



Investment Themes for Navigating a Post Pandemic Economy

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Firm Overview

Investment expertise:

- Specialized expertise in integrating exchange traded products and derivatives
- **2nd largest** Leveraged and Inverse products provider

Product set:

Diverse family of highly liquid tactical and strategic product solutions:

- 67 L&I ETFs, 11 strategic beta ETFs, and 10 relative weight ETFs listed at NYSE
- 7 advised L&I products listed on HKEX in partnership with ChinaAMC

Founded:

1997

Offices:

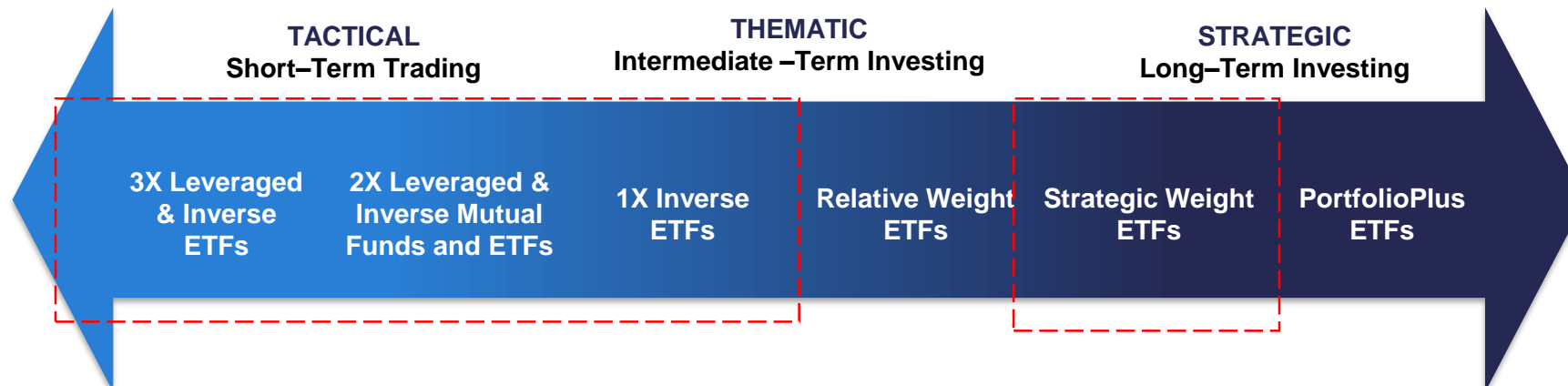
New York, Boston, Hong Kong

Asset Under Management:

~18b USD as of end of Aug 2020

Investment Strategies

	Short Term Trading	Intermediate Term	Long Term
Typical Horizon	Days to weeks	6-24 months	3-5 years
Product	Leveraged & Inverse	Thematic/Relative Weight ETFs	Portfolio Plus ETFs*
Strategy Application	Highly tactical, trading and hedging strategies	Intermediate-term investment themes and trends	Enhanced strategic core exposure (minimal increased exposure and path dependency)

