BRANDES
INVESTMENT PARTNERS

Brandes Investment Partners
European Equity Strategy Notes
First Quarter 2023 (January 1 – March 31, 2023)

The Brandes European Equity Strategy rose 10.82% net of fees and 11.01% gross of fees, outperforming its benchmark, the MSCI Europe Index, which increased 10.56% in the first quarter, and the MSCI Europe Value Index, which rose 7.64%.

Annualized total return as of March 31, 2023	1-year	5-year	10-year
Brandes European Equity Composite (net)	6.85%	3.47%	5.99%
Brandes European Equity Composite (gross)	7.59%	4.15%	6.68%
MSCI Europe Index	1.38%	4.35%	5.35%

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
Our strategy outperformed the benchmark despite the underperformance of the value index. The strongest returns were from a variety of cyclical holdings in the aerospace and defense and construction materials industries, as well as defensively oriented holdings in the consumer staples sector.

U.K-based **Rolls Royce** continued to recover from the downturn in demand for long-haul air travel. The company posted improved operating results and has been awarded with new contracts over the last several months, strengthening expectations for free-cash-flow generation.

Several of our construction materials holdings were among the strongest performers, notably Germany-based **HeidelbergCement** and Italian **Buzzi Unicem**. Moreover, all of our European grocer and retail holdings rose, led by U.K.-based **J Sainsbury**, **Marks and Spencer**, and **Tesco**, as well as France-based **Carrefour**, which announced improved earnings and a significant share repurchase program.

Several positions in communication services also helped performance, especially our advertising agency and telecom holdings. Luxembourg-domiciled telecom company **Millicom International**, which operates entirely in emerging markets, rose amid improving earnings and a potential private equity bid for the company.

Performance Detractors
Several of our health care and financials holdings weighed on performance.

The most significant detractor was Switzerland-based **Credit Suisse**, which declined as customer outflows led to a forced takeover by its competitor **UBS** (also a holding in the portfolio). See more details in the *Select Activity* section below as we divested our holding in the quarter.

Beyond Credit Suisse, other detractors declined modestly. These included Dutch insurer **Aegon** and Ireland-based beverage company **C&C Group**, as well as health care holdings **Grifols** (Spain) and **Fresenius** (Germany).

Biotechnology firm Grifols saw its share price hit by the resignation of its chairman and weak earnings guidance for the year. Collection facilities build-out over the last few years has continued to impact Grifols and stretched its balance sheet, while lower blood-plasma collection volumes due to COVID suppressed its earnings. Recently, Grifols announced new cost-cutting initiatives, and we continue to believe the company offers an attractive long-term opportunity given the importance of its plasma-derived products to treat a variety of medical conditions.

Select Activity in the Quarter
As mentioned, the investment committee divested its position in Credit Suisse. Among our European financials holdings, we had a relatively low allocation to Credit Suisse given its risk profile as it was undergoing a significant restructuring and saw client outflows during the fourth quarter of 2022. We had maintained a small position in the company as we believed

its wealth management and domestic Swiss bank franchises were potentially significantly undervalued, and with the company trading at approximately 20% of tangible book value, the market appeared to be giving little to no credit for a potential recovery.

During the quarter, as concerns of a banking crisis in the U.S. increased, Credit Suisse saw its share price drop due to its weaker position than other European banks. A comment from its largest shareholder exacerbated an already nervous market, causing Credit Suisse's share-price decline and client deposit outflows to snowball. While the company's capital levels and liquidity appeared solid, intensified market dynamics and deep restructuring left minimal margin for error at Credit Suisse, eventually leading to a decision by the Swiss National Bank and the Swiss regulatory agency, FINMA, to broker a takeover of the company by UBS at a significant discount in order to quell the panic.

As the European Equity Strategy already held an allocation to UBS, the investment committee decided to divest its position in Credit Suisse. We will continue to monitor the situation closely as events unfold and further details of the takeover emerge but given some of the attractive assets at Credit Suisse, combined with the liquidity and loss support from the Swiss government, we believe this transaction should likely be favorable for UBS in the long term.

Current Positioning

As of March 31, 2023, the Brandes European Equity Strategy held key overweight positions in communication services, consumer staples, and financials, while maintaining significantly lower allocations to consumer discretionary, technology, and industrials than the benchmark.

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.

Despite a variety of concerns facing European stocks over the past 6 months—ranging from elevated inflation, slowing economic growth and recession concerns to energy risk and political as well as regulatory uncertainties—European stocks have posted positive returns, highlighting our belief that often when the market is the most negative it can be a great time to invest. Even with the rally in European stocks, and the outperformance vs. U.S. stocks (MSCI Europe vs. MSCI USA), we believe stocks in Europe in general—and our portfolio in particular—offer an attractive long-term risk/reward tradeoff at today's valuation levels. Value stocks (as represented by MSCI Europe Value) continue to trade in the highest quintile of discount levels to the broader market (MSCI Europe) on a variety of valuation metrics (e.g., forward price/earnings, price/cash flows, enterprise value/sales). Specifically, the Brandes European Equity Strategy continues to consist of holdings that trade below our estimates of their intrinsic values, and we remain optimistic about its long-term return potential. We believe the differences between our portfolio and the benchmark continue to make it an attractive complement to index-tracking or growth-oriented alternatives.

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.

Price/Tangible Book: Price per share divided by tangible book value per share.

Tangible Book Value: Common equity less intangibles.

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

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

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 USA Index measures the performance of the large and mid cap segments of the U.S. equity market.

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.

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

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