

Spotlight

AAM S&P High Dividend Value ETFs

SPDV

AAM S&P 500 High Dividend Value ETF

DMDV

AAM S&P Developed Markets ex-US High Dividend Value ETF

EEMD

AAM S&P Emerging Markets High Dividend Value ETF

High Dividend Value Potential Benefits:

- ✓ High Equity Income
- ✓ Dividend Sustainability/Growth
- ✓ Sector Diversification
- ✓ Attractive Valuations
- ✓ Monthly Distributions

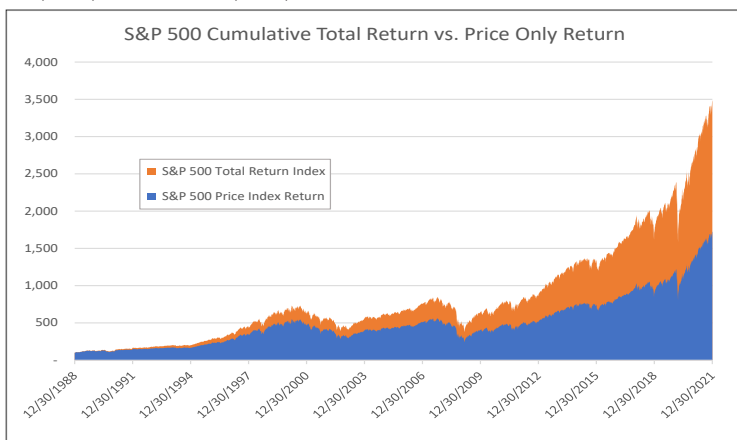
THE POWER OF DIVIDENDS

In today's low rate environment, many investors have turned to dividend-paying stocks to help meet current cash flow needs, but many overlook the impact dividends have played in the creation of long-term wealth. In fact, **over 83% of the S&P 500's total return since 1960 has come from dividends and the compounding of those dividends**¹.

Simply put, dividends matter. Whether looking for income or capital appreciation, dividends have helped investors achieve their goals.

Exhibit 1:

S&P 500 Cumulative Total Return vs. Price Only Return
 12/31/1988 – 12/31/2021



Source: S&P Dow Jones Indices LLC. Past performance does not guarantee future results. Chart is provided for illustrative purposes and is not indicative of any AAM product.

There are two distinct investing strategies that have historically proven to be effective.

High Dividend Yield: The first is to focus on stocks with the highest dividend yield. High-dividend-yielding equities have historically generated higher returns than their low-yielding peers. According to a study done by Professor J. Siegel, the top 20% of the highest-dividend-yielding stocks in the S&P 500 produced an annualized return of 14.27% between 1957 and 2002, higher than the return of 11.19% of the S&P 500 Index².

Dividend Growth: Stocks that are well-positioned to grow their dividend may not offer the same level of income as their high yielding counterparts, however, they may help investors avoid less financially sound companies which may cut or eliminate their future dividend payments. This is important because stocks which have cut, or eliminated, their dividend have underperformed their non-dividend cutting peers³.

WHAT MAKES THE AAM HIGH DIVIDEND VALUE STRATEGY DIFFERENT?

Although high dividend yield and high dividend growth strategies have each proven to be effective on a stand-alone basis, they aren't necessarily mutually exclusive. In fact, the benefits of equity income are a function of both the starting yield *and* the growth of that yield over time.

AAM's S&P High Dividend Value ETFs track the S&P Dividend & Free Cash Flow Yield Index series, which was designed

to capture the potential benefits of both investment strategies in one. The underlying index methodology is designed to uncover stocks that maximize dividend yield without sacrificing dividend sustainability utilizing a distinct, common sense selection process focusing on high dividend yield and high free cash flow yield. Combining these factors in the selection process seeks to identify high dividend-paying and financially strong companies.

Each ETF selects five (5) stocks from each of the 11 GICS sectors that exhibit the most attractive combination of high dividend yield and high free cash flow yield. This selection process creates a well-diversified portfolio of high-yielding stocks with strong cash flow that are also positioned to maintain, and possibly grow, their dividend in the future.

