DUAL

NORTH SHORE DUAL SHARE CLASS ETF

INVESTMENT CASE

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THE DUAL SHARE CLASS OPPORTUNITY

Equities of Dual-Class companies have grown in terms of both market value and percentage of all new companies going public on US stock exchanges. While there is much controversy surrounding the subject, we believe that the structure offers potential benefits that ultimately may pay off for investors in the equities of dual-class companies. In particular, the structure may allow young, innovative companies to gain access to the public markets without giving up control. The dual-class structure mitigates the outside pressure for short-term performance so that the founders can protect their vision and continue to invest for the long run.

As the dual-class structure has grown in popularity, the controversy has increased. This is because the dual-class structure can undermine accountability and exacerbate agency. For example, the management can outvote any low voting power shareholder proposal and effectively repel unwanted takeover bids and activist shareholder campaigns. This has led to many major index providers to reduce, or completely eliminate, stocks of dual-class companies from their indices.

We have created the North Shore Dual Share Class ETF (DUAL) to provide investors with access to dual-class companies and the potential benefits that they offer.

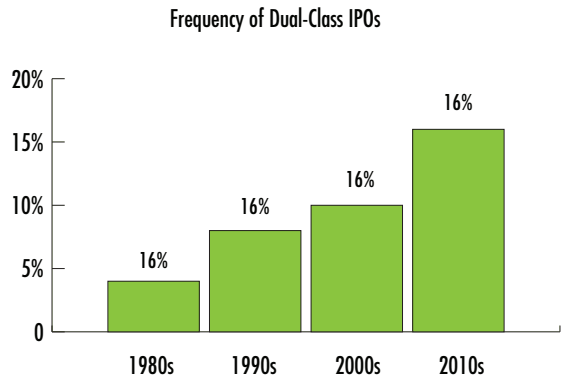
WHAT IS A DUAL-CLASS COMPANY?

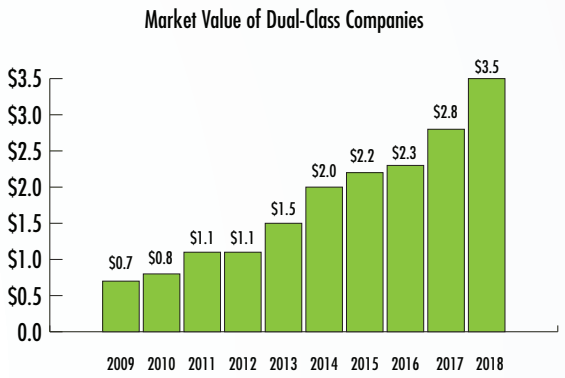
A dual-class company is one that issues equity with different voting rights assigned to each share class. Generally, the share class held by the founders will carry the majority of the votes for the company. A typical dual-class structure confers ten votes to the holder of the super-voting shares versus one vote per share for ordinary shares.

Founders of young, innovative companies may utilize the dual-class structure so that they gain access to the public markets without giving up control.

INCREASE IN DUAL SHARE COMPANIES

The number and value of dual-class companies have increased over the past decade. From only 4% of IPOs in the 1980s, dual-class companies totaled 16% of IPOs during the 2010s and rose to $3.5 billion in market value during 2018.[1]





Source: North Shore Indices Internal Research

POTENTIAL BENEFITS OF DUAL-CLASS COMPANIES

The dual-class structure offers potential benefits to the issuing companies, including:

- Access to the equity market for capital to fund potential future growth.
- Reduced pressure from outside shareholders that may have short-term objectives such as profits or share price maximization.
- Capacity to implement founder's vision for company.
- Ability to pursue strategies and goals that may have a longer-term payout.
- Allows the company to focus on long-term vision rather than short-term goals.

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BENEFITS OF DUAL-CLASS STRUCTURE OVER THE FIRM'S LIFE CYCLE

The potential benefits of the dual-class structure may vary depending on the age of the company. One research study showed that the benefits to dual-class companies is highest at the earliest stages of a company and tend to diminish over time.[2] The researchers used the firm's equity valuation as a measure of those potential benefits. They found that dual-class firms had higher valuations than single-class companies at the time of their IPO. That valuation differential diminished as the company matured.

This diminution of value over time may correspond to the fact that the founder's vision may now be fully executed, and his/her control over the company is no longer adding value. Or it may highlight the increase in the potential for agency problems where the controlling shareholders are acting in their own interest rather than that of the company and non-controlling shareholders.

As we will describe in the portfolio construction section, a key feature of our strategy is that it targets dual-class companies while the net benefits of the dual-class structure are expected to be positive. The DUAL ETF kills two birds with one stone; that is, the index exclusion problem and the lack of effective sunset provisions.[3]

THE INDEX EXCLUSION ISSUE

Many major index providers are reducing the weight of, or excluding completely, dual-class companies. For example, in 2017, S&P Dow Jones Indices moved to exclude dual-class companies from many of their most widely used U.S. indices. Both FTSE Russell and MSCI have rules which reduce the weight of dual-class companies in their indices.

