

# INCOME

## HIGH PROBABILITY OPTIONS STRATEGY (HiPOS)

as of December 2016



### HIGHLIGHTS

- Annualized returns since inception +2.3% after fees
- Alternative investment strategy specializing in options
- Non-correlated historical returns to equity or fixed income markets
- Targets a yearly return rate of 6% - 8% (gross)
- Recommended use to replace portion of a client's income allocation
- Management team with extensive options experience

### METHODOLOGY

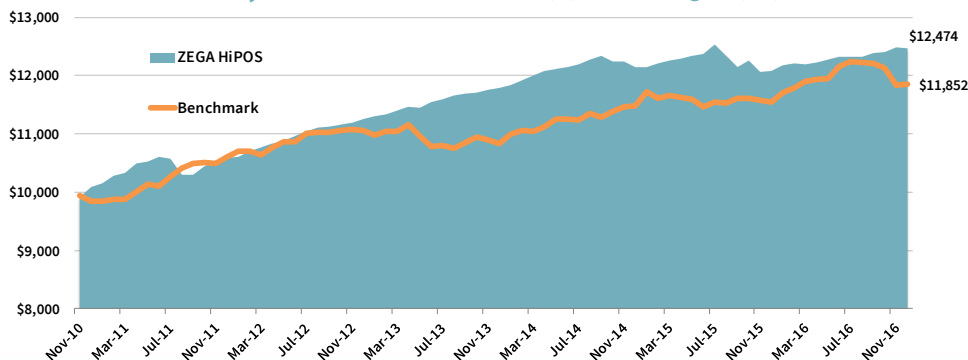
- **Disciplined Approach:** only invests when targeted returns exceed the calculated risk.
  - Investment in options on major equity indexes
  - Returns are driven by the natural time decay of near-expiring options; positions must have expirations within the following 30 days
  - Strike price must be far enough out-of-the-money
  - Option must have a high probability of expiring worthless, per ZEGA's calculation
- **Credit Spreads Used For Leverage:** HiPOS writes spreads instead of naked puts/calls in order to maximize the buying power in the account. We limit the amount of implied leverage in the portfolio and use the excess cash to invest in a cash sweep ETF.
- **Disciplined Exit Criteria:** ZEGA continuously monitors the positions in the portfolio and makes adjustments to fit the risk/return expectation of the strategy. If the portfolio's one-month loss approaches our exit criteria (typically around 1% loss), the strategy pivots to a defensive posture.
- **Purposefully Go To Cash:** the strategy will close positions to cash or let the options expire worthless between each trade cycle, and only rolls the trade as a defensive tactic.
- **Opportunistic Trading:** Opportunistic trades may occur if markets move favorably early enough in the lifecycle of the trade. ZEGA will generally take profits early when 85% or more of the max gain are realized and another trade exists.

### PERFORMANCE as of 12/31/2016

#### Annualized Returns

	MTD	QTD	YTD	1 Year	3 Year	ITD
<b>ZEGA HiPOS Gross</b>	0.0%	1.0%	4.8%	4.8%	3.4%	3.9%
<b>ZEGA HiPOS Net</b>	-0.1%	0.6%	3.2%	3.2%	1.9%	2.3%
<b>Benchmark</b>	0.1%	-3.0%	2.7%	2.7%	3.0%	1.7%
<i>excess return</i>	-0.3%	3.6%	0.6%	0.6%	-1.2%	0.7%

### GROWTH OF \$10,000 Model Portfolio from 11/1/2010 through 12/31/2016



### STRATEGY OVERVIEW

ZEGA's High Probability Options Strategy (HiPOS) is an alternative investment strategy designed as a complement or replacement for existing fixed income allocations. ZEGA generates return by selling credit spreads, which are two-legged options strategies. HiPOS is designed to be highly liquid, can generate positive returns in up or down markets, and has little to no historical correlation to interest rate sensitive markets.

#### KEY FACTS

<b>Vehicle Type</b>	Separately Managed Account
<b>Inception Date</b>	May 2013
<b>AUM (12/31/2016)</b>	\$3.2 Million
<b>Benchmark</b>	Barclays US Agg Bond Index
<b>Portfolio Managers</b>	Jay Pestrighelli Wayne Ferbert

