BRANDES
INVESTMENT PARTNERS

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

The Brandes Japan Equity Strategy declined 3.15% net of fees and 3.09% gross of fees, outperforming its benchmark, the MSCI Japan Index, which was down 4.27% in the quarter.

Annualized total return as of June 30, 2024	1-year	5-year	10-year
Brandes Japan Equity Composite (net)	17.40%	5.53%	5.86%
Brandes Japan Equity Composite (gross)	17.67%	5.86%	6.46%
MSCI Japan Index	13.15%	6.61%	5.53%

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
Several bank holdings were solid contributors, led by Sumitomo Mitsui Financial Group and Concordia Financial Group. Select holdings in materials also helped performance, most notably Yodogawa Steel Works and chemical products companies artience (formerly Toyo Ink Group) and Shikoku Kasei.

Additionally, our underweight to consumer discretionary aided relative returns as the sector was among the worst-performing components of the benchmark. Amid the sector's underperformance relative to the broader market (MSCI Japan), it was not surprising that we have noticed increased value potential in consumer discretionary, as exemplified by our new purchase of Bridgestone (see discussion below).

Performance Detractors
Automakers Honda Motor and Nissan Motor detracted from returns. Select holdings in health care also declined, particularly Kissei Pharmaceutical, Takeda Pharmaceutical, and H.U. Group Holdings.

Other notable detractors included media firms Fuji Media and TV Asahi, as well as food products companies Calbee and Yakult Honsha. Moreover, our underweight to industrials, especially to the industrial conglomerates and professional services industries, hurt relative returns.

Select Activity in the Quarter
Trading activity remained active as the investment committee sought to capitalize on market price movements to reduce or divest positions that appreciated toward or beyond our estimates of their intrinsic values. The committee also increased and initiated positions for which the margins of safety appear attractive.

We reduced positions in select small-cap holdings, specifically Tachi-S, Yodogawa Steel Works, and Kyokuto Kaihatsu Kogyo, as the shares appreciated following increased involvement from activist investors. We also divested two holdings that were held in the portfolio for over a decade, namely MS&AD Insurance Group and Sompo Holdings. These insurance companies benefited from potentially higher interest rates in Japan and the continued uprise in the domestic stock market (as represented by the TOPIX Index), which has positively impacted their large equity portfolios.

We deployed the proceeds from these sales to initiate positions in Bridgestone and Fuji Corp, as well as to add to existing holdings in Paltac, GungHo Online, and Yakult Honsha (all three positions were initiated in the first quarter).

Full Sales
Sompo Holdings and MS&AD
Our investment thesis for P&C (property and casualty) insurance holdings Sompo and MS&AD was centered around three key factors:
1. Possible improvement in the domestic P&C insurance pricing environment

2. Potential cost reductions post-mergers (Sompo was formed through a merger between Sompo Japan Insurance and Nipponkoa Insurance, while MS&AD was established through a merger between Aioi Insurance, Nissay Dowa, and Mitsui Sumitomo Insurance Group)
3. Excess capital and potentially undervalued equity investments (essentially a portfolio of Japanese stocks) owned by MS&AD and Sompo

At the time of purchase, both companies were trading well below book value, with what we considered strong potential to improve returns on equity (ROEs) through capital deployment and margin improvement. During our holding period, we actively engaged with management teams with the aim of enhancing corporate governance and shareholder returns.

Over the years, MS&AD and Sompo made slow but positive changes. We raised our estimates of the companies' intrinsic values multiple times to reflect the improved margins and ROEs, reduced cross-shareholdings, and increased share buybacks. The companies' transformations led to strengthened earnings and higher shareholder returns, which started to become reflected in the market valuation to a point where we believed the risk/reward may be skewed to the negative.

We continue have a favorable view on these businesses; the duration of the risk portfolio is fairly short, their balance sheets remain solid, and the pricing environment is now more reasonable following an industry consolidation. However, it appears to us that the share prices reflect a larger optimism than what we consider appropriate in estimating the intrinsic value estimates. While we acknowledge that there could be more upside to the stocks, we decided that the capital could be deployed in more attractive opportunities, leading to the decision to exit the positions.

New Buys

Bridgestone

Founded in 1931, Bridgestone is the world's second-largest tire manufacturer, with an estimated 12% global market share. North America accounts for approximately 44% of sales, followed by Japan, Europe, and China. Despite several headwinds, which included a volatile raw material pricing and a pandemic-triggered downturn, Bridgestone posted fairly stable operating margins over the past decade.

