

Frequently Asked Questions Regarding the Russia/Ukraine Conflict

Our thoughts continue to be with the people of Ukraine and those Russians who are advocating for peace. The events that have unfolded since the start of the Russian invasion of Ukraine on February 24 have significantly elevated the risks and uncertainties related to investments in Russian securities.

The situation remains fluid and this Q&A is based on available information as of April 7, 2022.

1. How has Brandes responded to Russia's invasion of Ukraine?

Prior to the April 6, 2022 prohibition of new investment in Russia, we communicated that we would not allocate new capital to Russian securities for the foreseeable future. We believe that in addition to the negative impact on company fundamentals and prospects, there is increased risk, including the potential for long-term capital controls and nationalization of Russian companies. Currently, due to restrictions imposed by governments and financial institutions globally, we are effectively unable to transact in Russian securities. We are, of course, closely monitoring developments and evaluating what to do with existing holdings. A material change in the conflict or environment could alter our current investment posture.

While the immediate focus is rightly on Russia and Ukraine, these events have global implications which, in and of themselves, may create investment risks and opportunities elsewhere around the world. Rest assured that our Investment Committees are focused on assessing the changing environment and potential impact on all of our portfolio holdings, while always seeking to make sound, long-term investment decisions on behalf of our clients.

2. What was the rationale for imposing a moratorium on allocating new capital to Russian securities?

Before the invasion, our Russian-based holdings represented approximately 1.5% of all our firm's strategies. The escalation of the Russia/Ukraine crisis and the resulting geopolitical implications have led to an environment that we do not believe is appropriate for deploying new client capital at this time. Beyond the extreme uncertainty and impact on underlying business fundamentals, the closure of the Moscow Stock Exchange and trading restrictions imposed on non-Russian investors have led to operational, compliance, and legal complexity with minimal transparency.

We do not want to be forced sellers and are actively monitoring the situation, assessing the impact with a sharp focus on the changing risks and evolving sanctions, and will take measured action as necessary.

3. What is the current trading status of the Russian market?

On March 24, the Bank of Russia held trading on the Moscow Exchange for 33 securities included in the Moscow Exchange Index. Foreigner participation was not allowed and short selling was banned. In addition, the Kremlin ordered a Russian sovereign-wealth fund to buy about \$10 billion in shares.¹

On March 28, Russia opened up trading from the 33 original stocks to all securities. The market hours (effectively a half day) and trading rules for foreigners did not change.

As of this writing, there is no clear timetable to when the Russian stock market will open to foreign investors, nor what transactions will be allowed.

4. What about American Depository Receipts and Global Depository Receipts (ADR/GDRs)?

Initially these were the only markets that gave liquidity to Russian exposure. While some banks restricted accepting orders to trade, most initially accepted them.

In early March, trading of Russian ADRs/GDRs was halted by all major exchanges and has not resumed. There is mixed speculation on the next steps and scarce information at present with some reports noting the possibility of all ADR/GDR programs being cancelled. There is currently proposed legislation in Russia that would require Russian companies to delist from foreign exchanges. If this were approved later in April however, there is still the possibility that the Russian Ministry of Finance would allow exceptions for foreign listings of existing depository receipt programs.

As of this writing, the status for ADRs/GDRs is similar to the trading for foreign investors on the Russian market with no clear schedule for resumption available.

5. How are you pricing the Russian securities currently held in portfolios from prior to the invasion?

The firm's Valuation Committee (the, "Committee"), which is made up of members from Legal/Compliance, mutual funds, operations, pricing and trading, meet almost daily to determine a fair value for the Russian securities held in the portfolios. Members of the Committee meet regularly with outside counsel, pricing vendors and participate in industry calls with the Investment Company Institute to get external insight and opinion on process and approach.

6. How is Brandes Fair Valuing the Russian securities and the portfolios that hold these securities?

It is Brandes' policy to "fair value" any securities held in client accounts where reliable market quotations are not readily available, or where the price provided by the pricing service does not reflect what Brandes believes might reasonably be received upon an orderly sale of the securities.

The Committee is fair valuing Russian securities held in client portfolios on a daily basis, taking into consideration all available information on the day, including factors such as:

- transactions in comparable securities or assets, such as ADRs and GDRs or Russian equity Exchange Trade Funds (ETFs)
- relationships among various securities and assets/currencies such as the Ruble
- most recent closing price
- trading volumes
- trading in an equivalent over-the-counter share
- such other factors as may be determined by the Fair Valuation Committee to materially affect the value of the security

The fair valuation process during the Russia/Ukraine Conflict has been particularly dynamic and challenging. When the local Russian market closed on February 28, ADRs and GDRs continued to trade, providing reasonable price discovery and an important input to the fair valuation of related local shares. In instances where no ADR or GDR exists, a suitable proxy like a Russian Index ETF was considered as an important factor in adjusting the last traded price of the foreign ordinary shares. As events moved forward and Russian indexes began to freeze, the Russian ETFs that tracked them became increasingly irrelevant and eventually halted trading altogether. Moreover, ADRs and GDRs stopped trading completely. At this stage, additional market proxies, as well as foreign currency adjustments, were considered as potential inputs to incorporate market movement. Additionally, whether sanctions were imposed constituted a substantial factor in the fair valuation of certain companies. Ultimately, fair valuations assigned to Russian positions have been drastically reduced from the last exchange-traded prices or potentially marked to zero. Although the Russian exchange partially reopened on March 24, the heavy restrictions that remain in place (such as the ban on foreign investors from trading their positions), in Brandes' judgement, have rendered it unreliable as a pricing mechanism.

7. How do the decisions by the index providers (MSCI, S&P, FTSE) regarding exclusion of Russia and Russian securities change your approach for inclusion in Brandes strategies?

Decisions by the index providers regarding excluding Russia and Russian securities do not directly impact our decisions to hold or sell. Benchmark inclusion and weightings are not inputs into our portfolio construction process. Brandes does sometimes hold securities in countries not included in a strategy's primary benchmark. We will make investment decisions based on fundamental analysis and our assessment of risk and reward.

8. Assuming the Russian market reopens to international investors and new investment is allowed, how will the firm make the decision to lift the moratorium on Investment Committees making new investments in Russia?

We will consider lifting the moratorium if there is a material change in the conflict or the environment which would cause us to reconsider our current investment posture. Such material changes and considerations could include greater clarity on:

- trading, operational, compliance, and legal issues associated with investing in Russian securities
- status of sanctions, the ability to trade and settle, confidence in ownership rights of foreign investors, as well as other factors unknown today

Further, the investment case must be asymmetrically skewed to the upside, combined with a narrowing of the range of possible outcomes.

For additional information, please contact your Brandes client service and relationship management teams.

¹ Source: The Wall Street Journal, "Russian Stock Market Rallies After Being Closed for a Month," March 24, 2022.

The MOEX Russia Index is capitalization-weighted composite index calculated based on prices of the most liquid Russian stocks of the largest and dynamically developing Russian issuers presented on the Moscow Exchange.

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The portfolio characteristics shown relate to a single account as of date noted, deemed by Brandes to be generally representative of the strategy. Not every account will have these exact characteristics. The actual characteristics with respect to any particular account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Data is updated on a quarterly basis.

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