THROUGH THE SYSTEMATIC LENS

Alas, Free Cash Flow I Knew You Well

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This month's Through the Systematic Lens title loosely borrows from Shakespeare's Hamlet. The title plays off one of Hamlet's most famous lines ("Alas, poor Yorick! I knew him, Horatio."): the protagonist holds up a skull of Poor Yorick, a court jester from his youth, ruminating on mortality as the final equalizer of us all regardless of social status.

Indulge us as we attempt to draw parallels between the Bard of Avon's most famous play to today's investment climate facing a stand-off between 1) the optimism over a secular growth cycle fueled by infrastructure spending (both traditional and AI-demand driven data centers) and 2) the pessimism over rising inflation-adjusted (real) interest rates, partly in response to #1, along with the post-COVID shutdown supply shocks, exacerbated by the Ukraine/Russia and Strait of Hormuz conflicts that don't appear to be resolving themselves soon. It's understandable that as the 'present' becomes less palatable due to these greater uncertainties, we naturally want to distance ourselves from the current headlines, shifting our gaze to future growth opportunities across advanced computing and scientific breakthroughs. We'd rather imagine what the future holds rather than stare at Poor Yorick's skull of present times.

The upshot? Acknowledging that 1) a rising nominal economic growth environment met with 2) higher inflation and interest rates may be less conducive for cash generating companies and rate-sensitive sectors (i.e. utilities and real estate), investors may well consider diversifying their existing allocation to the potential 'future' by allocating more of their capital to the 'present' as embodied by cash flow generation and shareholder distributions. Memento Mori: The future, like our mortality, is coming and is rooted in present times, so pay attention to things that matter today, such as the price you pay, the risks that you undertake, the discipline and flexibility to manage through the ups and downs.[1]

Key Takeaways

- Corporate financial metrics reflecting present conditions, such as free cash flow generation and shareholder distributions, may provide the strategic grounding and flexibility for navigating a future not easily observed.
- Investing for the present does not necessarily entail sacrificing future growth prospects, especially if those present opportunities provide adequate risk compensation, as reflected in investment yields.
- Investors may consider core equity options ranging from disciplined capital deployment to free cash flow generation and dividend distributions to help diversify the (uncertain) prospects of future growth.

"He Hath Borne Me on His Back a Thousand Times" (Hamlet, Act V, Scene 1)

Hamlet's skull is a juxtaposition of the distant past and the distant future, that snaps the Danish Prince back to reality and to focus on the present. Likewise, investor fixation on the distant future promises of significant returns and life-changing impacts from artificial intelligence has opened the floodgate of capital deployment, an arms race to see who can extract the highest investment return from the delivery of a future that seems to be arriving sooner than expected. This fixation is also embedded in financial tools that help us psychologically connect the future to the present, whether the terminal value in a discounted cash flow model or the compounded annual growth rate potential of tapping into a total addressable market (TAM).

