

Zacks Yield Hog Index (ZAXYH) Commentary

Q3 Commentary as of 9/30/2020

Summary

Zacks Yield Hog (ZAXYH) is the first yield-oriented index to combine equities, preferred stocks, ADRs, REITs, master limited partnerships (MLPs), and closed-end funds, creating a diversified portfolio that minimizes risk. During the quarter ending September 30, 2020, ZAXYH returned 0.66%, underperforming the Dow Jones US Select Dividend Index (DJDVY Index), which returned 2.32%. The underperformance of the index is mostly due to the poor performance of the ADR sleeve. The overall index maintains a yield¹ of 6.24%, ahead of 5.08% of the DJDVY Index, and all the individual sleeves other than common stock have a higher yield than their respective benchmarks.

Zacks Yield Hog Index Performance²

as of 9/30/2020

	Average Weight (%)	Total Rtn Q3(%)	Total Rtn YTD(%)	Dividend Yield	Benchmark	Benchmark Rtn Q3(%)	Benchmark Rtn YTD (%)	Benchmark Div Yield
Total	100	0.6	-27.54	6.24				
COM	50.03	2.44	-29.47	3.59	DJDVY Index	2.32	-19.86	5.08
ADR	9.86	-8.41	-36.57	7.28	SPADRTR Index	2.52	-12.55	3.94
CEF	10.4	4.19	-15.48	10.59	CEFX Index	4.19	-7.06	8.77
MLP	8.89	-16.23	-50.07	18.04	AMZ Index	-16.32	-46.23	17.36
PFD	10.5	7.08	0.66	5.30	SPPREFXT Index	6.75	2.55	4.73
REIT	10.32	7.81	-21.83	4.63	FNERTR Index	1.19	-12.27	3.84

Source: Bloomberg, Morningstar, Zacks Investment Research, FTSE, S&P

The U.S. Stock Market

U.S. Equity rose steadily during the quarter ending September 30 2020, with both S&P 500 and Russell 3000 hitting an all-time high on 9/2/2020. The S&P 500 index advanced 8.93% while the Russell 2000 advanced 4.60%. The economy bounced back after the steep decline in the second quarter, following the relaxation of economic restrictions. The rally in equities has been helped by the expansive monetary policy by the Fed and the expectation of a second fiscal stimulus package. Value stocks have continued to underperform growth stocks, Large-cap stocks have continued to outperform small-cap stock, and Technology stock has continued to outperform other sectors, extending the year-long trend. However, there is investor concern regarding the third Covid-19 wave and the uncertainty involving the upcoming presidential and congressional election.

Global Stock Market

The global economy has been hit hard by the Covid-19 pandemic and is projected to decline by -4.4% in 2020 and grow by 5.4% in 2021. MSCI EAFE Index tracking the developed market went up 4.20% for the quarter while the MSCI emerging market (MXEF) index went up 8.73%. ADR sleeve of ZAXYH underperformed the benchmark S&P ADR Index (SPADRTR Index), declining -8.41% compared to advancing 2.52% for the benchmark. Part of the reason for the under-performance is due to the large exposure to the energy sector (34.55% compared to 9.6% for the

benchmark) which performed poorly. Additionally, the ADR portfolio was biased toward high yield value stock with high leverage and low earnings ratios, which underperformed. On a stock specific basis Telefonica SA, Banco Bilbao Vizcaya, and Telefonica Brasil all had significant declines.

Crude Oil and MLP

The covid-19 pandemic and the ensuing economic slowdown have tremendously reduced the demand for oil. However, in April OPEC and its allies agreed to a 9.7 million barrels per day (mb/d) production cut. The overall 2020 demand for oil is projected to be 90.3mb/d. There has been a steep decline in U.S. oil production (roughly 20%), and the number of Baker Hughes oil rigs has dropped to 282 in October, a 64% decline since last November. However, there has only been a small decline in U.S Natural gas liquid (NGL) production, roughly 1% year over year. The cash flow to MLPs are expected to decline over the next

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year. The MLP sleeve of the ZAXYH index went down -16.23% inline with the benchmark Alerian MLP Index (AMZ) which returned -16.32%.

REITs Market Outlook

The current covid-19 crisis is expected to have a significant long term impact on the real estate markets. Leisure and hospitality real estate have been among the hardest hit and are not expected to fully recover until the pandemic is well under control. For retail real estate, the Covid 19 pandemic is expected to accelerate the changes already underway due to the growth of e-commerce. Pharmacies and consumer staples have done well while restaurants have suffered. The office real estate faces tremendous challenges due to the rising popularity of "working from home". In the case of residential real estate, there is expected to be a shift in demand from urban areas to the suburbs as "working from home" becomes more prevalent. The REIT sleeve of the ZAXYH Index returned 7.81% for the quarter, outperforming the FTSE NAREIT Equity

Zacks Yield Hog Index Sector Attribution

from 6/30/2019 to 9/30/2020

	% AVERAGE WEIGHT			TOTAL RETURN (%)			ATTRIBUTION (%)		
	ZAXYH DJDVY		+/-	ZAXYH DJDVY		+/-	Allocation	Selection	Total
	(CVY)	(CVY)		(CVY)	(CVY)				
Total	100	100	0	0.6	2.32	-1.72	-2.92	0.84	-1.72
Communication Services	5.76	8.24	-2.48	2.47	3.03	-0.56	-0.02	-0.04	-0.05
Consumer Discretionary	1.73	5.83	-4.1	38.09	16.07	22.02	-0.52	1.02	-0.25
Consumer Staples	0.85	7.96	-7.11	-4.36	5.8	-10.16	-0.31	0.12	-0.27
Energy	15.38	8.61	6.78	-16.94	-21.57	4.63	-1.78	0.6	-0.87
Financials	41.06	24.73	16.32	2.21	0.35	1.86	-0.22	0.42	0.47
Health Care	2.32	2.17	0.14	-7.84	11.03	-18.87	0.01	-0.41	-0.31
Industrials	4.88	4.9	-0.02	13.66	16.17	-2.51	0.01	-0.11	-0.1
Information Technology	0.84	7.08	-6.23	19.5	6.34	13.17	-0.25	0.89	-0.17
Materials	3.64	7.64	-4	9.11	12.75	-3.64	-0.4	-0.25	-0.53
Real Estate	9.8	0	9.8	5.21	0	5.21	0.28	0	0.28
Utilities	3.23	22.83	-19.61	-4.4	1.75	-6.15	0.11	-1.41	-0.11
Not Classified	10.52	0	10.52	4.19	0	4.19	0.18	0	0.18

