

Eight Things To Know About Short and Leverage ETFs/ETPs

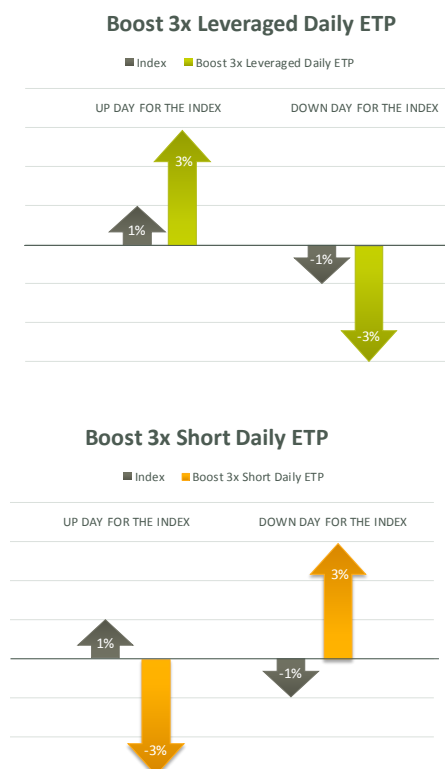
Introduction

Leverage has been around for hundreds of years, however short and leverage ETPs have been in existence since 2005. Today there are almost \$61.5bn (Boost ETP) of assets in leveraged and short ETPs which are traded on most of the major global stock exchanges. Due to the combined features of leverage and daily compounded returns these types of ETPs are trading instruments that need to be clearly understood before an investor should trade or invest. However, once understood they are highly efficient tools that provide magnified long and short exposure in an efficient product wrapper.

The following are eight key things to know about short and leveraged ETPs.

1. Leveraged returns

Leveraged returns allow an investor to magnify the daily returns of an unleveraged investment. For example, the charts below show that if the FTSE 100 rises by 1% in a day, the Boost FTSE 100 3x Leverage Daily ETP (3UKL) will rise by 3% (excluding fees and adjustments). Conversely, if the FTSE 100 falls by 1%, the Boost FTSE 100 3x Short Daily ETP (3UKS) will rise by 3%. Leverage returns allow an investor to either use less of their capital to achieve a similar investment (2/3 less in the case of 3x leverage) or to magnify returns using the same amount of capital.



(Source: Boost ETP)

2. What indices do short and leveraged ETPs track?

Boost short and leverage ETPs track a range of liquid, blue-chip indices published by the world's leading index providers. Boost ETPs either track a specially designed 3x daily leveraged or 3x daily short index (such as the ShortDAX X3 TR EUR Index) that calculates the leveraged return inside the index, or they track an unleveraged index (such as the NASDAQ Commodity Crude Oil ER Index) and for which the 3x or -3x daily leverage is applied through application of a formula similar to that used by a short or leveraged index. In either case, the economic effect of both calculation methods is the same.

3. How is the short and leverage position achieved?

If an investor buys £100 of a Boost 3x Leverage Daily ETP, the investor receives £300 of exposure consisting of £100 cash and £200 of borrowed funds (charged at the interbank lending rate) to achieve an investment of £300. The borrowing cost is deducted from the daily return and is either incorporated into the index or is incorporated in the calculation of the ETP price, such that all ETPs are calculated in a similar manner.

If an investor buys £100 of a Boost 3x Short Daily ETP the following investment is effectively made; £300 of the index is borrowed and sold short. The £400 cash (£100 from the investor and £300 from the short sale of the index) is then invested at inter-bank cash rates. The cost of the stock-borrow and interest income on the cash is incorporated into the calculation of the ETP price each day, such that all ETPs are calculated in a similar manner.

4. Daily re-balancing

Boost Short and leverage Daily ETPs rebalance their leverage at the end of every index trading day, providing investors with a 3x or -3x daily returns. This is slightly different to using margin or buying or selling a futures contract to obtain leverage. Daily 'constant leverage' is used because an open-ended ETP allows for investors to buy and sell the ETP on any day and still receive the stated leverage multiple. Leverage based on a 'constant dollar' amount is not possible as the amount of leverage experienced by each investor depends on the amount and day the investment was made. Monthly leverage (or some other frequency of re-balancing) could be used but then the actual leverage an investor was exposed to would depend on what day of the month they bought the investment. Daily leverage simplifies this issue.

