



# DoubleLine Shiller CAPE® U.S. Equities ETF (CAPE)

Frequently Asked Questions | June 30, 2022

## QUESTION 1:

### How did DoubleLine come to partner with Professor Robert Shiller?

A combination of factors brought the partnership together. In particular, I would emphasize a shared philosophy toward value as an investment discipline and the robustness of Professor Shiller's pioneering research on long-term equity returns and market mispricings. Let me elaborate on those points.

For more than two decades, while endeavoring to construct portfolios to mitigate downside risk, the investment team now at DoubleLine has worked to identify fixed income securities generating what we believe are the cheapest cash flows. That's the essence of "value investing," although the phrase is rarely heard in the fixed income lexicon. We apply this pursuit of value not only to individual security selection but also to our sector allocations.

Over the years, I had followed Professor Shiller's academic work on both the behavioral aspects of the financial markets as well as asset pricing. I consider the CAPE® Ratio as one of the better predictors of future stock market returns over an intermediate- to long-term time horizon. Professor Shiller partnered with Barclays to create an index, the Shiller Barclays CAPE® U.S. Sector TR Index (the "CAPE® Index"), which implements the philosophy behind the CAPE® Ratio to deploy capital across the large cap equity space. We found a lot of similarities between the value mechanics at work in the CAPE® Index and our own relative value-driven approach to the active management of the sector allocations in our multi-sector bond portfolios.

After exhaustive research into the historical behavior of Professor Shiller's CAPE® Ratio, we concluded that the CAPE® Index methodology provides a better exposure to the relatively commoditized market of large-cap stocks than other indices.

## QUESTION 2:

### How is the CAPE® Index constructed and what does the CAPE® Ratio seek to accomplish?

The cyclical adjustment in the CAPE® Ratio is based on a long-term historical average of inflation-adjusted earnings, 10 years to be exact. Of course, this is a significant departure from the widespread practice of using trailing 12 months of earnings to value stock prices. Short term earnings can be volatile as the result of changes in the business cycle, therefore rendering the price-to-earnings ratio for purposes of stock valuation meaningless. Professor Shiller has joked that stock selection based on price to 12-month earnings is akin to using astrology to forecast asset returns.

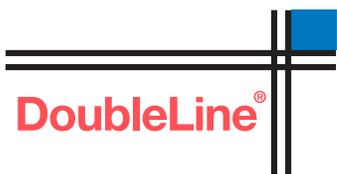
The CAPE® Ratio tries to gauge the value of a company in a way that is independent of the business cycle. The idea is that a valuable company will have significant earnings power in the future as well as a robust history of earnings performance. The topic of identifying intrinsic value has been a topic of long debate, harking back to the days of Benjamin Graham and David Dodd in *Security Analysis*. In that work, they too said that true earnings potential could only be measured over a full business cycle, and that is exactly what the CAPE® Ratio seeks to do.

#### This ETF is different from traditional ETFs.

Traditional ETFs tell the public what assets they hold each day. This ETF will not. This may create additional risks for your investment. For example:

- You may have to pay more money to trade the ETF's shares. This ETF will provide less information to traders, who tend to charge more for trades when they have less information.
- The price you pay to buy ETF shares on an exchange may not match the value of the ETF's portfolio. The same is true when you sell shares. These price differences may be greater for this ETF compared to other ETFs because it provides less information to traders.
- These additional risks may be even greater in bad or uncertain market conditions.

The differences between this ETF and other ETFs may also have advantages. By keeping certain information about the ETF secret, this ETF may face less risk that other traders can predict or copy its investment strategy. This may improve the ETF's performance. If other traders are able to copy or predict the ETF's investment strategy, however, this may hurt the ETF's performance.



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### QUESTION 3:

#### The CAPE® Ratio for U.S. equities is elevated. How do you address this issue within your strategy?

While the CAPE® Ratio has been a useful predictor of long-term stock market returns, it was never intended to serve as an investment signal. Further adjustment to the ratio is required to determine relative value of differing investment options. Together, Professor Shiller and Barclays developed the Relative CAPE® Ratio, which makes this necessary adjustment to compare equity sectors and ultimately identify undervalued sectors to gain exposure to. Each sector's Relative CAPE® Ratio dictates how to deploy capital in the equity space.