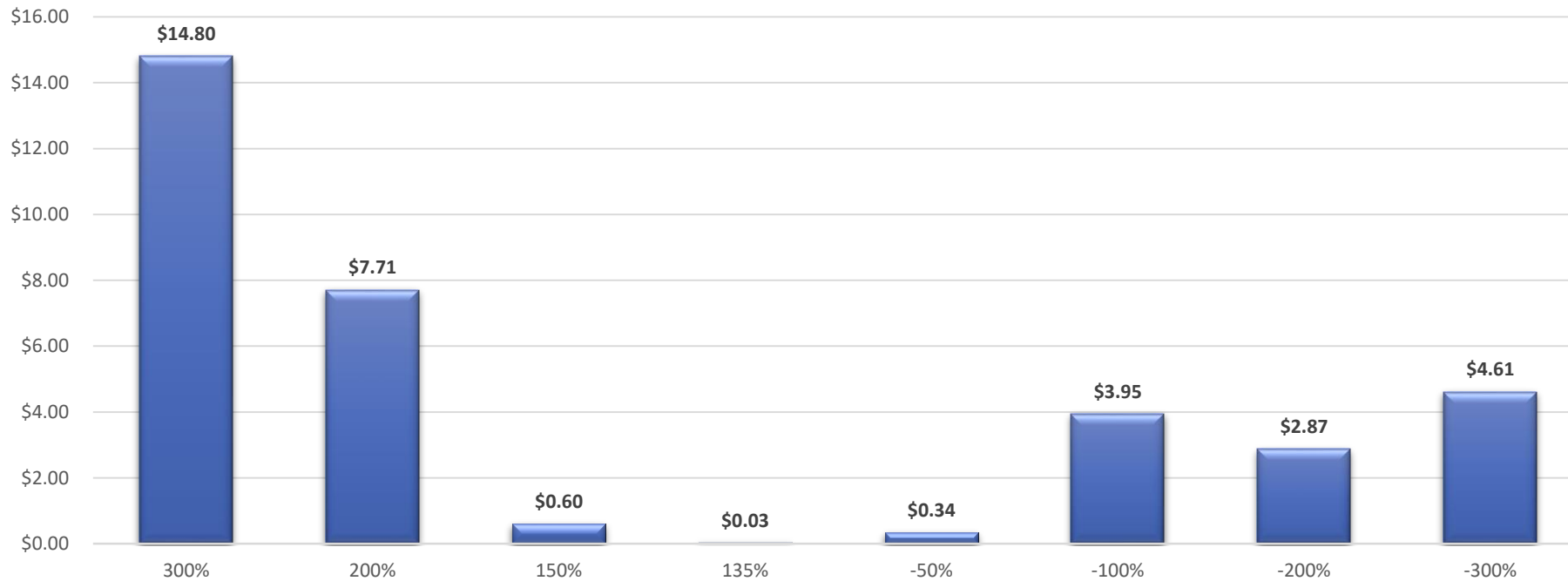



*With regard to Portfolio Plus ETFs as long term investment tools, compounding affects all investments, but has more impact on leveraged funds, particularly during periods of higher index volatility and longer holding periods. Due to periods of negative compounding caused by index volatility, a fund's return may be negative in the same period that its index's return is flat or positive.

Leveraged and Inverse ETF landscape in the US

- The Leveraged and Inverse (“L&I”) ETF Marketplace is comprised of 194 ETFs with \$33.9B in assets under management,
- Covering broad equity market segments, sectors, industries, single countries, and even fixed income and alternatives.

L&I ETF Assets under Management by Leverage Point (in \$B)



The slide features decorative geometric shapes in the corners. In the top right, there is a light blue triangle with a darker blue square overlapping it. In the bottom left, there is a similar arrangement of a light blue triangle and a darker blue square.

X

Leveraged & Inverse ETFs basics

Leveraged & Inverse ETF's composition

- Leveraged and Inverse ETFs are a combination of **Cash, Equities, and Derivatives (Typically Index Swap or Future contracts)**
- Leveraged and Inverse ETFs are designed to provide 3x, 2x, -1x, -2x or -3x of the **index daily return (Daily Base)**
- Allows investors to gain exposure to specific indices and sectors without the need for full dollar-for-dollar investment

Typical Composition of a L&I ETF for +/-300% exposure			
Strategy	Cash	Equities	Derivatives
Daily 3x Bull ETFs	Yes	~0%-50%	~250%-300%
Daily 3x Bear ETFs	Yes	0%	300%

Leveraged & Inverse ETF's mechanism

1. Daily rebalancing (to maintain 3x or 2X daily exposure)

2. Implications of compounding (not tracking error)



Trending market favors L&I ETFs with daily rebalancing and compounding that will amplify multi-period returns



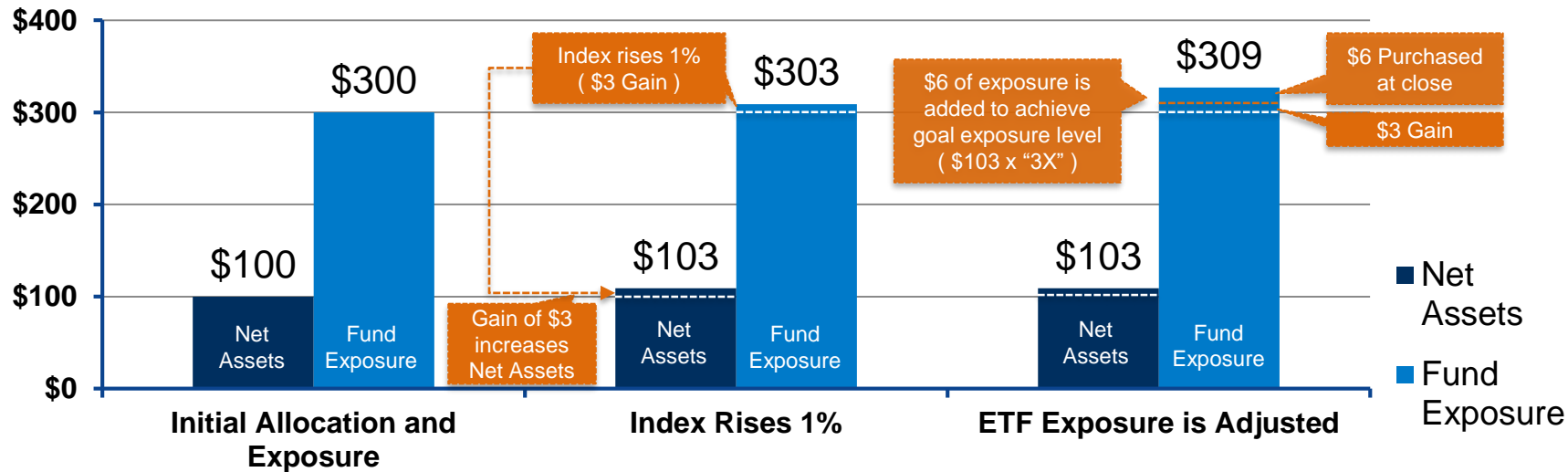
Choppy market is unfavorable to buy-and-hold L&I ETFs over long periods of time

3. Counterparty exposure management (e.g swap)

Leveraged & Inverse ETFs: Daily Rebalancing & Compounding Example 1

Hypothetical Example (Daily 3x Leveraged ETF)

Index rises 1%



Initial Allocation and Exposure
If a 3x Product has \$100 million in Net Assets, \$300 million of Fund Exposure to the fund's underlying index must be maintained.

