# How a 351 Exchange may address holdings with significant capital gains

How a 351 Exchange to the Alpha Architect U.S. Equity ETF (AAUS) may be used to consolidate a sprawling equity portfolio and maintain exposure to the US equity market, potentially without recognizing gains.

# IMPORTANT INFORMATION

The Alpha Architect U.S. Equity ETF (AAUS) has an effective registration statement but is not currently trading. We anticipate AAUS to begin trading in Q2 2025.

**PROSPECTUS OFFER**

**Investors should consider the investment objectives, risks, charges and expenses carefully before investing. For a prospectus with this and other information about the Fund, please call (215) 882-9983 or visit our website funds.AlphaArchitect.com. Read the prospectus or summary prospectus carefully before investing.**

**In-Kind Contribution Risk:** At its launch, the Fund expects 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 would not take a carryover tax basis in the applicable contributed assets and would not benefit from a tackled holding period in those assets. This could cause the Fund 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 Advisory Disclaimer:** Neither ETF Architect nor its affiliates provide tax advice. In compliance with IRS Circular 230, we wish to 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 discussed herein. We strongly advise that you consult an independent tax advisor to assess your specific circumstances.

**Estate Planning Notice:** The information included in this communication is not intended as a substitute for comprehensive estate planning and does not constitute legal or estate advice. It serves only as a preliminary outline of how tax-free conversions operate. For detailed guidance, we recommend consulting your legal counsel.

Executive team

# Alpha Architect

Alpha Architect is led by Wesley R. Gray, PhD and Jack R. Vogel, PhD.

## Wesley R. Gray, PhD

Alpha Architect CEO | co-CIO

- PhD/MBA from the University of Chicago – Booth School of Business; studied under Nobel Prize Winner Eugene Fama
- BS The Wharton School of the University of Pennsylvania, *magna cum laude*
- United States Marine Corps Captain (2004-2008)
- Published in multiple academic journals, including the Journal of Portfolio Management, the Journal of Investing, the Journal of Quantitative Finance, and more. Authored or co-authored four books.

## Jack R. Vogel, PhD

Alpha Architect CFO | co-CIO

- PhD Finance and an MS in Mathematics from Drexel University
- BS in Mathematics and Education, *summa cum laude* from The University of Scranton
- Published in multiple academic journals, including the Journal of Portfolio Management, the Journal of Investing, the Journal of Quantitative Finance, and more. Co-authored two books.

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# AAUS x 351 Exchange

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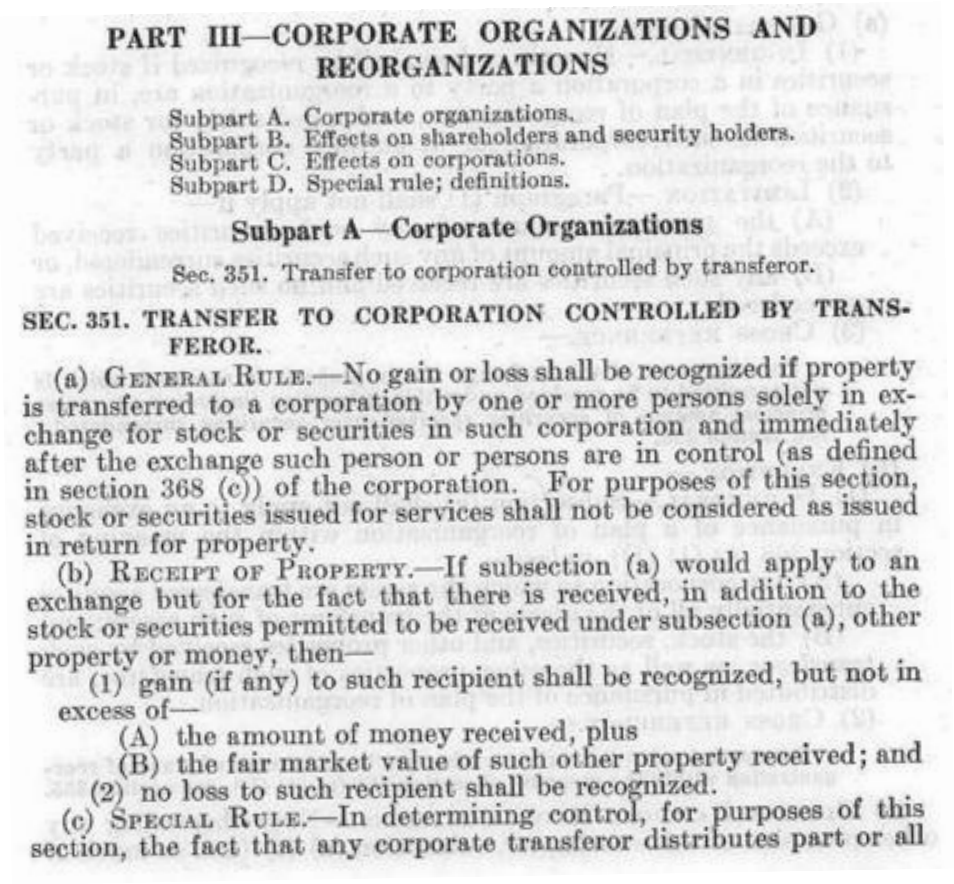
# What is a 351 Exchange?

Section 351 of the Internal Revenue Code (IRC) enables individuals to contribute property such as stocks or ETFs, into a newly formed corporation.

§351 allows shareholders to transfer property to a corporation in exchange for stock **without recognizing gain or loss IF they meet specific tests.**

**IMPORTANT INFORMATION.** THE RULES SURROUNDING A §351 EXCHANGE INVOLVING SECURITIES ARE COMPLEX. IT IS HIGHLY RECOMMENDED TO CONSULT WITH A TAX ADVISOR OR TAX ATTORNEY TO ENSURE COMPLIANCE WITH IRS REGULATIONS AND AVOID UNINTENDED TAX CONSEQUENCES. THE INFORMATION PRESENTED HEREIN SHOULD NOT BE CONSTRUED OR RELIED UPON AS TAX, LEGAL, OR FINANCIAL ADVICE.


PART III—CORPORATE ORGANIZATIONS AND REORGANIZATIONS

Subpart A. Corporate organizations.
Subpart B. Effects on shareholders and security holders.
Subpart C. Effects on corporations.
Subpart D. Special rule; definitions.

Subpart A—Corporate Organizations

Sec. 351. Transfer to corporation controlled by transferor.

SEC. 351. TRANSFER TO CORPORATION CONTROLLED BY TRANSFEROR.

(a) GENERAL RULE.—No gain or loss shall be recognized if property is transferred to a corporation by one or more persons solely in exchange for stock or securities in such corporation and immediately after the exchange such person or persons are in control (as defined in section 368 (c)) of the corporation. For purposes of this section, stock or securities issued for services shall not be considered as issued in return for property.

(b) RECEIPT OF PROPERTY.—If subsection (a) would apply to an exchange but for the fact that there is received, in addition to the stock or securities permitted to be received under subsection (a), other property or money, then—

(1) gain (if any) to such recipient shall be recognized, but not in excess of—

(A) the amount of money received, plus

(B) the fair market value of such other property received; and

(2) no loss to such recipient shall be recognized.

(c) SPECIAL RULE.—In determining control, for purposes of this section, the fact that any corporate transferor distributes part or all

# Is a 351 Exchange new?

Section 351 exchange was established as part of **the Internal Revenue Code of 1954**[1].

This legislation **aimed to promote business growth** and reorganization by deferring taxes on certain transactions, allowing businesses to restructure without immediate tax consequences.

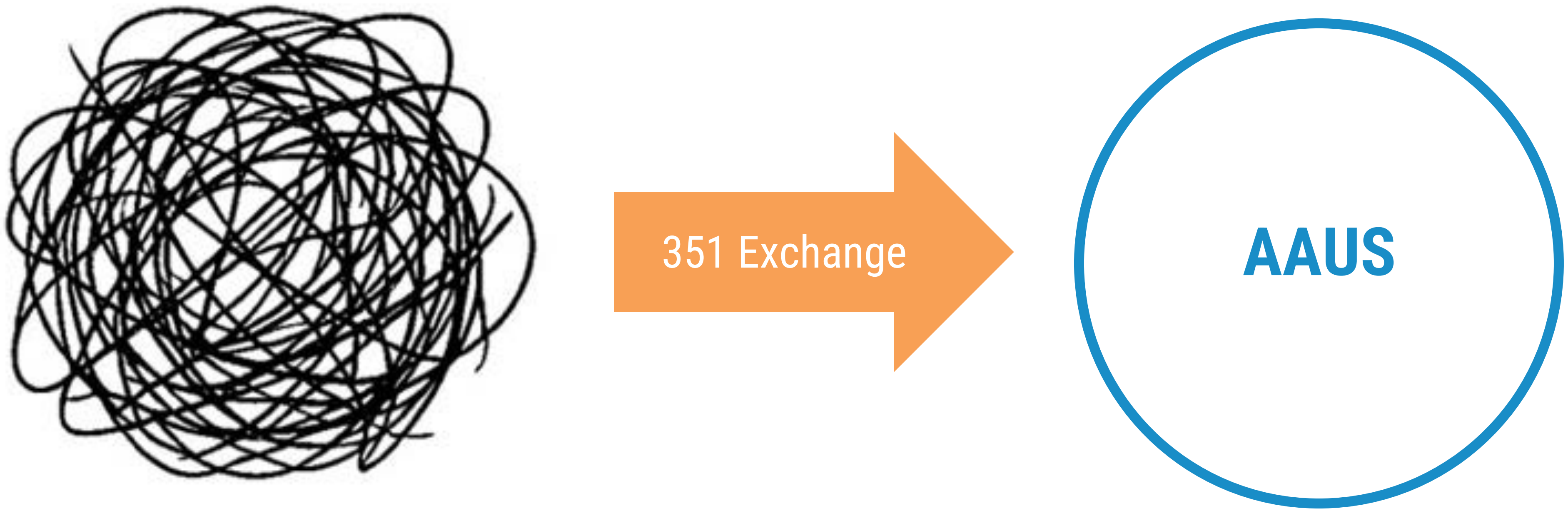
Subsequent amendments have since **clarified rules around "control" and the definition of "property."**

For illustrative purposes only. [1]Image from https://www.govinfo.gov/content/pkg/STATUTE-68/pdf/STATUTE-68A-Pg1.pdf **IMPORTANT INFORMATION.** THE RULES SURROUNDING A §351 EXCHANGE INVOLVING SECURITIES ARE COMPLEX. IT IS HIGHLY RECOMMENDED TO CONSULT WITH A TAX ADVISOR OR TAX ATTORNEY TO ENSURE COMPLIANCE WITH IRS REGULATIONS AND AVOID UNINTENDED TAX CONSEQUENCES. THE INFORMATION PRESENTED HEREIN SHOULD NOT BE CONSTRUED OR RELIED UPON AS TAX, LEGAL, OR FINANCIAL ADVICE.

