

Brandes U.S. Small-Mid Cap Value ETF

FUND INFORMATION

Ticker	BSMC
CUSIP	900934100
NAV Symbol	BSMC.NV
Primary Exchange	CBOE
Dividend Frequency	Quarterly
Expense Ratio	0.70%

STRATEGY

BSMC is an actively managed ETF that seeks long-term capital appreciation by investing primarily in equity securities of small- and mid-capitalization U.S. companies.

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 (866) 307-0477.

TOP TEN HOLDINGS

(% of assets as of 6/30/2024)

Amdocs Ltd	3.04
Premier Inc	2.54
Edgewell Personal Care Co	2.40
NETGEAR Inc	2.14
International Flavors & Fragrances Inc	2.09
Dril-Quip Inc	2.07
National Presto Industries Inc	2.06
Embraer SA	2.02
Molson Coors Beverage Co	2.00
Healthcare Services Group Inc	2.00

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

The Brandes U.S. Small-Mid Cap Value ETF declined 3.55%/3.98% (NAV/Market Price), outperforming its benchmark, the Russell 2500 Index, which fell 4.27% in the quarter, as well as the Russell 2500 Value Index, which was down 4.31%.

Positive Contributors

Performance of our holdings in the health care sector was bifurcated: some of the top contributors and leading detractors came from the sector. Positive returns were generated by Phibro Animal Health, biotechnology company United Therapeutics, health care technology business Koninklijke Philips, and pharmaceutical Organon & Co.

Phibro Animal Health announced a pending agreement to acquire Zoetis's medicated feed additive franchise and some additional livestock assets for \$350 million. Phibro's management viewed the acquisition as offering meaningful earnings-per-share accretion and an opportunity to expand the company's offerings to new markets. The market regarded this deal, plus Phibro's strong earnings announcement, favorably. United Therapeutics continued its robust start to 2024 with strong demand for Tyvaso DPI, a dry-powder inhaler for treating pulmonary arterial hypertension.

Other noteworthy performers were in the materials and consumer discretionary sectors, specifically chemical company International Flavors & Fragrances and shoe manufacturer Skechers U.S.A. Additionally, supermarket operator Sprouts Farmers Market aided returns.

Performance Detractors

Health care holdings that declined included contract research organization Fortrea Holdings, dental equipment manufacturer Dentsply Sirona, health care services company Premier, and physician services business Pediatrix Medical Group.

After Fortrea announced Q1 2024 results, its shares dropped 20%. This was due to a cut in 2024 estimated guidance and investor skepticism that management could achieve its full-year targets. Similarly, Dentsply reported earnings that were slightly below expectations, and management trimmed its full-year guidance for revenue and sales.

Other detractors included Molson Coors Beverage Company, energy equipment and services business Dril-Quip, and IT services company Amdocs.

Utilities represented the best-performing sector in the benchmark because they have become viewed as secondary beneficiaries of the growing demand for artificial intelligence, which will likely result in rising electricity usage. As a result, our lack of exposure hurt relative returns.

Select Activity in the Quarter

The investment committee initiated positions in supermarket chain Ingles Markets and trucking company Knight-Swift Transportation while selling holdings in supermarket chain Sprouts Farmers Market, cement company Cemex, and trading company MSC Industrial Direct.

Knight-Swift Transportation is the largest truckload carrier company in the country. Operating a fleet of more than 16,000 tractors, it serves a diverse customer base that

includes consumer goods companies, manufacturers, and major retailers. While the U.S. trucking industry is fragmented among many players, Knight-Swift stands out, in our view, because of its scale and operational efficiency.

Knight-Swift's shares have been under pressure during the past year due to industry-wide challenges. In early 2022, retailers reduced orders to clear excess inventory. This caused a prolonged trucking down cycle that has extended into 2024—longer than expected and beyond the typical industry cycle length. The situation has been exacerbated by an oversupply of trucks from several smaller, less financially viable companies that gained from strong growth during the pandemic. Typically, such companies would have cut capacity or exited the industry at this point in the cycle. However, that has not occurred, despite shipping spot rates falling below costs for many of these minor players.

While its short-term valuation metrics may not appear attractive given the industry down cycle and the company's integration of recent acquisitions, we believe Knight-Swift offers appealing longer-term upside potential. As an industry leader, it should be better positioned to navigate an extended downturn than its smaller competitors. Knight-Swift could also benefit from potential long-term trucking growth if more manufacturing returns to the U.S. and if the nearshoring trend continues in Mexico. At its current share price, Knight-Swift represents a good risk/reward tradeoff to us.

