



HYLD ETF

The Philosophy and Methodology of HYLD

The High Yield ETF (HYLD), managed by Mackay Shields is an actively managed portfolio consisting of high yield U.S. corporate bonds and bank loans. The fund's primary objective is achieving high current income and has a secondary objective of capital appreciation.

What is the philosophy guiding the management of HYLD? And how is this strategy executed?

Investors Often Make Non-Economic Decisions Which Can Lead to Investment Opportunities

Many investors in fixed income securities are guided by non-economic factors such as credit ratings and risk-based capital requirements. For example, certain investors may only be permitted to hold investment grade securities. Others may rely almost exclusively on the ratings of the major credit rating agencies when making investment decisions.

As a result, investors may ignore fundamentally attractive fixed income securities solely because they are below a certain credit rating. Or, they may be forced to sell a security because it was downgraded below investment-grade, regardless of the fundamental outlook or pricing of a security. This may result in fixed income securities whose prices do not reflect their underlying value.

Investors who are not burdened by credit rating constraints and who perform rigorous credit analysis may be able to identify fixed income securities that are fundamentally attractive and are priced below their intrinsic value.

That is what we at HYLD strive to do.

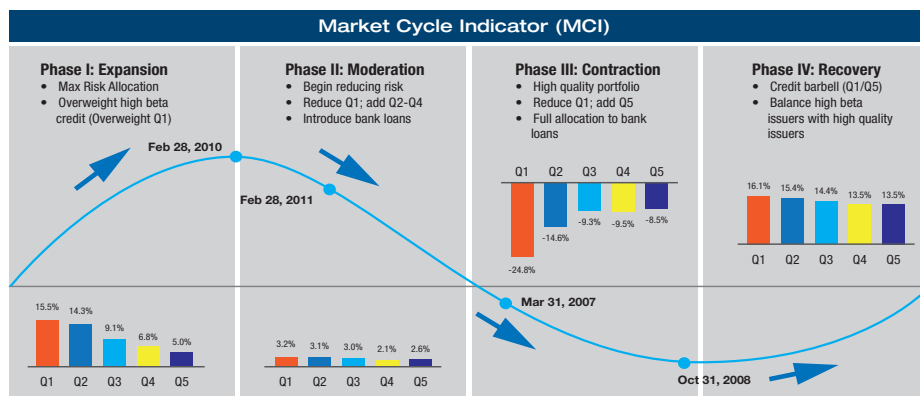
The HYLD Investment Process

The HYLD ETF combines fundamental credit analysis with quantitative tools and risk management. HYLD concentrates on the U.S. corporate high yield and bank loan markets where it believes the most attractive investment opportunities lie.

Start with Risk Budgeting

HYLD utilizes a proprietary tool – the Market Cycle Indicator or MCI – as it seeks to identify the current stage of the credit cycle. The cycle phase helps to better inform the risk budgeting decisions in the portfolio such as how much risk to take and what strategies may work best in the current environment.

ECONOMIC CYCLES DRIVE RISK BUDGETS AND STRATEGY



The chart above illustrates target portfolio positioning during different phases of the economic cycle as estimated by HYLD's proprietary Market Cycle Indicator (MCI) as defined in the "Start with Risk Budgeting" section. The chart indicates historical dates when the MCI entered each specific phase. HYLD uses TrueOAS, as described in the succeeding paragraph, as a measure of risk or beta. The performance in the chart illustrates the performance of TrueOAS quintiles during each phase of the economic cycle. Blue dots represent points in time. Total returns on loans are obtained from Credit Suisse CSLLLTOT Index and excess returns are obtained from Barclays US Corp B/BB/CCC indices from January 31, 1992, to September 30, 2018. Source: Bloomberg, Bloomberg Barclays, Credit Suisse and MacKay Shields. Investors cannot directly invest in an index. The chart above is for illustrative purposes only and not meant to represent any investment. Past performance does not guarantee future results.

