Brandes U.S. Equity Fund

Fund Commentary

During the quarter, a question that Brandes LP was quite often asked was how the U.S. trade negotiations have impacted its portfolios. In this regard, Brandes LP has been closely monitoring the situation and has revisited the valuations of all holdings that can potentially be affected by President Trump's steel and aluminum tariffs, either directly (e.g., steelmakers) or indirectly (e.g., auto companies). Brandes LP concluded that no adjustments to intrinsic value estimates were necessary at this point.

Amid the constant stream of macroeconomic and geopolitical news, Brandes LP continues to pursue attractive businesses with stock prices below its estimates of their intrinsic value. Brandes LP believes uncertainties help drive prices of fundamentally sound companies below what they are truly worth.

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

Positive Contributors

Among the notable positive contributors were several technology holdings, including IT services firm Cognizant and component company Fabrinet, which both reported strong earnings results during the quarter. Fabrinet, a new addition to the portfolio at the end of 2017, announced an increased stock repurchase program equivalent to approximately 5% of its market cap.

Microsoft and Cisco Systems also contributed to performance; each company's strong appreciation over the past several years led Brandes LP to pare its position in both companies during the quarter.

Other contributors included hospital and health care service provider HCA Healthcare and automotive parts and service retailer Advance Auto Parts, which both reported improved earnings results during the quarter.

Performance Detractors

Financial and health care holdings detracted from returns. The largest detractors in the financial sector were Wells Fargo, Leucadia National and Citigroup. Wells Fargo declined amid ongoing negative headlines about customer relationships and restrictions that prevent the bank from growing its overall asset base without approval from the Federal Reserve. Within the health care sector, drug distributor McKesson detracted from returns.

Gasoline engine company Briggs & Stratton also detracted from returns.

Additionally, the Fund's underweight to the technology sector as well as Internet retailers, particularly Amazon, which rose more than 25% during the quarter, hurt returns relative to the benchmark.

Select Buy & Sell Activity

In a fairly light period for portfolio activity, the Fund did not make any new purchases or full sells. But, amid the volatile U.S. market, the Fund added to its position in Comcast, Fabrinet and Alphabet. Meanwhile, Brandes LP pared its position in Cisco, Microsoft and Chevron, as well as pharmacy benefit manager Express Scripts.

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Media conglomerate Comcast is a company that Brandes LP have owned in the past, and it began establishing a new position in Comcast at the end of 2017. During most of 2017, the stock traded at moderately attractive valuation metrics, but it was quite sensitive to any benefits from significant tax reform. Historically, Comcast has been a full income tax payer in the United States, and given its strong competitive position, Brandes LP believed that the benefits from significant tax reform would largely flow through to the company's bottom line — as opposed to companies that operate in much more competitive industries and, therefore, would see at least some of the tax benefit competed away.

Initially, Comcast did not offer an adequate margin of safety to be added to the portfolio, even after accounting for the potential upside from corporate tax reform. However, the share price declined at the end of 2017 after the market got overly worried about a decline in video subscribers. This pullback — together with the potential benefits of tax reform and the company's strong free cash flow generation, driven primarily by the company's broadband business — led Brandes LP to purchase shares of the company, as it believed the stock offered an attractive margin of safety.

Comcast's share price in the first quarter declined further after the company tabled — but did not officially make — a cash offer to acquire European pay TV operator Sky plc. The possible offer from Comcast would top a current offer from U.S. media conglomerate Fox to acquire the remaining 61% of Sky that Fox does not already own. While Brandes LP believes that the price that Comcast has discussed for Sky would be somewhat value destructive, there are many possibilities as to how this proposed transaction might or might not play out, including a scenario where Fox (in conjunction with Disney) increases its bid for Sky and Comcast ends up with no stake in the company. In Brandes LP's estimation, even if Comcast were to be successful in its bid and acquire all of Sky, the decline in Comcast's stock price far exceeded any potential value destruction, causing the margin of safety in Comcast's stock to widen. Therefore, the Fund added to its position in Comcast as Brandes LP believes it offers an even more attractive risk/reward tradeoff than it did just months ago.

Current Positioning

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

The Fund's largest relative overweight positions (calculated as a percentage of benchmark weights) were in the financial and health care sectors. The most significant underweight positions were in industrials, technology, consumer staples and materials.

Despite technology remaining the third-largest sector allocation in the portfolio at approximately 15%, the Fund is significantly underweight the technology sector vs. the S&P 500 Index. While the Fund's technology weight has decreased over the last several years as many of its holdings reached our estimates of intrinsic value, the underweight has increased as technology stocks continue to be the strongest performers in the U.S. market. Technology stocks now represent approximately a quarter of the S&P 500 Index, making it both the largest sector in the index by a wide margin and the largest weight for technology since the technology bubble. Despite its recent pullback, technology was the strongest performing sector in the S&P 500 Index during the first quarter.

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Brandes LP feels it is important to note that there are no holdings in the portfolio that are gun manufacturers or gun-related companies.

As always, Brandes LP anchors its allocation decisions on a fundamental, bottom-up investment approach focused on seeking the most attractive value.

At Brandes LP, the focus remains long term as it seeks to take advantage of indiscriminate mispricing by pursuing potentially undervalued opportunities, while avoiding areas that may be overheated. Brandes LP believes this price-matters approach is the best way it can pursue alpha for client portfolios.

Brandes LP remains committed to building and holding value portfolios for its clients in all market conditions.

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	%
Elect. Equip., Instr. & Components	0.43	Software	-0.31
Media	0.22	Machinery	-0.30
Specialty Retail	0.19	Diversified Financial Services	-0.28
Health Care Prov. & Services	0.15	Household Durables	-0.14
Biotechnology	0.12	Road & Rail	-0.12

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Cognizant Tech Solutions	0.31	Briggs & Stratton Corp.	-0.33
HCA Inc.	0.28	Wells Fargo & Company	-0.26
Advance Auto Parts, Inc.	0.26	McKesson Corp	-0.24
Fabrinet	0.25	Leucadia National Corp	-0.23
Avnet Inc.	0.18	Citigroup Inc.	-0.19

LAST 12 MONTHS

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Banks	1.22	Software	-0.70
Specialty Retail	0.70	Oil, Gas & Consumable Fuels	-0.61
Media	0.64	Tech. Hardware, Storage & Periph.	-0.58
Food Products	0.43	Diversified Financial Services	-0.55
Electrical Equipment	0.26	Machinery	-0.47

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Cognizant Tech Solutions	0.57	World Fuel Services Corp	-0.62
Aaron's Inc	0.47	Leucadia National Corp	-0.31
State Street Corporation	0.44	Apache Corporation	-0.28
Bank of America Corp	0.44	American International Group	-0.28
Advance Auto Parts, Inc.	0.40	Avnet Inc.	-0.26

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Quarterly Additions/Deletions

Additions	Deletions

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