Think Income and Growth Don't Exist in This Market? Think Again.

Are you having the following argument with yourself?

"I need an investment that's going to provide me not only potential income, but potential growth too. Unfortunately, investors have been piling into dividend funds for years now in their search for yield. I'm worried that this has left me few reasonably-valued opportunities. If I invest in a potentially overvalued dividend fund today and this bull market finally runs out of steam tomorrow, then I'm risking serious losses. On the other hand, keeping my money on the sidelines is returning me zero. Is there an answer?"

As we're about to show you, yes, we believe there is an answer – and one we feel is a good one. Income and growth are still possible, even in this market, though admittedly, harder to find.

How We Got Into This Predicament

We all know how we got here: The Fed's zero interest rate policy (ZIRP), and now the various negative interest rate policies (NIRP) around the globe, the ostensible end of a 30+ year bull market in bonds, one of the lengthiest bull markets in stocks in U.S. history… All of this has funneled billions of dollars into any investment even resembling an income play. Desperate, yield-hungry investors have picked over the markets, stretching valuations and depressing yields.

The result is that if you're looking for income and growth at reasonable values, you're finding yourself in a challenging market. So, what can you do?

We humbly request you consider the Cambria Shareholder Yield ETF, (ticker: SYLD).

For those unfamiliar, we've engineered SYLD to help investors get exposure to quality value stocks that have returned the most cash to shareholders via dividends and buybacks relative to the rest of the U.S. stock universe. This makes SYLD similar to value and dividend strategies, though the differences are profound enough to set SYLD apart, as you'll see momentarily. But given that we're referencing a Cambria fund, we'd rather not try to sway anyone based on our own opinion. Instead, let's go straight to the numbers so that you can decide for yourself.

The Search for Income

Below we show the SEC 30-day dividend yields as of 06/30/2019 for SYLD and the category in which SYLD is placed (Morningstar Mid Cap Value).

Name	30-Day SEC Yield	12-Month Yield
Cambria Shareholder Yield (SYLD)	2.01%	2.41%
Morningstar Mid Cap Value Category	1.54%	1.32%

Past performance does not guarantee future results.
Please see next page for standard performance data.

SYLD offers a healthy dividend yield at 2.01%, higher but broadly similar to the Morningstar Mid Cap Value category. But remember, we've engineered SYLD to reflect total cash distributions to investors from dividends and buybacks. When management rewards investors with buybacks, we wouldn't see that value-transfer reflected in the dividend yield. Therefore, while SYLD has a higher yield currently, we shouldn't necessarily expect SYLD to be leading this category.

With this perspective, we suddenly have a far more complete way of evaluating our investments.

Why Buybacks Should Be Considered

A pure income investor might look at the above and say, "Explain it away however you want, but I don't care about buybacks. After all, it seems like overconfident CEOs are always buying back stock at all sorts of prices, regardless of valuations. Plus, they throw lucrative stock options to management, so trying to include buybacks isn't worth it to me. I want better dividend yields than what SYLD is offering, so I'm choosing a higher yielding fund."

It's a logical response, but let's challenge it.

Why, perhaps, should you be willing to pay more attention to buybacks?

Without getting into too much detail, corporate share buybacks can be an effective way for managers to return profits to shareholders – similar to dividends – yet without triggering the taxable event that occurs with dividends. This means shareholders are receiving value, but it's subtler – generally camouflaged in the asset's market price, rather than the obvious dividend payment that appears in your brokerage account one day. But that doesn't mean the value isn't there, it's just in a different form. And at the end of the day, wouldn't you prefer the highest total return possible, regardless of the source of that return?

If you're still not convinced on the value of buybacks, consider famed investor, Warren Buffett's opinion. From his 1984 letter to Berkshire Hathaway shareholders:

> *"When companies with outstanding businesses and comfortable financial positions find their shares selling far below intrinsic value in the marketplace, no alternative action can benefit shareholders as surely as repurchases."*

The key phrase for buybacks here is "intrinsic value." If you are an overconfident CEO buying back overvalued shares, then you're destroying value. In such a case, the earlier objection to including buybacks is valid. Buybacks would indeed be a detriment to total return.

But when a wise CEO buys back shares at great valuations that are below intrinsic value, to paraphrase Buffett's quote, "no alternative action benefits shareholders as surely as repurchases."

Combining Dividend Yield with Buyback Yield

Now, just so you're not misunderstanding, this isn't an issue of choosing buybacks instead of dividends. It's not a competition.

We like dividends too; we just think an investor can potentially do better by combining good dividend yields with good buyback yields, rather than by focusing on dividend yield alone. Think of these two returns as a broader, complementary "share- holder yield."

We believe shareholder yield is a good indicator of an investment's long-term potential. But we're not the only ones.

For instance, J.P Morgan writes, "Across the range of definitions, we find the single best measure of Value is arguably Shareholder Yield, which combines the effects of Dividends, Buy-Backs & Net Issuance…" (J.P Morgan, Value Everywhere, August 23, 2016.) Then there was the Société Générale study reporting that, historically, a shareholder yield strategy had beaten the market in 17 of the previous 20 years, whereas a dividend yield strategy had beaten the market in only 9 of those years. (Société Générale, Global Quantitative Research, October 9, 2014.) You'll find similar takeaways in various reports from other large financial institutions.

With all this in mind, let's look again at SYLD vs. its Morningstar category, this time on a total return basis instead of just dividend yield.

A Comparison of Total Returns

Below we compare the cumulative returns of SYLD versus the Morningstar Mid Cap Value category. The beginning date is 5/31/2013, which is the month end after we introduced SYLD to the market (5/13/2013). Returns stop at 06/30/2019 and are based on net asset value.

