



ZEGA  
FINANCIAL



## BUY & HEDGE PRESENTATION

Information as of  
February 2019

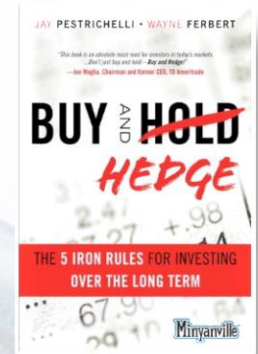
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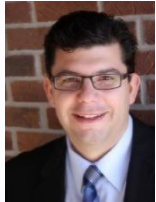
**Except where specifically identified otherwise, all performance data in this presentation is the performance of the Separate Account Strategy.**

- Registered Investment Advisor\* founded in 2011
- Over \$425 million in Assets Under Management as of February 2019
- Authors of the best-seller: *Buy And Hedge: The 5 Iron Rules for Investing over the Long Term*
- Claims compliance with the Global Investment Performance Standards (GIPS)



## EXPERIENCED TEAM

With over 120 years of combined investing experience, we at ZEGA we believe in a progressive, forward thinking approach to investing.. Progressive does not mean ignoring historical performance, but rather looking forward to determine opportunities that produce consistent asset growth. Whether seeking a strategy that is core, hedged, upside progressive or downside protection we have a solution.



**Jay Pestrichelli**  
Co-Founder/Managing  
Director

21 years Investment  
Experience



**Mick Brokaw**  
Director of Trading/CCO

22 years Investment  
Experience



**Jillian Baker**  
Director of  
Communications

13 years Investment  
Experience



**Jim Granger**  
Operations Manager

20 years Investment  
Experience

“Nothing differentiates a business more than the people who contribute to its success.” – Jay Pestrichelli



