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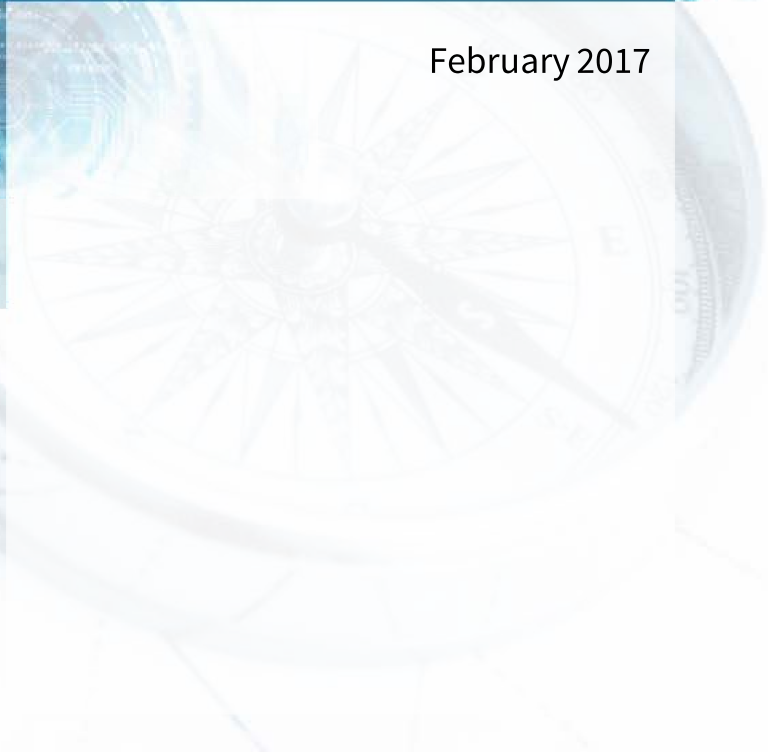
ZEGA BUFFERED INDEX GROWTH STRATEGY

February 2017



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Except where specifically identified otherwise, all performance data in this presentation is the performance of the Separate Account Strategy.

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What is ZBIG?

What is ZEGA's Buffered Index Growth Strategy (ZBIG)?

- ZBIG is a strategy designed to provide **upside market growth with partial downside protection** in place
- Established for a **fixed holding period** of 18 to 36 months, but still accessible
- Transactions and holdings are fully transparent as the strategy is deployed in an **SMA** format
- Offered in 3 versions for portfolio flexibility: Leveraged, Standard, and IRA
- Strategy uses a combination of **options and bond ETFs**

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What Drives Outperformance

When investing, absolute outperformance can be delivered in 2 ways

- Under-participation in down markets
- Over-participation in up markets

These are the two concepts ZBIG strives to deliver

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BENEFITS

Provided a Buffer with Exposure to Market Upside:

- Provides participation on market upside if held to maturity.
  - Has upside equity exposure at expiration in 18-36 months if the market goes up over that time.
- Buffered zone designed to protect from small and modest market losses.
  - Has potential for a small gain (varies) if the market declines by less than equity loss limit.
- Standard and Leveraged styles targeted to match or outperform the S&P 500 ETF (SPY) at all points of the P&L Chart
  - This is possible when the fixed income ETF portion of the portfolio delivers all dividends and full value at maturity
- While designed for an 18-36 month holding period, there is no mandatory hold period or early redemption penalty.
- Offered in qualified (IRA, 401k, etc.) & non-qualified accounts.
- Generates monthly dividends.

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Target Performance

Example of ZBIG Standard vs. SPY Profit & Loss Chart

***Important Note:** P&L based on fixed income ETF allocation suffering no losses from defaults, delivering all dividends, and returning full expected intrinsic value at maturity

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Target Performance

Example of ZBIG Leveraged vs. SPY Profit & Loss Chart

SPY Performance at Maturity
ZBIG Performance at Maturity
ZBIG Outperformance
Profit/Loss
90.0%
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
-10.0%
-20.0%
-30.0%
-40.0%
-50.0%
-60.0%
-50.0% -45.00% -40.00% -35.00% -30.00% -25.00% -20.00% -15.00% -10.00% -5.00% 0.00% 5.00% 10.00% 15.00% 20.00% 25.00% 30.00% 35.00% 40.00% 45.00% 50.00%
Market Change (S&P 500)

***Important Note:** P&L based on fixed income ETF allocation suffering no losses from defaults, delivering all dividends, and returning full expected intrinsic value at maturity

