

# BUY AND HOLD HEDGE

## RETIREMENT

as of December 2016



### HIGHLIGHTS

- With broad market exposure, this strategy is intended to play a **Core** role in your portfolio
- Strategy targets a high correlation to the S&P500
- Due to the regular expiration of options, this strategy can be more cost effective in tax deferred accounts
- May be an appropriate strategy for a client that is comfortable with market swings – but seeks to dramatically reduce the impact from a market crash
- Strategy mixes derivatives with fixed income positions in an effort to isolate for equity market upside with credit market downside

### METHODOLOGY

- Purchases At-the-Money calls to simulate long market exposure
- At times, may produce income by selling Out-of-the-Money calls
- Fixed income ETFs are purchased with free cash and the income is used to pay for the long call option
- All options are built in laddered positions over a 12 month window using at least two rungs
- Regularly rebuilding each ladder rung as options expire can provide the means for purchasing extra equity exposure as markets experience reduced prices (essentially buying on dips)
- Regularly rebuilding each rung may also lock in gains as markets move up as hedged positions are reestablished at higher levels
- Hedges on fixed income positions are structured to be either credit hedges or interest rate hedges – but never both in the same ladder

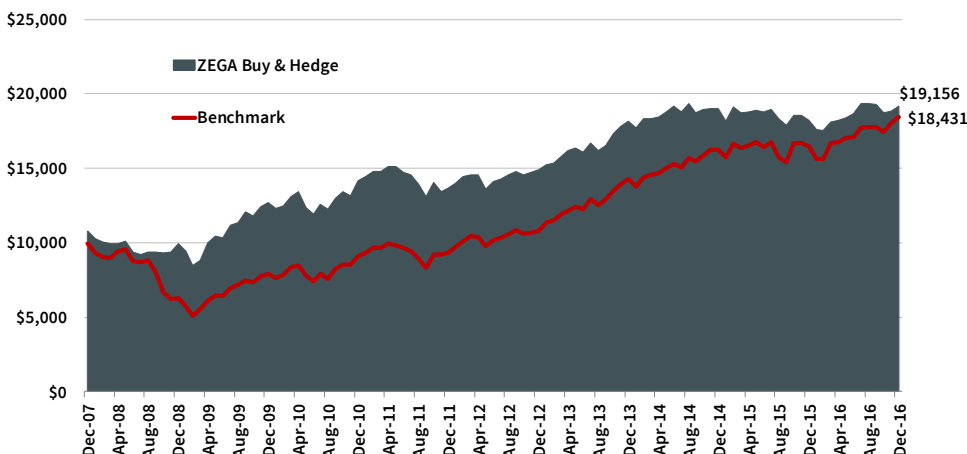
### PERFORMANCE as of 12/31/2016

#### Annualized Returns

	QTD	YTD	1 Year	3 Year	5 Year	ITD
<b>ZEGA B&amp;H Gross</b>	-0.2%	6.9%	6.9%	3.3%	8.6%	10.8%
<b>ZEGA B&amp;H Net*</b>	-0.6%	5.3%	5.3%	1.8%	7.0%	9.2%
<b>S&amp;P 500</b>	3.8%	12.0%	12.0%	8.9%	14.7%	13.3%

\* 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 11/30/2007 through 12/31/2016



### STRATEGY OVERVIEW

The Buy & Hedge Retirement 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 the equity markets but attempts to reduce downside risk by limiting the actual capital invested in equity positions. The position is created using a combination of options to build synthetic exposure as well as actually holding ETF shares for growth and income.

#### KEY FACTS

<b>Vehicle Type</b>	Separately Managed Account
<b>Inception</b>	November 2008
<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.

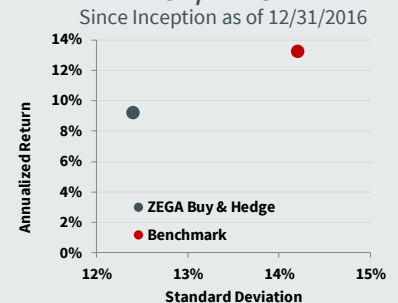
#### RISK METRICS

	Standard Deviation			
	1 Year	3 Year	5 Year	ITD
<b>ZEGA B&amp;H Gross</b>	6.8%	7.8%	8.2%	12.4%
<b>ZEGA B&amp;H Net</b>	6.8%	7.8%	8.2%	12.4%
<b>S&amp;P 500</b>	9.8%	10.6%	10.3%	14.2%

