

Brandes Investment Partners
Global Small-Mid Cap Equity Strategy Notes
Third Quarter 2026 (1 July – 30 September 2026)

The Brandes Global Small-Mid Cap Equity Strategy rose 4.14% (gross of fees), outperforming its benchmark, the MSCI ACWI SMID Cap Index, which decreased 2.20%.

Positive Contributors

Industrials was the leading contributor, specifically France-based Société BIC. Société BIC's stock price increased after it unveiled a new long-term strategic plan that included increased EBIT margins and substantial cost savings.

Several information technology services holdings that had previously declined rebounded, including U.S.-based Amdocs and EPAM Systems, as well as Israel-based NICE. The reversal reflected improved operating performance in some cases and a broader change in investor sentiment as the market began to distinguish between companies that may be displaced by AI and those positioned to help customers implement, integrate and govern the technology.

U.S.-based energy company Innovex International was also a noteworthy contributor. The company reported revenue and adjusted EBITDA at the high end of its guidance, fuelled by strong momentum in its subsea and international businesses, particularly in Mexico and Saudi Arabia.

Performance Detractors

Among portfolio holdings, Panama-based Bladex (Banco Latinoamericano de Comercio Exterior), U.S.-based IPG Photonics (IPGP) and U.K.-based public broadcaster ITV were notable detractors. Bladex faced net interest margin (NIM) compression as competition for trade-finance lending remained intense. Additionally, the stock has been affected by the broader sell-off in Latin American financials due to deteriorating macroeconomic conditions. Despite the share price decline, the company continues to generate strong profitability, and we see value in its stock at current levels.

IPG Photonics fell amid ongoing pricing pressure from lower-cost Chinese competitors in mature laser applications, as well as uncertainty related to trade tariffs. While the company retains a leading position in higher-performance welding applications and a strong balance sheet, the timing and magnitude of an industrial-demand rebound are unknown.

ITV's shares fell despite the announced sale of its broadcast operations to Sky Group. The transaction is expected to leave ITV as a more focused content-studio business, but its extended closing timeline and regulatory requirements appear to have tempered the market's response. We continue to believe the market may be undervaluing ITV Studios relative to the company's declining legacy broadcasting operations.

Select Activity

During the quarter, we initiated positions in two beverage companies: Netherlands-based Heineken and France-based Pernod Ricard, as well as Germany-based personal-care company Beiersdorf.

Beiersdorf is a leading global beauty and personal care company whose portfolio includes NIVEA, Eucerin, and Aquaphor, as well as Tesa, a global adhesives business serving both industrial and consumer markets. The shares have declined as growth at its flagship NIVEA brand has slowed, the broader skincare category has weakened, and concerns have emerged that increased marketing and product investments could pressure margins.

Competition has intensified across a number of categories, including from multinational consumer products companies, digital-native brands, private-label offerings, and Asian beauty brands. These challenges have reduced earnings visibility and weakened investor confidence following several guidance reductions.

We believe these concerns are reasonable, and our expectations assume a gradual recovery rather than a rapid return to historical growth rates. However, the company possesses valuable global brands, substantial financial resources, and a leading position in science-based dermatological skincare. Its dermatology business has continued to gain market share, while the balance sheet provides flexibility to invest in innovation, strengthen execution, and return

capital to shareholders. In our view, the valuation at purchase offered an attractive margin of safety despite these risks, with meaningful upside potential if NIVEA stabilises and the company improves cash conversion.

Full sales included two U.S.-based companies: Healthcare Services Group (HCSG) and Scholastic.

HCSG provides housekeeping and dietary services to more than 3,000 health care facilities across the United States, with customers consisting primarily of large, corporate-owned nursing home operators. The company is the largest provider of outsourced housekeeping services in the industry, competing mainly against in-house housekeeping and dietary operations at nursing facilities.

Before the pandemic, HCSG delivered consistent growth, benefiting from consolidation in the nursing home industry and the increasing adoption of outsourced services. This steady growth profile, combined with relatively low outsourcing penetration, supported a premium valuation. We added HCSG to Global Small-Mid Cap portfolios during the second half of 2023.

The investment opportunity in 2023 stemmed from the lingering effects of the pandemic on the skilled nursing industry. Occupancy rates declined to a low of 73% in 2021 from 84% in 2019. Combined with widespread nursing shortages, this placed significant financial pressure on nursing home operators, which comprise most of HCSG's customer base. Initially, HCSG extended payment terms to support struggling customers through this difficult period. Recovery proved slow and was further hindered by elevated inflation between 2021 and 2023. As conditions remained challenging, the company began terminating relationships with customers approaching insolvency.

Since then, easing inflation, improving occupancy levels, and stronger reimbursement rates from Medicare and many state Medicaid programs have materially strengthened the outlook for skilled nursing operators. Industry occupancy rates exceeded 80% in 2026. HCSG has benefited from these improvements through declining working capital requirements, and a return to customer growth. As investor confidence increased that the business had reached an inflection point, the company's market valuation doubled over the course of a year, well ahead of a recovery in earnings. While we believe HCSG is operating from a stronger position today and that future growth is supported by favourable U.S. demographic trends, the company's valuation was no longer compelling.

Year-to-Date Briefing

The Brandes Global Small-Mid Cap Value Equity Strategy rose 12.51%, outperforming its benchmark, the MSCI ACWI SMID Cap Index, which was up 11.06% in the nine months ended 30 September 2026.

By sector, holdings in industrials, consumer staples, and health care contributed most to returns. Information technology was the largest detractor relative to the index.

Our most significant individual contributors for the year included U.S.-based Edgewell Personal Care and pharmaceutical manufacturer Organon, and Ireland-based clinical researcher ICON.

Current Positioning

The strategy holds key overweight positions versus the benchmark in the consumer staples and health care sectors. Meanwhile, we remain underweight in typically cyclical business categories, such as industrials, financials, materials, and real estate. We also have an underweight in perceived "safe havens," such as utilities.

Geographically, we are still finding value opportunities outside the United States, especially in the United Kingdom, France, and Switzerland. The portfolio remains materially underweight versus the benchmark's allocation to the U.S.

Global small-mid cap equities 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 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 are always 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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