

# Brandes Small Cap Value Fund

## FUND INFORMATION

Class I:	BSCMX
Class A:	BSCAX
Class R6:	BSCRX

## STRATEGY

The Fund seeks long-term capital appreciation by investing predominantly in U.S. equity securities of small-capitalization companies that the Fund's investment team believes are undervalued relative to their financial strength and upside potential.

## TOP TEN HOLDINGS

(% of assets as of 12/31/2022)

Park Aerospace Corp	4.81
Dril-Quip Inc	4.62
National Western Life Group Inc	4.40
Embraer SA	4.25
Graham Corp	4.17
NETGEAR Inc	4.07
Edgewell Personal Care Co	3.93
Moog Inc	3.61
National Bankshares Inc	3.19
Flowserve Corp	2.99

Fund holdings are subject to change at any time at the discretion of the investment manager.

The Brandes Small Cap Value Fund returned 13.38% (Class I Shares), 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%.

## Positive Contributors

Value outperformance provided a tailwind for the Fund. 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 Fund, 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 the Fund's 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 Fund's portfolio has always owned at least one homebuilder. Over time, the Fund'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 Fund 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 Small Cap Value Fund declined 7.89% (Class I Shares), 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 Fund’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 the Fund’s 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. The Fund’s underweight and holdings in the materials sector also weighed on results.

## Current Positioning

As of December 31, the Fund’s largest sector allocations were in industrials and health care. The Fund’s 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 the Fund’s 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 Small Cap Value Fund and the broader U.S. small-cap market continue to make the Fund an attractive complement to other small-cap offerings. The Fund 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 Fund and its potential for patient, long-term investors.

Average Annual Total Returns (%) as of December 31, 2022

Without Load	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception 10/1/1997
Class I	13.38	-7.89	-7.89	12.26	7.36	10.37	7.39
Class A	13.33	-8.07	-8.07	11.99	7.05	10.09	7.12
Class R6	13.46	-7.88	-7.88	12.71	6.14	9.74	7.15
With Load	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception 10/1/1997 <sup>1</sup>
Class A	6.85	-13.33	-13.33	9.81	5.78	9.43	6.87
Russell 2000 Index	6.23	-20.44	-20.44	3.10	4.13	9.01	6.90
Russell 2000 Value Index	8.42	-14.48	-14.48	4.70	4.13	8.48	7.67

Operating Expenses: Class I: 4.26% (gross), 0.91% (net) Class A: 4.67% (gross), 1.16% (net) Class R6: 3.59% (gross), 0.73% (net)

*Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. All performance is historical and includes reinvestment of dividends and capital gains. Performance data current to the most recent month end may be obtained by calling 1.800.395.3807. Performance data shown with load reflects the Class A maximum sales charge of 5.75%. Performance shown without load does not reflect the deduction of the sales load. If reflected, the load would reduce the performance quoted.*

<sup>1</sup> The performance information shown for periods before January 2, 2018 is that of a private investment fund managed by the Advisor (the "Predecessor Fund") prior to the commencement of the Small Cap Fund's operations with policies, guidelines and restrictions that were, in all material respects, equivalent to those of the Small Cap Fund. The Small Cap Fund acquired the assets and assumed the liabilities of the Predecessor Fund on January 2, 2018, and investors in the Predecessor Fund received Class I shares of the Small Cap Fund as part of the reorganization. With respect to Class I and Class R6 shares, the performance information shown reflects the gross expenses of the Predecessor Fund. Class A shares reflect the gross expenses of the Predecessor Fund restated to reflect the Class A sales load and Rule 12b 1 fees.

The Advisor has contractually agreed to limit the operating expenses through January 28, 2024. The Expense Caps may be terminated at any time by the Board of Trustees upon 60 days notice to the Advisor, or by the Advisor with the consent of the Board. Investment performance reflects fee waivers and/or reimbursement of expenses. In the absence of such waivers/reimbursements, total return would be reduced.

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. It is not possible to invest directly in an index.

**Because the values of the Fund's investments will fluctuate with market conditions, so will the value of your investment in the Fund. You could lose money on your investment in the Fund, or the Fund could underperform other investments. The values of the Fund's investments fluctuate in response to the activities of individual companies and general stock market and economic conditions. Stocks of small-sized and mid-sized companies tend to have limited liquidity and usually experience greater price volatility than stocks of larger companies.**

*A mutual fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information about the investment company, and may be obtained by calling 1.800.395.3807 or visiting [www.brandes.com/funds](http://www.brandes.com/funds). Read carefully before investing.*

The foregoing reflects the thoughts and opinions of Brandes Investment Partners® exclusively and is subject to change without notice.

Brandes Investment Partners® is a registered trademark of Brandes Investment Partners, L.P. in the United States and Canada.

The Brandes Small Cap Value Fund is distributed by ALPS Distributors, Inc.

BII001479 4/30/23