The Brandes Global Equity Fund declined 1.00% (Class I Shares), underperforming its benchmark, the MSCI World Index, which appreciated 0.53% in the third quarter.

**Positive Contributors**

Several companies benefited returns during the third quarter, most notably our two largest holdings, pharmaceutical manufacturers Sanofi and GlaxoSmithKline. Both companies reported better-than-expected earnings results, and Glaxo announced the completion of its deal to create a consumer health joint venture with Pfizer.

Other significant contributors included Mexican real estate investment trust Fibra Uno, U.S. health care company CVS and Netherlands-based semiconductor manufacturer NXP. A higher number of prescriptions and improved sales in its drugstore and pharmacy benefit business boosted CVS’s profitability.

**Performance Detractors**

The most significant detractors from performance were Brazilian jet manufacturer Embraer and U.S. pharmaceutical firm Pfizer.

Pfizer declined after revising down its earnings guidance and announcing a merger of its Upjohn division. Pharmaceutical companies in general have seen their stock prices under pressure given the political rhetoric directed at drug prices, although historically such negative pre-election sentiment has proven an attractive buying opportunity. In addition, the market did not welcome Pfizer’s recent merger of its off-patent drug business with that of Mylan, but we believe the move allows the company to focus on its core innovative business. The new chief executive officer has emphasized Pfizer’s pipeline, including 15 potential blockbuster compounds to be introduced over the next five years.

Other detractors included Malaysia-based Genting Berhad, and energy companies Halliburton (the United States) and BP (the United Kingdom).

**Select Activity in the Quarter**

Overall activity was light with no new purchases. We exited our small position in Apache and took advantage of Halliburton’s share-price decline to add to our position.

Apache is one of the world’s largest exploration and production (E&P) firms, with significant reserves in oil, natural gas liquids and natural gas. We first purchased the company when it was trading at a discount to its adjusted operating assets.

Over the past several years, the business has had weak free-cash-flow generation and divested some assets to pay out dividends and repurchase shares. Additionally, the company has been aggressively cutting back on its international operations to focus on its U.S. business. As a result of these divestments, Apache did not grow its reserves and production over our holding period.
Although Apache appears to be one of the cheaper E&P companies, the investment committee sold the stock and reallocated the proceeds to Halliburton, which the committee feels has similar exposure as Apache but offers a more attractive risk/reward profile.

Year-to-Date Briefing

The Brandes Global Equity Fund rose 7.44% (Class I Shares), lagging its benchmark, the MSCI World Index, which appreciated 17.61% in the nine months ended September 30, 2019.

Primary contributors year to date included U.S. financial firms Citigroup and American International Group, both up over 35%. Additional contributors included French industrial company Schneider Electric, as well as two of the most recent quarter’s top performers, GlaxoSmithKline and Fibra Uno.

From a high-level perspective, the most significant detractors from performance were our holdings in the United States and United Kingdom, as well as our underweight and overweight to these two countries, respectively. The U.S. market within the MSCI World Index rose over 20% year to date, while the United Kingdom market within the index was up just 10%. Holdings in these two countries that declined this year included Imperial Brands, J Sainsbury and Marks & Spencer in the United Kingdom, and Pfizer and Cigna in the United States.

From a sector point of view, the most notable detractors were our holdings in the consumer sectors, as well as our holdings and overweight to technology, which was up almost 30% year to date and is now the largest sector in the MSCI World Index. The most significant detractor within the technology sector was Finnish communications equipment company Nokia.

On an individual company basis, Embraer was the most significant detractor from returns as it was down just over 20% on the year while the company continues to wait for the approval of its joint venture with Boeing. Embraer offers one of the Fund’s largest margins of safety; we continue to believe its risk/reward tradeoff makes it worth owning for the long term.

Current Positioning

As of September 30, allocations to emerging markets, France and the United Kingdom represented the largest overweight positions versus the benchmark, while the United States and Japan remained our largest underweights.

From an industry/sector perspective, the Fund’s key holdings were in financials, health care, energy, and food and staples retailing. It maintained significantly lower allocations than the benchmark in industrials, materials and technology.

We continue to be noticeably underweight to the U.S. market due to its prominence in the benchmark (at over 60%). The U.S. has continued its streak of outperformance relative to international markets. U.S. stocks (as measured by the S&P 500 Index) are up 21% year to date, compared to the MSCI EAFE, which has risen 13% this year. U.S. stocks have now outperformed international stocks on a cumulative basis by almost 200% (335% versus 142%) since the financial crisis (03/31/2009 to 09/30/2019). Given today’s valuation levels, we think this is very likely to reverse in the future, and that international markets offer much more attractive return potential than most companies in the United States.

While absolute performance has been decent, on a relative basis it has certainly been a tough year to date for the Global Equity Fund given the significant underperformance of value stocks as well as the continued outperformance of U.S. markets relative to international markets. Nonetheless, we are excited about the return potential of the Fund and our current positioning going forward.

