

# Brandes International Small Cap Equity Fund

## FUND INFORMATION

Class I:	BISMX
Class A:	BISAX
Class C:	BINCX
Class R6:	BISRX

## STRATEGY

The Fund seeks long-term capital appreciation by investing in equity securities of non-U.S. issuers it believes are undervalued relative to their financial strength and upside potential.

## TOP TEN HOLDINGS

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

Embraer SA	4.68
Fibra Uno Administracion SA de CV	3.51
Draegerwerk AG & Co KGaA	2.98
J Sainsbury PLC	2.91
Mitie Group PLC	2.67
PAX Global Technology Ltd	2.56
C&C Group PLC	2.51
Komori Corp	2.40
First Pacific Co Ltd	2.32
Lar Espana Real Estate Socimi SA	2.08

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

The Brandes International Small Cap Equity Fund declined 12.71% (Class I Shares), outperforming its benchmark, the S&P Developed ex-U.S. SmallCap Index, which declined 17.93% in the second quarter, and the S&P Developed ex-U.S. SmallCap Value Index, which was down 15.77%.

## Positive Contributors

Defensively oriented businesses performed well in the quarter. As this is a fairly common trait of our Japanese holdings, it is not surprising that some of our strongest performers are domiciled there. These included food products company **Mitsubishi Shokuhin**, **Hachijuni Bank**, and printing press manufacturer **Komori**.

Other notable contributors included Irish bank **AIB Group** and Belgium-based personal hygiene products company **Ontex Group**. Additionally, France-based **Societe BIC**, which manufactures stationary products, lighters, and shavers, announced strong earnings thanks to increased traction on its new products.

Relative to the benchmark, our underweights to information technology and materials aided returns, along with the overall performance of our holdings in financials and real estate.

## Performance Detractors

A variety of concerns contributed to the market decline in the quarter, including geopolitical risks and inflation, as well as worries about economic growth. As a result, many cyclically oriented companies performed poorly, as did technology-related companies, which continued to see their valuations compress with rising interest rates.

Cyclical companies that performed well in 2021, such as Brazilian regional jet manufacturer **Embraer** and Canada-based **Dorel Industries**, saw their share prices retreat. Investor frustration over its margin guidance, combined with supply-chain issues and potential economic slowdown, seems to have contributed to Embraer's share-price decline. We believe the market continues to underappreciate the long-term cycle recovery opportunity across Embraer's products despite its order backlog having risen above pre-COVID levels. As the market is heavily focused on short-term, one-off item margin distortions, Embraer now trades at a wide discount to our estimate of its intrinsic value.

Other detractors included Ireland's **Avadel Pharmaceuticals** and Hungary-based **Magyar Telekom**. Avadel's shares were volatile in the quarter as the U.S. Food and Drug Administration delayed its approval of Avadel's narcolepsy drug until at least next year. Meanwhile, the Hungarian government's announcement of increased taxes negatively affected Magyar's share price.

## Select Activity in the Quarter

Given the volatility in the market, portfolio turnover was higher than usual. The small-cap investment committee exited a number of positions including Japan-based **Sankyo** and **Japan Petroleum Exploration**, as well as South Korean utility **Samchully** and U.K.-based **Premier Foods**. The committee also divested defense-related holdings **Leonardo** and **QinetiQ**.

Meanwhile, new purchases included South Korean security services provider **S-1**, Japanese chemical firm **Nihon Parkerizing**, Swiss engineering company **Sulzer**, Canadian aerospace business **Heroux-Devtek** and Luxembourg-domiciled **Millicom International Cellular**.

Millicom provides wireless and fixed-line services to 49 million customers across nine countries in Latin America (LatAm). Millicom differs from its LatAm peers in its focus on smaller countries, either by early entry or by acquisition, a strategy that has helped it gain top market share positions in most of the countries in which it operates. Given the low adoption rates of wireless data services across a population of nearly 120 million, meaningful growth opportunities persist across Millicom's geographic markets.

Although we have followed Millicom for more than 15 years, this was the first time we purchased its shares. The company recently underwent a large rights offering that increased its shares outstanding by 70%. This, combined with general market malaise, has put Millicom's shares under significant pressure lately.

In our view, Millicom is among the most attractively valued LatAm telecommunications services providers. Its operations are concentrated in countries that have relatively low competition (many are duopolies), lenient regulation and manageable foreign-exchange risk, while offering a favorable macroeconomic outlook. We believe Millicom's positive attributes outweigh the potential risks, and the recent share-price decline has created a compelling entry point for an investment in a company with a strong market position and appealing growth opportunity.

