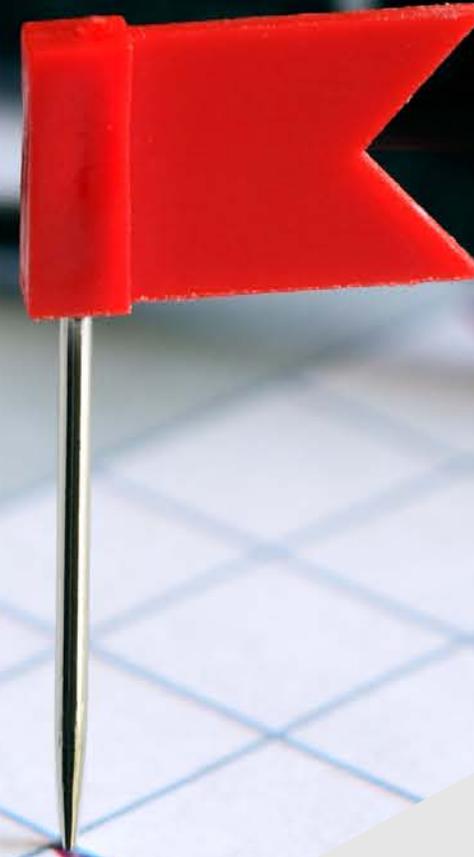# THE FORENSIC ACCOUNTING LONG-SHORT ETF

INFORMATION PACKET

MARCH 31, 2018

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OVERVIEW

INTRODUCTION

THE INVESTOR'S CHALLENGES

Most investors want a core U.S. market allocation. However, investing in a market-cap weighted index means…

CONCENTRATION RISKS

- The majority of your returns come from the top names only
- The top 50 stocks in the S&P 500 account for 47% of the index weight
- 64% of the S&P 500 is allocated to the top 100 stocks

VALUATION RISKS

- If a stock is overpriced, in a cap weighted portfolio you hold more of it
- Perhaps similar to actively managed funds, you are trusting other investors to analyze and value stocks appropriately

REDUCED GROWTH POTENTIAL

- By the time most companies become a large enough portion of the index to matter to your returns, a large portion of their growth potential may be behind them

POOR QUALITY

- You own the best stocks, but also the worst
- You are trusting companies to deliver fair and transparent financial statements

THE INVESTOR'S CHALLENGES

Generally Accepted Accounting Principles (GAAP) accounting is standardized but companies have wide latitude to interpret rules. Not all companies are equal.

▌ Earnings quality is important. Even a cheap, low P/E company can be expensive if earnings are inflated

▌ Managers are incentivized to see their stock price rise. And their tenures may be short. Some may utilize aggressive accounting to front-load revenues

▌ What if assets are overstated?

▌ What if numerous acquisitions are helping to mask growing expenses?

FORENSIC ACCOUNTING

Forensic Accounting

- Dissects companies' financial statements
- Attempts to identify the "red flags" of aggressive accounting and revenue recognition practices

> **"RED FLAGS"**
> - Accelerated revenue recognition
> - Inventory issues
> - Unsustainable margin expansion
> - Financial ratio adjustments
> - Irresponsible dividends & share repurchases
> - Unmaintainable profits
> - Low quality earnings

Portfolio Implications

The ability to assess companies' revenue quality, earnings sustainability, and cash flow consistency provides investors with potential excess returns from:

- Buying higher quality companies
- Avoiding or shorting low quality companies

OUR SOLUTION

Forensic Accounting Long-Short ETF (FLAG) seeks to...

