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 6/30/2024)

United States Treasury Note	68.03
Fannie Mae Pool	2.04
Freddie Mac Pool	1.89
Ford Motor Credit Co LLC	1.82
Bank of America Corp	1.73
Citigroup Inc	1.63
Prime Security Services	1.59
USB Capital IX	1.51
Netflix Inc	1.50
Charles Schwab Corp	1.40

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

Market Overview

Yields marched modestly higher for much of the quarter but fell in June as some weaker economic reports released that month shifted market perception towards a belief that the long anticipated economic slowdown is beginning to take shape, leading many to believe that interest rate cuts are just around the corner. The main catalyst was the May year-over-year CPI report which came in at 3.3% versus consensus expectations of 3.4%. This is the first time since October 2023 that the headline CPI number has come in below expectations.

Credit markets performed well in the quarter. Yield spreads continue to hover near the lowest levels in several decades, but investors appear to be less concerned about the limited additional compensation offered by current yield spreads and more enamored of attractive total yields, buoyed by U.S. Treasury rates that are around their highest levels since the global financial crisis.

At the May Federal Open Market Committee meeting, the Fed (Federal Reserve) downshifted their expected reduction in rates to a single 25-basis-point (bps) cut this year, down from three projected cuts in March. This change in stance did little to dissuade the financial markets from their seemingly undying belief that the Fed will have to be more aggressive in cutting rates. The market has priced a 25bps cut in the fed funds rate in September as a near certainty, followed by an additional 25bps reduction before year-end.

There is an adage that monetary policy works with long and variable lags and the recent slowing in inflation, employment, and consumer spending is put forth as evidence that this remains true in today's market. Perhaps so.

Nevertheless, despite the recent slowdown in inflation, it isn't dead yet. Consumer prices are 3.3% above their level twelve months earlier as measured by the Consumer Price Index (CPI). We've discussed the *stubborn* and *sticky* supercore CPI (CPI services less housing) in previous quarters, and this is up 4.8% over the past twelve months. Core CPI (CPI less food and energy) is up 3.4%. As a reminder, this is still materially higher than the Fed's 2% inflation target.

The labor market has shown signs of slowing but remains strong. Consumer spending has also slowed but continues to be solid, and financial conditions remain easier than when the Fed began this current rate hike cycle in March 2022.

To this curmudgeonly fixed income team, we believe the current resilience in the economy means it is prudent to continue cautious about the chance of aggressive rate cuts in the remainder of this year.

Fund Performance

In the second quarter, the Brandes Core Plus Fixed Income Fund (Class I Shares) returned 0.26%, outperforming its benchmark, the Bloomberg U.S. Aggregate Bond Index, which returned 0.07%.

Corporate bonds provided the largest positive contribution to returns during the quarter. Within corporate bonds, performance during the period was led by corporate bond holdings in banking (US Bank and Goldman Sachs), and food processing (Pilgrim's Pride).

Term-structure positioning was a positive factor during the quarter. U.S. Treasury yields rose modestly during the period. Near the end of September 2023, we had moved the duration of the portfolios up modestly to 90% of the benchmark's duration, and we have maintained that level ever since.

The portfolios' underweight to agency mortgage-backed securities (MBS) aided returns as that sector was one of the few taxable fixed income sectors to post negative returns versus U.S. Treasuries.

Select holdings in media (Univision Communications) and telecom (Telecom Italia) modestly detracted from performance.

Portfolio activity was light during the quarter. The portfolios added to our existing position in first lien bonds from Univision Communications (8.00% coupon, maturing 8/15/28, rated B1/B+).

While activity was light there were a handful of corporate bonds for which the investment committee established buy targets during the quarter. We would like to add these to the portfolios, but they have not quite reached those target prices. We remain hopeful that the market will provide us with an opportunity to add a number of new positions to the portfolios over the second half of the year.

We experienced a full call in our holding of FirstEnergy Corp (7.375% coupon, maturing 11/15/31, rated Baa3/BBB-). We also participated in tender offers for our holdings in Charter Communications (4.908% coupon, maturing 7/23/25, rated Ba1/BBB-) and Pulte Group (5.50% coupon, maturing 3/1/26, rated Baa2/BBB+), as each issuer tendered for bonds at a premium to the level where their bonds were trading in the market.

