BRANDES
INVESTMENT PARTNERS

Brandes Investment Partners
European Equity Strategy Notes
Fourth Quarter 2025 (1 October – 31 December 2025)

The Brandes European Equity Strategy rose 5.45% (gross of fees), underperforming its benchmark, the MSCI Europe Index, which increased 6.20%, and the MSCI Europe Value Index, which appreciated 9.26%.

Contributors to Performance
Several holdings performed well, led by companies in the industrials and consumer discretionary sectors. Germany-based Deutsche Post was a standout contributor, benefiting from resilient logistics demand and cost optimisation initiatives that supported margin improvement. U.K.-based Rentokil Initial delivered solid gains, driven by continued strength in pest control services in its U.S. business. Switzerland-based Swatch Group advanced as U.S. tariffs on goods from Switzerland were reduced.

Pharmaceutical firms U.K.-based GSK and Ireland-based Avadel Pharmaceuticals both contributed positively. GSK rose after reporting quarterly results and increasing its guidance forecast. Avadel rose after it received an unsolicited proposal from H. Lundbeck to acquire the company at a premium prompting Alkermes to raise its offer to acquire the company. Amid the bidding war, Avadel's share price reached our estimate of its intrinsic value, leading us to divest our position.

Detractors from Performance
Our overweight to consumer staples and underweight to financials detracted from performance as consumer staples lagged overall, while financials was one of the strongest performing sectors during the period.

More specifically, our investments in the beverages industry weighed on returns. Both France-based Pernod Ricard and U.K.-based Diageo trailed on worries about slowing global spirits demand. While these headwinds persist, both companies offer a strong brand portfolio and pricing power, which support our conviction about their long-term prospects. Belgium-based Ontex Group faced headwinds from weak consumer demand and increased promotional activity. Spanish biotechnology firm Grifols underperformed as margin pressures and investor concerns about leverage overshadowed operational progress: we continue to monitor its efforts to improve efficiency and reduce debt.

Netherlands-based CNH Industrial declined as unease about slowing demand for agricultural equipment and margin pressures weighed on market sentiment. Multinational research publisher Springer Nature detracted as investor concerns about academic publishing growth and cost pressures persisted. While these challenges adversely affected the near-term performance of these businesses, we believe their fundamentals remain intact and they continue to offer long-term upside potential.

Portfolio Activity
We initiated positions in several U.K.-based companies, such as paper and packaging company Mondi, utility company National Grid and beverage company Diageo, while divesting U.K. retailer Tesco and Ireland-based pharmaceutical company Avadel.

Mondi is a leading European producer of corrugated packaging, containerboard, kraft paper and uncoated fine paper. With a strong presence in Eastern and Western Europe and a vertically integrated model from pulp to finished products, Mondi enjoys cost advantages and scale benefits. It is the number one virgin containerboard producer in Europe and the global leader in kraft paper, supplying essential packaging solutions for industries ranging from e-commerce to construction.

Currently, Mondi is out of favour due to a prolonged downturn in the European containerboard market, driven by oversupply and weak demand since 2022. Margins have been pressured by inflation in non-fiber input costs and an influx of new capacity, leaving much of the industry operating below breakeven. This cyclical weakness has weighed on profitability and led to a more leveraged balance sheet following Mondi's recent investment program and mergers and acquisitions activity.

Despite these near-term challenges, Mondi offers an attractive long-term opportunity. Secular trends such as sustainability, convenience, and the shift from plastic to paper underpin steady growth in fiber-based packaging. Mondi's cost leadership, strong positioning in high-barrier kraft paper markets, and integrated operations provide resilience and competitive advantage, in our opinion. The company's completed investment program is expected to increase profits over the next few years, while its expanded converting capacity enhances downstream integration. As industry capacity rationalises and demand normalises, Mondi could be poised for margin recovery and free cash flow inflection. For patient investors, Mondi represents a well-positioned leader in sustainable packaging with meaningful upside potential.

National Grid is one of the world's leading regulated utilities, responsible for electricity transmission and distribution in Great Britain and electricity and gas networks in the northeastern United States. The company operates under well-established regulatory frameworks that provide predictable returns and inflation protection in the U.K., while its U.S. operations benefit from nominal rate structures and legally binding decarbonisation mandates. Over the past decade, National Grid has strategically repositioned its asset base toward electricity networks, reducing exposure to gas and aligning with long-term energy transition trends. Today, roughly 75% of its regulated asset base is in electricity, and this share is expected to rise to 80% by 2029, supported by structural growth in electrification and renewable integration.

