PACIFIC ASSET MANAGEMENT

ADVISORSHARES™ Actively Managed ETFs

**FLRT** /NYSE Arca

# Pacific Asset Enhanced Floating Rate ETF

## The FLRT Investment Philosophy/Process

The AdvisorShares Pacific Asset Enhanced Floating Rate ETF (NYSE Arca: FLRT) seeks to provide a high level of current income. FLRT is managed by Pacific Asset Management (“Portfolio Manager”). The Portfolio Manager seeks to achieve FLRT’s investment objective by selecting a focused portfolio comprised primarily of income producing floating rate loans and floating rate debt securities of non-investment grade companies.

### Investment Philosophy

The Portfolio Manager’s Investment Philosophy is anchored by a broad top-down market assessment:

**Top-Down Market Assessment**

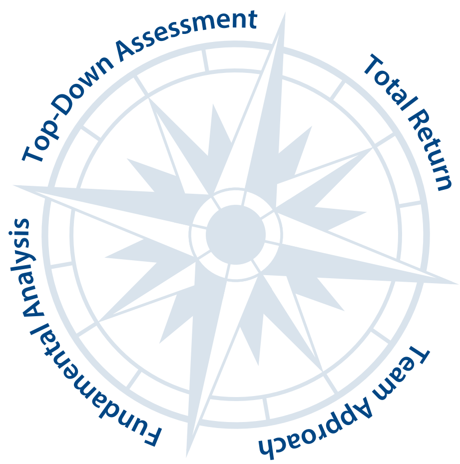
The Portfolio Manager employs a top-down market assessment to provide a framework for their bottom-up analysis.

**Fundamental Analysis**

Fundamental credit analysis is the cornerstone of the Portfolio Manager's investment process.

**Capital Preservation**

The Portfolio Manager focuses on companies that they believe will meet their debt obligations, in an effort to mitigate downside risk and preserve investor capital.




**Team Approach**

The Portfolio Manager employs a robust process, where all members of the investment team review, challenge and share investment ideas.

**Selective Construction**

Building portfolios utilizing selective construction allows the Portfolio Manager to articulate their views on a security.

### Investment Process

The Portfolio Manager then narrows the process when selecting securities for the FLRT portfolio:

| | |
|---|---|
| **Market Assessment** | The Portfolio Manager assesses the economic climate to identify potential headwinds and tailwinds. This assessment is used to provide a framework for FLRT's investable universe and a framework to determine portfolio leverage positioning. |
| **Leverage Target** | The Portfolio Manager assesses the economic climate and outlook to form a broad determination of an overall target of portfolio risk and leverage target to employ in FLRT for the near term. |
| **Screen** | The Portfolio Manager utilizes a team approach with close communication between Portfolio Management and Research to promote idea generation. |
| **Investment Decision** | The bottom-up approach comes into play during FLRT’s portfolio construction. The Portfolio Manager performs fundamental credit analysis to construct a portfolio with what they believe have the most favorable risk/reward characteristics. |
| **Monitor** | The Portfolio Manager consistently monitors the FLRT portfolio and utilizes performance attribution analysis as a quantitative check on the results of their decision making process. |

## Loan Selection Process

This culminates in the loan selection process employed by the Portfolio Manager to construct the FLRT portfolio:

**BANK LOAN UNIVERSE (1,000) ISSUERS)**

| Screen | Fundamental Analysis | | | Investment Decision | |
|---|---|---|---|---|---|
| **Loan Issuers with $1B or Greater in Facility Size** | **Credit Analysis** | **Loan Structure** | **Capital Structure** | **Loan Economics** | **Catalyst** |
| Less than 200 issuers | Leverage | Guarantor group | Enterprise value | Price | Fundamentals |
| Liquidity determination | Free cash flow | Collateral | 1st lien coverage | Coupon | Amend/extend potential |
| Usually the largest loan in the Credit Suisse Institutional Loan Index | Competitive position | Financial covenants | Junior bonds | Yield | Capital markets take-out |
| | Industry dynamics | | Equity | Relative value | |
| | Management | | | | |

**FLRT PORTFOLIO 60-100 LOANS**

The result of this investment philosophy and loan selection process is a dedicated floating rate portfolio focused on yield with an emphasis on the larger, rated issuers within the loan universe, which the Portfolio Manager believes provides a margin of safety and downside risk protection relative to the smaller, non-rated companies.

**Downside risk** is the likelihood that a security will decline in price, or the amount of loss that could result from that potential decline. **Liquidity** is the degree to which an asset or security can be bought or sold in the market without affecting the asset's price. **Leverage** is the amount of debt used to finance a firm's assets. A **coupon** is the interest rate stated on a bond when it's issued. **Take-outs** occur when a company decides to take out/refinance the bonds according to a scheduled price. The **Credit Suisse Institutional Loan Index** is a subindex of the Credit Suisse Leveraged Loan Index which contains only institutional loan facilities priced above 90, excluding TL and TLa facilities and loans rated CC, C or in default. It is designed to more closely reflect the investment criteria of institutional investors. In pursuing its investment objective, the Fund seeks to outperform the Credit Suisse Institutional Loan Index. One cannot invest directly in an index.



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