**Wayne Ferber**  
IAR of ZEGA/Co-Founder

19 years Investment  
Experience



**Derek Moore**  
IAR of ZEGA

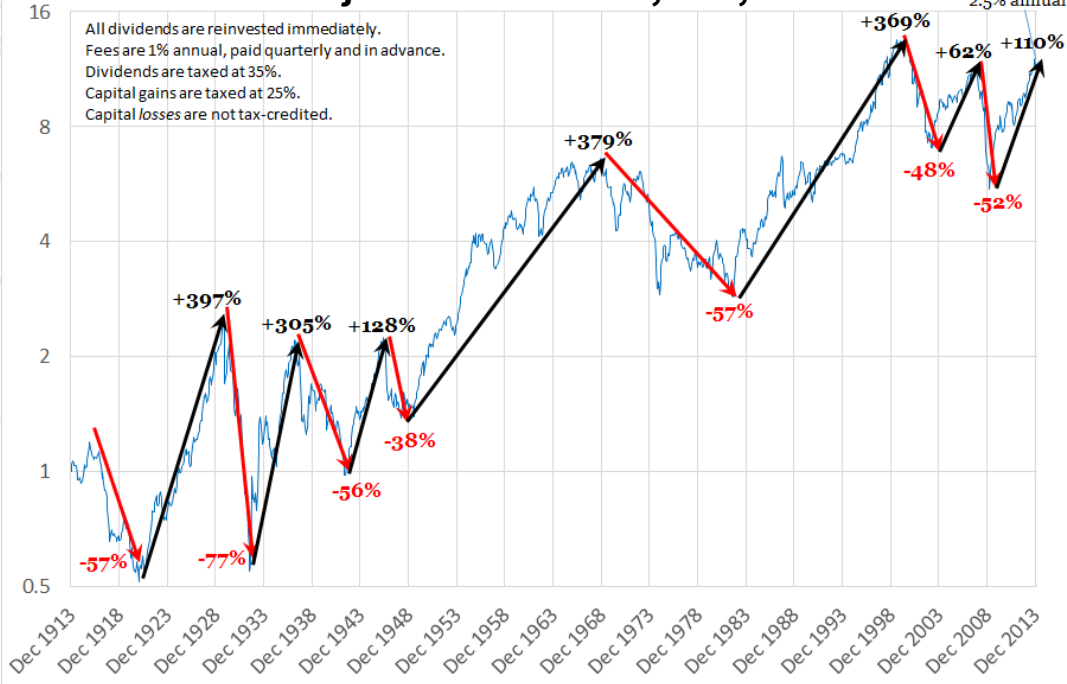
25 years Investment  
Experience

- What does it mean to be Hedged with ZEGA Financial?
  - Exposure to stock market growth with **protection** against major market declines
  - Uses the S&P 500 as the baseline investment
  - Captures the majority of US stock market **appreciation**
  - Protection that intends to **limit losses** to 8 to 10% in any 12 month period by putting a floor in the portfolio
  - **Progressive strategy** vs. traditional 60/40 stock to bond mix
- Strategy executed through a separate managed account structure
  - **Individual account** attention given to position management – Not a Fund
  - **Full position and fee transparency**
  - No lock-up periods. Positions are **highly liquid**

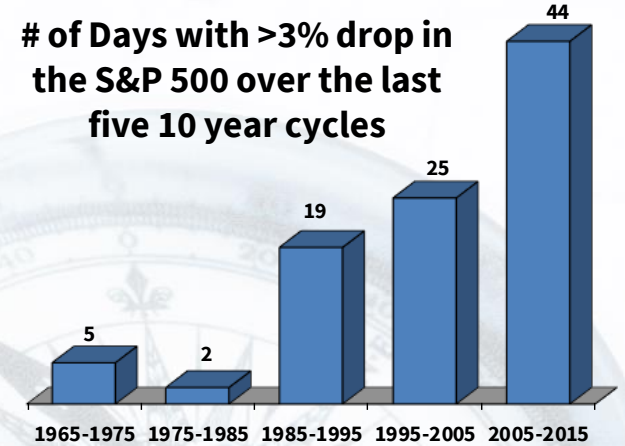




## 100 years Historical Performance of the S&P 500 adjusted for inflation, fees, taxes



## # of Days with >3% drop in the S&P 500 over the last five 10 year cycles



**Odds are you will experience more than one of these downturns.**

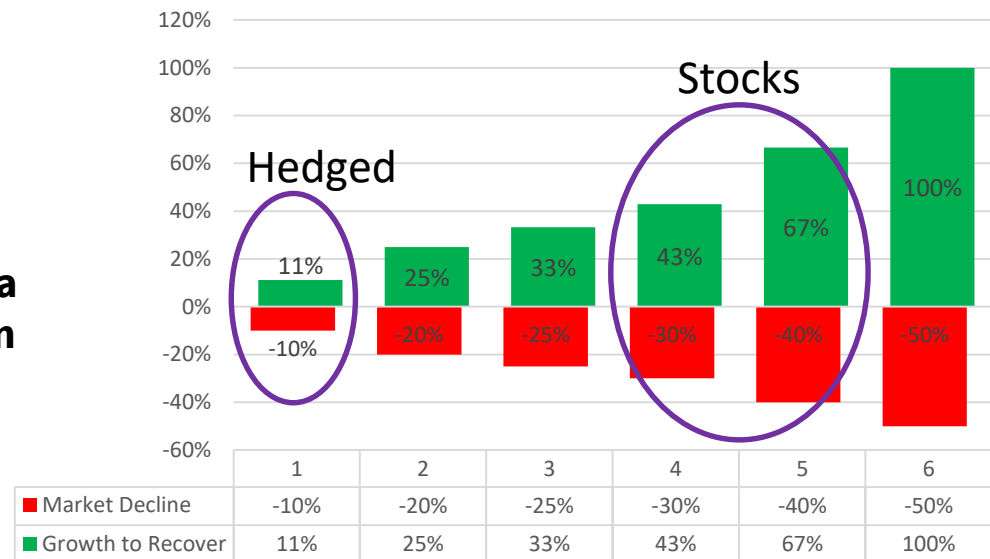
- In the 100 year history of the S&P500 you can barely find any 20 year window without a steep market downturn.
- On top of that, the last 20 years have now offered up two very powerful down turns.
- We see a pattern like that in the first 35 years of this century also.
- And the characteristics are interesting: Bull markets have a slope that is more steady. Meanwhile, the bears tend to be swift and shorter experienced.

- Long-term outperformance can come in two ways: Improved **Appreciation** over time and **lower losses** in the **down years**. **Hedging intends to do both**
- Pretty Straight forward. Over coming smaller percentage losses requires smaller magnitude rebounds to recover than larger percentage declines require.

