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 12/31/2022)

Prime Security Services	2.66
USB Capital IX	2.52
VMware Inc	2.00
Netflix Inc	1.77
PulteGroup Inc	1.72
Tenet Healthcare Corp	1.71
Range Resources Corp	1.60
Bank of America Corp	1.58
Ford Motor Credit Co LLC	1.40
Coty Inc	1.36

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

Market Overview

During the year – and certainly the fourth quarter – there has been a constant tug-of-war between a Federal Reserve (Fed) that has been attempting to shake its 15-year dovish image as an *easy money machine* and a market seemingly desperate to price in a Fed pivot away from aggressive monetary tightening.

The rampant rise in inflation has forced the Fed to tighten policy this year because of necessity, not desire. This shift appears to be a jarring shock to a generation of investors raised on easy money and mostly rising markets, along with a Fed quick to capitulate at the hint of any market volatility.

During the middle of the fourth quarter, we saw a sharp drop of around 0.80% in yields[1] and a concomitant rally in credit yield spreads and the equity market. As we saw throughout 2022, a parade of Fed governors then took to the airwaves to reiterate their commitment to moving the fed funds rate higher. The result was that the doves experienced more tears and the markets subsequently fluttered limply towards the end of the year.

What appears to be an underappreciated dynamic is when the market ignores Fed guidance, it only seems to push the Fed to do more. The Fed appears keen on not repeating the mistake made in the Arthur Burns leadership era of the late-1970s. Back then the Fed saw early signs of inflation softening and paused rate increases. That policy pause proved premature, and the Fed was forced to raise interest rates much higher than anticipated as a result.

The December 2022 Fed “dot plot” forecast pegged the median expected 2023 year-end fed funds rate at 5.125%. In contrast, the market anticipates the fed funds rate ending the year at 4.50%.[2] There is an old adage: *Don’t Fight the Fed*. The market attempted to do so in 2022 and lost. As we begin the new year the market consensus seems anxious to spar with the Fed for a few more rounds. We are not sure which side will prevail, but we generally view bouts of volatility arising from short-term market uncertainty as possible opportunities to add bonds that we believe can deliver long-term value to the Fund.

Fund Performance

In the fourth quarter, the Brandes Core Plus Fixed Income Fund (Class I Shares) returned 1.86% performing in line with its benchmark, the Bloomberg U.S. Aggregate Bond Index, which returned 1.87%.

For the calendar year 2022, the Fund was down 10.36% but delivered meaningfully positive outperformance relative to the benchmark which fell 13.01% for the twelve months ending December 31, 2022.

A few select holdings in information technology (**MicroStrategy** and **VMWare**), and banking (**U.S. Bank**) detracted from returns during the quarter.

While holdings in services (**ADT Inc., Expedia Group**, and **Iron Mountain**), utilities (**First Energy**), chemicals (**Methanex Corp**.), and food processing (**Pilgrim’s Pride**) aided returns.

Term-structure positioning was a neutral factor during the quarter. While there was a good deal of interest rate volatility within the quarter, the 10-year U.S. Treasury security ended the period only four basis points higher.

Portfolio activity was modest during the fourth quarter. The Fund added new positions in **Expedia Group** (3.25% coupon, maturing 2/15/30, rated Baa3/BBB-), and **Carnival Corp.** (2nd lien issue, 9.875% coupon, maturing 8/1/27, rated B1/BB-). The Fund added to existing holdings in **Bank of America Corp**.

While there were no outright sales, the Fund did experience a full call of our **JPMorgan** floating rate note, which had been a holding for a long period.

Outlook

At this time of year, economic forecasters typically receive media attention for their New Year predictions. We'd simply observe that most forecasts are wrong, many comically so! Consider a few forecasts from year-end 2021. The Fed's December 2021 closely watched "dot plot" forecast pegged the median fed funds rate at year-end 2022 at 0.81%. The consensus market forecast was an almost identical 0.82%[3]. The actual fed funds rate ended the year at 4.50%. The disconnect between the forecasts and the actual experience explains a large portion of why we just experienced the worst annual bond market return in our lifetimes.

The Bloomberg December 2021 consensus inflation forecast for CPI (Consumer Price Index) as of year-end 2022 was 4.4%. CPI inflation peaked at 9.1% in June and the most recent CPI release was 7.1%[4]. The gap between forecast and outcome was admittedly a bit less than the fed funds predictions, but still wildly off-the-mark.

