Brandes Global Balanced Fund

Fund Commentary

Equity markets worldwide generally moved higher in the fourth quarter, closing an eventful 2016 punctuated by the Brexit vote in the United Kingdom and Donald Trump's victory in the U.S. presidential election. U.S. stocks remained on an upward trajectory for much of 2016, boosted further in the fourth quarter by expectations that the President-elect's policies would fuel growth and inflation. In a widely expected move, the U.S. Federal Reserve raised interest rates in December for the second time since the financial crisis.

Non-U.S. markets closed the quarter and the year with mixed performance. European stocks wavered for much of 2016 due to concerns over how companies would be affected by the European Central Bank's policy of negative interest rates and potential disruptions from Brexit. In Japan, a weak yen and the central bank's decision to refrain from pushing interest rates further into negative territory contributed to gains (in yen terms) in the fourth quarter.

Emerging markets advanced during much of 2016 but declined in the fourth quarter, partly due to lingering economic and geopolitical concerns, as well as worries over how President-elect Trump's policies on trade may impact developing countries.

Against this backdrop, the Brandes Global Balanced Fund outperformed its blended benchmark (70% MSCI World Index and 30% FTSE TMX Canada Universe Bond Index).

Positive Contributors

The most significant performance contributors were the Fund's U.S. bank holdings, including Bank of America, Citigroup, Wells Fargo and PNC Financial Services.

After posting negative performance in the first half of the year, these banks began regaining lost ground in the third quarter, and collectively rose over 20% (in U.S dollar terms) in the fourth quarter as the market began to anticipate a generally better operating environment for banks in the years ahead.

Brandes LP believes that despite the significant recent rally in their share prices, the Fund's U.S. bank holdings continue to offer an attractive investment opportunity. At quarter end, they continued to trade at low multiples of forward earnings and book value.

Additionally, they have offered more attractive yields than areas of the market that investors have traditionally flocked to as yield plays, such as those in the consumer staples sector. Unlike many other yield plays, several U.S. banks have grown earnings in the last five years and have had a higher total shareholder yield (buybacks and dividends) with a much more sustainable payout ratio.

The Fund's holdings in European financials also contributed to returns.

Performance Detractors

The most significant performance detractors were the Fund's holdings in communications equipment companies, namely Sweden-based Ericsson and Finland-based Nokia.

Ericsson and Nokia declined on the back of weaker earnings guidance due to a lull in demand for wireless network equipment from carriers, their primary customers. However, both companies are working on cutting costs to improve margins. Brandes LP believes despite the currently weak carrier spending environment, both Ericsson and Nokia should see their profitability pick up if spending

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starts to recover from its current decline. Moreover, Brandes LP holds the view that these companies are well positioned to benefit from the consolidation in the industry that has occurred over the last several years.

Other detractors included France-based utility Engie, South Korea-based automotive supplier Hyundai Mobis, China-based telecommunication services provider China Mobile and pharmaceutical firms GlaxoSmithKline (United Kingdom) and Daiichi Sankyo (Japan).

Engie's shares fell amid weak earnings guidance due to low natural gas prices and nuclear outages in Belgium and France. Meanwhile, for Hyundai Mobis the stock-price decline could be attributed to poor near-term results following a series of labor strikes over the summer, which led to lower utilization rates and higher fixed costs. In addition, there is also fear that the ensuing production loss may cause a shortage in certain auto models in the coming months.

Select Buy & Sell Activity

In a fairly light period for Fund activity, Brandes LP purchased shares of U.S. prescription drug distributor McKesson after its share price dropped early in the quarter. McKesson is the largest of three players in the consolidated drug distribution industry, with exposure to the United States and Canada through prescription-drug and surgical-device distribution. McKesson acquired a European distributor and retail pharmacy in 2014.

McKesson's shares have fallen out of favor over the past year due to earnings growth concerns and the loss of some customers following an industry consolidation. In its most recent quarterly report, McKesson said it expects earnings to be hurt by increased pricing pressure from one of its competitors attempting to take market share. While this may impact earnings in the next year or so, Brandes LP believes that over the long term, the drug distribution market will have fairly rational pricing. This is because the industry is already consolidated and aggressive pricing would only likely serve to reduce the overall profit pool for the industry.

Over the long term, Brandes LP views McKesson as an attractive business with favorable fundamentals, such as strong returns on capital, a defensive balance sheet and a strong competitive position in a growing market. Drug distribution tends to be a defensive, non-cyclical industry which Brandes LP believes should continue to grow due to the aging U.S. population, an increasing number of people with health insurance and the continued development of new drugs to treat diseases.

In addition, Brandes LP believes the company will benefit from the industry's consolidation and high barriers to entry due to the scale and scope of operations required to be a distributor.

At its current valuation and given recent market negativity, McKesson offers an attractive long-term investment opportunity, in Brandes LP's view, as it traded at an appealing discount to its estimate of intrinsic value.

Other Fund activity included the sale of U.S. semiconductor company Xilinx.

