NYSE Arca™

ITAN

Sparkline Intangible Value ETF

Issuer Spotlight

Sparkline Capital

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Q: Value investing is a famous and widely-used investment strategy. However, over the past decade, the Russell 1000 Value Index has underperformed the Russell 1000 Growth Index by -42% (as of 6/22/2021).* Why do you believe this is happening?

Established in the 1930s, Ben Graham's framework of buying stocks below intrinsic value is both timeless and sensible. The problem is that his metrics for intrinsic value need to be updated as the economy has transitioned from industrial to information-based. Intrinsic value is no longer just tangible value. Today's dominant firms, such as Google and Amazon, mainly derive their value from intangible assets, such as intellectual property, brand equity, human capital, and network effects.

We believe that the long and vicious drawdown of the value factor stems from its failure to incorporate intangible assets. In fact, our research shows that expanding the definition of intrinsic value to include measures of intangible value would have remedied value's decay over the past decade, allowing it to continue to outperform in line with a century's worth of history.

Q: We understand that you use machine learning to quantify the value of intangible assets. Why do you believe this necessary?

We like to call intangible assets the "dark matter of finance," as they hold the financial universe together but cannot be observed with the naked eye. The main challenge is that standard financial statements largely ignore intangible assets due to conservative and rigid accounting principles. Investors hoping to quantify intangibles need to be creative in identifying potentially useful non-accounting data sources, such as patent abstracts and job profiles.

Moreover, these alternative datasets generally consist mainly of large, unstructured textual data, which are less amenable to traditional statistical analysis. We find that machine learning is much more effective at processing this data. In particular, we use a form of machine learning called "natural language processing" (NLP) that is specifically designed to deal with unstructured text.

Q: How is the Sparkline Intangible Value ETF (NYSE Arca: ITAN) ("ITAN") similar or different to traditional value and growth funds?

Traditional value investors tend to avoid companies rich in intangible assets. Since intangibles power the modern economy, this biases value investors to buy firms with limited growth prospects and narrow moats. Growth investors suffer from the opposite problem, buying high-flying firms with little regard to price. As we saw in the dot-com bubble, investing without a margin of safety can lead to large losses in a correction.

While so-called "style boxes" attempt to categorize managers as either value or growth, we believe this is a false choice. Warren Buffett has argued that "value and growth are joined at the hip." In other words, intrinsic value should take into account companies' growth prospects. Similarly, ITAN attempts to integrate these two philosophies into a single framework that incorporates the intangible drivers of growth while still keeping an eye on valuation.

Q: What do you believe is the future of value investing?

Warren Buffett was one of the first prominent value managers to recognize the investment implications of the "asset-light economy." While originally a student of Graham's, he gradually evolved his investing blueprint to incorporate intangible moats (e.g., Coca-Cola and Apple). We have begun to see many other famous value investors embrace the notion that value needs to be adapted for the rise of the intangible economy. We believe this modern interpretation of value principles will ultimately bear fruit, providing an anchor of value in a world increasingly rife with speculation.

Q: How can we learn more about ITAN?

Please visit **etf.sparklinecapital.com/itan** or email us at **info@sparklinecapital.com**

Note from NYSE Arca

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* The Russell 1000 Index consists of the approximately top 1000 U.S. stocks by market cap. The Russell 1000 Value (Growth) Index includes those Russell 1000 companies with lower (higher) price-to-book ratios and expected and historical growth rates.