BRANDES
INVESTMENT PARTNERS

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

The Brandes Global Small-Mid Cap Equity Strategy rose 0.23% net of fees and 0.39% gross of fees, outperforming its benchmark, the MSCI ACWI SMID Cap Index, which declined 2.06%.

Annualized total return as of June 30, 2024	1-year	5-year	10-year
Brandes Global Small-Mid Cap Equity Composite (net)	22.09%	11.61%	6.84%
Brandes Global Small-Mid Cap Equity Composite (gross)	22.79%	12.36%	7.69%
MSCI ACWI SMID Cap Index	10.71%	7.06%	6.17%

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

Notable performers included holdings in financials, led by Spanish insurer Linea Directa Aseguradora, Slovenian bank Nova Ljubljanska Banka, and U.K.-based St. James's Place.

Select health care investments also helped returns, specifically Dutch multinational conglomerate Koninklijke Philips and U.S.-based biotech firm United Therapeutics. Philips reached a settlement related to its ventilators, removing significant uncertainty about its legal liabilities.

Outside of financials and health care, standout contributors included Hungary's Magyar Telekom, Chinese textile firm Yue Yuen Industrial, Taiwan-based Asustek Computer, and U.K.-based aerospace and defense firm Rolls-Royce. Rolls-Royce continued to benefit from the ongoing recovery in its end-markets, and the market reacted favorably to the firm's announcement that it would leave its 2024 guidance unchanged.

Performance Detractors

Mexico was among the worst-performing markets in the benchmark, as presidential election results prompted investor concern about the prospects for less market-friendly policies from the new government. Our holdings there, namely real estate investment trust Fibra Uno and cement manufacturer Cemex, were impacted by the negative market sentiment. Nonetheless, we continue to have confidence in the fundamentals of these holdings and maintain our positions.

Utilities represented the best-performing component of the benchmark as the sector has become a secondary beneficiary of the growing demand for AI, which will likely result in rising electricity usage. As such, our lack of exposure to the sector hurt relative returns.

Other detractors included French consumer products manufacturer Societe BIC, U.S. health care services provider Pediatrix Medical Group, Greece-based Piraeus Financial Holdings, and newly added U.K. luxury goods firm Burberry.

Select Activity in the Quarter

Taro Pharmaceutical, a long-term holding in the portfolio, was acquired by Sun Pharmaceutical during the quarter. Another long-held position, National Western Life Insurance, is in the process of being acquired as well. The common threads for both investments included: 1) poor corporate governance with a controlling shareholder; 2) underperforming businesses; and 3) periods of what we believed were rock-bottom market valuations.

Taro is an Israeli generic pharmaceutical company controlled by India-based Sun Pharmaceutical. We first added Taro to our portfolios several years ago as its generics business struggled with increasing competition and lack of new product development. At the time, the company had a large net cash position that accounted for nearly one-third of its market value. During our holding period, Taro's fundamentals continued to deteriorate, and the value of its financial assets became an ever-greater percentage of its market value. At its nadir in 2023, Taro's market cap was lower than its net-cash position while the business continued to maintain positive free cash flow. Despite the company's struggles over this long holding period, we continued to believe it could turn around as its pipeline of new generic drugs was slowly strengthening. As it happens, we were not alone in being optimistic about Taro's prospects.

In May 2023, Taro's controlling shareholder, Sun Pharmaceutical, made an offer to buy out minority shareholders for $38 a share. After this initial valuation was rejected, Sun and Taro directors ultimately agreed on a price of $43 in January 2024. This price still fell far below our estimate of Taro's intrinsic value, and we thus voted *against* the transaction. Unfortunately, the proxy voting services recommended to vote *for* the transaction, resulting in Brandes along with a few activist investors losing out in what was likely a close vote.

National Western Life Insurance (NWLI) was a family-controlled life insurance company with a conservative balance sheet and uninspiring investment returns. In exchange for investing in a business led and controlled by the fourth generation of the Moody family, shareholders received a small dividend and a claim on the company's tangible book value. At the stock's low point, NWLI traded at less than one-third of its book value. The timing for realizing the full value of the underlying business was uncertain, but the low market value incentivized us to have prolonged patience. The investment case centered on the depressed market valuation, with an anemic 4% to 6% annual book value growth partially offsetting the cost of waiting.

Finally, in May 2023, NWLI announced it was exploring strategic alternatives and had hired a financial advisor. In October 2023, the company announced it had agreed to be acquired for $500 a share, or 90% of its book value. Unlike the case for Taro, we viewed the offer price for NWLI as fair. The transaction is expected to close in early July 2024.

The investment committee initiated a position in U.K.-based luxury goods company Burberry.

