

SHORT AND LEVERAGE ETP EIGHT THINGS TO KNOW

INTRODUCTION Leverage has been around for hundreds of years, however Short & Leverage ETPs have been in existence since 2005. Today there are almost \$45bn (Boost ETP LLP estimate) of assets in short and leveraged 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.

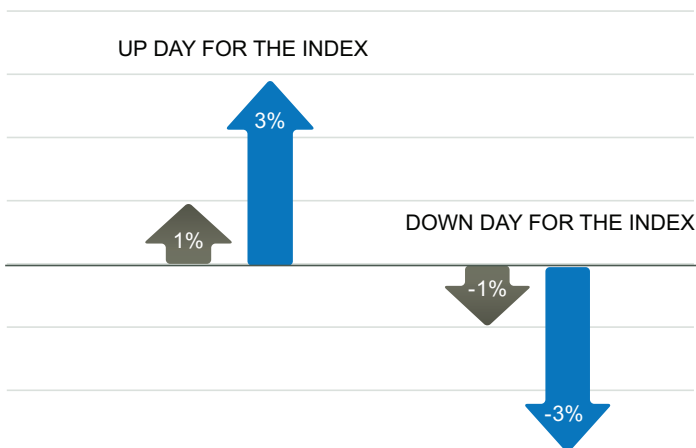
The following are eight key things to know about Short & Leverage ETPs.



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, a 3x Leverage Daily ETP will rise by 3% (excluding fees and adjustments). Conversely, if the FTSE 100 falls by 1%, a 3x Short Daily ETP 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.

3X LEVERAGED DAILY ETP

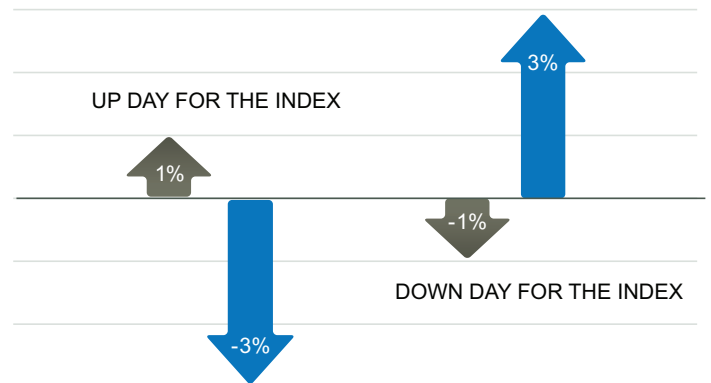
■ INDEX ■ 3X LEVERAGED DAILY ETP



(Source: Boost ETP LLP)

3X SHORT DAILY ETP

■ INDEX ■ 3X LEVERAGED DAILY ETP



2. WHAT INDICES DO SHORT AND LEVERAGED ETPS TRACK? Short & Leverage ETPs track a range of liquid, blue-chip indices published by the world's leading index providers. Short & Leverage ETPs either track a specially designed daily leveraged or 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 leverage factor 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 LEVERAGE OR SHORT POSITION ACHIEVED? If an investor buys £100 of a 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.

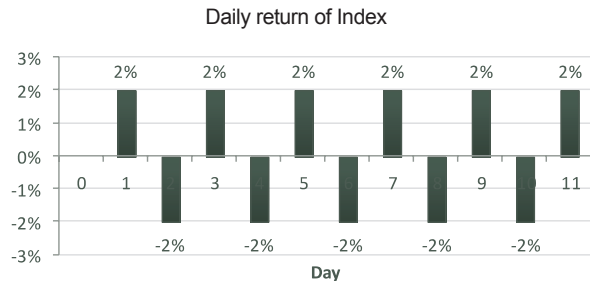
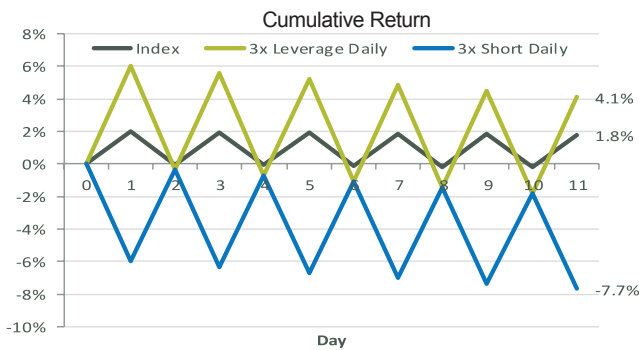
If an investor buys £100 of a 3x Short Daily ETP the following investment is effectively made; £300 of the index is borrowed and sold short. The £400 cash (£100 from the investor and £300 from the short sale of the index) is then invested at inter-bank cash rates. The cost of the stock-borrow and interest 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 Short & Leverage 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.

