CHANGEBRIDGE CAPITAL

www.changebridgefunds.com

April, 2021

Industry Perspective:

The Emergence of Actively Managed ETFs

Industry Perspective: Active ETFs

An ETF is a type of investment fund which can be bought and sold on a stock exchange. These highly regulated funds hold assets such as stocks, bonds, currencies, and commodities.

Emerging out of the index investing phenomenon in the 1980s and 1990s, the first U.S. ETF was a passive strategy launched in 1993, designed to represent the performance of the S&P 500 Index. Since then, ETFs have exhibited meteoric expansion, totaling more than 7,000 ETFs globally and boasting total assets over $8 trillion (as of February 2021). These vehicles have cemented their position as one of the primary types of investment funds, alongside mutual funds, insurance funds, pension funds, real estate funds, hedge funds and private equity funds[1].

The proliferation of ETFs was initially aided by benefits these structures can deliver to investors including liquidity, tax efficiency, operational efficiency, accessibility, diversification, and transparency. *A recent modernization of the regulatory framework for ETFs has accelerated the growth and adoption of ETFs. Individual investors can now engage in more sophisticated strategies than ever before, including expanded access to active management.*

At this point, the terms "Passive" and "ETF" are no longer synonymous, which means a deeper understanding of the mechanics of "*Actively Managed ETFs*" has become a prerequisite for informed investors.

ETF Modernization

While the ETF structure has produced a wealth of opportunities for investors, until recently the regulatory landscape for launching an ETF could best be described as a patchwork of approvals and regulations. Since 1992, the Securities and Exchange Commission (SEC) has issued more than 300 exemptive orders to facilitate the introduction of ETFs under the Investment Company Act of 1940. The pursuit of an exemptive order from the SEC is a time consuming and expensive process.

In September of 2019, the SEC announced the "ETF Rule" (6c-11) to establish a clear and consistent framework for the ETF industry. The regulatory changes mean that qualifying ETFs no longer need to obtain an exemptive order as part of the registration process. This modernization of ETFs has facilitated greater competition and innovation in the marketplace, and it has led to more choice for investors. The agency cited growth in size and importance of the ETF industry as motivations for the new rules, while confronting the reality that these products had not previously been allowed under U.S. securities laws[2].

Benefits of ETFs	
Liquidity	*Continuous trading during normal exchange hours*
Lower costs	*Avoid shareholder servicing costs*
Tax benefits	*ETFs enable in-kind transfers instead of direct selling*
Transparency	*Holdings are disclosed daily, instead of quarterly*

For an investment manager such as Changebridge Capital, the ETF Rule helps facilitate the launch of *actively managed strategies* with benefits commonly associated with the *ETF structure*.

[1] https://etfgi.com/news/press-releases/2021/02/etfgi-reports-assets-invested-etfs-and-etps-listed-globally-broke
[2] https://www.sec.gov/news/press-release/2019-190

The ETF Rule can be considered a huge win for ETF owners, as they can more broadly pursue the liquidity, transparency, operational efficiency, and the tax advantages of an ETF across a wider array of issuers and strategies.

For financial advisors, the universe of tax-efficient and transparent active strategies is expanding. Their clients now have more control over when they want to pay taxes, instead of having distributions imposed in accordance with the timing of a mutual fund manager.

Comparing ETFs and Mutual Funds

Since the first modern mutual fund was launched in 1924, investors have had ample opportunity to become familiar with the advantages of these vehicles. The potential for investors to pool resources and spread risk via this structure represented a monumental advancement for the investment industry. In the decades since the first mutual fund was launched, a series of regulatory evolutions and market cycles has culminated in more than 10,000 mutual funds available to U.S. investors[3].

A comparison of ETFs and mutual funds can begin with some of the similarities. Both structures can offer investors diversification benefits, professional management, as well as risk and return profiles commensurate with underlying holdings and strategies.

While ETFs share these features with mutual funds, there are structural differences that can affect your investment exposure and tax consequences.

