BRANDES
INVESTMENT PARTNERS

Brandes Investment Partners
Global Opportunities Value Strategy Notes
First Quarter 2025 (January 1 – March 31, 2025)

The Brandes Global Opportunities Value Strategy returned 8.97% net of fees and 9.14% gross of fees, outperforming its benchmark, the MSCI ACWI Index, which fell 1.32% in the quarter.

Annualized total return as of March 31, 2025	1-year	5-year	10-year
Brandes Global Opportunities Value Composite (net)	16.40%	18.59%	7.12%
Brandes Global Opportunities Value Composite (gross)	17.28%	19.62%	8.06%
MSCI ACWI Index	7.15%	15.17%	8.83%

Past performance is not a guarantee of future results. One cannot invest directly in an index. Returns include reinvestment of all dividends and are reduced by any applicable foreign withholding taxes, without provisions for income taxes, if any.

Positive Contributors

A pullback in technology-related companies (especially those in the United States), which had been major drivers of market performance during the past two years, led to an overall market decrease. Several factors contributed to the decline, including concerns about market valuations, tariffs and economic growth. Additionally, the announcement of DeepSeek v3, a potentially lower-cost artificial intelligence (AI) model, fanned worries about competition in the AI space. This development led many investors to question whether the market had been overly enthusiastic about the increased spending in the semiconductor industry. Against this background, our underweight to AI-related companies in the technology and consumer discretionary sectors aided our relative performance.

At the holding level, standout performers included aerospace and defense companies Embraer in Brazil and Rolls-Royce in the U.K. Both firms appreciated substantially over the past few years as their end markets recovered, leading to better-than-expected earnings with higher volumes and enhanced margins. Rolls-Royce upgraded its fiscal-year guidance and announced a share buyback as its balance sheet strengthened on the back of healthy cash-flow generation. Meanwhile, Embraer secured several new wins against competitors in its defense business. This, coupled with an expanding order backlog for regional jets, has further boosted market confidence in the company's prospects.

Select holdings in communications services also helped performance, including smaller-cap Hungary's Magyar Telekom, Luxembourg-domiciled Millicom International Cellular, and Japanese Fuji Media Holdings.

Other notable contributors included China-based Alibaba and German medical equipment firm Draegerwerk. Alibaba rose on favorable earnings results and positive reactions to its progress in AI. In addition to launching its own AI models, Alibaba benefited from the release of DeepSeek, which utilizes Alibaba Cloud.

Performance Detractors

Notable detractors included several of our technology holdings, led by Taiwan Semiconductor Manufacturing Company (TSMC), NETGEAR, and PAX Global Technology. TSMC tumbled amid concerns around semiconductor capital expenditure spending, triggered by the announcement of a significantly lower-cost AI model from DeepSeek. The company also faced investor skepticism about its announced substantial spending in the United States.

Other poor performers included Elanco Animal Health and FedEx Corporation. Additionally, a few investments in the consumer and communication services sectors detracted from returns, including advertising agencies WPP and Publicis, luxury goods companies Kering and Swatch, as well as consumer staples holdings Henkel and J Sainsbury.

U.K.-based WPP issued weaker guidance for 2025 as its turnaround has lagged behind the anticipated timeline. The stock price of its France-based peer, Publicis, also declined due to worries about weaker industry growth this year.

Shares of France-based Kering fell after its recently appointed CEO announced a new creative director for the company's Gucci brand. This new hire will likely result in a potential rebound taking longer than the market had previously expected. Additionally, after rising early in the quarter, the luxury goods industry has recently softened as a result of increasing concern about the U.S. macro environment and the potential impact of tariffs on U.S. consumer purchases. While market pessimism has undermined Kering in the short term, we believe the shares continue to offer an attractive long-term opportunity. Kering has historically generated robust free cash flow in different economic environments and enjoys durable brand recognition. We also appreciate its management alignment with shareholders and importantly, its current valuation, which is discounted relative to its own history and that of its peers.

Select Activity in the Quarter

In fairly active period for the portfolio, the investment committee initiated positions in Mexico-based WalMart de Mexico and French cement manufacturer Vicat, as well as U.S.-based machinery firm Kennametal, food retailer Ingles Market, health care company Premier, and defense business Textron. The committee also divested two holdings, French utility Engie and Japan's Fuji Media Holdings.

Wal-Mart de Mexico (Walmex) became Walmart's first international business through a 1991 joint venture with Mexico's leading retailer, CIFRA. In 1997, Walmart acquired a majority stake in the company. Today, Walmex operates more than 3,000 stores in Mexico and over 900 in Central America, establishing itself as a dominant retailer in Mexico with a market share that is three times that of the #2 and #3 players.

A number of macroeconomic challenges, driven by national elections in Mexico and the United States last year, have pressured Walmex's valuation to its lowest levels in more than a decade. Moreover, late last year, COFECE (commission responsible for anti-competitive regulations in Mexico) initiated an investigation into Walmex's market dominance in the wholesale supply and distribution of consumer goods, which further hurt market sentiment. After we determined that this ruling would not have significant impact on the company's operations, growth, and profitability potential, we decided to invest in Walmex.

We appreciate that Walmex's operating margin has been stable, its free-cash-flow generation and returns on invested capital have been robust, and that the company has a net-cash balance sheet (excluding leases). Trading at a mid-teen multiple of earnings compared to its historic average of mid-twenties, Walmex represents an appealing investment opportunity to us.

Current Positioning

The strategy holds overweight positions in consumer staples, communication services, and health care, while retaining a significant underweight to technology. Geographically, it maintains overweights to emerging markets and the United Kingdom, while remaining underweight the U.S., which accounts for approximately 64% of the benchmark.

We believe the differences between our portfolio and the MSCI ACWI Index make it an appealing complement to index-tracking or passively managed strategies. Going forward, we remain optimistic about the portfolio's holdings composition and the risk/reward tradeoff it offers.

Term definitions: https://www.brandes.com/termdefinitions

The MSCI ACWI with net dividends captures large and mid cap representation of developed and emerging markets.

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