



# Fed Policy Indecision



# Don't Fight the Fed



Federal Reserve Chair Janet Yellen addresses the Institute for New Economic Thinking Conference on Finance and Society at the IMF in Washington May 6, 2015  
REUTERS/KEVIN LAMARQUE

“We need to be attentive to the possibility that **when the Fed decides that it’s time to begin raising rates,** these term premiums could move up and **we could see a sharp jump in long-term rates,”** she said.

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Although participants expressed different views about the likely timing and pace of policy firming, they agreed that the Committee’s decision to begin firming would appropriately depend on the incoming data and their implications for the economic outlook. **A few anticipated** that the information that would accrue **by the time of the June meeting** would likely indicate sufficient improvement in the economic outlook to lead the Committee to judge that its conditions for **beginning policy firming** had been met.

*Source: Minutes of the April 29, 2015, Federal Reserve meeting, [www.federalreserve.gov](http://www.federalreserve.gov)*

# 10-Year U.S. Treasury Rates vs. Fed Funds Rate

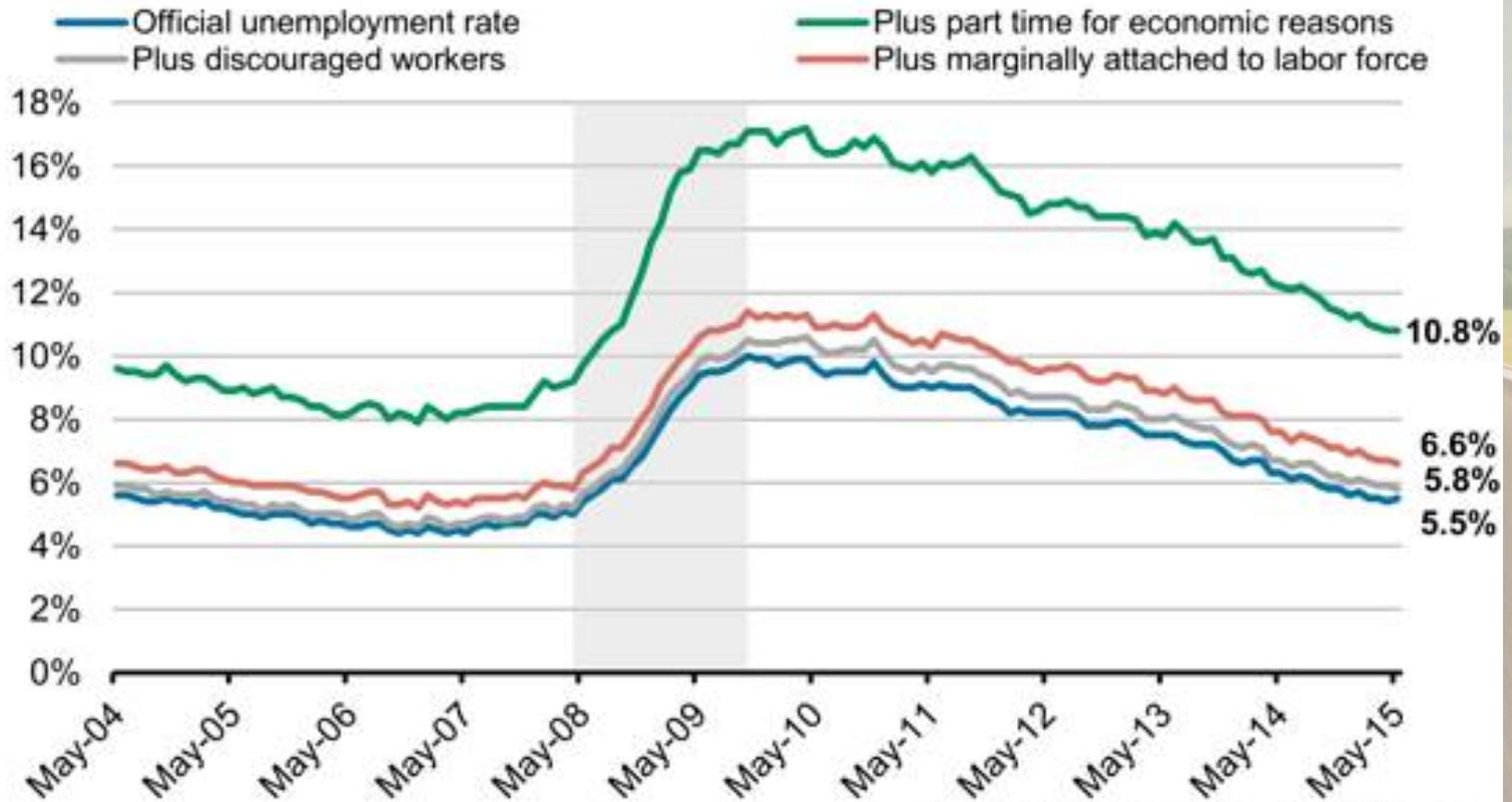


Source: Bloomberg, May, 2015

# Unemployment Rate – Good News or Bad News?

## Falling Steadily

Unemployment rate, seasonally adjusted

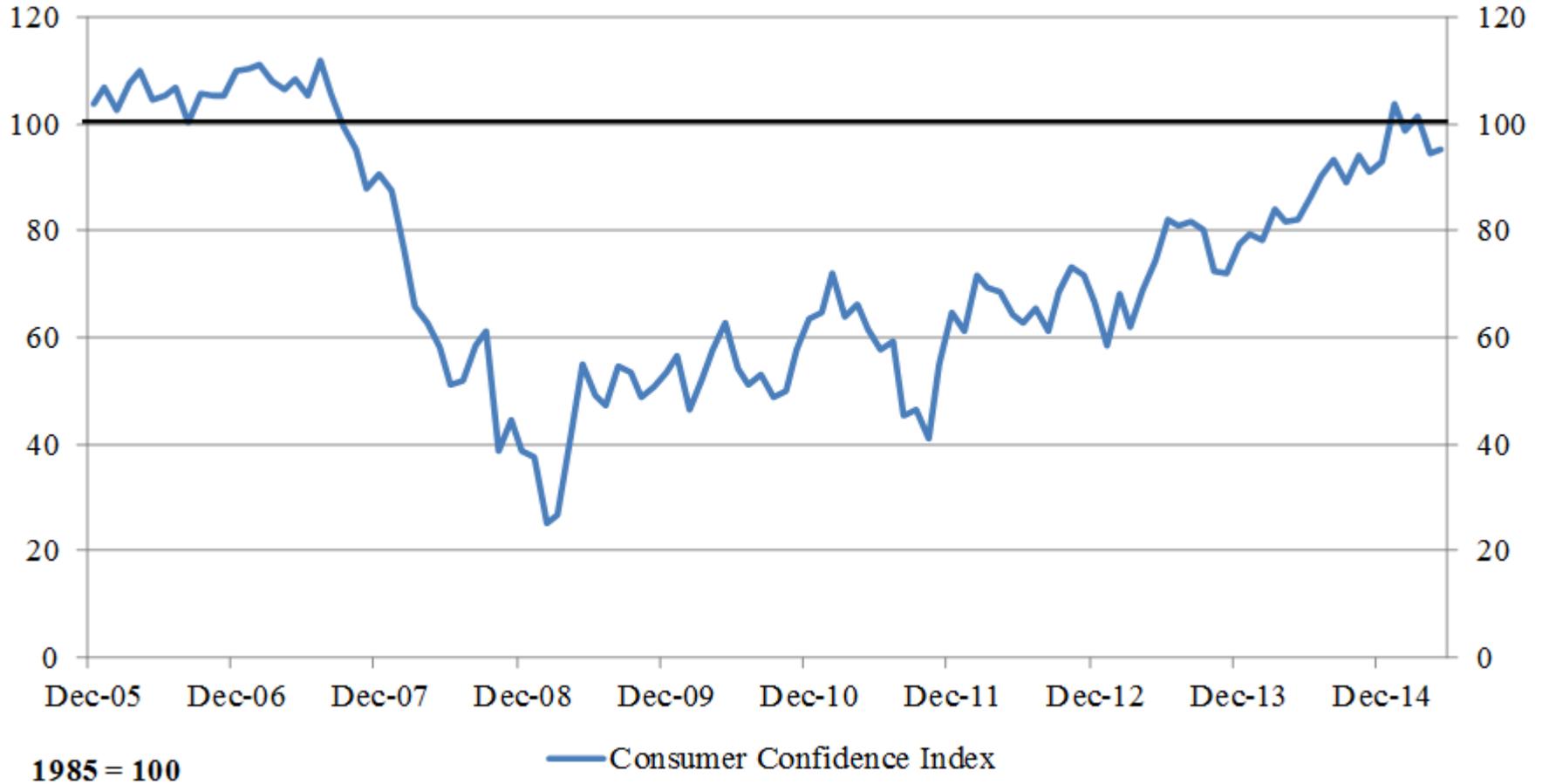


Source: Labor Department | WSJ.com

Source: The Wall Street Journal, June 5, 2015

# Confidence Has Rebounded

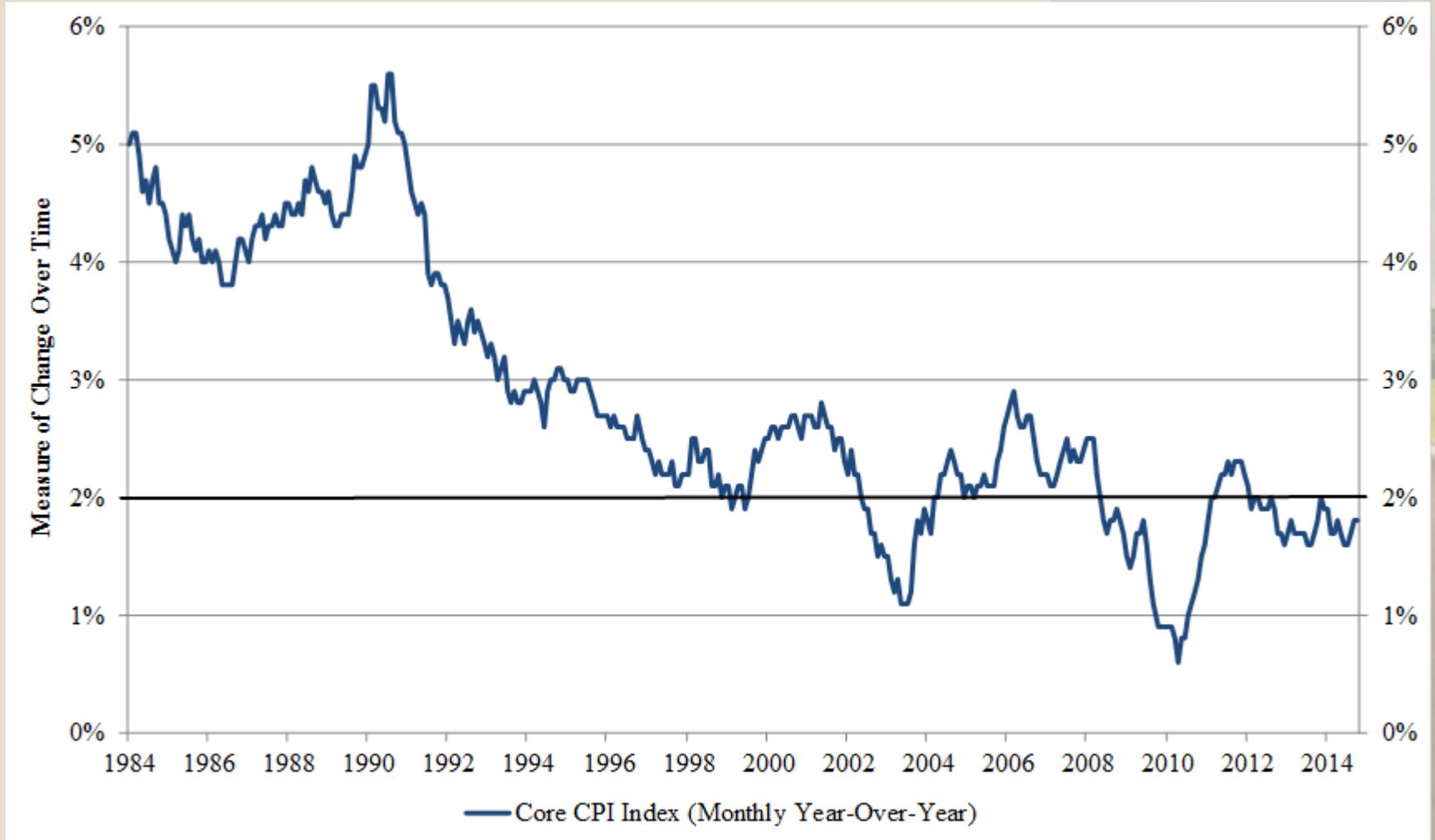
Consumer Confidence Near Pre-Crisis Levels