Trading & Fees

Mutual funds are bought and sold directly from the mutual fund company at the current day's closing price, the Net Asset Value (NAV). ETFs are traded throughout the day on exchanges at prices which may be slightly more or less than NAV.

For mutual funds, transaction fees may include sales loads (or sales charges) or redemption fees, which are paid directly by investors. These transaction costs are shared as an expense across all owners of the fund. ETF transactions may include brokerage commissions, also paid directly by investors through the market bid/ask spread and applicable brokerage fees.

The total expense ratio of a mutual fund is typically higher than that of an ETF due to shareholder servicing costs, while management fees can be comparable.

Taxes

Because investors buy and sell ETF shares with other investors on an exchange, the ETF manager does not have to sell holdings – potentially creating capital gains – to meet investor redemptions. Mutual fund shareholders redeem shares directly from the fund, so the manager must often sell fund securities to honor redemptions, potentially triggering capital gains which then trickle down to the fund's investors.

In the ETF structure, shareholder selling plays no direct role in creating capital gains for the broader portfolio, because shares can be created/redeemed institutionally through delivery of securities rather than cash. Furthermore, ETF regulations enable the manager to potentially reduce trading costs and portfolio taxes by utilizing in-kind transfers of "custom baskets" to establish or redeem positions, instead of buying and selling underlying shares with taxable consequences.

[3] https://www.investopedia.com/articles/mutualfund/05/mfhistory.asp

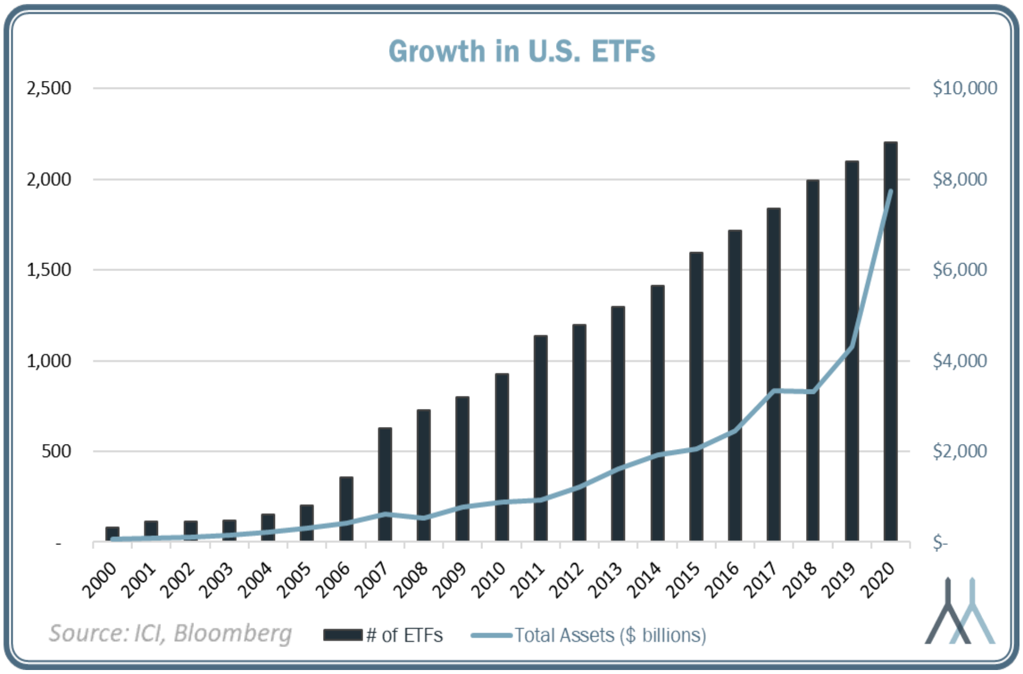
Investment research firm Morningstar analyzed 15 years of tax implications for an array of ETFs and mutual funds, concluding that both passive and active ETFs were more tax efficient than their open-end counterparts in most categories[4].

Transparency

Transparency is access to information about which securities a fund holds, in other words it is the collection of companies an investor is buying when purchasing a fund share. ETFs generally disclose the holdings daily, while mutual funds generally disclose holdings quarterly. Changebridge believes that knowing what you are investing in is an important consideration when making financial decisions, so holdings of the firm's actively managed ETFs are available on www.changebridgefunds.com daily.

