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October 13, 2021

# Leverage Shares

## Debunking the Myths Around Leveraged ETPs

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# Debunking the Myths Around Leveraged ETPs

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Trade with more Conviction™



Leverage Shares

# Today's Presenters

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**Oktay Kavrak, CFA**  
Product Strategy



**Daiana Danova**  
Business Development

# Disclosures

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The value of an investment in ETPs may go down as well as up and past performance is not a reliable indicator of future performance. Your capital is at risk if you invest.

Trading ETPs may not be suitable for all types of investors as they carry a high degree of risk. You may lose all of your initial investment. Only speculate with money you can afford to lose. Changes in exchange rates may also cause your investment to go up or down in value. Tax treatment depends on your individual circumstances and may be subject to change. Please ensure that you fully understand the risks involved. If in any doubt, please seek independent financial advice. Investors should refer to the section entitled “Risk Factors” in the relevant prospectus for further details of these and other risks associated with an investment in the securities offered by the Issuer.

# Outline

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- 01** Leveraged ETP landscape
- 03** About Leverage Shares
- 04** Structure of ETPs, ETFs, ETCs & ETNs
- 05** The growth of S&L ETPs
- 07** Ways of achieving leverage
- 08** 5 myths about S&L ETPs
- 20** Q&A

# 01

## Short and Leveraged (S&L) Universe

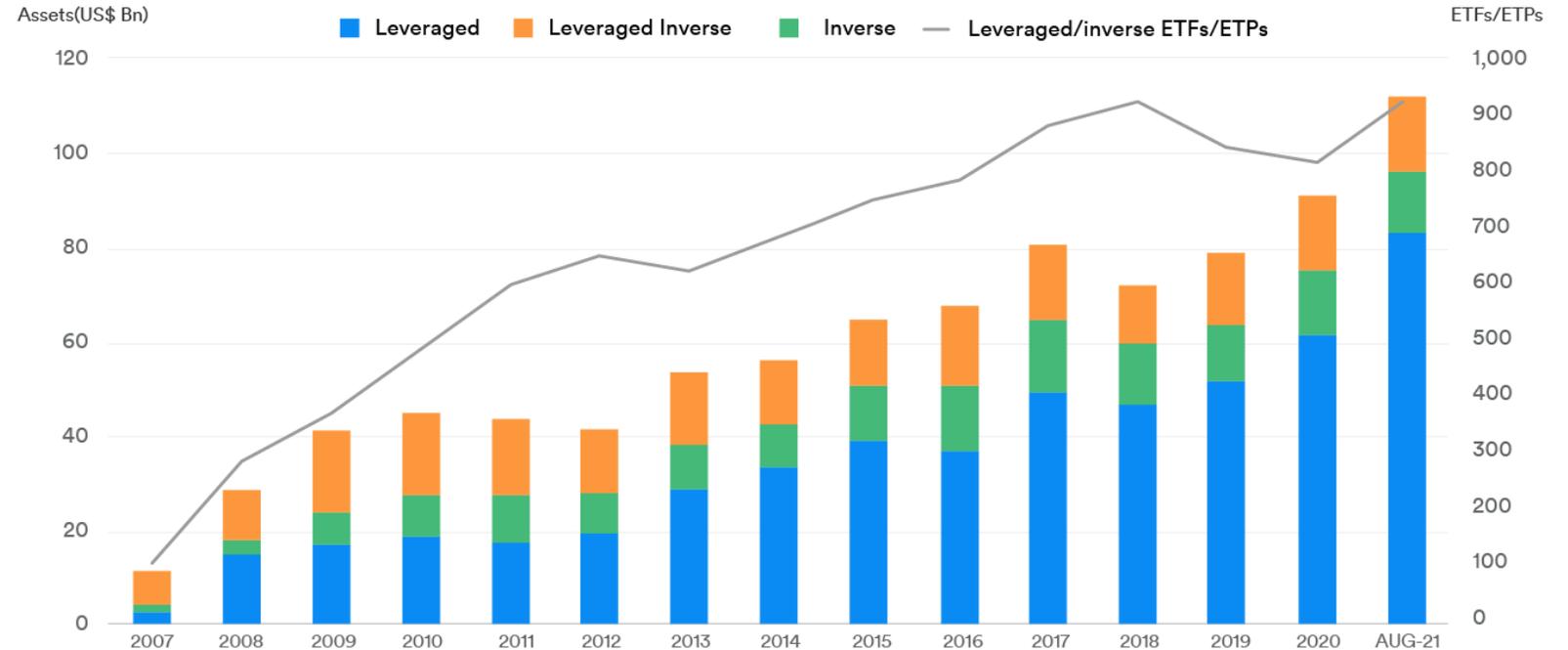
### S&L ETPs worldwide: \*

- 926 ETP/ETFs
- \$112 billion AUM

### Overall ETPs worldwide: \*\*

- \$9.7 trillion AUM

S&L is roughly 1% of ETP universe



\* Data as of August 31, 2021. Source: ETFGI Global Leverage and Inverse ETFs and ETPs Landscape report August 2021.