# **In Alpha Architect's view,** how could a 351 exchange apply to an investor?

# If your equity portfolio **feels like this…**

# A 351 Exchange to AAUS <u>may</u> help to **simplify your portfolio.**




**IMPORTANT INFORMATION.** THE RULES SURROUNDING A §351 EXCHANGE INVOLVING SECURITIES ARE COMPLEX. IT IS HIGHLY RECOMMENDED TO CONSULT WITH A TAX ADVISOR OR TAX ATTORNEY TO ENSURE COMPLIANCE WITH IRS REGULATIONS AND AVOID UNINTENDED TAX CONSEQUENCES. THE INFORMATION PRESENTED HEREIN SHOULD NOT BE CONSTRUED OR RELIED UPON AS TAX, LEGAL, OR FINANCIAL ADVICE. The Alpha Architect U.S. Equity ETF (AAUS) has an effective registration statement but is not currently trading. We anticipate AAUS to begin trading in Q2 2025.

# Let’s talk about **how.**

# AAUS x 351 Exchange

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# Basic qualifications to participate

| You must: | Reasoning |
|---|---|
| Custody assets at Fidelity or Schwab | The infrastructure at these two institutions is equipped suited to facilitate the 351 exchange, in our view. |
| Contribute at least $1 million[1] | A certain level of scale is needed to process this exchange in a cost-effective manner. |
| Be a U.S. person and not a corporation | Generally, individual or joint account offer the cleanest path to participate. Trust accounts and S-corps[3] may qualify; C-corps.[4] **do not** qualify. |
| Contribute a diversified portfolio | 351 rules mandate that the portfolio must pass the 25% and 50% diversification tests[2] to contribute. |

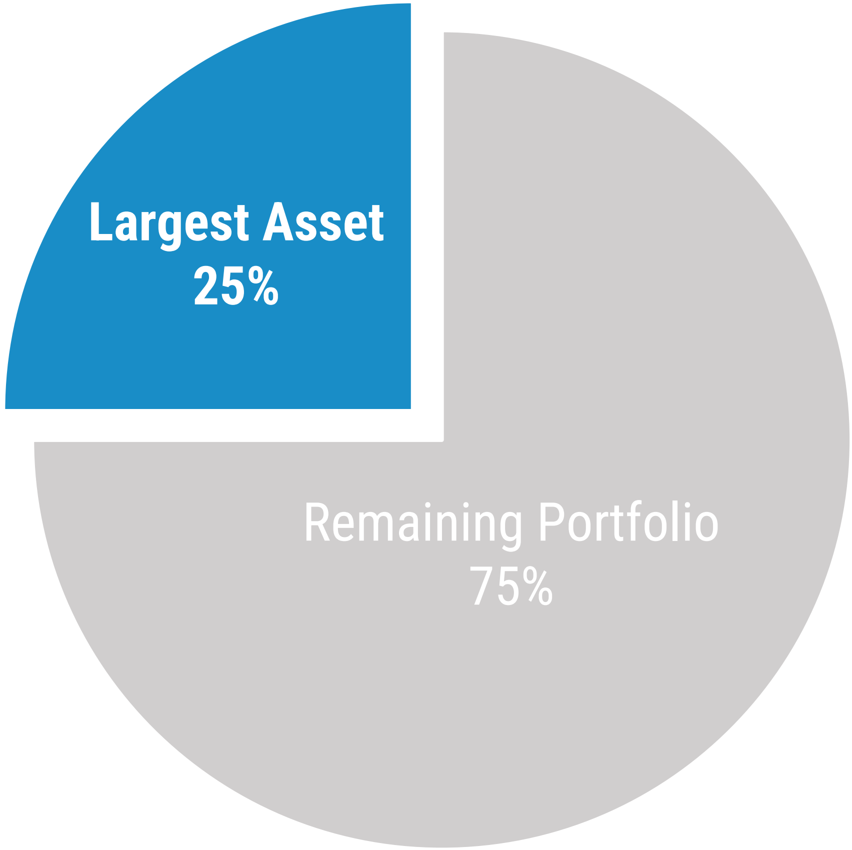
For illustrative purposes only. [1]$1 million contribution is negotiable for financial professionals contributing issues for a group of clients. If the average contribution for a group of clients is under $1 million, a 351 exchange could still be facilitated, assuming the total amount achieves sufficient economies of scale to justify the administrative cost. [2]The 25% and 50% rule are from the Internal Revenue Code section 368(a)(2)(F) and related regulation. [3]An **S Corporation (S-Corp)** is a tax designation that allows a corporation to pass income, losses, deductions, and credits directly to shareholders, avoiding double taxation. It provides limited liability protection while maintaining the tax benefits of a partnership or sole proprietorship. S-Corps must meet IRS requirements, including a limit of 100 shareholders and only one class of stock. [4]A **C Corporation (C-Corp)** is a legal business entity that is taxed separately from its owners, leading to potential double taxation—once at the corporate level and again on shareholder dividends. It offers limited liability, unlimited growth potential, and no restrictions on ownership or stock classes.

# Diversification tests

Contributing portfolios must pass several tests to potentially qualify for a 351 exchange.

# **Rule #1** | No more than 25% in a single asset[1]

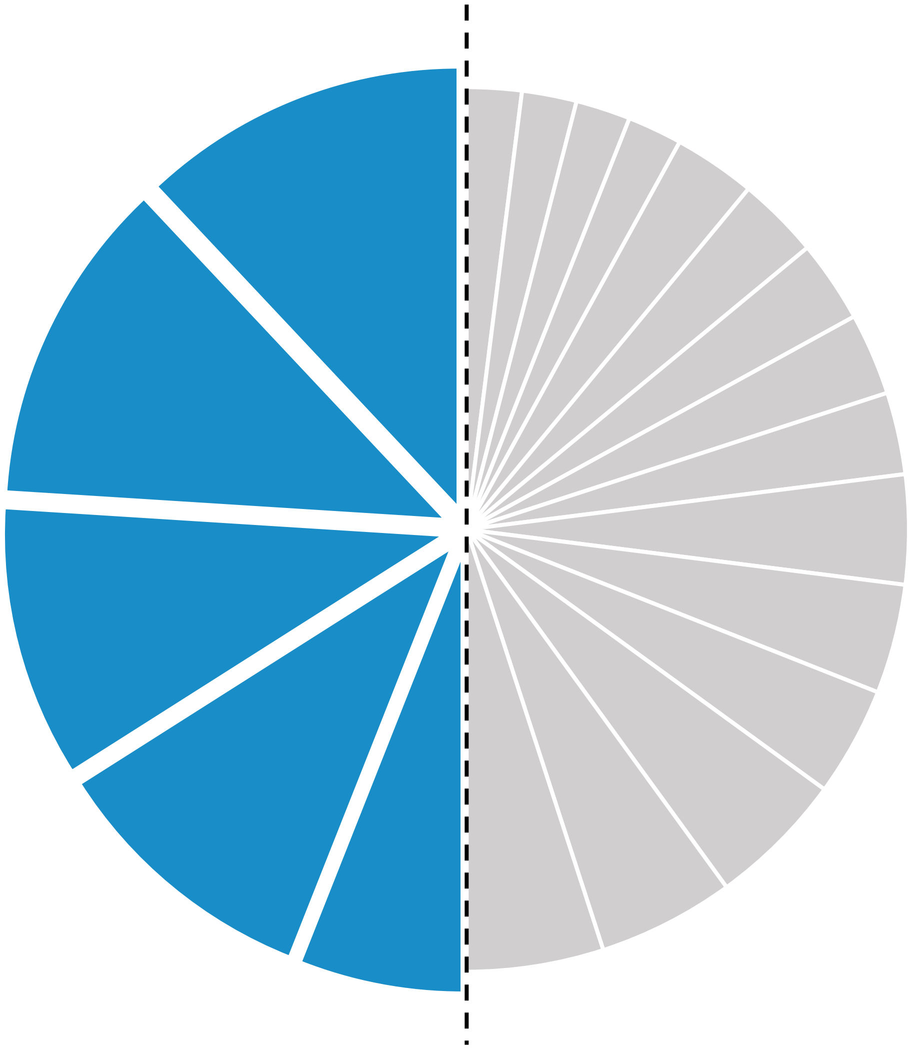
- Any contributing portfolio **must be considered diversified.**
- No one asset should constitute more than 25% of the portfolio.
- A single, concentrated position **doesn't qualify.**
- "Indirect" ownership (e.g., through an ETF) and direct ownership **may need to be considered.**




For illustrative purposes only. [1]The 25% rule is from the Internal Revenue Code section 368(a)(2)(F).

