

Emerging Markets Equity Strategy Notes First Quarter 2024 (1 January – 31 March 2024)

The Brandes Emerging Markets Equity Strategy returned 5.62% (gross of fees), outperforming its benchmark, the MSCI Emerging Markets Index, which was up 2.37% in the quarter, and the MSCI Emerging Markets Value Index, which gained 1.31%.

Positive Contributors

Notable performers included holdings in Taiwan, South Korea, and Brazil. Specifically, semiconductor firms Taiwan Semiconductor Manufacturing Company (TSMC) and SK Hynix aided returns, as did cloud infrastructure company Wiyynn and regional jet manufacturer Embraer.

Embraer continued to benefit from a recovery in its commercial aerospace end-market, resulting in improved cash-flow generation and a stronger balance sheet. Meanwhile, TSMC, SK Hynix, and Wiyynn appreciated as the proliferation of artificial intelligence (AI) applications fuelled rising demand for semiconductor chips and servers.

From a sector perspective, select holdings in financials were solid contributors, led by South Korea's Hana Financial Group, Panama-based Banco Latinoamericano de Comercio Exterior, and Slovenian Nova Ljubljanska Banka.

Other standout performers included Chinese household durables companies Gree Electric Appliances and Midea Group, Mexican real estate investment trust Terrafina, and India-based Indus Towers.

Performance Detractors

Several holdings in China detracted from performance, notably TravelSky Technology, Chinasoft International, LONGi Green Energy Technology, and Alibaba.

TravelSky issued a profit warning in January, attributing it to cost inflation mainly driven by increased expenditures in salary compensation, technical support and maintenance, research and development, and system security. Chinasoft declined on weaker-than-anticipated revenue and earnings from the second half of 2023. Meanwhile, LONGi continued to grapple with an industry oversupply issue that has pressured pricing within its wafer segment. We believe LONGi will likely be able to maintain healthy profitability throughout the downcycle, in contrast to its less profitable, second-tier peers.

In addition to these company-specific challenges, many of our Chinese holdings faced subdued investor sentiment stemming from the country's weaker-than-expected post-COVID economic rebound and consumption, and the persistent downturn in its property sector. While we did not add any new China-based companies to the portfolio during the quarter, we selectively increased our existing positions amid the share-price weakness.

Although our bank allocation aided performance overall, a few holdings declined, namely India-based HDFC Bank and IndusInd Bank, Thailand-based Kasikornbank, and South Africa's Absa Group.

Relative to the benchmark, our significant underweight to India hurt returns. While we recognize India's robust economic growth potential, our analysis indicates that most company valuations are well above their historical averages, already reflecting an ample dose of market optimism.

Select Activity in the Quarter

We initiated a position in Mexico-based telecom America Movil while divesting Indonesian telecom XL Axiata.

Boasting market leadership in Latin America, America Movil (AMX) is one of the world's largest network operators in terms of subscribers. The company's operations span 22 countries, with a primary focus in Latin America and a presence in Austria and Eastern Europe. AMX was formed in 2001 when Telmex, Mexico's wireline incumbent that was privatized in 1990, spun off its wireless business. With over 50% voting ownership, the Slim family controls AMX.

We are highly familiar with AMX, previously owning the business at various times over the years. Recently, several factors have pressured AMX's share price. These included a year-over-year contraction in reported service revenue

driven by a strong Mexican peso, some negative views on lower-than-expected returns to shareholders, and uncertainty around potential regulatory changes in Mexico, as well as fiscal loosening in the country as the 2024 presidential election approaches.

AMX's share-price weakness provided a good opportunity—in our opinion—to re-initiate a position in what we consider a fundamentally sound company. AMX has a long history of prudent capital allocation, with a focus on long-term returns on capital and free-cash-flow generation. We also like that the business has a diversified geographic exposure and enjoys significant economies of scale in Latin America due to its size (it is essentially the same size as all other Latin American telecoms combined). AMX's operations have been improving, with healthy growth in the wireless segment and a turnaround in fixed-line services. Moreover, as the dominant telecom in Mexico, the company is a likely beneficiary of the nearshoring trend. Further upside in the share price could materialize if the potential regulatory changes turn out uneventful, and if investor sentiment improves as the market looks to possible capital returns to shareholders for 2024 (i.e., through dividends or share buybacks). At its current valuation levels, AMX represents a compelling risk/reward trade-off to us.

Current Positioning

The strategy's weightings from geographic and sector perspectives were largely unchanged in the quarter.

We continue to hold underweights to companies in India, Taiwan, and China, while maintaining an overweight to Latin America through our diversified positions in telecommunications, utilities, energy, and real estate. In our view, these holdings, including our recent purchase America Movil, have the potential to gain from deflationary input costs and the increasing trend of nearshoring in Mexico and nearby regions.

On a sector basis, the portfolio holds large overweight's to real estate, consumer staples, industrials, and financials. Meanwhile, key underweights remain in the materials, health care, energy, and information technology sectors.

As of 31 March 2024, the Brandes Emerging Markets Equity Strategy trades at more compelling valuation levels than the benchmark, in our opinion. We believe that the current fundamentals of our holdings bode well for the long term, and we are excited about the strategy's prospects.

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

The MSCI Emerging Markets Index with net dividends captures large and mid cap representation of emerging market countries.

The MSCI Emerging Markets Value Index with gross dividends captures large and mid cap securities exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.

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