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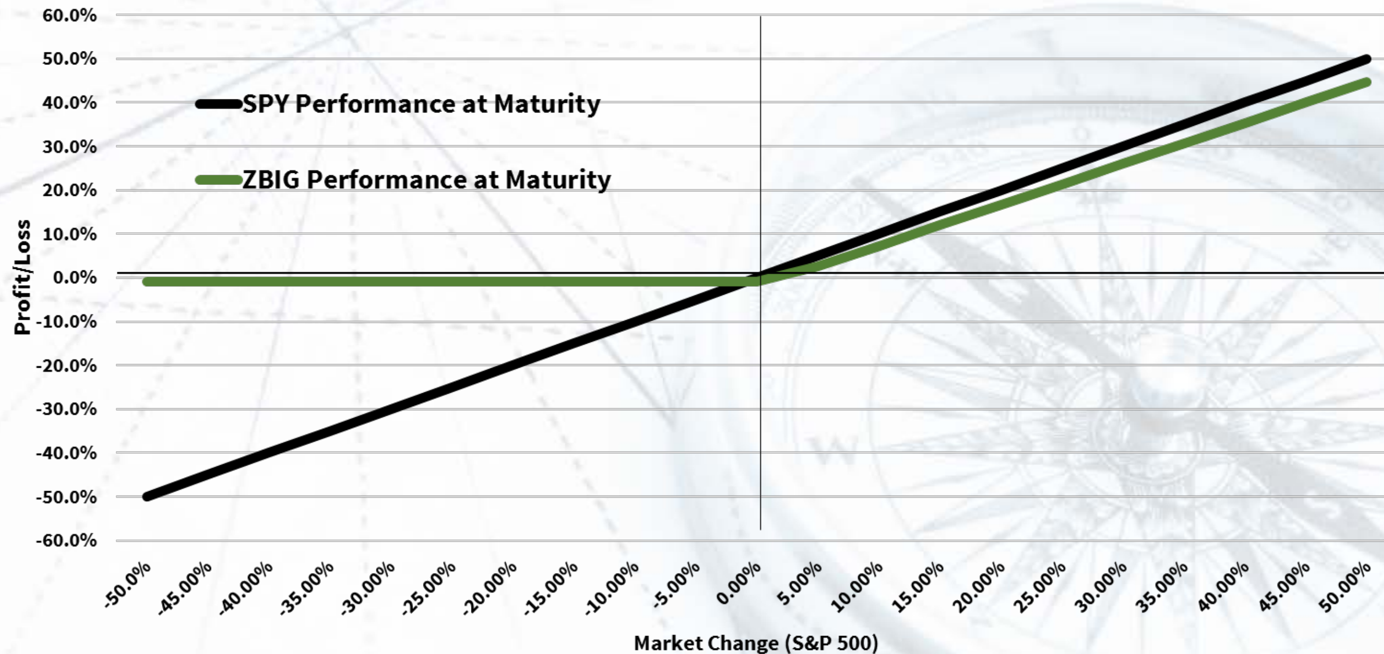
Target Performance

Example of ZBIG IRA vs. SPY Profit & Loss Chart



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Product Features

	LEVERAGED	STANDARD	IRA
Maturity	18-36 months	18-36 months	18-36 months
Early Exit Penalty	None	None	None
Account Type	Margin	Margin	Any
Upside Participation	125-140%	115-95%	70-95%
Buffered Range	0 to -25%	+5% to -30%	+5% to -100%
Buffered Range Return	0-4%	0-4%	0-4%
Equity Component Loss Limit	-35%	-10%	-5%
Primary Risk	Default risk in the hold to maturity High Yield ETFs		

Note: These current ranges are gross of fees. These ranges change over time with interest rates and options premium and are based on 2016 data.

