

Compounding Explained

Introduction

This factsheet is intended as a summary to explain the effects of daily compounded returns for Boost Short and Leveraged ETPs. Further information is provided in the Prospectus of Boost Issuer PLC within the “Risks” section and also the section titled “*Economic Overview of the ETP Securities*”.

The key factors of compounding are;

- Investment returns for periods longer than one day are affected by compounding
- Daily compounding can have either a positive or negative effect on returns
- For periods longer than one day, daily compounded returns may not be equal to an unleveraged return (or the benchmark index) multiplied by the leverage factor
- A trending market (upwards or downwards) will result in returns which appear to “outperform”
- High volatility or a sideways trending market will result in returns which appear to “underperform”
- The compounding effect increases with higher volatility, greater leverage and longer holding periods

Daily Rebalancing

Boost Short and Leverage Daily ETPs are designed to track either a leveraged index or unleveraged index. In either case, the daily return is multiplied by the leverage factor on each day. Other frequencies of re-balancing could be used but the actual leverage an investor would be exposed to would depend at what point of time they bought the investment. Daily leverage simplifies this issue as on each day, the leverage is constant. With daily rebalancing, investment returns for periods of more than one day will be affected by the compounding effect.

Compounding of Daily Returns

A bank account that compounds interest at 1% every month, will end the year with more than 12% compounded interest earned¹. In the same way, investment returns over a period longer than one day are affected by the compounding of daily returns. Daily compounding may lead to returns that are greater or less than the sum of the individual daily returns and which may not be expected by an investor who is not familiar with compounding or daily compounding of leverage returns.

The compounding effect can positively enhance returns in trending markets (upward or downward) whilst negatively impacting returns when the markets are more volatile or trend sideways for long periods. The effect of this compounding will be further amplified when daily returns are leveraged.

The following pages provide theoretical and real examples to illustrate the effects of daily compounding and leverage in trending and volatile markets.

Data & Methodology

For simplicity, the examples and simulations contained in this document ignore the effect of fees and adjustments which are deducted from the actual ETPs on a daily basis.

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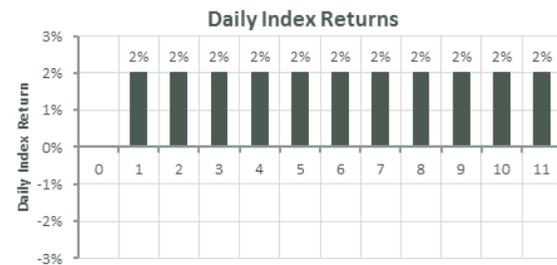
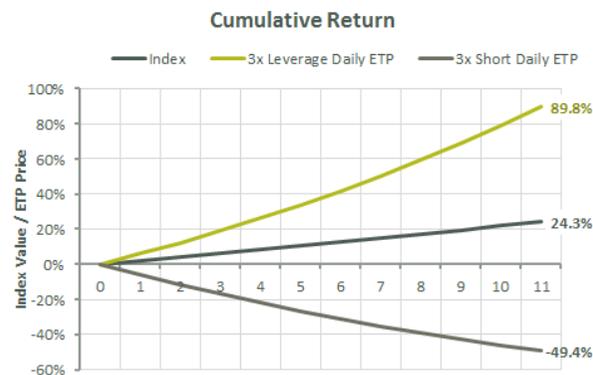
¹ 1% interest compounded monthly over 12 months would result in compounded interest of $(1+1\%)^{12}-1=12.7\%$, assuming the interest payments are reinvested at the same interest rate.

Compounding Effect – Theoretical Examples

The effects of compounding in Short and Leveraged ETPs may be magnified by higher volatility or longer holding periods. The below theoretical scenarios demonstrate this:

