Gold Hedged Investing

Helping Protect the Value of Investment Returns

REX Exchange Traded Funds

Synopsis

This guide explores the strategic use of gold hedged investing as a diversification strategy that can protect portfolio returns from the effects of currency devaluation. Global monetary expansion since the financial crisis of 2008 has increased the risk of currency devaluation, making it more important for investors to track their investment returns in “real” terms. Gold can act as an alternative currency aimed at protecting "real" returns when used in an overlay strategy on an equity portfolio.

How We Measure Returns Matters

The goal of investing is to enhance or preserve wealth, but wealth is not simply measured by the growth of an investment portfolio. An important consideration for investors is the purchasing power of the money they’ve earned through their investments.

Most investors measure portfolio returns solely in their home currency. The trouble with such approach is that over long periods, currency declines can undercut the purchasing power of investment returns—detracting from an investor’s wealth. Consider the difference in the return of the Brazilian stock market over the past 10 years. When measured in the local currency there would have been a sizable 60% gain. However, when measured in dollars, there was only a modest 5% gain. If we assume US dollars represent a constant level of purchasing power, then in this example investors have experienced a very minimal gain compared with the 60% implied by the index's nominal return.

Even US investors holding only domestic investments face potential currency effects on their investment returns. In the past 10 years, the S&P 500 gained 96% in dollar terms, reflecting a sizable nominal return. However, if the S&P 500 were viewed in units of gold, rather than in dollars, this performance is a more modest 9%, reflecting a lower real return.

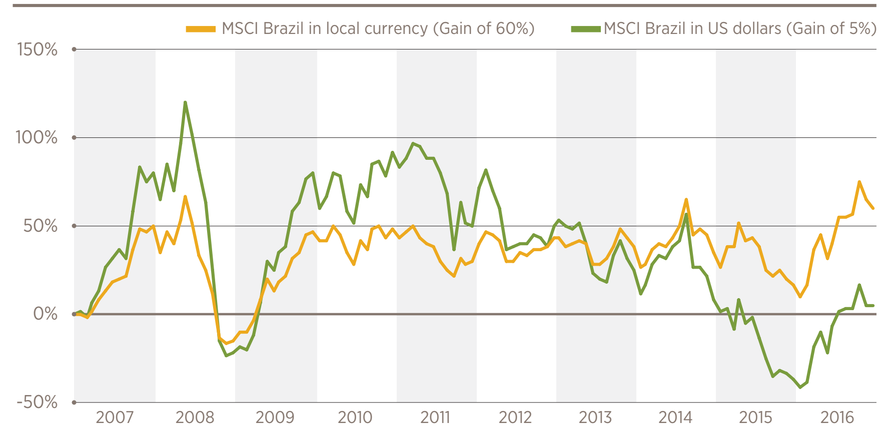
One solution is to pair local currency investments with investments denominated in a second, more stable currency. And since 1971, when the dollar was unpegged from the price of gold, gold has preserved its purchasing power better than all major currencies.

Using a technique called gold hedged investing, investors can potentially help to protect the purchasing power of their investment returns from currency declines. And by using an overlay strategy in their equity portfolio, investors can gain efficient exposure to gold’s currency returns, without altering their preferred asset allocation.

This guide examines gold’s currency hedging potential, as well as the benefits of an overlay strategy.

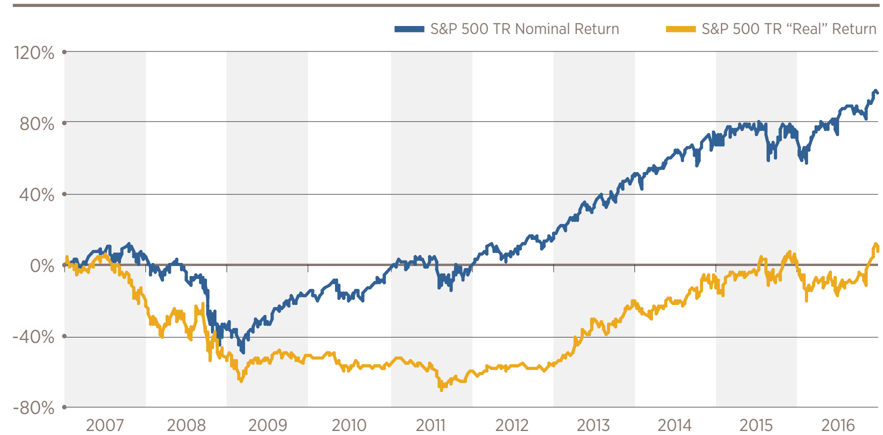
Currency Devaluation Eliminates Brazil's Equity Gains When Measured in US Dollars

