

Full Inverse ETF Disclosure

This disclosure statement explains certain options and features which are common to most leveraged and inverse ETFs.

What are Leveraged and Inverse ETFs?

Leveraged ETFs seek to deliver multiples of the performance of the index or benchmark they track.

Inverse ETFs (also called “short” funds) seek to deliver the opposite of the performance of the index or benchmark they track. Like traditional ETFs, some leveraged and inverse ETFs track broad indices, some are sector-specific, and others are linked to commodities, currencies, or some other benchmark. Inverse ETFs often are marketed as a way for investors to profit from, or at least hedge their exposure to, downward moving markets.

Leveraged inverse ETFs (also known as “ultra short” funds) seek to achieve a return that is a multiple of the inverse performance of the underlying index. An inverse ETF that tracks a particular index, for example, seeks to deliver the inverse of the performance of that index, while a 2x (two times) leveraged inverse ETF seeks to deliver double the opposite of that index’s performance. To accomplish their objectives, leveraged and inverse ETFs pursue a range of investment strategies through the use of swaps, futures contracts, and other derivative instruments.

Most leveraged and inverse ETFs “reset” daily, meaning that they are designed to achieve their stated objectives on a daily basis. Their performance over longer periods of time -- over weeks or months or years -- can differ significantly from the performance (or inverse of the performance) of their underlying index or benchmark during the same period of time. This effect can be magnified in volatile markets. As the examples below demonstrate, an ETF that is set up to deliver twice the performance of a benchmark from the close of trading on Day 1 to the close of trading on Day 2 will not necessarily achieve that goal over weeks, months, or years.

Are Inverse ETFs a risky investment?

Purchasing an Inverse ETF is not the same as holding short positions in securities that make up the underlying index or benchmark. That is, if one enters into a simple short position on one day, and after some number of days the price of the underlying security has changed in value by X%, then one's payoff is -X%, regardless of what has happened in the meantime. However, the performance of an inverse ETF, being the compound of daily returns, will likely differ in comparison with the simple short position.

Inverse ETFs carry liquidity risks and are speculative investments. Inverse ETFs are not designed to be used as long-term investment vehicles. Due to rebalancing methods, and compounding, extended holding

periods beyond one day can lead to results that vary from just an inverse of the index or benchmark the investment tracks over the same time frame. In addition, gains or losses can be magnified in volatile markets.

Inverse ETFs are not suited for long-term investment strategies. These funds tend to carry higher fees, due to active management, that can also affect performance.

Why are Inverse and Leveraged ETFs susceptible to market volatility?

Most Inverse or Leveraged ETFs get their leverage by using derivatives. The prices of derivative contracts do not necessarily move in tandem with the underlying securities. As a result, Inverse or Leveraged ETFs can have volatile price movements and race ahead or fall behind their stated index over long and short periods. Costs of borrowing to implement leverage as well as any efforts to insure counterparty risk are borne by the fund, creating a potential drag on returns.

Example: If a target index is up 10% for a month, will a Leveraged ETF that utilizes 3 times leverage

have a 30% gain?

Probably not. Leveraged ETFs seek to amplify investment results, before fees and expenses, of the price performance of its benchmark index, based on a daily objective.

Indeed, long-term performance (when held beyond a day) will almost certainly vary, depending on market movements and portfolio adjustments required to pursue the daily investment targets set by the Leveraged ETF. For example, it is not unheard of for two Leveraged ETFs - with completely opposite strategies (one with a bullish strategy, the other with a bearish one) - to BOTH show sizeable declines. Remember, most Leveraged ETFs (as are most Inverse ETFs) are considered short-term trading vehicles. Holding a Leveraged ETF for a period longer than one day may create returns that differ - sometimes greatly - from the stated multiple of the benchmark index.

Are Inverse and Leverage ETFs for short-term or long-term investing?

Inverse and Leveraged ETFs are designed to be used for short-term investing as part of a market timing strategy and do not appear appropriate for the buy-and-hold or conservative investor. Leveraged ETFs “reset” daily, meaning that they are designed to achieve their stated objectives on a daily basis. For this reason, if they are held for a period longer than one day, their performance can differ significantly from the stated performance of their underlying benchmark. Returns over longer periods of time can differ significantly in both amount and direction from the target return of the same period. ETFs tracking the movement of non-appreciating assets such as the volatility based indexes carry significant risks and long-term hold periods are likely to result in a complete loss of invested principal. The effects of compounding, aggressive techniques, and correlation errors may cause the ETFs to experience greater losses than expected and therefore are considered a complex product. This is especially true in volatile

markets. Compounding may also cause the performance disparity to widen between the investment and its underlying benchmark. These investments may experience losses even in situations where the underlying benchmark has performed as desired. Investments in leveraged and/ or inverse ETPs must be monitored on a daily basis and are typically not appropriate for a buy-and-hold strategy

Inverse and Leveraged ETFs are generally most suitable for sophisticated investors who understand leverage and are willing to assume the risk of magnified potential losses. Given the risk/ return trade-offs, these types of ETFs are unlikely to be appropriate for long-term investors who typically subscribe to “buy and hold” investment strategies. Suitability may also depend on the degree to which the Inverse or Leveraged ETF represents a proportion of an individual’s investment portfolio. Investors must take special care to make sure they understand the investment theory around owning these instruments, and due to the volatile nature of the investments, watch them closely.

Other resources to consider: <https://www.sec.gov/investor/pubs/leveragedetfs-alert.htm>

<https://www.finra.org/investors/alerts/leveraged-and-inverse-etfs-specialized-products-extra-risks-buy-and-hold-investors>

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