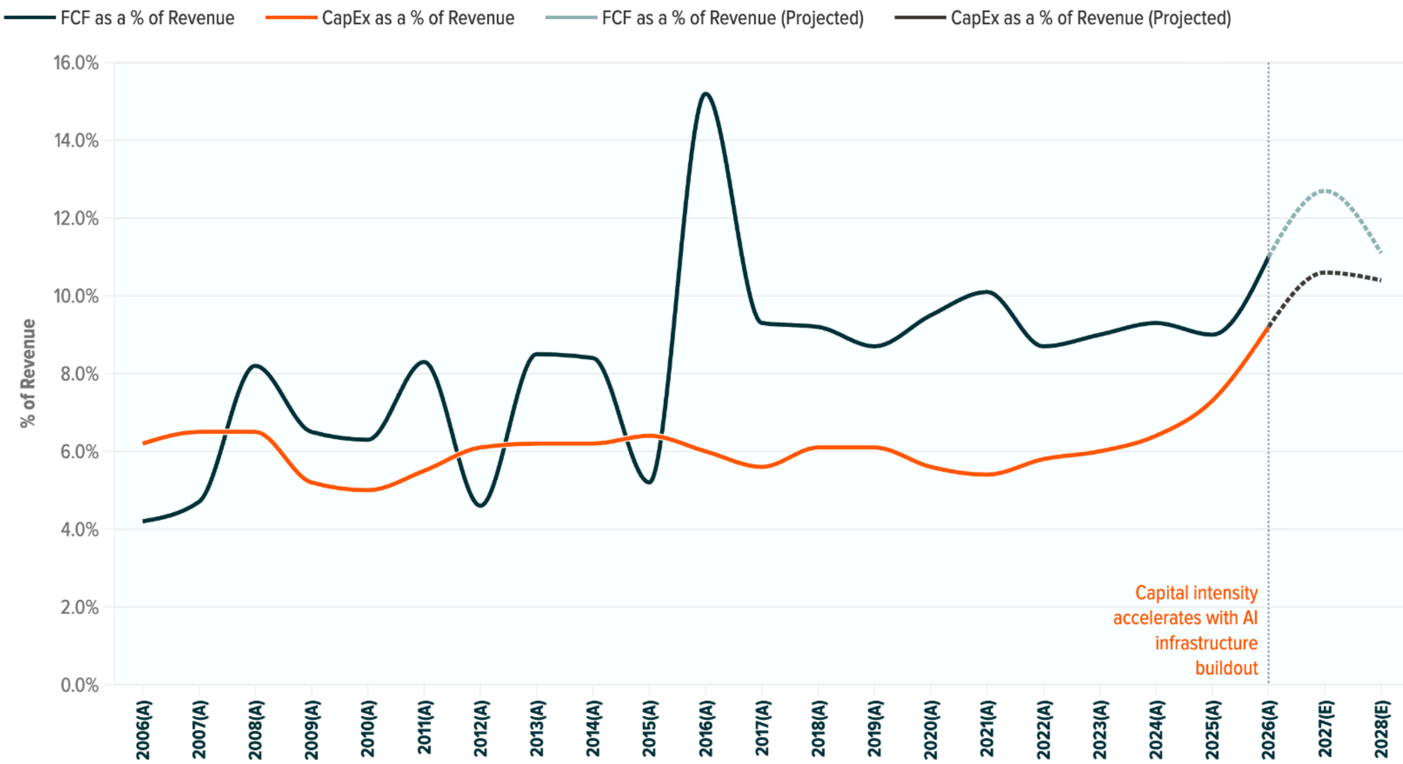
By reminiscing about his youthful memories with Yorick ("He Hath Borne Me…"), Hamlet reminds us that our expectations of the future are rooted in both past and present, the financial track record of today's enterprises. Yes, we can invest in the promises and dreams presented by the future, but the future can take care of itself if grounded in the hard reality of the here-and-now, built on sound capital deployment and strategic decision-making. The starting point of any discounted cash flow model is what the company is doing today and how it got there. Present financial conditions generally provide a reasonable basis for expectations of future growth and margin expansion.

Poor Yorick's skull is a reminder for investors to start paying attention to the present and not be overly fixated on what is to come, even if based on the best judgments of today. We may well be entering a new market regime of accelerated capital spending driven primarily by the artificial intelligence (AI) infrastructure buildout and semiconductor capacity expansion and fueled by external financing, versus the prior regimen that enjoyed capital light deployment and free cash flow generation that had fueled share repurchases and dividends.

But present capital deployment and future capital needs have not yet collided. Fortunately, market consensus is expecting a capital deployment 'nirvana' as aggregate corporate free cash flow (FCF), or cash generation after capital expenditures, as a % of revenue is expected to remain at post-COVID elevated levels even though capital intensity (capital expenditures (capex) as a % of revenue) is expected to increase, albeit at a slower rate from the acceleration that started in 2024. Higher capex met with sustainable free cash flow potentially reduces the financial pressure on capital spenders to seek external financing that could pressure balance sheets and dilute shareholder returns. Yet, based on current estimates, we could be entering a new market regime characterized by the highest capital intensity versus the prior 20 years, so free cash flow will likely need to keep pace to help fund some of this capital intensity.

