

Brandes International Equity Fund

Fund Commentary

Non-U.S. markets closed the quarter and the year with mixed performance. European stocks wavered for much of 2016 amid 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 generally 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.

For the quarter, the Brandes International Equity Fund outperformed its benchmark, the MSCI EAFE Index.

Positive Contributors

The most significant positive contributors were the Fund's holdings in oil & gas, such as Italy-based ENI and Russia's Lukoil.

Additionally, the Fund's relative performance benefited from an underweight to consumer staples, especially to the perceived "lower volatility" type companies that dominate the sector.

In the past, the consumer staples sector in general has represented an area where Brandes LP not found much value—with the exception of the Fund's European food & staples holdings. Many of the companies in the sector are regarded as "less risky" and have above-average yields, which typically garner investor preference in a yield-starved environment such as the current one. As a result, these companies, even those with declining earnings and limited growth prospects, have exhibited what Brandes LP considers lofty valuations, and the Fund has accordingly held a significant underweight to the sector. In the most recent quarter, Brandes LP began to see some of its concerns start to play out as many of these so-called "safe" companies declined double digits, while the overall market remained flat.

Other positive contributors included several of the Fund's financial holdings, most notably U.K.-based Barclays, Japanese Mitsubishi UFJ and Dutch Aegon.

Performance Detractors

Significant performance detractors included the Fund's holdings in communication 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 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 past several years.

Other performance detractors included pharmaceutical firms GlaxoSmithKline, based in the United Kingdom, as well as Takeda Pharmaceutical and Daiichi Sankyo, which are both headquartered in Japan. Additionally, French utility Engie and South Korean automotive supplier Hyundai Mobis hurt returns.



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Engie's shares fell amid weak earnings guidance from the company 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. There is also fear that the ensuing production loss may cause a shortage in certain models in the coming months.

Select Buy & Sell Activity

In a relatively light period for Fund activity, Brandes LP exited the Fund's position in Ireland-based CRH.

Brandes LP initially bought CRH, one of the world's largest building materials companies, following the downturn in construction materials that began during the financial crisis and continued on to the European sovereign debt crisis in 2011. Given its strong market share, improved balance sheet and solid cash generation, the business was well positioned to benefit from a rebound in its cyclically depressed end markets, in Brandes LP's view.

Brandes LP also believed the company had significant opportunity to cut costs considering its acquisition history. Brandes LP appreciated the fact that the company's

distribution business, where it channels building materials to contractors and direct to consumers, was more resilient to the cyclical downturn than were its building products due to its reliance on repair and maintenance demand as opposed to new infrastructure building.

Throughout 2016, the market started to show appreciation for the company's improved cost and competitive position, and anticipated a recovery in the construction market. Consequently, CRH's share price reached Brandes LP's estimate of its intrinsic value and it divested the Fund's position.

There were no new purchases in the quarter.

Current Positioning

The valuation levels of the Brandes International Equity Fund remain more attractive than the benchmark, in Brandes LP's opinion. As of December 31, 2016, the Fund traded at significantly lower valuations and had a higher dividend yield than the MSCI EAFE Index.

The recent rally in the Fund's emerging-market and oil & gas holdings has helped performance. As a result of the improved investor sentiment, these areas, which previously represented the cheapest parts of the Fund, are not as inexpensive as they were earlier in the year.

At year end, the Fund held its largest overweight positions in emerging markets and France, while continuing to have no holdings in Germany and Australia. During the year, Brandes LP started to find more value opportunities in France and the Fund's weighting to French companies increased as a result. The Fund's allocation to Japanese firms has decreased over the last 12 months as several pharmaceutical holdings have appreciated closer to Brandes LP's estimate of their intrinsic value and it pared some of those positions.

From a sector/industry standpoint, the Fund had larger allocations than the benchmark to pharmaceuticals, oil & gas, food & staples retailing and autos. It maintained its underweight positions in industrials, real estate and consumer staples (see discussion under Positive Contributors).

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.



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About Brandes

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	1.68	Communications Equipment	-0.35
Insurance	0.56	Multi-Utilities	-0.28
Capital Markets	0.29	Auto Components	-0.26
Food & Staples Retailing	0.28	Metals & Mining	-0.20
Building Products	0.18	Pharmaceuticals	-0.17

COUNTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Russia	1.00	France	-0.60
Switzerland	0.90	Sweden	-0.26
United Kingdom	0.79	Finland	-0.17
Netherlands	0.73	China	-0.12
Brazil	0.39	Japan	-0.02

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Aegon NV	0.72	ENGIE SA	-0.37
Lukoil ADR	0.49	Takeda Pharmaceutical Co. Ltd.	-0.22
Eni S.p.A.	0.41	Hyundai Mobis	-0.21
Barclays PLC	0.36	GlaxoSmithKline plc	-0.20
Mitsubishi UFJ Financial	0.34	Ericsson (L.M.) Telephone	-0.19

LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Oil, Gas & Consumable Fuels	4.83	Aerospace & Defense	-0.82
Pharmaceuticals	2.32	Multiline Retail	-0.79
Construction Materials	0.71	Multi-Utilities	-0.77
Banks	0.60	Capital Markets	-0.77
Food & Staples Retailing	0.47	Automobiles	-0.49

COUNTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Brazil	3.18	France	-1.04
Russia	2.13	Switzerland	-0.64
South Korea	1.33	Sweden	-0.64
United Kingdom	0.70	Austria	-0.16
Spain	0.68	Netherlands	-0.06

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Petroleo Brasileiro SA	1.75	ENGIE SA	-0.88
Lukoil ADR	1.41	Marks & Spencer Group PLC	-0.88
POSCO	0.78	Embraer S.A. ADR	-0.82
Wm. Morrison Supermarkets PLC	0.77	Telecom Italia	-0.72
Taisho Pharmaceutical Co. Ltd.	0.67	Credit Suisse Group AG	-0.69



Brandes International Equity Fund

Quarterly Additions/Deletions

Additions

Deletions
CRH PLC ORD

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