BRANDES
INVESTMENT PARTNERS

Brandes Investment Partners
Global Equity Strategy Notes
Second Quarter 2023 (April 1 – June 30, 2023)

The Brandes Global Equity Strategy rose 3.81% net of fees and 3.93% gross of fees, underperforming its benchmark, the MSCI World Index, which appreciated 6.83% in the second quarter, and outperforming the MSCI World Value Index, which rose 3.03%.

Annualized total return as of June 30, 2023	1-year	5-year	10-year
Brandes Global Equity Composite (net)	17.80%	6.63%	7.21%
Brandes Global Equity Composite (gross)	18.37%	7.18%	7.78%
MSCI World Index	18.51%	9.07%	9.50%

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
Leading contributors included our holdings in the health care and materials sectors, led by U.S.-based health care distributors **Cardinal Health** and **McKesson**, and hospital operator **HCA Healthcare**, as well as Spain-based biotechnology company **Grifols**. The share price of Grifols rose after it announced improved earnings because plasma collections have risen above pre-COVID levels and inflationary pressure on donor fees have eased. The company also declared that it was increasing its cost-savings plan and would divest some non-core assets to improve its balance sheet. German construction materials company **Heidelberg Materials** increased in value after announcing earnings results showing improving margins as inflation pressures subsided.

Other contributors included U.S. financial companies **Wells Fargo**, **OneMain** and **AIG**, as well as American semiconductor equipment manufacturer **Applied Materials**.

Performance Detractors
The most significant detractors included several emerging market investments, led by China-based **Alibaba** and Malaysia-based holding company **Genting Berhad**. Both declined amid weaker-than-expected Chinese demand recovery. Additionally, an announcement by Alibaba's largest shareholder, Softbank, that it would sell the majority of its stake pressured the company's shares further. Following the share-price decline, Alibaba now trades at less than 10x forward earnings, a level that we think offers an attractive investment opportunity given the firm's competitive position and long-term growth prospects. Moreover, Alibaba still plans to split its business into six units, which may help crystallize value for some of its underappreciated assets.

Our underweight to technology companies—the best performing sector in the benchmark—as well as our overweight to the energy sector, which declined slightly, also reduced the strategy's relative performance.

Other detractors included U.K.-based advertising agency **WPP**, as well as U.S.-based **Pfizer** and France-based luxury goods company **Kering**. Optimism about China's reopening boosted Kering's shares earlier in the year. However, as demand rebound from Chinese consumers turned out weaker than expected, the company saw its share price decline in the quarter. Short-term uncertainty around Gucci's new creative director, who joined the company this year, also contributed to investor worries. Nevertheless, we believe Kering—along with the luxury goods industry in general—offers compelling longer-term growth potential, and we appreciate that the company operates in a market with high barriers to entry and boasts a history of strong returns on capital. We therefore believe that Kering offers an attractive investment opportunity at its current valuation level.

Select Activity in the Quarter
The investment committee initiated a position in Thailand-based **Kasikornbank**, while selling our holding in Spain-based oil company **Repsol**.

Kasikornbank is one of Thailand's largest banks. Its share price declined this year as the company has experienced increasing credit costs from aggressively cleaning up its legacy non-performing loan portfolio. While we expect the company's earnings power will be diminished over the short term, we believe Kasikornbank offers an appealing long-term opportunity given its attractive valuation, capital levels and its exposure to a growing economy. Kasikornbank also offers potential upside as we believe an economic and tourism revival in Thailand would benefit the bank's customers and eventually help normalize its credit costs. Interest rates in Thailand remain fairly low with the current policy rate at 2.0%. As such, the country's banks still have potential for improvement in net interest margins if rates increase, and we believe there is less downside risk to interest rates than in other developed and emerging economies should rates decline due to global economic growth concerns. As Kasikornbank works on improving its asset quality, we believe the company offers a good investment opportunity at its current valuation of 60% of tangible book value and a single-digit earnings multiple.