\*\* [ETFGI website](https://www.etfgi.com/).

# Global S&L ETPs

## Summary of ETF/ETP assets

ETF/ETP assets by region listed



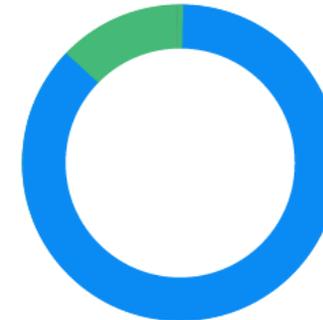
Region	ETFs/ETPs	Assets (US\$ Bn)	% total
US	215	74	67.8%
Asia Pacific (ex-Japan)	244	16	14.7%
Japan	40	9	8.1%
Europe	327	9	8.0%
Canada	27	1	1.1%
Middle East and Africa	23	0	0.3%
Latin America	2	0	0.0%
<b>Total</b>	<b>878</b>	<b>109</b>	<b>100.0%</b>

ETF/ETP assets by asset class



Asset class	ETFs/ETPs	Assets (US\$ Bn)	% total
Equity	596	93	85.6%
Commodities	157	7	6.7%
Fixed Income	51	5	4.8%
Alternative	10	2	2.1%
Currency	53	1	0.5%
Mixed	9	0	0.2%
Other	2	0	0.0%
<b>Total</b>	<b>878</b>	<b>109</b>	<b>100.0%</b>

ETF/ETP assets by product structure



Asset class	ETFs/ETPs	Assets (US\$ Bn)	% total
ETF	431	94	86.3%
ETP	447	15	13.7%
<b>Total</b>	<b>877</b>	<b>109</b>	<b>100.0%</b>

Data as of August 31, 2021. Source: ETFGI Global Leverage and Inverse ETFs and ETPs Landscape report August 2021.



- **Leverage Shares** is a leader in S&L ETPs on single stocks. Launched in 2017, we have 103 ETPs offering exposure to leading global stocks\*
- Designed to replicate the daily returns of stocks like Tesla, Amazon, Coinbase, Palantir and others
- Leverage factors of:  
+3x | +2x | +1x | -1x | -2x | -3x



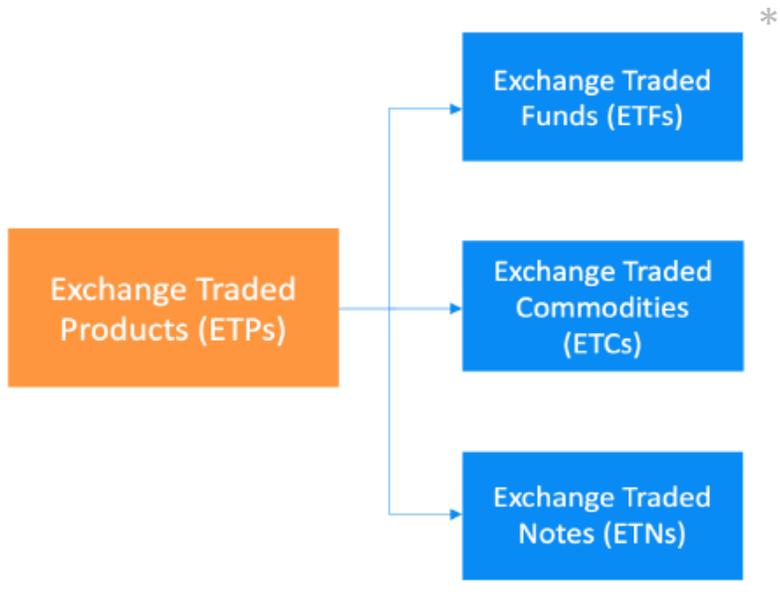
\* Source: Leverage Shares website.