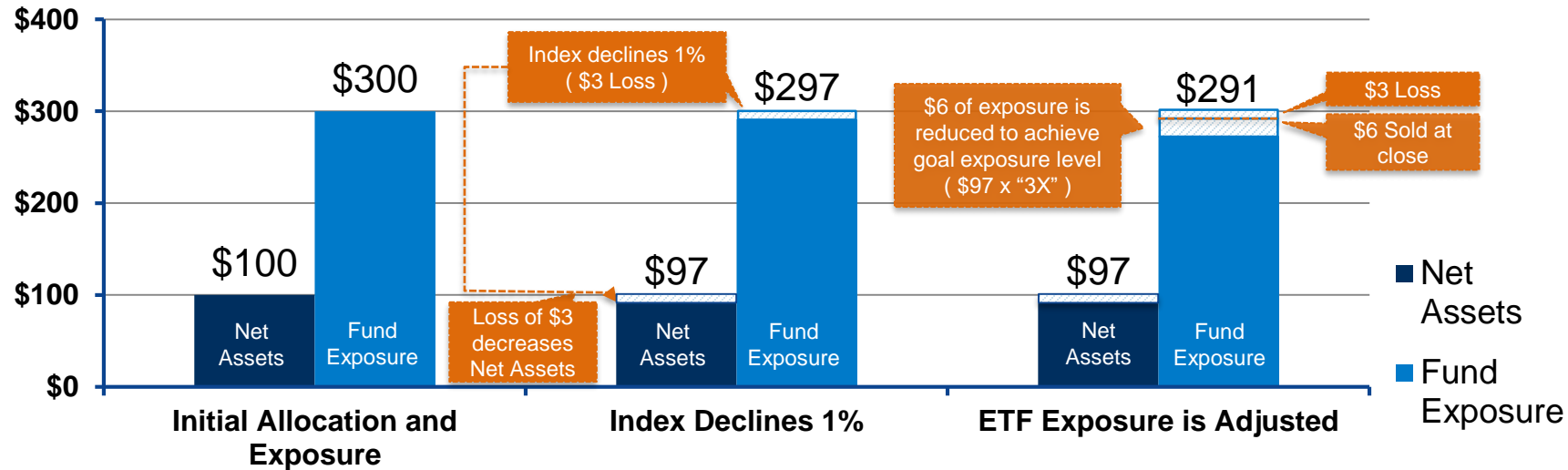
Index Rises 1%
If the index increases by 1% in a trading day, the Fund Exposure would rise to \$303 million and Net Assets would thus rise to \$103 million, resulting in a \$3 million gain.

ETF Exposure is Adjusted
Since Fund Exposure must equal 300% of Net Assets at the close of each trading day ($\$103 \text{ million} \times 300\% = \309 million), \$6 million of exposure must be added to the Fund Exposure.

Leveraged & Inverse ETFs: Daily Rebalancing & Compounding Example 2

Hypothetical Example (Daily 3x Leveraged ETF)

Index declines 1%



If a 3x Product has \$100 million in Net Assets, \$300 million of Fund Exposure to the fund's underlying index must be maintained.

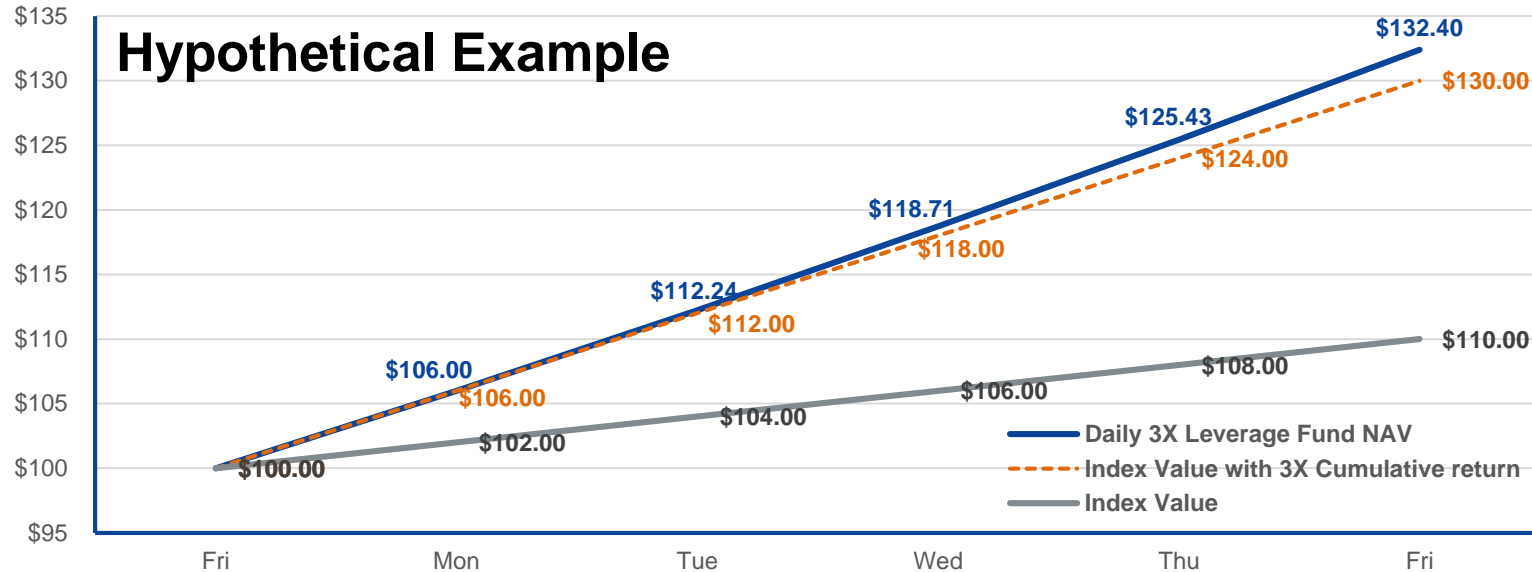
If the index decreases by 1% in a trading day, the Fund Exposure would decline to \$297 million and Net Assets would thus decline to \$97 million, resulting in a \$3 million loss.

