BRANDES
INVESTMENT PARTNERS

Brandes Investment Partners
Emerging Markets Equity Strategy Notes
Third Quarter 2024 (1 July – 30 September 2024)

The Brandes Emerging Markets Equity Strategy gained 10.43% (gross of fees), outperforming its benchmark, the MSCI Emerging Markets Index, which was up 8.72% in the quarter, and the MSCI Emerging Markets Value Index, which returned 8.12%.

Positive Contributors
Contributors were led by holdings in China, including Alibaba, Contemporary Amperex Technology Co (CATL), Ping An Insurance, China Resources Beer, and ZTO Express.

Alibaba appreciated as significant market negativity toward Chinese companies began to abate amid newly announced government stimulus measures. We believe Alibaba continues to offer an attractive margin of safety (the discount of market price to our estimate of intrinsic value) following the share-price increase. Its core business trades at a single-digit multiple of earnings, the company has a robust net-cash balance sheet, and its market share in e-commerce has started to stabilise.

Other notable performers included select banks, such as Thailand's Kasikornbank, Austria-based Erste Group, and PT Bank Rakyat Indonesia.

Brazilian regional jet manufacturer Embraer also rose as its earnings improved on strong air travel demand. Additionally, the company announced that it will receive $150 million from Boeing for the latter company's unsuccessful takeover bid, while its stock benefited from its recent inclusion in the MSCI Emerging Markets Index.

Performance Detractors
Several holdings in information technology gave back some of their solid gains from the past few months, particularly South Korea-based Samsung Electronics and SK Hynix, Taiwanese Wiwynn Corporation, and Hong Kong-based PAX Global Technology.

Meanwhile, the overhang of Mexico's national election continued to weigh on our holdings in the country, with real estate investment trust Terrafina and consumer products company Kimberly-Clark de Mexico being the worst performers. As noted last quarter, we remain confident in the fundamentals of our holdings in Mexico amid the macroeconomic and political challenges. Not only do our Mexican holdings have strong business profiles, in our opinion, but they also exhibit low susceptibility to government intervention and have long histories navigating turbulent times.

Other detractors included Brazil-based consumer staples business Sendas Distribuidora and Chinese specialty retailer Topsports International. Topsports issued a profit warning, anticipating a 35% year-over-year decline in earnings due to weakened consumer sentiment and increased price discounting. We view the stock sell-off as a good buying opportunity and consequently added to our position.

Select Activity in the Quarter
We initiated positions in China-based Haier Smart Home and Greece's Hellenic Telecommunications Organisation, while divesting positions in China-based Gree Electric Appliances and South Korean tobacco company KT&G.

Founded in 1984, Haier Smart Home is a leading global manufacturer of home appliances and consumer electronics. Its product offerings include major and small appliances, HVAC products, and water heaters. Among the three largest appliance makers in China (i.e., Haier, Gree, and Midea), Haier boasts the strongest overseas presence and was the first of the group to establish an original brand manufacturer business abroad. To expand its geographic reach, Haier acquired GE Appliances in the U.S., Fisher & Paykel in New Zealand, AQUA in Japan, and Candy in Italy.

Haier replaced Gree as a holding in the portfolio. While both companies trade at comparable valuation levels, we view Haier as a higher-quality alternative to Gree. We appreciate Haier's strong global footprint and brand reputation, its proactive acquisition strategies, and its cutting-edge technologies across multiple product categories. Additionally, the company maintains a leading position in China's domestic home appliance market and sustains robust pricing power through successful product premiumisation. At its current valuations, Haier represents an appealing risk/reward tradeoff to us.

Year-to-Date Briefing

The Brandes Emerging Markets Equity Strategy returned 16.01% (gross of fees), underperforming its benchmark, the MSCI Emerging Markets Index, which was up 16.86% in the nine months ended 30 September 2024, but outperforming the MSCI Emerging Markets Value Index, which gained 15.11%.

Holdings in the industrials and financials sectors helped returns, led by Brazilian regional jet manufacturer Embraer, Slovenia-based Nova Ljubljanska Banka, South Korean Hana Financial Group, and Panama-based Banco Latinoamericano. Taiwan Semiconductor Manufacturing Company, Alibaba, and CATL also lifted performance, along with India's Indus Towers.

Holdings in China and Mexico detracted from performance, most notably LONGi Green Energy Technology, TravelSky Technology, Topsports International, Fibra Uno, and Kimberly-Clark de Mexico. Other detractors included Sendas Distribuidora and Samsung Electronics.

Current Positioning

The portfolio maintains a significant overweight in Latin America, with diversified investments in telecommunications, utilities, energy, and real estate. In our view, these holdings stand to benefit from potential deflationary input costs and the increasing trend of nearshoring in Mexico and nearby regions. Conversely, India and Taiwan remain areas of key underweights for the portfolio as we have not identified substantial value opportunities in these markets.

On a sector basis, the portfolio holds large overweights in consumer staples, industrials, and financials, while remaining underweight in materials, health care, energy, and information technology.

Furthermore, the portfolio includes businesses that we believe are well positioned to eventually benefit from post-COVID normalisation. Although the recovery in Chinese consumer spending has taken longer than we initially anticipated, we continue to believe that select holdings in industries such as gaming, travel, and apparel represent undervalued opportunities that may be tied to the broader resurgence of the Chinese economy. While we remain underweight in China, the gap has narrowed materially in recent years. Our allocation to Chinese companies has increased as we added new value opportunities to the portfolio, while China's weighting in the benchmark has decreased due to its underperformance relative to other markets within the MSCI Emerging Markets Index.

Looking ahead, we believe the current fundamentals of our holdings bode well for the long term, and we are excited about the strategy's prospects.

For term definitions, please refer to https://www.brandes.com/termdefinitions

The MSCI Emerging Markets Index with net dividends captures large and mid cap representation of emerging market countries.

The MSCI Emerging Markets Value Index with gross dividends captures large and mid cap securities exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.

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