Brandes Core Plus Fixed Income Fund

FUND INFORMATION

Class I:	BCPIX
Class A:	BCPAX

STRATEGY

The Fund seeks to maximize long-term total return, consisting of both current income and capital appreciation.

TEN LARGEST CORPORATE ISSUERS

(% of assets as of 6/30/2022)

Prime Security Services	2.33
USB Capital IX	2.09
JPMorgan Chase & Co	2.03
VMware Inc	1.90
Ford Motor Credit Co LLC	1.88
Netflix Inc	1.65
PulteGroup Inc	1.62
Tenet Healthcare Corp	1.54
Range Resources Corp	1.52
Coty Inc	1.22

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

Market Overview

By some accounts, the first half of 2022 was the worst bond market performance since '88 – that is 1788[1]. Interest rates continued to march higher, equity markets continued to move lower, and inflation readings hit levels not seen since the 1970s. The Federal Reserve – which prides itself on offering the markets transparency through forward guidance – leaked to the press two days before their mid-June meeting that a 75bps increase in the fed funds rate was in the cards when weeks earlier they had guided the markets towards expecting only a 50bps rate hike.

This period can be viewed as a cautionary reminder of one of Aesop's Fables: *be careful what you wish for, lest it come true.* The Fed undertook a herculean effort to slay inflation back in the late-1970s to early-1980s. It remains arguably the institution's greatest monetary policy accomplishment. For the past several decades inflation expectations and actual inflation have effectively been an afterthought.

But in recent years, the Fed - for reasons only known to themselves - started to fret about inflation being too low with scant evidence that destabilizing deflation was an actual threat. I've yet to meet someone who said: "I just wish I could pay more to fill up my car or stock my fridge." The Fed, therefore, set out to raise the level of inflation with an unprecedented accommodative and unconventional monetary policy.

Stable prices were seen as a *problem* by the Fed. However, the problem of allowing something to run too hot, is that it eventually requires dousing with cold water.

In addition to the Fed's actions, there are certainly two large contributing factors to the return of inflation to historic levels: the pandemic and Russia's invasion of Ukraine. Nevertheless, the Fed has made several policy errors that were reasonably clear in real time:

- Fed policy is best thought of as a *blunt instrument*, but they believed their unwinding of nearly 15 years of unconventional monetary policy would go smoothly.
- The Fed waited far too long to begin the path of policy normalization. Until late 2021 Fed officials were still calling inflation "transitory". In March their forecasts were for inflation to decline to near 2% by year-end 2022, and they continued their outright purchases of U.S. Treasury and agency mortgage-backed securities (MBS) into that month. This is a case of policy inertia leading to policy error.
- Accommodative monetary policy had gone on for so long, and the Fed had worked to dampen volatility and support the markets over the past 15 years. Accordingly, it seems there was general disbelief by the market when the Fed began to telegraph their pivot to a hawkish stance.
- During their monetary policy experiment, the Fed transitioned from their historical approach of using a model-based framework for administering monetary policy to an outcome-based framework that had the practical effect of putting them further behind the inflationary curve.

As we enter the second half of the year, the Fed is faced with the uncomfortable task of walking a tightrope between corralling inflation that has shown scant evidence of dissipating, without damaging an economic environment that appears increasingly fragile.

Fund Performance

In the second quarter, the Brandes Core Plus Fixed Income Fund (Class I Shares) declined -4.90%, underperforming its benchmark, the Bloomberg U.S. Aggregate Bond Index, which returned -4.69%.

Year-to-date, the Fund delivered -9.65%%, outperforming the benchmark which fell -10.35% for the six months ending June 30, 2022.

Holdings in consumer products (**Avon Products Inc. & Coty Inc.**), food processing (**Pilgrim's Pride**) and energy (**Range Resources Corp.**) aided returns.

Avon Products Inc. initiated a call for our holding during the quarter but since the bond indenture did not outline a specific call feature, the company called the bond at a *make-whole call* which effectively allowed them to call the issue after paying a premium to bond holders.

Pilgrim's Pride bonds benefitted after S&P upgraded the company from high yield to investment-grade in early June.

Select holdings in information technology (**MicroStrategy),** banking (**U.S. Bank** & **Goldman Sachs**), and telecom (**Telecom Italia**) detracted from returns.

The underweight to agency MBS aided performance during the quarter as agency MBS underperformed U.S. Treasury securities by nearly 1% due to the combination of increased market volatility and the end of the Fed's agency MBS purchase program. The Fed finally ended their 15-year outright agency MBS purchase plan that saw their agency MBS holdings grow from zero in 2008 to $2.7 trillion at quarter-end. One of the interesting themes to follow as we move to the second half of the year will be how the agency MBS market adjusts to losing its largest buyer, one that has provided direct support since 2008.

Term-structure positioning was a positive factor in performance as interest rates continued their march higher. The Fund was positioned near the bottom of its duration-controlled band during the quarter, helping to mitigate the impact of rising rates on a relative basis.

The Fund added new positions in: **Ford Motor Credit** (2.70% coupon, maturing 8/10/26, rated Ba2/BB+), **Bank of America** (4.45% coupon, maturing 3/3/26, rated Baa1/BBB+), and **Hess Midstream LP** (4.25% coupon, maturing 2/15/30, rated Ba2/BB+).