**Losing 10% only requires an 11% rebound to break even**

**While a 30% decline requires a 43% to rebound to break even**

Declines and Recovery Comparison

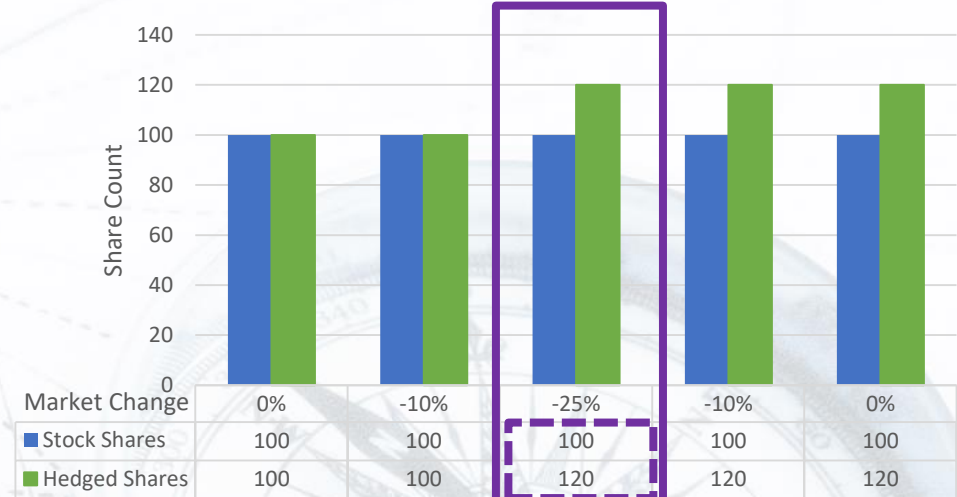


- Avoiding losses allows **reinvestment at lower levels** to have additional exposure on rebounds than held during declines. This can drive improved growth over time.
- Reducing drawdowns and volatility delivers **smoother returns** over time reducing pressure to act and client anxiety

- Avoiding losses is the primary means of account outperformance during down years, however re-investing avoided losses at market bottoms adds more to upside capture.
- In this example, avoiding a 15% loss provides the capital to add a 20% stake in the market for additional upside capture.
- When markets recover the additional shares allow for greater upside capture without having to make additions to the portfolio

