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SPECIAL REPORT 2019

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FNGS GNAF FNGO
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MicroSectors FANG+
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INSIDE THIS ISSUE…

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Investing involves risk and principal loss is possible.

Celebrating growth and diversity in the ETF industry

By Beverly Chandler

Speaking at the inaugural US ETF Express ETF Awards in October 2019, Scott Szever, head of ETF Capital Markets at the NYSE commented that everyone in the room was pretty closely connected and working together in some way.

The audience was drawn from winners in the awards, representing ETF providers, market makers and authorised participants and service providers in the ETF industry.

This is an industry that according to data from data provider ETFGI, for the third quarter of 2019, had assets of USD5.78 trillion invested in 7,787 ETFs/ETPs listed globally, representing growth in assets of 2.52 per cent over the quarter. During the third quarter of 2019, ETFs/ETPs listed globally gathered USD140.79 billion in net inflows.

In his speech, Szever was also able to throw out some impressive ETF statistics for the NYSE, citing 2,300 ETFs with over USD4 trillion in assets and an average daily value in transactions of close to USD92 billion. At times of volatility ETFs have represented 30 per cent of the exchange's trading. "There is a lot of money trading in ETFs," Szever said.

There was much to discuss in the room, starting with the ETF rule, the 6c-11, which was published in the Federal Register that very day. Szever said: "It's pretty exciting. If you fit within the 6c-11 rule you can bring your products to market a little bit quicker."

He also hinted about 'exciting news coming' about a different route to filing which could be a 'game changer' going forward: active, non-transparent ETFs. He mentioned the development of active non-transparent ETF structures from the NYSE with Natixis Investment Managers, as well as from Precidian Investments, T. Rowe Price Associates, Fidelity Investments and Blue Tractor Group, LLC, all of which, he says, the NYSE will support as issuers bring new products market.

January will also see ETFs on the floor of the exchange.

The ETF providers and winners interviewed in this report represent the spread of themes that exist within the ETF industry today. Founded in June 2016, ETF provider Change Finance, winner of the Best ESG ETF Provider, launched its Change Finance US Large Cap Fossil Fuel Free ETF in October 2017, designed to democratise the process of aligning investor investment values with personal values.

The team behind the ETF, interviewed in this report, came from the wealth management space having observed that investors want access to ESG, and chose the ETF wrapper as the most efficient route to fulfilling those needs.

Hoya Capital is another winning firm in the 2019 US awards. Its HOMZ ETF is based on its Hoya Capital Housing 100, an index designed to be the new benchmark for the performance of the entire US housing industry. Hoya, interviewed in this report, observed that the average American spends 33 per cent of their income on housing, yet real estate represents less than 5 per cent of a typical S&P 500 index fund.

MicroSectors from REX Shares won Best Alternative ETF Provider in the awards this year, for their range of highly focused ETNs, investing in FANG+, Big Banks, Big Oil and MLP, with REX Shares' President Scott Acheychek commenting that a lot of ETF investors don't realise what lies within their vanilla index ETFs. These MicroSectors' products are also available with leverage and inverse classes.

We salute all the winners in this Special Report. ■

Bringing investors focused baskets in leading sectors

BMO & REX Shares' MicroSectors: Best Alternative ETF Provider

REX Shares is an ETP architect and structurer, who created the MicroSectors brand in 2018 with FNGU & FNGD, 3x/-3x FANG+ ETNs and won Best Alternative ETF Provider in the ETF Express US awards 2019. Scott Acheychek, President of REX Shares, explains they started with Leverage and Inverse but began focusing on beta (1x) versions of their suites due to client demand. The leveraged products (up to 3x) are used actively and with the growth of sector rotational strategies, he believes 1x versions will be active as well.

"We look at the world through a trading and structuring lens," Acheychek says. "The goal of the ETN wrapper is to provide more dedicated sector specific exposures which is quite different from ETFs."

The current suites FANG+, Big Banks, Big Oil and MLP, are extremely focused.

"Big Banks and Big Oil contain the 10 largest US stocks by market cap in banking and in energy. With FANG+, NYSE has picked the 10 most innovative names in the world with names like FAANG along with Alibaba, Bidu, Tesla, Twitter, and Nvidia," Acheychek says. "Our MLP product utilises the Dorsey-Wright MLP index. On a monthly basis the index selects the 15 best-performing MLPs."

In the existing world of leverage and inverse products, Acheychek says there has been a limited amount of innovation. "Investors and traders can come up with trade ideas and execute them through their hand-held devices. We want to provide the best solutions for long or short sector specific products."

A lot of investors sometimes perceive ETNs to be debt instruments with limited liquidity, but Acheychek comments: "The MicroSectors ETNs have a daily redemption feature which I would argue make it less of a credit risk, it's not an optional feature like in some structured products. By utilising the some of the largest most liquid stocks the underlying liquidity is really deep."

Technology is taking a great deal of his attention at the moment as they also recently launched his FANG beta product, FNGS.

