

# 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 9/30/2024)

Amdocs Ltd	3.09
NETGEAR Inc	2.57
Embraer SA	2.54
Premier Inc	2.49
F5 Inc	2.18
International Flavors & Fragrances Inc	2.11
IPG Photonics Corp	2.09
Molson Coors Beverage Co	2.07
Quest Diagnostics Inc	2.06
Edgewell Personal Care Co	1.99

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 gained 9.53%/9.89% (NAV/Market Price), outperforming its benchmark, the Russell 2500 Index, which was up 8.75% in the quarter. The Russell 2500 Value Index returned 9.63%.

## Positive Contributors

Leading contributors included holdings in the health care sector: Phibro Animal Health, blood plasma company Grifols, Pediatrix Medical Group, and Koninklijke Philips.

In July, Grifols confirmed that the founding family, which controls 30% of the company, and Brookfield, a multinational Canadian investment fund, are evaluating a potential joint takeover bid for the entire business. The structure and pricing remain unclear, but the market reacted positively to the news.

Communications equipment companies F5 and NETGEAR were also solid performers. In September, NETGEAR revised its guidance upward after it entered into a settlement with TP-Link regarding pending patent infringement disputes. NETGEAR received a \$135 million settlement and all pending litigation between the two parties will be dismissed or no longer pursued. NETGEAR also announced an earlier-than-anticipated 5G mobile hotspot launch.

Other contributors included aerospace and defense companies Embraer and Moog Inc., which benefited from improved earnings amid strong demand in their end-markets. Embraer also received a settlement from Boeing for the latter company's unsuccessful takeover bid, while its stock benefited from its recent inclusion in the MSCI Emerging Markets Index.

## Performance Detractors

Notable detractors were in the consumer staples and energy sectors, specifically Innovex International and Edgewell Personal Care Co.

Select information technology companies also performed poorly, notably software company Verint Systems, semiconductor business Qorvo, and IPG Photonics.

On a relative basis, our underweights in the financials and real estate sectors, two of the strongest performers in the benchmark, detracted from returns.

## Select Activity in the Quarter

The investment committee exited positions in Science Applications International Corp. (SAIC) and TransUnion.

TransUnion (TRU) was founded in 1968 and is the third-largest credit bureau in the world (~19% relative share) after Experian (~46%) and Equifax (~35%). Goldman Sachs Capital Partners and Advent International bought the company in November 2012 from Madison Dearborn Partners and the Pritzker family for ~\$3.3 billion. The company went public in June 2015. TRU is a data-driven business that sells consumer credit reports, risk scores, analytics, and decisioning capabilities to deliver insight across the consumer credit lifecycle.

Our TRU investment thesis focused on a margin-expansion story driven by cyclical headwinds abating and integrating Neustar (an identity resolution provider acquired in 2021) to accelerate growth of ID/fraud and marketing-related revenues. We believed margin expansion should be further supported by a recently advanced cost savings

initiative that management expects to deliver \$120–\$140 million of savings by 2026. While financial leverage is elevated, the company has been making progress on paying down debt and targets a net debt/EBITDA (earnings before interest, taxes, depreciation, and amortization) of less than 3.0x.

Further, TransUnion has likely benefited from the U.S. Federal Reserve cutting interest rates, through increased credit origination activity as well as lower interest expense on its floating-rate debt.

Over the past year, TRU's share price has been volatile. After Q3 2023 results disappointed with a cut in 2023e (estimated) guidance and withdrawal of previous 2025e financial targets due to underperformance in the U.S. market segment, TRU's shares declined by more than 20%. However, in 2024, TransUnion was up by more than 50% on revenue and earnings growth, combined with revised 2024e guidance upwards. With the company reaching our estimate of its intrinsic value, we sold our position.

## Year-to-Date Briefing

The Brandes U.S. Small-Mid Cap Value ETF rose 13.45%/13.23% (NAV/Market Price), outperforming its benchmark, the Russell 2500 Index, which appreciated 11.30% in the nine months ended September 30, 2024, and the Russell 2500 Value Index, which was up 11.28%.

Holdings in the industrials, materials, and health care sectors drove returns. Leading performers included aerospace and defense companies Embraer and Moog, NETGEAR, United Therapeutics, and Phibro Animal Health.

While health care investments in aggregate contributed to returns, Dentsply Sirona, Premier, and Fortrea Holdings were notable detractors. Energy equipment business Innovex International and IPG Photonics also declined.

## Current Positioning

The positioning of the ETF's portfolio 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 portfolio began 2024. 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 September 30, 2024

	3 Months	YTD	1 Year	3 Years	Since Inception 10/03/2023
NAV	9.53	13.45	—	—	26.40
Market Price	9.89	13.23	—	—	26.60
Russell 2500 Index	8.75	11.30	—	—	30.27
Russell 2500 Value Index	9.63	11.28	—	—	30.93

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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.

The MSCI Emerging Markets Index captures large and mid cap representation of emerging market countries.

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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. Securities of mid-capitalization and small-capitalization companies may have comparatively greater price volatility and less liquidity than the securities of companies that have larger market capitalizations and/or that are traded on major stock exchanges. The Fund invests in value securities, which are securities the Advisor believes are undervalued for various reasons, including but not limited to as a result of adverse business, industry or other developments, or are subject to special risks, or limited market understanding of the issuer's business, that have caused the securities to be out of favor. The value style of investing utilized by the Advisor may cause the Fund's performance to deviate from the performance of broad market benchmarks and other managers for substantial periods of time. It may take longer than expected for the prices of value securities to increase to the anticipated value, or they may never increase to that value or may decline.**

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