Brandes U.S. Equity Fund

Fund Commentary

Despite the strong absolute performance, 2017 overall was a difficult year for value investors on a relative basis, with the S&P 500 Value Index underperforming the S&P 500 Growth Index by over 1,100 basis points. Given the market's strong appreciation and the difficult environment for value, the Fund's positioning, while underperforming the benchmark for the year, continues to reflect Brandes LP's commitment to the value investing philosophy and its long-term focus.

Against this backdrop, the Brandes U.S. Equity Fund outperformed its benchmark, the S&P 500 Index.

Positive Contributors

Bank holdings, led by Bank of America and Wells Fargo, helped performance significantly, as did media holdings Twenty-First Century Fox and Comcast, a new purchase.

Twenty-First Century Fox's shares rose early in the quarter amid speculation that the company would sell its media assets. In December, multimedia and entertainment conglomerate Disney announced it would acquire Twenty-First Century Fox's film and television studios, as well as its cable and international TV business for nearly $53 billion.

Other notable contributors included health care holdings Express Scripts and HCA Healthcare, as well as software firm Microsoft and retailer Wal-Mart.

Performance Detractors

Significant detractors included health care holdings Merck (pharmaceuticals) and Gilead Sciences (biotechnology), as well as energy firms Apache and World Fuel Services.

Apache reported weak results for the third quarter, in part due to the impact of hurricanes in the Gulf Coast of the United States.

Additionally, technology holdings Cognizant Technology Solutions, Avnet and new purchase Fabrinet hurt performance.

The Fund's underweight position in the technology sector also detracted from relative returns.

Select Buy & Sell Activity

In a fairly busy period for buys and sells, Brandes LP purchased shares of media company Comcast, home-builder Taylor Morrison, and Fabrinet.

Fabrinet is the world's largest outsourced optical equipment manufacturing company. Fabrinet's share price has declined over the past year amid a depressed optical equipment end-market, specifically in China, and largely because of weak telecom spending, as telecom companies await upgrading their networks.

Brandes LP believes Fabrinet is an appealing investment given its current valuation and solid fundamentals, as explained below.

- Attractive valuation: As of December 31, Fabrinet's shares traded at a slight premium to book value and less than 10x earnings. Additionally, the company had a strong net-cash balance sheet.

- Strong competitive position: While the optical communications market is fairly commoditized and

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fragmented, Fabrinet has maintained a strong competitive edge. The company enjoys a diversified and sticky customer base, given its strong customer-development partnerships, which enables it to add value in a highly competitive industry and generate attractive returns on capital.

• Emerging direct relationships with the world's largest data center customers, such as Amazon: This should help position the company well for future revenue growth.

Other Fund activity included the sale of retailer Wal-Mart, utility Exelon, health care company Varex and U.S. data storage company Western Digital.

Brandes LP initially purchased Western Digital in late 2010 after its share price declined amid concerns over a potential downturn in demand for hard disk drives (HDDs) and the increasing long-term threat from an alternative storage technology, solid state drives (SSDs).

However, Brandes LP found Western Digital's share price attractive for a number of reasons:

• Attractive valuation: Low valuation multiples, even after accounting for a potential downturn in the HDD industry and the threat from SSDs. Brandes LP also appreciated that the explosion of data (i.e., big data, artificial intelligence, medical, video, etc.) meant that storage, including HDDs, could experience secular growth.

• Competitive position: Brandes LP believed the company had a durable competitive position as its operational strength had helped it become the world's largest HDD producer.

• Strong track record of profitability for over a decade: Including during the financial crisis and despite the cyclicality of the HDD industry.

• Industry consolidation: The HDD industry had consolidated significantly over the past decade amid the lack of new entrants. During Brades LP's holding period for Western Digital, the HDD industry continued to consolidate down to three vendors: Seagate, Toshiba and Western Digital. This consolidation helped improve the profitability of the industry as a whole. Nonetheless, Brandes LP assumed that the industry would continue to be cyclical.

Western Digital has been one of the strongest performers in the Fund and its intrinsic value increased meaningfully over its holding period. There were a number of significant developments that affected Brandes LP's estimate of the company's intrinsic value:

• The company suffered from periods of decline in the HDD market, increased uncertainty as the company tried to enter the SSD market with its acquisition of SanDisk, and a significant increase in leverage.

• Inventory management on the industry level improved, in part due to continued industry consolidation, which helped dampen the volatility of industry cycles, as well as better margins and pricing. Initially, the market seemed skeptical of any improvement in the profitability and cyclicality of the HDD industry and continued to price Western Digital at extremely low single-digit multiple of earnings. Brandes LP used this opportunity to add to the Fund's position.

