Consolidate, Defer, and Diversify

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An advisor's guide to the upcoming 351 Exchange to the Alpha Architect U.S. Equity ETF (AAUS)

Summary

- IRC Section 351 enables individuals to defer unrealized capital gains if they meet specific diversification tests.
- Clients with significant unrealized capital gains in US stocks and ETFs that hold US stocks may be a good fit for the upcoming 351 Exchange,= to AAUS
- A 351 Exchange is a one-time event. See timelines and checklists.

INTRODUCTION

Fifteen years of rapid U.S. stock growth have left many portfolios lopsided and under-diversified, with limited flexibility to adapt due to embedded tax liabilities.

In our view, a 351 Exchange for shares of the Alpha Architect US Equity ETF (AAUS) is a potentially suitable solution to this problem, offering a way to "reset" these sprawling, tax-locked portfolios back to broadly-diversified U.S. market exposure without recognizing embedded gains at the time of transfer.

Before we go further, we acknowledge that readers may be unfamiliar with Section 351 of the Internal Revenue Code and completely in the dark about how that relates to Alpha Architect's new ETF. This article seeks to shed light on both. Once we've established that baseline, we'll offer some guidance for financial professionals and fiduciaries (collectively, "advisors") who may have clients they believe could benefit from this.

Our goal is to provide context on Section 351, AAUS, and the potential value here to help client conversations. help advisors determine if there are clients who could benefit from this transaction rather than delving into technical details.

A Section 351 Exchange is a complex transaction. Fortunately, Alpha Architect's leadership team has extensive experience completing 351 exchanges into ETFs. The best resource for questions, clarifications, or indications of interest is a conversation with Jack Vogel, PhD. He can be reached at jack@alphaarchitect.com.

WHAT IS A 351 EXCHANGE?

"351 Exchange" refers to Section 351 of the US Internal Revenue Code ("IRC"), which Congress added to the IRC during the Eisenhower administration's post-war tax modernization effort.

Before Section 351, transferring business assets to a corporation in exchange for stock triggered capital gains taxes on any appreciated assets. Congress recognized that imposing capital gains for such a transfer did not create any real economic gains, as the company's ownership was restructuring to a C-Corp to raise capital via stock issuance, not exit the business.

As a result, Section 351 allows shareholders to transfer ownership from one entity to another—such as into an ETF—**without recognizing unrealized gains**, provided certain conditions are met. ETFs, typically structured as Regulated Investment Companies ("RICs"), are eligible for such transfers under additional IRS regulations.

AAUS may be particularly well-suited for those looking to **consolidate a complex portfolio** composed of US stocks or ETFs that hold US stocks. The fund provides market cap-weighted exposure to U.S. equities alongside a strategic dividend management strategy.

This article seeks to provide fiduciaries and financial professionals with criteria for **identifying potentially good candidates** for the upcoming 351 Exchange to AAUS, scheduled for early June 2025. We aim to help advisors determine if they have clients who could benefit rather than delving into the technical execution details. We'll discuss general portfolio prerequisites and then provide three portfolio profiles that we believe are most suitable for participating in the 351 Exchange. We'll conclude with a brief overview of the next steps for those interested in participating.

Participation prerequisites

Portfolios must meet certain prerequisites to participate in a 351 Exchange into the Alpha Architect US Equity ETF (AAUS).

Diversification Requirements

One key requirement for a 351 Exchange is that the contributed assets must be diversified before the exchange. The IRS applies a 25/50 diversification test, meaning no single security can exceed 25% of the portfolio, and the weights of the top five holdings cannot exceed 50% of the total value.

If one only holds single stock positions, this is a simple calculation. However, ETFs can be used in a 351 Exchange, and that calculation can become a little more onerous.

One example would be 30% of a portfolio invested in a US large-cap ETF. While this would seem to exceed the 25% threshold and disqualify the portfolio from participating in a 351 Exchange, it does not. Fortunately, ETFs are evaluated on a "look-through" basis for diversification testing.

Meaning the weights of the stocks within the ETF are considered for the 25/50 test rather than evaluating the weight of the ETF holding. In this example, let's say Apple has a 7% weight in the ETF. From a portfolio perspective, the ETF would be contributing 7%*30% = 2.1% of Apple into the 351 Exchange. We would add any other Apple positions, directly or indirectly (such as through other ETFs), to get the final Apple position weight for the 25/50 diversification tests.

