Brandes International Equity Fund

Fund Commentary

During the fourth quarter, the Brandes International Equity Fund outperformed its benchmark, the MSCI EAFE Index.

Positive Contributors

Despite the broadly declining market, a few holdings appreciated. Positions in Brazil led 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 oil & gas firm Petrobras, telecom services provider Telefonica Brasil 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.

Utility Engie and telecom services provider Orange, both based in France, rose on improved operating results. Additionally, Finnish telecommunications equipment firm Nokia helped performance as it benefited from the first 5G spending commitments from carriers. The weakened position of its Chinese competitors, Huawei and ZTE, worsened by the ongoing U.S.-China trade dispute, has also worked in Nokia's favour.

Other contributors included a variety of health care holdings, mainly pharmaceutical firms, which as a group held up significantly better than the market in a difficult environment. The Fund's two largest holdings, Sanofi and GlaxoSmithKline, declined but outperformed the broader market, thus contributing positively to relative returns. Glaxo reached an agreement with Pfizer to create a consumer health joint venture that would be the world's biggest supplier of over-the-counter medicines.

Furthermore, the Fund's cash position aided relative returns in a declining market. The Fund's cash weighting decreased as Brandes LP has found several new opportunities that will be discussed in *Select Buy & Sell Activity* below.

Performance Detractors

Major detractors included financial holdings, primarily in Switzerland. Wealth managers Credit Suisse and UBS Group both declined, along with the broader European financial sector, as the market became increasingly worried about global economic growth and continued low interest rates in Europe. Credit Suisse also faced pressure from weaker-than-expected trading results. However, on its investor day later in the quarter, the company stated that 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 dividend going forward.

Beyond Swiss financial firms, Japanese bank Mitsubishi UFJ and Dutch insurance company Aegon also hurt performance.

From a country perspective, several holdings in the United Kingdom weighed on returns significantly. Notable detractors included food retailer Tesco, home improvement retailer Kingfisher and ad agency WPP.

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 disappointing quarterly results and

Brandes International Equity Fund

revised down 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 the negative market sentiment for these companies. Interestingly, despite Brexit concerns, the U.K. market as a whole declined slightly less than other developed international markets for the quarter.

Other detractors included Mexican cement company Cemex and Italian integrated oil company ENI.

Select Buy & Sell Activity

The International Large-Cap Investment Committee took advantage of market volatility to purchase shares of Dutch semiconductor manufacturer NXP Semiconductors, German chemical company BASF and Swiss watchmaker Swatch Group.

NXP's stock tumbled about 40% during the year, 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 the company has significant exposure to automotive semiconductors, which accounted for nearly half of its 2017 revenue. In Brandes LP's opinion, the auto semiconductors segment is an attractive end market offering good margins, long product life cycle, and sticky customer relationships. The market is also projected to have strong secular growth as semiconductor use grows due to increasing vehicle automation and adoption of electric vehicles.

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

BASF is the world's largest diversified chemical company and is known for its innovation. The firm also appears to be shareholder oriented, with a strong dividend yield and share buyback history. In December, BASF cut its earnings outlook, sending its share price to a level that Brandes LP considers attractive from a long-term perspective.

The investment committee also added to several positions, including Ireland-based building materials company CRH and French consumer goods company Société BIC.

CRH is one of the world's largest building materials suppliers. Brandes LP had owned the company when its stock was out of favour due to the construction downturn during the global financial and euro zone crises. Recently, CRH, along with other companies in cyclical businesses, saw its shares decline again, mainly due to concerns about global economic growth. With its strong market share and cash generation, as well as an improved balance sheet, CRH is well positioned to weather its challenges, in Brandes LP's opinion. The recent consolidation of the global building products industry and increased vendor pricing power should further help the company's outlook. Brandes LP also believes CRH could benefit from its exposure to U.S. infrastructure spending if there is a recovery in construction demand, which is currently below historical averages.

