Brandes International ETF

FUND INFORMATION

Ticker	BINV
CUSIP	900934209
NAV Symbol	BINV.NV
Primary Exchange	CBOE
Dividend Frequency	Quarterly
Expense Ratio	0.70%

STRATEGY

BINV is an actively managed ETF that seeks long-term capital appreciation by investing primarily in equity securities of non-U.S. companies.

TOP TEN HOLDINGS

(% of assets as of 3/31/2024)

Rolls-Royce Holdings PLC	3.75
Takeda Pharmaceutical Co Ltd	3.16
Embraer SA	2.91
SAP SE	2.65
Heidelberg Materials AG	2.64
Heineken Holding NV	2.57
Sanofi SA	2.51
Alibaba Group Holding Ltd	2.46
UBS Group AG	2.39
GSK PLC	2.22

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

The Brandes International ETF rose 4.88%/5.36% (NAV/Market Price), underperforming its benchmark, the MSCI EAFE Index, which increased 5.78% in the quarter, and outperforming the MSCI EAFE Value Index, which appreciated 4.48%.

Positive Contributors

The primary drivers of performance were holdings in industrials and materials. Aerospace and defense companies Rolls-Royce and Embraer, as well as construction materials firm Heidelberg Materials, stood out as leading contributors.

Rolls-Royce and Embraer continued to benefit from the ongoing recovery in passenger air travel that has led to solid revenue growth, expanding profit margins, healthier cash-flow generation, and healed balance sheets. These positive fundamental developments helped confirm our long-term thesis around franchise quality, balance sheet durability, and end-market recovery potential for these holdings. Moreover, record backlogs highlighted—in our view—the appealing long-term secular growth outlook for global passenger air travel in an industry that has historically allowed incumbents to generate attractive returns on capital. Consequently, we revised our intrinsic value estimates for these companies upward, and believe they continue to offer an attractive risk/reward tradeoff at current valuation levels.

Select technology holdings also delivered solid performance. Notably, Taiwan Semiconductor Manufacturing Company (TSMC) appreciated as the proliferation of artificial intelligence (AI) applications fueled rising demand for semiconductor content. Besides TSMC, German software firm SAP also contributed positively to returns.

Performance Detractors

Significant detractors included several health care holdings such as Spanish Grifols, Netherlands-based Koninklijke Philips, and Germany's Fresenius.

Biotechnology firm Grifols grappled with multiple declines in its share price following a short seller's report that questioned the company's debt and corporate governance practices. In our opinion, the risks highlighted in the report had been largely known, and we maintained our position in the company despite the volatility—albeit now at a lower weighting due to the share-price decline. While we have long been concerned with the company's balance sheet, there is a potential near-term catalyst for its improvement as Grifols is expected to complete the sale of its ownership stake in Shanghai RAAS in the first half of this year and use the proceeds to pay down a significant portion of its debt.

We continue to believe there is potentially meaningful upside in the stock. Grifols' plasma business weathered considerable challenges amid the COVID-19 pandemic, including decreased blood donations and higher costs associated with compensating donors. The company had also made substantial investments to expand capacity for future growth, which further weighed on its profitability. While the recovery has been slower than anticipated, we believe that the expected completion of the Shanghai RAAS transaction is a key positive and that Grifols is attractively valued, trading at a single-digit multiple of pre-COVID earnings. Additionally, we appreciate Grifols' competitive position in a consolidated industry with appealing potential growth. Outside of health care, other detractors included holdings in consumer discretionary, led by Alibaba and luxury goods companies Swatch and Kering.

Select Activity in the Quarter

The investment committee divested holdings in insurers MS&AD Holdings (Japan) and Aegon (Netherlands), as well as Japan-based communication services company Softbank.

Softbank is a holding company with large investment stakes in various entities, including Softbank Corp (top three telecom carrier in Japan), ARM (a semiconductor design firm), T-Mobile, and Vision Fund 1 and 2 (venture capital-like funds). Softbank also used to own a sizeable stake in Alibaba, and our initial investment thesis was based on our view that this stake would be a key value driver over the long term.

Since early 2022, there have been two major changes at Softbank, one negative and one positive to our estimate of its intrinsic value. The negative aspect was the sale of its stake in Alibaba at a price we deemed significantly below its true worth. On the positive note, the recent IPO (initial public offering) of ARM, which we had conservatively priced at its 2016 acquisition cost of U.S.$32bn, brought in U.S.$4.8bn in cash, with Softbank retaining nearly a 90% stake after the IPO. The largest impact on the holding's margin of safety, though, came from ARM's current market valuation, which stands at approximately U.S.$128bn.

