BRANDES
INVESTMENT PARTNERS

Brandes Investment Partners
International Equity Strategy Notes
Second Quarter 2025 (April 1 – June 30, 2025)

The Brandes International Equity Strategy rose 10.68% net of fees and 10.79% gross of fees, underperforming its benchmark, the MSCI EAFE Index, which was up 11.78% in the quarter, and outperforming the MSCI EAFE Value Index, which returned 10.11%.

Annualized total return as of June 30, 2025	1-year	5-year	10-year
Brandes International Equity Composite (net)	25.03%	17.54%	7.54%
Brandes International Equity Composite (gross)	25.57%	18.05%	8.04%
MSCI EAFE Index	17.73%	11.15%	6.50%

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.

Contributors to Performance
The largest contributors to performance reflected a combination of stock selection in technology and materials, as well as continued recovery in select U.K. consumer names.

Among the top contributors was STMicroelectronics, which benefited from stronger-than-expected sales to its industrial end-market and an anticipated recovery in its automotive end-market. Taiwan Semiconductor Manufacturing Company (TSMC) also helped returns as its leadership in advanced chip manufacturing and central role in AI-related demand drove positive investor sentiment and earnings momentum.

Within materials, shares of Mexico-based Cemex and Germany's Heidelberg Materials increased after both companies reported improved earnings results. In the U.K., J Sainsbury and Tesco appreciated significantly, thanks to resilient consumer demand, improved pricing power, and continued progress on cost efficiency initiatives.

Other standout performers included South Korean Hana Financial Group, which rose materially as Korean banks broadly benefited from rising net interest margins and improving credit quality. Hana's capital discipline and earnings growth further boosted market sentiment.

Detractors from Performance
Our overweights to health care and energy, two of the weakest-performing sectors in the benchmark, detracted from relative returns. Additionally, several of our holdings in both sectors declined.

France-based TotalEnergies and Brazil's Petrobras hurt performance as oil prices declined amid tariff concerns and geopolitical conflicts. Within health care, notable detractors included pharmaceutical holdings Sanofi and Takeda Pharmaceutical. Sanofi declined due to market worries about its profit margins, a concern we consider short-term in nature. We believe Sanofi remains well positioned for steady top-line growth, supported by its flagship drug Dupixent, its improved research and development productivity, and a lack of major patent expirations for the next five years. We continue to view Sanofi as a stable cash-flow generator with upside optionality from its pipeline.

After a strong rebound in the first quarter, Alibaba declined amid macroeconomic uncertainty in China. We remain confident in the company's long-term positioning in e-commerce and cloud computing, and believe the shares continue to trade at an attractive valuation level.

Other detractors included Hong Kong-based Budweiser Brewing APAC, Japanese machinery firm Kubota, Singapore-headquartered agribusiness group Wilmar International, and Swiss watchmaker Swatch.

Budweiser faced volume pressures in China and Southeast Asia, while Kubota was affected by weaker-than-expected demand in its construction equipment segment. Similarly, both Wilmar and Swatch experienced margin compression amid subdued consumer sentiment across Asia. Despite the headwinds, we believe these positions warrant continued inclusion in the portfolio given their long-term earnings potential and compelling valuations.

Portfolio Activity

There were no new buys during the quarter. However, we divested three positions: U.K. aerospace and defense firm Rolls-Royce Holdings, South Korean tobacco company KT&G, and France-based food products business Danone.

The exit from Rolls-Royce marked the conclusion of an investment that began in May 2022. At the time of purchase, the company was trading at a significant discount to our estimate of intrinsic value, following a period of severe disruption caused by the COVID-19 pandemic. Our thesis centered on Rolls-Royce's dominant position in the widebody aircraft engine market, its high-margin aftermarket services business, and its exposure to long-term secular growth in global air travel.

