Brandes Investment Partners
U.S. Small Cap Value Equity Strategy Notes
Fourth Quarter 2022 (October 1 – December 31, 2022)

The Brandes U.S. Small Cap Value Equity Strategy returned 13.32% net of fees and 13.55% gross of fees, outperforming its benchmark, the Russell 2000 Index, which was up 6.23% in the fourth quarter, and the Russell 2000 Value Index, which increased 8.42%.

Annualized total return as of December 31, 2022	1-year	5-year	10-year
Brandes U.S. Small Cap Value Equity Composite (net)	-6.88%	6.80%	9.88%
Brandes U.S. Small Cap Value Equity Composite (gross)	-6.11%	7.76%	10.89%
Russell 2000 Index	-20.44%	4.13%	9.01%

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. Financial holdings, including **National Western Life**, **National Bankshares** and **ACNB** were among the strongest performers and benefited from the global rise in interest rates.

A variety of cyclical and economically sensitive businesses also aided returns as they outperformed the broader market (Russell 2000 Index). These included aerospace and defense companies **Embraer**, **Park Aerospace** and **Moog**, as well as cement company **Buzzi Unicem** and energy equipment business **Dril-Quip**.

Allocations to the health care sector also helped results, driven by **Prestige Consumer Healthcare**, **Avadel Pharmaceuticals** and **United Therapeutics**.

Performance Detractors
In a solid performance period for the strategy, only a few holdings detracted from returns, including information technology holdings **Arlo Technologies** and **NETGEAR**. Arlo and NETGEAR both announced disappointing quarterly results: they reported a slowdown in revenue and delivered near-term guidance that was below expectations.

Further, while most of our health care holdings performed well, ophthalmic laser business **LENSAR** and health solutions company **Pediatrix Medical Group** declined. Other detractors included specialty construction company **Orion Group** and apparel business **Hanesbrands**.

Select Activity in the Quarter
Portfolio activity was relatively light. There were no new additions; homebuilders **Taylor Morrison Home** (**TMHC**) and **M.D.C. Holdings** were the only full sells.

In the roughly 15 years since the Global Financial Crisis, the U.S. Small Cap Value portfolio has always owned at least one homebuilder. Over time, the portfolio's allocation to and selection of homebuilder holdings have changed based on company-specific execution, regional differences in activity and market perception. However, following the sale of TMHC and M.D.C. Holdings, the portfolio no longer has exposure to homebuilders.

TMHC was first added to the portfolio in 2017. The company completed its initial public offering in 2013 and subsequently restructured its operations through a series of acquisitions and divestitures. TMHC's footprint in the southwest, Texas and the southeast underpinned its recovery as those regions continued to have faster-than-average population growth. When TMHC was first purchased, the U.S. housing market was still recovering and was approaching our estimate of normal cyclically adjusted housing starts. Additionally, TMHC had built an inventory of land at low prices due to the slow recovery of the sector and had exited its Canadian housing construction business. These factors, along with what we considered a discounted market valuation, made TMHC an attractive investment opportunity.

The pandemic initially resulted in a slowdown in housing activity, but that situation quickly reversed and the housing market became turbocharged as a result of low interest rates and increased demand for single family homes. TMHC now screens as a traditional value stock. The company trades at low valuation multiples measured on price-to-earnings and price-to-book-value metrics. New housing starts in the U.S. are close to what we consider to be normal. Despite these positive characteristics, the risks of slowing demand and the potential for asset impairment from inflated land values threatened to overwhelm these apparent advantages, in our view.

In years past, steeply discounted market valuations have more than compensated the portfolio for holding a homebuilder while heading into a housing slowdown. While the housing market recovery from the Global Financial Crisis was not a straight-line recovery—nor did we ever expect it to be—current market valuations do not offer the discount we need to "wait it out" as we have done in the past.

Year-to-Date Briefing

The Brandes U.S. Small Cap Value Equity Strategy declined 6.88% net of fees and 6.11% gross of fees, outperforming its benchmark, the Russell 2000 Index, which fell 20.44% in 2022, and the Russell 2000 Value Index, which was down 14.48%.

Markets declined amid unease about inflation and a slowdown in economic growth. As interest rates have risen, technology-related companies have been among the worst performers in the Russell 2000 Index, along with some cyclically oriented companies, due to increasing anxieties about future economic growth prospects. Conversely, more defensive and commodity-oriented companies performed relatively well, while value stocks also fared respectably in a down market.

The strategy's outperformance versus the broad U.S. small-cap market (Russell 2000 Index) reflects value exposure, as well as returns from select energy, financials, and professional services companies. At the individual security level, key drivers of our outperformance came from energy investments in Dril-Quip, **Helmerich & Payne**, **Chesapeake Energy** and **Halliburton**. Additionally, financials National Western Life and National Bankshares, as well as professional services companies **Science Applications International Corp.** and **Resources Connection** also contributed to positive returns, along with Avadel Pharmaceuticals.

Notable detractors included Embraer, **Eagle Pharmaceuticals**, NETGEAR, and Arlo Technologies. Our underweight and holdings in the materials sector also weighed on results.

Current Positioning

As of December 31, the strategy's largest sector allocations were in industrials and health care. Our most significant underweights were in financials, consumer discretionary and information technology, which appeared generally expensive relative to their risks, excluding a few specific opportunities. Given concerns about inflation and a weakening economic environment, we have remained careful about our exposure to companies that could be hurt by continued inflation or those with significant balance sheet leverage.

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 also offering exposure to companies with strong balance sheets, compelling growth prospects and a history of durable free cash flow generation.

We remain optimistic about the prospects of the strategy and its potential for patient, long-term investors.

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.

Price/Book: Price per share divided by book value per share.

Price/Earnings: Price per share divided by earnings per share.

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.