

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

The Brandes U.S. Small-Mid Cap Value Equity Strategy rose 6.75% (gross of fees), underperforming its benchmark, the Russell 2500 Index, which was up 9.00%. The Russell 2500 Value Index increased by 8.17%.

Positive Contributors

Primary contributors included companies in the health care sector, led by Elanco Animal Health, Phibro Animal Health, staffing and outsourced solutions company Premier, contract researcher Fortrea Holdings, and sterilisation services company Sotera Health Company.

Both Elanco and Phibro Animal Health reported earnings that beat their fiscal year revenue forecasts, and they subsequently raised their targets after citing increased demand for their medicines and vaccines for the pet and animal markets.

Other solid performers included children's publishing company Scholastic and energy equipment and services business Innovex International.

Performance Detractors

On a sector basis, our investments in information technology (IT) detracted from returns, specifically in IT services companies Amdocs and EPAM Systems.

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

Additional detractors included dental equipment company Dentsply Sirona, home appliance company Whirlpool, and pharmaceutical company Prestige Consumer Healthcare.

Select Activity in the Quarter

One new position was added but no full sells occurred.

We initiated a new position in The Campbell's Company, a leading name in the packaged food sector. While Campbell's is traditionally recognised for its iconic soups, the company has strategically diversified its portfolio into snacks and frozen foods.

The consumer staples sector has generally underperformed the broader benchmark, pressured by subdued consumer demand resulting from elevated price inflation and evolving consumer preferences. Additionally, the increasing usage of effective weight loss drugs adds to the uncertainty of long-term growth prospects.

Despite these challenges, Campbell's maintains a well-balanced portfolio that spans both healthy and indulgent offerings, underpinned by strong brand equity. In our view, the company is well-positioned to adapt to shifting consumer trends and should return to slow and steady growth. We feel that Campbell's valuation remains attractive, even when accounting for the risks currently facing the industry.

Year-to-Date Briefing

The Brandes U.S. Small-Mid Cap Value Equity Strategy rose 11.48%, outperforming its benchmark, Russell 2500 Index, which was up 9.48%, and the Russell 2500 Value Index, which reached 9.29% in the nine months ended 30 September 2025.

Stock selection across multiple sectors drove our outperformance relative to the benchmark. Leading contributors included health care companies, led by Elanco Animal Health, Phibro Animal Health, Premier, and global plasma-derived medications manufacturer Grifols.

The strategy also benefited from investments in industrials, including regional jet manufacturer Embraer and housekeeping and management services provider Healthcare Services Group.

On a relative basis, consumer staples represented the lowest-performing sector, and our overweight hurt returns, along with position in Edgewell Personal Care within the sector. Other notable detractors included Dentsply Sirona and Fortrea Holdings.

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 versus 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 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/emea/termdefinitions>.

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

Diversification does not assure a profit or protect against a loss in a declining market.

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