

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

The Brandes U.S. Value Equity Strategy rose 0.30% (gross of fees) in the quarter, underperforming its benchmark, the Russell 1000 Value Index, which was up 2.61%.

**Positive Contributors**

Health care and technology-related holdings were among the portfolio's strongest contributors. Market enthusiasm somewhat reversed from the second quarter as investors became more discerning about the potential returns on elevated capital spending and the ability of individual businesses to use artificial intelligence (AI) to strengthen their competitive positioning. As a result, semiconductor stocks pulled back, while several software and IT services companies performed well.

Several of our IT and professional services holdings that detracted in the second quarter recovered in the third quarter. These included SS&C Technologies, Cognizant Technology Solutions, Amdocs, and EPAM Systems. The rebound partially reflected improved operating results, as well as a shift in investor sentiment as the market began to distinguish between companies that may be disrupted by AI and those positioned to help customers implement, integrate, and manage the technology. The improved performance of these holdings supported our view that the effect of AI on IT services will be more nuanced than recent market pricing has implied. The transition from on-premise software to cloud computing initially generated similar disruption concerns but ultimately created implementation and integration opportunities for well-positioned service providers. We expect AI to change delivery models and pricing structures, and we remain selective. However, we believe companies that combine industry knowledge, engineering capabilities, and long-standing customer relationships can continue to provide value as enterprises move from experimentation to broader deployment.

Health care holdings also contributed meaningfully, led by Becton Dickinson, Pfizer, and Merck. Becton Dickinson reported solid fiscal third-quarter results and raised its outlook, supported by improved operating performance and execution. Pfizer's shares rose as performance outside the company's COVID-related portfolio strengthened. Investors became more confident about Pfizer's ability to manage upcoming patent expirations through cost initiatives, growth in oncology, and continued pipeline investment. Similarly, the market reacted favourably to Merck's positive oncology pipeline developments and continued growth from newer products.

**Performance Detractors**

Relative performance continued to be influenced by the portfolio's differentiated technology exposure. Although the semiconductor industry pulled back from its exceptionally strong second-quarter performance, technology companies remained the largest driver of benchmark returns. The strategy's underweight to the sector, particularly its lack of exposure to Apple and Microsoft, which together drove the majority of benchmark return, was the most significant detractor from relative performance.

Among portfolio holdings, industrial companies Textron, Knight-Swift Transportation, and Hexcel were notable detractors. Textron declined as investors focused on military-program funding uncertainty and operational pressure within 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 as the shares declined and the margin of safety widened.

Knight-Swift weakened after strong performance last quarter as management's outlook reinforced concerns that a recovery in the freight cycle may take longer than investors had expected. The trucking industry continues to face subdued demand, uneven freight pricing, and excess capacity following the elevated conditions experienced during the pandemic. We expect the timing of a recovery to remain uncertain, but believe Knight-Swift's scale, diversified service offering, and financial position should allow it to navigate an extended downturn and benefit if industry capacity rationalises.

Hexcel declined as investors focused on expenses associated with restarting production capacity and supporting higher aerospace manufacturing volumes. These costs may pressure near-term profitability before the full benefit of increased production is reflected in revenue. We view this as largely a timing issue. Hexcel supplies advanced composite materials used in commercial aerospace applications, and we believe the long-term demand environment remains favourable as aircraft manufacturers work through substantial backlogs and increase production.

Other detractors included technology manufacturing firm Flex, which gave back some of its significant gains from earlier this year. Investor enthusiasm surrounding the company's exposure to data-centre infrastructure and the proposed separation of its infrastructure business moderated.

### **Select Activity in the Quarter**

Amid significant dispersion across and within sectors, we continued to redeploy capital toward companies where near-term uncertainty appeared to have created a favourable long-term risk-reward profile. We fully exited semiconductor business Qorvo and energy transport firm World Kinect as their shares exceeded our updated estimates of intrinsic value. Meanwhile, new purchases included food products company Pilgrim's Pride and financial services provider Intercontinental Exchange.

Pilgrim's Pride produces fresh, frozen, and value-added chicken and pork products. The company is vertically integrated across its chicken operations, encompassing feed production, breeding, hatching, and processing. It is the second-largest poultry producer in the United States. Although parts of the business have more stable contractual pricing, profitability remains cyclical and is influenced by chicken supply, end-product pricing, and feed costs.

The shares had fallen as the U.S. chicken market moved from a period of unusually strong profitability toward weaker conditions. Improved hatchability, increased bird weights and supply growth placed pressure on margins, leading investors to question the timing and magnitude of a cyclical recovery.

We recognise that Pilgrim's Pride operates in a cyclical and largely price-taking industry. However, chicken has the shortest production cycle among the major animal proteins, allowing producers to adjust supply more quickly than in beef or pork. We believe this characteristic reduces, although it does not eliminate, the timing risk associated with investing ahead of a recovery.

Our investment case centres primarily on the company's U.S. chicken operations, its scale and vertical integration, and the potential for earnings to recover toward a normalised level. Its balance sheet appears capable of absorbing tough conditions, while investments in prepared foods and production improvements may reduce earnings volatility over time. In our view, the valuation at purchase provides an attractive margin of safety even if the downcycle proves longer than expected. In August, majority owner of Pilgrim's Pride, JBS, submitted an offer to buy out the remaining 18% of the company that it currently does not own.

