BRANDES
INVESTMENT PARTNERS

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

The Brandes Global Equity Strategy rose 19.39% net of fees and 19.52% gross of fees, outperforming its benchmark, the MSCI World Index, which increased 9.77% in the fourth quarter, and the MSCI World Value Index, which rose 14.74%.

Annualized total return as of December 31, 2022	1-year	5-year	10-year
Brandes Global Equity Composite (net)	-5.25%	4.69%	7.58%
Brandes Global Equity Composite (gross)	-4.81%	5.24%	8.16%
MSCI World Index	-18.14%	6.14%	8.85%

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 provided a tailwind for the strategy. The strongest performers included several financials holdings, which have continued to benefit from the global rise in interest rates, such as Austria-based **Erste Group**, Switzerland-based **UBS Group** and U.S.-based **American International Group**.

A variety of more cyclically exposed companies also aided performance as they rose more than the broader market, including Germany-based **HeidelbergCement**, U.K.-based **Rolls-Royce** and France-based 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.

Other contributors were energy-related companies, including France-based integrated oil firm **TotalEnergies** and U.S.-based oil services firm **Halliburton**.

Performance Detractors

Amid solid absolute and relative performance, there were no holdings that declined significantly. The largest detractors were primarily companies that stayed fairly flat in an overall rising market. These included U.S. banks **Wells Fargo** and **Truist**, as well as emerging-market holdings **Gree Electric Appliances** and **Hyundai Motor Company**. U.S.-based health care services holding **CVS** also weighed on relative returns.

Select Activity in the Quarter

The investment committee initiated positions in two semiconductor-related companies: **Taiwan Semiconductor Manufacturing Company** (TSMC**)** and U.S.-based **Micron**, as well as in IT services firm **Cognizant** and France-based luxury goods company **Kering**. The committee sold our holdings in South Korean memory manufacturer **SK Hynix** and U.K. grocer **Tesco.**

TSMC is the cost and technology leader in fabricating semiconductors for a variety of global technology companies, including Apple, Huawei, and Qualcomm. The firm's scale and technology advantages have helped it gain market share over the past decade, making TSMC the dominant provider of leading-edge semiconductors and enabling it to generate solid cash flows and returns on capital. The company now manufactures a substantial portion of the chips pivotal in the megatrends of the next decade, such as artificial intelligence, machine learning, cloud, electric and autonomous vehicles, and improved energy-efficient devices.

Our opportunity to invest in the company came amid concern about softening demand and an oversupply of semiconductors following a catch-up in production after the semiconductor shortage last year and worries about heightened geopolitical tension between the U.S. and China. In our view, these well-known concerns have been more than reflected in TSMC's share price. Even though weaker demand in the slowing smartphone market and intensifying competition in non-leading edge segments present headwinds, we believe TSMC is well positioned to capitalize on appealing long-term growth potential from increasing silicon demand across a variety of applications (high-performance

computing, internet of things, and automotive semiconductors). In our opinion, TSMC is one of the most attractively positioned and sustainable franchises in the global semiconductor industry, with a capability to continue generating robust returns on capital and free cash flows going forward.

Micron is a manufacturer of memory storage components. It produces DRAM (temporary memory storage commonly used in personal computers, servers and mobile devices) and NAND flash drives (permanent memory storage used primarily used in mobile devices).

The company saw its shares fall over concerns about oversupply and a downturn in memory technology prices. While the current downturn is forecast to be more severe than others in recent years, the industry has already announced significant supply cuts, which should eventually help match supply and demand. Additionally, industry consolidation over the past decade should help the firm manage the changing supply/demand dynamics as the sector now has only three major players (**Samsung**, SK Hynix and Micron). Micron's current valuation multiples are near typical trough cycle levels, as the current downturn seems largely priced in, in our view.

We divested our holding in SK Hynix and added Micron given the similar overall exposures, but relatively more attractive risk exposures of Micron relative to SK Hynix. These include Micron's stronger balance sheet, the increasing investment in U.S. semiconductor manufacturing, and SK Hynix's heightened risk from its exposure to China and increased U.S. regulatory crackdown on semiconductor exports to China.

Longer term, we believe Micron should continue to benefit from several secular trends in technology, including cloud computing, artificial intelligence, 5G and autonomous computing. All of these developments, we think, are likely to help grow long-term demand for DRAM and NAND flash memory. Given the impact of short-term concerns affecting memory demand and pricing coupled with the company's current valuation and long-term growth potential, in our view, Micron offers an appealing value opportunity.

IT service firm Cognizant declined along with other technology and IT service companies this year in light of concerns about economic growth, employee turnover, rising costs, and IT spending declines. While IT service firms tend to be moderately economically sensitive, we believe that Cognizant's focus on digital technologies and its ability to save costs for its customers should continue to position it favorably for long-term growth, despite facing some near-term economic headwinds. As its margin of safety expanded over the past year, we initiated a position.

