

Brandes Investment Partners
European Equity Strategy Notes
Third Quarter 2026 (1 July – 30 September 2026)

The Brandes European Equity Strategy rose 2.61% (gross of fees), outperforming its benchmark, the MSCI Europe Index, which fell 1.65%.

Contributors to Performance

The portfolio's strongest contributors reflected a reversal of several trends that had weighed on performance earlier in the year. Specifically, software and other businesses perceived as vulnerable to artificial intelligence (AI) disruption rebounded as investors' negativity moderated. These holdings included professional services firm Michael Page, software company SAP, multinational advertising agencies WPP and Publicis, as well as France-based IT services firm Capgemini.

U.K.-based recruitment consultancy Michael Page was the portfolio's most significant contributor as its shares recovered sharply after its financial results exceeded market expectations. In our view, the market had become overly pessimistic about the company's earnings potential following an extended slowdown in recruitment activity.

Germany-based enterprise software provider SAP also saw its shares rise as investors became more positive about the company's cloud transition and less concerned that AI would displace its mission-critical applications. SAP reported continued cloud revenue and backlog growth, supported by the migration of customers to its cloud-based enterprise resource planning suite. From our perspective, SAP's ability to incorporate AI functionality into existing workflows enhances the value of its installed base rather than undermining it. While other investors concentrated on disruption risk, we added to our position earlier this year.

The shares of U.K.-based advertising and communications company WPP rose on better-than-anticipated first-half results. Investor sentiment also benefited from the company's turnaround initiatives and moderated concerns about the potential impact of AI on advertising and creative services. While AI may automate portions of creative production, we believe large global advertisers will continue to value agencies that can integrate media, data, technology and creative capabilities across markets.

Other contributors included global agricultural equipment firm CNH Industrial and U.K.-based paper and packaging company Mondi. The market became more optimistic about the prospects of a cyclical rebound in each company's end-markets.

Detractors from Performance

The most notable detractors from performance were our overall sector allocations. Our underweight to energy and financials, the two best-performing sectors, and our overweight to consumer staples and discretionary both weighed on relative returns.

At the holding level, the shares of U.K.-based broadcaster and content producer ITV were affected by a weaker advertising outlook and continued uncertainty surrounding the value and future structure of its businesses. We continue to believe the market does not fully recognise the value of ITV Studios, its content library and its broader strategic options. As its share price fell on negative market sentiment, we added to our position.

U.K.-based pest-control company Rentokil Initial also detracted as weakness in its North American business continued to pressure investor confidence. We recognise that the company must demonstrate better operational execution. However, we continue to believe Rentokil owns an attractive collection of route-based service businesses characterised by recurring demand, customer density and opportunities to improve productivity. We added to the position based on our assessment that the market had become excessively focused on near-term execution challenges against the company's longer-term earnings potential, in our opinion.

Other detractors included luxury goods companies Switzerland-based Swatch and France-based Kering, which have continued to face a tough consumer environment in Europe and China.

Portfolio Activity

We initiated positions in France-based luxury goods company LVMH, Denmark-based pharmaceutical company Novo Nordisk and Germany-based personal-care company Beiersdorf. We funded these investments partly through the sales of DSM-Firmenich and DHL. Both companies saw their share prices rise significantly this year: we divested after their respective share prices reached our estimates of intrinsic value.

LVMH is the world's largest luxury goods group, with more than 75 brands across fashion and leather goods, watches and jewellery, perfumes and cosmetics, wines and spirits, and selective retailing. Its leading assets include Louis Vuitton, Dior, Tiffany, Bulgari and Sephora. The shares had weakened as luxury demand slowed, particularly among aspirational consumers, and investors questioned whether Louis Vuitton could continue to gain share from an already substantial market position.

We agree that near-term prospects are likely to be more subdued than those experienced following the global pandemic and do not assume a rapid return to historical growth. Nevertheless, LVMH owns an exceptional collection of brands supported by robust marketing resources, vertical integration, global distribution and sustained creative investment. Sephora continues to deliver exposure to prestige beauty, while the watches and jewellery businesses increase the company's exposure to higher-income consumers. At our investment price, we believe the valuation more appropriately reflected the risk of slower industry growth while offering attractive recovery potential if luxury demand stabilises and LVMH maintains its competitive position.

