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

The Brandes Global Small-Mid Cap Equity Strategy rose 14.44% net of fees and 14.63% gross of fees, outperforming its benchmark, the MSCI ACWI SMID Cap Index, which increased 11.84%.

Annualized total return as of June 30, 2025	1-year	5-year	10-year
Brandes Global Small-Mid Cap Equity Composite (net)	31.56%	20.10%	10.22%
Brandes Global Small-Mid Cap Equity Composite (gross)	32.35%	20.87%	11.06%
MSCI ACWI SMID Cap Index	16.17%	11.29%	7.62%

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

Stock selection across a variety of sectors drove returns: the most significant contributors were in financials, consumer staples, and consumer discretionary. One of the most prominent contributors was U.K.-based fashion company Burberry. It reported full-year results in May and announced new strategic initiatives, such as simplifying operations and enhancing customer experience through a retail operating model.

Strong stock selection in the banking industry also drove returns, led by Greece-based Piraeus Financial and Austria-based Erste Group Bank. European banks overall have performed well this year supported by positive interest rates, stable credit quality, and improved sentiment.

Other contributors included U.S.-based company Healthcare Services Group and Ireland-based beverage firm C&C Group.

Performance Detractors

On a sector basis, our holdings in communication services detracted from returns, led by our investment in Japanese mobile entertainment company DeNA. Most of our largest detractors happened to be U.S.-domiciled companies and included Edgewell Personal Care, grocer Ingles Markets, and energy equipment company Innovex. Weaker consumer confidence and ongoing tariff uncertainty weighed on Ingles Markets and Edgewell Personal Care, while lower oil prices negatively impacted Innovex International. Despite these headwinds, our investment thesis for these companies remains intact, and we have maintained our allocations.

Additional detractors included pharmaceutical company Organon, advertising agency Interpublic, as well as beverage company Molson Coors. Advertising agency Interpublic declined along with Omnicom due to concerns about integration risk and dilution following Omnicom's announced stock-for-stock acquisition deal with Interpublic Group.

Select Activity

The small-mid cap committee sold Buzzi from the portfolios. Based in Italy, Buzzi sells cement, ready-mix concrete, and aggregates. The company has a global presence, but its most significant markets are the U.S. and Italy. Buzzi was first added to small-mid portfolios in 2022. At the time, the committee found value in the industry and already held positions in Cemex and Vicat. However, Buzzi added portfolio diversification at an attractive price.

Buzzi had a different geographic mix than Cemex and Vicat. While all three companies offered exposure to multiple markets, Buzzi's prime market was the United States. Since the great financial crisis (GFC), excess capacity had depressed industry margins in the United States. After several years, gradual demand growth slowly absorbed excess capacity. Buzzi benefited from this improved environment and from operating assets that were modern and in fast-growing regions.

Italy was one of the worst markets for cement in the world. After the GFC, demand fell 50%. The significant excess capacity and competition from low-cost imports led to several years of cash losses with little relief in sight. At the time of purchase, Buzzi's business in Italy had just barely turned an operating profit after almost a decade of losses. Industry consolidation and the eventual exit of inefficient producers have greatly improved profitability in recent years. And finally, Buzzi had a net-cash balance sheet and traded at single-digit earnings multiples. The company had extra carbon credits just as carbon emission costs were set to rise in Europe.

Over the past three years, Buzzi's operations across all markets improved. Italy went from contributing less than 5% of profits to almost 15% of profits. The company maintained a conservative balance sheet, while increasing dividend payments and completing some share repurchases. While valuation multiples continued to appear reasonable, in our opinion, we were concerned that current profitability might be unsustainable, so the committee sold our position.

A recent addition to the portfolio is Dentsply Sirona (XRAY), a global dental equipment and supplies company formed through the merger of Dentsply (consumables) and Sirona (equipment). The merger failed to deliver expected synergies, leading to a management change in 2018. The pandemic further pressured the business, and another leadership transition took place in 2022. After following the company for several years, we observed that its market value had finally fallen to an attractive level, and therefore added the company to the portfolio.