Source: Bloomberg, May, 2015

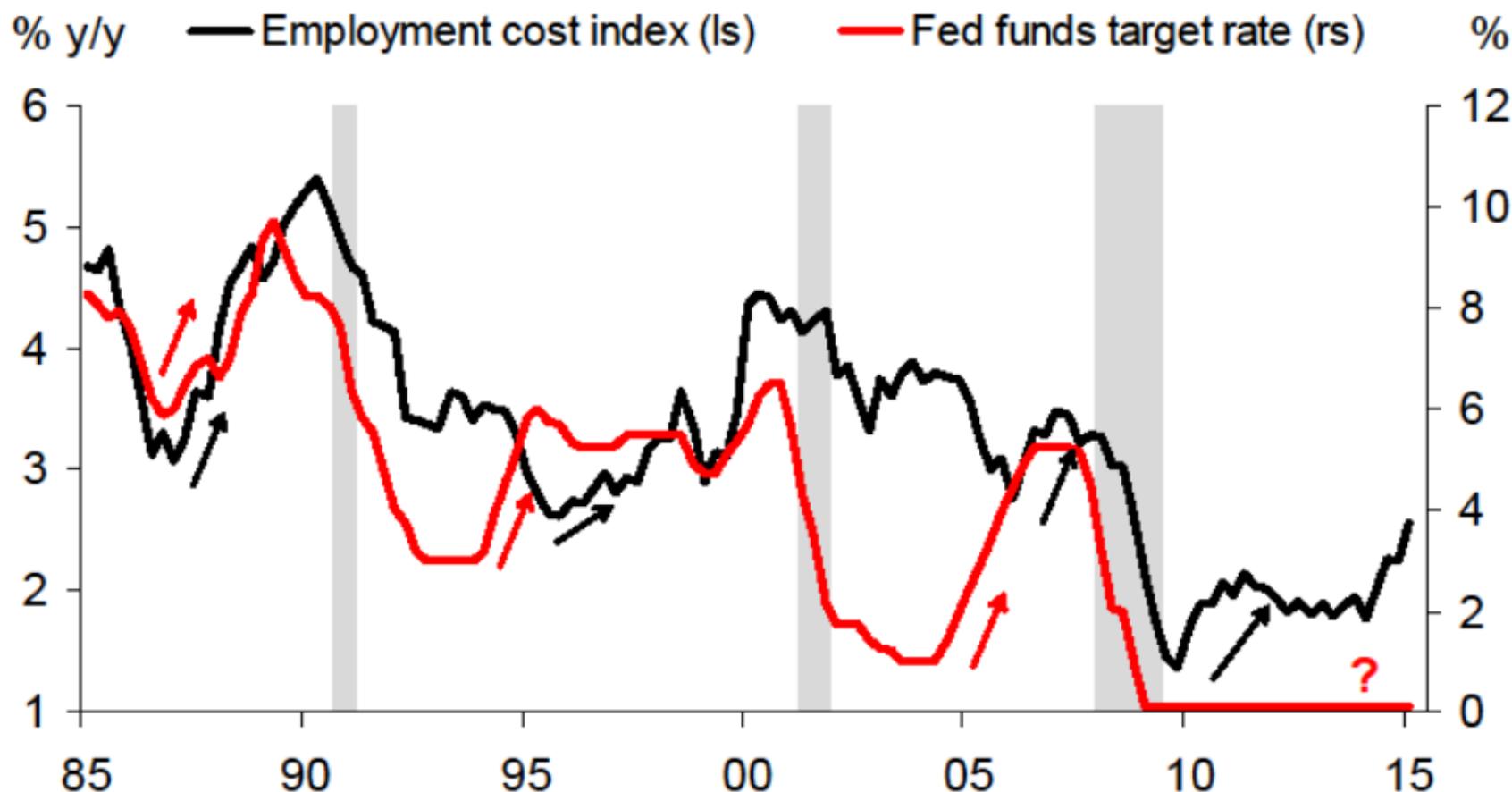
# Inflation is Still Low

## Consumer Price Index



Source: Bloomberg, May, 2015

Historically a rising employment cost index (ECI) has been associated with Fed hikes – in the 1990s and 2000s the Fed even hiked before we had seen a rise in the ECI

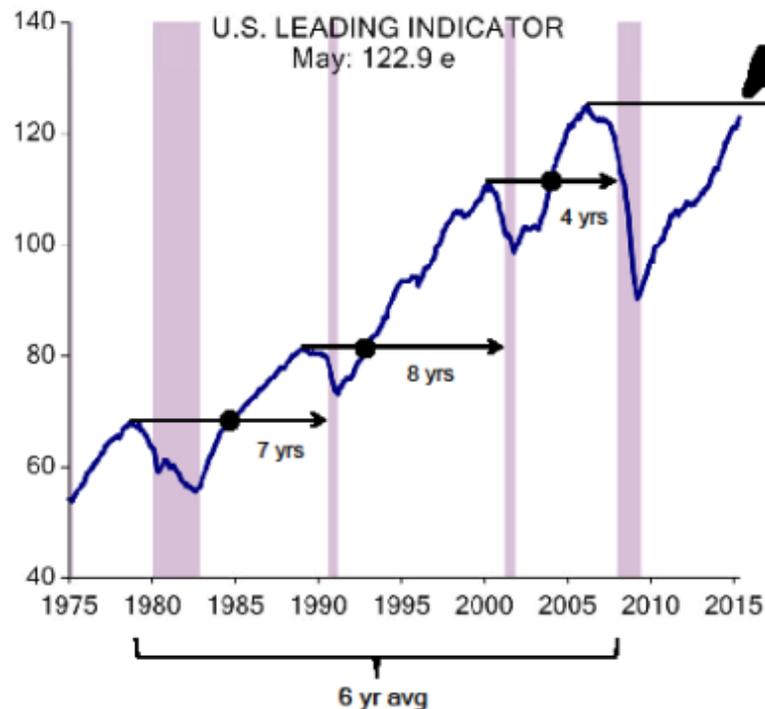


Source: BLS, FRB, DB Global Markets Research

## Seminal Event Coming Up

The LEI increased +0.9% in April including revisions, and probably will be up +0.5% in May, bringing it close to its prior peak. In the past, when this has happened:

- Wages have accelerated.
- The Fed has tightened.
- The next recession has been 6 years off on average.