Russell 1000 Index

Aggregate Free Cash Flow vs. Capital Expenditures as a % of Revenue (2006 - 2028E)

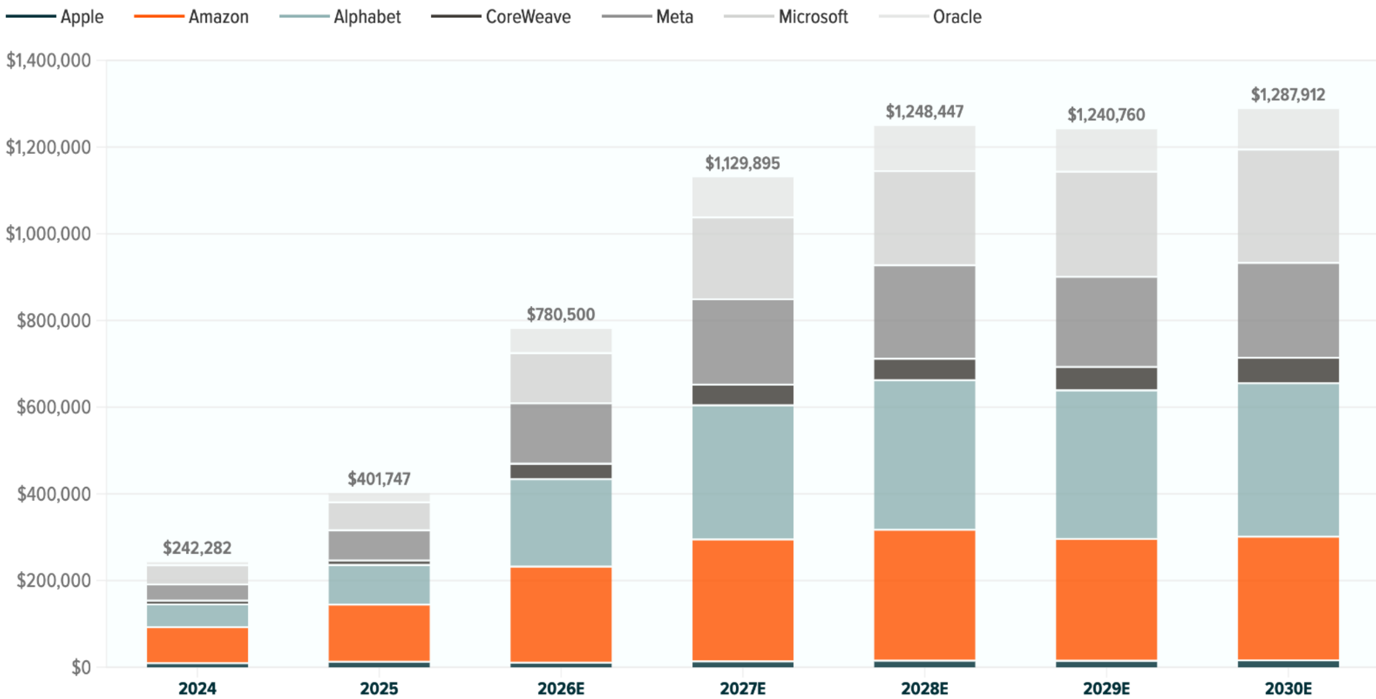


Source: Global X ETFs using data derived from Bloomberg as of 9/21/2026. Actual reported annual financial data from 2006 through 2026 and estimates for 2027 and 2028. Forward looking measures are not forecasts of future financial performance.

The Information Technology (IT) sector bears much of the burden of meeting this capital nirvana as capital intensity for the IT sector is expected to decline from 21.8% in 2024 to 11.8% in 2028.[2] This moderation suggests that AI-driven capex will eventually ease as companies reap the anticipated gains from their investments. However, IT capex is expected to remain the highest among major sectors in absolute dollar terms as cumulative capital spending by the hyperscalers is expected to exceed $6 trillion from 2024 to 2030. Note, these are third-party estimates/projections, subject to change, and not a guarantee of any outcome.

Cumulative Hyperscaler Capital Spending Expected to Exceed $6 Trillion by 2030

Capital Expenditures (Actual and Projected) in $MM



Source: Global X ETFs with information derived from Bloomberg L.P. Data as of 9/21/2026.

Historical capital expenditures shown in 2024 and 2025 and estimated capital expenditures from 2026 through 2030.

However, outside of IT, the need for broader infrastructure upgrades to keep pace with the computing demands from data centers will likely drive a structural ramp-up in capex across utilities (grid modernization, electricity transmission and storage), manufacturing (logistics), and materials (raw and intermediate production). Bloomberg Research's optimistic long-run scenario suggests AI-driven spending could contribute as much as 17% to cumulative US GDP growth by 2030, depending on productivity gains and adoption.[3] The projected capital intensity would be even higher if not offset by expected sharp declines across energy and real estate, consistent with more capital discipline for the former and less transaction activity for the latter.

