

# 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 9/30/2022)

Edgewell Personal Care Co	4.68
NETGEAR Inc	4.49
Park Aerospace Corp	4.47
Graham Corp	4.40
Dril-Quip Inc	4.02
Moog Inc	3.78
Embraer SA	3.69
National Western Life Group Inc	3.61
Hurco Cos Inc	3.22
Flowserve Corp	3.00

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

The Brandes Small Cap Value Fund declined 9.05% (Class I Shares), underperforming its benchmark, the Russell 2000 Index, which fell 2.19% in the third quarter, and the Russell 2000 Value Index, which was down 4.61%.

## Positive Contributors

As was the case last quarter, select oil- and gas-related companies performed well, led by **Chesapeake Energy** and **World Fuel Services**. Uranium company **Sprott Physical Uranium Trust** also had strong returns.

Select industrial holdings rebounded, specifically **Orion Group** and **Graham Corporation**, as did health care holding **Avadel Pharmaceuticals**. After declining in the second quarter due to the potential for delayed approval of its narcolepsy drug LUMRYZ, Avadel rebounded in July after announcing that the U.S. FDA had granted tentative approval for LUMRYZ, indicating that the medication met all required efficacy, safety and quality standards needed for full approval.

Allocation to consumer staples also helped returns, driven by **Edgewell Personal Care**. Additionally, our underweight to the real estate sector aided relative performance.

## Performance Detractors

Other than Avadel, most of our holdings in the health care sector detracted from returns, notably **Phibro Animal Health**, **Eagle Pharmaceuticals** and **Prestige Consumer Healthcare**. Phibro Animal Health came under pressure after announcing an earnings miss while also unveiling initial fiscal year 2023 guidance lower than analysts expected. In August, Eagle Pharmaceuticals made an equity investment in Enlare Therapeutics toward building out its mid-term pipeline. Our investment thesis regarding these businesses remained unchanged, and we maintain an allocation in all three.

Beyond health care, select holdings in industrials, financials and materials declined, specifically **Scotts Miracle-Gro**, **National Western Life**, insurer **Crawford & Company**, and infrastructure company **L.B. Foster**. Energy equipment company **Dril-Quip**, which had been one of the stronger performers earlier this year, gave back some of its returns as well.

## Select Activity in the Quarter

Portfolio activity was higher than normal as the small-cap investment committee added tow truck and towing equipment manufacturer **Miller Industries**, clothes company **Hanesbrands**, **Healthcare Services Group** and **Kennametal**, while divesting positions in utilities **ALLETE** and **Avista**, professional services firm **Resources Connection**, and bank **Eagle Bancorp Montana**.

Kennametal (KMT) manufactures tungsten-based metal cutting components, wear-resistant cutting tools and metallurgical powders. KMT's products address the needs of customers in cyclical industries, serving the general engineering, aerospace, energy, earthworks, and transportation markets. In our opinion, KMT boasts an attractive business model and benefits from a favorable industry structure. Eighty percent of KMT's products are classified as consumables, which can drive recurring revenue because products such as cutting tools (e.g., drill heads or drill blades) wear out. Additionally, these tools tend to be highly engineered, specialty items that are critical to customers' manufacturing productivity.

KMT is a cyclical business that has been highly sensitive to changes in the industrial production outlook. During “good” times, its stock has tended to benefit from a positive revenue and free cash flow (FCF) trajectory. When the industrial production outlook softens, the stock price has tended to retrench due to KMT’s weakening revenue and FCF outlook. Unsurprisingly, recent recession fears, combined with market scrutiny on the sustainability of KMT’s long-term margin, have hit KMT’s stock hard. As the market was focused on KMT’s depressed short-term margin outlook, the share price fell almost 50% from its 52-week high, creating a buying opportunity for long-term-oriented and price-sensitive investors such as Brandes.

We appreciate KMT’s solid balance sheet and extended debt maturity profile, its history of resilient FCF generation and healthy returns of capital, as well as its leading position in a niche industry with significant barriers to entry. Furthermore, there is upside potential to be had if KMT manages to improve its margin toward peer levels. Weighing its positive attributes against its challenges, we believe KMT offers an appealing risk/reward tradeoff.

## Year-to-Date Briefing

The Brandes Small Cap Value Fund declined 18.76% (Class I Shares), outperforming its benchmark, the Russell 2000 Index, which fell 25.10% in the nine months ended September 30, 2022, and the Russell 2000 Value Index, which was down 21.12%.

Markets have 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 based on increasing anxieties about future economic growth. Conversely, more defensive and commodity-oriented companies have performed relatively well, while value stocks have also fared reasonably well in a down market.

Our relative outperformance versus the broad U.S. small-cap market (Russell 2000 Index) was due to value exposure, as well as select energy and professional services companies. At the individual security level, key drivers of our outperformance were energy investments **Dril-Quip**, **Helmerich & Payne**, Chesapeake Energy and **Halliburton**, Avadel Pharmaceuticals, and professional services companies **Science Applications International Corp.**, Resources Connection and **Kelly Services**. Notable detractors included **Embraer**, Eagle Pharmaceuticals, communications equipment producer **NETGEAR** and wireless surveillance electronics company **Arlo Technologies**. Our underweight and holdings in the materials sector also detracted.

## Current Positioning

As of September 30, the Fund’s largest sector allocations were to industrials and health care. The health care allocation remains fairly in line with where it was to start the year. At the same time, there was a meaningful increase in our allocation to industrials. For example, Miller Industries and Kennametal were added to the Fund along with averaging down on existing holdings, such as Graham Corporation and Embraer.

Our most significant underweights were in financials, real estate, consumer discretionary, and information technology, which appear generally expensive relative to their risks, other than a few specific opportunities. Given concerns around 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 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. Compared with the Russell 2000 Value Index, we have significantly less exposure to financials and real estate.

We remain optimistic about the prospects of the Brandes Small Cap Value Fund and its potential for patient, long-term investors.

## Average Annual Total Returns (%) as of September 30, 2022

Without Load	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception 10/1/1997
Class I	-9.05	-18.76	-16.66	9.66	4.86	9.70	6.93
Class A	-9.16	-18.88	-16.84	9.42	4.55	9.41	6.66
Class R6	-9.00	-18.80	-16.50	10.37	3.67	9.07	6.68
With Load	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception 10/1/1997
Class A	-14.39	-23.53	-21.64	7.29	3.33	8.76	6.40
Russell 2000 Index	-2.19	-25.10	-23.50	4.29	3.55	8.55	6.71
Russell 2000 Value Index	-4.61	-21.12	-17.69	4.72	2.87	7.94	7.41

Operating Expenses: Class I: 6.67% (gross), 0.91% (net) Class A: 5.79% (gross), 1.16% (net) Class R6: 6.63% (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.*

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, 2023. 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.

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.

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.

**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. 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. 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.brandesfunds.com](http://www.brandesfunds.com). Read carefully before investing.*

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