

HDGE /NYSE Arca

Investment Objective and Philosophy

The AdvisorShares Ranger Equity Bear ETF (NYSE Arca: HDGE) is the first ETF to take a managed approach to identifying securities to short. The HDGE Portfolio Management Team seeks to identify securities with low earnings quality or aggressive accounting; these factors often intended to mask operational deterioration and bolster reported earnings in the short term.

- This investment philosophy differs from other short sellers, who usually focus on fad products and broken business models; and is premised on the thesis that active short managers who seek to identify and quantify aggressive accounting can achieve positive returns by uncovering companies with deteriorating fundamentals.

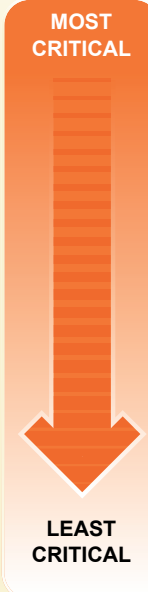
Income Statement Hierarchy

The team ranks a company's warning signs in direct proportion to where they reside on the income statement. The higher up the warning sign, the greater the concern for the company.

Revenue: This is the highest concern because if the revenue was fictitious, then the entire financial model for the company would be completely false.

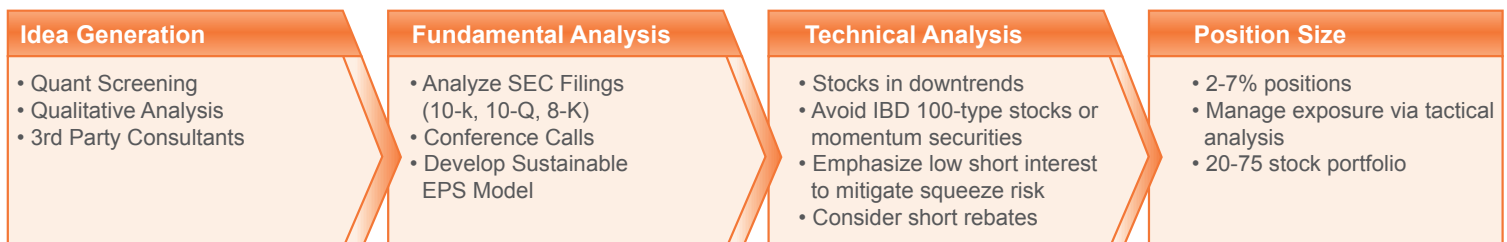
COGS/Gross Margin/Operating profits: The team looks for unsustainable sources of margin expansion. For examples, analysts will often cheer a company that creates a reserve in one quarter and then reverses it the next because writing off inventory in one quarter and then selling it in another quarter will create a 100% gross margin profit boost. However, just because margins go up, it is not necessarily a good thing.

Ratio Adjustments: A company's adjustment to P/E, P/CF, and/or P/S can often reflect poor accounting issues.

Income Statement		MOST CRITICAL
Line Item	Concern	
Revenue	Aggressive Revenue Recognition	
Cost of Goods Sold	Inventory Issues	
Gross Margin	Inventory & Reserve Concerns	
Sales & Marketing	Reserve Concerns	
R & D		
General & Admin		
Restructuring & Other	Serial Charges	
Operating Expenses		
Operating Income		
Income before Taxes		
Provision for Taxes	Tax Issues	
Net Profit		
Share Count		LEAST CRITICAL

Investment Process

The HDGE Portfolio Management Team utilizes accounting metrics across the income statement, cash flow statement and balance sheet to identify companies that may be masking operational deterioration in their business.



HDGE Portfolio Construction Summary

Once it is determined that a company possesses the proper characteristics, the HDGE Portfolio Management Team will consider the following factors when constructing the optimal portfolio for its clients:

THE HDGE SHORT PORTFOLIO

Valuation/Catalyst

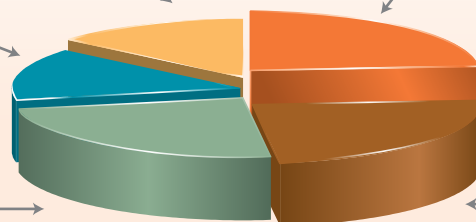
Used to determine appropriate time to include a position in the portfolio

Technical Factors

Used in conjunction with fundamental catalysts to help determine the entry point

Risk Management

- Proprietary tools to protect performance
- Monitor position size
- Short interest



Opportunity Set

Each position must stand on its own merits

Assessment of potential position relative to existing positions and others under consideration

Market Analysis

Used to identify short and intermediate term market trends, manage exposure and mitigate risk

The HDGE portfolio construction has a two pronged approach to short selling:

1. **“Core” fundamental positions** are established based primarily on earnings quality analysis. The “core” portion of the portfolio consists of 6–8 positions that have been vetted through the HDGE Portfolio Management Teams’ forensic accounting based research process.
2. **“Tactical” trading positions** are utilized to add exposure in bull or bear markets, which assist the portfolio in circumnavigating volatility.

The combination of both core fundamental positions and tactical trading positions seeks smoother performance and more consistent alpha. As market conditions change, tactical trading opportunities are selected with the objective of limiting the core fundamental position’s exposure to dramatic movements in the equity curve.

Before investing you should carefully consider the Fund’s investment objectives, risks, charges and expenses. This and other information is in the prospectus, a copy of which may be obtained by visiting the Fund’s website at www.AdvisorShares.com. Please read the prospectus carefully before you invest. Foreside Fund Services, LLC, distributor.

There is no guarantee that the Fund will achieve its investment objective. An investment in the Fund is subject to risk, including the possible loss of principal amount invested. Other Fund risks include market risk, equity risk, short sales and leverage risk, large cap risk, early closing risk, liquidity risk and trading risk. Short sales involve leverage because the Fund borrows securities and then sells them, effectively leveraging its assets. The use of leverage may magnify gains or losses for the Fund.

COGS (Cost of Good Sold) are the direct costs attributable to the production of the goods sold by a company. **P/E** (Price to Earnings ratio) is a valuation ratio of a company’s current share price compared to its per-share earnings. **P/CF** (Price to Cash Flow ratio) is a measure of the market’s expectations of a firm’s future financial health. **P/S** (Price to Sales ratio) is a ratio for valuing a stock relative to its own past performance, other companies or the market itself. **EPS** (Earning per Share) is the portion of a company’s profit allocated to each outstanding share of common stock. **IBD 100** – Investor’s Business Daily lists 100 stocks by using a proprietary system that screens for characteristics that have historically defined winning stocks. These characteristics include recent earnings and sales growth, the Composite Rating and relative price performance. **Alpha** is a measure of performance on a risk-adjusted basis.