BRANDES
INVESTMENT PARTNERS

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

The Brandes Global Equity Strategy rose 7.96% net of fees and 8.06% gross of fees, outperforming its benchmark, the MSCI World Index, which gained 6.36% in the quarter, and underperforming the MSCI World Value Index, which increased 9.57%.

Annualized total return as of September 30, 2024	1-year	5-year	10-year
Brandes Global Equity Composite (net)	30.01%	13.06%	7.91%
Brandes Global Equity Composite (gross)	30.53%	13.63%	8.48%
MSCI World Index	32.43%	13.03%	10.07%

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

Significant contributors included companies based in the United Kingdom, as well as several industrials. Aerospace and defense companies Embraer and Rolls-Royce reported improving earnings from strong demand for air travel. Embraer also benefited from being added to the MSCI Emerging Markets Index and receiving its settlement from Boeing for the latter company's unsuccessful takeover bid.

China-based Alibaba rose materially near the end of the quarter as pronounced market negativity aimed at Chinese companies began to abate in response to recently announced government stimulus measures. Despite Alibaba's robust performance, we continue to believe the company offers an attractive margin of safety (the discount of market price to our estimate of intrinsic value). Its core business trades at a single-digit multiple of earnings, while Alibaba maintains a healthy net-cash balance sheet and has seen the market share of its e-commerce business start to stabilize.

Other contributors whose stock prices rose after announcing better-than-consensus earnings included U.K. home retailer Kingfisher and U.S.-based flooring company Mohawk Industries. Mohawk rose along with other home improvement companies because the market foresees the possibility of heightened demand stemming from lower interest rates.

Additionally, technology-related companies were some of the weakest performers in the benchmark, and as such, our underweight aided relative returns.

Performance Detractors

The most notable detractors were in the energy sector: declining oil prices left it as the weakest performer in the benchmark. Our overweight to energy negatively impacted returns, and our positions in integrated oil firms Shell and BP, as well as oil services company Halliburton, declined.

As we have noted, technology-related companies also underperformed, largely led by a pullback in artificial intelligence-related companies, which had risen dramatically earlier this year. While we have an underweight to technology, our investments in semiconductor-related companies Samsung (South Korea) and Micron (U.S.) both fell on concerns that market prospects for their memory chips in AI applications were overly optimistic. However, Micron did reverse course as the quarter wrapped after it announced better-than-expected earnings and raising its forecast for the year. We continue to believe these companies offer attractive value, trading at discounted valuations compared to the more obvious AI beneficiaries such as Nvidia.

Other detractors included pharmaceutical distributor McKesson and luxury goods company Kering. While Kering rebounded toward the quarter end on the potential for Chinese stimulus, its share price still declined while the company worked to revitalize its Gucci business.

Relative to the value index, our underweight to utilities and real estate detracted from returns as these were the two best-performing sectors because the market anticipates them to be some of the biggest beneficiaries from future interest rate reductions.

Select Activity in the Quarter

The investment committee initiated a position in Japan-based Takeda Pharmaceutical. Following the acquisition of Shire in 2019, Takeda is now one of the largest pharmaceutical firms worldwide, with a diversified portfolio and a global revenue base. Despite being headquartered in Japan, Takeda generates most of its revenue in North America.
The company's product portfolio is fairly "young" and diversified. It includes exposure to gastroenterology, oncology, neuroscience, blood plasma therapies, and several rare-disease pharmaceuticals: these therapies should position Takeda well for longer-term growth after it navigated a patent cliff this past year.

With its purchase of Shire, we believe that Takeda offers a worthwhile opportunity because it has an established management team that can improve margins following a recent cost-cutting program. Additionally, the company has been using its cash generation to deleverage its balance sheet. While the high-priced acquisition of Shire, the recent patent expiration of one of its largest drugs, and research and development delays over the past decade have dampened market sentiment, we believe the company is now well positioned to make improvements. Takeda is expanding its core drug offerings, launching new pharmaceuticals, and retaining a solidly competitive position in a variety of end-markets. Notably, its blood plasma products business operates in a supply-constrained marketplace with high barriers to entry and growth potential. At Takeda's current valuation and in light of negative market sentiment, we believe the shares offer an attractive risk/reward potential for a long-term oriented investor, so we initiated a position.