Source: Bloomberg • Data as of 12/31/16



S&P 500 Returns Fail to Keep Pace with Gold

Source: Bloomberg • Data as of 12/31/16



S&P 500 TR Nominal Return reflects the returns of the S&P 500 Total Return Index, which denominates prices in U.S. dollar terms. S&P 500 TR “Real” Return reflects the returns of the S&P 500 Total Return Index multiplied by units of gold per U.S. dollar, reflecting returns when viewed in units of gold.

Diversification does not either assure a profit or protect against losses.

The Fluctuating Value of Fiat Currencies

Fiat currencies by definition give central banks the power to influence the value of money, either by managing interest rates or by adjusting the overall supply of currency. In the past decade, global economic trends have made central bank actions—and their impact on currency values — a more important consideration for investors.

In the wake of the 2008 financial crisis, many countries, including the United States, enacted stimulus measures that boosted their money supply, as shown in the chart to the right.

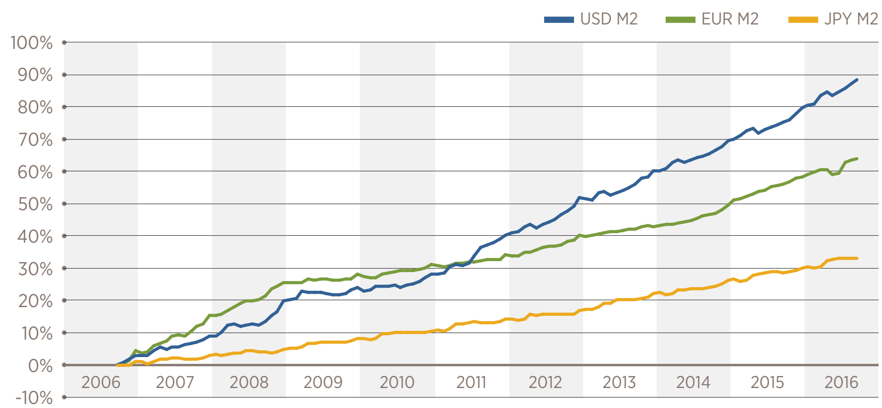
As we can see, the money supply in USD, EUR, and JPY has increased consistently in the last decade. The long-term effects of this money supply increase include the potential decrease in the value of those currencies, which would erode the purchasing power of investment earnings. In the meantime, persistent economic sluggishness around the world has forced many central banks—including the European Central Bank and the Bank of Japan—to continue depressing the value of their currencies.

Generally, central banks support weak currency values in part to foster domestic economic growth by improving the competitiveness of exports. But no country can implement currency moves in a vacuum. Any devaluation can create ripple effects by putting pressure on other countries to similarly reduce the value of their currencies to remain competitive. Economists call this phenomenon a race to the bottom.

A race to the bottom presents a risk for investors: depressed currencies intended to support domestic economic growth also reduce the value of investment returns denominated in those currencies. Exposure to hard currencies helps investors to sidestep these currency devaluations.

Change in Money Supply over 10 years

Source: Bloomberg • Data from 9/30/2006 - 9/30/2016



M2 is a measure of money supply that includes cash, checking deposits, savings deposits, money market mutual funds and other time deposits.

The use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities. Changes in the value of a derivative may not correlate perfectly with the underlying security, asset, rate or index. Gains or losses in a derivative may be magnified and may be much greater than the derivative's original cost. The derivatives may not always be liquid. This could have a negative effect on the Funds' ability to achieve its investment objective and may result in losses.

A Golden Alternative Currency

Although some investors consider gold a commodity, it is better viewed as a currency. Why? It meets the six major criteria of money, and has an inherent value that is regularly tracked and quantified. These features allow investors to convert gold into almost any other currency—including those from emerging markets.

