The Brandes International Small Cap Equity Fund declined 4.26% (Class I Shares, gross of fees) and underperformed its benchmark, the S&P Developed Ex-U.S. SmallCap Index, which fell 1.61% in the third quarter.

Positive Contributors

Holdings in real estate investment trusts (REITs) performed well, especially those in Mexico (e.g., Fibra Uno, Fibra Macquarie Mexico), where the market is beginning to recognize the growing and recurring free-cash-flow streams and the attractive dividend yields offered by these income-oriented securities.

U.K.-based retailer Sainsbury also helped performance. To refresh, in the first half of 2019, the stock experienced a substantial price decline following its failed merger with Asda. As we noted last quarter, we owned the shares prior to the merger announcement and our investment thesis did not rely on the materialization of the merger agreement. As such, we took advantage of the share-price decline in the second quarter to add to our position. Even with the recent price rebound, the investment continues to offer considerable upside, in our opinion, and remains one of our largest allocations.

Additionally, Ireland-based Avadel Pharmaceuticals rose materially in late September following news that the U.S. Food and Drug Administration agreed to reduce the sample size of its phase III trial of FT218 (a medication intended to treat excessive daytime sleepiness and muscle weakness in narcolepsy patients). This ruling accelerates the clinical trial timeline for FT218 by up to a year and significantly reduces the trial’s cash costs. We maintain our position as the news positively impacted our estimate of the company’s intrinsic value and we continue to see meaningful appreciation potential in the stock.

Other strong performers included U.K. media company Hyve Group (formerly ITE Group) and Russian telecom Sistema.

Performance Detractors

German health care holdings Rhoen-Klinikum and Draegerwerk hurt performance.

Even though its revenues continue to grow, a multi-year restructuring project has pressured Draegerwerk’s operating margins. This pressure on short-term profitability has not come as a surprise to us, as our investment thesis does not incorporate a significant profit recovery until at least 2020, given the company’s large investments underway in research and development and in sales capacity. We took advantage of the price weakness to add to the position.

Brazilian jet manufacturer Embraer and U.K.-based banknotes and passports printer De La Rue also weighed on returns.
Embraer declined as increasing global trade tensions raised concerns around the regulatory status of its joint venture (JV) agreement with Boeing (for an 80% sale of Embraer’s commercial aerospace division). While we believe there is a high probability that the deal will be consummated, our investment thesis does not rely on it and we see considerable upside in either scenario. Should the deal go through, we believe the quarter-end market price provided investors the opportunity to participate in the Boeing transaction at a discount, while obtaining a share in Embraer’s corporate jet and Brazilian defense businesses essentially “for free” as the market seemed to give no credit for these divisions. Should the deal not go through, investors are paying a bargain price, in our opinion, for a company with leading market positions in each of its three segments and a free-cash-flow outlook that can benefit from a new product cycle, declining investment needs and a potential end-market recovery. Given the risk/reward tradeoff, we added to our position amid the share-price decline.

Meanwhile, De La Rue’s shares fell on the news that the U.K.’s Serious Fraud Office has opened an investigation into suspected corruption in South Sudan, where De La Rue has the contract to print the country’s currency. In our view, the market has overly discounted De La Rue, providing us with the opportunity to add to our position. We continue to appreciate the company’s positive attributes, including the low capital intensity nature of the business, its high return on invested capital and the short cash-conversion cycle. Moreover, we believe a company such as De La Rue, which tends to be counter-cyclical to the macroeconomic situation, is especially valuable in a portfolio context at this stage in the economic cycle.

Other detractors included South Korean interrelated consumer companies Lotte Corp, Lotte Chilsung and Lotte Confectionary.

Select Activity in the Quarter

The Small-Cap Investment Committee initiated a position in Austria-based Addiko Bank.

Addiko Bank went public this year after being spun out from Hypo Alpe Adria Bank, which was nationalized in 2009. The Austrian government sold Addiko to the European Bank for Reconstruction and Development and a private equity firm in 2015, and it transitioned from a universal bank to a retail and small-business bank.

We appreciate Addiko’s strong capital position, clean balance sheet and solid funding profile, as well as its efforts to reach more customers through financial technology. Additionally, we believe it is one of the best-positioned European banks for growth due to its exposure to southeastern Europe, a region with low consumer debt levels. Most interestingly, Addiko has what we consider a compelling capital return outlook as we expect a double-digit medium-term dividend yield on the current stock price. Trading at less than 40% of tangible book value at the time of our purchase, Addiko represents an attractive value opportunity to us.

Other activity included the disinvestment of Belgian mini-conglomerate D’Ieteren.

Family-owned D’Ieteren has two primary businesses: D’Ieteren Auto and Belron. D’Ieteren Auto imports and distributes Volkswagen’s suite of autos (e.g., Volkswagen, Audi, Bentley, Lamborghini, Porsche) across Belgium. It is the country’s largest car distributor, with 22% share of the market.

D’Ieteren’s other business, Belron, is the world’s leader in vehicle glass repair and replacement, with notable brands such as Carglass, Autoglass and Safelite. Belron has the leading market share in the 34 countries where it operates. Given its competitive position, Belron benefits from economies of scale and has driven consolidation in an otherwise very fragmented market.

We first purchased D’Ieteren in 2014, when the shares were out of favor because the profitability of both D’Ieteren Auto and Belron had declined due to their sensitivity to the economic cycle. Additionally, D’Ieteren had accumulated high net cash following the 2011 sale of Avis Europe, and management was considering to use it to acquire a third business. We recognized the risk of potentially imprudent capital allocation by management, but believed the risk/reward tradeoff warranted an investment.

