

Brandes Global Equity Fund

Fund Commentary

Adding to first quarter gains, equity markets worldwide generally advanced in the second quarter, led by non-U.S. bourses. A number of potential concerns, including oil-price volatility and the implications of ongoing Brexit negotiations following the U.K. general election in June, took a back seat to optimism over global economic growth. The European Central Bank raised its economic growth forecast while keeping interest rates unchanged. Japanese stocks rose as investors welcomed news of improving consumer demand.

The U.S. equity market continued to move higher, fueled by solid corporate earnings growth. However, investors remained cautious regarding the sustainability of an eight-year bull market, with Federal Reserve Chair Janet Yellen commenting that asset valuations had become “somewhat rich” by conventional measures. Additionally, there were concerns on whether the Fed’s pivot toward a less-accommodative monetary policy could dent U.S. economic growth.

Emerging markets generally moved higher, underpinned by gains in Chinese equities and the information technology sector during the quarter.

Against this backdrop, the Brandes Global Equity Fund underperformed its benchmark, the MSCI World Index.

Positive Contributors

Significant positive contributors included several financial holdings, which appreciated double-digits on the back of improved earnings and the potential benefit of U.S. interest-rate increases. Notable contributors included U.S.-based Citigroup and State Street, Austria-based Erste Group and Switzerland-based UBS.

Citigroup shares rose toward the end of the quarter along with several other U.S. money-center banks. A number of banks announced increased dividends and share repurchase authorizations following the results of the Federal Reserve’s stress tests and comprehensive capital analysis and review, which measures the capital adequacy and planning processes of the largest U.S. banks. Citigroup announced it would double its dividend and repurchase over \$15 billion of its shares.

Additionally, technology holdings, led by South Korea-based Samsung and Finland-based Nokia, added to returns following better-than-expected earnings. Another contributor was France-based pharmaceutical firm Sanofi.

Performance Detractors

A number of oil & gas and emerging markets holdings dampened returns for the quarter.

Brazil-based jet manufacturer Embraer declined after reporting lower near-term earnings, which were attributed to weak demand for private jets and an expected delay in the delivery of some commercial jets. Nonetheless, Brandes LP believes that over the long term, the company remains well positioned to benefit from a potential rebound in demand, especially as it rolls out new models in the next few years.



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Other detractors included oil & gas companies Lukoil (Russia) and ENI (Italy), which fell as industry-wide oversupply concerns continued to pressure oil prices.

Select Buy & Sell Activity

In a fairly light period for buys and sells, Brandes LP purchased U.K.-based Kingfisher, Europe's largest and the world's third-largest home improvement retailer.

Kingfisher operates in 10 countries across Europe, where the company's most important markets are the United Kingdom, France and Poland. Kingfisher has faced challenges in the aftermath of the Brexit vote (the United Kingdom's decision to leave the European Union) and increased competition in key markets. We took advantage of Kingfisher's share-price decline to initiate a position in the company.

An industry leader in Europe, Kingfisher has nonetheless been less profitable than many of its peers in other regions, most notably U.S. home improvement stores Home Depot and Lowes. Additionally, the company also faces long-term challenges, most significantly from

increasing competition from online and other brick-and-mortar retailers.

In 2008, Kingfisher appointed a new chief executive officer and began a restructuring effort to improve operations. The move has shown positive results, putting the company on course to pursue its long-term goals. Brandes LP believes that while it is unlikely Kingfisher will be able to match its U.S. peers in terms of profitability, it has enough room for improvement to help offset the near-term cyclical issues in the United Kingdom.

The Fund divested its position in TIM Participacoes (TSU), the fourth-largest Brazilian telecommunications firm by sales and the second largest by wireless subscribers.

In the past year, TSU enjoyed renewed investor interest due largely to improved operations, which enabled the company to grow its revenue, as well as positive industry developments and rumors of a possible acquisition. As TSU's shares became fully valued based on Brandes LP's analysis, the Fund exited its position.

