

# Brandes Global Opportunities Fund

## Fund Commentary

During the fourth quarter of 2018, the Brandes Global Opportunities Fund outperformed its benchmark, the MSCI AC World Index.

### Positive Contributors

Investments in Brazil helped performance as the election of right-wing presidential candidate Jair Bolsonaro bolstered the country's stock market. Bolsonaro, a departure from the left-wing Workers' Party that had dominated Brazilian politics since 2002, has vowed to deal with Brazil's fiscal woes and reduce structural impediments to economic growth. Noteworthy performers included electric utility Companhia Paranaense de Energia (Copel), telecom services provider Telefonica Brasil, oil & gas firm Petrobras and regional jet manufacturer Embraer.

As Brandes LP discussed last quarter, Boeing and Embraer have been in the process of establishing a commercial aircraft joint venture, in which Boeing will own an 80% stake and Embraer will hold the remaining 20%. This quarter, Boeing extended a revised offer featuring a \$5.3bn deal price (an 11% increase from the previous bid). Embraer has announced that it intends to pay a special dividend to shareholders if the government approves the deal.

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Other contributors included India-based electric utility Reliance Infrastructure and Slovenian bank Nova Ljubljanska Banka.

Energy holdings declined but outperformed the benchmark's energy sector, thus contributing to relative returns. Additionally, the Fund's cash position helped preserve capital in a declining market.

### Performance Detractors

Financial entities weighed on returns, led by those in Switzerland (e.g., Credit Suisse, UBS Group) and the United States (e.g., Citigroup and State Street), as the market became increasingly worried about global economic growth and continued low interest rates. For Credit Suisse, this uneasiness was exacerbated by its weaker-than-expected trading results. However, on its investor day later in the quarter, the company stated it was on track to meet goals in its three-year restructuring effort and announced an increased share buyback, as well as plans to boost its future dividend.

Positions in consumer discretionary also reduced returns. Notable detractors included Mexican household durables

company Consorcio ARA, auto-related firms Tachi-S and Hyundai Mobis, and U.K.-based retailers Debenhams, Kingfisher and Marks & Spencer.

From a country perspective, several holdings in the United Kingdom hurt performance. Besides the retailers above, outsourcing company Mitie declined, along with ad agency WPP and grocer Tesco.

Tesco's shares fell on weaker earnings in Asia, even though its U.K. results have improved. Meanwhile, WPP's stock dropped after it reported unfavourable quarterly results and lowered its earnings guidance, signaling a longer turnaround than the market initially expected. The uncertainties around Brexit, which is expected to finally occur at the end of the first quarter of 2019, intensified negative market sentiment for these companies. Interestingly, despite Brexit concerns, the U.K. market as a whole sank slightly less than other developed international markets.

Other detractors included the Fund's allocation to U.S. companies, which declined more than the benchmark's U.S. exposure.



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## Select Buy & Sell Activity

The All-Cap Investment Committee took advantage of the heightened market volatility to buy Panama-based Banco Latinoamericano (Bladex) and Dutch semiconductor company NXP Semiconductors.

NXP's stock tumbled about 40% in 2018, after U.S.-based Qualcomm terminated its acquisition bid due to lack of approval by the Chinese regulator, which was needed since both Qualcomm and NXP do significant business in China. Qualcomm initially offered \$110/share and later increased to \$127.50/share after pushback from NXP's shareholders. The deal was eventually rejected by China's Ministry of Commerce, likely in part due to the trade dispute with the United States. This negative outcome coincided with what seemed to be the beginning of a downturn cycle for the semiconductor industry.

Nonetheless, Brandes LP appreciates that NXP Semiconductors has significant exposure to the automotive market, which accounted for almost half of its 2017 revenue. In Brandes LP's opinion, the auto semiconductors segment is an attractive end market offering good margins, long product lifecycle and sticky customer relationships. It is also projected to have strong secular growth as semiconductor use grows thanks to increasing vehicle automation and electric vehicle adoption.

