

Brandes U.S. Value ETF

FUND INFORMATION

Ticker	BUSA
CUSIP	900934308
NAV Symbol	BUSA.NV
Primary Exchange	CBOE
Dividend Frequency	Quarterly
Expense Ratio	0.60%

STRATEGY

BUSA is an actively managed ETF that seeks long-term capital appreciation by investing primarily in equity securities of U.S. companies with market capitalizations greater than \$5 billion.

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)

Chevron Corp	3.18
Fiserv Inc	3.03
Wells Fargo & Co	2.65
McKesson Corp	2.56
Amdocs Ltd	2.53
Comcast Corp	2.51
Bank of America Corp	2.51
PNC Financial Services Group Inc	2.38
Flex Ltd	2.37
Willis Towers Watson PLC	2.36

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

The Brandes U.S. Value ETF rose 7.10%/6.95% (NAV/Market Price) in the quarter, underperforming its benchmark, the Russell 1000 Value Index, which was up 9.43%.

Positive Contributors

Leading contributors included holdings in the consumer staples and consumer discretionary sectors.

Flooring manufacturer Mohawk announced earnings higher than consensus expectations and benefited from the anticipation of greater home improvement activity that could result from the decrease in interest rates. Ingredion, a specialty ingredients company, and Kenvue, a personal care company, also announced improved earnings and outperformed the overall market (Russell 1000).

Other standout performers included hospital operator HCA Healthcare and payment services company Fiserv.

Performance Detractors

Driven by declining oil prices, energy was the worst-performing sector in the benchmark, and two of our energy holdings, namely Chevron and Halliburton, were among the most significant detractors for the portfolio.

Besides energy, the technology sector and technology-related stocks also delivered relatively weak performance as AI-associated companies gave back some of their solid gains from the first half of the year. While we do not have exposure to some of the most prominent (and therefore more likely to be expensive) AI-related names, we do have a slight overweight to technology companies relative to the Russell 1000 Value Index.

At the stock level, our position in Alphabet hurt returns, along with semiconductor holdings Micron and Qorvo. While the broader semiconductor industry declined due to concerns that the AI buildout may be exceeding its ability to be efficiently monetized, Micron and Qorvo were particularly affected by the weakness in smartphone and PC end-demand. We had trimmed our position in Micron late last quarter after it had been a year-to-date outperformer relative to the broad Russell 1000 Index, but then we repurchased some shares after the stock declined by over 30% in the third quarter. Micron's share price rose toward the end of the quarter following better-than-expected earnings and an upward revision of its full-year forecast, although this increase did not fully offset the earlier decline. Nevertheless, both Micron and Qorvo continue to offer appealing value potential to us, trading at discounted valuations compared to some of the more obvious AI beneficiaries.

Other detractors included global logistics company FedEx, pharmaceutical distributor McKesson, and pharmaceutical firm Merck. Weak industry-wide vaccine sales in China hurt Merck's prospects, but we see the share-price decline as temporary and believe Merck remains an attractive opportunity given its cancer immunotherapy and vaccine franchises, as well as its attractive drug development pipeline.

Furthermore, our underweights to utilities and real estate detracted from relative returns as they were the two best-performing sectors in the benchmark, due partly to market anticipation that they stand to benefit from further interest-rate reductions.

Select Activity in the Quarter

The investment committee initiated positions in global auto parts distributor LKQ and energy services firm Schlumberger.

LKQ is the largest collision repair parts distributor in North America, with operations extending across Europe. The company also sells aftermarket accessories for RVs and light trucks, and resells metals extracted from scrap cars.

High scrap metal prices post-COVID initially resulted in a business boom and improved margins for LKQ. However, over the past year, LKQ's shares have underperformed the overall U.S. market (Russell 1000) as its North American business (major profit driver) has been adversely impacted by a reduction in auto collision volumes and a rise in total write-offs compared to auto repairs following collisions. These industry-wide challenges led the company to lower its earnings guidance for 2024.

Nonetheless, we believe LKQ represents a compelling investment opportunity. The current downturn has prompted the company to focus more on returning value to shareholders through dividends and share buybacks, rather than on potentially overpriced acquisitions. LKQ also maintains a competitive position as it has been experiencing smaller revenue and volume declines than the overall industry, suggesting that it is either gaining market share or seeing improvements in pricing. Additionally, we appreciate that the company has historically generated positive free cash flows and that there is potential upside if it successfully manages the integration of its European operations, which are currently undergoing a restructuring following several acquisitions aimed at building scale. Finally, the cyclically depressed auto repair market may normalize, providing a potential tailwind for LKQ. Trading at just over 10x earnings, the company not only potentially offers an attractive margin of safety (the discount of market price to our estimate of intrinsic value) but also enhances the diversification of the ETF's portfolio, in our opinion.