Market capture of +20% vs.  
Non-Hedged at recovery

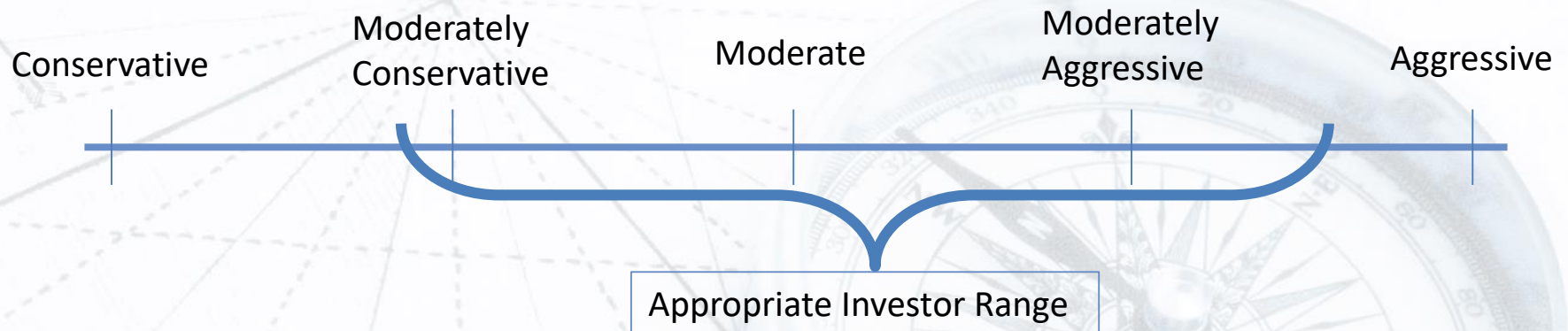
Hedged vs. Non-Hedged Share Count



Hedged vs. Non-Hedged Market Stake



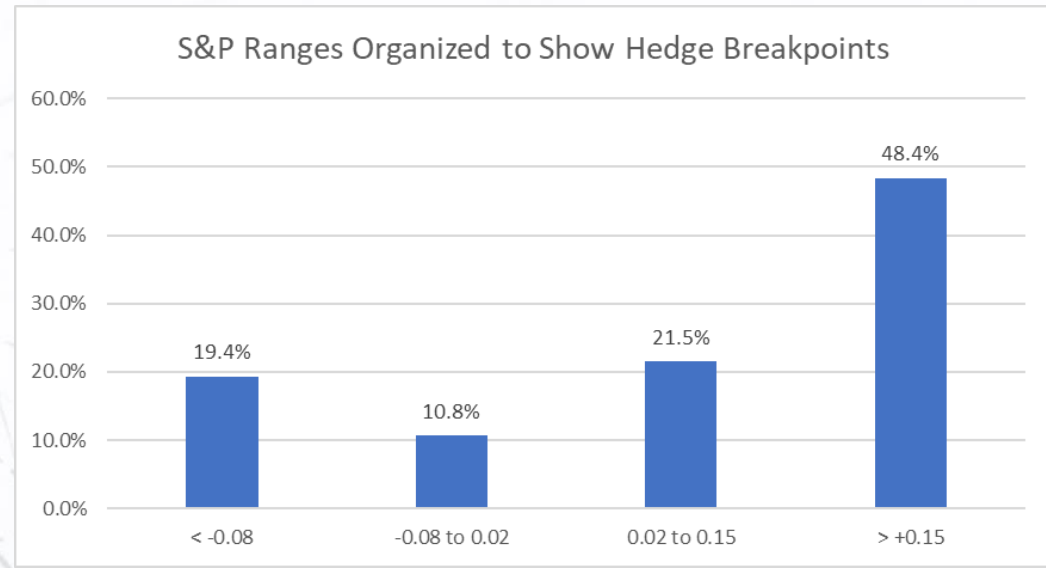
- Hedged equity is appropriate for investors with a **moderately conservative to moderately aggressive risk profile**



- The **downside** of hedging
  - Cost of hedging will vary from 2% to 4% annually, causing **drag** against the index
  - May **not directly participate** in dividend yields
  - **Rarely fully participates** in the full growth of the S&P 500
  - Not designed to protect losses for declines of less than 8%



Hedging delivers positive client outcomes ~ 90% of the time based on historical market returns



1 Year Market Change	Historical Frequency	Expected Hedged Equity Return	Expected Client Sentiment
> +15%	~ 50%	Capture 75-85% of upside market move	Happy to participate in strong market gains. Most likely exceeded planned annual return.
+2% to +15%	~20%	Capture 65-75% of upside market move	Happy with gains, but slightly disappointed in hedging drag
-8% to +2%	~10%	Underperformance of 2-4% vs. market	Most disappointing situation. Finds little value in the hedges.
-100% to -8%	~20%	Losses limited to 8% per year.	Max loss experienced, but should be relieved to be hedged. Optimistic about extra upside exposure on a rebound

➤ **Benefits**

- US Equity targets a high correlation to the S&P 500 on up years
- Downside protection is built using options and limits losses to 8 to 10% annually
- Lower portfolio volatility than the broad equity markets

➤ **Risks**

- Cost of hedging will cause a 2% to 4% drag on returns
- May experience higher costs when volatility is high

➤ **Client Fit**

- Appropriate strategy for a client that is comfortable with market swings – but seeks protection from potentially significant market crash or crisis.
- Replaces a 60/40 stock/bond allocation.

