

**Brandes Investment Partners**  
**U.S. Small Cap Value Equity Strategy Notes**  
**Fourth Quarter 2024 (October 1 – December 31, 2024)**

The Brandes U.S. Small Cap Value Equity Strategy returned 5.84% net of fees and 6.03% gross of fees, outperforming its benchmark, the Russell 2000 Index, which was up 0.33% in the quarter. The Russell 2000 Value Index declined 1.06%.

<b>Annualized total return as of December 31, 2024</b>	<b>1-year</b>	<b>5-year</b>	<b>10-year</b>
Brandes U.S. Small Cap Value Equity Composite (net)	24.72%	16.39%	10.94%
Brandes U.S. Small Cap Value Equity Composite (gross)	25.58%	17.36%	11.91%
Russell 2000 Index	11.54%	7.40%	7.81%

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**

Leading contributors included holdings in the industrials sector: machinery companies Graham and L.B. Foster, National Presto Industries, construction and engineering business Orion Group, and aerospace and defense companies CAE and Park Aerospace.

Graham's share price increase was driven by record revenue and margin expansion, as well as positive market reaction to unveiled plans for an advanced cryogenic propellant testing facility, while both Orion Group and National Presto Industries announced solid results.

Other contributors included communications equipment company NETGEAR, leisure products business American Outdoor Brands, and medical equipment supplier LENSAR. All benefited from robust financials results.

**Performance Detractors**

Notable detractors were in the consumer staples, materials and energy sectors, specifically grocer Ingles Markets, Edgewell Personal Care, Scotts Miracle-Gro, and World Kinect.

Scotts Miracle-Gro continued to face challenges in the Hawthorne segment while the company's overall earnings missed market estimates. Ingles Markets' stock declined primarily due to the financial impact of Hurricane Helene. The hurricane caused \$34.9 million in impairment losses from inventory and property damage. We added to our position on the share-price weakness, viewing these as temporary setbacks.

Other investments that weighed on returns included Elanco Animal Health and security system technology business Arlo Technologies.

On a relative basis, our underweight to the financials and information technology sectors, two of the strongest performers in the benchmark, diminished returns.

**Select Activity in the Quarter**

The small-cap investment committee initiated positions in chemicals company Minerals Technologies and machinery firm The Timken Company.

The Timken Company produces engineered ball bearings and power transmission products for a wide variety of end-industries. It is one of the "big six" bearings players and typically holds a top three market share in most of its product categories. The company has been on a significant transformation journey that has decreased its exposure to more commoditized and cyclical end-markets (e.g., automotive). Simultaneously, Timken has expanded its exposure to secular growth themes like renewables and automation and has increased its proportion of higher-margin after-market volumes. Timken's recent expansion, mostly via acquisition, has focused on the smaller but faster growing Industrial Motion

business, which sells various power transmission and motion control products that can be packaged with bearings, allowing the company to be a comprehensive powertrain solutions provider instead of just a parts supplier.

Timken's stock trailed the broader market in the second half of 2024 on sluggish industrial activity and subsequent sales declines led by particularly weak demand from the Chinese wind industry, creating a buying opportunity.

Timken exhibits attractive business characteristics, including historical returns on invested capital in excess of its cost of capital, stable free-cash-flow generation and a high proportion of after-market, higher-margin sales. While the business is cyclical and tracks broad industrial production, exposure to any single end-market or customer is minimal. The company has also consistently paid out cash to shareholders and has returned approximately \$2.4 billion during the past decade. Its ongoing streak of 410 consecutive quarterly dividends is one of the longest on the New York Stock Exchange and its shares outstanding have been reduced by ~25% since 2013.

Other portfolio activity included full sales of natural gas producer Expand Energy and optical networking technology company Ribbon Communications as both companies appreciated to our estimate of their intrinsic value.

### ***Year-to-Date Briefing***

The Brandes U.S. Small Cap Value Equity Strategy returned 24.72% net of fees and 25.58% gross of fees, outperforming its benchmark, the Russell 2000 Index, which gained 11.54% in 2024, as well as the Russell 2000 Value Index, which was up 8.05%.

Holdings across various sectors drove returns, but those in industrials, health care, and consumer discretionary were especially strong. At the holding level, leading performers included aerospace and defense companies Embraer and Moog, machinery business Graham Corporation, NETGEAR, clothing company Hanesbrands, and Phibro Animal Health.

Investments in the energy and consumer staples sectors were notable decliners, specifically energy equipment business Innovex International and supermarket chain Ingles Markets. Other detractors included Elanco Animal Health, Utah Medical Products, and Dorel Industries, which designs and manufactures juvenile products and home furnishings.

### ***Current Positioning***

Allocation to companies in the industrials sector continues to be the largest weighting and relative overweight from a sector standpoint. The portfolio also maintains large weights in health care and information technology (although underweight relative to the benchmark). The strategy's most notable underweights are in financials, consumer discretionary, and real estate. Compared to the Russell 2000 Value Index, we have significantly less exposure to financials and real estate.

In our opinion, the differences between the Brandes U.S. Small Cap Value Equity Strategy and the broader U.S. small-cap market continue to make it an attractive complement to other small-cap offerings. Our strategy exhibits lower valuations than the Russell 2000 Index, while offering exposure to companies that we believe have strong balance sheets, compelling growth prospects, and a history of durable free-cash-flow generation.

We are optimistic about the potential of value stocks in general and believe the Brandes U.S. Small Cap Value Equity Strategy remains well positioned from a long-term risk/reward perspective.

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

The Russell 2000 Index with gross dividends measures the performance of the small cap segment of the U.S. equity universe.

The Russell 2000 Value Index with gross dividends measures performance of the small cap value segment of the U.S. equity universe. Securities are categorized as growth or value based on their relative book-to-price ratios, historical sales growth, and expected earnings growth.

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

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