Brian Chingono

Partner, Director of Qualitative Research, Europe Portfolio Manager, Verdad Advisers

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Do you mind telling us a little bit about your background and how your upbringing and formative experiences led you to become an investor today?

I grew up in Zimbabwe and moved to the United States to study for my undergraduate at Harvard. I then worked at Credit Suisse in the asset management division, primarily focusing on private equity fund-of-funds. From there, I attended business school at the University of Chicago and spent about a year and a half at Dimensional Fund Advisors. Throughout the period between business school, I had been in touch with Dan Rasmussen, and we exchanged ideas in terms of what we observed in private equity and business school. We co-authored two papers together, which are now available on SSRN. Dan later launched the business in 2014, and I joined him on a full-time basis in 2018. In the interim period, I worked with him on a consulting basis, and since then we worked together on a full-time basis. It is a real blessing to build a business with a dear friend and business partner.

At one point Zimbabwe had the world's highest inflation, and that was largely because our former president identified as a Marxist-Leninist. Witnessing the capital flight from Zimbabwe at the time was very influential as it demonstrated the importance of capital markets and how effectively capital markets rely on the rule of law. When I moved to the U.S, a free-market economy system showed the other side of the coin in that capital markets can flourish in North America because of its rule of law framework. When capital markets flourish, people can take risks and form businesses. That is what cemented for me the importance of a functioning capital market as one of the bedrocks for a free and flourishing society. That piqued my interest in investing, and I pursued it ever since.

Who were your biggest inspirations? And how does your investment strategy draw from them?

I will put them into three categories. The first category is philosophical; the second is the theory of how to understand markets; and the third is applied practice.

On the philosophical side, I need to mention Thomas Aquinas. The reason is that everything he wrote was ordered toward finding the truth. In the way he engaged with ideas, he was open to a wide range of questions; there was almost no question he would not consider. He would "steelman" the opposing argument, forming the best possible case against his position, and then address those critiques systematically before presenting his conclusion. That openness and grounding in truth is very appealing. The order he was part of features the motto Veritas. Our firm’s name, Verdad, means "truth" in Spanish; I think there is a beautiful poetry there.

Regarding the theory of how to understand markets and asset pricing, my intellectual hero is Eugene Fama. In reading his work, he is able to tap into something universal across markets. Even when practitioners critique these theories, we have a grounding that seems to apply most of the time. At a minimum, we know how to test various questions through the work Fama has done.

In terms of implementation, I studied under Robert Vishny, a co-founder of LSV, in business school. He was one of the professors who advised me when Dan and I collaborated on our first research paper concerning leveraged small-value equities. In a course I was taking, he articulated that, in public markets, small-cap value is essentially private equity on steroids. The idea is that what drove private equity returns in the 1980s and 1990s was systematic exposure to companies that were small, cheap—trading at mid-single-digit EV/EBITDA multiples—and levered. Private equity is a wrapper for what you could call micro-cap value on steroids. With that framework, Dan and I sought to test it using CRSP data from the University of Chicago. We found that Professor Vishny was correct: since the 1960s, portfolios of companies with those characteristics—small, cheap, and levered—produced a return profile very similar to private equity vintages of the 1980s and early 1990s, specifically high-teens to low-20s annualized returns. Robert Vishny was certainly an inspiration in terms of practice and building something tangible around theory.

You attended Harvard for undergrad and completed your graduate studies at the University of Chicago. How are your education impacted your career?

My experience at Harvard was transformative from a career standpoint because that is where I met Dan. My undergraduate liberal arts education provided a strong foundation for engaging with diverse ideas and perspectives. In business school, however, we were equipped with analytical tools that enabled us to approach financial questions in a more systematic way. Since then, we have been fortunate to apply those concepts in building a business, an opportunity that has been both a privilege and a blessing.

Do you think the name brand of Harvard or the University of Chicago opened doors for you that might not have been available otherwise? Or was the alumni network particularly helpful in advancing your career?

It definitely helps. That said, the most important thing is being able to clearly communicate finding that are true and universal. This can be learned at any school. A strong brand name might get you in the door, but you still must articulate your ideas in a convincing manner. The key still is learning how to figure out what is true about financial markets, which is challenging because markets are noisy. You must learn how to separate the signal from the noise. That becomes especially important when sitting across the table from people who may consider investing in your strategy. They must believe that your findings are both true and repeatable. The next step is building systematic processes within your investment firm, so you can consistently apply those findings in live portfolios.

You have moved across a few different areas, including private equity and quantitative research. How and why did you make that transition?