Brandes LP initially purchased Xilinx, the world's largest field programmable gate array (FPGA) company, nearly two years ago after its share price declined on market concerns of a near-term semiconductor downturn and weakened spending in one of Xilinx's key end markets. Despite these concerns, Brandes LP believed the company had a number of positive attributes, including:

- a strong, competitive position in an attractively growing market, controlling roughly 50% of the FPGA market for more than a decade, which enabled the company to earn strong returns on capital and generate free cash flow.

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- a healthy balance sheet and attractive capital-return history; it raised its dividend fivefold since 2005 and repurchased over $4 billion of its shares over the past decade.
- a share price that offered an attractive discount to its estimate of its long-term intrinsic value.

In the last two years, Xilinx has generated strong returns on capital, while its main competitor was acquired by Intel at a significant premium. As a result, Xilinx's stock price appreciated as speculation increased about a potential takeover given: 1) Xilinx's strong market share in products (FPGAs) that will be increasingly used in various computer acceleration applications, namely in the data center, artificial intelligence and automotive end markets, and 2) a highly active M&A environment in the semiconductor market. As a result, the company's share price appreciated above Brandes LP's estimate of intrinsic value and it divested the position.

Current Positioning

As of December 31, the Brandes Global Balanced Fund's largest overweight positions were in emerging markets and the United Kingdom, while it remained significantly underweight the United States. From an industry standpoint, the biggest allocations were in Asian automobiles, U.K. food & staples retail, oil & gas companies, and banks.

Looking ahead to 2017 and beyond, Brandes LP remains optimistic about the prospects for the Fund. Against the seemingly ever-present backdrop of geopolitical and macroeconomic uncertainties, Brandes LP believes its Graham-and-Dodd value approach, focused on seeking mispriced opportunities, should work well over the long term, leading it to attractively priced, fundamentally sound companies worthy of inclusion in the Fund.

Fixed Income Commentary

During the quarter, the Greystone Canadian Bond Fund outperformed its benchmark, the FTSE TMX Canada Universe Bond Index.

Bonds lost value over the quarter, wiping out much of the capital gain experienced earlier in the year. The Fund added value in the sell-off given a below-benchmark duration position. An overweight to corporate bonds was also beneficial.

While still positioned for defense, Greystone has scaled relative duration closer to the index given oversold conditions and positive real yields. Corporate bond positioning remains above benchmark but risk has been moderated due to tighter credit spreads.

About Brandes LP

In the 40-plus years since Brandes LP was founded, its goal has remained the same: pursue above-market gains to help investors move closer to their long-term investment objectives. Brandes LP believes that its unwavering commitment to value investing will lead it to attractively priced, fundamentally sound companies worthy of inclusion in the Fund.

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Contribution Analysis

INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Banks	1.40	Communications Equipment	-0.48
Capital Markets	1.07	Multi-Utilities	-0.25
Oil, Gas & Consumable Fuels	1.05	Auto Components	-0.23
Tech. Hardware, Storage & Periph.	0.33	Hotels, Restaurants & Leisure	-0.18
Diversified Financial Services	0.23	Insurance	-0.13

COUNTRY			
Top 5 Contributors	%	Top 5 Detractors	%
United States	1.72	Sweden	-0.34
United Kingdom	0.76	China	-0.19
Switzerland	0.71	Japan	-0.17
Russia	0.61	Finland	-0.17
Brazil	0.32	Malaysia	-0.10

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Citigroup Inc.	0.74	Ericsson (L.M.) Telephone	-0.31
Bank of America Corp.	0.59	ENGIE SA	-0.26
PNC Financial Services Group	0.54	GlaxoSmithKline plc	-0.22
Bank of New York Mellon Corp.	0.45	Hyundai Mobis	-0.21
Lukoil ADR	0.41	Daiichi Sankyo	-0.20

INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Oil, Gas & Consumable Fuels	2.87	Aerospace & Defense	-1.10
Pharmaceuticals	1.34	Communications Equipment	-0.94
Electrical Equipment	0.79	Multi-Utilities	-0.70
Tech. Hardware, Storage & Periph.	0.57	Diversified Telecom. Services	-0.52
Elect. Equip., Instr. & Components	0.56	Health Care Prov. & Services	-0.49

COUNTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Russia	1.64	Japan	-0.82
United States	1.29	Sweden	-0.81
United Kingdom	0.87	Brazil	-0.60
South Korea	0.66	Switzerland	-0.48
Spain	0.45	Austria	-0.15

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Lukoil ADR	1.27	Embraer S.A. ADR	-0.94
Samsung Electronics	0.75	Ericsson (L.M.) Telephone	-0.80
BP PLC	0.69	ENGIE SA	-0.66
Bank of America Corp.	0.61	Marks & Spencer Group PLC	-0.46
Corning Inc.	0.59	Mitsubishi UFJ Financial	-0.45

BRANDES INVESTMENT PARTNERS on the BRIDGEHOUSE Independent Platform

Brandes Global Balanced Fund

Quarterly Additions/Deletions

Additions	Deletions
McKesson Corp	Xilinx Inc

BRANDES INVESTMENT PARTNERS on the BRIDGEHOUSE Independent Platform

Brandes Global Balanced Fund

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