Gold Has the Primary Characteristics of Money

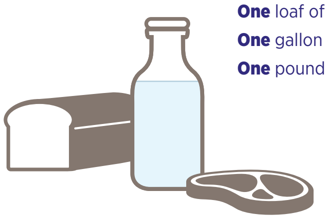
- Durable
- Divisible
- Uniform
- Portable
- Scarce
- Universally Exchangeable

Gold: A Viable Long Term Currency Hedge

Gold has held long term value better than any other currency, making it a very strong hedge against currency declines. Since 1970, the price of gold in US dollars has soared from about $35 to about $1,150 per ounce as of December 31, 2016. As a result, the purchasing power of gold has far outpaced that of the dollar.

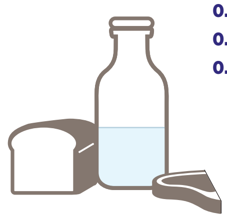
1975 One unit of gold and one unit of dollars buys

One loaf of bread
One gallon of milk
One pound of steak



2016 The original (1975) amount of **dollars** buys

0.26 loafs of bread,
0.48 gallons of milk
0.33 pounds of steak



2016 The original (1975) amount of **gold** buys

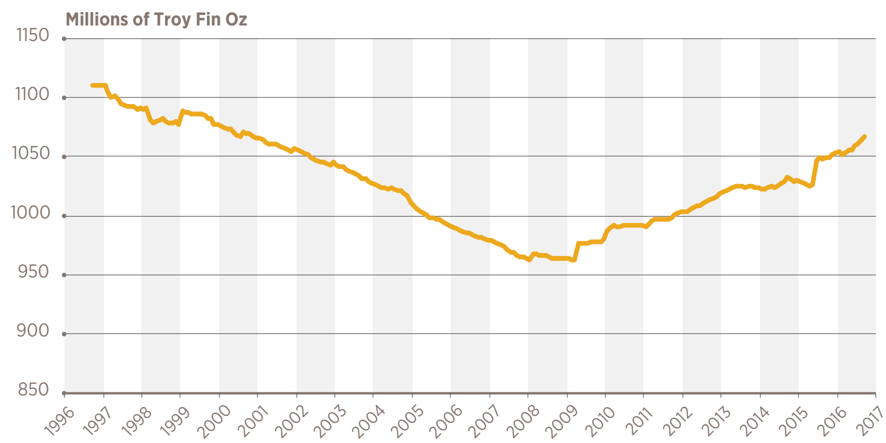
2.09 loafs of bread
3.89 gallons of milk
2.54 pounds of steak

Central Banks See Gold's Benefits

Recognizing gold's ability to hold and grow its value, the world's central banks have been rebuilding their gold reserves following the 2008 economic crisis. For example, in July 2015, China announced that reserves had increased by 75% since 2009. A diversification away from the US dollar and other fiat currencies is seen by many as the main motivation for this accumulation of gold.

IMF World Gold (Reserves)

Source: Bloomberg • Data from 9/30/1996 - 9/30/2016



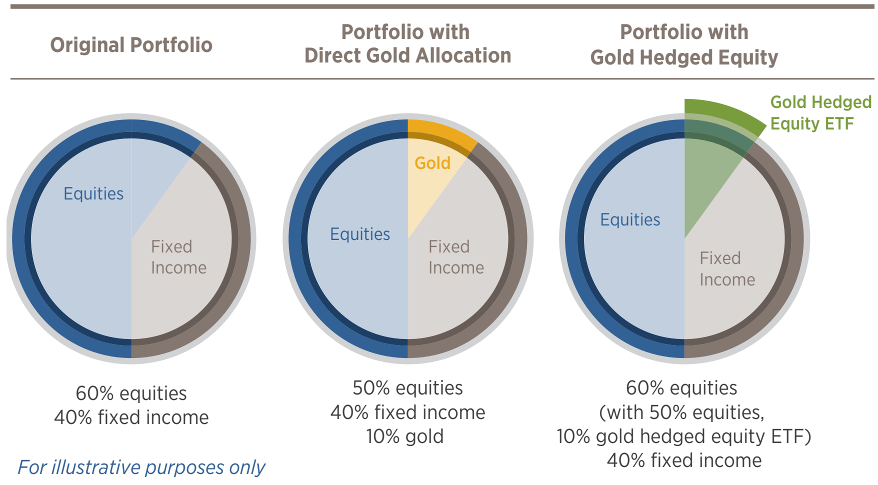
How to Implement Gold Hedged Investing

Investors don't need to hold actual gold to get exposure to its economic benefits. Simply investing in physical gold—even through an investment fund—isn't ideal, because that approach can upset a carefully designed portfolio allocation. Investors would need to reduce their equity or fixed income allocation in order to bring gold exposure into the portfolio.

