

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

The Brandes Global Small Cap Equity Strategy rose 2.37% (gross of fees), outperforming its benchmark, the MSCI ACWI Small Cap Index, which was up 1.06% in the quarter, and the MSCI ACWI Small Cap Value Index, which gained 1.41%.

**Positive Contributors**

Holdings in industrial, financials, and communications services were major contributors to returns, led by U.S. machinery firms Kennametal and Graham Corporation, Latin American Millicom International Cellular, Hungary's Magyar Telekom, and Slovenian bank Nova Ljubljanska Banka.

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. Meanwhile, Millicom benefited from improved operational performance, stronger cash-flow generation, and progress in simplifying its asset base and capital structure.

Other notable contributors included U.S.-based consumer staples holdings Edgewell Personal Care and Ingles Market, as well as Mexican real estate investment trust Fibra Uno. Additionally, German medical equipment business Draegerwerk did well after reporting record 2025 net sales and providing optimistic guidance.

Relative to the benchmark, our lack of exposure to India and Australia 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 companies Globant and newly added Amdocs 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 centred 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, caution around AI-related disruption, combined with increased geopolitical uncertainty, weighed on professional services firms PageGroup and Hays, as subdued hiring activity impacted near-term performance.

A few holdings in aerospace and defence gave back some of its solid performance from last year, most notably Switzerland's Montana Aerospace and Canadian CAE. Other detractors included Irish beverage company C&C Group, Spain-based biotech firm Grifols, and U.K. luxury goods company Burberry.

**Select Activity in the Quarter**

It was a relatively busy quarter in terms of new buys and full sells as we took advantage of the market volatility to initiate or exit positions. New buys included several U.S.-based companies, namely flooring manufacturer Mohawk Industries, IT services firm Amdocs, beverage company Molson Coors Beverage, restaurant chain Papa John's International, and food processing business Lamb Weston. We also added French grocer Carrefour and food services company Sodexo, Mexican insurer Qualitas Controladora, and Israel-domiciled software firm NICE. Meanwhile, exited positions included U.S.-based Sealed Air Corporation and Gildan Activewear, French catering services provider Elior Group, and machinery firms Komori (Japan) and Timken Company (U.S.).

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 favour after several years of operational challenges, including labour cost inflation, inconsistent execution across regions, and investor scepticism 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.

NICE is a Contact Centre-as-a-Service (CCaaS) provider, maintaining dual headquarters in Israel and the United States, with a customer base that is predominantly in the U.S. NICE has evolved alongside changing technology and customer requirements. Historically, the company provided software and services to help enterprises manage on-premise customer contact centres. In this capacity, NICE was one of several software and hardware vendors offering tools to staff, manage, measure and evaluate call centre operations. The company was particularly strong in workforce engagement management (WEM) software, a critical component for effective contact centre operations.

In recent years, CCaaS offerings have been increasingly adopted because they lower total cost of ownership, better integrate customer service channels and leverage automation, including AI. All of this enables superior customer experience that can be applied to other areas of a business. NICE responded to this shift by acquiring a leading CCaaS provider, inContact, in 2016. This acquisition gave NICE a nearly complete CCaaS solution, and as cloud-based offerings grew at the expense of on-premise systems, NICE benefited from higher revenue per licensed seat. The market rewarded this industry-leading position with strong valuation multiples.

However, in 2025 rapid advances in AI capability and adoption began to cloud NICE's outlook. On one hand, improving AI functionality has accelerated the shift toward CCaaS solutions and away from on-premise deployments. On the other, the pace of change has intensified competition among CCaaS providers and has driven increased investment to incorporate advanced AI features. NICE has indicated that this heightened investment, including the approximately \$1-billion acquisition of Cognigy, will put pressure on its earnings over the next year. This uncertainty contributed to a sharp correction in the share price, pushing it to multiyear lows and compressing valuation multiples to near all-time lows.

While it is impossible to predict definitive winners and losers in the AI arms race, NICE remains favourably positioned, in our view, as an established incumbent in the CCaaS market with a well-capitalized balance sheet. AI-enhanced contact centre functionality could meaningfully expand the overall market size over time. We will continue to monitor the competitive landscape for evidence of NICE's performance in navigating this transition. For the patient, long-term investor, the current opportunity in NICE appears attractive.

### **Current Positioning**

Despite increased activity in the quarter, the portfolio positioning remains relatively unchanged. The most noticeable changes were the decrease in allocation to the industrials sector, where we exited or trimmed several positions given their strong performance over the past year, and the increase in exposure to consumer staples, where we had new buys or selectively added to existing positions. Both industrials and consumer staples remain the portfolio's largest sector allocations and overweight positions. The portfolio also maintains an underweight in financials, materials, real estate, technology, and utilities. Geographically, the portfolio continues to have meaningful exposure to companies in the U.K., France, and emerging markets, while holding a meaningful underweight position in the U.S., which accounts for approximately 52% of the benchmark.

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 global small-cap equity space as the 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 trade-off it offers.

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