Brandes Core Plus Fixed Income Fund

FUND INFORMATION

Class I:	BCPIX
Class A:	BCPAX
Class R6:	BCPRX

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 12/31/2023)

United States Treasury Note	55.44
Fannie Mae Pool	3.12
Freddie Mac Pool	2.87
Prime Security Services	2.25
USB Capital IX	2.02
MicroStrategy Inc	1.80
Bank of America Corp	1.67
VMware LLC	1.62
Citigroup Inc	1.46
Netflix Inc	1.41

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

Market Overview

The story of the fourth quarter was the fierce rally in bond prices as the Fed (Federal Reserve) appeared to indicate that not only are further fed funds rate increases off the table, but the next move is likely a cut in rates. The December Fed meeting was characterized by many as a dovish pivot. The fourth quarter rally in bond prices ensured that taxable fixed income (as measured by the Bloomberg U.S. Aggregate Bond Index) delivered positive returns not only for the quarter but also the year.

Markets have a funny way of hearing only what they want to hear. The market heard "rate cuts" in 2024 after the December fed meeting and immediately priced in nearly an additional 50bps of easing in 2024, leading to an expected 2024 year-end fed funds rate of 3.75%. The Fed's dot plot median rate forecast released after the December meeting projected only one additional cut in each of 2024 and 2025 – not exactly a seismic change – to a projected 2024 year-end rate of 4.70%. We've previously discussed the disconnect between where the market desires Fed policy to go, and actual Fed policy. It appears we may have another disconnect developing.

Investors appear to be of the belief that inflation has been tamed. While we may all hope this is the case, this optimism is perhaps a bit premature. For the better part of the past two years the market has continually underestimated the economy's strength and the persistence of inflationary pressures.

There are still several potential inflationary headwinds facing the economy:

- a sharp rise in government spending and interest costs (rivaling Italy as a percentage of GDP)
- an uptick in housing prices
- a labor market where the number of unfilled jobs still exceeds the number of unemployed
- gross domestic product growth of 4.9% annualized for the third quarter (the latest to be reported), versus 20-year average GDP growth of 2.1%
- geopolitical risks that could lead to a rise in shipping costs and defense spending

During the past few years of high inflation there have been a few parallels drawn to the 1970s. One interesting observation is that twice during the 1970s the Fed effectively declared premature victory over inflation by cutting rates, first under Fed chair Arthur Burns (early 1970s) and later under Paul Volker (mid 1970s). In both instances, inflation (as measured by the consumer price index) subsequently rebounded much higher. We are not certain if history will repeat itself, merely "rhyme", or even have no bearing on the current environment. We do believe, however, that caution is warranted regarding optimism that interest rates have peaked, and that the inflation genie has been placed back in its bottle.

In the credit markets, both investment grade and high yield bonds (as measured by Bloomberg's U.S. Credit and U.S. Corporate High Yield Indices respectively) posted strong absolute returns as well as positive returns relative to U.S. Treasury securities. Even after a sharp move downward during the quarter, yields on corporate bonds remain near the highest we have seen in nearly 15 years, which has led to considerable market optimism about the opportunities in the asset class. As we explained last quarter, a closer look indicates that the rise in corporate bond yields is largely attributable to the increase in Treasury yields rather than a cheapening of overall credit spreads. The corporate market appears to be priced for perfection. Accordingly, we believe caution is warranted when allocating to the sector.

Fund Performance

In the fourth quarter, the Brandes Core Plus Fixed Income Fund returned 6.65% (Class I Shares), slightly underperforming its benchmark, the Bloomberg U.S. Aggregate Bond Index, which returned 6.82%. For the full calendar year, the portfolios delivered positive absolute returns as well as meaningfully positive performance relative to the benchmark.

Term-structure positioning was a negative factor during the quarter. U.S. Treasury yields rallied sharply during the period as the market began to price in expected aggressive fed funds rate decreases beginning as soon as March 2024. Near the end of September, we moved the duration of the portfolios up, to 90% of the benchmark's duration – a level that we maintained throughout the fourth quarter.

The portfolios' underweight to agency mortgage-backed securities (MBS) detracted from returns as that sector posted positive returns versus U.S. Treasuries. In mid-October we added approximately 3% positions in agency MBS to the portfolios but remain underweight the sector relative to the benchmark.