Since Fund Exposure must equal 300% of Net Assets at the close of each trading day (\$97 million in Net Assets x 300% = \$291 million), \$6 million of exposure must be reduced to the Fund Exposure.

Leveraged & Inverse ETFs

Implication of Compounding (Trending market)

- When markets show a trend daily rebalancing can amplify multi-period returns
- Fund's return may exceed product of *Index Return x Fund's Beta*

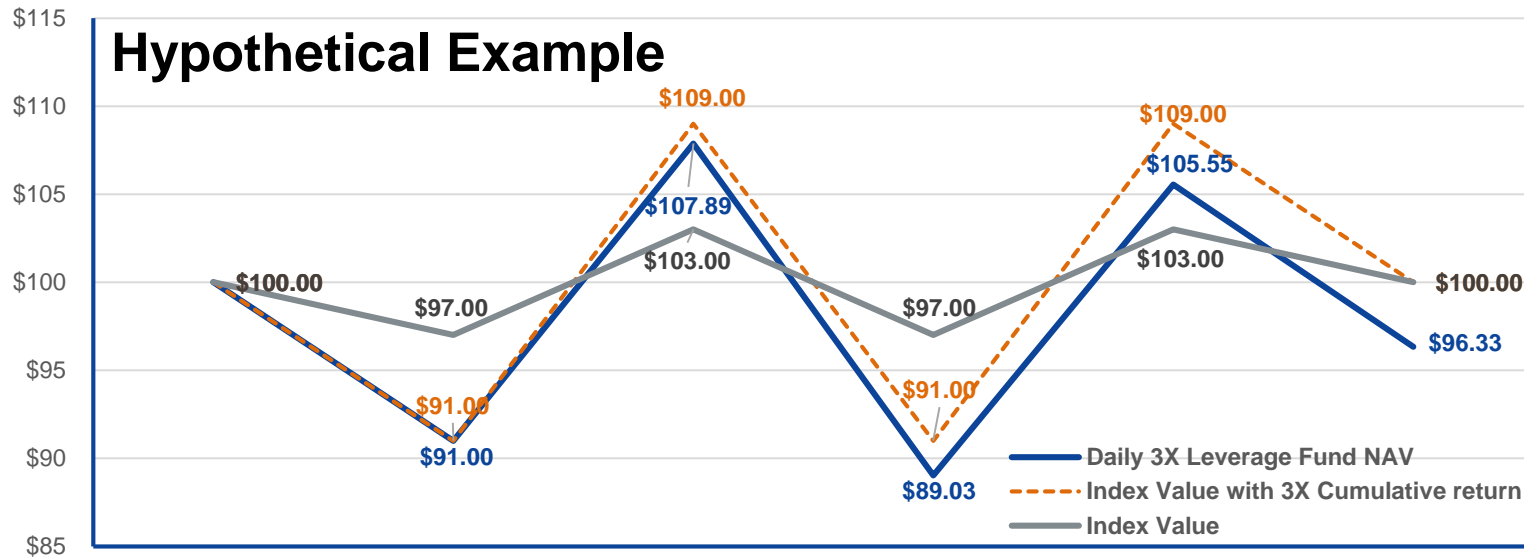


	Index Value	Index Daily Return	Index Cumulative Return	Index Cumulative Return x3	Index Value with 3X Cumulative return	3X Fund Daily Expected Return	Daily 3X Leverage Fund NAV	Cumulative Fund Return
Fri	\$100.00				\$100.00		\$100.00	
Mon	\$102.00	2.00%	2.00%	6.00%	\$106.00	6.00%	\$106.00	6.00%
Tue	\$104.00	1.96%	4.00%	12.00%	\$112.00	5.88%	\$112.24	12.24%
Wed	\$106.00	1.92%	6.00%	18.00%	\$118.00	5.77%	\$118.71	18.71%
Thu	\$108.00	1.89%	8.00%	24.00%	\$124.00	5.66%	\$125.43	25.43%
Fri	\$110.00	1.85%	10.00%	30.00%	\$130.00	5.56%	\$132.40	32.40%

Leveraged & Inverse ETFs

Implication of Compounding (Choppy market)

