

Brandes Emerging Markets Value Fund

Fund Commentary

During the quarter, the Brandes Emerging Markets Value Fund underperformed its benchmark, the MSCI Emerging Markets Index.

Performance Detractors

The most significant detractors were our (Brandes LP) holdings in Russia. Our thoughts continue to be with the people of Ukraine, as well as those in Russia who are advocating for peace. The events that have unfolded since the start of the Russian invasion of Ukraine in February have significantly elevated the risks and uncertainties associated with investments in Russian securities. The portfolio has exposure to five companies domiciled in Russia: Detsky Mir, Lukoil, Mobile TeleSystems, Sberbank and Sistema.

Beyond Russia, we have also observed increased volatility within the Chinese equity market. Fresh COVID-related lockdowns and geopolitical issues (e.g., relations with Russia and Taiwan) were notable overhangs. Continued investor unease with ADRs (American depository receipts) and overseas listings further pressured the market, along with regulatory risk on technology-related companies, property market instability, and concerns about economic growth. In mid-March, Vice Premier Liu He announced that

the government would introduce policies that are expected to be favourable to the market. While the statement stabilized China's financial markets momentarily, several of our holdings there performed poorly for the quarter, most notably China Education Group, Chinasoft International, Midea and Weichai Power.

Other poor performers included Brazilian regional jet manufacturer Embraer and Mexican cement company Cemex, both of which gave back some of their strong performance over the past 18 months. Embraer's shares declined on lowered short-term margin guidance. We believe the market underappreciates the ongoing cycle of recovery across Embraer's products, which have seen their order backlog rise above pre-COVID levels. As the market is heavily focused on short-term, one-off item margin distortions, Embraer now trades at a wide discount to our estimate of its intrinsic value.

Additionally, our underweight to non-Russian commodities-oriented companies and stock selection in the financials sector weighed on returns relative to the MSCI Emerging Markets Index.

Positive Contributors

Strong performers included holdings in Brazil, namely oil and gas firm Petrobras and food retailer Sendas Distribuidora, which rose after it reported higher-than-anticipated earnings.

Although our overall exposure to the financials sector hurt relative returns, select bank holdings performed well. These included Bank Rakyat Indonesia, Thailand-based Bangkok Bank and newly added Erste Group Bank.

Furthermore, the Fund's underweight to China helped returns relative to the benchmark.

Select Buy & Sell Activity

The emerging markets investment committee initiated positions in Erste Group Bank and LG Household & Health Care.

Erste is a bank that we know well, having held it on multiple occasions, most recently in early 2020. While it is domiciled in Austria, the company operates throughout emerging Europe with a strong market position. Erste fell nearly 50% amid the Russia/Ukraine conflict, despite having no direct exposure to Russia, Ukraine and Belarus. The company has

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performed stress-testing on its loans to account for the energy price increases and concluded there was no need for materially higher provisions, highlighting the strength of its loan portfolio.

LG Household & Health Care (LGHH) is a diversified consumer goods company based in South Korea. The company has enjoyed consistent growth, with revenues growing at a 10-year compounded rate of 13% annually (pre-pandemic) and operating profit at 18%, leading it to become South Korea's top player in all three of its divisions: Beauty (cosmetic products), Health (health care and household products) and Refreshment (beverages).

LGHH's flagship luxury cosmetics brand, The History of Whoo, has steadily been gaining share in the Chinese beauty market (its main market) as it benefited from the shift in consumer preferences from value to premium products, a trend that is expected to continue in the foreseeable future. Recently, however, sales have started to slow down, mainly due to the strict lockdowns in China and the related decline in the duty-free sales channel. As a result, LGHH's shares fell over 30% in 2021.

We believe the market is applying an overly harsh scenario of permanently slower sales growth of LGHH's cosmetic products, providing us with an opportunity to invest in a company with a solid market presence at appealing valuations. In our opinion, LGHH remains well positioned to benefit from the premiumization of China's beauty market

and from a rebound in sales as mobility restrictions ease in its main markets.

Other major activity included the full sells of Thailand-based Siam Commercial Bank, Vivo Energy and China-based food company Wens Foodstuff. We exited these positions as the shares appreciated toward our estimates of their intrinsic values.

Current Positioning

As of March 31, 2022, the Fund held large sector overweights in consumer discretionary, real estate (note that we do not own any real estate holdings in China) and consumer staples, and key underweights to materials and financials. From a country perspective, even though Chinese companies made up our largest allocation, we remained underweight relative to the benchmark. We also continued to be underweight India and Taiwan, while having a significant overweight to companies in Mexico and Indonesia.

The world has changed significantly in the past several weeks. With so many moving parts and ever-changing news flow, it is easy to get lost in the myriad of topical questions. It would be impossible to predict the outcomes of current world events and their impact on investment portfolios.

