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Core Plus Fixed Income Strategy Notes
First Quarter 2025 (January 1 – March 31, 2025)

The Brandes Core Plus Strategy rose 2.69% net of fees and 2.76% gross of fees, performing roughly in line with its benchmark, the Bloomberg U.S. Aggregate Bond Index, which rose 2.78% in the quarter.

Annualized total return as of March 31, 2025	1-year	5-year	10-year
Brandes Core Plus Fixed Income Composite (net)	4.89%	0.89%	1.94%
Brandes Core Plus Fixed Income Composite (gross)	5.17%	1.15%	2.20%
Bloomberg U.S. Aggregate Bond Index	4.88%	-0.40%	1.46%

Past performance is not a guarantee of future results. One cannot invest directly in an index. Returns include reinvestment of all dividends and are reduced by any applicable foreign withholding taxes, without provisions for income taxes, if any.

Legendary boxer Mike Tyson famously said: “Everyone has a plan until they get punched in the mouth.” In the buildup to the presidential election, Donald Trump repeatedly highlighted how he planned to make tariffs central to his presidency, stating his view that, “tariffs is the most beautiful word to me in the dictionary.”

With a modest rise in the U.S. equity market early in the quarter, the market seemingly thought it had a plan to deal with tariff policy. Once reality struck and tariffs were introduced, the stock market got “punched in the mouth” and ended the quarter sharply lower, in a hazy, uncertain fog.

In contrast, yield spreads on corporate bonds ended the quarter only modestly wider. One possible explanation for the disconnect between the two asset classes is that the equity market is primarily concerned with profitability while the corporate bond market is primarily concerned with solvency; tariffs impact profitability more than solvency.

Another possible explanation is that with yield levels near their highest levels in approximately 15 years, investors have become complacent about credit risk premiums and are primarily focusing on overall yields. If this explanation is correct, we believe individual security selection in a bond portfolio will be even more critical to navigating the rising uncertainty going forward.

The Fed (Federal Reserve Bank) left rates unchanged at both meetings during the quarter. The *last mile* of inflation reduction continues to be a challenge for monetary authorities. During February, core CPI (Consumer Price Index) remained above 3% for the 46th consecutive month. The market is projecting four rate cuts by year-end. An environment including elevated tariffs and a global trade war should add upward pressure to inflation. The market appears to believe that tariff and trade policy will have a meaningfully detrimental effect on growth and hence the Fed will have to look through rising inflation and cut rates anyway. This disconnect between market expectations and Fed guidance sets up the potential for elevated interest rate volatility for the balance of the year.

Portfolio Performance

In the first quarter, the Brandes Core Plus portfolios delivered positive returns that were in line with their benchmark, the Bloomberg U.S. Aggregate Bond Index.

Term-structure positioning was a negative factor during the quarter. U.S. Treasury yields fell during the period, particularly during the last two weeks of March as uncertainty increased around tariff policy. The duration of the portfolios was maintained at 90% of the benchmark’s duration throughout the quarter.

The portfolios’ underweight to agency mortgage-backed securities (MBS) modestly detracted from returns as the MBS sector outperformed corporate bonds.

Select holdings in corporate bonds provided a positive contribution to returns during the quarter, led by holdings in banking (US Bank and Goldman Sachs), energy (Range Resources and Transocean), and consumer cyclical (ADT and Travel + Leisure).

Shorter maturity corporate bonds outperformed their longer maturity counterparts by approximately 100 basis points, and so the portfolios' focus on shorter maturity corporate bonds aided returns.

With increasing volatility towards the end of the quarter we found the opportunity to add a few new positions to the portfolios. We added new positions in Citigroup (6.95% coupon, perpetual maturity, callable 1/31/30 rated Ba1/BB+), Consolidated Communications (6.50% coupon, maturing 10/01/28, rated B3/B-), and Pitney Bowes (7.25% coupon, maturing 3/15/29, rated B2/B+). We also increased our weight in Univision Communications (8.50% coupon, maturing 7/31/31, rated B1/B+).

The so-called "crossover space" in bond markets (the lower end of investment grade and the upper end of high yield) periodically exhibits inefficient pricing in our view. The Citigroup security that we purchased is an example. The security is considered junior subordinated debt within their capital structure. As context, the yield difference between senior unsecured bonds of JPMorgan and Citigroup, both rated solidly investment grade rate, is approximately 15 basis points. Yet the yield difference between JPMorgan junior subordinated bonds and Citigroup junior subordinated bonds is much greater, at approximately 160 basis points. Structurally the securities are similar, and the main difference is that the JPMorgan junior subordinated security has an investment grade BBB rating, and the Citigroup security rating is a notch lower, rated high yield at BB+. This likely deters some potential buyers and allows us to pick up additional yield based on what we believe is a largely market technical factor rather than a material difference in underlying credit fundamentals.