- When markets have no trend daily rebalancing can reduce multi-period returns
- Fund return may trail the product of *Index Return x Fund's Beta*



	Fri	Mon	Tue	Wed	Thu	Fri		
	Index Value	Index Daily Return	Index Cumulative Return	Index Cumulative Return x3	Index Value with 3X Cumulative return	3X Fund Daily Expected Return	Daily 3X Leverage Fund NAV	Cumulative Fund Return
Fri	\$100.00				\$100.00		\$100.00	
Mon	\$97.00	-3.00%	-3.00%	-9.00%	\$91.00	-9.00%	\$91.00	-9.00%
Tue	\$103.00	6.19%	3.00%	9.00%	\$109.00	18.56%	\$107.89	7.89%
Wed	\$97.00	-5.83%	-3.00%	-9.00%	\$91.00	-17.48%	\$89.03	-10.97%
Thu	\$103.00	6.19%	3.00%	9.00%	\$109.00	18.56%	\$105.55	5.55%
Fri	\$100.00	-2.91%	0.00%	0.00%	\$100.00	-8.74%	\$96.33	-3.67%

Leveraged & Inverse ETFs

Example of Investors use Leveraged & Inverse ETFs

1. **Rapid market exposure Efficient**
2. Long / short relative value using securities
3. **Efficient deployment of capital**
4. Alternative to derivatives / futures
5. **Portfolio hedging**
6. Interim beta / portfolio rebalancing
7. **Opportunistic trading (e.g earnings, US Fed announcements)**
8. Access fixed income, commodities, real estate
9. Options / volatility trading
10. Strategic (arbitrage, double short)

Leveraged & Inverse ETFs

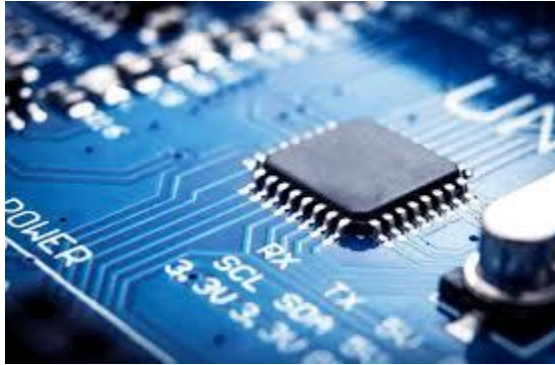
Popular investment themes and indices (US Market)



Event/View	Index & investment theme selection
	S&P 500
US Macro Economics/US large cap corporate earnings Broadmarket movement & view	S&P 500 High Beta
US Technology/ Internet sector view & trend/corporate earnings/ new technology development	Technology Dow Jones Internet

Leveraged & Inverse ETFs

Popular investment themes and indices (Sector/Thematic)



Event/View	Index & investment theme selection
Semi-conductor view & trend/ Demand on 5G and technology enhancement	Semi-conductors
Oil price/ Oil & gas view & trend/corporate earnings/energy demand & consumption marco economy recovery pace	Oil & gas production & exploration
	Energy
Goldminer view & trend/corporate earnings/Expectation on gold price movement	Goldminers
	Junior Goldminers

Leveraged & Inverse ETFs

Popular investment themes and indices (Sector/Thematic)

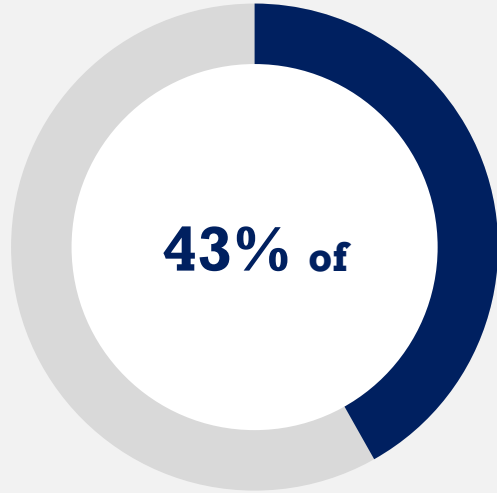


Event/View	Index & investment theme selection
Healthcare/ Pharmaceuticals & Medical/ Biotech Healthcare policy changes/corporate earning/new develop of covid-19 vaccine and others	Healthcare S&P biotech Pharmaceutical & Medical
Banking and Financial sector view/corporate earnings US interest rate cycle/monetary policy changes	Financial Regional Banks 7-10 Year Treasury 20+ Year Treasury