Moreover, CRH is a vertically integrated business and has significant exposure to the repair and maintenance market segments. Brandes LP believes these attributes make the company more resilient to cyclical downturns compared to many of its peers, as exemplified by its positive free cash flow during the most recent downturn. Trading at 11x earnings and a slight premium to book value at the time of

Brandes International Equity Fund

the Fund's purchase, CRH offers an appealing risk/reward tradeoff.

Other major activity included the divestment of Swedish telecom equipment company Ericsson.

Brandes LP has previously owned Ericsson in different periods and has covered the company for most of the past decade. It is a global leader in the wireless equipment industry, which has consolidated significantly over the last 20 years. Ericsson's primary customers are wireless telecom carriers that use the firm's technologies to expand and improve their networks.

The Fund initiated its most recent position in Ericsson in 2015 and added to it in 2016 following a lull in demand for the company's products in anticipation of wireless carriers' deployment of their 5G networks. Over the last year, Ericsson's share price has appreciated on enhanced earnings and increased market optimism regarding carrier spending on 5G networks. Additionally, the competitive landscape for Ericsson has improved. Governments in a number of developed countries have banned or are planning to ban equipment purchases from Chinese companies Huawei and ZTE, leaving just Nokia as Ericsson's main competitor. Brandes LP sold its position as the shares rose toward its intrinsic value estimate.

Current Positioning

In light of the heightened volatility this quarter, Brandes LP's investment monitoring lists have become increasingly attractive after an extended period when finding new value opportunities was challenging. Brandes LP took advantage of this possible divergence between price and value by making new purchases and adding to some positions. For example, while the portfolio has been, and continues to be, underweight the cyclical industrials and materials sectors, souring market sentiment enabled Brandes LP to uncover additional value opportunities within these areas. The Fund also added two tobacco-related positions earlier in the year and modestly increased its technology allocation amid the sector sell-off. Furthermore, Brandes LP altered the composition of the Fund's health care exposure by paring or selling several of its holdings given their share-price strength, while finding new investment opportunities and adding to positions where it felt the share-price weakness was creating further mispricing.

After trimming energy firms and U.K. food retailers due to their strong performance, Brandes LP remains overweight these areas, a position it is comfortable with as it believes each of its holdings continues to offer an appealing risk/reward tradeoff. Additionally, although holdings in communication services and consumer discretionary detracted from returns in 2018, Brandes LP maintains its view that the companies it holds are fundamentally undervalued, spurring it to add to some positions.

At the end of 2018, the Fund's largest overweight positions were in emerging markets, France and the United Kingdom. From an industry standpoint, the Fund held its key overweights in pharmaceuticals, oil, gas & consumable fuels, and food retailing. The Fund maintains its underweight positions to companies based in Germany, Australia and Japan, as well as those operating in the industrials and materials sectors.

Overall, the volatility in international markets during the fourth quarter led to a more attractive investment opportunity set and an increase in the portfolio's overall margin of safety, based on Brandes LP's analysis. Brandes LP is enthusiastic about the potentially undervalued companies it is finding within the asset class, and believes the Brandes International Equity Fund remains well positioned for the long term.

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

Brandes International Equity Fund

priced, fundamentally sound companies worthy of inclusion in the Fund.

Brandes International Equity Fund

Contribution Analysis (relative to benchmark)

LAST QUARTER

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Aerospace & Defense	0.56	Food & Staples Retailing	-1.05
Chemicals	0.47	Capital Markets	-0.64
Machinery	0.41	Construction Materials	-0.48
Oil, Gas & Consumable Fuels	0.35	Media	-0.45
Diversified Telecom. Services	0.31	Specialty Retail	-0.24

COUNTRY

Top 5 Contributors	%	Top 5 Detractors	%
Brazil	1.14	United Kingdom	-1.35
France	1.02	Switzerland	-0.80
Germany	1.01	Mexico	-0.69
Japan	0.89	Italy	-0.48
Australia	0.31	Netherlands	-0.31

