

# ActiveShares

## BY PRECIDIAN INVESTMENTS®

ActiveShares® is a ground-breaking ETF structure that combines the benefits of a traditional ETF with the flexibility and confidentiality of an actively managed mutual fund.



Powering Portfolio Innovation

ActiveShares is a registered trademark of Precidian Investments.

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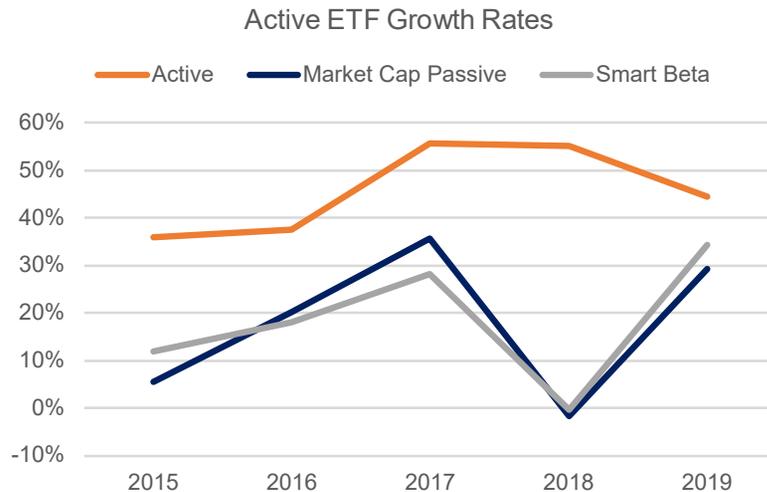
# Executive Summary



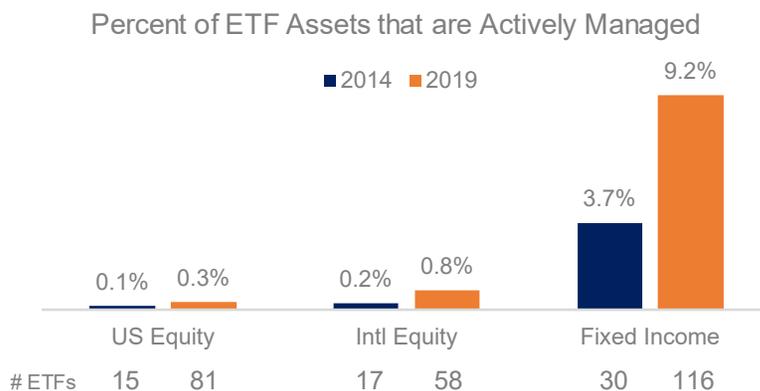
- Active mutual funds have been losing share to passive strategies, likely driven by a combination of higher costs, poor tax efficiency, and performance.
- ETFs are more tax efficient than mutual funds.
  - 73% of equity mutual fund share classes made a capital gains distribution last year
- Assets in active ETFs represent only a small portion of overall ETF AUM.
  - Roughly 2% of US ETF assets are actively managed
  - Less than 1% of US equity ETF assets are actively managed
- ActiveShares will provide opportunity for managers and investors to access active strategies in a more tax efficient and cost effective ETF vehicle.
- ActiveShares provides advisors with potential access to active managers who may have resisted launching an ETF due to transparency concerns.
  - 86% of advisors plan to use semi-transparent ETFs
- ActiveShares enables traditional active managers the flexibility to benefit from the advantages of traditional ETFs while mitigating the risk of front-running, free-riding, and loss of intellectual property.
  - 46% of managers plan to build non-transparent capabilities; 55% of them say they will launch equity products within 1 year
- ActiveShares is an evolution in ETFs, an innovation for active management, and a smart solution for investors.

