



Marketing Communication  
For Professional investors only



# DBi: An active replication expert

## Contents

- 1. Overview of the DBi philosophy and process..... 1
- 2. Selecting the components of the Targets ..... 2
- 3. Computing the returns of the Targets ..... 2
- 4. Identifying the return drivers of the Targets ..... 3
- 5. Replicating the returns of the Targets..... 4

## 1. Overview of the DBi philosophy and process

DBi strategies are designed to provide investors with a diversified exposure to specific categories in the hedge fund industry: managed futures, multi-strategy and equity long/short hedge funds.

DBi strategies seek to match or outperform representative pools of leading hedge funds in those categories by investing in the drivers of their pre-fee performance, not directly in those hedge funds.

To reach that objective, DBi has developed an active replication process with the aim to:

- build representative pools of these hedge fund categories, which DBi calls “Targets”,
- identify the key drivers of the recent past performance of those pools or Targets, and
- dynamically invest in liquid futures that best match the estimated exposures of those Targets to equities and other asset classes.

The table below shows the main characteristics of each of the strategies engineered by DBi.

	DBi Managed Futures	DBi Fundamental Multi-Strategy	DBi Equity Hedge	DBi Stable Return (Hybrid Multi-Strategy)
Launch date	Nov-2015	May-2007	Jun-2012	Nov-2015
AUM (\$mn) as of Sep-2024	1,791	867	40	1,487
Standard hedge fund Target	Top 20 CTAs	Top 50 Multi-Strategy HFs	Top 40 Equity L/S hedge funds	DBi Equity Hedge or Multi-Strategy + DBi Managed Futures
Expected correl. to Target	> 85%	> 80%	> 85%	> 85%
Optimized Ptf. composition	c10-15 futures	c5-10 futures	c5-10 futures	c10-15 futures
Rebalancing frequency	Weekly	Monthly	Monthly	Monthly + Weekly

## 2. Selecting the components of the Targets

Since 2007, DBi has developed an efficient method to build replicable, diversified, customizable Targets for each of the categories we mentioned and which we describe below.

DBi first identifies eligible constituents among multiple hedge fund databases (including the With Intelligence-owned EurekaHedge platform, one of the largest global providers of hedge fund data with over 30,000 alternative funds included in its databases), and uses the following inclusion criteria:

- funds must have a minimum of 2-year track record, have assets above \$50mn and report performances at least monthly,
- funds must charge management and incentive fees (ie. hedge funds),
- model portfolios are excluded.

For each Target, DBi selects 50 constituents for the Multi-strategy Target and 40 constituents for the Equity Hedge target among the eligible hedge funds. Each Target is composed of the largest hedge fund of each firm within each category (i.e. one fund per firm) and remains highly diversified.

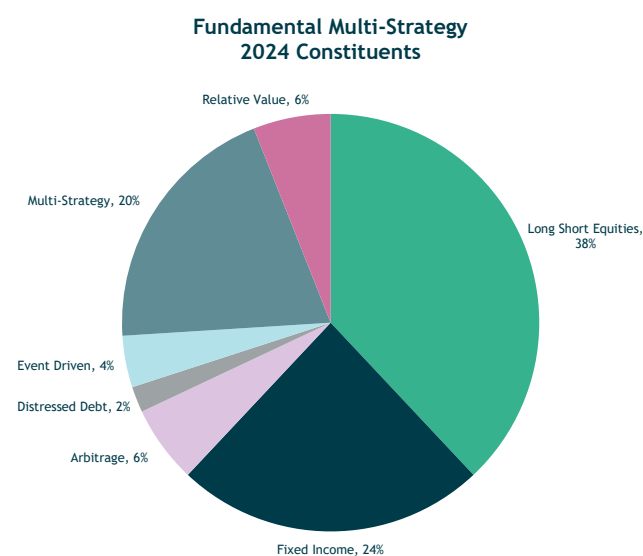
The Targets constituents are rebalanced once a year in January based on the previous September's reported AUMs.

