Brandes Global Opportunities Fund

Fund Commentary

In the second quarter, the Brandes Global Opportunities Fund outperformed its benchmark, the MSCI AC World Index.

Performance Contributors

Amid the strong relative performance for value stocks, holdings across a variety of sectors held up well in the declining market, notably those in consumer discretionary (e.g., China-based Alibaba, Topsports International, Gree Electric Appliances) and health care (e.g., Cigna, GSK, Sanofi, Merck & Co.). Both Sanofi and GSK have been increasing their focus on their core pharmaceutical businesses, with Sanofi spinning off its ingredients business in the quarter and GSK planning to do the same with its consumer health division next quarter.

Other contributors included Japanese food retailer Mitsubishi Shokuhin, U.K.-based tobacco company Imperial Brands, Mexican real estate investment trust FIBRA Macquarie Mexico and U.K. defense-related business QinetiQ.

Additionally, our (Brandes LP) underweight to information technology was a strong contributor to relative performance. Many technology companies continued to see their valuations compress with rising interest rates, and the sector was the worst-performing component within the benchmark in the quarter.

Positive Detractors

A variety of concerns contributed to the market decline in the quarter, from geopolitical risks and inflation, to worries about economic growth. As a result, many cyclically oriented companies performed poorly. Ad agencies WPP and Publicis declined on uncertainty around future advertising spending. Industrial companies De La Rue and Embraer also 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 even though its order backlog has 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 U.S. biotech firm PDL BioPharma and Austria-domiciled Erste Group Bank.

Select Buy & Sell Activity

Portfolio activity picked up in the quarter amid heightened market volatility. The investment committee initiated positions in U.K.-based media firm ITV, bank NatWest Group and industrials company Rolls-Royce, as well as U.S.-based Comcast, German software company SAP and Luxembourg-domiciled Millicom International Cellular. Meanwhile, fully exited positions were those in QinetiQ, Sierra Wireless and Change Healthcare.

SAP is a leader in enterprise resource planning (ERP) software, which includes applications for payroll, procurement, finance, manufacturing and operations. We believe enterprise software is an attractive industry with high switching cost, low capital intensity and robust returns on equity. SAP has historically traded at a premium relative to the broad market, largely due to its dominant position in an appealing growth industry, and the scarcity of technology-related investment opportunities in Europe relative to the United States. However, because SAP's ERP software was heavily customized and difficult to upgrade, its growth rate lagged that of many of its peers, leading the company to turn to acquisitions for growth.

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SAP has delivered disappointing earnings as it tried to balance integrating its acquisitions with moving its applications to the cloud, both of which have proven challenging for the company. As a result, its share price recently dropped near a five-year low, making the company more attractive to us.

Although SAP may continue to deliver subdued financial results in the short term, we believe its business strategy, combined with its recent record of execution, positions it well for the long term, which is the investment horizon for us. Its strong focus on cloud migration corresponds well with enterprise customers' urgent need to improve the flexibility and agility of their enterprise application software as they grappled with the pandemic-triggered disruptions and uncertainties over the past two years. SAP's effort to offer a fully integrated technology solution should serve well as the foundation for both its organically developed software and its acquired software. This, in turn, should enable SAP to revive its organic growth rate as it will be easier for customers to buy and implement additional software modules, which was not the case with on-premise software. Even though its short-term financial results may be depressed due to frontloaded expenses associated with both efforts (integration and cloud migration), we believe these projects will help SAP achieve organic growth that should benefit its operating leverage and profitability over the longer term. We have seen this happen with other enterprise software firms that have gone through a similar multi-year transitional period. As such, at its current valuation, SAP represents a compelling long-term risk/reward tradeoff to us.

Headquartered in Luxembourg, 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 favourable macroeconomic outlook. There are several potential catalysts that can unlock the value we see in Millicom, including:

- Moving past the rights offering
- Management meeting free-cash-flow guidance and using it to lower leverage
- Share buybacks
- Faster-than-expected balance sheet improvement from infrastructure asset sales (e.g., towers, data centres)
- More visibility into financial technology efforts via a minority investor in its mobile wallet platform Tigo Money

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.

