

Brandes Investment Partners

U.S. Small-Mid Cap Value Equity Strategy Notes

First Quarter 2025 (January 1 – March 31, 2025)

The Brandes U.S. Small-Mid Cap Value Equity Strategy declined 3.11% net of fees and 2.88% gross of fees, outperforming its benchmark, the Russell 2500 Index, which was down 7.50%. The Russell 2500 Value Index fell 5.83%.

Annualized total return as of March 31, 2025	1-year	5-year	10-year
Brandes U.S. Small-Mid Cap Value Equity Composite (net)	-0.24%	14.14%	7.23%
Brandes U.S. Small-Mid Cap Value Equity Composite (gross)	0.71%	15.23%	8.26%
Russell 2500 Index	-3.11%	14.90%	7.45%

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

Regional jet manufacturer Embraer continued to appreciate after being one of the best performers last year. Embraer has maintained its impressive streak, announcing several new wins against competitors in its defense business. This, coupled with an expanding order backlog for regional jets, has further boosted market confidence in the company’s prospects.

Energy and services business Innovex International and IT services company Amdocs also produced solid results.

From a relative standpoint, the portfolio’s overweight to consumer staples sector was an alpha generator.

Performance Detractors

Specific health care holdings declined, including contract research organization Fortrea Holdings, dental equipment manufacturer Dentsply Sirona, and pharmaceutical company Elanco Animal Health.

After Fortrea announced its Q4 2024 results, its shares dropped 30%. Additionally, Fortrea’s management lowered its future guidance as the company continues to suffer from restructuring costs following its separation from LabCorp. We viewed these as temporary setbacks and added to our position to take advantage of the share-price weakness.

Other poor performers included communication equipment company NETGEAR and electronic equipment company IPG Photonics.

On a relative basis, our lack of exposure to the utilities sector, the best-performing sector in the index, hurt relative returns.

Select Activity in the Quarter

The small-mid cap investment committee initiated a position in health care equipment company Hologic.

Hologic has leading market shares in diagnostics, breast imaging systems, and surgical products focused on women’s health. It operates on a “razor blade” business model that generates recurring revenue through sales of proprietary test kits/consumables that run on its instruments. A combination of its tests is often ordered by an OB-GYN or primary care physician during women’s wellness exams. About 75% of revenues are generated in the U.S.

The COVID-19 pandemic provided substantial windfalls for health-focused companies, such as Hologic, which offered molecular diagnostic testing platforms. The company benefited from a significant increase in placements of its instruments and COVID test volumes. However, this short-term boost did not last, and sales and earnings have returned to more normalized levels.

Hologic is aiming to increase use of its now larger installed base by expanding its non-COVID test menu and getting customers to continue running other molecular tests on its platforms. The company recently reported disappointing Q1

earnings, cut its full year guidance for 2025, and the share price fell on this news. Despite these known challenges, we believe the investment opportunity is compelling at its current valuation. Hologic is a high-quality company with a strong balance sheet and recurring revenue streams related to its consumables business.

Current Positioning

With the addition of Hologic, the allocation to companies in the health care sector increased; it continues to be one of the largest sector weights in the portfolio along with industrials and information technology. Our most significant underweights are in consumer discretionary, financials, and real estate, which is consistent with how the portfolio began 2024. Compared with the Russell 2500 Value Index, we have significantly less exposure to financials and real estate.

In our opinion, the differences between the Brandes U.S. Small-Mid Cap Value Equity Strategy and the broader U.S. small-mid cap market continue to make the strategy an attractive complement to other small-cap and small-mid offerings. Our strategy exhibits lower valuations than the Russell 2500 Index, while offering exposure to companies that have what we consider are strong balance sheets, compelling growth prospects and a history of durable free cash flow.

We are optimistic about the potential of value stocks in general and believe the Brandes U.S. Small-Mid Cap Value Equity Strategy remains well positioned from a long-term risk/reward perspective.

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

The Russell 2500 Index with gross dividends measures the performance of the small to mid cap segment of the U.S. equity universe.

The Russell 2500 Value Index measures the performance of the small to mid-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.

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