Enhance investor's U.S. large cap exposure ＞

Higher quality stocks

More attractive valuations

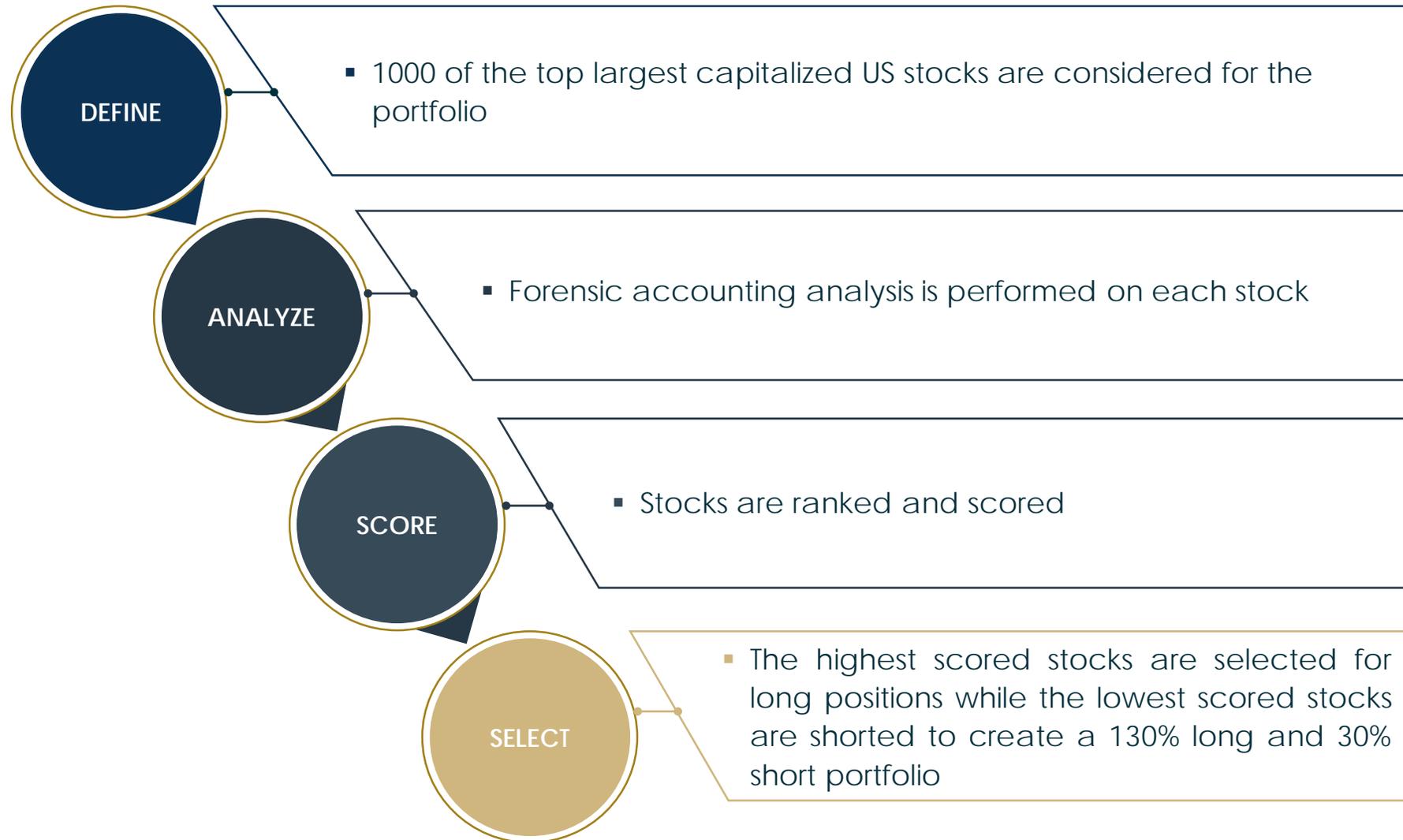**Provide investor's with two sources of return** ＞

Market exposure (beta): Full participation in the U.S. equity market

Stock Selection (alpha): The Forensic Accounting Long-Short Index selects and shorts stocks systematically based on forensic accounting analysis, diversifying risks and generating active returns

PORTFOLIO CONSTRUCTION

INVESTMENT PROCESS

DEFINE
- 1000 of the top largest capitalized US stocks are considered for the portfolio

