BRANDES
INVESTMENT PARTNERS

Brandes Investment Partners
European Equity Strategy Notes
Fourth Quarter 2024 (October 1 – December 31, 2024)

The Brandes European Equity Strategy declined 8.89% net of fees and 8.78% gross of fees, outperforming its benchmark, the MSCI Europe Index, which fell 9.74% in the quarter. The MSCI Europe Value Index dropped 8.43%.

Annualized total return as of December 31, 2024	1-year	5-year	10-year
Brandes European Equity Composite (net)	11.04%	9.21%	6.88%
Brandes European Equity Composite (gross)	11.75%	9.94%	7.55%
MSCI Europe Index	1.79%	4.90%	4.98%

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
Amid a falling overall market, notable contributors included companies in the communication services and financial sectors.

Hungary-based Magyar Telekom, as well as Austria-based Erste Group Bank, both rose materially. Magyar has seen its share price appreciate significantly over the last year based on its robust revenue growth, improving margins and an improved taxation regime.

While the materials sector was one of the worst-performing sectors in the benchmark, our investments in aggregate contributed to absolute and relative upside performance. Germany-based Heidelberg Materials rose after it announced improved earnings results and guidance.

Other companies aiding performance included U.K.-based WPP, CNH Industrial and Greencore Group. WPP saw its share price climb as a consequence of potential industry consolidation; CNH benefited from news that some well-known investors initiated a position as they anticipate the agricultural equipment down cycle may conclude. Greencore Group's stock was rewarded for its solid earnings results and increased guidance, as well as initiating a share buyback program.

Performance Detractors
Key detractors included industrials, such as aerospace and defense companies Montana Aerospace and LISI, as well as logistics company Deutsche Post. The share price of Montana Aerospace declined after a slower production ramp than the market was forecasting. However, we still believe Montana offers attractive upside potential as the aerospace cycle recovers and the company is well positioned to consolidate the industry supply chain and improving its balance sheet and free cash flow generation.

Other detractors included consumer companies, such as U.K.-based Kingfisher, Switzerland-based Swatch Group and Netherlands-based Heineken Holding. Kingfisher experienced a share price pullback after solid performance earlier this year as the home improvement retailer announced weaker-than-expected earnings because its ongoing operational turnaround may take longer than the market expected.

Select Activity in the Quarter
The investment committee initiated positions in Netherlands-based semiconductor firm STMicroelectronics, France-based tire company Michelin and Germany-based technology company Jenoptik.

STMicroelectronics (STM) is a semiconductor supplier with a diverse product portfolio serving the automotive, industrial, personal electronics, and communications equipment markets. STM holds a strong market position in automotive semiconductors, general purpose micro-controllers, and power semiconductors. These markets are expected to see attractive growth over the next decade, driven by the adoption of electric vehicles (EVs), advanced driver-assistance systems (ADAS), and the proliferation of connected devices (Internet of Things/IoT), which will increase semiconductor content in autos and devices.

However, weakness in the auto semiconductor market this year, which represents around 40% of STM's revenue, has led to a decline in sales. The company has subsequently cut its earnings guidance, resulting in significant market negativity. Consequently, STM is currently trading at a substantial valuation discount relative to its history and many semiconductor peers.

While the company's margins are expected to contract in the near term, we believe that its current challenges are largely cyclical, and that the growing semiconductor content demand should lead to a recovery in its auto and industrial end-markets. Although we cannot predict the timing for a recovery, STM's exposure to secular growth drivers and its strong market positions support a positive long-term outlook, in our opinion. Similar to our purchase of Infineon earlier this year, we believe STM represents a compelling opportunity at its current valuation level, with strong growth potential despite cyclical challenges.

Other portfolio activity included the divestments of Spain-based real estate firm Lar Espana and retailer Marks & Spencer. We exited our positions when they reached our estimates of intrinsic value.

Marks & Spencer is the largest U.K. apparel retailer by value, with that division accounting for approximately half the company's profit and the other half coming from its premium food retail business. Over the last seven years, Marks & Spencer has been executing a strategic plan to turn its business around by reducing promotions, cutting range options, improving cost efficiency, and improving capital investments. While these improvements started before the pandemic, the company saw its clothing and home business, as well as part of its food business, significantly impacted by COVID. Additionally, concerns about economic weakness in the U.K. contributed to a severely discounted valuation in 2020-2022.

At the time, we were attracted to Marks & Spencer's free-cash-flow generation, property ownership, and its defensive food business. Over the last two years, the share price has rebounded meaningfully as the company has shown consistent sales and earnings growth, driven by continued market share gain in its food business and the successful turnaround of its apparel business. As a result, consensus earnings estimates have improved, along with market sentiment for the company's prospects. Following the significant rally this year, we divested our holding as the share price exceeded our estimate of intrinsic value.

Year-to-Date Briefing

The Brandes European Equity Strategy rose 11.04% net of fees and 11.75% gross of fees, outperforming its benchmark, the MSCI Europe Index, which increased 1.79% for the year ended December 31, 2024, and the MSCI Europe Value Index, which appreciated 4.22%.

While value outperformance provided a better backdrop for the strategy, it was stock selection across nearly all sectors that drove relative returns. Investments in financials, industrials, communication services and consumer staples were the most noteworthy contributors. These were led by U.K.-based aerospace and defense company Rolls-Royce, Ireland-based consumer staples company Greencore, Italy's Intesa Sanpaolo banking group and Slovenia-based Nova Ljubljanska Banka. Other contributors included communication services firms Magyar Telekom (Hungary) and Millicom International (Luxembourg), as well as financial firms Erste Group and Barclays.

Several investments in health care weighed on returns, most prominently French pharmaceutical Euroapi and Spain's blood plasma company Grifols. Other detractors included consumer holdings: luxury goods company Kering and Swiss watchmaker Swatch, as well as beverage company Heineken Holding.

Current Positioning

The Brandes European Equity Strategy holds key overweight positions in consumer staples and communication services but is distinctly underweight in financials and industrials. Although the strategy remains underweight in technology, we increased our exposure to that sector this year after finding several new opportunities that we believe have attractive return potential. Financials were the best-performing sector, and, in aggregate, our holdings performed even better. Consequently, we pared or divested several positions when they reached our estimate of intrinsic value, and we went from an overweight to start the year to a relative underweight allocation to end the year. This underweight is even more noteworthy compared to the value index, which (based on its rules-based construction methodology) has a much larger weight to financials than any other sector (financials are >30% allocation vs. ~11% to the second-largest sector, consumer staples, as of Nov. 30, 2024).

Geographically, the portfolio's largest allocations continue to be in France and the United Kingdom. It remains underweight in Switzerland and owns no companies in the Nordic Region. While we maintain our lower weighting to Germany relative to the benchmark, our underweight has narrowed this year. We believe the differences between the MSCI Europe Index and our strategy make it an excellent complement and diversifier to passive and growth-oriented options.

As of December 31, 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, 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. We find this encouraging because the Brandes European Equity Strategy—guided by our value philosophy and process—has tended to outperform the value index when it surpassed the broad 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 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.

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.