

Applied Finance Valuation US Large Cap ETF (VSLU) 2024 Q1 Commentary

By *Derek Bergen, CFA*

In the first quarter of 2024, VSLU returned 9.49% on an NAV basis vs. 10.58% for the Morningstar US Large-Mid Cap Index and 10.52% for the S&P 500.

2024 Q1 Top Contributing Sectors

Despite overall underperformance of 1.03% vs. the S&P 500 in Q1, VSLU outperformed the S&P 500 in 6 of 11 sectors.

- Utility holdings returned 55.19% (vs. 4.58% for the S&P 500 sector).
- Consumer Discretionary holdings returned 10.88% (vs. 4.99%).
- Energy holdings returned 17.54% (vs. 13.68%).
- Materials holdings returned 11.28% (vs. 8.95%).
- Communication Services holdings returned 17.81% (vs. 15.83%).
- Consumer Staples holdings returned 8.41% (vs. 7.52%).

2024 Q1 Top Detracting Sectors

VSLU's S&P 500 underperformance in 2024 Q1 was fully reflected by underperformance in the Information Technology sector, while lagging performance in other sectors was more than offset by outperformance elsewhere.

- Information Technology holdings returned 6.16% (vs. 12.72%).
- Industrials holdings returned 7.26% (vs. 10.98%).
- Real Estate holdings returned -2.57% (vs. -0.55%).
- Financial holdings returned 11.81% (vs. 12.46%).
- Health Care holdings returned 8.20% (vs. 8.85%).

The Information Technology sector's underperformance contributed an active return in 2024 Q1 of -1.98%. Notably, this drag on

performance is completely captured by VSLU's exclusion of NVIDIA Corp (NVDA), which contributed more than 2.0% of the total S&P 500 return in Q1.

In our previous rebalance prior to the start of 2024, NVDA was excluded from the VSLU portfolio due to poor Intrinsic Value upside characteristics. Since then, NVDA's Intrinsic Value upside ranking increased significantly as earnings forecasts improved and new financial statement data became available, leading to recent inclusion in the portfolio as of the April 2024 reconstitution and rebalance.

2024 Q1 Sector Allocation

Active sector weights vs. the S&P 500 provided 0.56% performance improvement in 2024 Q1. These effects were observed across nearly all sectors, led by overweighting Communication Services, underweighting Utilities and underweighting Consumer Discretionary. Negative effects were only observed from overweighting Health Care stocks and underweighting Industrials.

VSLU Changes in 2024 Q1

No portfolio changes occurred over the course of 2024 Q1. VSLU rebalances semiannually and the new portfolio was reconstituted in early April 2024.

The performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate; thus an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than return data quoted herein. To obtain the Fund's standardized performance <https://appliedfinancefunds.com/ETF/ETFDData/VSLU>.

Looking Forward

VSLU will continue to focus on owning a broadly diversified portfolio of US large capitalization stocks. The valuation and business strategy principles that inform stock selection and position sizing have proven useful in navigating the US equity landscape over the last several years as rising interest rates have more sharply impacted unprofitable firms that are still heavily reliant on external financing even as their cost of capital increased. As interest rates remain elevated, strategic avoidance of overvalued, unprofitable firms should continue to be

beneficial in favor of allocation towards firms that can self-finance their investment or return capital to shareholders.

Our conviction in a comprehensive measure of intrinsic value, aided by a deep understanding of the role corporate strategy plays in building shareholder value, helps us form a diversified portfolio with improved valuation and profitability characteristics compared to a simple market capitalization weighted index, and we believe this should help VSLU continue to outperform in the future.

Disclosures:

Investors should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. This and other information is contained in the Fund's prospectus and summary prospectus, which may be obtained online or by calling 1-800-673-0550. Please read and carefully consider the prospectus before investing. The Applied Finance Valuation US Large Cap Fund is distributed by Foreside Fund Services, LLC.

Information About Risk:

Equity Securities Risk: Since the Valuation US Large Cap Fund invests in equity securities, it is subject to the risk that stock prices will fall over short or extended periods of time. Historically, the equity markets have moved in cycles, and the value of the Valuation US Large Cap Fund's equity securities may fluctuate from day to day. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments. The prices of securities issued by such companies may suffer a decline in response. These factors contribute to price volatility, which is a principal risk of investing in the Valuation US Large Cap Fund.

Market Risk: The value of securities in the Valuation US Large Cap Fund's portfolio will fluctuate and, as a result, the Valuation US Large Cap Fund's share price may decline suddenly or over a sustained period. The equity securities purchased by the Valuation US Large Cap Fund may involve large price swings and potential for loss.

Management Risk: The strategies used by the Adviser may fail to produce the intended result.

Risks of Investment Selection and Asset Allocation: The Valuation US Large Cap Fund's investment success depends on the skill of the Adviser in evaluating, selecting and monitoring the portfolio assets. If the Adviser's conclusions about growth rates or securities values are incorrect, the Valuation US Large Cap Fund may not perform as anticipated.

© 2024 Morningstar, Inc. All rights reserved. The Morningstar information contained herein: (1) is proprietary to Morningstar (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

S&P 500 attribution data based on SPDR® S&P 500 ETF Trust performance and holdings.