AccuShares | INVESTMENT MANAGEMENT

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Introducing

AccuShares® | INVESTMENT MANAGEMENT

ETF 2.0sm Technology

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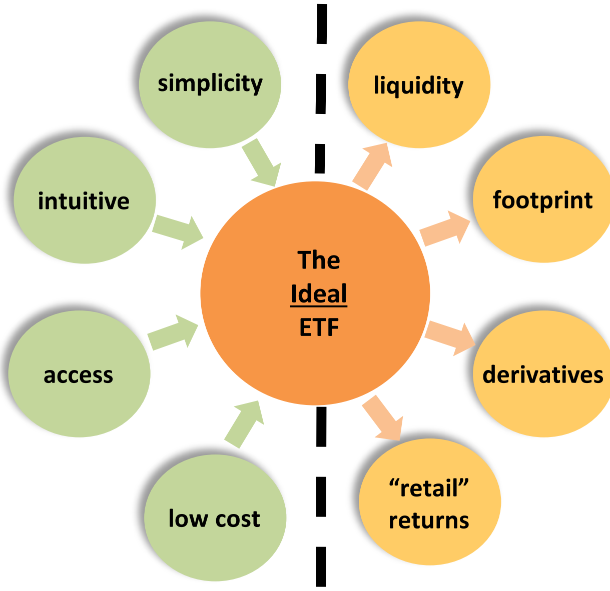
When investors look at the broad ETF market, they see a multitude of factors and influences, which drive demand and innovation. Some of these forces work in concert with each other, while others apply opposing forces.

ideals

ETF investor demand drives development but that development comes at a cost. ETF sponsors are limited not only by available financial technologies, but are also subject to the current regulatory framework.

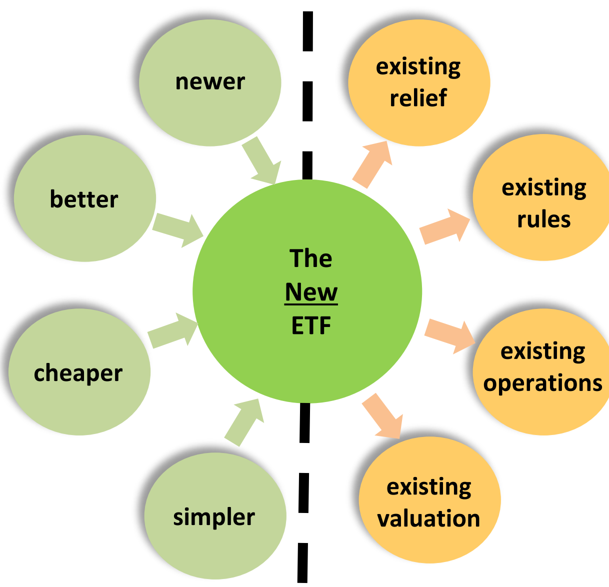


realities

Technologies that are employed to deliver returns to investors can have unintended consequences for ETFs and their underlying markets.

pitch

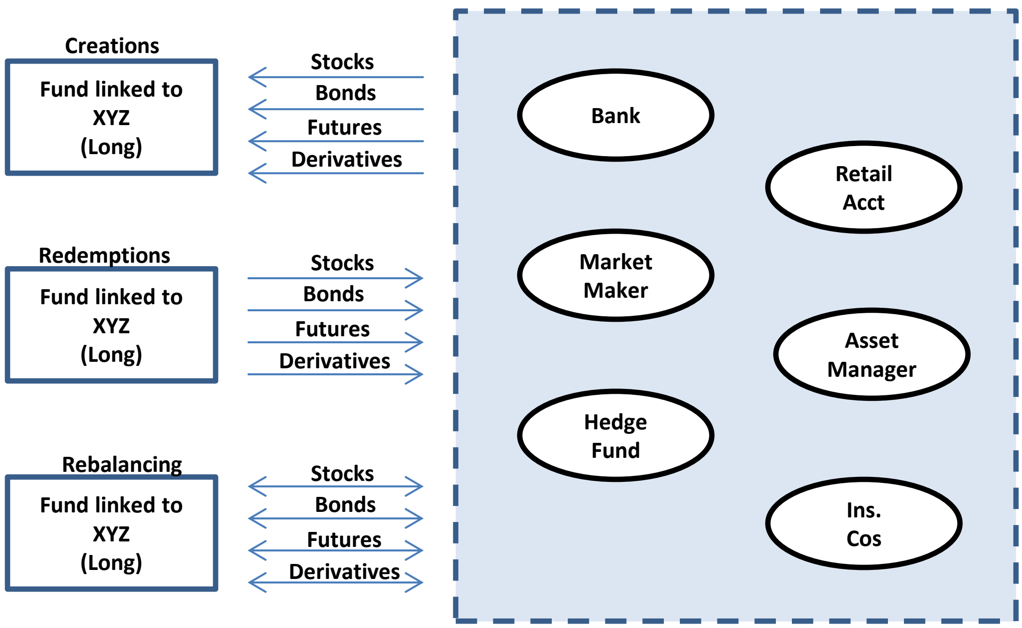
ETF sponsors are constantly walking a fine line to bring better, cheaper, simpler products to market.....



constraints

...but the regulatory framework and market structure are rigid and it is extremely difficult to adopt new financial technologies.