# Rule #2 | 50%/5 securities[1]

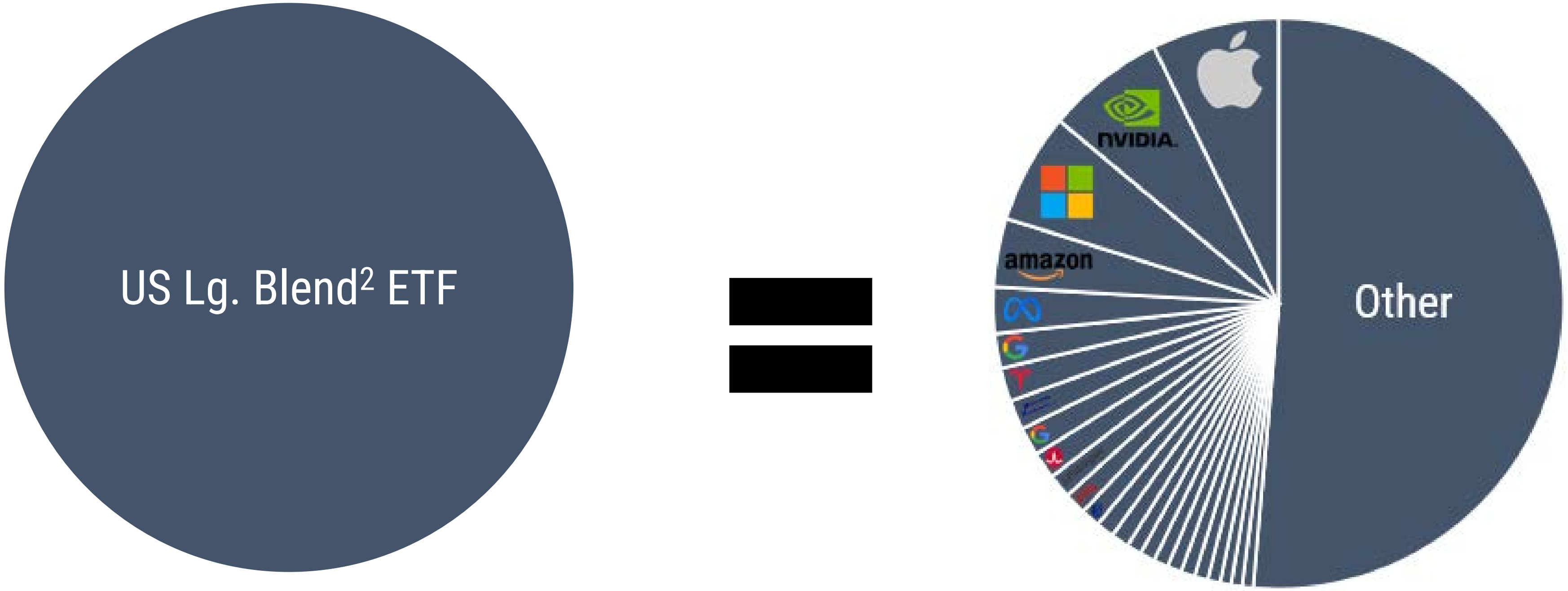
- No more than 50% of the portfolio's value can be concentrated in five securities or fewer.
- Practically, this means a portfolio of **<10 securities may not qualify.**
- Conservatively, 11-20 securities is more likely to qualify.
- "Indirect" ownership (e.g., through an ETF) and direct ownership **may need to be considered.**



For illustrative purposes only. [1]The 50% rule is from the Internal Revenue Code section 368(a)(2)(F).

# ETFs are assessed on a "look-through" basis

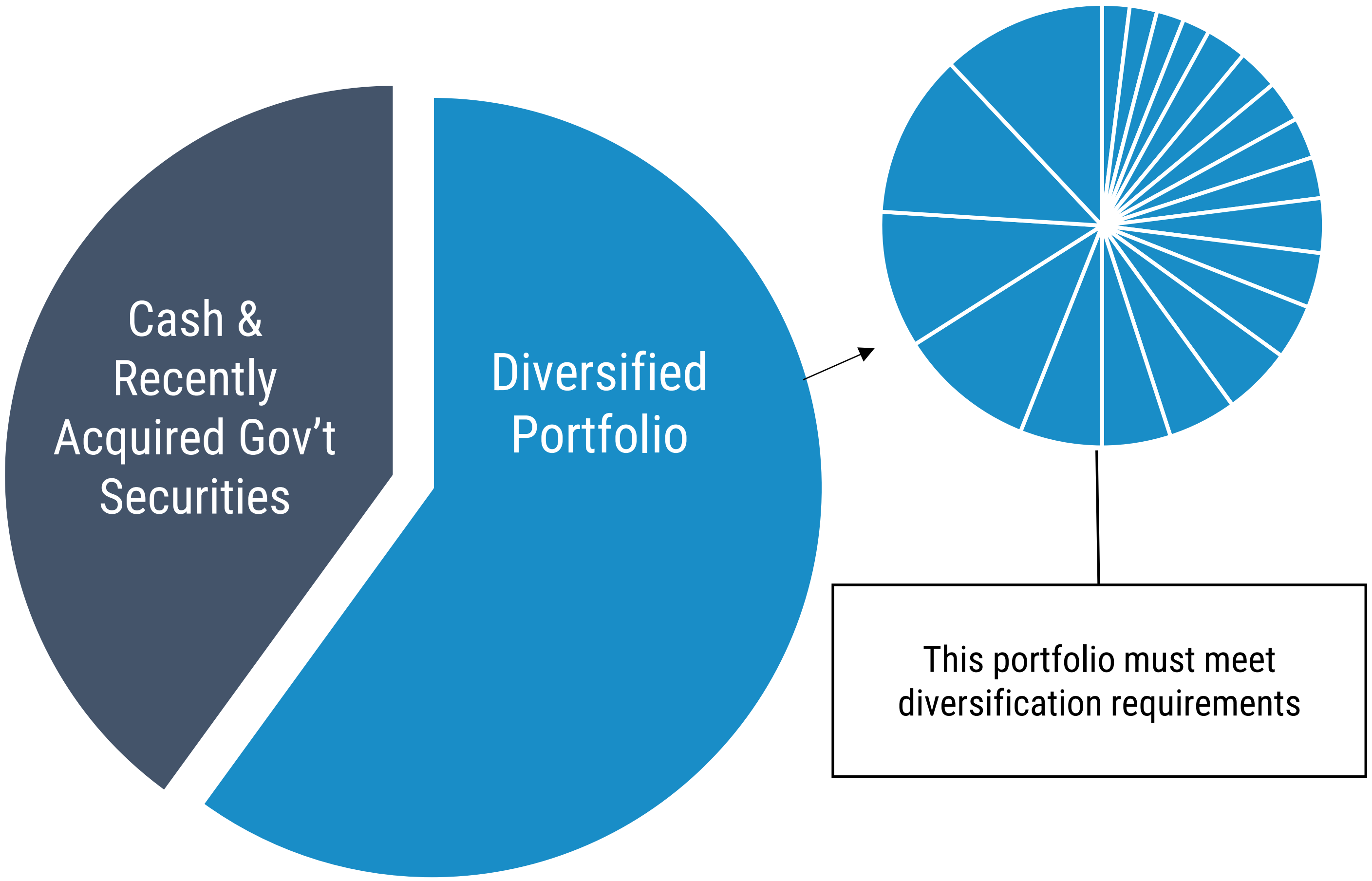
This means that **underlying holdings are analyzed against the 25% and 50% test.** For example, a passive US Lg. Blend ETF is not a single security holding, but rather hundreds of individual securities that may easily pass the 25% and 50% rule.[1]




For illustrative purposes only. [1]While the look-through rule generally leads to a good result, it can pose a problem in some uncommon cases. For example, consider an investor who owns 24% in Apple stock and 50% in an US Lg. Blend ETF. Since Apple currently makes up approximately 7% of the US Lg. Blend, the ETF position would represent roughly 3.5% Apple stock. This brings the investor's total Apple exposure to 27.5%, exceeding the 25% limit. While AAUS has an effective registration statement, it is not yet available for trading and therefore does not have current holdings. [1]**US Lg. Blend** tend to invest across the spectrum of US industries. Large is assigned to stocks in the top 70% of the capitalization stack. Blend is assigned to portfolios where neither growth nor value characteristics predominate. Categories determined by YCharts.

# **Rule #3** | Must be exchange-traded

- Cash and recently acquired government securities **do not qualify** toward diversification test.[1]
- Exchange-traded securities – stocks and ETFs – are the cleanest way to qualify.
- Mutual funds, spot crypto, private assets and restricted stock units **do not qualify**.[2]




For illustrative purposes only. [1]The cash and recently acquired government securities rule is from the Internal Revenue Code section 368(a)(2)(F). [2] Not an exhaustive list of exceptions.

# KEY TAKEAWAYS

351 Exchange allows for a tax-free exchange into a new ETF if your portfolio qualifies. Your portfolio may qualify if:

1. Contribute a diversified portfolio of $1 million or more, **custodied at Fidelity or Schwab.**
2. The portfolio consists of **liquid, exchange-traded securities.**
3. The portfolio meets two diversification tests:
    1. **No more than 25%** in a single issuer;
    2. **No more than 50%** of the portfolio's value can be concentrated in five issues or fewer.

