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Brandes Investment Partners
Core Plus Fixed Income Strategy Notes
Second Quarter 2025 (April 1 – June 30, 2025)

The Brandes Core Plus Strategy rose 1.23% net of fees and 1.30% gross of fees, modestly outperforming its benchmark, the Bloomberg U.S. Aggregate Bond Index, which was up 1.21% in the quarter.

Annualized total return as of June 30, 2025	1-year	5-year	10-year
Brandes Core Plus Fixed Income Composite (net)	5.96%	0.65%	2.15%
Brandes Core Plus Fixed Income Composite (gross)	6.24%	0.91%	2.42%
Bloomberg U.S. Aggregate Bond Index	6.08%	-0.73%	1.76%

Past performance is not a guarantee of future results. One cannot invest directly in an index. Returns include reinvestment of all dividends and are reduced by any applicable foreign withholding taxes, without provisions for income taxes, if any.

The quarter began with a jolt as the Trump administration introduced a sweeping round of tariffs in early April, only to partially reverse course a week later. This policy whiplash injected additional uncertainty into markets.

Shorter-term maturity U.S. Treasury yields declined as investors began to price an increasing possibility of a rate cut by the Fed (Federal Reserve) as soon as their July meeting. However, yields of longer-term maturity U.S. Treasuries rose as the deteriorating U.S. fiscal situation received mounting attention, highlighted by a credit rating reduction for U.S. government debt by Moody's by one notch, from Aaa to Aa1.

The act of the Moody's downgrade was less important than the message. Moody's is essentially messaging that the U.S. fiscal situation has become untenable, but this is hardly a secret to most who have been paying attention for the last several years.

The Fed held rates steady at their June meeting. Much of the focus, however, was on the release of their *Dot Plot* – which displays Fed policymakers' projections for the future path of the fed funds rate. The median projection is for one rate cut before year-end. Seven of the nineteen policymakers are expecting no rate cuts this year. Two outliers are projecting three cuts.

While the identities behind the "dots" are not disclosed, it does not take extensive sleuthing to likely assign those two outliers in the *three-cut camp* to Christopher Waller and Michelle Bowman. Both were appointed by President Trump during his first term and are thought to be on the short list to replace Chairman Powell when his term is up. With President Trump's repeated calls for lower rates, the two outliers' policy projections may be profoundly influenced by the politics of jockeying for the top job at the Fed.

At quarter end the market was projecting a near certainty of at least two rate cuts before year-end, with three cuts a real possibility.

Corporate bonds and Agency mortgage-backed securities posted positive returns versus U.S. Treasuries during the quarter. Yield spreads on both asset classes remain near their tightest levels in over three decades. These sectors remain largely priced for perfection in our view, even with the considerable uncertainty about inflation, growth, geopolitics and the deteriorating fiscal situation. In this environment, individual security selection rooted in a robust process focused on long-term fundamentals is paramount in our view.

Portfolio Performance
In the second quarter, the Brandes Core Plus strategy delivered positive returns and modestly outperformed versus its benchmark, the Bloomberg U.S. Aggregate Bond Index.

Term-structure positioning was a positive factor during the quarter. The U.S. Treasury curve steepened with yields on shorter-term maturities declining, while yields on maturities longer than 10 years rose during the period. The portfolio has been overweight shorter maturity securities and thus benefited when longer-maturity securities underperformed. The duration of the portfolio was maintained at 90% of the benchmark's duration throughout the quarter.

Select holdings in corporate bonds provided a positive contribution to returns during the quarter, led by holdings in communications (Univision and Consolidated Communications), consumer non-cyclical (Organon and Pilgrim's Pride), and technology (Pitney Bowes).

Select holdings in banking (US Bank) modestly detracted from performance.