We also initiated a position in Intercontinental Exchange. The company operates exchanges and clearing platforms and provides fixed-income data and mortgage technology. Its exchange businesses generate solid cash flow, while its data and mortgage-technology operations provide recurring revenue streams.

The shares had been pressured by three primary concerns: the potential normalisation of unusually strong exchange activity, the possible impact of AI on mortgage technology and financial data, and competition from alternative market structures and products. We believe the concern surrounding cyclical normalisation is reasonable, and our analysis incorporates lower activity than recent levels. However, we believe the market has become too pessimistic about the durability of Intercontinental Exchange's competitive position.

We believe the firm's exchanges benefit from liquidity, network effects, and integration into institutional workflows. Within mortgage technology, its platforms connect origination, processing, underwriting, servicing, investors, and regulators. Although AI may automate individual tasks, we believe financial institutions will continue to require centralised systems that maintain data integrity, governance, compliance, and accountability. The company's mortgage platforms also hold leading positions across key parts of the industry workflow.

In our view, Intercontinental Exchange owns a collection of competitively advantaged businesses exposed to structurally attractive end markets. Its free-cash-flow generation supports debt reduction, investment and share repurchases, while its investments in emerging market structures may partially offset the risk from new products. At

the company's current valuation, we believe the shares provide an attractive margin of safety based on normalised rather than peak exchange activity.

### ***Year-to-Date Briefing***

The Brandes U.S. Value Equity Strategy gained 9.09% (gross of fees), underperforming the Russell 1000 Value Index, which rose 19.29% for the nine months ended 30 September 2026.

The Russell 1000 Value index has significantly outperformed the Russell 1000 Growth index this year. Perhaps most surprising, much of that outperformance was driven by the technology sector. Within Russell 1000 Value, technology started the year at just over 10% weight, yet it generated the majority of the index returns after rising more than 100% this year. Early in the year, value's outperformance was driven by its exposure to semiconductor and hardware companies that benefited from the AI buildout trade. More recently, the index rebalance increased the value index's exposure to software companies, which supported performance in the third quarter.

At the portfolio level, while our technology holdings did well, we largely pared our exposure as share prices approached our estimates of intrinsic value. As a result, technology accounted for more than 100% of our underperformance relative to the Russell 1000 Value Index. In fact, a small group of benchmark constituents that we did not own drove a substantial portion of the shortfall, including Microsoft, Intel, Apple, and SanDisk. Additionally, Micron, which we held but subsequently sold after it exceeded our estimate of intrinsic value, was one of the largest relative detractors during the period despite being our largest contributor on an absolute basis.

Among portfolio holdings, IT services companies Amdocs, EPAM Systems, Cognizant, and SS&C detracted from performance despite their third-quarter rebound. Other poor performers included industrials firms Textron and Equifax.

Positive contributors included several technology businesses, most notably Flex and Arrow Electronics. The portfolio also benefited from energy holdings SLB, World Kinect, and Chevron, as well as positions in Target and Merck.

### ***Current Positioning***

As market returns have become increasingly concentrated in a small number of technology companies, we believe the index-agnostic Brandes U.S. Value Equity Strategy offers investors meaningful diversification relative to prevailing market exposures.

Our largest allocations remain in health care and financials. In our view, both sectors contain businesses that may ultimately benefit from technological advances and AI adoption without carrying the valuation and earnings risks embedded in many of today's most popular technology stocks. We continue to identify favourable opportunities where near-term uncertainty has created a disconnect between price and long-term fundamentals. For example, within health care we have been finding businesses with recurring demand, established competitive positions, and attractive long-term cash-flow potential despite challenges stemming from regulatory uncertainty and company-specific execution issues.

Although technology remains our largest underweight relative to the benchmark, selective opportunities remain in IT services and technology-adjacent businesses. In each case, the investment thesis rests on proprietary datasets, embedded workflows, high switching costs, or necessary infrastructure rather than on aggressive assumptions about the scale or profitability of AI-related spending.

The portfolio also includes holdings with cyclical recovery potential, where current earnings do not reflect what we consider normalised economics. Pilgrim's Pride is one example. We believe its market valuation more than fully reflects depressed chicken profitability while not giving enough credit for the company's scale, vertical integration, and capacity to withstand an extended downturn.

Looking ahead, we believe the current environment remains attractive for disciplined value investors. While the long-term potential of AI is significant, we do not believe every perceived beneficiary will generate attractive returns at any price or that every established business facing disruption is structurally impaired. Periods of intense enthusiasm can create opportunities for active investors to uncover appealing investments elsewhere in the market.

In our view, the portfolio's differentiated exposures can provide meaningful diversification and make it a compelling complement to passive and growth-oriented approaches. Our largest exposures provide differentiated sources of return from the AI infrastructure companies that have dominated recent market performance. It also offers what we consider a more attractive aggregate valuation profile than the benchmark while remaining focused on long-term return potential. We remain encouraged by the prospects for value stocks and the risk-reward profile of our holdings.

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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