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## Background

In 1995, Ford Equity Research documented the consistent excess returns and low volatility of a universe of stocks that had a reduction in the number of shares outstanding over a 12 month period. On the strength of those results we created a share buyback factor that measures this change and added it to our database. The measurement of actual shares outstanding changes avoids possible false signals of share buyback announcements. In some cases, buyback announcements do not result in reduction of shares outstanding because they are netted against issuances related to stock compensation or acquisitions. In other cases, all or part of an announced buyback may not be executed.

The excess returns of stocks that buyback shares can be attributed to a combination of fundamental and psychological factors. When a company reduces shares outstanding, other things equal, it can increase its earnings per share growth rate. In its simplest form, a reduction in shares outstanding has a direct inverse relationship to earnings per share and at a constant price/earnings ratio will drive the stock price higher. Share repurchase at prices below a company's book value per share will have the effect of increasing that valuation measure. The announcement and implementation of a buyback can also have a positive effect on investor confidence. Buybacks are seen as an indication of management's faith in the company. In addition, higher share demand due to repurchases gives market support to the share price. Consequently a share buyback announcement and/or implementation of a buyback program tend to be met with positive price performance.

Ford Equity Research first published the favorable results of investing in firms that repurchased their shares in the September 1994 edition of the *Ford Investment Review*. The test included companies that bought back at least 2% of their outstanding shares in a given year between 1984 and 1994. Results showed that even four years after the buyback the average return substantially outperformed the S&P 500 index. The test also found that the results were more dramatic for "value stocks" – those with low P/E ratios.

An October 1995 Special Study delved further into share buybacks. The resulting introduction of a share buyback indicator to the Ford database served to measure each company's change in shares outstanding over 12 months. Performance tests of investment grade stocks (Those with Ford Quality Ratings of B- or better) revealed that 12 month share change produced superior returns to one, three, and six month intervals. In addition, shares outstanding reductions of as little as 1% were found to generate average excess returns over 20, 10 and 5 year periods. However, share reductions of greater than 5% and 10% produced even higher excess returns. The test also showed that multifactor models of share buyback combined with P/E ratio, Earnings Trend and Price Momentum produced consistent excess returns in 50 stock portfolios.

Ford continues to monitor and document the consistent alpha produced by share buyback as well as its defensive nature. A portfolio of share buyback companies tends to produce relatively better results in down markets while also producing positive excess returns in up markets.

## Index Methodology

In 2006 Ford's parent company, Mergent, Inc., introduced the Buyback Achievers Index based on our share buyback methodology. The index was licensed to Invesco PowerShares as the basis for the Buyback Achievers ETF (NYSE: PKW). The index is comprised of US companies traded on the NYSE and NASDAQ that have a share buyback of at least 5% and a minimum of \$500,000 average dollar volume over the last 3 months on December 31<sup>st</sup> of each year. The index is reconstituted on January 31<sup>st</sup> using a modified market cap with a maximum company weighting of 5% and is rebalanced quarterly. The table below shows the index methodology performance. Periods prior to the index creation in January 2006 represent back tested results. The results are before transaction costs and management fees. Past performance is no guarantee of future results.

