RANGER

ADVISORSHARES
Actively Managed ETFs

# HDGE/NYSE Arca

## Manager's Review
May 2018

*The following commentary provides a monthly review of the ETF's performance and investment approach as well as other timely insights and observations from the portfolio manager.*

For the month of May, the AdvisorShares Ranger Equity Bear ETF (NYSE Arca: HDGE) returned -2.98% while the S&P 500 returned 2.41%.

"Sell in May and go away" is a long-lived Wall Street saying. But it there any truth to the idea? The following chart shows returns to investors who held stocks only during October through May. It shows a dramatically higher return than those who held only during the May through October period, looking back to 1950.


*Exhibit 1: © Copyright 2018, SENTIMENTTRADER. Further distribution prohibited without prior permission. All Rights Reserved.*

This return disparity favoring the winter months tends to be more dramatic if the return through April had been negative. When the S&P showed a positive return through April, it rallied 74% of the subsequent periods (through October), gaining 4% on average. When the S&P was negative through April, the market lost 2.9% on average in the subsequent months.

The odds favoring positive returns were such that when the S&P returns through April were positive, the S&P rallied more than 10% on seven occasions, and lost more than 10% only once. When the YTD April returns were negative, it went on to lose at least 10% on seven different occasions but gained at least 10% only three times. Given that the S&P lost some ground through April, we believe the odds favor a repeat of the negative side of the seasonal trend and that the S&P should fall.

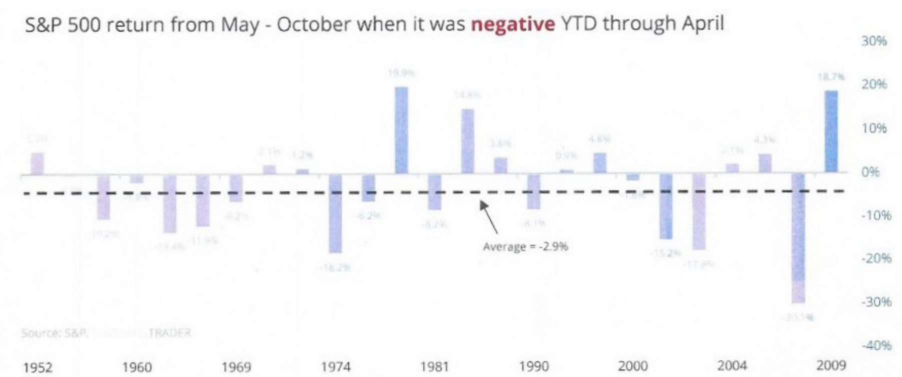


*Exhibit 1: This was not good. The S&P rallied during the worst six months 44% of the time and showed an average return of -2.9%. It rallied more than +10% during 3 of the years but lost more than -10% during 7 years.*

### HDGE Performance History (%) as of 03.31.2018

| | NAV | Market Price Return |
|---|---|---|
| 1 Month | 1.40 | 1.23 |
| 3 Month | 5.00 | 5.23 |
| YTD | 5.00 | 5.23 |
| 1 Year | -6.11 | -6.25 |
| 3 Years | -9.33 | -9.39 |
| 5 Years | -14.30 | -14.34 |
| Since Inception (01.26.2011, Annualized) | -14.30 | -14.32 |

***Performance data quoted represents past performance and is no guarantee of future results.** Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. Returns less than one year are not annualized. For the fund's most recent month end performance please visit www.advisorshares.com.*

***As stated in the Prospectus, the total annual operating expenses are 2.86%** (includes 0.19% acquired fund fees).*

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While the past is no guarantee of the future, we feel this seasonal tendency has power and leads us to expect a weak market going forward.

In addition, trends related to business and stock characteristics indicate rampant speculation is afoot in the market. The most recent month shows that aggressive industries outgained defensive industries by 500bps in May (shown below.) Additionally, returns to money-losing companies are running ahead of returns of profitable companies, also indicative of speculation. The chart below, from Two Rivers Analytics, shows this clearly. Aggressive industries are those in Technology, Energy, Health Tech, Industrial Services and Mining. Defensives include Staples, Health Services and Utilities.

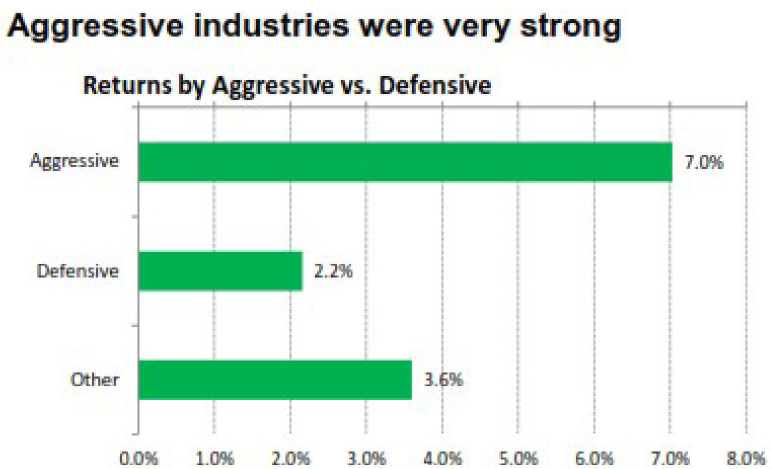


*Exhibit 3: Stocks were grouped and ranked by the relevant factor as of the end of the prior month and the returns computed for the month just ended. Stocks chosen were based on Two Rivers Analytics' universe of stocks. © Copyright 2018. All Rights Reserved Two Rivers Analytics. Further Distribution Prohibited without prior permission.*

The returns to high momentum stocks are excessively high in our view, and for the same reason. Investors are chasing stocks and ignoring fundamentals. The following chart courtesy of Two Rivers Analytics defines momentum stocks as those that have risen the most, in percentage terms, over the past year, ignoring the most recent month.