Using the Option-Adjusted Spread to Estimate Risk

Option-Adjusted Spread (OAS) is a measure of the spread between a fixed income security's yield¹ and the risk-free rate of return², adjusted for any embedded call options³ that are typical in high yield securities. Bonds with a higher OAS offer more return potential but are typically riskier as well. The managers of HYLD believe that one of the most efficient ways to manage risk in the portfolio is to manage the level of excess spread (i.e., excess OAS) of the portfolio relative to its benchmark. They have developed a way to estimate an issuer's excess spread and its impact on the high yield bond market, which is comparable to an issuer's beta to the high yield market. They call this measure TrueOAS Impact and it is used to partition the high yield universe into quintiles based on the underlying issuer's sensitivity to the market.

The first quintile, "Q1", contains the top 20% of issuers with the highest TrueOAS Impact. Think of Q1 as the highest beta issuers, while Q5 would be the lowest beta issuers; Q2 through Q4 are the issuers with more moderate spread sensitivity.

TrueOAS is used in conjunction with the MCI to dynamically manage the portfolio's excess spread, or beta, based on our estimate of where we are in the credit cycle. Understanding the portfolio's excess spread risk exposures relative to the market allows us to manage dynamically, which may position the portfolio to perform well when risk is being rewarded and preserve capital when taking risk is not being appropriately compensated.

Dynamic Risk Management

The MCI and TrueOAS are used together to dynamically manage the portfolio's risk taking. The chart above shows the four phases of an economic cycle using the MCI. The bars inside each phase show the excess returns for bonds in each quintile, with the quintiles representing varying degrees of TrueOAS Impact (beta) of the bonds in the high yield universe, with Q1 being the highest risk names and Q5 the lowest.

As the chart above shows, during economic expansions, what we call Phase 1, risk-taking is typically rewarded, so we would likely overweight higher beta Q1 issuers and be at the high end of our risk budget. As the expansion matures and spreads become much narrower, we enter Phase 2, the moderation phase, which is categorized by stretched valuations with little additional reward for holding higher beta credits. Our strategy would be focused on improving portfolio diversification, reducing our overweight to high beta Q1 issuers and diversifying across the risk spectrum by adding more Q2-Q4 issuers in both bonds and bank loans. Bank loans have often performed well in this phase as they are senior in the capital structure and have floating-rate coupons. Therefore they benefited from rising interest rates which is common in mature economic expansions (Phase 2) as the Fed begins to take steps to cool the economy.

Prior to entering the contraction phase, Phase 3, we would expect to be at the very low end of our risk budget as capital preservation is of paramount importance. Accordingly, we expect to be overweight lower beta Q4 and Q5 issuers, senior debt and bank loans. The goal is to continue to earn high income while preserving capital as volatility is elevated and spreads typically widen.

Finally, during the recovery phase, Phase 4, where asset prices have fallen significantly and central banks have had enough and begin to stimulate the economy again, we deploy a strategy we call a credit barbell. This is a strategy where we would begin to "bottom fish" for high beta Q1 names that are fundamentally sound whose prices were unduly punished during the economic contraction and now represent a significant opportunity. We would balance these high beta credits with high-quality issuers to form a risk barbell. This is a prudent strategy during recovery periods because coming out of an economic contraction there is still lots of uncertainty. The economy seems to be recovering but could reverse course. A barbell allows us to take potential advantage of this by positioning in undervalued names, but at the same time "hedging" our bets with an allocation to high-quality debt. Once we believe we are firmly in an expansion phase again, we would dial our risk-taking up by overweighting Q1 names and seek to take advantage of the opportunity an expansion typically affords us.

Managing Credit Risk

Credit risk is the probable risk of loss resulting from a borrower's failure to repay a loan or meet contractual obligations. Traditionally, it refers to the risk that a lender, or in this case bondholder, may not receive the owed principal and interest.