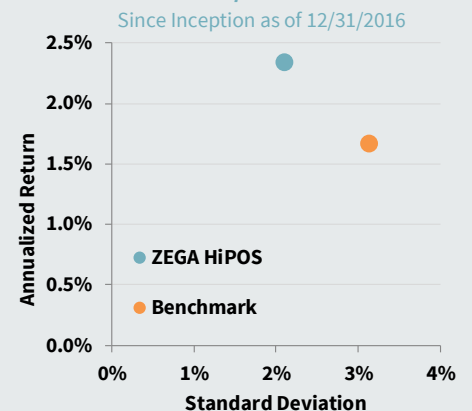
#### RISK METRICS

	Standard Deviation		
	1 Year	3 Year	ITD
<b>ZEGA HiPOS Gross</b>	1.0%	2.2%	2.1%
<b>ZEGA HiPOS Net</b>	1.0%	2.2%	2.1%
<b>Benchmark</b>	3.6%	3.0%	3.1%

	Sharpe Ratio		
	1 Year	3 Year	ITD
<b>ZEGA HiPOS Gross</b>	4.52	1.46	1.79
<b>ZEGA HiPOS Net</b>	2.94	0.78	1.06
<b>Benchmark</b>	0.66	0.97	0.49

#### RISK/RETURN





## MONTHLY PERFORMANCE Model Portfolio from 11/1/2010 through 12/31/2016

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD (net)	Bench
2010	Gross											-0.8%	1.9%	0.8%	-1.6%
	Net											-0.9%	1.7%		
2011	Gross	0.8%	1.5%	0.7%	1.6%	0.4%	0.9%	-0.1%	-2.6%	0.1%	1.6%	1.0%	0.7%	5.1%	7.9%
	Net	0.7%	1.3%	0.5%	1.5%	0.3%	0.8%	-0.2%	-2.7%	0.0%	1.5%	0.8%	0.5%		
2012	Gross	0.2%	1.0%	0.7%	0.8%	0.6%	0.8%	0.9%	0.7%	0.3%	0.3%	0.5%	0.7%	6.2%	4.2%
	Net	0.1%	0.9%	0.6%	0.6%	0.5%	0.7%	0.8%	0.5%	0.2%	0.2%	0.4%	0.5%		
2013	Gross	0.6%	0.5%	0.7%	0.7%	0.0%	1.0%	0.5%	0.8%	0.4%	0.2%	0.6%	0.5%	4.8%	-2.0%
	Net	0.4%	0.3%	0.5%	0.5%	-0.1%	0.9%	0.4%	0.6%	0.3%	0.1%	0.5%	0.3%		
2014	Gross	0.4%	0.9%	0.8%	0.8%	0.3%	0.5%	0.6%	0.7%	0.7%	-0.6%	0.0%	-0.6%	3.0%	6.0%
	Net	0.3%	0.7%	0.7%	0.6%	0.2%	0.3%	0.4%	0.6%	0.6%	-0.7%	-0.1%	-0.7%		
2015	Gross	0.2%	0.6%	0.5%	0.5%	0.4%	0.4%	1.5%	-1.5%	-1.4%	1.0%	-1.3%	0.2%	-0.5%	0.6%
	Net	0.1%	0.4%	0.4%	0.3%	0.3%	0.3%	1.4%	-1.6%	-1.6%	0.9%	-1.5%	0.1%		
2016	Gross	0.9%	0.4%	0.0%	0.4%	0.5%	0.6%	0.1%	0.2%	0.7%	0.2%	0.8%	0.0%	3.2%	2.7%
	Net	0.7%	0.3%	-0.1%	0.3%	0.3%	0.5%	-0.1%	0.1%	0.5%	0.1%	0.7%	-0.1%		

### RECOMMENDED USAGE

The ZEGA Income High Probability Option Strategy (HiPOS) is designed as a complement or replacement for any fixed income allocations. We typically recommend anywhere up to 50% to 100% of assets allocated for bonds to be placed in the Income HiPOS profile. The strategy has little to no interest rate sensitivity and downside exposure is limited.

### 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 the inception month of May 2013 does not reflect the actual investment results of any individual client participating in the asset allocation program, but represent the hypothetical performance of the model. The ZEGA High Probability Options Income Strategy portfolio performance is calculated by weighting the historical performance of the ZEGA High Probability Options Aggressive Growth Strategy adjusted using the asset allocation target of the respective strategy. The data reported starting in May 2013 reflects the actual aggregate performance of the separate accounts invested in the ZEGA High Probability Options Income Strategy. Performance numbers displayed net of fees include a 1.50% fee; this fee is an estimate which reflects both ZEGA's management fee and the fee charged by the advisor to the client. The Aggressive Growth strategy became actively managed in the fourth quarter of 2010. The target benchmark allocation will change as the allocation of the strategy changes. These results should not be viewed as indicative of the advisor's skill. Prior to May 2013, the advisor was not providing advice using either the Growth Strategy or the Income Strategy.

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. 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 Barclays Aggregate Bond Index** is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented. Municipal bonds, and treasury inflation-protected securities are excluded, due to tax treatment issues. The index includes treasury securities, government agency bonds, mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in the U.S.