BRANDES
INVESTMENT PARTNERS

Brandes Investment Partners
Global Opportunities Value Strategy Notes
First Quarter 2024 (January 1 – March 31, 2024)

The Brandes Global Opportunities Value Strategy rose 8.68% net of fees and 8.91% gross of fees, outperforming its benchmark, the MSCI ACWI Index, which rose 8.20% in the quarter.

Annualized total return as of March 31, 2024	1-year	5-year	10-year
Brandes Global Opportunities Value Composite (net)	29.37%	8.97%	4.91%
Brandes Global Opportunities Value Composite (gross)	30.49%	9.98%	5.85%
MSCI ACWI Index	23.22%	10.90%	8.65%

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

Holdings in industrials were leading contributors, especially aerospace and defense companies Rolls-Royce and Embraer.

Rolls-Royce and Embraer continued to benefit from the ongoing recovery in passenger air travel that has led to solid revenue growth, expanding profit margins, healthier cash-flow generation, and healed balance sheets. These positive fundamental developments helped confirm our long-term thesis around franchise quality, balance sheet durability, and end-market recovery potential for these holdings. Moreover, record backlogs highlighted—in our view—the appealing long-term secular growth outlook for global passenger air travel in an industry that has historically allowed incumbents to generate attractive returns on capital. Consequently, we revised our intrinsic value estimates for these companies upward, and believe they continue to offer an attractive risk/reward tradeoff at current valuation levels.

Holdings in financials also delivered solid performance, notably U.S.-based Citigroup and Wells Fargo, as well as U.K. based NatWest, Slovenian Nova Ljubljanska Banka, and Panama's Banco Latinoamericano de Comercio Exterior.

Other standout contributors included Hungary's Magyar Telekom, construction materials firms Heidelberg Materials (Germany) and Cemex (Mexico), as well as select holdings in technology, namely Taiwan Semiconductor Manufacturing Company (TSMC), Germany-based SAP, and U.S.-based Arlo Technologies. TSMC appreciated as the proliferation of artificial intelligence (AI) applications fueled rising demand for semiconductor content.

Performance Detractors

Significant detractors included several health care holdings such as Spanish Grifols and Germany-based Draegerwerk.

Biotechnology firm Grifols grappled with multiple declines in its share price following a short seller's report that questioned the company's debt and corporate governance practices. In our opinion, the risks highlighted in the report had been largely known, and we maintained our position in the company despite the volatility—albeit now at a lower weighting due to the share-price decline. While we have long been concerned with the company's balance sheet, there is a potential near-term catalyst for its improvement as Grifols is expected to complete the sale of its ownership stake in Shanghai RAAS in the first half of this year and use the proceeds to pay down a significant portion of its debt.

We continue to believe there is potentially meaningful upside in the stock. Grifols' plasma business weathered considerable challenges amid the COVID-19 pandemic, including decreased blood donations and higher costs associated with compensating donors. The company had also made substantial investments to expand capacity for future growth, which further weighed on its profitability. While the recovery has been slower than anticipated, we believe that the expected completion of the Shanghai RAAS transaction is a key positive and that Grifols is attractively valued, trading at a single-digit multiple of pre-COVID earnings. Additionally, we appreciate Grifols' competitive position in a consolidated industry with appealing potential growth.

Outside of health care, other detractors included consumer discretionary holdings Alibaba and Swatch, U.K. food retailer J Sainsbury, and Mexican real estate investment trust Fibra Uno. Additionally, while several of our technology holdings were notable contributors, our significant underweight to the sector detracted from relative returns as technology was the strongest-performing sector within the benchmark.

Select Activity in the Quarter

The investment committee initiated a position in Brazil-based beverage company Ambev, while divesting holdings in Japan's Honda Motor and U.K.-based retailer Marks and Spencer.

Ambev produces and distributes beer, soft drinks, and other beverages in the Americas outside of the United States, with Brazil accounting for about half of its profits. The company is the world's fourth-largest brewer by market share and the largest Pepsi bottler outside the United States.

In our view, Ambev is a high-quality emerging-market company that has a strong balance sheet and operates in a fairly defensive industry. The company has lost some market share in Brazil over the past few years as consumer preference has shifted toward value/more affordable beer and as rival Heineken has improved its competitive position. In 2019, Ambev appointed a new chief executive officer to lead a turnaround project, which included launching new brands in the value segment, scaling its premium brands, and adapting its pricing strategy. We believe Ambev is well equipped to recover its profit margins and to benefit from a potentially improved operating environment in Brazil. At its current valuation levels, the company represents an attractive risk/reward tradeoff to us.

Current Positioning

The portfolio positioning has largely remained unchanged. The strategy continues to have large overweights in communication services, real estate, and consumer staples, while retaining a significant underweight in in technology. Geographically, it maintains overweights in emerging markets, the United Kingdom, France, and Spain, while remaining underweight the U.S. compared to the benchmark, which has an over 60% allocation to the country.

We believe the differences between our portfolio and the MSCI ACWI Index make it an appealing complement to index-tracking or passively managed strategies. Going forward, we remain optimistic about the portfolio's holdings composition and the risk/reward tradeoff it offers.

Term definitions: https://www.brandes.com/termdefinitions

The MSCI ACWI with net dividends captures large and mid cap representation of developed and emerging markets.

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