BRANDES
INVESTMENT PARTNERS

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

The Brandes Japan Equity Strategy returned 8.74% net of fees and 8.75% gross of fees, underperforming its benchmark, the MSCI Japan Index, which gained 11.36% in the quarter.

Annualized total return as of June 30, 2025	1-year	5-year	10-year
Brandes Japan Equity Composite (net)	21.94%	10.90%	7.09%
Brandes Japan Equity Composite (gross)	22.04%	11.13%	7.62%
MSCI Japan Index	13.88%	8.75%	6.06%

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
Strong performers included holdings in machinery, notably Fuji Corporation, Komori Corporation, and Hisaka Works.

Food retailer Mitsubishi Shokuhin was also a standout contributor, along with health care firm H.U. Group Holdings, Fuji Media Holdings, and auto-related holdings Nippon Seiki and Honda Motor.

Performance Detractors
Although machinery exposure was a positive contributor overall, Makita Corporation and Kubota Corporation weighed on performance. Other detractors included entertainment company DeNA and Kaken Pharmaceutical.

Additionally, our significant underweight to technology hurt relative performance, along with our overweight to health care.

Select Activity in the Quarter
The second quarter was marked by heightened volatility, which started off with the U.S. government's announcement of new tariff policies. The initial market correction prompted in-depth discussions within the investment committee focusing on assessing the potential impact of tariffs and identifying opportunistic capital deployment. As a result of these discussions, we reinitiated a position in Dai Nippon Printing, which we had sold in Q4 2024. This purchase was driven by renewed conviction in the company's fundamentals and a compelling valuation. We also increased our exposure to recently initiated positions in **Dentsu** and **Kato Sangyo**, while selectively adding to underperforming holdings such as **Astellas**, **DeNA**, **Makita**, **Kubota**, and **Meiji**.

In parallel, we took advantage of strength in select names that performed well despite the broader market turbulence. We trimmed our position in **Fuji Media** following increased investor optimism driven by activist involvement as mentioned in our previous note. We also reduced our stake in **Mitsubishi Shokuhin** after its parent company announced plans to take the company private at a premium. Additionally, regional banks experienced strong performance throughout the quarter. In response, we fully exited our position in **Concordia Financial Group** (see below) and reduced our holdings in **Shizuoka Financial Group** and **Hachijuni Bank**. We believe these portfolio decisions are consistent with our process and investment discipline that is based on margin of safety.

Full Sell

Concordia Financial Group
During 2014-2016, we identified a number of compelling investment opportunities among well-capitalized regional banks in Japan trading at significant discounts to book value. In the fourth quarter of 2016, we initiated a position in Concordia Financial Group. The company was established in April 2016 through the merger of the Bank of Yokohama and Higashi-Nippon Bank, creating one of the largest regional banking institutions in Japan. This merger expanded Concordia's geographic footprint to include Tokyo and six surrounding prefectures in the Kanto region—areas characterized by high population density and growth.

The investment thesis was underpinned by anticipated merger synergies, including cost reductions from overlapping operations, enhanced operating leverage, and increased cross-selling opportunities across a broader customer base. The scale achieved through the merger also positioned Concordia to better compete with Japan's mega banks. Despite a challenging macro backdrop of persistently low interest rates and subdued domestic loan demand, we believed the company's valuation at entry offered an attractive risk/reward profile for long-term investors.

Nearly a decade into our holding period, we began seeing a re-rating of domestic regional banks recently, supported by gradual interest rate normalization by the Bank of Japan. While the return on equity remains modest, profitability has started to improve with gradual net interest margin expansion. Additionally, shareholder returns have been bolstered by share repurchases and increased dividend payouts, mostly due to the continued pressure from the Tokyo Stock Exchange directives.

We continue to view Concordia as one of the more resilient and well-positioned regional banks in Japan. However, with the stock trading at approximately 0.8x tangible book value—a level that is above our estimated range of intrinsic value—the investment committee decided to exit the position to redeploy the capital into higher margin-of-safety investments that can also provide additional portfolio diversification benefit.

New Buy

Dai Nippon Printing

We reinitiated a position in Dai Nippon Printing (DNP) after fully exiting the name in Q4 2024. This re-entry aligns with our disciplined approach of investing in names where we see a favorable margin of safety—regardless of prior ownership history. Our Q4 2024 exit followed a period of strong operational and share-price performance. As DNP's share price exceeded our estimate of its intrinsic value, we gradually reduced the position and ultimately exited at what we considered attractive levels.