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# 04

## Structure: Mind your 'Ps' and 'Fs'



	ETF	ETC	ETN	ETP
UCITS compliant?	✓	✗	✗	✗
No diversification requirements?	✗	✓	✓	✓
Track individual stocks?	✗	✗	✓	✓
Collateralized?	✓	✓	✗	✓
Ring-fenced structure?	✓	✓	✗	✓
Traded on exchange?	✓	✓	✓	✓
No margin account needed?	✓	✓	✓	✓
Losses limited?	✓	✓	✓	✓
Leverage limits?	-2x to +2x	No limit	No limit	No limit

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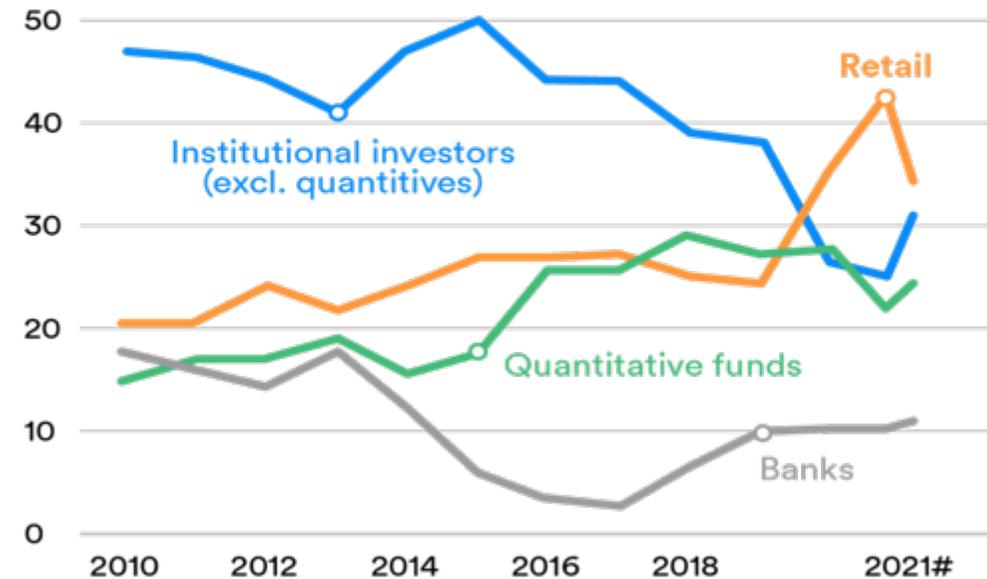
\* Source: [Morningstar](#)  
 \*\* Source: [WisdomTree](#)

## Growth of S&L: What's driving it?

- Low barriers to entry (commission cuts)
- Retail involvement in the stock market
- Online chatrooms (Reddit effect)
- Buying the dip mentality
- Active trading

### Mass arrival

Trading volumes, by type of investor\*  
% of total



Source: [The Economist](#), "Just how mighty are active retail traders?", August 21, 2021.

\* Excluding market makers.  
# Quarterly data.



## Growth of S&L: What's driving it?

*“Since the start of the Pandemic, have you purchased options or bought on margin?”*

Yes, I have purchased options

**20%**

Yes, I have bought on margin

**10%**

Yes, I have both purchased options, and bought on margin

**10%**



No, I have neither purchased options, nor bought on margin

**56%**

Source: [Harris Poll](#) with 1,036 respondents, Sep. 2-3, 2020.  
Numbers don't add up to 100 due to rounding.



# Potential ways to get leveraged exposure

	FUTURES	OPTIONS	SPREAD BETTING/CFDs	WARRANTS/ TURBOS	LEVERAGED CERTIFICATES	LEVERAGE SHARES ETPs
Losses Capped at Invested Amount	✗	✓*	✗	✓	✓	✓
No Margin Account Required	✗	✗	✗	✓	✓	✓
No Maintenance Margin Required	✗	✗	✗	✓	✓	✓
Traded on a Regulated Exchange	✓	✓	✗	✓	✓	✓
Market Makers Providing Transparent and Competitive Pricing	✓	✓	✗	✗	✗	✓
Airbag Mechanism to Limit Intraday Loss of Value	✗	✗	✗	✗	✓	✓
Constant Leverage Factor	✗	✗	✗	✗	✓	✓
No Bank Credit Risk	✓	✓	✗	✗	✗	✓
Underlying Physically Held as Security	✗	✗	✗	✗	✗	✓
Low Minimum Trade Size	✗	✗	✓	✗	✗	✓