To further enhance the ETFs' value proposition, each security is equally-weighted and the ETFs are rebalanced semi-annually.

While the main objective of the AAM S&P High Dividend Value suite is to maximize dividend yield without sacrificing dividend sustainability, these ETFs are also designed to address many perceived shortfalls found in other dividend-focused ETFs. These include:

Sector Diversification: As mentioned above, the selection process targets five stocks from each of the 11 GICS sectors and equally weights each security. This avoids sector "bets" commonly seen in many dividend-focused ETFs that are overweight high-yielding sectors such as Real Estate or Utilities.

Attractive Valuations: Focusing on high dividend yield and high free cash flow yield has resulted in ETFs with deep value characteristics including lower average price to earnings (P/E), price/sales (P/S), price to book value (P/BV) and price to cash flow (P/CF) ratios than many broad market benchmarks.

Monthly Distributions: SPDV, DMDV and EEMD make monthly distributions, which provides shareholders flexibility in meeting their current cash flow obligations or reinvesting the dividends to leverage the powerful effect of compounding.

WHY ARE DIVIDEND YIELD & FREE CASH FLOW YIELD SUCH A POWERFUL COMBINATION?

Many market pundits like to cite revenue or earnings per share (EPS) when assessing the financial stability of a firm, but we argue that cash flow from operations, more specifically free cash flow yield, may be a better measure of

the potential for dividend sustainability and growth.

Unlike earnings or revenues, free cash flow is difficult to manipulate with accounting practices, and we believe may be a better indicator of a company's solvency and liquidity.

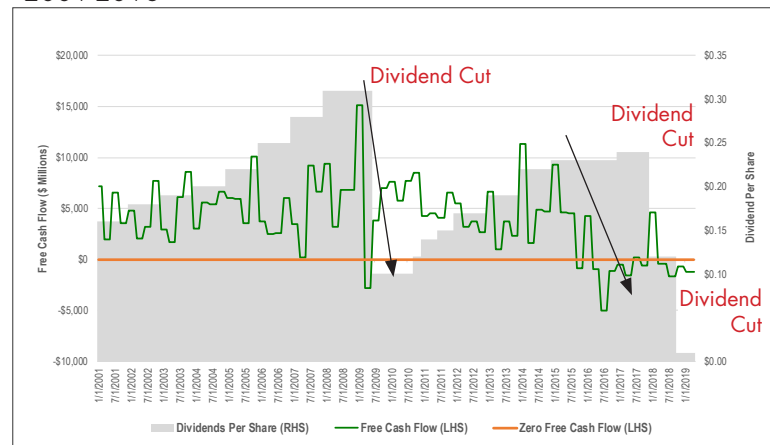
Additionally, since dividends are paid in cash, doesn't it make sense that the generation of free cash flow would be a valuable attribute for a company that could maintain or grow its dividend in the future? We think so.

General Electric (GE) is a recent example of why free cash flow yield may be a sound indicator of dividend sustainability (see Exhibit 2). Between 2001 and 2019, GE experienced relatively stable revenue and EPS but slashed their dividend three times. In early 2009, 2016, and 2018, GE's free cash flow was negative and soon after each report, GE cut their dividend.

Similarly for dividend growth, GE's free cash flow was positive and generally growing between 2009 and 2015 when they increased their dividend seven times.

Exhibit 2:

General Electric: Free Cash Flow and Dividend Per Share 2001-2018



Source: Bloomberg. Past performance does not guarantee future results.

Not only has free cash flow yield been a valuable indicator of dividend sustainability, it may also be an indicator of financially strong companies that are well-positioned to succeed. Free cash flow may be used to pay dividends, but it can also be used to repay debt, pay interest expenses, repurchase shares or fund future growth projects—all generally positive for a stock.

Finally, from a portfolio construction standpoint, S&P Dow Jones found in a research report titled *Incorporating Free Cash Flow Yield in Dividend Analysis* that the negative correlation between dividend yield and free cash flow

yield indicates that combining these factors in a multi-factor framework can potentially offer diversification benefits.

