



Quarterly Commentary BRANDES SMALL CAP VALUE FUND

MARCH 31, 2019

FUND INFORMATION

| | |
|-----------|-------|
| Class I: | BSCMX |
| Class A: | BSCAX |
| Class R6: | BSCRX |

STRATEGY

The Fund seeks long-term capital appreciation by investing predominantly in U.S. equity securities of small-capitalization companies that the Fund's investment team believes are undervalued relative to their financial strength and upside potential.

TOP TEN HOLDINGS

(% of assets as of 3/31/2019)

| | |
|---------------------------|------|
| Taylor Morrison Home Corp | 5.18 |
| Edgewell Personal Care Co | 4.65 |
| Briggs & Stratton Corp | 4.53 |
| PDL BioPharma Inc | 4.31 |
| World Fuel Services Corp | 4.11 |
| St Joe Co | 3.60 |
| Eagle Pharmaceuticals Inc | 3.14 |
| Seneca Foods Corp | 3.05 |
| NETGEAR Inc | 2.91 |
| Avnet Inc | 2.86 |

Fund holdings are subject to change at any time at the discretion of the investment manager.



The Brandes Small Cap Value Fund returned 6.75% (Class I Shares), underperforming its benchmark, the Russell 2000 Index, which increased 14.58% in the first quarter.

Positive Contributors

Investments in the health care, energy, and real estate sectors were strong contributors.

PDL Biopharma's shares advanced on its share buyback program and the launch of an authorized generic for Tekturna, a medication commonly used to treat hypertension (high blood pressure). **Invacare** rebounded sharply on renewed optimism in response to issuing guidance (for the first time since its consent decree), and progress in its multi-year restructuring plan. **Eagle Pharmaceuticals** also delivered positive returns.

In the energy sector, oil and gas company **World Fuel Services** rose over 30% after announcing strong fourth quarter 2018 earnings; it continues to improve its cost structure. Companies in the real estate sector, **St. Joe Company** and **Alexander & Baldwin**, also delivered positive results. Other strong performers included **Edgewell Personal Care Co.** and electronic equipment company **Avnet**.

Performance Detractors

While most of our health care holdings performed well, **Avadel Pharmaceuticals** and distributor **Owens & Minor** were notable detractors.

Avadel Pharmaceuticals announced that it was shutting down commercialization efforts for its drug Noctiva and a restructuring to focus on its sodium oxybate phase III clinical trial. Marketed for the treatment of urine overproduction at night, Noctiva was never able to gain traction commercially. We continue to maintain an allocation to Avadel given its cash flow-generating portfolio of injectable products and the option value of the clinical trial.

Other detractors were in the consumer discretionary and industrials sectors, namely mini-conglomerate **Dorel Industries**, machinery company **Briggs & Stratton**, and construction and engineering business **Orion Group Holdings**.

Dorel continued to face weakness in its sports and juvenile products divisions. Additionally, the company recorded a \$500 million impairment loss on goodwill, intangible assets and PP&E (property, plant and equipment). As we have noted in the past, while mismanagement has been an issue for Dorel, we do not believe the market is giving enough credit for the size, quality and diversity of the company's brand portfolio.

Information technology companies, mainly **Arlo Technologies**, **Netgear** and **Sierra Wireless**, performed poorly, and our underweight in the sector had a negative impact on relative returns as well.

Select Activity in the First Quarter

The Small-Cap Investment Committee bought regional jet manufacturer **Embraer**, Arlo Technologies and **Avista Corporation**.

Embraer is a company we know well, having owned it many times in various portfolios. The company is undergoing a commercial joint venture with Boeing on its aerospace assets. The deal values the commercial assets at \$4.75 billion, and Embraer will retain full control of its business jet and defense divisions.

Embraer has received signoff for its deal with Boeing from most required stakeholders, including the Brazilian government and shareholders. The deal is expected to close by the end of this year, assuming anti-trust regulators approve. We view the deal favorably as it crystallizes the value of Embraer's commercial segment ahead of any need for regional jet volume recovery, partially mitigating the risks related to the capital expenditure cycle of airlines (Embraer's customers). The deal also offsets the competitive threat from Airbus/Bombardier and provides a closer relationship with Boeing, which we believe creates upside potential for Embraer's defense and business jet segments. However, the market reaction has been much more negative, creating a favorable risk/reward tradeoff.

Avista Corp. is an electric and natural gas utility with two reportable segments. Avista Utilities (95% of net income), comprises regulated electric and gas utility operations in the Pacific Northwest (WA, ID, OR and MT). And Alaska Electric Light & Power (5% of net income) is a regulated electric utility in Juneau, Alaska. We believe the company is undervalued. At quarter end, Avista traded at a 15% discount to peers on forward earnings and exhibited a price-to-book ratio that was among the industry's lowest. Near-term earnings multiples are comparable to those of similar entities, but we believe Avista is earning less than its potential. We also believe Avista can improve its return on equity over the medium term, much more in line with the company's operating history.

Notable sales included health care distributor Owens & Minor,

bank **Popular, Inc.**, **American National Insurance Company**, and **Taro Pharmaceutical Industries**.

Current Positioning

Other than a swift reversal in the final quarter of 2018, market appreciation (as reflected by the Russell 2000 Index), has been surprisingly positive—especially since we're in the later stages of the business cycle when returns have typically tapered off. On further analysis, we found the increase was driven largely by an expansion of multiples in an already-expensive market, rather than from improving fundamentals. As of March 31, margins and the enterprise value-to-sales ratio for the benchmark were near all-time highs. This implies that bloated investor optimism has inflated the prices of many businesses beyond what we deem fair values.

