

Brandes International Equity Fund

Fund Commentary

Overall, 2017 marked a difficult year for value investors on a relative basis, with the MSCI EAFE Value Index underperforming the MSCI EAFE Growth Index by over 650 basis points for the period. Amid the market's strong appreciation and the difficult environment for value, the Fund's positioning continues to reflect Brandes LP's commitment to the value investing philosophy. While this positioning resulted in the Fund's underperformance versus the benchmark for the year, it highlights Brandes LP's focus on long-term company fundamentals, as opposed to short-term market trends.

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

Positive Contributors

The Fund's financial holdings helped performance significantly, led by Japanese banks Mitsubishi UFJ and Sumitomo Mitsui Trust, as well as Switzerland-based Credit Suisse.

Credit Suisse's shares rose after the company announced its intention to increase capital return to shareholders

over the next few years, signaling that its capital position continues to improve.

Holdings in South Korea also aided returns, including financial services firm Hana Financial and auto component firm Hyundai Mobis, whose shares appreciated on the back of better-than-expected earnings for the third quarter of 2017.

Other contributors included Japanese automaker Honda Motor and U.K.-based oil firm BP, which both saw their share prices increase after announcing stock-buyback programs, as well as British home improvement retailer Kingfisher.

Additionally, Brazilian regional jet manufacturer Embraer performed well.

Embraer's shares jumped in December following news that Boeing has been in takeover talks with the company. The deal would strengthen Boeing's position in the regional jet market and help counter a recent move by Airbus, which announced a joint venture with an Embraer competitor, Bombardier, in October. Boeing, Embraer, and the Brazilian government are working through

control scenarios and regulatory issues. The government has a "golden share" in Embraer that gives it veto power over such a transaction.

Performance Detractors

Significant detractors included pharmaceutical holdings, most notably France-based Sanofi and U.K.-based GlaxoSmithKline.

Other holdings in the United Kingdom also hurt returns, including retailer Marks & Spencer and grocer Wm Morrison.

Additionally, shares of Finland-based communication equipment firm Nokia declined after the company announced weak earnings. The communication equipment industry continues to suffer from low spending by carriers as they await the transition to 5G networks.

Other detractors included holdings in Mexico, namely real estate investment trust Fibra Uno and cement producer Cemex.



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In late September, FUNO received approval for a shelf registration (i.e., a method for companies to register public offerings without having to do them immediately), which allows the company to issue up to 1.5 billion shares and Mex\$ 55 billion of debt within a five-year period. FUNO initiated an equity offering shortly thereafter. Even though company management acknowledges that issuing equity at the current share price is dilutive, it feels that the prevailing market environment warrants a buildup of cash, which can be used to finance large-scale real estate projects and to be reserved in anticipation of market disruptions (e.g., from the Mexican national election in 2018 and other events). Although Brandes LP believed there were other preferred methods to raise capital and it voted against the shelf registration, it participated in the offering to add to the Fund's allocation as the company continued to be undervalued based on Brandes LP's analysis.

Current Positioning

At the close of 2017, the Fund exhibited more attractive valuations, in Brandes LP's opinion, than the MSCI EAFE Index.

The Fund's largest overweight positions as of December 31 were in emerging markets, France, and the United Kingdom, while its largest underweight positions remained in Germany and Australia. From an industry standpoint, the Fund's biggest overweight positions were in pharmaceuticals, oil, gas & consumable fuels, food retailing and automobiles.

Brandes LP has been finding value opportunities in the United Kingdom over the past couple of years, with the allocation accounting for over 20% of the Fund at year end. Brandes LP's U.K. holdings can generally be classified in three categories, namely those with predominantly 1) domestic business exposure, 2) diversified regional exposure (i.e., those with domestic business but have meaningful operations in other regions) and 3) international exposure.

Brandes LP believes the mix of its U.K. holdings is fairly balanced, although it should be noted that this is not a result of a top-down process, but rather a product of its research-driven company valuations. With regard to the uncertainties surrounding Brexit (i.e., the United Kingdom's decision to leave the European Union), Brandes LP continues to monitor its holdings' sensitivities to trade, currency and potential economic declines.

Furthermore, emerging markets continued to represent another area where Brandes LP has found what it considers attractive value potential.

While absolute performance was strong across world markets this year, Brandes LP continues to believe that the most attractive investment opportunities are largely outside of the United States. Additionally, Brandes LP believes attractive valuations for value stocks in non-U.S. markets may bode well for future returns. As of December 31, the MSCI EAFE Value Index traded at its largest price-to-tangible book discount in over 15 years versus the MSCI EAFE Growth Index.

The Fund continues to be composed of companies Brandes LP holds with deep conviction, because it believes they are undervalued relative to its estimates of their true worth. Regardless of the markets' direction in 2018, Brandes LP will remain true to its mission to seek mispriced securities worthy of inclusion in client portfolios.



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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 (relative to benchmark)

LAST QUARTER

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Banks	0.72	Construction Materials	-0.33
Food & Staples Retailing	0.36	Equity Real Estate Inv. Trusts (REITs)	-0.29
Capital Markets	0.30	Metals & Mining	-0.27
Specialty Retail	0.27	Diversified Financial Services	-0.26
Auto Components	0.25	Chemicals	-0.24

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
South Korea	0.75	Japan	-0.92
Russia	0.33	Mexico	-0.50
Switzerland	0.30	Hong Kong	-0.47
Sweden	0.29	Australia	-0.46
South Africa	0.18	United Kingdom	-0.33

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Hyundai Mobis	0.34	Cemex SA de CV ADR	-0.32
Tesco PLC ORD	0.30	Sanofi-Aventis	-0.28
BP PLC	0.29	Nokia Oyj	-0.26
Credit Suisse Group AG	0.29	First Pacific Co. Ltd.	-0.25
Daiichi Sankyo	0.28	Fibra Uno Admin. SA ORD	-0.18

LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Multi-Utilities	0.76	Chemicals	-0.95
Banks	0.53	Machinery	-0.77
Commercial Services & Supplies	0.51	Insurance	-0.60
Capital Markets	0.40	Personal Products	-0.55
Pharmaceuticals	0.32	Beverages	-0.52

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
South Korea	1.70	Germany	-1.82
Brazil	0.98	Japan	-1.59
Austria	0.46	United Kingdom	-1.38
South Africa	0.10	Hong Kong	-1.00
Israel	0.03	Australia	-0.94

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Hana FncI. Holdings Inc.	0.89	Carrefour SA	-0.33
ENGIE SA	0.86	Cemex SA de CV ADR	-0.16
Takeda Pharmaceutical Co. Ltd.	0.56	GlaxoSmithKline plc	-0.16
POSCO	0.56	Gazprom OAO	-0.14
Credit Suisse Group AG	0.54	Surgutneftegas RTS Pref ORD	-0.14



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Quarterly Additions/Deletions

Additions

Deletions



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