BRANDES
INVESTMENT PARTNERS

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

The Brandes International Equity Strategy rose 4.87% net of fees and 4.96% gross of fees, outperforming its benchmark, the MSCI EAFE Index, which appreciated 2.95% in the second quarter, and the MSCI EAFE Value Index, which rose 3.15%.

Annualized total return as of June 30, 2023	1-year	5-year	10-year
Brandes International Equity Composite (net)	23.56%	4.28%	5.68%
Brandes International Equity Composite (gross)	24.03%	4.74%	6.20%
MSCI EAFE Index	18.77%	4.39%	5.41%

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

Major contributors included holdings in energy and materials, led by construction material companies **Cemex** (Mexico) and **Heidelberg Materials** (Germany), as well as Brazil-based integrated oil firm **Petrobras**.

Petrobras continued to pay out the majority of its free cash flow in dividends to shareholders, boosting investor optimism and its share price. Meanwhile, Cemex and Heidelberg Materials posted solid results and improving margins as inflation pressures started to subside.

Other contributors included health care holdings such as Spain's **Grifols** and Netherlands-based **Koninklijke Philips**.

Philips reported encouraging results amid easing of supply chain issues the company faced last year. Similarly, Grifols saw its earnings improve as plasma collections have exceeded pre-COVID levels and inflationary pressure on donor fees has softened. The company also announced that it was enhancing its cost-saving plans and divesting some non-core assets to improve its balance sheet.

Performance Detractors

Significant detractors included consumer discretionary holdings, led by China's **Alibaba** and Switzerland-based **Swatch Group**. Weaker-than-expected demand recovery in China weighed on both businesses. 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.

Other detractors included Brazilian jet manufacturer **Embraer**, U.K.-based ad agency **WPP**, and Belgium-based **Anheuser-Busch InBev** (ABI), all of which gave back some of their solid performance from the first quarter.

Despite favorable first-quarter results, ABI saw its share price hurt by the Bud Light controversy in the United States. We believe the decline was potentially overdone. While Bud Light is ABI's largest product in the U.S., the company is a globally diversified business with two publicly listed subsidiaries that derive a significant portion of their profits and growth from emerging markets. Assuming a significant drop in ABI's U.S. business, we estimate that the impact on its sales and profits, as well as on our estimate of its intrinsic value, is less than the share-price decline during the quarter. At its current price, ABI trades at a notable discount to its historical valuation level, and we believe it represents an appealing risk/reward tradeoff given what we consider attractive economics and long-term growth exposure of the company as well as its subsidiaries.

Select Activity in the Quarter

Amid a rising market, the investment committee initiated a position in France-based luxury goods company **Kering** while divesting British consumer health care firm **Haleon**, which reached our estimate of its intrinsic value.

Kering's top brands include Gucci, Saint Laurent, Balenciaga, and Bottega Veneta. Gucci accounts for the majority of Kering's profit and roughly half of its sales. 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 and the market also became more concerned about U.S. consumer spending, 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 attractive returns on capital. Trading at just 16x forward earnings, Kering's shares reflect a meaningful discount to their historical averages and represent a good entry point, in our opinion, for an investment in a solid company.

Year-to-Date Briefing

The Brandes International Equity Strategy rose 16.23% net of fees and 16.45% gross of fees, outperforming its benchmark, the MSCI EAFE Index, which appreciated 11.67% in the six months ended June 30, 2023, and the MSCI EAFE Value Index, which rose 9.28%.

Our stock selection, especially within the materials and consumer staples sectors, was the most significant driver of return relative to the benchmark and the value index. Notable contributors included holdings that were among the portfolio's stronger performers in the quarter, such as Cemex, Heidelberg Materials, Koninklijke Philips, and Petrobras. U.K.-based holdings **Rolls-Royce** and **Marks and Spencer** also lifted performance, as did Brazilian Embraer, which—despite a modest pullback in the second quarter—appreciated over the six-month period.

Meaningful detractors included **Credit Suisse**, which we divested in the first quarter, and Alibaba. Additionally, Japan-based **Taisho Pharmaceutical** and **Takeda Pharmaceutical**, as well as Korean tobacco company **KT&G** weighed on relative returns. Relative to the benchmark, our underweights to the three strongest-performing sectors (i.e., technology, industrials, and consumer discretionary) hurt performance.

Current Positioning

As of June 30, 2023, the Brandes International Equity Strategy continued to have overweight positions in France and emerging markets, and underweight positions in Australia and Japan. From a sector perspective, it held key overweights to communication services, health care, and consumer staples, while maintaining meaningful underweights to technology and industrials. Additionally, although we have significant allocations to financials and consumer discretionary, our weightings to the sectors were lower than those of the MSCI EAFE Index. For financials, our underweight was even more pronounced when compared to the MSCI EAFE Value Index.

A variety of concerns continue to face international stocks, including elevated inflation, worries about slowing economic growth or recession, and political as well as regulatory uncertainties. Despite these challenges, the asset class (MSCI EAFE) posted positive returns over the last nine months, highlighting our belief that often when the market is the most negative, it can be a great time to invest.

While high-level valuations may not be as attractive as they were at the beginning of the year, international equities continue to represent, in our opinion, fertile ground for fundamentally solid businesses trading at a discount to their estimated intrinsic values. Within the asset class, value stocks (MSCI EAFE Value) continue to trade in the highest decile of discount levels to the broader market (MSCI EAFE) on a variety of valuation metrics, including forward price/earnings, price/cash flows, and enterprise value/sales. We are optimistic about the potential of value stocks in general and believe the Brandes International Equity Strategy remains well positioned from a long-term risk/reward perspective.

Enterprise Value: Market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents.

Enterprise Value/Sales: Compares the enterprise value of a company to its annual sales.

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.

Profit Margin: Net income divided by revenues.

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

The MSCI EAFE Index with net dividends captures large and mid cap representation of developed market countries excluding the U.S. and Canada.

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

The MSCI EAFE Growth Index with gross dividends captures large and mid cap securities across developed market countries, excluding the United States and Canada, 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.