

Brandes Investment Partners
European Equity Strategy Notes
First Quarter 2026 (1 January – 31 March 2026)

The Brandes European Equity Strategy declined 2.48% (gross of fees), outperforming its benchmark, the MSCI Europe Index, which fell 2.82% in the quarter, and underperforming the MSCI Europe Value Index, which rose 0.07%.

Positive Contributors

Amid a volatile market, the most significant contributors came from a variety of sectors, led by holdings in health care, industrials, and select financial holdings. From a positioning perspective, the portfolio's underweight to financials also contributed positively, as European banks underperformed the broader market during the quarter.

Slovenia-based Nova Ljubljanska Banka was a notable contributor. Shares continued to perform well as the company delivered strong profitability, maintained a robust capital position, and benefited from a high-quality, low-cost deposit base.

Wireless telecommunications company Millicom International Cellular was the largest contributor to returns. Its shares continued their recent run as the company reported better-than-expected earnings results, and investors continued to appreciate the company's improved operational performance, cash flow generation, and strong competitive position.

Germany-based optical systems and defence technology company Jenoptik and France-based semiconductor firm STMicroelectronics both aided performance. STMicroelectronics saw its share price rise following the announcement of a collaboration with Amazon for its AWS (Amazon Web Services) business as well as increased market optimism around a rebound in demand for automotive and industrial chips. While sentiment toward semiconductors became more volatile later in the period, STMicroelectronics' diversified revenue base, exposure to long cycle applications, and strong customer relationships supported relative performance.

Other contributors included agricultural and construction equipment manufacturer CNH Industrial and pharmaceutical company GSK.

Performance Detractors

Amid the geopolitical conflict in the Middle East, the energy sector rose significantly and our underweight to the sector detracted from relative returns. Other detractors included our exposure to select consumer staples and technology-related holdings, as well as our lack of holdings in metals and mining.

While stock selection added value in several areas, the most significant detractors were driven by weakness in businesses exposed to technology and advertising, reflecting heightened concern around artificial intelligence (AI) disruption as well as the increased macro uncertainty.

IT services holdings Capgemini and Globant were among the largest detractors. Shares declined as investors reassessed the potential impact of generative AI on traditional IT services models, particularly in application development and consulting. Although Capgemini has been investing in higher value digital offerings and remains deeply embedded with large enterprise clients, market sentiment during the quarter reflected concern that AI-driven automation could pressure pricing and slow discretionary IT spending.

Germany-based software company SAP declined as well, reflecting broader concerns around enterprise software vendors facing increased competition and questions around how quickly AI-driven innovation will translate into incremental revenue growth. Despite these concerns, SAP continued to benefit from a deeply embedded customer base and long-term secular demand for enterprise resource planning solutions. We used the opportunity of the share-price decline to add to our position.

Within communication services, France-based Publicis Groupe and U.K.-based WPP were notable detractors. Despite posting better-than-expected earnings, Publicis provided guidance for slightly weaker growth than the market expected. Investors appeared ready to sell any company facing AI uncertainty, and both Publicis and WPP saw their share prices

decline. While questions associated with the impact of AI may continue to persist, we believe the market response during the quarter overstated near-term risks compared to the long-term adaptability and client relationships of these franchises.

Other detractors included France-based luxury goods company Kering as well as U.K. staffing company PageGroup. PageGroup's shares declined amid concerns about slowing hiring activity and the potential for AI and automation to structurally reduce demand for traditional recruitment services, linking the stock's weakness to similar themes affecting IT services and advertising companies.

Select Activity in the Quarter

During the quarter, we initiated a position in France-based Sodexo, a global leader in food services and facilities management. Sodexo provides outsourced services to corporate, education, health care, and government clients across more than 40 countries, with a business model anchored by long-term contracts and high renewal rates. The company generates the majority of its revenue from on-site services, including contract catering and facilities management, which benefit from scale advantages and operational complexity that create barriers to entry.

Sodexo has fallen out of favour following several years of operational challenges, including labour cost inflation, uneven execution across regions, and investor scepticism following the spin-off of its employee benefits business. In addition, the company has underperformed peers in North America, contributing to negative sentiment toward the shares.

In our view, this pessimism has created an opportunity to invest in a well-positioned, cash-generative business at a valuation that does not reflect its long-term earnings power. We believe the market is underestimating Sodexo's ability to pass through cost inflation over time, improve margins through operational initiatives, and benefit from secular outsourcing trends across corporate and institutional customers. The company's global scale, diversified end markets, and recurring revenue profile provide resilience across economic cycles.

At current valuation levels, Sodexo trades at a meaningful discount to our estimate of intrinsic value. We see an attractive margin of safety, supported by strong returns on capital, a solid balance sheet, and the potential for earnings recovery as execution improves.

We exited our position in France-based utility Engie during the quarter after the share price approached our estimate of intrinsic value following a strong period of performance.

We first invested in Engie (formerly known as GDF Suez) more than a decade ago when the company was undergoing a strategic transformation away from a complex, capital-intensive utility model toward a more focused portfolio centred on regulated infrastructure, renewables, and energy services. At the time of our initial investment, Engie faced structural challenges, including volatile commodity exposure and an overextended balance sheet. We believed these issues were solvable and that the market was undervaluing the durability of the company's asset base and cash-flow potential.

Over our holding period, Engie executed meaningfully on this thesis. The company simplified its portfolio, reduced exposure to merchant power generation, strengthened its balance sheet, and increased its focus on regulated and contracted assets. More recently, Engie benefited from improved sentiment toward energy infrastructure and utilities, particularly as energy security and electrification became increasingly important global themes. These developments contributed to a re-rating of the shares and strong absolute performance.

As the stock price rose toward our estimate of intrinsic value, we elected to divest the position and redeploy capital into opportunities where we see a more compelling margin of safety.

Current Positioning

As of 31 March 2026, the portfolio remains meaningfully differentiated from the MSCI Europe Index. The portfolio maintains an underweight to financials and industrials. After the energy rally during the quarter, it is now underweight energy. The most significant overweight's continue to be in the consumer staples, communication services, and consumer discretionary sectors.

Geographically, we continue to have a meaningful exposure to businesses in France and the United Kingdom, while being underweight to companies domiciled in Switzerland and the Nordics.

Market volatility increased toward the end of the quarter, driven in part by heightened geopolitical uncertainty and concerns around global growth and inflation. In this environment, we selectively added to existing positions where share prices declined despite unchanged long-term fundamentals. At the same time, we pared exposure in areas such as energy, which held up relatively well during the market pullback, consistent with our valuation-driven discipline.

While both European and value stocks (MSCI Europe and MSCI Europe Value) pulled back during March after starting the year strongly, European stocks have continued their outperformance relative to the U.S. that started last year (MSCI Europe vs. MSCI USA). Value stocks have continued their solid performance relative to growth over the past five years (MSCI Europe Value vs. MSCI Europe Growth). Despite the strong performance, value stocks continued to trade at larger-than-average discounts to growth stocks, in our opinion.

We continue to view European value-oriented equities as offering compelling long-term opportunities, particularly given valuation dispersion across regions and sectors. Periods of volatility, while uncomfortable in the short term, often create attractive entry points for patient, fundamentally oriented investors.

Compared to its benchmark and the MSCI Europe Value Index, the Brandes European Equity Strategy trades at more compelling valuation levels, in our opinion, while offering more attractive long-term growth characteristics. We believe the strategy is well-positioned to benefit if there is a continued rotation toward value and European equities. Looking ahead, we remain optimistic about the prospects of our holdings.

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