Brandes Investment Partners
Asia Pacific (ex-Japan) Equity Strategy Notes
Fourth Quarter 2023 (October 1 – December 31, 2023)

The Brandes Asia Pacific (ex-Japan) Equity Strategy returned 3.81% net of fees and 4.06% gross of fees, underperforming its benchmark, the MSCI AC Asia Pacific ex Japan Index, which was up 7.84% during the quarter.

Annualized total return as of December 31, 2023	1-year	5-year	10-year
Brandes Asia Pacific (ex-Japan) Equity Composite (net)	10.99%	1.96%	3.31%
Brandes Asia Pacific (ex-Japan) Equity Composite (gross)	12.06%	2.93%	4.30%
MSCI AC Asia Pacific ex Japan Index	7.36%	4.65%	3.94%

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

A number of information technology sector holdings were leading performers, including Taiwan-based **Wiwynn** and **Taiwan Semiconductor Manufacturing Co.**, as well as South Korea's **Samsung Electronics** and **SK Hynix**.

Select holdings in India also contributed, led by power producer **NTPC, HDFC Bank**, and **IndusInd Bank**.

Other noteworthy contributors included Thailand-based **Kasikornbank** and **Genting Singapore**.

Performance Detractors

Several China-based consumer discretionary holdings performed poorly, notably **China Education Group** and internet retailer **Alibaba**, as well as hospitality firms **Galaxy Entertainment Group** and **Wynn Macau**.

China Education Group's earnings for the second half of the 2023 fiscal year fell short of expectations, primarily due to increased teacher salaries, higher interest expenses and weaker revenue growth. Alibaba's shares fell following its decision to abandon plans to spin off its cloud business. Meanwhile, Wynn Macau tumbled as weaker-than-expected earnings cast doubt over the pace of its post-pandemic recovery.

Beyond the strategy's consumer discretionary investments, some other holdings in China also depressed returns, particularly **Ping An Insurance**, **LONGi Green Technology** and **ZTO Express**. For LONGi, the decline in solar wafer and module prices overshadowed shipment growth, putting downward pressure on its revenue and net income.

South Korea-based **LG H&H** and Indonesian wireless telecom **XL Axiata** also declined.

Select Activity in the Quarter

The emerging markets investment committee initiated positions in China-based battery producer **Contemporary Amperex Technology Co.** and U.K.-domiciled financial firm **HSBC**.

Contemporary Amperex Technology Co. (CATL) is the world's largest producer of lithium-ion batteries for electric vehicles and energy storage systems, with an estimated global market share of approximately 35% in each segment. Known for its technological and cost leadership, CATL offers products for both premium and mass-market electric vehicles. The company derives most of its sales domestically in China but has diversified its global presence in recent years.

At the time of our purchase, CATL's stock traded near its 52-week low, marking a decline of over 50% from its all-time high. There are several factors contributing to this share-price pressure: a subdued industry outlook overseas, potential restrictions in the U.S. market, general wariness toward Chinese equities, and the risk of battery manufacturing overcapacity in China.

The U.S. electric vehicle market currently represents a small portion of CATL's revenue, and our intrinsic value estimate and investment thesis are not predicated on CATL being able to grow or even maintain its U.S. market presence. We appreciate that CATL competes in end-markets that offer compelling long-term growth potential—even if that growth trajectory may not be linear. Moreover, CATL stands out as a high-quality player in the global battery supply chain, excelling in technology, cost efficiency, cash-flow generation, and balance-sheet strength. At its current valuations, we believe the stock represents an attractive opportunity to invest in an industry leader amid a weak point in the industry cycle while keeping in mind the long-term trend of increasing levels of vehicle electrification.

HSBC Holdings was added as we judged their earnings outlook to be resilient, in contrast to market pessimism which may be anticipating a decline in interest rates and the resultant impact on net interest margins. Our analysis indicates HSBC is trading at depressed valuation multiples, yet offers favorable capital deployment and capital return prospects, including a compelling dividend yield.

Besides making these purchases, we also divested our position in Taiwan-based networking and communications solutions provider **Accton Technology** when it appreciated to our estimate of its intrinsic value.

Year-to-Date Briefing

The Brandes Asia Pacific (ex-Japan) Equity Strategy returned 10.99% net of fees and 12.06% gross of fees, outperforming the MSCI AC Asia Pacific ex Japan Index, which gained 7.36% in 2023.

The strongest contributors were holdings in the information technology sector, led by Wiwynn, Accton Technology, SK Hynix, and Samsung. From a geographic standpoint, the strategy benefited most from holdings in Taiwan and South Korea.

Notable detractors were primarily holdings in the consumer discretionary sector, including **TravelSky Technology**, Galaxy Entertainment Group, and China Education Group. Other holdings weighing on returns included South Korean LG H&H, as well as China-based Ping An Insurance and LONGi Green Energy Technology.

Current Positioning

From a portfolio positioning standpoint, the strategy continues to have its largest country weightings in China, Taiwan, and South Korea. We remain underweight companies in India and have no holdings in Australia or New Zealand, as has been the case for a number of years.

From a sector perspective, the portfolio's largest weightings are in consumer discretionary, information technology and financials. Notable underweights are in materials, which coincides with its lack of exposure to Australia, as well as to energy.

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

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

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.

States. Stock and bond prices will experience market fluctuations. Please note that the value of government securities and bonds in general have an inverse relationship to interest rates. Bonds carry the risk of default, or the risk that an issuer will be unable to make income or principal payment. There is no assurance that private guarantors or insurers will meet their obligations. The credit quality of the investments in the portfolio is not a guarantee of the safety or stability of the portfolio. Investments in Asset Backed and Mortgage Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Securities of small companies generally experience more volatility than mid and large sized companies. Although the statements of fact and data in this report have been obtained from, and are based upon, sources that are believed to be reliable, we cannot guarantee their accuracy, and any such information may be incomplete or condensed. Strategies discussed are subject to change at any time by the investment manager in its discretion due to market conditions or opportunities. The Brandes investment approach tends to result in portfolios that are materially different than their benchmarks with regard to characteristics such as risk, volatility, diversification, and concentration. Please note that all indices are unmanaged and are not available for direct investment. Past performance is not a guarantee of future results. No investment strategy can assure a profit or protect against loss. Market conditions may impact performance. The performance results presented were achieved in particular market conditions which may not be repeated. Moreover, the current market volatility and uncertain regulatory environment may have a negative impact on future performance. The margin of safety for any security is defined as the discount of its market price to what the firm believes is the intrinsic value of that security. The declaration and payment of shareholder dividends are solely at the discretion of the issuer and are subject to change at any time.

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