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Increased competition and recent loss of market share, possibly because of a disruption in business activity during the long acquisition review, present challenges for NXP. However, due to its strong position in a variety of growing end markets and improved balance sheet, Brandes LP finds a significant value potential in the company, which traded at just 9x earnings at quarter end.

Other major activity included the full sale of Japan-based Kissei Pharmaceutical. The Fund also exited its position in U.S.-based pharmacy benefit manager Express Scripts as Cigna completed its merger with the company.

## Current Positioning

At year end, the Fund held key investments in consumer staples (mainly food and staples retailing), consumer discretionary (especially automobiles) and communication services (mainly telecom services and media). While financial companies represented the Fund's largest weighting as of December 31, its allocation to the sector remained lower than that of the benchmark. Other major underweight positions were in information technology and materials.

Allocations to emerging markets and the United Kingdom represented the largest overweight positions, while the United States remained the Fund's most significant underweight position.

Brandes LP remains committed to take advantage of potentially undervalued opportunities—which may abound in volatile markets—as it selects and keeps only worthy companies.

## 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				LAST 12 MONTHS			
INDUSTRY				INDUSTRY			
Top 5 Contributors		Top 5 Detractors		Top 5 Contributors		Top 5 Detractors	
	%		%		%		%
Aerospace & Defense	0.84	Health Care Prov. & Services	-1.13	Oil, Gas & Consumable Fuels	2.13	Real Estate Mgmt & Development	-1.72
Oil, Gas & Consumable Fuels	0.83	Food & Staples Retailing	-0.62	Banks	0.63	Health Care Prov. & Services	-1.28
Tech. Hardware, Storage & Periph.	0.64	Real Estate Mgmt & Development	-0.61	Pharmaceuticals	0.44	Multiline Retail	-1.12
Electric Utilities	0.63	Capital Markets	-0.54	Leisure Products	0.43	Commercial Services & Supplies	-1.08
Internet & Direct Marketing Retail	0.49	Commercial Services & Supplies	-0.46	Food & Staples Retailing	0.36	Capital Markets	-0.86
COUNTRY				COUNTRY			
Top 5 Contributors		Top 5 Detractors		Top 5 Contributors		Top 5 Detractors	
	%		%		%		%
Brazil	1.92	United Kingdom	-2.07	Brazil	1.09	United States	-4.97
United States	1.59	Mexico	-1.25	Russia	0.55	United Kingdom	-3.38
France	0.34	Switzerland	-0.56	Germany	0.44	Mexico	-1.09
Japan	0.31	Russia	-0.19	China	0.41	Switzerland	-0.90
Germany	0.30	Ireland	-0.18	Japan	0.39	India	-0.64
COMPANY				COMPANY			
Top 5 Contributors		Top 5 Detractors		Top 5 Contributors		Top 5 Detractors	
	%		%		%		%
Companhia Paranaense de Energia	0.71	Owens & Minor Inc	-0.82	Companhia Paranaense de Energia	0.49	Countrywide PLC	-1.25
Embraer S.A.	0.71	Briggs & Stratton Corp.	-0.48	Lukoil ADR	0.47	Owens & Minor Inc	-0.92
Telefonica Brasil S.A.	0.48	Consorcio ARA, S.A. de C.V. ORD	-0.47	J Sainsbury plc	0.45	Debenhams PLC ORD	-0.86
Petroleo Bras Pref ADR	0.34	Cemex SA de CV ADR	-0.36	Sankyo Co Ltd	0.43	Briggs & Stratton Corp.	-0.74
Nova Ljubljanska Banka GDR	0.20	Credit Suisse Group AG	-0.36	GlaxoSmithKline plc	0.36	MITIE Group PLC	-0.68

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## Quarterly Additions/Deletions

Additions
NXP Semiconductors NV
Banco Latinoamericano
Nova Ljubljanska Banka GDR

Deletions
Petroleo Bras Pref ADR
Express Scripts Holding Co
APT Satellite Holdings Ltd
Debenhams PLC ORD
Kissei Pharmaceutical Co Ltd

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