BRANDES
INVESTMENT PARTNERS

Brandes Investment Partners
European Equity Strategy Notes
Second Quarter 2026 (April 1 – June 30, 2026)

The Brandes European Equity Strategy rose 8.71% net of fees and 8.90% gross of fees, underperforming its benchmark, the MSCI Europe Index, which increased 10.93%, and outperforming the MSCI Europe Value Index, which appreciated 8.21%.

Annualized total return as of June 30, 2026	1-year	5-year	10-year
Brandes European Equity Composite (net)	16.11%	13.35%	10.89%
Brandes European Equity Composite (gross)	16.92%	14.14%	11.61%
MSCI Europe Index	18.64%	9.49%	9.91%

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. The 2026 returns are preliminary, unaudited and subject to change.

Contributors to Performance

Although technology represents a smaller share of European equity markets (MSCI Europe) than it does in the U.S. (Russell 1000), it remained a major driver of benchmark returns. The sector increased by more than 40% as investor enthusiasm for artificial intelligence (AI) continued to intensify. Semiconductor manufacturers, technology hardware companies and other businesses deemed beneficiaries of accelerating AI-related capital expenditures were among the strongest performers.

While our underweight position in technology detracted from relative performance, several of our technology holdings were among the portfolio’s strongest contributors. This included semiconductor firms such as Germany-based Infineon and Netherlands-based STMicroelectronics, as well as Germany-based electronic equipment company Jenoptik. All grew significantly as investors increasingly focused on companies benefiting from growing AI infrastructure requirements. Netherlands-based machinery company Aalberts benefited from increased customer demand in its semiconductor business, which supplies components to semiconductor equipment manufacturers.

Several other companies contributed positively to performance. U.K.-based food ingredients company Tate & Lyle rose following Ingredion's announced acquisition of the company. Our recent purchase of Netherlands-based ingredients and fragrance business DSM-Firmenich also advanced after reporting improving earnings, while Hungary-based telecommunications provider Magyar Telekom continued to perform well. Ireland-based contract health care research organization ICON rebounded after an internal accounting investigation—which had weighed on the shares during the first quarter—concluded. The company subsequently reported improving customer demand and industry spending trends, which have driven a significant recovery in its stock.

Detractors from Performance

The dominant market theme remained the exceptional performance of companies perceived to be direct beneficiaries of AI-related spending. We entered the quarter with an overweight position in technology relative to the MSCI Europe Index. However, strong share price appreciation led us to trim or sell off several investments. As a result, our technology exposure became an underweight position compared to the benchmark, weighing on relative performance.

Additionally, businesses perceived to face disruption from AI—particularly software and IT services companies—generally underperformed. Our stakes in France-based Capgemini, Luxembourg-based Globant and Germany-based SAP were among the largest detractors. While we recognize that AI has the potential to reshape many industries, we believe mission-critical enterprise software companies with deep customer relationships and embedded workflows remain well positioned. In our view, SAP's strategic importance within customer organizations, combined with its ability to incorporate AI functionality into existing products, provides an attractive long-term opportunity. We added to the position during the quarter.

Outside the technology sector, several of our health care companies fell, including France-based Sanofi, Spain-based Grifols, and U.K.-based Smith & Nephew. Sanofi has lagged as investors questioned the productivity of the company's increased research and development spending and expressed caution about the commercial potential of its pipeline.

Other detractors included Switzerland-based aerospace and defense company Montana Aerospace, which reported weak quarterly earnings and announced the resignation of its chief executive officer. U.K.-based paper and packaging company Mondi also saw its share price decline as it confronted a weak packaging environment while also contending with rising input costs from higher natural gas prices.

Portfolio Activity

Portfolio activity reflected our efforts to take advantage of market opportunities amid increasingly narrow market leadership. We sold a variety of strong performers, including semiconductor companies Infineon and STMicroelectronics, electronic equipment company Jenoptik, and food products company Tate & Lyle following Ingredion's acquisition offer. New investments included Ireland-based ingredients and flavoring company Kerry Group, Sweden-based consumer products company Essity, Luxembourg-based luggage company Samsonite, and two U.K.-based entities: building materials company Travis Perkins and healthcare real estate investment trust Primary Health Properties.

