

Brandes Investment Partners

U.S. Small Cap Value Equity Strategy Notes

Third Quarter 2026 (1 July – 30 September 2026)

The Brandes U.S. Small Cap Value Equity Strategy declined 7.39% (gross of fees), performing in line with its benchmark, the Russell 2000 Index, which fell 7.23%. The Russell 2000 Value Index dropped 4.91%.

Positive Contributors

Following a difficult second quarter, information technology (IT) services and software companies Amdocs, Globant, and NICE recovered modestly on a lessening of artificial intelligence (AI) disruption fears. Energy holdings Innovex International and World Kinect continued to benefit from higher oil prices.

Other strong contributors included flooring company Mohawk Industries, Utah Medical Products, and leisure products business American Outdoor Brands. The U.S. outdoor-products company reported strong sales growth and meaningful gross-margin expansion, while earnings exceeded market expectations. Management also indicated that underlying point-of-sale trends remained positive despite variability in retailer ordering.

Our underweight allocation to the IT sector was a relative contributor as well.

Performance Detractors

Industrials positioning was the principal sector-level headwind. The strategy maintained a substantial overweight in the sector, which underperformed the broader small-cap benchmark, and security selection within industrials also diminished returns. Poor performers included machinery companies Graham and L.B. Foster, construction and engineering business Orion Group, and aerospace and defence companies Park Aerospace and Hexcel.

Orion Group's profitability was affected by marine-project startup delays and lower equipment utilisation, while Graham experienced longer decision cycles for large energy and process projects due to geopolitical uncertainty. We maintain our allocation in both companies as we believe the current risk/reward trade-off is favourable.

Other detractors included Scotts Miracle-Gro, The Campbell's Company, and Papa John's International. Papa John's remained under significant pressure as the company suspended its quarterly dividend in August to prioritise investments in a "longer-than-anticipated" transformation strategy. Compounding investor concerns, North America comparable sales fell 8.3% during the period due to a highly promotional pizza marketplace and a softer consumer environment. Scotts Miracle-Gro remains adversely affected by higher gross margin pressure from increased freight and commodity costs. For both companies, we believe the share price pressure is shorter-term in nature. We have maintained our allocation, and have increased our weighting to Scotts Miracle-Gro based on the weakness.

Select Activity in the Quarter

We added professional services company Mobility Global, residential REIT Independence Realty Trust, food products company Pilgrim's Pride, pharmaceutical SIGA Technologies, and Phibro Animal Health. Meanwhile, we exited positions in building products company Fortune Brands Innovations, energy management, commodities and services company World Kinect, trading company MSC Industrial Direct, and machinery business Timken.

Mobility Global is a leading automotive data and analytics business that was spun out of S&P Global in 2026. The company owns a portfolio of mission-critical data, software, and workflow solutions used by automakers, suppliers, dealers, lenders, and consumers. Its flagship CARFAX franchise is the trusted leader in vehicle history reports, while its broader platform provides analytics and decision-support tools across the automotive value chain. Mobility Global generates more than 80% of its revenue from recurring subscriptions, resulting in a highly predictable, asset-light, and cash-generative business model.

The investment opportunity stems from the combination of a high-quality business and a potentially attractive post-spinoff valuation. Mobility benefits from strong competitive positions, deep customer relationships, recurring revenue, and significant free cash flow generation. We believe the market may be overlooking the value of the CARFAX franchise and the company's embedded role in automotive workflows as investors adjust to its separation from S&P Global.

Looking ahead, Mobility has opportunities to drive steady growth through increased product penetration, cross-selling through its platform, international expansion, and continued innovation. Investors will debate the durability of its data advantages and automotive market exposure; however, we believe the company's strong market position, recurring revenue model, and attractive valuation provide a favourable risk/reward profile.

Year-to-Date Briefing

The Brandes U.S. Small Cap Value Equity Strategy rose 14.86%, outperforming its benchmark, the Russell 2000 Index, which delivered 13.71% year-to-date. The Russell 2000 Value Index increased 16.96%.

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

Energy investments also performed well, led by World Kinect and Innovex International, as did consumer companies Edgewell Personal Care and American Outdoor Brands.

Our holdings and underweight position in the IT sector were the main detractors from relative performance. Allocation to technology companies where the fear of AI disruption is high—including IT services companies Globant and Amdocs and software business Open Text—weighed on returns. Investments in health care, specifically LENSAR, Grifols, and Prestige Consumer Health, also declined.

Current Positioning

Our allocation to companies in the industrials sector continued to decline, although the weighting on an absolute basis remains the largest in the portfolio from a sector perspective. Conversely, our allocation to consumer staples continues to increase with the addition of Pilgrim's Pride. Industrials and consumer staples are the strategy's largest active weights, followed by materials. The most notable underweights are financials, health care, and now also energy, following the full sell of World Kinect. Compared to the Russell 2000 Value Index, we have less exposure to financials and real estate.

As noted last quarter, our technology allocation, while not one of the largest sector underweights, is composed of companies with differentiated characteristics. The Russell 2000 Index has greater exposure to AI infrastructure-related companies that have performed well recently. However, we have 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 exhibits 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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