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INVESTMENT PARTNERS

Brandes Investment Partners
Global Opportunities Value Strategy Notes
First Quarter 2023 (January 1 – March 31, 2023)

The Brandes Global Opportunities Value Strategy rose 10.92% net of fees and 11.16% gross of fees, outperforming its benchmark, the MSCI ACWI Index, which increased 7.31% in the first quarter.

Annualized total return as of March 31, 2023	1-year	5-year	10-year
Brandes Global Opportunities Value Composite (net)	5.62%	1.35%	4.62%
Brandes Global Opportunities Value Composite (gross)	6.54%	2.28%	5.55%
MSCI ACWI Index	-7.44%	6.92%	8.05%

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

The portfolio's strongest performers included industrials holdings **Rolls-Royce, Embraer**, and **FedEx.**

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 won new contracts over the past several months, strengthening expectations for improved free-cash-flow generation.

Brazilian regional jet manufacturer **Embraer** also remained on track in its post-COVID rebound, with deliveries for business and commercial jets continuing to increase. Moreover, one of its competitors announced it had officially shut down its next-generation commercial regional jet program, which could leave Embraer to be the primary supplier in this market.

Meanwhile, global shipping and distribution company FedEx released improved results after cutting costs and saw its share price rally.

Other solid contributors included German multinational building materials company **HeidelbergCement**, France-based advertising agency **Publicis**, and Mexico-based real estate investment trust (REIT) **Fibra Uno**. Additionally, Luxembourg-domiciled telecom company **Millicom International**, which operates entirely in emerging markets, rose amid improving earnings and a potential private equity bid for the firm.

Performance Detractors

Our significant underweight to technology, the best-performing sector within the benchmark, was the largest detractor from relative return.

At the stock level, Switzerland-based **Credit Suisse** weighed on return the most as it declined after customer outflows led to a forced discounted 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.

Holding in insurer **American International Group** also hurt performance, along with U.K.-based banknotes printing company **De La Rue** and South Korean tobacco company **KT&G**. Other detractors included health care holdings **Grifols** (Spain) ang **Cigna** (U.S.).

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 has suppressed its earnings. Although collection volumes have continued to recover, given that plasma products require a six-month quarantine, it takes a while for the improvement to be reflected in financial results. Recently, Grifols announced new cost-cutting initiatives, and we continue to believe the company offers an attractive long-term opportunity considering the importance of its plasma-derived products to treat a variety of medical conditions.

Select Activity in the Quarter

The all-cap investment committee initiated positions in Hong Kong-based footwear manufacturer **Yue Yuen Industrial**, Irish beverage company **C&C Group**, and U.S.-based **Elanco Animal Health**.

Elanco Animal Health was spun out of Eli Lilly in September 2018 and originally focused on the food animal segment. Through a series of acquisitions, most recently Bayer Animal Health in 2020, Elanco has become a global animal health business with a diversified product portfolio that includes medicinal feed, parasiticides (flea and tick products), vaccines, and other therapeutic drugs. The firm is now the world's second-largest animal health care company by sales and has a 55/45 revenue split between the U.S. and international markets.

While the integration of Bayer Animal Health has been going well, we believe its overhang, coupled with slower revenue growth in recent years, has created the opportunity to invest in Elanco. Key factors that underlie our investment thesis include:

- Mid-single digit potential growth throughout the industry stemming from a global increase in protein consumption and pet ownership;
- Stable sales due to the strong brand name, diverse portfolio, and lack of patent cliffs;
- Likelihood of profit margin expansion from streamlining manufacturing, research and development (R&D), and procurement;
- Less expensive and shorter-duration R&D with a higher a probability of success compared to human pharmaceuticals;
- Potential for continued financial deleveraging.

At its current valuations, we believe the stock represents an appealing risk/reward tradeoff.

Divested positions during the quarter were Chinese retailer **Topsports International Holdings** and 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 had seen 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 relative to 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, the intensified market dynamics and the deep restructuring the company has been undergoing left minimal margin for error at Credit Suisse, eventually leading to a decision by the Swiss National Bank and the Swiss regulatory agency to broker a takeover of the company by UBS at a significant discount in order to quell the panic.

As the Global Opportunities Value Strategy already held an allocation to UBS and given that it seemed Credit Suisse would not have been able to survive on its own due the client outflows, the investment committee decided to divest its position in Credit Suisse. We will continue to monitor the situation closely as events unfold and 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 Global Opportunities Value Strategy continued to have overweight positions in the U.K., France, Spain, and emerging markets, while remaining significantly underweight in the United States. From a sector perspective, it held its key overweights to communication services, real estate, and consumer staples, while maintaining a much lower allocation to technology than the benchmark.

Our allocation to financials, which included a few European firms, happened to be in line with the benchmark's weighting to the sector at quarter end. Based on our analysis, our European bank holdings generally have strong liquidity, diversified deposit bases, and differentiated security/asset exposures. They can also access capital more easily than their U.S. peers as the regulatory liquidity tests tend to be more stringent in Europe than in the United States. Furthermore, our European bank holdings still appear positively geared to benefit from higher rates.

As several U.S.-based banks entered FDIC receivership during the quarter, our financials research team and investment committee have been meeting frequently as they monitored ongoing developments. We have been updating our valuation and risk exposure analysis across a variety of financials holdings and have been in contact with several global financial companies via email, phone, and in-person meetings at financial conferences.

The Brandes Global Opportunities Value 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.

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

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

Profit Margin: Net income divided by revenues.

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

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