Outlook

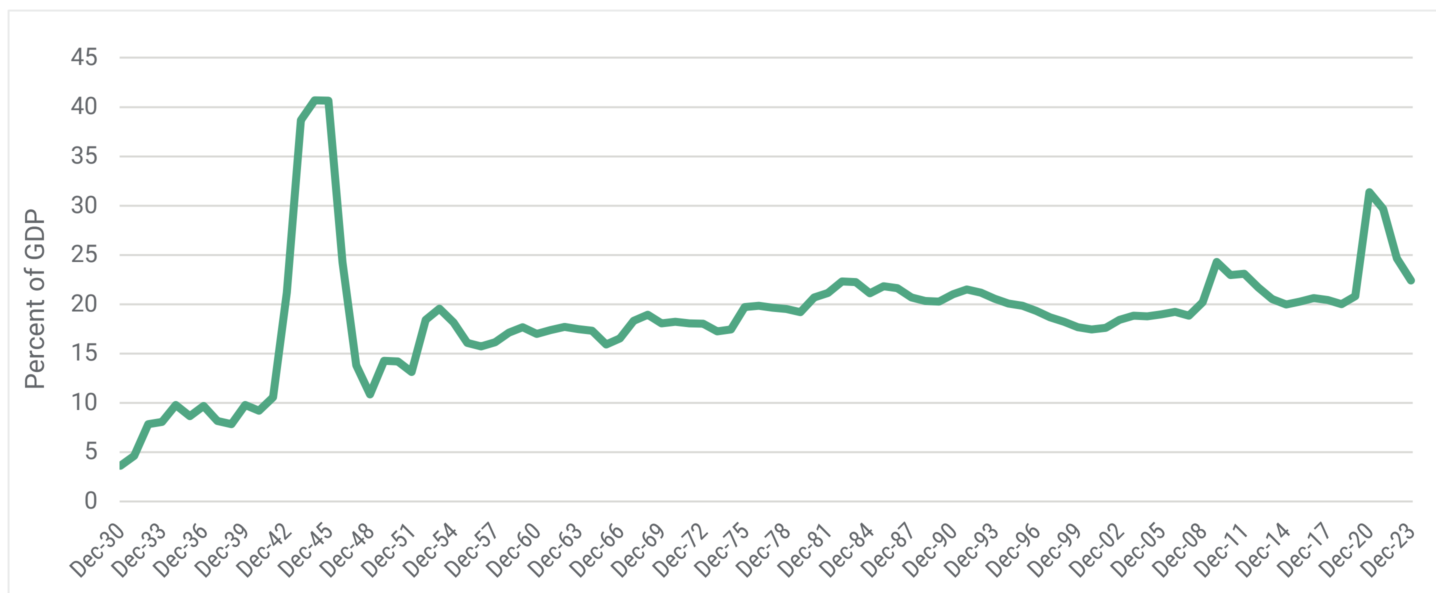
With the recent presidential debate behind us and the political party convention season fast approaching, like it or not, election season is upon us. We spend a considerable amount of time each quarter dissecting monetary policy. This appears like a good time to briefly address U.S. fiscal policy. The short story is that it is a mess. The other takeaway is that almost no one seems to care.

The figures are so absurd that it can be difficult to contextualize or *get your head around* the data. Take for example the announcement by the Congressional Budget Office (CBO) on June 18th that it is raising its forecast for the U.S. fiscal deficit this year by 27% to $1.9 trillion from $1.5 trillion[1]. You may think, as we do, "that sure seems like a lot". You might also question, "well how long ago was the previous estimate made?" The previous estimate was four short months earlier in February.

In April, the net interest outlays by the U.S. Treasury hit a nominal record of $85 billion. As a percentage of gross domestic product (GDP), it was the highest level since 1990[2]. Remember that we are only recently removed from the lowest interest rates in our lifetimes.

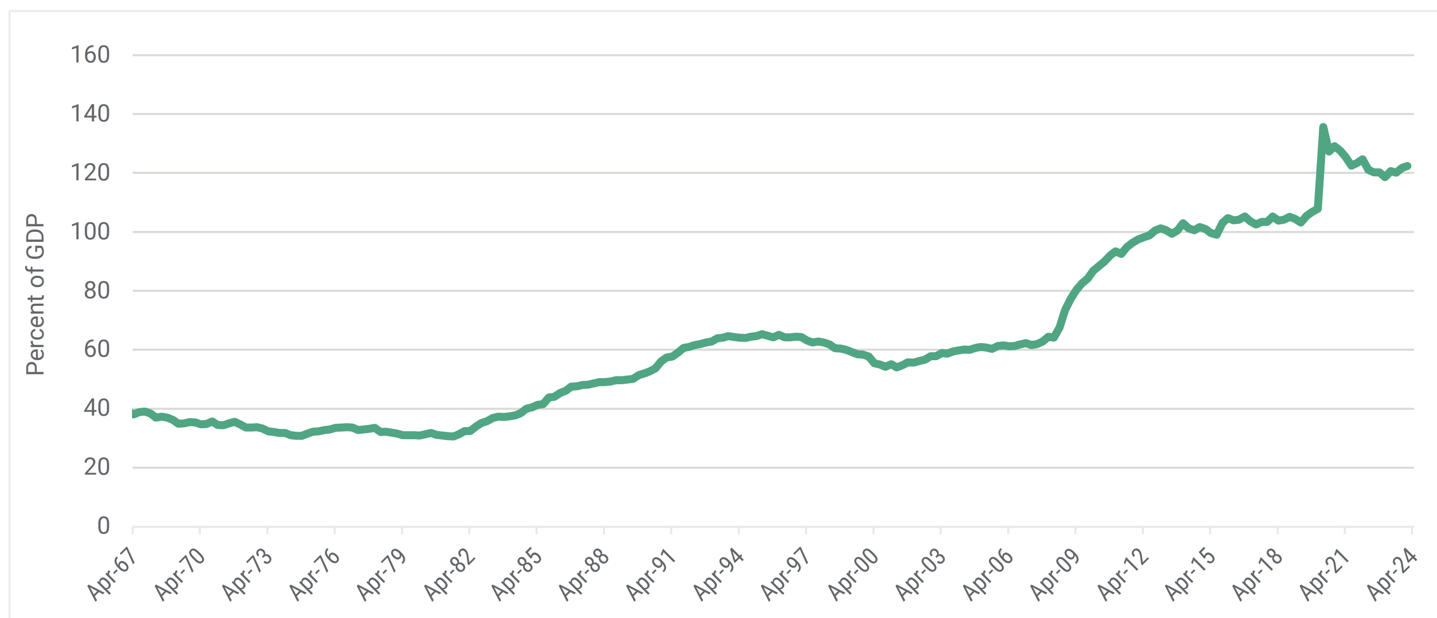
In addition, we present two charts below to reinforce the point about the lack of fiscal restraint. The long-term trends in federal spending and federal debt relative to GDP seem inexorably upwards over the decades.