Legendary economist John Kenneth Galbraith once said: "We have two classes of forecasters: those that don't know and those who don't know they don't know." Predicting the future is always difficult, but now represents an almost unprecedented challenge as the combined economic, policy, and market backdrop is something that we have never seen before. Fortunately, we are in the business of "managing strategies" not "forecasting economies". As such, we focus on identifying value and understanding risk. And what we perceive now is that yields are at attractive levels – levels not seen in nearly 15 years. A coupon clipping year in the bond market in 2023 could lead to solid returns. Yields at these higher levels also offer a cushion against further interest rate increases or yield spread widening.

Nevertheless, some caution is warranted by the likelihood that higher rates will weigh on many companies that survived for the past 15 years on cheap money. Some of these may not survive and in our view, the current landscape places a premium on fundamental research and individual security selection – factors that were less important when financing was cheap and easy, and everything seemed to be going higher.

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. We believe that even after recent rate increases, this remains a risk. Accordingly, 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 meaningful 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.

We remain underweight agency mortgage-backed securities.

As we move forward, we believe prudence dictates that we continue our search for value in a measured and deliberate manner while continuing to tilt the Fund to what we believe is a relatively defensive posture.

[1] Source ycharts.com, January 9, 2023, 10 year Treasury yield 4.25% on 10/24/2022 and 3.42% on 12/7/2022
[2] Source: Bloomberg, Fed Funds Projections and Implied Target Rate, January 6, 2023
[3] Source: Bloomberg, Fed Funds Predicted Median Rates, January 6, 2023
[4] Source: Bloomberg, CPI data, January 4, 2023

Average Annual Total Returns (%) as of December 31, 2022							
Without Load	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception 12/28/2007
Class I	1.86	-10.36	-10.36	-1.48	0.31	1.33	2.69
Class A	1.82	-10.65	-10.65	-1.75	0.06	1.01	2.39
With Load	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception 12/28/2007
Class A	-1.99	-13.99	-13.99	-3.01	-0.69	0.62	2.12
Bloomberg U.S. Aggregate Bond Index	1.87	-13.01	-13.01	-2.71	0.02	1.06	2.68

Operating Expenses: Class I: 0.66% (gross), 0.30% (net) Class A: 0.86% (gross), 0.50% (net) Class R6: 0.61% (gross), 0.30% (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, 2024. 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%.
Consumer Price Index (CPI): Measures the average change in prices over time that consumers pay for a basket of goods and services.
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.
Dot Plot: Data points that are plotted on a graph and is used by the Federal Reserve to show its projected interest-rate outlook.
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.
Floating Rate: A debt instrument that does not have a fixed rate of interest over the life of the instrument.
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 Curve: A graphical comparison of the relationship between interest rates for loans of various maturities with similar credit quality. A typical yield curve slopes upward to reflect higher interest rates for longer maturities.
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.
Bond ratings are grades given to bonds that indicate their credit quality as determined by a private independent rating service such as Standard & Poor's. The firm evaluates a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'D', which is the lowest grade. In limited situations when the rating agency has not issued a formal rating, the Advisor will classify the security as nonrated.

Diversification does not assure a profit or protect against loss in a declining market. It is not possible to invest directly in an 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. 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. The Fund may hold illiquid securities which may reduce the return of the Fund because it may be unable to sell such illiquid securities at an advantageous time or price. Illiquid securities may also be difficult to value. The Fund is actively managed, and may frequently buy and sell securities. Frequent trading increases a Fund's portfolio turnover rate and may increase transaction costs, such as brokerage commissions and taxes, which in turn could detract from the Fund's performance.

Investing in foreign securities poses additional risks. The performance of foreign securities can be adversely affected by the different political, regulatory 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 may experience substantial fluctuations or steady devaluation relative to the U.S. dollar. Mortgage-related securities are subject to certain additional risks. Rising interest rates tend to extend the duration of mortgage-related securities, making them more sensitive to changes in interest rates. As a result, when holding mortgage-related securities in a period of rising interest rates, a Fund may exhibit additional volatility. In addition, mortgage-related securities are subject to prepayment risk. When interest rates decline, borrowers may pay off their mortgages sooner than expected. This can reduce the returns of a Fund because it will have to reinvest that money at the lower prevailing interest rates.

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.brandes.com/funds. Read carefully before investing.

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