

# BUY AND HOLD HEDGE

## CLASSIC

as of December 2016



### HIGHLIGHTS

- With broad market exposure, this strategy plays a Core role in your portfolio
- Strategy targets a high correlation to the S&P 500
- Good strategy for a client that is comfortable with market swings – but seeks protection from potentially significant market crash or crisis
- Strategy looks to minimize the cost of hedging by selling options premium on both out-of-the-money calls and puts
- ZEGA charges an asset based management fee

### METHODOLOGY

- Purchases S&P 500 ETFs with ~ 95% of the portfolio value
- Builds a collar using options to define an upside and downside for the portfolio
- Downside put is set at 10% out-of-the-money (OTM) for each 9 month put purchased
- Purchases extra shares of ETF at depressed price when protective put produces a profit
- Produce income by selling OTM calls using ZEGA algorithms – typically around 1 standard deviation movement
- Sells additional puts further OTM to generate income to offset cost of hedging – these short puts, when sold, limit the hedge protection but protection is typically still equivalent to a one standard deviation move in S&P 500
- All options are built in laddered positions over 9-12 month windows using at least 2 rungs

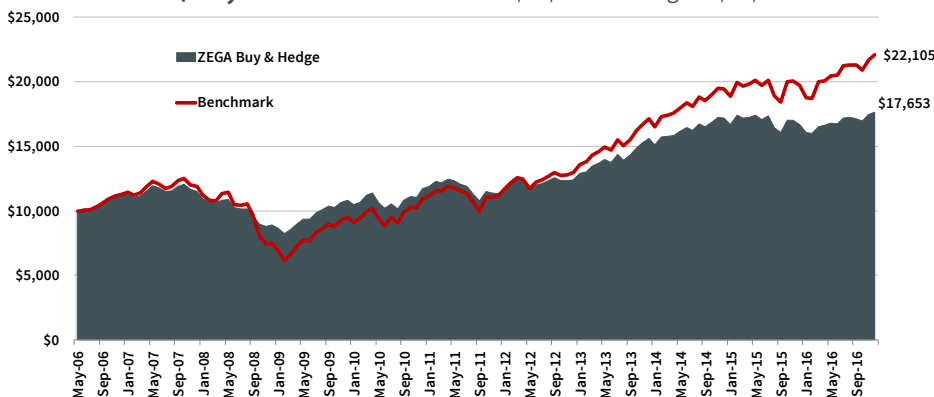
### PERFORMANCE as of 12/31/2016

	QTD	YTD	1 Year	3 Year	5 Year	ITD
<b>ZEGA B&amp;H Gross</b>	3.4%	7.4%	7.4%	5.7%	10.9%	10.4%
<b>ZEGA B&amp;H Net*</b>	3.1%	5.9%	5.9%	4.1%	9.2%	8.7%
<b>S&amp;P 500</b>	3.8%	12.0%	12.0%	8.9%	14.7%	14.5%

### Annualized Returns

\* Net returns reflect a 1.5% annual asset based management fee meant to include the advisor fee and ZEGA's fee combined.

### GROWTH OF \$10,000 Model Portfolio from 6/30/2006 through 12/31/2016



### STRATEGY OVERVIEW

The Buy & Hedge Classic strategy by ZEGA Financial is designed to provide broad market exposure while limiting the downside risk in the event of a material market correction. The product is deployed in a SMA format and utilizes index based options and ETFs.

The investor has long-term market exposure in an S&P 500 ETF that has been paired with a hedge that has a negative correlation to the market. The hedge is built using a combination of option positions.

### KEY FACTS

<b>Vehicle Type</b>	Separately Managed Account
<b>Inception</b>	September 2011
<b>Management Fee*</b>	1.50%
<b>Benchmark</b>	S&P 500 Index
<b>Portfolio Managers</b>	Jay Pestrichelli Wayne Ferbert

\* Net returns reflect a 1.5% annual asset based management fee meant to include the advisor fee and ZEGA's fee combined.