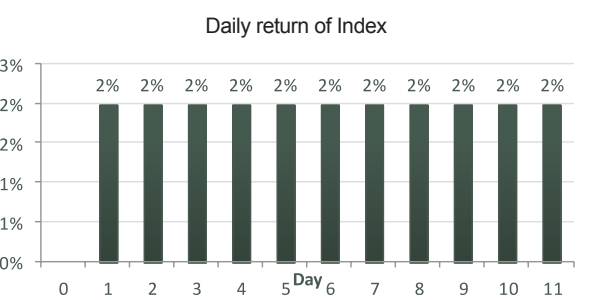
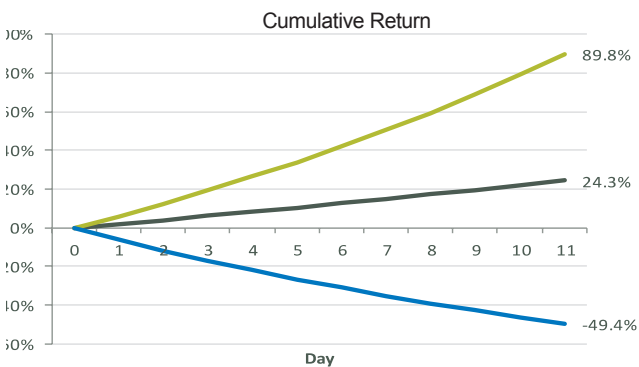
5. COMPOUNDING - ITS EFFECTS As with any investment, returns over periods longer than one day are affected by compounding due to market movements (like a bank account may compound interest over many months). Daily leveraged exposure means the compounding effect will be amplified and occur daily, which can have a positive or negative effect on returns over longer periods. If the FTSE 100 price is £100 and rises by 1%, a FTSE 100 3x Leverage Daily ETP will rise by 3% to £103 (excluding fees & adjustments). If the FTSE 100 then falls by 1% the next day, then it 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 3x Leverage Daily ETP would be up only 4.1% (2.3x the Index) and the 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 3x Leverage Daily ETP would be up only 89.8% (3.7x the Index) and the 3x Short Daily ETP is down 49.4% (-2.0x the Index). However, on a day to day basis, the 3x Leverage Daily ETP and 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 or Final terms of the Short & Leverage ETP.

VOLATILE MARKET



TRENDING MARKET



(Source: Boost ETP LLP)



6. INTRA-DAY CRASH PROTECTION Many Short & Leverage 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 these ETPs 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 Leverage and short ETPs can be used by a wide range of investors for many different trading strategies:

- Leverage 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 Leverage ETP and a 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. Leverage and Short ETPs increase the tools available to investors, and used in the right way, leverage and short ETPs can enhance returns. What leverage and short 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 leverage and short ETPs	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
100% Collateral protection	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 Short & Leverage ETP is appropriate. Investors should review and understand the Prospectus including the "Risk Factors" section before any investment into Short & Leverage ETP.



SHORT & LEVERAGE ETP ISSUERS



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The value of an investment in Short & Leverage ETPs may go down as well as up and past performance is not a reliable indicator of future performance. An investment in Short & Leverage ETPs is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. Short & Leverage 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.

Short & Leverage 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 Short & Leverage ETPs. As such, Short & Leverage ETPs are intended for financially sophisticated investors who wish to take a short term view on the underlying indices. As a consequence, Boost ETP LLP is not promoting or marketing Boost ETPs to Retail Clients. Investors should ensure that they fully understand the risks of investment prior to investing. This information can be found in the Prospectus for further details of these and other risks associated with an investment in Short & Leverage ETPs and consult their financial advisors as needed.

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