

# IFLY™

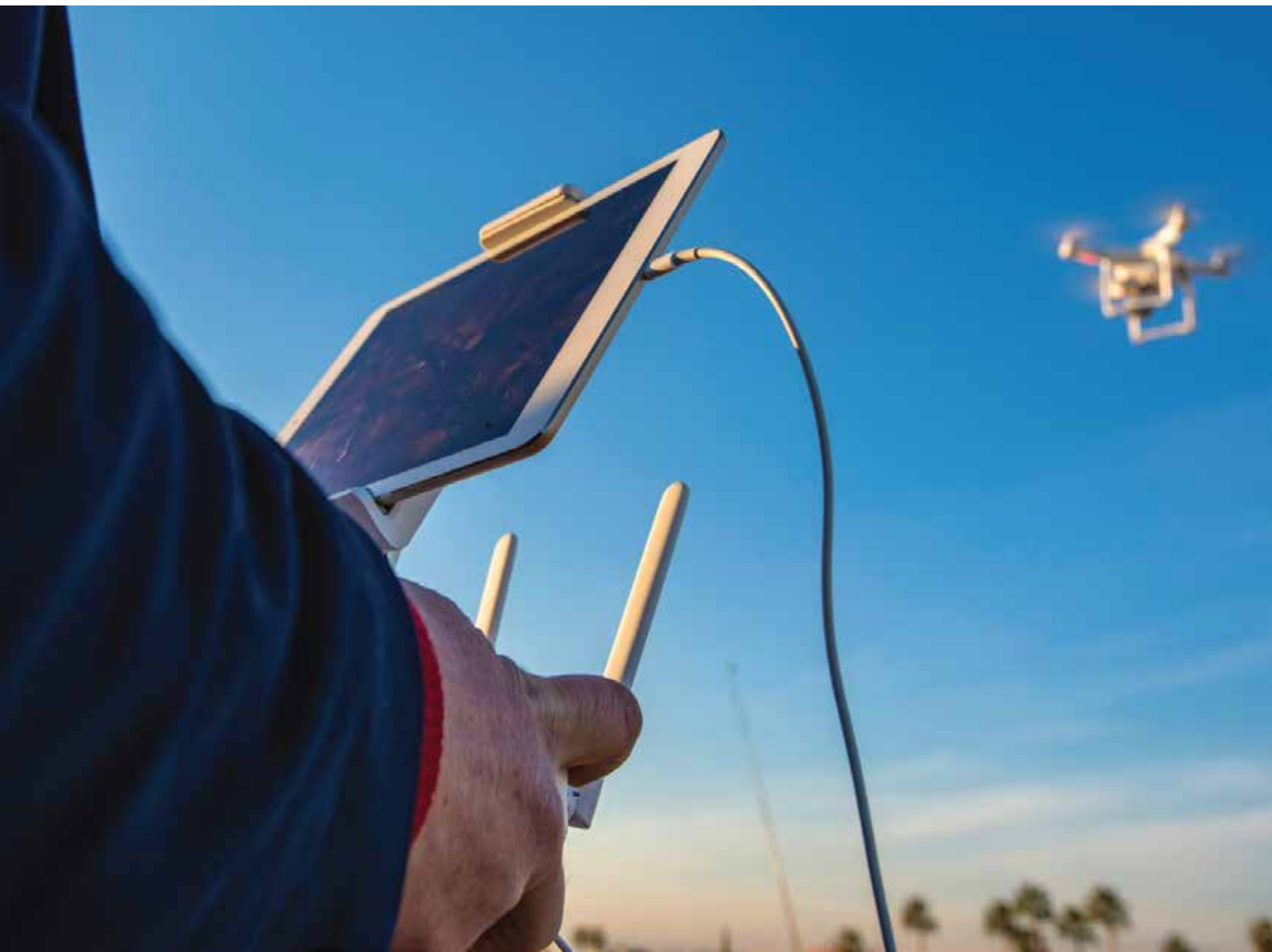
## 2018 Q3 COMMENTARY



## MARKET COMMENTARY

The commercial drone industry continued to make technological and application progress in the third quarter. A major technological advancement was announced by California-based drone manufacturer, Impossible Aerospace, with their introduction of the US-1. The drone whose structure is made up of many small battery cells, displays a two-hour flight time, a four-fold increase on current battery-based models, and a legitimate alternative to gasoline-powered drone hybrids.

It will have a substantial impact on deployments in the safety and security markets which require longer flight times for search, rescue, and reporting task. The DOT's ten pilot programs have started to roll out over the last few months. Drone company, Flirtey completed its first delivery flight, while the FAA approved long-distance test flights over populated areas. The FAA's conservative approach to regulating commercial drone traffic took a positive shift with the passing of the FAA Reauthorization Act. The Act puts both commercial and consumer drone operation on a clear path to full integration into the U.S. air space.