I started my career in private equity at Credit Suisse Asset Management in their private equity allocation group. During that time, we noticed that the private equity managers who consistently generated excess returns shared some key characteristics. First, they usually ran smaller funds, which allowed them to build portfolios of the most attractive companies. Second—and related to that—they were very disciplined about capacity. If Fund I performed well, they would not immediately raise a Fund II that was ten times larger. Instead, the next fund was usually similar in size to the first, which meant it was often oversubscribed. Those traits were common among the most successful managers.

“When examining public markets, you will observe something similar. In public equities, the factors that explain returns-value, profitability, and size-tend to work better among smaller companies. For example, small value stocks are generally cheaper than large value stocks, and as a result they tend to have higher forward returns. Similarly, small and highly profitable firms tend to have higher expected returns than larger profitable firms. Taken together, that leads to the conclusion that in public markets, if a manager wishes to sustain an edge, they also need to be mindful of capacity constraints. They must ensure they can still access the most attractive opportunities, which are often found in the small and micro-cap parts of the market.”

It is interesting how Verdad takes a private equity approach to the markets. What was your first investment recommendation at Verdad, and how did it turn out?

Our selection process is systematic. It is about ranking stocks. My first investment recommendation at Verdad was launching our Europe fund in January of 2019. The Europe Fund has outperformed the MSCI Europe Small Value Index by 1.5 percentage points annualized over the past five years. It outperformed the same index by 1.8 percentage points annualized over three years. As the value premium returned to favor, our equity strategies, which provide systematic exposure to deep value, benefit from the recovery in the value factor.

One tries to understand these universal laws or rationale that govern markets or investment behavior. Please talk about some of those laws or rationales and provide examples to help us understand.

"Universal principles that govern markets are well documented but not always fully understood. One is that prices incorporate information, a concept rooted in the efficient market hypothesis. This does not mean prices are always correct, but rather that current prices contain information related to returns. We believe this principle generally applies across all asset classes."

A second principle is that investment returns are linked to risk. While behavioral factors may also help explain certain premia, they largely represent compensation for exposures such as the value factor or small-cap stocks.

The third principle is that investors must be patient. These premia are noisy and vary over time—they do not appear with the same magnitude each day, month, or year. As a result, the effectiveness of a strategy can only be properly evaluated over a long horizon, typically at least ten years. Over such periods, there is enough data to better distinguish skill from luck, as described by Eugene Fama and Ken French in their work on luck versus skill.

Geographically, where do you think the best asymmetric risk-to-reward ratio is over the next five years, ten years, or any point in the future going forward?

International value appears to be an attractive area for allocation over the next five to ten years, particularly in Europe. One way to understand this opportunity is by examining valuation spreads across regions. In the U.S., valuation spreads—measured as the price-to-book ratio of value stocks divided by the price-to-book ratio of growth stocks—have historically averaged about 20 cents on the dollar over the past five decades. This means value stocks have typically traded at a meaningful discount relative to growth stocks.

While value stocks are expected to trade at some discount to growth, today that gap in the U.S. is unusually wide. Value stocks currently trade at roughly 10 cents on the dollar relative to growth, compared with the long-term average of 20 cents. From a valuation perspective, this suggests significant potential for mean reversion, leaving room for value stocks in the U.S. and North America more broadly to recover relative to growth.

The key uncertainty in the U.S. is how long the current technology and AI-driven market enthusiasm will persist. In contrast, this dynamic is far less relevant in international markets, where technology represents a much smaller share of the overall market. As a result, international markets, particularly Europe, may offer clearer opportunities for value investing without the same tech-sector concentration risk.

Applying the same valuation analysis to Europe reveals a similar opportunity. Since 1975, the ratio of value stocks' price-to-book to growth stocks' price-to-book has averaged about 20 cents on the dollar, meaning value has historically traded at a meaningful discount to growth. Today, that ratio is closer to 12 cents on the dollar, suggesting considerable room for multiple expansion among European value stocks.

Unlike the U.S., Europe is not dominated by the current AI and technology-driven market enthusiasm. More importantly, many high-quality, highly profitable companies are trading at value-level valuations. In other words, investors can buy stronger businesses within the value universe than they typically find in the U.S. For example, our European portfolio currently trades at about 5× EBITDA, generates roughly a 13% free cash flow yield, and has a gross profit-to-assets ratio of about 40%, indicating highly productive companies that convert assets into profits efficiently. In short, the story in Europe is that high-quality companies are on sale.

Japan also presents a compelling opportunity. Japanese value stocks currently trade at roughly 15 cents on the dollar relative to growth, compared with the long-term average of 20 cents, leaving room for valuation normalization. In addition, the Tokyo Stock Exchange has encouraged companies trading below book value to develop plans to reach at least one times price-to-book, often by increasing shareholder returns such as dividends or buybacks. This creates an additional tailwind for value investors.