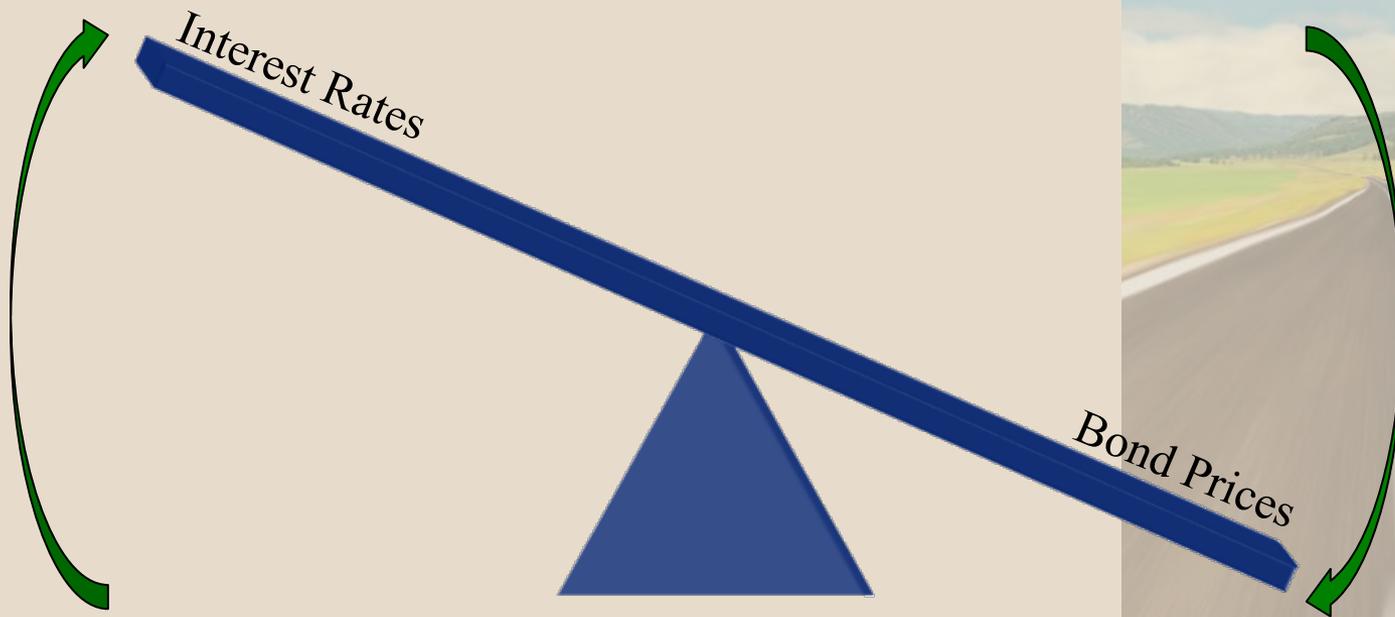
# When Rates Rise

What Could Happen?

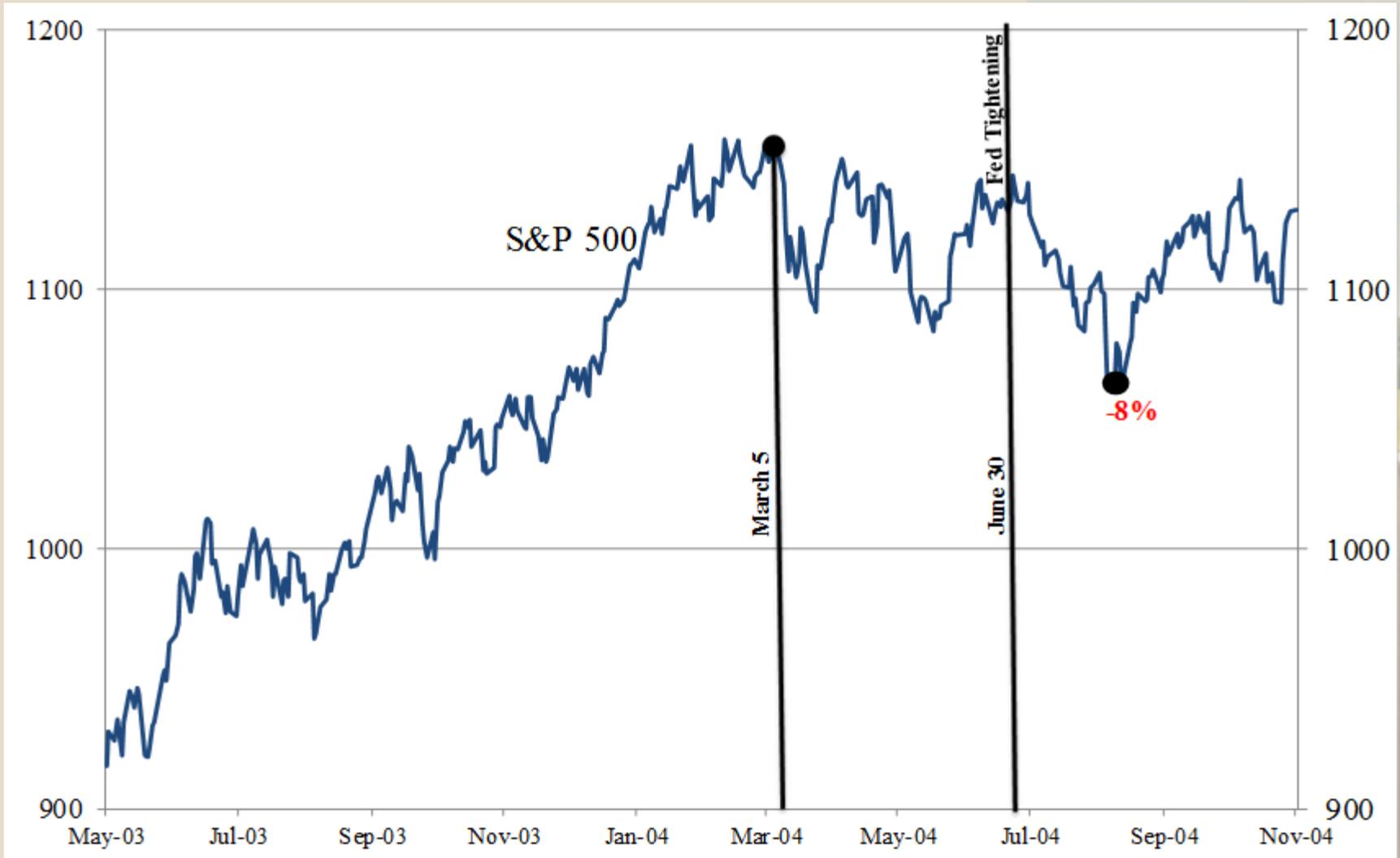
What Can Be Done?

