

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

The Brandes International Small Cap Equity Strategy returned 6.52% net of fees and 6.75% gross of fees, outperforming its benchmark, the MSCI ACWI ex-USA Small Cap Index, which gained 0.66% in the quarter, and the MSCI ACWI ex-USA Small Cap Value Index, which was up 0.64%.

Annualized total return as of June 30, 2024	1-year	5-year	10-year
Brandes International Small Cap Equity Composite (net)	36.30%	14.02%	6.43%
Brandes International Small Cap Equity Composite (gross)	37.48%	15.02%	7.37%
MSCI ACWI ex-USA Small Cap Index	11.26%	6.12%	4.43%

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, South Korean beverage firm Binggrae, Spanish insurer Linea Directa Aseguradora, and Canada-based 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 Kingdom, Hong Kong, and Ireland aided returns, while an underweight to Japan boosted relative performance.

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, they 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, specifically Kissei Pharmaceuticals, Avadel Pharmaceuticals, and H.U. Group Holdings. Both Kissei and Avadel 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 China-based Boyaa Interactive International and Canadian aviation training company CAE. Additionally, our underweight to India detracted from relative performance.

Select Activity in the Quarter

The small-cap investment committee initiated positions in Mexico-based Grupo Bolsa Mexicana de Valores (BMV Group), Canadian forest products company Canfor Corporation and packaging materials producer Winpak, as well as U.K.-based aerospace and defense firm QinetiQ Group.

Wipak manufactures flexible and rigid plastic packaging, along with packaging machinery. Approximately half of its production base is in Canada, while the majority of sales occur in the United States. Wipak serves various sectors such as health care and industrials, but its key end-market is the food and beverage segment, which accounts for over 90% of sales. A large portion of Wipak's products cater to the fresh foods market, potentially positioning the company well to capitalize on the shift in consumer preferences toward healthier diets. The company has been making significant capital expenditures in the past decade, preferring to invest in its core markets where it has an established customer base and in which the company is the number 1 or 2 player.

Over the past year, we have observed a widening gap between Wipak's valuations and those of its peers despite the company exhibiting what we consider steady organic growth, attractive end-market exposures, and healthy free cash flow throughout the food and beverage market cycle. Wipak also has a good track record of capital return, paying regular dividends and returning nearly 50% of cumulative cash flow generated in the past decade to shareholders. The company boasts a strong, if not overly conservative, balance sheet with excess cash at times and no debt. Historically, the management team tended to use the excess cash to pay special dividends instead of making acquisitions, minimizing the risk of poor capital allocation. At its current valuations, we believe Wipak represents an attractive investment opportunity.

Year-to-Date Briefing

The Brandes International Small Cap Equity Strategy returned 15.99% net of fees and 16.49% gross of fees, outperforming its benchmark, the MSCI ACWI ex-USA Small Cap Index, which gained 2.78% in the six months ended June 30, 2024, and the MSCI ACWI ex-USA Small Cap Value Index, which was up 3.06%.

Holdings in 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 businesses Greencore Group and Binggrae, and apparel company Yue Yuen Industrial. Geographically, holdings in Hong Kong, the United Kingdom, Ireland, and Brazil were solid contributors.

Our lack of exposure to India and Taiwan hurt relative returns. At the holding level, several positions in health care were notable detractors, specifically Spanish biotech Grifols, France-based Euroapi, and Japan's H.U. Group.

Grifols' shares declined mainly in the first quarter following a short seller's report that questioned the company's accounting and corporate governance practices. We continue to believe there is a meaningful upside potential in 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.

Current Positioning

The portfolio positioning from a country and sector standpoint was largely unchanged during the quarter. The strategy maintains large allocations to industrials, consumer staples, and financials, while holding underweights in technology, materials, and consumer discretionary. Geographically, it continues to have significant exposure to companies in Japan (although underweight relative to the benchmark), the U.K., Ireland, Hong Kong, and emerging markets, while maintaining underweights in Australia, India, and Taiwan.

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 ex USA Small Cap Index with net dividends captures small-cap representation across developed and emerging markets excluding the United States.

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

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