Cash levels increased in recent years as it became more challenging to find new investments in an overheated market. Nevertheless, we believe pockets of small-cap value remain for discovery. Over the short-term in a momentum-driven market, the Fund's conservative positioning may impede results versus the benchmark. However, we believe our disciplined, bottom-up stock selection bodes well for the long run. Our cash will enable us to seize opportunities should volatility increase or the business cycle turn.

Given the relatively light portfolio activity in the quarter, there has been little change in our key exposures. We continued to find significant value potential in consumer sectors, both staples and discretionary, offset by underweights to financials and information technology.

As patient and price-sensitive value investors with considerable experience navigating portfolios over multiple cycles, we remain confident in the prospects of our holdings and the risk/reward tradeoff the Fund offers.

Thank you for your continued trust.

Average Annual Total Returns (%) as of March 31, 2019

| Without Load | 3 Months | YTD | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception 10/1/1997 |
|--------------------------|----------|-------|--------|---------|---------|----------|------------------------------|
| Class I | 6.75 | 6.75 | -1.10 | 7.84 | 7.33 | 21.51 | 6.73 |
| Class A | 6.70 | 6.70 | -1.29 | 7.56 | 7.05 | 21.20 | 6.46 |
| Class R6 | 6.85 | 6.85 | -0.85 | 8.05 | 7.45 | 21.58 | 6.76 |
| With Load | 3 Months | YTD | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception 10/1/1997 |
| Class A | 0.54 | 0.54 | -6.94 | 5.46 | 5.79 | 20.49 | 6.17 |
| Russell 2000 Index | 14.58 | 14.58 | 2.05 | 12.92 | 7.05 | 15.36 | 7.24 |
| Russell 2000 Value Index | 11.93 | 11.93 | 0.17 | 10.86 | 5.59 | 14.12 | 7.93 |

Operating Expenses: Class I: 3.67% (gross), 0.90% (net) Class A: 3.21% (gross), 1.15% (net) Class R6: 2.99% (gross), 0.72% (net)

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. All performance is historical and includes reinvestment of dividends and capital gains. Performance data current to the most recent month end may be obtained by calling 1.800.395.3807. Performance data shown with load reflects the Class A maximum sales charge of 5.75%. Performance shown without load does not reflect the deduction of the sales load. If reflected, the load would reduce the performance quoted.

The performance information shown for periods before January 2, 2018 is that of a private investment fund managed by the Advisor (the "Predecessor Fund") prior to the commencement of the Small Cap Fund's operations with policies, guidelines and restrictions that were, in all material respects, equivalent to those of the Small Cap Fund. The Small Cap Fund acquired the assets and assumed the liabilities of the Predecessor Fund on January 2, 2018, and investors in the Predecessor Fund received Class I shares of the Small Cap Fund as part of the reorganization. With respect to Class I and Class R6 shares, the performance information shown reflects the gross expenses of the Predecessor Fund. Class A shares reflect the gross expenses of the Predecessor Fund restated to reflect the Class A sales load and Rule 12b-1 fees.

Brexit: Britain's planned exit from the European Union

Cash Flow: The amount of cash generated minus the amount of cash used by a company in a given period.

Enterprise Value: Market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents.

Forward Earnings: Sell-side analysts' consensus earnings estimates for the next fiscal year.

Price/Book: Price per share divided by book value per share.

Return on Equity: Net income divided by shareholder's equity.

The Advisor has contractually agreed to limit the operating expenses through January 31, 2020. The Expense Caps may be terminated at any time by the Board of Trustees upon 60 days notice to the Advisor, or by the Advisor with the consent of the Board. Investment performance reflects fee waivers and/or reimbursement of expenses. In the absence of such waivers/reimbursements, total return would be reduced.

The Russell 2000 Index with gross dividends measures the performance of the small cap segment of the U.S. equity universe.

The Russell 2000 Value Index with gross dividends measures performance of the small cap segment of the U.S. equity universe. Securities are categorized as growth or value based on their relative book-to-price ratios, historical sales growth, and expected earnings growth.

Because the values of the Fund's investments will fluctuate with market conditions, so will the value of your investment in the Fund. You could lose money on your investment in the Fund, or the Fund could underperform other investments. The values of the Fund's investments fluctuate in response to the activities of individual companies and general stock market and economic conditions. In addition, the performance of foreign securities depends on the political and economic environments and other overall economic conditions in the countries where the Fund invests. Emerging country markets involve greater risk and volatility than more developed markets. Some emerging markets countries may have fixed or managed currencies that are not free-floating against the U.S. dollar. Certain of these currencies have experienced, and may experience in the future, substantial fluctuations or a steady devaluation relative to the U.S. dollar. Diversification does not assure a profit or protect against a loss in a declining market. It is not possible to invest directly in an index. Stocks of small-sized and mid-sized companies tend to have limited liquidity and usually experience greater price volatility than stocks of larger companies.

A mutual fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information about the investment company, and may be obtained by calling 1.800.395.3807 or visiting www.brandesfunds.com. Read carefully before investing.

The foregoing reflects the thoughts and opinions of Brandes Investment Partners® exclusively and is subject to change without notice.

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