

Brandes Investment Partners
U.S. Small Cap Value Equity Strategy Notes
Second Quarter 2026 (1 April – 30 June 2026)

The Brandes U.S. Small Cap Value Equity Strategy returned 14.32% (gross of fees), underperforming its benchmark, the Russell 2000 Index, which rose 21.49%, and the Russell 2000 Value Index, which gained 17.19%.

Positive Contributors

Holdings in the industrials sector drove performance, led by machinery companies Graham Corporation, L.B. Foster and Timken, aerospace and defence businesses Moog and Park Aerospace, and construction and engineering company Orion Group.

Moog, Park Aerospace, and Graham continued to benefit from materially increased demand for their defence, satellite and space materials: all three exhibited strong year-over-year growth. Orion Group benefited from significant expansion of its concrete segment, driven by data centre demand. Meanwhile, L.B. Foster's rail business drove double-digit, year-over-year growth as well. Trading liquidity for L.B. Foster also improved following its inclusion in the Russell 2000 Index.

Holdings in the energy sector also performed well, especially on a relative basis, led by World Kinect. Other notable contributors included Watch company Movado Group and personal care products business Edgewell Personal Care. Speculation about a potential M&A drove Edgewell's shares higher, following reports that its board had rejected a \$30-per-share offer from Yellow Wood Partners, a firm with a product portfolio that includes ChapStick and Suave. Edgewell's board declared the bid "too low." The equity value of the bid was at more than a 30% premium to the market cap at the time of the offer.

Performance Detractors

Most of our underperformance came from holdings and underweight exposure to the information technology sector. Technology companies, specifically those benefiting from AI infrastructure spending, such as semiconductors, tech hardware and electronic equipment performed exceptionally well. In aggregate, the information technology sector was responsible for more than 35% of Russell 2000 Index returns.

Our holdings in the technology sector performed poorly. This underperformance is attributed to the concentration in IT services and software, namely Globant (IT services), Amdocs (IT services) and NICE (software). Investor concerns centred on the durability of legacy enterprise software models amid the rapid AI advancement, as well as the need for traditional IT service models against the proliferation of generative AI. In our view, the market has excessively discounted for the near-term disruption risk.

Selected health care holdings also declined, specifically Prestige Consumer Health and blood plasma business Grifols. Additionally, food products company Ingredion and beverage business Molson Coors performed poorly.

Select Activity in the Quarter

We added two food products businesses, The Campbell's Company and Conagra Brands, as well as building products company Fortune Brands Innovations. Meanwhile, we exited positions in watch company Movado Group and National Bankshares; both appreciated to their respective intrinsic value estimates and were sold to pursue opportunities offering a greater margin of safety (discount to intrinsic value).

The Campbell's Company is a North America-focused, branded packaged food company operating primarily in two segments: Meals & Beverages and Snacks. Meals & Beverages includes Campbell's condensed and ready-to-serve soups, Chunky, Swanson broths, Pacific Foods, Prego, Rao's and V8. The Snacks segment includes Goldfish, Pepperidge Farm, Snyder's of Hanover, Lance, Late July, Kettle Brand and Cape Cod. The company holds number one or number two market positions in most of its categories, and its portfolio has evolved well beyond its legacy soup identity through such acquisitions as Snyder's-Lance and Sovos Brands.

While its core categories are mature, they remain relatively defensive, with below-average and broadly stable private-label penetration, strong brand recognition and exposure to at-home eating occasions where convenience, value and perceived health remain relevant.

At its current price, Campbell's valuation appears attractive to us on a conservative intrinsic value estimate. Our valuation assumes only modest growth, returning closer to category-average operating performance in the segments in which the company competes, realising restructuring benefits and improving margins from currently depressed levels. In our opinion, the key upside drivers are margin recovery, cost execution, stabilisation in snacks, continued strength in soup, broth and pasta sauce, and disciplined capital allocation. The risks are also clear: Campbell's has a long history of value-destructive mergers and acquisitions, portfolio churn and management turnover, and its recent category operating performance has been uneven. Still, in our view, the durability of its brands, stable cash generation and defensive category exposure create a compelling setup for long-term value accretion if management can execute even a moderate operational recovery.

Year-to-Date Briefing

The Brandes U.S. Small Cap Value Equity Strategy rose 24.02%, outperforming its benchmark, the Russell 2000 Index, which delivered 22.57% year-to-date, and the Russell 2000 Value Index, which increased 22.99%.

Holdings in the industrials sector drove returns, led by aerospace and defence holdings Park Aerospace, Moog, and Hexcel, machinery businesses Graham, Kennametal, L.B. Foster, and Timken, as well as construction and engineering company Orion Group.

As was the case in the quarter, Edgewell Personal Care, Movado Group and World Kinect also performed well.

Our holdings and underweight position in the information technology sector were the main detractors from relative performance. For the year-to-date period, technology accounted for more than 30% of the benchmark's returns, and our underweight and stock selection in the sector were the largest relative detractors. Allocation to technology companies where the fear of AI disruption is high—including IT services companies Globant and Amdocs and software businesses NICE and Open Text—weighed on returns. Investments in health care, specifically LENSAR, Grifols, and Prestige Consumer Health, also declined.

Current Positioning

We continued to pare our allocation to the industrials sector, trimming positions that have performed well, although the weighting, both absolute and relative, remains the largest in the portfolio from a sector perspective. Following the additions of The Campbell's Company and Conagra Brands, our allocation to consumer staples continues to increase, building on the first quarter acquisitions of Ingredion, Molson Coors, and Lamb Weston. Industrials and consumer staples are the strategy's largest active weights, followed by materials. The most notable underweights are in financials, health care and real estate. Compared to the Russell 2000 Value Index, we have less exposure to financials and real estate.

Our technology allocation, while not one of the largest sector underweights, is composed of companies with differentiated characteristics. The Russell 2000 Index is allocated more to AI infrastructure-related companies that have performed well more recently. However, we've been finding more value in businesses where we believe the AI disruption threat is overstated, namely, in IT services and software. These companies generally possess valuable proprietary data, deep customer relationships or mission-critical products that could strengthen their competitive positions as AI adoption expands.

In our opinion, the differences between the Brandes U.S. Small Cap Value Equity Strategy and the broader U.S. small-cap market continue to make it an attractive complement to other small-cap offerings. Our strategy exhibited lower valuations than the Russell 2000 Index while offering exposure to companies that we believe have strong balance sheets, compelling growth prospects and a history of durable free-cash-flow generation.

We are optimistic about the potential of value stocks in general and believe the Brandes U.S. Small Cap Value Equity Strategy remains well positioned from a long-term risk/reward perspective.

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

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

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