BRANDES
INVESTMENT PARTNERS

Brandes Investment Partners
Emerging Markets Equity Strategy Notes
Fourth Quarter 2022 (October 1 – December 31, 2022)

The Brandes Emerging Markets Equity Strategy returned 18.76% net of fees and 18.90% gross of fees, outperforming its benchmark, the MSCI Emerging Markets Index, which was up 9.70% in the fourth quarter, and the MSCI Emerging Markets Value Index, which increased 9.77%.

Annualized total return as of December 31, 2022	1-year	5-year	10-year
Brandes Emerging Markets Equity Composite (net)	-14.01%	-2.45%	1.03%
Brandes Emerging Markets Equity Composite (gross)	-13.57%	-1.84%	1.76%
MSCI Emerging Markets Index	-20.09%	-1.40%	1.44%

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. Please refer to the GIPS® Report for additional information.

Positive Contributors

Holdings in China drove returns, with notable contributors including **China Education Group**, **Wynn Macau**, **TravelSky Technology**, and **Chinasoft International**. After detracting for much of the year, Chinese stocks recovered in the fourth quarter as the country began to ease COVID-related restrictions on residents and inbound travelers.

Other stronger performers included holdings in Mexico, led by real estate investment trust (REIT) **Fibra Uno**, and South Korea, most notably steelmaker **POSCO**, which benefited from a sentiment shift thanks to the reopening of the Chinese market and the growth potential from its lithium business.

From a sector standpoint, financials holdings garnered some of the strongest returns, driven by emerging Europe-focused **Erste Group**, Georgia-based **TBC Bank**, South Korean **Hana Financial Group**, and Slovenian **Nova Ljubljanska Banka**. Additionally, electric utility **Enel Chile** aided returns.

Performance Detractors

In a robust performance period for the strategy, only a few holdings detracted from returns, including communication services companies **XL Axiata** (Indonesia) and **Indus Towers** (India).

Indus Towers continued to struggle with elevated accounts receivable balances resulting primarily from Vodafone Idea's (VI) inability to make timely payments. VI, which has been facing operational and financial challenges, leases multiple towers and rooftop locations from Indus Towers to operate its mobile network.

Other detractors included Indonesia-based tobacco company **Gudang Garam** and Taiwanese communications equipment business **Accton Technology**.

Select Activity in the Quarter

The overall Brazilian stock market experienced heightened volatility following the election of Lula da Silva as Brazil's new president in the quarter. The emerging markets investment committee took advantage of this volatility to initiate positions in Brazilian electric utility **Neoenergia** and telecom **TIM SA**. Meanwhile, the committee divested **Prosegur Cash**, **Bangkok Bank,** and China-based **Genertec Universal Medical Group**.

Neoenergia is Brazil's second-largest distribution utility that derives more than 80% of operating profits from its regulated distribution and transmission networks. Based on our analysis, the company is a high-quality operator with an efficient cost structure, allowing it to outperform regulatory returns. It has a large presence in Brazil's Northeast region, where per capita electricity consumption is below the country's average and the concessions offer above-average expansion opportunities to enlarge the regulatory asset base. The combination of organic growth opportunities and efficient operations in its core regulated networks has proven to be a powerful driver of sustainable shareholder value creation and earnings growth for Neoenergia.

In our view, Neoenergia's market price reflects investor worries over capital allocation, temporarily elevated leverage (a function of peak-growth capital expenditure), and corporate governance. We believe these issues are more than accounted for in the share price and see attractive upside potential from an expected continuation of EBITDA growth, efficient investments in the regulatory asset base, and the start-up of new transmission lines and renewable energy projects. The completion of these projects should improve Neoenergia's leverage ratios and cash flows, and potentially enable the company to adopt a higher dividend payout above the minimum level presently. Overall, we believe the stock offers an opportunity to invest in an undervalued quality name with an attractive earnings growth profile.

