

Brandes Investment Partners
Emerging Markets Equity Strategy Notes – Private Client
First Quarter 2021 (January 1 – March 31, 2021)

The Brandes Emerging Markets Equity Strategy outperformed its benchmark, the MSCI Emerging Markets Index, in the first quarter.

Positive Contributors

The strategy continued to benefit from cyclically oriented and economically sensitive holdings, such as Brazil-based regional jet manufacturer **Embraer**, Mexican cement company **Cemex**, and South Korean steel manufacturer **POSCO**. The positive performance of these companies was mainly driven by their strong free-cash-flow generation and improved business outlook.

Embraer saw its business stabilize amid increased customer aircraft deliveries, resulting in positive cash flow and improving margins. While Cemex experienced its strongest period in many years and announced double-digit profit growth guidance for 2021.

Performance Detractors

Several holdings in China and Brazil declined in the quarter, although our allocations to the countries did better overall than the benchmark's Chinese and Brazilian constituents. Notable detractors included e-commerce company **Alibaba** and oil & gas firm **Petrobras**.

Tension over fuel price hikes at Petrobras came to a head when President Bolsonaro announced the nomination of a retired army general to replace the firm's current chief executive officer. The move, which raised investor concerns about government interference, came after management seemed unwilling to reverse recent fuel price increases despite mounting pressure. Brazil depends on imports to meet its domestic demand for refined oil products. As essentially the sole importer for such products, Petrobras has faced similar issues in the past. The oil price was up over 50% in Brazilian real terms since November, subsequently driving up fuel pricing. Even with recent hikes, the fuel prices set by Petrobras are still below import parity. We believe that the market reaction has been larger than the likely economic impact and that the company fundamentals remain appealing as Petrobras offers strong free cash flows underpinned by attractive production growth from a low-cost resource base.

Beyond holdings in China and Brazil, other detractors included Indonesian mobile operator **XL Axiata** and tobacco company **Gudang Garam**.

Select Activity in the Quarter

New additions to the portfolio included Brazilian food company **Sendas Distribuidora** and Indonesian's **Indofood**.

Other activity included the divestments of China-based **Baidu** and **China Mobile**. We sold Baidu as the company's share price appreciated to our estimates of its intrinsic value. Meanwhile, we exited our position in China Mobile due to a change in its non-investment related risk profile. In January, the New York Stock Exchange delisted China Mobile to comply with an executive order by then President Donald Trump barring U.S. investments in Chinese companies with links to the military.

Current Positioning

At quarter end, the Brandes Emerging Markets Equity Strategy held its largest sector weightings in financials and consumer discretionary, and maintained key underweights to technology and materials. From a country perspective, even though Chinese companies made up our largest allocation, we were still significantly underweight the country. Additionally, we have a significantly lower weighting to Taiwanese companies than the benchmark. While our investment decisions are based on company-by-company analysis and not dependent on any index's compositions, the differences between our value-oriented portfolio and the benchmark make our portfolio a potential complement to index-tracking and growth-oriented alternatives.

As the pandemic has created significant uncertainty for businesses, we have applied conservative assumptions in estimating the intrinsic values of our holdings. We believe the strategy is well positioned to benefit from potential post-COVID economic recoveries in emerging markets (EM) outside China, Taiwan, and South Korea (three countries that have a “near COVID-free” status). Additionally, the strategy maintains a diversified exposure to what we consider attractively priced value opportunities, including companies with underappreciated growth potential, high dividend yields or those that are undergoing temporary setbacks. Before the positive news regarding COVID-19 vaccines broke in November, our analysts saw good operating results from our holdings which were *not* followed by major price movements for these securities. The portfolio’s performance could get a lift with continued improvement in the fundamentals of our holdings and a re-rating of the companies’ multiples. Additionally, the potential strengthening of EM currencies against the U.S. dollar is another potential catalyst for the strategy’s future returns.

After another strong quarter, value stocks (as represented by MSCI EM Value) remain attractive, in our opinion, for the long term given a variety of potential tailwinds, including:

- an increase in inflation and interest rates (see our most recent [Brandes Letter](#));
- pickup in economic growth as global economies begin to reopen and potentially benefit from government stimulus;
- the prospect of increased government regulation of technology companies, which make up a meaningful portion of growth indices (e.g., 25% of MSCI EM Growth vs. 17% of MSCI EM Value as of March 31).

More importantly, we believe the valuation discounts at which value stocks trade relative to growth stocks (MSCI EM Value vs. MSCI EM Growth, based on price/book, price/earnings and price/cash flow) continue to bode well for value stocks.

We remain excited about the prospects of the Brandes Emerging Markets Equity Strategy and thank you for your continued trust.

Free Cash Flow: Total cash flow from operations less capital expenditures.

Cash Flow: The amount of cash generated minus the amount of cash used by a company in a given period.

Dividend Yield: Dividends per share divided by price per share.

Price/Book: Price per share divided by book value per share.