Kerry Group is a global leader in specialty food ingredients and integrated taste and nutrition solutions. Kerry operates as a business-to-business partner to food, beverage and pharmaceutical companies, supporting customers throughout the product development cycle (from ideation to launch) and delivering customized solutions that enhance taste, nutrition and functionality. Over time, the company has transformed its portfolio through divestitures of non-core businesses and is now a pure-play taste and nutrition franchise with broad geographic exposure and a diversified customer base across end-markets.

Kerry’s shares have fallen out of favor due to slowing volume growth, weaker end-market demand, reduced acquisition activity and concerns surrounding GLP-1 adoption and its potential effect on food consumption. While we think some of the de-rating is justified, as reflected in our conservative assumptions, we believe the market is underappreciating Kerry’s value and see an opportunity for the shares to be reappraised as a defensive compounder rather than as a proxy for a challenged U.S. packaged-food market. We like Kerry’s exposure to faster-growing end-markets, such as emerging markets and U.S. foodservice, which together account for approximately 40% of its sales. Structural trends, such as demand for healthier, cleaner-label products and functional ingredients, may also serve as a tailwind. Additionally, the company’s global scale, diversified end-markets, and history of cash generation support our view that Kerry remains a resilient business with the potential for earnings recovery over time.

Year-to-Date Briefing

The Brandes European Equity Strategy rose 5.83% net of fees and 6.20% gross of fees, underperforming its benchmark, the MSCI Europe Index, which appreciated 7.81% in the six months ended June 30, 2026, and the MSCI Europe Value Index, which increased 8.29%.

The most significant detractor from relative returns has been our exposure to the technology sector, which accounts for more than the underperformance on the year. Semiconductors have been the largest driver of index returns as investors have bid up companies tied to the AI capex cycle. Netherlands-based semiconductor equipment company ASML has been responsible for more than one-quarter of the benchmark's total return for the year.

Within the portfolio, our technology exposure has been divided. Semiconductor and equipment companies appreciated significantly, so we have now divested. Meanwhile, we hold a modest exposure to software and IT services, which have declined during the year amid market concerns about the impact of AI on their businesses. While we think these concerns are likely excessive, our exposure to software and IT services is less than 5% of the portfolio.

At the individual security level, performance drivers largely mirrored those observed during the second quarter, led by SAP, Capgemini, Globant, Mondi and Montana Aerospace.

Beyond our semiconductor-related holdings, our most significant contributors also match those mentioned during the second quarter as Tate & Lyle and ICON have gained significantly. Besides Magyar Telekom, our investment in Luxembourg-based wireless telecom company Millicom International has also performed well.

Current Positioning

As market returns have become increasingly concentrated among a narrow group of AI-related companies, we believe the Brandes European Equity Strategy offers investors meaningful diversification relative to prevailing market exposures.

Our largest allocations remain in health care and consumer staples. In our view, these sectors contain businesses that may ultimately benefit from advances in technology and AI adoption. At the same time, we believe that they are not exposed to the same valuation risks attached to many of the market's most popular technology stocks. We continue to find attractive opportunities where near-term uncertainty has created a disconnect between price and long-term fundamentals.

Our allocation to technology declined after selling several strong-performing semiconductor holdings. As a result, we are now underweight in the technology sector relative to the index. We also continue to be underweight in financials and industrials, which are the two largest sectors in the benchmark. Our underweight to financials remains our largest underweight and is more pronounced relative to the value index where the sector accounts for 40% of the MSCI Europe Value index.

Geographically, the portfolio's largest allocations continue to be in France and the United Kingdom. The portfolio remains underweight in Switzerland and the Nordic Region.

Looking ahead, we believe the current environment remains particularly attractive for disciplined value investors. Market enthusiasm continues to be concentrated in a narrow group of AI-related companies, often with limited regard for valuation. While the long-term potential of AI is significant, history suggests periods of extreme optimism can create opportunities for active investors to uncover appealing investments elsewhere in the market.

We believe that is the case today. We are finding companies that in our opinion have strong competitive positions, durable cash-flow generation *and* attractive valuations that appear increasingly overlooked by investors, including businesses that we believe can benefit from technological change rather than be disadvantaged by it. We believe the portfolio's differentiated exposures can provide investors with meaningful diversification potential and make it a compelling complement to passive and growth-oriented approaches. The portfolio also offers what we consider a more attractive aggregate valuation profile than the benchmark, while remaining focused on long-term return potential. We remain encouraged by the prospects for value stocks and the risk-reward profile of our holdings.

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For index definitions, please refer to https://www.brandes.com/benchmark-definitions.

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