

Brandes Investment Partners
European Equity Strategy Notes
Second Quarter 2024 (April 1 – June 30, 2024)

The Brandes European Equity Strategy rose 3.86% net of fees and 4.04% gross of fees, outperforming its benchmark, the MSCI Europe Index, which increased 0.55% in the quarter, and the MSCI Europe Value Index, which appreciated 1.35%.

Annualized total return as of June 30, 2024	1-year	5-year	10-year
Brandes European Equity Composite (net)	22.38%	10.34%	4.79%
Brandes European Equity Composite (gross)	23.23%	11.08%	5.46%
MSCI Europe Index	11.68%	7.13%	4.16%

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.

Positive Contributors

Stock selection across sectors contributed positively to returns, led by holdings in financials and consumer staples. In financials, notable performers included Spanish insurer Linea Directa Aseguradora, Austria-domiciled Erste Group Bank, Slovenian Nova Ljubljanska Banka and U.K.-based Barclays. In consumer staples, Irish food products company Greencore drove performance, along with German household products business Henkel and U.K.-based tobacco firm Imperial Brands.

Select investments in health care also lifted returns, especially Netherlands-based Koninklijke Philips and Germany's Fresenius. Philips' shares increased after it reached a settlement related to its ventilators, removing significant uncertainty about the company's legal liabilities.

Other standout contributors included communication services firms Millicom International (Luxembourg), Magyar Telekom (Hungary), and ITV (U.K.).

Performance Detractors

Our underweight to pharmaceuticals, which was among the best performing industries in the benchmark, diminished relative returns. Additionally, a few positions in health care declined, including U.K.-based pharmaceutical firm GSK and Spanish biotech business Grifols.

GSK's stock price fell after a U.S. public health agency narrowed its age recommendation for RSV (respiratory syncytial virus) vaccines, limiting the use of the company's products.

France was among the worst-performing markets in the benchmark, as investors were concerned about the uncertainty related to the country's parliamentary elections. Our overweight to France hurt relative returns, and several of our holdings there declined, notably retailer Carrefour, communication services firm Orange and consumer products manufacturer Societe BIC.

Select Activity in the Quarter

The investment committee divested positions in Germany's Commerzbank and Swiss machinery firm Sulzer, while initiating positions in U.K consumer health care company Reckitt Benckiser, Germany-based semiconductor manufacturer Infineon and logistics firm Deutsche Post, as well as Dutch machinery company CNH Industrial.

Reckitt Benckiser is a multinational consumer goods company, with operations in over 60 countries across three business units: consumer health, hygiene, and nutrition. The company's brands are strong, particularly on a country-specific basis, such as Lysol in the U.S. and Dettol in India. Over the past several years, the management team has been focusing on achieving higher-than-category average growth for its brands and on increasing margins through positive operating leverage and productivity-related efficiency improvements.

During the pandemic, Reckitt experienced a short-term surge in demand for its hygiene products. However, the associated stock-price increase was not sustained, and Reckitt's shares remained largely range-bound for five years prior to their recent decline. The company's shares have come under pressure after it reported weaker-than-expected growth and profitability for fiscal year 2023. While it has improved its margins over the past few years, Reckitt will likely face slower growth in the short term as it cycles through last year's elevated base, driven by infant formula recall by Abbott Laboratories (Reckitt's main competitor) and a robust cold and flu season.

Additionally, concerns about potential liability related to its pre-term infant formula business in the U.S. further weighed on investor sentiment after the company lost a legal case earlier this year. Reckitt faces additional related legal cases, as does Abbott Laboratories.

Despite the headwinds, Reckitt's longer-term growth profile appears compelling to us. We appreciate its competitive position, which should allow it to grow at an above-average rate in each business category. We also believe the company has the potential for margin improvement through a combination of productivity-related cost savings and positive operating leverage. In our opinion, investor concerns about Reckitt's growth prospects and potential legal liabilities have been more than accounted for in its share price. At its current valuation, which reflects a discount to the company's historical multiples, we see Reckitt as an appealing investment opportunity.

Year-to-Date Briefing

The Brandes European Equity Strategy rose 8.72% net of fees and 9.09% gross of fees, outperforming its benchmark, the MSCI Europe Index, which increased 5.81% in the six months ended June 30, 2024, and the MSCI Europe Value Index, which appreciated 3.91%.

Stock selection across sectors drove performance. Holdings in financials were among the standout contributors, led by Italy's Intesa Sanpaolo, Austria-based Addiko Bank, Slovenian Nova Ljubljanska Banka, and Spanish Linea Directa Aseguradora. Consumer staples holding Greencore also lifted performance, as did communication services firms Magyar Telekom and Millicom International.

Other contributors included French automaker Renault and U.K.-based aerospace and defense firm Rolls-Royce, which continued to benefit from the ongoing recovery in its end-markets.

Several investments in health care detracted from returns, most notably French pharmaceutical Euroapi and Spain-based Grifols. Grifols' stock declined (mainly in the first quarter) following a short seller's report that questioned the company's debt and corporate governance practices. We continue to see a meaningful upside potential in the company. Grifols recently completed the sale of an equity stake in Shanghai RAAS, which should help it improve its financial leverage in the near term.

Similar to the quarter, holdings in France also hurt performance. Besides Euroapi, Carrefour saw its share price fall, as did luxury goods company Kering, utility ENGIE, and Societe BIC.

Current Positioning

The Brandes European Equity Strategy holds key overweight positions in consumer staples and communication services, while maintaining significant underweights to technology and industrials. Geographically, the portfolio's largest allocations continue to be in France and the United Kingdom. It also remains underweight in Switzerland and has no exposure to companies in the Nordic Region.

While we maintain our lower weighting to Germany relative to the benchmark, our underweight has narrowed with the purchase of Infineon and Deutsche Post this quarter. We believe the differences between the strategy and the MSCI Europe Index make it an excellent complement and diversifier to passive and growth-oriented strategies.

As of June 30, value stocks (MSCI Europe Value) continued to trade in the least-expensive decile relative to growth (MSCI Europe Growth) since the inception of the style indices. This was evident across various valuation measures, including

price/earnings, price/cash flow, and enterprise value/sales. Historically, such discount levels have often signaled attractive subsequent returns for value stocks. This is encouraging to us because the Brandes European Equity Strategy, guided by our value philosophy and process, has tended to outperform the value index when it outperformed the benchmark.

Looking ahead, we remain optimistic about the long-term prospects of the companies held in the Brandes European Equity Strategy.

Term definitions: <https://www.brandes.com/termdefinitions>

The MSCI Europe Growth Index captures large and mid cap securities across developed Europe 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 Europe Index with net dividends captures large and mid cap representation of developed market countries in Europe.

The MSCI Europe Value Index captures large and mid cap securities across developed Europe exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.

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