



# Value Investing: A Q&A With Sebastien Mallet

A decade of insights, and reasons why I am optimistic about the next 10 years.

December 2022

## KEY INSIGHTS

- Sebastien Mallet always had faith in “value,” as he believes history tells us that value as a factor has outperformed growth more often than not.
- Investing across the value spectrum seeks to deliver an “all weather” performance pattern.
- Looking forward, higher inflation along with higher interest rates are likely—a backdrop that is supportive for value-oriented areas of the market.



**Sebastien Mallet**  
*Portfolio Manager,  
Global Value Equity Strategy*

Sebastien Mallet recently marked his 10-year anniversary of managing the Global Value Equity Strategy. We met to discuss what attracted him to value investing, how he dealt with the tough environment for value following the global financial crisis (GFC), and how he characterizes his investment style. He tells us the key lessons he has learned, and why he believes the next 10 years look more promising for value-oriented investors.

### What did you learn in the early part of your investment career?

When I look back at my investment career, a defining period was during the TMT bubble and the importance of having a robust valuation model. The GFC was also very formative. After the collapse in 2008, the incredible liquidity support provided to financial markets resulted in

a dramatic turnaround. In 2009, when I was an international mid-cap analyst at T. Rowe Price, the S&P European Small Cap Index was up an incredible 52.8%.<sup>1</sup> The only way to beat that index was to find stocks that could potentially double or even triple in value. It was a great education on when is the right time to take on risk. This continues to inform my investment approach today: having a valuation discipline, but also some exposure to higher-risk, deeper-value stocks.

### You have endured an extremely tough period with growth outperforming value for nearly all of the 10 years you have managed the strategy. Did it test your resolve?

The period after the GFC was a very difficult one for value managers, especially for much of 2017 to 2020—a period when the market’s infatuation for

“...I always had faith in value, as I believe history tells us that value as a factor has outperformed growth more often than not.”

<sup>1</sup>Source: Financial data and analytics provider FactSet. Copyright 2022 FactSet. All Rights Reserved.

**Past performance is not a reliable indicator of future performance.**

“The runway can be long if you can find the right company.”

growth stocks was particularly intense. I trained as an economist, so I have always been “macro aware.” I, therefore, knew why growth stocks were working (a low-growth, low-inflation, and low interest rate environment). But I always had faith in value, as I believe history tells us that value as a factor has outperformed growth more often than not.

The support I received from colleagues and management was crucial—and not just from those with a value-oriented investment style. T. Rowe Price is run by investors, and they understand style investing. The research team also remained firmly focused on providing thoughtful insights and ideas from across the style spectrum, not just for the growth investors within the firm. Senior management consistently reminded me of the need for style consistency and to adopt a long-term perspective. There was a clear understanding that I could not beat the broader market when the style headwinds were so pronounced. Instead, I was encouraged to develop an attractive track record in value investing.

#### **How would you characterize your investment style?**

My investment style is very much to concentrate on “the quality of the opportunity not the quality of the company.” Investing across the value spectrum enables me to benefit from both the depth and the breadth of our research coverage, as well as helping to deliver what I call an “all weather” performance pattern.

My objective is to construct a portfolio of between 80 and 100 of the best value ideas we can find globally, with a specific focus on the most attractive asymmetrical risk/reward opportunities. I look at a range of scenarios ranging from “bull” to “bear,” with the potential downside in a stock always being my starting point. I am happy to take on risk as long as there is a reward. What is important is that I can understand why

a stock is cheap, why there may be a controversy, and why our analysis tells us that a company is not broken and has a fighting chance to recover.

I use a range of valuation metrics depending on the type of stock. For higher-quality ones, I use free cash flow multiples, while for more cyclical and higher-risk opportunities, I use sales and asset-based approaches. I embrace different types of value ideas (defensive value, aggressive value) as they can work at different times in the equity cycle.

#### **What have been your biggest investment successes, but also mistakes, and what lessons have you learned from them?**

The most rewarding has been the performance pattern over the last 10 years and how broad-based it has been. Looking at attribution versus our value universe, there have been positive contributions across most market capitalizations, sectors, and countries.

