Is Your Portfolio Exposed to Blind Spots in Emerging Markets?

Potential Investor Blind Spot: EM Fund Flows Overwhelmingly Passive
- $65 billion USD of net flows went into EM in 2017
- Greater than 80% of flows went into passive strategies

Potential Investor Blind Spot: EM Growth Expensiveness
- EM growth traded at more than 1.5 standard deviations above its 10-year average forward P/E as of 12/31/17
- As a comparison, EM value traded in line with its 10-year average forward P/E

Overconcentration: MSCI EM Index Is Highly Concentrated in Two Areas: China and Information Technology (IT)
- China: Accounted for more than 30% of the MSCI EM Index as of 6/30/18
  - 5 largest companies represented more than 40% of MSCI EM’s China weighting
- IT: Accounted for:
  - 28% of the MSCI EM Index as of 6/30/18
  - 35% of MSCI EM Index’s 2017 returns
  - 60% of MSCI EM’s IT sector: Alibaba, Samsung, Tencent, TSMC, Baidu

Weightings as of 6/30/18

Key Overweights (% of Fund)
- Consumer Discretionary: 19.5%
- Brazil: 18.8%
- Telecom Services: 14.7%
- Russia: 11.7%
- China: 18.9%

Key Underweights (% of Fund)
- Taiwan: 11.6%
- Financials: 16.7%
- Technology: 22.8%
- India: 27.8%

High Valuations: Chasing Big Names
- Chinese IT’s average forward P/E: 44x
- In comparison, MSCI EM’s forward P/E was 18.9x
- After being markedly absent in 2017, volatility seems to have returned to the Chinese equity market in early 2018, potentially creating unexpected events for investors with overconcentrated investments in China

“Sentiment can swing widely and it opens windows of opportunity that we take advantage of.”
Gerardo Zamorano, CFA
Director, Investments
Brandes Investment Partners

“If you think that you are buying a diversified exposure to all of the EM opportunities through a passive strategy, you may have to look again because the country allocations of a lot of these indices tend to be concentrated to the 5 largest companies in each country.”
Louis Lau, CFA
Director, Investments
Brandes Investment Partners

“Brandes aligns research analysts by global industry groups covering the full market cap spectrum. The same analysts who cover – say – South Korean autos also cover BMW, Toyota, GM and all the suppliers, so they know best practices around the world and can properly evaluate EM companies within the context of a competitive global landscape.”
Matt Brundage, CFA
VP, Product
Bridgehouse Asset Managers

Source: UBS, EPFR; includes both ETF and long only fund flows.
Source: FactSet as of 6/30/18; China IT: Chinese IT companies within the MSCI EM Index. P/E: Price/Earnings. Past performance is not a guarantee of future results. One cannot invest directly in an index.
Brandes Emerging Markets Value Fund

Brandes is an active manager with a deep conviction in a bottom-up stock selection approach. We believe value — not benchmark weightings — should guide investment decisions.

Avoid EM HYPER Concentration and Seek Value in Diversity with Brandes Emerging Markets Value Fund

Diverse team

- 50+ person investment team conducts detailed fundamental analysis
- Analysts speak multiple languages (e.g., Mandarin, Spanish, Portuguese, Korean, etc.); many have grown up or lived in EM countries

Diverse experience

Brandes has navigated extreme EM market cycles over the past 40+ years

- Mexican Peso crisis of 1994
- Asian financial crisis of 1997
- Argentina crisis 1999-2002
- Global financial crises 2008-2009

Brandes EM Value: Distinct and Flexible

Our opportunity set includes:

- Companies in emerging markets (e.g., Brazil, South Korea)
- Businesses in frontier markets (e.g., Argentina, Pakistan)
- Companies in countries not included in any global index (e.g., Panama)
- Developed-market companies with significant operations in EM (e.g., Hong Kong, Singapore)

We can avoid areas where we see no value potential:

- 12/31/06: 0% in India
- 12/31/07: 0% in Energy and Metals & Mining
- 12/31/17: 0% in Taiwan

Brandes Value Approach

High Active Share of 95%

- Exploiting market inefficiencies
- Distinct positions
  - 9% in China vs. 33% for the index
  - 5% in IT vs. 28% for the index
  - 19% in Brazil vs. 6% for the index
  - 20% in Consumer Discretionary vs. 10% for the index

Seeks out the best value in EM

- Traded at 10.4x P/E, 0.9x P/B vs. the benchmark at 13.5x P/E and 1.7x P/B as of 6/30/18

Brandes EM holds undervalued businesses across 23 different countries

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Sources:

1. Source: Brandes, MSCI via FactSet. Fund holdings subject to change.
2. Source: Brandes, MSCI via FactSet.

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