When Interest Rates Rise, Bond Prices Fall

Market Interest Rates and Prices of Fixed-Rate Bonds Move in Opposite Directions



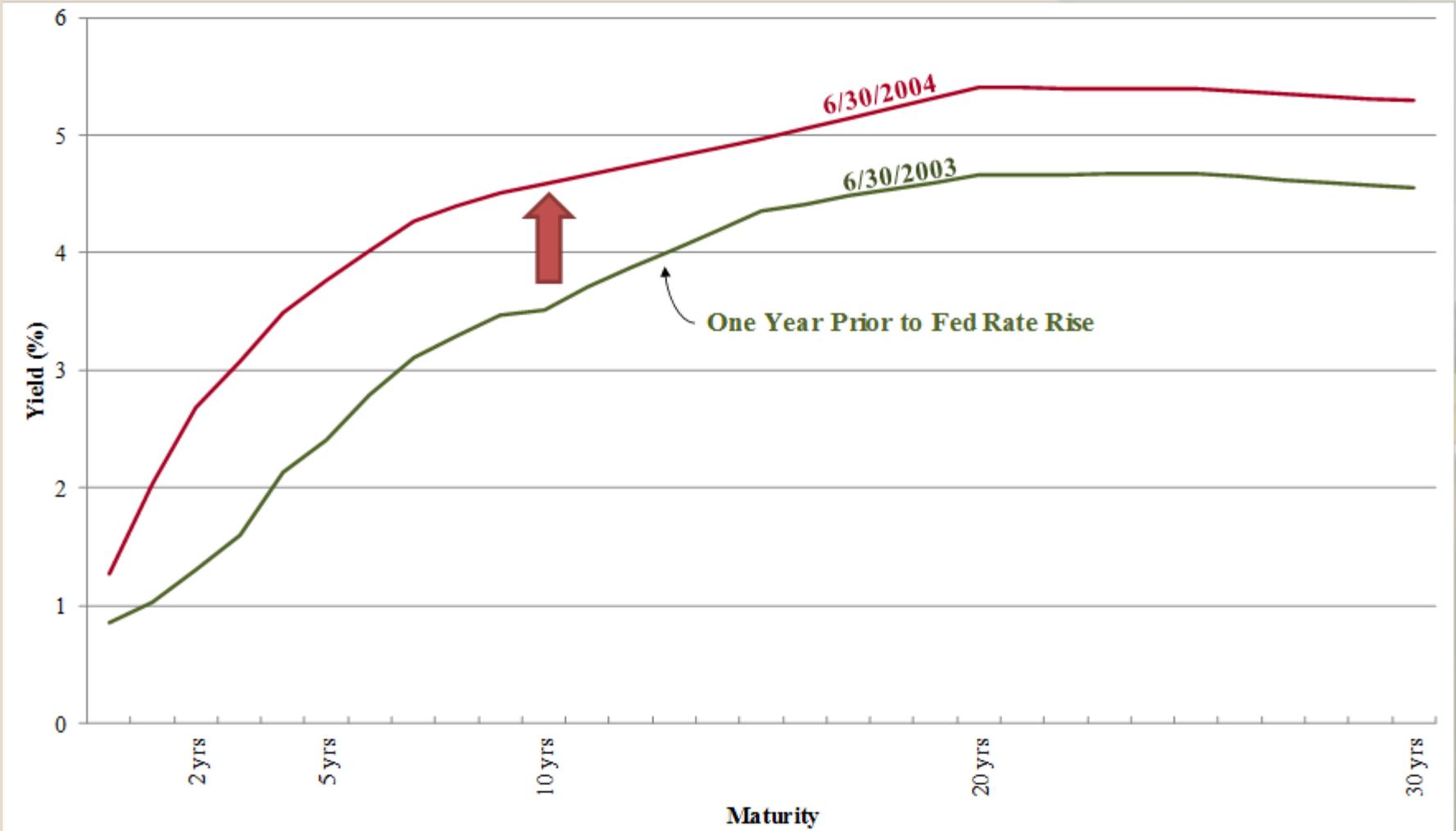
## Previous Market Reaction to Federal Reserve Tightening



Source: Bloomberg, May, 2015

# Yields Rise Before the Fed Acts

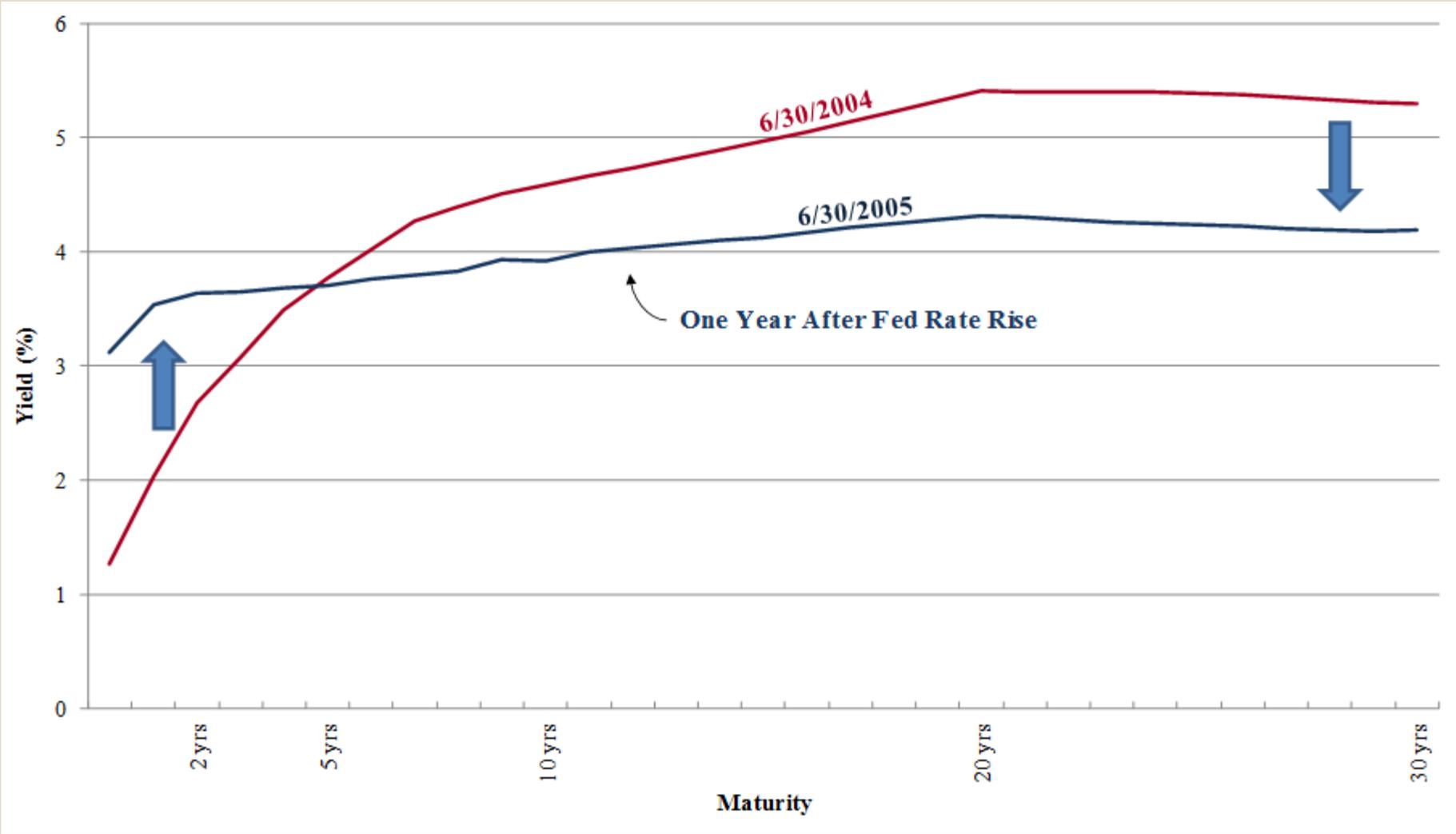
Federal Reserve Last Raised Rates 06/30/2004



