

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

The Brandes Japan Equity Strategy returned 6.32% (gross of fees), outperforming its benchmark, the MSCI Japan Index, which gained 1.37% in the quarter.

Positive Contributors

Leading contributors included our overweight and holdings in the pharmaceuticals industry, most notably Hisamitsu Pharmaceutical, Astellas Pharma, and Takeda Pharmaceutical.

Amid global volatility and higher oil and chemical prices, oil company Japan Petroleum Exploration and chemical firm Shikoku Kasei Holdings also meaningfully contributed to returns. Other contributors included machinery companies Fuji Corporation, Komatsu, and Kubota Corporation.

Performance Detractors

Major detractors included auto-related holdings Honda Motor and Nissan Motor, as well as tire manufacturer Bridgestone. Advertising agency Dentsu Group and clothing company Atsugi also hurt performance, along with foundry equipment business Sintokogio.

Select Activity in the Quarter

Despite the heightened geopolitical uncertainty stemming from the conflict in Iran, the Japanese equity market (MSCI Japan) delivered a relatively robust performance, albeit with elevated volatility. Against this backdrop, we were active in portfolio management, divesting three positions and initiating five investments during the quarter. We also selectively reduced exposure to companies benefiting from higher oil prices and increased investor enthusiasm for AI related themes, including Japan Petroleum and Fuji Corporation.

The initiation of five new positions within a single quarter is atypical for the portfolio, which is generally characterized by low portfolio turnover. This level of activity reflected two primary factors. First, we had reduced position sizes across several holdings in prior quarters in anticipation of full exits as valuations approached our estimates of intrinsic value. Second, the analyst team identified a number of new opportunities through ongoing, bottom-up research, allowing us to redeploy capital where we believed the risk-reward profile had become more compelling.

Full Sells

DKK

Denki Kogyo (“DKK”), a manufacturer of telecommunication and broadcasting equipment in Japan, was one of six small-cap companies initiated in the portfolio during the first quarter of 2015. At the time of purchase, the shares traded at a meaningful discount to book value and offered a larger than average margin of safety, supported by a strong balance sheet with excess cash.

Over our decade-long holding period, DKK increased shareholder distributions through higher dividends and share repurchases, reflecting efforts to address its excess capital position. Operating performance was pressured during the pandemic, but earnings more recently showed strong signs of recovery. In addition, an activist investor has accumulated a sizable position in the company in recent years, which appears to have increased expectations for incremental change, although the outcome remains uncertain.

Although it continues to trade below book value, recent share-price appreciation has led DKK to trade above our estimate of intrinsic value. Accordingly, we elected to exit the position and redeploy the proceeds into opportunities where we see a more attractive risk-reward profile.

Kyokuto Kaihatsu

Kyokuto Kaihatsu manufactures specialty trucks and environmental equipment and systems. It is a major supplier to Toyota and its truck manufacturing subsidiary, Hino Motors. While we recognized the company’s historically volatile operating performance and modest long-term growth prospects in Japan, we initiated a position in the third quarter of 2018. At the time of purchase, our investment thesis centred on management’s efforts to restructure the business and

reduce costs to remain competitive, combined with an attractive valuation, as the shares traded below book value and were supported by a strong balance sheet.

Similar to Denki Kogyo, Kyokuto Kaihatsu increased shareholder returns through higher dividends and share repurchases over our holding period. An activist investor has also been involved with the company in recent years, which coincided with improved market sentiment. As the share price appreciated above book value and exceeded our estimate of intrinsic value, we elected to exit the position and redeploy capital elsewhere.

Hisamitsu

In contrast to our long-term holdings in DKK and Kyokuto Kaihatsu, the investment in Hisamitsu Pharmaceutical was relatively short, as the position was initiated in the fourth quarter of 2025. Hisamitsu is a differentiated pharmaceutical company with a balanced business model spanning branded ethical drugs and over-the-counter (OTC) products. At the time of purchase, we were attracted to the strong global recognition of its flagship OTC brand, Salonpas, the potential for a recovery in the pharmaceutical segment, and a robust balance sheet with cash representing roughly 50% of market capitalization.

