

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.

TOP TEN HOLDINGS

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

Embraer SA	2.48
Amdocs Ltd	2.25
Edgewell Personal Care Co	2.22
International Flavors & Fragrances Inc	2.19
NETGEAR Inc	2.12
Textron Inc	2.07
Dril-Quip Inc	2.03
F5 Inc	1.97
National Presto Industries Inc	1.91
Interpublic Group of Cos Inc	1.91

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 rose 7.39%/7.31% (NAV/Market Price), outperforming its benchmark, the Russell 2500 Index, which appreciated 6.92% in the quarter, and the Russell 2500 Value Index which was up 6.07%.

Positive Contributors

Top contributors included holdings in the aerospace and defense industry. Among the most notable performers were Textron, Moog Inc., and Embraer. They have continued to benefit from ongoing recovery in passenger air travel and their other end-markets, which 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 regarding franchise quality, balance sheet durability and end-market recovery potential for these holdings. Moreover, record backlogs highlighted—in our view—the appealing long-term growth outlook for passenger air travel in an industry that has historically seen incumbents generate attractive returns on capital. We therefore revised our intrinsic value estimates for several of our aerospace and defense holdings upward, and believe they continue to offer an attractive risk/reward tradeoff at current valuation levels.

Other contributors included security system technology company Arlo Technologies, pharmaceutical company Organon, and Healthcare Services Group.

Performance Detractors

While Organon and Healthcare Services Group were solid performers, our overall exposure to the health care sector detracted from relative returns, mainly because of poor performance by Koninklijke Philips, Sotera Health, and Grifols.

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 elevated financial leverage, we recognize that Grifols has several options at its disposal that can help derisk, including the partial sale of its stake in Shanghai RAAS that is scheduled to close in the first half of this year.

We continue to believe there is potentially meaningful upside in the stock and we are managing the elevated balance sheet risk through allocation sizing. Grifols' plasma business weathered considerable challenges amid the COVID-19 pandemic, including decreased blood donations and higher costs associated with compensating donors. Today, blood donation volumes are running above pre-COVID levels and collection costs are declining as the pandemic-related supply challenges fade. Admittedly, the free-cash-flow recovery has been slower than anticipated as Grifols has been making substantial investments to expand capacity for future growth. While these investments have weighed on short-term profitability and cash flow, we believe they should be beneficial for the company in the long term as the industry transitions back to the pre-COVID growth trajectory. Furthermore, we appreciate Grifols' competitive position in a consolidated industry with high barriers to entry and secular growth, as well as its business model that should allow it to generate steady free cash flow if the industry returns to equilibrium. Trading at a single-digit multiple of pre-COVID earnings, Grifols appears attractively valued to us.

Beyond health care, other detractors included fiber laser manufacturer IPG Photonics and agribusiness and transportation conglomerate Seaboard Corporation.

Select Activity in the Quarter

Portfolio activity was very light in the quarter. There were no new positions added to the portfolio and no full sells.

Current Positioning

Given the limited portfolio activity, the current positioning of the ETF was largely unchanged. The ETF maintains its largest weights in industrials, health care, and financials, although both industrials and financials are underweight relative to its benchmark. The ETF's most significant underweights are in consumer discretionary, and real estate.

Compared with the Russell 2500 Value Index, the ETF has 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 generation.

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.

¹ footnote

Performance (%) as of March 31, 2024

	3 Months	YTD	1 Year	3 Years	Since Inception 10/03/2023
NAV	7.39	7.39	—	—	19.65
Market Price	7.31	7.31	—	—	19.98
Russell 2500 Index	6.92	6.92	—	—	25.13
Russell 2500 Value Index	6.07	6.07	—	—	24.80

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.

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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