

INDUSTRY EVOLUTION EXPANDS ETF OPPORTUNITIES

SEC GIVES NOD TO SEMITRANSSPARENT STRUCTURE

EXCHANGE TRADED FUNDS

With a recent ruling, the U.S. Securities and Exchange Commission (SEC) has paved the way for an expansion of the 26-year-old ETF industry. The SEC decree approves Precidian Investments' new ETF structure, bringing additional choices and investment strategies to the increasingly popular ETF industry.

The new products, commonly known as semitransparent (or non-transparent) ETFs, will give investors a larger marketplace and more choice when selecting strategies to meet their investment goals. Investors will have greater opportunities to enhance portfolio diversification within the lower-cost, tax-efficient ETF framework.

Until now, some premier asset managers have avoided the ETF structure due to its daily transparency requirements. These rules limited the number of actively managed strategies in the ETF marketplace. Several asset managers, including American Century Investments, have licensing agreements with Precidian to use the firm's semitransparent ETF model, known as ActiveShares®.



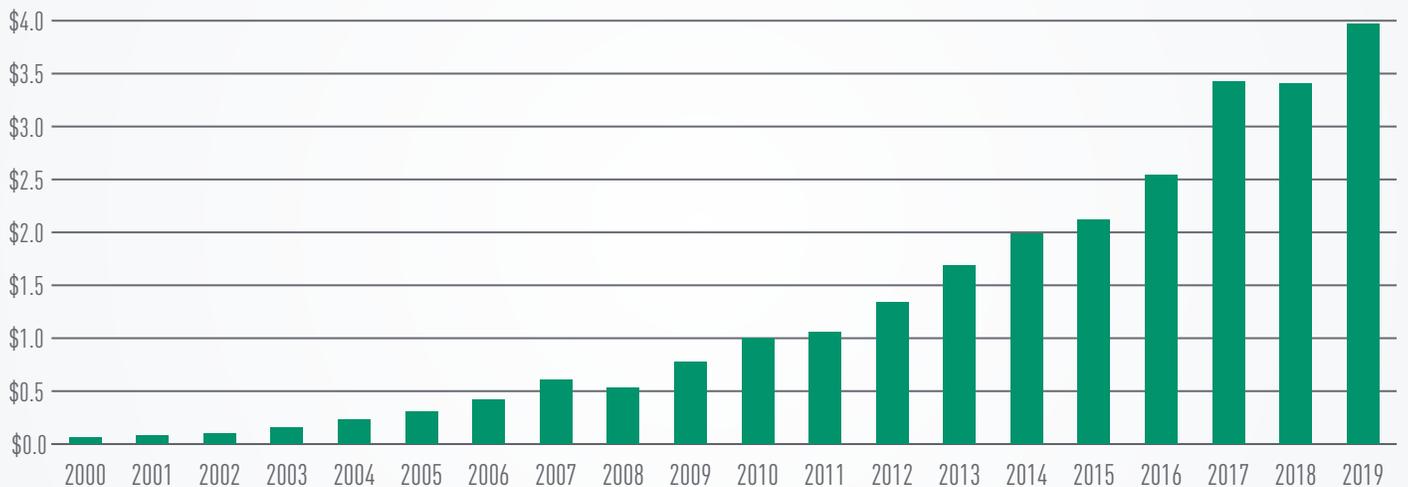
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INVESTOR DEMANDS DRIVE GROWTH

Since making its U.S. debut in 1993, the ETF industry has experienced phenomenal growth. In 1993, the U.S. ETF market included one fund, a passively managed portfolio tracking the S&P 500® Index. It held \$465 million in assets at the end of its first year of operation. By 2000, the ETF market had grown to \$66 billion in assets. And by June 2019, the U.S. ETF marketplace included more than 2,000 ETFs representing a broad range of asset classes and nearly \$4 trillion in assets.

U.S. ETF Industry Growth Has Been Explosive

Total ETF Assets (\$Trillions)



Source: Morningstar Direct. Data as of 6/30/2019.