Shortly after our investment, the company announced a management buyout proposal by the founding family at a price that exceeded our estimate of intrinsic value. Following the announcement, the share price continued to appreciate beyond the offer price, reflecting market expectations for a potential higher bid. Given the resulting valuation and our discipline around intrinsic value, we elected to exit the position, crystallizing value and redeploying capital into other opportunities.

New Buys

Mabuchi Motor

Mabuchi Motor is a global manufacturer of small electric motors with leading positions across automotive, industrial, and consumer applications. The company benefits from scale, standardized production, and cost leadership, with a particularly strong competitive position in automotive motors used in applications such as door locks, mirrors, power windows, and seats. While Mabuchi operates in mature end markets with modest underlying growth, its dominant market share in several core automotive applications, coupled with high-volume manufacturing capabilities, supports resilient cash generation.

Mabuchi's earnings are in the early process of recovering from the pandemic lows that were impacted by below cycle global auto production. Recent margins have been constrained by elevated material costs, volatile auto production, and increased competition from global manufacturers. Our view is that as global auto production normalizes and Mabuchi continues to increase motor content per vehicle, margins and earnings should recover towards a more normalized state, albeit not to the historical high teens level. The investment case is supported by the company's disciplined cost management, improving operating performance following pandemic era weakness, and strong balance sheet.

Milbon

Milbon is a leading Japanese professional haircare company focused primarily on salon distributed products, including shampoos, treatments, styling, and hair colour solutions. The company boasts a strong market position in Japan, supported by a dedicated salesforce that works closely with salons and well-established brands such as Milbon and Elujuda. While growth in the domestic market is modest, Milbon has been expanding selectively overseas and continues to benefit, in our view, from favourable long-term trends, including premiumization in personal care, an aging population (a positive tailwind for hair treatments and colour products), and increased consumer focus on hair and scalp health.

Domestic sales benefited from elevated demand during the pandemic but have since moderated as consumer spending patterns normalized. We view this as a reversion from a cyclical peak rather than a deterioration in Milbon's competitive position. Near-term profitability has also been pressured by margin dilution associated with overseas expansion, particularly in markets that remain in an investment phase, as well as rising cost headwinds across raw materials, labour, and logistics. The investment thesis is that margins should improve over time as the international business scales, and cost inflation is progressively passed through. Additionally, operating leverage should increase as sales growth resumes from the post-pandemic normalized base. We also value Milbon's strong net cash balance sheet, consistent free-cash-flow generation, and shareholder friendly capital return policy, which together provide a margin of safety and support our decision to initiate the position.

Nidec

Nidec is a global manufacturer of electric motors and related components, supplying a wide range of end markets, including appliances, industrial equipment, automotive applications, and precision electronics. We appreciate the company's broad motor technology platform, global manufacturing footprint, and scale, which together result in a diversified revenue base.

In recent periods, Nidec has faced challenges stemming from increased operational complexity following years of acquisition driven expansion, as well as accounting related issues that have led to the establishment of an independent third-party committee and the Tokyo Stock Exchange designating the shares as a *Security on Special Alert*. The company is currently under heightened regulatory oversight as management works to strengthen internal controls and governance. In connection with these issues, the long-tenured founder Shigenobu Nagamori relinquished his role Chairman Emeritus and subsequently stepped down from the Board, taking on responsibility for the governance issues and facilitating a transition toward more institutionalized management oversight.

Despite these near-term issues, we believe Nidec's underlying competitive position remains intact. The shares trade at a valuation we view as attractive relative to normalized earnings and intrinsic value, providing a margin of safety while offering exposure to regional diversification and long-term trends such as electrification, energy efficiency, and industrial automation.