The risk to the AI capex narrative is that this projected cycle repeats the disappointments from prior spending boom cycles as capital spending risks outpacing earnings growth and cash flow generation, leading to underutilization of installed capacity, or the capital deepening phenomenon described by economists resulting from a decline in total factor productivity (the portion of economic growth that is not explained by increases in the quantity of labor or capital inputs alone). At the peak of a typical capital spending boom, high capex companies generally experience 1) a compression in free cash flow, 2) increased financial leverage, 3) dilution of shareholder returns, and 4) structural competitive disadvantages due to underutilization of the installed asset base.

As the following factor analysis illustrates, free cash flow margins has generally experienced more tailwinds than headwinds in contrast to high capital intensity over the 20-year period ending 8/31/2026. Note that this factor analysis does not incorporate equity valuations as is commonly found with value-based factors such as price/earnings, price/sales, price/book, dividend yield, etc. This analysis uses company revenue as the common standardization to better isolate the effects of free cash flow generation versus capital spending.

First, here is the summary breakdown of the analysis:

1) Universe: Russell 1000 Index
2) Range of analysis: 8/31/2006 through 8/31/2026
3) Quarterly rebalancing, no grouping (i.e. sector neutrality), Winsorize at 3 standard deviations, no transaction costs assumed.
4) Factor values segmented by quintiles with Quintile 1 (Q1) representing the highest value and Quintile 5 (Q5) representing the lowest value.
5) Factor performance is presented as a return spread between Q1 and Q5 to neutralize equity market performance.
6) Factor 1: Free Cash Flow Margin (Latest Fiscal Year):

a. Industrials, Insurance, Utilities, & Real Estate Investment Trusts (REITs): Free Cash Flow / Sales/Revenue/Turnover

b. Banks & Financials: Free Cashflow / Net Revenue

7) Factor 2: Capex / Sales (Capital Intensity) (Latest Fiscal Year):

a. All Sectors: (Capital Expenditures – Investment in Operating Lease Assets) / Net Sales