Current Positioning

At quarter end, the Brandes Global Equity Fund exhibited more attractive valuations, in Brandes LP's opinion, and a higher dividend yield than the MSCI World Index.

As of June 30, 2017, allocations to emerging markets and the United Kingdom represented the largest overweight positions (as a percentage of benchmark weights). From an industry standpoint, key areas of exposure were in banks, pharmaceuticals, oil & gas, food retailing and automobiles. The Fund maintained its largest underweight position in the United States. Significant sector under-allocations were to industrials, materials and consumer staples.

After having an overweight position in technology for several years, largely in what we called "boring" or mature technology companies mostly based in the United States, the Fund is now underweight the sector. Several companies from this group have had strong share-price appreciation, moving closer to or exceeding our intrinsic value estimates. Consequently, Brandes LP decided to pare or sell several of our tech holdings over the past year. In addition, technology has been the strongest performing sector, year to date and over the past 12 months. While the Fund's recent underweight



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has hurt relative performance, it is not surprising that Brandes LP is starting to find fewer value opportunities in a sector that has performed so well.

As market dynamics constantly present challenges and opportunities, Brandes LP maintains a disciplined process of stock selection based on fundamental, detailed research on companies throughout the world. Brandes LP is always focused on company valuations and margin of safety—because it believes this careful approach is the most prudent way to pursue growth for its clients' assets over the long term.

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 (relative to benchmark)

LAST QUARTER

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Capital Markets	0.48	Aerospace & Defense	-0.54
Banks	0.38	Oil, Gas & Consumable Fuels	-0.30
Tech. Hardware, Storage & Periph.	0.33	Automobiles	-0.23
Communications Equipment	0.24	Insurance	-0.15
Media	0.15	Software	-0.10

COUNTRY

Top 5 Contributors		Top 5 Detractors	
	%		%
France	0.34	Brazil	-0.39
United States	0.29	Russia	-0.34
South Korea	0.26	Japan	-0.31
Austria	0.22	Italy	-0.18
Finland	0.12	United Kingdom	-0.15

COMPANY

Top 5 Contributors		Top 5 Detractors	
	%		%
Citigroup Inc.	0.26	Embraer SA ORD	-0.44
Erste Group Bank AG	0.23	LUKOIL ADR	-0.21
State Street Corporation	0.22	Honda Motor Co. Ltd.	-0.15
Sanofi-Aventis	0.20	Eni S.p.A.	-0.14
UBS AG	0.15	OAO Gazprom ADR	-0.14

LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Banks	2.70	Aerospace & Defense	-0.79
Capital Markets	2.53	Insurance	-0.58
Tech. Hardware, Storage & Periph.	1.47	Semicond. & Semicond. Equip.	-0.57
Oil, Gas & Consumable Fuels	1.37	Media	-0.34
Wireless Telecom. Services	0.95	Health Care Prov. & Services	-0.20

COUNTRY

Top 5 Contributors		Top 5 Detractors	
	%		%
South Korea	2.22	Japan	-1.03
United Kingdom	1.02	Sweden	-0.44
Switzerland	0.90	Italy	-0.11
Austria	0.78	Spain	-0.08
United States	0.73	China	-0.03

COMPANY

Top 5 Contributors		Top 5 Detractors	
	%		%
Citigroup Inc.	1.34	Embraer SA ORD	-0.30
State Street Corporation	1.33	Express Scripts Holding Co	-0.29
Western Digital Corp.	1.06	Ericsson (L.M.) Telephone ORD	-0.16
Bank of America Corp	1.00	Apache Corporation	-0.07
Samsung Electronics	0.94	Tesco PLC ORD	-0.06



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Quarterly Additions/Deletions

Additions	Deletions
Kingfisher PLC	Chesapeake Energy Corp 8.00% Dec 15/22
	TIM Participacoes SA ADR



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