Despite its strong fundamentals, National Grid is currently out of favour, weighed down by weak U.K. macro sentiment and concerns over interest rates. There is also a lack of market enthusiasm towards National Grid as it currently has a lower dividend yield than its peers as the company has a lower payout ratio to help fund its upcoming capital expenditure and growth cycle. Over the next five years, National Grid plans to deploy significant capital expenditures across its jurisdictions, with major projects in U.K. Electricity Transmission aimed at alleviating congestion and connecting renewable resources, and in the U.S. focused on grid modernisation and resiliency. These investments are expected to drive attractive growth in the regulated asset base and earnings per share, while dividends should grow in line with U.K. inflation. Importantly, the balance sheet is fully funded, which should eliminate equity funding needs through the next five years.

Longer term, National Grid's position as a critical enabler of decarbonisation, combined with high regulatory visibility and inflation-linked returns, underpins its profile as a defensive compounder with attractive risk-adjusted returns. At current valuations—trading at a discount to U.S. and EU peers—the company's shares offer compelling upside potential, we believe.

Besides the new buys, other portfolio activity included the divestments of Avadel and U.K. retailer Tesco.

We first invested in Tesco over a decade ago when the company faced operational restructuring challenges and a weak U.K. retail environment overall. We viewed Tesco as a dominant food retailer with significant real estate assets and the potential for margin recovery following an accounting scandal and intense competitive pressures. Throughout our holding period, Tesco experienced many ups and downs. The early years were marked by price wars and structural shifts toward online grocery, which pressured the company's profitability. However, under new management, Tesco executed a successful turnaround, improving margins and cash flow while strengthening its balance sheet.

Despite these improvements, the competitive landscape continued to evolve, with discounters gaining share and consumer habits shifting. More recently, Tesco was able to stabilise its market share as some competitors struggled in a higher interest rate environment after going private. As the share price approached our intrinsic value estimate, we elected to exit the position.

Over the years, Tesco was frequently mentioned in our quarterly commentaries, sometimes as a contributor to returns, but more often, as a detractor from performance. While the company's progress has not been linear, our investment in Tesco underscores, in our opinion, how maintaining a long-term perspective can benefit the portfolio.

Year-to-Date Briefing
The Brandes European Equity Strategy rose 40.19%, outperforming its benchmark, the MSCI Europe Index, which appreciated 35.41% for the year ended 31 December 2025, and underperforming the MSCI Europe Value Index, which increased by 48.03%.

The outperformance of value was a contributing tailwind (MSCI Europe Value vs. MSCI Europe). However, the strategy's outperformance versus its benchmark was primarily driven by stock selection across most sectors. By comparison, value index outperformance was largely driven by the notable appreciation of financials, which we are underweight relative to both the broad and value indexes.

The most noteworthy drivers included holdings industrials, health care, and consumer discretionary sectors, as well as companies domiciled in France and Switzerland. These were led by aerospace and defence holdings: Switzerland-based Montana Aerospace and France-based LISI, in addition to luxury goods producer and retailer Kering, construction materials firm Vicat, telecom Orange, and financial services company BNP Paribas in France. Telecom firms Millicom and Magyar Telekom of Hungary also aided returns as did financials AIB Group and Erste Group.

On the other side of the ledger, the largest detractors were our underweights to financials, the best-performing sector in the benchmark, and overweight to consumer staples, as well as holdings domiciled in Germany and the Netherlands. At the holding level, advertising agencies U.K.-based WPP and France-based Publicis, consumer product companies, such as Ontex and Germany-based Henkel, reduced relative returns. Similar to the quarter, both CNH Industrial and Pernod Ricard were also detractors.

Current Positioning

The Brandes European Equity Strategy holds key overweight positions in consumer staples and discretionary, as well as communication services, while maintaining a clear underweight position in financials. Our underweight to financials has grown as it has been the best-performing sector and now comprises almost 25% of the index. Meanwhile, we have pared and sold some investments when they reached our estimate of their intrinsic value. Throughout the year, the most notable increases have been additions in luxury goods, beverages and IT services, and we are now overweight in the technology sector.

Geographically, the portfolio's largest allocations continue to be in France and the United Kingdom. The strategy remains underweight in 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 signalled attractive subsequent returns for value stocks. It is also encouraging because the Brandes European Equity Strategy, guided by our value philosophy and process, has had the tendency to outperform its benchmark when the value index outperforms growth.

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.

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