

# Brandes Global Small Cap Equity Fund

## Fund Commentary

During the second quarter, the Brandes Global Small Cap Equity Fund outperformed its benchmark, the S&P Developed Small Cap Index.

### Positive Contributors

Defensively oriented businesses performed well in the quarter. As this is a fairly common trait of our (Brandes LP) Japanese holdings, it is not surprising that some of our strongest performers are domiciled there. These included food products company Mitsubishi Shokuhin, Hachijuni Bank and printing press manufacturer Komori.

Other notable contributors included Irish bank AIB Group and Mexican real estate investment trust FIBRA Macquarie Mexico. Additionally, France-based Societe BIC, which manufactures stationary products, lighters and shavers, announced strong earnings thanks to increased traction on its new products.

Relative to the benchmark, our underweights to information technology and materials aided returns, along with the overall performance of our holdings in financials and real estate.

### Performance Detractors

A variety of concerns contributed to the market decline in the quarter, including geopolitical risks and inflation, as well as worries about economic growth. As a result, many cyclically oriented companies performed poorly, as did technology related companies, which continued to see their valuations compress with rising interest rates.

Cyclical holdings such as Brazilian regional jet manufacturer Embraer and U.S.-based Dril-Quip saw their share prices retreat. Dril-Quip gave back some of its strong performance from the previous 18 months. Meanwhile, investor frustration over its margin guidance, combined with supply-chain issues and potential economic slowdown, seems to have contributed to Embraer's share-price decline. We believe the market continues to underappreciate the long-term cycle recovery opportunity across Embraer's products despite its order backlog having risen above pre-COVID levels. As the market is heavily focused on short-term, one-off item margin distortions, Embraer now trades at a wide discount to our estimate of its intrinsic value.

Other detractors included U.K. food retailer J Sainsbury, U.S. communications equipment company NETGEAR, Ireland's Avadel Pharmaceuticals and Hungary-based Magyar Telekom. Avadel's shares were volatile in the quarter as the

U.S. Food and Drug Administration delayed its approval of Avadel's narcolepsy drug until at least next year. Meanwhile, the Hungarian government's announcement of increased taxes negatively affected Magyar's share price.

### Select Buy & Sell Activity

Given the volatility in the market, portfolio turnover was higher than usual. The small-cap investment committee exited positions in Japan Petroleum Exploration, French dairy products company Savencia, U.S. homebuilder Taylor Morrison Home and Canadian uranium company Cameco.

Meanwhile, new purchases included South Korean security services provider S-1, Japan-based Oita Bank, U.S. appliance company National Presto Industries, U.K. media firm ITV and Luxembourg-domiciled Millicom International Cellular.

Millicom provides wireless and fixed-line services to 49 million customers across nine countries in Latin America (LatAm). Millicom differs from its LatAm peers in its focus on smaller countries, either by early entry or by acquisition, a strategy that has helped it gain top market share positions in most of the countries in which it operates. Given the low adoption rates of wireless data services across a population

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of nearly 120 million, meaningful growth opportunities persist across Millicom's geographic markets.

Although we have followed Millicom for more than 15 years, this was the first time we purchased its shares. The company recently underwent a large rights offering that increased its shares outstanding by 70%. This, combined with general market malaise, has put Millicom's shares under significant pressure lately.

In our view, Millicom is among the most attractively valued LatAm telecommunications services providers. Its operations are concentrated in countries that have relatively low competition (many are duopolies), lenient regulation and manageable foreign-exchange risk, while offering a favourable macroeconomic outlook. We believe Millicom's positive attributes outweigh the potential risks, and the recent share-price decline has created a compelling entry point for an investment in a company with a strong market position and appealing growth opportunity.

## Current Positioning

Amid a declining overall market, value stocks (S&P Developed SmallCap Value) outperformed the broader market (S&P Developed SmallCap) for the year as rising inflation and interest rates caused the valuations of many high-flying growth companies to compress. Geopolitical developments exacerbated inflationary trends and

increased worries about a slowdown in growth, raising the potential for a "stagflationary" environment (low economic growth *and* elevated inflation).

