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INVESTMENT PARTNERS

Brandes Investment Partners
U.S. Small-Mid Cap Value Equity Strategy Notes
Fourth Quarter 2025 (October 1 – December 31, 2025)

The Brandes U.S. Small-Mid Cap Value Equity Strategy increased by 3.72% net of fees and 3.97% gross of fees, outperforming its benchmark, the Russell 2500 Index, which was up 2.22% in the quarter. The Russell 2500 Value Index rose by 3.15%.

Annualized total return as of December 31, 2025	1-year	5-year	10-year
Brandes U.S. Small-Mid Cap Value Equity Composite (net)	14.81%	9.28%	9.37%
Brandes U.S. Small-Mid Cap Value Equity Composite (gross)	15.91%	10.32%	10.42%
Russell 2500 Index	11.91%	7.26%	10.40%

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

Notable contributors included select holdings in the health care sector, led by Fortrea Holdings and Pediatrix Medical Group. Fortrea Holdings experienced a lift after raising its full-year revenue guidance and completing a debt tender offer during the quarter. Pediatrix Group also performed well after delivering better-than-expected quarterly results.

Industrial companies Kennametal and Healthcare Services Group delivered solid results, as did energy equipment company Innovex International.

Performance Detractors

Holdings in technology detracted from performance, most notably communications equipment company Netgear, and electronic equipment companies IPG Photonics, and Arlo Technologies. Select consumer staples holdings also weighed on returns, led by Edgewell Personal Care. Edgewell declined after announcing revenue and earnings guidance below expectations.

Other weak performers included pharmaceutical Organon and health care equipment company Dentsply Sirona. Organon's share price fell after the company reduced its full-year sales guidance. We viewed the share-price decline as an investment opportunity and added to our investment.

Select Activity in the Quarter

The investment committee initiated a new position in software company NICE, while selling its holding in Phibro Animal Health.

NICE Ltd. is an Israeli-based Contact Center-as-a-Service (CCaaS) provider. NICE maintains dual headquarters in Israel and the United States, with a customer base that is predominantly in the U.S.

NICE has evolved alongside changing technology and customer requirements. Historically, the company provided software and services to help enterprises manage on-premise customer contact centers. In this role, NICE was one of several software and hardware vendors offering tools to staff, manage, measure and evaluate call center operations. The company was particularly strong in workforce engagement management (WEM) software, a critical component for effective contact center operations.

In recent years, CCaaS offerings have been increasingly adopted because they lower total cost of ownership, better integrate customer service channels and leverage automation, including AI. All of this enables superior customer experience that can be utilized across other areas of the business. NICE responded to this shift by acquiring a leading CCaaS provider, inContact, in 2016. This acquisition gave NICE a nearly complete CCaaS solution, and as cloud-based offerings grew at the expense of on-premise systems, NICE benefited from higher revenue per licensed seat. The market rewarded this industry-leading position with strong valuation multiples.

However, in 2025 rapid advances in AI capability and adoption began to cloud NICE's outlook. On one hand, improving AI functionality has accelerated the shift toward CCaaS solutions and away from on-premise deployments. On the other, the pace of change has intensified competition among CCaaS providers and has driven increased investment to incorporate advanced AI features. NICE has indicated that this heightened investment, including the approximately $1-billion acquisition of Cognigy, will put pressure on its earnings over the next year. This uncertainty contributed to a sharp correction in the share price, pushing it to multi-year lows and compressing valuation multiples to near all-time lows.

While it is impossible to predict definitive winners and losers in the AI arms race, NICE remains favorably positioned as an established incumbent in the CCaaS market with a well-capitalized balance sheet. AI-enhanced contact center functionality could meaningfully expand the overall market size over time. We will continue to monitor the competitive landscape for evidence of NICE's success, or failure, in navigating this transition. For the patient, long-term investor, the current opportunity in NICE appears attractive.

In November, the strategy's long-held position in Premier Inc. was acquired by private equity firm Patient Square Capital for $28.25 per share. We added Premier, one of the largest group purchasing organizations (GPOs) in the U.S. health care sector, to client portfolios in 2020. Before its initial public offering in 2013, Premier was owned by its health care provider members. Over time, those members gradually converted their ownership into publicly traded shares and reduced their stakes in the company. This process culminated in 2020, when Premier converted all remaining member-owned shares into a single publicly traded share class.

On our initial investment, the committee viewed Premier as a low-growth business with a strong balance sheet and a stable, recurring revenue model. However, several factors clouded the company's long-term outlook. These included the ongoing divestment by client members, rising customer concentration as industry consolidation accelerated, and an uncertain operating environment for health care providers after the pandemic. As a result, the investment committee took only a relatively small initial position.

In the following years, Premier undertook a restructuring that included selling off non-core and unrelated businesses. During this period, revenue also contracted as pandemic-era sales of personal protective equipment (PPE) normalized. The share price drifted lower as restructuring efforts extended and revenue only recovered modestly. In 2024, the investment committee increased our allocation to Premier and continued to average down the position. By late 2024 and into early 2025, conditions appeared to stabilize. Premier had sold most of its non-core assets, resumed returning capital to shareholders through dividends and share repurchases, and its core GPO business stabilized.

Additionally, a health care-focused software offering showed promising growth potential, and the company's share price began to recover. When Patient Square Capital tendered its acquisition bid for Premier, the investment committee viewed the price as fair and voted in favor of the transaction.

Year-to-Date Briefing
The Brandes U.S. Small-Mid Cap Value Equity Strategy rose 14.81% net of fees and 15.91% gross of fees, outperforming its benchmark, the Russell 2500 Index, which appreciated 11.91% in 2025, and the Russell 2500 Value Index, which was up 12.73%.

Investments in the industrials, health care, and financials sectors drove returns, specifically aerospace company Embraer, Healthcare Services Group and infrastructure developer Balfour Beatty in industrials; Elanco Animal Health, Premier and Phibro Animal Health in health care, and Citizens Financial Group and OneMain Holdings in financials.

Consumer staples sector companies were leading detractors, specifically Edgewell Personal Care and Campbell's Company. Others included dental supply company Dentsply Sirona, pharmaceutical Organon, and appliance manufacturer Whirlpool Corp.

Current Positioning

Health care and consumer staples continue to be the two largest overweights compared to the benchmark.

Our most significant underweights are in consumer discretionary, financials and real estate, which is consistent with what the portfolio held at the start of 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 cap 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.

For term definitions, please refer to https://www.brandes.com/termdefinitions.

For index definitions, please refer to https://www.brandes.com/benchmark-definitions.