BRANDES
INVESTMENT PARTNERS

Brandes Investment Partners
Japan Equity Strategy Notes
Third Quarter 2025 (July 1 – September 30, 2025)

The Brandes Japan Equity Strategy returned 6.08% net of fees and 6.08% gross of fees, underperforming its benchmark, the MSCI Japan Index, which gained 8.02% in the quarter.

Annualized total return as of September 30, 2025	1-year	5-year	10-year
Brandes Japan Equity Composite (net)	18.94%	11.19%	8.58%
Brandes Japan Equity Composite (gross)	18.97%	11.41%	9.09%
MSCI Japan Index	16.36%	8.97%	8.24%

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 regional bank holdings Hachijuni Bank and Hyakugo Bank, as well as Shizuoka Financial Group. Other contributors included auto components company Nippon Seiki and media company TV Asahi Holdings. Our underweight position in technology companies also aided returns.

Performance Detractors

The largest detractors from performance included our overweights to the consumer staples and health care sectors, and our lack of holdings in telecommunications services. At the stock level, notable detractors included food products companies Yakult Honsha and Meiji Holdings, as well as entertainment companies DeNa and Akatsuki. Our underweight to financials also detracted from returns as the sector continued to perform well.

Select Activity in the Quarter

During a relatively strong market environment, the investment committee took a more active approach by adding two new names to the portfolio, namely OSG Corp and SMC Corp, while exiting Fuji Media Holdings. Additionally, we tendered the shares in Mitsubishi Shokuhin to its parent company in a buyout offer, which we believed appropriately reflected our assessment of the company's intrinsic value.

Consistent with our process and investment discipline, we took advantage of the rising market by reducing positions in names where the allocations became outsized relative to the margin of safety provided. This included TV Asahi Holdings, which performed well in the quarter along with the aforementioned Fuji Media Holdings. We also reduced our allocation to regional banks where the portfolio has long been overweight, paring positions in Oita Bank, Shizuoka Bank, Mitsubishi UFJ, Hyakugo Bank, Hachijuni Bank.

Proceeds from these reductions were redeployed into the two new positions and select underperforming gaming names, such as Akatsuki, DeNA, and GungHo. For each of these holdings, we believe their strong balance sheets and R&D potential are currently undervalued by the market.

Full Sell

Mitsubishi Shokuhin

The investment committee initially established a position in Mitsubishi Shokuhin, one of Japan's largest food and beverage wholesalers, in the fourth quarter of 2019. We were attracted by its strong balance sheet, consistent earnings track record, solid returns on capital, and compelling valuation. Our investment thesis centered on the company's potential to enhance its operating margins by expanding value-added services, including manufacturing and marketing of its own private label brands. While earnings were expected to be depressed in the near term due to a number of large capital expenditure projects and increased operating expenses, we believed these investments would ultimately drive long-term improvements in returns on capital.

Over the past five years, Mitsubishi Shokuhin's investment program did indeed lead to stronger business operations as revenues reverted to growth, and margins trended higher along with returns on capital. Following a comprehensive reassessment of the business, we concluded that its intrinsic value had materially increased over the past year.

In May 2025, Mitsubishi Shokuhin's parent company, Mitsubishi Corp, which held a 50.1% stake, announced a takeover bid for the remaining stake. Although we have historically held concerns regarding corporate governance in parent-subsidiary listings—particularly around the fairness of minority shareholder treatment—we viewed this offer as appropriate and exceeding our estimate of intrinsic value. Accordingly, we chose to tender our shares and reallocate capital toward more compelling opportunities.

Fuji Media
A longer-term holding than Mitsubishi Shokuhin, our position in Fuji Media, one of Japan's top four television broadcasters, was initiated in the second quarter of 2016. As is the case with many of the small- and mid-cap names we invest in, we were drawn to Fuji Media's strong balance sheet, which included cash, equity investments, and substantial prime real-estate holdings in the Tokyo area. We found Fuji Media's market valuation appealing as the company traded at a significant discount to book value. Our investment thesis focused on the upside optionality from the potential unlocking of inefficiencies of the balance sheet.

Our investment philosophy emphasizes patience and discipline, both of which proved to be essential during our holding period of Fuji Media. Unfortunately, entrenched management and poor corporate governance resulted in minimal improvement over time. However, a governance scandal in early 2025 triggered widespread pressure for meaningful reform—from sponsors, the public, and both domestic and foreign shareholders. Following a leadership change and ongoing public scrutiny, the share price responded positively, reflecting optimism about the potential for further improvements.

