

Brandes Investment Partners
Global Small Cap Equity Strategy Notes
Second Quarter 2024 (April 1 – June 30, 2024)

The Brandes Global Small Cap Equity Strategy gained 3.87% net of fees and 4.03% gross of fees, outperforming its benchmark, the MSCI ACWI Small Cap Index, which was down 1.56% in the quarter, and the MSCI ACWI Small Cap Value Index, which declined 1.98%.

Annualized total return as of June 30, 2024	1-year	5-year	10-year
Brandes Global Small Cap Equity Composite (net)	32.44%	15.80%	8.05%
Brandes Global Small Cap Equity Composite (gross)	33.35%	16.72%	8.95%
MSCI ACWI Small Cap Index	10.64%	7.30%	6.23%

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

Holdings across multiple sectors drove performance, including those in financials, consumer discretionary, consumer staples, industrials, and communication services. Standout contributors included Hong Kong-based textile business Yue Yuen Industrial, Ireland-based food products company Greencore Group, Spanish insurer Linea Directa Aseguradora, Luxembourg-domiciled Millicom International Cellular, and Canadian aerospace firm Heroux-Devtek.

Yue Yuen shares increased nearly 50% after it reported better-than-expected earnings and recovering profit margins. The company also benefited from improved order visibility. Similarly, Greencore posted encouraging results and raised its outlook as the impact of its margin improvement plan has become more evident.

Geographically, holdings in the United States, United Kingdom, Hong Kong, and Ireland aided relative returns.

Performance Detractors

Mexico was among the worst-performing markets in the benchmark as the presidential election results led to investor concerns about the potential for less market-friendly policies by the new government. Our holdings, specifically homebuilder Consorcio ARA and real estate investment trust Fibra Uno, were impacted by the negative market sentiment.

Amid the macroeconomic challenges, we maintain confidence in the company fundamentals of our holdings in Mexico. In our opinion, these companies are well-managed, with long histories navigating turbulent times and low susceptibility to government intervention.

Several holdings in the health care sector continued to weigh on returns, notably Elanco Animal Health, Kissei Pharmaceuticals, and H.U. Group Holdings. Kissei announced weaker-than-expected earnings. Meanwhile, H.U. Group reported a ¥2.9 billion loss for the fourth quarter of 2023 due to a lack of recovery in the number of tests conducted in its contract clinical testing business. The company also revised its guidance downward. We maintain positions in these companies as we believe they continue to offer favorable long-term upside potential.

Other notable detractors included U.S.-based Spirit AeroSystems and Park Aerospace, as well as energy equipment company Dril-Quip. Additionally, our underweight to India detracted from relative performance.

Select Activity in the Quarter

The small-cap investment committee initiated positions in Canadian forest products company Canfor Corporation and Japan-based health care company Medipal Holdings.

Medipal Holdings is a key player in Japan's drug wholesaler market, which is a near oligopoly with four companies (Medipal, Alfresa, Suzuken, and Toho) accounting for over 80% of the total sales. While price competition was once fierce,

the harsh government-mandated price cuts have led to a more rational competitive landscape recently, prompting most players to seek opportunities outside the drug distribution business. Medipal's crown jewel is its 50.8% stake in Paltac, one of Japan's largest non-drug and non-food wholesalers of consumer goods.

Although the government-mandated price cuts have limited the attractiveness of the drug distribution market, sales volumes have continued to grow with the aging population and there has been a positive market share trend favoring larger players. Additionally, Medipal has a solid balance sheet with excess cash and investments accounting for a significant portion of its market cap. These factors, combined with Medipal's stake in Paltac, make the company a compelling investment opportunity for us.

Other portfolio activity included the full sells of Chesapeake Energy Corporation and Spirit AeroSystems. Chesapeake appreciated to our estimate of its intrinsic value, while the risk profile of Spirit AeroSystems changed, leading us to re-allocate the capital to what we consider more attractive opportunities, such as Canfor and Medipal Holdings above.

Year-to-Date Briefing

The Brandes Global Small Cap Equity Strategy gained 14.98% net of fees and 15.34% gross of fees, outperforming its benchmark, the MSCI ACWI Small Cap Index, which was up 2.29% in the six months ended June 30, 2024, and the MSCI ACWI Small Cap Value Index, which returned 1.09%.

Holdings in the industrials, financials, communication services, consumer staples, and consumer discretionary drove returns. Leading performers included aerospace and defense companies Embraer and Rolls-Royce, banks AIB Group and Nova Ljubljanska Banka, food products business Greencore Group, and apparel company Yue Yuen Industrial. Geographically, holdings in the United States, Hong Kong, the United Kingdom, Ireland, and Brazil were solid contributors.

Several positions in health care and energy declined, specifically Spain-based Grifols, France-based Euroapi, Japan's H.U. Group, and U.S. Dril-Quip. Furthermore, our lack of exposure to India and Taiwan weighed on relative returns.

Current Positioning

Allocations from a country and sector standpoint were largely unchanged during the quarter. The strategy maintains significant weights in industrials, consumer staples, financials (although underweight relative to the benchmark), and health care, while retaining underweights to technology, real estate, materials, and consumer discretionary.

Geographically, the strategy continues to have significant exposure to companies in the U.K., Ireland, and emerging markets, and a meaningful underweight to the United States.

Stock selection across sectors and countries continued to drive the strategy's outperformance relative to the benchmark this year. Going forward, we remain optimistic about the portfolio's holdings composition and the risk/reward tradeoff it offers.

For term definitions: <https://www.brandes.com/termdefinitions>

The MSCI ACWI Small Cap Index with net dividends captures small cap representation across developed and emerging markets countries.

The MSCI ACWI Small Cap Value Index captures small cap securities across developed and emerging markets countries exhibiting overall value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.

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