Source: Bloomberg

Highlights of ZAXYH for Q3 2020

- High yield of 6.24% compared with 5.08% for benchmark DJDVY Index.
- Lower valuation ratios measured by P/E, P/CF, and P/B. The index continues to tilt towards value securities
- The earnings quality factors lower than the benchmark.
- The index has structurally higher leverage but the current ratio indicates the selected companies don't have solvency issues.

- Downside risk indicated by annual VaR 95% (-2.26 vs. -1.95) and annual downside standard deviation (14.49 vs. 14.21) are slightly higher than the benchmark DJDVY. This can be attributed to the active exposure to size and value factors and over weighing energy and finance sectors.
- Volatility measured by the annualized standard deviation (20.21 vs 20.15) and Beta (1.21) is slightly lower than the benchmark DJDVY Index.

Zacks Yield Hog Index Characteristics³

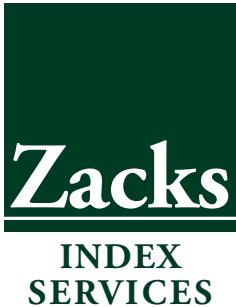
as of 9/30/2020

Characteristic	ZAXYH						DJDVY
	ADR	CEF	COM	MLP	PFD	REIT	Total
Dividend Yield ⁴	7.28	10.59	3.59	18.04	5.30	4.63	6.24
Price to Earnings Ratio (P/E)	12.04	10.88	7.84	6.08		51.81	9.03
Price to Cash Flow Ratio (P/CF)	4.22	6.53	4.23	1.66		13.17	3.99
Price to Book Ratio (P/B)	0.79	0.83	0.95	0.8		3.03	0.98
Total Debt to Common Equity	213.21	32.38	168.59	205.84		166.53	169.19
Current Ratio	1.13	1.82	1.37	1.15		0.8	1.29
Beta	0.93	1.22	1.29	1.25		1.05	1.21
ROA	0.71	4.56	0.61	-2.33		1.22	0.47
ROC	2.51	15.58	4.14	7.39		2.01	4.13
ROE	5.96	6.5	3.8	-8.35		7.43	2.76

Source: Bloomberg

Performance Attribution

The ADR sleeve of ZAXYH significantly underperformed the benchmark SPRD Index leading to most of the poor performance. We under weighed Information technology and consumer discretionary, which performed well in the third quarter. This contributed to some of the negative allocation effects. The apparent negative allocation effect is mostly due to the MLP sleeve (which performed in-line with the benchmark AMZ index). The index has an overall positive selection effect. The strong performance of Whirlpool Corp and MDC Holdings led to a significant positive selection effect in the Consumer discretionary sector. The health care sector has a negative selection effect due to the underperformance of CVS Health and Cardinal Health. The apparent negative selection effect in Utilities is due to the MLP sleeve.



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¹ Indicated annual dividend yield as of 9/30/2020

² The performance for the index given in the table is calculated using Bloomberg. There is a slight discrepancy between the actual index performance and the performance reported in the table due to differences in the calculation methodology.

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⁴ Indicated annual dividend on 9/30/2020

DISCLOSURE

Past performance is no guarantee of future results. Inherent in any investment is the potential for loss.

This material is being provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable. All information is current as of the date of herein and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole.

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. The Index does not reflect advisory fees. An investor cannot invest directly in an index.

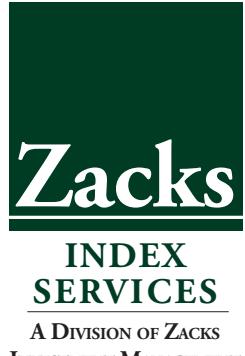
S&P 500 Index: Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure the performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index was developed with a base 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. The Index does not reflect advisory fees. An investor cannot invest directly in an index.

Dow Industrial Average Index: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

MSCI EAFE Total Return Index: Morgan Stanley Capital International Equity Indices in US Dollars. Indices with net dividends reinvested use the same dividend minus-tax-credit calculations, but subtract withholding taxes retained at the source for foreigners who do not benefit from a double taxation treaty.

MSCI Emerging Net Total Return Index: MSCI Net Total Return Index Series.

FTSE 100 Index: The FTSE 100 Index is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange. The equities use an investability weighting in the index calculation. The index was developed with a base level of 1000 as of December 30, 1983.



DISCLOSURE (continued)

FTSE NAREIT Equity REITs Total Return Index: FTSE NAREIT Equity REITs Total Return Index USD. This investment sector includes all Equity REITs not designated as Timber REITs or Infrastructure REITs.

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.

CEFX Index: S-Network Composite Closed-End Fund Index is a net assets-weighted fund index designed to serve as a benchmark for closed-end funds listed in the US that principally engage in asset management processes designed to produce taxable annual yield.

AMZ Index: Alerian MLP Index is the leading gauge of energy MLPs. The market cap weighted index constituents represent approximately 85% of total market cap.

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