BRANDES
INVESTMENT PARTNERS

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

The Brandes U.S. Small-Mid Cap Value Equity Strategy declined 3.15% net of fees and 2.92% gross of fees, outperforming its benchmark, the Russell 2500 Index, which fell 4.27% in the quarter, as well as the Russell 2500 Value Index, which was down 4.31%.

Annualized total return as of June 30, 2024	1-year	5-year	10-year
Brandes U.S. Small-Mid Cap Value Equity Composite (net)	6.01%	8.67%	7.43%
Brandes U.S. Small-Mid Cap Value Equity Composite (gross)	7.03%	9.71%	8.46%
Russell 2500 Index	10.47%	8.30%	7.98%

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

Performance of our holdings in the health care sector was bifurcated: some of the top contributors *and* leading detractors came from the sector. Positive returns were generated by Phibro Animal Health, biotechnology company United Therapeutics, health care technology business Koninklijke Philips, and pharmaceutical Organon & Co.

Phibro Animal Health announced a pending agreement to acquire Zoetis's medicated feed additive franchise and some additional livestock assets for $350 million. Phibro's management viewed the acquisition as offering meaningful earnings-per-share accretion and an opportunity to expand the company's offerings to new markets. The market regarded this deal, plus Phibro's strong earnings announcement, favorably. United Therapeutics continued its robust start to 2024 with strong demand for Tyvaso DPI, a dry-powder inhaler for treating pulmonary arterial hypertension.

Other noteworthy performers were in the materials and consumer discretionary sectors, specifically chemical company International Flavors & Fragrances and shoe manufacturer Skechers U.S.A. Additionally, supermarket operator Sprouts Farmers Market aided returns.

Performance Detractors

Health care holdings that declined included contract research organization Fortrea Holdings, dental equipment manufacturer Dentsply Sirona, health care services company Premier, and physician services business Pediatrix Medical Group.

After Fortrea announced Q1 2024 results, its shares dropped 20%. This was due to a cut in 2024 estimated guidance and investor skepticism that management could achieve its full-year targets. Similarly, Dentsply reported earnings that were slightly below expectations, and management trimmed its full-year guidance for revenue and sales.

Other detractors included Molson Coors Beverage Company, energy equipment and services business Dril-Quip, and IT services company Amdocs.

Utilities represented the best-performing sector in the benchmark because they have become viewed as secondary beneficiaries of the growing demand for artificial intelligence, which will likely result in rising electricity usage. As a result, our lack of exposure hurt relative returns.

Select Activity in the Quarter

The investment committee initiated positions in supermarket chain Ingles Markets and trucking company Knight-Swift Transportation while selling holdings in supermarket chain Sprouts Farmers Market, cement company Cemex, and trading company MSC Industrial Direct.

Knight-Swift Transportation is the largest truckload carrier company in the country. Operating a fleet of more than 16,000 tractors, it serves a diverse customer base that includes consumer goods companies, manufacturers, and major retailers. While the U.S. trucking industry is fragmented among many players, Knight-Swift stands out, in our view, because of its scale and operational efficiency.

Knight-Swift's shares have been under pressure during the past year due to industry-wide challenges. In early 2022, retailers reduced orders to clear excess inventory. This caused a prolonged trucking down cycle that has extended into 2024—longer than expected and beyond the typical industry cycle length. The situation has been exacerbated by an oversupply of trucks from several smaller, less financially viable companies that gained from strong growth during the pandemic. Typically, such companies would have cut capacity or exited the industry at this point in the cycle. However, that has not occurred, despite shipping spot rates falling below costs for many of these minor players.

While its short-term valuation metrics may not appear attractive given the industry down cycle and the company's integration of recent acquisitions, we believe Knight-Swift offers appealing longer-term upside potential. As an industry leader, it should be better positioned to navigate an extended downturn than its smaller competitors. Knight-Swift could also benefit from potential long-term trucking growth if more manufacturing returns to the U.S. and if the nearshoring trend continues in Mexico. At its current share price, Knight-Swift represents a good risk/reward tradeoff to us.

As for other portfolio activity, National Western Life Insurance is in the process of being acquired.

NWLI was a family-controlled life insurance company run with a conservative balance sheet that generated uninspiring investment returns. In exchange for owning a company led and controlled by the fourth generation of the Moody family, shareholders received a small dividend and a claim on its tangible book value. At the stock's low point, NWLI traded at less than one-third of book value. The timing for realizing the full value of the underlying business was exceptionally uncertain, but the market value incentivized prolonged patience. Our investment case centered on the depressed market valuation, with an anemic 4–6% annual book value growth partially offsetting the cost of holding.

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 bought for $500 a share, or 90% of book value. We viewed the offering price as fair. The transaction in expected to close in early July 2024.

Year-to-Date Briefing

The Brandes U.S. Small-Mid Cap Value Equity Strategy rose 3.11% net of fees and 3.60% gross of fees, outperforming its benchmark, the Russell 2500 Index, which appreciated 2.35% in six months ended June 30, 2024, and the Russell 2500 Value Index, which was up 1.50%.

Holdings in the financials and materials sectors drove returns, led by insurer White Mountains Insurance Group and International Flavors & Fragrances.

Other solid performers included regional jet manufacturer Embraer, Sprouts Farmers Market, and Organon & Co.

Positions in the energy and health care sectors were notable decliners, specifically biotechnology company Grifols, Dentsply Sirona, Dril-Quip, Fortrea Holdings, and Premier.

Current Positioning

The current positioning of the portfolio remains largely unchanged from last quarter. The strategy maintains its largest weights in industrials, health care, and information technology. Our most significant underweights are in consumer discretionary, financials, and real estate, which is consistent with how the portfolio began 2024 as well. Compared with the Russell 2500 Value Index, we have significantly less exposure to financials and real estate.

In our opinion, the differences between the Brandes U.S. Small-Mid Cap Value Equity Strategy and the broader U.S. small-mid cap market continue to make the strategy an attractive complement to other small-cap and small-mid offerings. Our strategy exhibits lower valuations than the Russell 2500 Index, while offering exposure to companies that have what we consider strong balance sheets, compelling growth prospects, and a history of durable free cash flow.

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

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

The Russell 2500 with gross dividends measures the performance of the small to mid cap segment of the U.S. equity universe.

The Russell 2500 Value Index measures the performance of the small to mid-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.