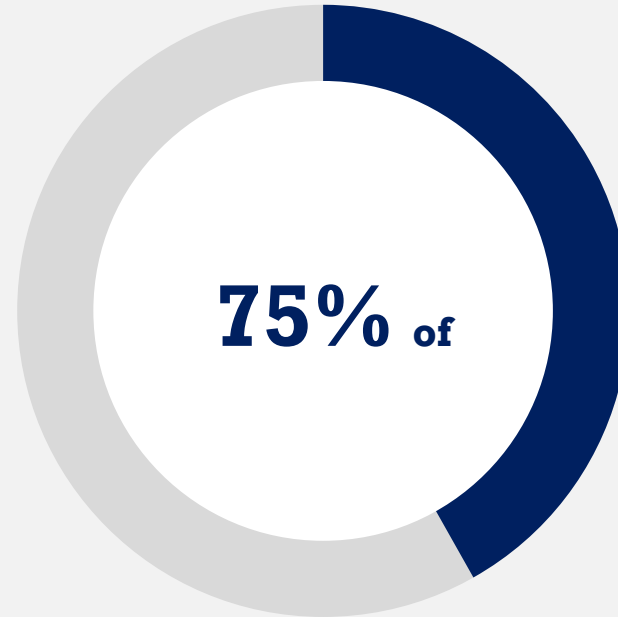


Investment theme in remote revolution trend

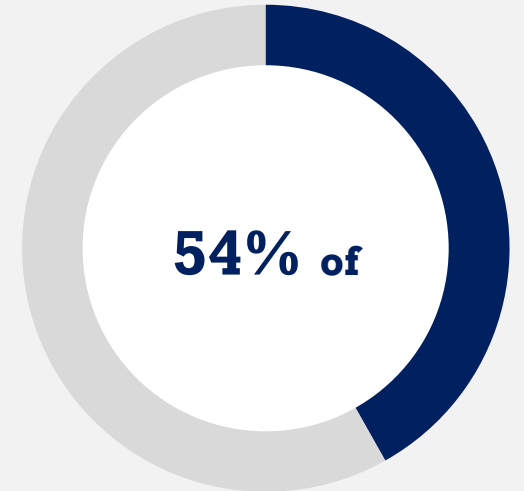
Work From Home Investment case



Employed Americans are spending at least some time working **remotely**



Fortune 500 CEOs say they're planning to accelerate the technological transformation of the company



companies plan to make remote work a **permanent option**. (61% of which are **Financial Services**)

Work From Home Investment Theme- 4 Pillars

CLOUD TECHNOLOGIES

Due to the need for data to be securely stored, accessed, and shared remotely, companies offering cloud technology services and on-demand availability to computer systems may benefit.



CYBERSECURITY

More flexible workspaces open the potential for increased cyber threats that likely increases the demand for companies offering cybersecurity systems.

Solactive Remote Work Index tracks **four technology sectors** stand to benefit from an increasingly flexible work environment.

PROJECT & DOCUMENT MANAGEMENT

Remote Work Requires Applications that enable the management of projects and collaborations across individuals and teams boosting the needs for tools to enable this to occur efficiently and securely.



