

Brandes Investment Partners

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

Second Quarter 2025 (April 1 – June 30, 2025)

The Brandes U.S. Small-Mid Cap Value Equity Strategy rose 7.27% net of fees and 7.53% gross of fees, underperforming its benchmark, the Russell 2500 Index, which was up 8.59%. The Russell 2500 Value Index rose 7.29%.

Annualized total return as of June 30, 2025	1-year	5-year	10-year
Brandes U.S. Small-Mid Cap Value Equity Composite (net)	10.50%	12.47%	8.00%
Brandes U.S. Small-Mid Cap Value Equity Composite (gross)	11.55%	13.54%	9.04%
Russell 2500 Index	9.91%	11.44%	8.38%

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

Leading contributors included holdings in the industrials sector, led by Healthcare Services Group and Embraer.

Healthcare Services Group announced its Q1 2025 results and beat earnings expectations. The company has seen an increase in demand for its services and also raised its full-year cash guidance.

Other strong performers included wireless surveillance company Arlo Technologies, NETGEAR, and Elanco Animal Health.

From a relative standpoint, the portfolio's lack of exposure to the real estate sector was an alpha generator.

Performance Detractors

Detractors included holdings in consumer staples and health care. In consumer staples, detractors included Molson Coors Beverage Company and Edgewell Personal Care. Within health care, detractors included contract research organization Fortrea Holdings, health care equipment manufacturer Zimmer Biomet Holdings, and pharmaceutical company Organon.

Select Activity in the Quarter

The small-mid cap investment committee initiated positions in energy equipment company Halliburton and information technology (IT) services company EPAM Systems (EPAM), while divesting positions in footwear company Skechers, supermarket Weis Markets, construction materials company Buzzi, and chemicals company Sensient Technologies.

EPAM is a fast-growing IT company that helps corporate customers with digital transformation. It provides complex solutions at lower costs compared to major competitors, including consulting, product development and design, automation, and optimization. Since its initial public offering in 2012, EPAM has been a rapidly growing company with exceptional cash conversion (FCF/Net income) and high returns on invested capital.

That run of success was broken in 2023, when EPAM's revenues fell 3% (underperforming the broader IT services growth rate). The company faced idiosyncratic headwinds stemming from Russia's invasion of Ukraine in 2022 and a cyclically depressed spending environment in 2023. The stock is down about 75% since the February 2022 Ukraine Invasion.

We believe the sell-off has created a buying opportunity. EPAM has been aggressively diversifying its delivery model away from exposure to the war-affected countries by ramping up its hiring in India and Latin America (Mexico, Colombia, Brazil, Argentina, Chile). Additionally, we believe that discretionary spending appears to have bottomed and pent-up demand is building. We find the investment opportunity compelling at its current valuation.

Year-to-Date Briefing

The Brandes U.S. Small-Mid Cap Value Equity Strategy rose 3.95% net of fees and 4.43% gross of fees, outperforming its benchmark, Russell 2500 Index, which was up 0.44%, and the Russell 2500 Value Index, which rose 1.03% 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 industrials, led by Embraer, Healthcare Services Group and international infrastructure group Balfour Beatty. The strategy also benefited from holdings in information technology and energy.

Detractors were similar to those in the quarter, including contract research organization Fortrea Holdings, pharmaceutical company Organon, and Edgewell Personal Care.

Current Positioning

Health care continues to be one of the largest sector weights in the portfolio and the largest relative overweight compared to the benchmark. We also have overweights to information technology and consumer staples relative to the benchmark.

Our most significant underweights are in consumer discretionary, financials, and real estate, which is consistent with how the portfolio began 2025.

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 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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