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

The Brandes European Equity Strategy rose 4.40% (gross of fees), outperforming its benchmark, the MSCI Europe Index, which increased 3.62%, but underperforming the MSCI Europe Value Index, which appreciated 5.34%.

Contributors to Performance

The main contributors reflected a combination of strong stock selection in consumer discretionary and health care stocks, as well as continued strength in aerospace and defense. Within consumer discretionary, luxury goods companies France-based Kering and Switzerland-based Swatch were leading contributors. Kering rose due to the anticipated turnaround efforts led by incoming CEO Luca de Meo, combined with promising signs for the core Gucci brand under new creative leadership. In our view, the company continues to have upside potential as management focuses on brand equity, cost cutting and financial discipline which could position it well for margin recovery and long-term growth.

Within health care, the leading contributors were U.K.-based medical device equipment company Smith & Nephew and pharmaceutical firm Avadel Pharmaceuticals. Ireland-based Avadel's share price rose significantly, driven by strong uptake of its lead product, Lumryz (for treating excessive daytime sleepiness) in the U.S. narcolepsy market. Prescription growth and favorable reimbursement dynamics have exceeded marketplace expectations. Smith & Nephew rebounded when investor sentiment improved after it reported better-than-expected earnings and progress on margin recovery.

LISI, a French aerospace and automotive supplier, also aided performance as aerospace demand improved and operational efficiencies took hold. The company's exposure to civil aviation and automotive end-markets positions it well for cyclical recovery, in our opinion.

Other contributors included Luxembourg-based telco Millicom International Cellular SA and U.K.-based construction materials company Balfour Beatty. Millicom benefited from improving fundamentals in Latin America and continued deleveraging.

Detractors from Performance

The most prominent detractors were our technology investments in semiconductors and information technology (IT) services, including recently purchased France-based Capgemini and Switzerland-based STMicroelectronics.

For Capgemini, the impact of artificial intelligence (AI) on the IT services industry and potential policy change in the U.S. regarding immigrant visas, on which the industry relies on for talent mobility, created uncertainty. Despite these challenges, we believe Capgemini is well positioned to gain from a recovery in its European industrial end-markets and potentially from increased corporate spending related to the deployment of enterprise AI applications. Similarly, semiconductor firm STMicroelectronics declined after a second-quarter rebound: markets became more concerned about the timing of a spending turnaround in its industrial and automotive end-markets.

Health care, communication services, and consumer staples were three of the weaker-performing sectors in the MSCI Europe Index. Although our companies fared better than those in the index, several of our largest detractors came from these sectors and our overweights diminished relative returns. These included advertising agencies U.K.-based WPP and France-based Publicis, as well as beverage firms Netherlands-based Heineken Holdings and Ireland-based C&C Group.
Our underweight to financials, the best performing sector in the index, also weighed on relative performance.

Portfolio Activity

We initiated initiated new positions in IT service firm Globant, Germany-based publishing company Springer Nature and Netherlands-based industrial Aalbert.

Globant is a multinational IT services company that focuses on high-value digital engineering services, including customer experience, AI, cloud and development operations. Though its headquarters are in Luxembourg, Globant operates across emerging markets. Most of its workforce is in Latin America and India, with key offices in Argentina.

Unlike many larger IT services firms that have broad exposure to slower-growing segments, Globant functions as a digital pure play, generating almost all of its revenue from advanced, high-margin services. Its business model is primarily 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 are 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. The company’s notable clients include Disney, Google, LinkedIn, Electronic Arts, Formula 1 and Coca-Cola.

Operating in 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 spending. Additionally, the rise of generative AI introduces long-term uncertainty, with the potential to automate commoditised tasks and disrupt traditional outsourcing models. These headwinds contributed to a sharp reduction in Globant’s share price, which fell more than 70% year-to-date in 2025.

We believe the cyclicality and the AI-related risks have been fully recognised in Globant’s current market valuation and we like the company’s 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, such as product design, data integration and business process reengineering, in our opinion. At its current share price, Globant represents an appealing value opportunity to us.

Other notable portfolio activity included entirely selling our positions in Anheuser Busch InBev, Barclays and CaixaBank: each company had reached our estimate of its respective intrinsic value.

Year-to-Date Briefing
The Brandes European Equity Strategy rose 32.94%, outperforming its benchmark, the MSCI Europe Index, which appreciated 27.50% in the nine months ended 30 September 2025, and underperforming the MSCI Europe Value Index, which increased by 35.49%.

The outperformance of value was a contributing tailwind (MSCI Europe Value vs. MSCI Europe). However, the strategy’s outperformance relative to its benchmark was primarily driven by stock selection across most sectors. The most noteworthy drivers included industrials holdings and companies based in France. These were led by industrials Switzerland-based Montana Aerospace and France-based LISI, in addition to Kering, Orange and BNP Paribas in France. Millicom and Magyar Telekom of Hungary also aided returns.

On the other side of the ledger, the largest detractors to date were our underweights to financials, the best-performing sector in the benchmark, and to companies based in Germany, given the strong performance of German industrials and defense companies. At the holding level, advertising agencies WPP and Publicis, consumer product companies, such as Swatch, Belgium-based Ontex and Germany-based Henkel, reduced relative returns.

Current Positioning
The Brandes European Equity Strategy holds key overweight positions in consumer staples and discretionary plus health care and communication services, while maintaining significant underweights to financials and materials. Our underweight to financials has grown as it has been the best-performing sector and now comprises more than 23% of the index. Meanwhile, we pared some investments when they reached our estimate of their intrinsic value. The most significant increases have been additions to our industrials allocation (recent purchase: Aalberts) and consumer discretionary companies, which have been driven by an increase in our textiles, apparel and luxury goods exposure.

Geographically, the portfolio’s largest allocations continue to be in France and the United Kingdom. The strategy remains underweight in Germany and Switzerland and has no exposure to companies in the Nordic Region.

We believe the differences between the strategy and the MSCI Europe Index make it an excellent complement and diversifier to passive and growth-oriented strategies.

While value stocks (MSCI Europe Value) have performed well, they continue to trade in the least-expensive quartile relative to growth (MSCI Europe Growth) since the style indices began. This was evident across various valuation measures, including price/earnings, price/cash flow and enterprise value/sales. Historically, such discount levels have often signaled attractive subsequent returns for value stocks. This is encouraging because the Brandes European Equity Strategy, guided by our value philosophy and process, has had the tendency to exceed the value index when it outperformed the benchmark.

Looking ahead, we remain optimistic about the long-term prospects of the companies held in the Brandes European Equity Strategy.

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.