Overall, international value remains an attractive opportunity. We are particularly optimistic about Europe because of the quality of companies available at value prices, and about Japan due to improving corporate governance and increasing cash returns to shareholders.

International markets differ from North America, especially with the tech and AI boom. If you invest in an international company listed on a U.S. exchange, do you still see the same benefits in value stocks? Or does exposure to North American markets change your approach?

“International companies listed in the U.S, generally have higher valuation multiples than if they were listed in their home markets, for several reasons. This mirrors the value-growth spreads I mentioned earlier. Similar analyses can be done comparing Europe or Japan to the U.S., and in both cases, international markets are currently trading at a wider discount relative to the U.S. than historically. While we do not expect international markets to match U.S. valuations, a return to historical discount levels alone could provide upside, making international allocations attractive.”

Moving onto risk, what has been the most humbling investment experience in your career? And how did that change the way you assess potential opportunities?

Launching our deep value strategy in the pre-2020 market when factors were inverted was a very humbling experience. For several years, the value and size premiums were negative. You were facing headwinds on your main factor exposures. In hindsight, that was providentially perhaps the best time to launch our deep value equity strategies. It trained us in intellectual humility, which is always important if you are going to identify what is true about financial markets. It also taught us the importance of patience and how to remain consistent when factors are working against you for transitory rather than permanent reasons. That period strengthened our processes and our research. Now that value has returned to favor, there is a sense of vindication. But we already have that humility printed into our investing DNA. We know that markets fluctuate, and it is important to maintain a long-term horizon.

Building off that last point, is there a business you have learned to avoid entirely, regardless of how cheap it is?

I avoid any business located in an autocracy. No matter how cheap it may be, I will not touch it. As a buy-and-hold investor, it is important to allocate to markets where you can access the cash flows. In autocracies, things can change, which can have significant effects on your terminal value. While you might come-out unscathed with a long enough time horizon, companies located in autocratic states are best avoided to minimize headaches.

Does this limit your investments in precious metals or resources where the mining might take place in countries with autocracies or a weak rule of law?

That is a great point. For example, when we are reviewing our European ranking list, we observed cases where a mining company is listed in London, but the assets were in a place with a single party in power for 30 years. We've learned to avoid any companies that fit that profile. We generally do not own mining at all, but to the extent that we would consider it, it would be for assets held in places like Canada where the rule of law ensures you are entitled to the proceeds from that asset.

Shifting to portfolio management, tell us about your approach to deciding when to exit an investment and how you think about portfolio sizing. How has your experience in quantitative research influenced those decisions?

In terms of position sizing, we run our equity portfolios at equal weight. For example, in the Europe fund where we have 50 stocks, each position would be about 2% of the portfolio. The reason for that is that when you are building a portfolio from a systematic ranking system, your rule is that you will add companies that are at the top of your ranking system. In our case, in Europe there are about 3,000 stocks across the market. But in our universe, there are approximately 600 stocks. Anytime we are rebalancing and going to add something, that new addition must come from the top 60 ranked stocks out of our 600-stock universe.

Once we find something that is ranked in the top decile, it means the characteristics of that company in terms of free cash flow yield, EV/EBITDA, price-to-book, and profitability are very strong, so we should have full exposure to it. That is why every new position we add starts at about 2%.

We do allow some of our winners to run up to a limit. Generally, we start trimming if a position gets to about 4% of the portfolio. Based on where its rank is, if it is still highly ranked, we might trim it from 4% to 3%. If the rank is somewhere in the middle, we would bring it all the way down to 2%. But the idea is that we are running an equal-weight portfolio where most positions are somewhat between 1% and 3%, with the median being exactly 2%.

Given your research looking at U.S. stocks from 1997 through 2022, are you able to talk a little bit about the valuation of growth stocks and how you model these fast-growing companies?

The key thing for modeling high-growth companies is to start from the perspective that the trailing growth you may observe will not necessarily persist in the future. What you find is that the likelihood of a company that has generated above median growth historically maintaining above median growth over X number of years in the future looks very similar to the probability of flipping heads X times in a row. To articulate that, the chance of a company generating above median growth two years in a row is about 25%, which is the probability of flipping two heads in a row. Three years in a row is about 12.5%, also the probability of flipping three heads in a row.

Number two is to account for the likelihood that the valuation multiple on a high-growth company today will be lower in the future. With growth companies, generally the rule is that multiples compress over time. Part of that is mechanical because if the enterprise value remains the same and the company is growing at 20%, you will mechanically have a lower multiple due to the growth. But in reality, multiples compress even more than that because of the reality that growth does not persist more than we would expect by chance.