### QUESTION 4:

#### Can you elaborate on the Relative CAPE® Ratio used by the DoubleLine Shiller CAPE® U.S. Equities ETF?

The Relative CAPE® Ratio adjusts for the valuation differences between equity sectors due to differing growth and accounting assumptions unique to each industry. The Relative CAPE® Ratio is calculated by dividing a sector's current CAPE® Ratio by its 20-year rolling average CAPE® Ratio. This Relative CAPE® Ratio includes 30 years of earnings data and thus allows an investor to judge whether a dollar of earnings today is cheap compared with a dollar of earnings historically within each sector. This levels the playing field when comparing valuations across sectors.

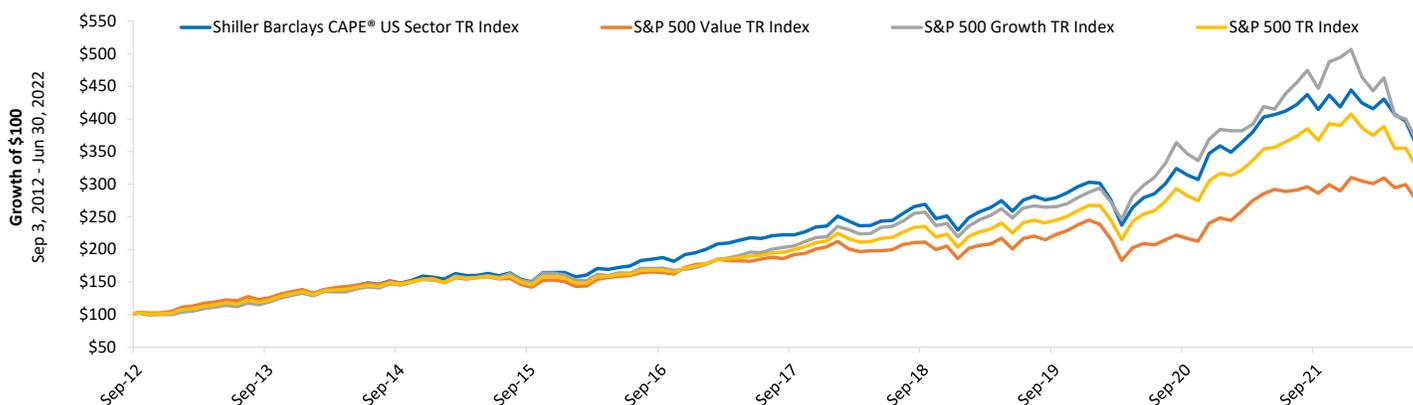
To construct the CAPE® Index, one calculates the Relative CAPE® Ratio for each of the 11 U.S. large cap equity sectors and ranks them highest-to-lowest. The five sectors with the lowest ratios are selected. Of the five sectors with the lowest Relative CAPE® Ratio, the sector with the worst 12-month total return is then removed to avoid value traps – assets that the market perceives cheap for a reason. The Index then invests equally in the remaining four sectors, which represent the most undervalued sectors with the most positive momentum. This process is repeated monthly.

### QUESTION 5:

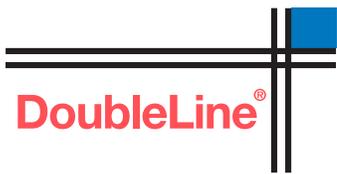
#### How does this strategy compare to traditional value and growth investment approaches such as the S&P 500 Value or the S&P 500 Growth indices?

From September 2012 to June 2022, the CAPE® Index has outperformed both the S&P 500 Value Total Return and the broad-based large-cap S&P 500 while only trailing the S&P 500 Growth Total Return. Even with the inherent value approach of the index, its performance is most attributable to movements in the S&P 500 based on its R-squared value of 0.95. ■

As of June 30, 2022	Shiller Barclays CAPE® U.S. Sector Total Return Index	S&P 500® Total Return Index	S&P 500® Value Total Return Index	S&P 500® Growth Total Return Index
<b>Annualized Return</b>	13.89%	12.78%	10.82%	14.13%
<b>Annualized Standard Deviation</b>	14.44%	13.81%	14.00%	14.91%
<b>Annualized Sharpe Ratio</b>	0.92	0.88	0.73	0.91



Source: Barclays, DoubleLine. Past performance is no guarantee of future results. Index performance is not indicative of the fund's future performance.