# AAUS x 351 Exchange

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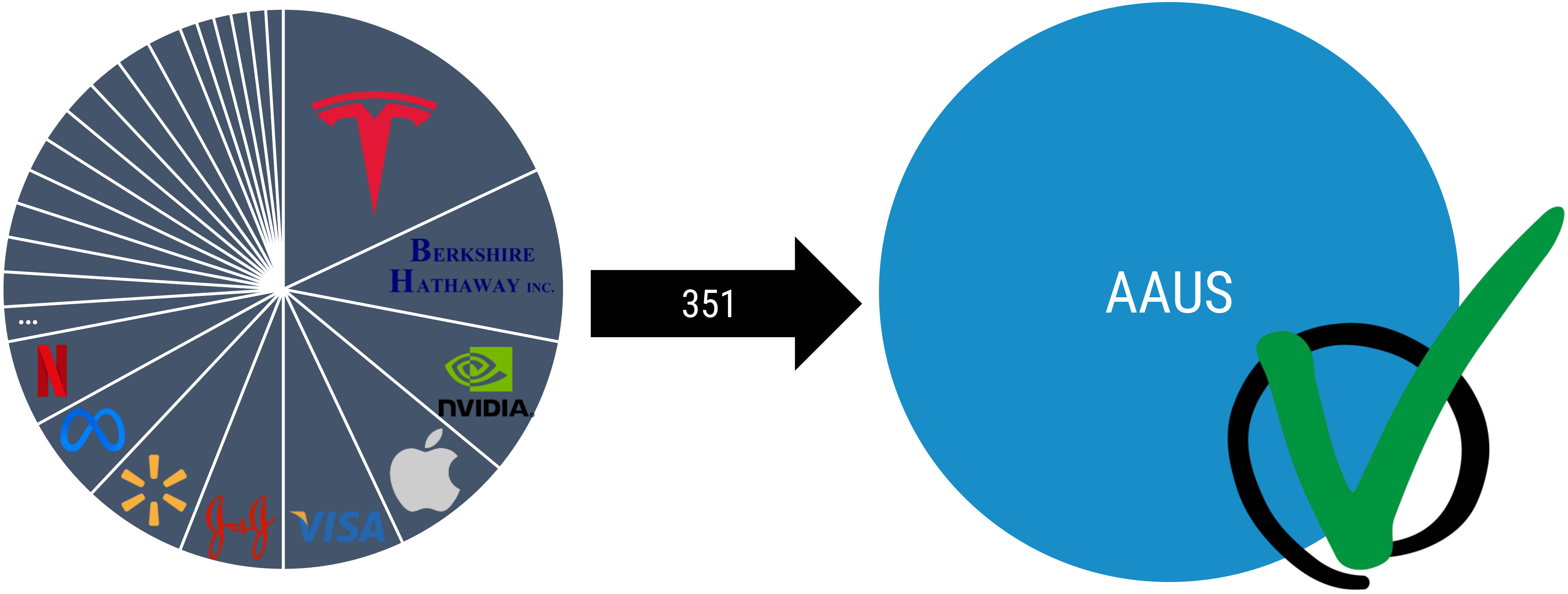
# How can a 351 exchange help an advisor?

Simplify portfolios that hold:

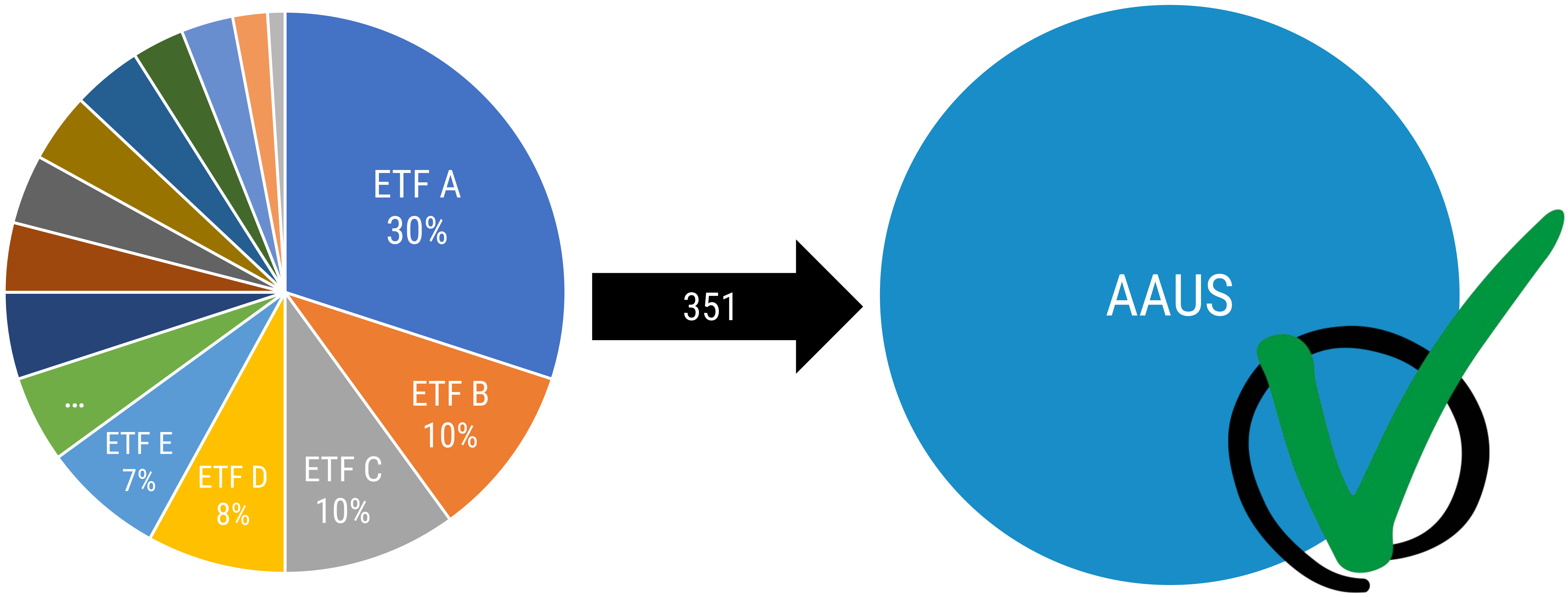
1. **Over ten individual stocks** that you'd like to consolidate.
2. **A basket of ETFs** that may not align with your optimal portfolio operations.
3. **A large basket of stocks and ETFs** that you've been looking for a way to diversify.
4. **One or more** highly appreciated positions.

# **Example #1** | $1m portfolio diversified across 25 stocks



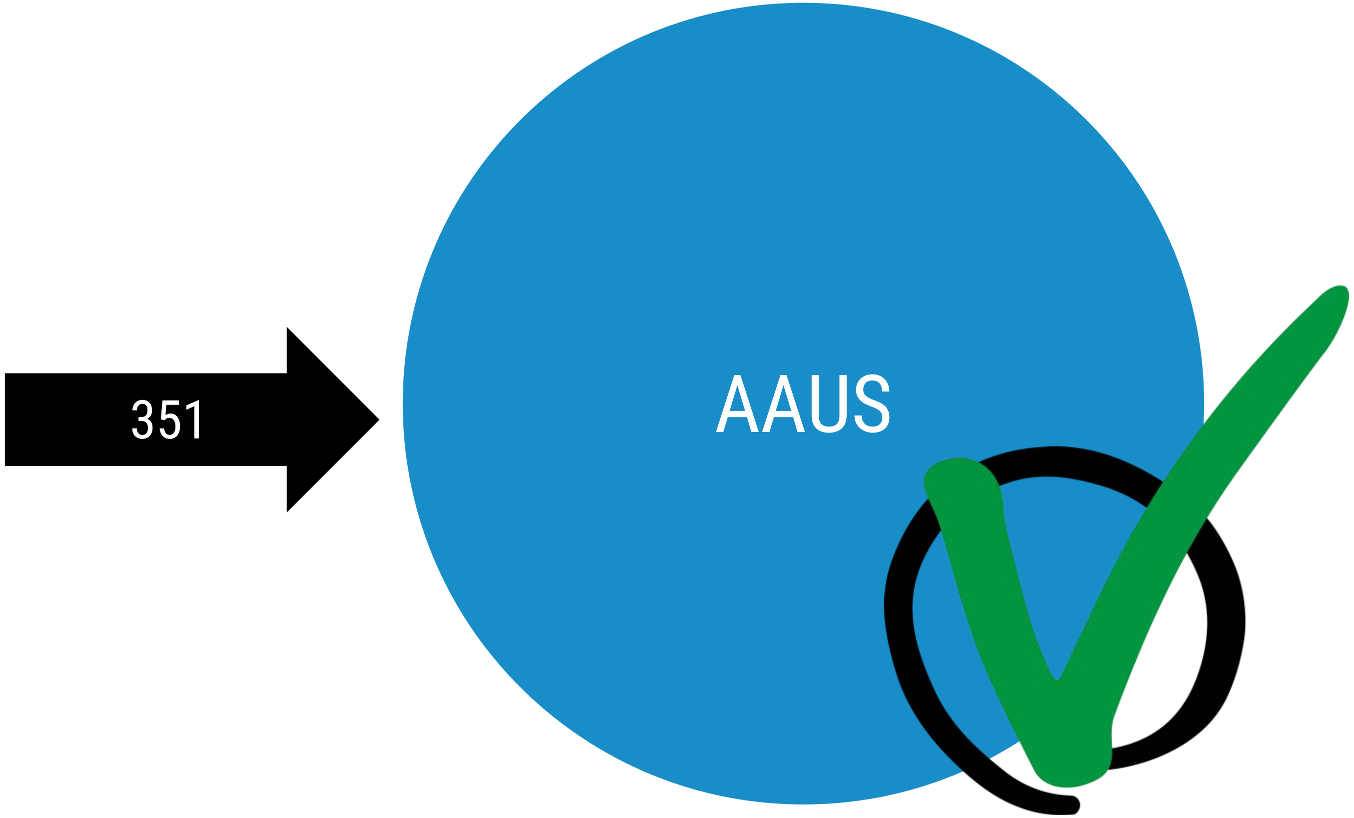

For illustrative purposes only.

# **Example #2** | $1m portfolio composed of 15 diversified ETFs




For illustrative purposes only.