We divested Repsol after its performance over the past year caused its share price to reach our estimate of its intrinsic value. Higher oil prices and improvements in the company's cost structure helped Repsol improve its balance sheet and free cash flow. Given the company's turnaround and its less diversified exposure relative to our other integrated oil holdings we sold our position as it reached our estimate of the company's intrinsic value.

Year-to-Date Briefing

The Brandes Global Equity Strategy rose 9.08% net of fees and 9.34% gross of fees, underperforming its benchmark, the MSCI World Index, which climbed 15.09% in the six months ended June 30, 2023, and outperforming the MSCI World Value Index, which appreciated 3.98%.

The strategy's underperformance versus the MSCI World Index was driven by the outperformance of technology-related companies in the U.S. Within the MSCI World Index, the technology, communication services, and consumer discretionary sectors all appreciated more than 25%, while other sectors, such as financials, health care, and consumer staples, were roughly flat to slightly up. The largest individual detractors for the strategy included several U.S.-based health care companies, such as Pfizer, **Cigna Group**, and **CVS Health**, as well as financials **PNC Financial**, **Bank of America** and AIG.

Several materials and industrials holdings appreciated markedly, led by Heidelberg Materials, **Rolls-Royce**, and **FedEx**. Other contributors included semiconductor equipment company Applied Materials and emerging market holdings **Fibra Uno** and **Embraer**.

Current Positioning

As of June 30, 2023, the Brandes Global Equity Strategy held its key positions in the economically sensitive financials and energy sectors and the more defensive health care sector. Our largest sector underweight was to the technology sector, which given its price appreciation this year, rose above a 20% allocation in the MSCI World Index. Meanwhile, our allocation to that sector increased modestly and was slightly below half the index weighting at quarter end.

Geographically, we continued to hold overweight positions in the United Kingdom, France and emerging markets but were underweight in Japan and the United States.

Given the narrow market leadership resulting from the price appreciation of several U.S. technology companies this year, value stocks (as measured by MSCI World Value) underperformed the broader market (MSCI World). However, since the release of the Pfizer COVID-19 vaccine in 2020, value stocks have outperformed the broader market (for the period October 31, 2020 through June 30, 2023). Based on current valuations of value stocks, as well as the higher inflation and interest-rate environment, we continue to believe that value stocks offer desirable potential on a go-forward basis.

Given the short-term performance exhibited by growth stocks (MSCI World Growth), some investors may believe that the rotation in favor of the value style has ended. However, history suggests that style leadership cycles have lasted on average six to seven years, with many short-term head-fakes in the interim. Value stocks continue to trade in the highest decile of discount levels to the broader market on a variety of valuation metrics, including forward price/earnings, price/cash flow, and enterprise value/sales. Previously experienced discounts similar to today's levels have often portended attractive returns over a long-term time horizon for value stocks. Our portfolio has historically tended to outperform MSCI World Value when it outperforms MSCI World.

Looking ahead, we remain positive about the prospects for the Brandes Global Equity Strategy given its current valuation and company fundamentals. We believe the differences between our portfolio and the broader market continue to make our strategy an intelligent complement to index-tracking or growth-oriented alternatives and we continue to be excited about the portfolio's future potential.

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

Earnings Per Share: Net profit divided by the number of common shares outstanding.

Forward Earnings: Sell-side analysts' consensus earnings estimates for the next fiscal year.

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

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

Net Interest Margin: Interest income generated by a financial institution minus the amount of interest paid to its lenders, divided by average earning assets.

Price/Cash Flow: Price per share divided by cash flow per share.

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

Price/Earnings: Price per share divided by earnings per share.

Return on Capital: Net income minus dividends divided by total capital; used to assess a company's efficiency at allocating the capital under its control to profitable investments.

Tangible Book Value: Book value minus intangible assets (e.g., goodwill).

The MSCI World Index with net dividends captures large and mid cap representation of developed markets.

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

The MSCI World Growth Index with gross dividends captures large and mid cap securities across developed market countries exhibiting growth style characteristics, defined using long-term forward EPS growth rate, short-term forward EPS growth rate, internal growth rate, and long term EPS and Sales growth trend.