

What is Fixed Income Value Investing?

Investment Committee Interview

Brandes Investment Partners®, L.P. (“Brandes LP”) employs a unique investment committee approach, when it comes to buying and selling fixed income securities. The committee consists of senior investment professionals with many years of industry experience. Drawing on their knowledge and experience, the members work together to agree on what they believe a fixed income security is worth, and whether, at the right price, it should be purchased.

What follows is an interview with the Brandes Fixed Income Investment Committee, to help investors understand the Brandes LP approach to Fixed Income Value Investing.

What is Value Investing?

Value investors in the fixed income markets seek to purchase securities that are trading at a discount to their intrinsic value. At Brandes LP, we believe that, in the long term, the prices of these securities will rise as the fixed income markets recognize their true worth. By holding these securities for as long as two to five years, we believe they will help us deliver favorable long-term results.

What is the Primary Goal of the Investment Committee?

Our goal is to enhance investment returns relative to the client’s performance benchmark without assuming disproportionate risk. We strive to achieve this goal through a duration-controlled, disciplined approach built upon value investing principles.

How Do You Identify Investment Ideas?

We find ideas in many ways, including database screening, reviewing industry and business publications, and monitoring activity in the fixed income markets. Securities that are identified for careful evaluation can include:

- Securities trading at prices and/or spreads that are inconsistent with historical levels and/or our assessment of current and anticipated values
- Securities trading at prices and/or spreads that are inconsistent with securities having similar credit and cash flow characteristics
- Securities that have recently had their spread or price move significantly
- Securities reviewed by Brandes equity analysts are also evaluated as potential investment candidates

How do you Determine whether a Bond is a Good Value?

Brandes LP fixed income analysts conduct wide-ranging analysis, which may include security and credit analysis, reviewing third-party fixed income and equity research, valuation of publicly available financial information, and integrating cash flow models and valuations of issuers, as evaluated by one of over 30 Brandes LP equity analysts, if available. Our internal security and credit analysis includes examining a company’s balance sheet, income statement, capital structure, liquidity, bank lines, and cash flow. Other factors, such as industry trends, corporate profitability, and the

stock price are included in our analysis. The analysts present their views of the risks inherent in the security and its long-term fair value to the Brandes LP Fixed Income Investment Committee. The Committee reviews and evaluates the work of the fixed income analysts and is responsible for approving securities based on determinations of the intrinsic value, margin of safety, and buy target.

Is it Really Possible to Acquire Fixed Income Securities at Bargain Prices?

Yes. The bonds of many companies are victims of the overreactions, misplaced fears, and the exaggerated focus on short-term performance of market participants. When solid companies experience temporary difficulties, we often are able to purchase their bonds at what we believe to be discount prices to their longer-term intrinsic values. Our investment approach favors bonds with an identifiable margin of safety that have mis-priced risk due to:

- Poor market sentiment toward the issuer or its industry
- Lack of information or misjudgment by the market
- Overly pessimistic outlook of the issuer’s financial condition
- Adverse changes to credit quality ratings

We view unexpected, short-term market events as potential opportunities rather than immediate exit points. We focus on our security-specific analysis, and we do not attempt to time market tops or bottoms.



Do you use Indices as a Guide in Security Selection?

No. We select holdings without reference to an index. Each security is selected purely on its own merits. Industry and sector weightings are residuals of our bottom-up selection process. The Fixed Income Investment Committee establishes target position sizes for each strategy. We do not exclude opportunities based on preconceived industry perceptions. As a result, our portfolios may differ noticeably in composition from relevant indices.

How Important is Company Management in Arriving at an Investment Decision?

We prefer companies with management teams dedicated to the interest of bondholders, not to building empires and their own net worth independent of the bondholders. We look at a variety of factors, including compensation arrangements, stock holdings, management goals and statements, and actions that indicate management attitude toward bond owners.

How Long do you Hold Positions and What is your Sell Discipline?

We have no fixed holding period. We may hold an investment as long as the security is priced by the market at what we believe to be a significant discount to our assessment of the bond's fair value. A security is typically sold when its price reaches our estimation of its intrinsic value, if we identify a more compelling opportunity, or if our assessment of the intrinsic value declines. Our holding periods typically average two to five years. Annual turnover typically ranges between 25 – 50%.

What are the Similarities and Differences between Brandes LP's Fixed Income and Equity Analysis?

Both fixed income and equity analysts at the firm are “bottom-up” analysts employing a Graham & Dodd, value-oriented approach. Research in both areas involves in-depth fundamental analysis, assessment of industry and country dynamics, and team-oriented decision-making. Elements of fundamental analysis common to both bond and equity analysis include reviewing company background, industry factors, key issuer risks, and balance sheets. In addition, Brandes LP's fixed income analysts may leverage research conducted by the firm's equity research team. However, fixed income and equity analysis at Brandes LP may focus on different elements of company financial information. For example, fixed income research typically may place more emphasis on analysis of firm income statements, cash flow and liquidity, and debt maturity schedule, as well as financial ratios. Equity research tends to involve more attention to business segment valuation, factors driving valuation, and capital structure.

Who Monitors a Bond once it's Approved?

Analysts monitor ongoing developments and notify the Fixed Income Investment Committee of any material changes that may affect valuations. The Investment Committee reviews the portfolios at least once per week. Portfolio management for both fixed income and equity products at Brandes LP is driven by our focus on long-term fundamental analysis.

How Diversified are your Portfolios?

Holdings in fixed income portfolios are diversified among fixed income sectors and economic industries. Sector exposure for the fixed income products is subject to the product's investment objective. The Brandes Corporate Focus Bond Fund typically consists of 50 – 75 issues, spread across investment and non-investment grade corporate debt securities. It may invest up to 40% of its assets (at time of purchase) in non-U.S. dollar denominated instruments and up to 75% in non-investment grade instruments.

FOR DISTRIBUTION TO INVESTORS BY REGISTERED DEALERS ONLY

The foregoing reflects the thoughts and opinions of Brandes Investment Partners. Strategies discussed are subject to change at any time by the investment manager in its discretion due to market conditions or opportunities. Data has been gathered from sources believed to be reliable however we cannot guarantee the accuracy of the information provided and cannot be held liable for same. Securities mentioned herein are not to be construed as a recommendation to buy or sell. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Units of the Funds are available through registered dealers only and not available through Brandes Investment Partners & Co. Indices are unmanaged and cannot be directly invested into. Brandes Investment Partners® is a registered trademark of Brandes Investment Partners, L.P. in the United States and Canada, used under license by Brandes Investment Partners & Co. Brandes Investment Partners & Co. is an affiliate of Brandes Investment Partners, L.P., which is sub-advisor to the Brandes Funds.