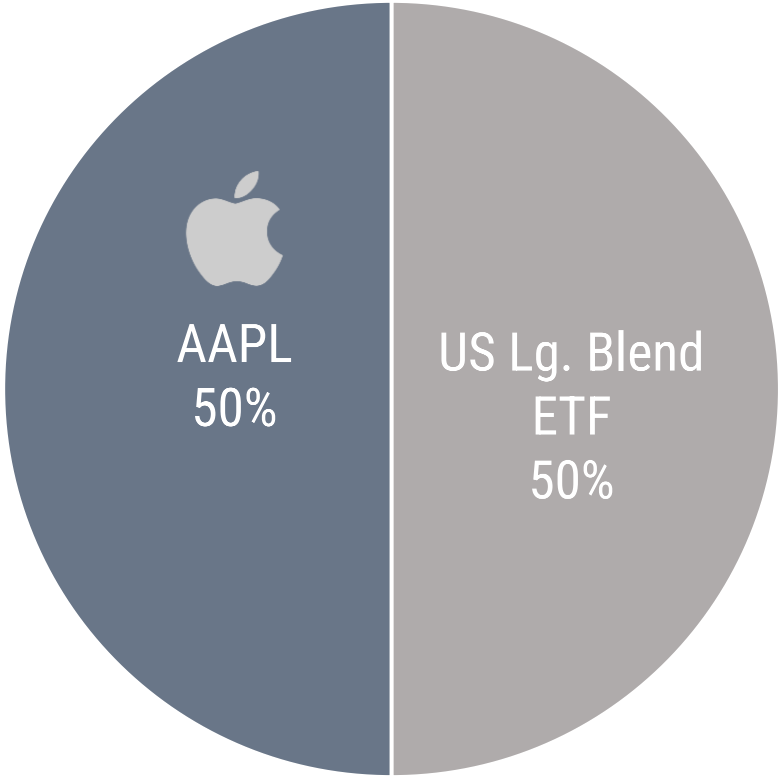
# **Example #3** | A complete mess: 800 stocks, 100 ETFs




For illustrative purposes only.

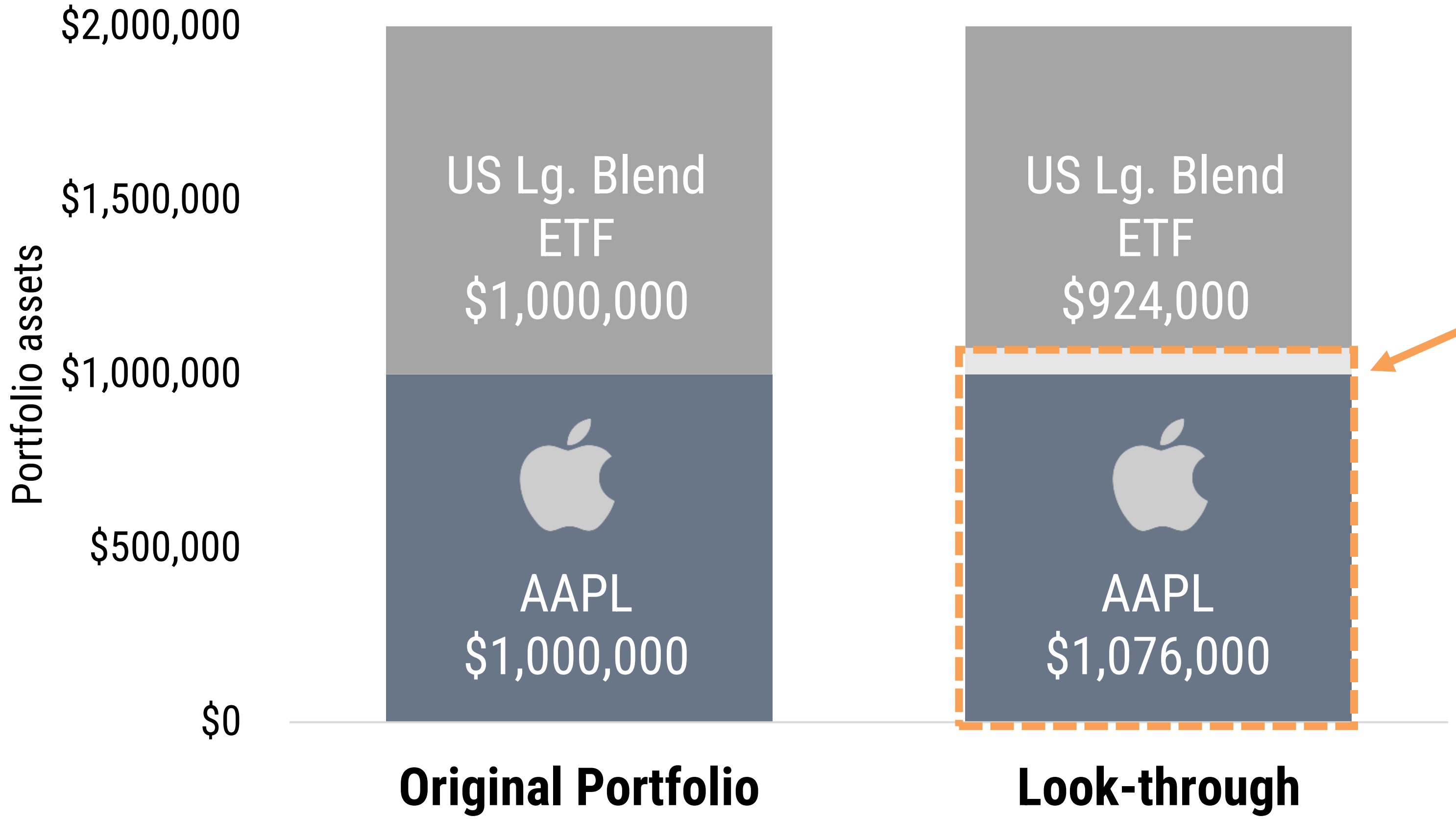
# **Example #4** | Portfolio with a significant concentrated position

- Goal: Reduce the single stock position.
- How can it qualify?




For illustrative purposes only. **US Lg. Blend** tend to invest across the spectrum of US industries. Large is assigned to stocks in the top 70% of the capitalization stack. Blend is assigned to portfolios where neither growth nor value characteristics predominate. Categories determined by YCharts.

# **Example #4** | Portfolio with a significant concentrated position

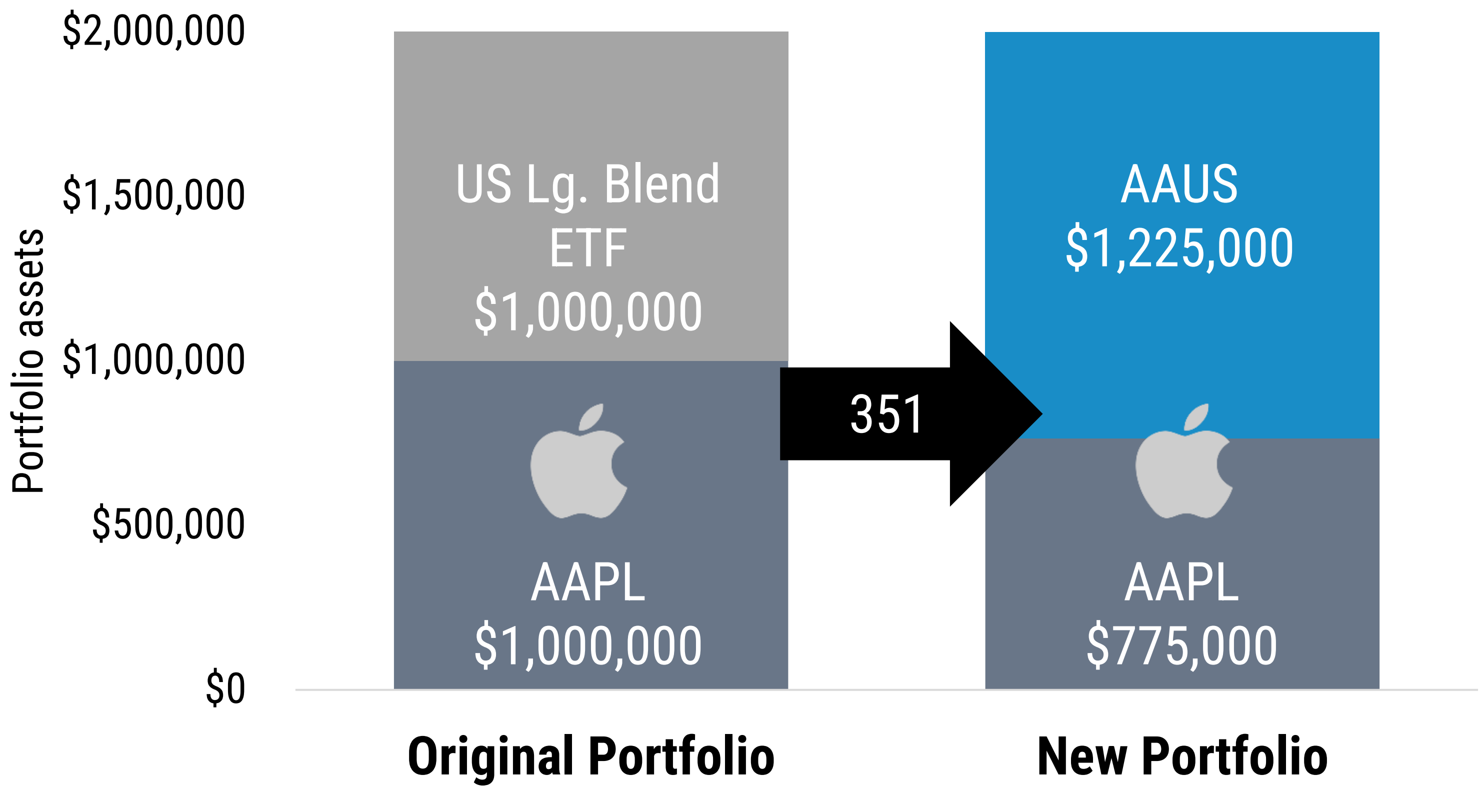



**For 351 Exchange purposes, the US Lg. Blend position in Apple needs to be considered**

- **AAPL makes up 7.60%** of the US Lg. Blend ETF.[1]
- With a $1m US Lg. Blend position, this is $1m*7.60%=$76,000 of Apple
- The total Apple position is $1mm+$76,0000 = $1,076,000
- The US Lg. Blend positions, ex-AAPL – total $924,000 ($1m - $76k)

For illustrative purposes only. [1]Hypothetical holding weight of Apple in a US Large Blend strategy. References to third-party funds are for informational purposes only and should not be considered investment advice or a recommendation of any particular security, strategy, or investment product. **US Lg. Blend** tend to invest across the spectrum of US industries. Large is assigned to stocks in the top 70% of the capitalization stack. Blend is assigned to portfolios where neither growth nor value characteristics predominate. Categories determined by YCharts.