In retrospect, there were times I stubbornly defended higher-risk names despite signs that the investment thesis was going off track. I learned that it is usually better to “sell early” if conviction starts to wane. At the other end of the value spectrum, I also learned to better appreciate the potential for compounding returns that can be generated in higher-quality companies. The runway can be long if you can find the right company. I believe an investor should take advantage of that and continue to hold them.

#### **How do you see the market environment for value going forward?**

Although the environment for global equities is uncertain right now, we believe the overall outlook has improved for value investing. The responses to the coronavirus pandemic and the Russia-Ukraine conflict have been game changers. We have seen modern monetary policy evolve with “helicopter

“We are likely to have higher inflation along with higher interest rates—a backdrop that is supportive for value-oriented areas.

money” helping to put money directly into people’s pockets. This policy appears to open the door to greater monetization of fiscal deficits. Meanwhile, the war in Ukraine reminds us how important it is to protect your own country. President Vladimir Putin has accelerated deglobalization, in my opinion.

We also believe that if the agenda is geared toward reducing inequalities and stimulating the consumer, then growth will be more omnipresent. Going forward we are likely to have higher inflation along with higher interest rates—a backdrop that is supportive for value-oriented areas.

**Are there any particular themes that you are focusing on that will grow in importance?**

We are spending a lot of time assessing companies in traditional “old economy” industries that could be major beneficiaries of long-term trends now underway. The “green agenda” is one of these. Transitioning to a zero emissions world will need existing old economy stocks to drive forward change. Eighty percent of carbon dioxide emissions

come from energy, materials, utilities, transportation, and industrials, which make up a huge part of the value index. Since the GFC, those industries first suffered from overcapacity and then from underinvestment, but they are polluting too much; hence, they need massive investments to adapt. Within these industries there will be winners and losers. We need to work out who will be the winners.

Deglobalization is also a theme gaining prominence in the wake of supply chain disruptions stemming from the pandemic and the Russia-Ukraine conflict. This is testing international structures and making governments and companies more aware of where their dependencies lie. Increasingly, policymakers’ thoughts are turning away from the economic benefits of globalization (cheaper and more efficient manufacturing) to focus instead on regionalization and onshoring/reshoring to ensure that they can serve domestic needs. This has the potential to slow or even reverse globalization. We need to prepare for that and invest accordingly.

---

## Risks

The following risks are materially relevant to the portfolio:

**Capital risk**—The value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.

**Currency**—Changes in currency exchange rates could reduce investment gains or increase investment losses. Exchange rates can change rapidly and unpredictably.

**Equity risk**—In general, equities involve higher risks than bonds or money market instruments. Environmental, social, and governance and sustainability risk—May result in a material negative impact on the value of an investment and performance of the portfolio.

**ESG and sustainability risk**—May result in a material negative impact on the value of an investment and performance of the portfolio.

**Geographic concentration risk**—To the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area.

**Hedging risk**—A portfolio's attempts to reduce or eliminate certain risks through hedging may not work as intended.

**Investment portfolio risk**—Investing in portfolios involves certain risks an investor would not face if investing in markets directly.

**Management risk**—The investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably).

**Market risk**—Prices of many securities change daily and can fall based on a wide variety of factors. Examples of these factors include: political and economic news; government policy; changes in technology and business practices; changes in demographics, cultures and populations; natural or human-caused disasters; weather and climate patterns; scientific or investigative discoveries; costs and availability of energy, commodities and natural resources. The effects of market risk can be immediate or gradual, short-term or long-term, narrow or broad.

**Operational risk**—Operational failures could lead to disruptions of portfolio operations or financial losses.

**Style risk**—Different investment styles typically go into and out of favor depending on market conditions and investor sentiment.

## INVEST WITH CONFIDENCE<sup>SM</sup>

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

# T.RowePrice®

## Important Information

**This material is being furnished for general informational and/or marketing purposes only.** This material is being furnished for general informational purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request.

It is not intended for distribution to retail investors in any jurisdiction.

**DIFC**—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd which is regulated by the Dubai Financial Services Authority as a Representative Office. For Professional Clients only.

**EEA**—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

**Switzerland**—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

**UK**—This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

© 2022 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/ or apart, trademarks of T. Rowe Price Group, Inc.