

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

The Brandes International Equity Strategy rose 12.08% net of fees and 12.19% gross of fees, outperforming its benchmark, the MSCI EAFE Index, which was up 7.26% in the quarter, and the MSCI EAFE Value Index, which returned 8.89%.

Annualized total return as of September 30, 2024	1-year	5-year	10-year
Brandes International Equity Composite (net)	30.25%	11.39%	6.72%
Brandes International Equity Composite (gross)	30.80%	11.87%	7.22%
MSCI EAFE Index	24.77%	8.19%	5.70%

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

Notable contributors included holdings in industrials and health care.

Brazil-based regional jet manufacturer Embraer and U.K.-based aerospace and defense company Rolls-Royce reported improving earnings amid continued strong demand in their aerospace end markets. Embraer also announced that it will receive a settlement from Boeing for the latter company's unsuccessful takeover bid, while its stock benefited from its recent inclusion in the MSCI Emerging Markets Index.

Within health care, leading contributors included Spain-based biotechnology firm Grifols, medical equipment companies Smith & Nephew (U.K.) and Koninklijke Philips (Netherlands), and German health care services provider Fresenius SE.

In July, Grifols confirmed that its founding family, which controls 30% of the company, is evaluating a potential joint takeover bid for the entire business with Brookfield, a multinational Canadian alternative investment fund. The structure and pricing of the takeover remain unclear, but the market reacted positively to their proposal.

Other standout performers included China-based Alibaba, which appreciated as significant market negativity toward Chinese companies began to abate, thanks to 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 maintains a healthy net-cash balance sheet, and its market share in e-commerce has started to stabilize.

Geographically, holdings in the U.K. helped performance the most. Besides Rolls-Royce and Smith & Nephew, consumer staples companies Tesco, J Sainsbury, and Marks and Spencer also lifted returns, along with home improvement retailer Kingfisher.

Performance Detractors

Notable detractors included consumer holdings that have exposure to China, such as France-based Kering and Netherlands-based Heineken, as well auto-related holdings Nissan Motor (Japan) and Hyundai Mobis (South Korea).

Heineken's shares declined after the company took an impairment charge for its stake in China Resources Beer, reflecting a weaker consumer environment in China. Meanwhile, Kering remained under pressure as it worked to revitalize its Gucci business. Although the shares rebounded toward the end of the quarter due to the potential for Chinese stimulus, the increase was not enough to fully offset the earlier decline.

Technology was one of the weaker-performing sectors in the benchmark, largely driven by a pullback in AI-related and semiconductor companies, which had risen dramatically earlier this year. While our underweight to the sector helped

relative performance, our holdings in South Korean Samsung Electronics and Germany's Infineon detracted from returns amid concerns that market optimism around the monetization potential of AI applications had become excessive. Nonetheless, we believe these companies continue to offer attractive value opportunities, with discounted valuations relative to the more obvious AI beneficiaries trading at higher multiples.

Select Activity in the Quarter

The investment committee purchased the preferred shares of Samsung Electronics in the quarter, taking advantage of the widening discount between the preferred shares and the ordinary shares. Samsung's preferred shares are functionally similar to the ordinary shares, but the holders of the preferred shares receive a nominally higher dividend and no voting rights.

The investment committee divested positions in Ireland-based financial brokerage and advisory firm Willis Towers Watson and French automaker Renault as they reached our estimates of intrinsic value. The committee used the proceeds from the sales to add to several existing positions, including some of the aforementioned detractors.

We initially purchased Willis Towers Watson (WTW) a year ago after its share price had underperformed the broader markets (MSCI EAFE) due to its failed merger with Aon. We believed the company represented an appealing investment opportunity given its reliable cash-flow generation, solid balance sheet, and attractive valuation. We also appreciated its potential to bring its margins closer to insurance brokerage peers.

Over the past year, the company has experienced notable growth, expanded its margins, and improved its free-cash-flow generation. While our estimate of the company's intrinsic value increased, the share price increased even more significantly. We decided to divest the position after it reached our updated intrinsic value estimate.

Year-to-Date Briefing

The Brandes International Equity Strategy rose 17.57% net of fees and 17.90% gross of fees, outperforming its benchmark, the MSCI EAFE Index, which appreciated 12.99% in the nine months ended September 30, 2024, and the MSCI EAFE Value Index, which rose 13.79%.

While value outperformance provided a better performance environment for the strategy, it was stock selection across nearly all sectors that drove the relative returns. The most significant contributors were holdings in technology, industrials, and consumer staples. Leading performers included Rolls-Royce, Embraer, and Contemporary Amperex Technology in industrials, Tesco in consumer staples, as well as Taiwan Semiconductor Manufacturing Company and SAP in technology. China-based Alibaba and Italian bank Intesa Sanpaolo also aided returns.

Major detractors included Kering, Samsung, and Heineken, as well as Grifols, whose shares declined mainly in the first quarter following a short seller's report that questioned the company's debt, accounting, and corporate governance practices. Additionally, the overhang of Mexico's national election in June continued to weigh on our position in real estate investment trust Fibra Uno.

Current Positioning

The portfolio maintains overweight positions in the United Kingdom, France, and emerging markets, while remaining underweight in Australia and Japan. From a sector perspective, it holds key overweights in communication services, health care, and consumer staples, and meaningful underweights in industrials and financials. During the year, we have sold or pared several of our financials holdings that have exceeded or neared our estimates of their intrinsic values. As a result, our underweight to financials has become larger compared to the start of the year. We have largely deployed these proceeds into opportunities in two sectors, namely industrials, in which we remain underweight, and consumer staples, which now represents a larger overweight than at the start of the year. We believe the differences between the Brandes International Equity Strategy and the MSCI EAFE Index make it an excellent complement and diversifier to passive and growth-oriented strategies.

International value stocks continue to trade within the least-expensive decile relative to growth (MSCI EAFE Value vs. MSCI EAFE Growth) since the inception of the style indices. This is evident across various valuation measures, including

price/earnings, price/cash flow, and enterprise value/sales. Historically, such discount levels often signaled attractive subsequent relative returns for value stocks. This is encouraging for us as our strategy, guided by our value philosophy and process, has had the tendency to outperform the value index when it outperformed the benchmark.

Looking ahead, we remain optimistic about the prospects of our holdings. As of September 30, 2024, the Brandes International Equity Strategy trades at more compelling valuation levels, in our opinion, while offering more appealing long-term growth characteristics relative to the benchmark and the MSCI EAFE Value Index.

For term definitions: <https://www.brandes.com/termdefinitions>

The MSCI EAFE Index with net dividends captures large and mid cap representation of developed market countries excluding the U.S. 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 MSCI EAFE Growth Index with gross dividends captures large and mid cap securities across developed market countries, excluding the United States and Canada, 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 Emerging Markets Index captures large and mid cap representation of emerging market countries.

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