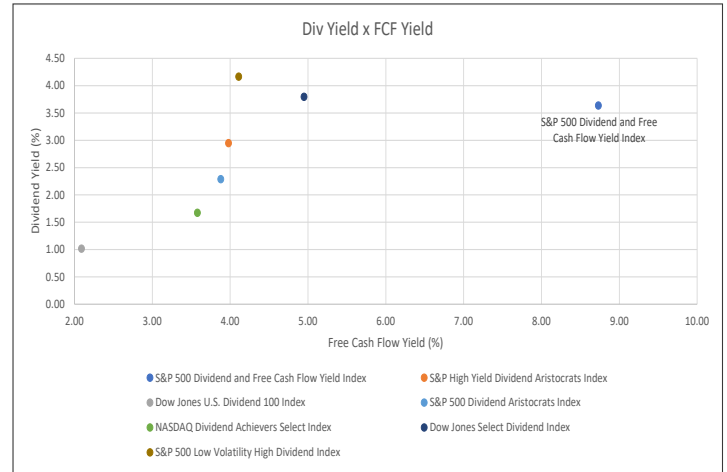
SEPARATING FROM THE DIVIDEND INDEX HERD USING THE AAM S&P HIGH DIVIDEND VALUE ETFs

Higher dividend yields may indicate a company's willingness to return income to shareholders. High free cash flow yields may indicate that a company has the ability to sustain and possibly increase an already generous dividend. Focusing on both a high dividend yield and a high free cash flow yield has tended to uncover value-oriented companies with stable product life cycles while maintaining long-term growth potential. Together, a high dividend yield and high free cash flow yield have the opportunity to complement traditional bond and equity portfolios while providing potential benefits which are missing from many traditional equity dividend strategies.

For investors seeking solid and durable dividend income, along with sector diversification and monthly distributions, **AAM's S&P High Dividend Value ETF suite may be a welcome addition.**

Exhibit 3:

Dividend Yield and Free Cash Flow Yield of the Most Popular U.S. Dividend Indices as of 12/31/2021



Source: Bloomberg. Past performance does not guarantee future results.

Learn how SPDV can help satisfy your current cash flow needs and provide long-term growth potential by talking to a financial professional or visiting www.aamlive.com.

1. Source: S&P. For the period 12/30/1960 - 12/30/2021.

2. J. Siegel. "The Future for Investors: Why the Tried and the True Triumph Over the Bold and the New" 2005, pp. 127.

3. Source: Ned Davis Research. For the periods 1/31/1972-9/30/2019. Based on equal-weighting geometric average of total returns (including dividends) of dividend-paying and non-dividend-paying historical S&P 500 stocks. Uses Indicated Annual Dividends to identify dividend-paying stocks on a rolling 12-month basis.

The AAM S&P High Dividend Value ETFs investment objectives, risks, charges and expenses must be considered carefully before investing. Each fund's statutory and summary prospectuses contains this and other important information about the investment company, and may be obtained by calling 800.617.0004 or visiting www.aamlive.com. Read it carefully before investing.

Investing involves risk, including the possible loss of principal. Shares of any ETF are bought and sold at market price (not NAV) and may trade at a discount or premium to NAV. Shares are not individually redeemable from the Fund and may be only be acquired or redeemed from the fund in creation units. Brokerage commissions will reduce returns. Companies with high yield or payout ratio may underperform other securities in certain market conditions and reduce or discontinue paying dividends entirely while included in the index. The Funds' returns may not match or achieve a high degree of correlation with the return of the underlying Index. To the extent the Fund utilizes a sampling approach, it may experience tracking error to a greater extent than if the Fund had sought to replicate the Index. Investments in non-U.S. securities may be subject to risk of loss due to foreign currency fluctuation or to political or economic instability. Investments in mid-cap companies may involve less liquidity and greater volatility than larger companies.

Please see following page for additional important information.

