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

The Brandes U.S. Value Equity Strategy rose 4.77% (gross of fees) in the quarter, underperforming its benchmark, the Russell 1000 Value Index, which was up 5.33%.

Positive Contributors
Strong contributions came from our two significant overweight allocations, namely health care and financials.

Recently added ICON, a clinical research company, rose after announcing better-than-expected earnings results. Within financials, several holdings continued to perform well, led by Citigroup, Bank of America, and Bank of New York Mellon. A favorable rate environment globally provided a tailwind for the sector, boosting net interest margins. For Citigroup, market sentiment was further supported by its restructuring efforts and focus on core banking operations, which has led to improved operating efficiency.

Beyond health care and financials, several technology-related businesses aided returns as well. Continued enthusiasm around artificial intelligence (AI) helped lift the share prices of companies with exposure to the theme, including Alphabet and Micron. Micron saw strong performance driven by rising demand for memory semiconductors in AI applications. Alphabet further benefited from a more favorable than expected antitrust ruling, which added to investor optimism.

Another tech holding, electronics manufacturing company Flex, was also a notable contributor as it continued to capitalise on robust demand across its diversified manufacturing services platform. Flex's exposure to secular growth areas, such as cloud infrastructure, automotive electronics, and industrial automation, has enabled the company to expand its margin and gain earnings momentum.

Performance Detractors
Significant detractors included our allocations to industrials and materials, where our lack of holdings in metals and mining and construction materials weighed on relative returns as both industries appreciated meaningfully in the quarter. Poor performers in the sectors included agricultural firm Corteva and trucking company Knight Swift. Corteva announced plans to split into two independent, publicly traded companies, separating its crop protection and seed businesses. Meanwhile, Knight Swift continued to face a challenging operating environment, with lingering post-COVID oversupply and the new trade and tariff situations dampening demand in the trucking industry.

Several health care-related holdings also hurt performance, notably distributor Cardinal Health and insurer Cigna, as well as consumer health firm Kenvue. Additionally, information technology (IT) services companies Amdocs and Cognizant were major detractors, along with payment technology firm Fiserv.

The broader IT services industry declined amid worries over the potential impact of AI on traditional service models, coupled with policy uncertainty surrounding immigrant visas, which the industry commonly relies on for talent mobility. We believe the market has become overly negative on these concerns. We see potential for IT services firms to benefit from AI deployment and from a recovery in demand as IT spending normalises.

Meanwhile, the market expressed concerns about slowing growth in Fiserv's merchant acceptance business. Though near-term investor sentiment has weakened, our long-term investment thesis for Fiserv remains intact, underpinned by the company's scale and recurring revenue base.

Select Activity in the Quarter
We initiated new positions in chemical firm International Flavors & Fragrances and IT services company EPAM.

EPAM is a digital pure-play IT services company, with approximately 85% of its revenue derived from high-value services such as custom software development, data analytics, AI implementation, and cloud migration. This differentiates EPAM from broader-based IT services providers that maintain exposure to slower-growing legacy segments.

Historically, EPAM delivered organic revenue growth exceeding 20% annually, a testament to its engineering excellence and client-centric delivery model. However, the Russian invasion of Ukraine in 2022 posed a significant operational challenge. At the time, over 30% of EPAM's workforce was based in Ukraine and Belarus, with Ukraine serving as its largest delivery hub. In response, EPAM executed a rapid and strategic geographic repositioning, reducing its Ukraine/Belarus footprint to 15% and expanding delivery capabilities across India (now 20% of its workforce), Latin America, and Poland. This transition has largely been completed and viewed as successful, restoring client confidence and operational resilience.

The current market dislocation, driven by macroeconomic uncertainty and overstated AI disruption fears, creates an attractive entry point for an investment in what we consider a high-quality digital transformation enabler. In our view, EPAM is strategically positioned to benefit from the increasing complexity of enterprise-grade digital transformation projects. While concerns around AI disrupting traditional IT services persist, EPAM's specialisation in AI integration and its ability to deliver customised solutions make us believe that it will be a net beneficiary of these trends. The shift from cost-plus to fixed-price contracts introduces margin expansion potential, albeit with increased project risk. Nonetheless, EPAM's engineering depth and agile delivery model mitigate these risks, in our opinion. At its current valuations, EPAM offers an appealing risk-reward tradeoff.

Year-to-Date Briefing
The Brandes U.S. Value Equity Strategy gained 11.52% (gross of fees), slightly underperforming the Russell 1000 Value Index, which rose 11.65% for the nine months ended 30 September 2025.

After a strong start to the year, value stocks lagged the broader market (Russell 1000 Value vs. Russell 1000) over the past two quarters. This was largely driven by the AI-fueled rally, which lifted the share prices—and subsequently, valuations—for any businesses with exposure to AI demand. While value underperformance has been a headwind for the strategy, several of our holdings delivered solid results. Leading contributors included holdings in health care and technology, such as Flex and Micron, as well as pharmaceutical distributors McKesson and Cardinal Health and integrated health care company CVS Health.

Financials holdings, led by Citigroup and Bank of New York Mellon, were also among the top performers. The current environment has been quite favorable for banks, characterised by modest credit losses, attractive net interest margins, and overall robust earnings growth.

Major detractors included holdings in industrials and communication services, notably FedEx and Comcast. As was the case for the quarter, Fiserv, Cognizant, and Knight Swift also hurt performance for the year-to-date period. Additional poor performers included pharmaceutical firm Merck and chemical company Westlake.

Current Positioning
Despite increased portfolio activity amid this year's volatile market environment, our overall portfolio positioning has not shifted significantly. The portfolio continues to have overweight positions in financials and health care, while maintaining underweights in real estate and consumer discretionary. We have selectively reduced allocations to some of the strong-performing areas (e.g., financials and technology), while adding to others that have underperformed (e.g., health care).

In the third quarter, the valuation gap between value and growth stocks (MSCI USA Value vs. MSCI USA Growth) widened once more, as a rebound in technology stocks drove growth stocks' outperformance. Market optimism around anything related to AI continues to elevate valuations for technology companies, which accounted for over 50% of the growth index as of 30 September. Amid an increasingly concentrated U.S. market, we believe it is important for investors to ensure that their portfolios are not overexposed to a certain sector or theme. With our index-agnostic approach, the Brandes U.S. Value Equity Strategy continues to look different than both the Russell 1000 Index and the Russell 1000 Value Index, making it, in our opinion, a compelling complement to passive and growth-oriented strategies.

Following their underperformance over the past two quarters, value stocks now trade among the largest quartile discounts relative to growth stocks since the inception of the style indices. This valuation disparity is evident across various metrics, such as price/earnings, price/cash flow, and enterprise value/sales. Historically, such valuation differentials have often signaled compelling subsequent returns for value stocks over longer-term horizons. This is encouraging to us because our portfolio, guided by our value philosophy and process, has tended to outperform the Russell 1000 Value benchmark when the benchmark has outperformed the broader Russell 1000 Index.

We remain confident about the risk-reward profile of our holdings and are optimistic about the strategy's long-term prospects.

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.