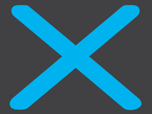
XUSA

QuantX Dynamic Beta US Equity ETF



Fund Profile

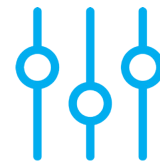
Allocation Category
Large and Mid-Cap U.S. Equity

Strategy Overview
QuantX Dynamic Beta US Equity ETF seeks to replicate the investment results that generally correspond, before fees and expenses, to the performance of the QuantX Dynamic Beta US Equity Index. QuantX Dynamic Beta US Equity is a substitute for core domestic large cap equity exposure. XUSA seeks to provide enhanced returns with reduced risk versus the Russell 1000 benchmark index.

Key Features

Asymmetric Return

Smarter Risk Exposure



Dynamic Factor Exposure

Why XUSA?

1. Efficient access to a portfolio of U.S. large- and mid-cap stocks based on an index that harnesses a distinct factor based on forward-looking estimates of return from the options market.
2. Seeks to improve upside capture while also attempting to reduce downside capture by holding XUSA in your equity portfolio. XUSA optimizes portfolio beta as a function of changes in market volatility in an attempt to maximize asymmetric returns relative to traditional large-cap benchmarks.
3. Use XUSA as a 'smarter' beta alternative to a traditional core long-term U.S. equity holding when seeking outperformance or use XUSA as a smart beta alternative to compliment a core equity portfolio.

There is no guarantee that any investment strategy will achieve its objectives, generate profits, or avoid losses.

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Greenwood Village, CO 80111

866.270.0300
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Understanding XUSA

The QuantX Dynamic Beta US Equity ETF (XUSA) seeks to provide a more asymmetric return profile relative to its benchmark, the Russell 1000 index. XUSA is a 'smarter beta' ETF that incorporates forward-looking estimates of risk and returns from the equity options market to guide stock selection (the fund does not invest in options). The fund attempts to select companies that have the highest expected return based on evaluating the option-implied upside relative to downside volatility. Portfolio risk is optimized by using a proprietary methodology that includes forward-looking market volatility (and other sources of information). During periods of market stress, XUSA will tend to hold a lower beta portfolio and conversely, will hold a higher beta portfolio during normal market conditions. As a result, XUSA attempts to capture higher upside participation with lower downside risk relative to the benchmark.

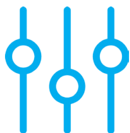
The style, industry and smart beta exposure of XUSA can vary widely over time. By selecting companies that are favorable according to the options market (bottom-up) and optimizing risk (top-down), it is possible to achieve higher equity market returns than the benchmark Russell 1000.

Smarter Risk Exposure

Be Smarter About Your Smart Beta Exposure

Our Dynamic Beta ETF is a new class of smart beta products that is designed to provide constant exposure to an asset class with enhanced returns relative to risk. Traditional smart beta products focus primarily on improving returns by emphasizing certain quantitative factors using historical data. Therefore, we believe that when only looking at historical measures, current risk factors are often left out of the equation, and the data used to make decisions is often outdated and out of sync with what is happening to individual companies or the broader market. Smarter beta means building a portfolio of stocks that seeks to improve returns as well as reduce risk versus the underlying index by using forward-looking information.

The options market is an ideal source of forward-looking information for risk and return because prices are set by the largest and most experienced institutions and traders in the world. The volatility profile reflects all available historical information such as value, momentum, size and quality but also the distinct estimates that informed traders have about earnings and other corporate events. The QuantX Funds Dynamic Beta process uses this information to attempt to enhance returns and create smarter beta or risk exposure relative to their benchmarks.



Dynamic Factor Exposure

What Makes the Beta Dynamic?

We optimize the portfolio beta to be lower when market volatility is high or rising, and higher when the market volatility is low or falling. This helps to enhance risk-adjusted returns.

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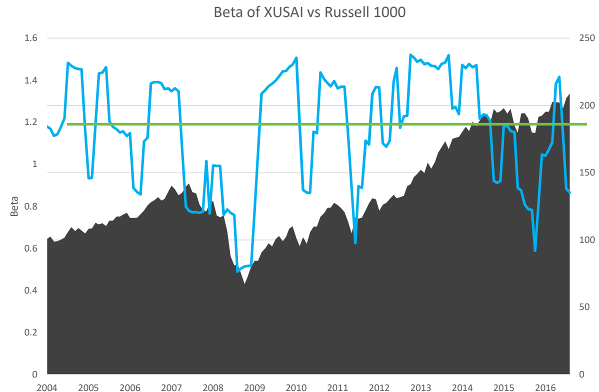
The chart below shows the rolling quarterly average portfolio beta of the QuantX Dynamic Beta US Equity Index. Notice that market beta tends to fall during volatile market downturns such as in 2008, 2011, late 2015 and early 2016. In contrast, beta tends to be higher during bullish market conditions such as 2009 and 2013.