In an effort to minimize credit risk, HYLD limits the percentage of the portfolio allocated to any single issuer or industry. We target 1% positions, 1.5% for high conviction names, and we impose a discipline that we will trim a position down if it appreciates beyond 2%, subject to liquidity conditions. In addition, HYLD will limit exposure to any one industry to no more than 20% of the portfolio. These limits are prudent but only part of the process of managing credit risk. A key differentiator comes from bottom-up fundamental credit analysis, which is performed by our analysts on all of the issuers we hold in the portfolio.

In HYLD, our approach to credit research blends fundamental analysis with quantitative tools to prioritize and focus our analysts on the most important issuers. We utilize quantitative screens to filter the investable universe for issuers that are attractively priced and meet the minimum fundamental credit criteria. The fund's credit analysts can then focus on a smaller number of names on which to perform rigorous fundamental analysis and to select high conviction names. The screens also monitor existing portfolio holdings looking for deteriorating fundamentals or pricing anomalies and alert credit analysts to take a closer look. A key differentiator of our process is that our screens are designed to look for outliers, both positive and negative. Many investors overlook their outperforming positions, viewing them as "good calls" but there is no such thing as a free lunch in financial markets. When our screens detect issuers whose prices have appreciated beyond what seems reasonable in the current market our analysts will take a closer look at these positions as well.

What Makes an Attractive Fixed Income Security?

The key fundamental factor that HYLD considers when assessing the financial health and underlying value of a fixed income security is free cash flow (FCF). FCF represents the cash a company can generate after required investment to maintain or expand its asset base. It is used as a measurement of a company's financial performance and health. Deteriorating or negative free cash flow can quickly lead to financial distress.

HYLD restricts its selection of bonds and loans to those with ample cash flow to cover interest payments, prudent leverage, and a manageable capital structure.

In addition to evaluating FCF, the company performs additional fundamental analysis to determine the sustainability of FCF. Analysis begins with the company's cash flow statement and continues with the balance sheet and income statement.

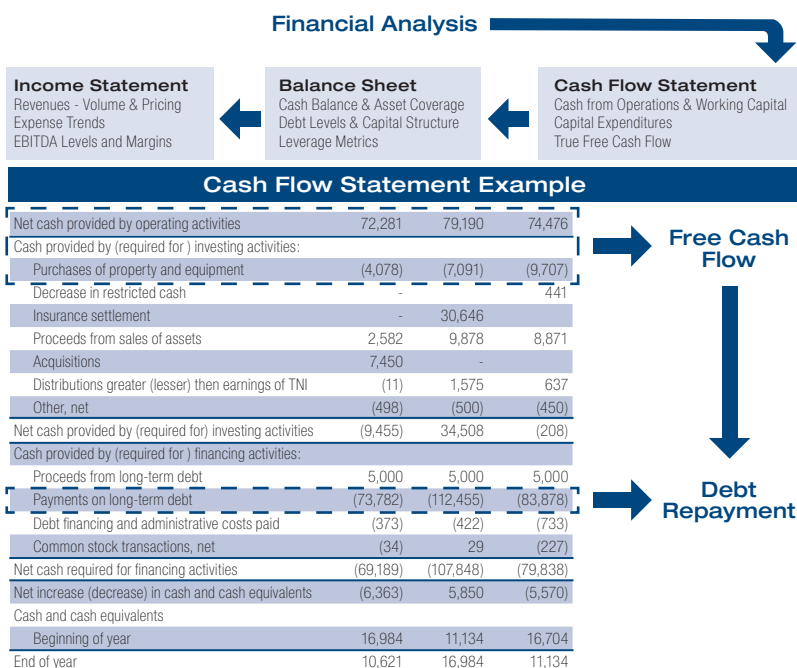
The firm's business is evaluated to determine whether the company offers a product or service that is essential or recurring, possesses hard assets that provide support for the firm's value, has a manageable capital structure and a consistent revenue stream or adjustable cost structure should revenues fall.

HYLD may also evaluate opportunities that arise as the result of market or specific issuer liquidity events, industry or company-specific news, or overall sector or industry themes.

