

# 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 6/30/2024)

Chevron Corp	3.59
Bank of America Corp	3.08
Wells Fargo & Co	2.97
Alphabet Inc	2.92
Merck & Co Inc	2.69
Fiserv Inc	2.67
Halliburton Co	2.55
Comcast Corp	2.51
FedEx Corp	2.50
Amdocs Ltd	2.43

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

The Brandes U.S. Value ETF declined 3.17%/3.16% (NAV/Market Price) in the quarter, underperforming its benchmark, the Russell 1000 Value Index, which was down 2.17%.

## Positive Contributors

Standout performers included select technology-related holdings such as Alphabet and semiconductor firm Micron Technology, both of which continued to benefit from the robust artificial intelligence (AI) buildout.

Several positions in financials also helped returns, notably Bank of America, Wells Fargo, and newly added insurance company Arch Capital. Additionally, media firm Fox Corporation increased after reporting better-than-expected results.

## Performance Detractors

Holdings in health care were among the largest detractors from performance, led by Fortrea Holdings, CVS, and Cardinal Health.

Shares of CVS declined after the company cut its earnings outlook on rising Medicare Advantage costs. Despite the headwinds, CVS continues to enjoy a favorable competitive position as a vertically integrated company, with its largest profit contributions coming from its health insurance and pharmacy benefit manager divisions. Trading at a high single-digit multiple of forward earnings following the share-price decline, CVS remains an attractive investment opportunity, in our opinion.

Utilities represented the best-performing component of the benchmark as the sector has become a secondary beneficiary of the growing demand for AI, which will likely result in rising electricity usage. As such, our underweight to the sector hurt relative returns.

Outside of health care and utilities, notable detractors included energy firm Halliburton, IT services company Amdocs, flooring manufacturer Mohawk Industries, and industrial firm Tectra.

## Select Activity in the Quarter

The investment committee initiated positions in electric utility Entergy, trucking company Knight-Swift Transportation, and personal products business Kenvue.

Knight-Swift Transportation is the largest truckload carrier company in the U.S., operating a fleet of over 16,000 tractors and serving 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, due to its scale and operational efficiency.

Knight-Swift's shares have been under pressure over the past year due to industry-wide challenges. In early 2022, retailers reduced orders in efforts to clear excess inventory, leading to a prolonged trucking downcycle 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 benefited from the strong growth during the pandemic. Typically, such companies would have cut capacity or gone out of business at this point in the cycle. However, this has not happened despite current shipping spot rates falling below costs for many of these smaller players.

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

Another new purchase in the quarter, Entergy, is a utility holding company engaged primarily in the generation, transmission, and distribution of electricity through its five regulated operating subsidiaries in Arkansas, Louisiana, Mississippi, and Texas. After divesting its legacy businesses over the past decade, Entergy is now a fully regulated electric utility, a transformation that we believe has not been fully appreciated by the market as Entergy still trades below sector-average valuations. Given its discounted valuations relative to peers, combined with the company's solid fundamentals and well-regarded management team, we see Entergy as a compelling investment opportunity.

Other major portfolio activity included the full sell of insurance company Old Republic, which appreciated to our estimate of its intrinsic value, and the addition of another insurance firm, Arch Capital.

Arch has historically compounded its capital at what we consider to be attractive rates. The company has also exhibited capital discipline, refraining from writing policies during poor pricing environments, while taking advantage of its balance sheet to write policies and repurchase its shares at opportune times. Given its healthy track record and high-quality attributes, the stock had previously traded at a premium valuation. However, investor concerns about the reinsurance market led the shares to underperform the broader market (Russell 1000) earlier this year, providing what we believed was a favorable investment entry point.

## Year-to-Date Briefing

The Brandes U.S. Value ETF rose 8.50%/8.42% (NAV/Market Price) in the six months ended June 30, 2024, outperforming its benchmark, the Russell 1000 Value Index, which increased 6.62%.

Holdings in financials and industrials drove performance, led by Wells Fargo, Citigroup, and Bank of America, as well as FedEx and building products company Johnson Controls. Technology holdings Micron Technology and Flex also helped performance, as did health care positions

McKesson, Merck, and HCA Healthcare. Additionally, our lack of exposure to real estate aided relative returns as the sector was the worst-performing part of the benchmark.

As was the case for the quarter, our underweight to utilities hurt relative performance. At the holding level, notable detractors included health care holdings Fortrea and CVS, software firm Open Text, and media firm Comcast.

## Current Positioning

The ETF weightings have been largely unchanged this year. The ETF continues to have overweight positions in financials, health care, and communication services, while maintaining key underweights in real estate and utilities. Although we also remain underweight consumer staples, the underperformance of the sector has given rise to our opportunistic purchase of the aforementioned Kenvue. At the same time, the appreciation of the technology sector has led us to trim a couple of our holdings in the sector.

Given the widening valuation gap between value and growth stocks (MSCI USA Value vs. MSCI USA Growth) over the past year, we are increasingly optimistic about the return potential for value stocks. Following the performance of the growth index, which was largely fueled by a select few tech-related names, value stocks are now trading at the largest decile 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 compelling subsequent returns for value stocks over longer-term horizons. This is encouraging to us because the Brandes U.S. Value Equity Strategy, guided by our value philosophy and process, has tended to outperform the Russell 1000 Value benchmark when the benchmark outperforms the broader Russell 1000 Index.

As of June 30, 2024, the Brandes U.S. Value ETF trades at more compelling valuation levels than the benchmark, in our opinion. We believe the current fundamentals of our holdings bode well for the long term, and we are excited about the ETF's prospects.

## Performance (%) as of June 30, 2024

	3 Months	YTD	1 Year	3 Years	Since Inception 10/03/2023
NAV	-3.17	8.50	—	—	20.23
Market Price	-3.16	8.42	—	—	20.31
Russell 1000 Value Index	-2.17	6.62	—	—	19.34
Russell 1000 Index	3.57	14.24	—	—	29.88

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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 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.

The MSCI USA Growth Index captures large and mid cap U.S. securities exhibiting overall growth style characteristics, defined using long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend.

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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.**

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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