Sources: ICI 2019 Factbook, Cerulli 2018 ETF Report, Broadridge “The Dawn of Nontransparent ETFs”, Cerulli EDGE April 2019, SimFund 12/31/2019

# Growth of Active ETFs



Assets Under Management. For Period 1/1/2015 –12/31/2019



As of 12/31/2014 and 12/31/2019

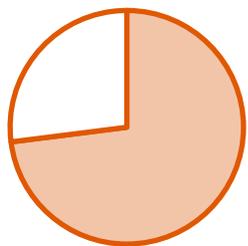
- In 2019, active ETFs accounted for 9% of total ETF flows, up from 3% two years prior in 2017.
- Active ETF assets have almost quintupled from \$21B at year-end 2015 to \$101B as of year-end 2019.
- Yet, only 2% of US ETF assets are actively managed.
- 80% of ETF non-users cite their preference for active management as a reason not to invest in ETFs.
- 82% of ETF non-users cite their preference for mutual funds as a reason not to invest in ETFs.
- 75% of advisors are currently using or are planning to use active U.S. equity ETFs.

Sources: ISS Market Intelligence, Simfund as of 12/31/19, Cerulli 2018 ETF Report, Cerulli 2016 ETF Report. Data subject to change.

# How Will ActiveShares Enhance Active Management?

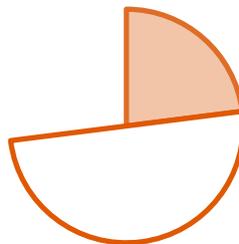


- ActiveShares ETFs will share the same benefits as other ETFs, namely lower costs and enhanced tax efficiency, while keeping holdings confidential.
- ActiveShares ETFs will provide greater flexibility for investors – access to active managers and their strategies in a cost effective and tax efficient, single share class vehicle.
- The ActiveShares ETF structure will provide greater flexibility for managers – enhanced trading flexibility, reduction of imbedded capital gains and reduced cash drag.



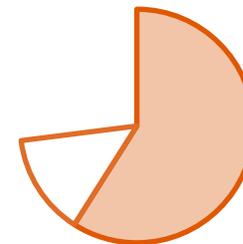
**73%**

of equity mutual fund share classes made a capital gains distribution



**31%**

of these were held in taxable accounts



**81%**

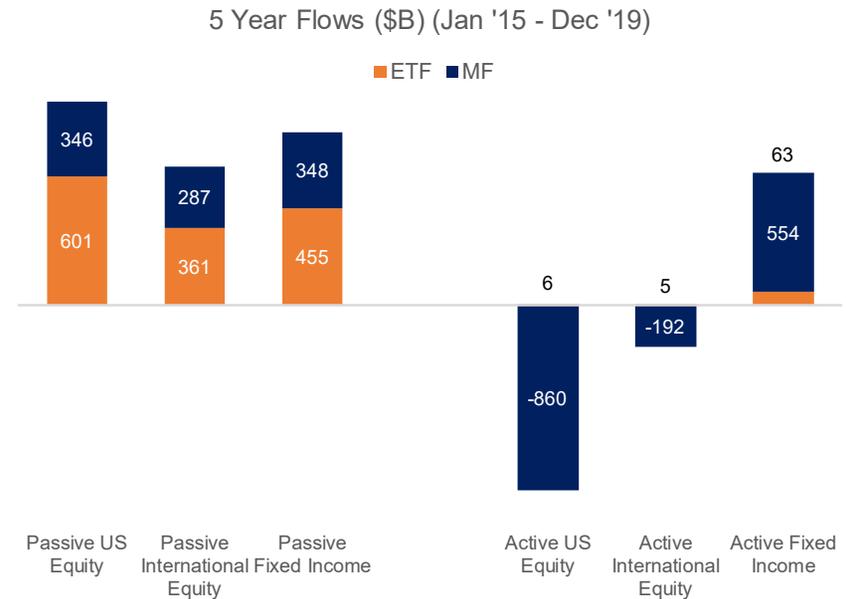
of these had capital gain payouts of 2% or more

Source: Investment Company Institute. 2019. 2019 Investment Company Fact Book: A Review of Trends and Activities in the Investment Company Industry. Washington, DC: Investment Company Institute. Available at [www.icifactbook.org](http://www.icifactbook.org)

