

Distillate Capital Launches DSTL, Fundamental Stability & Value ETF

Rationally-defined value and quality metrics utilize proprietary normalized cash yield methodologies

Chicago, IL, October 24th, 2018 — Distillate Capital, a Chicago-based asset manager focused on fundamental equity analysis, today announced the launch of its first ETF. The Distillate U.S. Fundamental Stability & Value ETF (NYSE:DSTL) seeks to distill a starting universe of the roughly 500 largest U.S. companies by market cap into only the stocks where quality and value overlap. To accomplish this, Distillate Capital begins by redefining and updating industry definitions of value and quality for the 21st century, drawing on the team's extensive experience as fundamental value investors. DSTL then utilizes these rationally-defined measures of value, quality, and risk to weight its constituents with the goal of providing investors with superior compounded long-term returns.

“Value investing isn’t dead,” said Tom Cole, Cofounder and CEO. “Far from it. Value investing works by exploiting behavioral biases, which are well-documented and recurring; the problem lies in how ‘value’ is defined. What we’ve observed as fundamental analysts going back to the 1980s is that many traditional valuation metrics have become increasingly ineffective as tools for comparison as the economy has evolved from physical assets to intellectual ones.”

This is due in part to the differing accounting treatment of intangible assets such as research & development (which typically are treated as expenses) and physical assets such as factories (which are usually treated as assets). “Setting accounting standards is difficult,” Cole continued, “and there are some good reasons these rules are in place. But our view is that the economy has shifted to a sufficient degree, from physical to intellectual assets, that traditional comparability is significantly impaired.” For example, companies such as Apple or Johnson & Johnson, whose most valuable assets tend to be their intellectual property and research & development, often appear expensive using traditional valuation metrics, and may not compare favorably with more “physically-based” companies that own large factories or refineries.

It was with these deficiencies in mind that Distillate Capital devised new, updated methodologies for measuring value and quality. For value, DSTL utilizes a cash-based proprietary measure called distilled cash yield that is intended to offer a truer, more consistent gauge of valuation across the market. This measure restores comparability between older, more physical-asset based companies and newer, more research and development-oriented ones. For quality, DSTL emphasizes long-term fundamental stability over short-term price-based metrics and also incorporates a financial indebtedness measure that adjusts for off-balance sheet leases or other calls on capital that may not be picked up by traditional measures. “These metrics lie at the very heart of what we’re trying to accomplish with DSTL,” said Matt Swanson, Cofounder. “They circumvent the inconsistent balance sheet treatment of intangible and physical investments while incorporating a company’s total firm value—not just its market cap.”

DSTL has the potential to perform well in a variety of market environments. “With DSTL’s focus on fundamental stability, low leverage, and redefined valuation and quality metrics, we seek to outperform in up markets and remain resilient through periods of market stress,” said Swanson. “In upward-trending or flat markets, DSTL’s process systematically pushes the ETF towards solid value opportunities.”

DSTL seeks to track the Distillate Fundamental Stability & Value Index, and its expense ratio is 0.39%. “We’re thrilled to draw on our long-term experience as fundamental value investors to share our approach to equity investing with ETF investors,” said Jay Beidler, Cofounder. “We take pride in the simplicity of our approach. In order to overcome our own behavioral biases, we’ve systematized an active investing philosophy and packaged it in a passively-managed vehicle. By paying attention to the fundamentals—value, quality, and risk—and how they’re measured, we’re confident that DSTL can play a key role as an equity allocation in investors’ portfolios, whether as a core or satellite holding.”

About Distillate Capital

By drawing on decades of experience as fundamental investors, Chicago-based Distillate Capital has developed customized measures of value and quality that are particularly relevant to today’s long-term investors. Distillate Capital utilizes these measures in its investment process to exploit behavioral biases and seeks to minimize risk by eliminating stocks that are either expensive, have volatile fundamentals, or are significantly indebted. For more information, please visit www.distillatecapital.com

About Tom Cole

Thomas Cole, CFA is CEO and Cofounder of Distillate Capital. Previously Cole served as Chief Investment Officer at Institutional Capital, LLC (ICAP), a Chicago-based value investment firm. Prior to joining ICAP in 2012, Tom was head of U.S. Equities at UBS Global Asset Management. Tom holds a BBA and an MBA from the University of Wisconsin at Madison, where he was a member of the Applied Security Analysis Program.

About Matt Swanson

Matthew Swanson, CFA is a Cofounder of Distillate Capital. Matt previously worked for 18 years as a portfolio manager of U.S. and international value strategies, and as an equity analyst covering the healthcare industry at Institutional Capital, LLC (ICAP), a Chicago-based value investment firm. Matt has a BA in Economics from Northwestern University and an MBA from The Kellogg School of Management, Northwestern University.

About Jay Beidler

Jay Beidler, CFA is a Cofounder of Distillate Capital. Jay previously worked for ten years at Institutional Capital, LLC (ICAP), a Chicago-based value investment firm where he focused on quantitative analysis and macroeconomic research and worked as an analyst in the basic resources, energy, and healthcare sectors. Jay has an AB from Brown University, and an MBA from the University of Chicago Booth School of Business.

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Disclosures

The Funds' investment objectives, risks, charges, and expenses must be considered carefully before investing. The statutory and summary prospectus contain this and other important information about the investment company and may be obtained by calling 1-800-617-0004 or by visiting www.DistillateFunds.com. Please read it carefully before investing. Investing involves risk. Principal loss is possible. To the extent the Fund invests more heavily in particular sectors of the economy, its performance will be especially sensitive to developments that significantly affect those sectors. As a passively managed ETF, the Fund does not attempt to outperform its Index or take defensive positions in declining markets. As an ETF, the fund 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. Brokerage commissions will reduce returns.

The Distillate Fundamental Stability & Value Index seeks to include the most fundamentally stable and most undervalued stocks from a starting universe of around 500 of the largest U.S. companies. The selection criteria for the Index are based on Distillate Capital's proprietary fundamental measures that attempt to correct the shortcomings of traditional metrics for judging the quality and value of stocks. It is not possible to invest directly in an index.

The fund holds 5.49% of Apple and 2.36% of Johnson & Johnson as of 10/23/2018. Fund holdings are subject to change at any time and should not be considered recommendations to buy or sell any security.

DSTL is distributed by Quasar Distributors, LLC.