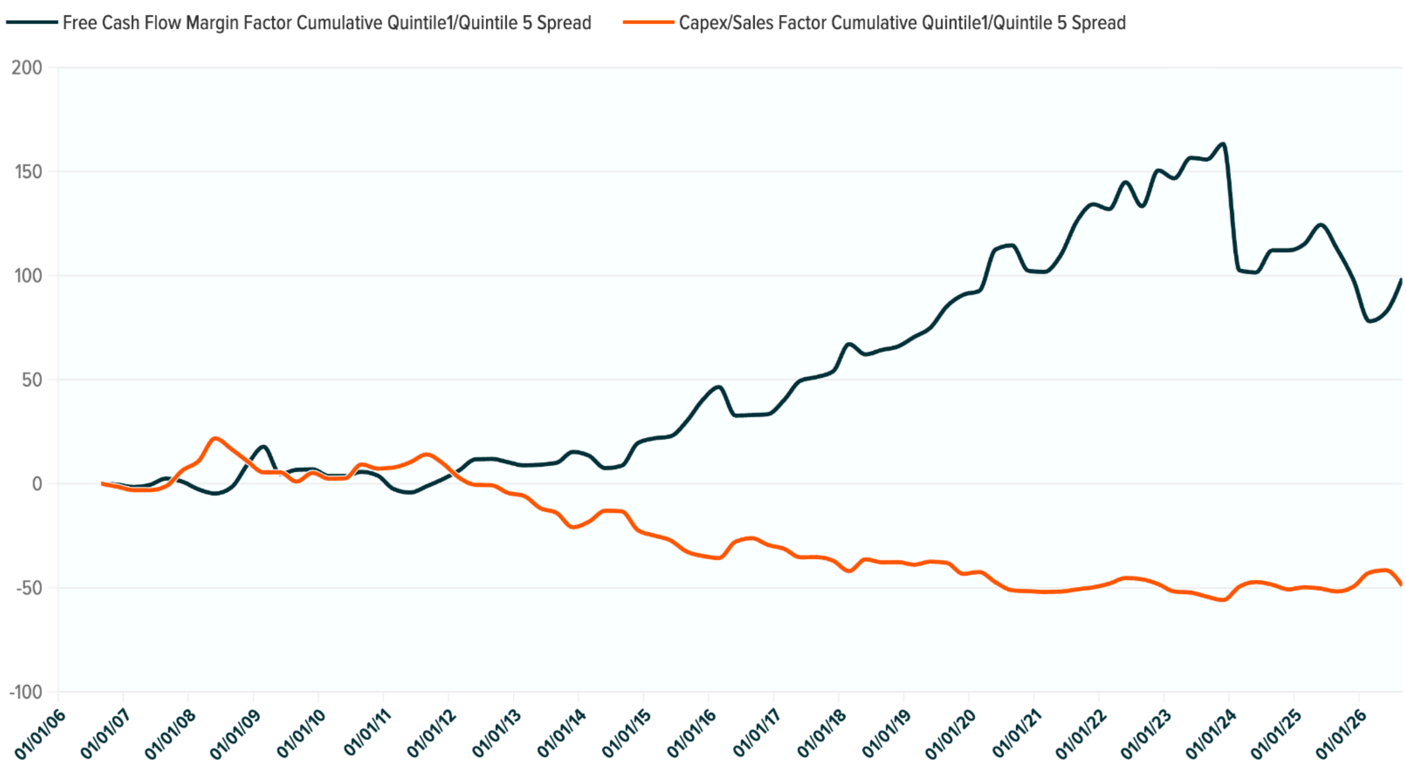
8) See appendix for additional metrics

Over most of the testing period, the Free Cash Flow Margin Factor outperformed the Capex/Sales Factor. Take note that the reversal of fortunes that has occurred over the last 2-3 years as the Free Cash Flow Margin factor has underperformed the Capex/Sales Factor. This highlights the surge in investor optimism that the AI capital spending cycle will break the curse that has plagued previous cycles.

Could we be entering a new regime where capital intensity will be rewarded above free cash flow generation? Perhaps, but the long run has historically demonstrated that cash generation, like Yorick's skull, is what remains long after the future has passed by.

High Free Cash Flow Margins Have Historically Outperformed High Capital Intensity

Cumulative Quintile 1/Quintile 5 Spread (%)



Source: Global X ETFs using data derived from Bloomberg Backtest (FTST) as of 9/14/2026 for the 20-year period covering 8/31/2006 through 8/31/2026.

Past performance is not a guarantee of future results.

Conclusion: "Where be your gibes now? your gambols? your songs? your flashes of merriment, that were wont to set the table on a roar?" (Hamlet, Act V, Scene 1)

The skull held by Hamlet was the only remnant of a life filled with "gambols, songs, and merriment." Free cash flow is what remains on top of a company's asset base once all the expenses are paid and capital is expended. Yet, unlike the skull, free cash flow represents the lifeblood of a company's current operations and growth potential. The 'future' is what keeps investors captivated and motivated to further invest into an enterprise's growth potential, but the 'future', like Yorick's remembered jests, can be fleeting and ephemeral, whereas free cash flow represents the enterprise's 'present' financial state. The future doesn't pay the bills nor can provide the necessary financial flexibility needed to navigate both present and future.

In this environment of an uncertain outcome of the significant capital spending on AI infrastructure against a backdrop of higher inflation, interest rates, and geopolitical risk, one may consider diversifying equity exposure by investing in the present to diversify the risk of investing towards the distant (and uncertain) future.

The following data reference Bloomberg equity analytics as of 8/31/2026, except where noted.

Equity Core: Investing for Free Cash Flow Generation and Shareholder Friendly Distributions

