

Brandes Global Small Cap Equity Fund

Fund Commentary

Events across the globe this year may serve as a good reminder that macroeconomic and geopolitical factors can affect individual businesses differently. As one of the first asset managers to bring a global perspective to value investing, Brandes LP relies on an established research infrastructure that enables them to analyze how each company may be affected by events globally. Their analyst teams have extensive knowledge of industries worldwide, and each team member's perspective allows them to think and invest independently from the market consensus.

Against this backdrop, The Brandes Global Small Cap Fund underperformed its benchmark, the S&P Developed Small Cap Index in the third quarter.

Positive Contributors

Holdings in Brazil rebounded nicely from the difficulties in the second quarter that were sparked by the corruption allegations against President Michel Temer.

The strongest performers were jet manufacturer Embraer, homebuilder Beazer Homes and healthcare equipment manufacturer Invacare Corporation.

Embraer benefited from higher revenue growth and cost cuts, as well as an improved order backlog. Additionally, the recent decision by the U.S. Department of Commerce to impose anti-subsidy duties on Embraer's main regional jet competitor, Bombardier, could potentially be an advantage.

Canada-based wood-panel manufacturer Norbord also boosted returns, thanks to the demand for new home construction and renovations. The market seemed to appreciate Norbord's earnings growth and increased dividend (see *Quarterly Additions/Deletions* below).

Performance Detractors

The Fund's holdings in Real Estate Management & Development, Electrical Equipment and Beverages detracted from returns.

The Fund's results were hampered by select holdings in the United Kingdom, the United States and Japan.

Significant detractors included the Fund's position in Canada-based Dorel Industries, Babcock & Wilcox Enterprises and U.K. based Countrywide.

Select Buy & Sell Activity

The Fund sold Norbord as its share price exceeded Brandes LP's estimate of intrinsic value.

Canada-based Norbord is one of the largest manufacturers of wood panels, with 85% of production in



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oriented strand board (OSB). The company does most of its manufacturing in the southern United States, but also has operations across Canada and Europe.

OSB demand is highly correlated with the construction of single family housing. The product is commoditized and the industry has significant operating leverage, which makes even small changes in supply or demand potentially painful or rewarding for manufacturers. In the wake of the U.S. housing downturn many companies shut capacity and sought additional capital, often in the form of common equity issued at distressed prices. Norbord ultimately tapped the equity markets twice and mothballed (i.e., preserving unused production facility) 30% of capacity.

Since the Fund purchased Norbord's shares in 2015, the U.S. housing market has slowly recovered, and with it the pricing and profitability of OSB. Recently, the industry has generated what Brandes LP considers above-average profitability. While the U.S. housing market may continue to grow, the current profitability of producing OSB is such that capacity is almost certain to be added until industry pricing no longer encourages expansion. The market

pricing of Norbord seems to be extrapolating current profit trends.

Given the commoditized nature of OSB and the strong likelihood of margin compression, Brandes LP decided it was prudent to sell the position while prices were above the estimated intrinsic value.

Current Positioning

Notable overweight positions were in the United Kingdom and emerging markets. Brandes LP continues to find value potential in the United Kingdom, as the market seems to be focused on negative headlines, including the unknowns surrounding the Brexit process. Emerging markets, mainly Brazil, retained their appeal from a valuation standpoint. Brazilian holdings made up more than a third of the Fund's emerging markets exposure at quarter end.

At the sector and industry levels, the Fund was overweight consumer staples, specifically food & staples retailing.

Meanwhile, the Fund maintained significant underweights to the United States, technology and materials.

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	
	%		%
Aerospace & Defense	0.42	Real Estate Mgmt & Development	-0.90
Household Durables	0.33	Electrical Equipment	-0.72
Health Care Equip. & Supplies	0.29	Beverages	-0.46
Multiline Retail	0.28	Machinery	-0.44
Paper & Forest Products	0.19	Oil, Gas & Consumable Fuels	-0.43

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Brazil	0.84	United Kingdom	-1.25
Argentina	0.13	United States	-1.23
Russia	0.12	Japan	-0.88
Spain	0.10	Germany	-0.33
Hong Kong	0.07	South Korea	-0.26

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Beazer Homes USA Inc.	0.72	Countrywide PLC	-0.90
Embraer S.A. ADR	0.59	Babcock & Wilcox Enterpr	-0.78
Invacare Corp	0.33	Weiqiao Textile Co. Ltd.	-0.29
Debenhams PLC ORD	0.28	Lotte Chilsung Beverage Co. Ltd.	-0.28
Norbord Inc.	0.20	Dorel Industries Inc. Cl. B	-0.26

LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Health Care Equip. & Supplies	1.58	Real Estate Mgmt & Development	-1.44
Equity Real Estate Inv. Trusts	1.06	Banks	-1.29
Oil, Gas & Consumable Fuels	0.73	Beverages	-0.95
Household Durables	0.66	Chemicals	-0.78
Paper & Forest Products	0.46	Capital Markets	-0.72

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Brazil	1.06	United States	-4.76
Japan	0.81	Mexico	-1.09
Greece	0.58	United Kingdom	-0.97
Canada	0.33	Switzerland	-0.72
Israel	0.28	Ireland	-0.49

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Beazer Homes USA Inc.	1.08	Countrywide PLC	-1.38
Invacare Corp	0.90	Urbi Desarrollos Urbanos SA ORD	-1.11
Embraer S.A. ADR	0.77	Babcock & Wilcox Enterpr	-0.62
M.D.C. Holdings Inc.	0.71	Chesapeake Energy Corp	-0.46
Briggs & Stratton Corp.	0.63	C&C Group Plc	-0.45



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Quarterly Additions/Deletions

Additions	Deletions
Lotte Chilsung Beverage Co. Ltd.	Syneron Medical Ltd.
Kato Sangyo Co Ltd	Merlin Properties Socimi SA ORD
FTI Consulting Inc.	Spirent Communications PLC ORD
	Babcock & Wilcox Enterpr
	NORBORD INC
	E-L Financial Corp. Ltd.



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