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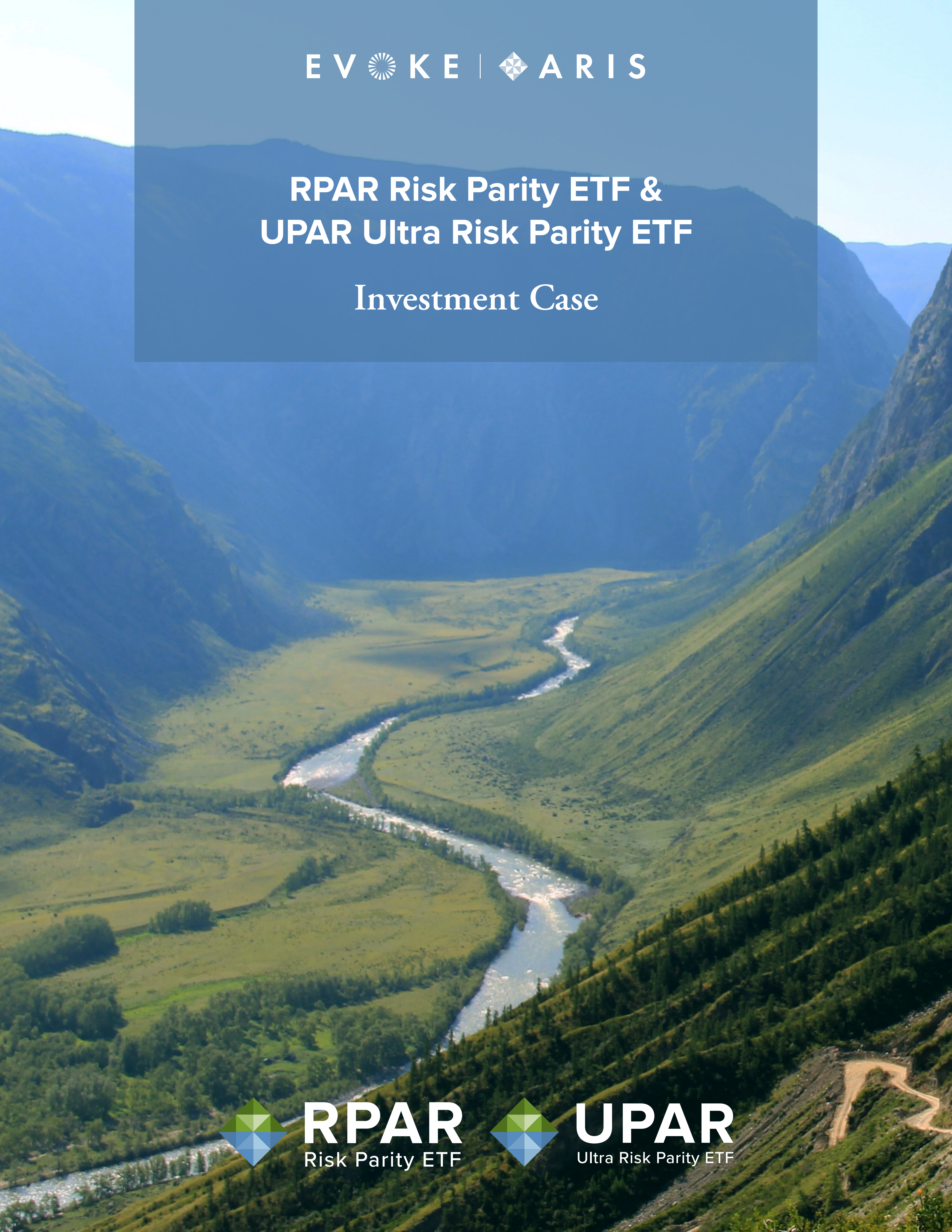
RPAR Risk Parity ETF & UPAR Ultra Risk Parity ETF

Investment Case



RPAR
Risk Parity ETF

UPAR
Ultra Risk Parity ETF

What is Risk Parity?

Risk parity refers to an asset allocation methodology that seeks returns competitive with equities with more stability and less severe losses.

The core concept is that each major asset class can be structured to deliver similar returns and risk. As a result, a diversified mix of these assets may be a more efficient way to target high returns than concentrating in any single asset class.

Most investors who desire attractive returns concentrate their portfolios in equities due to their high historical returns. The problem is that equities are very volatile and prone to long stretches of underperformance. The risk parity framework seeks to deliver a smoother path.

