

Global Small Cap Equity Strategy Notes Fourth Quarter 2024 (1 October – 31 December 2024)

The Brandes Global Small Cap Equity Strategy declined 1.77% (gross of fees), outperforming its benchmark, the MSCI ACWI Small Cap Index, which was down 3.26% in the quarter. The MSCI ACWI Small Cap Value Index fell 3.91%.

Positive Contributors

Leading contributors included holdings in industrials, namely machinery companies Graham and L.B. Foster, construction services business Orion Group, and aerospace and defense companies CAE, Embraer, and Park Aerospace.

Graham benefited from record revenue and strong margin expansion. The company also unveiled plans for an advanced cryogenic propellant testing facility, which was well received by the market. Similarly, 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.

Other contributors included U.S. communications equipment company NETGEAR, U.K.-based luxury good firm Burberry Group, and Hong Kong-based footwear manufacturer Yue Yuen Industrial.

Performance Detractors

While our exposure to aerospace and defense lifted returns overall, a few holdings in the industry 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, U.S.-based Elanco Animal Health, and Canadian juvenile products company Dorel Industries.

Select Activity in the Quarter

We initiated a position in U.S.-based health care services company Premier, while divesting holdings in Yue Yuen Industrial and Japan's Oita Bank as their shares appreciated toward our estimates of intrinsic value.

Following a strategic review that led to the divestment of a few non-core businesses, Premier now focuses on two core segments: Group Purchasing Organisation (GPO) services and PINC AI.

Premier's GPO is one of the largest in the U.S., competing with privately held Vizient and Healthtrust Purchasing Group. The business involves negotiating with manufacturers and suppliers on behalf of its clients, which comprise over 4,000 U.S. hospitals. By aggregating the buying power of its clients, Premier boasts significant bargaining leverage to secure a guaranteed low price for its customers.

Meanwhile, PINC AI (support and services segment) provides various software, data analytics, and consulting services to hospitals, service providers, pharmaceutical firms, and other health care-related companies. The segment was negatively impacted by the pandemic as hospitals cut back on spending. However, we believe PINC AI provides long-term growth potential for Premier. We appreciate that the business is capital-light but high-margin and that it has the ability to leverage its vast client network.

While there will always be pressure on the profit-sharing side of Premier's GPO business, we believe the company's solid competitive position will enable it to remain one of the leading GPO services providers. Inflation and higher medical service utilisation are potential positives as the GPO business receives a fixed rate of total spending. Overall, Premier should be a stable cash-flow generator with few capital needs and relatively sustainable income streams. Potential pool capital deployment presents a risk, but for now the company appears to be focused on using its capital

for shares buybacks, having approved a \$1 billion share-buyback program (45% of market cap) through June 2025, of which \$400 million has already been completed. At its current valuations, we believe Premier represents an appealing value opportunity.

In addition to initiating a position in Premier, we also increased the portfolio's allocation to 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 the company's share price and we took advantage of the weakness to add to our position.

Year-to-Date Briefing

The Brandes Global Small Cap Equity Strategy gained 24.38% (gross of fees), outperforming its benchmark, the MSCI ACWI Small Cap Index, which was up 7.66% in 2024, and the MSCI ACWI Small Cap Value Index, which returned 6.90%.

Holdings across multiple sectors, especially industrials, drove returns. Leading performers included Embraer, Heroux-Devtek, Graham Corporation, and Rolls-Royce in industrials; Greencore Group in consumer staples; and footwear manufacturer Yue Yuen Industrial in consumer discretionary. NETGEAR and Phibro Animal Health also aided returns. Geographically, holdings in the United States, Hong Kong, the United Kingdom, Ireland, and Brazil were solid contributors.

Several positions in health care and energy declined, specifically Spain's Grifols, France-based Euroapi, and U.S. Innovex International. Furthermore, our lack of exposure to India weighed on relative returns.

Current Positioning

There were no material changes to portfolio positioning in the quarter. The portfolio's allocation to industrials remains its largest exposure, both in absolute and relative terms. The portfolio also maintains significant weights in consumer staples, financials (although underweight relative to the benchmark), and health care, while retaining underweights in technology, real estate, materials, and consumer discretionary.

Geographically, the portfolio continues to have meaningful exposure to companies in the U.K., Spain, Ireland, and emerging markets, and a notable underweight to the United States. In our opinion, the differences between the Brandes Global Small Cap Equity Strategy and the MSCI ACWI Small Cap Index make it an attractive complement to other small-cap offerings, especially those that are growth-oriented or passively managed.

Compared to the benchmark, our strategy exhibits lower valuations, while also offering exposure to companies that we believe have strong balance sheets, compelling growth prospects, and a history of durable free-cash-flow generation. 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 Small Cap Index with net dividends captures small cap representation across developed and emerging markets countries.

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

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