### RISK METRICS

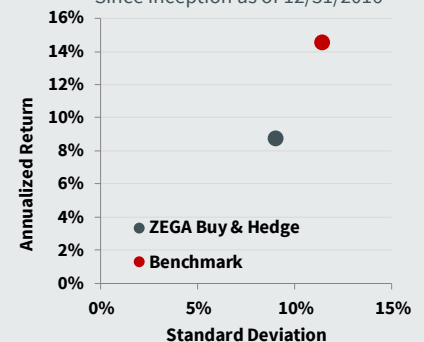
	Standard Deviation			
	1 Year	3 Year	5 Year	ITD
<b>ZEGA B&amp;H Gross</b>	6.4%	8.3%	8.5%	9.0%
<b>ZEGA B&amp;H Net</b>	6.4%	8.3%	8.5%	9.0%
<b>S&amp;P 500</b>	9.8%	10.6%	10.3%	11.4%

	Sharpe Ratio			
	1 Year	3 Year	5 Year	ITD
<b>ZEGA B&amp;H Gross</b>	1.11	0.67	1.27	1.14
<b>ZEGA B&amp;H Net</b>	0.86	0.48	1.08	0.96
<b>S&amp;P 500</b>	1.18	0.83	1.42	1.27

### RISK/RETURN

Since Inception as of 12/31/2016





## MONTHLY PERFORMANCE\* Model Portfolio from 6/30/2006 through 12/31/2016

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD (net)	S&P 500
2006	Gross						1.5%	0.4%	1.7%	2.4%	2.7%	1.9%	1.4%	11.6%	12.9%
	Net						1.4%	0.3%	1.5%	2.3%	2.6%	1.8%	1.2%		
2007	Gross	1.2%	-1.7%	0.8%	4.0%	3.2%	-1.2%	-2.3%	0.9%	3.0%	1.2%	-3.2%	-1.2%	2.9%	5.5%
	Net	1.0%	-1.9%	0.7%	3.8%	3.1%	-1.3%	-2.4%	0.8%	2.8%	1.1%	-3.3%	-1.3%		
2008	Gross	-4.5%	-1.9%	-0.9%	2.0%	0.6%	-5.7%	-1.0%	0.5%	-5.5%	-6.7%	-1.3%	1.1%	-22.6%	-37.0%
	Net	-4.7%	-2.0%	-1.0%	1.9%	0.5%	-5.8%	-1.1%	0.3%	-5.7%	-6.8%	-1.5%	1.0%		
2009	Gross	-3.2%	-4.1%	3.9%	6.0%	3.8%	0.0%	5.3%	2.8%	2.8%	-0.9%	4.0%	1.3%	21.5%	26.5%
	Net	-3.3%	-4.2%	3.7%	5.9%	3.6%	-0.1%	5.2%	2.7%	2.7%	-1.0%	3.9%	1.2%		
2010	Gross	-2.9%	2.1%	5.1%	1.5%	-6.7%	-3.8%	3.9%	-3.9%	6.9%	2.7%	-0.2%	5.8%	8.3%	15.1%
	Net	-3.0%	1.9%	5.0%	1.4%	-6.8%	-3.9%	3.8%	-4.0%	6.7%	2.6%	-0.3%	5.7%		
2011	Gross	1.9%	3.2%	-0.5%	2.4%	-1.0%	-1.9%	-1.6%	-4.7%	-4.8%	6.9%	-0.7%	-0.1%	-3.0%	2.1%
	Net	1.7%	3.1%	-0.6%	2.3%	-1.1%	-2.0%	-1.8%	-4.8%	-4.9%	6.7%	-0.8%	-0.2%		
2012	Gross	3.3%	3.8%	2.8%	-0.7%	-5.3%	2.9%	0.9%	2.0%	2.0%	-1.8%	0.2%	0.7%	9.3%	16.0%
	Net	3.1%	3.7%	2.6%	-0.8%	-5.4%	2.8%	0.8%	1.9%	1.9%	-1.9%	0.0%	0.6%		
2013	Gross	4.2%	1.1%	3.5%	1.7%	2.3%	-1.4%	4.5%	-2.8%	2.9%	4.1%	2.8%	2.3%	26.1%	32.4%
	Net	4.1%	1.0%	3.4%	1.5%	2.1%	-1.5%	4.4%	-3.0%	2.8%	4.0%	2.6%	2.2%		
2014	Gross	-3.2%	4.0%	0.7%	0.5%	2.1%	1.9%	-1.3%	3.3%	-1.1%	2.1%	2.4%	-0.2%	9.8%	13.7%
	Net	-3.4%	3.9%	0.6%	0.4%	2.0%	1.7%	-1.4%	3.2%	-1.2%	1.9%	2.3%	-0.3%		
2015	Gross	-2.8%	4.7%	-1.4%	0.6%	1.0%	-1.8%	1.6%	-4.9%	-2.3%	6.1%	0.2%	-2.0%	-2.9%	1.4%
	Net	-2.9%	4.6%	-1.5%	0.5%	0.9%	-1.9%	1.5%	-5.1%	-2.4%	6.0%	0.1%	-2.1%		
2016	Gross	-3.5%	-0.3%	3.2%	0.8%	1.3%	-0.2%	3.0%	0.2%	-0.4%	-1.0%	3.1%	1.3%	5.9%	12.0%
	Net	-3.6%	-0.4%	3.1%	0.7%	1.1%	-0.3%	2.9%	0.1%	-0.6%	-1.1%	3.0%	1.2%		

