Brandes U.S. Equity Fund

Fund Commentary

During the first quarter, the Brandes U.S. Equity Fund outperformed its benchmark, the Russell 1000 Value Index.

Positive Contributors

Holdings across a variety of sectors boosted returns, led by those in energy, materials and health care.

Rising energy prices benefited our (Brandes LP) oil-related companies, including integrated oil firm Chevron and oil field services company Halliburton. Rising commodity prices also aided our materials investments: Corteva and Westlake.

Other contributors included pharmaceutical distributor McKesson, advertising agency Omnicom and aerospace and defense company General Dynamics.

Performance Detractors

As geopolitical concerns increased in lock step with worries about inflation and the potential for "stagflation," the broad U.S. market (as measured by the Russell 1000 Index) declined. Technology and consumer discretionary companies largely led the decline, as technology companies' valuations tend to be negatively impacted by higher interest rates, and as consumer discretionary companies could see demand slowdown from inflationary pressures. During the quarter, the Fund's largest detractors included homebuilder Taylor Morrison and flooring company Mohawk Industries, as well as food products provider Ingredion.

Among the Fund's holdings, Mohawk has the highest exposure to Russia at about 4% of total sales, although the company does have some manufacturing facilities in Eastern European countries such as Poland. As a flooring manufacturer and distributor, Mohawk has experienced material cost inflation which could pressure short-term margins, but over the longer term we believe its advantaged position should enable it to manage these costs better than many competitors. After its recent decline, the stock trades at a single digit multiple of earnings, which we believe allows for an attractive return over time.

While the housing market has been strong during the previous year and Taylor Morrison has performed well, the shares have pulled back recently amid anxiety about the consequences of rising mortgage rates. However, at the company's current valuation of only 3x forward earnings, and given the lack of new housing built over the past decade, we believe these factors are fully reflected in Taylor Morrison's share price.

Other detractors whose near term margins were adversely affected by inflationary pressures included Industrial holdings Johnson Controls and FedEx.

Select Buy & Sell Activity

The investment committee took a new position in semiconductor firm Qorvo and insurance broker and benefits firm Willis Towers Watson (WTW).

Qorvo was formed in 2015 via the merger of TriQuint Semiconductor and RF Micro Devices. The company is now the second-largest independent radio frequency (RF) front-end component supplier and offers products that are critical for transmitting radio signals to, and receiving them from, a smartphone's cellular modem.

Most of Qorvo's revenue comes from the smartphone market. It has a strong competitive position and should continue to benefit from the transition to 5G-enabled phones, which include significantly more RF components per phone (3G phones average $8 of RF components versus 5G at $25).

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Additionally, the company earns almost one-third of its revenue outside of smartphone end-markets, and will likely derive a benefit from the growing Internet of Things (IoT) applications for internet-connected appliances and devices.

Qorvo's shares have declined due to concerns about supply chain constraints and a slowdown in the smartphone market, especially in China which accounts for the largest share of Qorvo's revenue. Over the longer term, we believe that Qorvo's supply chain constraints will be resolved and that it offers an appealing way to benefit from the growth of RF content per 5G phone, as well as the proliferation of internet-connected devices globally. At a current valuation of less than 10x our estimate of normalized earnings, we feel the company offers a desirable risk/reward tradeoff.

We also initiated a position in Willis Towers Watson (WTW), the third-largest retail insurance broker in the United States. The company offers insurance brokerage, actuarial support, consulting, pension plan design, risk broking and benefits outsourcing. WTW's share price declined over the past year when an intended acquisition by Aon fell through for anti-trust reasons. WTW is now working to turn around its standalone business, with a new management team and a reconstituted board of directors.

Overall, we believe WTW is an appealing business with good cash flow generation and a strong balance sheet that trades at an attractive valuation level, especially as it works on raising its margins closer to those of its insurance broker peers. Additionally, several activist investors have bought WTW shares to push for its turnaround, and WTW has announced it will be returning a significant amount of excess cash to shareholders over the next 18 months, equal to about 15% of its market cap.

The investment committee sold biotechnology firm Gilead Sciences and real estate investment trust Mid-American Apartment Communities (MAA). We initially bought MAA just over a year ago after the shares underperformed during the initial market recovery as we felt the company's strong position in attractive end-markets was underappreciated. Real estate markets and rents have continued to see strong price appreciation, which has significantly benefited MAA, and its shares have performed well. We therefore divested when MAA reached our estimate of its intrinsic value.

