BRANDES
INVESTMENT PARTNERS

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

The Brandes U.S. Small-Mid Cap Value Equity Strategy rose 7.44% (gross of fees), underperforming its benchmark, the Russell 2500 Index, which was up 20.26%. The Russell 2500 Value Index increased 18.50%.

Positive Contributors
Leading contributors included holdings in the industrials sector, specifically ground transportation companies Knight-Swift and Heartland Express. Both benefited from early signs of a truckload cycle recovery, driven by tightening industry capacity and improving freight pricing.

Several health care companies performed well, including Organon and Fortrea Holdings. Organon announced that it was acquired by Sun Pharmaceutical Industries for $14 per share, which represented a 60% premium to the pre-deal price. Fortrea rallied after strong first quarter results that confirmed the biopharma outsourcing cycle was recovering.

Other strong performers included Edgewell Personal Care, Arrow Electronics, and Avnet. Edgewell Personal Care was up this quarter after the board rejected an unsolicited $30-per-share takeover offer from Yellow Wood Partners. Arrow Electronics and Avnet were higher after reporting higher-than-expected earnings and raising guidance.

Performance Detractors
Our holdings in the technology sector performed poorly, given the concentration in IT services (EPAM Systems and Amdocs) and software (NICE), where investor concerns focused on the durability of legacy enterprise software models amid the rapid AI advancement, as well as the need for traditional IT services models given the proliferation of generative AI. In our view, the market has over-discounted for the near-term disruption risk.

Additionally, we were materially underweight technology companies, many of which have performed exceptionally well recently, benefiting from AI infrastructure spending. In aggregate, the information technology sector was responsible for almost half of the Russell 2500 Index returns.

Other detractors included home appliances company Whirlpool, food products business Ingredion, and Expand Energy Corporation.

Select Activity in the Quarter
The quarter was remarkably active. We initiated several positions, including Zebra Technologies (electronic products), Brown & Brown (insurance), CNH (machinery), LKQ and Mattel (consumer discretionary), and Equifax (professional services). We also sold out several positions, including ground transportation companies Knight-Swift Transportation and Heartland Express, financial services company State Street, specialty biopharmaceutical company Emergent BioSolutions, container and packaging business Sealed Air Corporation, and aerospace and defence firm National Presto.

We purchased Equifax, a global data, analytics, and technology company best known as one of the three major U.S. credit bureaus (along with Experian and TransUnion). Credit reporting remains a core part of its business; however, Equifax has increasingly evolved into a broader data and analytics platform, with leading positions in income and employment verification, identity solutions and commercial data services. The company operates through three primary segments: Workforce Solutions, U.S. Information Solutions, and International.

Our interest in Equifax is driven primarily by the quality and growth characteristics of its Workforce Solutions segment, which provides income and employment verification services through its proprietary database. This business benefits, in our opinion, from highly recurring demand, strong pricing power and significant barriers to entry, given the scale of Equifax's dataset, long-standing customer relationships, and deep integration into customer workflows.

We view Workforce Solutions as a high-margin, asset-light business with durable competitive advantages and long runway for growth as verification becomes increasingly digitised across lending, employment, government and other end-markets.

In recent years, Equifax has invested heavily to modernise its technology infrastructure and transition its data assets to a cloud-based platform. While these investments weighed on near-term margins and free cash flow, we believe they have materially improved the company's long-term scalability, security, and operating leverage. As this investment phase moderates, we expect Equifax to generate accelerating free cash flow and improved returns on capital, particularly as higher-quality, data-driven services represent a growing share of its revenue.

Despite these long-term positives, Equifax shares have been pressured by cyclical concerns, most notably subdued mortgage activity and broader macro uncertainty. However, we believe the market has become overly focused on these near-term headwinds, underappreciating the diversification of Equifax's revenue base and the structural growth embedded in its verification and analytics businesses. In our view, Equifax represents a compelling opportunity to own a high-quality franchise at a reasonable valuation.

Year-to-Date Briefing

The Brandes U.S. Small-Mid Cap Value Equity Strategy rose 12.98%, underperforming its benchmark, the Russell 2500 Index, which was up 22.71%, and the Russell 2500 Value Index, which rose 24.16% in the six months ended 30 June 2026.

Performance drivers were largely consistent with those for the second quarter. Information technology accounted for nearly half of the index's returns, and our underweight to AI infrastructure beneficiaries hurt relative returns. Further, allocation to technology companies where the fear of AI disruption is high (e.g., IT services companies EPAM Systems and Amdocs, software business NICE) also weighed on returns.

Additionally, our holdings in health care hurt performance, most notably Grifols, which announced disappointing quarterly results and full-year guidance.

Our standout contributors also matched those mentioned for the second quarter, including Edgewell Personal Care, Organon, and Arrow Electronics.

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 financials and real estate. Since the start of the year, our weighting in the industrials sector went from equal weight to underweight as we sold ground transportation companies (Knight-Swift and Heartland Express) and aerospace and defence companies (Moog and National Presto) following 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.

While we are not underweight technology, we continue to identify selective opportunities within the sector, primarily in IT services. We are particularly interested in companies that possess valuable proprietary data, deep customer relationships or mission-critical products that could strengthen their competitive positions as AI adoption expands.

Recent purchases that are not directly in the technology sector, including Equifax and Brown & Brown, reflect this theme. In each case, we believe the market has become overly focused on potential disruption risks while underappreciating the strategic assets and competitive advantages these businesses possess.

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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