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

The Brandes U.S. Small-Mid Cap Value Equity Strategy fell 1.78% (gross of fees), outperforming its benchmark, the Russell 2500 Index, which was down 6.37%. The Russell 2500 Value Index was down 4.36%.

Positive Contributors
Technology holdings led relative performance during the quarter. Several information technology (IT) services investments that had previously declined earlier in the year rebounded during the third quarter, 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 artificial intelligence (AI) and those positioned to help customers implement, integrate, and govern the technology.

Zebra Technologies also contributed. The company delivered solid financial results and materially raised its full-year outlook, citing strong demand. Wireless technology company Qorvo also benefited as its proposed combination with Skyworks progressed toward a potentially earlier close, with the transaction intended to improve its scale and competitive positioning in radio-frequency components.

Energy technology and oilfield equipment company Innovex International was also a meaningful 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.

Our underweight to industrials, which was the worst performing sector in the index, aided relative returns.

Performance Detractors
The portfolio's main detractors were concentrated in industrials, consumer staples, and health care.

Among portfolio holdings, dental products and supply company Dentsply Sirona, fibre laser company IPG Photonics and industrial conglomerate Textron were notable detractors. Dentsply Sirona declined due to weak Q2 2026 financial results, the strategic shutdown of its Byte aligner business, and the appointment of a new CFO in July.

IPG Photonics fell amid continued pricing pressure from lower-cost Chinese competitors in mature laser applications, as well as uncertainty regarding 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 recovery remain uncertain.

Textron declined as investors focused on military-program funding uncertainty and operational pressure in its aviation business, including productivity and margin challenges. We believe these issues are manageable rather than evidence of a structural deterioration in Textron's aerospace and defence franchises. The company maintains established aircraft platforms, a substantial installed base, and related aftermarket demand. We added to the position during the quarter as its share price declined and the margin of safety improved.

Select Activity in the Quarter
We initiated positions in Mobility Global and beverage company Constellation Brands.

Mobility Global is a leading provider of automotive data, analytics, and workflow solutions serving OEMs, dealers, suppliers, lenders, and other participants across the automotive ecosystem. The company combines a highly valuable proprietary dataset with deeply embedded software and information services, including the well-known CARFAX franchise. Approximately 81% of its revenue is subscription based, resulting in recurring revenue, high customer retention, and resilient cash flow characteristics.

Mobility Global's share price has declined this year due to various factors, including a recent revenue guidance cut, execution challenges in its core CARFAX segment, and the financial burden of its recent spin-off from S&P Global.

Despite these short-term challenges, we believe the market may be underappreciating the quality and durability of Mobility Global's business model. The company benefits from strong network effects, a trusted brand, and mission-critical data assets that are difficult to replicate. As vehicle markets become increasingly data driven, we believe Mobility Global is well positioned to capitalise from growing demand for analytics, pricing intelligence, vehicle history information, and workflow solutions.

Constellation Brands is a leading U.S. beverage alcohol company and holds perpetual U.S. rights to several of the industry's most valuable beer brands, including Modelo Especial, Corona Extra, Pacifico, and Victoria. The company has built one of the strongest beer portfolios in the United States, while also repositioning its wine and spirits business through a multiyear portfolio transformation focused on higher-quality brands and improved profitability.

Our investment thesis centres on the strength of Constellation Brands' unique brand portfolio and durable competitive position. We believe the market may be overly focused on near-term consumer spending concerns and industry headwinds, while underestimating the company's ability to generate attractive cash flows from its market-leading Mexican beer franchise.

We completed the sales of Healthcare Services Group, publishing company Scholastic, and semiconductor companies Avnet and Arrow Electronics after their shares appreciated beyond our updated estimate of each company's intrinsic value.

Year-to-Date Briefing
The Brandes U.S. Small-Mid Cap Value Equity Strategy rose 10.97%, underperforming its benchmark, the Russell 2500 Index, which was up 14.90%, and the Russell 2500 Value Index, which climbed 18.75% in the nine months ended 30 September 2026.

Value stocks have outperformed significantly this year (Russell 2500 Value vs. Russell 2500 Growth). Perhaps most surprisingly, the majority of the outperformance has been driven by the technology sector. Technology began 2026 at just over 10% of the value index, yet it has driven about half of index returns as the sector has risen over 100% this year.

Relative performance reflected a sharp divergence across sectors. Industrials represented the largest positive contribution. Results were led by ground transportation companies that were sold after delivering strong performance, including Knight-Swift Transportation and Heartland Express, as well as aerospace and defence holdings Moog and National Presto. Machinery holdings also added value, supported by Kennametal and Timken.

The most significant headwind remained information technology. Several individual companies contributed positively, including IPG Photonics, Zebra Technologies and Qorvo; however, these gains were outweighed by the portfolio's lack of exposure to a strongly performing technology hardware segment and weakness in IT services businesses Amdocs and EPAM Systems.

Other standout contributors included Edgewell Personal Care, Organon, and Scholastic.

Current Positioning
The strategy retains key overweight positions versus the benchmark in the consumer staples and health care sectors. Meanwhile, we remain underweight financials and have no exposure to real estate. Industrials also remains underweight following the sales earlier this year of ground transportation and aerospace and defence investments after strong performance.

Our strategy exhibits lower valuations than the Russell 2500 Index, while offering exposure to companies that have what we consider strong balance sheets, a history of durable free cash flow, and more defensive characteristics.

The strategy now has a modest overweight to information technology, with its largest active exposure in IT services. We continue to identify selective opportunities in companies that possess valuable proprietary data, deep customer relationships, or mission-critical products that could strengthen their competitive positions as AI adoption expands.

Looking ahead, we believe the current environment continues to present an attractive opportunity set for disciplined value investors.

Investor enthusiasm remains heavily concentrated in a narrow group of companies associated with AI, often regardless of valuation or earnings risks. While the long-term potential of AI is significant, history suggests that periods of extreme optimism can create equally compelling opportunities elsewhere.

Today, we are finding opportunities in businesses that in our opinion have strong competitive positions, durable cash-flow characteristics and attractive valuations that appear increasingly overlooked by investors. Many of these companies possess attributes that could allow them to benefit from technological change rather than be disadvantaged by it. We are optimistic about the potential of value stocks in general and believe the Brandes U.S. Small-Mid 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.

Diversification does not assure a profit or protect against a loss in a declining market.

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