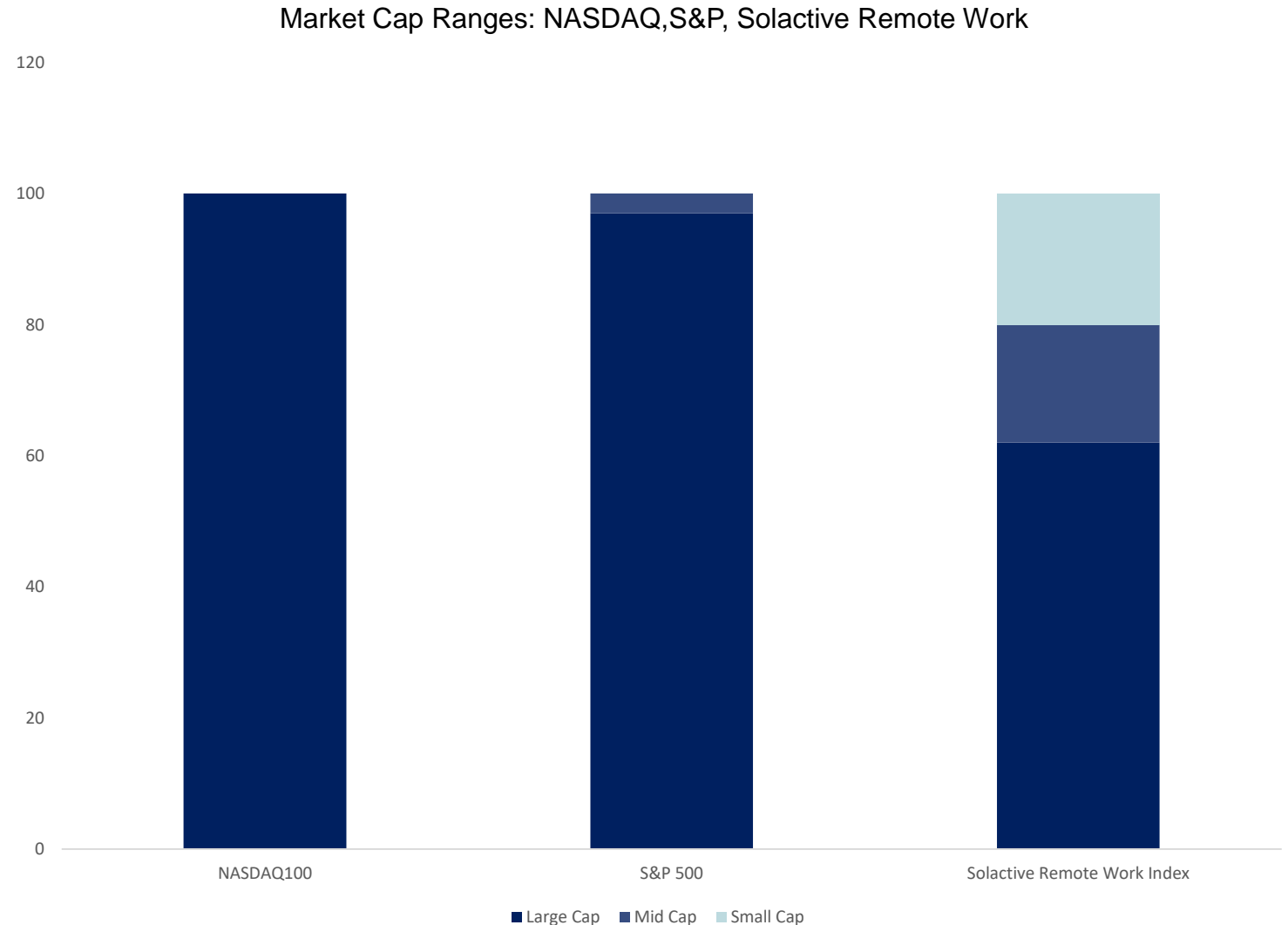
REMOTE COMMUNICATIONS

With workers in sporadic locations, the need for videoconferencing, instant messaging and email applications will increase, so that coworkers can be connected even when not together physically.

Work From Home Investment Theme- Market Cap breakdown

Implications of an Equal-Weighted Index

- Under market-cap weighting, performance of an index can be dominated by a small number of stocks. In comparison, an equal-weighted index may provide **greater diversification potential**
- An equal-weighted index allows investors to gain more exposure to small and medium cap firms, giving investors a **broader participation potential**
- The Solactive Remote Work Index has provided **higher historical returns** with similar levels of **volatility**



Work From Home Investment Theme-Stock Examples

Cloud Technologies

1. Amazon
2. Microsoft Corporation
3. Oracle
4. Inseego
5. Hewlett Packard Enterprise Co



Cybersecurity

1. CrowdStrike Holdings Inc
2. Elastic NV
3. Ping Identity Holding Corp
4. Okta
5. Fortinet

Project & Document Management

1. Alphabet Inc
2. Dropbox Inc
3. Workday Inc
4. Adobe Inc
5. Slack Technologies Inc

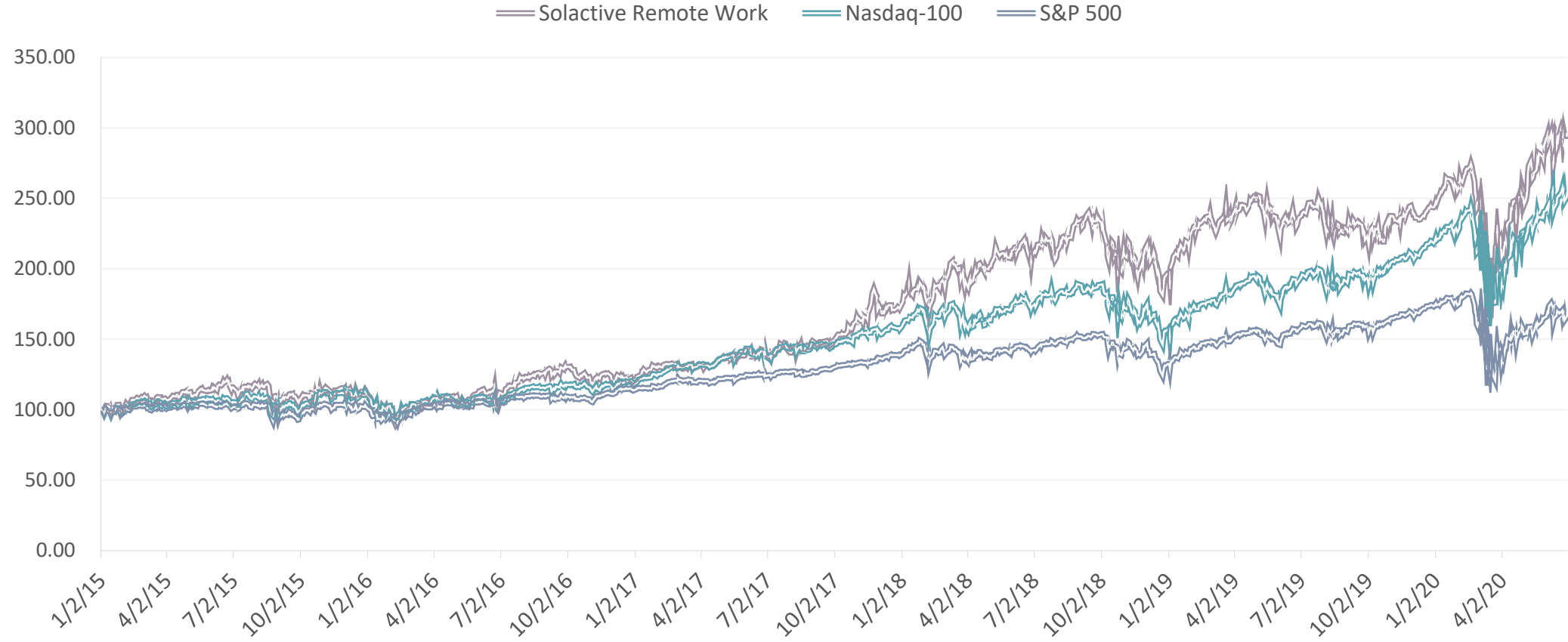


Remote Communications

1. Zoom Video Communications Inc
2. Avaya Holdings Corp
3. Facebook, Inc
4. Twilio Inc
5. LogMeInInc

Work From Home Investment Performance

SOLACTIVE REMOTE WORK INDEX



Connected Consumer Investment Case

5-Year Compound Annual Growth Rate (CAGR)