More recently, the market weakness driven by U.S. tariff policy announcements in April led to a meaningful correction in DNP's share price and created an opportunity to re-establish exposure at what we deem compelling valuation levels. While we acknowledge some indirect risk from trade policy developments, DNP's core business is primarily concentrated in Japan and the rest of Asia, with minimal exposure to U.S. revenues.

We continue to see long-term value and hold a positive outlook on DNP's diversified business portfolio. Although the domestic printing segment faces structural headwinds, the company's businesses in areas such as integrated circuit cards, color and optical films for LCDs (liquid crystal displays), photomasks for semiconductors, metal masks for OLEDs, and lithium-ion battery packs offer strong potential for sustainable growth and margin expansion. At current prices, we find the risk-reward profile attractive and are excited about re-adding DNP to the portfolio.

Proxy Voting

The second quarter marked a high engagement period for our analysts, driven by the Japanese proxy voting season. A defining characteristic of the Brandes investment process is the central role our analysts play in leading the proxy voting decisions. This responsibility is supported by our Corporate Governance Committee, which provides guidance aligned with our global proxy voting principles. We view this as a key strength of our approach—empowering analysts with both accountability and the opportunity to influence positive changes through the exercise of proxy voting rights.

Unlike proxy advisory firms that often adopt a localized perspective, Brandes applies a globally consistent standard rooted in what we believe constitutes best practices in corporate governance to protect and enhance shareholder value. For over two decades, we have actively voted against numerous Japanese boards on issues such as:

1. Insufficient board independence,
2. A lack of directors with relevant business or financial expertise, and
3. Limited focus on improving returns on capital.

While our votes may at times be symbolic—given the prevalence of cross-shareholdings in Japan—we remain steadfast in our fiduciary duty to advocate for best practices and to promote long-term value creation through active engagement and voting.

This year, we observed a notable increase in activist proposals aimed at unlocking shareholder value. While we welcome these proposals, we do not automatically support such initiatives; rather, we evaluate each initiative on its merits. For example, in the case of Fuji Media Television, we were not unanimous in supporting the activist's proposed board members, as we had concerns about the qualifications of certain candidates. Nonetheless, we view the growing activist presence as a constructive force, and welcome efforts aimed at strengthening corporate governance and improving shareholder returns.

While our engagement strategy continues to favor behind-the-scenes dialogue, we are prepared to take a more public stance when we believe it will drive meaningful change for the benefit of our clients.

Conclusion

The second quarter exemplified the inherent unpredictability of equity markets. Early in the quarter, value investors such as Brandes found favorable conditions, as the market decline revealed a number of compelling investment opportunities. However, as the quarter progressed, the market appeared to shrug off many of the concerns that had triggered the initial correction, resulting in a strong rebound in performance.

As long-term, fundamentally driven investors, we remain focused on intrinsic value rather than short-term price movements or quarterly performance. Our investment decisions are guided by risk-reward dynamics, where we reduce positions that appreciate and increase allocations where we find attractive margins of safety. This quarter was a clear reflection of this discipline as we were more active buyers at the beginning of the quarter, but sellers toward the end.

With the relatively swift recovery in the Japanese market, our weekly Investment Committee discussions have centered on two key questions:

1. Which positions or exposures should we trim in light of increased market optimism?
2. Where should we redeploy capital to maintain a balanced and diversified portfolio while also looking to maximize long-term return potential?

The latter is particularly important as we weigh current valuations against the benefits of diversification. Our analysts continue to actively explore the investment universe, and the committee is optimistic about the potential to introduce new names to the portfolio in the coming months.

Finally, we would like to express our sincere appreciation to our clients for entrusting us with the management of the Japan Equity portfolio. Our commitment remains unwavering: to be consistent, transparent, and focused on delivering the best possible outcomes within our control. We welcome ongoing dialogue about the portfolio, our investment philosophy, and our firm. Your feedback—whether questions, observations, or constructive criticism—is always valued. It is truly a privilege to manage this portfolio on your behalf, and we sincerely value the long-standing relationship.

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

The margin of safety for any security is the discount of its market price to our estimate of its intrinsic value.

The MSCI Japan Index with net dividends is designed to measure the performance of large and mid cap segments of the Japan market.

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