Past performance is not indicative of future results. Shown performance is not meant to represent the Fund and is historical index only beginning in 2004. Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. The ETF has a limited history of operation so performance is not shown.

Dynamic Factor Exposure

What Makes the Factor Exposure Dynamic

The QuantX Dynamic Beta US Equity Index has different traditional factor exposures over time. The chart below shows the average annual factor exposure of the index.

Year	Beta	Quality	Momentum	Value	Size
2004	High	High	Winners	Value	Large
2005	High	High	Losers	Growth	Large
2006	High	Low	Losers	Growth	Large
2007	High	Low	Winners	Growth	Mid
2008	Low	High	Losers	Value	Mid
2009	High	Low	Losers	Growth	Mid
2010	High	High	Losers	Value	Mid
2011	High	High	Winners	Value	Mid
2012	High	Low	Losers	Growth	Mid
2013	High	Low	Losers	Growth	Mid
2014	High	High	Winners	Growth	Mid
2015	Low	High	Losers	Growth	Large
2016	High	High	Losers	Growth	Large

Traditional smart beta portfolios will have stable exposure to a single factor exposure over time. This means that to perform well, that particular factor needs to be in favor. In other words, a given factor like historical valuations must be a relevant factor in forecasting future returns. In contrast, the QuantX Dynamic Beta US Equity ETF uses the forward-looking option estimates of return which can incorporate a wide range of different factors - from fundamental to technical, to company-specific and even macro-level. Therefore by design, the index will have different factor exposures over time as a result of the fact that the option market will prefer certain types of companies over others, given these return estimates.

There is no guarantee that this investment strategy will achieve its objectives, goals, generate positive returns, or avoid losses.

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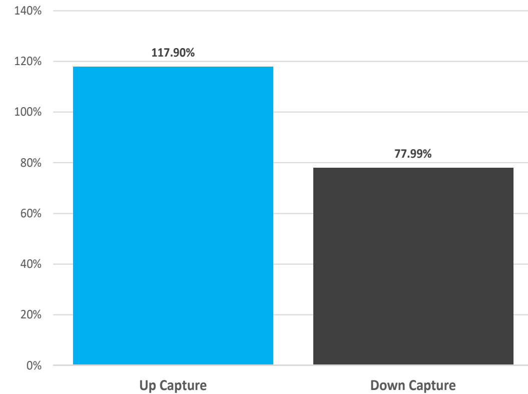
Asymmetric Return

Optimizing Asymmetry

Comparing the upside capture versus downside capture of the QuantX Dynamic Beta US Equity Index versus the Russell 1000 Index, we see that historically it has had both favorable upside capture and lower downside capture. We believe that this reflects the smarter risk exposure of the strategy that attempts to both enhance returns and reduce risk.

Up vs Down Capture
(2004-2016)



QuantX Dynamic Beta US Equity Index (XUSAI) vs Russell 1000 (RUI-I)

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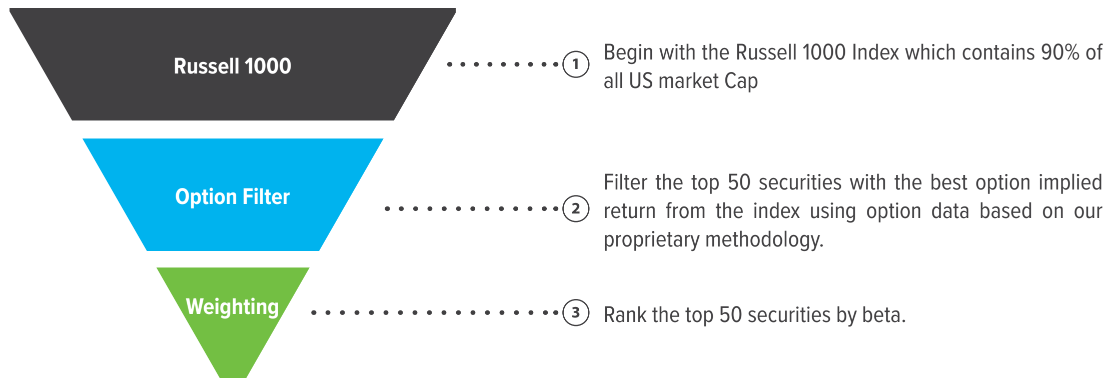
XUSA - Under the Hood

On a monthly basis, XUSA begins with the Russell 1000 index portfolio of companies, then calculates the option implied returns (upside volatility relative to downside volatility) for all 1000 stocks individually. Next, the stocks are ranked from highest to lowest and the top 50 are selected. Lastly, the stocks are weighted based on their beta relative to the Russell 1000 higher beta when volatility is expected to fall and lower beta when volatility is expected to rise.