Corporate bonds provided a positive contribution to returns during the quarter. Within corporate bonds, performance during the period was led by corporate bond holdings in information technology (**MicroStrategy** and **Meta**), services (**ADT** and **Iron Mountain**), banking (**US Bank** and **Goldman Sachs**), and telecom (**Telecom Italia**)

Select holdings in energy (**Transocean Inc**) and food processing (**Pilgrim's Pride**) modestly detracted from performance.

Portfolio activity was modest during the quarter. In addition to the agency MBS purchase, the portfolios added to an existing holding in **Methanex Corp.** (5.25% coupon, maturing 12/15/29, rated Ba1/BB). Methanex is the world's largest producer of methanol. Methanol is a liquid chemical produced from natural gas that is primarily used as a feedstock in the production of other chemicals. It is generally categorized as "clean" energy - relatively speaking. It is used in an additive in gasoline that raises octane and reduces emissions. Most of methanol's growth comes as a replacement alternative for naphtha, which is used by refineries to thin heavy crude oil and as a solvent. Methanol is also used in the production of ethylene & propylene, as well as being an ingredient in a clean-energy alternative to propane fuel used in China. Methanex is nearing the completion of a new production plant, and the company intends to direct excess cash flows after the completion of the plant to pay down upcoming maturities in order to de-lever the balance sheet.

Outlook

The bond market seemingly desires to press the Fed as quickly as possible to push the fed funds rate back down towards normal, but what is "normal"? The Fed first took the fed funds rate below 1% in October 2008 and has largely kept rates near the zero bound for almost 15 years. To many investment professionals who are less than 15 years into their careers, their normal has been interest rates at levels near zero. In our view, much of the optimism and performance that the financial markets experienced towards the end of 2023 may be grounded in this limited experience and perspective.

As we enter the new year, we can share some of this optimism, as corporate bond yields are the highest they have been since 2009. Our main caution, however, is that we believe it is important to remain disciplined in what one buys. Higher yields are welcome for long-term savers and investors, but a potential burden for companies that have lived and survived for the better part of the past 15 years on near zero rates and are facing upcoming maturities.

The takeaway in our view is that deep, measured, fundamental research is essential as we move forward in an environment where idiosyncratic risks appear to be on the rise. We believe it's critical to be patient in adding positions: not just know what you own but why you own it.

For a considerable period now, we have attempted to tilt the fixed income component of the strategy into what we believe is a defensive posture to mitigate some of the potential detrimental impact of rising interest rates and widening yield spreads. We believe that this remains a risk. Accordingly, the strategy continues to favor shorter-maturity corporate bonds and those that we believe exhibit strong, tangible asset coverage. While we made a modest extension to duration in the fourth quarter, we are still managing duration approximately 10% shorter than the strategy's benchmark. We have a meaningful allocation to U.S. Treasuries and if 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.

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 strategy to what we believe is a relatively defensive posture.

Average Annual Total Returns (%) as of December 31, 2023							
Without Load	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception 12/28/2007
Class I	6.65	7.37	7.37	-1.26	1.83	1.98	2.97
Class A	6.65	7.19	7.19	-1.49	1.62	1.71	2.68
Class R6	6.66	7.48	7.48	-0.52	2.63	2.51	3.32
With Load	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception 12/28/2007
Class A	2.63	3.22	3.22	-2.74	0.85	1.32	2.43
Bloomberg U.S. Aggregate Bond Index	6.82	5.53	5.53	-3.31	1.10	1.81	2.89

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, 2025. 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: 1/100 of 1%.
Capital Expenditure: A financial outlay to acquire or upgrade physical assets such as equipment, buildings or property.
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.
Idiosyncratic Risk: The risk that is endemic to a particular asset and not a whole investment portfolio.
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.
Yield to Maturity: The rate of return anticipated on a bond if it is held until the maturity date.

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.
The Bloomberg U.S. Corporate High Yield Bond Index - LBUSHY: The Bloomberg U.S. Corporate High Yield Bond Index is an unmanaged index consisting of U.S. dollar-denominated, non-investment-grade, fixed-rate, taxable corporate bonds. The index is a total return index which reflects the price changes and interest of each bond in the index.
The Bloomberg U.S. Credit Index: The Bloomberg U.S. Credit Index measures the U.S. dollar-denominated, fixed-rate taxable corporate and government related bond markets. The 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.

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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