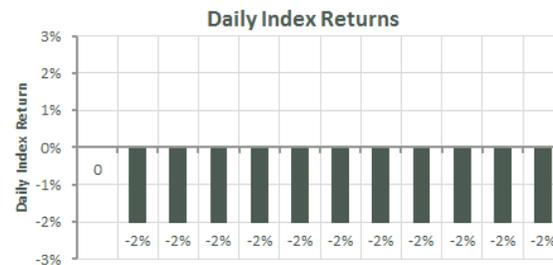
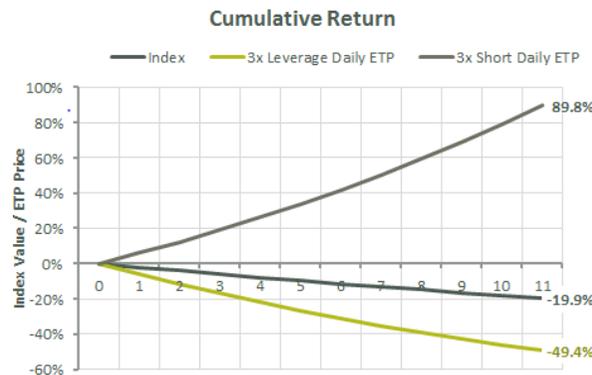
Daily Returns – Upward Trend

- The index increases by 2% each day over an 11-day period.
- An investor may expect the index to be up 22% (11 x 2%), however the cumulative return exceeds this at 24.3%.
- A Boost 3x Leverage Daily ETP may be expected to be up 66% (3 x 22%) or even 72.9% (3 x 24.3%), however, due to daily compounding it exceeds both and is up nearly 90%.
- Similarly, a Boost 3x Short Daily ETP may have been expected to be down 66% or even 72.9%, however it is down only 49.4%.



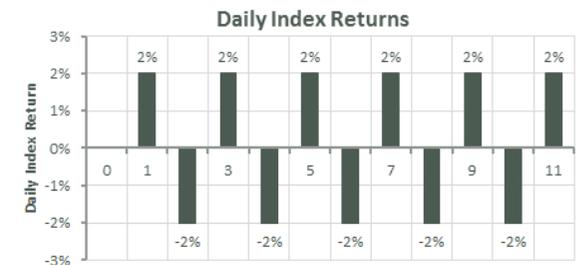
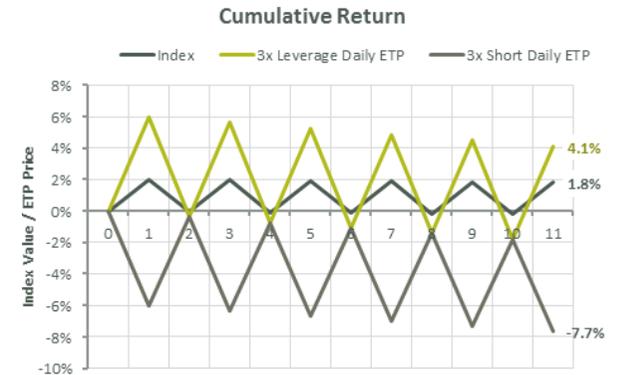
Daily Returns – Downward Trend

- The index decreases by 2% each day over an 11-day period.
- An investor may expect the index to be down 22% (11 x -2%), however the cumulative return is less at -19.9%.
- A Boost 3x Short Daily ETP may have been expected to be up 66% (=3 x 22%) or 59.7% (= 3 x 19.9%), however, due to daily compounding it exceeds both and is up nearly 90%.
- Similarly, a Boost 3x Leverage Daily ETP may have been expected to be down 66% or even 59.7%, however it is down only 49.4%.



Daily Returns – Volatile

- The index increase by 2% and then decreases by 2% the next day for 11 days.
- An investor may expect the index to be up 2% (2% - 2% + 2% - 2% ...), however the cumulative return is less at 1.8%.
- A Boost 3x Leverage Daily ETP may have been expected to be up 6% (3 x 2%) or even 5.4% (3 x 1.8%) however due to daily compounding it is up only 4.1%.
- Similarly, a Boost 3x Short Daily ETP may have been expected to be down 6% or even 5.4%, however it is down 7.7%.



Compounding Effect - Simple Two-Day Scenarios

The following scenarios illustrate how trending markets and volatility affect cumulative daily returns over a 2-day period. Each example shows the cumulative performance of the underlying index and a Boost 3x Leverage Daily ETP, which provides 3x the daily return of the underlying Index.

Daily Returns – Upward Trend

- The underlying index value rises 1% on day one and rises again by 1% on day two.
- An investor may expect that the two-day return would be 2%, whereas the cumulative return of the index is 2.01%. The compounding effect has outperformed the sum of daily returns.
- The Boost Leverage Daily ETP rises 3% on day one and rises again by 3% on day two.
- An investor may expect that the two-day return would produce 3x the cumulative return of the index i.e. 6.03% (3 x 2.01%) whereas the cumulative return of the Leverage Daily ETP is 6.09%.
- In an upward trending market, the cumulative daily return will outperform the sum of positive daily returns. Leverage exposure will magnify the compounding effect and is reflected in increased “outperformance”.

