

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

The Brandes Global Small-Mid Cap Equity Strategy rose 2.30% (gross of fees), outperforming its benchmark, the MSCI ACWI SMID Cap Index, which increased 0.23%.

Positive Contributors

Notable contributors included holdings domiciled in the United States, as well as those in the financials, health care and information technology.

In health care, Germany-based Draegerwerk delivered strong earnings in 2025, cited a strong order book, and raised its full-year guidance for 2026. In financials, Nova Ljubljanska Banka of Slovenia and Panama-based Banco Latinoamericano de Comercio Exterior delivered strong earnings.

Other contributors included IPG Photonics, which reported strong earnings, and Scholastic Corp., which authorized a Dutch Auction tender offer representing approximately 25% of its outstanding shares.

Performance Detractors

The most significant detractor was U.K.-based PageGroup, which halved its dividend and cited ongoing weakness in global hiring activity.

In the information technology sector, several companies declined as investor sentiment shifted sharply against traditional IT services. Concerns centred on the potential for generative AI to reduce demand for labour-intensive services, to put downward pressure on pricing, and accelerated customer insourcing. EPAM Systems and Amdocs were among the largest detractors, as their shares declined 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 related to long-term demand for their offerings and competitive dynamics. We added to both holdings because we believe some of these concerns are likely excessive for companies with proven embedded technology and customer data expertise.

Other detractors included South Korea-based food and beverage company Nongshim and U.K.-based advertising agency WPP.

Select Activity

During the quarter, we initiated a new position in Germany-based Springer Nature and sold our position in Japan-based Hachijuni Bank.

Springer Nature is a global professional and academic publisher focused on scientific, technical, medical and scholarly research. The company is best known for *Nature*, one of the world's most prestigious academic journals. Although Springer Nature was formed through a 2015 merger between Springer Science and the Holtzbrinck Publishing Group, many of its publications have far deeper historical roots. *Nature* was first published in 1869 by Macmillan, which later became part of Holtzbrinck. Springer Nature completed its initial public offering (IPO) in 2024, with a current free float of approximately 15%. The private equity sponsor, BC Partners, remains the primary shareholder, and is expected to be the main seller as the public float increases over time.

Since its IPO, Springer Nature's shares have declined by about 25%, reflecting a deterioration in market sentiment driven by several industry-wide concerns. Most notably, the academic publishing industry is in the midst of a transition toward an open-access model. Under the traditional system, peer-reviewed journals publish articles at no cost to authors and then charge high subscription fees to academic and professional institutions. This model is gradually giving way to open access, in which authors pay an article processing fee and published research is freely available to the public.

Additionally, the article publishing costs have faced increasing regulatory scrutiny in the U.S. and Europe, and the evolution to an open-access publishing has created uncertainty and has weighed on market valuations across the industry.

The industry is also facing pressure from U.S. federal budget cuts to academic research. Because a significant portion of industry revenue is tied to research produced and consumed by academic institutions, reductions in research funding could lower demand for professional journals or reduce the volume of research submitted for publication. Finally, there is some concern that advances in AI have the potential to disrupt the journal business. If AI tools can referee submissions, summarize academic findings or rank research quality, the perceived importance of traditional journals could diminish over time.

While we acknowledge that these risks are real, it does not view them as existential threats to the academic publishing model. Peer-reviewed journals remain the gold standard for validating academic and professional research, and the rigor of the process is widely recognized as a key determinant for promotion and tenure. The prestige associated with leading journals carries significant brand value that is difficult to replicate. We also think that advances in AI could prove to be an opportunity rather than a threat if they lead to higher productivity and an increased volume of research seeking publication. Importantly, Springer Nature was an early adopter of the open-access model, and its results to date from doing so have been encouraging.

Ultimately, the company's valuation has declined to a level that helps offset the structural headwinds facing the business. While it may take time for these challenges to be fully resolved, we believe the current market price offers an attractive entry point.

The portfolio had continuously held at least one Japanese regional bank for more than a decade, but with the full sale of Hachijuni Bank that has now ended. Hachijuni Bank was first purchased in 2011. At that time, Japan was already a decade into its near-zero interest rate environment. The combination of a stagnant economy and ultra-low government interest rates created a difficult earnings backdrop for banks. While there was uncertainty around when—or if—a meaningful improvement in the bank's fortunes would occur, we believed the valuation was attractive to limit downside risk.

During the holding period, Hachijuni's net interest margins continued to decline; the Japanese risk-free rate remained effectively at zero, and the domestic economy showed little sign of improvement. As margins compressed, the bank's return on equity fell to roughly 3%. Market valuation followed a similar trajectory, bottoming in 2022 at approximately 20% of book value. In U.S. dollar terms, Hachijuni's share price fell to nearly half its 2011 purchase price.

At the same time Hachijuni's share price was hitting its nadir, conditions began to change as a sharply depreciating yen and a more aggressive stance by the Bank of Japan led to the first meaningful increase in long-term interest rates in many years. The improving rate environment started to appear in the bank's net interest margins, and a sharp recovery in market valuations ensued. From the 2022 lows to recent highs, Hachijuni's share price increased more than fourfold in dollar terms. From initial purchase through sale, the shares compounded at just under 7% annually in dollar terms.

While uninspiring on the surface, this return is more compelling when combined with an average dividend yield of about 3% and our willingness to average down as sentiment deteriorated.

With improved fundamentals now reflected in the company's share price, we ultimately decided to part ways with a position that, at times, felt like a "forever" holding.

Current Positioning

The strategy holds key overweight positions versus the benchmark in the consumer staples, communication services, and health care sectors. Meanwhile, we are underweight in typically cyclical business categories, such as industrials, materials, and real estate. We also own comparatively fewer perceived "safe havens," such as utilities.

Geographically, we continue to find value opportunities outside the United States, especially in the United Kingdom. The portfolio is materially underweight versus the benchmark in its allocation to the United States, although our weight did increase during the quarter.

Global small-mid cap equities continue to represent, in our opinion, fertile ground for fundamentally solid businesses trading at a discount to their estimated intrinsic values. Within the asset class, value stocks (MSCI World SMID Cap Value) continue to trade in the highest quartile of discount levels compared to the broader market (MSCI World SMID Cap) on a variety of valuation metrics, including forward price/earnings, price/cash flows, and enterprise value/sales.

We believe that paying extremely close attention to valuations enables us to choose opportunities that others may miss. From our perspective, selectivity and a laser focus on margin of safety remain paramount in any and all market environments. We are enthusiastic about the potentially undervalued companies we are finding and the diversification offered by the Brandes Global Small-Mid Cap Equity Strategy.

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