Name	Total Return
Cambria Shareholder Yield (SYLD)	74.08%
Morningstar Mid Cap Value	63.83%

Source: Morningstar. Standard performance as of 06/30/2019 for SYLD for the following periods is as follows: 1 year, NAV: -2.45% & mkt price: -2.32%; 5 year, NAV: 6.82% & mkt price: 6.84% since inception, NAV: 9.52% & mkt price: 9.53%. Performance for periods over one year is annualized. ***The 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 and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, please visit our website at www.cambriafunds.com.*** *Shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Market price returns are based upon the midpoint of the bid/ask spread at the close of the exchange and does not represent the returns an investor would receive if shares were trade at other times. Brokerage commissions will reduce returns. NAVs are calculated using prices as of 4:00 PM Eastern Time.*

Note that as of June 30th SYLD’s total return of 74.08% is higher than the category returns.

Looking at These Investments Through a “Value” Prism

One of the basic tenets of investing is that, all else being equal, the less you pay for an investment, the better your future returns should be. By that logic, the better the value at which we can purchase quality assets, the better positioned we should be for the potential of increased returns going forward.

Recall for a moment our earlier discussion of Warren Buffett and buybacks. Buffet believes buybacks are wonderful when they’re effected at discounted valuations. He didn’t say “all buybacks are great, all the time,” because they’re not. If a CEO overpays for his shares, it’s an unwise use of money, same as if you or I overpay for, say, a new car or a dishwasher.

The point is, valuation matters. With investing, the price which you pay for an asset has a significant influence on the return (or lack thereof) that you could potentially get.

With that in mind, let’s return to SYLD vs. the Morningstar category.

The chart below includes numerous common valuation metrics: the ratios of price-to-earnings, price-to-book, price-to-sales, and price-to-cash flow. We've re-included the dividend yield for perspective.

	SYLD	Category
Price/Prospective Earnings*	11.85	15.31
Price/Book*	1.60	1.90
Price/Sales*	0.70	1.12
Price/Cash Flow*	7.10	8.97
Price/Free Cash Flow*	11.38	15.66
Dividend Yield %*	2.01%	1.54%

Forward-looking based on historical data, as of 06/30/2019. Source: Morningstar. Style and Market Cap Breakdown and Value and Growth Measures are calculated only using the long position holdings of the portfolio.
**Dividend Yields are SEC 30-day yield as of 06/30/2019.*

SYLD trades at a lower valuation vs. the category average in every single category.

And for any skeptics remaining, wondering about the extent to which valuation really matters, we'll point you to a report from O'Shaughnessy Asset Management. The group conducted research on the subject and concluded the following:

> *"While (dividend) yield is attractive in general, one of the most important lessons we've learned in the large cap market is that it becomes unattractive when expensive… …if a company has a high yield but is also cheap, then it has outperformed the market by 3.29%, on average. But when a stock has a high yield and is trading at expensive multiples of earnings, sales, EBITDA, and free cash flow, it's lost to the market by an average of 2.06% a year."*

(O'Shaughnessy Asset Management, The Myth of the Most Efficient Market, 2013.)

We'll let you draw your own conclusion as to what this might mean for future returns.

Yes, this is a challenging market for income investors, but it doesn't have to be an impossible market. Income, growth, and good values are still out there. If you haven't looked at SYLD in a while, maybe it's time.

Appendix

This paper was compiled to provide a framework to analyze the characteristics of Cambria's ETF, Shareholder Yield (BATS: SYLD) relative to funds that seek to offer investors exposure to U.S. based companies in the Morningstar Mid Cap Value category. The valuation data—at the time this report was written—reflects the fundamental data of Price/Earnings ratios, Price/Book ratios, Price/Sales ratios, Price/Cash Flow ratios, and dividend yield so that investors can compare the ETF and category across the same metrics. All information is provided strictly for educational and illustrative purposes only.

No representation is being made that any investment will achieve performance that is similar to the returns shown above. The information provided should not be considered investment advice.

Below is more information on the Morningstar Mid Cap Value category.

Mid-Cap Value

Some mid-cap value portfolios focus on medium-size companies while others land here because they own a mix of small-, mid-, and large-cap stocks. All look for U.S. stocks that are less expensive or growing more slowly than the market. The U.S. mid-cap range for market capitalization typically falls between $1 billion and $8 billion and represents 20% of the total capitalization of the U.S. equity market. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Category Group Index: S&P 500 TR

Category Index: Russell Midcap Value TR USD

Morningstar Index: Morningstar US Mid Val TR USD

<u>Definitions</u>

12-Month Yield

The sum of a fund's total trailing 12-month interest and dividend payments divided by the last month's ending share price (NAV) plus any capital gains distributed over the same period.

SYLD (all info below from Morningstar as of 06/30/2019)

Expense Ratio	0.59%
Risks	There are risks associated with investing in SYLD, including possible loss of principal. There is no guarantee that the Fund will achieve its investment goal. High yielding stocks are often speculative, high risk investments. The underlying holdings of the fund may be leveraged, which will expose the holdings to higher volatility and may accelerate the impact of any losses. These companies can be paying out more than they can support and may reduce their dividends or stop paying dividends at any time, which could have a material adverse effect on the stock price of these companies and the Fund's performance. Narrowly focused funds typically exhibit higher volatility. There is no guarantee dividends will be paid. Diversification may not protect against market loss.

This material must be preceded or accompanied by a current prospectus. Investors should read it carefully before investing or sending money.

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