BRANDES
INVESTMENT PARTNERS

Brandes Investment Partners
European Equity Strategy Notes
Second Quarter 2025 (April 1 – June 30, 2025)

The Brandes European Equity Strategy rose 16.16% net of fees and 16.35% gross of fees, outperforming its benchmark, the MSCI Europe Index, which increased 11.38%, and the MSCI Europe Value Index, which appreciated 10.75%.

Annualized total return as of June 30, 2025	1-year	5-year	10-year
Brandes European Equity Composite (net)	29.69%	19.19%	8.37%
Brandes European Equity Composite (gross)	30.44%	19.97%	9.05%
MSCI Europe Index	18.38%	12.37%	6.77%

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.

Contributors to Performance

The main contributors reflected a combination of strong stock selection in industrials and health care, as well as continued recovery in selected U.K. consumer companies. Switzerland-based Montana Aerospace was a leading contributor: its shares climbed as the company enjoyed strong demand in the aerospace supply chain and improving operating leverage. The share price of Spanish biotechnology company Grifols rose after announcing improved earnings results.

In the U.K., the share prices of J Sainsbury and Tesco grew significantly. These gains were driven by resilient consumer demand, improved pricing and continued progress on cost-efficiency initiatives. The strength in these names reflects our view that selected U.K. retailers remain undervalued relative to their normalized earnings power and asset base.

Netherlands-based semiconductor company STMicroelectronics also contributed, supported by stronger-than-expected sales to its industrial end-market and an anticipated recovery in its automotive end-market. Ireland-based C&C Group delivered solid returns, benefiting from resilient beverage demand and margin recovery in its core U.K. and Irish markets.

Detractors from Performance

In a solid performance period, only a few holdings notably declined, including Belgian personal care products company Ontex, U.K. advertising agency WPP, and France-based pharmaceutical firm Sanofi. Additionally, Switzerland-based watchmaker Swatch underperformed the market (MSCI Europe) and detracted from relative performance.

Ontex was impacted by input cost inflation and slower-than-expected margin recovery, while WPP declined in the face of weak advertising demand and cautious client spending as it continued pursuing a turnaround. Swatch underperformed due to consumer unease in Asia and margin pressures. Despite near-term headwinds, we continue to own these positions based on what we view as their long-term earnings power and valuation support.

Sanofi declined due to market worries about its profit margins, a concern we consider short term in nature. We believe Sanofi remains well positioned for steady top-line growth, supported by its flagship drug Dupixent, its improved research and development productivity, and a lack of major patent expirations for the upcoming five years. We continue to perceive Sanofi as a stable cash-flow generator with upside optionality from its pipeline.

Portfolio Activity

The investment committee initiated new positions in U.K.-based staffing firm PageGroup and luxury goods company Burberry, while exiting Rolls-Royce, Greencore and Danone.

During the past few years, the luxury goods industry has underperformed the broader market (MSCI Europe). Concerns about the economic prospects of Asia have weighed on investor perceptions for many companies in the industry, including Burberry.

Founded in 1856, Burberry has a rich history and primarily sells apparel and accessories. The company went public for a second time in 2002 after parting from U.K. retail conglomerate Gus, which held it for almost five decades. Since it resumed being listed, Burberry has been evolving its business model, with an emphasis on elevating its brand.

When Gus spun out Burberry, more than half of Burberry's revenue came from its wholesale channel. Since investing in its retail channel roll-out, almost 80% of its revenues have come from direct-to-consumer sales, either through its stores or online—a level closer to Burberry's luxury peers. This was a positive strategy because moving from the wholesale channel to a direct retail model helps a luxury label better control its brand image (customer experience and pricing). Additionally, Burberry has eliminated non-core product categories, focusing on those for which it has a distinct legacy and brand appeal. Burberry's management team turned over in 2022, but the core business philosophy has remained largely stable.

Asia Pacific contributes more than 40% of Burberry's revenue, with China accounting for about half. This is typical for the industry as Asia Pacific represents the world's largest luxury goods market. Recently, a weak yen and a sputtering economy in China have made for a lackluster environment for selling luxury goods. However, while the luxury marketplace is sensitive to changes in the economic environment, a long history suggests to us that the top brands can accrue value even with little country-level economic growth. For instance, market observers estimate that the luxury goods market in Japan has continued to expand during the past 15 years even as the Japanese economy contracted (in U.S. dollar terms). This is a phenomenon that cannot be explained solely by increasing tourist flows, based on our analysis.

