

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

The Brandes Japan Equity Strategy returned 12.65% (gross of fees), outperforming its benchmark, the MSCI Japan Index, which gained 5.96% in the quarter.

Positive Contributors

Leading contributors included industrial holdings Komori, Mitsubishi Pencil, and PILOT, all of which benefited from strong earnings and improved shareholder capital allocation.

Health care equipment company Sysmex also advanced on better-than-expected results, supported by strength in the Americas. Entertainment businesses Akatsuki and Nintendo rose following favourable earnings as well.

Additionally, our lack of holdings in information technology aided relative returns as the sector declined during the quarter.

Performance Detractors

Materials holdings Maruichi Steel Tube and Zacros detracted amid short term earnings pressures. Machinery company Makita also declined due to consumer weakness in Western Europe.

Other detractors included Kissei Pharmaceutical, which lowered its outlook for one of its drugs, and food product company Morinaga, which faced rising input costs. Furthermore, our underweight to financials hurt relative returns.

Select Activity in the Quarter

The Japanese equity market (MSCI Japan) generated strong returns despite periods of volatility. Weakness in July was more than offset by a recovery in August and September. Consistent with our value-oriented approach, we selectively increased positions where market weakness created more attractive discounts to our intrinsic value estimates and reduced or exited holdings where valuations became less compelling. While trading activity declined from the unusually elevated levels of the prior quarter, turnover remained above normal as we exited five positions and established three new investments.

Although the number of positions exited exceeded the number of new investments established during the quarter, cash levels remained stable. In many cases, a full exit represents the final step in a multi-quarter process of gradually reducing a position as the investment thesis evolves or the margin of safety narrows. This measured approach reflects our emphasis on trading discipline, continuous reassessment of intrinsic value, and long-term investment philosophy.

Full Sells

Shizuoka Financial Group, Japan Post Bank, Mitsubishi UFJ

Continuing the trend from the prior quarter, we exited three additional bank holdings: Shizuoka Financial Group, Japan Post Bank, and Mitsubishi UFJ Financial Group. For several years, we maintained an overweight position in Japanese financials based on our expectation that a gradual normalisation of monetary policy would improve bank profitability and support higher valuations. As this thesis has played out, share prices have appreciated and discounts to our intrinsic value estimates have narrowed.

While we continue to view the sector's earnings outlook favourably, we believe current valuations increasingly reflect expectations for sustained excess returns. Although those expectations may ultimately prove justified, we no longer believe they provide an adequate margin of safety. Accordingly, we elected to exit the portfolio's remaining bank positions.

Paltac

We initiated a position in Paltac, one of Japan's largest wholesalers and distributors of cosmetics and consumer products, in the first quarter of 2024. Our investment thesis was based on the view that the company would benefit from growth in consumption volumes across a variety of retail channels, including inbound tourism, continued

expansion of e-commerce, and further consolidation within the industry. Trading at a discount to book value and supported by a strong balance sheet, we believed the shares offered an attractive risk-reward profile.

In May 2026, Medipal Holdings, another holding within the portfolio and Paltac's majority shareholder, announced its intention to acquire the remaining shares of Paltac at a significant premium to the prevailing market price. As the offer price exceeded our estimate of intrinsic value, we elected to tender our shares. While we believe the transaction represented an attractive outcome for Paltac's shareholders, we also see potential value creation for Medipal through the realisation of operating and commercial synergies. Accordingly, our positive view of Medipal remains unchanged.

OSG

We initiated a position in OSG Corp, a leading manufacturer of metal cutting tools with global operations and strong positions across several niche product categories, in the third quarter of 2025. In our view, the market was overly focused on near-term weakness caused by inventory destocking and broader industrial uncertainty, while underappreciating the company's high exposure to recurring consumable products, resilient competitive position, and ability to benefit from a cyclical recovery in manufacturing activity. Supported by a net-cash balance sheet, healthy free-cash-flow generation, and shareholder-friendly capital allocation, we believed the market was not assigning sufficient value to the company's long-term earnings power.