\*Not for option seller

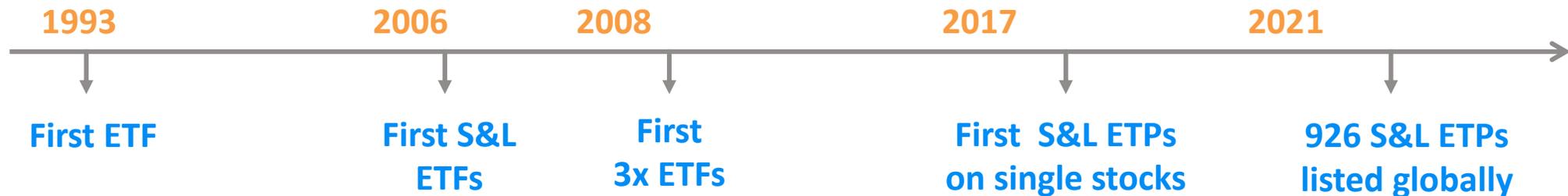
Sources: Investopedia, Bloomberg, Morningstar, BaFin



# Myth #1:

## Leveraged ETPs are a New Concept

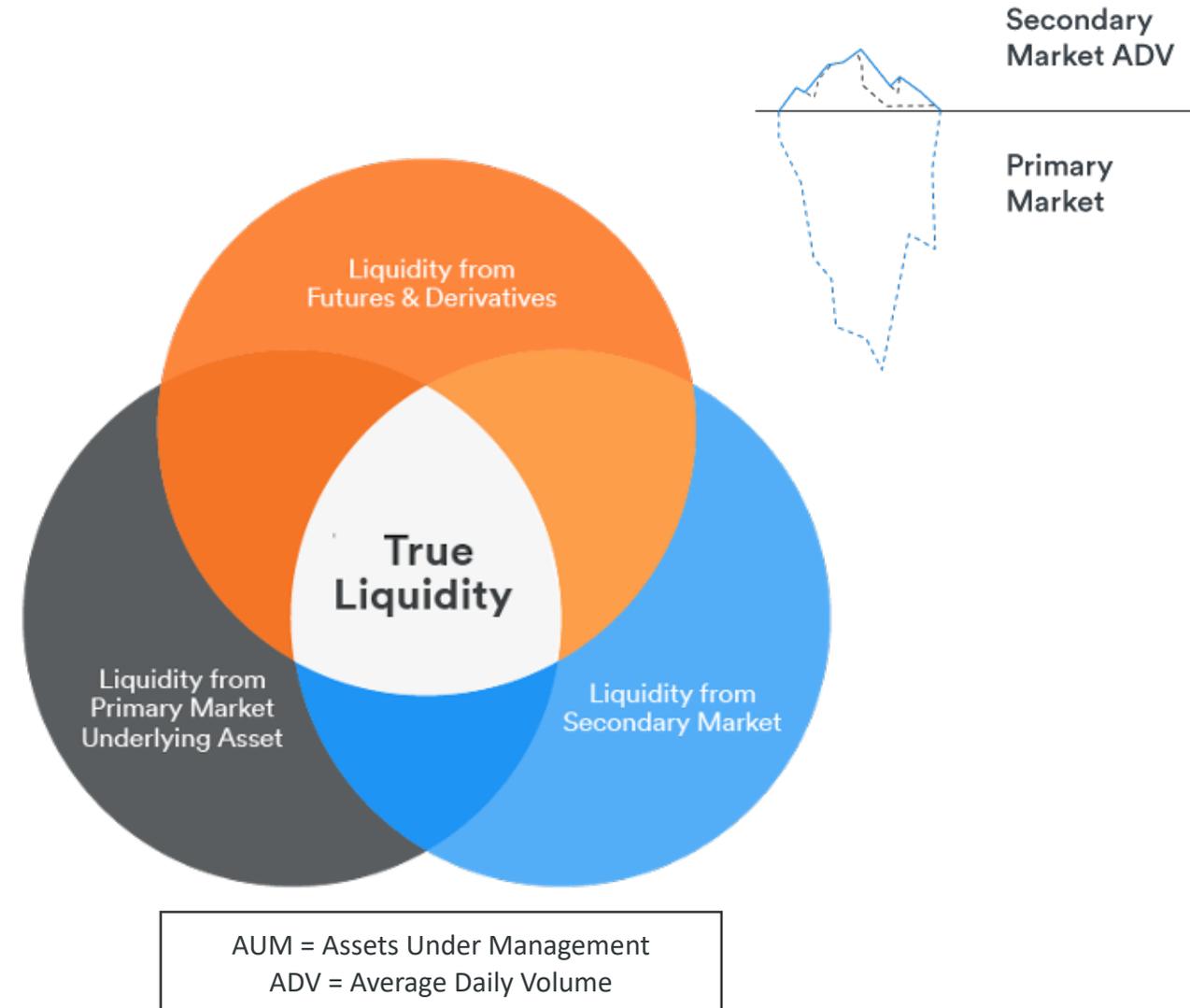
- 1993: the first ETF was listed on the AMEX – tracking the S&P 500
- 2006: ProShares introduced the first wave of leveraged and inverse ETFs called "Ultra ProShares," allowing investors to take positions in Nasdaq and S&P 500
- 2008: Direxion launched the first 3x Leveraged ETFs, offering five bull/bear pairs
- 2017: Leverage Shares offered the first S&L ETPs tracking single stocks on LSE



