Owning Isolated Dividends

The Academic Facts

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Why own just the dividends rather than the overall market?

Research Shows That Short-Term Dividends...

1. Outperformed their own underlying index

*Across multiple maturities (1, 2, 5 & 7 years) and in all four regions (U.S. S&P 500, Europe Eurostoxx 50, UK FTSE 100, and Japan Nikkei 225), short-term dividends have outperformed their corresponding index.**

2. Have been less volatile

*Dividends have tended to be less volatile than their underlying index, with short-term dividends exhibiting betas of around 0.5.**

3. Had a better risk/return profile

*In each region, short-term dividends provided better absolute returns and risk-adjusted returns than the aggregate stock market.**

Short-term dividends provided higher average returns and lower volatility than the aggregate stock market. Authors Binsbergen and Koijen in *The Term Structure of Returns: Fact and Theory,* generally conclude that exposure to isolated dividends may be additive to an investor's portfolio on a risk/reward basis. A higher Sharpe Ratio[1] resulting from lower market beta and higher average returns over an index makes for a very compelling argument to add such an exposure to a long-term portfolio allocation.

Accessing Isolated Dividends Today

Metaurus U.S. Equity Cumulative Dividend Fund (IDIV)

Until this year, isolated dividends were primarily accessible to only institutional investors, via the derivatives market. This changed in the beginning of 2018 when Metaurus Advisors introduced the **US Equity Cumulative Dividend ETF** on the NYSE (ticker **IDIV**), which allows an investor to purchase 10 years of S&P 500 dividends without price exposure to the underlying stocks. IDIV is designed to pay out monthly distributions that, before fees and expenses, correspond to the actual dividends paid by the S&P 500 index. IDIV has an initial 10-year life.

Key Features:

- No stock price exposure
- Potential dividend growth
- Monthly distributions
- Passive investment that may fit in a fixed income allocation as a potential TIPS substitute

Dividend growth has historically been...

- An effective hedge against inflation and rising interest rates (positively correlated).
- Negatively correlated to fixed income returns (Bloomberg Barclay's US Agg Bond Index).
- Less volatile than underlying S&P 500, as dividends are not subject to price/earnings multiple expansion/contraction.
- More correlated to earnings growth than the underlying index, making IDIV a potentially better pure play on earnings.

The full academic paper can be found here.

*Citation: van Binsbergen, Jules H. and Koijen, Ralph S. J., The Term Structure of Returns: Facts and Theory (June 27, 2016). Available at SSRN: https://ssrn.com/abstract=2597481

Footnotes

[1]Sharpe Ratio: The average return earned in excess of the risk-free rate per unit of volatility or total risk.
[2]Please consult your tax advisor. IDIV issues a schedule K-1.

Disclosures

SEI Investments Distribution Co. (1 Freedom Valley Drive, Oaks, PA, 19456) is the distributor for the Metaurus Advisors LLC funds.

This material must be preceded or accompanied by a prospectus. Carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. This and additional information can be found in the Fund's prospectus, which may be obtained by calling (866) 395-0079, or by visiting https://www.metaurus.com/Data/Sites/33/media/docs/Metaurus_Prospectus.pdf. Please read the prospectus carefully before investing.

Index returns are for illustrative purposes only and do not represent actual Fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

The shares are speculative securities and investing in them involves risk, including possible loss of principal. Other risk considerations are:

- There is no guarantee that an ETF will meet its investment objective.
- The ETFs primarily invest in futures, which can be volatile. Even a small movement in market prices could cause large losses.
- Restrictions on redemptions may affect your ability to withdraw your participation in the ETFs. Because the ETFs have designated maturity dates, new investors may elect not to invest in an ETF as it nears maturity and existing investors may elect to sell their Shares or redeem through an Authorized Participant. As a result, the size of each ETF may decrease as it nears maturity and the impact of fund expenses could increase as a result.
- There is no guarantee that distributions will be made.
- The value of the ETF may decrease due to decreases in actual dividends or share price of the ETF.

An active secondary market for the ETF’s shares may not exist. Although IDIV will be listed on an exchange, subject to notice of issuance, it is possible that an active trading market may not develop or be maintained.

Shares are bought and sold at market price (not NAV) and are not individually redeemed from the ETFs other than in large Creation Unit aggregations. Instead, investors must buy or sell shares of an ETF in the secondary market with the assistance of a broker. As with all securities, buying and selling shares of ETFs will result in brokerage commissions and will generate tax consequences. Brokerage commissions will reduce returns.

The ETFs are not sponsored, promoted, sold or supported in any other manner by Solactive AG nor does Solactive AG offer any express or implicit guarantee or assurance either with regard to the results of using the Solactive U.S. Dividend and Ex-Dividend Indexes and/or Index trade mark or the Index Price at any time or in any other respect. These Solactive Indexes are calculated, maintained and published by Solactive AG. Solactive AG uses its best efforts to ensure that the Indexes are calculated correctly. Irrespective of its obligations towards Metaurus, Solactive AG has no obligation to ensure that the Indexes are error-free. Neither publication of the U.S. Dividend and Ex-Dividend Indexes by Solactive AG nor the licensing of the U.S. Dividend and Ex-Dividend Indexes trademark for the purpose of use in connection with the Funds constitutes a recommendation by Solactive AG to invest capital in the ETFs nor does it in any way represent an assurance or opinion of Solactive AG with regard to any investment in this ETF. Solactive has licensed use of the Index to Metaurus for use with the ETFs.

The ETFs are not investment companies registered under the Investment Company Act of 1940 and are not afforded the protections of the 1940 Act.

The Solactive U.S. Cumulative Dividends Index – Series 2027 (the “Dividends Index”, the “Index”) is an Index of Solactive AG and is calculated and distributed by Solactive AG. The Index aims to represent the discounted present value of all listed annual S&P 500 Dividend Index Futures contracts out to and including the December 2027 dividend futures expiry. To accomplish this, each S&P 500 Dividend Index Future market price will be discounted by using the computed yield of a specified U.S. Treasury Security with a similar or prior maturity date as the corresponding S&P 500 Dividend Index Future expiry. After expiry of any S&P 500 Dividend Futures contract, such futures contract and its corresponding U.S. Treasury Security will be removed from the Index. The Index is a price only index. The Index is published in USD.

The ETF has a limited operating history. Therefore, you have a limited performance history to serve as a factor for evaluating an investment in the securities.

IDIV is not sponsored, promoted, or associated with Standard & Poors or its affiliates or with any ETF tracking the S&P 500 Index. IDIVs do not track and are not benchmarked to the S&P 500 Index or the S&P 500 Dividend Points Index.