Portfolio Size and Custody

While Section 351 does not impose a strict minimum asset requirement or custodian, we ask that participating portfolios have a minimum value of $1 million and custody at Goldman Sachs, Northern Trust, Altruist, Fidelity/NFS or Schwab.

We prefer Fidelity/NFS and Schwab as both feature established custodial systems to facilitate the transfers, allowing large stock positions to be moved into an ETF structure. Eventually, we hope to be able to work with all custodians, but as of the date of this article (3/18/2025), those are the preferred custodians.

Portfolio Composition

We believe AAUS is a great solution for those interested in participating in this 351 Exchange; generally, the fund will hold large US stocks weighted by market capitalization. Given that profile, we believe it's best to contribute US stocks or ETFs that hold US stocks to keep portfolio exposures consistent; US-based securities also make the 351 Exchange more straightforward, logistically.

Ineligible securities include restricted and illiquid securities (e.g., private equity, venture capital, restricted stock), derivatives (options, futures, swaps), cryptocurrencies, and physical commodities. Additionally, ETFs that are not structured as RICs, such as commodity pools, grantor trusts (e.g., GLD), and partnerships, are generally ineligible.

Portfolio Ownership

We limit participation to taxable accounts owned by a U.S. person, including individual, joint, or certain trust accounts. S-Corps or LLCs may qualify, depending on the specifics. SMAs that hold US stocks or ETFs that hold US stocks likely qualify.

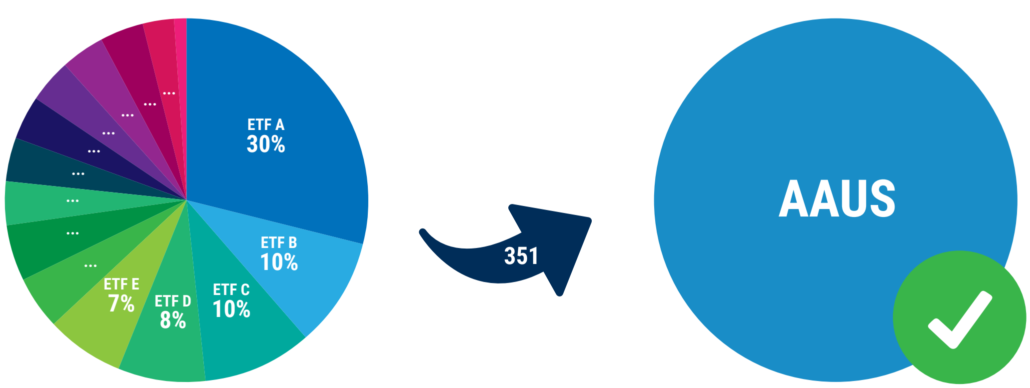
Portfolios that meet these criteria – a diversified portfolio of $1 million or more in US stocks or ETFs that hold US stocks, custodied at Schwab or Fidelity/NFS, owned by a US person – make a 351 exchange operationally easier to facilitate. If you're unsure if a portfolio meets these prerequisites, please contact Jack Vogel, PhD, at jack@alphaarchitect.com.

Identifying Potential Candidates

Now that we've covered the participation requirements, let's examine three examples of investors who might benefit from a 351 Exchange into AAUS. Thematically, the best candidates to exchange to AAUS all suffer from some form of overconcentration. We'll examine three possible profiles, provide an example, and discuss how AAUS can help.

Example 1: Risk factor concentration – Many positions that are simply "the market"

$1M PORTFOLIO DIVERSIFIED ACROSS 25 STOCKS



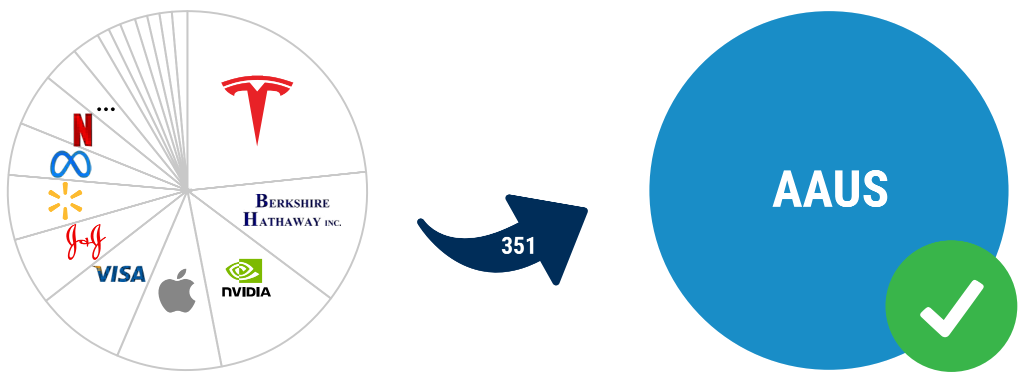
These portfolios have accumulated a mix of stocks and ETFs over time, many of which now feature overlapping exposure to similar sectors or styles (like technology stocks or growth ETFs). The sheer number of positions creates the illusion of diversification, when, in reality, the portfolio is simply giving the end investor U.S. market-cap equity exposure.