While we recognize that the company is now better positioned to unlock value, we believe the current market valuation reflects a level of optimism that exceeds our own assessment of its potential. As a result, we have chosen to exit the position and reallocate capital to more attractive opportunities.

<u>New Buy</u>

OSG Corp
OSG Corp is a manufacturer of tungsten-carbide and high-strength steel metal cutting tools, such as drill heads, taps, end mills, and rolling dies. OSG holds leading positions across its product niches and serves a diverse set of end markets, including automotive, general engineering, aerospace/energy, and micro-precision. Through its global operations, OSG has a presence in 33 countries across Asia, North America, Europe, and Africa.

Since the pandemic-induced downturn, OSG's end markets have faced a slow recovery, hindered by supply chain disruptions, persistent inflation, and more recently, macroeconomic uncertainty due to tariffs.

We are attracted to OSG's compelling business model and favorable industry dynamics. Notably, 90% of its products are classified as consumables, resulting in recurring revenue. These consumables are highly engineered and critical to manufacturing productivity, yet they represent only approximately 4% of the end customer's production costs, making them essential but not cost-prohibitive. OSG competes in a fragmented industry dominated by five scaled players in the premium segment, with OSG ranking fifth globally and holding approximately 5% market share.

At current valuation levels, we see attractive downside protection. Firstly, OSG's short-cycle industrial profile and high exposure to consumables support strong mean-reverting characteristics. Its fundamentals tend to decline swiftly during inventory destocking phases but rebound sharply as customers restock, often outpacing broader economic recovery. Secondly, OSG maintains a defensive financial profile, supported by resilient free cash flow generation and a net cash balance sheet. Lastly, the company has demonstrated a strong commitment to shareholder returns through its buybacks and dividends. OSG repurchased a record 5.8% of its shares at value-accretive levels in fiscal year 2024 and recently approved additional buybacks. It also raised its cash dividend, offering shareholders a nearly 3% cash yield as we await a cyclical inflection.

SMC Corp
SMC Corp. is the world's largest manufacturer of pneumatics, which are devices that use compressed air to perform mechanical function, with nearly 40% global market share. Its manufacturing footprint is concentrated in Japan (61%), China (14%), and Vietnam (20%). The global pneumatics industry is relatively concentrated with the top three players controlling approximately 75% of the market. SMC has historically generated high returns on invested capital. The company is currently undertaking significant capacity expansion with the goal of achieving ¥1trillion in sales by 2026.

In our view, the current market presents an attractive opportunity to invest in a semi-cyclical business that has the potential to deliver strong returns on capital across cycles. Investor concerns appear to center around margin pressure, slowing growth, elevated capex investments, and competition from Taiwanese/Chinese competition. However, we believe the margin pressures are likely transitory, driven by increasing depreciation burden and lower utilization rates stemming from recent capacity expansion and cyclical headwinds.

While the scale of SMC's capital expenditure program is significant, we see it as a strategic investment that should position the company for long-term growth. Historically, such periods of elevated investment have provided attractive entry points into high-quality businesses with durable competitive advantages and strong long-term potential.

Current Thoughts
As the Japan equity market (MSCI Japan) continues to perform well, we have begun to see more changes within the portfolio, which has historically experienced low turnover. A key topic of discussion within the investment committee has been our longstanding overweight allocation to regional banks, a position that resulted from our bottom-up, valuation-based decision making.

As mentioned in our previous quarterly notes, the focus in past discussions was on how much additional financials exposure we could responsibly add, given the inherent correlation, cyclicality, and diversification risks. However, with valuations now approaching levels we consider close to fair value, the conversation has shifted toward how swiftly we should reallocate capital.

While value investors are often characterized by a tendency to sell early, we believe that continuing to hold financial institutions trading significantly above book value, or regional banks trading below book value but generating returns on equity well below our estimated cost of capital, introduces meaningful investment and portfolio risk. Over the coming year, should the equity market and financials continue to perform well, we anticipate a more material reduction in our exposure as we seek to redeploy capital into more attractive opportunities.

Conclusion
Despite a challenging third quarter in an otherwise strong market, we remain optimistic about the portfolio's long-term return potential. While periods of underperformance are never desirable for our clients, we continue to emphasize discipline and avoid overreacting to short- or medium-term market fluctuations. As long-term, fundamentally driven investors, our decisions remain anchored in intrinsic value, with a focus on capital preservation and thoughtful risk-reward assessments.

Although overall market valuations are no longer as compelling as they once were, our analysts remain actively engaged in identifying new opportunities across the investment universe. The investment committee is encouraged by the potential to introduce new, high-conviction 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.

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