

**Brandes Investment Partners**  
**U.S. Small Cap Value Equity Strategy Notes**  
**Second Quarter 2023 (April 1 – June 30, 2023)**

The Brandes U.S. Small Cap Value Equity Strategy returned 3.79% net of fees and 3.99% gross of fees, underperforming its benchmark, the Russell 2000 Index, which gained 5.21% in the quarter, but outperforming the Russell 2000 Value Index, which was up 3.18%.

<b>Annualized total return as of June 30, 2023</b>	<b>1-year</b>	<b>5-year</b>	<b>10-year</b>
Brandes U.S. Small Cap Value Equity Composite (net)	17.87%	9.13%	10.12%
Brandes U.S. Small Cap Value Equity Composite (gross)	18.82%	10.10%	11.13%
Russell 2000 Index	12.31%	4.21%	8.25%

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 financials drove returns, led by insurers **National Western Life Group** and **Crawford & Company**. Relative to the benchmark, our underweight to the banking industry helped as well.

Beyond financials, return gains were mainly company specific. **Avadel Pharmaceuticals** advanced after announcing the long-awaited FDA approval of narcolepsy medication LUMRYZ along with seven-year exclusivity for the drug. Additionally, U.S.-based **Arlo Technologies** was up materially after reporting favorable earnings and growth. Its services revenue approached a \$200 million run rate and, despite difficulties in the consumer electronics industry, its operating profitability recovered quicker than anticipated.

Other solid performers included machinery company **L.B. Foster**, aerospace and defense business **Moog** and ophthalmic laser company **LENSAR**.

**Performance Detractors**

Several holdings in the health care sector performed poorly, including **Eagle Pharmaceuticals**, **Phibro Animal Health** and **Premier**. Eagle Pharmaceuticals was off after reporting weak earnings and higher-than-expected cash burn driven by the timing of working capital flows, which the company expects will reverse in future quarters.

Select industrials and energy holdings detracted as well, notably regional jet manufacturer **Embraer**, machinery business **Hurco Companies**, energy equipment company **Dril-Quip**, and oil and gas delivery services company **World Kinect**.

Other decliners were communications equipment companies **NETGEAR** and **Ribbon Communications**, as well as apparel business **Hanesbrands**.

**Select Activity in the Quarter**

The small-cap investment committee initiated positions in insurer **Mercury General** and trade uniform company **UniFirst** while divesting position in office furniture company **Steelcase**.

UniFirst is the third largest publicly traded uniform rental company in North America. Of the revenue it earns, 85% is for services rendered to customers, while the remainder is from direct merchandise sales (primarily uniforms). Despite having an international presence, 92% of UniFirst's revenue is denominated in U.S. dollars.

Although its revenues have exceeded pre-pandemic levels, UniFirst has seen its profit margins squeezed meaningfully over the past year. In 2022, the company earned its lowest profit margin in more than 20 years. Cost inflation squeezed profits as UniFirst lowered its earnings forecasts multiple times while also failing to meet reduced expectations. This performance stands in stark contrast to the largest company in the industry, Cintas, which has seen its margins expand along with revenue despite cost pressures.

We believe UniFirst's current weakness is short term in nature and its reduced near-term earnings visibility created an opportunity to invest. UniFirst has a long financial history of generating good returns on capital given the scale advantages inherent in the uniform rental market. It has a high client retention rate (above 90%) and has pricing power to pass along cost inflation to customers. The company has no financial leverage, and the industry should still have positive secular tailwinds, in our opinion.

### ***Year-to-Date Briefing***

The Brandes U.S. Small Cap Value Equity Strategy returned 12.86% net of fees and 13.31% gross of fees, outperforming its benchmark, the Russell 2000 Index, which was up 8.09% in the six months ended June 30, 2023, and the Russell 2000 Value Index, which gained 2.50%.

The strongest year-to-date contributors were similar to the best performers for the quarter, led by Arlo Technologies, insurers National Western Life Group and Crawford & Company, and Avadel Pharmaceuticals. Other solid performers were in aerospace and defense, namely Embraer, Moog, and **Park Aerospace**, as well as machinery, led by **Graham Corporation**, L.B. Foster, and **Flowserve**. Commercial services and supplies companies **Kimball International**, **Healthcare Services Group** and Steelcase also performed well. From a sector standpoint, holdings in industrials and financials drove returns.

Notable detractors were primarily in the energy, health care, and consumer discretionary sectors, including Eagle Pharmaceuticals, World Kinect, Hanesbrands, and Dril-Quip. Other poor performers included NETGEAR, **National Bankshares**, and Hurco Companies.

### ***Current Positioning***

As of June 30, 2023, the strategy held its largest weights in industrials and health care, while maintaining underweights to consumer discretionary and financials. Our allocation to health care increased this year with the addition of **Elanco Animal Health** (purchased in 1Q23) as well as averaging down on share-price weakness of select positions.

