Global Equity Strategy Notes
Fourth Quarter 2024 (1 October – 31 December 2024)

The Brandes Global Equity Strategy declined 3.35% (gross of fees), underperforming its benchmark, the MSCI World Index, which dropped 0.16% in the quarter, and outperforming the MSCI World Value Index, which fell 4.20%.

Positive Contributors

In the context of a slightly down market, significant contributors included companies in the financials, materials and industrials sectors.

After technology-related companies, the financial sector was one of the best-performing sectors in the benchmark. Our overweight and stock selection aided our relative returns as several of our bank holdings appreciated significantly, including Wells Fargo, Erste Group, Citigroup and Bank of America. U.S. banks benefitted from solid earnings results coupled with the anticipation of a more benign regulatory environment.

While materials were the worst-performing sector, our holdings in aggregate contributed positively to absolute and relative performance. Germany-based Heidelberg Materials rose after announcing improved earnings and guidance.

Our aerospace and defense industry investments continued to perform well, led by recently purchased Canada-based flight simulator company CAE, as well as Brazil-based regional jet manufacturer Embraer and U.K.-based aircraft engine manufacturer Rolls-Royce. All three reported compelling earnings results. Because Rolls-Royce's share price continued to perform well, its margin of safety (the discount of market price to our estimate of intrinsic value) diminished, so we pared our position.

Performance Detractors

Companies with exposure to China, such as e-commerce company Alibaba, insurance company AIA Group and beverage producer Budweiser Brewing APAC, all declined. After enjoying sharp price increases at the end of the third quarter due to market optimism spurred by the Chinese government's announced stimulus measures, their shares waned during the fourth.

Notable detractors included consumer discretionary and health care holdings. Health care was the second-worst performing sector, and our overweight reduced relative returns. Several holdings, including GSK, Sanofi, HCA Healthcare, Cigna and CVS, fell amid distinct market negativity stimulated by concerns about uncertainty in the U.S. regulatory environment.

Other detractors included U.K.-based home improvement retailer Kingfisher and Netherlands-based beer producer Heineken. Kingfisher saw its share price pull back after solid performance earlier this year. This occurred after the company announced weaker-than-expected earnings results because its continued operational turnaround may take longer than the market expected.

U.S. markets outperformed, so our underweight to entities domiciled in the U.S. detracted from returns as the country now makes up almost 74% of the MSCI World Index.

Select Activity in the Quarter

We initiated positions in U.S.-based insurance company Arch Capital Group, U.S.-based utility Evergy, Hong Kong-based brewing company Budweiser Brewing APAC, and France-based spirits company Pernod Ricard.

Arch Capital Group has grown into a high-quality insurance company with a diversified portfolio, including primary commercial lines, reinsurance, mortgage insurance and credit insurance. Arch has historically compounded its capital at what we consider to be attractive rates.

The company has also exhibited capital discipline, refraining from writing policies in poor pricing environments, while taking advantage of its balance sheet to write policies and repurchase its shares at opportune times. With a healthy track record and high-quality attributes, the stock had previously traded at a premium valuation. However, investor concerns about the reinsurance market have caused the shares to underperform the broader market (MSCI World), providing what we believed was a favorable investment entry point and a compelling investment opportunity.

Evergy, which serves about 1.7 million utility customers in Kansas and Missouri, was formed through the 2018 merger of Westar Energy and Great Plains Energy. Evergy generates most of its electricity from owned renewable and nuclear generating capacity; the rest comes from coal, natural gas and renewable power purchase agreements. Evergy has historically traded at a discount versus other U.S. utilities due to its lower growth outlook and challenging regulatory regime.

However, we believe this environment has the potential to improve, and increasing data center load demand and fleet transitions should support this growth. Evergy's improved business opportunity comes from a diversified pipeline of over 20 customers with potential demand accounting for more than 40% of Evergy's existing peak demand. Several customers are in advanced negotiations with Evergy, including data centers and electric vehicle battery plants. While Evergy's stock price did rise this year, we think the market is still undervaluing the company's long-term prospects since many pending projects won't benefit the company's financials for several years.

Additionally, recent regulatory enhancements in Kansas and Missouri have improved capital investment recovery visibility and predictability. Consequently, we believe Evergy should have more consistent earnings with improved cash flows, which will support faster capital deployment, reduce equity needs and improve credit metrics. As a regulated utility, Evergy will then be able to continue to invest in the energy transition and shift its generation to renewables from coal. In our opinion, it will also gain the resources needed to invest in modernising its transmission and distribution infrastructure and earn a regulated and attractive return on those investments.

Overall, Evergy represents a compelling investment opportunity based on its attractive valuation and improved growth possibilities, a more supportive regulatory environment, ongoing grid modernisation efforts and solid financial metrics.