Daily Returns – Downward Trend

- The underlying index value falls 1% on day one and falls again by 1% on day two.
- An investor may expect that the two-day return would be -2%, whereas the cumulative return of the index is -1.99%. The compounding effect has outperformed the sum of daily returns.
- The Boost Leverage Daily ETP falls 3% on day one and falls again by 3% on day two.
- An investor may expect that the two-day return would produce 3x the cumulative return of the index i.e. -5.97% (3 x -1.99%) whereas the cumulative return of the Leverage Daily ETP is 5.91%.
- In a downward trending market, the cumulative daily return will outperform the sum of negative daily returns. Leverage exposure will magnify the compounding effect and is reflected in increased “outperformance”.

Daily Returns – Volatile

- The underlying index value rises 1% on day one and falls by 1% on day two.
- An investor may expect that the two-day return would be 0%, whereas the cumulative return of the index is -0.01%. The compounding effect has underperformed the sum of daily returns.
- The Boost Leverage Daily ETP rises 3% on day one and falls again by 3% on day two.
- An investor may expect that the two-day return would produce 3x the cumulative return of the index i.e. -0.03% (3 x -0.01%) whereas the cumulative return of the Leverage Daily ETP is 0.09%.
- In a volatile market, the cumulative daily return will underperform the sum of daily returns. Leverage exposure will magnify the compounding effect and is reflected in further “underperformance”.

| Upward Trend | Index Return | 3x Leveraged Daily ETP |
|------------------------------|--------------|------------------------|
| Beginning Value | 100 | £100 |
| Day 1 Return (in points / £) | +1% (1) | +3% (£3) |
| Day 2 Ending Value | 101 | £103 |
| Day 2 Return (in points / £) | +1% (1.01) | +3% (£3.09) |
| Day 2 Ending Value | 102.01 | £106.09 |
| Compounded 2-Day Return | 2.01% | 6.09% |

| Downward Trend | Index Return | 3x Leveraged Daily ETP |
|------------------------------|--------------|------------------------|
| Beginning Value | 100 | £100 |
| Day 1 Return (in points / £) | -1% (-1) | -3% (£-3) |
| Day 2 Ending Value | 99 | £97 |
| Day 2 Return (in points / £) | -1% (-0.99) | -3% (£-2.91) |
| Day 2 Ending Value | 98.01 | £94.09 |
| Compounded 2-Day Return | -1.99% | -5.91% |

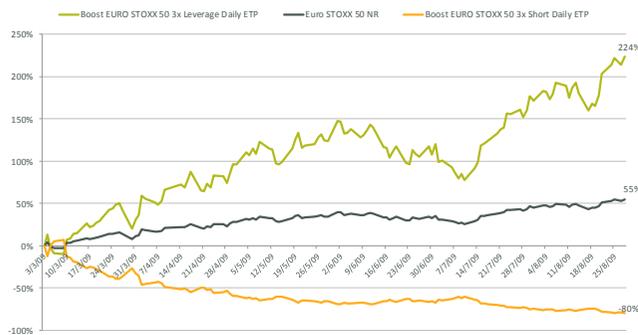
| Volatile | Index Return | 3x Leveraged Daily ETP |
|------------------------------|--------------|------------------------|
| Beginning Value | 100 | £100 |
| Day 1 Return (in points / £) | +1% (1) | +3% (£3) |
| Day 2 Ending Value | 101 | £103 |
| Day 2 Return (in points / £) | -1% (-1.01) | -3% (£-3.09) |
| Day 2 Ending Value | 99.99 | £99.91 |
| Compounded 2-Day Return | -0.01% | -0.09% |

Compounding Effect - Historical Examples

The below examples demonstrate how a Boost 3x Short Daily ETP and Boost 3x Leverage Daily ETP performed in relation to their underlying non-leveraged index in various scenarios. The historical data illustrates how volatility can impact returns over a holding period longer than one day (in the examples below, a six month period is shown).