The Fund added to existing holdings in **Netflix Inc**., **First Energy Corp**, and **Charles Schwab Corp**.

The Fund exited our full position in **Allison Transmission Inc.** (4.75% coupon, maturing 10/1/27, rated Ba2/NR), experienced a full call in **Avon Products Inc**. (6.50% coupon, maturing 3/15/23, rated Ba3/BB-) and **British Petroleum** (3.50% coupon, maturing 3.506%, rated A2/A-), and saw a maturity in **AT&T Inc.** in April.

Outlook

Markets now appear to be exiting a period where valuations were largely artificially propped up by huge injections of liquidity and easy policy by the Fed - not to mention extraordinary stimulus from the federal government. This transition has been painful for virtually every financial asset class over the short-term. In our view, over the last several years fundamentals like cash flow generation, margins, balance sheet positioning have taken a back seat to technical factors like momentum and investor enthusiasm.

Over the longer-term, however, we believe that a market where fundamentals largely drive valuations is not only a healthier market, but one where managers focused on finding value through individual security selection have the potential to positively impact portfolio performance.

For a considerable period now, we have attempted to tilt the Brandes Core Plus Fund into what we believe is a defensive posture in order to mitigate some of the potential detrimental impact of rising interest rates and widening yield spreads. The Fund continues to favor shorter-maturity corporate bonds and those that we believe exhibit strong, tangible asset coverage. We are managing duration toward the shorter end of our duration-controlled range. We have a substantial allocation to U.S. Treasuries and if recent 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.

During the quarter we found several new bonds that we believe meet our criteria as attractive value opportunities and market volatility provided chances to add to a number of securities that we currently own

We remain underweight agency MBS.

As we move forward, we believe prudence dictates that we continue our search for value at the margins while continuing to tilt the Fund to what we believe is a relatively defensive posture.

As always, thank you for your business and continued trust.

[1] Financial Times, July 7, 2022, Datawatch

Average Annual Total Returns (%) as of June 30, 2022							
Without Load	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception 12/28/2007
Class I	-4.90	-9.65	-9.70	-0.81	0.57	1.86	2.84
Class A	-5.00	-9.83	-9.99	-1.07	0.33	1.54	2.53
With Load	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception 12/28/2007
Class A	-8.55	-13.20	-13.40	-2.34	-0.44	1.14	2.26
Bloomberg U.S. Aggregate Bond Index	-4.69	-10.35	-10.29	-0.93	0.88	1.54	2.99

Operating Expenses: Class I: 0.63% (gross), 0.30% (net)   Class A: 0.83% (gross), 0.50% (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 of A Shares without load does not reflect maximum sales charge of ***3.75%.*** *If reflected, the load would reduce the performance quoted.*

Class I shares commenced operation on December 28, 2007. Class S shares never commenced operations. They were re-designated as Class A shares and commenced operations on January 31, 2013. Performance shown prior to the inception of Class A shares on January 31, 2013, reflects the performance of Class I shares, restated to reflect Class A sales loads and expenses.

The Advisor has contractually agreed to limit the operating expenses through January 28, 2023. 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.

Agency mortgage-backed securities (MBS): An MBS issued by one of three quasi-governmental agencies: The Government National Mortgage Association (GNMA or Ginnie Mae), the Federal National Mortgage Association (FNMA or Fannie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac). A MBS is an investment similar to a bond that is made up of a bundle of home loans bought from the banks that issued them.
Asset Coverage: Measures how well a company can repay its debts by selling or liquidating its assets.
Basis Point (BPS): 1/100 of 1%.
Cash Flow: The amount of cash generated minus the amount of cash used by a company in a given period.
Coupon: The annual interest rate paid on a bond, expressed as a percentage of the face value and paid from issue date until maturity.
Credit Spread: The difference in yield between two bonds of similar maturity but different credit quality.
Duration: The weighted maturity of a fixed-income investment's cash flows, used in the estimation of the price sensitivity of fixed-income securities for a given change in interest rates.
Federal Funds Rate: The interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight.
Term Structure of Interest Rates: A graph that plots different yields offered by bonds of different maturities.
Yield: Annual income from the investment (dividend, interest, etc.) divided by the current market price of the investment.
Yield Spread: The net difference between two interest-bearing instruments of varying maturities, credit ratings, issuer or risk level.

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.

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. It is not possible to invest directly in an index.

As with most fixed income funds, the income on and value of your shares in the Fund will fluctuate along with interest rates. When interest rates rise, the market prices of the debt securities the Fund owns usually decline. When interest rates fall, the prices of these securities usually increase. Generally, the longer the Fund's average portfolio maturity and the lower the average quality of its portfolio, the greater the price fluctuation. The price of any security owned by the Fund may also fall in response to events affecting the issuer of the security, such as its ability to continue to make principal and interest payments or its credit rating. Below investment grade debt securities are speculative and involve a greater risk of default and price change due to changes in the issuer's creditworthiness. The market prices of these debt securities may fluctuate more than the market prices of investment grade debt securities and may decline significantly in periods of general economic difficulty.

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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