BRANDES
INVESTMENT PARTNERS

Brandes Investment Partners
U.S. Small-Mid Cap Value Equity Strategy Notes
First Quarter 2026 (January 1 – March 31, 2026)

The Brandes U.S. Small-Mid Cap Value Equity Strategy increased by 4.90% net of fees and 5.15% gross of fees, outperforming its benchmark, the Russell 2500 Index, which was up 2.04%. The Russell 2500 Value Index rose by 4.77%.

Annualized total return as of March 31, 2026	1-year	5-year	10-year
Brandes U.S. Small-Mid Cap Value Equity Composite (net)	24.31%	7.31%	9.34%
Brandes U.S. Small-Mid Cap Value Equity Composite (gross)	25.50%	8.34%	10.39%
Russell 2500 Index	23.45%	5.48%	10.58%

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

Notable contributors included specific holdings in the industrials sector, led by Moog and National Presto Industries. Both reported strong earnings and growing backlogs, reflecting accelerating demand in aerospace, defense and commercial aircraft markets.

Other companies that performed well included IPG Photonics, which had solid earnings; Scholastic Corp., which authorized a Dutch Auction tender offer representing approximately 25% of outstanding shares, and Edgewell Personal Care, which successfully sold off its feminine care business.

Performance Detractors

The most material detractors were in health care, led by Fortrea. Fortrea declined after its earnings missed market expectations, and the company delivered weaker-than-expected full-year revenue guidance, reflecting softness in biotech funding.

In the information technology sector, several holdings fell as investor sentiment shifted sharply against traditional IT services. Concerns centered on the potential for generative AI to reduce demand for labor-intensive services. EPAM Systems and Amdocs were among the largest detractors: their shares weakened despite limited near-term changes in their fundamentals. While these businesses continue to benefit from entrenched customer relationships and high switching costs, market sentiment reflected heightened uncertainty relating to longer-term demand and competitive dynamics. We added to both holdings because we believe some of these concerns are likely overblown for companies with proven embedded technological and customer data expertise.

Select Activity in the Quarter

We initiated a new position in Mohawk Industries and sold our position in Seaboard Corp.

Mohawk Industries is the world's largest flooring manufacturer, with leading positions across ceramic tile, carpet, laminate, vinyl and stone products serving residential remodeling, new construction and commercial markets. Its global manufacturing and distribution footprint provides substantial scale advantages, broad product reach and cost efficiency across cycles.

The market is currently focused on near-term headwinds facing Mohawk, including slowing home-remodeling demand, elevated input costs and margin pressure after an unusually strong post-COVID rebound. While cycle risks are still elevated, the company benefits from a strong balance sheet and a free-cash-flow profile that stayed positive through the cycle. Additionally, management owns a meaningful equity stake and has shown a willingness to deploy capital opportunistically through share repurchases and acquisitions during times of industry stress.

In our view, Mohawk trades at a valuation that embeds a prolonged downturn scenario. Based on our assessment of normalized earnings power and balance sheet strength, we believe the shares offer an attractive margin of safety and favorable long-term return potential.

We exited our position in Seaboard Corp. The company is a diversified, family-controlled conglomerate with operations spanning pork production, commodity trading and milling, marine shipping, power generation, renewable fuels and sugar. When we made our initial investment, the company's earnings were depressed by weak pork industry conditions, which created an attractive risk-reward opportunity.

During our holding period, pork profitability rebounded sharply, supported by stronger export demand and improved margins; meanwhile, the marine business saw better volumes and utilization. At the same time, management complemented the operational recovery with thoughtful capital allocation, including share repurchases.

As these improvements became evident, the market re-rated Seaboard's stock. With the share price trading above our estimate of intrinsic value, we decided to exit the position and reallocate capital to opportunities where we see greater upside potential and a more attractive risk-reward profile.

Current Positioning

Health care and consumer staples continue to be the two largest overweights compared to the benchmark. Our most significant underweights are in consumer discretionary, financials, and real estate.

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 cap 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/termdefinitions.

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