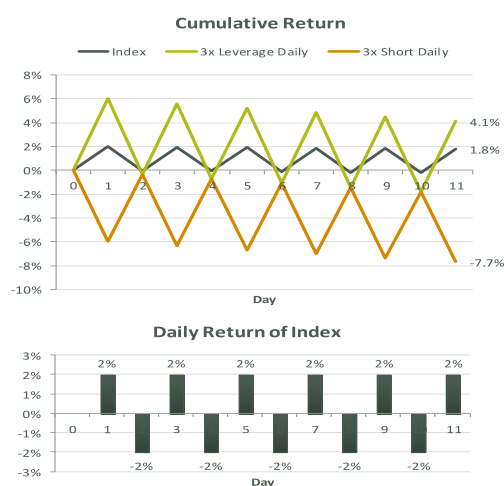


5. Compounding - its effects

As with any investment, returns over periods longer than one day are affected by compounding due to market movements (like a bank account may compound interest over many months). Daily leveraged exposure means the compounding effect will be amplified and occur daily, which can have a positive or negative effect on returns over longer periods. If the FTSE 100 price is £100 and rises by 1%, the Boost FTSE 100 3x Leverage Daily ETP (3UKL) will rise by 3% to £103 (excluding fees & adjustments). If the FTSE 100 then falls by 1% the next day, then 3UKL will fall to £99.91. Thus over the two days the average return is 0%, however the 2-day compounded ETP return is -0.09%. The Index would also have an average return of 0% but its price would be £99.99 and its 2-day compounded return would be -0.01%. The daily compounding effect may increase with the length of a holding period, index volatility and leverage.

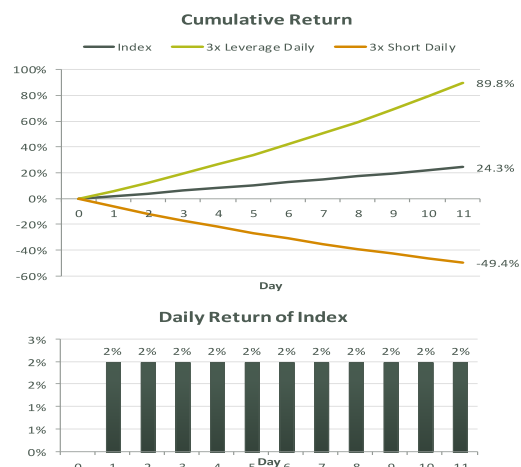
The charts below and to the right show the effects of compounding on returns. In the first chart labelled “Volatile Market” the index moves up and down by 2% per day. After 11 days, the Index is up by 1.8%, the Boost 3x Leverage Daily ETP would be up only 4.1% (2.3x the Index) and the Boost 3x Short Daily ETP is down 7.7% (-4.3x the Index). The second chart labelled “Trending Market” shows the outcome over 11 days, where the index increased by 2% each day. After 11 days, the Index is up by 24.3%, the Boost 3x Leverage Daily ETP would be up only 89.8% (3.7x the Index) and the Boost 3x Short Daily ETP is down 49.4% (-2.0x the Index). However, on a day to day basis, the Boost 3x Leverage Daily ETP and Boost 3x Short Daily ETP has done exactly as it is supposed to do. The effects and risks of daily leverage is explained more fully in the Prospectus of Boost Issuer PLC (which can be found on www.boostetp.com).

Volatile Market



(Source: Boost ETP)

Trending Market



(Source: Boost ETP LLP)

6. Intra-day crash protection

Boost ETPs have an inbuilt mechanism that is designed to prevent the ETP from falling to \$0 in one day. If a market move is extreme, for example if the FTSE 100 falls by 20% (60% including leverage) then 3UKL would rebalance intra-day to ensure that the ETP does not go to \$0. This rebalancing is a similar process to the daily rebalancing which occurs at the end of every day. The intra-day rebalancing reduces the sensitivity of further falls below 20% while maintaining some exposure to a rebound. Similarly, if the FTSE 100 rises by 20%, then 3UKS would rebalance intra-day.

7. Uses and trading strategies

Boost short and leverage ETPs can be used by a wide range of investors for many different trading strategies:

- Treble daily returns, positive or negative (excluding fees and adjustments).
- Hedge existing positions in one simple trade
- Use in a long-short strategy using both a Boost 3x Leverage ETP and a Boost 3x Short ETP
- Use in a pair trade to take advantage of undervalued assets
- Short the market/asset class quickly, efficiently and cost-effectively
- Buying a Short ETP allows the investor to profit in a falling market
- Use tactically within a broad portfolio where an investor holds strong short term convictions



8. Leverage ETPs and possible risks

Leverage ETPs have been fiercely debated in investor circles as to whether they are risky and/or complex investments. Leverage has been around for many centuries and a multitude of financial products exist to enable investors to gain leverage and/or short exposure. An investor should understand the benefits and risks of each leverage product and see which one suits their goals and circumstances for the specific trade being considered. Short and leverage ETPs increase the tools available to investors, and used in the right way, short and leverage ETPs can enhance returns. What short and leverage ETPs **do provide** is a robust, transparent, exchange-traded, collateralised, secure and relatively cost efficient tool for a wide range of investors to gain leverage or short exposure, through their normal brokerage or investing channels.

