

## IVOL FAQ

### About IVOL

#### 1. What is IVOL's investment objective?

The Quadratic Interest Rate Volatility and Inflation Hedge ETF (the "Fund") is a fixed income ETF that seeks to hedge relative interest rate movements, whether these movements arise from falling short-term interest rates or rising long-term interest rates, and to benefit from market stress when fixed income volatility increases, while providing the potential for enhanced inflation-protected income.

#### 2. What type of ETF is IVOL?

As categorized by Morningstar, IVOL is an inflation bond ETF with access to Treasury Inflation Protected bonds and OTC interest rate options. It is actively managed.

### IVOL's Investments

#### 3. IVOL Portfolio Composition?

The Fund is actively managed and seeks to achieve its investment objective primarily by investing in a mix of U.S. Treasury securities and long options tied to the shape of the interest rate yield curve. Per the prospectus IVOL must maintain at least 80% of the portfolio in Treasury securities.

#### 4. What are TIPS?

Treasury Inflation-Protected Securities, or TIPS, provide protection against inflation. The principal of a TIPS increases with inflation and decreases with deflation, as measured by the Consumer Price Index (CPI). When a TIPS matures, the investor is paid the adjusted principal or original principal, whichever is greater. TIPS pay interest twice a year, at a fixed rate. The rate is applied to the adjusted principal; so, like the principal, interest payments rise with inflation and fall with deflation.

#### 5. What type of options does the fund invest in?

Along with U.S. Treasury securities, IVOL also invests in OTC long options tied to the shape of the swap curve\*. These options are expected to (i) appreciate in value as the swap curve steepens or interest rate volatility increases and (ii) decrease in value or become worthless as the swap curve flattens or inverts or interest rate volatility declines. All options are fully funded, so the maximum downside is known and limited to the market value of the option premium.

*\*See page 7 for definitions.*

6. What are the options used for? Why not just use TIPS to capture inflation expectations?

IVOL's strategy is intended to provide inflation protection and to capture inflation expectations (not just CPI, like a TIPS portfolio). About 1/3 of CPI is defined by "shelter," and that is mostly rent. For many investors, rent might not be an important item that they are trying to protect against. We believe that enhancing our TIPS portfolio with options gives us a way to own inflation expectations. Our interest rate options are similar to options on inflation expectations, because the yield curve is largely a result of inflation expectations. Thus, our options have the potential to increase in value with the increase of inflation expectations. As such, IVOL gives investors another way to potentially profit from inflation.

## Investing in IVOL

7. How do I invest in the Quadratic Interest Rate and Volatility Hedge ETF (Ticker IVOL)?

IVOL can be purchased through any brokerage firm.

8. Is there a minimum to invest in IVOL?

The IVOL ETF is publicly traded on the New York Stock Exchange (NYSE). A person can buy as little as one share. Brokerage commissions as applicable would apply to the transaction.

## Distributions

9. Where can I find information of the fund's monthly distribution

All distribution information is shown at <https://www.ivoletf.com/ivol-specifications>. IVOL pays monthly distribution and the amounts may vary. Since July 2019, IVOL has paid at least 30bps in monthly distributions.

10. When are the distributions declared?

The distribution pay date is on the last business day of the month. The declaration date is three business days prior to that and the ex-div date is two business days prior to the pay date. All distributions are on the [ivoletf.com](https://www.ivoletf.com) website at the following address, [ivoletf.com/ivol-specifications](https://www.ivoletf.com/ivol-specifications).

## IVOL Performance Scenarios

### 11. Please describe a scenario that is positive for IVOL.

A positive scenario for IVOL is when TIPS prices increase, the difference between short dated and long dated interest rates on swaps widens and interest rate volatility increases. One example can be December 2020.

Factors that Impact IVOL	Rising	Falling
TIPS Bond Price	✓	✗
More Volatility	✓	✗
Expectations for Rate Cuts	✓	✗
Long Dated Yields	✓	✗

✓/✗ indicates the potential effect these scenarios may have on IVOL. With ✓ indicating a potential positive effect and ✗ indicating a potential negative effect

### 12. Please describe a scenario that is negative for IVOL.

A negative scenario for IVOL is when TIPS prices decrease, the yield curve flattens and interest rate volatility decreases. Refer to the table above in Question 11.

A good example was September 2019 - IVOL underperformed TIPS because the yield curve inverted, TIPS declined, and fixed income volatility also declined.