Other portfolio activity included sale of China-based Gree Electric Appliances and Singapore-based bank DBS Group as each company reached our estimate of its respective intrinsic value.

Year-to-Date Briefing

The Brandes Global Equity Strategy rose 13.04%, underperforming its benchmark, the MSCI World Index, which grew 18.67% for the year ended 31 December 2024. However, it outperformed the MSCI World Value Index, which appreciated 11.47%.

Performance versus the MSCI World Index was driven primarily by our underweight to U.S.-based technology giants (such as Nvidia), as the eight largest companies drove more than half of index returns despite starting at less than a 20% weight. Due to the dominant returns of these large technology entities, the U.S. market has outshone international markets (Russell 1000 vs. MSCI EAFE) by the largest margin since 1997.

Value underperformed (MSCI World Value vs. MSCI World) against the dominance of U.S. technology stocks as value stocks in the U.S. (Russell 1000 Value vs. Russell 1000) have now had the worst relative two calendar-year period versus the broad index since the inception of the Russell indices in 1979. However, value stocks in international markets outperformed in 2024 (MSCI EAFE Value vs. MSCI EAFE).

Beyond the underperformance of value and international stocks, detractors from relative performance included holdings in health care (e.g., Spanish biotech firm Grifols, as well as CVS in the U.S.) and emerging markets (e.g., Brazil-based Ambev, Korea-based Samsung and Mexico-based Fibra Uno). Other detractors included Chinese demand-driven companies, such as luxury goods producer Kering and sports apparel retailer Topsports.

Standout contributors were similar to those in the fourth quarter: industrials, financials and materials performed well. Within industrials, Rolls-Royce and Brazilian regional jet manufacturer Embraer appreciated significantly.
While the financials sector performed well, our investments (specifically in Erste Group, Fiserv, Wells Fargo and NatWest) appreciated more than those in the benchmark.

Specific investments in the technology sector delivered solid results, such as Taiwan Semiconductor Manufacturing Company and Germany-based SAP. But, as already noted, being considerably underweight to the technology sector dampened relative returns. Technology was the best-performing component in 2024—rising more than 30% and now accounting for an above 26% weight in the benchmark.

Current Positioning

The Brandes Global Equity Strategy continues to hold key positions in the economically sensitive financials sector and the more defensive healthcare sector, while maintaining its largest underweight to technology. Geographically, we continue to hold overweight positions in the United Kingdom, France and emerging markets, while remaining underweight in the United States and Japan. We believe the differences between the strategy and the MSCI World Index make it an excellent complement and diversifier to passive and growth-oriented strategies.

Overall, global markets experienced fairly significant performance dispersion between sectors this year with several sectors appreciating significantly, while several were roughly flat to declining. We believe this has helped create an attractive opportunity environment for an active global value manager. Value stocks continue to trade within the least expensive decile relative to growth (MSCI World Value vs. MSCI World Growth) across various valuation measures (price/earnings, price/cash flow, and enterprise value/sales).

We have observed increased aversion to owning international-based corporations given the robust performance of U.S. stocks. The valuation gap between U.S. and international stocks (MSCI USA vs. MSCI EAFE) widened as 2024 marked the largest outperformance year for U.S. stocks relative to international stocks since 1997. As a result, U.S. stocks now trade at their most expensive levels relative to international stocks since the inception of the MSCI indices in 1970, even when adjusting for sector differences. While the fundamentals of U.S. companies have been strong, almost all outperformance was fueled by the eight largest companies in the index (the "Magnificent 7" and Broadcom) and the appreciation of the U.S. dollar.

With the U.S. dollar near its highest levels since 1971 and given the concentration of the eight largest businesses in the U.S. equity market, we are optimistic that now is an excellent time to invest in global value equities. Beyond the attractive valuations of value stocks, we believe that value exposure provides diversification. We are convinced that it complements and offsets concentrated U.S.- and technology-centered exposures because the largest companies in the MSCI World Index are also the largest weights in various factor indices.

We are excited about the long-term prospects of our holdings, which display attractive fundamentals and in aggregate trade at more compelling valuation levels than the benchmark, in our opinion.

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

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

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

The MSCI USA Index measure the performance of the large and mid cap segments of the U.S. equity market.

The MSCI EAFE Index with net dividends captures large and mid cap representation of developed markets excluding the United States and Canada.

The MSCI EAFE Value Index with gross dividends captures large and mid cap securities across developed market countries, excluding the United States and Canada, exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.

The Russell 1000 Index with gross dividends measures performance of the large cap segment of the U.S. equity universe.

The Russell 1000 Value Index with gross dividends measures performance of the large cap value segment of the U.S. equity universe. Securities are categorised as growth or value based on their relative book-to-price ratios, historical sales growth, and expected earnings growth. The MSCI World Value Index with gross dividends captures large and mid cap securities across developed market countries exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.

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

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