Brandes Investment Partners
Global Small-Mid Cap Equity Strategy Notes
Fourth Quarter 2024 (October 1 – December 31, 2024)

The Brandes Global Small-Mid Cap Equity Strategy fell 2.74% net of fees and 2.62% gross of fees, outperforming its benchmark, the MSCI ACWI SMID Cap Index, which declined 3.37%.

Annualized total return as of December 31, 2024	1-year	5-year	10-year
Brandes Global Small-Mid Cap Equity Composite (net)	17.43%	12.49%	8.36%
Brandes Global Small-Mid Cap Equity Composite (gross)	18.14%	13.22%	9.19%
MSCI ACWI SMID Cap Index	8.68%	6.61%	7.13%

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

Major contributors included holdings in emerging markets. Notably, Brazil-based regional jet manufacturer Embraer continued to do well thanks to its improving earnings, while Panama-based Banco Latinoamericano de Comercio Exterior also rose. Hungary's Magyar Telekom was a leading contributor after announcing robust earnings results and meaningful progress on its strategic initiatives.

Other standouts included Hong Kong-based footwear manufacturer Yue Yuen Industrial and U.K. luxury goods firm Burberry Group, which rose on healthy earnings. U.S.-based technology company NETGEAR also rose significantly.

Relative to the benchmark, our underweights to the real estate and materials sectors contributed to alpha generation.

Performance Detractors

The most significant detractors included consumer companies, such as U.K.-based Kingfisher, Switzerland-based Swatch Group, as well as staples companies PT Gudang Garam, C&C Group, and Calbee. Kingfisher experienced a share-price pullback following solid performance earlier this year after the home improvement retailer announced weaker-than-expected earnings because its ongoing operational turnaround may take longer than the market expected.

Along with consumer staples, health care was one of the worst-performing sectors in the benchmark, and our overweight to both reduced relative returns. Among our health care investments, Koninklijke Philips returned some of its better performance from earlier in the year, while Grifols, Medipal Holdings, Organon & Co, and Elanco Animal Health all declined.

Select Activity for the Year

The small-mid cap investment committee initiated a position in semiconductor firm Qorvo. The investment committee had also initiated a position in JDE Peet's before the start of the fourth quarter.

Peet's is the second-largest packaged coffee company in the world and operates in more than 100 countries. Peet's has a portfolio of ~50, mostly regional brands that span all of the at-home coffee categories (single-serve, beans, ground and instant). Branded coffee sold for at-home consumption accounts for ~75% of its total sales. The company's most important market is Europe, which accounts for about 57% of its revenue.

Peet's has faced several challenges recently, which led to a 40% decline in the company's stock price during 2024. For the past two years, weak consumer spending has persisted in Peet's core European markets. As a result, coffee consumers in Europe have exhibited greater price elasticity, reducing consumption and trading down to lower cost private label alternatives to offset price inflation. Poor weather conditions in Vietnam (the world's second-largest coffee grower) have caused a recent spike in coffee prices, exacerbating an already difficult environment.

Despite these challenges, the small-mid cap investment committee believes the investment opportunity in Peet's is attractive. Over the long run, the coffee market has shown favorable economic benefits from the advantages of scale, increasing per capita coffee consumption, increasing premiumization, and strong pricing power when modest inflation occurs. Typically, only periods of genuine adversity and near-term uncertainty create the potential for outsized long-term investment returns in a company with the characteristics Peet's exhibits.

The investment committee divested Asustek, which was first purchased in 2017. Asustek is a leading PC and PC component manufacturer. Historically, the company largely catered to the performance PC gaming enthusiast. A weak PC market at the time of original investment led to a depressed share price and an attractive investment opportunity. At the end of 2017, the company had a net cash position of $2.5B and a $6.5B market cap. Asustek was trading at 8x forward earnings estimates (cash adjusted) and offered ~6% dividend yield.

Following the initial acquisition, the pandemic provided a short-term boost to PC demand and Asustek benefited. Despite this unexpected benefit, the committee continued to hold the stock as the market was, rightfully, not assuming the strong demand to last. The company has seen its fortunes improve again in recent years as enthusiasm for artificial intelligence grows and that trend is beginning to produce tangible demand growth for Asustek's products. Unlike the short-lived, pandemic-fueled demand growth, the market is now willing to ascribe long-term value. Ultimately, the share price approached levels that no longer appeared to offer an attractive investment return even with this favorable backdrop.

Another company that is widely held in portfolios but is on the way out is Equity Commonwealth (EQC). The company was first added at the end of 2020. EQC is a commercial real estate investment trust (REIT). When bought, EQC's value was primarily held in cash and investments as the company had been fortuitously divesting its real estate assets before the pandemic. Our investment thesis was the potential for EQC to deploy its liquidity at depressed real estate prices. The shares were then trading at a discount to net asset value (NAV). Since NAV was mostly cash, the downside to the investment was minimal. Unfortunately, the upside also proved minimal as office vacancies and pressure on office rents have yet to translate into fire-sale prices. EQC decided to liquidate this year and return capital to shareholders. Most of it was paid as a $19-per-share dividend declared in November. We expect the final payment to arrive in the first half of 2025.

Year-to-Date Briefing

The Brandes Global Small-Mid Cap Equity Strategy rose 17.43% net of fees and 18.14% gross of fees, outperforming its benchmark, the MSCI ACWI SMID Cap Index, which increased 8.68% for the year ended December 31, 2024.

Stock selection across sectors drove the strategy's outperformance, led by industrials (e.g., Embraer, Rolls-Royce), as well as holdings domiciled in the United Kingdom (e.g., Premier Foods, ITV, and Marks & Spencer).

Other notable performers included technology company NETGEAR, health care companies Phibro Animal Health and United Therapeutics, as well as clothing manufacturer Yue Yuen Industrial. Several financials holdings also performed well, including Erste Group and Banco Latinoamericano de Comercio Exterior.

Major detractors included luxury goods company Swatch, energy equipment company Innovex, and Indonesian tobacco company PT Gudang Garam. Health care holdings Grifols and Draegerwerk also weighed on returns.

Current Positioning

The strategy continues to hold key overweight positions in consumer staples, health care, and communication services, while maintaining underweights to utilities and real estate, as well as to typically cyclical sectors, such as materials and industrials. While we remain underweight in technology companies, we have increased our allocation to the sector as we have found a few new opportunities worthy of investment.

Geographically, we continue to find value opportunities outside the United States, especially in the United Kingdom, Japan, and emerging markets, such as Brazil. We remain materially light in the United States, with our allocation significantly below the benchmark's 54% weighting.

Global small-mid cap equities continue to represent, in our opinion, fertile ground for fundamentally solid businesses trading at a discount to our estimates of their 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.

The MSCI Emerging Markets Index captures large and mid cap representation of emerging market countries.