## 3. Computing the returns of the Targets

Besides their costs to investors, which reduces the returns delivered to hedge fund investors, incentive fees have a significant smoothing effect on hedge funds' net returns: they reduce the amplitude of the performances to the upside (i.e. fee provisions rise as the funds perform well above their index and high-water mark, hence net performances lower than gross performances) and to the downside (i.e. provisions are reduced when the funds perform below their index and high-water mark, hence net returns potentially higher than the gross returns).

For illustrative purposes, typical hedge funds were charging 1.5% of management fees plus 20% of performance fees in 2023, and the average

DBi can build customized Targets based on specific clients' objectives and constraints. The chart below shows the split by strategy of the Fundamental Multi-Strategy Target for the year 2024.



Source: DBi, EurekaHedge. Data as of September 30, 2024.

The managed futures Target follows the same construction methodology but is maintained by Société Générale, which selects once a year the 20 constituents of the SG CTA Index.

management fee was sitting at 1.4% plus nearly 18.6% of performance fees, according to With Intelligence.

In order to efficiently identify the key drivers of the returns of the Targets, DBi needs to remove this smoothing effect and make the returns of each constituent as variable as possible.

The process of adding back fees to the net returns of each Target constituent is called "grossing-up" returns. It was added to the DBi process in 2012 following research work conducted by the investment team. The gross-up process also optimizes DBi's ability to deliver alpha relative to hedge funds through fee disintermediation.

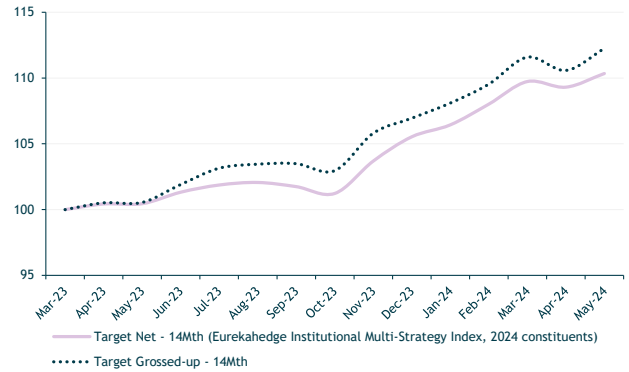


DBi computes monthly the net, then the gross, performance of the Targets using the returns reported by each of its constituents:

- gross-up computation is performed for each hedge fund depending on its own fees structure,
- outliers are removed monthly,
- constituents' returns are equally weighted.

The following chart shows the difference between the cumulated net and grossed-up performances of the current Fundamental Multi-Strategy Target over the last 14 months. The hedge funds selected in the Target charged over the period a cumulative 2% of management and incentive fees.

Fundamental Multi-Strategy - Cumulated Net & Grossed-up Target Performances



Source: DBi, Eurekahedge. Monthly data from March 31, 2023 through May 31, 2024 in \$. Past performance does not predict future returns.

## 4. Identifying the return drivers of the Targets

Once the return series of the Target are grossed-up, DBi utilizes a sophisticated proprietary multi-factor model run and enhanced for more than 15 years.

The model analyses the recent grossed-up performance of each Target to identify its key return drivers (i.e. markets), and determines a set of long and short futures contracts that best match those exposures:

- overall equity exposure,
- US vs. international,
- small vs. large,
- developed vs. emerging,
- short vs. long duration treasuries,
- US dollar vs. other currencies,
- cross-asset hedges, etc.

The portfolio exposures are built with approximately 10 positions in highly-liquid, exchange-traded futures contracts for cost-controlled, efficient execution and maximum liquidity.

Two examples may be used to illustrate how the optimizer determines the futures weights which performance would best mimic the Targets' return stream.

In the first example, a hypothetical Target lost \$2 over the first period (T1) then gained back \$2 over the next period (T2), ending the full period with a \$0 gain. Among the exchanged-traded futures contracts set in the optimizer, the Nasdaq 100 futures contract lost \$1 in T1 then recouped its loss in T2. In that example, the optimizer would determine that being long 2 Nasdaq futures over the 2-step period would be the best way to generate the same result as the Target.