Looking forward, we believe the Brandes Emerging Markets Value Fund offers a diversified portfolio with exposure to the following factors:

- *Post-COVID economic reopening/normalization:* We believe our holdings in air travel, casino gaming and luxury retail, as well as those in China, Southeast Asia and Latin America from a geographic standpoint, will benefit assuming the pandemic's economic impact continues to ease.
- *Inflation:* While we make no attempt to forecast inflation, we believe the portfolio is well positioned for a rising inflation environment through our holdings in financials and real estate investment trusts with inflation-indexed rents, as well as high-yielding businesses. These holdings may benefit from net interest margin expansion should the yield curve steepen. Additionally, we have reduced the exposure to financial leverage among our non-financial holdings, which we believe is prudent given the potential impact of rising interest rates on the cash flows of these businesses.
- *Long-term growth drivers in emerging markets:* Our positions in consumer-related fields (e.g., e-commerce, food products, appliances, sportswear, cosmetics, education) provide exposure to the growing middle-class consumption in emerging markets.

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We believe this positioning, combined with the portfolio's overall attractive valuation levels, bodes well for the portfolio's returns in 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.

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Contribution Analysis (relative to benchmark)

LAST QUARTER

| INDUSTRY | | | |
|------------------------------------|------|-------------------------------|-------|
| Top 5 Contributors | | Top 5 Detractors | |
| | % | | % |
| Interactive Media & Svcs. | 1.14 | Banks | -2.86 |
| Internet & Direct Marketing Retail | 0.84 | Specialty Retail | -1.42 |
| Automobiles | 0.65 | Wireless Telecom. Services | -1.07 |
| Food & Staples Retailing | 0.65 | Aerospace & Defense | -1.03 |
| Semicond. & Semicond. Equip. | 0.61 | Diversified Consumer Services | -0.68 |

| COUNTRY | | | |
|--------------------|------|----------------------|-------|
| Top 5 Contributors | | Top 5 Detractors | |
| | % | | % |
| China | 1.55 | Russia | -2.99 |
| South Korea | 0.28 | South Africa | -0.60 |
| Thailand | 0.22 | Brazil | -0.51 |
| Greece | 0.09 | Saudi Arabia | -0.50 |
| Philippines | 0.07 | United Arab Emirates | -0.22 |

| COMPANY | | | |
|------------------------------|------|--------------------|-------|
| Top 5 Contributors | | Top 5 Detractors | |
| | % | | % |
| Sendas Distribuidora SA | 0.61 | Sberbank | -2.68 |
| Petroleo Brasileiro SA Pfd | 0.53 | Lukoil ADR | -1.65 |
| Fibra Uno Admin. SA ORD | 0.31 | Embraer S.A. ADR | -1.04 |
| Bank Rakyat Indonesia Perser | 0.30 | Detsky Mir PJSC | -0.95 |
| Galaxy Entertainment Group | 0.29 | Mobile Telesystems | -0.94 |

LAST 12 MONTHS

| INDUSTRY | | | |
|------------------------------------|------|-------------------------------|-------|
| Top 5 Contributors | | Top 5 Detractors | |
| | % | | % |
| Interactive Media & Svcs. | 2.73 | Banks | -3.31 |
| Internet & Direct Marketing Retail | 2.30 | IT Services | -1.66 |
| Tech. Hardware, Storage & Periph. | 1.12 | Hotels, Restaurants & Leisure | -1.32 |
| Food Products | 0.97 | Specialty Retail | -1.09 |
| Media | 0.84 | Household Durables | -1.07 |

| COUNTRY | | | |
|--------------------|------|------------------|-------|
| Top 5 Contributors | | Top 5 Detractors | |
| | % | | % |
| China | 3.23 | Russia | -3.03 |
| Brazil | 2.58 | Saudi Arabia | -0.94 |
| South Korea | 1.19 | Taiwan | -0.87 |
| Thailand | 0.44 | India | -0.79 |
| United Kingdom | 0.38 | Chile | -0.69 |

| COMPANY | | | |
|-------------------------------|------|----------------------------|-------|
| Top 5 Contributors | | Top 5 Detractors | |
| | % | | % |
| Petroleo Brasileiro SA Pfd | 1.10 | Sberbank | -2.32 |
| Zee Entertainment Enterprises | 0.86 | Lukoil ADR | -1.52 |
| Embraer S.A. ADR | 0.77 | Wynn Macau Ltd. | -1.06 |
| Sendas Distribuidora SA | 0.66 | Travelsky Technology Ltd H | -0.99 |
| Wens Foodstuff Group | 0.64 | Detsky Mir PJSC | -0.98 |

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Quarterly Additions/Deletions

| Additions | Deletions |
|----------------------------|-----------------------------|
| LG Household & Health Care | Siam Commercial Bank |
| Erste Group Bank | Vivo Energy |
| Kasikornbank | Wens Foodstuff Group |
| Chinasoft International | Telefonica O2 Czech |
| | Hellenic Telecommunications |
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