### 13. How are the options in IVOL actively managed?

The Investment Team has extensive derivatives / options knowledge and uses it to select the most attractive risk/reward opportunities in the market. Selection parameters may include expiry\*, tenor\*, moneyness\*, as well as a combination of the Greek profiles, including gamma\*, vega\* and theta\*. The Investment Team actively manages the vega of the portfolio depending on the prevailing market volatility levels. The Investment Team also constantly monitors the theta of the portfolio to reduce the decay\* and make the cost benefit attractive for investors.

*\*Please see page 7 for definitions.*

#### 14. How is the NAV calculated?

The Fund administrator independently calculates the NAV on a daily basis by taking the current market value of its total assets, subtracting any liabilities and withholdings, dividing that amount by the total number of shares owned by the shareholders. The Fund normally calculates NAV as of the regularly scheduled close of normal trading on each day.

#### 15. What is the shape of the yield curve\*?

It is the spread between interest rates on long-term debt instruments and shorter-term debt instruments. The most common reference is the difference between the 10y and the 2y rates.

*\*See page 7 for definitions.*

#### 16. Do you have any predictive performance models or provide back testing on IVOL?

As an ETF, IVOL, is a registered investment company under the Investment Company Act of 1940. The Financial Industry Regulatory Authority (FINRA) Rule 2210 regulates communications regarding registered investment companies and does not allow predictive models or back-testing of the strategy. The "Scenario Analysis" provided in response to Question #11 generally describes the environments that would positively or negatively effect IVOL's performance.

#### 17. Does IVOL provide insurance against specific scenarios?

No. IVOL is an inflation ETF. It is not a tail risk product nor an insurance product. We enhance the TIPS portfolio with options on the shape of the yield curve, so the fund can potentially outperform in periods when the curve steepens. But it is likely to underperform when the curve flattens.

#### 18. Can you describe under what conditions the strategy would utilize nominal treasuries instead of TIPS?

IVOL is an inflation fund, so under most market environments it will own TIPS. But in a scenario where inflation is extremely priced, the portfolio manager can shift away from TIPS and into nominal US treasury bonds with the appropriate duration profile. This could be done in such a way that continues to fulfil the overarching the goals of the fund defined in the prospectus.

#### 19. Does IVOL have counterparty risk?

Yes. OTC options have counterparty risk. IVOL's options are bi-lateral agreements that expose the Fund to counterparty risk, which is the risk of loss in the event that the counterparty to an agreement fails to perform under it. The management team is constantly monitoring the exposures and only chooses counterparties with strong credit qualities.

#### 20. What are the primary risks of investing in IVOL?

The Fund's use of OTC options is intended to mitigate the curve risk and is not intended to mitigate credit risk, or non-curve interest rate risk. There is no guarantee that IVOL's investments will completely eliminate the curve or inflation risk of the long positions in U.S. government bonds.

In addition, when the swap curve flattens, the Fund's investments will generally underperform a portfolio comprised solely of the U.S. government bonds. In a flattening curve environment, the Fund's hedging strategy could result in disproportionately larger losses in the Fund's options as compared to gains or losses in the U.S. government bond positions attributable to interest rate changes.

The Fund's derivatives investments involve risks. The Fund's exposure to derivatives tied to interest rates subjects the Fund to greater volatility than investments in traditional securities, such as stocks and bonds. Investing in derivatives tied to interest rates, including through options tied to the shape of the swap curve, is speculative and can be extremely volatile. The derivatives used by the Fund may give rise to a form of leverage. Leverage magnifies the potential for gain and the risk of loss. The prices of options can be highly volatile and the use of options can lower total returns. OTC options generally have more flexible terms negotiated between the buyer and the seller. As a result, such instruments generally are subject to greater credit risk and counterparty risk. OTC instruments also may be subject to greater liquidity risk. The Fund is non-diversified.

## Tax Treatment

### 21. What is the tax treatment of IVOL?

- IVOL is treated as a separate entity for federal tax purposes.
- The Fund expects that most of its income will be ordinary income because the assets underlying the rate-linked derivative instruments in which it invests are not capital assets.
- Additionally, the Fund expects that its losses with respect to its investment in rate-linked derivative instruments will be ordinary losses, which can only be used to offset ordinary income earned by the Fund in the same taxable year in which the losses occur, subject to an exception for late-year losses.

For further tax information please go to <https://www.ivoletf.com/ivol-specifications/> and see the 19A Notice under Fund Documents.

1099 forms for investors are provided by the investor's brokerage account. The fund does not issues any K-1s.

## About Quadratic

### 22. Who is IVOL's portfolio manager?

Nancy Davis, Managing Partner and CIO of Quadratic Capital Management, has been primarily responsible for the day-to-day management of the Fund's portfolio since the Fund's inception in May 2019. She is responsible for various functions related to portfolio management, including, but not limited to, developing and implementing the Fund's investment process and investment

strategy, researching and reviewing investment strategy, and overseeing members of her portfolio management team that have more limited responsibilities.