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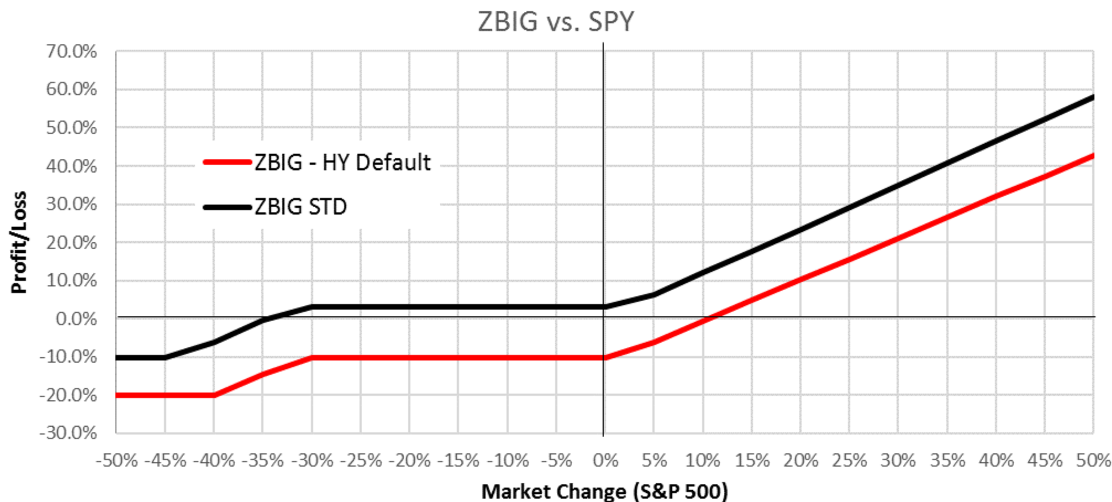
Investment Risks

Default risk represents the most significant risk to the strategy

- The underlying high yield corporate bond ETFs carry default risk. All return profiles require the short duration high yield fixed income market to avoid material default scenarios.



High Yield Default shifts P&L

In the case where these underlying securities lose value, the P&L curve will shift down, causing the portfolio to bear a significant decline in value. The chart below illustrates the shift in the P&L chart when high yields experience a 10% loss from defaults.

Other Investment Risks

- In Leveraged & Standard versions, losses begin to accelerate after the market drops below the buffered zone.
- If closed early, returns will have a different result than full maturity targets.
- Taxable account may have gain or loss at the end of the holding period.

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PORTFOLIO FIT

A Complementary Portfolio component:

- The strategy is a complementary fit in a portfolio – Can be a complement or an alternative to any Equity Allocation.
  - Leveraged for clients looking to outperform the S&P 500
  - Standard market perform with limited downside equity risk
  - IRA for accounts without margin
- ZBIG aims to prevent giving back recent equity gains at market highs without sacrificing exposure to market growth going forward.
- Clients should have risk tolerance for short duration high yield exposure and should expect to hold for 18-36 months allowing for full valuation of positions.

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IMPLEMENTATION

A fixed maturity product with liquidity

- On any given day, for each of the 3 products, we will be implementing either June or December expirations – but usually not both simultaneously
- The implementation characteristics will be provided upon request to help advisors explain the targeted returns on any given portfolio
  - For example, the leverage amount, the buffered loss trigger, and the buffered range return.
- While the vehicles are very liquid and permit early exit, we recommend holding to maturity to optimize the return profile
- We also recommend implementation in a ladder with multiple expirations for accounts over $250,000.

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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 either the expected performance presented herein or the past performance.

The expected performance returns provided herein assume The counter-party that represents the that all counter-parties to the investments made are able to deliver on their obligations as they relate to income and return of principal. most risk is the issuers of the fixed income that resides in the maturity date high yield fixed income ETFs that are held in the account. These short duration vehicles plan to return the principal of the fixed income held within the ETF but can only return that principal if the fixed income issuers pay off their debts as promised. As such, the majority of the risk resides in the potential default on the fixed income debt in the ETF.

High yield securities generally offer a higher current yield than that available from higher grade issues, but typically involve greater risk. Securities rated below investment grade are commonly referred to as "junk bonds." The ability of issuers of high yield securities to make timely payments of interest and principal may be adversely impacted by adverse changes in general economic conditions, changes in the financial condition of the issuers and price fluctuations in response to changes in interest rates. High yield securities are less liquid than investment grade securities and may be difficult to price or sell, particularly in times of negative sentiment toward high yield securities.

All fixed income carries interest rate risk. Securities with longer durations tend to be more sensitive to interest rate changes, making them more volatile than securities with shorter durations. This strategy exclusively uses fixed income ETFs with durations less than 3 years out.

Issuers or guarantors of debt instruments or the counterparty to a repurchase agreement or loan of portfolio securities may be unable or unwilling to make timely interest and/or principal payments or otherwise honor its obligations. The default risk on high yield securities is higher than the default risk on securities issued with a higher grade.

Strategy uses underlying stock and ETF positions as collateral to sell options premium. The result is leverage using margin but no explicit margin interest. While no margin debt is incurred, the account has implied leverage as high as 140% of the portfolio value. Leverage can cause a portfolio to experience accelerated gains or losses and the client should understand the risks inherent in leverage before the client invests.

Investors should consider liquidity needs prior to investing, as the strategy is designed specifically to be held to maturity, and exiting early may result in performance that will vary from the targeted return profile, and could potentially result in a loss.

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