

Brandes Investment Partners
International Small Cap Equity Strategy Notes
First Quarter 2026 (January 1 – March 31, 2026)

The Brandes International Small Cap Equity Strategy declined 1.73% net of fees and 1.52% gross of fees, underperforming its benchmark, the MSCI ACWI ex-US Small Cap Index, which was down 0.48% in the quarter. The MSCI ACWI ex-US Small Cap Value Index declined 0.07%.

Annualized total return as of March 31, 2026	1-year	5-year	10-year
Brandes International Small Cap Equity Composite (net)	30.62%	19.25%	11.31%
Brandes International Small Cap Equity Composite (gross)	31.76%	20.29%	12.29%
MSCI ACWI ex USA Small Cap Index	27.82%	5.66%	8.00%

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.

Positive Contributors

Holdings in communications services, financials, consumer discretionary, and health care were major contributors to returns, led by Latin American wireless telecom operator Millicom International Cellular, Hungary-based Magyar Telekom, German health care equipment business Draegerwerk, and Slovenian bank Nova Ljubljanska Banka.

Millicom benefited from improved operational performance, stronger cash-flow generation, and progress in simplifying its asset base and capital structure. Meanwhile, Draegerwerk reported record 2025 net sales and provided optimistic guidance that was appreciated by the market.

Other notable contributors included machinery company Kennametal and Mexican real estate investment trust Fibra Uno. Kennametal significantly raised its guidance for fiscal year 2026 and is expected to be a key beneficiary of the material increase in tungsten prices, providing a potential positive tailwind to its margins.

Relative to the benchmark, our lack of exposure to India helped returns.

Performance Detractors

Detractors included a few technology-related holdings which were pressured by heightened concerns around perceived AI disruption and broader macroeconomic uncertainty.

IT services company Globant declined as investors reassessed the potential impact of generative AI on traditional IT services models, particularly in application development and consulting. Canada-based software company OpenText also detracted from performance. Investor concerns centered on the durability of legacy enterprise software models amid rapid advances in AI-enabled information-management tools. While OpenText continued to generate substantial recurring revenue from its mission-critical software, uncertainty around integration execution and AI-related disruption weighed on sentiment. In our view, the market has placed disproportionate emphasis on near-term disruption risk while underappreciating the strength of OpenText's installed base and customer switching costs, leading the company to trade at what we consider appealing valuations.

Similarly, increased geopolitical uncertainty and caution around AI-related disruption weighed on professional services firms PageGroup and Hays, as subdued hiring activity impacted near-term performance.

Other detractors included beverage company C&C Group and personal care products business Ontex Group.

Select Activity in the Quarter

It was a relatively busy quarter in terms of new buys and full sells as the small-cap investment committee took advantage of the market volatility to initiate or exit positions. New buys included three U.K.-based companies, namely greeting cards

retailers Card Factory and Moonpig Group, as well as machinery firm Morgan Advanced Materials, and two French businesses, specifically food services company Sodexo and grocer Carrefour. The investment committee also added Japanese pen manufacturer Pilot and German media company Springer Nature to the portfolio. Meanwhile, exited positions included Japan-based Koatsu Gas, Hong Kong's Emperor Watch & Jewellery, Irish bank AIB Group, and Panama's Banco Latinoamericano.

Sodexo provides outsourced services to corporate, education, health care, and government clients in more than 40 countries, with a business model anchored by long-term contracts and high renewal rates. The company generates the majority of its revenue from onsite services, including contract catering and facilities management, where scale advantages and operational complexity create meaningful barriers to entry.

Sodexo has fallen out of favor after several years of operational challenges, including labor cost inflation, inconsistent execution across regions, and investor skepticism following the spin-off of its employee benefits business. In North America, the company has underperformed peers, which further weighed on the shares.

In our view, this pessimism has created an opportunity to invest in what we consider a well-positioned, cash-generative business at a valuation that does not reflect its long-term earnings power. We believe the market is underestimating Sodexo's ability to pass through cost inflation over time, improve margins through operational initiatives, and benefit from secular outsourcing trends across corporate and institutional customers. In our view, the company's global scale, diversified end markets, and recurring revenue profile should provide resilience across economic cycles.

At current valuation levels, Sodexo trades at a meaningful discount to our estimate of intrinsic value. We see an attractive margin of safety, supported by strong returns on capital, a solid balance sheet, and the potential for earnings recovery as execution improves.

Current Positioning

Despite increased activity in the quarter, the portfolio positioning remains relatively unchanged. The most noticeable change was the decrease in allocation to the industrials sector, where we trimmed several positions given their strong performance over the past few years. That said, industrials remains the portfolio's largest sector weighting. The portfolio also maintains significant allocations to consumer staples and health care, while remaining underweight in technology, materials, real estate, and utilities. Geographically, the portfolio continues to have meaningful exposure to companies in the U.K., Canada, and emerging markets, while holding underweight positions in Australia, India, and Taiwan.

We have recently received a number of inquiries regarding the portfolio's risk exposure to the Iran conflict. In our view, the impact is limited and largely indirect. A meaningful portion of the portfolio continues to be allocated to domestically oriented companies, which tend to benefit from larger competitive moats and reduced direct exposure to international trade disputes or global geopolitical uncertainty compared to their export-driven peers. Many of our holdings also represent mature and stable business models where earnings and free-cash-flow generation have historically shown resilience during macroeconomic or cyclical disruptions.

Amid heightened volatility in the quarter, we selectively added to existing positions where share prices declined despite what we consider limited change to underlying long-term fundamentals, while paring exposure in areas that held up relatively well. We remain focused on long-term value creation and believe that periods of uncertainty can create compelling opportunities for patient investors, as indicated by our buy and sell activity. Throughout our investment process, we maintain a sharp focus on balance sheet quality. We feel this is particularly important in the international small-cap equity space as the low interest-rate environment has increased corporate debt appetite and foreign currency exchange mismatches can pose a risk.

We remain confident in the portfolio's holdings composition and the attractive risk-reward tradeoff it offers.

For term definitions, please refer to <https://www.brandes.com/termdefinitions>.

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

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