Current Positioning

Value stocks (MSCI ACWI Value) outperformed the broader market (MSCI ACWI) noticeably for the year as rising inflation and interest rates caused the valuations of many high-flying growth companies to compress. Geopolitical developments have exacerbated inflationary trends and increased worries about a slowdown in growth, raising the potential for a "stagflationary" environment (low economic growth *and* elevated inflation).

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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 low growth in the early 2000s. The common factors that led these two periods to result in highly favourable 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 positioning, the Fund continued to hold key investments in financials, consumer staples and discretionary, as well as health care, while remaining underweight to information technology and materials. Geographically, emerging markets, the United Kingdom and France represented the largest overweight positions. We remained noticeably underweight to the U.S. market. We believe the differences between our portfolio and the broader market continue to make it an attractive complement and a diversifier to more index-like or growth-oriented alternatives.

We remain excited about the prospects of the Brandes Global Opportunities Fund and appreciate the trust you have placed in us.

About Brandes LP

In the 40-plus years since Brandes LP was founded, its goal has remained the same: pursue above-market gains to help investors move closer to their long-term investment objectives. Brandes LP believes that its unwavering commitment to value investing will lead it to attractively priced, fundamentally sound companies worthy of inclusion in the Fund.

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Contribution Analysis (relative to benchmark)

LAST QUARTER

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Semicond. & Semicond. Equip.	1.39	Aerospace & Defense	-0.81
Software	0.92	Media	-0.80
Internet & Direct Marketing Retail	0.84	Diversified Telecom. Services	-0.61
Interactive Media & Svcs.	0.77	Banks	-0.44
IT Services	0.61	Wireless Telecom. Services	-0.33

COUNTRY

Top 5 Contributors	%	Top 5 Detractors	%
United States	7.76	United Kingdom	-0.99
Canada	0.65	Brazil	-0.91
Australia	0.33	Mexico	-0.54
Taiwan	0.32	Austria	-0.52
Japan	0.26	Switzerland	-0.47

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Mitsubishi Shokuhin Co Ltd	0.26	Embraer S.A. ADR	-0.78
Cigna Corp	0.24	Erste Group Bank AG	-0.53
Sierra Wireless	0.21	NETGEAR, Inc.	-0.46
Imperial Brands PLC	0.17	De La Rue plc	-0.42
Societe BIC SA	0.16	Nova Ljubljanska Banka GDR	-0.35

LAST 12 MONTHS

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Interactive Media & Svcs.	1.29	Banks	-2.01
Semicond. & Semicond. Equip.	1.13	Commercial Services & Supplies	-1.68
IT Services	1.12	Aerospace & Defense	-1.30
Software	0.80	Oil, Gas & Consumable Fuels	-1.04
Entertainment	0.71	Electric Utilities	-0.81

COUNTRY

Top 5 Contributors	%	Top 5 Detractors	%
United States	4.80	Russia	-3.01
Canada	0.39	United Kingdom	-1.83
Taiwan	0.36	Chile	-0.72
Netherlands	0.33	China	-0.61
Sweden	0.26	Mexico	-0.60

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Cigna Corp	0.45	Sberbank	-1.55
Telefonica Brasil S.A.	0.43	Surgutneftegas PJSC Pfd	-1.21
Petroleo Brasileiro SA Pfd	0.36	Embraer S.A. ADR	-1.21
GlaxoSmithKline PLC	0.36	De La Rue plc	-1.12
BP PLC	0.25	NETGEAR, Inc.	-1.02

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Quarterly Additions/Deletions

Additions	Deletions
ITV	QinetiQ Group
NatWest Group	Change Healthcare
Comcast Corp	Sierra Wireless
Millicom Intl Cellular	
Rolls-Royce Holdings	
SAP	

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on the BRIDGEHOUSE INDEPENDENT PLATFORM

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