

# Reverb (RVRB) Shareholder Letter No. 1

*Fund Advisor:* Distribution Cognizant, LLC\*

7/1/23

Dear Shareholders,

The Reverb Exchange Traded Fund (ticker: RVRB) listed on the CBOE BATS exchange on November 4th, 2022. Against a backdrop of great macroeconomic uncertainty, we have pursued the unique mission of our actively traded, long-only, algorithmically-driven, diversified US equity fund: to *link average public preferences to capital allocations*. This is our first investor letter, so please forgive the length. In summary: from inception to June 30th, 2023, our fund has cumulatively gained 20.85%<sup>1</sup> at market price and 20.71%<sup>2</sup> at NAV, compared to 21.05% over the same period for our benchmark S&P 500 index. We have achieved these returns while taking on very little “active risk.”<sup>3</sup> Moreover, we have set in motion, along with our Reverberate mobile app for surveying sentiment towards individual firms (*rev.vote*), a mechanism which supports our beliefs that the average person is decent and forthright, that the well-being of the average person is worth investing in (and can be measured and made investable in a generally coherent and unbiased way), and that our economy rewards shareholders of companies that serve both their customers *and* greater society at large.

## **Investing to obtain certain “states of the world”**

The premise of our strategy is that investments can deliver utility not just through dollar returns; we all are individuals with specific desires and wishes, whose lives are brightened by real moments, experiences and interactions with the world around us and the people in it. Quite rationally, these are the positive outcomes we seek for ourselves and our loved ones, and they are the things we invest ourselves and our resources towards.

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\*Please address comments or questions to [rurb@disco.llc](mailto:rurb@disco.llc); visit [reverb-etf.com](http://reverb-etf.com) for full prospectus.

<sup>1</sup>Figures in this letter account for all fees and assume dividend reinvestment.

<sup>2</sup>*Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of future results. Total return and value will vary and you may have a gain or loss when shares are sold. Current performance may be lower or higher than quoted. For most recent month-end performance visit [reverb-etf.com](http://reverb-etf.com).*

<sup>3</sup>Exposure to significant deviations in performance from the benchmark.

At a personal level, the examples are many - vacation savings, a laptop for a curious niece or nephew; even a charitable donation is an investment in a better world, where the investor may reap increased joy and satisfaction. At the level of public markets, this concept has emerged several times under guises and acronyms such as “socially responsible investing” (SRI) and “environmental, social and governance” factor-based investing (ESG). The investment advisors pitching these sorts of funds generally promise that their strategies might yield not only a better future, but excess risk-adjusted monetary returns.

However, these funds have found themselves in a quandary of their own making; the objectives they hold do not necessarily align with profitability, and they do not even necessarily align with *general* well-being. Public markets serve to allocate society’s economic resources according to forces of supply and demand, in a disambiguated but effective way which cannot be replicated by central planning. Arbitrage<sup>4</sup> aligns these forces so that companies can put food on our plates and toys under the Christmas tree, and in this sense market prices are “correct” indicators of economic value. Large-scale attempts to replace one resource with another, or to bet accordingly on a massive price change in a liquid market, are risky endeavors. Moreover, in the case of typical ESG and SRI funds, the auxiliary investment objectives essentially spring from the wishes or beliefs of a small set of people, presenting a basic misalignment with the forces of markets, which are inherently open and democratizing by the same simple principles of arbitrage as they apply to any unaddressed customers.

At this point the conversation must turn briefly to wealth distribution, for if these same small sets of people created, controlled and consumed all wealth, then this contradiction between monetary and non-monetary investment objectives wouldn’t exist. But it is our belief that a small set of people does *not* (and should not) create or consume all wealth, or even most wealth. And therein lies what we see as the Reverb ETF’s arbitrage opportunity.

**“Vote early, and vote often.”**

Large companies play enormous roles in our lives, as they seek to corner supply, drive demand, and maximize shareholder value. They affect us not only through the products or services they make available or the innovations they create, but by their corporate policies and the government regulations they support and advance. In turn, we affect them through our consumption decisions (although these can be distorted and constrained by the very regulations the companies themselves promote) and the subsequent impact on profit streams. We also may try to affect companies through political means, although, again, large companies themselves seem to have the upper hand these days when it comes to influencing politicians.

Importantly, we can impact companies through our investment decisions, although this is fraught with difficulty for individual investors who do not single-handedly control very large amounts of money; case-by-case decisions can lead to concentrated portfolio risks and substantial oversight burdens. Moreover, there is much collective investment power untapped by this uncoordinated approach, as the average investor’s individual impact on prices is diminimus.

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<sup>4</sup>Trading based on perceived differences in values.

Our solution is simple: let people rate firms that affect their lives, and change their ratings if the impact that a company has on their life changes. Collect these ratings, compute simple averages, and invest on the basis of changes in these average ratings over time.<sup>5</sup>

We assume that general sentiment is priced with approximate accuracy by the market.<sup>6</sup> But if we can systematically and widely monitor these sentiment levels for *changes* across windows of time, we believe we may do our investors a favor in the process, as sentiment changes seem likely to forecast changes in sales and brand loyalty. And if our fund becomes large, our investment philosophy and its subsequent price impact<sup>7</sup> also could incentivize corporate management to be more conscientious of the well-being of the average person.<sup>8</sup>

This is why we created the Reverberate app. It is free, anonymous, and easy to use; users need only sign in once with a Google ID or an Apple ID (we believe this provides us with a reasonable and efficient barrier to fraudulent actors and a decent approximation to “one person, one vote”). Inside our app, people can search for and rate major publicly traded corporations: over 2.5 stars if a given company is making their lives better, under 2.5 stars if it is making their lives worse. No bias, no prejudice against one basis for feelings about a company versus another - *we let the average Reverberate user decide what is important to them.*

Reverberate users enjoy the satisfaction of knowing that their preferences are being fairly counted and used to determine capital allocations which might potentially improve their world. They can even opt to explain their reasonings; we currently are developing a language model to synthesize comments into actionable messages that can serve to guide corporations as to what they are doing right or wrong by the average person. Users can vote as often as they want; we use simple rules to control for variance and distill votes down to one vote per-person, per-company, per-window of time, as well as a simple method for computing changes in average votes between windows of time and converting those changes into trading signals.

Reverb investors enjoy a unique source of alpha and, hopefully, a healthier economy.

### **By the numbers**

At this time we have over 10,000 distinct users who have rated companies on Reverberate, and they have provided over 175,000 ratings. Generally they have rated the largest companies - we do not compel users to rate any particular firms, but we do present firms by size. This has been an intentional choice as we try to concentrate user ratings into firms such that we can generate a trading signal; we currently require that a firm has been rated at least 1,000 times before we take a position on the basis of Reverberate. We hope to have not 10,000, but

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<sup>5</sup>We currently compute average ratings over the previous 140 days and compare them to ratings from the most recent 14 days, but there is no “correct” way to do this, just “sensible” ways that can resonate with people.

<sup>6</sup>Maybe, for example, the average dissatisfaction with cellular carriers is a baked-in consequence of federal control over wireless spectra and some resultant lack of competition, and doesn’t predict profits.

<sup>7</sup>Buy companies doing “right” to increase price/value, sell companies doing “worse” to decrease price/value.

<sup>8</sup>We think average well-being is a timeless objective that honors ideas like “All people are equal in the eyes of God,” the Golden Rule (“treat others as you would treat yourself”), Rawl’s “Veil of Ignorance,” etc.

10 million users or more. Although performance has been good at current sample sizes, we strongly believe that our fund will be better off with greater app participation.

In terms of specific holdings, our performance was at least partially driven by an active overweight in Apple,<sup>9</sup> whose ratings on Reverberate continued to climb throughout several portfolio rebalances. We reversed from an active underweight to overweight Microsoft<sup>10</sup> from January and March, and the opposite for Alphabet.<sup>11</sup> Later overweights in Amazon, Tesla, and Meta<sup>12</sup> also proved helpful to performance. Most other names in our diversified portfolio were held very closely to market capitalization weights.

While there is much commentary these days about investment products suffering for offering low “active share”<sup>13</sup> (given the ability to capture market “beta”<sup>14</sup> through very, very low-fee index funds), our thinking is: we want a product that is reasonable and simple to own for a wide range of investors. Furthermore, we believe that the market is fairly efficient and that prices contain *most* relevant information. Therefore it is very intuitive, to us, to start with something like the “market portfolio”<sup>15</sup> and overlay our information in a measured way that results in fairly modest active share. Instead of increasing active share for the sake of increasing active share, we intend to ratchet it up as our app user base increases.

## Looking ahead

A lot of people ask, “since this so obvious, why isn’t someone doing it already?” I think the simple answer is, a big shop would prefer to ride a wave (like ESG) rather than risking something novel and untested - and they may not be able to credibly market an app like Reverberate. As for smaller advisors, the barriers to entry into the publicly-traded realm can be daunting.

We decided to start this business anyways, and to look at our relative outsider status<sup>16</sup> and firm novelty as assets allowing us to promote our mission very directly from day one. And the fund had to be an ETF (publicly listed/widely available, and with intraday liquidity) to try to maximize the overlap of Reverberate users and Reverb shareholders and their interests. We ourselves are committed to generating revenues only through ETF management fees; we will never sell our data, spin off a consulting business, merge with an investment bank, etc. We just want to transparently and humbly pursue the mission stated in the first paragraph.

Our team is looking forward to what the second half of the year holds in store. Launching and running Reverb and Reverberate has been a greatly rewarding experience and we enjoy the challenge every day. We are comfortable with the risks inherent to a small business and

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<sup>9</sup>7.42% of net Reverb assets as of 6/30/2023.

<sup>10</sup>6.56% of net Reverb assets as of 6/30/2023.

<sup>11</sup>3.59% of net Reverb assets as of 6/30/2023.

<sup>12</sup>3.2%, 1.97% and 1.73% of net Reverb assets, respectively, as of 6/30/2023.

<sup>13</sup>“Active share” is a reference to the deviation of the holdings of a fund from those of the benchmark index.

<sup>14</sup>“Beta” is a reference to the correlation of the returns of a stock (or any asset, such as a fund like Reverb) to the returns of the “overall” market, usually proxied by the S&P 500 Index.

<sup>15</sup>Approximated here by the capitalization weights of the largest 450-550 firms trading publicly in the US.

<sup>16</sup>We have some deep industry experience on our [team](#) in spite of our small size.

think it is only right that we face risks as we ask our shareholders to face risks. Please do not hesitate with questions; we are truly honored by your trust and will work diligently to continue to earn it.

Thanks and Kind Regards,



Patrick Neal, *CFA, PhD*

*Chief Investment Officer, Reverb*

*Managing Partner, Distribution Cognizant*

### ***Fund Performance and Expense Ratio***

*As of June 30th, 2023, the Reverb ETF has cumulatively gained 20.85% net of fees at market prices and 20.71% at NAV since inception (11/4/2023), compared to 19.64% over the same period for our benchmark S&P 500 index. These figures include hypothetical dividend reinvestment. Performance data represents past performance and is no guarantee of, and not necessarily indicative of future results. Total return and value will vary and you may have a gain or loss when shares are sold. Current performance may be lower or higher than quoted.*

*The Reverb ETF charges a total annual expense ratio of 0.30% of fund assets, deducted incrementally from fund assets over the course of the year.*

### ***Important Information***

**The Fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company and can found at [reverb-etf.com](https://reverb-etf.com). Please read carefully before investing.**

*Investing involves risk including possible loss of principal. The investment strategies, practices and risk analysis used by the Adviser may not produce the desired results. Other risks exist, including New Adviser Risk, Management Risk, Consumer Sentiment Risk, Research Risk, General Market Risk, Equity Securities Risk, High Portfolio Turnover Risk, general ETF*

*Risks, New Fund Risk, and Sector Emphasis Risk, among others. Please see the detailed prospectus here for more details.*

*The Reverberate App is a new web-based utility and currently has limited users. The ability of the App to properly and accurately gauge public sentiment is highly dependent on its ability to attain a high level of regular usage among a broad market segment of the population. If the Adviser (Distribution Cognizant, LLC) is unable to take material active positions due to lack of sufficient data or otherwise, the Fund will likely experience performance similar to the broad large capitalization market in general. In that event, the information provided by the App may not properly reflect sentiment regarding a company, leading the Adviser to take active positions in a company that are inconsistent with broad market sentiment. The investment strategy of relying entirely on general public sentiment as expressed on a web-based user app in order to take active positions is novel. The strategy may not work and this may have a significant negative impact on the value of your investment.*

*The Adviser's strategy is to base its investment decisions on the expressions of sentiment as identified in the Reverberate App. As a result, the Fund is subject to the risks, which may be substantial, that negative developments effecting a held company, the economy, or markets in general, may not be apparent to the users of the Reverberate App. Information received from the App may be inaccurate, incomplete, misleading, duplicative or outdated, making the information ineffective for accurately gauging current sentiment. There is a possibility that users have an undisclosed agenda and attempt to manipulate a company's stock price. These potential developments could have a negative impact on the fund's portfolio.*

*Shares are bought and sold at market price, not net asset value (NAV). Market returns are based upon the midpoint of the bid/ask spread at 4:00 p.m. Eastern time. NAV represents the value of each share's portion of the fund's underlying assets and cash at the end of the trading day. Your returns may differ if you traded shares at other times.*

*Distributor: Quasar Distributors, LLC.*