Brandes Investment Partners
Global Small-Mid Cap Equity Strategy Notes
Fourth Quarter 2025 (1 October – 31 December 2025)

The Brandes Global Small-Mid Cap Equity Strategy rose 2.38% (gross of fees), performing roughly in line with its benchmark, the MSCI ACWI SMID Cap Index, which increased 2.08%.

Positive Contributors
Notable contributors included holdings domiciled in the United States, as well as those in the industrials, health care and consumer discretionary sectors.

In the health care sector, Pediatrix Medical Group performed well after delivering better-than expected quarterly results. Industrial companies Kennametal and Healthcare Services Group, as well as energy equipment company Innovex International produced solid results. Switzerland-based Swatch Group advanced as U.S. tariffs on goods from Switzerland were reduced.

Financial holdings Erste Group in Austria and OneMain in the U.S. both continued to benefit from an attractive interest rate and credit environment.

Performance Detractors
Detractors were in technology, specifically communications equipment companies Netgear and F5, as well as electronic equipment company IPG Photonics. Netgear's decline was primarily due to concerns over supply chain issues, rising memory costs, and a mixed outlook from management during their third quarter earnings call.

Consumer staples were also a detractor, specifically Edgewell Personal Care and U.K.-based Premier Foods. Edgewell declined after announcing revenue and earnings guidance below expectations.

Other detractors included pharmaceutical ingredient company Organon and communication services companies Interpublic and Spain-based Atresmedia.

Select Activity
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. healthcare sector—to client portfolios in 2020. Before its initial public offering in 2013, Premier was owned by its healthcare 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.

We 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 healthcare industry consolidation accelerated, and an uncertain operating environment for healthcare providers after the pandemic. As a result, we 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) normalised. The share price drifted lower as restructuring efforts extended and revenue only recovered modestly. In 2024, we increased our allocation to Premier and continued to average down the position. By late 2024 and into early 2025, conditions appeared to stabilise. Premier had sold most of its non-core assets; resumed returning capital to shareholders through dividends and share repurchases, and its core GPO business stabilised.
Additionally, a healthcare-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,we viewed the price as fair and voted in favour of the transaction.

A recent addition to the portfolios, NICE Ltd. is an Israel-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 centre. In this role, NICE was one of several software and hardware vendors offering tools to staff, manage, measure and evaluate call centre operations. The company was particularly strong in workforce engagement management (WEM) software, a critical component for effective contact centre 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 a superior customer experience that can be applied to other areas of a 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 favourably positioned as an established incumbent in the CCaaS market with a well-capitalised balance sheet. AI-enhanced contact centre functionality could meaningfully expand the overall market size over time. We will continue to monitor the competitive landscape for evidence of NICE's performance in navigating this transition. For the patient, long-term investor, the current opportunity in NICE appears attractive.

Year-to-Date Briefing

The Brandes Global Small-Mid Cap Value Equity Strategy climbed 32.83%, outperforming its benchmark, the MSCI ACWI SMID Cap Index, which was up 19.29% for the year ended 31 December 2025.

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

The most significant detractors by sector were our overweight to consumer staples and health care as both lagged the overall benchmark; however, our holdings in aggregate performed significantly better than those in the index. Company detractors were multinational consumer products company Edgewell Personal Care and health care firms Dentsply Sirona and Organon. Other detractors included technology hardware company Netgear and consumer products company France-based Societe BIC.

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 financials, materials and industrials. We also own comparatively fewer perceived "safe havens," such as utilities.

Geographically, we continue to find value opportunities outside the United States, especially in the United Kingdom. The portfolio is materially underweight versus the benchmark in its allocation to the United States, although our weight did increase during the year and the benchmark allocation declined as international stocks outperformed the U.S. by the largest margin in 30 years (MSCI EAFE vs. MSCI USA).

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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