

Brandes Emerging Markets Value Fund

Fund Commentary

During the quarter, the Brandes Emerging Markets Value Fund outperformed its benchmark, the MSCI Emerging Markets Index.

Positive Contributors

Notable performers included holdings in Taiwan and South Korea, specifically steelmaker POSCO, cloud infrastructure company Wiyynn and original design manufacturer Accton Technology.

POSCO saw its share price appreciate on robust free-cash-flow generation and improved balance sheet. Additionally, market optimism around growing demand for electric vehicles provided a boost for one of its subsidiaries, Posco Future, which has meaningful exposure to anode and cathode battery materials used in electric vehicles. The surge in the share price of the publicly traded Posco Future has resulted in the subsidiary accounting for over half of POSCO's market cap, despite contributing less than 5% of operating profits. Amid the market optimism and lofty valuation of Posco Future, POSCO reached our (Brandes LP) estimate of its intrinsic value and we decided to divest the position during the period.

Wiyynn, on the other hand, received an earnings estimate upgrade thanks to new artificial intelligence (AI) projects and positive news on potential volume growth in AI servers.

Similarly, favourable earnings report and forecast by AI leader Nvidia positively impacted the share price of Accton as the market believes Accton is positioned to be a key beneficiary of the AI race. We sold the position in Accton as it appreciated to our estimate of its intrinsic value.

Beyond holdings in Taiwan and South Korea, noteworthy performers included India-based power producer NTPC and Mexico-based REIT Fibra Uno.

Performance Detractors

Detractors were mostly companies domiciled in Latin America, namely Panamanian airline Copa Holdings, Brazil-based electric utility Neoenergia, food retailer Sendas Distribuidora and jet manufacturer Embraer, as well as Chilean telecom Empresa Nacional de Telecomunicaciones (Entel).

Sendas declined on a forecasted slowdown in same-store sales and margin pressure, while Neoenergia reported slightly weaker-than-expected quarterly results.

Another notable detractor was Shanghai Pharmaceuticals. Despite a nearly 20% year-over-year increase in revenue during the first half of the year, the company posted an almost 30% drop in profit, mainly due to a non-recurring impairment charge for a joint venture (excluding non-recurring items, profit was up 9% year-over-year). Moreover,

the launch of a yearlong anti-corruption campaign by the Chinese government in July 2023 sparked concerns about a slowdown in pharmaceutical sales. Nonetheless, we believe these factors are temporary in nature and Shanghai Pharmaceuticals continues to warrant a position in the portfolio at its current valuation.

Select Buy & Sell Activity

The emerging markets investment committee initiated positions in Brazil-based utility ENGIE Brasil and paper products company Suzano, as well as Singapore-based agribusiness Wilmar International. As previously mentioned, we also divested holdings in POSCO and Accton as they appreciated to our estimates of intrinsic value.

Following its 2019 merger with Fibria Celulose, Suzano is the world's largest market pulp producer, boasting 10.9 million metric tons of capacity that accounts for more than a quarter of global hardwood supply. The group began to produce its own paper in the late 1930s, becoming the first global industrial-scale producer of eucalyptus pulp.

Suzano's shares reached their 10-year high in February 2021 and have since declined by more than a third. Depressed prices—Chinese hardwood pulp prices have fallen below the industry's marginal costs of production—and concerns about excess supply due to significant

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capacity increases expected in the near term have weighed on pulp producers worldwide, along with cash cost inflation, rising interest rates and an uncertain macroeconomic backdrop. Adding to the industrywide concerns, Suzano is entering this downturn with a levered balance sheet and substantial remaining capital expenditures (capex) on its greenfield Cerrado Project. Although the project bears execution risks, if successful, it is expected to increase pulp capacity by about 25% and should help Suzano lower production costs and improve margins.

In our view, Suzano's challenges have been more than accounted for in its share price, and the market is underappreciating the quality of the company's assets and the available financial resources it can use to navigate an industry downturn. Thanks to economies of scale and the operational proximity between forests, mills and ports, Suzano is one of the lowest-cost producers in the world. Should the market situation worsen, we believe management will have the ability to adjust capex and costs to support its financial position. At its current share price, the company represents an opportunity to invest in an industry leader trading at what we consider appealing valuations.

Wilmar International is the world's largest refiner and trader of palm oil, the largest producer of edible oils and a leading oilseed crusher and sugar producer. The company's integrated business model covers the entire value chain of palm oil and sugar cane, from cultivating and milling to processing, branding and distributing a wide range of food

products, animal feeds and industrial agricultural products such as oleochemicals and biodiesel. This approach enables Wilmar to extract margins at every step through scale, integration and logistical advantages, including operating its own fleet of bulk carriers.

