

ZacksINDEX
SERVICESA DIVISION OF ZACKS
INVESTMENT MANAGEMENT

Zacks Yield Hog Index (ZAXYH) Commentary

Q3 Commentary as of 9/30/2017

Summary

During the third quarter of 2017, the Zacks Yield Hog Index (ZAXYH Index) had a total return of 4.84% comparing to the return of 2.47% from the benchmark Dow Jones US Select Dividend Index (DJDVY Index). The YTD performance of ZAXYH is 11.56% while DJDVY returned 8.7% during the same time frame. The Zacks Yield Hog Strategy is the first yield-oriented index to combine equities, preferred stocks, ADRs, REITs, master limited partnerships (MLPs), and closed-end funds. The objective of the Zacks Multi-Asset Income Index is to achieve risk rewarded returns by selecting a diversified group of stocks with the potential to deliver high yield. Return of the six sleeves of the Index is summarized in the following table.

	Average Weight (%)	Total Return (%)	Dividend Yield
ADR	10.09	8.29	5.09
Closed-End Fund	9.89	3.28	8.65
Common Stock	50.49	6.64	3.55
MLP	9.83	-0.41	8.66
PFD	9.94	2.12	5.60
REIT	9.76	-0.59	7.25

Source: Bloomberg, Zacks Investment Research

The U.S. Stock Market

For the quarter ending in September, the S&P 500 Index earned 4.48% while the Small-Cap Index S&P 600 outperformed the Large-Cap with 5.94% total returns. During the third quarter this year, within common stocks (50.49% of the total portfolio), Zacks Yield Hog distributed 79.68% to large-cap stocks, 11.84% to mid-cap stocks, and 8.48% to small-cap stocks. The selected large-cap stocks

earned 8.58% total returns and contributed 6.36% total returns to the common stock sleeve, while the selected small-cap stocks generated -9.27% returns and contributed -0.27% returns to the common stock sleeve. Our common stock sleeve outperformed the common stock dividend benchmark (Dow Jones US Select Dividend Index) because we use the payout ratio and dividend growth to enhance the performance of large-cap stocks and a tier-equal weight scheme is applied to control the loss of illiquid and small-cap stocks.

ZAXYH Common Sleeve Market Cap Attribution as of 9/30/2017

	Average Weight (%)	Contribution to Return (%)	Total Return (%)
Common Stock	100.00	6.64	6.64
Large Cap	79.68	6.36	8.58
Mid Cap	11.84	0.55	-0.13
Small Cap	8.48	-0.27	-9.27

Source: Bloomberg

Within the common stock sleeve, nine of ten sectors showed positive returns during the third quarter. In terms of total return, Health Care is the best sector generating quarterly returns of about 26% and contributing 0.94% to the total return. With heavier allocation to Consumer Discretionary and Financials, the selected stocks of these two sectors contributed over 1.5% to the total return of common stock sleeve.



Global Stock Market

The ADR sleeve of the Zacks Yield Hog earned a total return of 8.29% comparing to the S&P ADR Total Return Index which returned 6.52% during the third quarter. We believe the excess return can be attributed to the smart factors we use, including proprietary Zacks indicator, 9-month momentum, and payout ratio. The momentum captures the upward trend of the global stock market starting from December of last year. A relatively low payout ratio helps to keep the sustainability of the portfolio. Finally, the proprietary Zacks indicator provides a market sentiment filter to the strategy.

MLP & Energy Sector Update

With the nature of highly correlation with Oil price, the performance of MLP is not as strong as U.S. equity market. For the year through September end Alerian MLP Index (AMZ) is down 5.6% in terms of total return. A good sign is AMZ is up 0.6% during September and the best performing subsector is upstream. In general, MLP sector is significantly undervalued and it may turn into an investment opportunity during the stabilized price range. During the third quarter, the average weight of MLP sleeve in ZAXYH Index 9.85% with a marginal contribution to total return (-0.04%). The quarterly performance of the selected MLPs is better than AMZ at (-0.41% vs -3.05%). We utilized debt to equity ratio to screen out high leverage MLPs that distributed unsustainable yield. Momentum serves as another effective factor that make sure the MLPs in ZAXYH index are in a relatively upward trend compared with peers.

REITs Market Outlook

U.S. REITs underperformed broader equity markets in the third quarter as it was dragged down by weakness in the retail sector

during the quarter. The REIT sleeve in our portfolio generated a negative return of -0.59% since the sleeve was overweight in the Hotel sector, which generated negative returns this quarter. We used the last 6-month momentum as the criterial and the hotel sector was outperformed in the second quarter and lost momentum in the third quarter.