"I believe that the technology index world has changed substantially," Acheychek says. "In the US, two of the largest tech indexes are Nasdaq 100 (related ETF-QQQ) and Tech Select Index (related ETF-XLK). Nasdaq-100 has the one hundred largest companies listed on the Nasdaq. The problem with that is the Nasdaq used to be a primary a technology exchange, but it has now matured so you have a more diverse universe including everyday companies like Starbucks, Pepsi or even the toy company Hasbro." Additionally, the 2018 GICS classification changes meant technology investing has been transformed, with FAANG companies now listed in three different sectors.

"The Tech Select Index (ETF: XLK) sounds like a straight tech play but includes stocks labelled as Information Technology so you get an allocation to Apple but also top five allocations include MasterCard and Visa," Acheychek says. "At the end of the day, we want investors to understand what they own and make informed decisions on what to buy or trade. I personally struggle with the idea of a tech allocation that includes soda, coffee or credit card companies."

Acheychek's new FNGS ETN offers an alternative to XLK or QQQ and is based on the NYSE FANG+ index with NYSE/ICE having chosen the 10 biggest innovators in world. "We have numerous plans for the future," Acheychek says. "When you start looking at sector investing, there are lots of areas which can be disrupted." ■

Scott Acheychek
President, BMO Capital Markets

Scott Acheychek joined REX Shares in 2016 after holding senior sales and leadership positions at several large global investment banks. Scott covered hedge funds, asset managers, and financial advisors for multi-asset and commodity specific solutions. Since 2006, he has worked on the launch of 30+ ETNs and ETFs. Scott has a BSc in Mathematics from Sacred Heart University.

Making a change

Change Finance: Best ESG ETF Provider

Founded in June 2016, ETF provider Change Finance launched The Change Finance US Large Cap Fossil Fuel Free ETF in October 2017, designed to democratise the process of aligning investor investment values with personal values.

Winner of the Best ESG ETF Provider in the 2019 US ETF Express ETF Awards, Change Finance's CEO & CIO, Andrew Rodriguez, explains that the company came out of prior work that the co-founders had done in the wealth management space.

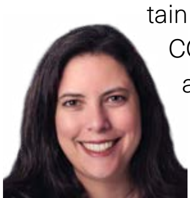
"We came to realise that the kind of impact we wanted to have in the investment space was only really available to high net worth or institutional investors," he says. "One of the ways that we could have a broader impact, not just on the financial industry, but also on the wider population was to take the impact investing strategies and package them in a way that would be available to a broader audience."

And that package was, of course, in the form of the ETF vehicle. "There was a desire to change the way people think about investing and the ability to align investment values in a way that doesn't have to sacrifice performance," Rodriguez says.

The index underlying the ETF is constructed with more than 50 different Environmental, Social, & Governance (ESG)factors to screen a starting universe of 1000 US equities resulting in an index with 100 holdings that is 100 per cent fossil fuel free.

"We set out to show that it wasn't necessary to sacrifice performance to invest with our values and we believe that our performance relative to our benchmark, the S&P 500, has born that out," Rodriguez says.

Enhanced ESG investing can offer a hedge against certain types of 21st century risks, President & COO, Dorrit Lowsen, says, listing stranded asset risk, litigation risk and social licence or reputational risk.



Stranded assets are those that a company holds which contribute to its valuation but will lose significant value, such as fossil fuels as the world moves to renewable energy. Litigation risk is self-explanatory but often occurs where companies are behaving in ways that are bad for people and the planet, Lowsen says, citing Pacific Gas & Electric which has been at the heart of the problems with wildfires in California.

In terms of investors, the focus has been on women and millennials who consistently indicate a strong preference for ESG screened investments, but they, alone, can't account for the fact that a quarter of professionally managed assets are now invested with some form of ESG or SRI screen.

"It's becoming increasingly mainstream, driven in part by the shift in the energy markets as renewable energy becomes cheaper than fossil fuels," Lowsen says.

"Solar and wind power are now, on average, less expensive than natural gas so the economics are really changing, which will drive a shift in how people think about investing," she says.

Initially, the firm focused on finding investors through independent financial advisers, particularly those already targeting ESG and SRI investing.

"But increasingly we find interest from all types of traditional advisers who recognise that they need to learn about this part of the market as they talk to investors," Lowsen says. ■

An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the Fund's prospectus. To obtain a prospectus, please call 303- 339-0525 or visit http://changefinanceetf.com/ chgx/prospectus. Please read the prospectus carefully before investing.

The Change Finance U.S. Large Cap Fossil Fuel Free ETF is distributed by Quasar Distributors, LLC. The fund's investment advisor is Change Finance, PBC. and Change Finance, PBC owns the index that underlines the fund. Quasar is not affiliated with Change Finance.