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**Jeffrey Sherman, CFA**  
Deputy Chief  
Investment Officer

As DoubleLine's Deputy Chief Investment Officer, Jeffrey Sherman oversees and administers DoubleLine's Investment Management sub-committee coordinating and implementing policies and processes across the investment teams. He also serves as lead portfolio manager for multi-sector and derivative-based strategies. He is a member of DoubleLine's Executive Management and Fixed Income Asset Allocation Committees. He can be heard regularly on his podcast "The Sherman Show" (@ShermanShowPod) where he interviews distinguished guests, giving listeners insight into DoubleLine's current views. In 2018, Money Management Executive named Jeffrey Sherman as one of "10 Fund Managers to Watch" in its yearly special report. Prior to joining DoubleLine in 2009, he was a Senior Vice President at TCW where he worked as a portfolio manager and quantitative analyst focused on fixed income and real-asset portfolios. Mr. Sherman was a statistics and mathematics instructor at both the University of the Pacific and Florida State University. He taught Quantitative Methods for Level I candidates in the CFA LA/USC Review Program for many years. He holds a BS in Applied Mathematics from the University of the Pacific and an MS in Financial Engineering from the Claremont Graduate University. He is a CFA® charterholder.

**A fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory prospectus and summary prospectus (if available) contain this and other important information about the fund and may be obtained by visiting [www.doublelinefunds.com](http://www.doublelinefunds.com). In addition, a free hard-copy is available by calling (855) 937-0772. Please read the prospectus carefully before investing.**

### Risk Disclosure

Investing involves risk. Principal loss is possible. Equities may decline in value due to both real and perceived general market, economic and industry conditions.

The Fund is a "non-diversified" investment company and therefore may invest a greater percentage of its assets in the securities of a single issuer or a limited number of issuers than funds that are "diversified." Accordingly, the Fund is more susceptible to risks associated with a single economic, political or regulatory occurrence than a diversified fund might be.

ETF investments involve additional risks such as the market price trading at a discount to its net asset value, an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact a fund's ability to sell its shares.

For additional information regarding the unique attributes and risks of the ETF, see the Prospectus and SAI, which are available on the ETF's website.

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**S&P 500® Index** is an unmanaged capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. **The S&P 500® Growth Index** includes the stocks with growth characteristics from the S&P 500 Index. **The S&P 500® Value Index** includes the stocks with value characteristics from the S&P 500 Index. If a stock does not have pure value or pure growth characteristics, its market cap is distributed between the S&P 500 Value and Growth indexes. **Shiller Barclays CAPE® U.S. Sector Total Return USD Index** – This index that incorporates the principles of long-term investing distilled by Dr. Robert Shiller and expressed through the CAPE® (Cyclically Adjusted Price Earnings) ratio (the "CAPE® Ratio") aims to identify undervalued sectors based on a modified CAPE® Ratio, and then uses a momentum factor to seek to mitigate the effects of potential value traps. It is not possible to invest in an index.

**R-squared** - A statistical measure that represents the proportion of the variance for a dependent variable that's explained by an independent variable or variables in a regression model.

Money Management Executive, 10 Fund Managers to Watch. Managers were chosen based on factors including long-and short-term performance in their specific categories, individual strategies and their length of time in the business. All funds considered were led by single managers.

### Barclays Disclaimer

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The Shiller Barclays CAPE® US Index Family (the "Index Family") has been developed in part by RSBB-I, LLC, the research principal of which is Robert J. Shiller. RSBB-I, LLC is not an investment advisor and does not guarantee the accuracy and completeness of the Index Family or any data or methodology either included therein or upon which it is based. RSBB-I, LLC shall have no liability for any errors, omissions or interruptions therein and makes no warranties expressed or implied, as to the performance or results experienced by any party from the use of any information included therein or upon which it is based, and expressly disclaims all warranties of the merchantability or fitness for a particular purpose with respect thereto, and shall not be liable for any claims or losses of any nature in connection with the use of such information, including but not limited to, lost profits or punitive or consequential damages even, if RSBB-I, LLC is advised of the possibility of same. Shiller Barclays CAPE US Sector TR USD Index incorporates the principles of long-term investing distilled by Dr. Robert Shiller and expressed through the CAPE® (Cyclically Adjusted Price Earnings) ratio (the "CAPE® Ratio"). It aims to identify undervalued sectors based on a modified CAPE® Ratio, and then uses a momentum factor to seek to mitigate the effects of potential value traps.