## Myth #2:

### Low Volume & Low AUM= Low Liquidity

- Distinguish between the primary and secondary market
- 'True' liquidity is drawn from the underlying market or asset being tracked
- Most ETPs can draw tens to hundreds of \$ millions without having a negative impact on the underlying market



## Myth #2:

Low Volume & Low AUM = Low Liquidity

Here is a more detailed example of how this works:



**105,000 ETF shares**

Let's say the 30-day average volume of an ETF is just 105,000 shares, which is a relatively small ADV.

compared  
to



**45 million shares**

But looking at the underlying basket of that same ETF yields an implied liquidity of 45 million shares.

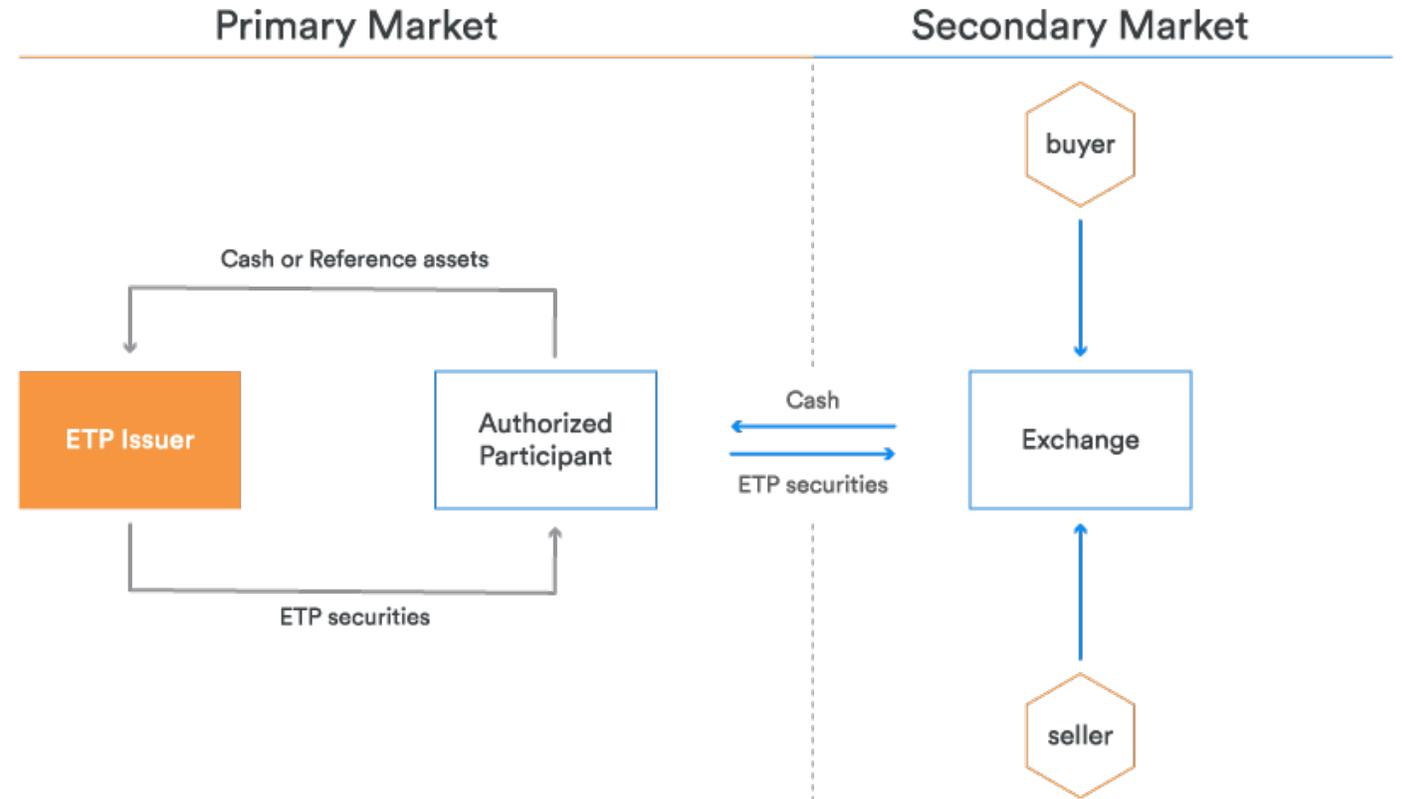
Despite having an ADV of 105,000 shares, **the ETF has a high implied liquidity.**