# Why ActiveShares?



- ActiveShares ETFs will offer a more efficient vehicle that is built to reduce costs and increase tax efficiency, providing a better investor experience.
- In the last 5 years, active US equity and international equity mutual funds have had outflows of \$1.1T while passive strategies have had inflows of \$633B. Flows to passive are even more prevalent when ETFs are considered.
- Active managers may find ActiveShares to be their solution for providing traditional active mutual fund strategies in a more effective and efficient ETF vehicle.
- ActiveShares is a ground-breaking ETF structure that combines the benefits of a traditional ETF with the confidentiality of an actively managed mutual fund.



**ActiveShares exemptive relief covers: US Equity, REITS, US Treasuries, US Futures, ETFs, and ADRs**

Source: SimFund as of 12/31/19. Fixed Income categories include Taxable and Non-Taxable Bond Funds, excludes Money Market Funds

# ActiveShares - Confidentiality of a Mutual Fund with the Benefits of an ETF



Because ActiveShares is an ETF Structure, ActiveShares ETFs will be able to take advantage of existing platforms and may be employed in investment models utilizing ETFs.

|  | Mutual Fund           | Traditional ETF | ActiveShares® ETF     |
|--|-----------------------|-----------------|-----------------------|
| Lower Cost                                   |                       | ✓               | ✓                     |
| Tax Efficiency                               |                       | ✓               | ✓                     |
| Intraday Trading                             |                       | ✓               | ✓                     |
| Arbitrage Eligible                           |                       | ✓               | ✓                     |
| Mitigates Front-running                      | ✓                     |                 | ✓                     |
| Mitigates Loss of Intellectual Property (IP) | ✓                     |                 | ✓                     |
| Discloses Portfolio Holdings                 | Monthly/<br>Quarterly | Daily           | Monthly/<br>Quarterly |

# How Does It Work?

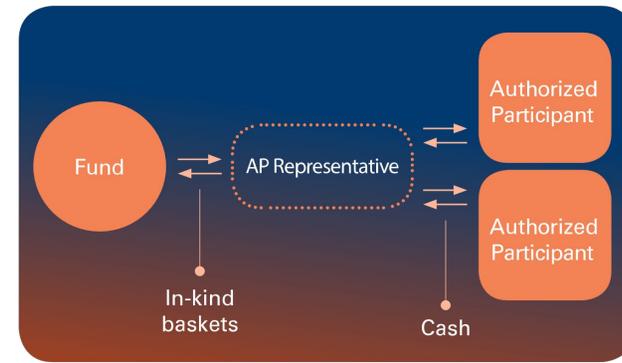
## Operational Differences

- There are two key operational differences relative to a traditional ETF. First is the introduction of an Authorized Participant Representative (APR). Second is the increased frequency of a published intraday price (VIIV) - a significant improvement in methodology versus the traditional ETF pricing frequency (IIV).

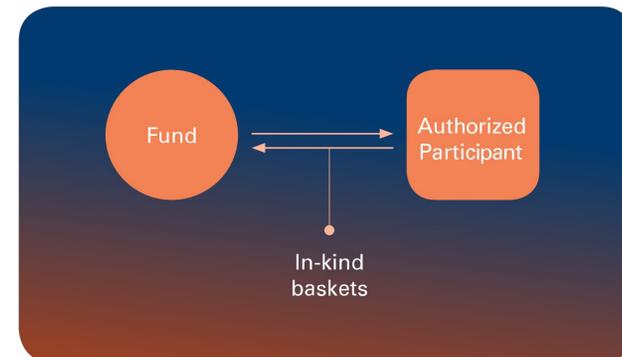
## Authorized Participant Representative (APR)

- To maintain the confidentiality of portfolio holdings on a daily basis and to mitigate risk of front-running and free-riding, ActiveShares will use APRs. Through a confidential account, owned by the Authorized Participant (AP), APRs will have restricted access to portfolio holdings and will buy and sell securities on behalf of APs for the purposes of creations and redemptions.