Finally, HYLD evaluates the price of the bond in relation to the fundamental risk/return profile of the company.

The goal of this process is to identify fixed income securities that are underpriced, which for us means both yields and spreads higher than the major indexes, while keeping credit metrics (such as leverage) below market. HYLD seeks to hold the debt of solid companies with cash flows that can support both its business and payment of interest and principal which it can buy at an attractive price.

FOCUS ON FREE CASH FLOW AND SUSTAINABILITY OF FCF

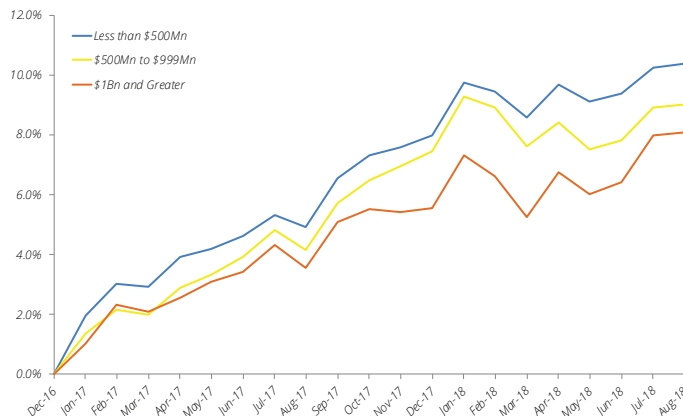


A Focus on Smaller Issuers

As the chart to the right shows, smaller bond issuers have outperformed larger bonds over the past two years. Part of the reason for this performance may be attributable to a potential bias on the rating agencies to focus on larger bond issues. Additionally, fixed income investors, as a whole, may be biased toward holding bonds of larger and more established companies. This can create opportunities for active fixed income investors.

As the chart on the next page shows, the largest active bond and loan funds hold many of the same issuers, while HYLD has little overlap with either category. At HYLD, we focus on smaller issuers that are ignored by most, delivering the opportunity for higher yields per unit of risk and better diversification as part of a total portfolio solution.

Cumulative Bond Excess Returns by Issuer Size



Source: J.P. Morgan data as of 7/31/18
 For informational purposes only. Not meant to represent the Fund. Past performance does not guarantee future results.

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Why HYLD?

- Seeks to deliver high current income.
- Utilizes active management in an attempt to mitigate volatility and preserve capital during periods of market stress.
- Selective portfolio of USD high yield bonds and loans
- Well diversified
- Highly differentiated portfolio of smaller issuers that are typically not seen in index tracking products or large fund family offerings.
- Actively managed.

Where HYLD May Fit In a Portfolio?

- Fixed Income Sleeve – HYLD can serve as a portion of a portfolio's fixed income allocation.
- Income – HYLD may provide investors with higher potential yield and income.
- Potential Enhanced Return – HYLD may offer potential enhanced return versus investment grade or Treasury debt securities, and potentially higher risk-adjusted returns versus equities.

Summary

Many potential investment opportunities are available in the high yield market. Rigorous credit analysis coupled with stringent risk management can help to identify opportunities in the fixed income space.

HYLD combines top-down and bottom-up analysis of the high yield and bank loan markets as it seeks to build a portfolio of fixed income securities that offer an attractive risk/return profile. An investment in HYLD can help investors to realize the opportunities available in the high yield market.

¹ Yield - the amount of return an investor realizes on a bond.

² Risk-free rate of return - the theoretical rate of return of an investment with zero risk.

³ Embedded call options - a provision within a security giving either the issuer or holder the right to take a specific action against the other, such as redeeming the bond prior to the scheduled maturity.