Gaining Investor Interest

Market participants opine that ETFs are increasingly becoming the investment vehicle of choice for investors because of their simplicity, affordability, liquidity, and transparency[5]. In 2020, more than $500 billion flowed into U.S.-listed ETFs, a 55% increase over 2019[6]. Assets now stand at over $8 trillion and are showing no signs of slowing in our opinion as investors worldwide have allocated an additional $245.4 billion in new cash to ETFs in the first quarter of 2021, the largest sum ever for any quarter[7]. A recent Brown Brothers Harriman & Co. survey indicates that more than 70% of global ETF investors plan to increase their ETF allocation in the months ahead, with expanding appetite for Active ETFs[8].



One biproduct of the growth in availability of ETFs has been a commensurate growth in ETF managed portfolios, which are investment strategies that hold more than 50% of assets invested in ETFs. These have represented one of the fastest-growing segments in the separate accounts space[9].

According to estimates from Bank of America, the ETF market will continue to experience explosive growth, with assets projected to reach $50 trillion by 2030[10].

---

[4] https://www.morningstar.com/articles/940313/measuring-etfs-tax-efficiency-versus-mutual-funds

[5] https://www.livewiremarkets.com/wires/active-etfs-about-to-boom

[6] https://www.etf.com/sections/monthly-etf-flows/etf-monthly-fund-flows-december-2020?nopaging=1

[7] https://www.etf.com/sections/monthly-etf-flows/etf-monthly-fund-flows-march-2021

[8] https://www.bbh.com/us/en/insights/investor-services-insights/2021-global-etf-survey.html

[9] https://www.etftrends.com/etf-model-portfolios-can-help-streamline-financial-advisors-business/

[10] https://markets.businessinsider.com/news/stocks/etf-market-grow-50-trillion-assets-2030-bank-america-passive-2019-12-1028763048

Types of ETFs

Index-Based ETFs track a securities index and generally invest in component securities of the index. Increasingly, these ETFs are designed to track specific market sectors, yet they can be quite different and are capable of delivering very different returns. Index ETFs can offer diversification benefits in a tax efficient and cost-efficient structure. These investments do not always track the underlying asset class perfectly, and investors should consider asset fees, liquidity and tracking error before making an investment.

Actively Managed ETFs are not based on an index, they seek to achieve a stated investment objective by investing in a portfolio of stocks, bonds, and other assets. While most exchange traded funds are passively managed vehicles, actively managed ETFs can offer any of the advantages of mutual funds but with the convenience of ETFs. Shares of actively managed ETFs are traded on major stock exchanges throughout the day, unlike mutual funds, which only trade once a day, after markets close. In addition, ETFs provide more transparency into their holdings than actively managed mutual funds.

Understanding ETF Liquidity

While ETFs possess some characteristics of individual stocks, it is important to understand the difference between primary and secondary liquidity of an ETF. For individual stocks, liquidity is often gauged by trading volume, meaning "more is better" but for ETFs there is more to consider.

Primary Market vs. Secondary Market

For many investors (especially those accustomed with investing in individual equities) the volume and supply of shares available is confined to the secondary market – meaning investors are trading shares that currently exist. This could be the liquidity observed in terms of volume and spreads based on the shares traded in the security itself.

It is important to understand that a key feature of exchange traded products is that the supply of shares is flexible – meaning shares can be "created" or "redeemed" to offset changes in demand. This form of primary market liquidity is facilitated by an "authorized participant" (AP) who can change the amount of supply of shares.

The existence of a "primary market" for shares in an ETF means that liquidity is generally a function of the value of the underlying shares of securities held within the ETF. Shareholders can circumvent an illiquid secondary market (for example an ETF with a low volume of shares traded on an exchange) by utilizing the services of an AP to "create" new ETF shares when they have demand that exceeds the availability of shares in the secondary market.