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Embraer S.A.	0.32	Credit Suisse Group AG	-0.54
Telefonica Brasil SA Pfd	0.32	Cemex SA de CV ADR	-0.52
Petroleo Brasileiro SA Pfd	0.25	WPP Plc	-0.52
Nokia Oyj	0.18	Aegon NV	-0.44
Orange	0.17	Tesco PLC	-0.36

LAST 12 MONTHS

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Pharmaceuticals	2.22	Capital Markets	-0.98
Oil, Gas & Consumable Fuels	2.04	Media	-0.91
Communications Equipment	1.01	Specialty Retail	-0.66
Banks	0.92	Construction Materials	-0.42
Machinery	0.53	Diversified Financial Services	-0.37

COUNTRY

Top 5 Contributors	%	Top 5 Detractors	%
Japan	1.94	Switzerland	-1.16
Germany	1.37	South Korea	-0.86
Brazil	1.04	Mexico	-0.75
Sweden	0.68	Hong Kong	-0.51
Russia	0.58	Italy	-0.36

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Daiichi Sankyo	0.85	Credit Suisse Group AG	-0.82
Taisho Pharmaceutical Hldgs.	0.60	WPP Plc	-0.81
Lukoil ADR	0.58	Kingfisher Plc	-0.69
Sanofi	0.52	Telecom Italia	-0.55
Nokia Oyj	0.51	Cemex SA de CV ADR	-0.53

Brandes International Equity Fund

Quarterly Additions/Deletions

Additions	Deletions
NXP Semiconductors NV	Petroleo Bras Pref ADR
Swatch Group Bearer ORD	Ericsson (L.M.) Telephone ORD
BASF SE	

Brandes International Equity Fund

FOR DISTRIBUTION TO INVESTORS BY REGISTERED DEALERS ONLY.

Bridgehouse Asset Managers® is a trade name of Brandes Investment Partners & Co. (Bridgehouse). Brandes Investment Partners® is a registered trademark of Brandes Investment Partners, L.P. (Brandes LP), which is an affiliate of Bridgehouse. Bridgehouse is the manager of the Bridgehouse Funds and has hired Brandes LP, Lazard Asset Management (Canada), Inc. (Lazard), Morningstar Associates Inc. (Morningstar) and Sionna Investment Managers Inc. (Sionna) as portfolio sub-advisors (collectively, the "portfolio sub-advisors") in respect of the Bridgehouse Funds. The foregoing reflects the thoughts, opinions and investment strategies of Bridgehouse and/or the portfolio sub-advisors and is subject to change at their discretion, based on changing market dynamics or other considerations. Bridgehouse and the portfolio sub-advisors have taken reasonable steps to provide accurate and current data. The data has been gathered from sources believed to be reliable, however Bridgehouse and/or the portfolio sub-advisors are not responsible for any errors or omissions contained herein. Indices are unmanaged and cannot be directly invested into. Securities mentioned herein are not to be construed as a recommendation to buy or sell. Past performance is not a reliable indicator of future results. This material has been provided by Bridgehouse and is for informational purposes only. It is not intended to provide legal, accounting, tax, investment, financial or other advice and is not to be construed as a recommendation to buy or sell. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. This report may contain forward-looking statements about the economy, and markets; their future performance, strategies or prospects. Units and shares of the Bridgehouse Funds are available through registered dealers only and are not available through Bridgehouse.

The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties about general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. You are cautioned to not place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement. Before making any investment decisions, you are encouraged to consider these and other factors carefully. Where applicable, please note that MSCI has not approved, reviewed or produced this report, makes no express or implied warranties or representations and is not liable whatsoever for any data in the report. You may not redistribute the MSCI data or use it as a basis for other indices or investment products.

Published February 6, 2019

BRANDES INVESTMENT PARTNERS

on the BRIDGEHOUSE INDEPENDENT PLATFORM