



The Prime 5 US Dividend ETF Index and the benefits of ETF portfolios

Summary

- The well-established advantages of ETFs and their widespread adoption by investors have resulted in product proliferation
- There are hundreds of dividend-generating ETFs; many products are complex, requiring deep analysis
- There is no single best ETF, but depending on investment needs or market environments, some will deliver a better investment experience than others
- Investment professionals need a smart model to evaluate their options for dividend strategies
- ETF portfolios can provide that model, helping investment professionals extract even more benefits from ETFs
- The Prime 5 US Dividend ETF index is a model that uses intuitive criteria to select “best of breed” ETFs for US Dividend exposure.

Does success only breed success?

It is undeniable that the exchange-traded fund (ETF) industry has achieved great success with over \$2.4 trillion in assets under management. The benefits of ETFs have resonated strongly among investors of all types, as they have come to expect instant diversification, low cost, intra-day liquidity, transparency, and tax efficiency of each new product launched. There are still many more advantages to using ETFs that professional investment managers are only now realizing, such as operational risk reduction, reducing account valuation risk, transaction cost control, and even facilitating account acquisition.

To some degree, ETFs have become a victim of their own success, as product proliferation has resulted in a flood of choices for investors. In fact, there are hundreds of new ETFs launched each year. Not only are there multiple competing products for the same strategy or genre, but some ETFs are becoming increasingly complex in order to differentiate themselves. More time and deeper analysis is needed to evaluate all of these ETF choices.

ETF portfolios deliver “second order diversification”

Diversification is an important element of the ETF success story, but there are several elements to diversification. Traditionally, a single ETF can provide immediate exposure to a portfolio of securities. But can one really pick the single best ETF for a broad dividend strategy? A portfolio of ETFs can achieve so much more by expanding the number of underlying subcomponents into more industries and across different market capitalizations. This not only mitigates idiosyncratic stock selection risk, but also addresses sector concentration risk as well.

A portfolio of dividend yielding ETFs that rebalances periodically ensures that if opportunities develop in previously ignored size or style boxes, the portfolio will move into those opportunities and ensure those exposures. A well-constructed portfolio optimized for dividend growth, low volatility, as well as current yield, reduces the risk of exposure to a single dividend strategy. Finally, a portfolio of ETFs mitigates the risk of a single ETF's strategy not performing as anticipated during an investor's holding period.