Bridgestone's earnings are relatively sensitive to macroeconomic environments, and increasing tire imports from low-cost producing countries present a risk to the business. Nonetheless, we believe the company is a solid franchise trading at an attractive valuation. A strong distribution network, vertical integration, and global presence should allow Bridgestone to grow its revenues and profitability at a stable—even if not high—rate. We are not as bullish as management on the company's ability to increase prices, and thus have incorporated price declines in our analysis. Despite this cautious view, we believe Bridgestone provides an interesting investment opportunity with long-term potential. We also appreciate that the company adds to the diversification of the portfolio's auto-related allocation, in particular with regard to electric vehicles (EV) exposure as EV adoption is generally considered a positive for tire manufacturers.

Fuji Corp

Fuji Corp is one the top players in the global high-speed chip mounter industry with an approximately 30% market share. The company generates over 90% of revenues outside of Japan, with significant exposure to Asia where its main EMS (electronic manufacturing services) customers operate.

Fuji Corp operates in a cyclical environment, with the business sensitive to the global manufacturing capital expenditure (capex) trends. The most recent fiscal year was challenging due to several factors, including a slowdown in China, weaker computer/phone sales, and an overall pullback in capex of electronic product manufacturers. In our view, the current downturn provides a good entry point for an investment in a company that boasts a dominant position in a secularly growing market with high barriers to entry. Pinpointing the bottom of a down cycle is difficult, but we believe cyclical earnings should normalize over the long run. In addition, we appreciate Fuji Corp's consistent research and development and its robust balance sheet, which should help the company navigate difficult operating conditions. At its current share price, Fuji Corp represents an appealing risk/reward tradeoff to us.

BRANDES
INVESTMENT PARTNERS

Current Thoughts

Amid the value stock rally seen across the world (MSCI ACWI Value vs. MSCI ACWI), we are disappointed that the portfolio has lagged the MSCI Japan Value Index for some time. As a dedicated value investment manager, we take pride in constructing and managing portfolios that we believe will outperform the value index. While many of the products managed at Brandes have indeed achieved this feat at various times, the Japan Equity portfolio has been an outlier over the past few years.

We understand and share the frustration. However, we continue to believe that over the long run, the portfolio has the potential to generate excess returns over the broad and value benchmarks. We acknowledge that the portfolio's significant weighting to small- and mid-cap companies has been one of the largest detractors from performance, and we have constantly discussed this issue during the weekly investment committee meetings. Although we feel the pressure to increase our large-cap allocation, we are committed to remain a bottom-up, fundamental investor that invests in companies that trade at a discount to our estimates of intrinsic value. Valuation is at the heart of our investment decisions, and as such, while we are willing to add large-cap positions with low margins of safety, we must stick to our belief that purchasing "expensive" or high-valuation names will lead to low returns over the long term. That is the conundrum as we believe many large-cap companies are currently trading significantly above what we think is their true worth.

Consequently, the question that we often receive has been: What will be the drivers of improved performance of our small- and mid-cap holdings? As we have seen with a few of our holdings recently (e.g., Tachi-S, Yodogawa Steel, Kyokuto Kaihatsu Kogyo), pressure from activists to reduce excess capital and improve shareholder returns is one catalyst. We have long been active in engaging with our holdings but having more allies in the efforts does help, as seen with the positive performance of these companies recently.

Consolidation, management buyouts, and mergers and acquisitions are also potential catalysts. Many of the names we own are potentially undervalued despite their strong underlying businesses. There is a lot of value that can be unlocked, especially in the hands of a good owner. We have started to see more companies go private via management buyout or private equity, and we have also noticed an increase in consolidation transactions in some industries as businesses try to gain more scale. The Japanese small-cap equity space is ripe for opportunities, in our opinion, and many of our investments may benefit from an increase in such corporate activity.

Lastly, we believe market cycles exist and over the long run, valuation will direct capital flow. As the large-cap space becomes richer in valuation, attention will likely shift to the more undervalued small- and mid-cap sections of the market where we continue to observe compelling pockets of value. We unfortunately cannot forecast when this will happen, but we are confident that there is a significant valuation gap between the large-cap and the mid-/small-cap segments, and that this gap should eventually close in the long term.

Conclusion

While it has been a struggle for the portfolio over the past few years and we sincerely regret the performance, our process, our belief in the value investment philosophy, and our dedication to construct and manage the portfolio for the best interest of our clients are unwavering. We are truly excited for the long-term prospects of the Brandes Japan Equity Strategy, especially following these tough few years. Although we cannot predict the timing, we are confident that the tide will turn as we have seen with many other value cycles.