Against what we consider is a compelling market valuation, we have acquired Burberry and patiently wait for evidence that the luxury brand players can endure. And we find it encouraging that Burberry has improved its performance in 2025: its sales declines have slowed, and it has continued to streamline its product lines around core brand codes and heritage categories. Both outerwear and scarves have experienced growth.

Our sale of Rolls-Royce ended an investment that began in May 2022. When purchased, the company was trading at a notable discount to our estimate of its intrinsic value, following a period of severe disruption caused by the pandemic. Our thesis centered on Rolls-Royce's dominant position in the widebody aircraft engine market, its high-margin aftermarket services business, and its exposure to secular growth in global air travel.

During our ownership period, we made several upward adjustments to our estimate of Rolls-Royce's intrinsic value as the company progressed substantially by strengthening its balance sheet, improving operational execution and restoring profitability. By mid-2025, the stock had risen significantly, supported by a rebound in civil aerospace volumes, margin expansion, and a return to investment-grade credit metrics. With the stock achieving our revised intrinsic value estimate, we exited the position. While we continue to view Rolls-Royce as a high-quality industrial franchise, we believe its risk/reward profile has become less compelling versus other opportunities.

We also sold Ireland-based Greencore and France-based Danone when they attained our estimate of their respective intrinsic value.

Year-to-Date Briefing

The Brandes European Equity Strategy rose 26.97% net of fees and 27.34% gross of fees, outperforming its benchmark, the MSCI Europe Index, which appreciated 23.05% in the six months ended June 30, 2025, and slightly underperforming the MSCI Europe Value Index, which increased by 28.62%.

The outperformance of value was a contributing tailwind (MSCI Europe Value vs. MSCI Europe). However, the strategy's outperformance relative to its benchmark was primarily driven by stock selection across most sectors. The most noteworthy drivers included holdings in industrials, as well as companies based in France. These were led by industrials holdings Montana Aerospace and LISI, as well as France-based Orange and BNP Paribas. The names reflect strength in industrials, telecom and financials. They share common performance themes including balance sheet improvement, capital returns and exposure to infrastructure and digital transformation. Luxembourg-based Millicom and Magyar Telekom of Hungary also aided returns, reinforcing the value we found in telecom investments.

On the other hand, the largest detractors in 2025 were our underweights to financials, which represented the best-performing sector in the benchmark, and to companies domiciled in Germany, which has seen strong performance from German industrials and defense companies. At the holding level, detractors included advertising agency WPP, as well as several consumer product companies, such as Swatch, Ontex, Kering, and Henkel.

Current Positioning

The Brandes European Equity Strategy holds key overweight positions in consumer staples, health care, and communication services, while maintaining significant underweights to financials and industrials. Our underweight to financials has increased as it has been the strongest sector in the benchmark and now comprises more than 22% of the index; meanwhile, we pared some investments when they reached our estimate of their intrinsic value.

Geographically, the portfolio's largest allocations continue to be in France and the United Kingdom. It remains underweight in Switzerland and has no exposure to companies in the Nordic Region.

We believe the differences between the strategy and the MSCI Europe Index make it an excellent complement and diversifier to passive and growth-oriented strategies.

While value stocks (MSCI Europe Value) have performed well, they continue to trade in the least-expensive quartile relative to growth (MSCI Europe Growth) since the style indices began. This was evident across various valuation measures, including price/earnings, price/cash flow and enterprise value/sales. Historically, such discount levels have often signaled attractive subsequent returns for value stocks. This is encouraging because the Brandes European Equity Strategy, guided by our value philosophy and process, has had the tendency to exceed the value index when it outperformed the benchmark.

Looking ahead, we remain optimistic about the long-term prospects of the companies held in the Brandes European Equity Strategy.

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

The MSCI Europe Growth Index captures large and mid cap securities across developed Europe exhibiting growth style characteristics, defined using long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend.

The MSCI Europe Index with net dividends captures large and mid cap representation of developed market countries in Europe.

The MSCI Europe Value Index captures large and mid cap securities across developed Europe exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.