A variety of concerns have continued to affect stocks around the world, including elevated inflation, worries about slowing economic growth or recession, and political as well as regulatory uncertainties. Despite these challenges, the U.S. small-cap equity asset class (Russell 2000) posted encouraging returns over the past nine months, highlighting our belief that often when the market is the most negative, it can be a great time to invest.

In our opinion, the differences between the Brandes U.S. Small Cap Value Equity Strategy and the broader market continue to make the strategy an attractive complement to other small-cap offerings. Generally, our holdings have strong balance sheets, compelling growth prospects and have been able to generate durable free cash flow. Compared with the Russell 2000 Value Index, we have significantly less exposure to financials and real estate.

We are optimistic about the potential of value stocks in general and believe the Brandes U.S. Small Cap Value Equity Strategy remains well positioned from a long-term risk/reward perspective.

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

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

**Operating Profit:** Earnings before interests and taxes.

**Profit Margin:** Net income divided by revenues.

**Return on Capital:** Net income minus dividends divided by total capital; used to assess a company's efficiency at allocating the capital under its control to profitable investments.

**Working Capital:** Current assets minus current liabilities; a measure of a company's efficiency and short-term financial health.

The Russell 2000 Index with gross dividends measures the performance of the small cap segment of the U.S. equity universe.

The Russell 2000 Value Index with gross dividends measures performance of the small cap value segment of the U.S. equity universe. Securities are categorized as growth or value based on their relative book-to-price ratios, historical sales growth, and expected earnings growth.

Diversification does not assure a profit or protect against a loss in a declining market.

The foregoing Quarterly Commentary reflects the thoughts and opinions of Brandes Investment Partners® exclusively and is subject to change without notice. The information provided in the commentary should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any security transactions, holdings or sectors discussed were or will be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance discussed herein. International and emerging markets investing is subject to certain risks such as currency fluctuation and social and political changes; such risks may result in greater share price volatility. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that the securities sold have not been repurchased. The actual characteristics with respect to any particular account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Unlike bonds issued or guaranteed by the U.S. government or its agencies, stocks and other bonds are not backed by the full faith and credit of the United States. Stock and bond prices will experience market fluctuations. Please note that the value of government securities and bonds in general have an inverse relationship to interest rates. Bonds carry the risk of default, or the risk that an issuer will be unable to make income or principal payment. There is no assurance that private guarantors or insurers will meet their obligations. The credit quality of the investments in the portfolio is not a guarantee of the safety or stability of the portfolio. Investments in Asset Backed and Mortgage Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Securities of small companies generally experience more volatility than mid and large sized companies. Although the statements of fact and data in this report have been obtained from, and are based upon, sources that are believed to be reliable, we cannot guarantee their accuracy, and any such information may be incomplete or condensed. Strategies discussed are subject to change at any time by the investment manager in its discretion due to market conditions or opportunities. The Brandes investment approach tends to result in portfolios that are materially different than their benchmarks with regard to characteristics such as risk, volatility, diversification, and concentration. Please note that all indices are unmanaged and are not available for direct investment. Past performance is not a guarantee of future results. No investment strategy can assure a profit or protect against loss. Market conditions may impact performance. The performance results presented were achieved in particular market conditions which may not be repeated. Moreover, the current market volatility and uncertain regulatory environment may have a negative impact on future performance. The margin of safety for any security is defined as the discount of its market price to what the firm believes is the intrinsic value of that security. The declaration and payment of shareholder dividends are solely at the discretion of the issuer and are subject to change at any time.

**United States:** Issued by Brandes Investment Partners, L.P., 4275 Executive Square, 5th Floor, La Jolla, CA 92037.

**Singapore/Asia:** FOR INSTITUTIONAL/ACCREDITED INVESTOR USE ONLY. Issued by Brandes Investment Partners (Asia) Pte Ltd., The Gateway West, 150 Beach Road, #35-51, Singapore 189720. Company Registration Number 201212812M. ABRN:164 952 710. This document is for "institutional investors" or "accredited investors" as defined under the Securities and Futures Act, Chapter 289 of Singapore and may not be distributed to any other person. This document is being provided for information purposes only. Incorporated in Singapore in 2012, Brandes Investment Partners (Asia) Pte Ltd (Brandes Asia) provides portfolio management services to clients in Asia (as permitted under local law). Brandes Investment Partners, L.P., a U.S. registered investment adviser and a sister entity to Brandes Asia, provides research, portfolio construction and other support to Brandes Asia.

**Canada:** FOR REGISTERED DEALERS AND THEIR REGISTERED SALESPERSONS' USE ONLY. NOT FOR DISTRIBUTION TO INVESTORS. Distributed by Brandes Investment Partners & Co., 6 Adelaide Street East, Suite 900, Toronto, ON, M5C 1H6. This communication is for information purposes only and should not be regarded as a sales communication or as advice regarding any financial product or services.