Ms. Davis began her career at Goldman Sachs where she spent ten years, the last seven with the proprietary trading group where she became Head of Credit, Derivatives and OTC Trading. Prior to starting Quadratic, she served as a portfolio manager at Highbridge Capital Management where she managed \$500 million of capital in a derivatives-only portfolio. She later served in a senior executive role at Alliance Bernstein.

She was named by Barron's as one of the "100 Most Influential Women in U.S. Finance." Institutional Investor called her a "Rising Star of Hedge Funds." The Hedge Fund Journal tapped her as one of "Tomorrow's Titans."

## About ETFs

### 23. What is an ETF?

An ETF (exchange-traded fund) is a pooled investment vehicle that is bought and sold on an exchange at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. However, shares may be purchased or redeemed at NAV directly by certain authorized broker-dealers (Authorized Participants or APs) in very large creation/redemption units. Most ETFs are 40 Act Funds, like a mutual fund. However, unlike mutual funds, ETFs trade on an exchange and provide intra-day liquidity.

### 24. How to trade an ETF?

Through their brokers, investors can buy or sell ETFs in the secondary market, or for very large create / redeems through an Authorized Participant as discussed more extensively below. IVOL is listed on the New York Stock Exchange (NYSE).

### 25. How can I trade IVOL at the NAV?

Many investors can achieve ample liquidity in IVOL using the primary market (similar to mutual funds). There is massive liquidity in IVOL by using the primary market with the APs. It is called "NAV based creates" or "NAV based redeems" for buys and sells respectively. These creations/redemptions are done at the NAV with the fund at the end of the day. IVOL's creation unit size is 25,000 shares.

## Definitions

**Decay:** A measure of the rate of decline in the value of an options contract due to the passage of time. Time decay accelerates as an option's time to expiration draws closer since there's less time to realize a profit from the trade.

**Gamma:** the rate of change in an option's delta (a ratio that compares the change in the price of an asset, to the corresponding change in the price of its derivative per 1-point move in the underlying asset's price).

**Moneyness:** A description of a derivative relating its strike price to the price of its underlying asset. Moneyness describes the intrinsic value of an option in its current state.

**Swap Curve:** A swap curve identifies the relationship between swap rates at varying maturities. A swap curve is effectively the name given to the swap's equivalent of a yield curve.

**Tenor:** Tenor refers to the length of time remaining before a financial contract expires. Tenor is used in relation to bank loans, insurance contracts, and derivative products.

**Theta:** The rate of decline in the value of an option due to the passage of time.

**Vega:** Vega is the measurement of an option's price sensitivity to changes in the volatility of the underlying asset.

**Yield Curve:** A yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates.

## Important Information

**Carefully consider the Funds' investment objectives, risk factors, charges and expenses before investing. This and additional information can be found in the Funds' full and summary prospectus, which may be obtained by visiting [www.kfafunds.com](http://www.kfafunds.com). Read the prospectus carefully before investing.**

ETF shares are not redeemable with the issuing fund other than in large Creation Unit aggregations. Shares of any ETF are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. The returns shown do not represent the returns you would receive if you traded shares at other times. Brokerage commissions will reduce returns.

Beginning 12/23/2020, market price returns are based on the official closing price of an ETF share or, if the official closing price isn't available, the midpoint between the national best bid and national best offer ("NBBO") as of the time the ETF calculates current NAV per share. Prior to that

date, market price returns were based on the midpoint between the Bid and Ask price. NAVs are calculated using prices as of 4:00 PM Eastern Time.

**The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the Fund and may be obtained by calling 833-IVOL-ETF (1-833-486-5383). Please read it carefully before investing.**

Diversification does not ensure a profit or guarantee against a loss. Investing involves risk. Principal loss is possible. There is no guarantee the Fund will achieve its investment objectives. Shares of any ETF are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. The Fund's derivatives investments involve risks. The derivatives used by the Fund may give rise to a form of leverage. Leverage magnifies the potential for gain and the risk of loss. The prices of options can be highly volatile and the use of options can lower total returns. OTC options generally have more flexible terms negotiated between the buyer and the seller. As a result, such instruments generally are subject to greater credit risk and counterparty risk. OTC instruments also may be subject to greater liquidity risk.

IVOL is distributed by SEI Investments Distribution Co. (SIDCO), 1 Freedom Valley Drive, Oaks, PA 19456. The Fund's sub-adviser is Quadratic Capital Management LLC (Quadratic). SIDCO is not affiliated with Quadratic. Neither Quadratic nor SIDCO or their affiliates provide tax advice.

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