The Brandes Emerging Markets Value Fund declined 3.48% (Class I Shares), outperforming its benchmark, the MSCI Emerging Markets Index, which was down 4.25% in the third quarter.

**Positive Contributors**

Holdings in real estate investment trusts performed well, especially those in Mexico, as these income-oriented securities continued to benefit from the U.S. Federal Reserve and Bank of Mexico reducing interest rates. Furthermore, Turkey-based real estate developer *Emlak Konut* rebounded strongly after a difficult first half of the year.

Select communication services companies also had solid returns. Media company *Hyve Group* (formerly ITE Group), which is based in the United Kingdom but operates mainly in emerging countries, aided performance, along with Russia-domiciled *Sistema* and Indonesian telecom *XL Axiata*. Sistema announced plans to buy back up to 3 billion rubles’ ($46 million) worth of shares.

Other contributors included Brazil-based food processing company *Marfrig Global Foods* and health care provider *Hapvida Participacoes*, as well as Chinese automaker *Dongfeng Motor Group*.

*Marfrig* gained nearly 70% as a confluence of factors benefited its beef processing operations in the United States and Brazil. The U.S. beef processing industry is going through one of the strongest growth periods on record. Additionally, the recent closure of a large beef processing plant owned by Tyson Foods due to a fire has boosted the profitability of other players in the industry. Meanwhile, in China, the world’s largest pork consumer, the African swine fever disease has decimated the pig herd, causing an almost 40% reduction in pork supply compared to a year ago. This presents an unprecedented supply shock, as there is simply not enough beef, poultry and pork globally to compensate for a drop of such magnitude. The shortfall has driven up prices for all sources of dietary protein. The disease has not been contained and has now spread to 55 countries, representing almost 80% of the global pig herd, so the situation could still worsen. Brazil-based food processors, including *Marfrig*, may be well positioned to capitalize on this opportunity as the country is one the largest meat exporters—and more importantly, it has access to the Chinese market.

Furthermore, in a move welcomed by the market, *Marfrig* recently announced an agreement with Archer Daniels Midland (ADM) to jointly develop plant-based products. ADM will supply the raw materials, while *Marfrig* will produce, market and distribute the products to food service and retail clients.

**Performance Detractors**

Holdings that are domiciled in Argentina or have economic exposure to the country weighed on returns. In August, left-wing populist candidate Alberto Fernandez decisively won Argentina’s primary presidential election over incumbent President Macri, sparking investor concern and a renewed focus on sovereign default risks.
For our holding in oil and gas firm **YPF**, a government-initiated 90-day price freeze for key commodities exacerbated negative sentiment. YPF’s management initially estimated a $100-$150 million per month hit to EBITDA (earnings before interest, tax, depreciation and amortization), but lowered it to the $40-$60 million range more recently. We believe that these challenges have been more than factored in YPF’s current share price and that the market seems to ascribe minimal value to YPF’s vast shale acreage, whose development is considered strategic for Argentina’s economy. We maintained our measured allocation to the company, recognizing the increased risk profile amid recent developments.

Retailers **Lifestyle International Holdings** and **Luk Fook Holdings** also hurt returns as ongoing demonstrations in Hong Kong hurt sales and tourist spending.

Other detractors included Brazilian regional jet manufacturer **Embraer** and food retailer **Companhia Brasileira de Distribuicao**, Spain-based payment services company **Prosegur Cash**, and Malaysian resort operator **Genting Berhad**.

A recent increase in gaming taxes and casino duties in Malaysia has put pressure on Genting’s operations there. In addition, the market had a negative perception of a related-party transaction planned by the company.

**Select Activity in the Quarter**

The Emerging Markets Investment Committee initiated several new positions including **Wynn Macau**.

**Wynn Macau** (WMR) owns and operates luxury casino resorts in Macau. The company is the third-largest casino operator in Macau by gross gaming revenue. Already a strong player in Macau’s VIP gaming sector with nearly 20% market share, WMR has increased its presence in the growing mass market in recent years. Gaming revenues account for about 93% of WMR’s net revenues, while hotel room, food and beverage, and retail make up the remainder.

Several factors have historically influenced WMR’s share price, including China’s economic growth and consumer spending, as well as its regulatory environment and capital control policies. Over the past year, fears of an economic slowdown, especially in relation to an escalating U.S.-China trade war, have pressured WMR’s shares as investors appeared to price in a deceleration in revenue growth. Nevertheless, we believe the company offers a number of positive attributes, namely:

- Premium brand positioning
- A highly cash-generative business
- The highest gaming revenue per table among peers
- Strong assets, which include its first Wynn Macau resort (opened in 2006) and Wynn Palace (opened in 2016)
- High exposure to China’s rising middle class

The opening of the Hong Kong-Zhuhai-Macau Bridge last year also enhances the medium-term growth prospects for WMR, in our opinion, as the easier access should increase visitation to Macau. Most importantly, we find WMR’s valuations very compelling, as the shares trade at 13x earnings and 11x free cash flow (as of September 30), while offering a dividend yield of nearly 6%. Weighing the risks against the upside potential, we believe Wynn Macau represents an attractive value opportunity.