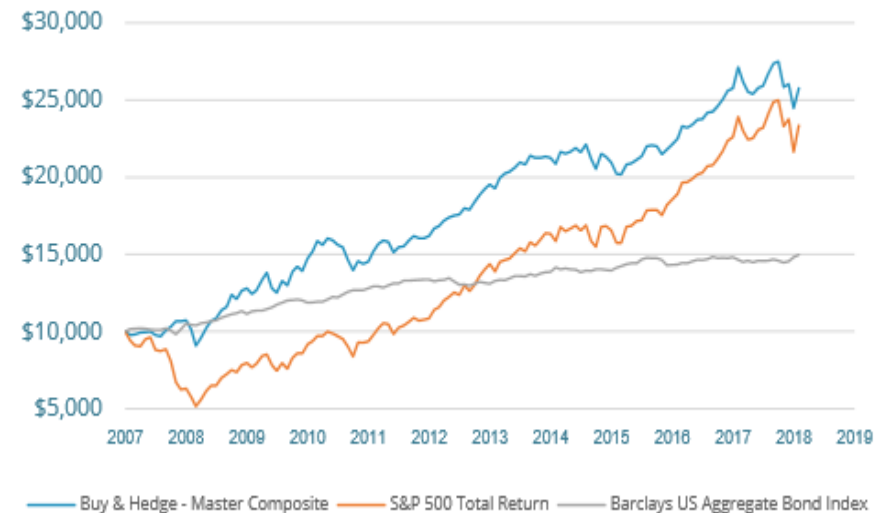


## Strategy Performance Information

### Performance Statistics

	ZEGA Financial	S&P 500 Total Return	Barclays US Aggregate Bond Index
YTD Return	7.58%	11.48%	1.00%
Ann. Return: 1 year	0.46%	4.68%	3.17%
Ann. Return: 3 years	9.27%	15.29%	1.69%
Ann. Return: 5 years	5.71%	10.68%	2.31%
Ann. Return: Inception	9.05%	8.20%	3.68%
Annualized Volatility	10.08%	15.09%	3.21%
Sharpe Ratio	0.93	0.51	0.99

### Cumulative Growth (since inception)



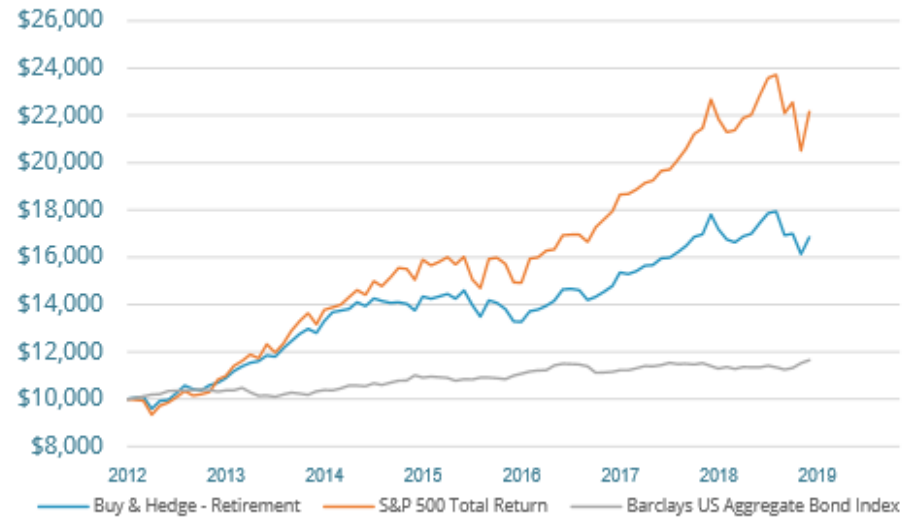
### Monthly Performance

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	S&P500
2008	-2.18%	0.30%	1.37%	0.18%	0.36%	-2.32%	-0.76%	3.95%	2.40%	3.44%	-0.03%	0.47%	7.20%	-37.00%
2009	-5.33%	-10.52%	5.73%	6.31%	4.75%	1.50%	4.83%	2.06%	6.72%	-2.31%	4.48%	1.17%	19.36%	26.46%
2010	-2.89%	2.10%	5.08%	3.74%	-7.41%	-2.27%	6.16%	-2.28%	6.83%	2.45%	-1.92%	5.71%	15.13%	15.06%
2011	3.15%	4.55%	-1.72%	2.73%	-0.74%	-1.82%	-1.06%	-5.58%	-4.36%	4.26%	-1.21%	1.06%	-1.31%	2.11%
2012	4.47%	3.12%	1.48%	-0.49%	-4.28%	2.11%	0.46%	2.37%	1.88%	-0.98%	0.07%	0.85%	11.34%	16.00%
2013	3.15%	0.89%	2.05%	1.18%	0.74%	0.32%	2.34%	-0.53%	2.72%	2.67%	1.97%	1.46%	20.63%	32.39%
2014	-1.37%	3.55%	1.53%	0.60%	1.27%	1.62%	-0.61%	2.72%	-0.64%	-0.04%	0.41%	-0.37%	8.88%	13.69%
2015	-1.90%	3.79%	-0.57%	0.61%	1.14%	-1.37%	2.47%	-4.16%	-3.25%	4.89%	-0.93%	-1.72%	-1.40%	1.40%
2016	-3.51%	-0.25%	3.17%	0.43%	1.11%	1.05%	3.07%	0.21%	-0.25%	-2.37%	1.49%	1.46%	5.53%	11.98%
2017	1.64%	3.64%	-0.37%	0.73%	1.47%	0.21%	1.74%	0.21%	1.47%	1.73%	2.30%	0.64%	16.48%	21.84%
2018	5.31%	-3.43%	-2.59%	-0.55%	1.55%	0.62%	2.90%	2.52%	0.52%	-6.00%	0.70%	-6.02%	-5.04%	-4.38%
2019	5.31%	2.16%											7.58%	11.48%



