Brandes Investment Partners
Emerging Markets Equity Strategy Notes
Third Quarter 2025 (1 July – 30 September 2025)

The Brandes Emerging Markets Equity Strategy returned 12.19% (gross of fees), outperforming its benchmark, the MSCI Emerging Markets Index, which was up 10.64% in the quarter, and the MSCI Emerging Markets Value Index, which gained 8.74%.

Positive Contributors
Holdings in the information technology and consumer discretionary sectors led performance.

China-based Alibaba saw solid gains driven by aggressive investment plans in artificial intelligence (AI) and continued growth in AI-related products and cloud revenue. Additionally, the company's core e-commerce platforms were boosted by a recovery in Chinese consumer spending.

In technology, South Korea's Samsung Electronics, along with semiconductor firms Taiwan Semiconductor Manufacturing Company and ASMPT, also benefited from positive AI sentiment, which helped lift their share prices.

Beyond consumer discretionary and technology, notable contributors included Luxembourg-domiciled wireless telecom services provider Millicom International Cellular, Slovenia-based bank Nova Ljubljanska Banka, and Mexican cement company Cemex.

Furthermore, our underweight to companies in India aided performance relative to the benchmark.

Performance Detractors
Select financials holdings performed poorly, specifically India-based IndusInd Bank and HDFC Bank, as well as Bank of the Philippine Islands. Georgia-based TBC Bank also declined as an increase in operating expenses offset its strong revenue growth, hurting its profit margin.

Other notable detractors included Latin American consumer staples businesses Wal-Mart de Mexico and Sendas Distribuidora. Wal-Mart de Mexico missed earnings estimates as it incurred higher expenses due to investments related to new stores, remodeling, and labor costs.

Given the rebound in the Chinese market, our underweight detracted from relative returns.

Select Activity in the Quarter
We initiated a position in Luxembourg-domiciled Globant S.A. and Kazakhstan-based consumer finance company Kaspi.kz.

Globant is a multinational IT services company specialising in high-value digital engineering services, including customer experience, AI, cloud, and development operations. Although it is headquartered in Luxembourg, Globant has significant operations across emerging markets. The vast majority of its workforce is based in Latin America and India, with key offices in Argentina. Unlike many larger IT services firms that maintain broad exposure to slower-growing segments, Globant operates as a digital pure play, generating nearly all its revenue from advanced, high-margin services. The company's business model is mostly project-based, with limited recurring revenue.

Founded in 2003 and publicly listed since 2014, Globant has delivered organic growth exceeding 20% annually post-IPO. Its client base is geographically diverse; the U.S., Latin America, and Europe serve as its main markets, while Asia and the Middle East represent growing segments. Through its "Studio" model, Globant is known for blending design and technology to produce user-centric digital experiences. Notable clients include Disney, Google, LinkedIn, Electronic Arts, Formula 1, and Coca-Cola.

Operating within the highly competitive and fragmented $1.5 trillion global IT services industry, Globant benefited from a pandemic-era surge in digital transformation spending. However, the company has recently faced a cyclical slowdown as enterprises focus on cost efficiency and delay discretionary technology investments. Additionally, the rise of generative AI introduces long-term uncertainty, with the potential to automate commoditised tasks and disrupt traditional outsourcing models. These headwinds have contributed to a sharp decline in Globant's share price, which was down over 70% year-to-date in 2025.

We believe that the cyclicality and the AI-related risks have been more than accounted for in Globant's current market valuation. We like the fact that the company has a healthy balance sheet and strong relationships with its clients. In our view, Globant is well positioned to benefit as IT budgets normalise, and clients move from AI pilots to scaled adoption. It also has the potential to expand its scope of work to more complex, higher-value projects in areas such as product design, data integration, and business process reengineering. At its current valuations, Globant represents an appealing value opportunity to us.

Besides the new buys, other major portfolio activity included the divestments of China-based solar manufacturing company LONGi Green Energy Technology and South Korean consumer goods business LG H&H.

Year-to-Date Briefing
The Brandes Emerging Markets Equity Strategy rose 38.11%, outperforming its benchmark, the MSCI Emerging Markets Index, which appreciated 27.53% in the nine months ended 30 September 2025, and the MSCI Emerging Markets Value Index, which rose 24.79%.

Holdings across a variety of sectors drove returns. Top contributors included Alibaba in consumer discretionary; Samsung Electronics, TSMC, and SK Hynix in technology; Nova Ljubljanska Banka, Erste Group, and TBC Bank in financials; Magyar Telekom, Millicom International Cellular, and TIM S.A in communication services. Geographically, holdings in Brazil performed well, led by aerospace and defense company Embraer. Relative to the benchmark, our underweight to India contributed positively to returns.

Major detractors included select China-domiciled companies, specifically China Education Group and Haier Smart Home. Our underweight to the country also negatively impacted relative returns. Although several of our bank holdings did well, some others performed poorly, such as IndusInd Bank, Bank Rakyat Indonesia, and Bank of the Philippine Islands.

Current Positioning
With our index-agnostic investment approach, the portfolio continues to look different than both the MSCI Emerging Markets Index and the MSCI Emerging Markets Value Index. Our newest additions, Globant and Kaspi.kz, have significant operations in emerging or frontier markets and are both headquartered in countries not represented in either index. We believe this flexibility to invest in businesses beyond the "traditional" or MSCI-defined emerging-market countries is a key advantage in our pursuit of generating long-term excess returns, allowing us to uncover potentially undervalued opportunities across a broader emerging-market investment universe.

Compared to the benchmark, the portfolio maintains a significant overweight in Latin America, with diversified investments in telecommunications, utilities, energy, and real estate. Conversely, we retain lower allocations to India and Taiwan. While we continue to identify attractive risk-reward profiles in the companies we own in both countries, overall, our analysis suggests that many businesses in India and tech-heavy Taiwan offer limited margin of safety, especially when compared to other opportunities in emerging markets.

China remains our largest country allocation, but our underweight position has widened over the past 18 months as we have pared or exited several holdings, while the country weight within the benchmark has rebounded to over 30%. Within the portfolio, our China exposure is mainly to companies that focus on domestic consumption (e.g., retailers, household durables, leisure). We believe our Chinese holdings represent more compelling opportunities than China-based businesses in more capital-intensive sectors. Additionally, as they primarily cater to the domestic market, our holdings are likely to be better positioned to withstand external pressure (e.g., tariffs, trade tensions) compared to export-oriented peers.

Even with the strong returns for emerging markets year-to-date, the asset class remains appealing from a relative valuation perspective. As of 30 September, the MSCI Emerging Markets Index traded at 14x forward earnings, compared to 23x for the MSCI USA Index. Within the asset class itself, value stocks (MSCI EM Value) continue to trade at what we consider significant discount levels to growth stocks (MSCI EM Growth) across multiple valuation metrics. We are encouraged by the outlook for value stocks in emerging markets and remain confident in the risk-reward tradeoff of our current 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.

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