Risk parity requires two important steps:

1. **Select diverse asset classes** – the economic environment is the main influence on asset class returns. Therefore, asset classes that perform differently in varying economic environments should be selected to achieve proper diversification. For instance, equities have historically fallen during an economic contraction as corporate profits tend to disappoint. Treasuries, on the other hand, have historically risen in value during the same period due to falling interest rates. Both Treasuries and equities are biased to underperform when inflation spikes, thus inflation-hedged assets such as commodities and Treasury Inflation-Protected Securities (TIPS) are also included in the portfolio.
2. **Structure each asset class to pursue similar return and risk** – Both the equities and commodities allocations target similar levels of risk and return. Within the fixed income portions of the portfolio, long duration securities can be combined with modest leverage to seek returns and risk that are comparable to those of equities and commodities.

Once the portfolio is constructed, it can be geared up through additional leverage to target a higher level of return and risk.

Why Risk Parity?

The current economic environment is fraught with risk and the potential range of economic and market outcomes is extremely wide.

Overconcentration to a single market segment unnecessarily exposes investors to downside risks during adverse environments for that asset class. By diversifying across multiple assets, investors can potentially reduce risk without sacrificing returns.

The RPAR Risk Parity ETF

RPAR seeks to generate positive returns during periods of economic growth, preserve capital during periods of economic contraction, and preserve real rates of return during periods of heightened inflation. RPAR will seek to replicate the returns of the Advanced Research Risk Parity Index. The target allocation of this index is 12.5% U.S. equities, 5% international equities, 7.5% emerging market equities, 15% commodity producer equities, 10% gold, 35% TIPS and 35% Treasuries. The 120% total allocation references 20% of leverage at the portfolio level. This mix results in roughly equal risk allocation to each of the four major asset classes – Equities, Commodities, TIPS and Treasuries. The index targets a long-term return in line with equities with less risk.

The UPAR Ultra Risk Parity ETF

UPAR is a higher risk strategy that also seeks to generate positive returns during periods of economic growth, preserve capital during periods of economic contraction, and preserve real rates of return during periods of heightened inflation. UPAR seeks to replicate the returns of the Advanced Research Ultra Risk Parity Index. The target allocation of this index is 1.4 times the target allocation in the Advanced Research Risk Parity Index, which equates to 17.5% U.S. equities, 7% international equities, 10.5% emerging markets equities, 21% commodity producer equities, 14% gold, 49% TIPS and 49% Treasuries. The 168% total allocation references 68% leverage at the portfolio level. This mix results in roughly equal risk allocation to each of the four major asset classes – Equities, Commodities, TIPS and Treasuries. The index seeks to outperform equities with comparable risk.

Frequently Asked Questions

When should risk parity be expected to underperform?

Similar to any asset allocation strategy, risk parity is not expected to perform well during every single environment. Underperformance can be assessed both in absolute terms and relative to equity benchmarks.

Absolute underperformance can occur during periods when cash outperforms all asset classes. Since risk parity provides exposure to a balanced mix of risky asset classes, the strategy tends to perform poorly when cash outperforms all risky assets. This typically happens when the broad appetite for taking risk fades and investors seek the safety of cash. It can also occur when short-term interest rates unexpectedly rise making cash a relatively more attractive investment. Since risky assets should reasonably be expected to outperform cash over the long run (otherwise no one would take the risk), these types of environments have historically been rare and short-lived.

From a relative standpoint, risk parity will underperform equities when equities are the best performing asset class, which typically occurs during periods of improving economic conditions. By choosing a diversified portfolio, investors are opting for a less volatile return profile, which will naturally lag the best performing asset class over shorter timeframes.

Isn't it too risky to invest in long duration bonds (both Treasuries and TIPS) with interest rates near historic lows?

Long duration bonds are clearly risky, as are equities and commodities. Each of these asset classes is susceptible to material losses and has the potential to earn significant gains. The key is to understand under which economic environments each is biased to outperform and underperform. With regards to long duration Treasuries, a period of rising interest rates more than discounted would result in underperformance. That environment typically prevails either when the economy is strong (when the expectation for tighter monetary policy gets priced in) or inflation pressures emerge (which results in higher expectations of future inflation). Critically, these same environments are beneficial to other asset classes in a risk parity portfolio. Equities tend to do well in the first environment and commodities in the second.