While our typical investment horizon is three to five years, actual holding periods vary as market prices and expected returns evolve. Although OSG's fundamentals continued to improve, we believe the share-price appreciation was driven in part by optimism surrounding the near-term benefits of elevated tungsten prices. In our view, these benefits were unlikely to be sustained, and the resulting increase in the company's valuation more than reflected the likely long-term earnings impact. Accordingly, we elected to exit the position.

New Buys

Sankyo

We initiated a position in Sankyo, one of Japan's leading manufacturers of pachinko and pachislot machines. Our investment thesis is based on the view that the company should retain much of its recent market share gains and benefit from the relatively healthier pachislot segment, while its strong competitive position and intellectual property portfolio support earnings durability. Additionally, the substantial net cash and investments on Sankyo's balance sheet should limit downside risk. At the current market valuation, we believe the company's long-term earnings power is not fully reflected in the share price, providing an attractive risk-reward profile.

Nihon Kohden

We initiated a position in Nihon Kohden, a leading manufacturer of patient monitoring and other medical equipment with a strong market position in Japan and growing international operations. Our investment thesis is based on the view that the company would benefit from improved hospital spending in Japan, margin expansion opportunities in both Japan and the United States, and the stability provided by its recurring consumables and service revenue, which represent approximately half of sales. Given Nihon Kohden's strong balance sheet and attractive valuation, we are excited about the investment opportunity.

Yamabiko

We initiated a position in Yamabiko, a leading manufacturer of outdoor power equipment with a portfolio of well-established brands including Echo. Our investment thesis is based on the view that the company should maintain its strong competitive position and continue to benefit from operational improvements, a growing focus on shareholder returns, and attractive long-term growth opportunities. We appreciate Yamabiko's resilient market share and a solid track record of profitability and believe the company's long-term earnings power is not fully reflected in the share price, providing what we consider an attractive margin of safety.

Current Thoughts

The Japanese equity market has continued to perform strongly, resulting in a growing number of holdings approaching or exceeding our estimates of intrinsic value. Our investment process remains unchanged. We continue to reassess intrinsic value under a range of potential scenarios while searching for new investment opportunities across their respective coverage universes. Consistent with this approach, we have selectively reduced or exited positions where prospective returns have become less compelling, and redeployed capital into investments offering what we view as more attractive long-term return potential.

While the current environment has been supportive of equity returns, valuations across many areas of the market are meaningfully higher than they have been in recent years. Although we do not attempt to forecast market movements, we recognize that higher valuations generally reduce future return expectations and narrow the margin of safety available to investors.

As always, our focus remains on patiently allocating capital to businesses trading at meaningful discounts to our estimates of intrinsic value and realizing gains as those discounts narrow. We believe a disciplined emphasis on both seeking to limit downside risk and long-term value creation remains the most effective way to compound capital over time.

Conclusion

While some prefer not to describe ourselves as contrarian investors, our bottom-up investment approach and emphasis on intrinsic value often result in portfolios that look meaningfully different from the benchmark. Today, the Japan Equity portfolio maintains significant underweight in financials, including banks, and has no exposure to information technology, trading companies, or wireless telecommunications. These positioning differences are not the result of top-down views or benchmark considerations, but rather the outcome of our assessment of individual investment opportunities.

We recognise that an index-agnostic approach can lead to periods of relative underperformance, particularly when market leadership is concentrated in areas where we find few attractive opportunities. However, we believe the greatest investment risk is not short-term benchmark deviation, but the permanent impairment of capital. As a result, we remain focused on owning businesses that we believe are trading at meaningful discounts to intrinsic value and avoiding investments where prospective returns do not adequately compensate for the risks involved.

While the path of returns will inevitably vary from year to year, we believe maintaining a disciplined focus on valuation and prudent capital allocation provides the best foundation for compounding capital over the long term.

Lastly, we sincerely appreciate the confidence you place in us to manage the Japan Equity portfolio on your behalf. We are grateful for the trust our clients place in us and remain committed to a disciplined and consistent investment approach focused on delivering attractive long-term outcomes.

We always welcome discussion regarding the portfolio, our investment process and philosophy, or the firm more broadly, and encourage you to reach out at any time. The relationships we have built with our clients are among our most valued assets, and we greatly appreciate your continued trust and partnership.

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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