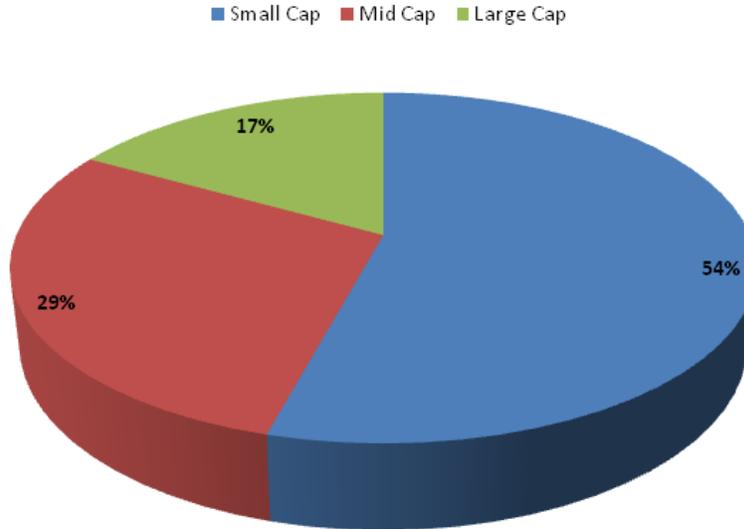
### Buyback Achievers Methodology

Date	Price Gain	Total Return	S&P 500	Number of Stocks
12/31/1997	31.5%	36.3%	33.4%	122
12/31/1998	20.6%	23.1%	28.8%	125
12/31/1999	7.0%	9.4%	20.7%	243
12/29/2000	12.3%	15.6%	-8.5%	300
12/31/2001	12.8%	14.9%	-12.0%	392
12/31/2002	-9.8%	-5.4%	-21.9%	200
12/31/2003	33.5%	35.9%	28.5%	172
12/31/2004	17.3%	18.8%	10.9%	192
12/30/2005	15.6%	17.1%	5.1%	144
12/29/2006	19.4%	23.4%	15.6%	185
12/31/2007	-1.8%	-0.8%	5.6%	247
12/31/2008	-34.5%	-33.2%	-36.6%	299
12/31/2009	29.8%	32.4%	26.8%	333
12/31/2010	17.5%	18.7%	14.7%	92
12/31/2011	9.0%	10.8%	2.1%	144
12/31/2012	12.4%	14.6%	16.2%	249
YTD - 3/31/2013	14.2%	14.6%	10.7%	208
Annualized Return	11.4%	13.8%	6.7%	
Ann. Std. Deviation	15.6%	15.6%	16.3%	

## Index Constituent Characteristics

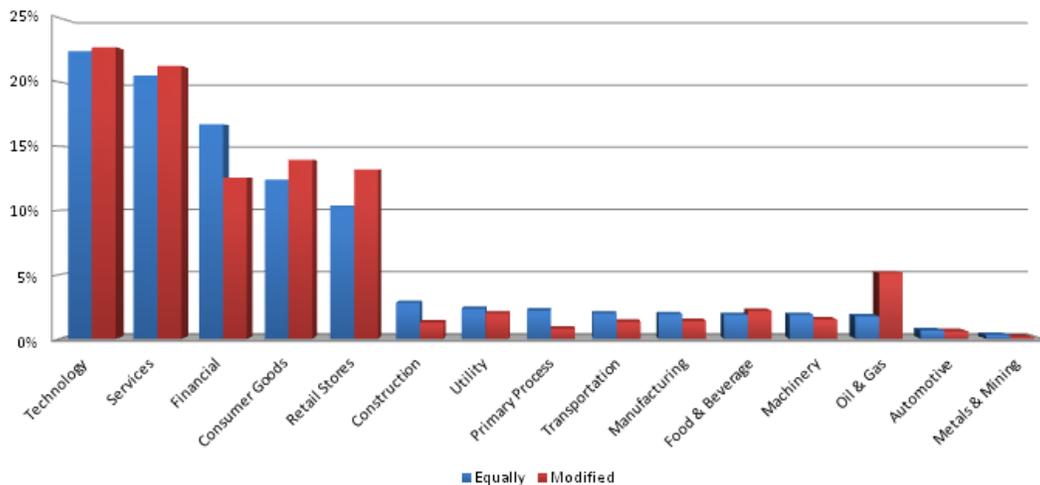
The following graphs show the average characteristics of the Buyback Achievers Index constituents on reconstitution the January reconstitution dates from 2007 to 2013.