Over our holding period, our investment thesis for D’Ieteren largely played out. Profitability of D’Ieteren’s subsidiaries has improved commensurate with the economic cycle, while capital allocation by management has been the primary offsetting factor. In 2016, D’Ieteren acquired branded stationary company Moleskine for approximately €500 million, which we deemed value-destructive given the premium purchase price. However, in 2018, the company sold a minority stake in Belron to a private equity firm at a valuation that was above our estimate of the segment’s true worth. Moreover, the company issued a special dividend of €2.85 per share (or 7.5% yield) in addition to its ordinary dividend last year. These factors, combined with the operational improvements in the company’s two businesses, contributed to its share-price increase and we exited our position.
Year-to-Date 2019 Briefing

The Brandes International Small Cap Equity Fund declined 0.89%, underperforming the S&P Developed Ex-U.S. SmallCap Index, which gained 11.11% for the nine months ended September 30, 2019.

Holdings in Ireland lifted returns, along with our positions in Mexican REITs Fibra Uno and Fibra Macquarie Mexico. Other notable performers included U.K.-based Hyve Group and Mitie Group, as well as Indonesian XL Axiata and Russian Sistema.

A number of holdings in the United Kingdom and Canada hurt returns, most notably Countrywide, De La Rue, Sierra Wireless and Dorel Industries. Additionally, emerging markets holdings Lotte Corp and Embraer performed poorly.

Current Positioning

As one might expect given the light portfolio activity in the quarter and the relatively low turnover in general, the composition of the Brandes International Small Cap Equity Fund has been largely unchanged compared to last quarter or even last year.

Japan and the United Kingdom remained the largest weightings as of September 30, while emerging markets, which accounted for nearly 28% of the Fund, represented an area where we continued to find value potential.

At the sector level, we remained significantly overweight consumer staples. Additionally, over the past year, we have nearly doubled our allocation to companies in the financials sector, recently adding a few Europe-based bank holdings.

While our stock selection is based on fundamental research on individual companies, at an aggregate level we believe that international small-cap value stocks continue to offer compelling return potential. 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.

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 ACWI ex USA Small Cap Value vs. MSCI ACWI ex USA Small Cap for the period 8/31/19 to 9/30/19). Given where valuations remain today for value stocks, we believe the Fund would benefit should value experience a reversal after many years of underperformance.

We remain convinced that the Brandes International Small Cap Equity Fund is well positioned for the long term and appreciate your continued trust.
### Average Annual Total Returns (%) as of September 30, 2019

<table>
<thead>
<tr>
<th>Without Load</th>
<th>3 Months</th>
<th>YTD</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
<th>Since Inception 8/19/1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class I</td>
<td>-4.26</td>
<td>-0.89</td>
<td>-11.93</td>
<td>-3.56</td>
<td>-0.64</td>
<td>6.22</td>
<td>8.30</td>
</tr>
<tr>
<td>Class A</td>
<td>-4.30</td>
<td>-1.06</td>
<td>-12.04</td>
<td>-3.74</td>
<td>-0.83</td>
<td>6.00</td>
<td>8.04</td>
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<tr>
<td>Class C</td>
<td>-4.42</td>
<td>-1.57</td>
<td>-12.69</td>
<td>-4.44</td>
<td>-1.55</td>
<td>5.21</td>
<td>7.24</td>
</tr>
<tr>
<td>Class R6</td>
<td>-4.22</td>
<td>-0.75</td>
<td>-11.72</td>
<td>-3.43</td>
<td>-0.53</td>
<td>6.31</td>
<td>8.37</td>
</tr>
<tr>
<td>With Load</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class A</td>
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<td>-6.75</td>
<td>-17.10</td>
<td>-5.62</td>
<td>-2.00</td>
<td>5.37</td>
<td>7.77</td>
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<tr>
<td>Class C</td>
<td>-5.38</td>
<td>-2.56</td>
<td>-13.53</td>
<td>-4.44</td>
<td>-1.55</td>
<td>5.21</td>
<td>7.24</td>
</tr>
<tr>
<td>S&amp;P Developed Ex-US SmallCap Index</td>
<td>-1.61</td>
<td>11.11</td>
<td>-7.35</td>
<td>4.85</td>
<td>4.80</td>
<td>6.75</td>
<td>6.34</td>
</tr>
</tbody>
</table>

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.

Prior to February 1, 2012, 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 February 1, 2012, 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 February 1, 2012 reflects the performance of the private investment fund shares adjusted to reflect Class A expenses. Performance shown prior to the inception of Class C shares reflects the performance of the private investment fund for periods prior to February 1, 2012 and the performance of Class I shares for the period from February 1, 2012 to January 30, 2013 restated to reflect Class C expenses. Class R6 shares commenced operations on June 27, 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.

Cash Flow: The amount of cash generated minus the amount of cash used by a company in a given period.
Dividend Yield: Dividends per share divided by price per share.
Free Cash Flow: Total cash flow from operations less capital expenditures.
Operating Margin: Operating income divided by net sales; used to measure a company’s operating efficiency.
Price/Tangible book: Price per share divided by tangible book value per share.
Return on Invested Capital: Net income minus dividends divided by total capital; used to assess a company’s efficiency at all levels of using the capital under its control to profitable investments.
Tangible Book Value: Book value minus intangible assets (e.g., goodwill).

The MSCI ACWI Small Cap Index with net dividends captures small-cap representation across developed and emerging markets excluding the United States. The MSCI ACWI ex USA Small Cap Value Index captures small cap securities across developed and emerging markets excluding the United States exhibiting overall value style characteristics defined by: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

The S&P Developed Ex U.S. SmallCap Index with net dividends measures the equity performance of small cap companies in developed markets excluding the United States. Data prior to 2001 is gross dividend and linked to the net dividend returns.

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**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.

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