Brandes Global Equity Fund—Reasons for Optimism

1) The aggregate margin of safety for the Fund has increased this year to its highest level in over three years.

2) While relative return has been weak this year, we are encouraged by the value accretion of our holdings. On average, their earnings per share is forecast to grow by more than 10% over the next year and a half (based on consensus estimates) and they offer a dividend yield of over 4% (vs. the benchmark’s 2%). Additionally, given their current low normalized multiples, we believe our holdings have a higher chance of multiple expansion than the benchmark’s constituents, which already trade at what we consider lofty valuation levels. In contrast to the Fund, the benchmark has seen significant multiple expansion (e.g., price-to-earnings, price-to-cash flow) this year despite tepid earnings growth and lower dividend yield.
3. The Fund is currently positioned quite differently from the benchmark, making it a potential complement for investors with predominantly passive exposure. We believe the Fund’s true value portfolio would benefit in the event of a value rebound. After value’s significant underperformance this year (and most of the past decade), the valuation discount for value stocks vs. the broader market (MSCI World Value vs. MSCI World) is now among its highest levels since the technology bubble (based on price-to-earnings). We believe this discount level bodes well for value’s returns over the medium term.

4. Recently, we did see a very short-term example of what a value rebound could look like. During the last month of the quarter, value stocks experienced a sharp snapback and outperformed the broader market by nearly 200 basis points (MSCI World Value vs. MSCI World for the period 8/31/19 to 9/30/19), while the Fund fared even better.¹ This is consistent with the Fund’s track record, as it has tended to perform better than the value index when the value index outperformed the broader market. Given where valuations remain today for value stocks, we believe the Fund would benefit should value experience a reversal after many years of underperformance.

Finally, while our stock selection is based on fundamental research on individual companies, at an aggregate level we believe that value stocks globally offer compelling return potential. As such, we remain confident in the Fund’s meaningful exposure to value, especially in comparison to both the broad and value-based indices (MSCI World and MSCI World Value).

We understand that it has been challenging to stay the course amid this difficult performance, but based on our 45 years of investing experience, periods such as the current one have often been good times to invest or add money to our strategies.

We appreciate the trust you have placed in us.

¹ Source: Brandes, MSCI via FactSet as of 9/30/19.
Operating Expenses: Class I: 1.20% (gross), 1.00% (net)  Class A: 1.40% (gross), 1.25% (net)  Class C: 2.15% (gross), 2.00% (net)
SEC 30-Day Yield*: Class I: 2.78% (sub.), 2.25% (unsub.)  Class A: 2.53% (sub.), 2.05% (unsub.)  Class C: 1.76% (sub.), 1.29% (unsub.)

Operating Expenses: Class I: 1.20% (gross), 1.00% (net)  Class A: 1.40% (gross), 1.25% (net)  Class C: 2.15% (gross), 2.00% (net)
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*SEC 30-Day Yield: This calculation is based on a 30-day period ending on the last day of the month shown. It is computed by dividing the net investment income per share earned during the period by the maximum offering price per share on the last day of the period. The yield figure reflects the dividends and interest earned during the period, after the deduction of the fund expenses. The subsidized yield takes into consideration the expenses paid by the Advisor.

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 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.

Class I shares commenced operations on October 6, 2008. Class A shares commenced operations on March 21, 2007. Prior to January 31, 2011, Class A shares were known as Class S shares. Class A shares have the same operating expenses as Class S shares. Performance data current to the most recent month end may be obtained by calling 1.800.395.3807. Performance data shown prior to January 31, 2011 for Class A shares reflects the performance of Class I shares restated to reflect Class A sales loads and expenses. Class C shares commenced operations on January 31, 2013. Performance shown prior to the inception of Class C shares reflects the performance of Class I shares restated to reflect Class C expenses.

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.

Basis Point: 1/100 of 1%
Cash Flow: The amount of cash generated minus the cash used by a company in a given period.
Dividend Yield: Dividends per share divided by price per share.
Earnings Per Share: The portion of a company’s profit allocated to each share of common stock.
Forward Earnings: Sell-side analysts’ consensus earnings estimates for the next fiscal year.
Free Cash Flow: Total cash flow from operations less capital expenditures.
Margin of Safety: The discount of a security’s market price to what the firm believes is the intrinsic value of that security.
Price/Cash Flow: Price per share divided by cash flow per share.
Price/Earnings: Price per share divided by earnings per share.
The MSCI EAFE Index with net dividends captures large and mid cap representation of developed market countries excluding the U.S. and Canada.
The MSCI World Index with net dividends captures large and mid cap representation of developed markets.
The MSCI World Growth Index with gross dividends captures large and mid cap securities across developed market countries exhibiting growth style characteristics, defined using long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend.
The MSCI World Value Index with gross dividends captures large and mid cap securities across developed market countries exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.
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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.

Must be preceded or accompanied by a current prospectus.

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