Example 1	Gain/Loss (\$) in		Cumulated Gain/Loss (\$)
	T1	T2	
Target	-2	2	0
Nasdaq 100	-1	1	0
<b>Optimization output</b>	<b>-2</b>	<b>2</b>	<b>0</b>
Long 2 Nasdaq	-2	2	0

In the second example, a hypothetical Target lost \$2 in T1 then gained \$3 in T2, ending the full period with a \$1 gain. Meanwhile, the Nasdaq futures did the same as in the previous example and the US Treasury 30Y remained flat in T1 then lost \$1 in T2. In that second example, the optimizer would determine that being long 2 Nasdaq futures and short 1 US Treasury 30Y futures would have generated the same results as the Target, in T1 then in T2.



Example 2	Gain/Loss (\$) in		Cumulated Gain/Loss (\$)
	T1	T2	
<b>Target</b>	<b>-2</b>	<b>3</b>	
Nasdaq 100	-1	1	
US Treas. 30Y	0	-1	
<b>Optimization output</b>	<b>-2</b>	<b>3</b>	
Long 2 Nasdaq 100	-2	2	
Short -1 US Treas. 30Y	0	1	

The optimizer developed by DBi does the same, yet in a more sophisticated manner, over longer, multi-step lookback periods and using a broader set of carefully-selected futures contracts, depending on the strategy.

DBi strategies are rebalanced in a consistent manner with the rate of change of the underlying hedge funds included in the Targets:

- Strategies or “Sleeves” – as per DBi wording – replicating the Fundamental Multi-Strategy and Equity Hedge Targets are rebalanced monthly, as the constituent hedge funds report their performances monthly and generally take long term positions. The model uses a 14-month window to analyse their return streams.
- Sleeves replicating the Managed Futures Target (i.e. SG CTA Index, with returns released daily) are rebalanced weekly, as CTAs take short-term positions. The model uses a 20-60-day window to analyse their return streams.

## 5. Replicating the returns of the Targets

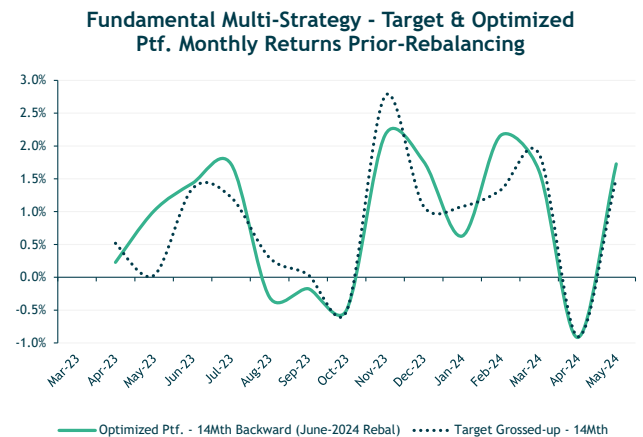
Each week or month – depending on the strategy –, the model determines a portfolio of long and short futures contracts whose returns would have best matched those of the Target over the relevant lookback period. DBi believes such a portfolio is likely to generate a return close to that of Target until the next rebalancing.

For illustrative purposes, the tab below shows the positions of the optimized portfolio for the Fundamental Multi-Strategy sleeve determined by the model early in June 2024, using a 14-month window running from March 2023 through May 2024.

Returns		
14Mth Backward		
<b>Target Net</b>	<b>10.3%</b>	
<b>Target Grossed-Up</b>	<b>12.2%</b>	
<b>Optimized Portfolio</b>	<b>13.2%</b>	
Long 38% Dollar Index	2.4%	
Long 11% Nasdaq 100	39.8%	
Long 8% S&P Mid 400	18.3%	
Long 5% Russell 2000	14.5%	
Long 14% MSCI EAFE	13.1%	
Long 7% MSCI EM	6.1%	
Short -13% US Treas. 30Y	-11.6%	
Long 100% SOFR 3M	-1.0%	

Source: DBi, EurekaHedge, Bloomberg. Data from March 31, 2023 through May 31, 2024 in \$. Past performance does not predict future returns.

The following chart illustrates how close to its Target the Fundamental Multi-Strategy sleeve would have performed over the 14-month lookback period, using the above optimized portfolio.



Source: DBi, EurekaHedge. Monthly data from March 31, 2023 through May 31, 2024 in \$. Past performance does not predict future returns.

