Brandes Investment Partners
Emerging Markets (ex-China) Equity Strategy Notes
Second Quarter 2026 (1 April – 30 June 2026)

The Brandes Emerging Markets (ex-China) Equity Strategy returned 19.13% (gross of fees), underperforming its benchmark, the MSCI Emerging Markets ex-China Index, which gained 34.53% in the quarter.

Positive Contributors
The technology sector was the primary driver of emerging markets equity returns (MSCI EM) in the quarter as enthusiasm surrounding AI fuelled strong performance among semiconductors and technology hardware companies viewed as key beneficiaries of the massive hyperscale data centre spending. Against this backdrop, several of our technology holdings were among the portfolio's strongest contributors, including South Korean memory companies SK Hynix and Samsung Electronics, as well as Taiwanese AI server firm Wiwynn and semiconductor foundry Taiwan Semiconductor Manufacturing Company (TSMC).

Telecom holdings also performed well, led by Millicom International Cellular and Magyar Telekom. Millicom, which operates entirely in Latin America, continued to improve margins in its core operations while enhancing profitability of newly acquired businesses in Uruguay and Ecuador. The company also further consolidated its Colombian operations, which we believe should help it strengthen free-cash-flow generation going forward. Meanwhile, Hungary's Magyar Telekom raised its financial guidance for the remainder of 2026, citing benefits from infrastructure expansion and greater operational visibility following the renewal of a key mobile spectrum license.

Other notable contributors included Panamanian airline Copa Holdings, and select bank holdings such as Panama's Bladex, Austria's Erste Group, and Georgia's TBC Bank.

Furthermore, our underweight to India aided returns relative to the benchmark.

Performance Detractors
While TSMC, SK Hynix, and Samsung were the portfolio's strongest performers, our underweights to TSMC and SK Hynix were among the largest detractors from relative returns. For context, TSMC, SK Hynix, and Samsung accounted for over 38% of the benchmark and generated 60% of its return during the quarter, reflecting the narrow concentration of market return leadership. Their outsized influence also largely explains the primary drivers of our underperformance from a sector and country perspective—namely our underweight to the technology sector overall, as well as our lower allocations to South Korea and Taiwan. Samsung and SK Hynix comprised more than two-thirds of the benchmark's South Korea exposure, while TSMC represented 55% of its Taiwan weight.

Implications of the war in Iran, specifically as it pertains to oil supply and energy prices, continued to weigh on holdings in the Philippines and Indonesia, both of which are net oil importers. Indonesian equities are significantly out of favour, pressured by currency weakness, government policy uncertainty, and the possibility of a reclassification to frontier-market status by MSCI, although the index provider postponed its review until November. Despite these concerns, we believe the underlying fundamentals of our holdings in both countries remain resilient.

As in the first quarter, businesses perceived to be vulnerable to potential AI disruption hurt performance, most notably IT services firms Cognizant Technology Solutions and Globant. A few holdings in Brazil also detracted from returns, including paper and forest products company Suzano, food products business JBS, and integrated oil firm Petrobras, which gave back some of its strong first-quarter gains as oil prices declined.

Select Activity in the Quarter
We initiated a position in Saudi National Bank, Brazilian telecom services provider Telefonica Brasil, Indian utility Mahanagar Gas, Taiwan-based household durables business Nien Made Enterprise, and Mexican food products company Gruma. Additionally, we divested Brazilian retailer Sendas Distribuidora, while also reducing exposure to several technology holdings that performed exceptionally well in the quarter.

Saudi National Bank (SNB) is the largest bank in Saudi Arabia by assets, loans, and deposits, with roughly 23% domestic market share in both loans and deposits. It was formed in 2021 through the merger of National Commercial

Bank (NCB) and Samba Financial Group, combining NCB's retail strength with Samba's corporate and wholesale banking capabilities. Today, SNB operates as Saudi Arabia's national banking champion across retail banking, wholesale banking, capital markets, and international banking. Its largest shareholder is the Public Investment Fund, Saudi Arabia's sovereign wealth fund, which owns roughly 37% of the bank. This links SNB closely to Vision 2030, Saudi Arabia's long-term economic reform plan to diversify the economy away from oil by investing in infrastructure, housing, tourism, technology, sports, and private-sector development.