Unlike medical spending, the dental services market is more sensitive to general economic conditions. In most countries, patient out-of-pocket spending represents a significant proportion of the dental market. Additionally, in the U.S., the dental industry is highly fragmented—about one-third of practices have a single dentist. These attributes mean that the dental market is much more sensitive to what is occurring in the economy at large than the broader health care market. COVID, high inflation, and the resulting rise in interest rates have been headwinds to the industry.

Despite these challenges, we see opportunity in XRAY's three core segments: imaging, implants/orthodontics, and consumables.

- Imaging: XRAY is a leader in dental imaging. These systems are expensive and sensitive to the financial health of dentists' practices. Imaging revenue has fallen by ~30% and profitability even more since 2021. We believe the issues experienced in this business are largely a result of the sector environment but are not permanent.
- Implants/orthodontics: XRAY has a large market share in premium implants, which have been losing share to lower cost competitors. The resulting price competition has depressed implant margins and has prompted the company to introduce its own value-based product line. Additionally, Dentsply is restructuring its clear align orthodontics business. While segment profitability is likely to be structurally lower going forward, we think this business still has appealing long-term growth prospects and based on our analysis should earn attractive returns on capital.
- Consumables: This business has been steady as it is less discretionary in nature. While consolidation among dental practices may pressure margins, the improved financial health of individual practices and lower patient costs could support growth, in our opinion.

In our view, the current valuation adequately compensates for the risks of owning XRAY, and we can foresee solid upside potential if the industry recovers.

Year-to-Date Briefing

The Brandes Global Small-Mid Cap Value Equity Strategy rose 21.22% net of fees and 21.62% gross of fees, outperforming its benchmark, the MSCI ACWI SMID Cap Index, which was up 9.92% in the six months ended June 30, 2025.

Stock selection across multiple sectors drove our outperformance relative to the benchmark. Leading contributors included holdings in financials, led by Piraeus Financial and Erste Group Bank, as well as Spain-based insurance company Linea Directa and Ireland-based AIB. The strategy also benefited from holdings in industrials, led by Brazil-based Embraer and health care, led by Draegerwerk. Hungary-based Magyar Telekom has also seen its share price rise significantly this year.

Detractors were similar to those in the quarter, including pharmaceutical company Organon, multinational consumer products company Edgewell Personal Care, and advertising agency Interpublic. Other detractors included Indonesia-based PT Gudang Garam and Hong Kong-based Yue Yuen Industrial.

Current Positioning

The strategy holds key overweight positions versus the benchmark in the consumer staples and health care sectors. Meanwhile, we remain underweight in typically cyclical business categories, such as consumer discretionary, materials and industrials. We also have an underweight in perceived "safe havens," such as utilities.

Geographically, we continue to find value opportunities outside the United States, especially in the United Kingdom, Japan, and emerging markets. The portfolio remains materially underweight versus the benchmark's allocation to the United States.

Global small-mid cap equities continue to represent, in our opinion, fertile ground for fundamentally solid businesses trading at a discount to their estimated intrinsic values. Within the asset class, value stocks (MSCI World SMID Cap Value) continue to trade in the highest quartile of discount levels to the broader market (MSCI World SMID Cap) on a variety of valuation metrics, including forward price/earnings, price/cash flows, and enterprise value/sales.

We believe that paying extremely close attention to valuations enables us to choose opportunities that others may miss. From our perspective, selectivity and a laser focus on margin of safety remain paramount in any and all market environments. We are enthusiastic about the potentially undervalued companies we are finding and the diversification offered by the Brandes Global Small-Mid Cap Equity Strategy.

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

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

The MSCI ACWI SMID Cap Index with net dividends captures mid and small cap representation across developed and emerging market countries.

The MSCI World SMID Cap Index captures mid and small cap representation of developed market countries.

The MSCI World SMID Cap Value Index with net dividends captures small and mid cap securities across developed market countries exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.