firm's core bond portfolios are minimizing duration, with the majority in short-term Treasuries.