

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

The Brandes U.S. Small-Mid Cap Value Equity Strategy declined 2.58% net of fees and 2.35% gross of fees, underperforming its benchmark, the Russell 2500 Index, which was up 0.62% in the quarter. The Russell 2500 Value Index fell 0.26%.

Annualized total return as of December 31, 2024	1-year	5-year	10-year
Brandes U.S. Small-Mid Cap Value Equity Composite (net)	9.61%	9.17%	7.65%
Brandes U.S. Small-Mid Cap Value Equity Composite (gross)	10.66%	10.21%	8.69%
Russell 2500 Index	12.00%	8.76%	8.84%

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

Notable contributors included holdings in the financials sector, led by White Mountains Insurance and SEI Investments.

Communications equipment companies F5 and NETGEAR continued to appreciate after being two of the best performers in the third quarter, while National Presto Industries and oil and gas company Expand Energy also produced solid results.

From a relative standpoint, the portfolio's underweight to the real estate sector was also an alpha generator.

Performance Detractors

Detractors were in the health care, consumer staples and materials sectors, specifically chemical companies International Flavors & Fragrances and Scotts Miracle-Gro, grocer Ingles Markets, and health care equipment and supplies business Dentsply Sirona and Koninklijke Philips.

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 poor performers included semiconductor business Qorvo and global staffing company Kelly Services.

Select Activity in the Quarter

There was more portfolio activity in the quarter than usual. The investment committee initiated positions in machinery businesses The Timken Company and AGCO, while selling holdings in flooring company Mohawk Industries, software business Verint Systems, and Taro Pharmaceutical Industries.

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 them 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 NYSE and its shares outstanding have been reduced by ~25% since 2013.

We are also in the process of exiting our position in real estate investment trust Equity Commonwealth as the company is unwinding its operations, with an initial liquidating distribution of \$19 per common share. We expect the final payment to arrive in the first half of 2025.

Year-to-Date Briefing

The Brandes U.S. Small-Mid Cap Value Equity Strategy rose 9.61% net of fees and 10.66% gross of fees, underperforming its benchmark, the Russell 2500 Index, which appreciated 12.00% in 2024, and the Russell 2500 Value Index, which was up 10.98%.

Investments in the industrials, financials, and consumer discretionary sectors drove returns. Leading performers included regional jet manufacturer Embraer, communications equipment companies NETGEAR and F5, grocer Sprouts Farmers Market, and Phibro Animal Health.

Health care and information technology sector companies were leading detractors, specifically Dentsply Sirona, Fortrea Holdings, and Grifols in health care, and Qorvo and IPG Photonics in technology. Other detractors include energy equipment and services business Innovex International, media company Scholastic, and Kelly Services.

Current Positioning

With the addition of AGCO and the Timken Company, the allocation to companies in the industrials sector increased; it continues to be one of the largest sector weights in the portfolio along with 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. 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 MSCI Emerging Markets Index captures large and mid cap representation of emerging market countries.

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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.

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