As for other portfolio activity, National Western Life Insurance is in the process of being acquired.

NWLI was a family-controlled life insurance company run with a conservative balance sheet that generated uninspiring investment returns. In exchange for owning a company led and controlled by the fourth generation of the Moody family, shareholders received a small dividend and a claim on its tangible book value. At the stock's low point, NWLI traded at less than one-third of book value. The timing for realizing the full value of the underlying business was exceptionally uncertain, but the market value incentivized prolonged patience. Our investment case centered on the depressed market valuation, with an anemic 4–6% annual book value growth partially offsetting the cost of holding.

Finally, in May 2023, NWLI announced it was exploring strategic alternatives and had hired a financial advisor. In October 2023, the company announced it had agreed to be bought for \$500 a share, or 90% of book value. We viewed the offering price as fair and sold our position in the quarter. The transaction is expected to close in early July 2024.

Year-to-Date Briefing

The Brandes U.S. Small-Mid Cap Value ETF rose 3.58%/3.04% (NAV/Market Price), outperforming its benchmark, the Russell 2500 Index, which appreciated 2.35% in six months ended June 30, 2024, and the Russell 2500 Value Index, which was up 1.50%.

Holdings in the financials and materials sectors drove returns, led by insurer White Mountains Insurance Group and International Flavors & Fragrances.

Other solid performers included regional jet manufacturer Embraer, Sprouts Farmers Market, and Organon & Co.

Positions in the energy and health care sectors were notable decliners, specifically biotechnology company Grifols, Dentsply Sirona, Dril-Quip, Fortrea Holdings, and Premier.

Current Positioning

The current positioning of the ETF remains largely unchanged from last quarter. The ETF maintains its largest weights in industrials, health care, and information technology. Our most significant underweights are in consumer discretionary, financials, and real estate, which is consistent with how the ETF began 2024 as well. Compared with the Russell 2500 Value Index, we have significantly less exposure to financials and real estate.

In our opinion, the differences between the Brandes U.S. Small-Mid Cap Value ETF and the broader U.S. small-mid cap market continue to make the ETF an attractive complement to other small-cap and small-mid offerings. The ETF exhibits lower valuations than the Russell 2500 Index, while offering exposure to companies that have what we consider strong balance sheets, compelling growth prospects, and a history of durable free cash flow.

We are optimistic about the potential of value stocks in general and believe the Brandes U.S. Small-Mid Cap Value ETF remains well positioned from a long-term risk/reward perspective.

Performance (%) as of June 30, 2024

	3 Months	YTD	1 Year	3 Years	Since Inception 10/03/2023
NAV	-3.55	3.58	—	—	15.40
Market Price	-3.98	3.04	—	—	15.21
Russell 2500 Index	-4.27	2.35	—	—	19.79
Russell 2500 Value Index	-4.31	1.50	—	—	19.43

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Term definitions: <https://www.brandes.com/termdefinitions>

The Russell 2500 Index with gross dividends measures the performance of the small- to mid-cap segment of the U.S. equity universe.

The Russell 2500 Value Index with gross dividends measures the performance of the small- to mid-cap segment of the U.S. equity universe. Securities are categorized as growth or value based on their relative book-to-price ratios, historical sales growth, and expected earnings growth.

It is not possible to invest directly in an index.

Investing involves risk, including potential loss of principal. An investment in the Fund may be subject to risks associated with investing in equity securities, including foreign and value securities risks, issuer risk, and focused investing risk. The Fund may, from time to time, invest a substantial portion of the total value of its assets in securities of issuers located in a particular industry, sector, country or geographic region. During such periods, the Fund may be more susceptible to risks associated with that industry, sector, country, or region. The Fund is an exchange-traded fund and, as a result of this structure, it is exposed to additional trading and transactional risks, limited participant risk, and risks associated with buying and selling shares. The Fund is a recently organized investment company with limited operating history. Please see the prospectus for a discussion of risks.

ETFs are subject to additional risks that do not apply to conventional mutual funds, including the risks that the market price of an ETF's shares may trade at a premium or discount to its net asset value, an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact an ETF's ability to sell its shares. Shares of any ETF are bought and sold at market price (not NAV) and are not individually redeemed from the ETF. Brokerage commissions will reduce returns.

Investors should consider the investment objectives, risks, charges and expenses carefully before investing. For a prospectus or summary prospectus with this and other information about the Fund, please call (866) 307-0477 or visit <http://www.brandes.com/etfs>. Read the prospectus or summary prospectus carefully before investing.

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