Top 50 High Yield and Loan Holdings – Q4:2018

Name	% of Funds Holding	Average Position Size (%)	In HYLD?
1 Altice Financing	92	2.50	
2 Reynolds Group	92	0.63	Y
3 Bausch Health	91	1.34	
4 Charter Communications	87	1.32	
5 Century Link	86	1.10	Y
6 Sprint Corp	85	1.56	Y
7 HCA Healthcare	80	1.33	
8 TransDigm Group	80	0.67	Y
9 First Data	79	0.78	
10 Virgin Media	78	0.52	
11 Intelsat	77	0.85	
12 Scientific Games Corp	73	0.55	
13 MGM Studios	72	0.65	
14 Tenet Healthcare	70	0.90	Y
15 Post Holdings	70	0.53	
16 Frontier Communications	69	0.58	Y
17 Endo Health Solutions	69	0.49	
18 Calpine Corp	68	0.51	
19 Dish DBS Corp	67	0.74	
20 Vistra Energy Corp	66	0.59	
21 Burger King	66	0.56	
22 Thomson Reuters	65	0.57	
23 Stars Group Holdings	64	0.41	
24 Dell Technologies	64	0.68	Y
25 Albertsons	63	0.57	
26 NRG Energy	62	0.52	
27 HUB International	61	0.46	
28 Boyd Gaming Corp	61	0.28	
29 T-mobile	61	0.73	
30 Starfruit Finco	61	0.35	
31 Eldorado Resorts	60	0.24	
32 Chesapeake Energy Corp	60	0.57	
33 Avolon Holdings	60	0.68	
34 Ardagh Packaging	60	0.48	
35 Caesars Resorts	59	0.69	
36 BWAY Holdings	59	0.45	
37 United Rentals INC	59	0.45	
38 ZIGGO BV	58	0.45	
39 California Resources Corp	57	0.50	
40 Bery Global	57	0.32	
41 PetSmart INC	57	0.34	
42 Multiplan (MHP Acquisition Holdings)	57	0.48	
43 Flex Acquisitions	56	0.41	
44 CHS/Community Health Systems	56	0.60	
45 AMC Entertainment Holdings	56	0.41	
46 Eagle Holding (Jaguar Holdings)	55	0.45	
47 Navient Corp	55	0.80	Y
48 Zayo Group	55	0.42	
49 Golden Nugget INC	54	0.46	
50 YUM Brands (KFC Holdings)	53	0.35	

Top 10 Holdings as of 12/31/18

OSUM PRODUCTION 7/31/20 TERM LOAN	2.10
TECHNIPAS LLC 10 5/1/2020	2.02
LEE ENTERPRISES INC 9.5 3/15/2022	1.90
COMPASS GROUP DIVERSIFIE 8 5/1/2026	1.87
JBS USA LUX/JBS USA FIN 6.75 2/15/2028	2.69
QUAD GRAPHICS INC 7 5/1/2022	1.70
GLOBAL SHIP LEASE INC 9.875 11/15/2022	1.65
CONSOLIDATED COMMUNICATI 6.5 10/1/2022	1.62
MRD MID PART/MRD MID FIN 7.25 2/15/2021	1.59
ARTESYN EMBEDDED TECHNOL 9.75 10/15/2020	1.57

Holdings subject to change. Source: Morningstar and MacKay Shields



Disclosure

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 prospectus and Summary Prospectus, which may be obtained by visiting <https://hyldetf.com/documents>. Read the prospectus and Summary Prospectus carefully before investing.

Foreside Fund Services, LLC, distributor.

An investment in the Fund is subject to risk, including the possible loss of principal amount invested. High Yield Securities Risk. The risk that high yield securities or unrated securities of similar credit quality (commonly known as "junk bonds") are more likely to default than higher rated securities. High yield, lower rated bonds involve a greater degree of risk than investment grade bonds in return for higher yield potential. As such, securities rated below investment grade generally entail greater credit, market, issuer and liquidity risk than investment grade securities. Interest rate risk occurs when interest rates rise as bond prices usually fall. This Fund may not be suitable for all investors.

Shares are bought and sold at market price (closing price) not net asset value (NAV) and are not individually redeemed from the Fund. Market price returns are based on the midpoint of the bid/ask spread at 4:00pm Eastern Time (when NAV is normally determined) and do not represent the return you would receive if you traded at other times.