Other activity included the divestment of Russia-based oil and gas firm **Gazprom**. Market optimism about a potential efficiency improvement by the new management and a higher dividend payout boosted Gazprom’s stock performance.

**Year-to-Date 2019 Briefing**

The Brandes Emerging Markets Value Fund returned 8.71%, outperforming the MSCI Emerging Markets Index, which gained 5.89% for the nine months ended September 30, 2019.

Holdings in Russia, Brazil and Mexico continued to be strong performers. From an industry standpoint, holdings in wireless telecoms helped returns significantly, led by XL Axiata. Other notable contributors included South Korean autos **Hyundai Mobis** and **Kia Motors**, as well as Panama-based **Banco Latinoamericano**.

Our underweight to China and a few holdings there were leading detractors to relative returns. At the company level, poor performers were similar to those in the quarter, specifically YPF, Embraer and Prosegur Cash.
Current Positioning

As of September 30, we held our largest country overweights to Brazil and Mexico, while remaining materially underweight to Taiwan, India and China. On a sector basis, our largest overweights were to real estate, consumer discretionary and communication services. Meanwhile, the financial sector continued to represent a significant underweight position, due to our lower exposure to banks in China, Brazil and India. Additionally, we maintained a lower allocation to information technology than did the benchmark.

As was the case in the first half of the year, we continued to reduce our allocation to companies in Russia as many appreciated to our estimates of their intrinsic values. Over the past couple of years, shifting investor sentiment, combined with material free-cash-flow generation, strong returns on invested capital and increased dividend distributions, has driven up the share prices of many of our holdings there.

Offsetting some of the sell activity in Russia has been our buying activity in China. While we did not see a material increase in the quarter and our overall weighting remained less than half of the benchmark’s, our allocation to companies in China has nearly doubled over the past two years. Unlike the Chinese constituents of the MSCI Emerging Markets Index, which are mostly financial companies or technology-related businesses, our holdings there operate in a diverse set of industries.

The valuation discount between value and growth stocks in emerging markets (MSCI EM Value vs. MSCI EM Growth) remains among the highest levels in over 20 years (based on price-to-forward earnings).¹ While our the Fund is not tilted toward a certain economic outcome (i.e., strong economic growth or a recession), we believe it is well positioned for a value rebound should this valuation dispersion narrow. More than a third of our holdings traded at less than 10x forward earnings at quarter end, while also having strong balance sheets, compelling growth prospects and strong free cash flow.

Thank you for your continued trust.

¹ Source: MSCI via FactSet as of 9/30/19.
Expenses: Class I: 1.15% (gross), 1.13% (net)  
Class A: 1.35% (gross), 1.38% (net)  
Class C: 2.10% (gross), 2.11% (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 2.75%. Performance shown without load does not reflect the deduction of the sales load. If reflected, the load would reduce the performance quoted.

Prior to January 31, 2011, the Fund was a private investment fund managed by the Advisor with policies, guidelines and restrictions that were, in all material respects, equivalent to those of the Fund. Class A and Class I shares commenced operations on January 31, 2011, while Class C shares commenced operations on January 31, 2013. Prior to January 31, 2013, Class A shares were known as Class S shares. (Class A shares have the same operating expenses as Class S shares.) The Class I performance information shown for periods prior to January 31, 2011 is that of the private investment fund managed by the Advisor that is the predecessor of the Fund not adjusted for Fund expenses. Performance shown prior to January 31, 2011, for Class A shares reflects the performance of the private investment fund restated to reflect Class A sales loads and expenses. Performance shown prior to the inception of Class C shares reflects the performance of the private investment fund for periods prior to January 31, 2011 and the performance of Class I shares for the period from February 1, 2011 to January 30, 2013 restated to reflect Class C expenses. Class R6 shares commenced operations on July 11, 2016. Performance shown prior to the inception of Class R6 shares reflects the performance of Class I shares.

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.

Dividend Yield: Dividends per share divided by price per share.
Forward Earnings: Sell-side analysts’ consensus earnings estimates for the next fiscal year.
Free Cash Flow: Total cash flow from operations less capital expenditures.
Price/Forward Earnings: Price per share divided by earnings per share expected over the next 12 months.
Related-Party Transaction: One occurring between business entities that have a pre-existing relationship.
Return on Invested Capital: Net income minus dividends divided by total capital; used to assess a company’s efficiency at all costs.
Fiscal Year End: December 31 for all companies.
PEG Ratio: Price/earnings to growth ratio.
Return on Equity: Net income attributable to common shareholders divided by total stockholders’ equity.
Return on Invested Capital: Net income minus dividends divided by total capital; used to assess a company’s efficiency at all costs.
PEG Ratio: Price/earnings to growth ratio.

MSCI Emerging Markets Index with net dividends captures large and mid cap representation of emerging market countries. Data prior to 2001 is gross dividend and linked to the net dividend returns.

MSCI has not approved, reviewed or produced this report, makes no express or implied warranties or representations and is not liable whatsoever for any data in the report. You may not redistribute the MSCI data or use it as a basis for other indices or investment products.

The declaration and payment of shareholder dividends are solely at the discretion of the issuer and are subject to change at any time.

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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