

## Brandes Investment Partners

### Emerging Markets Equity Strategy Notes

#### First Quarter 2026 (1 January – 31 March 2026)

The Brandes Emerging Markets Equity Strategy returned 4.65% (gross of fees), outperforming its benchmark, the MSCI Emerging Markets Index, which declined 0.17% in the quarter, and the MSCI Emerging Markets Value Index, which gained 1.10%.

#### **Positive Contributors**

Main contributors to returns included holdings in the communication services and consumer staples sectors, led by food products companies Wilmar International and JBS N.V., as well as telecommunications services firms Millicom International Cellular and TIM.

Agribusiness company Wilmar rose on strengthened fundamentals after reporting an increase in annual core profit. Meanwhile, Millicom benefited from stronger cash-flow generation, which reflected its post-restructuring lower cost structure, progress in improving profitability in newly acquired operations in Uruguay and Ecuador, and the closing of multiple transactions in Colombia where it has been consolidating the market and acquiring minorities.

Select information technology companies also performed well, specifically South Korean Samsung Electronics and SK Hynix, Hong Kong-domiciled ASMPT, and Taiwan Semiconductor Manufacturing Company (TSMC). Samsung's shares advanced as infrastructure spending linked to AI continued to support memory demand and pricing. Given its scale, balance-sheet strength, and vertically integrated manufacturing footprint, Samsung is well positioned, in our view, to see significant growth in margins and free-cash-flow generation.

Other notable contributors included Brazil-based integrated oil company Petrobras, which benefited from higher oil prices driven by the geopolitical conflict in the Middle East, as well as its lack of production exposure in the region.

Furthermore, our underweight positions in India and China aided returns relative to the benchmark.

#### **Performance Detractors**

Heightened geopolitical uncertainty and renewed worries about global economic growth pressured several holdings in consumer discretionary and financials. Within consumer discretionary, China-based Trip.com declined following news of an investigation into monopolistic practices in China, with AI disruption fears also weighing on the shares. Home appliance maker Haier Smart Home and retailer Alibaba also detracted amid the broader risk-off sentiment for the sector. In financials, Austria-domiciled Erste Group and Bank Rakyat Indonesia saw their share prices fall, along with India-based HDFC Bank and IndusInd Bank, as well as Bank of the Philippine Islands. Most of the concerns surrounding Southeast Asian and Indian banks were driven by macroeconomic issues relating to the impact of higher energy prices as a direct result of the Middle East conflict. In our view, underlying banking fundamentals remain resilient.

Businesses perceived to be vulnerable to potential AI disruption also hurt performance. IT services firm Globant declined despite what we consider limited change in underlying fundamentals, as investors reassessed how generative AI might impact traditional IT services business models, particularly in application development and consulting. Investor sentiment toward Taiwanese server and datacentre hardware company Wiwynn was also dampened amid volatility in expectations for AI-related infrastructure spending.

Relative to the benchmark, our underweight to Taiwan weighed on returns.

#### **Select Activity in the Quarter**

We initiated a position in China-based NetEase while selling out of Thailand-based Kasikornbank, which appreciated to its estimate of intrinsic value.

NetEase is a company that we are familiar with, having held a position in the recent past. It is the second-largest video game developer and publisher in China, with a 30-year track record of internally developed, long-lived franchises and a portfolio that consistently places four to six titles among China's top 20 games. The core Online Games Services

segment is complemented by valuable equity stakes in NetEase Cloud Music and Youdao, both publicly listed, providing diversification and identifiable asset value. After a temporary slowdown following the COVID-era surge and the 2022 success of *Eggy Party*, NetEase's core gaming growth meaningfully reaccelerated in 2024 and early 2025. It was at this point that we exited our prior position.

However, the share price pulled back meaningfully in early 2026 on AI disruption risk and growth deceleration that underwhelmed investors, creating opportunity for us to initiate a position once again. We believe NetEase is undervalued relative to the quality and durability of its earnings. At its current price, NetEase trades near the low end of global large-cap gaming peers on an earnings basis, while offering, in our view, balance sheet strength (net cash equivalent to roughly 20% of market capitalization) and long-term organic growth potential with attractive returns on capital. Our thesis is that the market underappreciates the longevity of NetEase's franchises and is over-penalizing for the timing risk in the development cycle.

### **Current Positioning**

The portfolio remains differentiated, in our view, from both the benchmark and the MSCI Emerging Markets Value Index. Relative to the benchmark, it maintains a significant overweight to Latin America, with diversified investments in telecommunications, energy, and real estate. Conversely, allocations to India and Taiwan remain lower than benchmark levels. While we continue to identify attractive risk-reward profiles in our holdings there, our analysis suggests that many businesses in India and tech-heavy Taiwan offer limited margin of safety overall, especially when compared to other opportunities in emerging markets. The portfolio also holds a meaningful underweight to businesses in China, although it remains our largest country allocation on an absolute basis.

From a sector perspective, we continue to find compelling value in communication services and consumer staples. Although the portfolio also maintains material exposure to financials and information technology, both sectors represent underweight allocations relative to the benchmark. Meanwhile, the materials sector remains an area where we have not been finding a lot of value opportunities.

We have recently received a number of inquiries regarding the portfolio's risk exposure to the Iran conflict. In our view, the impact is limited and largely indirect. Exposure comes primarily through travel-related holdings, such as Panama-based Copa Airlines, TravelSky, and Trip.com, which could face softer demand if the conflict leads to prolonged disruptions in air travel or sustained elevated oil prices. The portfolio also has indirect macro exposure through our positions in Indonesia and the Philippines, as the countries are net oil importers. Taken in aggregate, however, we do not expect the Iran conflict to have a material impact on the overall portfolio risk.

We are encouraged by the outlook for value stocks in emerging markets and remain confident in the risk-reward trade-off of our 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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