## Myth #2:

### Low Volume & Low AUM = Low Liquidity

- ETP/ETF issuers work with designated market makers (DMM) which provide bid/ask quotes throughout the trading day
- Regardless of trading volume or AUM, a DMM is responsible for maintaining quotes and facilitating buy and sell transactions



## Myth #3:

### Leveraged ETPs Always Lose over the Long-Term

- Compounding causes an ETP to not follow the benchmark stock or index precisely over the long run
- An investor still risks losing money up to all of their initial investment, however some leveraged ETPs experience significant increases over the long run
- These results are impacted by the leverage factor, holding period and market volatility
- Let's take a look at a few different examples



## Myth #3: Leveraged ETPs Always Lose over the Long-Term

### Empirical example of leveraged ETF underperformance:

- Over the period of 5 years, the Daily Gold Miners Index Bull 2x ETF (NUGT) has decreased in value by more than 82%, while the ETF tracking the underlying index (GDJ) has seen an increase of over 27% for the same period

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Past performance is not necessarily indicative of future results



Source: Bloomberg, October 2016 - October 2021



## Myth #3: Leveraged ETPs Always Lose over the Long-Term

### Empirical example of leveraged ETF outperformance:

- Over the period of the last 10 years the S&P 500 3x Bull ETF (SPXL), which gives leveraged exposure to the S&P 500 has increased by over 2100%, while the actual S&P 500 Index (SPX) has increased by a little over 250%

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Past performance is not necessarily indicative of future results



Source: Bloomberg, October 2011 - October 2021



## Myth #4:

### Leveraged ETPs Use Derivatives to Gain Leverage

- Although it is true that the vast amount of products you can use to achieve leverage use derivatives, this is not always the case
- Some ETPs do not invest in over-the counter (OTC) derivatives
- Some use a margin loan to invest in the underlying securities, making the ETPs physically backed and fully collateralized
- An investor does not need to open a margin account in order to invest in or trade those ETPs

## Myth #5:

### 3x Leverage Might not be the 3x You Expect

- Leverage factor impacted during the day leads to the need for daily rebalancing
- Compounding effect amplifies repeated gains but punishes performance during volatile periods
- Compounding is the reason why, for a holding period longer than one day, the returns are different than the ones expected given the leverage factor