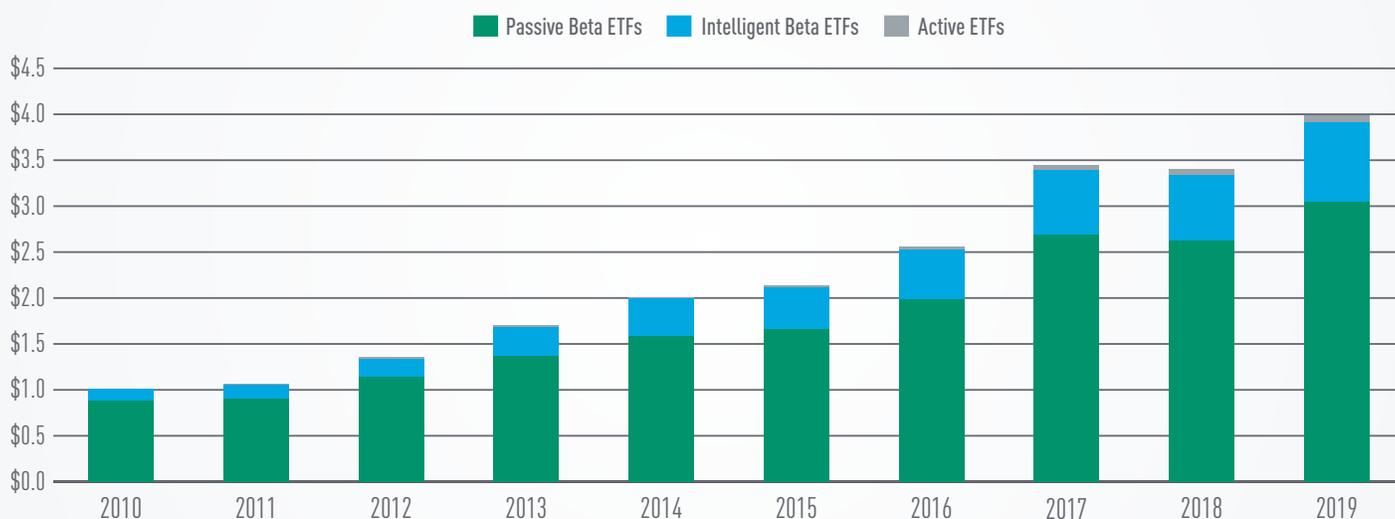
Most traditional ETFs track a broad market index. This investment approach means ETFs typically offer three key advantages to investors:

- **Low cost.** Passively tracking a market index is inherently less expensive than active management.
- **Tax efficiency.** Generally, when an ETF investor sells shares, that redemption doesn't trigger a sale of the ETF's holdings. So, there's no taxable event for the portfolio.
- **Transparency.** Tracking a market index promotes daily transparency. The ETF's holdings simply mimic the index's

holdings, so investors always know what their fund owns. Considering the advantages of ETFs, it's easy to understand the industry's explosive growth. Because most ETFs track the composition and performance of broad market indices, these passively managed portfolios continue to dominate the industry. But in recent years, other approaches have emerged, including intelligent beta and active ETFs. These trends reflect evolving investor preferences for innovative strategies to meet a mix of investment goals within the ETF structure.

Intelligent Beta and Active ETFs Are Growing

Total U.S. ETF Assets by Type (\$Trillions)



Source: Morningstar Direct. Data as of 6/30/2019.

NEW STRUCTURE BRIDGES THE BENEFITS OF ETFs AND ACTIVE MANAGEMENT

Although active ETFs have experienced significant growth in recent years, they still represent a smaller portion of the total ETF universe. This is likely due to rules governing ETFs. Specifically, the daily transparency requirements of the ETF structure are not well suited to many active approaches. Managers who develop proprietary strategies typically don't want to publish daily holdings that may reveal their specific alpha-generation efforts. They also want to protect the alpha from potential front-running of their trading strategies.

Semitransparent ETFs offer a solution with a "best of both worlds" approach. They combine the cost and tax efficiencies of ETFs with the benefits of active management. And while

they're not as fully transparent as traditional ETFs, they provide adequate transparency for market participants to quote and trade the funds.

REVISING THE RULES

Similar to actively managed mutual funds, yet unlike traditional ETFs, semitransparent ETFs don't disclose their full list of holdings daily. Instead, the portfolio manager will disclose publicly the ETF's holdings based on the manager's holdings-disclosure policy (monthly or quarterly, with a lag). This distinguishing characteristic helps preserve the integrity of the investment manager's proprietary strategy and process.