Pitney Bowes is coming off a turbulent year where an activist investor was able to install new management, implement a cost cutting plan, and force a sale of a business unit that comprised 40% of revenues. The business unit, however, was losing money and because of the sale, Pitney Bowes is now a smaller and more profitable business with lower debt and higher free cash flow. The company is actively attempting to reduce debt further and the security we purchased is the highest coupon bond outstanding. We view the likelihood of an early call as a strong possibility. The call price is currently several points above the market price, offering a potential gain if the company decides to call bonds before their maturity date.

Outlook

Market outlooks are always uncertain, but we now seem to be in a period of elevated uncertainty that increases the potential volatility of financial markets. We believe, however, that uncertainty and volatility can create opportunities for long-term patient investors.

The tariff policy introduced at the end of the quarter appears to be more draconian than the market was anticipating. However, the current administration has shown a propensity to turn on a dime and I doubt many would be surprised if they reverse course. As a counter to tariff being a *beautiful word*, perhaps someone could arrange a film screening for the Trump administration of *Ferris Bueller's Day Off*. Specifically, they should watch the classic scene where Ben Stein plays a high school economics teacher (catchphrase "Anyone, anyone...") lecturing to an apathetic class about the U.S. government's introduction of the Hawley-Smoot tariffs in 1930 in an effort to raise revenue to combat the Great Depression, only to plunge the economy more deeply into depression.

The market is facing rising trade war risks, slowing corporate earnings, and renewed concerns around resurgent inflation. As mentioned earlier, the U.S. equity market has had a dramatic repricing around these concerns, but in the taxable bond market yield spreads are only modestly wider.

Yield spreads finished the quarter at or near their tightest levels in three decades, as is evident from Exhibit 1, which shows the range in yield spreads over the last thirty years in contrast to the spread at the end of the latest quarter.

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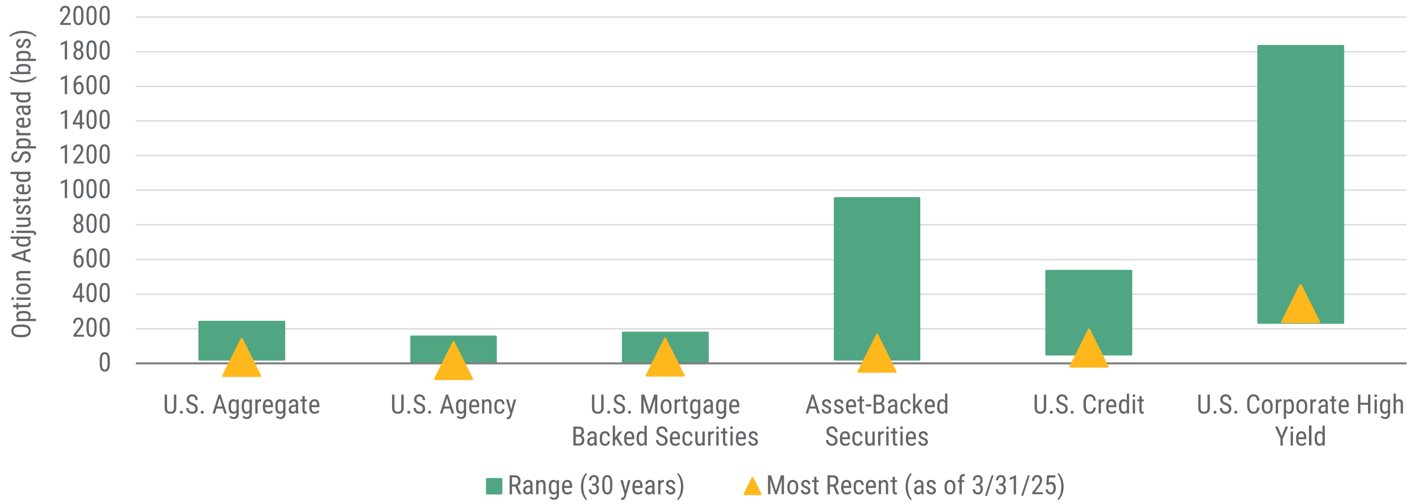
Exhibit 1. Yield Spreads Are Near Their Lowest Levels in Nearly 30 Years



Source: Bloomberg Indices. U.S. Aggregate represented by the Bloomberg U.S. Aggregate Bond Index; U.S. Agency represented by the Bloomberg U.S. Agency Bond Index; U.S. Mortgage Backed Securities represented by the Bloomberg U.S. Mortgage Backed Securities Index; Asset-Backed Securities represented by the Bloomberg U.S. Fixed-Rate Asset Backed Securities Index; U.S. Credit represented by the Bloomberg U.S. Credit Bond Index; U.S. Corporate High Yield represented by the Bloomberg U.S. Corporate High-Yield Bond Index; Global Credit represented by the Bloomberg Global Credit Index. Option-adjusted spread: A measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. Basis point (bps): 1/100 of 1%.

