# LSLT

U.S. Low truBeta ETF

SALT FINANCIAL®

# LSLT: Low Volatility Doesn't Always Mean Low Return

Many investors are looking for ways to mitigate market risk late in the economic cycle while still maintaining exposure to stocks. The Salt Low **truBeta** US Market ETF (ticker: LSLT) could be an attractive addition for investors looking for a US equity ETF with the potential for less volatility, allowing you to stay invested during choppy markets.[1] The low-cost[2] LSLT tracks the Salt Low **truBeta™** US Market Index, which is powered by our flagship analytic, **truBeta**, a vital ingredient in the portfolio construction process.

## Why low volatility?

Investors generally believe more risk translates to a higher potential return. However, academic research has shown portfolios of low-volatility stocks can lead to better risk-adjusted returns in comparison to higher volatility portfolios.[3] This "low volatility anomaly" is attributed to number of root causes, including:

**Investor Behavior** – The tendency for some investors to chase flashier, riskier stocks, bidding up their prices relative to lower risk stocks, which is also known as the "lottery effect".

**Limits on Leverage** – Larger investors such as mutual funds often face constraints on their ability to use leverage in their portfolios, leading them to overweight higher volatility stocks to reach for higher average returns instead.

**Benchmark Constraints** – Large investors are typically tied to specific market benchmarks such as the S&P 500. This creates the potential for lower volatility stocks in the index to be mispriced as the need to minimize their tracking error versus the benchmark prevents the low volatility anomaly from being arbitraged away.

The low-volatility factor appeals to conservative investors who want to cushion against market downturns while still preserving some of the upside potential of stock market gains. Funds targeting low volatility stocks seek to exploit these pricing opportunities for the potential of better risk-adjusted returns than the broader market.

[1] "Best Does Not Mean Optimal," Joachim Klemen, CFA, January 9, 2019. https://blogs.cfainstitute.org/investor/2019/01/09/best-does-not-mean-optimal

[2] The Adviser has contractually agreed to waive the Fund's full unitary management fee of 0.29% of the Fund's average daily net assets on the first $100 million in net assets until at least May 31, 2020 (the "Fee Waiver") and to contribute to the Fund's assets an amount equal to an annual rate of 0.05% of the Fund's average daily net assets on the first $100 million in net assets.

[3] "Why This Low Volatility ETF Keeps Working," Tom Lydon, October 22, 2019. https://www.etftrends.com/core-etf-channel/why-this-low-volatility-etf-keeps-working

## Why does low volatility matter?

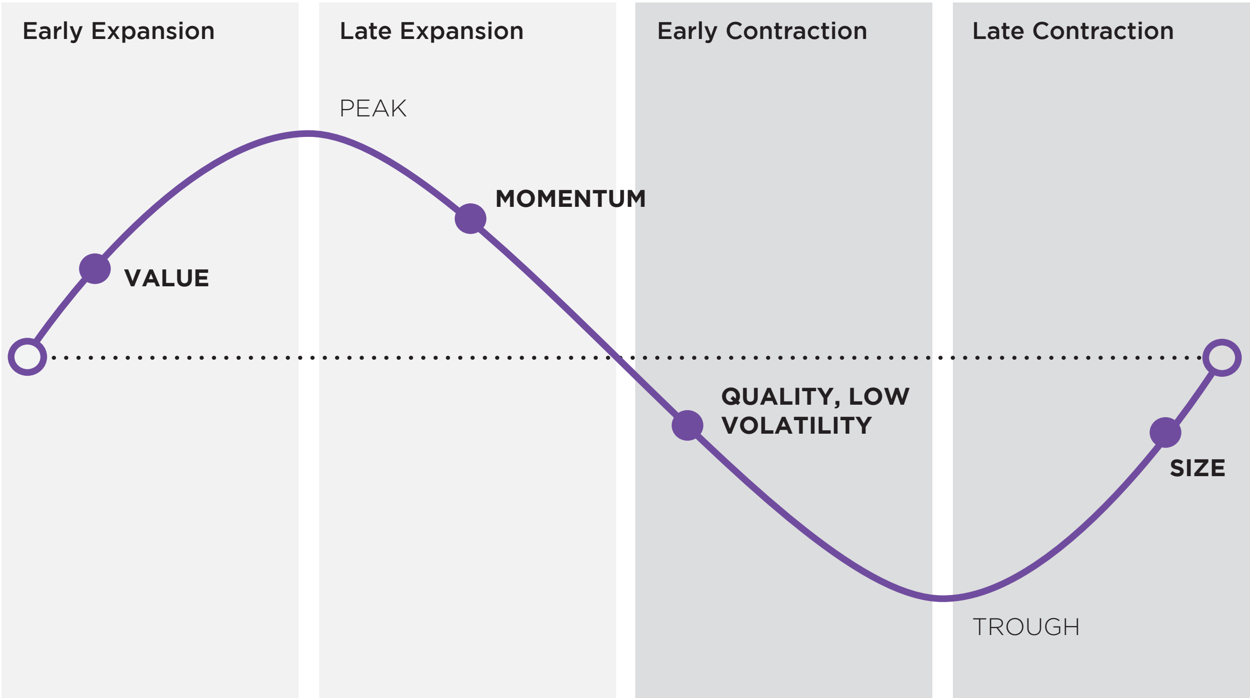
In addition to the psychological benefit of smaller swings in price, simple arithmetic shows how “winning by losing less” can lead to better returns by targeting low volatility.