Source: Bloomberg, May, 2015

Post Rate Rise

Federal Reserve Last Raised Rates 06/30/2004



Source: Bloomberg, May, 2015

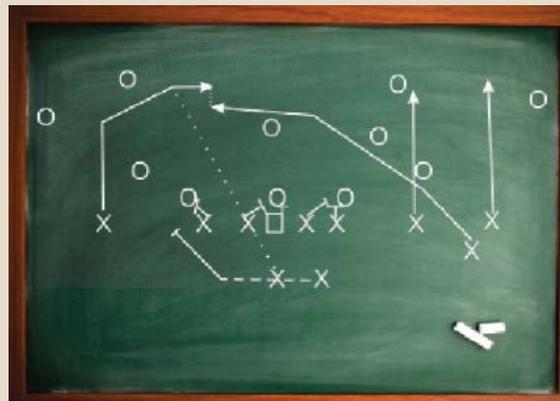
## Play Defense in the Traditional Way

### Defensive Strategies

- Shorten maturity/duration
- Increase cash weighting
- Add floating rate notes

### Associated Risks or Costs

- Low income
- Low or no income
- Spreads widen



## Play Defense in a Brand New Way – Sit Rising Rate ETF

### Investment Goal:

Directly benefit from a rise in the interest rate of U.S. Treasury notes.

### Portfolio Characteristics:

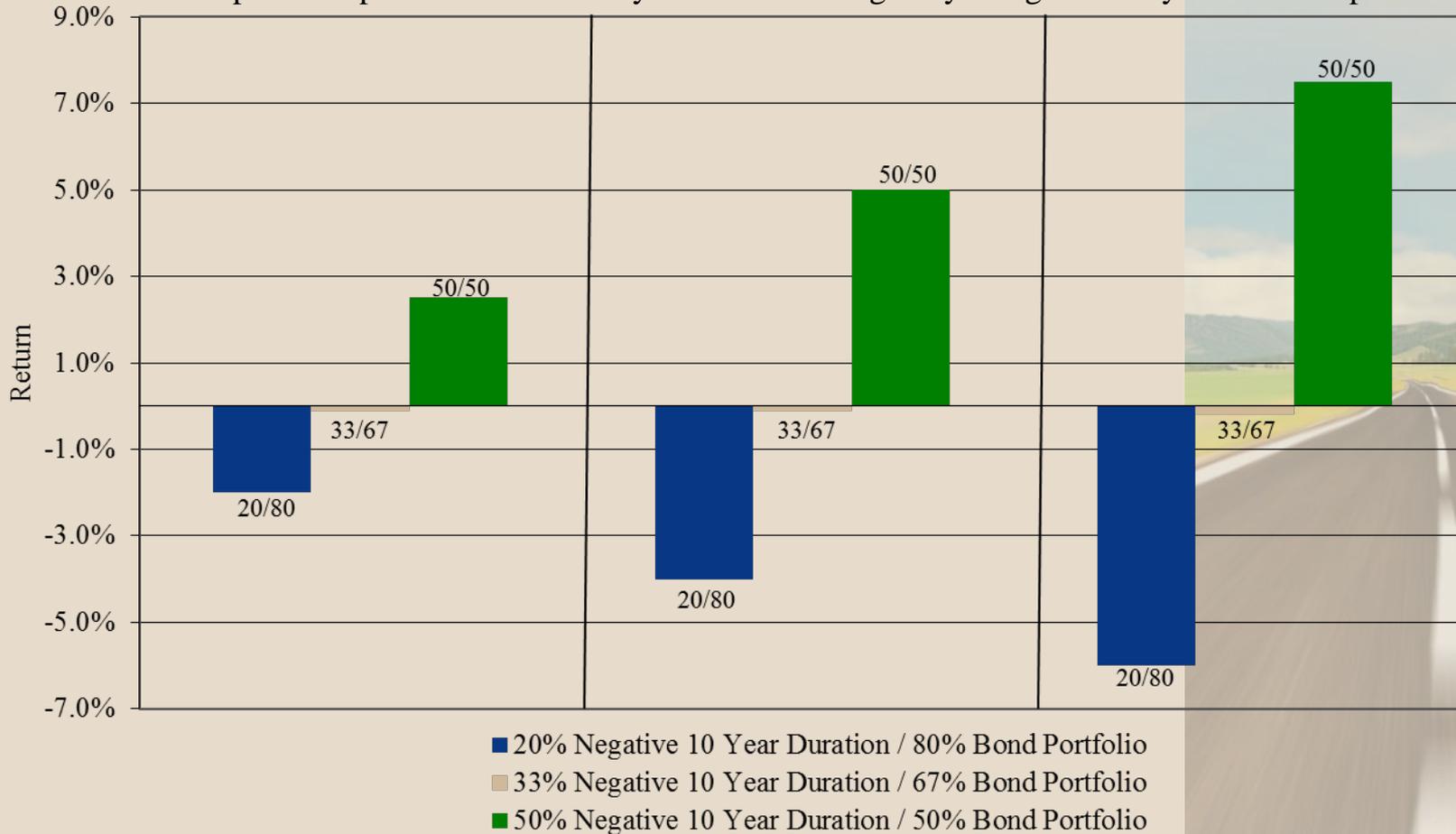
The portfolio targets a **negative 10-year duration** using futures and options on 2, 5 and 10-year maturity Treasury futures contracts. Approximately 90% of the portfolio is invested in Treasuries.

**RISE**  
E T F

[www.risingrateetf.com](http://www.risingrateetf.com)

## 5 Year Duration Bond Portfolio Hedged by Negative 10 Year Duration (Assumes a Constant Duration)

Sample bond portfolio with a 5.0-year duration hedged by a negative 10-year duration portfolio



30% Hedge with Sit



\* Net of fees

# Important Disclosures

## Performance Results – Gross of Fees

Gross returns were calculated on a time-weighted total return basis, including all dividends and interest, accrued income, realized and unrealized gains or losses. Returns for periods greater than one year are annualized. Gross of fees performance is presented net of brokerage commissions and execution costs, but does not reflect deduction for custodial and investment advisory fees, or the impact of income taxes. These expenses will reduce a client's return. For example, a \$5 million portfolio earning a 10% annualized return over 5 years would be valued at \$8.1 million. The same portfolio with an annual fee of 0.75% would be valued at \$7.8 million net of investment management fees. Advisory fees are described in Form ADV part II. Please see the composite presentation including net of fees results is at the end of the disclosure section.

Index returns are presented as total returns, reflecting both price performance and income from dividend payments. The indexes are unmanaged and reflect no fees or expenses.

Past performance is not indicative of future performance. Investment return and principal value of an investment will fluctuate so that the value of an account may be worth more or less than the original invested cost.

