BRANDES
INVESTMENT PARTNERS

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

The Brandes European Equity Strategy rose 23.71% net of fees and 23.92% gross of fees, outperforming its benchmark, the MSCI Europe Index, which increased 19.35% in the fourth quarter, and the MSCI Europe Value Index, which rose 22.15%.

Annualized total return as of December 31, 2022	1-year	5-year	10-year
Brandes European Equity Composite (net)	-9.84%	1.37%	5.23%
Brandes European Equity Composite (gross)	-9.21%	2.03%	5.93%
MSCI Europe Index	-15.06%	1.87%	4.58%

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
Value outperformance during the quarter provided a tailwind for the strategy. At the stock level, the strongest performers included several bank holdings that have continued to benefit from the global rise in interest rates, such as Austria-based **Erste Group**, Italy-based **Intesa Sanpaolo**, and Ireland-based **AIB Group.**

A variety of cyclical businesses also aided returns as they rose more than the broader market (MSCI Europe). These included Germany's **HeidelbergCement**, U.K.-based **Rolls-Royce**, and French advertising agency **Publicis**. Rolls-Royce's shares rose on news that its engines would be used on the next-generation fleet replacing the Black Hawk helicopters, which currently use legacy GE engines.

Several of our consumer staples holdings (e.g., U.K.-based retailers **J Sainsbury** and **Marks & Spencer**) did well despite the fact that the sector represented one of the weakest performing areas within the benchmark. Other contributors included health care holdings Ireland-based **Avadel Pharmaceuticals** and Spain-based **Grifols**.

Performance Detractors
Amid a rising overall market, the largest detractors included Switzerland-based **Credit Suisse** and Dutch health care conglomerate **Koninklijke Philips**.

Philips saw its shares tumble as it issued a profit warning due to the continued impact of supply chain problems.

Credit Suisse declined after announcing a significant restructuring plan and a capital raise. If successful, the restructuring should position the company well longer term, in our view, as it will allow the business to focus more on its strong wealth management and domestic Swiss bank franchises. This being said, a meaningful execution risk exists, and while the current valuation is attractive, we will continue to monitor the company's progress.

Other detractors included smaller-cap companies such as food products company **Greencore**, uranium company **Yellow Cake**, and U.K.-based currency manufacturer **De La Rue**.

Select Activity in the Quarter
The investment committee initiated a position in U.K.-based medical device and technology company **Smith & Nephew** (S&N) while divesting our position in Turkish confectionary company **Ulker Biskuvi Sanayi**.

Smith & Nephew is a leading global medical device company with a focus on orthopedics (knee and hip replacements), sports medicine, ENT (ear, nose, and throat), and wound management markets. The company has seen its share price decline over the last two years as the impact of Covid-19 has delayed many patients' elective but important medical procedures, such as orthopedic surgeries like knee and hip replacements. We expect the company should be able to benefit from a recovery in demand as elective procedures recover. Additionally, both orthopedic devices and sports medicine technology (arthroscopic technologies used for joint repair) have fairly high switching costs due to the learning curve for surgeons using these devices, which helps companies in these verticals maintain their market shares.

More recently, S&N has been impacted by inflationary pressures from its supply chain, which will likely hurt its short-term margins. However, over the long term, we believe the company offers an attractive investment opportunity in light of long-term tailwinds such as an aging population and increasing obesity rates, which could increase demand for orthopedic procedures, as well as the company's growing exposure in emerging markets. Additionally, the company has a strong balance sheet and a strong history of generating free cash flow to support its dividend and share repurchases, which could prove to be more defensive in a difficult economic environment.

The committee divested its holding in Turkish confectionary company Ulker as it performed well this year and reached our estimate of its intrinsic value.

Year-to-Date Briefing

The Brandes European Equity Strategy fell 9.84% net of fees and 9.21% gross of fees, outperforming its benchmark, the MSCI Europe Index, which declined 15.06% for the year ended December 31, 2022, and underperforming the MSCI Europe Value Index, which dropped 7.17%.

The largest drivers of outperformance relative to the benchmark were our overweight positions in energy companies (the best-performing sector in the benchmark) and our underweight in the technology sector (one of the worst-performing sectors in the benchmark) as well as the performance of several of our industrial holdings. Geographically, holdings in France helped returns the most, led by France-based **Societe BIC**. The strongest contributors included several holdings mentioned earlier, such as AIB Group and Avadel Pharmaceuticals. Other stronger contributors included oil services company **TechnipFMC**, construction company **Balfour Beatty**, defense company **Leonardo**, and Spanish bank **CaixaBank**.

Major detractors included our holdings in Russia from early in the year, namely **Surgutneftegas, Lukoil,** and **Mobile Telesystems**. These three holdings more than accounted for the strategy's underperformance vs. the value index as Russia was not included in the MSCI Europe Value Index. Additional detractors included several holdings mentioned earlier, such as Credit Suisse, Greencore, and Koninklijke Philips. **Telecom Italia** also detracted from returns as its stock declined early in the year after private equity firm KKR withdrew its offer to acquire the company.

Current Positioning

As of December 31, 2022, the Brandes European Equity Strategy held key overweight positions in communication services, financials, and consumer staples, while maintaining significantly lower allocations to consumer discretionary, technology, and industrials than the benchmark.

The relative performance for value (MSCI Europe Value) vs. the benchmark (MSCI Europe) along with a significant return dispersion among sectors, has helped create new value opportunities for us while also enabling us to pare select holdings that have neared our estimates of intrinsic value. We have pared some of our stronger performing areas such as consumer staples and energy, a sector we are now roughly equal weight to the benchmark. Meanwhile, we have started to find more opportunities in technology-related companies and financials. Although we remained underweight technology, our underweight has declined as the benchmark allocation decreased due to the sector's underperformance and our allocation increased.

On a geographic basis, the portfolio's largest allocations continued to be in France and the United Kingdom. The strategy remained underweight to Germany and Switzerland, as well as to companies domiciled in the Nordics. We believe the differences between our portfolio and the benchmark continue to make it an attractive complement to index-tracking or growth-oriented alternatives.

A variety of headwinds continue to face European stocks today, ranging from elevated inflation, slowing economic growth and recession concerns to energy risk and political as well as regulatory uncertainties. Nonetheless, we believe European stocks in general—and our portfolio in particular—offer an attractive long-term risk/reward tradeoff at today's valuation levels. Even after their relative performance this year, European value stocks continue to trade in the highest quintile of discount levels to the broader European market on a variety of valuation metrics (e.g., forward price/earnings, price/cash flows, enterprise value/sales). Looking ahead to this year and beyond, we remain optimistic about the European Equity Strategy's prospects, given its history of outperforming the MSCI Europe Index during periods of strong value performance. We believe our portfolio trades at an attractive absolute valuation level relative to the individual holdings' fundamentals/prospects and we remain excited about its potential.

Enterprise Value: Market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents.

Enterprise Value/Sales: Enterprise value divided by annual sales.

Free Cash Flow: Total cash flow from operations less capital expenditures.

Forward Price/Earnings: Price per share divided by earnings per share expected over the next 12 months or next fiscal year.

Price/Cash Flow (P/CF): Price per share divided by cash flow per share.

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.

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Diversification does not assure a profit or protect against a loss in a declining market.