The solution is a gold overlay strategy, also known as "gold hedged investing." Institutional investors have been using overlay strategies for decades. The approach pairs a core investment (e.g., stocks or bonds) with a portfolio hedge applied through a derivative instrument. For example, institutions commonly overlay a stock portfolio with a currency forward to hedge currency risk. In another more relevant example of overlay strategies, there are several notable multi-billion dollar hedge fund managers that offer shares of their funds to investors in gold-denominated form. They use gold hedged investing to deliver this return.

When applied to an individual's portfolio, the overlay approach provides a more efficient way for investors to gain the exposure to gold as a hedge against currency exposures:

- It allows investors to add gold exposure while leaving their original asset allocations intact.
- It puts equity earnings potential behind a gold investment. Investors participate in any gains or losses generated by the equity investment underlying the gold overlay.



Conclusion

This approach can help investors in achieving true financial goals: Investors maintain their carefully designed asset allocation, while hedging against potential decreases in the purchasing power of the returns those investments earn over time. In this way, gold hedged investing addresses the ultimate investing objective: to preserve and increase wealth.

DISCLOSURE

The material is not intended to be individual or personalized investment advice.

Carefully consider the Funds' investment objectives, risk factors, charges and expenses before investing. This and additional information can be found in the Funds' summary and full prospectuses, which may be obtained by calling 1-844-REX-1414. Read the prospectus carefully before investing.

Investing involves risk, including the possible loss of principal.

The price of gold is volatile and may be affected by a variety of factors, including the global gold supply and demand and investors' expectations with respect to the rate of inflation. Developments affecting the value of gold may have a significant impact on the Fund. There is no assurance that gold will maintain its long-term value.

Fixed-income assets will decline in value because of rising interest rates.

In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. In emerging markets, these risks are heightened, and lower trading volumes may occur. Investments in smaller companies typically exhibit higher volatility.

The Funds will invest in exchange-traded notes and exchange-traded funds, and will be subject to the risks associated with such vehicles. The Funds' performance will be directly related to the performance of those investments.

The Funds are non-diversified.

Exchange Traded Concepts, LLC serves as the investment advisor and Vident Financial serves as sub advisor to the fund. The Funds are distributed by SEI Investments Distribution Co., which is not affiliated with Exchange Traded Concepts, LLC or any of its affiliates.

Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P") and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones") and have been licensed for use by S&P Dow Jones Indices LLC and sublicensed for certain purposes by REX Shares, LLC, the sponsor of the REX Gold Hedged S&P 500 ETF (the "Licensee"). The S&P 500 Dynamic Gold Hedged Index is a product of S&P Dow Jones Indices LLC or its affiliates and has been licensed for use by the Licensee. The REX Gold Hedged S&P 500 ETF is not sponsored, endorsed, sold or promoted by S&P Dow Jones Indices LLC, Dow Jones, S&P, their respective affiliates, or any third party licensor and none of S&P Dow Jones Indices LLC, Dow Jones, S&P, their respective affiliates or any third party licensor makes any representation regarding the advisability of investing in such product(s).

The REX Gold Hedged FTSE Emerging Markets ETF is not in any way sponsored, endorsed, sold or promoted by the London Stock Exchange Group companies, which include FTSE International Limited ("FTSE"), Frank Russell Company ("Russell"), MTS Next Limited ("MTS") and FTSE TMX Global Debt Capital Markets Inc ("FTSE TMX") (together "LSEG"). LSEG makes no claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to (i) the results to be obtained from the use of the FTSE Emerging Gold Overlay Index (the "FTSE Benchmark") (upon which the Fund is based), (ii) the figure at which the FTSE Benchmark is said to stand at any particular time on any particular day or otherwise, or (iii) the suitability of the Index for the purpose to which it is being put in connection with the Fund. LSEG has not provided nor will provide any financial or investment advice or recommendation in relation to the FTSE Benchmark to the adviser or to its clients. The FTSE Benchmark is calculated by FTSE or its agent. LSEG shall not be (a) liable (whether in negligence or otherwise) to any person for any error in the Index or (b) under any obligation to advise any person of any error therein.

January 2017