Over the past few years, the luxury goods industry has underperformed the broader global market (MSCI ACWI SMID Cap). Concerns about the economic prospects of Asia have weighed on investor sentiment for many companies in the industry, including Burberry.

Burberry primarily sells apparel and accessories, and has a rich history, having been founded in 1856. The company was publicly listed for a second time in 2002 after being part of U.K. retail conglomerate Gus for almost five decades. Since it became public again, Burberry has been evolving its business model, with a focus on elevating the brand.

When Gus spun out Burberry, more than half of its revenue came from the wholesale channel. After investing in its retail channel roll-out, almost 80% of the company's revenue is now from direct-to-consumer sales, either through its stores or online—a level closer to Burberry's luxury peers. This development was a positive move for the company as shifting away from the wholesale channel toward a direct retail model helps a luxury brand better control its brand image (customer experience and pricing). Additionally, Burberry has eliminated non-core product categories, focusing on those for which it has a distinct legacy and brand appeal. While Burberry's management team turned over in 2022, the core strategy has remained largely unchanged.

Asia Pacific accounts for more than 40% of Burberry's revenue, with China accounting for about half of that amount. This is typical for players in the industry as Asia Pacific represents the largest luxury goods market in the world. Recently, a weak yen and a sputtering economy in China have made for a lackluster luxury goods marketplace. However, while the luxury market is sensitive to changes in the economic environment, a long history suggests the top luxury brands can accrue value even with little country-level economic growth. For instance, it is estimated that the luxury goods market in Japan has continued to grow over the past 15 years even as the Japanese economy contracted (in U.S. dollar terms), a phenomenon that we do not think can be solely explained by increasing tourist flows into the country.

With what we consider compelling market valuations, Burberry joins Swatch in our client portfolios as we patiently wait for evidence that the luxury brand players can endure.

Year-to-Date Briefing
The Brandes Global Small-Mid Cap Equity Strategy rose 8.21% net of fees and 8.56% gross of fees, outperforming its benchmark, the MSCI ACWI SMID Cap Index, which increased 2.83% in the six months ended June 30, 2024.

Holdings in financials (e.g., Nova Ljubljanska Banka, AIB Group, Linea Directa Aseguradora, Banco Latinoamericano) and industrials (e.g., Embraer, Rolls-Royce) drove performance. Several communication services holdings also delivered robust results, particularly Magyar Telekom and media firms ITV and Atresmedia.

Other notable performers included health care holdings Organon & Co, Phibro Animal Health, and United Therapeutics, as well as construction materials company Buzzi. Additionally, as was the case for the quarter, Yue Yuen was a strong contributor to returns.

Major detractors included biotech firm Grifols, luxury goods companies Swatch and Kering, as well as holdings in commercial services and supplies, namely Societe BIC and S-1 Corporation.

Grifols declined mainly in the first quarter following a short seller's report that questioned the company's debt and corporate governance practices. We continue to believe there is a potentially meaningful upside to Grifols. The company recently completed the sale of an ownership stake in Shanghai RAAS, which should help it improve its financial leverage in the near term.

Furthermore, similar to the quarter, allocation to Mexico weighed on returns.

Current Positioning
The strategy continues to hold key overweight positions in consumer staples, health care, communication services, and financials, while maintaining underweights to utilities and typically cyclical sectors such as consumer discretionary and industrials.

Geographically, we continue to find value opportunities outside the United States, especially in the United Kingdom, Japan, and emerging markets. We remain materially underweight to the United States, with our allocation less than half the benchmark's 52% weighting.

Global small-mid cap 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 ACWI SMID Cap Value) continue to trade in the highest decile of discount levels to the broader market (MSCI ACWI SMID Cap) on a variety of valuation metrics, including forward price/earnings, price/cash flows, and enterprise value/sales.

We believe that paying extremely close attention to valuations enables us to choose opportunities that others may miss. We are enthusiastic about the potentially undervalued companies we are finding, and the diversification offered by the Brandes Global Small-Mid Cap Equity Strategy.

Term definitions: https://www.brandes.com/termdefinitions

The MSCI ACWI SMID Cap Index with net dividends captures mid and small cap representation across developed and emerging market countries.

The MSCI ACWI SMID Cap Value Index captures mid and 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.

Diversification does not assure a profit or protect against a loss in a declining market.

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., 4275 Executive Square, 5th Floor, La Jolla, CA 92037.

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. ARBN: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.

Canada: FOR REGISTERED DEALERS AND THEIR REGISTERED SALESPERSONS' USE ONLY. NOT FOR DISTRIBUTION TO INVESTORS. Distributed by Brandes Investment Partners & Co., 6 Adelaide Street East, Suite 900, Toronto, ON, M5C 1H6. This communication is for information purposes only and should not be regarded as a sales communication or as advice regarding any financial product or services.