From an operational standpoint, this sprawl makes targeting a specific risk tolerance for these accounts a challenge. Any adjustment becomes nearly impossible without triggering significant taxable events. As a result, advisors are often forced to leave portfolios misaligned, exposing clients to unintended risks or overweight positions that no longer fit their long-term strategy.

Rather than strategic planning, client meetings often focus more on explaining why certain positions remain in the portfolio and what, if anything, to do with them. This complexity extends to estate and succession planning, making it more difficult to structure gifts, charitable contributions, or efficient wealth transfers without unnecessary liquidation events.

In our view, AAUS offers a way to "reset" the portfolio's exposure by consolidating multiple individual positions into one ETF. From there, advisors can more effectively align the portfolio to the client's target risk tolerance, diversify concentration risk, and rebalance with less friction. This makes portfolio management more efficient, flexible, and aligned with long-term financial goals.

Example 2: Structural concentration—Old Direct Indexing Accounts



Direct indexing emerged as a powerful investment strategy, gaining popularity among high-net-worth ("HNW") investors and financial advisors looking for a customizable, tax-efficient alternative to traditional ETFs and mutual funds. Unlike owning a single index fund, direct indexing involves directly holding the individual stocks that comprise an index in a SMA. Direct ownership allows the advisor to tailor the portfolio to a client's wishes – such as including specific factor tilts or excluding specific stocks (like for ESG or religious purposes) – and means greater control over tax-loss harvesting opportunities.

However, direct indexing in an SMA is not without its drawbacks.

A direct indexing SMA can hold hundreds of stocks, each of which must be managed individually. This includes tracking corporate actions such as spinoffs, stock splits, and mergers, which can add administrative complexity. Unlike passive, index-based ETFs, which adjust when stocks enter and exit an index , direct indexing portfolios require strategic rebalancing to optimize tax efficiency, maintain factor exposures, and minimize tracking error. As a result, advisors must maintain detailed cost-basis tracking across all positions. Even with commission-free trading, the time and administrative burden of managing a direct indexing SMA can be substantial.

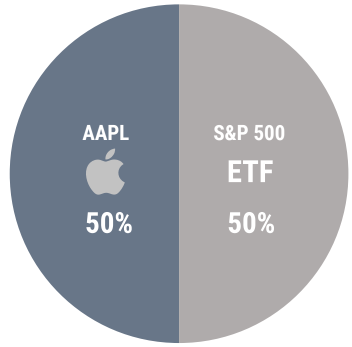
And while tax-loss harvesting is a major selling point of direct indexing, its benefits tend to diminish over time. In the early years, investors may harvest losses by selling underperforming stocks. If markets continue to rise over time, portfolios accumulate more unrealized gains than losses, reducing the ability to generate tax offsets. At a certain point, the portfolio becomes tax-locked, making it harder to make strategic adjustments without triggering capital gains.

We think AAUS offers a way out of the complexity of a direct indexing SMA. Investors can retain their US stock market exposure by consolidating hundreds of individual stock positions into a single, diversified ETF, simplifying position management and significantly reducing administrative complexity.

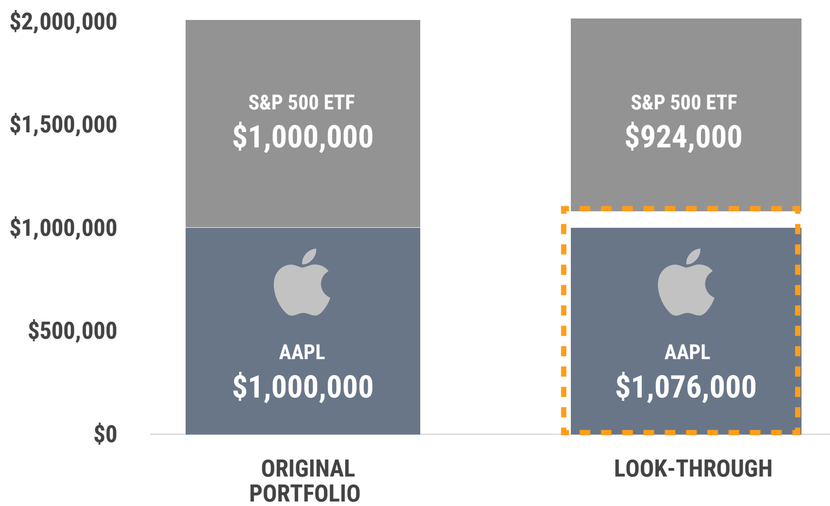
Example 3: Emotional concentration—the "winning stock" problem

