BRANDES
INVESTMENT PARTNERS

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

The Brandes U.S. Value Equity Strategy rose 9.06% (gross of fees) in the quarter, slightly underperforming its benchmark, the Russell 1000 Value Index, which increased 9.50%.

Annualized total return as of December 31, 2023	1-year	5-year	10-year
Brandes U.S. Value Equity Composite (net)	11.28%	12.94%	9.78%
Brandes U.S. Value Equity Composite (gross)	11.86%	13.61%	10.47%
Russell 1000 Value Index	11.46%	10.90%	8.39%

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

A variety of financials holdings boosted returns. Leading performers included consumer finance firm **OneMain** and payment processing company **Fiserv**, as well as our large money center and super regional bank holdings, namely **PNC Financial, Citigroup, Bank of America, Wells Fargo**, and **Truist**.

Despite a challenging start to 2023, the financials sector emerged as one of the strongest performers during the quarter, and our holdings performed better than those in the benchmark. Market optimism around a soft economic landing, coupled with growing confidence in bank capital levels, contributed to the sector's returns. Even though long-term bond yields declined, banks continued to benefit from improving net interest margins in a higher interest rate environment relative to the previous decade.

Meanwhile, the health care sector underperformed the overall Russell 1000 Value Index, but our holdings outperformed those within the benchmark. Pharmaceutical distributor **Cardinal Health** and recent addition **Fortrea Holdings** increased as they reported solid earnings.

Furthermore, **Micron Technology**, a memory semiconductor firm, also aided returns as the market continued to anticipate a rebound in the semiconductor market.

Performance Detractors

Energy was the only sector that declined within the benchmark, and our holdings in that sector negatively impacted performance. Both **Halliburton**, an oil service company, and **Chevron**, an integrated oil company, weighed on returns as oil prices dropped during the quarter.

Other detractors included industrial firm **FedEx**, agricultural supplier **Corteva**, and pharmaceutical firms **Pfizer** and **Sanofi**.

FedEx, while still up for the year, declined after reporting weaker-than-estimated results and guidance. Meanwhile, Corteva's share price retreated due to ongoing concerns about inventory destocking following profit warnings from other agriculture-related companies. We continue to believe Corteva offers an attractive long-term value opportunity given its competitive position, pricing power, and the diversification potential it brings to the overall portfolio.

Additionally, the market remained concerned about the decline in Pfizer's COVID-related revenue and near-term growth. Nevertheless, we believe the company represents an appealing long-term risk/reward tradeoff given its broad product portfolio, significant investments in research and development, and recent acquisitions aimed at rebuilding the pipeline. We took advantage of the share-price decline to increase our allocation.

Select Activity in the Quarter

Amid a generally rising market, there were no new purchases or full sales. However, the investment committee did reduce allocations to several holdings that appreciated this year. These included semiconductor-related firms Micron Technology and **Applied Materials**, as well as pharmaceutical distributors **McKesson** and Cardinal Health. The committee also added to two health care positions, namely Pfizer, as discussed above, and clinical research firm Fortrea.

Year-to-Date Briefing
The Brandes U.S. Value Equity Strategy rose 11.28% net of fees and 11.86% gross of fees for the year ended December 31, 2023, outperforming its benchmark, the Russell 1000 Value Index, which increased 11.46%.

On a relative basis, 2023 was the second-worst year for value compared to the broad and growth indices (Russell 1000 Value vs. Russell 1000 Growth and Russell 1000) since their common inception, with the year 2020 being the worst. The performance of the "Magnificent 7" (Apple, Microsoft, Alphabet, Meta Platforms, Nvidia, Amazon, and Tesla) drove the majority of returns for both the Russell 1000 Index and the Russell 1000 Growth Index. As a fundamental value manager benchmarked against the Russell 1000 Value Index, this was less impactful for our U.S. Value Equity Strategy as the value index has significantly less concentration than the broad and growth indices—although Meta did contribute over 15% of the Russell 1000 Value Index returns year-to-date despite being removed from the index during the rebalancing in June.