ETF portfolios help advisors grow their business

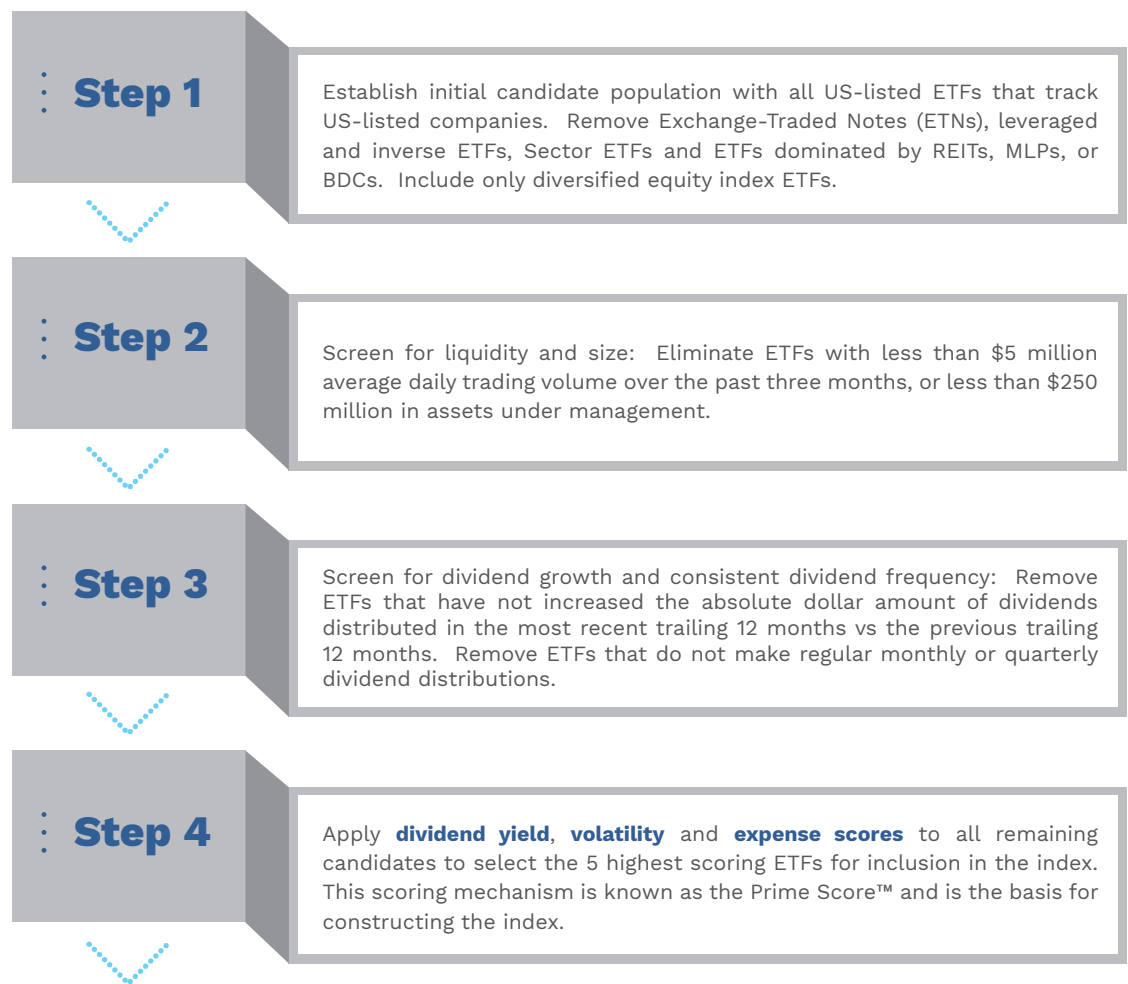
Not every advisor client is the same; they differ by risk tolerance, account size, and customization needs. It is difficult for advisors to create scale in a wealth management practice if they are deploying custom investment strategies for all clients regardless of size or preferences. Since not every client requires the same level of interaction or customization, ETF portfolios allow advisors to service account sizes of all types, particularly allowing advisors to onboard smaller accounts that would have otherwise stressed the advisor's bandwidth. Using ETF portfolios also allows an advisor to strengthen relationships with large and/or legacy accounts that want to refer family members, friends, or business affiliates.

Large accounts or small accounts, the one element they have in common is the aggregate operational burden they place on advisors. ETF portfolios address that burden by not only streamlining the selection process across a multitude of accounts, but also by reducing customized account administration and reporting. Ultimately,

this leads to a scalable approach for account valuation. ETF portfolios, by definition, require fewer positions to implement a strategy, thereby facilitating trade executions and simplifying account valuation. Fewer positions also results in lower transaction costs.

Building out a dividend strategy

Dividend strategies have become a standard sleeve within a larger income portfolio, and constructing that sleeve out of individual stocks is suboptimal for all the reasons mentioned above. The solution is an ETF portfolio that streamlines the selection process, but also continues to evaluate its components and reconstitute itself periodically. The Prime 5 US Dividend ETF index is a model that uses intuitive criteria for ETF eligibility, selection, and weighting. The index measures the performance of the five highest ranked ETFs using the Prime Score™ methodology. There are four primary steps in that selection process:

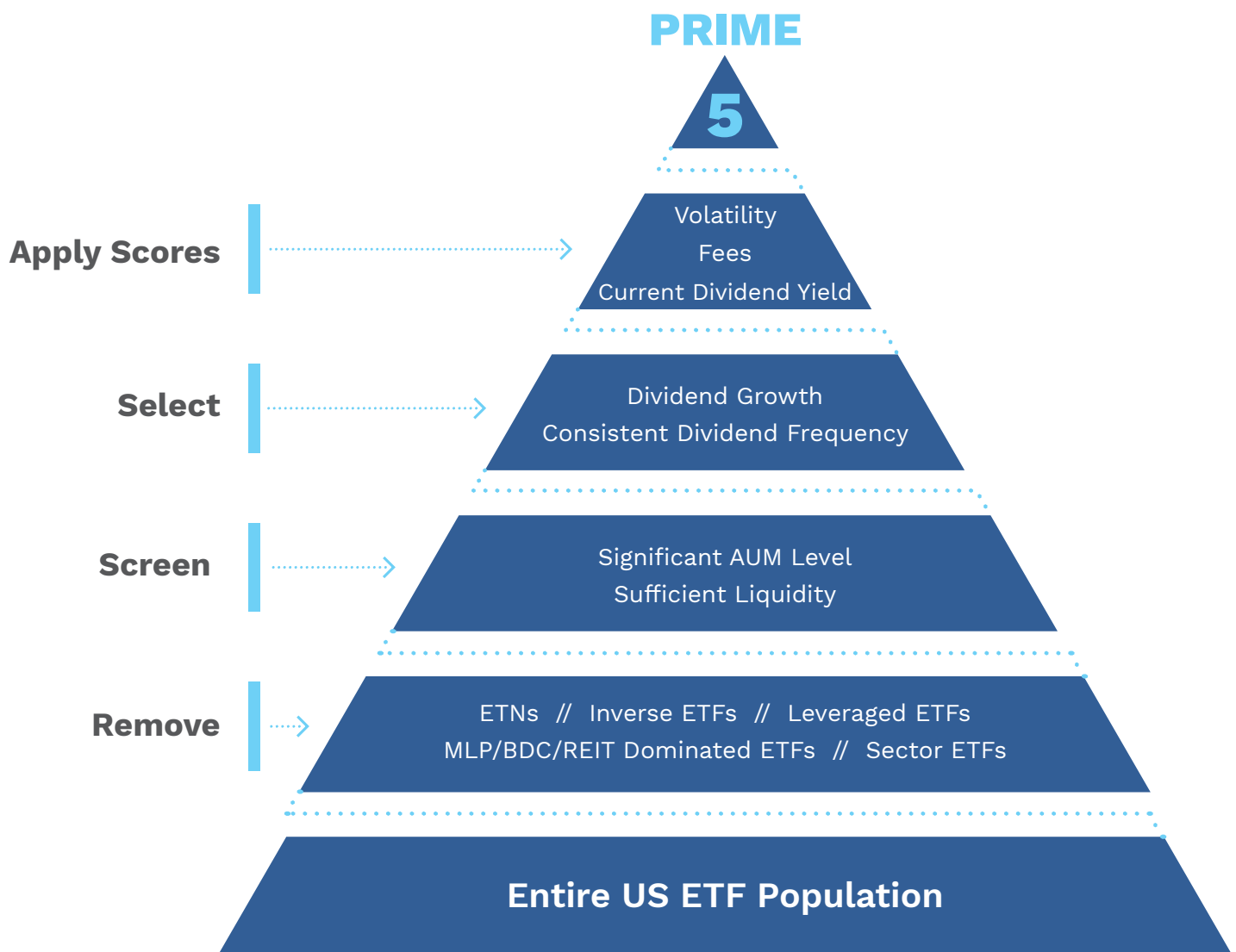


The end result is a “best of breed” index of 5 dividend-generating ETFs

The five highest ranked ETFs, in aggregate, pass through the exposure of hundreds of individual securities that are diversified across a wide range of industries. To be sure, the index also uses controls to cap the individual component weights, which reduces the risk of a single component overly influencing the index performance.

The index is reconstituted on a quarterly basis in January, April, July, and October where the entire process is re-run. This process ensures that new components are selected and the index is continuously represented by the five highest Prime Score™ ETFs.

Reaching the Peak



The Prime 5 US Dividend ETF index begins with the entire ETF universe (approximately 2,000 ETFs), and applies the steps in the pyramid above to arrive at an index of 5 ETFs that have been identified by the Prime Score™ methodology as the best US Dividend ETFs.