Traditional ETFs source their exposures in various securities markets, transacting in stocks, bonds, futures and over-the-counter derivatives. What is little known to ETF investors is that, when the fund transacts in the market, the unintended consequence might be an impact on the value of the underlying securities.



In certain cases, the size and trading volumes of a particular ETF or group of ETFs providing similar exposures can influence prices of securities in related markets.

With ETF 2.0, AccuShares patent pending technology offers ETF sponsors the ability to optimize fund asset activities to allow for the most efficient asset and hedging mechanics while minimizing market impact.

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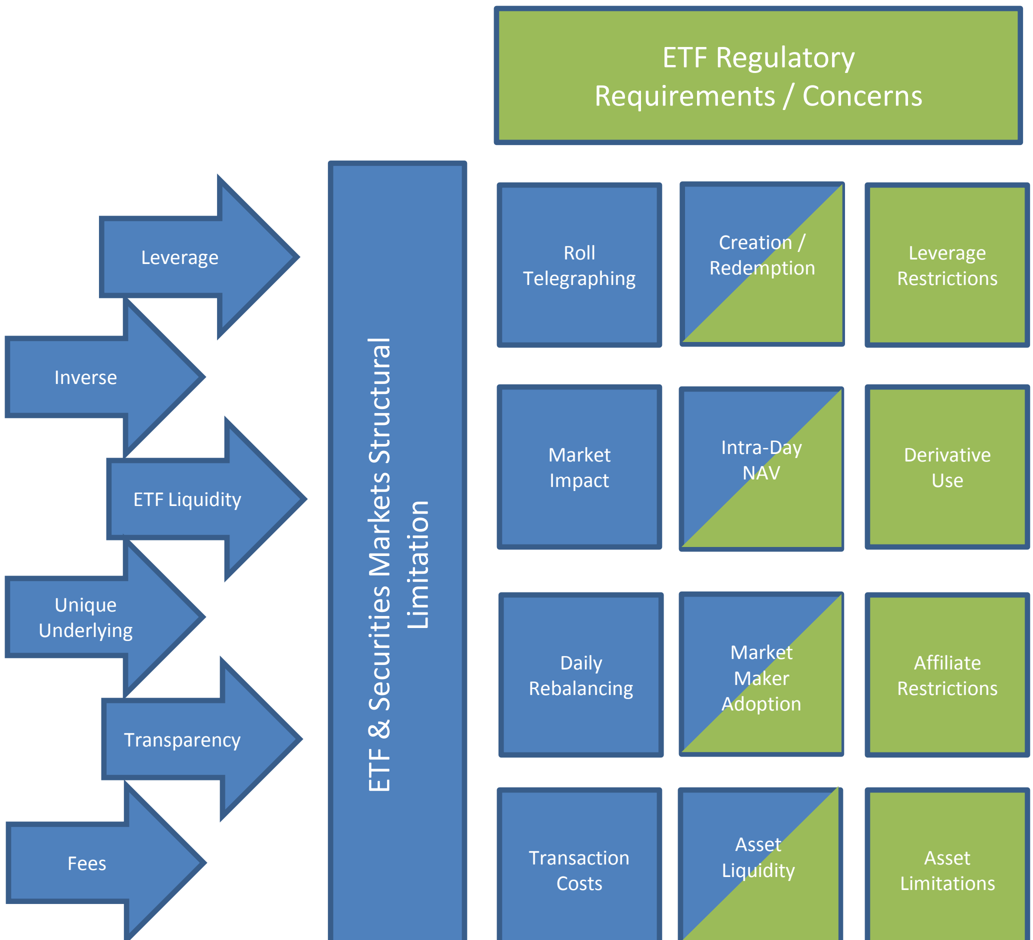
ETF sponsors are forced to navigate a complex array of regulatory rules and financial market constraints. What might initially start out as a new, novel and unique idea gets tweaked, modified and adjusted to the point that that final product looks much different when compared to the original idea.



The above represents a sample of the market structure and regulatory issues faced by ETF sponsors during the product development process

ETF sponsors often find that the ETF and securities markets limitations and the regulatory requirements generate several iterations of structure until the a final result is produced and at times have diluted or eliminated the original intent of the product.

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In the current world of ETFs, ideals and realities can produce real challenges. ETF shares are supposed to track and represent a consistent proxy for an underlying market, but in order to deliver the proxy return, an ETF must engage and transact in the markets where the securities trade, thus becoming a part of the market they were designed to track.

