



Frequently Asked Questions: Prime Five US Dividend ETF Index

1. What are the types of ETFs that qualify for inclusion?

US-listed ETFs that invest in US-listed companies are eligible for inclusion. Exchange-traded notes (ETNs), leveraged and inverse ETFs, sector ETFs, and ETFs that have more than 10% of their assets in REITs, MLPs, or BDCs do not qualify and are removed from the candidate population.

2. What important factors are used in selecting eligible ETFs?

There are several quantitative factors that narrow down the eligible population:

- Dividend growth: Eligible ETFs must have increased the absolute dollar amount of dividends distributed in the most recent 12 months vs. the prior trailing 12 months
- Consistent dividend frequency: Eligible ETFs must make regular monthly or quarterly dividend distributions
- Sufficient secondary market liquidity: Eligible ETFs must have greater than \$5 million in average daily trading volume over the past three months
- Sufficient Assets Under Management: Eligible ETFs must have greater than \$250M in assets under management

3. How are the Prime 5 ETFs eventually selected and what is the Prime Score?

The Prime Score™ methodology is used to establish the final index components using current dividend yield, volatility, and expense ratio. Each eligible ETF is ranked by those metrics to establish a score, with a 50% weighting to dividend yield, a 33.3% weighting to volatility and a 16.7% weighting to expense ratio. The five highest-scoring ETFs are then selected as the index portfolio.

4. How are Prime 5 ETFs weighted in the index?

Each component ETF is weighted using its individual Prime Score relative to the aggregate Prime Scores of the five component ETFs. The higher an ETF's Prime Score, the greater its weight, and influence in the index portfolio.

5. How much overlap does the index have and is it over concentrated in a handful of stocks?

There are a total of 760 subcomponents in the five ETFs in the PFIVE portfolio. The ETF with the largest number of holdings has 426 stocks, which means PFIVE has portfolio that is 78% larger than the component ETF with the largest portfolio. The ETF with the smallest number of holdings has 77 stocks, which means PFIVE has a portfolio that is over 800% larger than the component ETF with the smallest portfolio. NOTE: if you're selecting one ETF, you would not have the same broad diversification as a PFIVE portfolio.

In addition, each of the component ETFs have a mix of market cap, as well as style. The PFIVE index is diversified across those sizes and styles.

6. If a stock is in 2 of the ETFs, is it just doubling the exposure?

No. A subcomponent's weight in the PFIVE index will be an WEIGHTED AVERAGE of the ETFs that it is included in. In other words, it's weight in the PFIVE index will be no greater than its highest weight in any of the ETFs that hold it. If a subcomponent stock is held by 2 or more ETFs, then its weight within the PFIVE index will be less than its the weight in either one of the component ETFs. Here's an example:

- Stock XYZ is held by two ETFs that are included in PFV
- XYZ's weight in ETF#1 is 5%, and its weight in ETF#2 is 3%
- ETF#1 and ETF #2 both have a 20% weight in PFV
- XYZ's equivalent weight in PFV is 1.6% ($0.20 \times 5\% + 0.20 \times 3\%$)

7. Can't an investor always get the same performance by just holding the PFIVE component ETFs for a single period without rebalancing?

No. An investor would have to replicate the index strategy continuously in order to track the index performance and take advantage of the top Prime Score ETFs. That would require analyzing roughly 2,000 ETFs on a quarterly basis using all the steps outlined in the index methodology. Additionally, there is no guarantee that an investor would pay the same institutional commissions and get the same execution quality as a professional investor.

8. Is the PFIVE aggregate portfolio of subcomponent holdings more diversified than the individual PFIVE ETFs?

Yes. By definition, the PFIVE index is more broadly diversified across sectors than any one component ETF. The top three sectors, by weight, of each of the PFIVE component ETFs are not identical, and include: consumer defensive, energy, real estate, communications services, technology, and industrial stocks. The PFIVE index has broader sector diversification because it includes stocks (by way of the component ETFs) from a wider range of sectors rather than being concentrated in just a few.