

Brandes Investment Partners
International Small Cap Equity Strategy Notes
First Quarter 2025 (January 1 – March 31, 2025)

The Brandes International Small Cap Equity Strategy returned 10.18% net of fees and 10.42% gross of fees, outperforming its benchmark, the MSCI ACWI ex USA Small Cap Index, which was up 0.64% in the quarter, and the MSCI ACWI ex USA Small Cap Value Index, which gained 2.94%.

Annualized total return as of March 31, 2025	1-year	5-year	10-year
Brandes International Small Cap Equity Composite (net)	25.53%	24.74%	9.00%
Brandes International Small Cap Equity Composite (gross)	26.63%	25.83%	9.97%
MSCI ACWI ex USA Small Cap Index	1.87%	11.83%	5.32%

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

Holdings in the aerospace and defense industry continued to drive returns, led by Brazilian regional jet manufacturer Embraer, U.K.-based Rolls-Royce, and Switzerland-based Montana Aerospace. Both Rolls-Royce and Embraer appreciated substantially over the past few years as their end-markets recovered, leading to better-than-expected earnings with higher volumes and enhanced margins. Rolls-Royce upgraded its fiscal-year guidance and announced a share buyback as its balance sheet strengthened on the back of healthy cash-flow generation. Meanwhile, Embraer secured several new wins against competitors in its defense business. This, coupled with an expanding order backlog for regional jets, has further boosted market confidence in the company's prospects.

Communication services holdings also lifted returns, notably Hungary's Magyar Telekom and Luxembourg-domiciled Millicom International, which operates in Latin America. Magyar reported earnings results that exceeded market expectations and announced an increase in its dividend.

Other strong performers included German medical equipment manufacturer Draegerwerk, which benefited from an improved outlook, and France-based cement company Vicat, which showed strong financial results and progress on various strategic initiatives.

Performance Detractors

Information technology was the worst-performing sector in the benchmark, and our only holding in the sector, Hong Kong-based PAX Global Technology, declined as well.

Other detractors included investments in consumer discretionary and consumer staples, including U.K.-based grocer J Sainsbury and Ireland-based beverage firm C&C Group. Shares of C&C Group fell amid a weaker hospitality industry in the U.K., a key market for the company. The firm also faced market skepticism about the timing of its turnaround and the initial implementation of its strategic plan to simplify the business and improve its brand.

From a country perspective, holdings in Canada hurt performance, specifically packaging firm Winpak, flight simulation business CAE, Sprott Physical Uranium Trust, and juvenile products company Dorel Industries.

Select Activity in the Quarter

The small-cap investment committee initiated a position in South Korean Hankook Tire & Technology, while divesting positions in Greece-based personal products company Sarantis, Japan's Oita Bank, and U.K. financial services firm St. James Place.

Hankook Tire & Technology is the largest tire producer in Korea and the seventh largest in the world. Almost all of Hankook's tires are for passenger and light-duty vehicles. Historically, Hankook has been a second-tier player in the

industry, producing good quality tires that sell at a discount to the products of first-tier players. In the last few years, Hankook has been able to modestly increase its market share in both the original equipment and replacement markets.

Hankook's shares traded down over the past year, largely due to capital allocation concerns. A longtime shareholder of auto components supplier Hanon Systems, Hankook increased its previously 20%-stake at a significant premium (approximately 60%) to Hanon's share price in 2024. While we agree that the transaction was value destructive, we believe the market has overreacted to the news and undervalued the earnings power of the business.

We appreciate that Hankook maintains a strong, net-cash balance sheet subsequent to the Hanon Systems transaction. Additionally, the majority of demand for Hankook's tires is for replacement tires versus new vehicle tires, which, although somewhat cyclical in nature, positions Hankook more defensively. The company has also been making investments to gain market share in the U.S. and Europe, and it has a competitive offering in electric vehicle (EV) tires. EVs require more advanced tires, which are sold at a premium and can have a shorter replacement cycle. At its current valuation, Hankook offers a compelling investment opportunity to us.

Current Positioning

The strategy maintains large allocations to industrials, consumer staples, health care, and financials, while holding underweights in technology, materials, real estate, and consumer discretionary. Geographically, it continues to have significant exposure to companies in Japan (although underweight relative to the benchmark), the U.K., France, Ireland, Hong Kong, and emerging markets, while maintaining underweights in Australia, India, China, and Taiwan.

While value leadership (MSCI ACWI ex U.S. Small Cap Value vs. MSCI ACWI ex U.S. Small Cap) did provide a tailwind for the strategy over the past year, it was our stock selection across sectors and countries that has primarily driven outperformance. 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 ex USA Small Cap Index with net dividends captures small-cap representation across developed and emerging markets excluding the United States.

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

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