

Brandes U.S. Small Cap Equity Fund

Fund Commentary

During the quarter, the Brandes U.S. Small Cap Equity Fund underperformed its benchmark, the MSCI USA Small Cap Index.

Positive Contributors

The Fund had an array of contributors from several sectors. Among these were its oil and gas holdings, including World Fuel Services, which rose on the back of strong earnings. Financial holdings, led by insurer Old Republic International and Popular, also provided a lift.

Biotechnology companies, specifically OPKO Health and PDL Biopharma, earned positive results. PDL benefited from strong revenue growth, largely due to the launch of its Noden pharmaceutical franchise in Japan by distribution partner Orphan Pacific.

Additionally, positions in information technology aided returns, led by Sierra Wireless, which has announced robust revenue and earnings growth so far in 2018. Brandes LP believes the company remains undervalued. As an important player in the ever-evolving IoT (Internet of Things) ecosystem, Sierra Wireless enjoys a quite favourable competitive landscape. The company has also started to see results from its investments in enterprise products, and the integration of its cloud and connectivity businesses.

Performance Detractors

Holdings in the household durables industry hurt performance, specifically homebuilders Taylor Morrison and Beazer Homes, as well as greeting card company CSS Industries.

Ireland-based Avadel Pharmaceuticals also weighed on returns. A few months ago, U.S. private pharmaceutical firm Ferring received an FDA approval for a drug that will compete with Avadel's recently launched proprietary drug Noctiva. Avadel's shares fell on the news. In Brandes LP's opinion, the competitive threat has been more than accounted for in Avadel's stock price. Brandes LP appreciates that Avadel's net cash position accounts for over half of its market cap and that the company generates significant cash flow from its hospital products. Furthermore, Brandes LP sees upside potential from the commercialization opportunity of Noctiva and the success of the phase III trial for Avadel's FT-218, a narcolepsy treatment.

Other detractors included personal products company Edgewell Personal Care and Triple-S Management Corporation, a health insurance company specializing in the Puerto Rican market.

Select Buy & Sell Activity

The Small-Cap Investment Committee purchased shares of Triple-S Management Corporation. It's a company that Brandes LP knows very well, having previously held it in the Fund in recent years.

Sale activity included electronic equipment instruments and components company Fabrinet and biotech OPKO Health. Both OPKO Health and Fabrinet were fairly recent additions and have been two of the best year-to-date performers. The Fund exited the positions as they appreciated to our estimates of their intrinsic value.

OPKO Health is a hybrid health care company with a cash-generating diagnostics business and a pharmaceutical portfolio that offers one FDA-approved medication, with several more in the pipeline. The diagnostic business was bought in 2015 through the \$1.47 billion acquisition of Bio-Reference Laboratories Inc. (BRL), the world's third-largest full-service clinical lab company after Quest Diagnostics and Lab Corp. The intent of the acquisition was to maximize cash flows and reinvest the capital into developing the core pharma pipeline. Unfortunately, the integration and management of BRL has not been successful, leading to subpar margins compared to OPKO's two larger peers.

Before the Fund's initial investment, shares of OPKO had fallen severely over the past three years as BRL's

The information contained herein is subject to important disclosures and disclaimers contained in the Disclosure Statement on the last page of this document. This document is not complete without such Disclosure Statement. All figures shown are in U.S. dollars.



Brandes U.S. Small Cap Equity Fund

profitability continued to deteriorate. This occurred because of reimbursement pressures, heightened competition, poor management, and increased costs for launching and commercializing 4KScore, its proprietary prostate cancer-screening test. Additionally, on receiving FDA approval for its first medication, Rayaldee, a vitamin D drug for pre-dialysis patients with chronic kidney disease, OPKO established a 70-person commercial sales force. However, at the time, Rayaldee had not reached the level of sales that could justify the size of the team.

Brandes LP felt these issues had been more than accounted for in OPKO's share price and it initiated its position early this year. Since then, its diagnostic division has generated strong sales growth and margin expansion, while the uptake of Rayaldee has been better than expected. Given the share-price appreciation and the change in the risk/reward tradeoff, the Fund sold its position.

Current Positioning

At quarter end, the Fund exhibited more attractive valuations, in Brandes LP's opinion, than the MSCI USA Small Cap Index.

The Fund's largest overweights were in the consumer discretionary (mainly due to its positions in homebuilders) and consumer staples sectors. The Fund maintained an underweight in technology and financials.

Brandes LP believes the current positioning of the Brandes U.S. Small Cap Equity Fund bodes well for the long term.

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.

The information contained herein is subject to important disclosures and disclaimers contained in the Disclosure Statement on the last page of this document. This document is not complete without such Disclosure Statement. All figures shown are in U.S. dollars.



Brandes U.S. Small Cap Equity Fund

Contribution Analysis (relative to benchmark)

LAST QUARTER

INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Oil, Gas & Consumable Fuels	1.12	Household Durables	-1.05
Biotechnology	0.79	Pharmaceuticals	-0.71
Food Products	0.66	Health Care Equip. & Supplies	-0.66
Elect. Equip., Instr. & Components	0.57	Personal Products	-0.49
Banks	0.53	Internet Software & Services	-0.38

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
World Fuel Services Corp	1.10	Avadel Pharmaceuticals PLC ADR	-0.46
Seneca Foods Corp. Cl. A	0.60	Edgewell Personal Care Co.	-0.45
OPKO Health, Inc.	0.57	Beazer Homes USA Inc.	-0.43
Fabrinet	0.42	Taylor Morrison Home Corp. Class A	-0.42
Briggs & Stratton Corp.	0.35	CSS Industries Inc	-0.26

LAST 12 MONTHS

INDUSTRY			
Top 5 Contributors	%	Top 5 Detractors	%
Elect. Equip., Instr. & Components	1.76	Health Care Prov. & Services	-2.63
Professional Services	1.67	Household Durables	-2.55
Communications Equipment	1.20	Internet Software & Services	-1.83
Food Products	0.69	Pharmaceuticals	-1.65
Biotechnology	0.62	Software	-1.39

COMPANY			
Top 5 Contributors	%	Top 5 Detractors	%
Fabrinet	1.34	Owens & Minor Inc	-1.76
OPKO Health, Inc.	1.28	Avadel Pharmaceuticals PLC ADR	-1.13
FTI Consulting Inc.	1.27	Edgewell Personal Care Co.	-0.95
Evertec Inc	1.00	CSS Industries Inc	-0.94
Resources Connection Inc.	0.77	Beazer Homes USA Inc.	-0.67

The information contained herein is subject to important disclosures and disclaimers contained in the Disclosure Statement on the last page of this document. This document is not complete without such Disclosure Statement.



Brandes U.S. Small Cap Equity Fund

Quarterly Additions/Deletions

Additions	Deletions
Triple-S Management Corp CIB	OPKO Health Inc.
	Fabrinet

The information contained herein is subject to important disclosures and disclaimers contained in the Disclosure Statement on the last page of this document. This document is not complete without such Disclosure Statement.



Brandes U.S. Small Cap 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, Greystone Managed Investments Inc. (Greystone), 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 October 29, 2018

