Elston Dynamic Risk Parity Index
For true diversification

Elston

INDEX OBJECTIVES [ESBDRP Index]

- The Elston Dynamic Risk Parity Index strategy is a multi-asset risk-based strategy.
- The index strategy is designed to allocate dynamically to a diverse range of asset classes such that each asset class exposure contributes equal risk to the overall strategy. The strategy also limits the overall level of volatility.
- The index provides a systematic rules-based approach for providing risk-based diversification with differentiated returns and constrained risk.

Key Points

1 Multi-asset risk-based strategy for true diversification.

2 Dynamic asset allocation for equal risk contribution.

3 Systematic rules-based approach.

Index Facts

Index Code	ESBDRP
Asset Class	Multi-Asset
Base Currency	GBP
Rebalancing	Monthly
Components	ETFs
Max Holdings	15
Launch Date	3rd April 2018
ISIN	DE000SLA5NH0

Overview

This index strategy:

- Provides potential for returns from a diversified range of asset classes.
- Ensures that there is diversification of risk contribution to the overall strategy.
- Systematically limits the overall level of volatility with a dynamic allocation approach.

Applications

This strategy could provide:

- A **dynamic** allocation strategy to complement an asset-based approach.
- A **differentiated** strategy diversified by risk contribution, not asset weights.
- Potential **downside cushioning** using a risk-limiting mechanism in times of market stress.

Licensing

- For use as a benchmark for managed accounts.
- For use by funds, ETPs and model portfolio providers.

THE THEORY

Risk parity focuses on the allocation of risk (defined as volatility) rather than the allocation of assets in order to achieve 1) a higher risk-adjusted return (Sharpe ratio) and 2) be more resilient to market downturns than an asset-based portfolio.

For a detailed review of the theory underpinning risk parity, see On the properties of equally-weighted risk contributions portfolios, Maillard, Roncalli & Teiletche (2008).

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1. DYNAMIC MULTI-ASSET APPROACH

The strategy dynamically allocates across asset classes monthly, depending on changing risk, return and correlation characteristics.

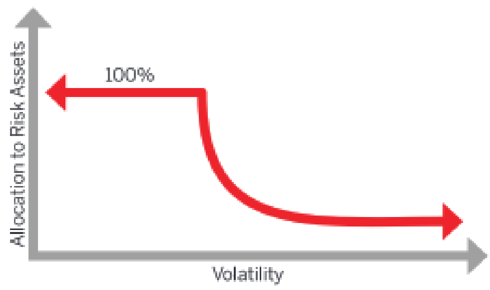
Bonds | Property | Gold | UK Equities | Global Equities

2. RISK-BASED DIVERSIFICATION

Changing risk characteristics determine asset-weights, rather than vice versa. This gives more effective diversification that is risk-based, not asset-based.

3. CONSTRAINED RISK

The strategy limits the overall level of volatility by deallocating to ultrashort bonds when market volatility becomes too high. This downside cushioning can help preserve capital during times of market stress.



For illustrative purposes only

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