We are always open for any dialogue regarding the portfolio, our process and philosophy, as well as the firm, so please do reach out anytime. Critical comments and observations are always welcome as well.

Lastly, we sincerely appreciate the relationship over the years, and hope we can maintain and reward the trust given to us. It is truly a privilege to manage the portfolio on your behalf.

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

The margin of safety for any security is the discount of its market price to our estimate of its intrinsic value.

The MSCI Japan Index with net dividends is designed to measure the performance of large and mid cap segments of the Japan market.

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

The MSCI ACWI Index with net dividends captures large and mid cap representation of developed and emerging markets.

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

TOPIX with gross dividends measures performance of all domestic common stocks listed on the Tokyo Stock Exchange First Section.

MSCI has not approved, reviewed or produced this report, makes no express or implied warranties or representations and is not liable whatsoever for any data in the report. You may not redistribute the MSCI data or use it as a basis for other indices or investment products.

Diversification does not assure a profit or protect against a loss in a declining market.

The foregoing Quarterly Commentary reflects the thoughts and opinions of Brandes Investment Partners® exclusively and is subject to change without notice. The information provided in the commentary should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any security transactions, holdings or sectors discussed were or will be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance discussed herein. International and emerging markets investing is subject to certain risks such as currency fluctuation and social and political changes; such risks may result in greater share price volatility. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that the securities sold have not been repurchased. The actual characteristics with respect to any particular account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Unlike bonds issued or guaranteed by the U.S. government or its agencies, stocks and other bonds are not backed by the full faith and credit of the United States. Stock and bond prices will experience market fluctuations. Please note that the value of government securities and bonds in general have an inverse relationship to interest rates. Bonds carry the risk of default, or the risk that an issuer will be unable to make income or principal payment. There is no assurance that private guarantors or insurers will meet their obligations. The credit quality of the investments in the portfolio is not a guarantee of the safety or stability of the portfolio. Investments in Asset Backed and Mortgage Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Securities of small companies generally experience more volatility than mid and large sized companies. Although the statements of fact and data in this report have been obtained from, and are based upon, sources that are believed to be reliable, we cannot guarantee their accuracy, and any such information may be incomplete or condensed. Strategies discussed are subject to change at any time by the investment manager in its discretion due to market conditions or opportunities. The Brandes investment approach tends to result in portfolios that are materially different than their benchmarks with regard to characteristics such as risk, volatility, diversification, and concentration. Please note that all indices are unmanaged and are not available for direct investment. Past performance is not a guarantee of future results. No investment strategy can assure a profit or protect against loss. Market conditions may impact performance. The performance results presented were achieved in particular market conditions which may not be repeated. Moreover, the current market volatility and uncertain regulatory environment may have a negative impact on future performance. The margin of safety for any security is defined as the discount of its market price to what the firm believes is the intrinsic value of that security. The declaration and payment of shareholder dividends are solely at the discretion of the issuer and are subject to change at any time.

United States: Issued by Brandes Investment Partners, L.P., 4275 Executive Square, 5th Floor, La Jolla, CA 92037.

Singapore/Asia: FOR INSTITUTIONAL/ACCREDITED INVESTOR USE ONLY. Issued by Brandes Investment Partners (Asia) Pte Ltd., The Gateway West, 150 Beach Road, #35-51, Singapore 189720. Company Registration Number 201212812M. ARBN:164 952 710. This document is for "institutional investors" or "accredited investors" as defined under the Securities and Futures Act, Chapter 289 of Singapore and may not be distributed to any other person. This document is being provided for information purposes only. Incorporated in Singapore in 2012, Brandes Investment Partners (Asia) Pte Ltd (Brandes Asia) provides portfolio management services to clients in Asia (as permitted under local law). Brandes Investment Partners, L.P., a U.S. registered investment adviser and a sister entity to Brandes Asia, provides research, portfolio construction and other support to Brandes Asia.

Canada: FOR REGISTERED DEALERS AND THEIR REGISTERED SALESPERSONS' USE ONLY. NOT FOR DISTRIBUTION TO INVESTORS. Distributed by Brandes Investment Partners & Co., 6 Adelaide Street East, Suite 900, Toronto, ON, M5C 1H6. This communication is for information purposes only and should not be regarded as a sales communication or as advice regarding any financial product or services.