

# Brandes Global Opportunities 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.

During the fourth quarter of 2016, The Brandes Global Opportunities Fund outperformed its benchmark, the MSCI ACWI (All Country World) Index.

## Positive Contributors

After posting negative performance in the first half of the year, The Fund's bank holdings began regaining lost ground in the third quarter, and collectively rose over 18% (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. Notable performers included U.S.-based Bank of America and Citigroup.

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

All of the Fund's holdings in Russia appreciated and helped overall performance, led by Gazprom and Lukoil. As the Russian economy is largely dependent on oil and its stock market tends to be highly correlated with oil prices, the oil price increase in the quarter provided a tailwind for the Fund's holdings there.

## Performance Detractors

Performance detractors included U.K.-based estate agency group Countrywide, South Korean automaker Hyundai Motor and India-based conglomerate Reliance Infrastructure.

Hyundai Motor generated poor near-term results following a series of labor strikes over the summer, which led to lower utilization rates and higher fixed costs. There was also fear that the ensuing production loss may cause a shortage in certain models in the coming months.



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## Select Buy & Sell Activity

As the fourth quarter marked a light period for activity, Brandes LP would like to highlight the Fund's position in Norbord, which it exited in the third quarter of 2016.

Canada-based Norbord is one of the world's largest wood panels manufacturers, with 85% of production in the form of oriented strand board (OSB) used for construction and industrial applications. The company has operations across Canada and Europe, while its largest manufacturing presence is in the southern United States

OSB demand is highly correlated with the construction of single family housing. The business is commoditized and has significant operating leverage, which makes even small changes in supply and demand potentially painful or rewarding for manufacturers. The industry suffered in the wake of the U.S. housing downturn, when companies were left shuttering capacity and seeking additional capital—often in the form of common equity issuances at distressed prices. Norbord ultimately tapped the equity markets twice and mothballed (i.e., it preserved its facility without using it to produce) 30% of capacity. Operating cash flows for the company did not turn meaningfully positive until 2010, four years after industry profits started deteriorating rapidly.

When Brandes LP purchased Norbord, it believed U.S. housing construction would continue to recover, and the OSB industry profitability would subsequently improve. Increased housing construction has typically led to higher demand for OSB, which can result in better pricing for the product. Throughout 2016, as the U.S. housing market continued to show signs of strong improvement and high demand for new housing, Norbord's share price appreciated quickly, reaching Brandes LP's estimate of its intrinsic value.

## Current Positioning

As always, the Fund's allocations are driven by Brandes LP's bottom-up analysis, and not through a top-down evaluation of countries, sectors or industries.

Brandes LP continued to find tremendous value opportunity in emerging markets. At year end, the Fund weighting to the region accounted for approximately 34% of the Fund, one-third of which was to companies in Brazil. Meanwhile, the United States remained an area where the Fund held a meaningful underweight.

From a sector/industry standpoint, the Fund held its key overweights in energy and telecommunication services,

and its key underweights in information technology and health care.

Looking ahead to 2017 and beyond, Brandes LP remains optimistic about the prospects for the Brandes Global Opportunities 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.

## 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

### LAST QUARTER

INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Oil, Gas & Consumable Fuels	1.06	Insurance	-0.43
Machinery	0.54	Automobiles	-0.24
Food Products	0.46	Electric Utilities	-0.23
Household Durables	0.44	Diversified Telecom. Services	-0.21
Health Care Equip. & Supplies	0.44	Multi-Utilities	-0.17

COUNTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Russia	1.02	France	-0.14
United Kingdom	0.56	United States	-0.10
Switzerland	0.50	Turkey	-0.09
Brazil	0.48	Sweden	-0.08
Mexico	0.26	India	-0.07

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Citigroup Inc.	0.45	Hyundai Motor Co. Ltd. Pref.	-0.20
Briggs & Stratton Corp.	0.45	APT Satellite Holdings Ltd ORD	-0.19
Urbi Desarrollos Urbanos SA ORD	0.43	ENGIE SA	-0.18
Bank of America Corp.	0.42	Macquarie Mexico Real Est ORD	-0.17
Embraer S.A. ADR	0.36	Hyundai Mobis	-0.16

### LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Oil, Gas & Consumable Fuels	4.72	Aerospace & Defense	-1.10
Banks	1.48	Real Estate Mgmt & Development	-0.57
Pharmaceuticals	1.02	Automobiles	-0.55
Food & Staples Retailing	1.01	Multi-Utilities	-0.49
Machinery	0.93	Semicond. & Semicond. Equip.	-0.35

COUNTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Brazil	3.41	India	-0.22
Russia	2.80	Austria	-0.21
United States	1.45	France	-0.20
South Korea	1.02	Italy	-0.12
Mexico	0.92	Ireland	-0.08

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Chesapeake Energy Corp.	1.76	Embraer S.A. ADR	-0.97
Petroleo Brasileiro SA	1.22	Urbi Desarrollos Urbanos SA ORD	-0.89
Lukoil ADR	1.08	Credit Suisse Group AG	-0.56
Briggs & Stratton Corp.	0.96	J Sainsbury plc	-0.46
Sberbank	0.92	ENGIE SA	-0.44



# Brandes Global Opportunities Fund

## Quarterly Additions/Deletions

Additions	Deletions
China Mobile Ltd. ORD	Urbi Desarrollos Urbanos 1.00% Oct 23/22



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