What is Quality and Why it Matters

What is Quality?
Quality companies can be viewed as those with a consistent ability to generate strong cash flows while remaining relatively resilient during periods of economic hardship. Quality is assessed from several perspectives: profitability, efficiency, cash earnings and leverage.

Profitability
Profitability is measured with Return on Assets (ROA), defined as net income divided by assets. Assets include productive things like buildings and machinery. ROA measures how much profit a company makes with its assets. If two companies have identical factories as their only assets, the company generating more profits with its factory will have a higher ROA, all else equal.

Efficiency
Efficiency reflects improvement in profitability. Improvement is represented by Change in Asset Turnover, which measures changes in revenue generated by a company’s assets. In short, efficiency measures how much better a company gets at generating revenue with its assets. If a company with a factory as its only asset generates more sales with its factory in year 2 versus year 1, the company has improved its asset turnover, all else equal.

Cash earnings
Earnings can be grouped into those based on cash and those driven by accruals, which include non-cash items like receivables and depreciation. The more earnings are driven by cash, the higher the earnings quality, all else equal. Consider a company that sells a product and receives a full cash payment versus another company that sells the same product but receives a promise to pay later. Because the first company receives cash, the earnings would be considered higher quality.

Why Quality Matters?
Investing in quality companies means avoiding low quality ones. While quality companies typically have strong profitability and leverage metrics, low quality companies can have risks associated with earnings and debt, resulting in more sensitivity to the economy and market volatility. By investing in quality companies, investors can take advantage of growth and the benefits of equities, while reducing risk.

For Conservative Long-Term Investors
O’SARES STRATEGY SERIES

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Concentration in a particular industry or sector will subject the Funds to loss due to adverse occurrences that may affect that industry or sector. The funds may use derivatives which may involve risks different from, or greater than, those associated with more traditional investments. The funds’ emphasis on dividend-paying stocks involves the risk that such stocks may fall out of favor with investors and underperform the market. Also, a company may reduce or eliminate its dividend after the Fund’s purchase of such a company’s securities. Returns on investments in foreign securities could be more volatile than, or trail the returns on, investments in U.S. securities. Exposures to foreign securities entail special risks, including political, diplomatic, economic, foreign market and trading risks. In addition, unless perfectly hedged, the Fund’s investments in securities denominated in other currencies could decline due to changes in local currency relative to the value of the U.S. dollar, which may affect the Fund’s returns. The funds’ hedging strategies may not be successful, and even if they are successful, the funds’ exposure to foreign currency fluctuations is not expected to be fully hedged at all times. The securities of small capitalization companies are often more volatile and less liquid than the stocks of larger companies and may be more affected than other types of securities during market downturns. Compared to larger companies, small capitalization companies may have a shorter history of operations, and may have limited product lines, markets or financial resources. See the prospectus for specific risks regarding the Fund.

Past performance does not guarantee future results. Shares are bought and sold at market price (not NAV), are not individually redeemable, and owners of the Shares may acquire those Shares from the Funds and tender those shares for redemption to the Funds in Creation Unit aggregations only, consisting of 50,000 Shares. Brokerage commissions will reduce returns.

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