	ZEGA Financial	S&P 500 Total Return	Barclays US Aggregate Bond Index
YTD Return	6.28%	11.48%	1.00%
Ann. Return: 1 year	-0.23%	4.68%	3.17%
Ann. Return: 3 years	8.94%	15.29%	1.69%
Ann. Return: 5 years	5.21%	10.68%	2.31%
Ann. Return: Inception	8.11%	12.70%	2.23%
Annualized Volatility	7.86%	10.82%	2.77%
Sharpe Ratio	1.17	1.12	0.61

## Cumulative Growth (since inception)



## Monthly Performance

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	S&P500
2012				1.00%	-5.01%	3.47%	0.39%	3.04%	3.05%	-1.52%	-0.45%	2.06%	5.88%	3.03%
2013	1.06%	1.72%	2.81%	1.77%	1.30%	0.55%	2.18%	-0.47%	3.00%	2.59%	2.30%	1.78%	22.59%	32.39%
2014	-1.40%	3.94%	2.82%	0.51%	0.49%	2.06%	-1.20%	2.42%	-0.79%	-0.57%	0.15%	-0.44%	8.13%	13.69%
2015	-2.06%	4.31%	-0.67%	0.69%	0.78%	-1.41%	2.50%	-4.33%	-3.45%	5.06%	-0.70%	-1.84%	-1.56%	1.40%
2016	-3.79%	-0.19%	3.42%	0.52%	1.11%	1.61%	3.34%	0.16%	-0.33%	-2.87%	0.93%	1.52%	5.31%	11.98%
2017	1.68%	3.82%	-0.39%	0.74%	1.50%	0.19%	1.77%	0.20%	1.42%	1.70%	2.34%	0.58%	16.63%	21.84%
2018	4.97%	-3.48%	-2.56%	-0.67%	1.51%	0.62%	2.67%	2.39%	0.45%	-5.62%	0.41%	-5.11%	-4.89%	-4.38%
2019	4.45%	1.75%											6.28%	11.48%



## Performance Statistics

	<b>ZEGA Financial</b>	<b>S&amp;P 500 Total Return</b>	<b>Barclays US Aggregate Bond Index</b>
YTD Return	7.59%	11.48%	1.00%
Ann. Return: 1 year	1.59%	4.68%	3.17%
Ann. Return: 3 years	9.41%	15.29%	1.69%
Ann. Return: Inception	6.00%	10.80%	1.38%
Annualized Volatility	8.86%	11.80%	2.68%
Sharpe Ratio	0.73	0.84	0.18

## Cumulative Growth (since inception)



## Monthly Performance

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	S&P500
2015		4.03%	-1.30%	0.72%	1.09%	-1.51%	1.98%	-4.27%	-3.05%	5.59%	-0.17%	-1.87%	<b>0.81%</b>	<b>4.54%</b>
2016	-3.49%	-0.45%	2.85%	0.24%	1.17%	-0.25%	2.58%	0.18%	-0.39%	-1.34%	3.14%	1.29%	<b>5.46%</b>	<b>11.98%</b>
2017	1.72%	3.06%	-0.63%	0.73%	1.18%	-0.04%	2.02%	0.06%	1.12%	2.04%	2.55%	0.66%	<b>15.39%</b>	<b>21.84%</b>
2018	4.75%	-2.83%	-2.65%	0.30%	1.95%	0.25%	2.94%	2.71%	-0.03%	-5.11%	1.29%	-6.86%	<b>-3.89%</b>	<b>-4.38%</b>
2019	5.20%	2.27%											<b>7.59%</b>	<b>11.48%</b>