While Wilmar reported record profits during the agricultural commodity upcycle in the last two years, its stock price diverged from the underlying fundamentals as investors seemed to favour companies with greater upstream exposure. Profits have begun to normalize at its upstream businesses, but the expected margin recovery in Wilmar's consumer products and oilseed crushing businesses has yet to materialize. We see Wilmar's share-price weakness as an opportunity to invest in a company that we believe is well positioned for long-term food consumption growth in emerging markets, notably in Asia where it derives most of its revenue. The company is implementing a multi-year strategy to expand its downstream consumer products business by leveraging its leadership in edible oils across key Asian markets. In the near term, potential catalysts for value realization may include demand recovery as economies continue to reopen, improved economics in China's hog farming industry (main market for Wilmar's animal feed business), normalization in raw material costs and the monetization of stakes in its listed subsidiaries that currently trade at higher valuations than the company.

Current Positioning

As of September 30, 2023, the Brandes Emerging Markets Value Fund held large overweights to real estate (note that we do not have any China-based real estate holdings), consumer staples and consumer discretionary, while maintaining key underweights to materials, energy and information technology. Geographically, although Chinese companies made up our largest exposure, our weighting to the country remained lower than that of the benchmark's. We also continued to be underweight India, Saudi Arabia and Taiwan, while having significant overweights to companies in Mexico, Brazil and Panama.

We believe the differences between our portfolio and the MSCI Emerging Markets Index make it an appealing complement to index-tracking or passively managed strategies. Additionally, while value leadership (MSCI EM Value vs. MSCI EM) did provide a tailwind for the Fund so far this year, our outperformance was primarily driven by our stock selection across sectors and countries. Going forward, we remain optimistic about the portfolio's holdings composition and the risk/reward tradeoff it offers.

About Brandes LP

In the 40-plus years since Brandes LP was founded, its goal has remained the same: pursue above-market gains to help investors move closer to their long-term investment objectives. Brandes LP believes that its unwavering

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commitment to value investing will lead it to attractively priced, fundamentally sound companies worthy of inclusion in the Fund.

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Contribution Analysis (relative to benchmark)

LAST QUARTER

INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Metals & Mining	0.88	Insurance	-0.42
Communications Equipment	0.86	Aerospace & Defense	-0.33
Diversified Reits	0.58	Airlines	-0.30
Tech. Hardware, Storage & Periph.	0.54	Retail - Consumer Staples	-0.20
Diversified Telecom. Services	0.35	Health Care Prov. & Services	-0.18

COUNTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Taiwan	1.82	Panama	-0.33
South Korea	1.43	Brazil	-0.27
Mexico	0.60	Turkey	-0.19
South Africa	0.16	Hong Kong	-0.18
China	0.11	India	-0.12

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
POSCO Holdings Inc.	0.92	Embraer S.A. ADR	-0.33
Accton Technology Corp.	0.86	Copa Holdings SA Cl. A	-0.32
Wiwynn Corp.	0.73	Sendas Distribuidora SA	-0.24
Fibra Uno Admin. SA ORD	0.58	Shanghai Pharmaceuticals	-0.21
NTPC Ltd	0.36	AIA Group Ltd	-0.21

LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Metals & Mining	2.46	Interactive Media & Svcs.	-0.81
Banks	2.45	Retail - Consumer Staples	-0.31
Diversified Reits	2.19	Automobiles	-0.31
Electric Utilities	2.18	Personal Products	-0.26
Tech. Hardware, Storage & Periph.	2.15	Entertainment	-0.19

COUNTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Mexico	4.95	India	-0.56
China	4.30	Poland	-0.32
South Korea	3.57	Turkey	-0.29
Brazil	3.25	South Africa	-0.19
Taiwan	2.45	Greece	-0.17

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
POSCO Holdings Inc.	2.89	LG Household & Health Care	-0.31
Wiwynn Corp.	2.29	Indus Towers Ltd.	-0.21
Fibra Uno Admin. SA ORD	2.19	Taiwan Semiconductor	-0.20
Cemex SA de CV ADR	2.12	Sendas Distribuidora SA	-0.16
Embraer S.A. ADR	1.83	Kasikornbank PCL	-0.12

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Quarterly Additions/Deletions

Additions
Wimar International
ENGIE Brasil
Suzano

Deletions
POSCO
Accton Technology

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