Dynamic Risk Management

MARKET PARTICIPATION WITH RISK OVERSIGHT

Many investors want exposure to market growth but can't absorb huge loses. They find themselves in the midst of uncertain volatile markets, faced with the decision to either stay invested and potentially incur a large loss, or rebalance their portfolio without a clear path.

For those investors, QS Investors developed a systematic approach to managing market downturns. The concept behind Dynamic Risk Management (Dynamic Rebalancing) is simple: attempt to manage the risk of large losses by systematically reducing exposure to the market during extreme downturns. The approach is managed using QS Investors' proprietary formula.

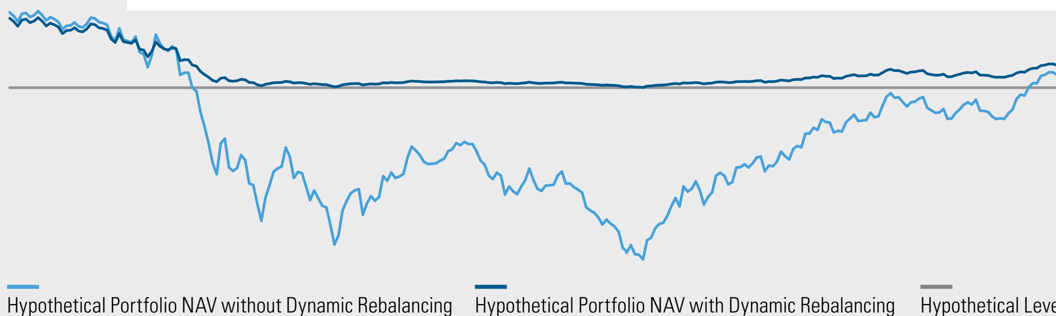
Dynamic Risk Management by QS Investors seeks:

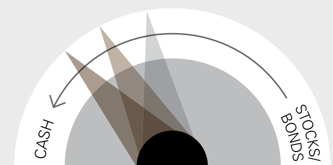
1. Downside risk management during bear markets
2. Upside participation in market opportunities
3. Long-term volatility management across full market cycles

Systematically managing risk for today's complex markets and tomorrow's uncertainty

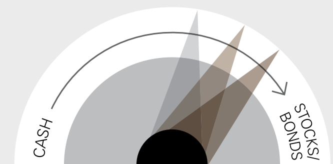
When markets decline, the portfolio reduces its exposure to stocks and bonds. Furthermore, as the market improves the portfolio's exposure to stocks and bonds increases to allow for market participation.

Risk oversight: Dynamic Risk Management aims to provide upside market participation while seeking to limit loss to a 15% "Level" or less. For example, during periods of market downturn, a portfolio's NAV without Dynamic Risk Management may go under the targeted level, while a portfolio's NAV with Dynamic Risk Management is designed to stay close to the level.





Declining markets. Allocations are shifted to cash and cash equivalents.



Rising markets. Assets are moved back to stocks and bonds.

For illustrative purposes only. Not specific to an actual product. In rapidly declining markets, Dynamic Risk Management is unlikely to prevent significant losses. Conversely, when markets are rapidly accelerating, market appreciation may not be fully realized due to the Portfolio's more conservative allocation. All investments involve risk, including loss of principal. The "Level" (known as, the High Water Mark Unit Value), is the investment approach QS will utilize as the value of the Portfolio begins to approach this Level and/or volatility increases. QS may deviate from the standard target allocation by investing in short-term defensive instruments in an attempt to prevent the Portfolio's unit value from dropping beneath the set Level. There is no guarantee that the Dynamic Risk Management strategy will be successful or that the Unit Value will not drop, maybe even substantially, beneath the Level, due to market conditions or other circumstances. Investors should evaluate their ability to invest for the long term, especially during periods of downturn in the markets.

INVESTMENT PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

Defense as your offense

Think of Dynamic Risk Management as a risk management tool. When your Portfolio's NAV drops during choppy markets, systematic controls kick in, seeking to help cushion the impact. Instead of rushing to cash, QS Investors gradually shifts your investment mix to more defensive instruments based on a theoretical "level," in an attempt to limit losses.

Look to boost your risk management and bolster your confidence

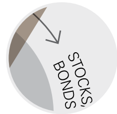
But QS doesn't stop there — the flip side is just as critical. As your Portfolio starts to rise again, QS Investors moves the Portfolio back to a mix of stocks and bonds, potentially enabling you to benefit from the market rebound.

Designed specifically for diversified portfolios, Dynamic Risk Management represents one of several powerful tools developed by asset allocation experts at QS Investors to help investors manage risk. QS Investors, already well-known for its multi-asset portfolio management capabilities, embeds systematic risk management in all of its investment processes.

QS Investors' systematic approach is based on three fundamentals:

It's based on a preset formula determined by the portfolio managers, and takes into account the Portfolio's current NAV, market conditions and underlying volatility.

The set level is always based on the Portfolio's maximum net asset value. If the Portfolio reaches new highs, the set level is likewise raised.



Even in the event of a prolonged market slump, a portion of the Portfolio will remain invested in stocks and bonds, to ensure the Portfolio maintains some exposure to market movements.

> Forge a strong defense against the damaging effects of severe market downturns while still maintaining market exposure. Consider a Portfolio with Dynamic Risk Management from QS Investors.

Dynamic Risk Management (Dynamic Rebalancing) is an investment approach developed and implemented by QS Investors to manage market volatility, however it does not pertain to any particular product or portfolio. Dynamic Risk Management attempts to limit losses by allocating portfolio assets away from equity and long-term fixed income portfolios. The strategy allocates a portion of the Portfolio's assets into short-term defensive instruments that are expected to decline in value less than riskier assets in the event of market decline. Through this strategy, the portfolio gives up some of the potential for high total return that could be achieved if the portfolio were to follow its target allocation under positive market conditions. In exchange, this strategy is intended to reduce significant declines in the Portfolio's net asset value ("NAV") under negative market conditions. The Portfolio's NAV will fluctuate and is not guaranteed.

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What should I know before investing?

All investments involve risk, including possible loss of principal. Fixed-income securities are subject to interest-rate, credit, inflation and reinvestment risk. As interest rates rise, the value of fixed-income securities falls. You may have a gain or loss at retirement. **There are no guarantees that the strategies described herein will be successful.** Equity securities are subject to price fluctuation and possible loss of principal. International investments are subject to special risks, including currency fluctuations social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets. Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks. In addition to the Portfolio's operating expenses, you will indirectly bear the operating expenses of the underlying portfolios. **Each underlying Portfolio may engage in active and frequent trading, resulting in higher portfolio turnover and transaction costs.** Certain of the underlying Portfolios may engage in short selling, which is a speculative strategy that involves special risks. Unlike the possible loss on a security that is purchased, there is no limit on the amount of loss on an appreciating security that is sold short. **The model used to manage a Portfolio's assets provides no assurance that the recommended allocation will either maximize returns or minimize risks.** Derivatives, such as options and futures, can be illiquid, may disproportionately increase losses, and have a potentially large impact on Portfolio performance.

There is no guarantee that the Dynamic Risk Management strategy will work, and investors should evaluate their ability to invest for the long term, especially during periods of downturn in the markets. In addition, while a Portfolio seeks to reduce volatility during its dynamic rebalancing period, such portfolio may not achieve its goals.