

Brandes Global Opportunities Fund

Fund Commentary

During the quarter, a question that Brandes LP was quite often asked was how the U.S. trade negotiations have impacted its portfolios. In this regard, Brandes LP has been closely monitoring the situation and has revisited the valuations of all holdings that can potentially be affected by President Trump's steel and aluminum tariffs, either directly (e.g., steelmakers) or indirectly (e.g., auto companies). Brandes LP concluded that no adjustments to intrinsic value estimates were necessary at this point.

Amid the constant stream of macroeconomic and geopolitical news, Brandes LP continues to pursue attractive businesses with stock prices below its estimates of their intrinsic value. Brandes LP believes uncertainties help drive prices of fundamentally sound companies below what they are truly worth.

During the first quarter of 2018, the Brandes Global Opportunities Fund underperformed its benchmark, the MSCI ACWI (All Country World) Index.

Positive Contributors

The main positive contributors were holdings in the oil & gas, telecom services and banking industries.

Among the Fund's oil & gas holdings, Brazilian state-run Petrobras and Russian state-run Lukoil led performance. Lukoil's share price rose after the company announced that it would cancel a significant amount of its outstanding treasury shares and start a share buyback program. The Fund's emerging market integrated oil holdings continued to rebound amid the lower overall oil price environment, with free cash flows improving to some of the strongest levels in a decade.

Meanwhile, among the Fund's telecom services holdings, Telecom Italia and Telefonica Brasil were the strongest performers. Shares of Telecom Italia appreciated significantly, in part due to an activist shareholder pushing for changes to the board of directors.

Among the Fund's banking holdings, Russian state-run Sberbank and Austria-based Erste Group helped performance.

Other positive contributors included Brazil-based jet manufacturer Embraer and U.K. pharmaceutical company GlaxoSmithKline. Embraer continued a constructive dialogue with Boeing. News reports have suggested that the companies could combine commercial airline units, but it remains unknown if — and exactly how — this would be structured and executed. Meanwhile, GlaxoSmithKline rebounded from a poor showing in 2017.

Performance Detractors

Main detractors from performance included holdings in the United Kingdom, especially companies with smaller market capitalizations, such as retailer Debenhams, facilities management company Mitie and money and passports printer De La Rue.

Debenhams' share price fell after management issued another profit warning early in the year. The retailer cited a weak Christmas as the driver behind the decline in its year-end sales and weaker-than-expected 2017 profits.

De La Rue, which has been in operation for nearly two centuries, saw its shares slide toward the end of the



Brandes Global Opportunities Fund

quarter following the sudden departure of its chief financial officer and an unexplained profit warning. The stock also tumbled a few days later when the U.K. government awarded the contract for manufacturing post-Brexit British passports to De La Rue's foreign rival. Brandes LP believes that the market has overreacted to the news about De La Rue's contract loss, and Brandes LP continues to see upside potential in the company as it resolves its excess capacity issue.

U.S. small-cap holdings also weighed on performance, led by health care services company Owens & Minor and gasoline engine company Briggs & Stratton. The two primary factors that caused Owens & Minor's decline were a poor showing in 2017 and the looming threat of Amazon entering the health care industry, which already faces the potential for a multi-year trend of steadily narrowing margins.

Other performance detractors included India-based utility and construction company Reliance Infrastructure, Brazil-based food processor Marfrig Global Foods and China-based mobile phone operator China Mobile. Marfrig is in the midst of restructuring. While the long-term outlook is positive, in Brandes LP's opinion, the company has suffered from negative free cash flows in the near term,

thus adding to the challenges of an already highly levered balance sheet.

Select Buy & Sell Activity

The All-Cap Investment Committee exited the Fund's position in Austria-domiciled bank Erste Group, South Korean steel manufacturer Posco and Brazilian bank Itaúsa.

Erste Group (EBS) operates the second-largest bank in Austria and maintains a strong presence across Central and Eastern Europe. The company is the leading bank in the Czech Republic, where it has approximately 25% market share in retail deposits. EBS also owns major banking subsidiaries in Slovakia, Romania, Hungary and Croatia.

In 2009, following the financial crisis, Brandes LP began to closely monitor EBS as an investment candidate. But it wasn't until 2014, when EBS was facing a number of macroeconomic and company-specific issues, that the investment committee decided to purchase shares in the company. With Europe in the midst of a debt crisis, two of EBS' end markets, Hungary and Romania, required emergency lending from the International Monetary Fund. This coincided with the prospect of EBS facing higher

financing costs in relation to the government's investment that the bank received in 2009. Amid these challenges, Brandes LP believed that the upside potential outweighed the risks given EBS' market price.

