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Brandes Investment Partners
Global Small-Mid Cap Equity Strategy Notes
Second Quarter 2026 (April 1 – June 30, 2026)

The Brandes Global Small-Mid Cap Equity Strategy rose 5.44% net of fees and 5.61% gross of fees, underperforming its benchmark, the MSCI ACWI SMID Cap Index, which increased 13.30%.

Annualized total return as of June 30, 2026	1-year	5-year	10-year
Brandes Global Small-Mid Cap Equity Composite (net)	17.22%	14.39%	11.16%
Brandes Global Small-Mid Cap Equity Composite (gross)	17.99%	15.13%	11.98%
MSCI ACWI SMID Cap Index	23.24%	7.22%	10.38%

Past performance is not a guarantee of future results. One cannot invest directly in an index. Returns include reinvestment of all dividends and are reduced by any applicable foreign withholding taxes, without provisions for income taxes, if any. The 2026 returns are preliminary, unaudited and subject to change.

Positive Contributors

Leading contributors included holdings in the health care sector, U.S.-based Organon and Ireland-based ICON. Organon announced that it was bought by Sun Pharmaceutical Industries for $14/share, which represented a 60% premium to the pre-deal price. The shares of ICON rebounded after its internal accounting investigation—which had dragged down its stock in the first quarter—wrapped up.

Strong stock selection in the banking industry also drove returns, led by Greece-based Piraeus Bank and Austria-based Erste Group Bank; their favorable results were supported by positive interest rates, stable credit quality and improved sentiment.

Other contributors included Germany-based Jenoptik, US-based Edgewell Personal Care, and Magyar Telecom of Hungary. Jenoptik rose primarily because investors reacted positively to a sharp improvement in orders, margins and earnings, signaling a recovery in its semiconductor-exposed businesses. Edgewell Personal Care was up this quarter after its board rejected an unsolicited $30-per-share takeover offer from Yellow Wood Partners.

Performance Detractors

The dominant market theme during the quarter remained the exceptional performance of companies perceived to be direct beneficiaries of AI-related spending.

In addition, businesses perceived to face disruption from AI, particularly software and IT services companies, generally underperformed. Our holdings in U.S.-based EPAM Systems, U.S.-based Amdocs, and Israel-based NICE were among the largest detractors. We believe current investor concerns resemble the skepticism that surrounded the transition to cloud computing many years ago. While the market currently views AI as a threat to portions of the IT services industry, we believe many companies are well positioned to benefit by helping clients implement, integrate and optimize these technologies. We continue to favor companies focused on business transformation, consulting and enterprise technology implementation, rather than providers primarily competing on low-cost software development.

On a sector basis, our holdings in industrials detracted from returns, led by our investments in Switzerland-based machinery company Bystronic, South Korea-based security systems services company S-1 corporation, and U.K.-based staffing company Page Group.

Bystronic revised its fiscal 2026 guidance in mid-June, signaling that profitability will not improve as it had previously expected. The company cited weak sheet metal market conditions, continued softness in laser demand, lower capacity utilization and ongoing pricing pressure. We have been taking advantage of the share price weakness to increase our position.

Select Activity

The small-mid cap investment committee continued to reduce the portfolio's exposure to banks. The committee has either sold or reduced positions in Shizuoka and Hachijuni (Japan), Valiant (Switzerland), Piraeus (Greece), AIB (Ireland) and Erste Group (Austria) during the past six months. Many of these holdings had been in the portfolio for several years as we patiently waited for economic conditions to improve. As market pessimism deepened, the committee increased allocations and, at times, identified additional banks with attractive risk-reward profiles.

The most recent addition was Valiant, which entered portfolios in 2023. This conservatively managed Swiss bank was, in hindsight, a leading indicator that pessimism toward banks globally was beginning to ease. The primary source of that pessimism was the extended period of ultra-low interest rates. For more than a decade, interest rates across developed markets remained unusually low by historical standards as economic growth was sluggish and inflation subdued. Rates fell even further with the onset of the pandemic. Throughout this period, our portfolios maintained an overweight position in banks, with allocations generally increasing as valuations declined.