Price/Earnings: Price per share divided by earnings per share.

Price/Cash Flow: Price per share divided by cash flow per share.

Net Cash: Total cash minus total debt.

Operating Margin: Operating income divided by net sales; used to measure a company’s operating efficiency.

The MSCI Emerging Markets Index with net dividends captures large and mid cap representation of emerging market countries. Data prior to 2001 is gross dividend and linked to the net dividend returns.

The MSCI Emerging Markets Value Index with gross dividends captures large and mid cap securities exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.

The MSCI Emerging Markets Growth Index with gross dividends captures large and mid cap securities 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.

MSCI has not approved, reviewed or produced this report, makes no express or implied warranties or representations and is not liable whatsoever for any data in the report. You may not redistribute the MSCI data or use it as a basis for other indices or investment products.

The foregoing Quarterly Commentary reflects the thoughts and opinions of Brandes Investment Partners® exclusively and is subject to change without notice. The information provided in the commentary should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any security transactions, holdings or sectors discussed were or will be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance discussed herein. International and emerging markets investing is subject to certain risks such as currency fluctuation and social and political changes; such risks may result in greater share price volatility. There is no assurance that any securities discussed herein will remain in an account’s portfolio at the time you receive this report or that the securities sold have not been repurchased. The actual characteristics with respect to any particular account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Unlike bonds issued or guaranteed by the U.S. government or its agencies, stocks and other bonds are not backed by the full faith and credit of the United States. Stock and bond prices will experience market fluctuations. Please note that the value of government securities and bonds in general have an inverse relationship to interest rates. Bonds carry the risk of default, or the risk that an issuer will be unable to make income or principal payment. There is no assurance that private guarantors or insurers will meet their obligations. The credit quality of the investments in the portfolio is not a guarantee of the safety or stability of the portfolio. Investments in Asset Backed and Mortgage Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Securities of small companies generally experience more volatility than mid and large sized companies. Although the statements of fact and data in this report have been obtained from, and are based upon, sources that are believed to be reliable, we cannot guarantee their accuracy, and

any such information may be incomplete or condensed. Strategies discussed are subject to change at any time by the investment manager in its discretion due to market conditions or opportunities. The Brandes investment approach tends to result in portfolios that are materially different than their benchmarks with regard to characteristics such as risk, volatility, diversification, and concentration. Please note that all indices are unmanaged and are not available for direct investment. Past performance is not a guarantee of future results. No investment strategy can assure a profit or protect against loss. Market conditions may impact performance. The performance results presented were achieved in particular market conditions which may not be repeated. Moreover, the current market volatility and uncertain regulatory environment may have a negative impact on future performance. The margin of safety for any security is defined as the discount of its market price to what the firm believes is the intrinsic value of that security. The declaration and payment of shareholder dividends are solely at the discretion of the issuer and are subject to change at any time.

United States: Issued by Brandes Investment Partners, L.P., 11988 El Camino Real, Suite 600, San Diego, CA 92130.

Singapore/Asia: FOR INSTITUTIONAL/ACCREDITED INVESTOR USE ONLY. Issued by Brandes Investment Partners (Asia) Pte Ltd., The Gateway West, 150 Beach Road, #35-51, Singapore 189720. Company Registration Number 201212812M. ABRN:164 952 710. This document is for "institutional investors" or "accredited investors" as defined under the Securities and Futures Act, Chapter 289 of Singapore and may not be distributed to any other person. This document is being provided for information purposes only. Incorporated in Singapore in 2012, Brandes Investment Partners (Asia) Pte Ltd (Brandes Asia) provides portfolio management services to clients in Asia (as permitted under local law). Brandes Investment Partners, L.P., a U.S. registered investment adviser and a sister entity to Brandes Asia, provides research, portfolio construction and other support to Brandes Asia.

Ireland/Europe: FOR PROFESSIONAL INVESTOR USE ONLY. Issued by Brandes Investment Partners (Europe) Limited (Brandes Europe), 36 Lower Baggot Street, Dublin 2, Ireland. Registered in Ireland Number 510203. Authorised and regulated by the Central Bank of Ireland. This report is being provided for information purposes only, no representation or warranty is made, whether express or implied as to the accuracy or completeness of the information provided. To the fullest extent permitted by law Brandes Europe shall not be liable for any loss or damage suffered by any person as a result of the receipt of this report. Recipients of this report should obtain their own professional advice. The distribution of this report may be restricted by law. No action has been or will be taken by Brandes Europe to permit the possession or distribution of this report in any jurisdiction where action for that purpose may be required. Accordingly, this report may not be used in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons to whom this report is communicated should inform themselves about and observe any such restrictions. This information is being issued only to, and/or is directed only at (i) persons who have professional experience in matters relating to investments or (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or to whom it may otherwise lawfully be communicated (all such persons together being referred to as "Relevant Persons"). This communication must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this communication relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. This report is a confidential communication to, and solely for the use of, the persons to whom it is distributed to by Brandes Europe.