• Continued operational efficiency and improvement in growing areas of the storage market, including high capacity HDDs and SSDs.

Moreover, in the last few years, the market has begun to realize the benefits of consolidation as well as Western Digital's improved competitive position. As its share price appreciated to Brandes LP's estimate of intrinsic value, the Fund divested its position.

The long holding period for Western Digital serves as a good example that price and company fundamentals matter for long-term returns. When a company is priced

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at a significant discount due to unfavorable market sentiment surrounding near-term headwinds, it is possible to achieve attractive returns due to the dual benefit of improved fundamentals should the near-term headwinds abate, and an expanded multiple if sentiment becomes less negative.

Current Positioning

At year end, the Fund exhibited more attractive valuations, in Brandes LP's opinion, than the S&P 500 Index.

Overall Fund positioning did not materially change in 2017. As of December 31, the largest overweight positions were in financials and health care, which accounted for nearly half of the strategy. The largest underweight positions were in technology, industrials and consumer staples.

Throughout the year, the investment committee increasingly found attractive value opportunities within the health care sector, as it is now the Fund's second-largest sector allocation. Additionally, Brandes LP uncovered appealing investments within the consumer discretionary sector, primarily in the media industry, as reflected in the purchase of Omnicom (in August) and Comcast.

The Fund's allocation to the technology sector continued to decrease as several holdings performed strongly and reached Brandes LP's estimates of intrinsic value. At year end, the Fund's tech weighting was reduced to approximately 14%, which was lower than the S&P 500's 24% weight. Tech stocks within the S&P 500 Index outperformed in 2017, resulting in an increased allocation for the index's technology component. The Fund's current technology positioning reflected quite a change from five years ago when Brandes LP found significant value in the sector, which represented one of its largest overweights. Over this period, technology has been a leading contributor to the Fund's returns.

Absolute performance was strong across world markets in 2017, resulting in the solid appreciation of several of the Fund's holdings toward their intrinsic value. Consequently, portfolio turnover increased during the year compared to the past several years.

Brandes LP's conviction for companies within its current portfolio remains strong as it believes they are undervalued relative to estimates of their true worth. In Brandes LP's view, the underperformance of value may bode well for future returns given valuations today. As of December 31, value stocks (as measured by the S&P 500 Value Index) were trading at the largest discount to growth stocks (as represented by the S&P 500 Growth Index) in over 15 years based on price to tangible book value.

Regardless of the market's direction in 2018, Brandes LP will remain true to its mission to seek mispriced securities worthy of inclusion in client portfolios.

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	%
Banks	0.81	Oil, Gas & Consumable Fuels	-0.56
Health Care Prov. & Services	0.61	Semicond. & Semicond. Equip.	-0.42
Media	0.51	Internet & Direct Marketing Retail	-0.38
Household Durables	0.22	IT Services	-0.34
Electrical Equipment	0.21	Tech. Hardware, Storage & Periph.	-0.33

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Express Scripts Holding Co	0.45	World Fuel Services Corp	-0.26
Bank of America Corp	0.32	Fabrinet	-0.14
21st Century Fox Inc.	0.27	Merck & Co. Inc.	-0.14
Emerson Electric Co	0.23	Microsoft Corp.	-0.09
Wells Fargo & Company	0.22	Apache Corporation	-0.08

LAST 12 MONTHS

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Banks	1.27	Internet Software & Services	-1.01
Household Durables	0.59	Semicond. & Semicond. Equip.	-1.00
Electrical Equipment	0.42	Internet & Direct Marketing Retail	-0.87
Industrial Conglomerates	0.36	Tech. Hardware, Storage & Periph.	-0.86
Media	0.36	Aerospace & Defense	-0.74

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
M.D.C. Holdings Inc.	0.51	Avnet Inc.	-0.55
Western Digital Corp.	0.50	Apache Corporation	-0.46
Emerson Electric Co	0.48	World Fuel Services Corp	-0.45
Bank of America Corp	0.46	American International Group	-0.26
Varian Medical Systems Inc	0.44	Cardinal Health Inc.	-0.19

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Quarterly Additions/Deletions

Additions	Deletions
Taylor Morrison Home Corp	Varex Imaging Corp
Comcast Corp	Exelon Corporation
Fabrinet	Wal-Mart Stores Inc.
	Western Digital Corp.

BRANDES INVESTMENT PARTNERS on the BRIDGEHOUSE Independent Platform

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