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Brandes Investment Partners
International Small Cap Equity Strategy Notes
Fourth Quarter 2023 (October 1 – December 31, 2023)

The Brandes International Small Cap Equity Strategy returned 13.39% net of fees and 13.64% gross of fees, outperforming its benchmark, the S&P Developed ex-U.S. SmallCap Index, which gained 10.74% in the quarter, and the S&P Developed ex-U.S. SmallCap Value Index, which was up 9.47%.

Annualized total return as of December 31, 2023	1-year	5-year	10-year
Brandes International Small Cap Equity Composite (net)	39.36%	11.60%	6.11%
Brandes International Small Cap Equity Composite (gross)	40.57%	12.58%	7.04%
S&P Developed Ex-US SmallCap Index	13.47%	6.46%	4.40%

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
Top contributors included holdings in the aerospace and defense industry, led by **Rolls-Royce**, **Embraer**, and **Montana Aerospace**. All three companies continued to see a resurgence in their end markets.

Ireland- and U.K.-based consumer staples holdings also aided returns, notably grocer **J Sainsbury**, contract caterer **Greencore Group**, and beverage company **C&C Group**.

Other standout performers included German medical device company **Draegerwerk**, China-based **Weiqiao Textile**, Japan's **Taisho Pharmaceutical**, and Slovenian bank **Nova Ljubljanska Banka**.

Taisho Pharmaceutical appreciated following a management buyout announcement. The offer reflected a 50% premium to Taisho's six-month average trading price, and we divested our position as the share price surpassed the management buyout offer price. Similarly, Weiqiao's shares jumped after its parent company announced a proposal to take the company private. The proposed price represented an over 100% premium to Weiqiao's previous closing price. Meanwhile, Draegerwerk reported another increase in its sales and margin guidance, triggered by stronger-than-expected sales of high-margin products.

Performance Detractors
Notable detractors included France-based active pharmaceutical ingredient company **Euroapi** and China-based light-duty engine manufacturer **China Yuchai**.

Euroapi issued another profit warning in October, revising down its EBITDA (earnings before interest, taxes, depreciation, and amortization) and sales growth guidance for the 2023 fiscal year, while also suspending its medium-term targets to 2026. Euroapi was carved out of global pharmaceutical firm Sanofi in May 2022, and it was expected that the company could face initial operational challenges as a standalone entity. Despite these short-term issues, we maintain a positive long-term outlook for Euroapi and have taken advantage of the share-price decline to add to our position.

Other poor performers included **Fuji Media** in Japan, bank **AIB Group** in Ireland, and footwear manufacturer **Yue Yuen Industrial** in Hong Kong. Additionally, our underweight to the information technology and real estate sectors weighed on returns relative to the benchmark.

Select Activity in the Quarter
The small-cap investment committee initiated positions in Montana Aerospace and bank **Valiant Holding**, both based in Switzerland, and U.K. investment management company **St. James Place**.

Montana Aerospace (AERO) is a vertically integrated manufacturer of metallic systems and components (aluminum, titanium) for the commercial aerospace, electric vehicle, and renewable energy end-markets. AERO, which went public in

2021 following its spin-off from parent company Montana Tech Components (MTC), has a relatively short operating history as a publicly traded company. However, its legacy assets date back to the 1990s when the business served as a U.S.-based casting company for Boeing. In 2006, the assets were acquired by MTC. Over time, MTC eventually recognized the opportunity to streamline the highly inefficient commercial aerospace supply chain, which is burdened by strict regulatory certifications that result in the industry's high fragmentation, high-cost labor footprint, and high transportation expenses.

Fast forward several years, AERO now boasts a vertically integrated industrial base, expanding manufacturing scale, and low-cost industrial footprint that is intelligently located near customers. These capabilities position AERO as a cost-effective, one-stop-shop solution for aircraft OEMs (original equipment manufacturers) and Tier 1 suppliers (i.e., those that work the most closely with OEMs) looking to rationalize their highly complex and inefficient supply chains. To provide perspective, a typical commercial aircraft is made up of five million parts, and if one part is missing, the OEM can't finish assembling the plane.

We have been monitoring AERO since it went public in 2021, but at that time, we felt the elevated project execution risk and cycle recovery timing uncertainty, combined with its leveraged balance sheet and other company-specific issues, were too great to overcome. Today, we see a more visible recovery path—air traffic has resumed, aircraft production has been ramping up, capital expenditures have been declining, and new factories have become operational. With the various risks fading and the stock price closer to trough levels, we believe the market provided an opportune time to invest in a company with an attractive long-term risk/reward tradeoff.

Besides the new purchases above, other major portfolio activity included the full sales of Japan-based Fuji Media and the aforementioned Taisho Pharmaceutical, as well as Mexican cement company **Cemex** and real estate investment trust (REIT) **Fibra Macquarie Mexico**.

Year-to-Date Briefing
The Brandes International Small Cap Equity Strategy was up 39.36% net of fees and 40.57% gross of fees, outperforming its benchmark, the S&P Developed ex-U.S. SmallCap Index, which returned 13.47% in 2023, as well as the S&P Developed ex-U.S. SmallCap Value Index, which was up 14.64%.

Standout performers included holdings in the U.K. (e.g., Rolls Royce, retailers **Marks and Spencer** and **J Sainsbury**), Mexico (e.g., REIT **Fibra Uno**), and Brazil (e.g., Embraer). Additional contributors included electric utility **Enel Chile**, Spanish REIT **Lar Espana Real Estate**, and Hungary-based **Magyar Telekom**. From a sector standpoint, the strategy benefited from holdings in industrials, real estate, and consumer staples.

Notable detractors included holdings in the commercial services and supplies industry, specifically U.K.-based currency printer **De La Rue**. France-based Euroapi, Spanish insurer **Linea Directa Aseguradora**, and Hong Kong's Yue Yuen Industrial also hurt performance, as did Japan-based **Kaken Pharmaceutical**. Furthermore, our underweight to information technology detracted from relative returns.

Current Positioning
The strategy maintains large allocations to industrials, consumer staples, and financials, while holding underweights in technology, materials, and consumer discretionary. Over the course of the year, exposure to the health care sector has increased with the additions of companies such as Euroapi and drug distributor **Medipal Holdings**.

Geographically, the strategy continues to have significant exposure to companies in Japan (although underweight relative to the benchmark), the U.K., Ireland, Hong Kong, and emerging markets. It remains underweight Canada, Australia, and Switzerland relative to the benchmark. We believe the differences between our portfolio and the S&P Developed ex-U.S. SmallCap Index make it an appealing complement to index-tracking or passively managed strategies.

While value leadership (S&P Developed ex-U.S. SmallCap Value vs. S&P Developed ex-U.S. SmallCap) did provide a tailwind for the strategy in 2023, it was our stock selection across sectors and countries that primarily drove outperformance for the year. 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 S&P Developed Ex U.S. SmallCap Index with net dividends measures the equity performance of small cap companies in developed markets excluding the United States. Data prior to 2001 is gross dividend and linked to the net dividend returns.

The S&P Developed Ex U.S. SmallCap Value Index with net dividends measures the equity performance of small cap companies in developed markets excluding the United States, 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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