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INVESTMENT PARTNERS

Brandes Investment Partners
Global Small Cap Equity Strategy Notes
Second Quarter 2025 (April 1 – June 30, 2025)

The Brandes Global Small Cap Equity Strategy returned 21.14% net of fees and 21.38% gross of fees, outperforming its benchmark, the MSCI ACWI Small Cap Index, which was up 12.37% in the quarter. The MSCI ACWI Small Cap Value Index gained 9.50%.

Annualized total return as of June 30, 2025	1-year	5-year	10-year
Brandes Global Small Cap Equity Composite (net)	37.87%	27.18%	12.04%
Brandes Global Small Cap Equity Composite (gross)	38.73%	28.16%	12.94%
MSCI ACWI Small Cap Index	13.57%	11.33%	7.43%

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

Holdings in industrials, particularly the aerospace and defense industry, continued to be strong contributors to performance, led by Brazil's Embraer, France's LISI, and Switzerland-based Montana Aerospace. Other industrials holdings, specifically machinery business Graham and construction and engineering firm Orion Group, also helped returns.

Both Graham and Orion recovered meaningfully after declining in the first quarter of 2025 due to missed expectations. Graham released robust full-year fiscal 2025 results, driven by increased volume in both the defense and energy/process markets, along with effective operational execution and improved scale efficiencies. Similarly, Orion announced quarterly earnings that exceeded market expectations, thanks to solid results in its marine segment.

Other standout performers included Irish beverage company C&C Group, Mexico-based stock exchange operator Bolsa Mexicana de Valores, U.S. wireless surveillance company Arlo Technologies, and U.K. luxury goods firm Burberry Group. C&C Group rebounded sharply, supported by improving fundamentals, easing cost pressures, and a recovery in its distribution segment.

Performance Detractors

Select holdings in Canada performed poorly, specifically home and juvenile products company Dorel Industries and paper and forest products business Canfor.

Other detractors were several positions in consumer staples (e.g., Ingles Markets), energy (e.g., Innovex International), and consumer discretionary (e.g., Hanesbrands, Edgewell Personal Care). Weaker consumer confidence and ongoing tariff uncertainty weighed on Hanesbrands, Ingles Markets, and Edgewell Personal Care, while lower oil prices negatively impacted Innovex International. Despite these headwinds, our investment thesis on these companies remains intact, and we have maintained our allocations.

Select Activity in the Quarter

During the quarter, several new positions were initiated across diverse sectors and geographies: tech firm Open Text and energy services provider Pason Systems in Canada, machinery business Timken and pizza chain Papa John's International in the U.S., and consumer products company Societe BIC in France. Additionally, the investment committee added two chemicals companies, namely Scotts Miracle-Gro and Minerals Technologies.

Founded in 1991 out of the University of Waterloo, Open Text has grown to provide a broad suite of information management software through strategic acquisitions of mature, predominantly on-premise software assets. In recent years, however, the company has shifted its focus toward acquiring cloud-native technologies, reflecting a broader investment in transitioning its product portfolio to a hybrid cloud environment. With the exception of Carbonite, which is intended for individuals or small businesses, Open Text's offerings primarily target large enterprises.

Open Text's stock has come under pressure, potentially due to a loss of investor confidence in management. This stems from multiple revisions and delays in meeting targets without clear explanations, the negative impact of acquisitions like Zix and Micro Focus, and a lack of transparency across business segments. Although Open Text has recently been able to strengthen its balance sheet, investor concerns have been further heightened by management commentary about pursuing additional acquisitions.

Nonetheless, we believe there are compelling reasons to invest in Open Text at its current share price:

- Strong financial position: Core business remains profitable and cash generative, despite current challenges.
- AI and cloud potential: Significant investments in AI and cloud capabilities that may be successful in driving future growth, but current valuation does not seem to give credit for this optionality.
- Restored balance sheet: Reduced leverage and improved financial stability following recent divestitures.

Besides the new purchases, other portfolio activity included the divestments of several positions: U.K. aerospace company Rolls-Royce and commercial services business MITIE, Japanese Hachijuni Bank and Hyakugo Bank, as well as Kaken Pharmaceutical, South Korean food and beverage business Binggrae, and Chilean electric utility Enel Chile. We exited these positions as they approached our estimates of their intrinsic values.

Year-to-Date Briefing

The Brandes Global Small Cap Equity Strategy rose 28.22% net of fees and 28.64% gross of fees, outperforming its benchmark, the MSCI ACWI Small Cap Index, which appreciated 7.90% in the six months ended June 30, 2025, and the MSCI ACWI ex-US Small Cap Value Index, which rose 7.40%.

Stock selection across multiple sectors drove our outperformance. Leading contributors included holdings in industrials, led by Embraer, Montana Aerospace, LISI, and Rolls-Royce. Additionally, holdings in financials, communication services, and health care lifted returns. Other strong performers included Mexican REIT Fibra Uno, cement manufacturer Vicat, and Arlo Technoligies.

Detractors were similar to those in the quarter, including Dorel Industries, Edgewell Personal Care, and Hanesbrands.

Current Positioning

The strategy maintains large allocations to industrials, consumer staples, and health care, while holding underweights in technology, materials, real estate, and consumer discretionary. Additionally, given our divestments of AIB Group, Hachijuni Bank, and Hyakugo Bank, we have reduced our allocation to financials in the quarter, and exposure to the sector is now our largest underweight. Geographically, the portfolio continues to have meaningful exposure to companies in the U.K., Spain, Ireland, Hong Kong, and emerging markets, and a notable underweight to the United States.

In our opinion, the differences between the Brandes Global Small Cap Equity Strategy and the MSCI ACWI Small Cap Index make it an attractive complement to other small-cap offerings, especially those that are growth-oriented or passively managed.

Going forward, we remain optimistic about the portfolio's holdings composition and the risk/reward tradeoff it offers.

For term definitions: https://www.brandes.com/termdefinitions

The MSCI ACWI Small Cap Index with net dividends captures small cap representation across developed and emerging markets countries.

The MSCI ACWI Small Cap Value Index captures small cap securities across developed and emerging markets countries exhibiting overall value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.

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