**This gross performance presentation is intended for use in meetings with certain investors, or to be provided to consultants who are instructed to provide this information only on a one-on-one basis with qualified clients with the above disclosures.**

## Supplemental Information

Portfolio characteristic information is supplemental to and complements the composite presentation at the end of the disclosure section. The account characteristic information presented is for the representative portfolio, is provided for illustrative purposes only and reflects one account within the composite. Characteristics of the representative portfolio shown may differ from those of the composite and of the other accounts in the composite. Allocations and security selection are subject to change. There is no assurance that any security discussed herein will remain in an account's portfolio.

The information provided in this report should not be considered a recommendation of any particular security or strategy.

# Sit Investment Associates, Inc. Custom Alpha Rising Rates Composite Annual Disclosure Presentation

Year End	Total Firm Assets (millions)	Composite Assets (USD) (millions)	Number of Accounts	Composite 3-Yr. Standard Dev. (%)	Benchmark 3-Yr. Standard Dev. (%)	Barclays US Treasury Bellwether 30 Year Index	Annual Performance Results Composite		Composite Dispersion
							Gross	Net	
2014	13,505.0	44.2	1	4.9%	11.7%	29.38%	2.56%	1.04%	N/A
2013	13,103.3	145.0	2			-15.03%	-3.72%	-5.17%	0.30%
2012	13,081.6	115.8	2			2.34%	5.27%	3.72%	N/A
2011*	10,895.1	6.2	1			1.95%	-0.07%	-0.45%	N/A

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

\* Partial Year from 10/1/2011 to 12/31/2011

Sit Investment Associates, Inc. claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sit Investment Associates, Inc. has been independently verified for the period January 1, 2007 to December 31, 2013 by Ashland Partners & Company LLP and for the period January 1, 1997 through December 31, 2006 by KPMGLLP. A copy of the verification report(s) is/are available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

The Custom Alpha Rising Rates Composite was created on September 30, 2011. Custom Alpha Rising Rates Composite contains fully discretionary accounts and for comparison purposes is measured against the Barclays Bellwether 30 Year Treasury Index. There is no minimum account size. Portfolios in this composite invest primarily in futures and options to obtain negative duration and benefit as interest rates rise and increase the value of the futures and options. Following this, the remaining funds (approximately 90%) are used to purchase primarily in seasoned U.S. Agency mortgages and using them, in turn, as collateral for more purchases of seasoned mortgages until the original investment grows 3.5 times (\$1 becomes \$3.50).

Sit Investment Associates, Inc. is an independent registered investment adviser which includes the following subsidiaries: Sit Investment Fixed Income Advisors, Inc.; and Sit Investment Fixed Income Advisors II, Inc. On December 31, 2007, Sit/Kim International Investment Associates, Inc. and Sit/Kim International Investment Associates II, LLC were liquidated into Sit Investment Associates, Inc. Prior to 2000, Sit Investment Associates, Inc. and Sit/Kim International Investment Associates, Inc. issued separate GIPS reports, including disclosure of each entity's assets under management. Beginning in 2000 the two entities issued a combined GIPS report to reflect the entities' current operational and management affiliation. Total assets for all years presented in the table above reflect the combined total assets of all subsidiaries. The firm maintains a complete list and description of composites, which is available upon request.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using the highest fee applicable annual management fee of 1.50% applied quarterly. The annual composite dispersion presented is an equal-weighted standard deviation calculated for the accounts in the composite the entire year. Beginning April 1, 2006, SIA calculates a true Time Weighted Return (TWR) for each portfolio within the composite and asset weights their returns to come up with a composite return. Periods are geometrically linked together. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The investment management fee schedule for the composite is 1.50% on the balance. Actual investment advisory fees incurred by clients may vary.

The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The standard deviation is not presented for 2011 through 2013 because three years of monthly composite returns were not available.

Past performance is not indicative of future results.



## RISE ETF Disclaimers

Carefully consider the Fund's investment objectives, risk factors, charges, and expenses before investing. This and additional information can be found in the Fund's prospectus, which may be obtained by calling 844.ETF.MGRS (1.844.383.6477), or by visiting [www.RisingRateETF.com](http://www.RisingRateETF.com). Read the prospectus carefully before investing.

Past performance does not guarantee future results.

An investment in the Fund involves risk. As with any investment, you could lose all or part of your investment in the Fund, and the Fund's performance could trail that of other investments. The Fund is subject to principal risks which may adversely affect the Fund's NAV, trading price, yield, total return and ability to meet its investment objective. The use of derivatives and/or short positions, such as through futures and options, generally are volatile and are not suitable for all investors.

The Fund is not a mutual fund or any other type of investment company within the meaning of the Investment Company Act of 1940, as amended, and is not subject to regulation thereunder.

Investments in debt securities typically decrease in value when interest rates rise, however, the Fund attempts to maintain a portfolio with a negative effective duration and therefore anticipates that an increase in interest rates may increase the Fund's value, and a decrease in rates may lower the Fund's value. The NAV of the Fund's shares relates directly to the value of U.S. Treasuries and Treasury Instruments held by the Fund which are materially impacted by interest rate movements. The magnitude of the impact on value from a change in interest rates is often greater for longer-term fixed income securities than shorter term securities.

You should carefully consider whether your financial condition permits you to participate in a commodity pool. In doing so, you should be aware that that commodity interest trading can quickly lead to large losses as well as gains. Such trading losses can sharply reduce the net asset value of the pool and consequently the value of your interest in the pool. In addition, restriction on redemptions may affect your ability to withdraw your participation in the pool.

Further, commodity pools may be subject to substantial charges for management, advisory and brokerage fees. It may be necessary for those pools that are subject to these charges to make substantial trading profits to avoid depletion or exhaustion of their assets.

The Fund is distributed by Esposito Securities, LLC which is not affiliated with ETF Managers Capital, LLC, Sit Fixed Income Advisors II, LLC or Sit Investment Associates, Inc. nor any of their affiliates. Esposito Securities, LLC also serves as the Registered Broker Dealer for ETF Managers Capital, LLC's Registered Representatives.

ETF Managers Capital, LLC is the sponsor and investment manager to the fund. ETF Managers Capital, LLC, is registered with the Commodity Futures Trading Commission as a "commodity pool operator" and a member of the National Futures Association.

Sit Fixed Income Advisors II, LLC ("Sit Advisors") is registered as a "commodity trading advisor" and will act as such for the Fund. Sit Advisors is a subsidiary of Sit Investment Associates, Inc. ("Sit"). Sit is a full product global asset manager offering management expertise in domestic equities, international equities and fixed income instruments.

Your ETF.  
Your Way.



### Who We Are

Exchange Traded Managers Group (ETFMG) offers the only full service access to all ETF types.

### Our Mission

Revolutionize the exchange traded products marketplace empowering issuers to launch their unique ETF products with the support of a high end, controlled environment engineered to fit their needs.

### How We Do It

We provide new issuers with a seamless, fully managed, white labeled service engineered to provide accelerated entry into the ETF market in the most time and cost efficient way available today.