The investment committee also made its first purchase of luxury apparel company **Kering**. Kering's top brands include Gucci, Saint Laurent, Balenciaga and Bottega Veneta. Amid inflation concerns, China's zero COVID policy and slowing economic growth, Kering's shares traded lower this year and became available at a meaningful discount to their historical averages, just 14x forward earnings. Longer term, in our view, the company (and industry) offer growth potential, high barriers to entry and a history of attractive returns on capital, so we initiated a position at its current and appealing valuation level.

Year-to-Date Briefing

The Brandes Global Equity Strategy declined 5.25% net of fees and 4.81% gross of fees, outperforming its benchmark, the MSCI World Index, which fell 18.14% for the year ended December 31, 2022, and the MSCI World Value Index, which declined 6.52%.

Value stocks, as represented by the MSCI World Value Index, saw their strongest relative performance year versus the broader benchmark, MSCI World, in nearly 20 years. This provided a tailwind for the relative performance of the strategy given our value philosophy. On a sector basis, the largest drivers of our outperformance relative to the benchmark were our stock selection and overweight to health care companies, our overweight to energy, and our underweight to the technology sector.

Health care companies **McKesson**, **Cigna**, **Merck** and **Cardinal Health** performed well, up around 50% on average in an overall declining market. Oil-related holdings also saw notable share price appreciation, benefiting from the favorable oil

price environment. Integrated oil companies **BP** and TotalEnergies, as well as oil services firm Halliburton, were solid contributors.

The largest detractors were our holdings in emerging markets. South Korean technology companies Samsung and SK Hynix, as well as Brazilian jet manufacturer **Embraer**, were all down based on concerns about weakening global growth. Other detractors included more cyclically oriented companies such as U.K.-based ad agency **WPP** and home retailer **Kingfisher**, as well as U.S.-based flooring company **Mohawk** and multinational transport company **FedEx**.

Current Positioning
As of December 31, 2022, the Brandes Global Equity Strategy held its key positions in the economically sensitive financials and energy sectors, and the more defensive health care sector.

The performance for value (MSCI World Value) compared to the broad benchmark (MSCI World), along with a notable return dispersion among sectors, has helped create new value opportunities for us and enabled us to pare select holdings that have neared our estimates of intrinsic value. While areas such as energy and health care are still overweight, we reduced our stake in some of our stronger performers as we began to find more appealing opportunities in technology-related companies. Though we remain underweight to technology stocks (as captured by MSCI World), our underweight has declined fairly significantly as the benchmark allocation has declined amid its underperformance, and we added new holdings and increased our positions in some existing holdings.

Our overall weight to the health care sector did not change materially. However, our relative overweight decreased as our holdings performed well and we pared some of our exposure to them, even while health care became a larger part of the benchmark. Our energy overweight has benefited performance; however, as the sector has fared well and we have reduced a few holdings, our relative overweight narrowed slightly. Our underweight toward consumer staples companies has increased as we have pared some of our exposure, while the sector has held up better than the overall market and therefore became a larger part of the benchmark.

Geographically, we continued to have overweight positions in the United Kingdom, France and emerging markets but were underweight in Japan and the United States, though our allocation to U.S.-based companies increased last year.

A variety of headwinds were facing global and especially international stocks as 2022 ended: elevated inflation, slowing economic growth and recession worries, energy price volatility, and political and regulatory risks. However, we have experienced similar macro environments in the past and those have often provided attractive long-term opportunities. We believe that, given the current environment along with today's valuations, our portfolio offers an attractive long-term opportunity. Despite the outperformance of value stocks this year (MSCI World Value versus MSCI World), valuation levels (e.g., forward price/earnings, price/cash flow, enterprise value/sales) for value stocks remained in the cheapest quintile relative to growth (MSCI World Value versus MSCI World Growth) since the inception of the style indices. Large discount levels, such as those we've seen recently, have historically portended attractive returns over a long-term time horizon for value stocks, and as we have seen this year, our portfolio has had the tendency to do well when value stocks did well.

Looking ahead, we remain optimistic about the prospects for the Brandes Global Equity Strategy given its current valuation and company fundamentals, as well as its tendency to outperform the MSCI World Value Index when it outperforms the benchmark. 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 remain excited about the portfolio's future potential.

Cash Flow: The amount of cash generated minus the amount of cash used by a company in a given period.

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.

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

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

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 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 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.

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Diversification does not assure a profit or protect against a loss in a declining market. There is no assurance that a forecast will be accurate. Because of the many variables involved, an investor should not rely on forecasts without realizing their limitations.

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