1. The **Global X Morningstar Capital Allocation Leaders ETF (Ticker: CPTL)** aims to invest in companies that exhibit strong capital allocation practices, as measured by Morningstar's proprietary Capital Allocation Rating framework, which assesses how well a company's leadership team uses cash based on a forward-looking evaluation of capital allocation decisions. The investment case is essentially a 'quality management/capital discipline' factor thesis, focusing on companies with a strong track record of capital deployment (reinvestment, buybacks, dividends, mergers/acquisitions discipline). As of 8/31/2026, the fund had a trailing 12-month dividend yield of 1.30% and a free cash flow yield of 2.82%.
2. The **Global X U.S. Cash Flow Kings™ 100 ETF (Ticker: FLOW)** targets U.S. equities with high free cash flow yields, on the theory that free cash flow is a profitability measure correlated with quality, growth, and value factor exposures, making it usable as a core factor holding. Companies generating strong free cash flow can be better positioned to fund growth, raise dividends, or pay down debt, and tend to be less exposed to the accounting distortions that can inflate reported earnings. As of 8/31/2026, the fund had a trailing 12-month dividend yield of 2.10% and a free cash flow yield of 11.38%.
3. The **Global X SuperDividend® U.S. ETF (Ticker: DIV)** invests in 50 of the highest dividend-yielding U.S. equities that have made consistent dividend payments in the past two years. This methodology tends to produce lower market risk versus broad market indices such as the Russell 1000 given the defensive nature of dividend paying stocks. The underlying index's methodology also incorporates a low-volatility screen to help reduce the "yield trap" risk common in pure high-dividend strategies, where a high indicated dividend yield may indicate financial stress that could result in an eventual cut to the dividend payout in order to restore financial stability. As of 8/31/2026, the fund had a trailing 12-month dividend yield of 6.95% and a free cash flow yield of 8.97%.
4. The **Global X S&P 500® Quality Dividend ETF (Ticker: QDIV)** invests in S&P 500 companies scoring in the top 200 by quality metrics (return-on-equity, accruals, financial leverage) and separately in the top 200 by dividend yield, so a name must qualify on both quality and yield. The fund may be able to avoid the higher-risk, potentially unsustainable yields that a pure high-yield screen may be more prone to include, by requiring quality-factor confirmation alongside yield. As of 8/31/2026, the fund had a trailing 12-month dividend yield of 2.79% and a free cash flow yield of 7.43%.

Related ETFs

CPTL – Global X Morningstar US Capital Allocations ETF

DIV – Global X SuperDividend® U.S. ETF

FLOW – Global X U.S. Cash Flow Kings™ *100 ETF*

QDIV – Global X S&P 500® Quality Dividend ETF

Past performance is not a guarantee of future results. Click on the fund name above for the 30-day SEC yield, standard performance, and prospectus.

Appendix: Additional Performance Statistics for Free Cash Flow Margin and Capital Intensity Factor Analysis

Summary Statistics for Free Cash Flow Margin vs Capital Expenditure / Sales: 08/31/2006 to 08/31/2026

Statistic	Free Cash Flow Margin Factor	Capex / Sales Factor
Information Coefficient	0.04	-0.03
Average Securities Count	926	936
Average Turnover (%)	16.63	14.38
Quintile 1 Hit Ratio (%)	58.81	55.92
Quintile 5 Hit Ratio (%)	54.75	58.69
Quintile 1 / Quintile 5 Spread Annualized Return (%)	4.02	-2.82
Quintile 1 / Quintile 5 Spread Cumulative Return (%)	98.67	-48.98
Quintile 1 / Quintile 5 Spread Standard Deviation	10.33	11.04

Quintile 1 / Quintile 5 Spread Sharpe Ratio	0.40	-0.24
Quintile 1 / Quintile 5 Spread Max Drawdown (%)	-35.94	-66.82

Source: Global X ETFs using data derived from Bloomberg as of 9/14/2026 for the 20-year period covering 8/31/2006 through 8/31/2026. **Past performance is not indicative of future results.** The benchmark return used in this specific case is zero as there is no benchmark for this case study.

Footnotes

1. Memento Mori: Latin for “remember that you must die,” or more loosely, “remember death.”
2. Bloomberg data with actual and estimated financial data as of 9/21/2026. The Information Technology (IT) sector as defined by the Global Industry Classification Standard (GICS) of constituents within the S&P 500 Index.
3. “US INSIGHT: AI’s GDP Contribution - 2.5x What the Stats Show,” Bloomberg Intelligence, 7/16/2026

Glossary

Average Turnover (%): It measures how much the composition of a group (called a "quantile," such as the top 20% of ranked securities) changes from one period to the next. It is calculated by looking at how many securities that were in a particular group at one point in time have dropped out of that group by the next period, then dividing that number by the total number of securities being scored across the entire universe. A higher turnover rate means the group's membership is shifting more — securities are moving in and out more frequently. A lower rate means the group is more stable over time.

