BRANDES
INVESTMENT PARTNERS

Brandes Investment Partners
Asia Pacific (ex-Japan) Equity Strategy Notes
First Quarter 2023 (January 1 – March 31, 2023)

The Brandes Asia Pacific (ex-Japan) Equity Strategy returned 5.01% net of fees and 5.26% gross of fees, outperforming its benchmark, the MSCI AC Asia Pacific ex Japan Index, which was up 4.10%, as well as the MSCI AC Asia Pacific ex Japan Value Index, which returned 3.89%.

Annualized total return as of March 31, 2023	1-year	5-year	10-year
Brandes Asia Pacific (ex-Japan) Equity Composite (net)	-0.86%	-0.92%	3.96%
Brandes Asia Pacific (ex-Japan) Equity Composite (gross)	0.08%	0.02%	4.97%
MSCI AC Asia Pacific ex Japan Index	-8.91%	1.05%	3.77%

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

Holdings in Taiwan drove returns, with notable contributors including information technology companies **Accton Technology**, **Wiwynn** and **Taiwan Semiconductor Manufacturing Company**. South Korea's **Samsung Electronics** and steelmaker **POSCO** also helped performance, as did China-based **Alibaba**, whose announcement of a six-way split and potential IPO (initial public offering) for each its business segments was well received by the market.

Additionally, health care and financials holdings aided returns from a relative standpoint.

Performance Detractors

The largest detractors included several holdings in China, namely **Chinasoft International**, **TravelSky Technology**, **China Education Group** and **Wynn Macau**.

China Education Group's share price has been weak recently due to the market's disappointment over a change in the company's chief financial officer (CFO) and a lack of progress on the M&A (mergers and acquisitions) front. We view these concerns as overblown. The company is well positioned, in our opinion, to maintain an attractive rate of organic growth, supplemented with disciplined evaluation of potential acquisition targets. With respect to the change in the executive office, the previous CFO resigned due to retirement (age 62). We continue to maintain an allocation to the company as we believe its fundamentals remain intact.

Meanwhile, Chinasoft International reported underwhelming results for the second half of 2022 as the company continued to be impacted by a weak macro environment and a slowdown at a key strategic partner, Huawei. We remain confident about the company's long-term prospects given the volume growth of outsourcing work from clients and Chinasoft's rapidly expanding cloud business.

Apart from holdings in China, notable detractors included South Korean personal care products business **LG H&H** and tobacco company **KT&G**. Additionally, India-based **Indus Towers** hurt returns as it continued to struggle with elevated accounts receivable balances, resulting primarily from a major customer's (Vodafone Idea) inability to make timely payments.

Select Activity in the Quarter

The emerging markets investment committee initiated a position in Indian electric utility **NTPC Limited** while divesting China-based **Weichai Power**, Singapore-based **Flex** and Taiwanese technology company **Largan Precision**.

NTPC Limited, formerly known as the National Thermal Power Corporation, is India's largest electric utility, accounting for about a quarter of the country's power generation and over 15% of its installed capacity. The Government of India holds a controlling, but declining stake in NTPC (89.5% stake at the company's 2004 IPO to currently 51.1%). Over 97% of NTPC's capacity operates under cost-of-service regulation, while the remaining installed capacity comprising renewable energy is being developed on a competitive basis. As part of India's environmental commitment to fight global warming, NTPC plans to add 60GW of renewable energy by 2032 to reach 50% of its installed capacity.

Until recently, NTPC suffered a decade-long derating due to adverse regulatory changes and revenue shortfalls in addition to the recurrent overhang from the government gradually reducing its stake. The company also struggled with the stigma associated with its large exposure to coal-based electricity generation. In our view, one of the main uncertainties was the lack of clarity regarding the role the government envisioned for NTPC in India's decarbonization strategy. This concern has been alleviated now that it is clear NTPC will be a leading participant and possibly become the largest developer of renewable capacity in the country, and it will invest significant capital expenditure to retrofit its entire coal-based fleet under regulated returns with good visibility for cost recovery. Hence, the transition from coal to renewable energy has gone from posing a potentially existential threat for NTPC to providing a significant opportunity supporting earnings growth potential in the foreseeable future.

While these positive developments have not gone unnoticed by the market, upside potential persists as NTPC represents, in our opinion, an opportunity to invest in a "growth" utility at "value" or discounted multiples.

Current Positioning

The strategy has maintained its largest country weightings in China and South Korea, as well as a material overweight to Indonesia. We have remained underweight companies in India and have no holdings in Australia or New Zealand, as has been the case for several years.

From a sector perspective, the portfolio's largest weightings remain in consumer discretionary, information technology and financials (although it is underweight relative to the MSCI AC Asia Pacific ex Japan Index). Notable underweights are in materials (which coincides with the strategy's lack of exposure to Australia), energy and industrials.

We believe the positioning of the Brandes Asia Pacific (ex-Japan) Equity Strategy bodes well for the long term.

Capital Expenditure (Capex): Capital expenditures are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. Capex is often used to undertake new projects or investments by the firm. Source: Investopedia.com

The MSCI AC Asia Pacific ex Japan Index with net dividends captures large and mid cap representation of developed and emerging markets in the Asia Pacific region, excluding Japan. Data prior to 2001 is gross dividend and linked to the net dividend returns.

The MSCI AC Asia Pacific ex Japan Value Index with gross dividends captures large and mid cap securities across developed and emerging markets in the Asia region excluding Japan. Attributes for value index construction are book value to price, 12-month forward earnings to price, and dividend yield.