ETF 2.0 & the ETF Paradox

Ideals	Realities
1. performance should be perfectly linked to the underlyings	**1. arbitrage and market making shouldn't alter underlyings**
2. creation, redemption, and trading should be unconstrained	**2. ETF trading volumes shouldn't overwhelm underlyings**
3. use and returns should be more intuitive than the underlying	**3. ETF metrics shouldn't "overpromise" liquidity & depth**

In a broad and deep underlying market, buying and selling an ETF will have a minimal impact on prices of the underlying securities. There are asset classes, however, for which the paradox is reality. In markets where ETFs signal prices and trade more frequently than the underlying assets, the ETF provides a more reliable proxy for the price of a group of securities than one could determine by trading the underlying securities. One drawback to this relationship is a stressed market scenario where pricing discrepancy can prove problematic and may result in ETF performance that deviates from its intended exposure.

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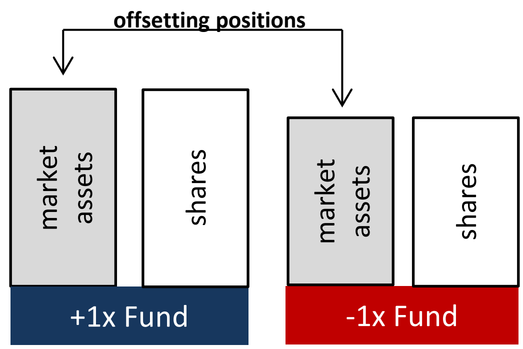
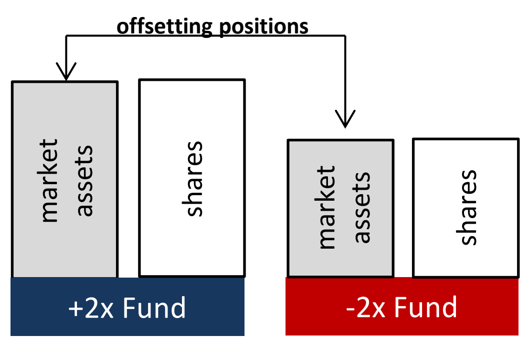
AccuShares ETF 2.0 adds efficiencies to the ETF marketplace by removing some of the structural limitations and interconnectedness of the traditional ETF structure as well as utilizing existing, natural offsetting positions within the ETF ecosystem. The goal is to reduce the reliance on managing traditional financial securities, reduce the need of derivatives, and to limit the impact on the underlying market which the ETF is designed to track.

"AccuShares ETF 2.0 adds efficiencies to the ETF marketplace by removing some of the structural limitations and interconnectedness of traditional ETF structure …."

Long products can provide some of the hedge for inverse products



The same holds true for leverage and leveraged inverse products



Unfortunately, the current regulatory regime doesn't allow for affiliate trading and netting of positions. The result is a larger influence on the underlying market due to the increased footprint on trading and positions.

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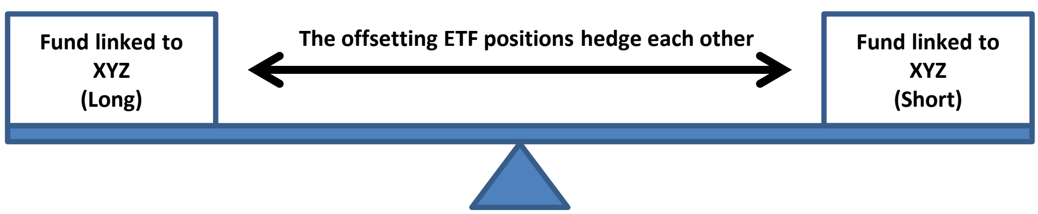
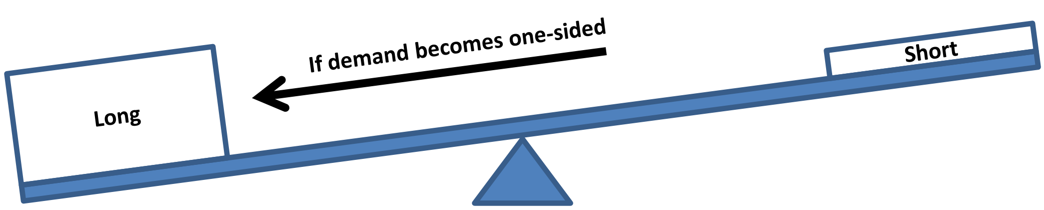
ETF 2.0 optimizes market conditions exhibiting equal demand for long and inverse products. The ETF 2.0 technology matches the offsetting investors positions to provide the most cost effective exposure with a neutral market impact.



At times long and inverse demand deviate from each other causing an imbalance.



With ETF 2.0, ETF sponsors can utilize existing financial instruments to supplement an excess demand on either side.