



ETF Action Sector & Industry AIM Portfolio Methodology Guide

Introduction

ETF Action Active Index Model (AIM) Portfolios are designed to illustrate specific ways exchange-traded funds (ETFs) can be used to build diversified portfolios that seek to outperform specific broad market indexes. Each AIM Portfolio is managed and maintained by ETF Action's Investment Committee (IC) with full transparency into the investment process, current positions, and performance relative to stated benchmark.

Key Subscriber Benefits:

- Transparent and repeatable framework for building ETF model portfolios designed to outperform specific market segments
- Access to ETF Action's current market views and positioning with supporting research for over/under weights within each AIM Portfolio
- Fully integrated with ETF Action's powerful data tools making it easy to perform additional analysis where desired

U.S. Sector & Industry AIM Portfolio Objective

The ETF Action Sector & Industry AIM Portfolio's primary objective is to outperform the broad U.S. Market as measured by the S&P 500. To accomplish this objective the investment committee utilizes an actively managed process that is governed and implemented using a transparent and repeatable framework.

ETF Eligibility & Criteria

To qualify for the U.S. Sector & Industry AIM Portfolio ETFs must meet the following criteria:

- Classified as "U.S. Sector & Industry" according to the ETF Action Classification System
 - Excludes leverage, inverse, & Exchange Traded Notes (ETNs)
- Minimum \$20 million in assets under management (AUM)
- Minimum \$1 million daily trading volume

Portfolio Ratings Framework

ETF Action's IC has developed and maintains a transparent portfolio ratings framework which is utilized as a guide to build and maintain sector and industry ETF positions.

Macro View

The primary goal of macro views is to provide context for interpreting quantitative data ratings used to implement sector ETF positions. In addition, macro views establish a risk framework by setting sector over/under weight ranges relative to the S&P 500. For example, a sector with a bearish macro view is limited to a smaller overweight cap and a larger underweight cap (or vice versa for a bullish rating).



ETF Action's IC establishes macro views based on several subjective factors including but not limited to:

- Macroeconomic Data Releases
- Government Stated Policies & Politics
- Interest & Currency Exchange Rates
- International Trade
- Consumer Trends

Fundamental Ratings

Fundamental ratings are designed to assess the overall health of each S&P 500 Sector. ETF Action's IC attempts to assign higher scores to sectors with increasing balance sheet strength and higher growth metrics relative to both itself and historical divergence to broad benchmark. Depending on segment (i.e. defensive vs. cyclical sectors) different factors may be viewed to have a higher or lower importance based on ETF Action's IC current macro views.

Relative Valuation

ETF Action's IC scores valuation on the qualifying ETFs primarily by looking at historical spread vs. benchmark relative to current spread vs. benchmark and premium/discount of actual valuations vs. historical averages. Valuation multiples measured include price-to-earnings, price-to-sales, price-to-cash flow, and price-to-book value.

Momentum Score

Momentum is established by the ETF Action IC by applying a proprietary process based on each model segment's recent price movements and relative strength vs. primary benchmark. Higher scores are assigned to model segments whose performance is in a long-term uptrend and outperforming the benchmark over shorter timeframes.

Timing

ETF Action IC's proprietary score to assist in "timing" of position changes focuses on short-term relative strength to identify "neutral," "overbought," and "oversold" conditions. The IC utilizes the timing scores as reference to assist in determining when to implement ETF position changes.

Position Rating Guide

The ETF Action IC assigns broad ratings of positive (+), neutral (O) or negative (-) to all sections outlined above and documents it in the weekly positioning guide available to ETF Action subscribers.

Portfolio Construction & Weighting

Final ETF selections and portfolio weights are determined by ETF Action's IC through applying a multi-step interpretive (subjective) process based on the portfolio ratings framework described in detail above.



Sector Ranges

Based on macro ratings each sector is assigned a weighting band relative to the broad S&P 500 index.

- Bullish Rating: -5% to +15%
- Bearish Rating: -15% to +5%
- Neutral Rating: -10% to +10%

Diversification Requirements

To limit tracking error, at least 50% of overall portfolio must be implemented using broad-based sector ETFs as defined by ETF Action's classification system. In addition, individual ETFs are subject to a minimum 2% allocation requirement and industry ETFs max position is capped at 7.5%.

Note: Industry ETFs that have companies from multiple sectors are allocated proportionately to parent sectors.

ETF Selection

ETF Action's IC evaluates all qualifying ETFs on a sector-by-sector basis to determine which strategies and methodologies best align with current positioning guide ratings. Key considerations include broad-based sectors vs. industry specific options, ETF strategy (security selection and composition), and ETF implementation (weighting methodology).

Rationale for current ETF selections are published as insights and available to all ETF Action premium subscribers.

Final Review & Implementation

Subject to the sector ranges and diversification requirements outlined above, ETF Action's IC assigns final target weights based on a combination of ratings conviction level and how they believe each position will interact with current macro views.

Portfolio Rebalances & Maintenance

ETF Action's IC formally reviews and updates position weights frequently. If deemed appropriate, portfolio changes are communicated to the index calculation agent, [Indxx](#), at least three days prior to the implementation date. If necessary, implementation of changes will be made at the close of Thursday each week. All model changes and current position weights are published on ETF Action's website and available to premium subscribers.

AIM Portfolio Calculation

To learn more about how the AIM portfolio indexes are maintained, priced, and handle corporate actions, please reference the [Indxx Calculation Guideline](#) document.



Disclaimers

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