

Brandes Investment Partners
U.S. Small Cap Value Equity Strategy Notes
Fourth Quarter 2023 (October 1 – December 31, 2023)

The Brandes U.S. Small Cap Value Equity Strategy returned 7.50% net of fees and 7.72% gross of fees, underperforming its benchmark, the Russell 2000 Index, which gained 14.03% in the quarter, as well as the Russell 2000 Value Index, which was up 15.26%.

Annualized total return as of December 31, 2023	1-year	5-year	10-year
Brandes U.S. Small Cap Value Equity Composite (net)	22.58%	13.89%	9.52%
Brandes U.S. Small Cap Value Equity Composite (gross)	23.55%	14.90%	10.52%
Russell 2000 Index	16.93%	9.97%	7.15%

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

Despite a challenging start to 2023, the financials sector emerged as one of the best performers, driven partly by market optimism around an economic soft landing. A number of our financial holdings were leading contributors, notably insurers **Crawford & Company** and **Mercury General**, as well as banks **National Bankshares** and **Eagle Bancorp Montana**.

Aerospace and defense holdings **Embraer** and **Moog** also helped returns, with both companies continuing to see a resurgence in their end-markets.

Other standout performers included **Avadel Pharmaceuticals**, **Elanco Animal Health**, and software developer **SolarWinds**.

Performance Detractors

Notable detractors included holdings in the health care sector, namely **Eagle Pharmaceuticals**, **Pediatrix Medical Group**, **Phibro Animal Health**, and **United Therapeutics**.

Eagle Pharmaceuticals declined after the company's founding chief executive abruptly resigned and Nasdaq issued a non-compliance notice related to its late quarterly earnings filing. The company had previously noted a delay in releasing its third-quarter results due to potential adjustments for reporting Pemfexy (a cancer treatment) sales.

Other detractors were energy companies **Dril-Quip** and **Chesapeake Energy**, aerospace-related firm **Park Aerospace**, outdoor sports company **American Outdoor Brands**, and wireless surveillance camera manufacturer **Arlo Technologies**. Additionally, our underweight to the financials sector weighed on returns relative to the benchmark.

Select Activity in the Quarter

The small-cap investment committee initiated a position in **Spirit AeroSystems**, while selling its holding in **National Western Life Group**.

Year-to-Date Briefing

The Brandes U.S. Small Cap Value Equity Strategy returned 22.58% net of fees and 23.55% gross of fees, outperforming its benchmark, the Russell 2000 Index, which was up 16.93% in 2023, and the Russell 2000 Value Index, which gained 14.65%.

The strongest contributors in 2023 were holdings in financials and industrials, led by insurers National Western Life Group and Crawford & Company, as well as industrial companies **Graham Corporation**, **L.B. Foster**, Embraer, Moog, and **Orion Group**. Beyond holdings in financials and industrials, Arlo Technologies and **Sprott Physical Uranium Trust** had solid returns.

Notable detractors were primarily in health care and energy, including Eagle Pharmaceuticals, **Premier**, Pediatrix Medical Group, and **World Kinect**. Other poor performers included **Netgear**, **Hurco Companies**, and **Hanesbrands**.

Current Positioning

The strategy maintained its largest weights in industrials, health care, and information technology (although underweight relative to the Russell 2000 Index). Over the course of 2023, there was a meaningful increase in our allocation to information technology, while the health care and industrials allocations were comparable to the start of the year.

Our most significant underweights were in consumer discretionary, financials, and real estate, which is consistent with how the portfolio was positioned to begin 2023 as well.

Compared with the Russell 2000 Value Index, we have significantly less exposure to financials and real estate. In our opinion, the differences between the Brandes U.S. Small Cap Value Equity Strategy and the broader U.S. small-cap market continue to make the strategy an attractive complement to other small-cap offerings. Our strategy exhibits lower valuations than the Russell 2000 Index while offering exposure to companies with what we consider strong balance sheets, compelling growth prospects and a history of durable free cash flow generation.

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.

Term definitions: <https://www.brandes.com/termdefinitions>

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.

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