ANALYZE
- Forensic accounting analysis is performed on each stock

SCORE
- Stocks are ranked and scored

SELECT
- The highest scored stocks are selected for long positions while the lowest scored stocks are shorted to create a 130% long and 30% short portfolio

UNIVERSE

- Top 1000 U.S. Large Cap stocks

- Quarterly rebalance

MULTI FACTOR FORENSIC ACCOUNTING SCORE

- Stock scored and ranked across five criteria:
  - Revenue Recognition
  - Cash Flow Quality
  - Earnings Quality
  - Valuation
  - Shareholder Yield

- Scores are combined to create a composite ranking

PORTFOLIO CONSTRUCTION

- Long highest ranked stocks

- Short lowest ranked stocks

- Subject to risk controls

- Long exposure = 130%

- Short exposure = -30%

RISK CONTROLS

- Max long position size = 1%

- Max short position size = 0.75%

- Active sector allocation limits = 2%

PORTFOLIO FIT

PORTFOLIO FIT

FLAG may serve well as a complement to other US index-based allocations

HIGHER QUALITY STOCKS	Forensic accounting to select stocks with more sustainable earnings and cash flows

ENHANCED RETURN POTENTIAL	Two sources of returns:
	  Beta – participation in the U.S. market returns
	  Alpha – The Forensic Accounting Long-Short Index selects stocks via forensic accounting
	
	Quality & Value factors are well supported by academic literature

IMPROVED RISK EFFICIENCY	Diversified sources of returns offer potential risk efficiency improvements

PORTFOLIO FIT

FLAG may also serve as a replacement for a US active manager

|	
INSIGHT	The FLAG Index employs many of the same valuation and quality insights active managers use to select stocks
REDUCED BEHAVIORAL BIAS	FLAG's investment process reduces some of the behavioral biases that can lead to underperformance
GREATER TRANSPARENCY	FLAG's holdings are visible to investors at all times
LOWER FEES	FLAG's management fee is lower than most active managers
TAX EFFICIENT	FLAG's ETF structure allows for greater tax efficiency than a traditional mutual fund

PORTFOLIO CHARACTERISTICS

MARKET CAP

The FLAG ETF's predominantly large-cap exposure comes from selecting stocks from among the top 500 largest in the U.S.