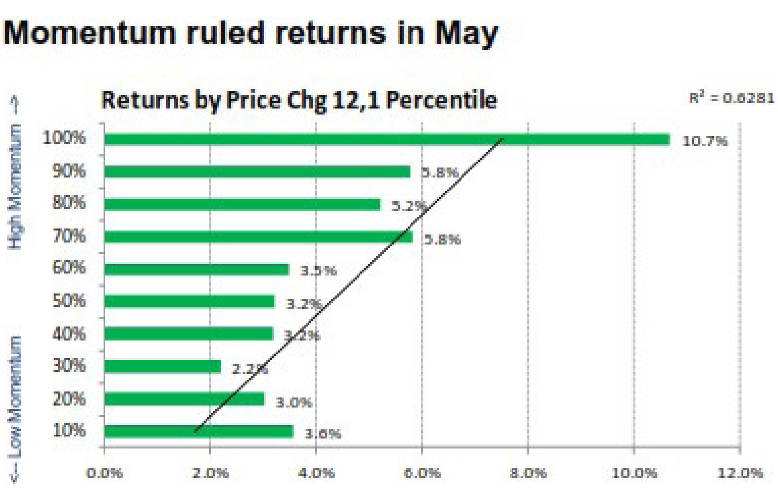


*Exhibit 4: Stocks were grouped and ranked by the relevant factor as of the end of the prior month and the returns computed for the month just ended. Stocks chosen were based on Two Rivers Analytics' universe of stocks. © Copyright 2018. All Rights Reserved Two Rivers Analytics. Further Distribution Prohibited without prior permission.*

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For the month of May 2018, the largest realized and unrealized gains were HCS Group (HCSG), Cooper Tire (CTB) and Snapchat (SNAP). HCS Group is a healthcare service provider that was substantially under-reserved for bad debt expenses at the time we shorted the stock. In the most recent company report, our concerns were realized. Substantial bad debt expenses hit earnings hard, causing investors to sell the stock. We have covered this position for a profit. Cooper Tire suffers from very low quality of earnings. Increased receivables and a reversal of reserves call into question the company's sustainability of earnings. Revenues recently fell well short of expectation. At this point we took the opportunity to take a profit and cover the stock. Snapchat's business model is highly questionable, in our view. The company has an inconsistent financial performance record in addition to an inability to become cash flow positive. This is a dangerous situation for a stock trading at over 20x sales. The stock plummeted on earnings, at which point we covered it.

The largest realized and unrealized losses for May 2018 were Ubiquiti Networks, Inc. (UBNT), Steve Madden Shoes (SHOO) and Align Technologies (ALGN). Ubiquiti Networks develops networking products. The stock was up last month; however, their margins continue to contract and are well below expectations. Additionally, their DSO's have been on the upswing year-over-year for four consecutive periods. We maintain our short position in this stock. We shorted Steve Madden Shoes due to concerns over inventory levels and the impact high inventories have on profit margins and demand. However, a recent earnings report failed to support our concerns and we have exited the position. Align Technologies produces a tooth straightening system. At fifteen times sales, the stock is riding very high and we have concerns about its ability to maintain its growth rate. We maintain our short position in this stock.

Respectfully,

Brad Lamensdorf

*[1] Smaller cap stock vs large caps, cyclicals vs non-cyclicals, low stock price vs high, high debt to EBITDA vs low, unprofitable companies vs profitably ones, high momentum vs low momentum, low ROIC stocks vs high, high days to cover vs low and aggressive industries vs defensives.*

*[2] The indexed performance of each of our risk factors, relative to the equally-weighted return, is measured against its 18 month range. The percentile that a given month represents within its historical range is averaged with the same figure for the other factors. Finally, the average is deemed to be high or low based on history.*

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Top 10 Holdings as of 05.31.2018

| Symbol | Name | Weight |
|---|---|---|
| SNA | SNAP-ON INC | -5.08% |
| K | KELLOGG CO | -4.42% |
| OSIS | OSI SYSTEMS INC | -3.41% |
| AJRD | AEROJET ROCKETDYNE HOLDINGS | -3.28% |
| GCP | GCP APPLIED TECHNOLOGIES | -3.26% |
| OMCL | OMNICELL INC | -3.20% |
| WST | WEST PHARMACEUTICAL SERVICES | -3.19% |
| ELLI | ELLIE MAE INC | -3.15% |
| SPG | SIMON PROPERTY GROUP INC | -3.08% |
| SKT | TANGER FACTORY OUTLET CENTER | -2.95% |

*Holdings are subject to change.*

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**Definitions:**

The **S&P 500 Index** is a free-float capitalization-weighted index based on the common stock prices of 500 American companies. It is one of the most commonly followed equity indices and many consider it the best representation of the market and a bellwether for the U.S. economy.
A **Bear Market (Bearish)** is a market condition in which the prices of securities are falling, and widespread pessimism causes the negative sentiment to be self-sustaining. As investors anticipate losses in a bear market and selling continues, pessimism only grows. Although figures can vary, for many, a downturn of 20% or more in multiple broad market indexes, such as the Dow Jones Industrial Average (DJIA) or Standard & Poor's 500 Index (S&P 500), over at least a two-month period, is considered an entry into a bear market.
**A Bull Market (Bullish)** is a financial market of a group of securities in which prices are rising or are expected to rise. The term "bull market" is most often used to refer to the stock market, but can be applied to anything that is traded, such as bonds, currencies and commodities.
A **short position** is the sale of a borrowed investment with the expectation that it will decline in value.