Major contributors to our outperformance versus the benchmark included several technology-related holdings. Our fundamental, value-driven process led us to identify what we considered compelling opportunities in a variety of technology-related names that declined in 2022 and which aided our performance in 2023. Notable performers included semiconductor firms Applied Materials and Micron Technology, which rebounded this year ahead of an expected industry recovery, as well as technology-related companies **Alphabet** and **Flex**. We had added to all four holdings during the 2022 technology downturn.

We have also found compelling value potential in health care and financials companies, which made up the strategy's largest overweight positions at year end.

Following a robust 2022, which prompted us to pare some of our holdings, the health care sector struggled in 2023. While our overweight allocation weighed on relative performance, our stock selection more than offset the negative impact as our holdings performed better than those within the benchmark. This was primarily attributable to the solid performance of two pharmaceutical distributors, namely Cardinal Health and McKesson.

The financials sector lagged at the start of the year, but notably improved in the fourth quarter. Our overweight position and stock selection helped relative returns, led by holdings such as consumer finance company OneMain and payment processing company Fiserv.

Additional contributors to relative returns included our underweights to consumer staples and utilities, which were among the worst-performing sectors within the benchmark, as well as our position in industrial firm FedEx, which was up almost 50% for the year despite the decline in the fourth quarter.

The largest detractor from relative performance was our lack of ownership in Meta Platforms, which was removed from the Russell 1000 Value Index after rising in the first half of the year. Moreover, while our stock selection in health care boosted relative returns overall, a few holdings declined, notably Pfizer, **Cigna Group** and **CVS Health**. Other detractors included our energy holdings, namely Chevron, Halliburton, and **World Kinect**.

Current Positioning
As of December 31, 2023, the portfolio holds overweight positions in financials, health care, communication services, and technology.

The most notable shift in the portfolio's relative weightings during the year occurred within technology and health care. Interestingly, these were the two sectors where we saw significant changes in 2022 as well, albeit in the opposite direction. After the sector declined in 2022, we began to find more opportunities in various technology companies, and our weight increased. However, this year, the sector appreciated, prompting us to pare and divest some of our holdings as they reached our estimated intrinsic values. While we remain overweight versus the Russell 1000 Value Index, that overweight has narrowed.

On the other hand, due to the solid performance of health care stocks in 2022, we pared our exposure to several names that year as their margins of safety decreased and we found appealing opportunities elsewhere. However, in 2023, the sector underperformed the overall Russell 1000 Value Index. As the margins of safety for several of our holdings improved, we increased our allocation and ended the year with a larger overweight position compared to the beginning of the year.

In the face of a challenging year for value compared to growth, we maintain an optimistic outlook for 2024 and beyond. Following the robust performance of the growth index, primarily fueled by a handful of tech-related names, value stocks now trade in the least expensive quintile relative to growth stocks (MSCI USA Value vs. MSCI USA Growth) since the inception of the style indices. This is evident across various valuation measures, including price/earnings, price/cash flow, and enterprise value/sales. Historically, such valuation discounts often signaled attractive future returns for value stocks. For example, value underperformed growth in 1999 as well as 2020, two periods that were characterized by significant concentration in the broad market's allocation and performance, a trend somewhat echoed by the market in 2023. Both periods were followed by solid returns for Russell 1000 Value relative to Russell 1000 and Russell 1000 Growth over the subsequent two years. Importantly, our portfolio, guided by our value philosophy and process, has had the tendency to outperform the benchmark when it outperformed the Russell 1000.

We believe the strategy is an excellent complement and diversifier to passive and growth-oriented strategies that appear to have become more concentrated this year given the Magnificent 7's performance. Looking ahead, we remain optimistic about the long-term prospects of our holdings. As of December 31, 2023, the Brandes U.S. Value Equity Strategy trades at what we consider more compelling valuation levels, while offering more attractive long-term growth characteristics than the benchmark.

The margin of safety for any security is the discount of its market price to our estimate of that security's intrinsic value.

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

The Russell 1000 Index with gross dividends measures performance of the large cap segment of the U.S. equity universe.

The Russell 1000 Value Index with gross dividends measures performance of the large 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.

The Russell 1000 Growth Index with gross dividends measures performance of the large cap growth 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.

The MSCI USA Value Index captures large and mid cap U.S. securities exhibiting overall value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.

The MSCI USA Growth Index captures large and mid cap U.S. securities exhibiting overall growth style characteristics, defined using long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend.