

# Direxion Moonshot Innovators ETF (MOON)

## Invest in the Innovators, Disruptors and Inventors

The idea of a moonshot became associated with making the impossible possible when President John Fitzgerald Kennedy delivered his plans to put a man on the moon in a 1962 speech at Rice University. This speech is now recognized as one of the most influential ever and changed the course of history.

**“We choose to go to the moon. We choose to go to the moon in this decade and do the other things, not because they are easy, but because they are hard, because that goal will serve to organize and measure the best of our energies and skills, because that challenge is one that we are willing to accept, one we are unwilling to postpone, and one which we intend to win.”** - President John Fitzgerald Kennedy

### FUND FACTS

Symbol	MOON
CUSIP	25460G732
Expense Ratio* (Gross/Net)	0.65%/0.65%
Inception Date	11/12/2020
Rebalance	Semi-annually
Benchmark Index	S&P Kensho Moonshots Index

In a technological context, moonshots are projects undertaken with the potential for far-reaching, significant, and disruptive impact, but with the expectation the potential for profitability may not come in the near-term. Technologies that may seem like they are decades away from being viable, could come to fruition much quicker than in the past, as transformation is happening faster than ever. In order to have disruptive success, a technology needs to be economical, have potential for mass adoption, and favorable regulatory support. Simply put, imagine investing in smartphones in 2007. While they existed before, the iPhone was a game changer immediately.

**“The day before something is a breakthrough, it’s a crazy idea.”** - Peter Diamandis

In today’s dynamic economy, moonshots exist well beyond the technology sector, driven by the common theme of innovation. A combination of factors, such as resources spent on research and development, along with corporate cultures focused on breaking new ground, support the path towards creating the future in their respective sectors and industries.

## Facts & Stats

### Technological Innovations:

- Ray Kurzweil, a futurologist, expects AI to reach human levels of intelligence by 2029, as defined by the Turing test.<sup>1</sup>
- 38% of the world’s population is still not connected to the internet.<sup>2</sup>
- There will be over 200 billion connectable devices by 2025.<sup>3</sup>

### Market Dynamics:

- 4% of companies created 100% of net wealth over the last 90 years on US stock market.<sup>4</sup>
- Due to incumbent companies being disrupted, the average seven-year rolling lifespan of an S&P 500 company has decreased from 61 years in 1958 to 30 years in the 1980s to 24 years in 2016. At the same pace, the average will be 12 years in 2027.<sup>5</sup>

The S&P Kensho Moonshots Index eligible universe begins with all common equity securities, including depository receipts listed in the U.S. on the NYSE, Nasdaq, or Cboe exchanges, subject to size and liquidity constraints.

It then seeks to capture the 50 most innovative US companies at the forefront of changing our lives today, and tomorrow, by identifying the companies both pursuing innovation, and having the potential to disrupt existing technologies and/or industries. These 50 companies selected for inclusion are deemed to have the highest “early-stage composite innovation scores” and they span themes and emerging sectors such as smart transportation, clean power, and the human evolution.

The early stage composite score is based on a company's "allocation to innovation" and "innovation sentiment" score.

- **Allocation to Innovation Score:** ranking based on the ratio of its research and development expenses to revenue, as compared to other companies in the same industry.
- **Innovation Sentiment Score:** conduct a review of a company's regulatory filings for the previous 12 months for the use of words related to innovation. The Index includes companies utilizing a greater than average variety of innovation terms.

The Index is equal-weighted, with an annual reconstitution and semi-annual rebalancing. The weighting methodology takes into consideration the liquidity of constituents, with individual weights modified by their tradability.

Within the broader moonshot themes, sit subsectors and technologies that are poised to solve some of the world's most difficult, and interesting, problems. From the final frontiers of space and drones, to the future of communication and security, these radical pursuits are shaping the future, today.

## Thematic Sub-Sector Overview

Thematic Sub-Sector	Description	Index Weighting
Cyber Security	Companies with emerging cybersecurity and related activities as their principal business strategy.	16.70
Genetic Engineering	Companies focused on genetic engineering and biotechnology to alter the genes of living cells in animals, plants, and people.	15.00
Drones	Companies in the drone industry (and related activities) as a principal component of their business strategy.	13.30
Autonomous Vehicles	Companies on the forward edge of the autonomous transportation industry, either direct development or some other part of the ecosystem.	12.70
Cleantech	Companies leading the clean technology sector - solar, wind, hydro, geothermal.	10.20
Digital Communities	Companies enabling online, or digital, communities – fast becoming the dominant form of communication and information sharing.	6.60
Smart Grids	Companies producing the sophisticated technology and services that enable smart, connected, and adaptive infrastructure capable of managing our natural resources more effectively.	4.50
Robotics	Companies developing robots for a range of uses, or are part of the related ecosystem.	3.90
Enterprise Collaboration	Companies focused on framework collaboration platforms, allowing companies to integrate tools into a combined system and cloud communication platforms that enable businesses to add real-time communications features in their own applications/websites.	3.30
Space	Companies in the space industry, with goals of the commercialization and scientific exploration of the final frontier.	2.50
Distributed Ledger	Companies developing distributed ledger technology, such as the block chain, - the fast-evolving approach to recording and sharing data across multiple data stores (or ledgers), across a distributed network of participants.	2.40
Software & Services	Leading Companies in application software, data processing and outsourced services, interactive home entertainment, IT consulting & other services, and systems software.	2.30
Smart Buildings	Companies focused on making the spaces in which people reside, learn, and conduct business more livable, energy efficient, and cost effective.	1.80
Virtual Reality	Companies developing virtual reality technologies to simulate interactive experiences for users within artificial environments.	1.80
Clean Energy	Companies with clean energy activities, including renewable energy operations (solar, wind, hydro, geothermal), as a principal component of their business strategy.	1.20
Advanced Transport Systems	Companies focused on optimizing the efficiency of managing large fleets of vehicles, cargo transportation, and mass transit	1.10
Wearables	Companies involved in the development of wearable technologies, including smartwatches, fitness trackers, and wearable cameras.	0.70



## Thematic Sector

### Smart Transportation: Drones, Autonomous Vehicles and Advanced Transportation Systems

- Examples: LYFT, NIO, VNE and WKHS
- Average Market Cap: \$41.7B

**Moonshot Case:** The future of transportation is shared, electric and automated. The future will be about smarter, connected vehicles that will bring increased automation, driving functions and safety. This goes beyond more efficient, electric vehicles. The idea of “smart cities” and urban areas with hyper-connected transportation systems is growing, and first and last-mile transportation options continue to expand and gain adoption.

## Holding Spotlight

**NIO Inc. (NIO):** offers electronic vehicles and parts, along with battery charging services

- Market Cap: \$13.1B

**Moonshot Case:** While a new company, some expect NIO to be ‘Tesla of China’, even if it does not have Tesla’s cache. NIO’s vehicles have striking designs, high-tech features, favorable range, a network of battery-swap stations that can recharge vehicles in approximately three minutes, and a batteries-by-subscription service that lowers the initial cost of purchase.

## Top 10 Holdings as of 10/31/2020

Ticker	Name	Thematic Sub-Sector	Total Market Cap (\$ Millions)	Index Weight (%)
NIO	NIO Inc.	Autonomous Vehicles	\$41,655	8.72%
WKHS	Workhorse Group Inc.	Drones	\$1,915	6.48%
PLUG	Plug Power Inc	Clean Technology	\$5,624	5.35%
FATE	Fate Therapeutics Inc	Genetic Engineering	\$3,856	2.93%
VNE	Veoneer Inc.	Autonomous Vehicles	\$1,715	2.92%
BE	Bloom Energy Corp	Smart Grids	\$1,792	2.81%
MOBL	Mobile Iron Inc	Cyber Security	\$835	2.78%
VRNS	Varonis Systems Inc	Cyber Security	\$3,667	2.76%
CRWD	CrowdStrike Holdings, Inc.	Cyber Security	\$27,177	2.56%
SPCE	Virgin Galactic Holdings Inc	Space	\$4,377	2.43%

### References:

- [1] BofA Global Research (2019): “Eureka! Future Tech Primer”
- [2] Internet World Stats (2020)
- [3] BofA Global Research (2019): “Eureka! Future Tech Primer”
- [4] BofA Global Research (2019): “Eureka! Future Tech Primer”
- [5] BofA Global Research (2019): “Eureka! Future Tech Primer”

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\* The Fund's adviser, Rafferty Asset Management, LLC ("Rafferty") has entered into an Operating Services Agreement with the Fund. Under this Operating Services Agreement, Rafferty has contractually agreed to pay all expenses of the Fund as long as it is the advisor of the Fund other than the following: management fees, Rule 12b-1 distribution and/or service fees, taxes, swap financing and related costs, dividends or interest on short positions, other interest expenses, brokerage commissions, expenses incurred in connection with any merger or reorganization, acquired fund fees and expenses, and extraordinary expenses. If these expenses were included, the expense ratio would be higher.

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