### Buyback Achievers Index: Capitalization Distribution



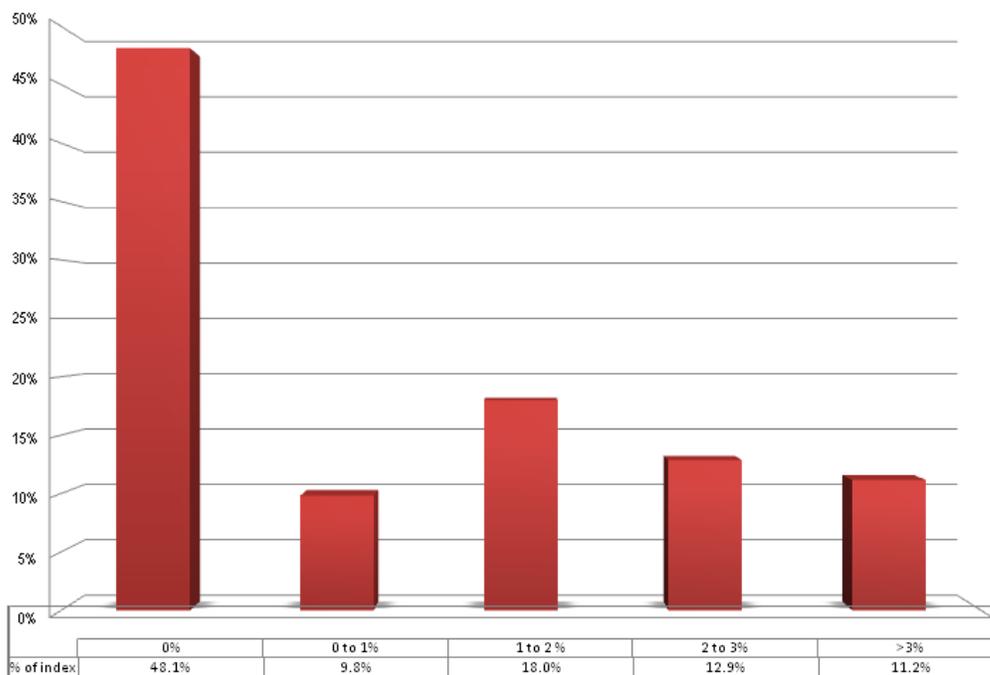
*More than half of the constituents of the index are small cap (less than \$2 billion). Using a modified market capitalization weighting limit of 5% provides for adequate liquidity while avoiding excessive weighting to the very largest companies. Using modified market capitalization weighting rather than equal weighting also limits the overall weighting of small cap stocks which represent a large percentage on an issue basis.*

### Buyback Achievers Index: Industry Distribution Equally and Modified Cap Weighted



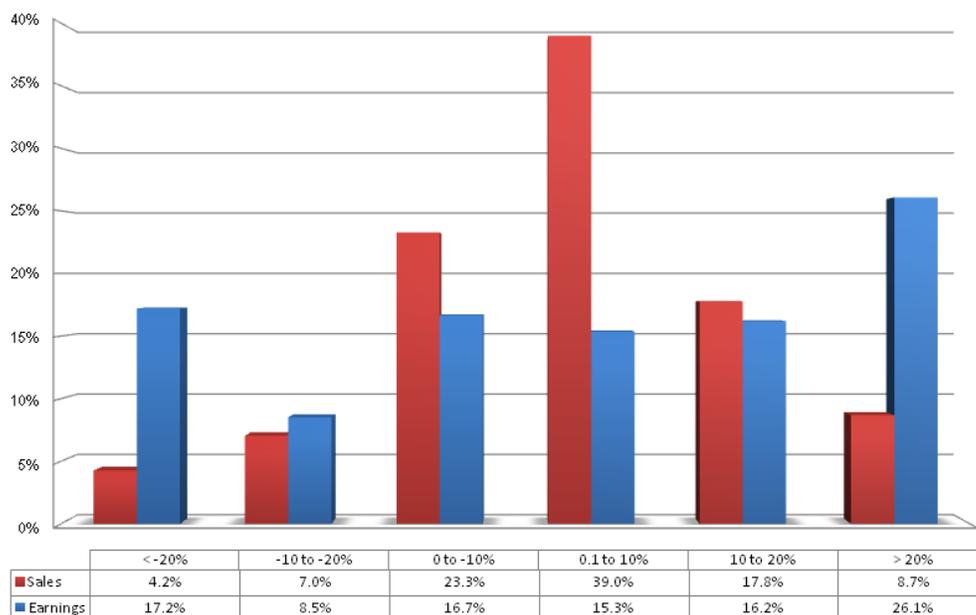
*Industry sector distribution was similar using either the equal or modified cap weighting scheme. Notable exceptions were financials and oil & gas which had respectively, smaller and larger representation with the modified cap weight versus equal weight.*

### Buyback Achievers Index: Dividend Yield Distribution



*Slightly more than half of the constituents of the index pay a dividend in addition to buying back stock.*

### Buyback Achievers Index: Sales and Earnings Growth Distribution (% of Index)



*About two-thirds of the index constituents have positive 1-year sales growth and 58% have positive 1-year earnings growth rates. As mentioned earlier, share repurchases can have a positive effect on earnings per share growth.*