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

The Brandes International Small Cap Equity Strategy returned 21.83% net of fees and 22.10% gross of fees, outperforming its benchmark, the S&P Developed ex-U.S. SmallCap Index, which was up 16.28% in the fourth quarter, and the S&P Developed ex-U.S. SmallCap Value Index, which increased 17.75%.

Annualized total return as of December 31, 2022	1-year	5-year	10-year
Brandes International Small Cap Equity Composite (net)	-7.96%	0.08%	5.23%
Brandes International Small Cap Equity Composite (gross)	-7.14%	0.97%	6.16%
S&P Developed Ex-US SmallCap Index	-21.81%	-0.42%	5.46%

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. Bank holdings, including Ireland-based **AIB Group**, Slovenian **Nova Ljubljanska Banka**, and Japan's **Concordia Financial Group**, were among the stronger performers, benefiting from the global rise in interest rates.

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

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

While most of our holdings in Japan performed well, food company **Mitsubishi Shokuhin** and electrical equipment firm **Futaba Corporation** declined.

Israel-based **Taro Pharmaceuticals** and Irish convenience food producer **Greencore Group** also hurt returns, along with Chinese engine manufacturer **China Yuchai International** and Hong Kong-based holding company **First Pacific**.

Furthermore, our holdings in the consumer discretionary sector underperformed those within the benchmark.

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. Sold positions included Turkey-based food products company **Ulker Biskuvi Sanayi** and Italian bank **Credito Emiliano**, as well as Japan-based auto components company **Tachi-S**, Mitsubishi Shokuhin, and web services provider **DeNA**. Meanwhile, the committee initiated a position in Spain-based biopharmaceutical company **Grifols**.

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 International Small Cap Equity Strategy declined 7.96% net of fees and 7.14% gross of fees, outperforming its benchmark, the S&P Developed ex-U.S. SmallCap Index, which declined 21.81% in 2022, and the S&P Developed ex-U.S. SmallCap Value Index, which was down 14.57%.

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, health care, industrials, and utilities sectors. Geographically, allocations to companies in the U.K. and Japan helped relative performance, 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 real estate investment trust **Fibra Uno**, Hong Kong based **PAX Global Technology**, and Canadian uranium company **Cameco** also lifted returns. Additionally, our underweight to information technology helped performance relative to the benchmark.

Detractors were mostly holdings in the consumer staples and materials sectors, notably Ireland-based Greencore Group and beverage firm **C&C Group**, as well as U.K.-based retailer **Marks & Spencer**. Other detractors included Embraer, China Yuchai International, and Canadian juvenile products manufacturer **Dorel Industries**.

Current Positioning

At year end, the Brandes International Small Cap Equity Strategy held its key overweights to consumer staples, communication services, and financials, while maintaining significant underweights to technology and materials. We continued to have overweight positions in Ireland, the U.K., Hong Kong, and emerging markets, and underweight positions in Canada, Australia, and Japan.

As we noted last quarter, a variety of headwinds face international 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.

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.

The S&P Developed Ex-U.S. SmallCap Growth Index measures the equity performance of small cap companies in developed markets excluding the United States, which are classified as growth stocks by 5-year historical earnings per share growth, 5-year historical sales per share growth, and 5-year average annual internal growth rate.

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