Large Cap,
51.3%

Mid Cap,
48.7%

Large Cap,
40.9%

Mid Cap,
59.1%
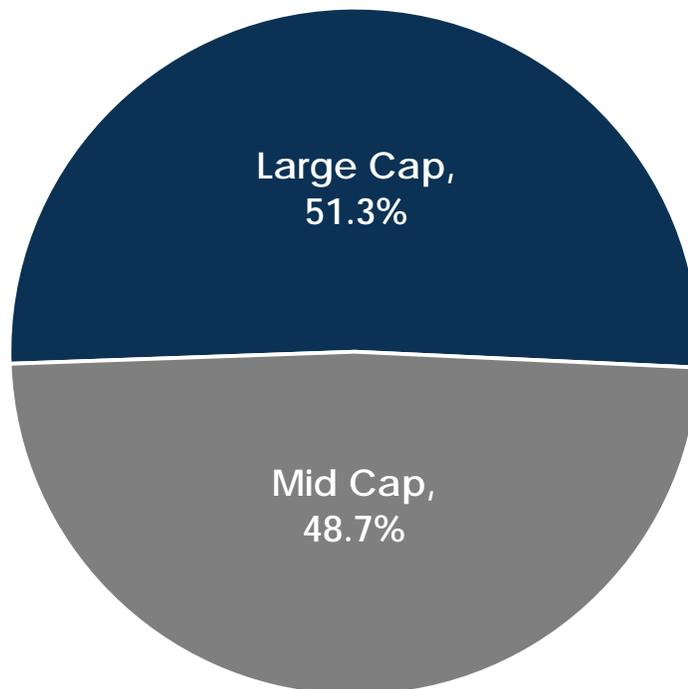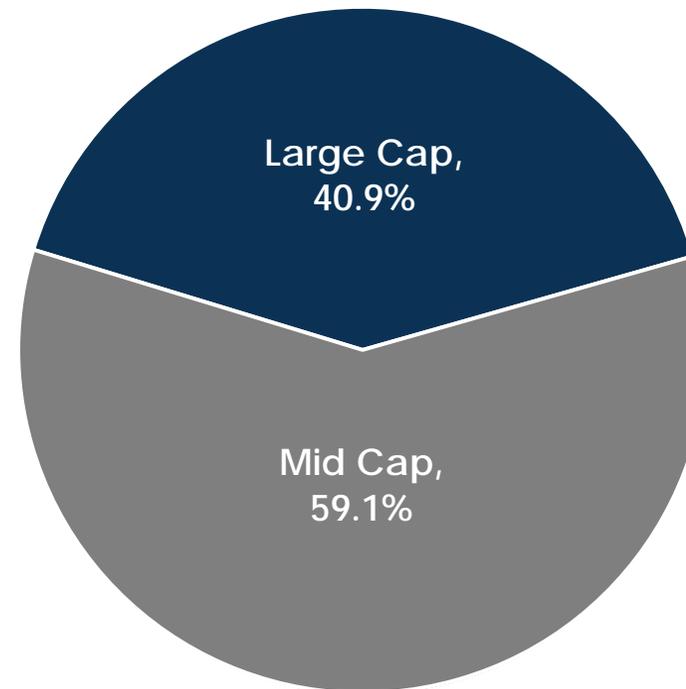
Long
exposures

Short
exposures

The index was constructed with a 100% net equity exposure (130% long, 30% short). The net equity exposure is calculated above. Large cap is defined as stocks with greater than $10Bn in total market capitalization. Mid cap is defined as stocks with $2Bn to $10Bn in market capitalization. Data as of 3/31/18.

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POSITION CONCENTRATION

FLAG ETF is well diversified, historically averaging 180 total holdings

- 136 Long
- 42 Short

>

Number of Holdings

	FLAG		Morningstar US Large-Mid Cap	
	Nominal	Effective	Nominal	Effective
Long	136	133	835	153
Short	42	41	0	0
Total	178	174	835	153

FLAG ETF is less concentrated in individual stocks than a cap weighted alternative

>

Top Holdings

	FLAG		Morningstar US Large-Mid Cap
	Long	Short	
Top Holding	1.16%	-0.78%	3.44%
Top 5 Holdings	5.33%	-3.83%	11.72%
Top 10 Holdings	10.45%	-7.57%	18.43%

Diversification may not protect against market risk. The effective number of stocks is calculated by taking the inverse of the sum of squared stock weights and measures the index concentration within the portfolio. Data as of 3/31/18.

DISCLOSURE

Carefully consider the Forensic Accounting Long-Short Fund's investment objectives, risk factors, charges and expenses before investing. This and additional information can be found in the Forensic Accounting Long-Short Fund's prospectus, which may be obtained by visiting www.flagetf.com. Potential investors are advised to read the prospectus carefully before investing.

Investing involves risk, including the possible loss of principal.

The FLAG-Forensic Accounting Long-Short ETF was formerly known as the WeatherStorm Forensic Accounting Long-Short ETF. The index the ETF tracks was formerly known as the WeatherStorm Forensic Accounting Long-Short Index.

The Forensic Accounting Long-Short Index is a forensic accounting-based alternative strategy that seeks to emphasize high-quality stocks at attractive valuations, while shorting stocks with less attractive valuations. With short sales, you risk paying more for a security than you received from its sale. Short sales losses are potentially unlimited and the expenses involved with the shorting strategy may negatively impact the performance of the fund. The use of leverage by the fund managers may accelerate the velocity of potential losses. Note: It is not possible to invest directly in an index.

There is no guarantee that the Fund or the index will achieve its investment objective.