Thus, individuals may have limited access to dual-class companies, particularly if they chose to invest in index funds.

PROVIDING ACCESS TO THE POTENTIAL BENEFITS OF DUAL-CLASS COMPANIES

INTRODUCING THE NORTH SHORE DUAL SHARE CLASS ETF (DUAL)

The North Shore Dual Share Class ETF (DUAL) seeks to provide investment results that, before fees and expenses, correspond generally to the total return performance of the North Shore Dual Share Class Index. The index is designed to track the performance of dual-class companies incorporated in the United States.

WHY DUAL?

- DUAL provides access to the shares of dual-class companies.
- The fund emphasizes younger companies where the potential benefits of the dual-class structure may be the greatest and reduces that emphasis as the company matures.
- Provides access to dual-class companies which may not be available in many popular equity indices.

PORTFOLIO CONSTRUCTION

The DUAL index's selection universe consists of the 3,000 largest stocks by market capitalization incorporated in the United States. All securities are subject to minimum market capitalization rules. Companies with dual-class share structures with a firm age, relative to its IPO date, of 6 months to 20 years are selected for inclusion in the index. In general, the most liquid share class is selected for the index.

Further sector and individual security constraints are imposed with an aim to maintaining portfolio diversification. No individual sector may exceed more than 20% of the portfolio, and no individual security may exceed 4% of the portfolio. The index is rebalanced annually.

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WHERE DUAL MAY FIT IN YOUR PORTFOLIO

- US Equity Exposure – DUAL may serve as part of your portfolio's US equity exposure.
- Growth Exposure – DUAL may serve as part of your company's exposure to the growth factor.
- Structural Alpha Exposure – DUAL may serve to generate alpha over the broad market by offering exposure to primarily US mid- and large-cap companies whose share class structure may offer excess returns.

SUMMARY

The dual-class structure may confer potential benefits to companies which may result in higher investment returns for investors. The dual-class structure may allow young, innovative companies gain access to the public markets while allowing them to focus on long-term goals.

DUAL may provide access to companies that opt to take advantage of this equity structure that is not readily available to many investors owing to their reduced weights or outright exclusion from many indices.

DUAL may provide investors with an attractive vehicle for exposure to dual-class companies

[1] North Shore Indices Internal Research

[2] Cremers, Martijn; Lauterbach, Beni & Pajuste, Anete, The Life-Cycle of Dual Class Firm Valuation, December 2018.

[3] Sunset provisions provide for either a dismantling of the dual class structure or a shareholder vote on whether to discontinue the equity structure.

DISCLOSURE

Exchange Traded Concepts, LLC serves as the investment advisor. The Fund is distributed by SEI Investments Distribution Co. (1 Freedom Valley Drive, Oaks, PA 19456), which is not affiliated with Exchange Traded Concepts, LLC, North Shore Indices, or any affiliates.

Carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. This and additional information can be found in the Fund's full or summary prospectus, which may be obtained by visiting dualetf.com. Investors should read it carefully before investing or sending money.

Investing involves risk, including possible loss of principal. The Fund's return may not match or achieve a high degree of correlation with the return of the Index. To the extent the Fund's investments are concentrated in or have significant exposure to a particular issuer, industry or group of industries, or asset class, the Fund may be more vulnerable to adverse events affecting such issuer, industry or group of industries, or asset class than if the Fund's investments were more broadly diversified. Issuer-specific events, including changes in the financial condition of an issuer, can have a negative impact on the value of the Fund. The Fund is not actively managed and therefore the Fund would not sell shares of an equity security unless that security is removed from the Index or the selling of shares is otherwise required upon a rebalancing of the Index. Diversification may not protect against market risk. Holdings are subject to change.

Dual Share Class Companies create unique risks. Dual Share Class Companies allow for a concentration of voting power in the hands of company insiders through a disproportionate allocation of voting rights among stockholders, which may negatively affect common stockholders in a variety of ways. For example, a company's owners may use such power for personal benefit, while passing on financial risk to common stockholders. Further, Dual Share Class Companies allow entrenchment of management in the company, which may prevent common stockholders from being able to address issues relating to mismanagement of the company, such as share dilution, increased company debt, and financial underperformance relevant to the market. Investing only in a portfolio of Dual Share Class Companies may impact the Fund's relative investment performance depending on whether such investments are in or out of favor in the market. A portfolio of Dual Share Class Companies may underperform a portfolio that includes companies with traditional ownership structures

There is no guarantee the fund will achieve its stated objective. Indices are unmanaged and do not include the effect of fees. One cannot invest directly in an index.

Shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. Market price returns are based upon the midpoint of the bid/ask spread at 4:00 PM Eastern time and do not represent the returns you would receive if you traded shares at other times. The first trading date is typically several days after the fund inception date. Therefore, NAV is used to calculate market returns prior to the first trade date because there is no bid/ask spread until the fund starts trading.