Beiersdorf manufactures beauty and personal-care products under brands including NIVEA, Eucerin, Aquaphor, La Prairie and Hansaplast. The company also owns Tesa, a global adhesives business, which supplies industrial and consumer markets. Beiersdorf's shares declined as growth at NIVEA slowed, the broader skincare category weakened and investors became concerned that additional marketing and product investment could pressure margins. Competition has also intensified across several categories, including from multinational companies, digital-native brands, private labels and Asian beauty brands.

We believe these concerns are understandable, and our valuation assumes a measured recovery rather than a rapid return to historical growth. However, Beiersdorf retains valuable global brands, significant financial resources and a strong position in science-based dermatological skincare. Its derma portfolio, led by Eucerin and Aquaphor, presents an attractive platform for long-term growth. Meanwhile, the company's balance sheet gives it flexibility to invest in product innovation and address execution challenges at NIVEA. At our purchase price, we believed the valuation offered an attractive margin of safety even after accounting for reinvestment requirements and the possibility of sustained near-term pressure on growth and margins.

We invested in Novo Nordisk following share-price weakness. The company remains a global leader in diabetes and obesity care, supported by extensive research capabilities and a broad commercial platform. We established the position based on our assessment of its long-term franchise value versus expectations reflected in the shares.

We completed our sales of DSM-Firmenich and DHL after strong performance brought their respective share prices to our estimates of intrinsic value. DSM-Firmenich had benefited from improving earnings and investor expectations following our purchase, while DHL's valuation had also become less compelling relative to other opportunities.

Year-to-Date Briefing

The Brandes European Equity Strategy rose 8.97%, outperforming its benchmark, the MSCI Europe Index, which appreciated 6.03% in the nine months ended 30 September 2026.

Value stocks have outperformed the broader market this year (MSCI Europe Value vs. MSCI Europe), although the primary drivers of index performance have been the solid returns from energy and financials companies: we are underweight in both sectors relative to the index. Technology stocks have also been prominent drivers for the broader index.

At the portfolio level, the most significant contributors included communication services companies Hungary-based Magyar Telekom and Sweden-based Millicom, as well as two technology companies, Germany-based Jenoptik and France-based STMicroelectronics. Other companies that fared well included machinery companies Aalberts and CNH Industrial.

The most significant detractors for the year were driven by our underweight to the strongest-performing sectors. Most notably the absence of Netherlands-based semiconductor firm ASML was the largest individual relative detractor. Other individual detractors included IT service firms Capgemini and Globant, as well as consumer firms Kering, Ontex Group, and Pernod Ricard.

Current Positioning

The portfolio remains meaningfully differentiated from the MSCI Europe Index. Its largest allocations continue to include consumer staples, consumer discretionary and health care where we are identifying globally competitive businesses with recurring demand, durable brands and opportunities to improve earnings from presently depressed levels.

We remain underweight in financials and industrials relative to the benchmark. It is important to remember that these are not top-down macroeconomic calls, but a function of our bottom-up value process and reflect areas where we are or are not finding value opportunities. Our financials weight was higher a number of years ago, but strong performance from an improving economic and lending environment has led many of our former holdings to reach our estimate of intrinsic value. Accordingly, we have been discovering more opportunities beyond financials to deploy capital versus the benchmark, which has seen the sector become a larger weight due to its significant outperformance relative to the rest of the index during the past three years.

Geographically, France and the United Kingdom remain our largest country allocations. The portfolio remains underweight in Switzerland and the Nordic region relative to the benchmark.

We believe uncertainty surrounding economic growth, regulation, geopolitics and technological disruption continues to create wide valuation dispersion across European equity markets. Our recent investments illustrate the range of opportunities we are uncovering, from globally recognised consumer franchises facing cyclical pressure to health care and personal-care businesses affected by company-specific concerns.

We remain determined to buy companies where, in our view, competitive position, normalized cash-flow potential and valuation provide an attractive balance of long-term return potential and downside risk. We believe the portfolio's differentiated exposures can offer investors meaningful diversification potential and make it a compelling complement to passive and growth-oriented approaches. The portfolio also features what we consider to be a more attractive aggregate valuation profile than the benchmark, while staying focused on long-term return potential. We remain encouraged by the prospects for value stocks and the risk-reward profile 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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