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What is Market Neutral Investing?

Market neutral investment strategies have roots dating from 1949, when Alfred Winslow Jones operated the first hedge fund holding both long and short positions in securities. Over the past 60 years, the popularity of this approach has risen dramatically to where today it is estimated that investors have committed approximately \$40 billion to market neutral strategies.¹ The concept behind market neutral strategies seeks to create a portfolio that is insulated from the ups and downs of the market and can deliver positive returns regardless of market direction. Market neutral portfolios hold long and short positions. In their most traditional form, these positions are dollar neutral such that the value of the long positions is offset equally by the value of the short positions. Due to the offsetting long and short positions in the portfolio, market neutral portfolios historically have lower volatility than the overall equity market. Market neutral equity strategies seek to deliver returns in excess of Treasury Bills.

How do Market Neutral Strategies Generate Returns?

Market neutral funds aim to deliver investment returns with lower risk by offsetting bullish stock positions with an equivalent number of bearish, or short, stock positions. The difference in performance of the long positions versus the short positions is known as the *spread return*. The spread return arises due to the fact that the long portfolio holds different securities than the short portfolio. The portfolio construction can be based upon different strategies such as market capitalization; where the long portfolio would hold small cap stocks and the short portfolio would hold large cap stocks. Income can also be generated from the interest earned by placing the cash proceeds of the short sales into a money-market account, which can further add to the investment return.

The goal of any market neutral portfolio is for the spread return to be positive which occurs when the long positions outperform the short positions. When the spread return is positive, the value of the market neutral strategy increases; when the spread return is negative, the value of the market neutral strategy declines (unless offset by the income earned on the cash). The goal is to deliver consistent returns after fees, in both good and bad market conditions.

How are Market Neutral Strategies Implemented?

Historically, market neutral strategies were primarily offered through Hedge Fund vehicles. These offerings are generally expensive, lack transparency, have lock-ups², require a K-1 tax form, and are only available to accredited investors who are financially sophisticated. QuantShares Market Neutral Funds offer these strategies in an ETF form. These ETFs are 1940 Act funds and therefore registered with the SEC. They trade on the NYSE, thereby offering investors the liquidity of the stock market. Buying or selling these ETFs is no different than executing an order for any other listed stock. Further, all positions are updated nightly on the Firm's website - www.quant-shares.com – thus giving the investor full transparency into the individual positions comprising the ETF.

¹ Hedge Fund Research Industry (HFRI) Database

² Window of time in which investors of a hedge fund are not allowed to redeem or sell shares.



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Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectuses which can be obtained by visiting the Funds' website at www.quant-shares.com. Please read the prospectus carefully before you invest.

Shares are not individually redeemable and can be redeemed only in Creation Units. The market price of shares can be at, below or above the NAV. Market Price returns are based upon the midpoint of the bid/ask spread at 4:00PM Eastern time (when NAV is normally determined), and do not represent the returns you would receive if you traded shares at other times. Fund returns assume that dividends and capital gains distributions have been reinvested in the Fund at NAV. Some performance results reflect expense subsidies and waivers in effect during certain periods. Absent these waivers, results would have been less favorable.

Risks:

There is no guarantee that the Funds will achieve their objective. An investment in the Funds is subject to risk including the possible loss of principal amount invested. The risks associated with each Fund are detailed in the prospectus and include tracking error risk, mid-cap risk, industry concentration risk, market neutral style risk, short sale risk and specific risks related to exchange traded funds. There is a risk that during a "bull" market, when most equity securities and long-only equity ETFs are increasing in value, the Fund's short position will likely cause the Fund to underperform the overall U.S. equity market and such ETFs. The Fund may not be suitable for all investors.

Beta is a measure of an asset's sensitivity to an underlying index.

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1 Hedge Fund Research Industry (HFRI) Database

2 Window of time in which investors of a hedge fund are not allowed to redeem or sell shares.