

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

The Brandes International Small Cap Equity Strategy declined 2.56% net of fees and 2.34% gross of fees, outperforming its benchmark, the MSCI ACWI ex USA Small Cap Index, which fell 7.66% in the quarter, and the MSCI ACWI ex USA Small Cap Value Index, which was down 8.08%.

Annualized total return as of December 31, 2024	1-year	5-year	10-year
Brandes International Small Cap Equity Composite (net)	24.05%	14.66%	8.56%
Brandes International Small Cap Equity Composite (gross)	25.14%	15.67%	9.53%
MSCI ACWI ex USA Small Cap Index	3.36%	4.29%	5.66%

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, Hungary’s Magyar Telekom, and Chinese entertainment business Boyaa Interactive.

Embraer continued to do well as it benefited from improving earnings. Meanwhile, Magyar Telekom announced robust earnings results and good progress on its strategic initiatives.

Other standout performers included Hong Kong-based footwear manufacturer Yue Yuen Industrial, U.K. luxury goods firm Burberry Group, and Canadian flight training company CAE. The market reacted positively to the profit inflection point in CAE’s defense division as its fixed-price contracts expired and its large backlog of lucrative new business wins began to ramp up.

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

Performance Detractors

Select aerospace and defense holdings performed poorly, particularly Switzerland-based Montana Aerospace and France-based LISI.

Montana Aerospace declined due to a slower production ramp than the market had anticipated. Nonetheless, the company remains an attractive value opportunity, in our opinion, given the potential continued recovery of the aerospace cycle. We also believe that Montana is well positioned to consolidate the industry supply chain and improve its balance sheet and free-cash-flow generation. We took advantage of the share-price decline to add to our position.

Other detractors included Irish beverage firm C&C Group, Spain-based biotechnology business Grifols, and Canadian household durables company Dorel Industries. Additionally, our underweight to information technology hurt relative returns.

Select Activity in the Quarter

Portfolio activity was relatively light in the quarter. The small-cap investment committee sold its position in China-based Boyaa Interactive as its shares appreciated toward our estimate of intrinsic value.

Although there were no new purchases, the opportunity set for international small-cap equities remains rich, in our opinion. The committee added to several of our existing positions, including the aforementioned Montana Aerospace, LISI, Brazilian utility Neoenergia, Indonesian food products company Indofood, and Mexican real estate investment trust Fibra Uno.

Uncertainties related to the national elections in Mexico and the United States, as well as concerns over tariffs, have hurt market sentiment on Fibra Uno. We believe these issues have been more than reflected in Fibra Uno's share price, leading to our decision to increase allocation to the company.

Year-to-Date Briefing

The Brandes International Small Cap Equity Strategy returned 24.05% net of fees and 25.14% gross of fees, outperforming its benchmark, the MSCI ACWI ex USA Small Cap Index, which gained 3.36% in 2024, and the MSCI ACWI ex USA Small Cap Value Index, which was up 3.60%.

Stock selection across multiple sectors drove returns. Top performers included aerospace and defense companies Embraer, Heroux-Devtek, and Rolls-Royce, as well as bank holdings AIB Group and Nova Ljubljanska Banka.

Food products business Greencore Group, Boyaa Interactive, and Yue Yuen Industrial also helped returns, as did telecom services providers Magyar Telekom and Millicom International Cellular. Geographically, holdings in Hong Kong, the United Kingdom, Ireland, and Brazil were solid contributors.

Our lack of exposure to India weighed on relative returns. At the stock level, several positions in health care declined, notably Grifols and France-based pharmaceutical firm Euroapi. Other detractors included Mexico-based Fibra Uno and homebuilder Consorcio ARA, as well as Switzerland's Montana Aerospace.

Current Positioning

The portfolio positioning from a country and sector standpoint remained largely unchanged during the quarter and the year. The strategy maintains large allocations to industrials, consumer staples, health care, and financials, while holding underweights in technology, materials, real estate, 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, China, 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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