### ActiveShares® ETF



### Traditional ETF



Verified intraday indicative value, or “VIIV,” is a figure reflecting the value of the ETF portfolio holdings, calculated every second during the trading day, as opposed to a standard “IIV,” which calculates every 15 seconds for existing ETFs.

# ActiveShares Transaction Deep Dive

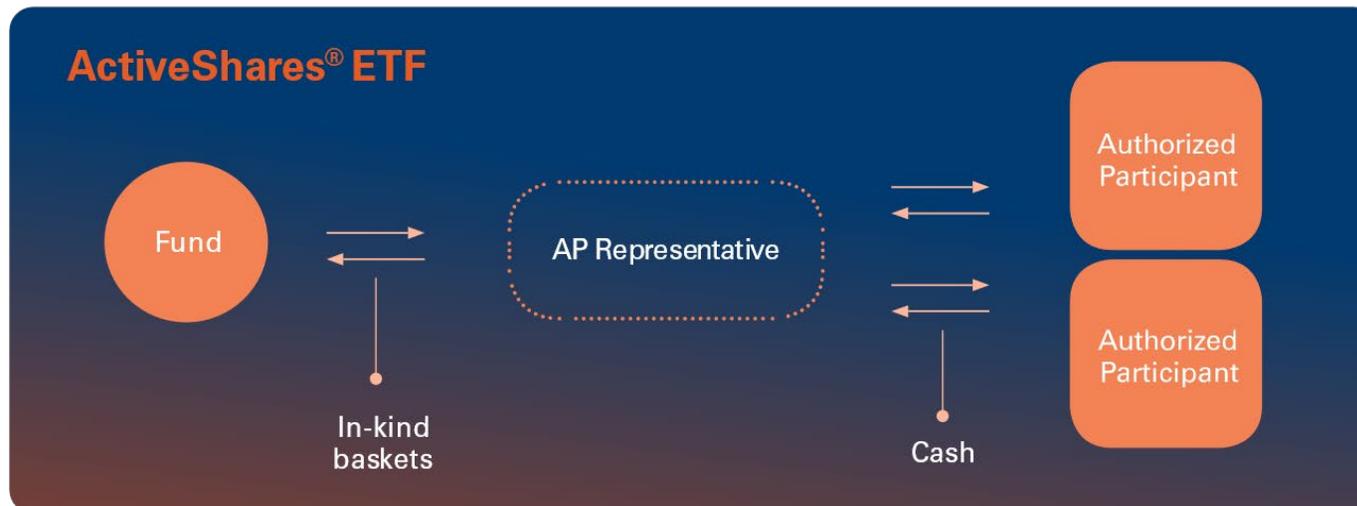


## AP Representative (APR)

- Receives daily constituent information from the fund to facilitate creations/redemptions.
- Works as an agent of the AP to trade the ETF basket in return for cash from the AP.
- Maintains a relationship with each ETF AP and provides delayed trade reporting to AP.

## Authorized Participant/Market Maker

- Sets bid/ask prices for the ETF based on available inputs and assumes the risk of making markets.
- Trades directly with end investors of the fund.
- Maintains a trading account with the AP Rep to facilitate creations/redemption in an ActiveShares ETF.
- Responsible for all the costs associated with trading the in-kind basket of securities and associated P&L.



# Differences between VIIV and IIV



## ActiveShares ETF

Verified Intraday Indicative Value (VIIV)

Published every  
**1**  
Second

- Published every 1 second to the exchange.
- Intended to provide a more up-to-date indication of value based on midpoint of underlying basket of holdings.
- Minimizes the impact of stale security prices.
- Utilizes two calculation engines and monitoring to minimize the risk of a price outage.

## Traditional ETF

Intraday Indicative Value (IIV)

Published every  
**15**  
Seconds

- Published every 15 seconds to the exchange.
- Intended to provide an indication of an ETF's NAV typically calculated based on the last prices of underlying basket of holdings.