Three to five years from now, as expectations for growth fail to align with earlier assumptions and valuations, many investors will seek to sell. As growth underperforms, valuation multiples tend to compress, driven by growing investor disappointment. Even modest shortfalls can trigger significant declines in valuation-a dynamic that is already becoming evident across software companies today.

Enthusiasm for generative and Agentic AI has sent valuations for tech companies to compress. So where do you see the long-term value of these companies, if you could maybe even predict that?

I would say that is the million-dollar question. The valuation of these software companies is quite different if the future is governed by the idea that software stocks have a defensible moat, which seems to be the reality we are drifting toward. Even last year, these companies were being valued according to the "software is eating the world" paradigm.

The multiple for "software is eating the world" versus "software has a defensible moat and will survive as a business" is very different. Even in the second scenario, where software has a viable business, it will continue growing, although not at the pace people previously expected and paid for. Growth assumptions have had to materially change, so at some point, valuations must be corrected in the same direction.

Does the expansion of credit in North America change how you view risk in the American market? Do you generally view easier access to credit as a positive or a negative sign for long-term economic growth?

For private credit specifically, that is primarily concentrated within private equity. To illustrate, the extent to which people are now sounding alarms about private credit and whether those loans are impaired tells you a lot about what you should expect from the equity that is subordinate to those loans.

We are starting to get to a point where people might ask if it is reasonable for private equity to continue marking its equity at full NAV (Net Asset Value) if there are questions about the solvency of private credit. Ultimately, what is happening is a private market phenomenon. As things unfold, we will see where it goes, but people will likely have to start reconsidering their portfolio allocations to private equity.

My colleague and partner, Dan, has been warning about risks in private equity for the past four years, and we are now beginning to see visible cracks in the armor. This issue is largely confined to private markets and is unlikely to spill over significantly into public markets, except potentially in the software sector. Private equity sits in a vulnerable position—subordinate to private credit, where asset quality is in question, and increasingly exposed to software investments in recent years. How this unfolds will be important to watch.

Do you believe the underperformance of small-cap value over the last decade is cyclical or structural?

From a Bayesian perspective, the evidence suggests that the underperformance of small-cap value stocks was cyclical. If we rewind to about five years ago—when value was near the depths of its underperformance relative to growth—the long-term data told a different story. Looking at the value premium over an extended period, such as the U.S. data available on Ken French’s website going back to 1927, we see that even during the worst of the “value famine,” the premium remained robustly positive over the full horizon.

From a Bayesian standpoint, this implies that our prior belief should favor the persistence of the value premium, as there has not been sufficient evidence to conclude a structural break. Even after nearly a decade of underperformance, the weight of historical evidence continues to support a positive value premium. Moreover, more recent data suggests that value may already be returning to favor. Looking at current trailing periods, the global value premium has rebounded meaningfully—reaching approximately 4% annualized over the past three years, according to Ken French's data.

Over the past five years, the global value premium has been strong, averaging about 10% annually. Looking at a longer horizon, the past 10 years tell a more muted—but still positive—story, with the premium at roughly 40 basis points. Even if we round that down to zero, the broader trend suggests we are beginning to turn the corner on the "value famine" that persisted from around 2011 through 2020.

As mentioned earlier, there also appears to be significant room for further recovery. In the U.S., value stocks are currently trading at roughly 10 cents on the dollar relative to growth stocks. In Europe, they are at about 12 cents, and in Japan, around 15 cents. Historically, these levels have averaged closer to 20 cents on the dollar across all three regions. Taken together, this suggests that value stocks still have considerable upside potential going forward.

Verdad recently launched a small-cap Japanese fund. What kind of inefficiencies do you see in Japanese small caps that give you conviction in the opportunities in Japan?

The opportunity in Japan is largely concentrated in small-cap stocks. As we discussed earlier regarding the importance of fund sizing, capturing this opportunity effectively requires managers who maintain discipline around the size of their funds. For our most recent Japan small-cap fund, we are targeting the small- to mid-cap segment, where many companies are trading below book value. This creates both breadth and depth in the investment opportunity.

In terms of magnitude, the discounts-to-book value are significant. Among small caps in Japan, it is still possible to find companies trading at 0.65 to 0.70 times price-to-book, whereas among large caps, only a handful of companies will trade below book value. The path from these low valuations to one times price-to-book is primarily driven by corporate governance reforms. In short, the story in Japan is about small-, micro-, and mid-cap stocks rather than large caps.

Do you have any advice for young investors or readers of this newsletter that you would like to share?

"In the early stage of your career, focus on learning as much as you can. Ideally, in your first job after school, you want to work in a place where you can have the opportunity to learn and pursue your curiosity about understanding how financial markets work. And then in later stages of your career, the next doors will then open based on what you have learned."