Current Positioning

Value stocks (as measured by the Russell 1000 Value Index) outperformed the broader market (Russell 1000 Index) noticeably at the start of the year when rising inflation and interest rates caused many high-flying growth company valuations to compress. Geopolitical developments in the second half of the quarter (i.e., the invasion of Ukraine) have exacerbated inflationary trends, increased worries about a slowdown in growth and raised the potential for a stagflationary environment (low economic growth *and* elevated inflation).

Heading into 2022, we were optimistic that improving economic growth and an uptick in inflation (after a decade-plus of weak growth coupled with low and declining interest rates) would benefit value stocks—especially against the valuation discounts value stocks traded at relative to growth stocks. With inflation persisting and growth potentially slowing, we are often asked if these factors change our outlook for value stocks. While weaker growth may be a headwind for value stocks all else being equal, it's rarely "all else equal." In fact, two of the best periods for value stocks relative to growth stocks were during the stagflationary environment of the 1970s following the Nifty Fifty era and during the post-tech bubble correction of the early 2000s.

The common factors leading up to these two periods of significant value outperformance were a) U.S. stocks in general were trading at very elevated valuations, and b) the valuation spreads between value and growth stocks were at historically elevated levels—both of which we are experiencing today.

From an industry/sector standpoint, the Fund's largest relative overweight positions remained in the economically sensitive financials sector, the more defensive health care

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sector and various areas within the technology sector that are exposed to secular growth at what we consider to be reasonable valuations.

While we feel our health care holdings generally exhibit defensive and high-quality characteristics, many also show the potential to benefit from the resumption of elective procedures that may have been delayed during the pandemic. As it regards our financial holdings, in addition to the tailwind from loan growth and capital returns, many of them should also benefit from the increase in interest rates that we are now starting to experience. Finally, our overweight to the technology sector includes several companies with exposure to secular megatrends like artificial intelligence, fintech and 5G (companies like Micron, Fiserv and Qorvo) at what we consider to be very reasonable valuations.

Our most significant underweights are in consumer staples, utilities and real estate, which appear generally expensive to us other than a few specific opportunities.

We believe the differences between the Brandes U.S. Equity Fund and the broader market continue to make the Fund an attractive complement to more index-like or growth-oriented alternatives.

Looking ahead to this year and beyond, we remain optimistic about the portfolio's prospects given what we consider to be an attractive environment for value investing, and the Fund's historic tendency to outperform the Russell 1000 Value Index during periods of value outperformance (Russell 1000 Value vs. Russell 1000).

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	%
Energy Equip. & Services	0.92	Household Durables	-0.85
Chemicals	0.64	Oil, Gas & Consumable Fuels	-0.52
Health Care Prov. & Services	0.39	Banks	-0.36
IT Services	0.38	Air Freight & Logistics	-0.26
Life Sciences Tools & Svcs.	0.33	Food Products	-0.25

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
Halliburton Co.	1.05	Mohawk Industries Inc	-0.56
Chevron Corp.	0.74	Taylor Morrison Home Corp	-0.43
McKesson Corp	0.53	Fedex Corp	-0.27
Westlake Chemical Corp.	0.30	Berkshire Hathaway Inc. Class B	-0.26
Omnicom Group	0.29	Bank of New York Mellon Corp.	-0.26

LAST 12 MONTHS

INDUSTRY

Top 5 Contributors	%	Top 5 Detractors	%
Health Care Prov. & Services	1.87	Oil, Gas & Consumable Fuels	-1.52
Aerospace & Defense	1.06	Diversified Financial Services	-0.62
Energy Equip. & Services	1.01	Life Sciences Tools & Svcs.	-0.57
Pharmaceuticals	0.79	Equity Real Estate Inv. Trusts (REITs)	-0.55
Software	0.73	Electric Utilities	-0.53

COMPANY

Top 5 Contributors	%	Top 5 Detractors	%
McKesson Corp	1.21	Berkshire Hathaway Inc. Class B	-0.63
Halliburton Co.	1.18	Citigroup Inc.	-0.62
Chevron Corp.	1.05	Mohawk Industries Inc	-0.56
HCA Healthcare Inc	0.76	World Fuel Services Corp	-0.53
CVS Health Corp	0.74	Fedex Corp	-0.39

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Quarterly Additions/Deletions

Additions	Deletions
Qorvo	Mid America Apartment Communities
Willis Towers Watson	Gilead Sciences

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