Hoshizaki Corporation

Hoshizaki is a global manufacturer of commercial kitchen equipment, with leading positions in ice machines, refrigeration, and foodservice appliances used across restaurants, hospitality, healthcare, and institutional settings. The company benefits from a strong brand, a broad product portfolio, and a global manufacturing and distribution footprint, which together support a diversified revenue base and recurring demand from equipment replacement and service. Similar to a few other new buys this quarter, Hoshizaki operates in mature end markets with modest underlying growth, but we appreciate that its scale, product breadth, and aftermarket service capabilities have contributed to stable cash generation over the cycle.

There has been near-term margin pressure associated with raw material cost inflation, which we view as transitional rather than indicative of a deterioration in the company's competitive position. The company's recent acquisition of Structural Concepts, a U.S. maker of refrigerated food display cases, has also introduced some near-term integration uncertainty. In our opinion, these issues are largely one-time in nature, and we expect margins and earnings to recover toward more normalized levels over the longer term. We are attracted to Hoshizaki's resilient business model, disciplined operating history, and strong balance sheet, which together provide a margin of safety and support our decision to initiate the position.

Sakai Moving Company

Sakai Moving Service is the largest residential moving company in Japan, operating in a highly fragmented industry characterized by a long tail of regional and local competitors. The company's strengths include its strong brand recognition, nationwide scale, and operational knowhow, which together have contributed to steady market share gains over time. While Japan's overall population is declining, underlying demand for moving services remains supported by internal migration and household formation, allowing Sakai to generate stable volumes and resilient cash flow relative to smaller peers.

Although revenues have continued to grow steadily since the pandemic, margins have been pressured by labour availability constraints and broader cost inflation. We believe these challenges disproportionately impact smaller operators and should, over time, favour scaled providers such as Sakai. The company has continued to gain market share as competitors have reduced capacity or exited the market altogether. We value Sakai's leading industry position, disciplined operating approach, long track record of robust returns on capital, and solid net-cash balance sheet.

Current Thoughts

While portfolio activity for new buys and full sells was somewhat higher than in recent years, it's important to highlight that our investment decisions were not driven by a top-down market view or tactical positioning in response to recent market movements. Following a strong equity market performance over the past two years, a number of holdings have started to approach or exceed our estimates of intrinsic value. We have reduced position sizes in these names,

with the intention of exiting fully as more attractive opportunities emerge. During the quarter, market volatility created opportunities to invest in what we consider high-quality franchises facing near-term headwinds at attractive valuations. We believe these issues are not structural and, over time, can be resolved, leading to potentially improved earnings power.

Conclusion

Despite heightened geopolitical uncertainty and volatility across global equity markets, we remain focused on identifying opportunities in undervalued companies with solid long-term prospects. While the Japanese stock market has held up relatively well compared to other markets, we do see potential downside risk particularly if the conflict involving Iran were to persist for an extended period. Higher oil prices and broader global input cost pressures, coupled with a weak yen could have a material impact on Japan's economy and corporate profitability. In this environment, we continue to emphasize portfolio diversification and strong company balance sheets, which we believe are critical in mitigating permanent capital impairment.

As long-term value investors, we generally welcome periods of uncertainty as they can present opportunities for mispricing as risk-averse capital exits the market. As demonstrated this quarter, we were able to selectively initiate positions in what we consider attractive investment opportunities as they emerged.

We would like to express our sincere appreciation to our clients for the continued trust you place in us to manage the Japan Equity portfolio on your behalf. We are honoured to serve as stewards of your capital and remain committed to a disciplined, transparent, and consistent investment approach focused on achieving the best possible outcomes within our control.

We always welcome dialogue regarding the portfolio, our investment process and philosophy, or the firm more broadly, and encourage you to reach out at any time. Constructive feedback and observations are greatly valued, and we deeply appreciate the long-standing relationships we have built. It is a privilege to manage the portfolio on your behalf.

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