

# ETF Action Global Thematic 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

## Global Thematic AIM Portfolio Objective

The ETF Action Global Thematic AIM Portfolio's primary objective is to outperform the broad Global Market as measured by the MSCI ACWI. To accomplish this objective the investment committee utilizes an actively managed process that is governed and implemented using a transparent and repeatable framework.

This process involves using several primary factors: quality, value, growth/momentum, and low volatility.

## ETF Eligibility & Criteria

To qualify for the Global Thematic AIM Portfolio ETFs must meet the following criteria:

- Classified as equity ex-U.S. "thematic" ETFs that have a designated "strategy" as one of the following according to the ETF Action Classification System:
  - Industrial Revolution or Advanced Materials
  - Disruptive Technology or FinTech
  - Health Innovation
  - Sustainability
  - Evolving Consumer
  - Sustainability
  - Multi-Theme
- Excludes leverage, inverse, & Exchange Traded Notes (ETNs)
- Minimum \$10 million in assets under management (AUM)

## **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 Global Thematic ETF positions.

### **Macro View**

The primary goal of macro views is to provide context for interpreting quantitative data ratings used to implement Global Thematic positions. In addition, macro views establish a risk framework by setting Global Thematic over/under weight ranges relative to each thematic category. For example, a global thematic category 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:

- Secular Trends
- 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 and growth of each global thematic. ETF Action's IC attempts to assign higher scores to factors with increasing balance sheet strength and higher growth metrics relative to both itself and historical divergence to broad benchmark. Depending on segment (i.e. market-development, regions, 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. While all valuation multiples are looked at, the primary multiple looked at for the global thematic category is price-to-sales.

### **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 global themes 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.

### **Theme Ranges**

The portfolio foundation is set with an anchor weighting to a broad-based, active multi-theme thematic ETF with a maximum weighting of 20%. Based on macro ratings each of the other broad thematic categories are then assigned a weighting band from 5 to 25%. For example, if the broad-based, active anchor thematic ETF is given a 20% weighting, then 5-25% is allocated appropriately to the other five broad thematic categories listed under "ETF Eligibility & Criteria."

- Anchor broad-based, active (multi-theme) thematic ETF 10-20%
- Six thematic categories: 5% to +25% each

### **Diversification Requirements**

To limit tracking error, each thematic exposure has a minimum level of 5% at all times. In addition, individual ETFs are subject to a minimum 5% allocation requirement.

### **ETF Selection**

ETF Action's IC evaluates all qualifying ETFs on theme by theme basis to determine which strategies and methodologies best align with current positioning guide ratings. Key considerations include macroeconomic rating alignment, 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 thematic 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 AIM portfolio indexes are maintained and valued see ETFA's / Indxx Active Index Model Rulebooks.

## **Disclaimers**

ETF Action model portfolios are made available to subscribers for informational purposes only and do not represent actual investments.

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