BRANDES
INVESTMENT PARTNERS

Brandes Investment Partners
Japan Equity Strategy Notes
First Quarter 2025 (January 1 – March 31, 2025)

The Brandes Japan Equity Strategy rose 7.33% net of fees and 7.34% gross of fees, outperforming its benchmark, the MSCI Japan Index, which increased 0.34% in the quarter.

Annualized total return as of March 31, 2025	1-year	5-year	10-year
Brandes Japan Equity Composite (net)	8.61%	9.77%	6.59%
Brandes Japan Equity Composite (gross)	8.75%	10.04%	7.14%
MSCI Japan Index	-2.10%	8.80%	5.25%

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

Top performers included media companies Fuji Media and TV Asahi. Additionally, banks performed well amid increased interest rates, including our holdings Shizuoka Financial Group and Sumitomo Mitsui Trust.

Other notable contributors included gaming company DeNA and tire manufacturer Bridgestone.

Performance Detractors

Notable detractors included automakers Nissan Motor and Honda Motor. While Nissan's shares increased following the news of a potential merger or alliance with Honda in December 2024, the plans fell through in February, causing both companies share prices to decline.

Other detractors included machinery firm Fuji Corp and mobile gaming company GungHo Online Entertainment. Additionally, although bank holding Mitsubishi UFJ did well, our underweight to the firm, which accounted for approximately 4% of the benchmark as of March 31, detracted from relative returns.

Select Activity in the Quarter

In a steadily rising market environment, the investment committee reduced positions in well-performing holdings such as DeNA, Fuji Media Holdings, and Mitsubishi UFJ. As mentioned earlier, we also took advantage of Nissan's share-price increase early in the quarter to pare our position.

On the buy side, we initiated positions in Kato Sangyo and Dentsu, while also increasing several positions to our target allocations. These included machinery firms Kubota and Fuji Corp, chemical company Koatsu Gas Kogyo, Astellas Pharma, and entertainment company Akatsuki, all of which exhibit attractive margins of safety, based on our analysis.

New Buys:

Dentsu

Dentsu is the world's fifth-largest ad agency holding company by revenue, generating half of its profits in Japan and the other half from international operations. Dentsu's margins are currently near all-time lows due to several factors, including increased spending to protect accounts and stimulate top-line growth, and higher costs from inflation. Based on our long-term view, we believe profitability should eventually recover and converge closer to the industry average as organic growth returns. We appreciate the ad agency business model, as costs are mostly variable in nature, allowing for flexible cost management during both good and bad economic times. We also like Dentsu's strong cash-flow generation and healthy balance sheet (slightly net debt). At the current valuation, the investment committee believes the risk/return profile is attractive.

Kato Sangyo
Kato Sangyo is the fourth-largest food and beverage wholesaler in Japan with a strong presence in the Kansai region. The company's main customers are supermarkets (approximately 43% of revenue), followed by discount stores, drug stores, general merchandise stores, convenience stores and other wholesalers. Kato Sangyo derives the majority of revenue and profits from its processed and instant food segment, but it also offers alcoholic beverages and frozen foods. Additionally, the company has a small overseas business.

Similar to the investment thesis in Mitsubishi Shokuhin, another company in the portfolio, we appreciate the food distribution business as it is highly cash generative with solid organic growth prospects despite being mostly domestic oriented. Kato Sangyo has been able to steadily increase its sales, has a heavily net cash balance sheet, and shareholder returns increasing through consistent buybacks and dividends. Based on its stable growth and solid returns on equity, we believe that the market may be undervaluing the company. As such, we were excited to initiate a position in Kato Sangyo.

Current Thoughts
We would like to share our investment thesis on Fuji Media Holdings, which contributed significantly to returns this quarter. We believe this is a good case study that highlights our investment process.

Fuji Media has been a longtime holding in the portfolio, and our investment thesis has been based on its market valuation not reflecting much credit for the value of its assets, which are more akin to a real estate portfolio than a media company. Fuji Media is partly shielded from foreign investors by the 20% foreign ownership restriction placed by the government, and as a result, returns on equity have been poor due to the inefficient balance sheet, poor management, and lack of attention to shareholders.

Many viewed Fuji Media as a value trap, with little hope for change given the entrenched management and governance issues. While we did not disagree about poor management, our view was that owning a potentially undervalued asset would eventually garner returns over the long term. The value realization of our holdings, including Fuji Media, can come from various factors, but we do not explicitly model the probabilities of such catalysts. Our philosophy is that the more undervalued a company is, the higher the probability that the investment will generate excess returns.

In the case of Fuji Media, an unfortunate governance scandal has led to significant pressure from its clients (sponsors), society, and shareholders (domestic and foreign). The entrenched board is expected to change, but activist shareholders are now putting more pressure for a complete change in the way the company is managed. The share price has reacted very positively, possibly reflecting the potential value realization of Fuji Media's core assets.

While we did not explicitly expect the change in management when we decided to initiate a position in Fuji Media, we did appreciate the potential that this could trigger an improvement in shareholder returns. This said, we are aware that change is slow, and that market optimism tends to front-run actual change. Our investment process is not to speculate on where the share price could go. Our process is deeply engrained on estimating what we believe Fuji Media is intrinsically worth based on bottom-up analysis. Our reduction of the position in Fuji Media is a sign that we believe the share price is nearing our intrinsic value.

This explanation of our investment case in Fuji Media may sound familiar, as it is similar to our answer to many of the questions received regarding our underperforming investments. We purchase companies when we believe the shares trade below our estimates of their intrinsic value. Unfortunately, we do not have a crystal ball to predict when or how the value will be realized. Catalysts may come from management changes, new product launches, mergers and acquisitions—or in Fuji Media's case, an unfortunate corporate scandal. Our investment philosophy is centered on searching for undervalued assets and owning them with a long-term horizon and the view that change at some point will come that will lead to value realization.

Conclusion
With the announcement of the U.S. tariff plans and the unforeseeable impact on global economic activity, we believe there could be some interesting investment opportunities arising if market uncertainty continues. As long-term value investors, we generally appreciate times of uncertainty as they can present potential for market mispricing as risk-averse capital

flows out of the market. We look forward to leveraging our experienced analyst base should attractive investment opportunities materialize.

We would like to express our sincere appreciation to our clients who have continued to give us the opportunity to manage the Japan Equity portfolio on their behalf. We are honored to continue serving as stewards of your capital. Our commitment is steadfast: to remain consistent, transparent, and dedicated to achieving the best possible outcomes based on what we can control.

We always appreciate any dialogue regarding the portfolio, our process and philosophy, as well as the firm, so please do reach out anytime. Critical comments and observations are always welcome as well. We sincerely value the relationship over the years. It is truly a privilege to manage the portfolio on your behalf.

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.

TOPIX with gross dividends measures performance of all domestic common stocks listed on the Tokyo Stock Exchange First Section.