| Investment Loss | Gain to Breakeven |
|---|---|
| 10% | 11.1% |
| 25% | 33% |
| 50% | 100% |
| 80% | 500% |

Minimizing losses can drive future returns by simply lowering the hurdle to recover from the inevitable hiccups in the market.

## Factor performance behavior across the market cycle

Factors have the potential to outperform at different phases of the economic cycle. The graph below illustrates which factors have the potential to outperform the broader market as it ebbs and flows.




*For illustrative purposes only. This should not be construed as investment advice nor as a recommendation of a particular product or strategy.*

## What is truBeta?

**truBeta** is Salt Financial's proprietary measure of market risk (beta). Beta measures the sensitivity of your portfolio to the broader market. A portfolio with an estimated beta of 1.0 will tend to vary in the same direction and magnitude as the market. A stock with a beta of 1.5 would be expected to vary 50% more than the market (higher volatility). One with a beta of 0.5 would tend to move 50% less than the market (lower volatility).

The way market risk (beta) is estimated has changed very little for decades, leading investors to be exposed to potentially different levels of risk than expected. **truBeta** aims to remedy this problem by using more recent data and modern data science techniques to better estimate how sensitive stocks are to market swings.

Our research shows truBeta can produce a more forward-looking estimate of beta by leveraging the rich information packed in higher frequency returns.[4] LSLT tracks the Salt Low **truBeta** US Market Index, which uses **truBeta** estimates as a critical component of the stock selection process. The index is designed to target a lower volatility portfolio more effectively than traditional methods of estimating risk using only daily returns.

## How is LSLT different?

**Methodology** – Other low volatility strategies use an optimizer to create a "minimum volatility" portfolio or simply select stocks with the lowest historical standard deviation. LSLT seeks lower volatility using **truBeta** estimates, selecting stocks that historically have shown more stability in their sensitivity to the market over the past year.

**Sector Mix** – Differences in the portfolio construction process for the Low truBeta index tend to lead to different sector allocations in comparison to other low volatility strategies. The largest sector currently represented in the index tracked by LSLT is Consumer Staples, which has historically been the best performing sector in the market over a long period of time.[6]

**Cost** – LSLT is currently the lowest cost low-volatility strategy in the market with a 0% expense ratio.[7]

[4] For additional information on truBeta™, see the Salt Financial white paper "Quarterly Beta Forecasting with Multiple Return Frequencies", available at https://tinyurl.com/y89xjjxk.

[5] As of November 27, 2019

[6] Siegel, Jeremy, "The Futures for Investors: Why the Tried and True Triumph Over the Bold and the New", Random House, New York (2005), p. 36

[7] See note 2.

If you have concerns about the market contracting, you may want to explore low volatility investing. For investors seeking lower volatility while continuing to participate in the market's potential upside, consider adding LSLT to your portfolio.

**Risks:** Investments involve risk. Principal loss is possible. To the extent the Fund invests more heavily in particular sectors of the economy, the Fund's performance may be more sensitive to developments that significantly affect those sectors. The Fund is non-diversified and may invest more of its assets in a single or smaller number of issuers than a diversified fund. The Salt Low **truBeta™** US Market Index relies heavily on proprietary quantitative models and data. When such models and data prove to be incorrect or incomplete, the Index and Fund may not perform as expected. The performance of the Fund and its Index may differ because of operating expenses and portfolio transaction costs incurred by the Fund but not the Index.

Shares of the ETF may be sold throughout the day on the exchange through any brokerage account. However, shares may only be redeemed directly from the Fund by Authorized Participants, in very large creation/redemption units. There can be no assurance that an active trading market for shares of an ETF will develop or be maintained. Brokerage commissions may apply.

**Please consider carefully the fund's investment objectives, risks, charges and expenses. For this and other important information, obtain a statutory or summary prospectus by visiting www.salt-funds.com. Read it carefully before investing.**

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