Investor concerns over government influence, the bank's losses related to its Credit Suisse investment in 2022, and integration challenges following the merger have weighed on SNB's valuation. However, we believe the market is overlooking the progress that SNB has made in the past few years and undervaluing its long-term potential, providing us with what we consider an attractive entry for investment.

Our investment thesis for SNB centres on its dominant franchise, improving execution, and a valuation that appears compelling relative to normalised earnings power. In our view, Saudi Arabia represents a structurally attractive and growing banking market, thanks to favourable demographics, government-led investment, rising homeownership, and efforts to expand the non-oil economy. Following a challenging post-merger integration period, management has improved asset quality, reduced exposure to weaker areas such as construction, and refocused growth toward mortgages, small/mid-sized enterprises, wholesale banking, and fee-generating businesses.

Financially, SNB benefits from scale, a strong low-cost deposit base, high digital adoption, disciplined expenses, and improved credit quality. Funding pressure remains a key watchpoint because Saudi Arabia's loan growth has outpaced its deposit growth, increasing reliance on more expensive wholesale funding. However, at the current share price, we believe the risk is more than accounted for and SNB represents an appealing value opportunity.

Year-to-Date Briefing
The Brandes Emerging Markets (ex-China) Equity Strategy rose 25.91%, underperforming its benchmark, the MSCI Emerging Markets ex-China Index, which appreciated 38.78% year-to-date through 30 June 2026.

Performance drivers were largely consistent with those for the second quarter. Samsung, SK Hynix, and TSMC were the portfolio's strongest performers, although our underweights to TSMC and SK Hynix were among the largest detractors from relative returns. Telecom services providers Millicom International Cellular and Magyar Telekom were notable contributors as well, along with Panamanian businesses Bladex and Copa Holdings, and Brazil's Petrobras. In addition, our underweight position in India helped performance relative to the benchmark.

Detractors were mainly in technology, including IT services companies Globant and Cognizant. Select financials holdings also declined, mainly Indonesia-based Bank Rakyat Indonesia, Bank of the Philippine Islands, and India-based HDFC Bank. Other detractors included Telkom Indonesia and Suzano.

Current Positioning
The emerging markets (EM) investment universe has evolved meaningfully over the past two decades. Once dominated by financials, energy, and materials, emerging markets now sit at the centre of the global AI buildout. Many AI infrastructure-enabling businesses, from semiconductor manufacturing to memory and hardware, are based in EM and have benefited from rising demand tied to data centre expansion and increasing computing intensity. This shift is reflected in the index composition and the underlying return drivers. Technology now represents over 50% of the MSCI EM (ex-China) Index (as of 30 June), up from 36% at the start of the year and exceeding the sector weight within the MSCI USA Index (37% as of 30 June). The stock-level concentration is also at a historic extreme, with the three largest companies (TSMC, Samsung, and SK Hynix) now accounting for 38% of the benchmark. As a result, Taiwan and South Korea, where these three companies—along with other technology firms—reside, now account for 63% of the index.

Although we are allocated to AI beneficiaries such as SK Hynix, TSMC, and Samsung, we have also identified value opportunities in areas perceived to be disrupted by AI, including IT services. Consistent with our value-oriented approach, we remain mindful of valuations and cyclicality risks, particularly where expectations appear elevated or demand outcomes remain uncertain. As of 30 June, our technology holdings represented 31% of the portfolio, making it our largest sector allocation but also our largest underweight relative to the benchmark. That underweight widened during the quarter as we trimmed select strong performers, while the benchmark's technology weight continued to increase mechanically alongside rising share prices, irrespective of valuation.

Outside technology, we continue to find compelling value in communication services, consumer staples, and financials. By contrast, the materials sector remains an area where we have not been finding a lot of undervalued opportunities.

Geographically, we maintain meaningful exposure to businesses in Latin America, with diversified investments in telecommunications, energy, and real estate. Our allocation to India increased in the quarter, but we remain underweight even as benchmark's weights decreased. Additionally, our underweights to technology-heavy South Korea and Taiwan materially widened as they became larger portions of the benchmark.

In our view, the dynamic investing landscape of emerging markets underscores the importance of a selective, valuation-driven approach. While benchmark returns were concentrated in a small number of companies and sectors, we continue to find attractive opportunities across a broader opportunity set and remain encouraged by the risk-reward profile of our diverse holdings.

For term definitions, please refer to https://www.brandes.com/emea/termdefinitions.

For index definitions, please refer to https://www.brandes.com/emea/benchmark-definitions.