# **Example #4** | Portfolio with a significant concentrated position




- We reduced the Apple position by $225,000!
- Had to stay under 25% per the diversification rules.

For illustrative purposes only. **US Lg. Blend** tend to invest across the spectrum of US industries. Large is assigned to stocks in the top 70% of the capitalization stack. Blend is assigned to portfolios where neither growth nor value characteristics predominate. Categories determined by YCharts. Note, if one contributed $250k Apple in addition to the $1mm US Lg. Blend ETF, the total Apple contribution would be $326,000 (including the Apple portion from the US Lg. Blend ETF), and the total contribution would be $1,250,000. The percentage of Apple of $326,000/$1,250,000 = 26.08% would be over 25%, one of the diversification tests. This is not tax advice.

# KEY TAKEAWAYS

A cleaner, more efficient portfolio is possible by contributing qualifying securities to receive shares of AAUS via a 351 exchange.

1. The three cleanest use cases are portfolios that contain significant ETF or individual equity holdings.
2. Concentrated positions are possible, but depend on the circumstances.
3. These examples are for illustrative purposes only. Contact Jack Vogel, PhD, at jack@alphaarchitect.com if you believe your portfolio may qualify, but you're unsure of specific details.

# AAUS x 351 Exchange

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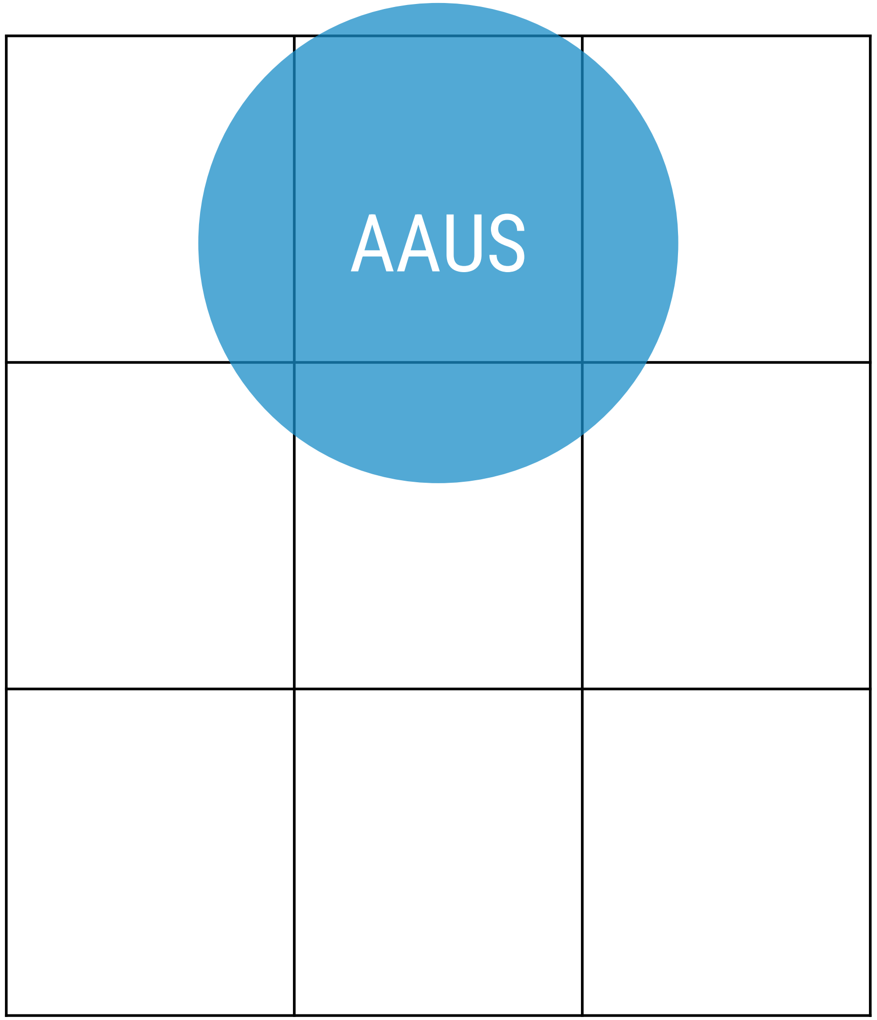
# **Primary objective:**
# Core US Equity exposure

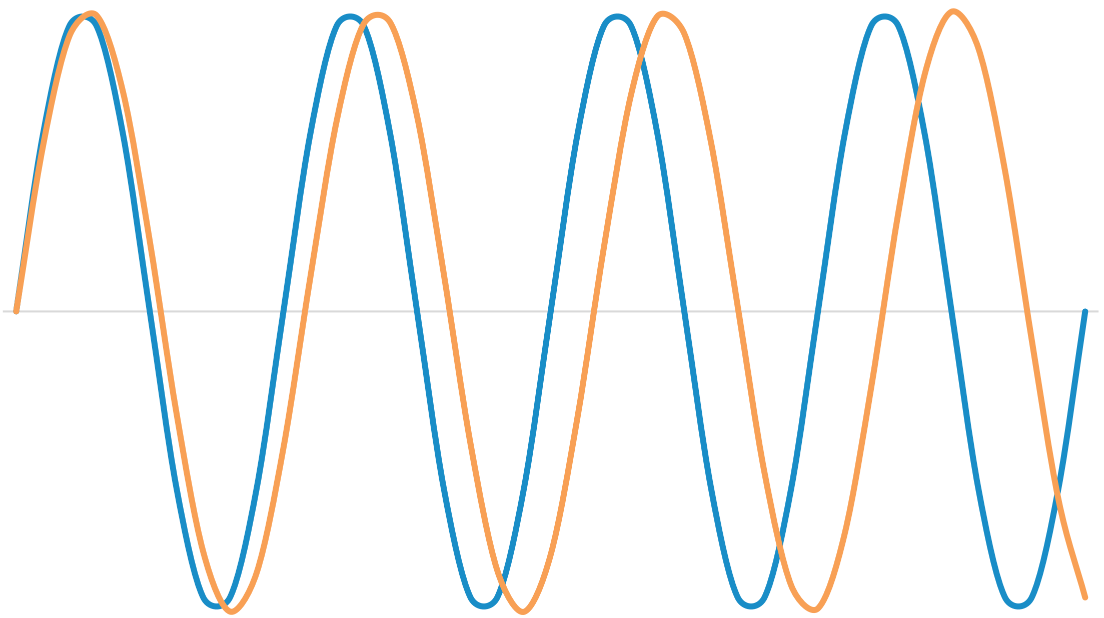
- AAUS[1] seeks to provide broad exposure to the U.S. stock market.
- AAUS is market cap-weighted to the largest US stocks.
- We do not anticipate any specific value or growth tilts to the portfolio.
- 0.15% net expense ratio[2]




[1]AAUS has an effective registration but will not begin trading until approximately July 2025. [2]**Net Expense Ratio** represents the cost of owning a fund. It expresses the percent of assets deducted each fiscal year to cover various fund expenses, including 12b-1 fees, management and administrative charges, operational expenditures, and all other costs tied to managing and operating a fund, less any fee waivers or other rebates. Post transaction, we will assess the portfolio situation and the investment environment at that time to determine how we can best manage the fund to achieve our investment objectives outlined in our prospectus.

# **Secondary objective:**
# Avoid dividend distortions

- Dividend-chasing behavior can distort prices, creating a space to potentially add value by avoiding these stocks.
- By focusing on total return over dividends, we believe AAUS will feature lower income distributions than typical U.S. equity funds.



AAUS has an effective registration but will not begin trading until approximately July 2025. Post transaction, we will assess the portfolio situation and the investment environment at that time to determine how we can best manage the fund to achieve our investment objectives outlined in our prospectus.

# **Example** | Strategic dividend management

**Replace Stock**

**Ex-Dividend Date**
January 14, 2025

**Avoid Dividend**

**Dividend Payment Date**
January 17, 2025

**Acquire Stock**

**30 Days After**
February 16, 2025

For illustrative purposes only. Post transaction, we will assess the portfolio situation and the investment environment at that time to determine how we can best manage the fund to achieve our investment objectives outlined in our prospectus.

# **Example** | Strategic dividend management

| Sector | Ticker | Name | US Lg. Blend Weighting[1] | Dividend /share | Potential AAUS action |
|---|---|---|---|---|---|
| Info. Tech. | AAPL | Apple | 7.60% | $0.25 | **We may accept** AAPL's dividend and retain AAPL exposure in AAUS, given its relative weight in the underlying index. |
| Energy | CVX | Chevron | 0.49% | $6.52 | **We may seek to replace** CVX with a similar stock before it distributes its dividend, given its current dividend per share. |
| Comms. | NFLX | Netflix | 0.76% | --% | **We may retain** NFLX's relative weighting in AAUS, given that NFLX does not pay a dividend. |

For illustrative purposes only. AAUS has an effective registration statement but is not currently trading. As such, it has no holdings. This is merely an example of how the AAUS strategy may be applied Post transaction, we will assess the portfolio situation and the investment environment at that time to determine how we can best manage the fund to achieve our investment objectives outlined in our prospectus. [1]Source: YCharts. Weighting derived from the iShares S&P 500 Core ETF (IVV). References made to registered funds issued by third-party companies are for informational purposes only and do not constitute a recommendation, solicitation, or endorsement of these products.