In addition to the new purchases, other major portfolio activity included the full sales of health care contract research organization Fortrea and media company Fox.

After its spin-off from Labcorp last year, we maintained a position in Fortrea, viewing it as an undervalued opportunity amid a challenging industry environment. Fortrea specializes in clinical studies for biotechnology and pharmaceutical companies, and the biotechnology industry faced a weakened funding environment in 2022/2023 due to rising interest rates. Additionally, Fortrea's smaller market capitalization relative to Labcorp's likely led to

technical selling pressure from shareholders that had positions in the larger Labcorp but opted not to hold the smaller-cap Fortrea.

While we continue to believe that the contract research industry will grow over the long term, we decided to divest our investment in Fortrea due to the difficulties the company has encountered since becoming an independent entity. Fortrea has struggled to improve profitability given its weaker competitive position relative to some of the larger players in the industry, as well as its increased financial leverage. As the risk/reward tradeoff for Fortrea shifted unfavorably, we believed it was prudent to redeploy the capital into what we considered more attractive value opportunities.

Year-to-Date Briefing

The Brandes U.S. Value ETF rose 16.20%/15.96% (NAV/Market Price) in the nine months ended September 30, 2024, underperforming its benchmark, the Russell 1000 Value Index, which increased 16.68%.

During the period, value stocks underperformed the overall market (Russell 1000 Value vs. Russell 1000) as the solid performance of large technology companies such as Nvidia and Meta Platforms benefited the broader index.

For the ETF, holdings in financials, consumer, and technology sectors helped performance, led by technology holdings Micron Technology and Flex, financials holdings Fiserv and Bank of New York Mellon, as well as flooring company Mohawk Industries. Hospital operator HCA Healthcare was also a standout performer.

As was the case for the quarter, our underweight to utilities hurt relative performance as it was the best-performing sector in the Russell 1000 Value Index. At the holding level, notable detractors included health care holdings Fortrea, CVS, and Merck, as well as energy holdings Halliburton and Chevron.

Current Positioning

The Brandes U.S. Value ETF continues to hold its key positions in the economically sensitive financials sector and the more defensive health care sector, while maintaining underweights in utilities and real estate. We also remain underweight in consumer staples and industrials, although the gaps have narrowed as we have identified more value opportunities in these sectors over the past few quarters. In contrast, we have pared some of our holdings in the health care, financials, and technology sectors, even though they remain areas of overweight for ETF's portfolio.

Following the outperformance of growth stocks (Russell 1000 Growth vs. Russell 1000 Value) this year, value stocks are now trading near the largest discount relative to growth stocks since the inception of the style indices. This valuation disparity is evident across various metrics, such as price/earnings, price/cash flow, and enterprise value/sales. Historically, such valuation differentials have often signaled attractive future returns for value stocks over longer-term horizons. This is encouraging for us, as the Brandes U.S. Value Equity Strategy, guided by our value philosophy and process, has had the tendency to outperform the benchmark when value stocks outperformed the Russell 1000 Index.

With only a relatively small number of companies—mostly tech-related—driving the broader market's performance, equity concentration levels have increased materially in popular indices. For example, the five largest companies account for over 25% of the weight in many U.S. indices, including the MSCI USA Index. In our view, this highlights the potential diversification benefits of having a value strategy to complement many investors' increasingly concentrated and technology-centered exposure, as the largest companies in the MSCI USA Index also represent the largest weights in various MSCI factor indices—with the MSCI USA Value Index being an exception.

Looking ahead, we remain confident that the current fundamentals of our holdings bode well for the long term, and we are excited about the ETF's prospects.

Performance (%) as of September 30, 2024

	3 Months	YTD	1 Year	3 Years	Since Inception 10/03/2023
NAV	7.10	16.20	—	—	28.77
Market Price	6.95	15.96	—	—	28.68
Russell 1000 Value Index	9.43	16.68	—	—	30.59
Russell 1000 Index	6.08	21.18	—	—	37.78

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

The Russell 1000 Value Index with gross dividends measures performance of the large 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 Russell 1000 Index with gross dividends measures performance of the large cap segment of the U.S. equity universe.

The Russell 1000 Growth Index with gross dividends measures performance of the large cap growth 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 USA Index measures the performance of the large and mid cap segments of the U.S. equity market.

The MSCI USA Value Index captures large and mid cap U.S. securities exhibiting overall value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.

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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