Correlation: A statistical measure that shows how closely two things move in relation to each other. A correlation close to +1 means the two things tend to move in the same direction, when one goes up, the other tends to go up too (and vice versa). A correlation close to -1 means they tend to move in opposite directions, when one goes up, the other tends to go down. A correlation close to 0 means there's little to no relationship.

Hit Ratio: The average percentage of companies that outperform the benchmark over all time periods. This value is obtained by dividing the number of outperforming companies for each period by the total number of companies in the current period and then taking the average of the percentages of all periods.

Information Coefficient: The correlation between the cross section of factor values at each rebalancing and the realized forward returns, or how well the factor performed over the subsequent time period (quarterly in this case). The value ranges from -1 to 1.. Correlations are calculated for each time period (quarterly in this case) of the analysis and then averaged over the testing period from 8/31/2006 through 8/31/2026. If a factor has a positive Information Coefficient, it means securities that scored well on that factor tended to go on and perform better and vice versa.

Max Drawdown: The percentage drop from an equity high to the next equity low. It reflects the change in equity as if the investor had bought the security at that high point and sold at the next low. Once a new high is reached, the percentage change from the prior high to the intervening low is recorded and a new drawdown calculation begins. Thus, several drawdowns may occur over the period of the analysis.

Quintile 1 / Quintile 5 Spread Sharpe Ratio: The Sharpe ratio for the highest/lowest quintile spread portfolio. Sharpe ratio is the reward of a portfolio's excess return relative to the total variability of the portfolio.

Quintile 1 / Quintile 5 Spread Standard Deviation: The standard deviation for the highest/lowest quintile spread portfolio.
Standard deviation: a measure of variability equal to the square root of the arithmetic average of the squares of the deviations from the mean (average) in a frequency distribution.

Russell 1000 Index: A stock market index that tracks the 1,000 largest U.S. companies by market capitalization. It's maintained by FTSE Russell and is widely used as a benchmark for large-cap U.S. equity performance.

Winsorize at +/- Std Dev: A statistical method of eliminating outlier data that is applied by changing the factor values for each security that falls outside the specified standard deviation range. The new factor value will be equal to the value at the specified standard deviation boundary.

CPTL is also subject to Associated Risks Related to Investing in Capital Allocation Leaders; Large- and Mid-Capitalization Companies Risk; Risks Related to Investing in the Information Technology Sector; and Securities Lending Risk.

There can be no guarantee that the companies identified through the Morningstar Capital Allocation Rating system will be properly assessed as Capital Allocation Leaders or will maintain strong capital allocation characteristics over time.

DIV is also subject to Master Limited Partnerships Investment Risk; Real Estate Stocks and Real Estate Investment Trusts (REITs) Investment Risk; Large-, Mid- and Small-Capitalization Companies Risk; Credit Risk; Risks Related to Investing in the Mortgage Real Estate Investment Industry; High Dividend Yield Stocks Risk; MLP Tax Risk; Prepayment Risk; and Securities Lending Risk.

High yielding stocks are often speculative, high-risk investments. These companies can be paying out more than they can support and may reduce their dividends or stop paying dividends at any time, which could have a material adverse effect on the stock price of these companies and the Fund's performance. The potential benefits of investing in MLPs depend on them being treated as partnerships for federal income tax purposes. Further, if the MLP is deemed to be a corporation then its income would be subject to federal taxation at the entity level, reducing the amount of cash available for distributions to the Fund which could result in a reduction of the Fund's value. Real Estate Investment Trust (REIT) holdings may decline in value if interest rates increase. REITs are subject to general risks related to real estate including default risk and the possibility of decreasing property values.

FLOW is also subject to Affiliated Index Provider Risk; Risk of Investing in Companies with High Free Cash Flow Yields; Large- and Mid-Capitalization Companies Risk; Dividend-Paying Stock Risk; Focus Risk; and Turnover Risk.

There is no assurance that companies with current high free cash flow yields will continue to maintain high free cash flow yields in the future.

QDIV is also subject to Large-Capitalization Companies Risk; Dividend-Paying Stock Risk; Focus Risk.

There is no guarantee dividends will be paid. Companies may reduce or eliminate dividends at any time.

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