BRANDES
INVESTMENT PARTNERS

Brandes Investment Partners
Emerging Markets Equity Strategy Notes
Fourth Quarter 2023 (October 1 – December 31, 2023)

The Brandes Emerging Markets Equity Strategy returned 8.52% net of fees and 8.77% gross of fees, outperforming its benchmark, the MSCI Emerging Markets Index, which returned 7.86% in the quarter, and the MSCI Emerging Markets Value Index, which gained 8.05%.

Annualized total return as of December 31, 2023	1-year	5-year	10-year
Brandes Emerging Markets Equity Composite (net)	24.72%	5.03%	2.61%
Brandes Emerging Markets Equity Composite (gross)	25.50%	5.94%	3.32%
MSCI Emerging Markets Index	9.83%	3.68%	2.66%

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 Latin America. Brazil-based regional jet manufacturer **Embraer**, oil company **Petrobras**, and wireless telecom **TIM SA** aided performance, along with Panama-based bank **Banco Latinoamericano de Comercio Exterior** (BLADEX) and airline **Copa Holdings**, as well as Mexican cement producer **Cemex**.

A common theme among these holdings was increased optimism. Embraer reiterated its favorable full-year outlook, further bolstering the positive sentiment regarding its medium- to long-term prospects. TIM SA maintained strong year-over-year sales growth, while also continuing to reduce capital expenditures and improve its free-cash-flow generation. Copa Holdings delivered solid earnings growth and continued to deleverage its balance sheet, reaffirming its robust guidance.

Several information technology sector holdings also increased, including Taiwan-based **Wiwynn** and **Taiwan Semiconductor Manufacturing Co.**, as well as South Korea's **Samsung Electronics** and **SK Hynix**. Other noteworthy contributors included Slovenian bank **Nova Ljubljanska Banka**, Austria-domiciled **Erste Group Bank**, and India-based power producer **NTPC**.

Performance Detractors
Several China-based consumer discretionary holdings performed poorly, notably **China Education Group** and **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 declined 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 consumer discretionary, some other holdings in China also hurt returns, particularly **Ping An Insurance**, **LONGi Green Energy Technology**, and **ZTO Express**. For LONGi, the decline in solar wafer and module prices overshadowed shipment growth, pressuring its revenue and net income.

Furthermore, the strategy's underweight allocations to India and Taiwan detracted from relative returns, as did its underweight to information technology.

Select Activity in the Quarter
The emerging markets investment committee initiated positions in China-based battery producer **Contemporary Amperex Technology Co.**, as well as financial firms **DBS Group** (Singapore) and **HSBC** (U.K.).

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.

We added DBS Group and HSBC Holdings to the portfolio as we judged their earnings outlook to be resilient. This stands in contrast with the market pessimism that seems to anticipate a decline in interest rates and its consequent impact on banks' net interest margins. Based on our analysis, both DBS and HSBC trade at depressed valuation multiples, while offering favorable capital deployment and capital return prospects, including compelling dividend yields.

Other major portfolio activity included the divestment of electric utility **Enel Chile**, which we sold as it appreciated to our estimate of intrinsic value.

Year-to-Date Briefing

The Brandes Emerging Markets Equity Strategy returned 24.72% net of fees and 25.50% gross of fees, outperforming its benchmark, the MSCI Emerging Markets Index, which increased 9.83% in 2023, and the MSCI Emerging Markets Value Index, which was up 14.21%.

The strongest contributors were holdings in materials (e.g., **POSCO**, Cemex) and information technology (e.g., Wiwynn, **Accton Technology**, Samsung Electronics, SK Hynix). Geographically, the portfolio benefited the most from holdings in Taiwan, Brazil, and Mexico. Other contributors included Panamanian bank BLADEX and electric utility Enel Chile.

Notable detractors were primarily holdings in consumer discretionary and consumer staples. These included China-based **TravelSky Technology**, Galaxy Entertainment Group, and China Education Group, as well as South Korean **LG H&H** and Brazil-based **Sendas Distribuidora**. Ping An Insurance also performed poorly.

Current Positioning

Our portfolio positioning is a result of our bottom-up approach focused on uncovering value potential across all emerging markets. As such, our overweights tend to reflect areas where we have found many compelling opportunities, while our underweights represent those where we have not observed as much value. We believe maintaining the discipline to avoid overpriced businesses and those that are statistically cheap for a reason is just as important as the diligence to identify potentially undervalued companies through rigorous fundamental analysis.

The portfolio has an overweight to Latin America through its diversified positions in telecommunications, utilities, energy, and real estate. In our view, these holdings have the potential to gain from deflationary input costs and the increasing trend of nearshoring in Mexico and nearby regions.

On a sector basis, the portfolio holds large overweights to real estate, consumer staples, and financials. Note that while headline valuation metrics look inexpensive, we have not found appealing opportunities in China-based real estate companies due to the challenging industry outlook and macroeconomic backdrop.

Furthermore, the portfolio includes exposure to businesses that we believe are positioned to eventually benefit from post-COVID normalization. Although the recovery of Chinese consumer spending has taken longer than we initially anticipated, we maintain that select holdings in industries such as gaming, travel, and apparel represent undervalued opportunities that may be tied to the broader long-term resurgence of the Chinese economy.

We continue to hold key underweights to India, Taiwan, and China, as well as to materials, health care, energy, and information technology. We believe the differences between our portfolio and the MSCI Emerging Markets Index make it an appealing complement to index-tracking or passively managed strategies.

While value leadership (MSCI EM Value vs. MSCI EM) provided a tailwind for the strategy this year, it was our stock selection across sectors and countries that primarily drove our outperformance. Going forward, we remain optimistic about the portfolio's holdings composition and the risk/reward tradeoff it offers.

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

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

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