With increasing volatility at the beginning of the quarter around the *Liberation Day* tariff announcement, we took the opportunity to add to a few existing positions in the portfolio. We added to positions in Citigroup (6.95% coupon, perpetual maturity, callable 1/31/30 rated Ba1/BB+), Goldman Sachs (3.80% coupon, perpetual maturity, callable 5/10/26, rated Ba1/BB+), Transocean (8.75% coupon, 2/15/30 maturity, first lien security, rated B1/B), and Univision Communications (8.50% coupon, maturing 7/31/31, rated B1/B+).

We also added a new position in a secured bond from Kohl's Corp (10.00% coupon, maturing 6/1/30, rated Ba3/BB+). Kohl's Corp had been making progress on turnaround efforts through 2023, particularly around inventory management, but hit a rough patch again in 2024. The company has been plagued by frequent strategy shifts, persistent CEO turnover, and shifting consumer shopping preferences away from traditional retail outlets, leading to a challenging operating environment. Kohl's issued the bond we purchased during the quarter, and it is secured by the value of eleven of the company's distribution centers and e-commerce fulfillment facilities. We estimate the value of the collateral package at approximately twice the value of the bond issuance, giving us what we believe is a solid *margin of safety* for this security. The portfolio experienced maturities in holdings from Citigroup, Range Resources, and VMWare. Our holding in Charles Schwab was called during the quarter.

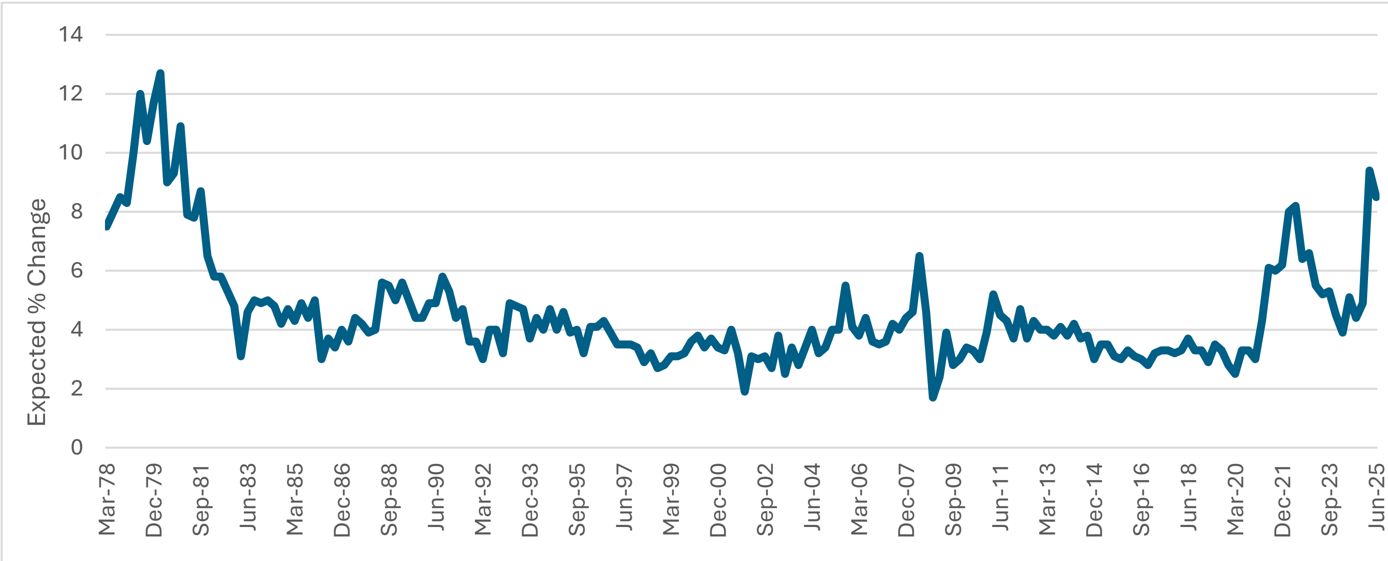
Outlook

For all the consternation about slowing growth and the potential impact from tariffs, the economy remains quite resilient. The labor market is holding up well. The unemployment rate remains low, likely aided by a shrinking pool of labor due to reduced immigration. Credit and equity market performance remains strong.