Following a review of Softbank's various investment stakes and a long discussion regarding the potential intrinsic value of ARM, we decided to exit the position. Our sell rationale stemmed from the belief that ARM's current valuation may be closer to its peak than its trough. We acknowledge that we could be underestimating the value of ARM, given its valuable technology and tremendous growth prospects. However, ultimately, we could not come to the conclusion that ARM or Softbank was materially undervalued. Additionally, with ARM becoming a material cash source for a company with a somewhat constrained balance sheet, the risk of capital deployment into unknown assets, such as the Vision Funds, has become higher. Consequently, the investment committee determined that redeploying the capital into other opportunities would be better for the portfolio over the long term.

New buys in the quarter included Canada's CAE and Mexico-based telecommunications services provider America Movil.

CAE supplies simulation equipment and integrated pilot training services to both civil aviation and military customers. Competing in a market dominated by two key players (the other being Flight Safety), CAE boasts the world's largest installed base of full-flight simulators. Over the past 20 years, CAE has diversified into the less cyclical pilot training business, offering training services through a global network of over 250 civil aviation and military training locations across 40 countries. The company derives 40% of its revenues from simulation products and 60% from training and services.

Our coverage of CAE began in 2011, and since then, our assessment of the company's core franchise quality remains unchanged. With its dominant position in flight simulation and pilot training, CAE has historically generated solid free cash flow and healthy returns on invested capital. The company also benefits from its access to attractive financing sources in the form of perpetual zero-cost loans from the Canadian government for research and development initiatives.

It is notable that during the COVID-19 pandemic, CAE took significant steps to strengthen its competitive position and improve industry structure. Firstly, the company leveraged its financial strength to complete a series of opportunistic acquisitions, purchasing nine companies at what we deemed depressed prices. This has helped CAE consolidate end-markets and expand capabilities. Secondly, it restructured its cost base, closing nine plants and removing $70m in annualized costs that resulted in a 1.5% margin benefit on sales. Lastly, CAE expanded its relationship with mainline airlines, which chose to outsource an increasing share of their internal training needs. To satisfy this new demand, CAE embarked on a heavy capital expenditure cycle over the course of the pandemic that we believe will benefit shareholders in the years ahead.

The opportunity to initiate a position in CAE came as investors have been concerned about recent margin weakness within the defense segment. However, we view these challenges as temporary. Inflation and supply chain pressures have started to ease, and CAE's under-earning, fixed-price contracts are set to expire by 2025. We expect that CAE is positioned to improve its profitability as legacy fixed priced contracts roll over and as new high-margin defense contracts begin to ramp up. Based on the company's guidance, new contracts should earn mid-double-digit margins, compared to the mid-single-digit margins on the legacy fixed-price contracts that were impacted by the pandemic-related cost pressures. At its current valuation levels, CAE represents an appealing risk/reward tradeoff, in our opinion.

Current Positioning

The ETF has overweight positions in the United Kingdom, France, and emerging markets, and underweight positions in Australia and Japan. From a sector perspective, it holds key overweights to communication services, health care, and consumer staples, while maintaining meaningful underweights to industrials, technology, and financials. We believe the Brandes International ETF is an excellent complement and diversifier to passive and growth-oriented strategies.

At quarter end, value stocks continue to trade in the least expensive decile relative to growth (MSCI EAFE Value vs. MSCI EAFE Growth) since the inception of the style indices. This is evident across various valuation measures, including price/earnings, price/cash flow, and enterprise value/sales. Historically, such discount levels often signaled attractive subsequent returns for value stocks. This is encouraging for us as the Brandes International Equity Strategy, guided by our value philosophy and process, has had the tendency to outperform the value index when it outperformed the benchmark.

Looking ahead, we remain optimistic about the prospects of our holdings. As of March 31, 2024, the Brandes International ETF trades at more compelling valuation levels, in our opinion, while offering more attractive long-term growth characteristics relative to the benchmark and the MSCI EAFE Value Index.

Performance (%) as of March 31, 2024					
	3 Months	YTD	1 Year	3 Years	Since Inception 10/03/2023
NAV	4.88	4.88	—	—	19.26
Market Price	5.36	5.36	—	—	19.85
MSCI EAFE Index	5.78	5.78	—	—	20.13
MSCI EAFE Value Index	4.48	4.48	—	—	16.63

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.

For term definitions: https://www.brandes.com/termdefinitions
The margin of safety for any security is the discount of market price to our estimate of intrinsic value.

The MSCI EAFE Index with net dividends captures large and mid cap representation of developed market countries excluding the U.S. and Canada.

The MSCI EAFE Value Index with net dividends captures large and mid cap securities across developed market countries, excluding the United States and Canada, exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield. Fund inception predates MSCI EAFE Value Index inception.

The MSCI EAFE Growth Index with gross dividends captures large and mid cap securities across developed market countries, excluding the United States and Canada, exhibiting 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.

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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BIE000123 7/31/24