\* Net returns reflect a 1.5% annual asset based management fee meant to include the advisor fee and ZEGA's fee combined.

## RECOMMENDED USAGE

The ZEGA Buy & Hedge Classic Strategy is recommended as a Core holding for a large portion of the targeted US equity exposure for a client. Client should have moderate risk tolerance for exposure to this strategy. Clients that want no downside risk from a hedge should seek a different product.

## STRATEGY RISKS & DISCLOSURE

**All investments involve the risk of potential investment losses as well as the potential for investment gains. Prior performance is no guarantee of future results and there can be no assurance, and clients should not assume, that future performance of any of the model portfolios will be comparable to past performance. All Returns and metrics are net of 1.5% management fees meant to cover advisor and ZEGA fee.**

The performance data prior to 2016 does not reflect the actual investment results of any individual client participating in the program, but represents the hypothetical performance of the model. The Buy and Hedge Classic portfolio performance prior to 2016 is calculated by using the model trade performance based on the close prices of the investments on the targeted entry and exit dates. The Buy and Hedge Classic strategy became actively managed in the third quarter of 2011 as a sleeve of an overall portfolio strategy. These results should not be viewed as indicative of the advisor's skill. Prior to the inception of this strategy at ZEGA in 2011, the advisor was not providing advice using the Classic strategy. The model that gave rise to these back-tested performance results is one that the advisor is now using in managing clients' accounts. The performance starting in 2016 is the actual composite performance of individual accounts that are dedicated exclusively to Buy & Hedge Classic.

The prior performance figures indicated herein represent portfolio performance for only a short time period, and may not be indicative of the returns or volatility each model portfolio will generate over a long time period. The performance of the models should also be viewed in the context of the broad market and general economic conditions prevailing during the periods covered by the performance information. The actual results for the comparable periods would also have varied from the model portfolio results based upon the timing of contributions and withdrawals from individual client accounts. The performance figures contained herein should be viewed in the context of the various risk/return profiles and asset allocation methodologies utilized by the asset allocation strategists in developing their model portfolios, and should be accompanied or preceded by the model.

**Standard deviation** is a measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the deviation. In finance, standard deviation is applied to the annual rate of return of an investment to measure the investment's volatility. **The S&P 500 Index** – a broad-based unmanaged measurement of changes in stock market conditions based on the average of 500 widely held common stocks.