## Accelerated Market Entry: As little as 75 days

ETFMG has built a seamless, fully managed, white-labeled service for investment managers & index providers interested in sponsoring ETFs in a controlled environment tailored to fit their unique needs.

- ✓ ETFMG facilitates the entire regulatory, legal and offering process.
- ✓ ETFMG manages the daily compliance, origination, operational and administrative functions of an ETF while the investment manager focuses on raising assets through market education.
- ✓ ETFMG offers the only comprehensive platform for all types of exchange traded products.



“At ETFMG we break down barriers allowing you to launch **Your ETF. Your Way.**”

<p><b>1</b> ACCELERATED ENTRY</p>	<p><b>2</b> CUSTOM FIT</p>	<p><b>3</b> HIGH EFFICIENCY</p>
<p><b>75 DAYS:</b> ETFMG can bring ETF's to market in as little as 75 days.</p> <p><b>PARTNERSHIPS:</b> Client partners will leverage our relationships with the best ETF service provider team we've assembled over the past 10 years based on experience, quality, and fair market client pricing.</p> <p><b>ETF LIQUIDITY:</b> Benefit from our vast relationships with the leading market maker and authorized participant desks.</p>	<p><b>PRODUCT ENGINEERING:</b> ETFMG's platform and service model allows our partners to enjoy a customized issuer experience designed to fit their unique needs.</p> <p><b>INFRASTRUCTURE:</b> Provide broad based issuer support through integrated infrastructure design and partnership agreements.</p> <p><b>OUR FOCUS IS ON YOU:</b> ETFMG does not manage any of it's own proprietary fund, we are 100% client focused.</p>	<p><b>OPERATIONAL SUPPORT:</b> ETFMG facilitates the entire regulatory, legal and offering process.</p> <p><b>ETF WHOLESALING:</b> Dedicated sales people for market education including; RAs, FAs, and institutional asset managers. Our services also extend to product presentations, industry conference representation, and institutional trade desks, (Service also offered as a third part option.)</p> <p><b>SCALE:</b> Our partners benefit from economies of scale by leveraging our expert service providers across our portfolio of products. They also enjoy favorable pricing power due to multiple product offerings.</p>

# UNRIVALED FULL SERVICE SOLUTION

**( E )**  
Expedited Launch

- Develop and manage all offering documents in conjunction with '33 and '40 Act ETF counsel
- Manage all regulatory filings and approvals with the SEC, FINRA, NFA & CFTC
- Facilitate all pre-launch activities including initial audit, seed capital and lead market maker
- Coordinate exchange listing, authorized participants, liquidity providers and 3rd party service providers

**( T )**  
Daily Tasks

- Marketing Management: Distribution, product education and product positioning
- Operational Management: Market makers, ETF creation/redemption orders and all 3rd party service providers
- Financial Management: Fund financial oversight, NAV reconciliation, website updates and reviewing sub-advisor performance
- Operational: Manage market maker, service providers and exchange relationships

**( F )**  
Financial Reporting

- Financial: Develop and create required financial statements, financial reporting (10-Qs, 10-Ks), K-1s and processing service provider payments
- Regulatory/Compliance: Regulatory filings, prospectus supplements and marketing material updates

<b>33 Act Commodity Pool Series Trusts</b>	<ul style="list-style-type: none"> <li>• Long/short double beta Factor ETFs</li> <li>• Each trust may issue multiple series</li> </ul>
<b>'40 Act Active relief for the issuance of actively managed ETFs</b>	<ul style="list-style-type: none"> <li>• Domestic &amp; International equities and debt</li> <li>• Long only, Long/short, 130/30 single beta ETFs</li> <li>• 20% derivatives</li> <li>• Fund-of-Funds</li> </ul>
<b>'40 Act Passive relief for the issuance of indexed ETFs</b>	<ul style="list-style-type: none"> <li>• Domestic &amp; International equities and debt</li> <li>• Long only, Long/short, 130/30 single beta ETFs</li> <li>• 20% derivatives</li> </ul>
<b>Targeted ETF Wholesaling and Marketing distribution services</b>	<ul style="list-style-type: none"> <li>• Registered Investment Advisors</li> <li>• Financial Advisors</li> <li>• Institutional Investors</li> <li>• Broker dealer ETF trade desks</li> </ul> <p>* This service available for ETFMG managed funds as well as funds managed by others as a third party service.</p>

## LEADERSHIP SPOTLIGHT:



**Samuel Masucci**  
Founder & CEO  
sam@etfmfg.com

Sam has more than 25 years experience in investment banking, structured product development, sales and trading. He has held senior positions at Bear Stearns, UBS, SBC Warburg, and Merrill Lynch and has a proven track record of creating, building and managing businesses for the issuance, sales and trading of: ETFs, index products, commodity products, hedge funds, ABS, and OTC structured products in the U.S. and Europe. He has significant experience in asset management product sales to institutional investors including pension funds, consultants, insurance companies and hedge funds as well as to broker dealer networks and RIAs.

### Select ETF Industry Achievements:

- Co-founded and led MacroMarkets LLC an innovative ETF and financial products firm
- Managed over \$1.7B in assets through the first "paired" ETF products
- Developed the S&P-Case/Shiller home price index for the creation of housing risk management products
- Awarded 11 financial product patents
- Received William F. Sharpe Achievement award for most innovative benchmark index
- Awarded 2008 Time Magazine best invention for U.S. housing ETF
- Multiple guest speaker appearances on CNBC and Fox Business
- Significant print media coverage for ETF and Index achievements including: Fortune Magazine, Index Universe, NY Time Magazine, ETF trends and Bloomberg Magazine

Your ETF.  
Your Way.

# LEVERAGE STRATEGIC PARTNERSHIPS

## Executed Authorized Participant (A/P) Agreements:

- Timber Hill LLC
- Goldman Sachs Execution & Clearing, L.P.
- Goldman Sachs and Co.
- Merrill Lynch Professional Clearing Corp.
- BNP Paribas Securities Corp.
- SG Americas Securities, LLC
- NewEdge USA LLC
- JP Morgan Securities LLC
- Credit Suisse Securities (USA) LLC
- ABN AMRO Clearing Chicago LLC
- RBC Capital Markets, LLC
- Virtu Financial BD, LLC
- UBS Securities LLC
- Citibank

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the exchange traded products  
marketplace.”

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## AFFILIATED ENTITIES

**Factor Advisors, LLC** - Registered Investment Advisor, Passive '40 Act ETF Issuer

**Factor Capital Management, LLC** - Registered Commodity Pool Operator, '33 Act ETF Issuer

**ETF Service Provider, LLC** - Provides Financial, Tax and Compliance Services to '33 and '40 Act ETFs

**GENCAP Advisors, LLC** - Provides product wholesale services for ETF and OTC Fund Issuers

For more information on ETF Managers Group visit: [www.etfmg.com](http://www.etfmg.com)