Cambria Tail Risk ETF FAQ

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1. *What is the strategy for the Cambria Tail Risk ETF (TAIL)?*

a. The TAIL ETF targets a long exposure of approximately 80% to 95% in U.S. Government bonds, typically of approximately 10-year maturity.

b. The TAIL ETF pairs the bond exposure with a ladder of puts[1] purchased on the S&P 500, which range from 1 to 16 months to expiration.

c. The strike prices of the puts are typically 5% to 15% out of the money.

d. The puts are not held to expiration in order to avoid the accelerated time decay that usually occurs during the final few months of an option's life.

e. We target spending roughly 1% of AUM on puts each month.

2. *How would rising interest rates affect the bond component of the TAIL ETF?*

a. Government bonds go through their own cycles of rising and falling interest rates.

b. If interest rates shoot up overnight, then, yes, we would expect to see short term losses in the portfolio.

c. We expect the effect of rising rates to be more muted if we were to go through a more gradual, prolonged bond bear market.

d. While rising rates can be a short-term headwind, they are often offset by higher bond income.

[1] Please see the Glossary for this definition and others.

3. *How does the TAIL ETF differ from the research white paper you published on tail risk strategies?*

a. While the approaches of the TAIL ETF and the white paper are broadly similar, they are not identical.

b. The strategy published in the white paper was based off public indexes published by the Chicago Board of Options Exchange (CBOE).

4. *You mentioned a put-write strategy in the white paper. Does the TAIL ETF utilize a similar strategy?*

a. The TAIL fund does not include a put-write strategy, as Cambria felt investors would not necessarily want the additional equity exposure that comes with such a strategy.

5. *Are there any plans to add the TAIL ETF to any of the Trinity Portfolios?*

a. No. Adding a tail risk strategy to a portfolio is a personal decision that may not be right for everyone; it would be inappropriate to add TAIL to a Trinity Portfolio, in effect, requiring all investors to own it.

b. Additionally, there are many defensive steps an investor could take (not uniquely a Trinity investor) before allocating to a tail strategy.

c. Among other risk mitigation strategies, these steps could include reducing the allocation to US stocks, diversifying into non-correlated assets, adding tilts toward value, and adding trend following strategies.

d. Additionally, the Trinity Portfolios are designed as holistic portfolios, incorporating trend and momentum strategies, which can be reactive to falling markets.

6. *So, when might a tail strategy be more appropriate than taking one of the other steps you just described?*

a. Some investors have significant equity allocations that would result in massive capital gains if liquidated. For these people, adding a tail strategy might make more sense.

7. *How does your option-buying change as the volatility levels (and cost of options) increases?*

a. Our money management position sizing automatically targets a lower notional exposure when volatility is elevated (which often means option premiums are more expensive), and a higher exposure when volatility is low (which often means option premiums are less expensive).

8. *How does TAIL compare to a strategy that would be an inverse of the market? If I believe the market is going to drop, why would I not choose the inverse strategy instead?*

a. Historically, our simulations have shown to have a better expected return profile versus shorting the market outright.

9. *Does the income generated by the bonds completely pay for the purchased premiums? In other words, is the fund self-sustaining?*

a. With bonds yielding approximately just under 3% today, we do not expect the strategy to be self-funding or self-sustaining.

10. *Please walk me through the math – what is the expected mathematical relationship between owning $1 of TAIL and a corresponding 100-point drop in the S&P 500? How much would my $1 of TAIL increase?*

a. We, of course, cannot guarantee any outcome, but we can share some broad expectations based on the historical research in the white paper. If the S&P 500 declined, say, 30% in a given time-period, we would broadly expect a similar tail risk strategy to return approximately the opposite, or +30%. However, every market is different, and inputs such as bond returns, volatility, and return sequence can all play a role in total returns; therefore, it is critical to think of this is as a rough approximation.

11. Meb's parting thoughts:

a. Meb personally loves a tail risk strategy, and uses one in his own allocation; but again, he does not feel it's his choice to make this unilateral decision for all investors.

b. If you do decide a tail risk strategy is right for you, resist the temptation to try to magically time the market with TAIL, or any other fund, for that matter.

c. Cambria believes that a fund like TAIL could make more sense in the current environment of low volatility and high US equity valuations.

Glossary

1. ***Inverse Strategy*** – This is a strategy that runs opposite, or contrary, to some other stated strategy. In the context used above, it references a strategy that is an inverse of the S&P 500. This means that an inverse S&P 500 strategy would seek a daily market price percentage movement opposite that of the S&P 500.

2. ***Notional Exposure*** – Notional exposure is the total value of assets at their current market prices. The assets can be levered or unlevered.

3. ***Out of the Money*** – This is a term used to describe a call option with a strike price that is higher than the market price of the underlying asset, or a put option with a strike price that is lower than the market price of the underlying asset.

4. ***Put*** - An option to sell assets at an agreed price on or before a particular date.

5. ***Put-Write Strategy*** - A strategy where an investor agrees to buy assets at an agreed price on or before a particular date. In exchange, the investor receives an up front premium payment for making this agreement.

6. ***S&P 500*** – This is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.

7. ***Strike Price*** – The price at which a put or call option can be exercised.

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