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As of 12/31/2021, none of the AAM S&P High Dividend Value ETFs held a position in General Electric (GE).

Definitions: **Cash flow** is the net amount of cash and cash-equivalents moving into and out of a business. **Dividend yield** is a stock's annual dividend relative to the stock price. **Free cash flow** is the excess cash that a business has after paying all of the operations and capital expenditures. **Free cash flow yield** is a stock's free cash flow per share relative to the stock price. The **price/earnings ratio** (often shortened to the P/E ratio or the PER) is the ratio of a company's stock price to the company's earnings per share. The **price-to-book value (P/BV) ratio** is calculated by dividing the current closing price of the stock by the latest quarter's book value per share. The **price/sales (P/S) ratio** is calculated either by dividing the company's market capitalization by its total sales over a 12-month period, or on a per-share basis by dividing the stock price by sales per share for a 12-month period. The **price-to-cash flow (P/CF) ratio** is calculated by dividing the company's stock price with the quantity of its cash inflows, minus its cash outflows over a given time, usually a year. This ratio is similar to a company's price-earnings ratio, but it does not take into account earnings that have not actually been received. **Correlation** is a statistical measure of how two variables move in relation to each other with coefficients ranging from +1 to -1. A correlation coefficient of +1 implies that as one variable moves, the other will move in exact lockstep. Alternatively, a correlation coefficient of -1 implies that if one variable moves, the other moves in the same amount in the opposite direction. If the correlation is 0, the movements of the variables are completely random. **Earnings per share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability.

S&P 500 Index is an unmanaged market capitalization weighted index used to measure 500 companies chosen for market size, liquidity and industry grouping, among other factors. It is not possible to invest directly in an index. **Dow Jones US Select Dividend Index** is an unmanaged index that aims to represent the US's leading stocks by dividend yield and dividend coverage ratio, amongst other factors. The **Morningstar US Dividend Growth Index** is an unmanaged index that tracks U.S.-based securities with a history of uninterrupted dividend growth. The index is a subset of the Morningstar US Market Index, a broad market index representing 97% of U.S. equity market capitalization. The **Value Line® Dividend Index** is an unmanaged index that aims to track US listed stocks that have been given a proprietary Safety™ Ranking of #1 or #2 using the Value Line Safety™ Ranking System in addition, but not limited to, other qualifying criteria such as dividend yield and market capitalization. The **S&P 500 Low Volatility High Dividend Index** is an unmanaged index that measures the performance of the 50 least-volatile high dividend-yielding stocks in the S&P 500. The index is designed to serve as a benchmark for income-seeking investors in the U.S. equity market. The **NASDAQ US Dividend Achievers Select Index** is an unmanaged index comprised of a select group of securities with at least ten consecutive years of increasing annual regular dividend payments, amongst other factors. The **S&P High Yield Dividend Aristocrats® Index** is an unmanaged index designed to measure the performance of companies within the S&P Composite 1500® that have followed a managed-dividends policy of consistently increasing dividends every year for at least 20 years. **S&P Composite 1500®** is an unmanaged index that combines three leading indices, the S&P 500®, the S&P MidCap 400®, and the S&P SmallCap 600®, to cover approximately 90% of U.S. market capitalization. The **S&P MidCap 400®** is an unmanaged index that provides investors with a benchmark for mid-sized companies. The index is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. The **S&P SmallCap 600®** is an unmanaged index that seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.

The **Dow Jones U.S. Dividend 100 Index** is an unmanaged index designed to measure the performance of high-dividend-yielding stocks in the U.S. with a record of consistently paying dividends, selected for fundamental strength relative to their peers, based on financial ratios. The **Morningstar Dividend Yield Focus Index** is an unmanaged index that tracks high-yielding, dividend-paying, U.S.-backed securities screened for superior company quality and financial health, amongst other factors. The **S&P 500® Dividend Aristocrats®** is an unmanaged index that measures the performance of S&P 500 companies that have increased dividends every year for the last 25 consecutive years. The Index treats each constituent as a distinct investment opportunity without regard to its size by equally weighting each company.

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