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INVESTMENT PARTNERS

Brandes Investment Partners
Global Opportunities Value Strategy Notes
Second Quarter 2024 (April 1 – June 30, 2024)

The Brandes Global Opportunities Value Strategy rose 1.53% net of fees and 1.74% gross of fees, underperforming its benchmark, the MSCI ACWI Index, which rose 2.87% in the quarter.

Annualized total return as of June 30, 2024	1-year	5-year	10-year
Brandes Global Opportunities Value Composite (net)	26.47%	9.19%	4.40%
Brandes Global Opportunities Value Composite (gross)	27.57%	10.21%	5.33%
MSCI ACWI Index	19.38%	10.74%	8.43%

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

Holdings in financials aided performance, led by Spanish insurer Linea Directa Aseguradora, Slovenian Nova Ljubljanska Banka, Austria-domiciled Erste Group Bank, and U.K.-based NatWest.

Taiwan Semiconductor Manufacturing Company (TMSC) and Hong Kong-based textile company Yue Yuen were also standout contributors. Yue Yuen's shares surged nearly 50% after the company reported improved order visibility and better-than-expected earnings fueled by multi-year-high margins. Meanwhile, TSMC received Taiwanese government approval to finance the construction of manufacturing facilities in Japan and the U.S., positioning it to support the growing demand for artificial intelligence and high-performance computing technologies.

Other notable contributors included select holdings in communication services, such as Hungary's Magyar Telekom and Luxembourg-domiciled Millicom International Cellular. Geographically, the portfolio benefited the most from holdings in the United Kingdom. In addition to NatWest, tobacco manufacturer Imperial Brands and real estate firm LSL Property Services lifted returns, along with facility management company MITIE Group and media firm ITV.

Performance Detractors

Technology represented the best-performing component of the benchmark, and our significant underweight to the sector was the largest detractor from relative returns.

Other notable detractors included several holdings in health care, such as U.S. Elanco Animal Health, U.K.-based GSK, and Japan's Kissei Pharmaceutical. GSK's shares 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.

Geographically, Mexico was among the worst-performing markets in the benchmark as the presidential election results led to investor concerns about the potential for less market-friendly policies by the new government. Several of our holdings were impacted by the negative market sentiment, most notably real estate investment trusts Fibra Uno and Fibra Macquarie Mexico, as well as cement manufacturer Cemex. Moreover, our overweight hurt relative returns.

Amid the macroeconomic challenges, we maintain confidence in the company fundamentals of our holdings in Mexico. In our opinion, they are well managed, with low susceptibility to government intervention and long histories navigating turbulent times.

In addition to Mexico, exposure to Brazil diminished returns, led by positions in Telefonica Brasil and beverage firm Ambev.

Select Activity in the Quarter

The investment committee initiated positions in France-based luxury goods firm Kering and Canadian aerospace and defense company CAE, while divesting holdings in Spanish Atresmedia and U.S.-based construction engineering firm Orion Group.

Our coverage of CAE began in 2011, and since then, our assessment of the company’s core franchise quality remains unchanged. With its dominant position in flight simulation and pilot training, CAE has historically generated solid free cash flow and healthy returns on invested capital. The company also benefits from its access to attractive financing sources in the form of perpetual zero-cost loans from the Canadian government for research and development initiatives.

It is notable that during the COVID-19 pandemic, CAE took significant steps to strengthen its competitive position and improve industry structure. Firstly, the company leveraged its financial strength to complete a series of opportunistic acquisitions, purchasing nine companies at what we deemed depressed prices. This has helped CAE consolidate end-markets and expand capabilities. Secondly, it restructured its cost base, closing nine plants and removing U.S.$70 million in annualized costs that resulted in a 1.5% margin benefit on sales. Lastly, CAE expanded its relationship with mainline airlines, which chose to outsource an increasing share of their internal training needs. To satisfy this new demand, CAE embarked on a heavy capital expenditure cycle over the course of the pandemic that we believe will benefit shareholders in the years ahead.

The opportunity to initiate a position in CAE came as investors have been concerned about recent margin weakness in the defense segment. However, we view these challenges as temporary. Inflation and supply chain pressures have started to ease, and many of CAE’s under-earning, fixed-priced contracts are set to expire by 2025. We expect that CAE is positioned to improve its profitability as legacy fixed-priced contracts roll over and new high-margin defense contracts begin to ramp up. Based on the company’s guidance, new contracts should earn mid-double-digit margins, compared to the mid-single-digit margins on the legacy fixed-priced contracts that were impacted by the pandemic-related cost pressures. At its current valuation levels, CAE represents an appealing risk/reward tradeoff to us.

Year-to-Date Briefing

The Brandes Global Opportunities Value Strategy rose 10.34% net of fees and 10.81% gross of fees, underperforming its benchmark, the MSCI ACWI Index, which appreciated 11.30% in the six months ended June 30, 2024.

Holdings in industrials and financials drove performance, led by Rolls-Royce and Embraer in industrials, and Banco Latinoamericano, Linea Directa Aseguradora, and Nova Ljubljanska Banka in financials. Select technology holdings also showed robust results, specifically TSMC, SAP, and Arlo Technologies. Similar to the quarter, Yue Yuen was a solid contributor, as were Magyar Telekom and Millicom International Cellular.

Several holdings in health care weighed on performance, most notably Spanish biotech firm Grifols and Japanese Takeda Pharmaceutical and Kissei Pharmaceutical. Grifols 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 believe there is a meaningful upside potential in Grifols. The company recently completed the sale of an ownership stake in Shanghai RAAS, which should help it improve its financial leverage in the near term.

Geographically, our underweight to the U.S. hurt relative returns, along with our overweight to emerging markets, particularly to Mexico and Brazil.

Current Positioning

The portfolio positioning has largely remained unchanged. The strategy continues to have large overweight positions in communication services, real estate, and consumer staples, while retaining a significant underweight to technology. On a regional basis, it maintains overweights to emerging markets, the United Kingdom, France, and Spain, while remaining underweight the U.S., which accounts for nearly 65% of the benchmark.

We believe the differences between our portfolio and the MSCI ACWI Index make it an appealing complement to index-tracking or passively managed strategies. Going forward, we remain optimistic about the portfolio's holdings composition and the risk/reward tradeoff it offers.