The Fund has the same risks as the underlying securities traded on the exchange throughout the day at market price. Redemptions are limited and often commissions are charged on each trade. A fund that concentrates its investments in the securities of a particular industry or geographic area may be more volatile than a fund that invests in a broader range of industries. The performance of the Fund may diverge from that of the Index. Because the Fund employs a representative sampling strategy and may also invest up to 20% of its assets in securities that are not included in the Index, the Funds may experience tracking error to a greater extent than a fund that seeks to replicate an index. The Fund is not actively managed and may be affected by a general decline in market segments related to the index. The Fund invests in securities included in, or representative of securities included in, the index, regardless of their investment merits. Small and medium-capitalization companies tend to have more limited liquidity and greater price volatility than large-capitalization companies. Unlike mutual funds, ETFs may trade at a premium or discount to their net asset value.

The Morningstar Large Cap Index tracks the performance of U.S. large-cap stocks that represent the largest 70 percent capitalization of the investable universe. The Morningstar Mid Cap Index tracks the performance of U.S. mid-cap stocks that fall between 70th and 90th percentile in market capitalization of the investable universe. In aggregate the Mid-Cap Index represents 20 percent of the investable universe.

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APPENDIX

FOUNDING INDEX CREATOR
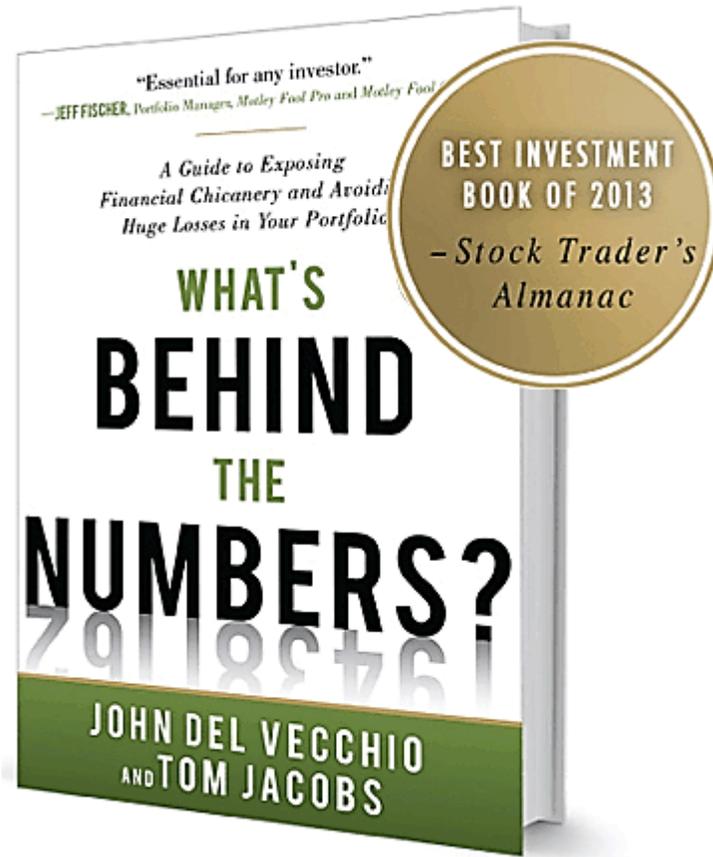
JOHN DEL VECCHIO, CFA

What's Behind The Numbers? was co-authored by John Del Vecchio, founder and inspiration behind the Forensic Accounting Long-Short ETF (FLAG). John has over 15 years of equity long and short investment experience. Previously, John was a hedge fund manager for Ranger Alternative Management. He serves as co-founder and co-manager for the Active Bear ETF (HDGE), as well as the principal and founder of Parabolix Research, LLC.

Vident Financial is a financial services innovator that develops and licenses transparent investment market solutions (indices and funds) based on a distinct philosophy and rigorous global research. Since Vident was founded in 2013, it has collaborated with industry-leading firms to establish three index strategies and ETFs.