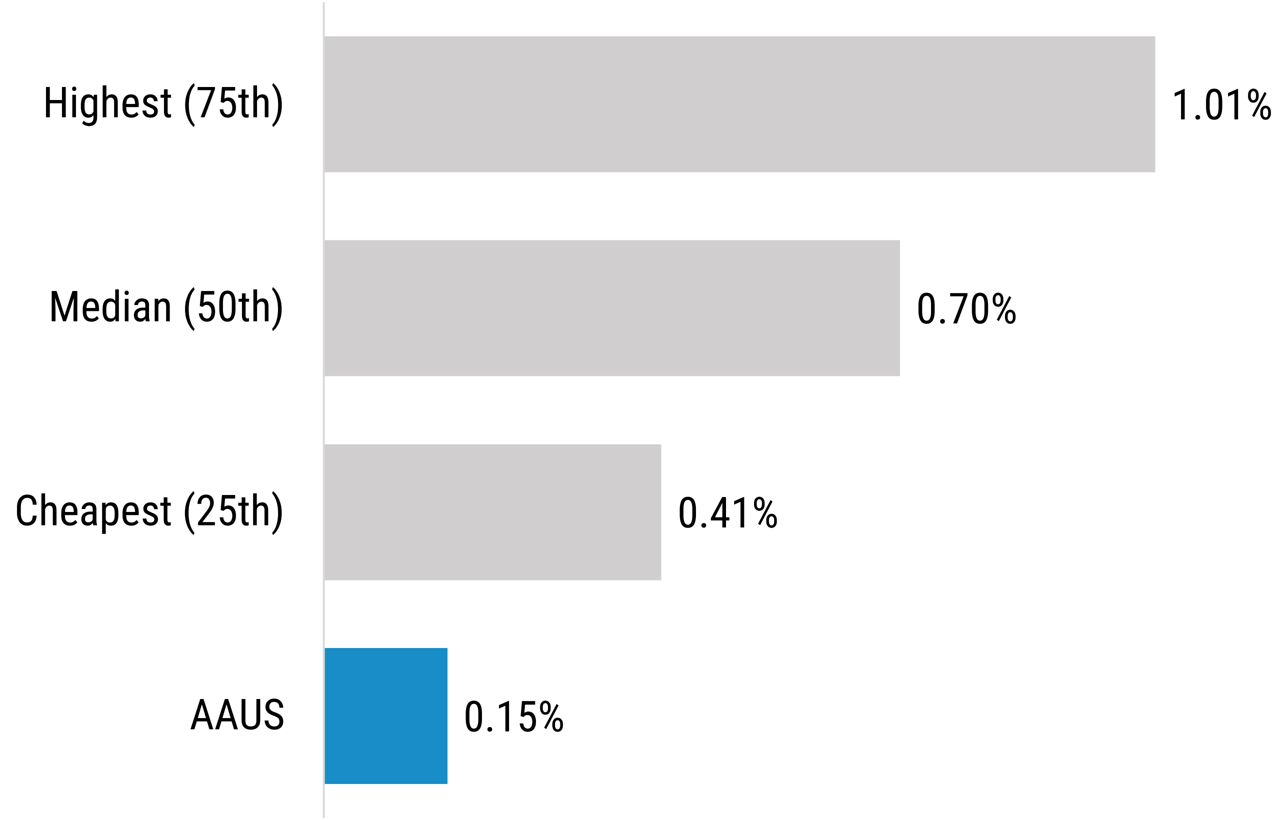
# Fund expenses

We aim to keep AAUS's costs reasonable relative to peers.

**Expense ratios**

| | |
|---|---|
| Gross | 0.15% |
| Net | 0.15% |

**Net expense ratio** | US Large Blend[1]



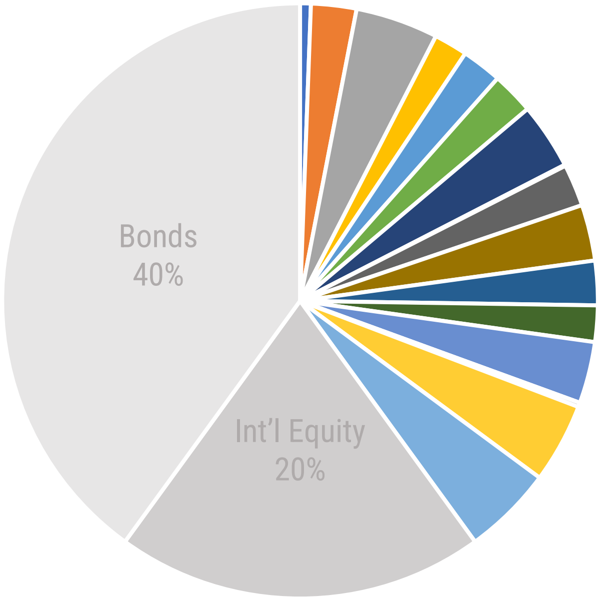

AAUS has an effective registration but will not begin trading until approximately July 2025. [1]As of 2/4/2024, there are 1,439 open-end funds in the Large Blend category, including ETFs and all mutual fund share classes. This percentile ranking assumes AAUS will be in the Large Blend category. Categories determined by YCharts.

# How to use a 351 exchange to AAUS

Streamline portfolios, simplify tax reporting, and stay fully invested.

**60/40 with >10 US equity positions**

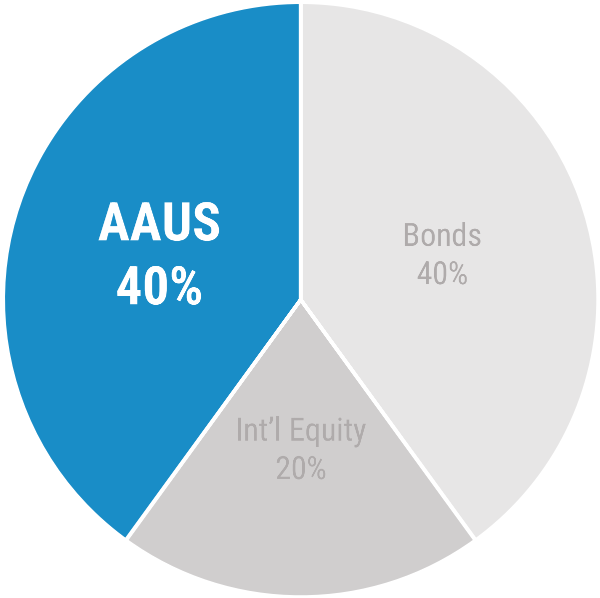
Sprawling, time-consuming, tax-locked




Consolidate these sprawling US equity positions to AAUS **without recognizing gains** at the time of exchange

**Consolidated 60/40 with AAUS**

Simple, liquid, diversified




For illustrative purposes only.

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# AAUS x 351 Exchange

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# Important Information and FAQs

1. Are there deadlines associated with participating in the 351 exchange?
2. Is a 351 Exchange a one-time event?
3. Are there securities that cannot be contributed to the 351 exchange?
4. Which entities are eligible to contribute securities to the 351 exchange?
5. What happens to the tax lots?

To learn more about the 351 Exchange into AAUS, contact Jack Vogel, PhD at jack@alphaarchitect.com.

# Timeline to participate in the AAUS 351 Exchange

Act now to ensure your clients participate.

### TODAY – JULY 1

**Contributions accepted**

Contributors submit tax lots and required documentation through Alpha Architect's proprietary 351 software portal

### JULY 15

**Contribution Window Closes**

Trading freeze begins for contributed securities while ETF Architect conducts final document review.

### JULY 23

**EXCHANGE SETTLE**

ETF shares are transferred back to 351 contributor accounts. Cost basis overrides sent to brokers. Fund begins trading.

Question 2:

# Is this 351 exchange a one-time event?

**A 351 Exchange is ONE-TIME event.**

351 accounting can be complex. As much administrative lead time as possible is appreciated.

As we are not tax advisers, Alpha Architect has retained third-party legal counsel to assist with facilitating the 351 Exchange.

For more information, contact Jack Vogel, PhD, at jack@alphaarchitect.com.

AAUS has an effective registration but will not begin trading until approximately July 2025.

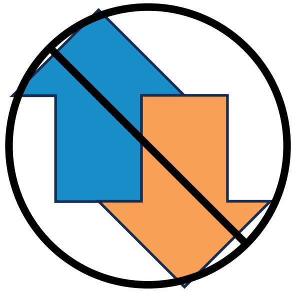
# Question 3:

## **Are there securities that cannot be contributed?**

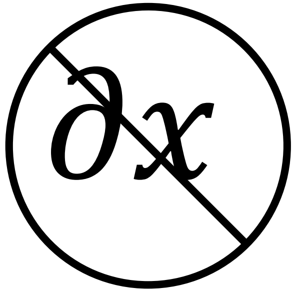
This is a non-exhaustive list. If you have questions about your specific case, email Jack Vogel, PhD, at jack@alphaarchitect.com.

## The following **cannot** be accepted:

Cryptocurrencies or cryptocurrency-based ETFs



Long/short portfolios, margined securities




Derivatives like futures, options, or others

Question 4:

**Which types of investors are eligible to contribute?**

This is a non-exhaustive list. If you have questions about your specific case, email Jack Vogel, PhD, at jack@alphaarchitect.com.

- Individual and jointly owned accounts
- Trust accounts (generally)
- S-Corps: possibly

  C-Corps: no
- Partnerships and LLCs (possibly)

# Question 5: **What happens to the tax lots?**

| Holding | Purchased | Tax Lots | Value | Cost Basis |
|---|---|---|---|---|
| ETF A | 1/3/2022 | 1 | $100,000 | $50,000 |
| ETF A | 2/4/2023 | 2 | $250,000 | $150,000 |
| ETF B | 6/20/2019 | 1 | $500,000 | $350,000 |
| ETF C | 4/22/2020 | 1 | $150,000 | $100,000 |
| ETF C | 1/16/2021 | 2 | $50,000 | $10,000 |
| ETF C | 4/27/2022 | 3 | $200,000 | $150,000 |

| Holding | Purchased | Tax Lots | Value | Cost Basis |
|---|---|---|---|---|
| AAUS | 1/3/2022 | 1 | $100,000 | $50,000 |
| AAUS | 2/4/2023 | 2 | $250,000 | $150,000 |
| AAUS | 6/20/2019 | 3 | $500,000 | $350,000 |
| AAUS | 4/22/2020 | 4 | $150,000 | $100,000 |
| AAUS | 1/16/2021 | 5 | $50,000 | $10,000 |
| AAUS | 4/27/2022 | 6 | $200,000 | $150,000 |

| Tax Lots | Value | Cost Basis |
|---|---|---|
| 6 | $1,250,000 | $810,000 |

| Tax Lots | Value | Cost Basis |
|---|---|---|
| 6 | $1,250,000 | $810,000 |

For illustrative purposes only. This example is provided for context and does not represent tax, legal, nor should it be construed as financial advice, a recommendation, or a solicitation. Conversions are complex. Consult tax and legal professionals for more information.