Dorrit Lowsen
President & COO, Change Finance

As a leader in Fortune 500, start-up, non-profit, and government, Dorrit Lowsen has built extensive operational experience, including as the COO of Agora Partnerships, a social enterprise accelerator programme. Her impact investing experience includes both public market and private placement investing, field-building, and entrepreneurship. She has won awards for her work on environmental and energy policy at the US Embassy in Beijing, and holds an MBA from NYU Stern.

Andrew Rodriguez
CEO & CIO, Change Finance

With a sense of ethics and responsibility honed during his early career as a pastor, Andrew Rodriguez has dedicated his financial career to sustainable and responsible investing. He has built and managed ESG, SRI, and fossil fuel free portfolios for a variety of firms that specialise in ethical investing. Andrew holds an MBA in Sustainable System and Impact Investing from Bainbridge Graduate Institute, the first "Green MBA" programme.

A housing ETF built with renters in mind

Hoya Capital Real Estate: Most Successful & Innovative ETF Launch

Alex Pettee, President and Director of Research & ETFs for Hoya Capital Real Estate, explains that the Hoya Capital Housing 100, the underlying index for the newly-launched HOMZ ETF, is designed to be the new benchmark for the performance of the entire US housing industry. Designed to track the 100 companies that collectively represent the performance of the US Housing Industry, the index includes sectors that are not typically combined in conventional homebuilder or real estate funds including home builders, rental operators, home improvement companies, and real estate financing, services, and technology firms.

Hoya Capital, winner of the Most Successful & Innovative ETF launch in the 2019 ETF Express US awards, has undertaken research that shows that the average American spends 33 per cent of their income on housing, yet real estate represents less than 5 per cent of a typical S&P 500 index fund.

"There is a huge mismatch between the asset size and the liability size of an investor's balance sheet," Pettee says. "HOMZ was created to reflect the investor driven asset allocation model, designed to address the most pressing investment need affecting millions of Americans – especially renters – which is the need for upside exposure to residential real estate."

Pettee believes that renters are significantly under allocated to residential real estate and exposed to the negative effects of rising housing costs and rents. He believes that advisers often overlook what he views as the most critical question in an asset allocation and risk tolerance questionnaire: "Are you an owner or renter?"

"The optimal asset allocation is vastly different for renters." Pettee says. "We see tremendous potential for the use of HOMZ as part of a model driven asset allocation, which we view as the next stage of growth for the asset management industry. It's becoming an era of 'mass customisation' and we believe that HOMZ is perfectly suited for these allocation models."

Hoya Capital was born as a research focused investment advisory, aiming to make real estate more accessible to all investors. "The fact that we deal with individual clients on a daily basis gives us a unique perspective on the needs and objectives of the individual investors," Pettee says.

Since its launch in March 2019 through to end September 2019, HOMZ has returned 14.91 per cent, compared with the S&P 500 return of 6.19 per cent based on market value. "Performance has been strong, reflecting the re-acceleration of the US housing market this year. We saw 12-year highs in the monthly rate of new homes sales this summer but despite this, we are still at historically low levels of total housing supply."

The effects of the under-investment in new home construction is compounded by the demographic-driven tailwinds that Pettee expects to drive housing demand over the next decade and beyond.

"The millennial generation, the largest age cohort in American history, is coming full-steam into the housing market over the next decade, whether the supply side is ready for it or not." ■

Alex Pettee, CFA
President, Director of Research & ETFs,
Hoya Capital Real Estate

Alex Pettee, CFA, founded Hoya Capital Real Estate, an SEC-Registered Investment Advisor based in Connecticut that is working to make real estate investing more accessible for all investors. A dual-degree holder and two-sport athlete at Georgetown University, Alex is President and Director of Research & ETFs for Hoya Capital Real Estate and is a CFA Charterholder. Hoya Capital is the advisor to the Hoya Capital Housing ETF, trading on the NYSE under ticker symbol HOMZ.

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CHANGE FINANCE

Change Finance builds performance-oriented investment products for the sustainability-minded investor. We believe investing for good can profit people, planet, and investors. Through a conscious, rigorous, rules-based approach, we've created an Enhanced ESG methodology that underpins our investment products. At Change Finance we believe that it is imperative to transform capital markets if we are to create the world in which we want to live. Our impact-drive, performance-focused strategies are designed to do just that.

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HOMZ
The Housing ETF
Hoya Capital Housing 100

www.hoyacapital.com

HOYA CAPITAL REAL ESTATE

Hoya Capital Real Estate is an SEC-Registered Investment Advisor committed to making real estate more accessible to all investors. Hoya Capital is one of the most widely-read publishers of investment research on REITs and the US Housing Industry. Hoya Capital Real Estate is a research-focused RIA that is the advisor to the Hoya Capital Housing ETF, trading on the NYSE under ticker symbol HOMZ.

HOMZ is a passively-managed, diversified ETF that offers efficient and cost-effective exposure to residential real estate, one of the largest – and arguably most important – asset class in the world. HOMZ tracks the Hoya Capital Housing 100 Index, a rules-based Index designed to track the 100 companies that collectively represent the performance of the US Housing Industry.

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