More precisely, the optimization process aims to bring the determination coefficient between both returns series as close as possible to 1. In this example, the coefficient reached 0.76, as shown in the following chart.



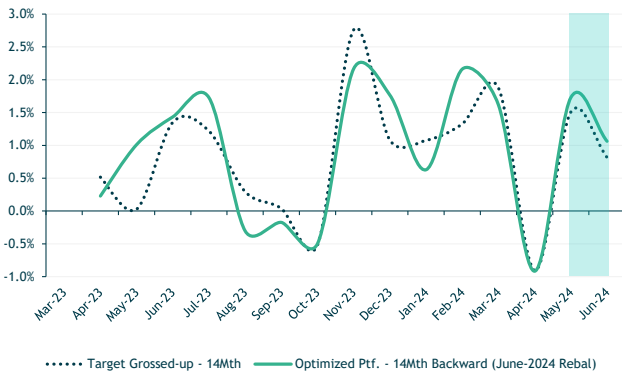
Fundamental Multi-Strategy - Target vs. Optimized Ptf. Monthly Returns Prior-Rebalancing



Source: DBi, Eurekahedge. Data from March 31, 2023 through May 31, 2024 in \$. Past performance does not predict future returns.

During the month following that rebalancing, the above-mentioned optimized portfolio implemented in the strategy rose +1.1%, close to its grossed-up Target which rose 0.8% (or +0.7% net of fees), as evidenced in the following chart.

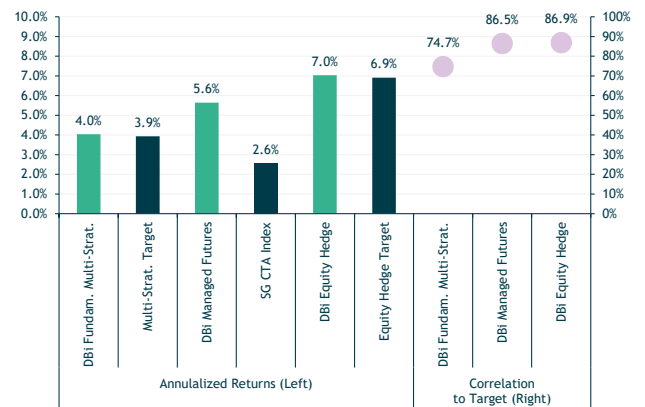
Fundamental Multi-Strategy - Target & Optimized Ptf. Monthly Returns Post-Rebalancing



Source: DBi, Eurekahedge. Monthly data from March 31, 2023 through June 30, 2024 in \$. Past performance does not predict future returns.

By implementing such a robust process, DBi has been able to build strategies highly correlated to their Targets (not to mention that they also outperformed those Targets through fees disintermediation). Since inception, the DBi Multi-Strategy, Equity Hedge and Managed Futures strategies have generated returns 75%, 86% and 87% correlated to their respective Targets.

Annualized Returns & Correlations Since Inception



Source: iMGP, DBi, Eurekahedge, SG. Data from May 31, 2007 for the DBi Multi-Strategy Composite, from June 30, 2012 for the DBi Equity Hedge Composite, and from July 31, 2016 for the DBi Managed Futures Composite, through September 30, 2024, net of fees in \$. Past performance does not predict future returns.

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The Fund should be considered highly leveraged and is suitable only for investors with high tolerance for investment risk. Futures contracts and forward contracts can be highly volatile, illiquid and difficult to value, and changes in the value of such instruments held directly or indirectly by the Fund may not correlate with the underlying instrument or reference assets, or the Fund's other investments. Derivative instruments and futures contracts are subject to occasional rapid and substantial fluctuations. Taking a short position on a derivative instrument or security involves the risk of a theoretically unlimited increase in the value of the underlying instrument. Exposure to the commodities markets may subject the Fund to greater volatility than investments in traditional securities. Exposure to foreign currencies subjects the Fund to the risk that those currencies will change in value relative to the U.S. Dollar. By investing in the Subsidiary, the Fund is indirectly exposed to the risks associated with the Subsidiary's investments. Fixed income securities, or derivatives based on fixed income securities, are subject to credit risk and interest rate risk.

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