Over the course of our holding period, we made several upward adjustments to our estimate of Rolls-Royce's intrinsic value as the company made substantial progress in strengthening its balance sheet, improving operational execution, and restoring profitability. By mid-2025, the stock had appreciated significantly, supported by a rebound in civil aerospace volumes, margin expansion, and a return to investment-grade credit metrics. With the stock trading up to our revised intrinsic value estimate, we exited the position during the quarter. While we continue to view Rolls-Royce as a high-quality industrial franchise, we believe the risk/reward profile has become less compelling compared to other opportunities in the portfolio.

Similarly, KT&G and Danone approached our estimates of intrinsic value following periods of strong performance, leading us to exit the positions. We redeployed the capital to add to several positions, including some of our recent purchases from the past year, such as France-based tech services provider Capgemini and beverage firm Pernod Ricard.

Year-to-Date Briefing

The Brandes International Equity Strategy rose 21.89% net of fees and 22.18% gross of fees, outperforming its benchmark, the MSCI EAFE Index, which appreciated 19.45% in the six months ended June 30, 2025, and slightly underperforming the MSCI EAFE Value Index, which rose 22.84%.

Although the outperformance of value stocks (MSCI EAFE Value vs. MSCI EAFE) has been a tailwind for the strategy given our value exposure, it was our stock selection across multiple sectors that mostly drove our outperformance relative to the benchmark. Leading contributors included holdings in consumer discretionary, led by Alibaba, and in materials, most notably Heidelberg Materials. The strategy also benefited from holdings in technology and health care. Other standout contributors included aerospace and defense companies Embraer and Rolls-Royce, as well as France-based holdings BNP Paribas and Orange. These names reflect strength in both emerging markets and European industrials, with common themes including balance sheet improvement, capital returns, and exposure to infrastructure and digital transformation.

Meanwhile, our underweights to financials and European defense companies hurt relative returns. At the holding level, notable detractors included luxury goods companies Kering and Swatch, as well as advertising agency WPP. Other detractors were concentrated in consumer discretionary (e.g., Henkel) and health care (e.g., Sanofi, Astellas Pharma), where macro uncertainty and margin pressure weighed on sentiment.

Current Positioning

As of June 30, the portfolio's largest overweights are in consumer staples and health care. Additionally, after having a roughly equal weight to technology at the beginning of the year, we now have an overweight in the sector. Meanwhile, the portfolio's most significant underweights are in financials and industrials.

Geographically, we continue to have a larger allocation to businesses in Europe and select emerging markets, particularly Mexico, South Korea, and Brazil. We believe the differences between the Brandes International Equity Strategy and the MSCI EAFE Index make it an excellent complement and diversifier to passive and growth-oriented strategies.

The significant appreciation and outperformance of international (MSCI EAFE vs. MSCI USA) and value stocks (MSCI EAFE Value vs. MSCI EAFE) this year serves as a great reminder of the benefit of diversification. International and value stocks underperformed for much of the decade prior to the COVID-19 pandemic, likely resulting in many investors being under-allocated to international value stocks. As a result, international value stocks traded near some of the largest discounts in their history relative to growth stocks (MSCI EAFE Growth). Despite the strong rebound this year, international value stocks continue to trade within the least expensive quartile relative to growth (MSCI EAFE Value vs. MSCI EAFE Growth) since the inception of the style indices. This is evident across various valuation measures, including price/earnings, price/cash flow, and enterprise value/sales. Historically, such discount levels often signaled attractive subsequent relative returns for value stocks over the subsequent three- to five-year period. This is encouraging for us as our strategy, guided by our value philosophy and process, has had the tendency to outperform the value index when it outperformed the benchmark.

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

For term definitions: https://www.brandes.com/termdefinitions

The MSCI EAFE Index with net dividends captures large and mid cap representation of developed market countries excluding the U.S. and Canada.

The MSCI EAFE Value Index with gross dividends captures large and mid cap securities across developed market countries, excluding the United States and Canada, exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.

The MSCI EAFE Growth Index with gross dividends captures large and mid cap securities across developed market countries, excluding the United States and Canada, exhibiting growth style characteristics, defined using long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend.

The MSCI USA Index measure the performance of the large and mid cap segments of the U.S. equity market.