Financial stability has somewhat returned to the European Union. More importantly, EBS has recently started to see growth in its end markets again. As the market has become more optimistic about EBS' growth prospects, its valuation has surpassed its European peers. As a result, despite what Brandes LP considers a thin opportunity set in an expensive market, it could no longer justify holding a position in EBS at the prevailing market price.

The investment committee purchased shares in U.K.-based tobacco company Imperial Brands.

Brandes LP has followed Imperial Brands (formerly Imperial Tobacco) for a long time, having owned the shares at various points over the last few decades. The company has recently struggled with sluggish organic growth, weaker positioning in reduced-risk tobacco products compared to its peers and increased industry regulation. Part of the company's growth challenge has resulted from increased pricing competition in some of its end markets. Additionally, Imperial Brands has been trying to refocus its business by refining its product portfolio, which should



Brandes Global Opportunities Fund

help the company enhance profitability and lower its cost base.

The market does not seem to be giving the company any credit for potential improvements in its cost structure or for its investments in next-generation tobacco products. Along with its peers, Imperial Brands continues to benefit from the low price elasticity of tobacco products, which allows producers to increase prices without a proportionate decline in sales volume. This has led to what Brandes LP considers to be attractive returns on capital and free cash flow.

At less than 10x price/forward earnings as of March 31, Imperial Brands traded at its lowest multiple since the 2008 financial crisis, representing what Brandes LP considers an appealing value opportunity.

Current Positioning

At Brandes LP, the investment process focuses on bottom-up analysis. As such, the Fund's country and industry weightings are the result of our research-driven stock selection and reflect Brandes LP's convictions.

As of March 31, the Fund held key overweights in real estate and consumer discretionary, and key underweights in information technology and financials.

From a country standpoint, Brandes LP maintained a large underweight in the United States and a notable overweight in the United Kingdom. Brandes LP also continues to find many value opportunities in emerging markets. Over one-third of the Fund is allocated to companies in emerging markets, with key exposure in Brazil, South Korea and Mexico, as of March 31.

Brandes LP remains committed to building and holding value portfolios for its clients in all market conditions.

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	
	%		%
Oil, Gas & Consumable Fuels	0.88	Multiline Retail	-0.56
Diversified Telecom. Services	0.52	Health Care Prov. & Services	-0.37
Banks	0.46	Commercial Services & Supplies	-0.33
Equity Real Estate Inv. Trusts (REITs)	0.30	Diversified Financial Services	-0.30
Leisure Products	0.28	Machinery	-0.26

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Russia	0.90	United States	-1.95
Brazil	0.59	United Kingdom	-0.45
Japan	0.38	China	-0.36
Italy	0.35	India	-0.27
Austria	0.18	Hong Kong	-0.17

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
LUKOIL ADR	0.38	Debenhams PLC ORD	-0.41
Embraer S.A. ADR	0.36	Reliance Infrastructure Ltd.	-0.28
Sankyo Co Ltd	0.29	Owens & Minor Inc	-0.25
Sberbank	0.27	Briggs & Stratton Corp.	-0.20
Telecom Italia	0.27	MARFRIG ALIMENTOS SA Right	-0.18

LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Banks	1.24	Semicond. & Semicond. Equip.	-0.84
Diversified Telecom. Services	0.71	Multiline Retail	-0.79
Household Durables	0.53	Wireless Telecom. Services	-0.51
Oil, Gas & Consumable Fuels	0.48	Electric Utilities	-0.40
Multi-Utilities	0.32	Commercial Services & Supplies	-0.37

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Russia	1.26	United States	-4.81
Brazil	1.24	China	-1.14
Austria	0.57	United Kingdom	-0.99
Switzerland	0.31	Hong Kong	-0.47
South Korea	0.31	India	-0.39

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Sberbank	0.93	Debenhams PLC ORD	-0.63
Erste Group Bank AG	0.58	Chesapeake Energy Corp	-0.51
LUKOIL ADR	0.55	Countrywide PLC	-0.42
Embraer S.A. ADR	0.51	MITIE Group PLC	-0.33
Telefonica Brasil S.A.	0.34	Cemex SA de CV ADR	-0.29



Brandes Global Opportunities Fund

Quarterly Additions/Deletions

Additions	Deletions
Imperial Brands PLC ORD	Itausa-Investment Itau Pfd ORD
	Posco ORD
	Futaba Corporation ORD
	Sanki Engineering Co. Ltd.
	Erste Group Bank AG



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