## FUND PERFORMANCE

The IFLY Drone Economy strategy ETF returned +10.30% for the quarter ended September 30, 2018, in line with its benchmark index. Not surprisingly, the sector that had the most profound impact on performance was Industrials (+18.52%), which represents nearly 63% of the index. Information Technology was the main detractor, down 2.25% for the quarter.

Sector Contributors	Active Exp	Total Rtn	Sector Cont
Industrials	62.97	18.52	11.32
Consumer Discretionary	6.76	2.65	0.14
Not Classified	0.02	0.41	0
Information Technology	30.25	-2.25	-0.82

At the security level, IFLY was led by Aerovironment Inc (AVAV, +57.03%), Kratos Defense & Security Solutions Inc (KTOS, +28.41%), and Trimble Inc (TRMB, +32.34%). Companies that detracted from performance in the fund included Parrot SA (PARRO FP, -17.11%), and Vestel Elektronik Sanayi ve Ticaret A.S. (VESTL TI, -30.22%).

<b>Top 10 Postive Contributors</b>	<b>Average Weight (%)</b>	<b>Total Return (%)</b>	<b>Contribution to Return (%)</b>
AEROVIRONMENT IN	14.90	57.03	7.42
KRATOS DEFENSE &	2.18	28.41	0.57
TRIMBLE INC	1.60	32.34	0.47
BOEING CO/THE	3.99	11.40	0.45
LEONARDO SPA	2.17	21.96	0.44
QUALCOMM INC	1.54	29.49	0.42
HONEYWELL INTL	2.01	16.07	0.31
MERCURY SYSTEMS	0.77	45.35	0.30
HEICO CORP	1.10	27.09	0.28
LOCKHEED MARTIN	1.62	17.83	0.28

<b>Bottom 10 Negative Contributors</b>	<b>Average Weight (%)</b>	<b>Total Return (%)</b>	<b>Contribution to Return (%)</b>
PARROT SA	9.07	-17.11	-2.06
VESTEL ELEK SAN	1.26	-30.22	-0.51
DRONE DELIVERY C	1.78	-17.61	-0.40
KOREA AEROSPACE	1.40	-14.38	-0.20
LITTELFUSE INC	1.29	-13.10	-0.18
ASELSAN	1.52	-9.12	-0.16
COBHAM PLC	0.99	-10.38	-0.11
BAE SYSTEMS PLC	1.98	-3.84	-0.09
GRIFFON CORP	0.92	-8.92	-0.08
RHEINMETALL AG	1.15	-5.26	-0.06

Looking at fundamental factor performance, positive contributors were overweights to the North American and Western European markets as well as an underweight to the Value factor. Detractors include a small overweight to Turkish currency and an underweight to the Size factor.

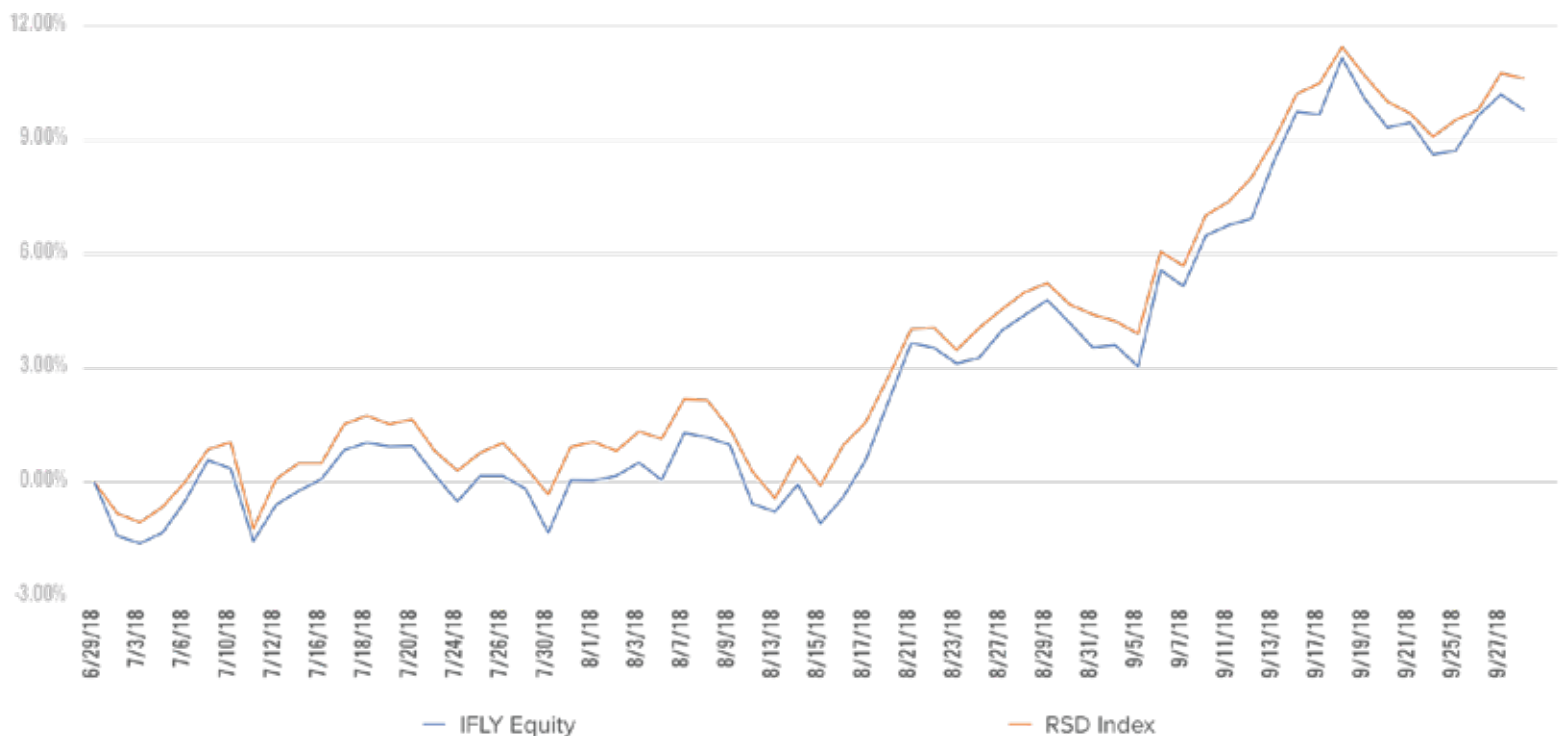
Top 6 Factor Contributors	Active Exp	Factor Rtn	Factor Cont
NorthAm:US Market	0.57	5.48	3.11
Industry:US Defense	0.35	6.32	2.36
Style:US Value	-0.28	-1.56	0.49
WestrnEurp:EU Market	0.28	1.18	0.35
AsiaPac-Dev:JP Marke	0.08	3.67	0.28
Industry:EU Transport	0.13	1.98	0.28