Investment managers following the Precidian structure will disclose daily holdings and a daily "basket," or a pro-rata slice of the ETF's holdings, exclusively to the authorized

participant representative (APR) and the verified intraday indicative value (VIIV) calculation agent. These key players facilitate the creation and redemption of the ETF and the calculation of a daily intra-day value of the ETF (see “Model safeguards the strategy” section).

As with stocks and traditional ETFs, buy and sell transactions for semitransparent ETFs take place on an exchange. The Precidian structure is designed to provide ongoing information, including the VIIV, to market participants (market makers and authorized participants) to be able to provide efficient, continuous pricing throughout the trading day. In addition, semitransparent ETFs will publish their NAVs on a daily basis and make available the daily and historical difference between the NAV and the VIIV.

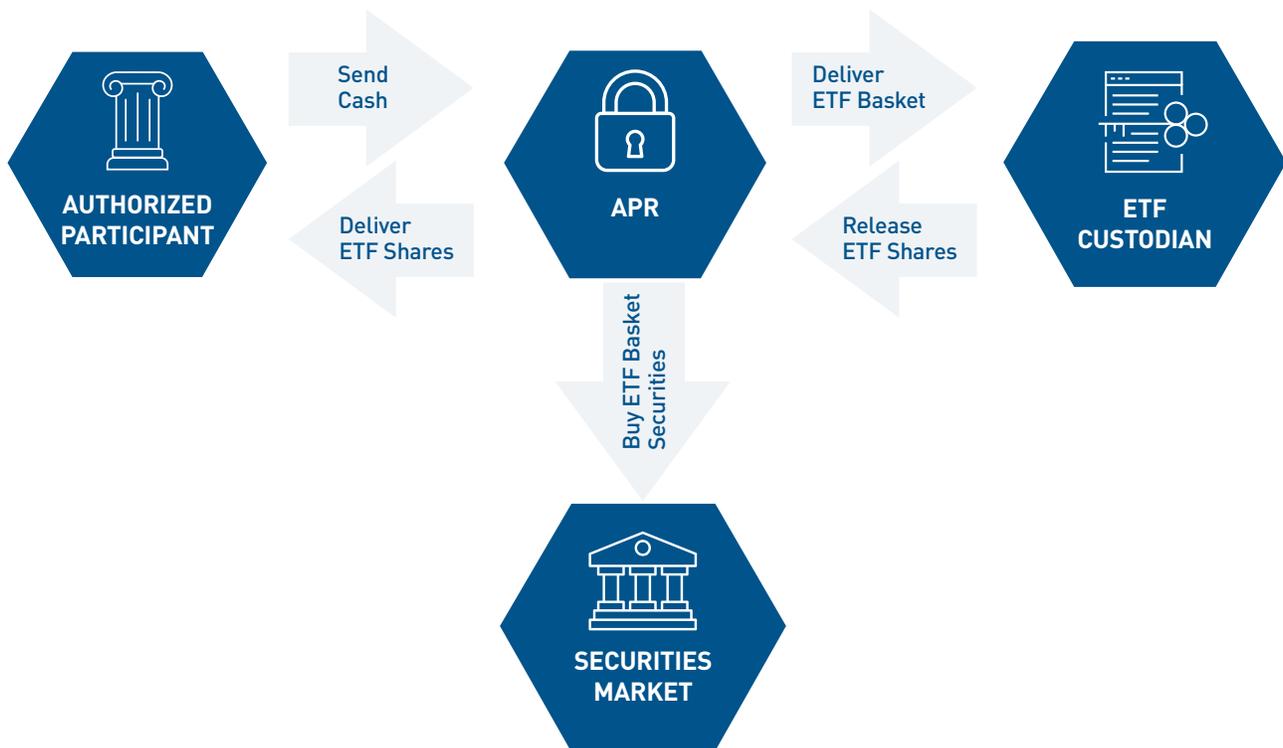
As of July 2019, Precidian’s ActiveShares remain the only semitransparent ETFs to win SEC approval. The SEC is reviewing other semitransparent structures that use a quantitative methodology to disclose a “proxy” basket of holdings of the underlying ETF on a daily basis. Calculation of the proxy basket will vary by structure.