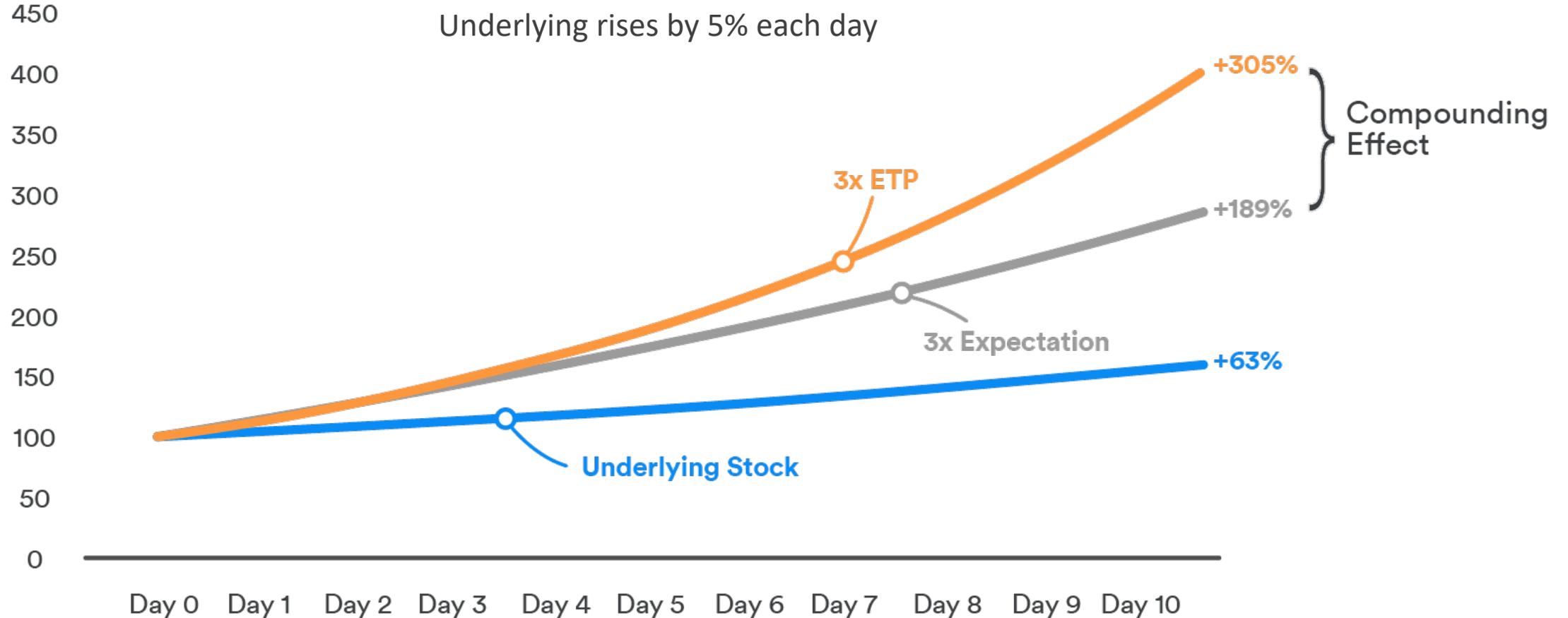


\*Demonstration of a concept, not an example using a real product



## Myth #5:

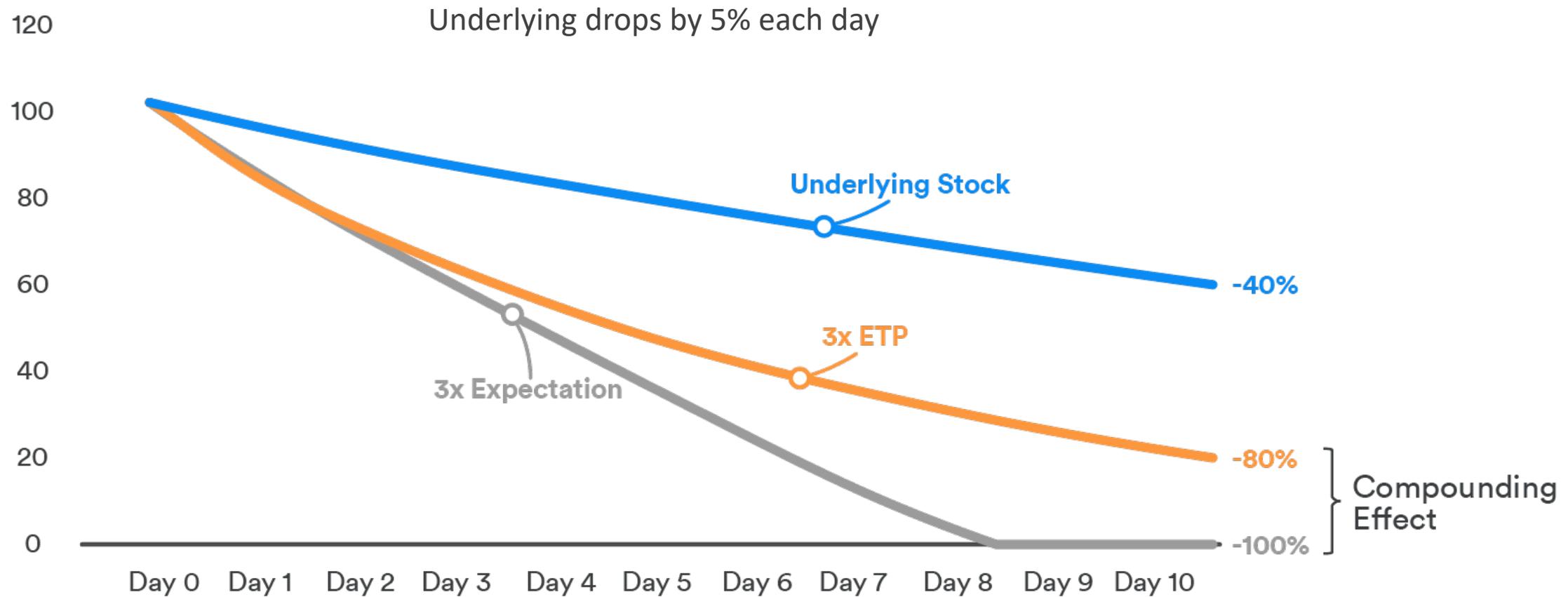
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## Myth #5:

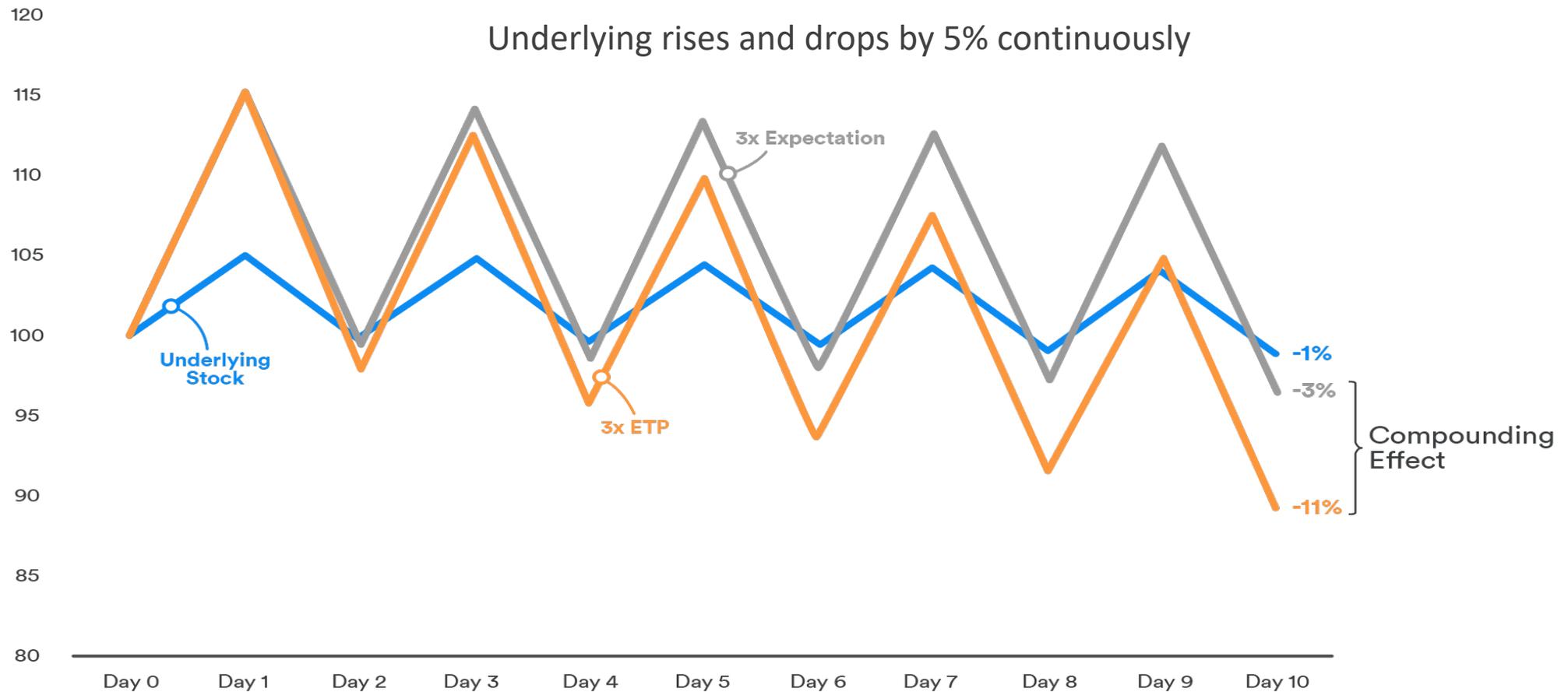
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# Myth #5:

## 3x Leverage Might not be the 3x You Expect



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# Q&A Session





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