Zacks
INVESTMENT MANAGEMENT

# Inside the Zacks Earnings Consistent Portfolio (Ticker: ZECP)

## A Deeper Dive into the Flagship ETF from Zacks Investment Management

### A Focus on Earnings Consistency

The Zacks Earnings Consistent Portfolio (ZECP) ETF seeks to provide long-term total returns and minimize capital loss. The portfolio pursues its investment objective by selecting companies that exhibit a track record of moving through adverse market conditions with little to minimal impact on aggregate earnings growth relative to the overall equity market. These companies manage to report consistent net income when peers are missing earnings estimates and lowering guidance.

### The Zacks Advantage: Exploring the ZECP Construction Process

At Zacks, research is at the core of our DNA, so proprietary research and extensive monitoring underly our flagship ZECP fund.

Our selection process begins with a universe consisting of the 750 largest and most liquid publicly traded companies by market capitalization in the United States. From this universe, the portfolio management team at Zacks conducts a qualitative screen, identifying 100 companies that have the attributes that meet the following three essential criteria:

1. **Companies that have a minimum of fifteen years of operating history:**

   This screen helps identify companies whose management teams have been able to navigate the past 15 years, which has included the 2009 financial crisis and the 2020 pandemic market events. We believe this 15-year screen finds the most stable organizations.

2. **The standard deviation of the annual Earnings Per Share (EPS) growth over the past 15 years:**

   Zacks portfolio managers select companies with lower volatility in annual EPS growth over long periods of time. We are not looking for a high earnings growth rate—we are looking for a *stable* earnings growth rate. We believe the fact a company has stable earnings growth through two recessions and multiple market cycles is an indication that it may have a barrier to entry and may also possess some degree of pricing power.

   As a result, the companies in the ZECP portfolio will tend to be slightly more non-cyclical than the market as a whole. We believe these companies do not experience the same negative earnings growth as more cyclical companies do during recessions. Because they're able to grow earnings over time regardless of the macro environment, the companies in the ZECP portfolio are more likely to be steady compounders over time.

3. **Relative agreement amongst sell-side analysts in terms of estimates of future earnings:**

   Specifically, the team is looking at the standard deviation of analysts' estimates for both the current fiscal year and the next fiscal year relative to how each company's consensus values itself. These are companies for which sell-side analysts have less dispersion in terms of future earnings estimates because there is more earnings certainty.

   The result of these screens leads to a portfolio that holds around 50-60 companies that the Zacks portfolio team feels best meet the criteria of providing long-term capital returns in all market environments. After its initial construction, the ZECP portfolio is monitored daily by members of the Zacks Investment Management team. Based on these periodic reviews and the latest market data, the ZECP portfolio is rebalanced on a weekly basis.

## The Zacks Advantage: Exploring the ZECP Construction Process *Continued*

At Zacks, we understand the challenges associated with managing wealth in volatile economic environments. During these periods, most money managers and clients find it difficult to outperform broad market indices. The Zacks Earnings Consistent Portfolio (ZECP) aims to generate consistent and sustainable returns while minimizing the risk of capital loss. For this reason, we feel ZECP is in a favorable position to generate returns that are only minimally correlated to broader market indices like the S&P 500.

**STEP 1**
**Universe Selection**
- Selection begins with a universe of the largest 750 equity securities in the U.S. equity market.

**STEP 2**
**Qualitative Screen**
- The qualitative judgment of the portfolio manager identifies about 100 companies.

**STEP 3**
**Quantitative Screen**
- Historic EPS stability is determined by evaluating the variability of the company's EPS over the past 15 years.

**STEP 4**
**Portfolio Construction**
- The companies with the least variability in their historic and forecasted EPS are selected.

**STEP 5**
**Daily Portfolio Review**
- The portfolio is generally rebalanced on a weekly basis.

*Figure 1: The ZECP Portfolio Construction Process Consists of Numerous Steps Designed to Optimize Capital Allocation*

### Ready to invest in the Zacks Earnings Consistent Portfolio ETF now?

This ETF is now available through most brokerage firms. Simply search for the ticker **ZECP** to find information about purchasing shares.

To learn more about ZECP, please visit **zacksetfs.com**.

**Disclosure**

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ZECP Fund Specific Risk

**The Fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company and can be found at www.zacksetfs.com. Please read carefully before investing. A hard copy of the prospectuses can also be requested by calling 855-813-3507.**

Investing involves risk. Principal loss is possible. As an ETF, the funds may trade at a premium or discount to NAV.

Shares of any ETF are bought and sold at market price (not NAV) and are not individually redeemed from the Fund.

Transactions in shares of ETFs will result in brokerage commissions, which will reduce returns. The Fund is subject to management risk because it is an actively managed portfolio. The Advisor's judgments about the attractiveness, value, and stability of particular stocks in which the Fund invests may prove to be incorrect, and there is no guarantee that the Advisor's judgment will produce the desired results. Equity securities are subject to changes in value, and their values may be more volatile than those of other asset classes. Stocks of large companies as a group can fall out of favor with the market, causing the Fund to underperform investments that have a greater focus on mid-cap or small-cap stocks. Larger, more established companies may be slow to respond to challenges and may grow more slowly than smaller companies. Investments selected using quantitative methods may perform differently from the market as a whole.

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A short, or a short position, is created when a trader sells a security first with the intention of repurchasing it or covering it later at a lower price. The term long position describes what an investor has purchased when they buy a security or derivative with the expectation that it will rise in value. Alpha is a measure of the portfolio's risk adjusted performance. When compared to the portfolio's beta, a positive alpha indicates better-than expected portfolio performance and a negative alpha worse-than expected portfolio performance.

Zacks Investment Management reserves to the right to discontinue this offering at any time.

Zacks INVESTMENT MANAGEMENT

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