

Brandes Investment Partners
Global Small-Mid Cap Equity Strategy Notes
Third Quarter 2025 (1 July – 30 September 2025)

The Brandes Global Small-Mid Cap Equity Strategy rose 6.68% (gross of fees), performing slightly better than its benchmark, the MSCI ACWI SMID Cap Index, which increased 6.31%.

Positive Contributors

Key performance drivers included investments in financials and health care, led by Elanco Animal Health, Phibro Animal Health and service provider Premier. Each company announced strong earnings growth, with Elanco benefitting from product momentum in its pet health and farm animal segments. Premier captured sequential improvement in supply chain services. We divested Phibro Animal Health after its stock reached our estimate of its intrinsic value. Within financials, leading contributors included Greece-based Piraeus Financial and Japan-based Hachijuni Bank.

Netherlands-based coffee and tea company JDE Peet's saw its share price rise after Keurig Dr Pepper announced it intended to buy the company.

Other standouts included Hong Kong-based holding company First Pacific, Indonesia-based tobacco company PT Gudang Garam and South Korean commercial services and supplies business S-1. Our relatively lower allocation to companies in India also aided relative returns.

Performance Detractors

The most notable detractors included companies in the technology and industrials sector, plus our underweight to materials, specifically the metals and mining industry, which increased substantially. Technology detractors included IT service company Amdocs and recently purchased Germany-based electronics equipment manufacturer Jenoptik.

Edgewell Personal Care was also a detractor after delivering disappointing earnings results and lower full-year guidance due to a weak sun care season and higher promotional spending. We increased our stake based on price weakness because we viewed the lower results and reduced guidance as temporary setbacks.

Other detractors included Irish beverage company C&C Group, machinery firm Bystronic in Switzerland and U.K. advertising agency WPP, as well as U.S.-based dental equipment company Dentsply Sirona and German medical equipment company Draegerwerk.

Select Activity

We initiated a position in Scholastic Corporation, the world's largest publisher and distributor of children's books. Scholastic is best known for its U.S. school-based book clubs and book fairs, which provide a unique distribution channel and enduring brand recognition. Its core business—publishing and distributing children's books—has produced some of the most iconic franchises in modern literature, including Harry Potter, The Hunger Games, Dog Man and The Magic School Bus.

The company's book publishing business is inherently cyclical, driven by the timing and popularity of major releases. Recent years have been challenging, with fewer blockbuster titles and reduced school district spending on educational materials weighing on results. Additionally, Scholastic's financial leverage increased with its 2024 acquisition of 9 Story Media Group, a leading producer and distributor of premium children's content. This expanded Scholastic's capabilities into film and television production and reinforced its 360-degree content strategy to distribute intellectual property across multiple platforms.

To strengthen its balance sheet, Scholastic is actively exploring monetisation of its substantial real estate resources, including its Manhattan headquarters and distribution centers. These assets could represent as much as one-third of the company's current market value, providing a potential catalyst for debt reduction and shareholder returns. Despite near-term uncertainty affecting Scholastic, we believe the company's long history of creating popular content, its strong portfolio of intellectual property, and its continued investment in new media position it well for the long-term. While we cannot predict when the next major hit will happen, we believe the company's integrated publishing and entertainment strategy enhances Scholastic's ability to capture value when it occurs. With shares trading at what

we view as an attractive valuation, even an extended recovery period could offer compelling returns for patient, long-term investors, in our opinion.

We sold off Phibro Animal Health Corporation (PAHC), an investment first bought in 2022. Phibro is a global supplier of animal health products, including medicated feed additives (MFAs), nutritional specialties, vaccines and other solutions for livestock and companion animals (i.e., pets).

Our initial investment thesis was based on the potential for a turnaround after years of declining profitability and market pessimism. At the time, Phibro faced multiple challenges: regulatory changes in China that temporarily removed products from the market, industry-wide reductions in antibiotic use, and both margin pressures from supply chain disruptions and cost inflation. Management responded with increased R&D spending and efforts to expand into companion animal health and vaccines, which we viewed as positive long-term initiatives.

Despite these efforts, profitability continued to drift lower and sentiment stayed weak. We maintained our conviction and averaged down after reassessing the company's prospects. In 2024, Phibro acquired Zoetis' medicated feed additive business for \$350 million—a move we initially viewed with caution given the leverage and historical risks associated with large purchases. However, the integration proved highly successful. The acquired portfolio added more than 37 product lines and six manufacturing sites globally, driving significant revenue and earnings growth. Fiscal 2025 net sales grew 27% to \$1.3 billion, and adjusted EBITDA increased 65% year over year, with MFA sales up 77% post-acquisition.

This operational turnaround, combined with improving industry conditions, led to a sharp recovery in market sentiment. PAHC's stock appreciated more than 80% thus far in 2025, outpacing peers and the broader market. With shares now trading near our estimate of their intrinsic value and expectations for outsized returns diminished, we elected to completely sell our stake. Proceeds have been redeployed into opportunities where we see greater potential for superior long-term returns based on our value discipline.

Year-to-Date Briefing

The Brandes Global Small-Mid Cap Value Equity Strategy climbed 29.74%, outperforming its benchmark, the MSCI ACWI SMID Cap Index, which was up 16.86% in the nine months ended 30 September 2025.

Stock selection across multiple sectors drove our outperformance relative to the benchmark. Leading contributors included investments in financials, led by Piraeus Financial and Erste Group Bank, as well as Allied Irish Banks (AIB). The strategy also gained from its industrials, led by Brazil-based regional jet manufacturer Embraer and health care, led by Elanco Animal Health. Consumer staples firm JDE Peet's has also seen its stock rise materially in anticipation of its potential acquisition by Keurig Dr Pepper.

The most obvious detractor was our heavy allocation to consumer staples and health care as both sectors lagged the overall benchmark; however, our holdings in aggregate performed significantly better than those in the index. Company detractors were similar to those during the quarter, including multinational consumer products company Edgewell Personal Care, and advertising agency WPP. Other detractors included Japan-based entertainment company DeNA, U.S.-based chemical company International Flavors & Fragrances and Hong Kong-based footwear manufacturer Yue Yuen Industrial.

Current Positioning

The strategy holds key overweight positions versus the benchmark in the consumer staples, communication services and health care sectors. Meanwhile, we are underweight in typically cyclical business categories, such as consumer discretionary, materials and industrials. We also hold comparatively fewer 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 is materially underweight versus the benchmark in its 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 compared 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.

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

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

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