Portfolio with a significant concentrated position

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

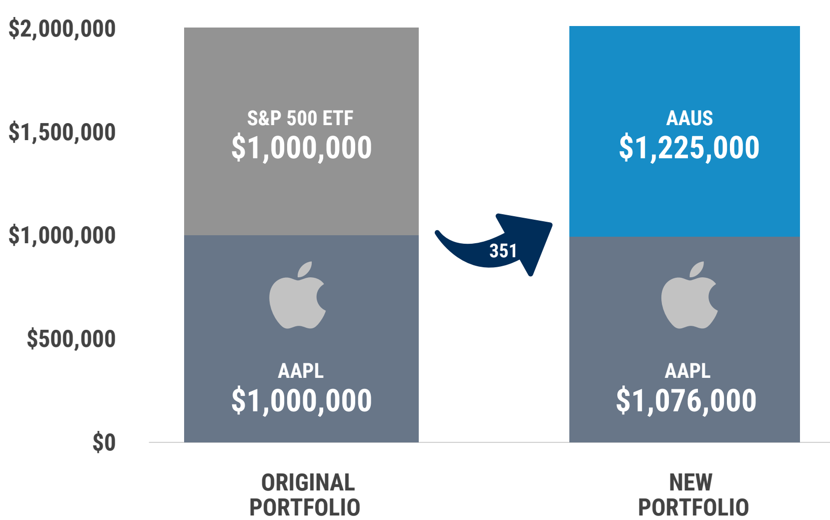


For 351 Exchange purposes, the S&P 500 position in Apple needs to be considered



- **AAPL makes up 7.60%** of the S&P 500 ETF.[1]
- With a $1m S&P 500 position, this is $1m*7.60%=$76,000 of Apple
- The total Apple position is $1mm+$76,0000 = $1,076,000
- The S&P 500 positions, ex-AAPL – total $924,000 ($1m - $76k)

For illustrative purposes only. 1Hypothetical holding weight of Apple in the SP500. 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. S&P 500 Index measures the performance of the 500 largest companies that are in the United States. You cannot invest directly in an index.



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

For illustrative purposes only. S&P 500 Index measures the performance of the 500 largest companies that are in the United States. You cannot invest directly in an index. Note, if one contributed $250k Apple in addition to the $1mm S&P 500 ETF, the total Apple contribution would be $326,000 (including the Apple portion from the S&P 500 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.

In this example, a concentrated U.S. equity position (one or two stocks, in many cases) looms over an otherwise diversified portfolio. Some common investors with these concentrated positions include founders, executives, or early employees; savvy (or lucky) investors who made the right call at the right time; or those who inherited a stock.

Concentrated positions often come with emotional baggage. It becomes the focal point of client meetings. And while the stock undoubtedly contributed significant performance, it can be stressful – for both the client and the advisor – to monitor ongoing results.

Leaving aside events like regulatory changes, lawsuits, or scandals, the risk of holding a concentrated position become most acute as investors near a liquidity event, such as retirement. Without proper planning, a sudden decline in the stock's value could delay or disrupt financial goals, creating a taxable event at the worst possible time. Additional diversification across the portfolio can only do so much.

While tax loss harvesting can be used to gradually exit a concentrated position by offsetting capital gains with realized losses, it has significant limitations, especially when dealing with a highly appreciated stock.

The primary challenge is that substantial realized losses are required to meaningfully offset substantial gains, and investors may not have enough losing positions to neutralize their capital gains liability. Additionally, market conditions dictate when losses are available, meaning investors cannot rely on a steady stream of tax losses to manage their exposure. Selling investments purely to generate losses can also disrupt overall portfolio strategy, forcing changes in asset allocation or risk exposure. Another constraint is that losses can only offset realized gains in the same tax year, with any excess carried forward, making it a slow and often inefficient process to unwind a large position.

