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Brandes Investment Partners
Global Small Cap Equity Strategy Notes
Fourth Quarter 2022 (October 1 – December 31, 2022)

The Brandes Global Small Cap Equity Strategy returned 21.25% net of fees and 21.48% gross of fees, outperforming its benchmark, the S&P Developed SmallCap Index, which was up 11.02% in the quarter, and the S&P Developed SmallCap Value Index, which rose 12.69%.

Annualized total return as of December 31, 2022	1-year	5-year	10-year
Brandes Global Small Cap Equity Composite (net)	-6.95%	2.18%	7.18%
Brandes Global Small Cap Equity Composite (gross)	-6.23%	2.99%	8.08%
S&P Developed SmallCap Index	-18.71%	3.07%	7.90%

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. Please refer to the GIPS® Report for additional information.

Positive Contributors

Value outperformance provided a tailwind for the strategy. Financial holdings, including Ireland-based **AIB Group**, Slovenian **Nova Ljubljanska Banka**, and Panama's **Banco Latinoamericano**, were among the stronger performers, benefiting from the global rise in interest rates.

A variety of cyclical and economically sensitive businesses also aided performance as they outperformed the broader market (S&P Developed SmallCap Index). These included U.K.-based **Rolls-Royce** and **TechnipFMC**, France-based contract caterer **Elior Group**, and U.S.-based insurer **National Western Life**.

Rolls-Royce rose as global air traffic continued to increase, helping engine flight hours recover. The company's shares were also boosted by an improved balance sheet and news that its engines would be used on the next-generation fleet replacing the Black Hawk helicopters, which currently use legacy GE engines. Meanwhile, Elior announced the acquisition of Derichebourg Multiservices. The transaction is intended to reposition Elior, potentially accelerating its turnaround and deleveraging its balance sheet, albeit with dilution to existing Elior shareholders.

Other contributors included Chilean electric utility **Enel Chile**, U.K. food retailer **J Sainsbury**, and Brazilian regional jet manufacturer **Embraer**. Additionally, our exposure to emerging markets businesses helped relative returns.

Performance Detractors

In a solid performance period for the strategy, only a few holdings detracted from returns, including U.S.-based information technology holdings **Arlo Technologies** and **NETGEAR**. Both companies announced disappointing quarterly results, noting a slowdown in revenue, and provided near-term guidance that was lower than expectations.

Other detractors included U.S.-based specialty construction company **Orion Group**, Japan-based electrical equipment company **Futaba Corporation**, and Chinese engine manufacturer **China Yuchai International**.

Select Activity in the Quarter

The small-cap investment committee divested several holdings as they reached our estimates of intrinsic value or were deemed as sources of capital to be recycled into more attractive opportunities. These included Turkey-based food products company **Ulker Biskuvi Sanayi**, Mexican real estate investment trust (REIT) **FIBRA Macquarie Mexico**, Italian bank **Credito Emiliano**, and Hong Kong-based **APT Satellite,** as well as Japanese **Taisho Pharmaceutical**, **Kyushu Financial Group**, and web services provider **DeNA**. Meanwhile, the committee initiated positions in Spain-based biopharmaceutical company **Grifols** and U.S.-based **Phibro Animal Health**.

Grifols develops, manufactures, and distributes biological medicines derived from blood plasma. Processing blood plasma is a capital intensive and highly regulated industry that is an oligopoly comprising three vertically integrated players (including Grifols). The industry enjoys attractive long-term growth prospects because an aging patient population and the chronic nature of most illnesses treated by the drugs have resulted in a stable demand.

Grifols has been materially affected by COVID-19 as initial shelter-in place orders and government financial support led to a significant drop in plasma collection in 2020 and 2021. While plasma collections are recovering, the resulting impact in Grifols' financial results won't likely be seen until next year because plasma-derived products require a six-month quarantine. Additionally, in anticipation of an increase in long-term demand for blood plasma-derived products, Grifols has been ramping up its spending to build more collection centers, which has hurt its short-term results and increased its balance sheet leverage. Longer-term, we believe Grifols offers an attractive opportunity given the likelihood of blood-plasma supply recovery and the potential improvement of the company's margins and earnings from today's depressed levels.

Year-to-Date Briefing

The Brandes Global Small Cap Equity Strategy declined 6.95% net of fees and 6.23% gross of fees, outperforming its benchmark, the S&P Developed SmallCap Index, which fell 18.71% in 2022, and the S&P Developed SmallCap Value Index, which was down 12.17%.

As was the case in the quarter, the strategy's outperformance was helped by the value tailwind. Robust contributions to relative returns came from various holdings, specifically those in the financials, real estate, energy, and industrials sectors. Geographically, allocations to companies in the U.K., the U.S., and Japan helped relative returns, as did our exposure to emerging markets businesses.

At the stock level, solid performers were similar to those in the fourth quarter, namely AIB Group, Enel Chile, TechnipFMC, and Rolls-Royce. Mexican REIT **Fibra Uno**, U.S. energy companies **Dril-Quip** and **Chesapeake Energy**, and Canadian uranium company **Cameco** also lifted returns. Additionally, our underweight to information technology helped performance relative to the benchmark.

Detractors included holdings in the consumer staples sector, notably Ireland-based convenience food producer **Greencore Group** and beverage firm **C&C Group**, as well as U.K.-based retailer **Marks & Spencer**. Other poor performers included Embraer, NETGEAR, and Canadian juvenile products manufacturer **Dorel Industries**.

Current Positioning

As of December 31, 2022, the Brandes Global Small Cap Equity Strategy held key overweights to consumer staples, communication services, and industrials, while maintaining significant underweights to technology, consumer discretionary, real estate, and materials. We continued to have overweight positions in Ireland, the U.K., Hong Kong, Spain, and emerging markets, and a material underweight to companies in the U.S.

As we noted last quarter, a variety of headwinds face global stocks today, ranging from elevated inflation, slowing economic growth and recession concerns to energy risk and political as well as regulatory uncertainties. While our overall positioning is driven by a bottom-up stock selection with a focus on the long term, we do consider many of these concerns when we analyze an investment opportunity, determining how they can impact the fundamentals of a business and comparing our intrinsic value estimate against what is currently being priced in by the market. We continue to believe the portfolio's current positioning offers an attractive opportunity for long-term investors and remain optimistic about its prospects.

Operating Margin: Operating income divided by net sales; used to measure a company's operating efficiency.

EBITDA: Earnings before interest, taxes, depreciation and

The S&P Developed SmallCap Index with net dividends measures equity performance of small cap companies in developed markets. Data prior to 2001 is gross dividend and linked to the net dividend returns.

The S&P Developed SmallCap Value Index with net dividends measures the equity performance of small cap companies in developed markets which are classified as value stocks by book value-to-price, sales-to-price, cash flow-to-price, and dividend yield.

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