	Boost ETP	Structured Products	ETFs	CFDs/ Spreadbet	Futures/ Options
Underlyings / asset classes	Equities, Commodities	Many	Single commodities not possible	Many	Many
Leverage	Yes	Yes	Yes (only up to 2x)	Yes	Yes
Lose more than your invested capital	No	No	No	Yes	Yes
Exchange Traded	Yes	No	Yes	No	Yes
Multiple Market Makers	Yes	No	Yes	No	Yes
Arbitrageable	Yes	No	Yes	No	Yes
Unsecured credit risk	No	Yes	No	Yes (MF Global & World Spreads)	No
Over Collateralised	Yes	No	Usually	No	No
High fees	No	Yes	No	Yes	No
Transparent	Yes	No	Mostly	No	Yes
Highly liquid and trade in large size	Yes	No	Yes	No	Yes
Margin calls & close out	No	Yes	No	Yes	Yes
Short term dated	No	Yes	No	Yes	Yes (rolls & exercise dates)

N.B The information contained in this factsheet is not intended to represent all the risks associated with Leverage and Short ETPs, nor does it list all the important factors one should consider when reviewing whether a Boost ETP is appropriate. Investors should review and understand the Prospectus including the “Risk Factors” section before any investment into Boost ETPs.



About us

BOOST ETP, a **WisdomTree Company**, is an award winning Exchange Traded Products ETP provider and one of few providers of specialised ETPs in the European market, and is the first to focus on Short and Leveraged ETPs. BOOST's offering targets sophisticated investors including day traders, stock brokers, wealth managers, high frequency traders and institutional investment managers.

WisdomTree Investments, Inc. is a New York-based exchange-traded fund ("ETF") sponsor and asset manager. WisdomTree offers ETFs across Equities, Fixed Income, Currency Income and Alternatives asset classes, and is currently the world's sixth largest ETF issuer. To learn more about parent company WisdomTree Investments, Inc., visit the Investor Relations (<http://ir.wisdomtree.com/>) website.

BOOST ETP's key features include:

- **Independence** - **BOOST** is independent from any investment bank, swap provider, market maker, trustee or custodian
- **Best of breed** – **BOOST's** founders have over 25 years of experience in the ETP market. With this experience, plus the wealth of experience provided by **BOOST's** world class service providers, investors are able to enjoy efficient products with liquidity, strong counterparty risk management and relatively low costs
- **Transparency** – **BOOST** discloses all fees, collateral holdings and details on its website each day

- **Innovative and nimble** - **BOOST** aims to be a leader in innovation, as evidenced by the ETPs issued, and the product development and market research behind the products
- **Focused and specialised** - **BOOST's** strategy differs from the existing ETP issuers by not focusing on being everything to everyone
- **Educational** - **BOOST** focuses on providing all the educational and thought leadership tools needed by investors

BOOST ETP is well positioned to bring something new to the European market at both the ETP product range and investor service levels. The company brings a fresh, investor centric approach to all aspects to its operations including sales, marketing, research, and product development.

Contact us

If you would like further information about Boost ETP's product range or any of the content within this fact sheet, please email info@boostetp.com or call +44 (0) 203 824 6020.

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The value of an investment in ETPs may go down as well as up and past performance is not a reliable indicator of future performance. An investment in ETPs is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

ETPs offering daily leveraged or daily short exposures ("**Leveraged ETPs**") are products which feature specific risks that prospective investors should understand before investing in them. Higher volatility of the underlying indices and holding periods longer than a day may have an adverse impact on the performance of Leveraged ETPs. As such, Leveraged ETPs are suitable for institutional and retail investors who are financially sophisticated, wish to take a short term view on the underlying indices and can understand the risks of investing in Leveraged ETPs. Investors should refer to the section entitled "Risk Factors" and "Economic Overview of the ETP Securities" in the Prospectus for further details of these and other risks associated with an investment in Leveraged ETPs and consult their financial advisors as needed. Neither WisdomTree Europe Ltd. nor the Issuer has assessed the suitability of any Leveraged ETPs for investors other than the relevant Authorised Participants.

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