The return of inflation forced interest rates higher, allowing banks to benefit once again from their relatively low-cost deposit bases. Net interest margins expanded, and market valuations followed. Many of the banks held in our portfolios have benefited not only from a more favorable rate environment, but also from company-specific improvements. AIB, for example, spent years dealing with the aftermath of the Global Financial Crisis (GFC). The final remaining vestige of that period was resolved last year when the Irish government completed the sale of its remaining stake in the bank. Piraeus, meanwhile, completed four capital raises prior to our ownership and worked through portfolios of runoff assets. These efforts were further supported by a strong recovery in the Greek economy and improving sovereign finances.

This string of positive developments has lifted bank valuations, as measured by price-to-book multiples, to levels that in some cases have not been seen since before the GFC. In many instances, this has translated into a threefold or greater increase in market value. While we do not expect bank earnings power to revert to pandemic-era levels, the modest optimism now reflected in valuations is allowing the committee to redeploy capital into other investment opportunities.

One of these was The Campbell's Company (CPB). CPB is a branded packaged food manufacturer operating predominately in the United States. While Campbell's is best known for its iconic canned soup, it has long since diversified into other grocery categories, with condensed soup now accounting for only about 10% of total revenue. The company's product categories are generally well positioned to benefit from long-term trends toward healthy eating and cooking at home, in our opinion.

Unfortunately, the company's execution has been poor. Like many branded packaged food peers, CPB pursued a strategy of acquiring growth, divesting slower-growing businesses, and expanding margins through a combination of pricing and cost-cutting initiatives. This approach has been widely adopted across the developed-market packaged food industry and has largely failed to deliver the desired results. Although the pandemic temporarily benefited the sector through increased at-home consumption, the industry's longer term track record has been disappointing. Its lack of innovation and weak management execution were particularly exposed in 2022 when food inflation reached its highest level in more than 40 years, and consumers proved far more willing to trade down than expected. Following this period, it became clear that the industry—including CPB—had been poor stewards of many of its once-dominant brands.

In Campbell's case, the company is now on its fourth CEO in seven years. The largest drag on performance has been the Snyder's-Lance acquisition, which CPB completed in 2018. Despite these challenges, we believe CPB can return to category-leading growth. First, the categories in which Campbell's competes should continue to generate positive, albeit modest, volume growth. They are generally aligned with consumer trends, and demand should grow somewhat faster than the population over time. Second, many of these categories benefit from meaningful scale advantages in manufacturing and distribution. Finally, private-label competition remains relatively limited due to the breadth of the product offerings and the scale CPB possesses. The key requirement is improved execution. Current market valuations do not require extraordinary management performance—only competent execution—in our view.

Year-to-Date Briefing

The Brandes Global Small-Mid Cap Value Equity Strategy rose 7.69% net of fees and 8.04% gross of fees, underperforming its benchmark, the MSCI ACWI SMID Cap Index, which was up 13.56% in the six months ended June 30, 2026.

While the strategy outperformed during the first quarter of 2026, the AI-driven market of the second quarter has led to underperformance versus both the broad and the value index for the overall six-month period. At a security level, the detractors are similar to the second quarter as our IT service and software holdings declined during the first half, led by Amdocs, NICE and EPAM Systems.

Additionally, our overweight to consumer staples, a sector that lagged the broader benchmark, also hurt relative performance.

Our most significant contributors also match those mentioned for the second quarter including Jenoptik, which is an AI beneficiary, Edgewell Personal Care and ICON.

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 industrials, materials and real estate. We also have an underweight in perceived “safe havens,” such as utilities.

Geographically, we continue to find value opportunities outside the United States, especially in the United Kingdom, France, Germany and emerging markets. The portfolio remains materially underweight versus the benchmark’s allocation to the United States.

Global small-mid cap equities continue to represent, in our opinion, fertile ground for fundamentally solid businesses trading at a discount to their estimated intrinsic values. Within the asset class, value stocks (MSCI World SMID Cap Value) continue to trade in the highest quartile of discount levels to the broader market (MSCI World SMID Cap) on a variety of valuation metrics, including forward price/earnings, price/cash flows and enterprise value/sales.

We believe that paying extremely close attention to valuations enables us to choose opportunities that others may miss. From our perspective, selectivity and a laser focus on margin of safety remain paramount in any and all market environments. We are enthusiastic about the potentially undervalued companies we are finding and the diversification offered by the Brandes Global Small-Mid Cap Equity Strategy.

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

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

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

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