## Year-to-Date Briefing

The Brandes International Small Cap Equity Fund declined 18.10%, outperforming its benchmark, the S&P Developed ex-U.S. SmallCap Index, which declined 24.63% in the six months ended June 30, 2022, and the S&P Developed ex-U.S. SmallCap Value Index, which was down 19.06%.

As was the case in the quarter, select holdings in Japan performed well, led by Mitsubishi Shokuhin, Hachijuni Bank, and Komori. Defense-related businesses Leonardo and QinetiQ also helped returns. From a sector standpoint, our underweight to technology-related businesses lifted performance, as did select holdings in financials, real estate, consumer discretionary, and health care.

Detractors were mostly holdings in cyclical or economically sensitive sectors, notably Embraer, Irish beverage company **C&C Group**, U.K. grocer **J Sainsbury**, and France-based contract caterer **Elior Group**. Utility **Enel Chile**, Avadel Pharmaceuticals, and Magyar Telekom also declined.

## Current Positioning

Amid a declining overall market, value stocks (S&P Developed ex-U.S. SmallCap Value) outperformed the broader market (S&P Developed ex-U.S. SmallCap) for the year as rising inflation and interest rates caused the

valuations of many high-flying growth companies to compress. Geopolitical developments exacerbated inflationary trends and increased worries about a slowdown in growth, raising the potential for a "stagflationary" environment (low economic growth *and* elevated inflation).

In theory, weaker growth may be a headwind for value stocks, all else being equal. However, as we have mentioned in previous notes, two of the best periods for value versus growth occurred in stagflationary environments during the 1970s and early 2000s. The common factors that led these two periods to result in highly favorable value environments were: markets had been in a state of elevated valuations and the spread between value and growth had been at historically wide levels. The tailwinds for value that were driving relative returns earlier this year still appear evident to us. While valuation spreads between value and growth have started to narrow from the historically wide gap at the start of the year, they remain among the widest quintile in history, and we therefore continue to feel optimistic about the potential returns for value stocks.

In terms of portfolio positioning, the Fund held its largest weights in industrials (although underweight relative to the benchmark), consumer staples and financials, while maintaining underweights in technology and materials. Additionally, the Fund continued to have significant exposure to companies in Japan, the United Kingdom, and emerging markets.

We remain excited about the prospects of the Brandes International Small Cap Equity Fund and appreciate your continued trust.

## Average Annual Total Returns (%) as of June 30, 2022

Without Load	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception 8/20/1996
Class I	-12.71	-18.10	-21.18	1.77	-2.16	5.25	7.78
Class A	-12.83	-18.17	-21.34	1.54	-2.37	5.01	7.53
Class C	-12.91	-18.48	-21.86	0.99	-2.98	4.39	--
Class R6	-12.65	-18.02	-21.04	1.86	-2.05	5.34	7.85
With Load	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception 8/20/1996
Class A	-17.84	-22.88	-25.86	-0.44	-3.52	4.39	7.29
Class C	-13.76	-19.28	-22.60	0.99	-2.98	4.39	--
S&P Developed Ex-US SmallCap Index	-17.93	-24.63	-25.26	0.95	1.39	6.44	5.83
S&P Developed Ex-US SmallCap Value Index	-15.77	-19.06	-20.16	1.14	0.41	6.20	6.43

Operating Expenses: Class I: 1.13% (gross), 1.13% (net) Class A: 1.33% (gross), 1.33% (net) Class C: 2.08% (gross), 2.08% (net) Class R6: 1.08% (gross), 1.00% (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 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 for the Class A shares 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. The Class C shares' average annual total return for the 10-year period assumes that Class C shares automatically converted to Class A shares 8 years after the start of the period. The Class C shares' average annual total return for the since inception period cannot be calculated as the Class A shares had not been launched as of 8/19/2004, 8 years after the inception date of the Brandes International Small Cap Equity Fund. 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 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.

Operating Margin: Operating income divided by net sales; used to measure a company's operating efficiency.

Rights Offering: A company's offer to its existing shareholders to purchase additional shares in proportion to their existing stakes.

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.

The S&P Developed Ex U.S. SmallCap Value Index with net dividends measures the equity performance of small cap companies in developed markets excluding the United States, which are classified as value stocks by book value-to-price, sales-to-price, cash flow-to-price, and dividend yield.

**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.**

*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](http://www.brandesfunds.com). Read carefully before investing.*

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