

# ETF PORTFOLIO ALLOCATION DYNAMICS

*DELTASHARES®* MANAGED RISK ETFs

**DELTA**  
SHARES  
by TRANSAMERICA



# DMRL

DeltaShares® S&P 500  
Managed Risk ETF

# DMRM

DeltaShares® S&P 400  
Managed Risk ETF

# DMRS

DeltaShares® S&P 600  
Managed Risk ETF

# DMRI

DeltaShares® S&P International  
Managed Risk ETF

# DMRE

DeltaShares® S&P EM 100  
& Managed Risk ETF

**DeltaShares are rules-based portfolios designed to provide exposure to select segments of the global equity market, overlaid with a risk management process that aims to limit volatility and mitigate drawdowns.**

The ETFs seek to achieve this managed risk strategy by investing in a portfolio that dynamically allocates across three asset classes:

- 1**  
Equities, via a passive market cap weighted equity benchmark index from S&P Dow Jones Indices<sup>1</sup>
- 2**  
U.S. Government Bonds, via the S&P U.S. Treasury Bond Current 5-Year Index<sup>2</sup>
- 3**  
Cash Equivalents, via the S&P U.S. Treasury Bill 0-3 Month Index<sup>3</sup>

<sup>1</sup> The referenced S&P Dow Jones Equity Indices are unmanaged indices considered representative of the U.S. markets for large, mid, and small cap stocks and the market for stocks from international developed countries.

<sup>2</sup> The S&P U.S. Treasury Bond Current 5-Year Index measures the performance of the most recently issued 5-Year U.S. Treasury Bond.

<sup>3</sup> The S&P U.S. Treasury Bill 0-3 Month Index is designed to measure the performance of U.S. Treasury bills maturing in 0-3 months.



# MASTER CHANGE.

# MANAGE RISK.

---

A NEW APPROACH FOR AN UNCERTAIN MARKET.

---



The allocation decisions are rules-based, with each *DeltaShares*<sup>®</sup> ETF patterned on their respective S&P Managed Risk 2.0 Index.<sup>4</sup> The systematic risk management methodology underpinning the indices seeks to optimize the composition of the ETFs' asset classes based on market volatility trends and yield curve dynamics.

**Each Managed Risk 2.0 Index maintains a volatility target that is  $\leq 22\%$ .**

When the realized volatility<sup>5</sup> of the underlying equity component (i.e., broad equity S&P Index) is greater than the portfolio volatility target, the ETFs will allocate away from equities and into a reserve asset comprised of 5-Year U.S. Treasuries and/or cash. The mix between Treasuries and cash is determined by the term yield premium and volatility of the 5-Year U.S. Treasury Index.



Sample asset allocation only. Portfolio is subject to change on a daily basis

This rules-based approach to asset allocation seeks to prevent portfolio volatility from exceeding its volatility target.

**Q: Why bother managing for volatility?**

One of the defining characteristics of the managed risk approach is its focus on reducing a portfolio's participation in severe down markets. This is done by seeking to stabilize volatility, based on the principle that the biggest drawdowns tend to be associated with the highest levels of volatility.

<sup>4</sup> S&P Managed Risk 2.0 Index - Index Series composed of an underlying equity index, underlying fixed income index, and an underlying cash equivalent index. Each index is designed to simulate a dynamic portfolio that allocates among the underlying equity index, fixed income index, and cash equivalent index, based on the realized volatilities in the underlying equity and fixed income indices. For more on the S&P Managed Risk 2.0 Indices, see: <https://us.spindices.com/documents/methodologies/methodology-sp-managed-risk-2-index-series.pdf>

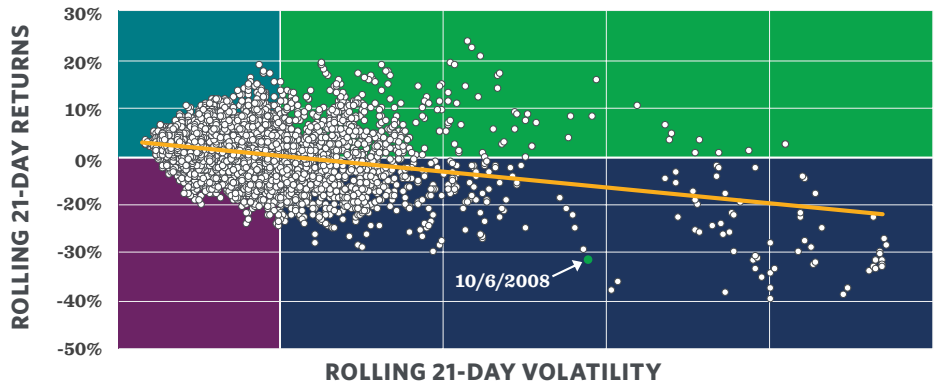
<sup>5</sup> Realized volatility is with respect to daily portfolio returns. It is a measure of how much a set of daily returns deviates from the average of the set of daily returns.