The investment committee sold its ownership in South Korea-based tobacco company KT&G and U.S.-based health care outsourced research and development firm Fortrea.

When Labcorp spun off Fortrea last year, we retained a position in Fortrea because we believed it was undervalued given the challenging industry environment in 2022. Fortrea specializes in clinical studies for biotechnology and pharmaceutical companies, and the biotechnology industry faced a weaker funding environment after interest rates rose. Fortrea also had a smaller market capitalization relative to Labcorp, so its shares likely faced technical selling pressure from institutions that had held the larger Labcorp and didn't want to own the smaller-cap Fortrea.

While we are confident that the contract research industry will grow long term, we decided to sell Fortrea because it has not been able to overcome unresolved challenges since it began operating independently. The company has struggled to improve profitability. Given its leverage and weaker competitive position relative to the industry's large entities, we believe the risk of owning Fortrea had increased, and we were able to find more attractive risk/reward opportunities elsewhere.

Year-to-Date Briefing

The Brandes Global Equity Strategy rose 16.62% net of fees and 16.95% gross of fees, underperforming its benchmark, the MSCI World Index, which grew 18.86% in the nine months ended September 30, 2024. However, it outperformed the MSCI World Value Index, which appreciated 16.36%.

Performance versus the MSCI World Index was driven primarily by our underweight to U.S.-based technology companies (such as Nvidia), which gained significantly for the year even after the pullback in the third quarter. Due to the impressive returns of large technology companies, the U.S. market has outshone international markets (Russell 1000 vs. MSCI EAFE), while value stocks in the U.S. have underperformed the broader U.S. market (Russell 1000 Value vs. Russell 1000). Meanwhile, internationally, value stocks have outperformed the broad market to this point in 2024 (MSCI EAFE Value vs. MSCI EAFE)

Other detractors included holdings in health care (e.g., Spanish biotech firm Grifols, as well as CVS and Fortrea in the U.S.) and consumer staples (e.g., Ambev and Heineken). Similar to the quarter, lower oil prices led to energy stocks underperforming for the year. Additionally, despite a late rally this quarter, Chinese demand-driven companies, such as Kering and Topsports, also reduced relative results.

Standout contributors included industrials, particularly Rolls-Royce and Brazilian regional jet manufacturer Embraer. Selected investments in financials also helped performance, led by U.K.-based NatWest and Austria's Erste Group Bank.

Specific holdings in technology and communication services delivered solid results, such as Taiwan Semiconductor Manufacturing Company, France-based Publicis, and Germany-based SAP. But being considerably underweight to both sectors dampened relative returns. They have been the best-performing components of the benchmark in 2024—both climbed more than 20%.

Current Positioning

The Brandes Global Equity Strategy continues to hold key positions in the economically sensitive financials sector and the more defensive health care 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.

Despite value stocks' outperformance this quarter, the valuation gap between value and growth stocks has widened over the past year, and we remain optimistic about the return potential of value stocks. With the outperformance of the growth index (MSCI World Growth vs. MSCI World Value), fueled largely by a few U.S. tech-related companies, value stocks trade at the largest discount relative to growth stocks since the style indices began. This valuation disparity appears across various metrics such as price/earnings, price/cash flow, and enterprise value/sales. Historically, such valuation differentials have often signaled attractive future returns for value stocks over long-term horizons. Notably, our portfolio—guided by our value philosophy and process—has tended to outperform the benchmark when value stocks outperformed the MSCI World Index.

The performance of U.S. technology-related companies has amplified market concentration. The U.S. weight in the MSCI World Index has increased to more than 70% this year. With the five largest tech companies accounting for almost 20% of the weight in the index, they are bigger than the next five largest country weights combined. 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 as well.

We are excited about the long-term prospects of our holdings, which 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 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 categorized 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.

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

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

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