alpha architect

ETF EDUCATION

351 ETF Liquidity vs. Typical ETF Liquidity

A common question we receive is some version of:

"After I complete this 351 transaction, the ETF might not have a lot of volume. Can I actually sell the new 351 ETF?"

In practice, low trading volume in an ETF does not necessarily mean the ETF is illiquid. ETFs are exchange-traded vehicles, so their liquidity depends on the liquidity of the **underlying holdings**, not on how often the ETF itself trades. If the underlying securities are very liquid, market makers can efficiently create or redeem ETF shares as needed, meaning investors may enter or exit even a thinly traded ETF.

To illustrate this, we compared the liquidity of the fifty largest U.S. Large Blend ETFs as well as the liquidity of their underlying holdings to the Alpha Architect U.S. Equity ETF (AAUS), a syndicated 351 ETF we recently launched.

Liquidity of the largest US Large Blend equity ETFs

	Average allocation to **Top-25 Holdings**	30-day ADV **ETF**	30-day ADV **Underlying holdings (top 25)**
ETFs #1-10	*51.1%*	*15,059,649*	*26,491,559*
ETFs #11-20	*56.9%*	*1,685,651*	*19,572,184*
ETFs #21-30	*58.2%*	*860,054*	*22,843,721*
ETFs #31-40	*54.2%*	*396,596*	*25,694,334*
ETFs #41-50	*50.5%*	*134,319*	*26,195,444*
Avg. (all 50)	54.2%	3,887,405	25,677,600
AAUS	58.5%	803	27,820,618

Source: YCharts, Alpha Architect. 30-day ADV is the average number of shares (or dollars) traded per day over the past 30 trading days. It is a common way to measure liquidity or volume of an exchange-traded security.

While the trading volume of the ETFs in this sample varies significantly, the liquidity of the underlying holdings shows much less variation—averaging around 25.7 billion shares traded over a 30-day period. Even though AAUS trades infrequently, its underlying holdings are just as liquid as those of the largest ETFs in the category

Takeaway: While 351 ETFs should be expected to trade less frequently than a typical equity ETF, as an exchange-traded vehicle, the fund's liquidity is largely determined by the liquidity of the underlying holdings.

IMPORTANT RISK INFORMATION

Investors should carefully consider the investment objectives, risk, charges, and expenses of the funds. This and other important information is in the indicated fund's prospectus, which may be obtained by calling (215) 882-9983 or by visiting https://funds.alphaarchitect.com/documents/. The prospectus should be read carefully before investing. Investing involves risk, including loss of principal.

PRINCIPAL INVESTMENT RISKS

Management Risk. The Funds are actively managed and may not meet its investment objective based on the SubAdviser's success or failure to implement investment strategies for the Funds.

Investment Risk. When you sell your Shares, they could be worth less than what you paid for them. Therefore, you may lose money by investing in the Fund(s). The Fund(s) could lose money due to short-term market movements and over longer periods during market downturns. Securities may decline in value due to factors affecting securities markets generally or particular asset classes or industries represented in the markets. The value of a security may decline due to general market conditions, economic trends or events that are not specifically related to the issuer of the security, such as geopolitical events and environmental disasters. The value of a security may also decline due to factors that affect a particular industry or group of industries. During a general downturn in the securities markets, multiple asset classes may be negatively affected. Therefore, you may lose money by investing in the Fund(s).

High Portfolio Turnover Risk. The Fund(s)'s investment strategy may from time-to-time result in higher turnover rates. This may increase brokerage commission costs, which could negatively impact performance. Rapid portfolio turnover also exposes shareholders to a higher current realization of short-term capital gains, distributions of which would generally be taxed to you as ordinary income and thus cause you to pay higher taxes.

Quantitative Security Selection Risk. Data for some companies may be less available and/or less current than data for companies in other markets. The Sub-Adviser uses quantitative models, and its processes could be adversely affected if erroneous or outdated data is utilized. In addition, securities selected using a quantitative model could perform differently from the financial markets as a whole as a result of the characteristics used in the analysis, the weight placed on each characteristic and changes in the characteristic's historical trends.

Equity Investing Risk. An investment in the Fund involves risks similar to those of investing in any fund holding equity securities, such as market fluctuations, changes in interest rates and perceived trends in stock prices. The values of equity securities could decline generally or could underperform other investments. In addition, securities may decline in value due to factors affecting a specific issuer, market or securities markets generally.

Large-Capitalization Companies Risk. Large-capitalization companies may trail the returns of the overall stock market. Large-capitalization stocks tend to go through cycles of doing better - or worse - than the stock market in general. These periods have, in the past, lasted for as long as several years. Larger, more established companies may be slow to respond to challenges and may grow more slowly than smaller companies.

Small- and Mid-Capitalization Company Risk. Investing in securities of small- and mid-capitalization companies involves greater risk than customarily is associated with investing in larger, more established companies. These companies' securities may be more volatile and less liquid than those of more established companies. Often small- and mid-capitalization companies and the industries in which they focus are still evolving and, as a result, they may be more sensitive to changing market conditions.

351 Exchange Risks

New Fund Risk. The Fund(s) are a recently organized investment company with no operating history. As a result, prospective investors have no track record or history on which to base their investment decision. There can be no assurance that the Fund will grow to or maintain an economically viable size.

In-Kind Contribution Risk. At its launch, the Fund(s) expect to acquire a material amount of assets through one or more in-kind contributions that are intended to qualify as tax-deferred transactions governed by Section 351 of the Internal Revenue Code. If one or more of the in-kind contributions were to fail to qualify for tax-deferred treatment, then the Fund(s) would not take a carryover tax basis in the applicable contributed assets and would not benefit from a tacked holding period in those assets. This could cause the Fund(s) to incorrectly calculate and report to shareholders the amount of gain or loss recognized and/or the character of gain or loss (e.g., as long-term or short-term) on the subsequent disposition of such assets.

Tax-related matters

Tax disclaimer. Neither Alpha Architect nor its affiliates provide tax advice.

IRS Circular 230 disclosure. To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this communication was not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any matters addressed herein. You should seek advice based on your particular circumstances from an independent tax advisor. The information contained in this communication is not meant to substitute for a thorough estate planning and is not meant to be legal and/or estate advice. It is intended to provide you with a preliminary outline of your goals. Please consult your legal counsel for additional information.

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