	Sharpe Ratio			
	1 Year	3 Year	5 Year	ITD
<b>ZEGA B&amp;H Gross</b>	0.97	0.41	1.03	0.87
<b>ZEGA B&amp;H Net</b>	0.73	0.21	0.84	0.73
<b>S&amp;P 500</b>	1.18	0.83	1.42	0.93

#### RISK/RETURN





## MONTHLY PERFORMANCE\* Model Portfolio from 11/30/2007 through 12/31/2016

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD (net)	S&P 500
2007	Gross													7.9%	
	Net													7.8%	-0.7%
2008	Gross	-4.4%	-2.2%	-0.9%	0.2%	1.8%	-7.0%	-1.7%	1.8%	0.1%	-0.2%	0.4%	6.1%		
	Net	-4.5%	-2.3%	-1.0%	0.0%	1.6%	-7.2%	-1.8%	1.7%	0.0%	-0.3%	0.2%	6.0%	-8.0%	-37.0%
2009	Gross	-4.7%	-10.3%	4.4%	13.5%	4.4%	-0.7%	8.1%	1.8%	6.6%	-2.1%	5.2%	2.4%		
	Net	-4.8%	-10.4%	4.3%	13.4%	4.2%	-0.9%	7.9%	1.7%	6.4%	-2.2%	5.1%	2.2%	28.0%	26.5%
2010	Gross	-2.9%	1.2%	5.4%	2.5%	-8.0%	-3.1%	5.8%	-2.8%	5.9%	3.9%	-1.9%	7.6%		
	Net	-3.0%	1.1%	5.3%	2.4%	-8.1%	-3.3%	5.7%	-2.9%	5.8%	3.7%	-2.0%	7.4%	11.5%	15.1%
2011	Gross	2.1%	2.6%	0.0%	2.8%	0.1%	-2.8%	-0.8%	-4.2%	-6.0%	7.7%	-4.5%	1.9%		
	Net	2.0%	2.4%	-0.2%	2.6%	0.0%	-2.9%	-0.9%	-4.4%	-6.1%	7.5%	-4.6%	1.8%	-3.5%	2.1%
2012	Gross	2.6%	3.2%	1.0%	0.1%	-6.4%	4.0%	1.1%	2.1%	1.8%	-1.4%	1.1%	1.3%		
	Net	2.5%	3.1%	0.8%	0.0%	-6.5%	3.8%	1.0%	1.9%	1.7%	-1.5%	1.0%	1.2%	9.0%	16.0%
2013	Gross	2.6%	0.9%	3.1%	2.6%	0.9%	-1.5%	4.1%	-3.0%	2.1%	5.1%	3.1%	1.9%		
	Net	2.5%	0.8%	3.0%	2.4%	0.8%	-1.6%	4.0%	-3.1%	2.0%	4.9%	2.9%	1.8%	22.0%	32.4%
2014	Gross	-2.2%	3.6%	0.1%	0.7%	2.0%	2.2%	-1.9%	3.0%	-3.1%	1.5%	0.5%	0.0%		
	Net	-2.3%	3.4%	-0.1%	0.6%	1.9%	2.0%	-2.0%	2.8%	-3.2%	1.3%	0.4%	-0.1%	4.7%	13.7%
2015	Gross	-4.2%	5.4%	-2.1%	0.5%	0.8%	-0.5%	1.1%	-3.2%	-2.2%	3.8%	0.2%	-1.9%		
	Net	-4.3%	5.2%	-2.3%	0.4%	0.6%	-0.7%	0.9%	-3.3%	-2.4%	3.6%	0.1%	-2.0%	-4.3%	1.4%
2016	Gross	-3.2%	-0.1%	3.2%	0.7%	1.2%	1.7%	3.7%	0.3%	-0.3%	-2.7%	0.9%	1.7%		
	Net	-3.3%	-0.3%	3.1%	0.6%	1.0%	1.5%	3.6%	0.1%	-0.4%	-2.8%	0.7%	1.5%	5.3%	12.0%

\* 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 Retirement Strategy is recommended as a Core holding to replace a portion of the US equity exposure for a client. Client should have moderate risk tolerance. Strategy is best suited to a tax-advantaged account.

### 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.**

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 Retirement 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 Retirement strategy became actively managed in the fourth quarter of 2008 as a sleeve of an overall strategy. These results should not be viewed as indicative of the advisor's skill. Prior to the use of this strategy at ZEGA, the advisor was not providing advice using the Retirement strategy. The advisor was managing personal capital using the model. The model that gave rise to these back-tested 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 Retirement. The fees reflected in the net returns is 1.5% annual asset based management fee meant to include the advisor fee and ZEGA's fee combined.

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. There are no assurances that a portfolio will match or outperform any particular benchmark.

**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.