Additionally, interest rates can always fall further. Many have been arguing that rates must rise for over a decade. If the economy suddenly weakens, there is a reasonable chance that rates will decline. Without owning longer duration bonds, the portfolio would not have sufficient downside management during this particular economic environment.

If the asset classes are designed to go up and down in different environments, wouldn't they net out to zero over the long run?

Importantly, each of these asset classes has a positive expected return over the long run. This is because each asset class is risky and a return premium above cash should be expected otherwise investors would not invest. Of course valuations for each fluctuate over time, but over an extended period investors should reasonably expect to make money in each market segment. If each should produce a profit over the long run, then the aforementioned outperformance/underperformance is relative to a positive average as opposed to a zero average.

Don't equities outperform the other asset classes over the long run? If so, wouldn't a lower equity allocation result in lower performance?

Normally this is true. For this reason, most investors overweight equities to achieve a higher expected return. Risk parity structures each of the four asset classes to target a similar return and risk to help alleviate this concern. The result is the long-term expected return of the balanced mix of asset classes that is similar to equities, but with the potential for better downside management. This framework can potentially be scaled to various levels of risk. UPAR represents a comparable mix of assets as RPAR but seeks higher returns over the long run while taking more risk.

Should we expect low returns looking forward now that the tailwind of falling interest rates is behind us?

Low cash yields negatively impact all asset classes. The low prospective returns are most obvious with bonds that offer low coupons. However, equities and commodities are similarly impacted since these markets (just like bonds) price relative to cash. Investors have a choice when investing. They can accept the risk-free return of cash or they can take risk by investing in an asset class. If cash is yielding 10%, then riskier asset classes must have an expected return greater than 10% to persuade investors to take risk. If cash rates drop to 0%, then the bar for investment would obviously be lower.

In reality, each asset class offers a return premium above cash typically commensurate with the level of risk. Stocks tend to earn more over time because they are riskier than Treasuries. However, if we equalize the risk of the two asset classes, then comparable returns can be expected. The same concept holds true for TIPS and commodities. Therefore, the expected return of RPAR and UPAR relative to cash likely hasn't changed. However, the total return investors should expect to earn is lower because cash is lower today.

IMPORTANT INFORMATION

Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectus. A prospectus may be obtained by visiting https://rparetf.com/rpar/prospectus (for RPAR) and https://rparetf.com/upar/prospectus (for UPAR) or calling (833) 540-0039. Please read the prospectus carefully before you invest.

There is no guarantee the Funds will achieve their investment objectives. As with all ETFs, Fund shares may be bought and sold in the secondary market at market prices. The market price normally should approximate the Funds' net asset value per share (NAV), but the market price sometimes may be higher or lower than the NAV. The Fund is new with a limited operating history. There are a limited number of financial institutions authorized to buy and sell shares directly with the Funds; and there may be a limited number of other liquidity providers in the marketplace. There is no assurance that Funds' shares will trade at any volume, or at all, on any stock exchange. Low trading activity may result in shares trading at a material discount to NAV.

The Funds' exposure to investments in physical commodities may fluctuate rapidly and subjects the Funds to greater volatility than investments in traditional securities, such as stocks and bonds. Interest payments on TIPS are unpredictable and will fluctuate as the principal and corresponding interest payments are adjusted for inflation. Equity securities, such as common stocks, are subject to market, economic and business risks that may cause their prices to fluctuate. The Funds invest in foreign and emerging market securities which involves certain risks such as currency volatility, political and social instability and reduced market liquidity. The Funds may invest in securities issued by the U.S. government or its agencies or instrumentalities. There can be no guarantee that the United States will be able to meet its payment obligations with respect to such securities.

The RPAR Risk Parity ETF's use of reverse repurchase agreements is considered a form of borrowing money. Borrowing money to finance purchases of securities that exceed the Fund's net assets creates leverage risk, which may magnify changes to the Fund's net asset value and its returns. The Fund bears the added price volatility risk of the securities purchased. Borrowing money will cost the Fund interest expense and other fees, which may reduce its returns.

The UPAR Ultra Risk Parity ETF seeks to enhance returns through the use of leverage. Leverage is investment exposure that exceeds the initial amount invested. Derivatives and other transactions, such as reverse repurchase agreements, that give rise to leverage may cause the Fund's performance to be more volatile than if the Fund had not been leveraged.

Duration measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa.

Diversification does not ensure a profit or protect against loss in declining markets.

UPAR Ultra Risk Parity ETF is new and has limited operating history.

Shares of the Fund are distributed by Foreside Fund Services, LLC.

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