Many believe that inflation is close enough to the Fed's target and that it is time for the Fed to shift its focus to rate cuts – principal among them the primary resident at the White House. There are a few cautionary points worth considering, however, regarding inflation:

- The drop in inflation over the last few years was largely driven by a drop in goods prices. In fact, until April, goods prices had dropped for 15 consecutive months. While the abrupt change in tariff policy has not yet been reflected in the data, there is a strong likelihood that goods prices may now see rising price pressures.
- Speaking of tariffs, the effective U.S. tariff rate has risen from 2.3% at year-end to over 7% at the end of April (the most recent measurement data point). Where tariffs eventually settle remains a moving target, but the baseline will likely be higher than recent history. We have seen estimates that tariffs will add between 1.5% and 2.0% to inflation.
- There is a belief that if growth continues to slow, the Fed will be *forced* to cut rates. Nevertheless, in the first half of 2022 growth was negative and in contrast, the Fed aggressively hiked rates.
- *Main Street* inflation expectations remain elevated. The driving principle around Fed policy revolves around whether inflation expectations and price behavior are "well anchored" (i.e., showing confidence that future inflation will remain close to targeted levels). As demonstrated in the following chart, inflation expectations do not seem well anchored to the Fed's 2% target, intimating that the Fed may hold off on rate cuts longer than the market believes.

Exhibit 1. Are Inflation Expectations in Danger of Becoming Unanchored?
Inflation Expectations Are at the Highest Level Since the 1980s



Source: University Of Michigan Survey, "Expected Change In Prices During the Next Year," June 2025. Survey asks respondents if they think prices in general will go up, or go down, or stay where they are now? And by what percent do you expect prices to go up, on the average, during the next twelve months?

Market outlooks are always uncertain, but we now seem to be in a period of elevated uncertainty that increases the potential volatility of financial markets. In our view, however, uncertainty and volatility can create opportunities for long-term patient investors.

We took advantage of market volatility early in the quarter to add to a few of our existing positions, as well as add a new holding to the portfolio. The broader market appears to us to be largely priced for perfection and complacent to the shifting risk tides. In our opinion, this places a premium on deep fundamental research and individual security selection. We continue to tilt the Brandes Core Plus portfolio into what we believe is a defensive posture to mitigate some of the market uncertainty and potential for widening yield spreads. We believe that this remains a risk. Accordingly, the portfolio continue to favor shorter-maturity corporate bonds and those that we believe exhibit strong, tangible asset coverage. We are managing duration approximately 10% shorter than the portfolios' benchmark. We have a meaningful allocation to U.S. Treasuries and if market uncertainty and volatility continue to cause credit fundamentals to become mispriced relative to our estimates of intrinsic value, then we will look to redeploy some of those Treasury holdings thoughtfully and effectively to take advantage of opportunities.

We remain underweight agency mortgage-backed securities.

As we move forward, we believe prudence dictates that we continue our search for value in a measured and deliberate manner while continuing to tilt the portfolio to what we believe is a relatively defensive posture.
We remain optimistic about the prospects for the Brandes Core Plus Portfolio.

Sincerely,

Timothy M. Doyle, CFA
Fixed Income Portfolio Manager

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

The Bloomberg U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. This index is a total return index which reflects the price changes and interest of each bond in the index.

The portfolio characteristics shown relate to a single account deemed by Brandes to be generally representative of the strategy as of date noted. Not every account will have these exact characteristics. The actual characteristics with respect to any particular account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Data is updated on a quarterly basis.

Bond ratings are grades given to bonds that indicate their credit quality as determined by a private independent rating service such as Standard & Poor's. The firm evaluates a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'D', which is the lowest grade. In limited situations when the rating agency has not issued a formal rating, the Advisor will classify the security as nonrated.

Past performance is not a guarantee of future results.

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