Annual revenues in all categories below are expected to compound at strong rates through 2025.

eSports
43%¹

**Online
Education**
29%²

**Social Media
Advertising**
8%³

Telemedicine
38%⁴

[1] Researchandmarkets.com (2020): "Global eSports Market"

[2] Kenneth Research (2018): "Global Online Education Market 2017-2023 Industry Research Report"

[3] Statista (2020): "Social Media Usage"

[4] Frost & Sullivan (2020): "Telehealth – A Technology-Based Weapon in the War Against Coronavirus, 2020"

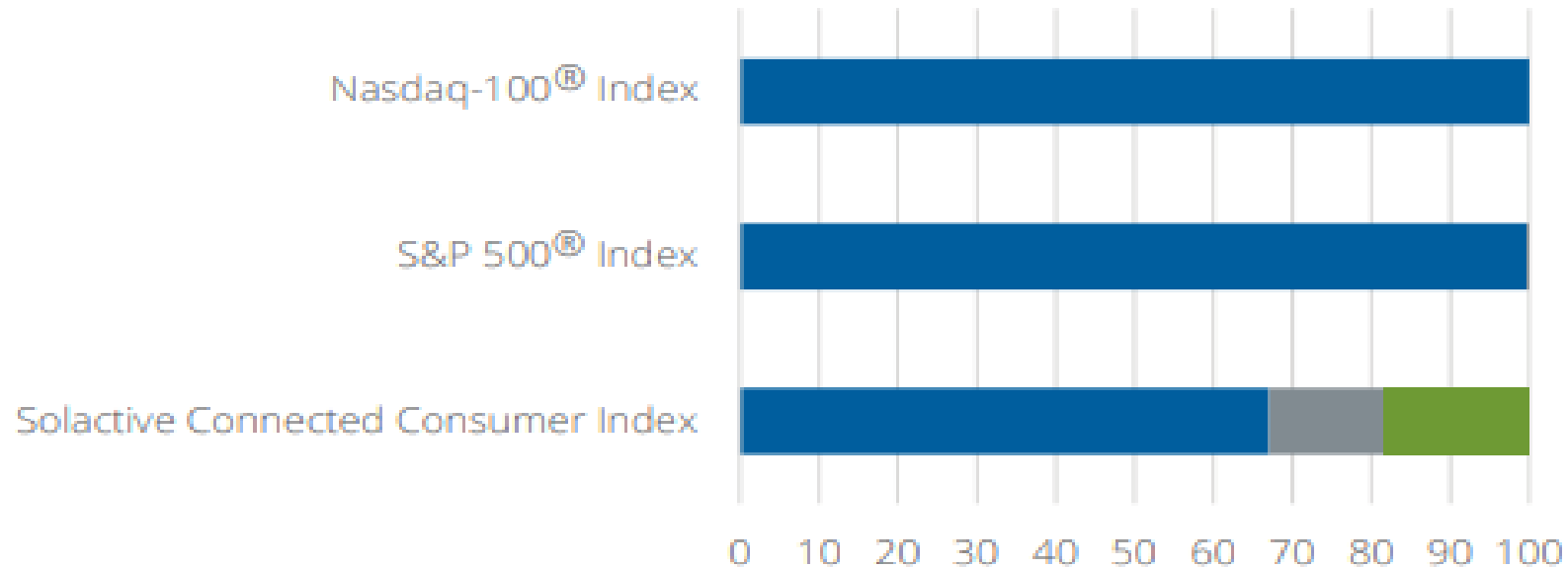
Projected increases to the market size of online and virtual services are not guaranteed and may not translate to favorable fund performance.

Forecasted growth should not be relied upon when making investment decisions.

Connected Consumer Investment Theme- Market Cap breakdown

Market Cap Ranges

■ Large Cap ■ Mid Cap ■ Small Cap



Source: Bloomberg Finance, L.P., as of June 30, 2020. Weightings are subject to change. One cannot invest directly in an index.

Connected Consumer Investment Theme- Stock Examples

Home Entertainment

1. Activision Blizzard, Inc
2. NetEase, Inc
3. Take-Two Interactive Software, Inc
4. Netflix, Inc
5. Nvidia Corporation



Online Education

1. K12 Inc
2. 2U, Inc
3. TAL Education Group
4. New Oriental Education & Tech Group
5. Chegg, Inc



Remote Health & Well-Being

1. Teladoc Health, Inc
2. Pelton Interactive, Inc
3. Biotelemetry, Inc
4. SmileDirectClub Inc
5. eHealth, Inc



Virtual & Digital Social Interaction

1. Facebook, Inc
2. Snap, Inc
3. Alphabet, Inc
4. 8X8, Inc
5. Zoom Video Communications, Inc





Thank you



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