

# 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 electric utilities, specifically Neoenergia and Enel Chile.

Neoenergia reported robust results and announced the sale of a 50% stake in eight of its operational transmission lines for R\$1.2bn (Brazilian real) equity value, which was well received by the market. Meanwhile, Enel Chile continued its solid rebound in the quarter, driven by top-line growth in its generation business and increased gas sales.

Select information technology holdings appreciated, led by South Korea-based SK Hynix and Samsung, as well as Taiwanese-listed Wiwynn. Several bank positions also lifted returns, notably India-based IndusInd Bank, Indonesia's Bank Rakyat Indonesia, Austria-domiciled Erste Group and Panamanian Banco Latinoamericano de Comercio Exterior.

Other meaningful contributors included Brazilian oil and gas firm Petrobras, Mexican cement company Cemex and Panama-based airliner Copa Holdings.

Petrobras continued to pay out the majority of its free cash flow in dividends to shareholders, boosting investor optimism and its share price. Meanwhile, Cemex posted solid earnings and improving margins as inflation pressures started to subside.

Relative to the benchmark, the Fund's underweight to China helped performance.

## Performance Detractors

Significant detractors included holdings in the consumer discretionary sector, including China-based Alibaba and China Education Group, Malaysia's Genting Berhad and Hong Kong-based Luk Fook Holdings.

Alibaba declined on weaker-than-expected demand recovery in China. An announcement by its largest shareholder, Softbank, that it would sell the majority of its stake pressured the company's shares further. Following the share-price decline, Alibaba now trades at less than 10x forward earnings, a level that we (Brandes LP) think offers an attractive investment opportunity given the firm's competitive position and long-term growth prospects. Moreover, Alibaba still plans to split its business into six

units, which may help crystallize value for some of its underappreciated assets.

Other detractors included South Korean personal care products company LG H&H and Latin American telecom Millicom International Cellular.

Earlier this year, Millicom disclosed it was in talks with Apollo Global Management and Claure Group about a potential private equity buyout. However, the company confirmed in June that the discussion about the sale had been terminated, while also issuing weaker-than-expected earnings guidance, causing the shares to drop.

Although our holdings in India generally performed well, our underweight to the country hurt performance relative to the MSCI Emerging Markets Index.

## Select Buy & Sell Activity

The emerging markets investment committee initiated positions in South African bank Absa Group and China-based LONGi Green Energy Technology.

LONGi is the world's largest integrated manufacturer of solar wafer and modules, with industry-leading profit margins. The company's key competency lies in wafer

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production, which accounts for the bulk of its profits. Integrated players sell their wafers after assembling them into finished modules, or in the case of LONGi, also via external sales to third-party module producers.

LONGi saw its share price halved over the past year due to both industry-wide and company-specific challenges. At the industry level, aggressive capacity expansion plans pose a threat of an oversupply, while elevated prices for polysilicon (a raw material for solar modules) have squeezed profits along the solar value chain. To a lesser extent, there has also been a concern that geopolitical issues, including trade barriers and strong policy support for solar panel manufacturers in the U.S., could result in market share losses for major Chinese players (note that the Americas segment, which includes sales to the U.S., accounted for about 7% of LONGi's sales in 2022). Specific to LONGi, the company's technological leadership was called into question after it lagged peers in deploying the latest solar cell technology and investors became worried that aggressive pricing by its main competitor in China's wafer duopoly market could potentially hurt LONGi's main profit engine.

We believe the current situation represents an opportunity for long-term oriented investors to purchase LONGi at a time when this industry leader has fallen out of favour. Previously considered a high-growth company, LONGi now trades at a valuation multiple that implies little to no growth, based on

our analysis, and at a discount to most of its peers—despite having cost and technological leadership in a growing market. While we expect the industry to continue to be increasingly competitive and understand that any technological edge is likely short-lived, we believe LONGi is well positioned to remain competitive in the long term given its deep pool of resources and its core competency in wafer manufacturing.

## Current Positioning

As of June 30, 2023, the Brandes Emerging Markets Value Fund held large overweights to consumer discretionary, real estate (outside China) and utilities, while maintaining key underweights to materials, energy and health care. Geographically, the Fund remained underweight China, although Chinese companies made up our largest country allocation. We also continued to be underweight India, Saudi Arabia and Taiwan, while having significant overweights to companies in Mexico, Brazil and Panama.

A variety of concerns continue to face emerging markets stocks, including elevated inflation, worries about slowing economic growth or recession, and political as well as regulatory uncertainties. Despite these challenges, the asset class (MSCI EM) posted solid returns over the last nine months, highlighting our belief that often when the market is the most negative, it can be a great time to invest.

While high-level valuations may not be as attractive as they were at the beginning of the year, emerging markets equities continue to represent, in our opinion, fertile ground for fundamentally solid businesses trading at a discount to their estimated intrinsic values. Within the asset class, value stocks (MSCI EM Value) continue to trade in the highest decile of discount levels to the broader market (MSCI EM) on a variety of valuation metrics, including forward price/earnings, price/cash flows and enterprise value/sales. We are optimistic about the potential of value stocks in general and believe the Brandes Emerging Markets Value Fund remains well positioned from a long-term risk/reward perspective.

## 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 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	
	%		%
Interactive Media & Svcs.	0.92	Hotels, Restaurants & Leisure	-0.54
Electric Utilities	0.82	Personal Products	-0.43
Construction Materials	0.63	Aerospace & Defense	-0.36
Semicond. & Semicond. Equip.	0.59	Diversified Consumer Services	-0.31
Metals & Mining	0.55	Specialty Retail	-0.30

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
China	1.66	India	-0.60
Brazil	0.81	Luxembourg	-0.30
Mexico	0.80	Hong Kong	-0.23
Panama	0.66	Malaysia	-0.20
Taiwan	0.44	Saudi Arabia	-0.15

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Petroleo Brasileiro SA Pfd	0.76	LG Household & Health Care	-0.41
Cemex SA de CV ADR	0.67	Alibaba Group Holding Ltd.	-0.38
Wiwynn Corp.	0.57	Genting BHD	-0.35
Neoenegia SA	0.55	Embraer S.A. ADR	-0.33
TIM Participacoes SA	0.43	China Education Group	-0.32

### LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Electric Utilities	2.74	Diversified Telecom. Services	-0.87
Banks	2.45	IT Services	-0.79
Aerospace & Defense	2.21	Personal Products	-0.54
Diversified Reits	2.13	Elect. Equip., Instr. & Components	-0.20
Tech. Hardware, Storage & Periph.	2.06	Electrical Equipment	-0.12

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
China	5.07	India	-1.82
Mexico	4.85	Thailand	-0.55
Brazil	4.10	Poland	-0.28
Chile	2.50	Greece	-0.20
Taiwan	2.30	Turkey	-0.17

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Embraer S.A. ADR	2.25	Chinasoft International Ltd	-0.75
Enel Chile ORD	2.21	Alibaba Group Holding Ltd.	-0.58
Fibra Uno Admin. SA ORD	2.11	Indus Towers Ltd.	-0.54
Wiwynn Corp.	1.95	LG Household & Health Care	-0.43
Cemex SA de CV ADR	1.92	Jasmine Broadband Internet	-0.36

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## Quarterly Additions/Deletions

Additions	Deletions
Absa Group	
LONGi Green Energy Technology	

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