The following chart and accompanying table examine the return and volatility of the S&P 500® for every 21-day period from 1970 to 2019. A pattern clearly emerges:

### S&P 500 RETURN VS. VOLATILITY: 1970-2019



### S&P 500 21-DAY RETURNS: 1970-2019

		All periods	Volatility ≤ 22%	Volatility > 22%
Positive returns	Count	7,508 (60.7%)	6,958 (56.3%)	550 (4.4%)
	Average return	3.4%	3.2%	5.4%
Negative returns	Count	4,854 (39.3%)	3,982 (32.2%)	872 (7.1%)
	Average return	-3.4%	-2.7%	-6.5%

Source: Bloomberg. S&P 500 Index, 1970-2019. **Past performance is historical, and for illustrative purposes only and does not guarantee future performance.**

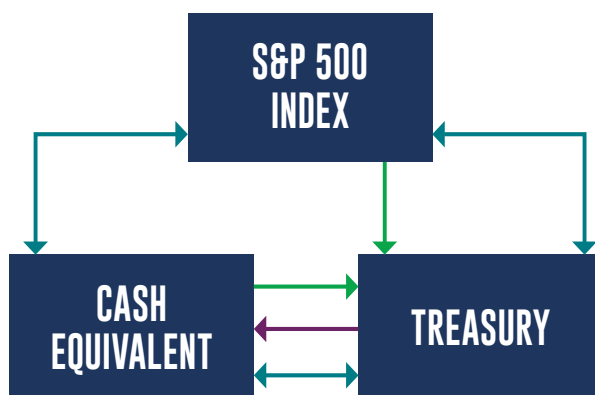
When volatility was greater than 22%, negative returns not only exhibited greater magnitude than positive returns, but also significantly outnumbered them.



By seeking to participate less when markets exhibit higher volatility, the indices' managed risk approach limits a portfolio's exposure to the relationship between high volatility and negative returns.

### **S&P MANAGED RISK 2.0 INDEX SERIES ASSET ALLOCATION**

The chart below uses the *DeltaShares*® S&P 500 Managed Risk ETF to illustrate the mechanics of the portfolio.



By following this rules based methodology in an effort to stabilize the portfolio, *DeltaShares* Managed Risk ETFs seek to provide investors with maximum participation in rising equity markets, and a potential measure of downside defense in declining ones.

**Master change. Manage risk.  
A new approach for an uncertain market.**

 **Visit:** [deltashares.com](https://deltashares.com)

This material was prepared for general distribution. It is being provided for informational purposes only and should not be viewed as an investment recommendation. If you need advice regarding your particular investment needs, contact your financial professional.

***DeltaShares may only be sold by offering the fund prospectus. You should consider the investment objectives, risks, charges, and expenses of the funds carefully before investing. The prospectus contains this and additional important information regarding the funds. To obtain the prospectus and/or a summary prospectus, please contact your financial professional or visit [deltashares.com](https://deltashares.com). The prospectus should be read carefully before investing.***

## **RISKS**

Fixed-income investments are subject to interest rate risk, credit risk and inflation risk. The value of fixed investments will generally go down when interest rates rise.

Investing involves risk, including the possible loss of principal. There is no guarantee the strategies discussed will be successful. Company stocks, as well as stock of small- and mid-cap companies, could fall out of favor, and stocks may decline in price. Foreign investing, especially in emerging markets, has additional risks, such as currency and market volatility, and political and social instability. The use of hedging and derivatives could produce disproportionate gains or losses and may increase costs. Please see the funds' prospectus for additional risks.

ETFs are subject to market risk, including the loss of principal. Because Fund Shares trade at market prices rather than at net asset value ("NAV"), Fund Shares may trade at a price greater than NAV (premium) or less than NAV (discount).

You may lose money if you invest in exchange traded funds. ETFs do not sell or redeem individual shares. Investors may purchase or sell individual shares on an exchange. Commissions are often charged on trades and ETFs may trade at a premium or discount to their net asset value. There is no guarantee that ETFs will achieve their investment objectives.

It is not possible to invest directly in an unmanaged index. Asset allocation and diversification do not guarantee a profit or protect against loss in declining markets. These ETFs track an index that seeks to minimize risk relative to a traditional market-capitalization-weighted benchmark index. Past performance does not guarantee future returns.

*DeltaShares* are Exchange Traded Funds (ETFs) distributed by Foreside Fund Services, LLC ("Distributor"). Transamerica Asset Management, Inc., a SEC Registered Investment Adviser, is the Advisor for *DeltaShares* and Milliman Financial Risk Management LLC, also a SEC Registered Investment Adviser, is the Sub-Adviser. Foreside Fund Services, LLC Transamerica Asset Management, Inc., and Milliman Financial Risk Management LLC are not affiliated companies.