In theory, weaker growth may be a headwind for value stocks, *all else being equal*. However, as we have mentioned in previous notes, two of the best periods for value versus growth occurred in stagflationary environments during the 1970s and early 2000s. The common factors that led these two periods to result in highly favourable value environments were: markets had been in a state of elevated valuations *and* the spread between value and growth had been at historically wide levels. The tailwinds for value that were driving relative returns earlier this year still appear evident to us. While valuation spreads between value and growth have started to narrow from the historically wide gap at the start of the year, they remain among the widest quintile in history, and we therefore continue to feel optimistic about the potential returns for value stocks.

In terms of portfolio positioning, the Fund held its largest weights in industrials, consumer staples and financials (although slightly underweight relative to the benchmark). The Fund maintained underweights in technology and materials, and continued to have significant exposure to Japan, the U.K. and emerging markets. We remained materially underweight to companies domiciled in the United States.

We remain excited about the prospects of the Brandes Global Small Cap Equity Fund and we appreciate your continued trust.

## About Brandes LP

In the 40-plus years since Brandes LP was founded, its goal has remained the same: pursue above-market gains to help investors move closer to their long-term investment objectives. Brandes LP believes that its unwavering commitment to value investing will lead it to attractively priced, fundamentally sound companies worthy of inclusion in the Fund.

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## Contribution Analysis (relative to benchmark)

### LAST QUARTER

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Software	0.98	Aerospace & Defense	-1.44
Real Estate Inv. Trusts (REITs)	0.88	Energy Equip. & Services	-0.78
Metals & Mining	0.83	Household Durables	-0.55
Semicond. & Semicond. Equip.	0.60	Pharmaceuticals	-0.49
Oil, Gas & Consumable Fuels	0.50	Food Products	-0.49

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
United States	6.62	Brazil	-1.52
Australia	0.62	United Kingdom	-1.35
South Korea	0.43	Ireland	-0.69
France	0.40	Mexico	-0.48
Sweden	0.35	Hungary	-0.44

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Societe BIC SA	0.33	Embraer S.A.	-1.52
Hachijuni Bank Ltd	0.20	Dril Quip Inc.	-0.73
AIB Group PLC	0.18	NETGEAR, Inc.	-0.57
Mitsubishi Shokuhin Co Ltd	0.18	Dorel Industries Inc. Cl. B	-0.56
Fibra Uno Admin. SA ORD	0.12	J Sainsbury plc	-0.51

### LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Software	1.76	Aerospace & Defense	-1.84
Biotechnology	1.47	Food Products	-1.40
Oil, Gas & Consumable Fuels	1.30	Electric Utilities	-1.14
Health Care Equip. & Supplies	0.88	Commercial Services & Supplies	-1.09
Real Estate Inv. Trusts (REITs)	0.75	Communications Equipment	-1.05

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
United States	10.43	Brazil	-2.07
Canada	1.35	United Kingdom	-1.36
Japan	0.67	Ireland	-1.27
Sweden	0.57	Chile	-1.05
Australia	0.53	Turkey	-0.71

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Chesapeake Energy Corp	0.90	Embraer S.A.	-2.08
Cameco Corp	0.63	NETGEAR, Inc.	-1.20
Wm. Morrison Supermarkets PLC	0.40	Enel Chile ADR	-1.05
American National Group Inc.	0.38	Orion Marine Group Inc.	-0.87
Dorel Industries Inc. Cl. B	0.34	J Sainsbury plc	-0.76

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## Quarterly Additions/Deletions

Additions	Deletions
ITV	Cameco Corp
Millicom International Cellular	Taylor Morrison Home Corp
Linea Directa Aseguradora	Japan Petroleum Exploration
National Presto Industries	Savencia
Oita Bank	
S-1 Corp	

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