Exhibit 1. Annual Federal Net Outlays as a Percent of Gross Domestic Product



December 31, 1930 To December 31, 2023 | Source: Bloomberg. Federal net outlays are the difference between government revenues and government expenditures. Data is updated annually.

Exhibit 2. Federal Debt as a Percentage of GDP Is Near All Time Highs



Federal Debt as a Percentage of GDP From April 1, 1967 to April 1, 2024 | Source: Federal Reserve Bank of St. Louis, Total Public Debt as Percent of Gross Domestic Product (GDP) measured quarterly.

Both exhibits paint the same ugly picture, and it is likely to get worse. With a tight race for the White House, each major candidate appears to be willing to play fast and loose with the budget by throwing bribes (sorry, I meant to say *targeted incentives)* towards the electorate. I doubt there are many serious skeptics who will take the other side on the U.S. fiscal position, leading to the important question of: does it matter? The market's answer to date has been an emphatic no.

A more nuanced answer is that it is difficult to say. Back in the 1990s, the term *bond vigilantes* was coined as the bond market imposed swift and ruthless discipline on profligate federal spending. I believe there is an argument today that the bond vigilantes of yesteryear have largely been *neutered* by the Fed's enormous balance sheet expansion and asset purchase program. As a result, the bond market is now less equipped to be a healthy check on any lack of fiscal discipline.

I believe that you can build a cogent case for a *slow bleed*, however. The more the U.S. government is forced to borrow, the greater the chance it may end up in a vicious cycle in which increased government debt and interest rates drive one another higher. A cynic may also posit that a rising debt burden increases the pressure on the Fed to devalue the U.S. debt by allowing inflation to continue to run a little *hot* – leading to the higher for longer interest rate narrative.

In our view, U.S. fiscal policy has been largely a mess for a considerable time, and it appears to have had scant effect on yields Thus I come back to the earlier assertion - *no one cares.* Whether that continues to be the case as we move through the election season and beyond is an open question.

However, if we look at the fiscal picture alongside the still solid economic data we discussed earlier, we believe it is prudent to stay a bit cautious on interest rates and the bond market going forward.

Turning back to the portfolios, we share some of the optimism around fixed income given that overall yields in the Core Plus portfolios are near 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.

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 to a portfolio: not just know what you own but why you own it.

For a considerable period now, we have attempted to tilt the Brandes Core Plus Fixed Income Fund 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 portfolios continue to favor shorter-maturity corporate bonds and those that we believe exhibit strong, tangible asset coverage. We are managing duration approximately 10% shorter than the portfolios' 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.

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 portfolios to what we believe is a relatively defensive posture.

We remain optimistic about the prospects for the Brandes Core Plus Fixed Income Fund.

Sincerely,

Timothy M. Doyle, CFA
Fixed Income Portfolio Manager

[1] Jefferies, Greed & fear: Fiscal rot and Thailand, 6/27/24
[2] Bloomberg, US Interest Burden Will Bite Whoever Wins in November: Macro Man, Cameron Crise, 6/5/24

Average Annual Total Returns (%) as of June 30, 2024							
Without Load	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception 12/28/2007
Class I	0.26	0.37	4.63	-1.16	0.86	1.68	2.91
Class A	0.08	0.26	4.43	-1.40	0.61	1.43	2.61
Class R6	0.26	0.37	4.69	-0.63	1.57	2.20	3.24
With Load	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception 12/28/2007
Class A	-3.64	-3.55	0.49	-2.66	-0.16	1.04	2.38
Bloomberg U.S. Aggregate Bond Index	0.07	-0.71	2.63	-3.02	-0.23	1.34	2.76

Operating Expenses: Class I: 0.67% (gross), 0.31% (net) Class A: 0.89% (gross), 0.51% (net) Class R6: 0.65% (gross), 0.31% (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.

Term definitions: https://www.brandes.com/termdefinitions
First Lien Bonds: First lien bonds are senior to all other bonds of an issuer so that first lien bond holders are paid back before all other debt holders. A lien is the legal right of a creditor to seize property from a borrower that has failed to repay the creditor.
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.

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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