Zacks Yield Hog Index Sector Attribution
as of 9/30/2017

	% AVERAGE WEIGHT			CONTRIBUTION TO RETURN (%)			TOTAL RETURN (%)		
	ZAXYH (CVY)	DJDVY (CVY)	+/-	ZAXYH (CVY)	DJDVY (CVY)	+/-	ZAXYH (CVY)	DJDVY (CVY)	+/-
Consumer Discretionary	12.53	15.00	-2.46	0.76	-0.53	1.29	5.49	-3.21	8.70
Consumer Staples	1.82	8.46	-6.64	-0.06	-0.46	0.40	-3.04	-5.27	2.23
Energy	10.67	8.74	1.93	0.20	0.96	-0.76	1.36	11.18	-9.82
Financials	25.32	13.99	11.32	1.47	0.66	0.81	5.35	4.76	0.59
Funds	9.89	0.00	9.89	0.33		0.33	3.28		3.28
Health Care	4.65	2.62	2.03	0.52	0.10	0.42	12.60	3.62	8.98
Industrials	6.40	11.05	-4.65	0.33	0.85	-0.52	4.20	7.89	-3.69
Information Technology	8.62	1.44	7.19	0.00	-0.07	0.07	0.86	-4.52	5.37
Materials	4.93	6.64	-1.72	0.55	0.40	0.15	11.61	6.03	5.58
Real Estate	6.14	0.00	6.14	-0.24		-0.24	-3.73		-3.73
Telecommunication Services	2.64	1.94	0.71	0.47	-0.19	0.66	18.54	-8.86	27.40
Utilities	6.39	30.13	-23.74	0.23	0.48	-0.25	2.10	1.55	0.55

Source: Bloomberg

Zacks Yield Hog Highlights

- Significant outperformance with approximately 2.4% quarterly alpha compared with relative benchmark (DJDVY Index).
- Consistently high dividend yield 5.23% compared with DVY 3.67% as of 2017/9/30.
- We continue selecting undervalued securities with sustainable dividend distribution. P/E, P/B and P/C ratios are significantly lower than relative benchmark.
- Beta is 1.07, slightly higher than DVY with momentum factor involved in ADRs, MLPs and REITs sleeves.
- More diversified allocation across different asset classes and different sectors. The most concentrated sector is Financials with 25.32% weight compared with DVY with above 30% allocation to utility stocks.

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INVESTMENT MANAGEMENTZacks Yield Hog Index (ZAXYH) Commentary
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as of 9/30/2017

Index	ZAXYH	DJDVY	Difference
Dividend Yield	5.23	3.63	1.60
Price to Earnings Ratio (P/E)	14.03	19.52	-5.49
Price to Cash Flow Ratio (P/CF)	6.84	9.48	-2.64
Price to Book Ratio (P/B)	1.98	2.60	-0.62
Total Debt to Common Equity	219.15	116.04	103.12
Current Ratio	1.37	1.15	0.22
Beta	1.07	0.91	0.16
ROA	1.75	2.73	-0.98
ROC	4.90	7.65	-2.75
ROE	11.74	10.01	1.73

Source: Bloomberg

The Zacks logo features the word "Zacks" in a white, serif font, set against a dark green rectangular background.

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INVESTMENT MANAGEMENT

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Dow Jones U.S. Select Dividend Index: The selection of stocks to the Dow Jones U.S. Select Dividend Index is based almost entirely on dividend yield and dividend history. Stocks are also required to have an annual average daily dollar trading volume of more than \$1.5 million. These criteria help to ensure that the index represents the most widely traded of the market's highest-yielding stocks. This is a total return index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. Index does not reflect advisory fees. An investor cannot invest directly in an index.

S&P 500 Index: Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index was developed with a base level of 10 for the 1941-43 base period. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. Index does not reflect advisory fees. An investor cannot invest directly in an index.

S&P 600 Smallcap Index: The Standard & Poor's Smallcap 600 Index is a capitalization-weighted index that measures the performance of selected U.S. stocks with a small market capitalization. The index was developed with a base value of 100 as of December 31, 1993. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. Index does not reflect advisory fees. An investor cannot invest directly in an index.

Alerian MLP Index: The Alerian MLP Index is the leading gauge of energy MLPs. The cap-weighted index, whose constituents represent approximately 85% of total market cap, was developed with a base level of 100 as of December 29, 1995. See AMU US Equity <GO> or AMJ US Equity <GO> for the tradable equivalent.

S&P ADR Index: The index is comprised of 6 regional and country headline indices, representing non-U.S. market coverage across 30 markets. The S&P ADR Index is ideal for U.S. institutional investors who are restricted from purchasing foreign stocks. The index is market cap-weighted with all pricing and valuation taken from the U.S. exchange with the primary listing.