MODEL SAFEGUARDS THE STRATEGY

Precidian’s semitransparent model provides investors a real-time value of ETF shares without publicly disclosing the holdings that comprise the ETF’s value. Here’s how it works:

- Privy to the fund’s holdings, a VIIV agent calculates an intra-day value for the ETF in one-second intervals throughout the trading day. The VIIV agent will generally be a financial data services provider.
- All creations and redemptions of fund shares flow through an APR established for each authorized participant (AP). APs are exclusively charged with acquiring the securities the ETF wants to hold. APRs will be registered broker/dealers.
- Creations and redemptions occur in cash, which the APR converts to portfolio holdings and then facilitates the in-kind into or out of the fund. This process prevents the AP from knowing the identity of portfolio securities and maintains tax efficiency.
- Only the APR and the VIIV agent know the specific daily portfolio holdings.
- The ETF publishes its NAV on a daily basis.

Precidian Creation Process



A COMPANION FOR MUTUAL FUNDS

Some market pundits have suggested semitransparent ETFs eventually may replace the longstanding traditional mutual fund. Of course, it's too early to say, but any such industry transformation would occur well into the future. For now, rather than a replacement for mutual funds, semitransparent ETFs will serve as a complement to mutual funds. The semitransparent structure allows investment managers to bring their proven strategies to an increasingly popular and in-demand investment vehicle. Semitransparent ETFs represent a natural product evolution for investors looking to create well-rounded, diversified investment portfolios populated with different investment products.

It's also important to note the semitransparent ETF structure does not yet cover all asset classes. Currently, the SEC has only approved the structure for U.S.-based equity and U.S.-listed securities (stocks, ETFs, ADRs and broad-based index futures contracts). In contrast, mutual funds remain available in all asset classes, covering all regions and investment styles. Furthermore, ETFs and their associated tax benefits generally make ETFs better suited for taxable investment accounts. For tax-advantaged accounts, such as 401(k) and other retirement plans, mutual funds may be the better choice.

THE PROCESS TO APPROVAL

While the SEC has approved the semitransparent structure, other regulatory steps must be completed before specific products hit the market. Managers must seek exemptive relief approval for their products, file registration statements and work with their listing exchange to file the necessary regulatory documents before listing ETF shares on the exchange. Furthermore, all other factors surrounding an ETF launch remain in play. For example, providers must determine lead market makers and complete all steps associated with the operational set-up.

Understanding the Difference Between Semitransparent and Intelligent Beta ETFs

The key difference between semitransparent active ETFs and their intelligent beta cousins is the management approach:

- **Intelligent beta ETFs** are actively minded, rules-based ETFs that allocate based on the stated rules of a customized index. This index reflects an active manager's specific insights and expertise memorialized in rules that the index provider carries forward.
- **Semitransparent ETFs** allow portfolio managers to use fundamental inputs to manage the portfolio, giving managers more flexibility to alter and adjust the portfolio over the course of an investment cycle.

American Century Investments has filed exemptive orders with the SEC for two active ETFs that will follow the Precidian Active Shares structure:

- American Century Focused Large Cap Value ETF, seeking long-term capital growth.
- American Century Focused Dynamic Growth ETF, seeking long-term capital growth.

MANAGING MONEY, MAKING AN IMPACT

American Century Investments® is a leading asset manager focused on delivering investment results and building long-term client relationships while supporting research that can improve human health and save lives. It's how we and our clients together Prosper With Purpose.®

Every day people are increasingly focused on investing to make the world a better place for themselves, their families, their organizations and the world at large. It is possible to live a more meaningful and impactful life and give back something that's more valuable than money.

When you invest with us, you can also invest in the future of others and have the potential to impact the lives of millions. That's possible because of the distinct relationship with the Stowers Institute for Medical Research, which owns more than 40% of American Century. Our dividend payments provide ongoing financial support for the Institute's work of uncovering the causes, treatments and prevention of life-threatening diseases, like cancer.

Together we can become a powerful force for good.

American Century Investments has filed for exemptive relief for actively managed, semi-transparent exchange-traded funds (ETFs) that will utilize Precidian Investments' ActiveShares® methodology.

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You should consider the fund's investment objectives, risks, and charges and expenses carefully before you invest. When available, the fund's prospectus or summary prospectus, which can be obtained at americancentury.com, contains this and other information about the fund, and should be read carefully before investing.

Intelligent beta emphasizes the use of alternative index construction rules to traditional market capitalization based indexes. Intelligent beta emphasizes capturing fundamental investment factors or market inefficiencies in a rules-based and transparent way.

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