A 351 Exchange to AAUS provides an immediate way to diversify a concentrated position without triggering capital gains, offering a strategic exit from concentrated risk and, perhaps most importantly, relief from the stress of managing a large individual position.

What happens to the tax lots in a 351 Exchange?

This question is especially important for advisors to communicate the mechanics of the exchange to their client. A simplified example can illustrate these mechanics without getting too technical.

Suppose a client holds three ETFs – let's say ETFs A, B, and C. ETF A has two tax lots, ETF B has one tax lot, and ETF C has three tax lots for a total of six tax lots. The combined value of the portfolio is $1,250,000 at a cost basis of $810,000.

What happens next?

The investor contributes the three ETFs with six tax lots into the new structure. In return, they receive the newly formed ETF, AAUS.

Critically, the original six tax lots transfer to AAUS unchanged. The only change is that instead of holding ETFs A, B, and C, the client now holds one ETF – AAUS – with the same tax lot history.

A tax opinion is typically provided to comfort clients and constituents in the transaction.

What are the next steps?

We hope you found this article informative. If you have clients who meet the above criteria, the next step is to obtain written client permission to participate in the exchange and submit a cost basis log for all securities under consideration.

Accurate recordkeeping is necessary before converting to AAUS. We will need a log of all positions' cost basis and purchase date for every client account. This part of the process is essential because even though all assets will be contributed to the ETF, current clients must have ETF shares issued at a cost basis and holding period that reflects their prior investment. In other words, while the conversion itself is not taxable, maintaining accurate records before conversion is essential to ensure the client receives the ETF at the appropriate cost basis and can accurately realize capital gains or losses when they sell ETF shares going forward. Fortunately, many custodians maintain these details.

The Alpha Architect team has developed systems and processes to simplify this process and ensure clean reporting.

For questions, clarifications, or indications of interest, reach out to Jack Vogel, PhD. He can be reached at jack@alphaarchitect.com.

SUMMARY: ETF Architect 351 Exchange Process
Qualifications, Documentation, and Timeline

This document outlines the qualifications, required forms, and operational workflow for executing a 351 exchange with ETF Architect.

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1. Contribution Qualification Requirements

Each individual contribution must meet the following diversification criteria:

- No single holding may exceed 25% of the total portfolio being contributed.
- The top five individual equity holdings cannot collectively represent more than 50% of the portfolio's net asset value.
- Diversified ETFs must be "looked through" for purposes of the above tests.

Note: These diversification tests apply to each individual's contribution.

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2. Advisor Interest and Initial Review

Once an advisor confirms interest and brokerage eligibility:

- ETF Architect will provide an Excel holdings request template to begin the review and approval process.
- Required information includes:
    - Client account numbers
    - Security identifiers (ticker and/or CUSIP)
    - Number of shares being contributed

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3. Required Documentation

Contributing accounts must submit the following:

- **Custodian Letter of Authorization (LOA):** Authorizes the custodian to transfer shares to the ETF escrow account.
- **Prior Month-End Brokerage Statement:** Shows the tax lots intended for contribution.
- **Excel Tax Lot Report:** Details the specific lots being contributed. Include a buffer to account for market movements and diversification constraints.
- **Subscription Agreement:** Standard agreement to participate in the ETF transaction.

4. Operational Timeline

- **6 Weeks Prior to Launch:**
  - Indications of interest from firms and financial advisors.
- **3 Weeks Prior to Launch:**
  - All signed documents and required materials submitted to ETF Architect.
- **2 Weeks Prior to Launch:**
  - Recommended trading freeze begins to preserve tax lot accuracy.
- **1 Week Prior to Launch:**
  - Final tax lot file submitted to U.S. Bank.
  - All contributing portfolios are locked.
- **2 Days Prior to Launch:**
  - Transfers are initiated.
  - U.S. Bank receives securities and reconciles against submitted tax lot files.
  - Any breaks are flagged and addressed.
- **1 Day Prior to Launch (Seed Night):**
  - Final reconciliation of breaks.
  - Diversification check performed using closing prices.
  - Initial NAV is struck.
  - ETF shares are created and allocated to clients based on contributed portfolio value.
- **Launch Day:**
  - Fund begins trading.
  - U.S. Bank distributes ETF shares to client accounts.
  - Cost basis override templates are provided to clients, advisors, or brokers as appropriate.
- **1 Week Post-Launch:**
  - Tax opinion is sent to all participating parties.

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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