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Question 6:

**I think I'm eligible but I'm not sure.**

**Ask Jack.**

Email | jack@alphaarchitect.com

Calendar | Book a meeting.

# IMPORTANT INFORMATION

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**IMPORTANT RISK INFORMATION: Investors should consider the investment objectives, risks, charges and expenses carefully before investing. For a prospectus with this and other information about the Fund, please call (215) 882-9983 or visit our website funds.AlphaArchitect.com. Read the prospectus or summary prospectus carefully before investing.**

**In-Kind Contribution Risk:** At its launch, the Fund expects 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 would not take a carryover tax basis in the applicable contributed assets and would not benefit from a tackled holding period in those assets. This could cause the Fund 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 Advisory Disclaimer:** Neither ETF Architect nor its affiliates provide tax advice. In compliance with IRS Circular 230, we wish to 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 discussed herein. We strongly advise that you consult an independent tax advisor to assess your specific circumstances.

**Estate Planning Notice:** The information included in this communication is not intended as a substitute for comprehensive estate planning and does not constitute legal or estate advice. It serves only as a preliminary outline of how tax-free conversions operate. For detailed guidance, we recommend consulting your legal counsel.

**Large-Capitalization Companies Risk.** Large-capitalization companies may be less able than smaller capitalization companies to adapt to changing market conditions. Large capitalization companies may be more mature and subject to more limited growth potential compared with smaller capitalization companies. During different market cycles, the performance of large-capitalization companies has trailed the overall performance of the broader securities markets.

**Mid-Capitalization Companies Risk.** Investing in securities of 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 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.

**Small-Capitalization Companies Risk.** The securities of small-capitalization companies may be more vulnerable to adverse issuer, market, political, or economic developments than securities of large- or mid-capitalization companies. The securities of small-capitalization companies generally trade in lower volumes and, during adverse circumstances, may be more difficult to sell and receive a sales price comparable to the value assigned to the security by the Fund. These securities are subject to greater and more unpredictable price changes than large- or mid-capitalization stocks or the stock market as a whole. There is typically less publicly available information concerning smaller-capitalization companies than for larger, more established companies, which may make the valuation of such securities more difficult if there is not a readily available market price.

**Risk of Investing in the United States.** Certain changes in the U.S. economy, such as when the U.S. economy weakens or when its financial markets decline, may have an adverse effect on the securities to which the Fund has exposure.

**Investment Risk**. When you sell your Shares, they could be worth less than what you paid for them. The Fund 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 or 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.

**Investment Strategy Risk**. There is no guarantee that the Fund will be able to successfully minimize the taxable income generated by an investment in Fund Shares. The Sub-Adviser will actively monitor the Fund's portfolio holdings and look to sell a holding prior to the distribution record date.

**High Portfolio Turnover Risk.** The Fund's investment strategy is expected to result in higher turnover rates. This may increase the Fund's brokerage commission costs, which could negatively impact the performance of the Fund. Rapid portfolio turnover may expose 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. In order to effectuate the Fund's strategy, the Sub-Adviser is relying upon the ability to conduct in-kind redemptions of the Fund's portfolio holdings. In the event that the Sub-Adviser is unable to do so, the ability of the Sub-Adviser to minimize the taxable income generated by an investment in Fund Shares will be impaired.

**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.

**Investment Company Risk.** An investment in other registered investment companies (including other ETFs, affiliated and non-affiliated) is subject to the risks associated with those investment companies, which include, but are not limited to, the risk that such fund's investment strategy may not produce the intended results; the risk that securities in such fund may underperform in comparison to the general securities markets or other asset classes; and the risk that the fund will be concentrated in a particular issuer, market, industry, or sector, and therefore will be especially susceptible to loss due to adverse occurrences affecting that issuer, market, industry, or sector. Moreover, the Fund will incur duplicative expenses from such investments, bearing its share of that fund's expenses while also paying its own advisory fees and trading costs. Investments in ETFs are also subject to the "ETF Risks" described below.

**ETF Risks.**

•*Authorized Participants, Market Makers, and Liquidity Providers Concentration Risk.* The Fund has a limited number of financial institutions that may act as Authorized Participants (“APs”). In addition, there may be a limited number of market makers and/or liquidity providers in the marketplace. To the extent either of the following events occur, Shares may trade at a material discount to NAV and possibly face delisting: (i) APs exit the business or otherwise become unable to process creation and/or redemption orders and no other APs step forward to perform these services, or (ii) market makers and/or liquidity providers exit the business or significantly reduce their business activities and no other entities step forward to perform their functions.

•*Premium-Discount Risk*. The Shares may trade above or below their net asset value (“NAV”). The market prices of Shares will generally fluctuate in accordance with changes in NAV as well as the relative supply of, and demand for, Shares on [ ] (the “Exchange”) or other securities exchanges. The trading price of Shares may deviate significantly from NAV during periods of market volatility or limited trading activity in Shares. In addition, you may incur the cost of the “spread,” that is, any difference between the bid price and the ask price of the Shares.

•*Cost of Trading Risk.* Investors buying or selling Shares in the secondary market will pay brokerage commissions or other charges imposed by brokers as determined by that broker. Brokerage commissions are often a fixed amount and may be a significant proportional cost for investors seeking to buy or sell relatively small amounts of Shares.

•*Trading Risk*. Although the Shares are listed on the Exchange, there can be no assurance that an active or liquid trading market for them will develop or be maintained. In addition, trading in Shares on the Exchange may be halted. In stressed market conditions, the liquidity of Shares may begin to mirror the liquidity of its underlying portfolio holdings, which can be less liquid than Shares, potentially causing the market price of Shares to deviate from its NAV. The spread varies over time for Shares of the Fund based on the Fund’s trading volume and market liquidity and is generally lower if the Fund has high trading volume and market liquidity, and higher if the Fund has little trading volume and market liquidity (which is often the case for funds that are newly launched or small in size).

**Sector Risk**. If the Fund’s portfolio is overweighted in a certain sector, any negative economic, financial, market, business, or other developments affecting that sector will have a greater impact on the Fund than on a fund that is not overweighted in that sector. A certain sector may underperform other sectors or the market as a whole. Economic or market factors, regulation or deregulation, and technological or other developments may negatively impact all companies in a particular sector. This may increase the risk of loss associated with an investment in the Fund and increase the volatility of the Fund’s net asset value per share.

**Market Risk**. The Fund’s investments are subject to changes in general economic conditions, general market fluctuations, and the risks inherent in investment in interest rate sensitive markets. Interest rate markets can be volatile and prices of investments can change substantially due to various factors including, but not limited to, economic growth or recession, the investment’s average time to maturity, changes in interest rates, changes in the actual or perceived creditworthiness of issuers, and general market liquidity. The Fund is subject to the risk that geopolitical events will disrupt securities markets and adversely affect global economies and markets. Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, or other events could have a significant impact on the Fund and its investments.

**Management Risk**. The Fund is actively-managed and may not meet its investment objective based on the Sub-Adviser's or portfolio managers' success or failure to implement investment strategies for the Fund. The success of the Fund's investment program depends on the Sub-Adviser and the portfolio managers' skill in implementing the Fund's investment strategy. It is important to note that, as part of the security selection process, the Sub-Adviser does not perform any type of fundamental or quantitative analysis on the component companies. Security selection and weighting are driven primarily by a securities market capitalization.

**Annual Reevaluation Risk**. The Fund's investment universe will be reevaluated annually by the Sub-Adviser. As a result, the Fund's exposure to one or more securities may be affected by significant price movements promptly following the annual re-evaluation. Such lags between re-evaluations may result in significant performance swings relative to the broader equity markets.

**Buying or Purchasing Options Risk**. Options are instruments whose value is derived from that of other assets, rates, or indexes. Since many factors influence the value of an option, including the price of the underlying asset, the exercise price, the time to expiration, the interest rate, and the dividend rate of the underlying asset, the buyer's success in implementing an option buying strategy may depend on an ability to predict movements in the prices of individual assets, fluctuations in markets, and movements in interest rates. There is no assurance that a liquid market will exist when the buyer seeks to close out any option position.

**Counterparty Risk**. Counterparty risk is the risk that a counterparty to a financial instrument held by the Fund may become insolvent or otherwise fail to perform its obligations, and the Fund may obtain no or limited recovery of its investment, and any recovery may be significantly delayed. Exchange listed options are issued and guaranteed for settlement by the OCC. The Fund bears the risk that the OCC will be unable or unwilling to perform its obligations under the options contracts. In the unlikely event that the OCC becomes insolvent or is otherwise unable to meet its settlement obligations, the Fund could suffer significant losses. Also, since the Fund is not a member of the OCC (a "clearing member"), and only clearing members can participate directly in the OCC, the Fund will hold options contracts through commingled omnibus accounts at clearing members. As a result, Fund assets deposited with a clearing member as margin for options contracts may, in certain circumstances, be used to satisfy losses of other clients of the Fund's clearing member. Although clearing members guarantee performance of their clients' obligations to the OCC, there is a risk that Fund assets might not be fully protected in the event of the clearing member's bankruptcy.

**New Fund Risk**. The Fund is 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.

**Geopolitical/Natural Disaster Risks**. The Fund's investments are subject to geopolitical and natural disaster risks, such as war, terrorism, trade disputes, political or economic dysfunction within some nations, public health crises and related geopolitical events, as well as environmental disasters, epidemics and/or pandemics, which may add to instability in world economies and volatility in markets. The impact may be short-term or may last for extended periods.

The Fund is distributed by Quasar Distributors, LLC. The Fund's investment advisor is Empowered Funds, LLC which is doing business as EA Advisers.

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