TIM is a company that we know well, having owned it previously in the portfolio. It is Brazil's third-largest wireless telecommunications services provider, with 69 million subscribers and approximately 27% market share in the wireless segment, which accounts for 95% of the company's revenue. Recently, the company's shares fell after it reported a significant decline in its net profit as inflationary cost pressures offset solid revenue growth. However, longer term, we believe the company has the potential to improve its operations. It has exposure to the growing fiber broadband business and is likely to benefit from government-imposed tax reductions and higher data demand from 5G tailwinds. These factors, combined with TIM's strong balance sheet and increased dividend payments in recent years, make the company an appealing value opportunity for us.

Year-to-Date Briefing

The Brandes Emerging Markets Equity Strategy declined 14.01% net of fees and 13.57% gross of fees, outperforming its benchmark, the MSCI Emerging Markets Index, which was down 20.09% in 2022, and the MSCI Emerging Markets Value Index, which was down 15.83%.

Positive contributors included holdings in Latin America, led by Brazil-based integrated oil firm **Petrobras** and retailer **Sendas Distribuidora**, Mexico-based bank **Banco del Bajio** and REITs Fibra Uno, **FIBRA Macquarie Mexico,** and **Terrafina**, as well as Chilean electric utility Enel Chile. Additionally, our underweight positions and holdings in China and Taiwan helped returns relative to the MSCI Emerging Markets Index.

From a sector standpoint, holdings in financials performed well, led by TBC Bank and **PT Bank Rakyat Indonesia**. Our underweight and diverse holdings in the information technology sector also lifted relative returns.

The most significant detractors were holdings in Russia, namely **Detsky Mir**, **Lukoil**, **Mobile TeleSystems**, **Sberbank** and **Sistema**. Other poor performers included Brazil's **Embraer** and several of our technology-related companies, notably **Samsung Electronics**, **Taiwan Semiconductor Manufacturing Company**, **Alibaba**, and **SK Hynix**.

Current Positioning

As of December 31, 2022, the Brandes Emerging Markets Equity Strategy held large overweights to real estate (outside China), consumer staples and consumer discretionary, while maintaining key underweights to materials and energy. During the year, we averaged down on several technology holdings. Meanwhile, the benchmark's allocation to technology has decreased given the sector's weak performance. Consequently, we ended the year with an overweight to information technology after starting the year with an underweight.

Geographically, the strategy remained underweight China, although Chinese companies made up our largest country allocation. We also continued to be underweight India, Saudi Arabia, and Taiwan, while having significant overweights to companies in Mexico and Indonesia.

As we discussed in our previous strategy notes, we believe the Brandes Emerging Markets Equity Strategy is well positioned, particularly due to these factors:

- The portfolio may benefit from continued post-COVID economic reopening through holdings in areas such as air travel, casinos, and retail.
- Positions in sectors such as financials and real estate may provide some insulation against inflation.

- The portfolio has a meaningful allocation to consumer-related holdings (e.g., e-commerce, food products, apparel, appliances, education), which provide exposure to the long-term growth drivers in emerging markets.

Furthermore, while the portfolio has always sought to stay true to its value investing style, our value exposure is different than that of a quantitative or factor approach. Emerging markets value stocks (MSCI EM Value) have performed relatively well compared to the broad market (MSCI EM), partly due to classic cyclicals in the energy and materials sectors that rose along with commodity prices. We believe valuations in these sectors were already indicative of above mid-cycle profitability prior to the invasion of Ukraine, and they have become even more elevated since then. In our opinion, economically sensitive sectors that might benefit from a potential post-pandemic rebound, such as consumer discretionary (where we hold an overweight relative to the benchmark and the value index), represent a more appealing opportunity today than classic cyclical sectors such as energy and materials.

We remain optimistic about the long-term prospects of the Brandes Emerging Markets Equity Strategy.

Cash Flow: The amount of cash generated minus the amount of cash used by a company in a given period.

EBITDA: Earnings before interest, taxes, depreciation and amortization.

The MSCI Emerging Markets Index with net dividends captures large and mid cap representation of emerging market countries. Data prior to 2001 is gross dividend and linked to the net dividend returns.

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.