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Brandes Investment Partners
International Small Cap Equity Strategy Notes
First Quarter 2023 (January 1 – March 31, 2023)

The Brandes International Small Cap Equity Strategy returned 13.28 net of fees and 13.52% gross of fees, outperforming its benchmark, the S&P Developed ex-U.S. SmallCap Index, which was up 6.44% in the first quarter, and the S&P Developed ex-U.S. SmallCap Value Index, which increased 6.09%.

Annualized total return as of March 31, 2023	1-year	5-year	10-year
Brandes International Small Cap Equity Composite (net)	10.81%	3.10%	5.94%
Brandes International Small Cap Equity Composite (gross)	11.80%	4.02%	6.88%
S&P Developed Ex-US SmallCap Index	-9.38%	1.02%	5.43%

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 Latin America helped performance, led by Mexico-based cement company **Cemex** and real estate investment trust **Fibra Uno**, Chilean electric utility **Enel Chile**, and Brazilian regional jet manufacturer **Embraer**. Luxembourg-domiciled telecom firm **Millicom International**, which operates entirely in Latin America, also aided returns.

Embraer posted solid results for the fourth quarter of 2022, with revenue and free cash flow ahead of consensus and operating margin improving sequentially across segments. The company provided increased guidance for aircraft deliveries in 2023 in both the commercial and executive divisions. Moreover, one of its competitors announced it had officially shut down its next-generation commercial regional jet program, which could leave Embraer to be the primary supplier in this market.

Similarly, Cemex benefited from an enhanced outlook for 2023, with pricing remaining robust and management optimistic on growth in the industrial and commercial sectors.

Other contributors included U.K.-based retailers **J Sainsbury** and **Marks and Spencer**. Additionally, industrial firm **Rolls-Royce**, also based in the U.K., continued to recover from the downturn in demand for long-haul air travel. The company reported improved operating results and has been awarded with new contracts over the last several months, strengthening expectations for free-cash-flow generation.

From a sector perspective, holdings in industrials, consumer staples, real estate, and communication services drove returns.

Performance Detractors
Several holdings in consumer discretionary hurt performance, notably Canada-based **Dorel Industries** and China-based **Weiqiao Textile**.

Dorel Industries declined on disappointing results for the fourth quarter of 2022 amid lower sales in its juvenile products and home furnishing divisions. The company has started implementing measures to cut costs and reduce inventories, which should help earnings going forward.

Other detractors included U.K.-based banknotes printing company **De La Rue**, Spanish biotechnology firm **Grifols**, and Irish beverage business **C&C Group**.

Grifols saw its share price hit by the resignation of its chairman and weak earnings guidance for the year. The company's build-out of collection facilities over the last few years has continued to impact its cash flow and stretched its balance sheet, while lower blood-plasma collection volumes due to COVID suppressed its earnings. Recently, Grifols announced new cost-cutting initiatives, and we continue to believe the company offers an attractive long-term opportunity given the importance of its plasma-derived products to treat a variety of medical conditions.

Relative to the benchmark, our underweight to the information technology sector weighed on returns.

Select Activity in the Quarter

The small-cap investment committee initiated a position in Brazilian electric utility **Neoenergia** while divesting Japanese bank **Concordia Financial Group**.

Neoenergia is Brazil's second-largest distribution utility that derives more than 80% of operating profits from its regulated distribution and transmission networks. Based on our analysis, the company is a high-quality operator with an efficient cost structure, allowing it to outperform regulatory returns. It has a large presence in Brazil's Northeast region, where per capita electricity consumption is below the country's average and the concessions offer above-average expansion opportunities to enlarge the regulatory asset base. The combination of organic growth opportunities and efficient operations in its core regulated networks has proven to be a powerful driver of sustainable shareholder value creation and earnings growth for Neoenergia.

In our view, Neoenergia's market price more than reflects a variety of investor concerns, including capital allocation risk, temporarily elevated leverage (a function of peak-growth capital expenditure), and corporate governance. We see attractive upside from the potential for continued EBITDA growth driven by inflation-protected revenues, efficient investments in the regulatory asset base, and the start-up of new transmission lines and renewable energy projects. The completion of these projects should improve Neoenergia's leverage ratios and cash flows, and potentially enable the company to adopt a higher dividend payout above the minimum level presently. Overall, we believe the stock offers an opportunity to invest in what we consider an undervalued company with an attractive earnings growth profile.

Current Positioning

With limited turnover in the quarter, the positioning of the portfolio did not change materially. As of March 31, 2023, the Brandes International Small Cap Equity Strategy held its key overweights to consumer staples, communication services, health care, and financials, while maintaining significant underweights to technology, consumer discretionary, and materials. We continued to have overweight positions in Ireland, the U.K., Hong Kong, and emerging markets, and underweight positions in Canada, Australia, France, and Japan.

Given the volatility and headlines surrounding the financials sector globally, we'd be remiss not to mention our exposure. At quarter end, the strategy had a higher allocation to financials than the benchmark's 11.65% weighting. Our financials research team and investment committee have been meeting frequently as they monitored ongoing developments. We have been updating our valuation and risk exposure analysis across a variety of financials holdings and have been in contact with several global financial companies via email, phone, and in-person meetings at financial conferences. We believe the risk of permanent, fundamental impairment stemming from issues like those faced by Silicon Valley Bank and other struggling banks remains low for the financial institutions we own specifically within the strategy.

We continue to believe the portfolio's current positioning offers an attractive opportunity for long-term investors and remain optimistic about its prospects.

Cash Flow: The amount of cash generated minus the amount of cash used by a company in a given period.

EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization.

Free Cash Flow: Total cash flow from operations less capital expenditures.

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.

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