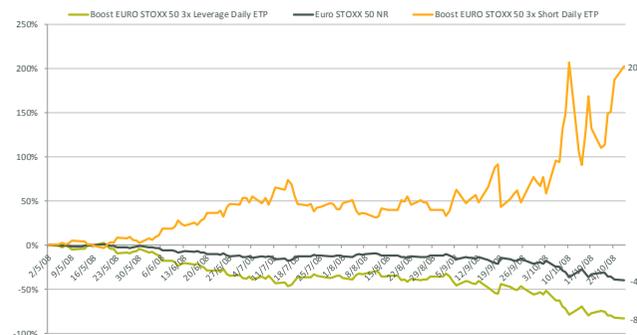
Trending Upward Market

- In a trending *rising* market both a 3x Short Daily ETP and a 3x Leverage Daily ETP tend to outperform the non-leveraged index return multiplied by the leverage factor.
- The six-month cumulative return of the Euro STOXX 50 NR index ending 28th August 2009 was +55%.
- The 3x Leverage Daily ETP was up 224% over the same period and not 165% (3 x 55%), exceeding 165% by 59%.
- The 3x Short Daily ETP was down 80% over the same period and not -165% (3 x -55%), representing a multiple of -1.45x the performance of the index.



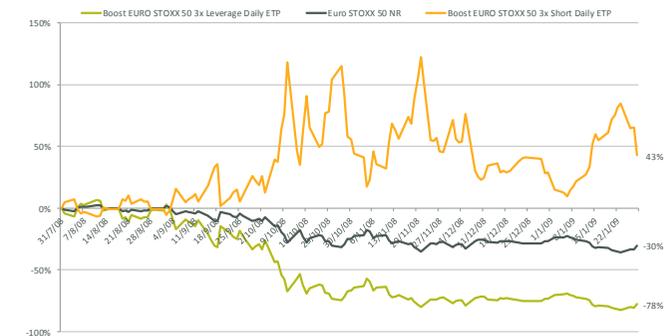
Trending Downward Market

- In a trending *falling* market both a 3x Short Daily ETP and a 3x Leverage Daily ETP tend to outperform the non-leveraged index return multiplied by the leverage factor.
- The six-month cumulative return of the Euro STOXX 50 NR index ending 27th October 2008 was -40%.
- The 3x Short Daily ETP was up 202% over the same period and not 120% (3 x 40%), exceeding 120% by 82%.
- The 3x Leverage Daily ETP was down 83% over the same period and not -120% (3 x -40%), representing a multiple of 2.1x the performance of the index.



Volatile Market

- In a volatile market both a 3x Short Daily ETP and a 3x Leverage Daily ETP tend to underperform the non-leveraged index return multiplied by the leverage factor.
- The six-month cumulative return of the Euro STOXX 50 NR index ending 29th January 2009 was -30%.
- The 3x Short Daily ETP was up 43% over the same period and not 90% (3 x 30%).
- The 3x Leverage Daily ETP was down 78% over the same period and not 90% (3 x -30%), representing a multiple of 2.6x the performance of the index.



In all the above examples, the Boost 3x Leverage Daily ETP and Boost 3x Short Daily ETP has performed as it was designed to perform. The investor should make sure to understand the compounding effect as it relates to investments in general, Short and Leveraged ETPs in particular.

About Boost ETP

Boost is an independent boutique ETP provider, one of few independent providers of specialised Exchange Traded Products (ETPs) in the European market and is the first to focus on 3x Leveraged and 3x Short ETPs. Boost brings something new to the European market with the aim of adding value to investors. This is in contrast to the broad 'supermarket' offerings that the majority of ETP Issuers provide today. Boost's offering targets sophisticated investors including day traders, stock brokers, wealth managers, high frequency traders and institutional investment managers. Boost's main selling points include:

- **Independent** - Boost is an independent boutique ETP provider. Boost is independent from any investment bank, swap provider, market maker, trustee, and custodian. As a result, investor's interests are aligned with Boost.
- **Best of breed** – Boost's founders have over 20 years of experience in the ETP market. With that 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.
- **Transparent** – Boost discloses all fees, collateral holdings and details on its website each day.
- **Innovative and nimble** - Boost aims to be a leader in innovation. This will be evidenced by the ETPs issued, as well as the product development and market research behind the products.

- **Focused and specialised** - Boost's strategy differs from the incumbent ETP issuers by not focusing on being everything to everyone.
- **Education** - Boost will focus on providing all the educational and thought leadership tools needed by investors.

Contact Us

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