BRANDES
INVESTMENT PARTNERS

Brandes Investment Partners
U.S. Small Cap Value Equity Strategy Notes
Second Quarter 2025 (1 April – 30 June 2025)

The Brandes U.S. Small Cap Value Equity Strategy returned 12.55% (gross of fees), outperforming its benchmark, the Russell 2000 Index, which was up 8.50%, and the Russell 2000 Value Index, which gained 4.97%.

Positive Contributors
Leading contributors included holdings in the industrials sector, led by machinery company Graham, construction and engineering business Orion Group, and Healthcare Services Group.

Both Graham and Orion rebounded sharply after declining on failing to meet expectations in the first quarter. Graham released strong full-year fiscal 2025 results, driven by higher volume in both its defense, and energy and process markets, combined with strong operational execution and greater scale efficiencies. Similarly, Orion and Healthcare Services Group announced quarterly earnings that were above market expectations. Orion achieved solid margin performance in the company's marine segment, while Healthcare Services benefited from nursing home fundamentals trending positively. Given the shift in its risk/reward tradeoff, we pared our allocation to Healthcare Services.

Other strong performers included wireless surveillance company Arlo Technologies, Elanco Animal Health, NETGEAR, and pizza restaurant chain Papa John's International.

Performance Detractors
Detractors were in the consumer staples, energy and consumer discretionary sectors, including Hanesbrands, American Outdoor Brands, Innovex International and Edgewell Personal Care. Consumer confidence and tariff uncertainty weighed on Hanesbrands, American Outdoor Brands, and Edgewell Personal Care, while lower oil prices had a negative impact on Innovex International. However, our investment thesis for these companies has not changed and we continue to maintain our allocations.

Other detractors included chemicals company Minerals Technologies and professional services business Resources Connection.

Select Activity in the Quarter
We initiated positions in watch company Movado Group and software company Open Text.

Founded in 1991 out of the University of Waterloo, Open Text has grown to provide a broad suite of information management software through strategic acquisitions of mature, predominantly on-premise software assets. In recent years, however, the company has shifted its focus toward acquiring cloud-native technologies, reflecting a broader investment in transitioning its product portfolio to a hybrid cloud environment. With the exception of Carbonite, which is intended for individuals or small businesses, Open Text's offerings primarily target large enterprises.

Open Text's stock has come under pressure, potentially due to a loss of investor confidence in management. This stems from multiple revisions and delays in meeting targets without clear explanations, the negative impact of acquisitions like Zix and Micro Focus, and a lack of transparency across business segments. Additionally, although Open Text has recently been able to strengthen its balance sheet, investor concerns have been further heightened by management commentary about pursuing additional acquisitions.

Nonetheless, we believe there are compelling reasons to invest in Open Text at its current share price:

- Strong financial position: Core business remains profitable and cash generative, despite current challenges.
- AI and cloud potential: Significant investments in AI and cloud capabilities that may be successful in driving future growth, but current valuation does not seem to give credit for this optionality.
- Restored balance sheet: Reduced leverage and improved financial stability following recent divestitures.

Other portfolio activity included full sales of cement company Buzzi, gas utility Northwest Natural Holding, and insurer Crawford & Company.

Year-to-Date Briefing

The Brandes U.S. Small Cap Equity Strategy rose 5.46%, outperforming its benchmark, the Russell 2000 Index, which declined 1.79% in the six months ended 30 June 2025, and the Russell 2000 Value Index, which fell 3.16%.

Stock selection across multiple sectors drove our outperformance relative to the benchmark. Leading contributors included holdings in industrials, led by Embraer, Graham, and Orion Group. The strategy also benefited from Arlo Technologies, Elanco Animal Health, and Papa John's International.

Detractors were similar to those in the quarter, including Edgewell Personal Care, Hanesbrands, American Outdoor Brands and Minerals Technologies.

Current Positioning

Allocation to companies in the industrials sector continues to be the largest weighting and relative overweight from a sector standpoint. The portfolio also maintains key weights in health care, consumer discretionary, materials, and consumer staples. The strategy's most notable underweights are in financials, information technology, and real estate. Compared to the Russell 2000 Value Index, we have significantly less exposure to financials and real estate.

In our opinion, the differences between the Brandes U.S. Small Cap Value Equity Strategy and the broader U.S. small-cap market continue to make it an attractive complement to other small-cap offerings. Our strategy exhibits lower valuations than the Russell 2000 Index, while offering exposure to companies that we believe have strong balance sheets, compelling growth prospects and a history of durable free-cash-flow generation.

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

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

The Russell 2000 Index with gross dividends measures the performance of the small cap segment of the U.S. equity universe.

The Russell 2000 Value Index with gross dividends measures performance of the small 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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