

Brandes International Equity Fund

Fund Commentary

After a strong performance in the second half of 2016, international value stocks, as represented by the MSCI EAFE Value Index, have significantly underperformed the broader market (MSCI EAFE Index) so far in 2017, in part due to the strong performance of technology, personal products and beverage companies.

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

Positive Contributors

Significant positive contributors included several holdings in the oil & gas industry, which makes up a meaningful allocation, as well as holdings in the industrials sector.

The shares of many oil companies appreciated due in part to the rise in oil prices and improved earnings. The Fund's holdings advanced even more than the MSCI EAFE Index energy sector. Top contributors included U.K.-based BP, Spain's Repsol, Italy's ENI and Brazil-based Petrobras. ENI's shares rose on the back of better earnings and

improved cost reductions, while Petrobras continued to enhance its liquidity by selling non-core assets.

Industrial holdings, notably Brazilian regional jet manufacturer Embraer and France-based Schneider Electric, also contributed positively to performance. Embraer benefitted from higher revenue growth, costs cuts and an improved order pipeline. 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 be a potential advantage.

Other contributors included U.K.-based grocer Tesco and Dutch insurer Aegon. Sales growth and continued food inflation in the United Kingdom boosted Tesco's shares. Meanwhile, Aegon's share-price increase could be attributed to improved earnings and capital position.

Performance Detractors

Holdings in various sectors and countries hurt performance, including positions in France, information technology and consumer discretionary.

The most significant detractor was Swedish communications equipment firm Ericsson, which reported weaker earnings but announced plans to cut costs further to improve margins.

France-based retailer Carrefour and advertising agency Publicis also weighed on returns. Carrefour released weak earnings results early in the quarter and later issued a profit warning. Brandes LP believes the shares continue to offer an attractive margin of safety for a long-term investor, despite the potential for lower near-term results as the company works to strengthen its profitability.

Other detractors included South Korean holdings Hyundai Mobis and Hyundai Motor. Slow demand in China, in part due to political tensions between South Korea and China,



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and increased incentive costs in the United States negatively affected both companies.

Additionally, U.K.-based pharmaceutical firm GlaxoSmithKline and security services provider G4S detracted from performance, as did Mexican real estate investment trust Fibra Uno.

Select Buy & Sell Activity

The Fund initiated a position in U.K.-based WPP Group, the world's largest advertising agency holding company by revenue. The company's brands include Ogilvy & Mather, JWT, Young & Rubicam, Grey, Group M and Kantar.

In Brandes LP's opinion, the business model of ad agencies is attractive and resilient given their variable-cost nature and technological neutrality (i.e., generally limited disruption from how ads are viewed). Over the past year, organic revenue growth for the ad agency industry has slowed, in part due to tough comparisons with 2016, a year that saw elevated ad spending related to the Summer Olympics in Brazil and the U.S. presidential election.

A number of factors have contributed to a contraction in valuation multiples for the ad agency industry, including:

- Slowing topline growth
- Reduced ad spending by fast-moving consumer goods (FMCG) companies. FMCG is composed of products that tend to have short shelf lives, such as packaged foods, beverages and toiletries.
- Concerns about evolving technological and competitive landscape

These concerns, which Brandes LP views as short term in nature and overdone in magnitude, have created several potentially undervalued investment opportunities.

Among large, publicly listed ad agency holding companies, WPP has leading exposures to potential growth from the digital space and from emerging markets. Brandes LP is attracted to the company's strong business model, healthy cash flows and steady pace of shareholders returns. Moreover, the stock's recent underperformance has led to an appealing valuation, in Brandes LP's view. The company trades at just 11x forward earnings as of September 30 and offers a 4.0% dividend yield. While the shares remained under pressure during the quarter, Brandes LP believes WPP provides an attractive long-term risk/reward tradeoff at its current price.

Current Positioning

The Brandes International Equity Strategy remains attractive relative to the benchmark, in Brandes LP's opinion, with lower valuations and a higher dividend yield than the MSCI EAFE Index as of September 30, 2017.

The largest overweight positions were in emerging markets, France, and Italy. From an industry standpoint, the strategy held key overweights in pharmaceuticals, oil, gas & consumable fuels, and food retailing.

The Fund maintained underweight positions to companies based in Germany and Australia, as well in the industrials, materials and real estate sectors.

Brandes LP has increasingly found investment opportunities in the consumer discretionary sector. At quarter end, the Fund held a higher allocation to the sector than the benchmark, after having an equal weight at the start the year. The automobile and auto component industries continued to represent the Fund's most significant allocations within the sector, but more recently Brandes LP has started to find new opportunities in the media industry, as exemplified by the Fund's recent purchases of Publicis and WPP.



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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 us to analyze how each company may be affected by events globally. Brandes LP's 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.

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	
	%		%
Oil, Gas & Consumable Fuels	1.13	Food & Staples Retailing	-0.56
Multi-Utilities	0.24	Communications Equipment	-0.41
Aerospace & Defense	0.22	Auto Components	-0.26
Wireless Telecom. Services	0.20	Chemicals	-0.23
Diversified Telecom. Services	0.19	Automobiles	-0.21

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Brazil	0.84	France	-0.68
Russia	0.52	Sweden	-0.42
Switzerland	0.33	Germany	-0.37
Spain	0.32	Mexico	-0.28
Italy	0.12	Japan	-0.20

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Repsol SA	0.30	Carrefour SA	-0.63
Embraer S.A. ADR	0.29	Ericsson (L.M.) Telephone ORD	-0.34
Aegon NV	0.27	GlaxoSmithKline plc	-0.18
Eni S.p.A.	0.26	Hyundai Mobis	-0.16
BP PLC	0.21	Cemex SA de CV ADR	-0.15

LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Oil, Gas & Consumable Fuels	1.56	Chemicals	-0.80
Commercial Services & Supplies	0.66	Auto Components	-0.73
Diversified Telecom. Services	0.44	Machinery	-0.59
Capital Markets	0.39	Banks	-0.44
Building Products	0.38	Semicond. & Semicond. Equip.	-0.41

COUNTRY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Brazil	1.32	Germany	-1.89
South Korea	1.00	France	-1.13
Russia	0.69	Sweden	-0.88
Switzerland	0.55	Japan	-0.75
Austria	0.45	Australia	-0.70

COMPANY			
Top 5 Contributors		Top 5 Detractors	
	%		%
Aegon NV	0.86	Carrefour SA	-0.60
Hana Fncl. Holdings Inc.	0.84	Hyundai Mobis	-0.46
Repsol SA	0.58	Ericsson (L.M.) Telephone ORD	-0.29
POSCO	0.57	Kingfisher Plc	-0.24
Erste Group Bank AG	0.52	China Mobile Ltd.	-0.21



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Quarterly Additions/Deletions

Additions	Additions
Mobile Telesystems Ojsc	
WPP PLC	



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Published November 8, 2017