We have added a few securities that we believe have potential to add value to the portfolios but the broader market appears to us to be largely priced for perfection and complacent to the shifting risk tides. In our opinion, this places a premium on deep fundamental research and individual security selection.

We continue to tilt the Brandes Core Plus portfolios into what we believe is a defensive posture to mitigate some of the market uncertainty and potential for widening yield spreads. We believe that this remains a risk. Accordingly, the portfolios continue to favor shorter-maturity corporate bonds and those that we believe exhibit strong, tangible asset coverage. We are managing duration approximately 10% shorter than the portfolios' benchmark. We have a meaningful allocation to U.S. Treasuries and if market uncertainty and volatility continue to cause credit fundamentals to become mispriced relative to our estimates of intrinsic value, then we will look to redeploy some of those Treasury holdings thoughtfully and effectively to take advantage of opportunities.

We remain underweight agency mortgage-backed securities.

As we move forward, we believe prudence dictates that we continue our search for value in a measured and deliberate manner while continuing to tilt the portfolios to what we believe is a relatively defensive posture.

We remain optimistic about the prospects for the Brandes Core Plus Portfolios.

Sincerely,

Timothy M. Doyle, CFA
Fixed Income Portfolio Manager

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Term definitions: https://www.brandes.com/termdefinitions

The Bloomberg U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. This index is a total return index which reflects the price changes and interest of each bond in the index.

The Bloomberg U.S. Agency Index includes callable and non-callable agency securities that are publicly issued by U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government (such as USAID securities).

The Bloomberg U.S. Mortgage Backed Securities Index tracks mortgage backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is a total return index which reflects the price changes and interest of each bond in the index.

The Bloomberg U.S. Fixed-Rate Asset-Backed Securities Index is an unmanaged index consisting of U.S. dollar-denominated, fixed-rate, taxable bonds. The index is a total return index which reflects the price changes and interest of each bond in the index.

The Bloomberg U.S. Credit Index measures the U.S. dollar-denominated, fixed-rate taxable corporate and government related bond markets. The index is a total return index which reflects the price changes and interest of each bond in the index.

The Bloomberg U.S. Corporate High-Yield Bond Index is an unmanaged index consisting of U.S. dollar-denominated, non-investment-grade, fixed-rate, taxable corporate bonds. The index is a total return index which reflects the price changes and interest of each bond in the index.

The Bloomberg Global Credit Index contains investment grade and high yield credit securities from the Bloomberg Multiverse Index.

Core CPI (Consumer Price Index) measures the change in prices of goods and services, excluding volatile food and energy prices, providing a more stable indicator of underlying inflation trends.

The portfolio characteristics shown relate to a single account deemed by Brandes to be generally representative of the strategy as of date noted. 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.

Bond ratings are grades given to bonds that indicate their credit quality as determined by a private independent rating service such as Standard & Poor's. The firm evaluates a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'D', which is the lowest grade. In limited situations when the rating agency has not issued a formal rating, the Advisor will classify the security as nonrated.

Past performance is not a guarantee of future results.

The information provided in this material should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any security transactions, holdings, or sectors discussed were or will be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance discussed herein. Strategies discussed are subject to change at any time by the investment manager in its discretion due to market conditions or opportunities. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that the securities sold have not been repurchased. Market conditions may impact performance. The performance results presented were achieved in particular market conditions which may not be repeated. Moreover, the current market volatility and uncertain regulatory environment may have a negative impact on future performance. The Brandes investment approach tends to result in portfolios that are materially different than their benchmarks with regard to characteristics such as risk, volatility, diversification, and concentration. Please note that all indices are unmanaged and are not available for direct investment. International and emerging markets investing is subject to certain risks such as currency fluctuation and social and political changes; such risks may result in greater share price volatility. The declaration and payment of shareholder dividends are solely at the discretion of the issuer and are subject to change at any time.

Although the statements of fact and data in this report have been obtained from, and are based upon, sources that are believed to be reliable, we cannot guarantee their accuracy, and any such information may be incomplete or condensed.

Unlike bonds issued or guaranteed by the U.S. government or its agencies, stocks and other bonds are not backed by the full faith and credit of the United States. Stock and bond prices will experience market fluctuations. Please note that the value of government securities and bonds in general have an inverse relationship to interest rates. Bonds carry the risk of default, or the risk that an issuer will be unable to make income or principal payment. There is no assurance that private guarantors or insurers will meet their obligations. The credit quality of the investments in the portfolio is no guarantee of the safety or stability of the portfolio. Investments in Asset Backed and Mortgage Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments.

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