For investors considering buying or selling shares in an ETF, Changebridge recommends utilizing "limit" orders (instead of "market" orders) to help control the price at which an order will be executed. Limit orders are a bit more complex than market orders because you must determine the price at which you want to exchange the ETF, but it is important to understand and consider the difference between these two types of orders.

Market orders enable a trade to be executed quickly, but investors have no control over execution price. Therefore, ETF investors are often advised against placing market orders – they can end up paying more for their purchases than they had intended to or, conversely, selling their ETFs at a lower price than they had meant to.

Limit orders require investors to specify a price range (minimum price and maximum price) within which they wish to trade. With limit orders, the tradeoff is less immediate execution, but greater control over price. Using limit orders can help investor access all the pools of liquidity available to them through both the primary market and secondary market for ETF shares.

Conclusions

- *The rapid proliferation and adoption of ETFs over the last three decades has been a function of providing investors with liquidity, tax efficiency, operational efficiency, accessibility, diversification, and transparency.*

- *The vast majority of the first generation of ETFs were launched within the confines of passive strategies, but a recent modernization of ETF regulation has broadened the availability and adoption of Actively Managed ETFs for a range of investors.*

- *The liquidity of an ETF can be established via both primary market liquidity (the ability of an AP to create or redeem shares based on the liquidity profile of the portfolio) and secondary market liquidity (which is based on the volume and supply of shares that already exist).*

- *Using "limit" orders (instead of "market" orders) can help investors access all the pools of liquidity available to them through both the primary market and secondary market for ETF shares.*

- *Before investing in an ETF, you should read both its summary prospectus and its full prospectus, which provide detailed information on the ETF's investment objective, principal investment strategies, risks, costs, and historical performance.*

- *Investors interested in learning more about Changebridge Capital's actively managed ETFs (CBLS and CBSE) can find information on the funds at www.changebridgefunds.com.*

CHANGEBRIDGE CAPITAL, LLC

180 Canal Street, Suite 600
Boston, MA 02114

info@changebridgecapital.com

www.changebridgefunds.com

(617) 717-2910

Investors should consider the investment objectives, risks, charges, and expenses of the funds carefully before investing. This and other information are contained in the Fund's prospectus, which may be obtained by visiting www.changebridgefunds. com or by calling 617-717-2912. Please read the prospectus carefully before you invest. Past performance does not guarantee future results.

Investing involves risk. Principal loss is possible. As an ETF, the funds may trade at a premium or discount to NAV. Shares of any ETF are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Market Returns are based upon the midpoint of the bid/ask spread at 4:00 p.m. Eastern Time, when the NAV is normally calculated for ETFs. Your return may differ if you trade shares at other times. The equity securities held in the Funds' portfolio may experience sudden, unpredictable drops in value or long periods of decline in value. This may occur because of factors that affect securities markets generally or factors affecting specific issuers, industries, or sectors in which the Funds invest. The Funds are considered to be non-diversified, which means that they may invest more of their assets in the securities of a single issuer or a smaller number of issuers than if they were diversified funds. As a result, the Funds may be more exposed to the risks associated with and developments affecting an individual issuer or a smaller number of issuers than funds that invest more widely. This may increase the Funds' volatility and cause the performance of a relatively smaller number of issuers to have a greater impact on Fund performance.

Applying ESG criteria to the investment process may exclude securities of certain issuers for non-investment reasons and therefore the Funds may forgo some market opportunities available to funds that do not use ESG criteria.
Short selling is an investment strategy utilized in CBLS, which involves the sale of securities borrowed from a third party. The short seller profits if the borrowed security's price declines. If a shorted security increases in value, a higher price must be paid to buy the stock back to cover the short sale, resulting in a loss. The Fund may incur expenses related to short selling, including compensation, interest or dividends, and transaction costs payable to the security lender, whether the price of the shorted security increases or decreases. The amount the Fund could lose on a short sale is theoretically unlimited. Short selling also involves counterparty risk – the risk associated with the third-party ceasing operations or failing to sell the security back.

The Funds are new with a limited operating history.

The Changebridge ETFs are Distributed by Foreside Fund Services, LLC.