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

The Brandes International Small Cap Equity Strategy returned 23.02% net of fees and 23.27% gross of fees, outperforming its benchmark, the MSCI ACWI ex USA Small Cap Index, which was up 16.93% in the quarter, and the MSCI ACWI ex USA Small Cap Value Index, which gained 14.82%.

Annualized total return as of June 30, 2025	1-year	5-year	10-year
Brandes International Small Cap Equity Composite (net)	44.97%	27.13%	11.12%
Brandes International Small Cap Equity Composite (gross)	46.22%	28.25%	12.11%
MSCI ACWI ex USA Small Cap Index	18.34%	10.74%	6.54%

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 aerospace and defense continued to be strong contributors to performance. All of our holdings in the industry were up double-digits in the quarter, led by Brazil's Embraer, U.K.-based QinetiQ Group, and Switzerland-based Montana Aerospace.

Communication services holdings also lifted returns, notably Hungary's Magyar Telekom and Luxembourg-domiciled Millicom International, which operates in Latin America.

Other standout performers included Irish beverage company C&C Group, Mexico-based stock exchange operator Bolsa Mexicana de Valores, 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 included Japan-based Kaken Pharmaceutical and Hyakugo Bank, as well as Belgian personal care products firm Ontex Group.

Additionally, after being the worst-performing sector in the benchmark in the first quarter of 2025, technology stocks rebounded. As such, our underweight to the sector detracted from relative returns.

Select Activity in the Quarter

The small-cap investment committee initiated positions in Canadian tech firm Open Text, U.S. machinery business Kennametal, and U.K.-based recruiting company PageGroup.

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 U.K. aerospace company Rolls-Royce, Japanese Hachijuni Bank, Ireland-based catering company Greencore Group, and South Korean food and beverage business Binggrae. We exited these positions as they approached our estimates of their intrinsic values.

Year-to-Date Briefing

The Brandes International Small Cap Equity Strategy rose 35.54% net of fees and 36.11% gross of fees, outperforming its benchmark, the MSCI ACWI ex-US Small Cap Index, which appreciated 17.68% in the six months ended June 30, 2025, and the MSCI ACWI ex-US Small Cap Value Index, which rose 18.20%.

While the outperformance of value stocks (MSCI ACWI ex-US Small Cap Value vs. MSCI ACWI ex-US Small Cap) has been a tailwind for the strategy given our value exposure, it was our stock selection across multiple sectors that mostly drove our outperformance relative to the benchmark. Leading contributors included holdings in industrials, led by Embraer, Montana Aerospace, LISI, and Rolls-Royce. Additionally, holdings in communication services and materials lifted returns.

Detractors were similar to those in the quarter, including Dorel Industries, Canfor, Ontex Group, and Kaken Pharmaceutical.

Current Positioning

The strategy maintains large allocations to industrials, consumer staples, health care, and financials, while holding underweights in technology, materials, real estate, and consumer discretionary. Geographically, it continues to have significant exposure to companies in Japan (although underweight relative to the benchmark), the U.K., Canada, Ireland, Hong Kong, and emerging markets, while maintaining underweights in Australia, India, China, and Taiwan.

As has been the case over the past few years, our stock selection across sectors and countries has primarily driven outperformance. 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 ex USA Small Cap Index with net dividends captures small-cap representation across developed and emerging markets excluding the United States.

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

results. No investment strategy can assure a profit or protect against loss. Market conditions may impact performance. The performance results presented were achieved in particular market conditions which may not be repeated. Moreover, the current market volatility and uncertain regulatory environment may have a negative impact on future performance. The margin of safety for any security is defined as the discount of its market price to what the firm believes is the intrinsic value of that security. The declaration and payment of shareholder dividends are solely at the discretion of the issuer and are subject to change at any time.

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