Examining the makeup of the style factor, we see that the negative effects of portfolio weightings to Dividend Yield, Profitability, and Size were offset by the underweight to Value and overweight to Volatility.

Style Return	Contribution
Earnings Variable	-0.05
Momentum	-0.02
Size	-0.53
Leverage	0.09
Dividend Yield	-0.30
Trade Activity	-0.03
Profitability	-0.55
Growth	0.00
Liquidity	0.00
Volatility	0.18
Value	0.64



## Q3 2018 TOTAL RETURN







## PERFORMANCE

	CUMULATIVE				ANNUALIZED				
	1 month	3 months	YTD	Since Incep.	1 year	3 years	5 years	10 years	Since Incep.
<b>MARKET PRICE</b>	<b>6.02%</b>	<b>9.78%</b>	<b>8.12%</b>	<b>59.16%</b>	<b>8.80%</b>				<b>19.87%</b>
<b>NAV</b>	<b>5.99%</b>	<b>10.30%</b>	<b>8.40%</b>	<b>59.33%</b>	<b>9.03%</b>				<b>19.92%</b>

**Carefully consider the Fund's investment objectives, risk factors, charges, and expenses before investing. This and additional information can be found in the Fund's prospectus, which may be obtained by calling 1-844-ETF-MGRS (1-844-383-6477), or by visiting [www.etfmg.com](http://www.etfmg.com). Read the prospectus carefully before investing.**

Investing involves risk, including the possible loss of principal. The fund is new with limited operating history. Shares of any ETF are bought and sold at market price (not NAV), may trade at a discount or premium to NAV and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. Narrowly focused investments typically exhibit higher volatility. Drone Economy Companies face intense competition, both domestically and internationally and are heavily dependent on the protection of patent and intellectual property rights. In addition, Drone Economy Companies may be dependent on the U.S. government and its agencies for a significant portion of their sales, and their success and growth may be affected by budgetary constraints, spending reductions, congressional appropriations, and administrative allocations of funds that affect the U.S. government and its agencies. Investments in foreign securities involve political, economic and currency risks, greater volatility and differences in accounting methods. The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Investments in smaller companies tend to have limited liquidity and greater price volatility than large-capitalization companies. The Fund's return may not match or achieve a high degree of correlation with the return of the Reality Shares Drone Index. To the extent the Fund utilizes a sampling approach, it may experience tracking error to a greater extent than if the Fund had sought to replicate the Index. Diversification does not guarantee a profit, nor does it protect against a loss in a declining market. ETF shares are not individually redeemable and owners of the shares may acquire those shares from the Fund and tender those shares for redemption to the Fund in Creation Units only, typically consisting of aggregations of 50,000 shares.

The Reality Shares Drone™ Index provides a benchmark for investors interested in tracking companies actively involved in drone technology and services. The Index uses Modified Equal Weight capitalization-weighted methodology. The index was created and is maintained by Reality Shares Index Committee. You cannot invest directly in an index.

ETF Managers Group LLC is the investment adviser to the Fund.

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