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

The Brandes International Equity Strategy rose 21.72% net of fees and 21.83% gross of fees, outperforming its benchmark, the MSCI EAFE Index, which increased 17.34% in the fourth quarter, and the MSCI EAFE Value Index, which rose 19.64%.

Annualized total return as of December 31, 2022	1-year	5-year	10-year
Brandes International Equity Composite (net)	-7.89%	1.36%	4.84%
Brandes International Equity Composite (gross)	-7.48%	1.83%	5.36%
MSCI EAFE Index	-14.45%	1.54%	4.67%

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 during the quarter provided a tailwind for the strategy. At the stock level, strongest performers included several bank holdings that have continued to benefit from the global rise in interest rates, such as Austria-based **Erste Group**, Italian **Intesa Sanpaolo**, and Japan-based **Mitsubishi UFJ Financial**.

A variety of cyclical businesses also aided returns as they rose significantly more than the broader market. These included Germany's **HeidelbergCement**, U.K-based **Rolls Royce**, and French 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.

Several of our consumer staples holdings (e.g., U.K.-based retailers **J Sainsbury** and **Marks & Spencer**) did well despite the fact that the sector represented one of the weakest performing areas within the benchmark. Other notable contributors included Italian integrated oil firm **ENI** and Spain-based biotech company **Grifols**.

Performance Detractors

The largest detractors included Switzerland-based **Credit Suisse** and Dutch health care conglomerate **Koninklijke Philips**.

Philips saw its shares tumble as it issued a profit warning due to the continued impact of supply chain problems.

Credit Suisse declined after announcing a significant restructuring plan and a capital raise. If successful, the restructuring should position the company well longer term, in our view, as it will allow the business to focus more on its strong wealth management and domestic Swiss bank franchises. This being said, a meaningful execution risk exists, and while the current valuation is attractive, we will continue to monitor the company's progress before making further allocation.

Meanwhile, the overall Brazilian stock market (MSCI Brazil) underperformed the broad international market (MSCI EAFE) following the election of Lula da Silva as Brazil's new president. Among our Brazil-based holdings, integrated oil firm **Petrobras**, beverage company **Ambev**, and **Telefonica Brasil** detracted from relative returns the most.

Select Activity in the Quarter

The investment committee initiated positions in two emerging market-based semiconductor-related companies, namely **Taiwan Semiconductor Manufacturing Company** (TSMC) and South Korea's **Samsung**.

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 worries about heightened geopolitical tension between the U.S. and China, as well as concerns about softening demand and an oversupply of semiconductors following a catch-up in production after the semiconductor shortage last year. 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 valued and sustainable franchises in the global semiconductor industry, with a capability to continue generating robust returns on capital and free cash flows going forward.

One of the world's largest technology companies, Samsung operates across a variety of end markets (e.g., memory, smartphones, other electronics). It is a leading player in the semiconductor foundry market along with TSMC, and similarly its shares have been hurt by a downturn in semiconductor pricing. The company is also the dominant player in the global computer memory storage market, in which its scale and low-cost position have allowed it to produce healthy cash flows and returns on capital. The operating landscape for memory storage market has improved over the last decade as the sub-industry has consolidated to three major players (Samsung, SK Hynix and Micron Technology). Recently, however, Samsung's memory business has also been struggling with excess capacity and weakening demand.

Despite the challenges in its end markets, Samsung is, in our opinion, likely to benefit from several secular trends in technology, including cloud computing, artificial intelligence, 5G, and autonomous computing, all of which should spur long-term demand growth for foundry services and memory storage devices. Its strong foothold in the memory storage sub-industry, which has enjoyed faster revenue growth than the overall semiconductor industry over the past 20 years, has led us to be optimistic about Samsung's prospects. Given the impact of short-term concerns around a downturn in semiconductor and memory demand and pricing, combined with the company's current valuation and long-term growth potential, Samsung offers an appealing value opportunity to us.

Year-to-Date Briefing

The Brandes International Equity Strategy declined 7.89% net of fees and 7.48% gross of fees, outperforming its benchmark, the MSCI EAFE Index, which dropped 14.45% for the year ended December 31, 2022, and underperforming the MSCI EAFE Value Index, which fell 5.58%.

The largest drivers of our outperformance relative to the benchmark were our overweight to energy (the best performing sector in MSCI EAFE) and our underweight to technology (the worst performing sector in MSCI EAFE). Additionally, holdings in consumer staples and health care, which made up two of our largest sector allocations, performed better than those in the benchmark. Geographically, holdings in Brazil, Japan, and France helped returns the most.

Amid the oil-price increase, several of our integrated oil holdings performed well, specifically Petrobras, **Repsol, ENI**, and **TotalEnergies**. Petrobras appreciated on strong operating results. In addition to benefiting from the favorable oil-price environment, the company has increased capital return to shareholders, with several substantial dividend payments during the year.

Our defensively oriented health care allocation also aided returns, led by our largest holding **Takeda Pharmaceutical** based in Japan, which continued to generate strong cash flows and improve its balance sheet, while also offering an attractive dividend yield. Other contributors included Japanese holdings Mitsubishi UFJ Financial and **MS&AD Insurance Group**, as well as Mexican real estate investment trust **Fibra Uno**.

Major detractors included Credit Suisse, which we discussed above, and our exposure to Russia (i.e., **Surgutneftegas** and **Mobile TeleSystems**), which mostly hurt performance in the first quarter. Additionally, Brazil-based regional jet manufacturer **Embraer** weighed on performance due to global economic growth concerns, as did U.K.-based retailer

Marks & Spencer. Other detractors included Koninklijke Philips and **Telecom Italia**, which declined early in the year after private equity firm KKR withdrew its offer to acquire the company.

Current Positioning

As of December 31, 2022, the Brandes International Equity Strategy held its key overweights to communication services, health care and consumer staples, while maintaining significantly lower allocations to technology and industrials than the benchmark. The outperformance of value (MSCI EAFE Value vs. MSCI EAFE), along with a significant return dispersion among sectors, has helped create new value opportunities for us while also enabling us to pare select holdings that have neared our estimates of intrinsic value. For example, we have reduced our exposure to strong-performing areas such as energy and consumer staples (although we still have overweight positions compared to the benchmark). We have also started to find more opportunities in technology-related companies. As the benchmark's allocation to technology declined due to the sector's performance, and with our addition of new technology holdings, our underweight to the sector has narrowed quite a bit this year (we had no allocation to start the year compared to 5% weight at year end).

Geographically, we continued to have overweight positions in France and emerging markets, and underweight positions in Australia and Japan. The changes to our overall country allocations have not been as meaningful as on a sector basis. We have pared some holdings in Brazil and added to a few positions in Germany. We believe the differences between our portfolio and the benchmark continue to make it an attractive complement to index-tracking or growth-oriented alternatives.

A variety of headwinds continue to face international stocks today, ranging from elevated inflation, slowing economic growth and recession concerns to energy risk and political as well as regulatory uncertainties. Nonetheless, we believe stocks outside the U.S. in general—and our portfolio in particular—offer an attractive long-term risk/reward tradeoff at today's valuation levels. Even after their strong relative performance this year, value stocks continue to trade in the highest quintile of discount levels to the broader market on a variety of valuation metrics (e.g., forward price/earnings, price/cash flows, enterprise value/sales). Specifically for the Brandes International Equity Strategy, our portfolio continues to consist of holdings that trade below our estimates of their intrinsic values, and we remain optimistic about its long-term return potential.

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

Dividend Yield: Dividends per share divided by price per share.

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.

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 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 Brazil Index is designed to measure the performance of the large and mid cap segments of the Brazilian market.

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