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Underlying Index Composition

The underlying index of XUSA, the QuantX Dynamic Beta US Equity Index, is based on a risk weighted and optimized selection of 50 securities from the Russell 1000.

Index Rebalance Frequency

The QuantX Dynamic Beta US Equity Index is reconstituted on a monthly basis.

Definitions & Terms:

Index References: The Russell 1000 Index is a stock market index that represents the highest-ranking 1,000 stocks in the Russell 3000 Index. The QuantX Dynamic Beta US Equity Index representing the 50 securities from the Russell 1000 Index with the highest reward to risk expectations. (Sources: FTSE/Russell and QuantX)

Upside and Downside Capture Ratio: This statistic shows you whether a given fund has outperformed - gained more or lost less than - ca broad market benchmark during periods of market strength and weakness, and if so, by how much.

Beta: A measure of a fund's sensitivity to market movements.

'Smarter Risk' Exposure: We believe that the information derived by analyzing the options market provides a better, or 'smarter' source of data from which to select securities.

Smart Beta: A term used to describe investment strategies that use alternative index construction rules instead of the typical cap-weighted index strategy, in a transparent way. It takes into account factors such as size, value and volatility.

Disclosures:

Investors should carefully consider the investment objective, risks, charges and expenses of the QUANTX Dynamic Beta US Equity ETF Fund. This and other information is contained in the prospectus and should be read carefully before investing. For a prospectus please call 866-270-0300. The Fund is distributed by Northern Lights Distributors, LLC, member FINRA/SIPC. Northern Lights Distributors, LLC and Blue Sky Asset Management, LLC are not affiliated.

A substantial portion of a portfolio is held in cash or cash equivalents, there is the risk that the value of the cash account, including interest, will not keep pace with inflation, thus reducing purchasing power over time. The Fund may focus its investments in securities of a particular industry to the extent the Index does. The use of derivative instruments, such as swaps, involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Investing in emerging markets involves not only the risks described below with respect to investing in foreign securities, but also other risks, including exposure to economic structures that are generally less diverse and mature, and to political systems that can be expected to have less stability, than those of developed countries.

Fluctuations in the value of equity securities held by the Fund will cause the net asset value ("NAV") of the Fund to fluctuate. Fluctuations in the value of equity securities held by the Fund will cause the net asset value ("NAV") of the Fund to fluctuate. The market prices of Shares will fluctuate in response to changes in NAV and supply and demand for Shares and will include a "bid-ask spread" charged by the exchange specialists, market makers or other participants that trade the particular security. ETFs in which the Fund invests are subject to investment advisory and other expenses, which will be indirectly paid by the Fund. As a result, the cost of investing in the Fund will be higher than the cost of investing directly in the ETFs and may be higher than other mutual funds that invest directly in stocks and bonds.

When the Fund invests in fixed income securities, the value of your investment in the Fund will fluctuate with changes in interest rates. Since the Fund's investments may include foreign securities, the Fund is subject to risks beyond those associated with investing in domestic securities. The Fund does not utilize an investing strategy that seeks returns in excess of the Index. Therefore, it would not necessarily sell a security unless that security is removed from the Index, even if that security generally is under-performing.

The Fund is a new fund with a limited history of operations for investors to evaluate. As the Fund may not fully replicate the Index, it is subject to the risk that investment management strategy may not produce the intended results. Overall stock market risks may affect the value of the Fund. The Fund is not actively managed and the Adviser will not sell shares of an equity security due to current or projected underperformance of a security, industry or sector, unless that security is removed from the Index or the selling of shares of that security is otherwise required upon a rebalancing of the Index as addressed in the Index methodology. A higher portfolio turnover will result in higher transactional and brokerage costs.

The earnings and prospects of small and medium sized companies are more volatile than larger companies and may experience higher failure rates than larger companies. Swaps are subject to tracking risk because they may not be perfect substitutes for the instruments they are intended to replace.

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