

Brandes Investment Partners
Emerging Markets Equity Strategy Notes
Second Quarter 2024 (April 1 – June 30, 2024)

The Brandes Emerging Markets Equity Strategy declined 0.66% net of fees and 0.53% gross of fees, underperforming its benchmark, the MSCI Emerging Markets Index, which was up 5.00% in the quarter, and the MSCI Emerging Markets Value Index, which gained 5.08%.

Annualized total return as of June 30, 2024	1-year	5-year	10-year
Brandes Emerging Markets Equity Composite (net)	13.94%	3.69%	2.01%
Brandes Emerging Markets Equity Composite (gross)	14.63%	4.28%	2.70%
MSCI Emerging Markets Index	12.55%	3.09%	-0.09%

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

Standout contributors included holdings in financials, led by India-based HDFC Bank, Slovenian Nova Ljubljanska Banka, Austria-domiciled Erste Group, and U.K.-headquartered HSBC Holdings.

Semiconductor holdings SK Hynix and Taiwan Semiconductor Manufacturing Company (TSMC) also helped returns, along with telecom companies Indus Towers, Magyar Telekom, and Millicom International Cellular.

TSMC received Taiwanese government approval to finance the construction of manufacturing facilities in Japan and the U.S., positioning it to support the growing demand for artificial intelligence and high-performance computing technologies. Additionally, TSMC and SK Hynix signed a memorandum of understanding to collaborate on the development of next-generation high bandwidth memory (HBM) and advanced packaging technology.

Performance Detractors

Mexico was among the worst-performing markets in the benchmark as the presidential election results led to investor concerns about the potential for less market-friendly policies by the new government. Several of our holdings were impacted by the negative market sentiment, most notably real estate investment trusts Fibra Uno and Terrafina, household products company Kimberly-Clark de Mexico, and Cemex. Moreover, our overweight hurt relative returns.

Amid the macroeconomic challenges, we maintain confidence in the company fundamentals of our holdings in Mexico. In our opinion, they are well managed, with low susceptibility to government intervention and long histories navigating turbulent times.

Beyond Mexico, several of our holdings in China weighed on performance, including solar modules manufacturer LONGi Green Energy Technology and specialty retailer Topsports International. Other detractors included Bank Rakyat Indonesia and Brazilian grocer Sendas Distribuidora.

Bank Rakyat Indonesia delivered weaker-than-expected results due to rising credit costs, while also lowering its net-interest-margin outlook and noting a deterioration in asset quality for its small and micro business segment. We view these issues as temporary and took advantage of the share-price pressure to add to our position.

Select Activity in the Quarter

The emerging markets investment committee initiated positions in Hong Kong-domiciled China Resources Beer and China-based NetEase.

China Resources Beer (CR Beer) is the largest brewer in China by volume. With approximately 25% market share, CR Beer outpaces competitors such as Tsingtao Brewery and Budweiser APAC, which hold approximately 19% and 16% share,

respectively. CR Beer's diverse portfolio includes beer brands strategically positioned for different consumer segments. The flagship brand, Snow, caters to the mainstream segment. It also partners with Heineken—in addition to offering its own premium Snow brand variants—to target the sub-premium segment and above.

CR Beer's shares currently trade at depressed valuation multiples compared to both their own historical averages and to peers. Post-COVID consumption recovery in China has been slower than anticipated, and the country faces a potentially weak economic outlook over the medium to long term. Additionally, downtrading (i.e., consumers shifting to lower-priced products) puts further pressure on CR Beer's prospects.

We believe these headwinds—and the resulting depressed valuation levels—have provided a good entry point for an investment in CR Beer. In our view, the company is well positioned to take advantage of the long-term beer premiumization trend in China, especially given its partnership with Heineken and its ability to maintain market leadership. We also appreciate CR Beer's historically robust free-cash-flow generation and solid returns on capital, especially during the tumultuous past three years. The company's management team, known for its efficiency improvement initiatives, adds to the stock's appeal. At its current price, CR Beer offers an attractive risk/reward to us.

Besides the new purchases, major portfolio activity included the full sells of Indian electric utility NTPC and Singapore-based bank DBS Group, which both appreciated to our estimates of their intrinsic values.

Year-to-Date Briefing

The Brandes Emerging Markets Equity Strategy returned 4.80% net of fees and 5.06% gross of fees, underperforming its benchmark, the MSCI Emerging Markets Index, which was up 7.49% in the six months ended June 30, 2024, and the MSCI Emerging Markets Value Index, which gained 6.46%.

Holdings in the industrials and financials sectors helped returns, led by Brazilian regional jet manufacturer Embraer, Slovenia-based Nova Ljubljanska Banka, South Korean Hana Financial Group, and Panama-based Banco Latinoamericano. Taiwanese TSMC and Wiyynn Corporation also lifted performance, along with India's Indus Towers.

As was the case for the quarter, holdings in China, Indonesia, and Mexico detracted from performance, most notably LONGi Green Energy Technology, TravelSky Technology, Topsports International, Fibra Uno, and Bank Rakyat Indonesia. Other detractors included Sendas Distribuidora and Taiwanese financial services firm Chailease Holding.

Current Positioning

The portfolio weightings from geographic and sector perspectives were largely unchanged in the quarter. We continue to find value potential in Latin America through our diversified positions in telecommunications, utilities, energy, and real estate, while maintaining underweights to India, Taiwan, and China.

On a sector basis, the portfolio holds overweights to real estate, consumer staples, industrials, and financials. Meanwhile, key underweights remain in the materials, health care, energy, and information technology sectors.

As of June 30, 2024, the Brandes Emerging Markets Equity Strategy trades at more compelling valuation levels than the benchmark, in our opinion. We believe the current fundamentals of our holdings bode well for the long term, and we are excited about the strategy's prospects.

For term definitions, please refer to <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.

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