**ZEGA FINANCIAL, LLC  
BUY AND HEDGE MASTER COMPOSITE  
ANNUAL DISCLOSURE PRESENTATION**

Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Number of Accounts	Percent of Assets In Wrap Accounts	% of Non-Fee-Paying	Annual Performance Results Composite		S&P 500 Index	Composite Dispersion	Composite 3 Yr St Dev	Benchmark 3 Yr St Dev
						Gross	Net				
2017	287	110	479	37%	<1%	18.38%	16.46%	21.84%	2.17%	7.10%	9.92%
2016	207	48	243	58%	<1%	7.39%	5.53%	11.98%	2.73%	7.10%	10.59%
2015	224	17	62	50%	1%	-0.37%	-1.40%	1.40%	1.71%	6.83%	10.47%
2014	378	5.7	16	0%	5%	10.00%	8.88%	13.69%	3.30%	5.63%	8.97%
2013	143	3.9	11	0%	4%	21.83%	20.63%	32.39%	6.59%	8.23%	11.94%
2012	13	3.7	13	0%	3%	11.98%	11.34%	16.00%	4.04%	11.65%	15.09%
2011	7	2.9	7	0%	68%	-1.30%	-1.31%	2.11%	N.A. <sup>1</sup>	14.90%	18.71%
2010	NA	1.9	1	0%	100%	15.13%	15.13%	15.06%	N.A. <sup>1</sup>	13.88%	21.85%
2009	NA	2.1	1	0%	100%	19.36%	19.36%	26.46%	N.A. <sup>1</sup>	N.A. <sup>2</sup>	N.A. <sup>2</sup>
2008	NA	1.1	1	0%	100%	7.21%	7.21%	-37.00%	N.A. <sup>1</sup>	N.A. <sup>2</sup>	N.A. <sup>2</sup>

N.A.1 - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

N.A.2 - The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The three-year annualized standard deviation is not presented for 2008 through 2009 due to less than 36 months of composite and benchmark data.

**Buy and Hedge Master Composite** includes all Hedged Equity strategies and accounts managed by ZEGA prior to and since ZEGA's inception. To qualify as a in this strategy, the account must be invested with its assets in at least 70% in a diversified portfolio of Equities, Equity ETFs, or Equity indexes. The value is based on the notional dollars controlled. The portfolio must also have a hedge built in that limits the downside for the majority of the notional equity controlled. All portfolios that are at least 70% allocated to this strategy are included. The benchmark is the S&P 500. The S&P 500 Index is a collection of 500 of the largest publicly traded US Equity large cap companies. There is no minimum account size for this composite. The Hedged Equity Master Composite was created November 30, 2016.

ZEGA Financial LLC ("ZEGA") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. ZEGA has been independently verified for the periods 7/1/2011 to 12/31/2017. The verification report(s) is/are available upon request

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.



ZEGA Financial is an independent registered investment adviser. The firm began managing client assets in July 2011. Prior to July 2011, the composite history represents the personal accounts of the founders. Since July 2011, firm assets included any accounts for which ZEGA Financial has at least some discretionary authority which includes accounts in ZEGA's wealth management practice and the investment management accounts for which ZEGA Financial was a sub-advisor to the account. The firm's list of composite descriptions is available upon request.

Performance presented prior to July 2011 occurred while the Portfolio Manager was affiliated with a prior firm and the Portfolio Manager was the only individual responsible for selecting the securities to buy and sell. The prior firm track record conforms to the portability requirements of the GIPS standards.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. To qualify as fully discretionary, at least 70% of the account must be dedicated to the composite strategy and no more than 20% of the account may be invested at discretion of a party other than ZEGA Financial. Derivatives and short positions make up a material part of the composite strategy which includes short selling, with the short position covered by cash accounts that are marked to market on a daily basis. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of fees and include the reinvestment of all income. This composite is a mix of accounts that are Wrap based and non-Wrap based (i.e. pay commissions). Gross returns are shown as supplemental information and are stated gross of all fees and transaction costs for wrap accounts, and net of transaction costs for non-wrap accounts. Net returns are reduced by all fees and transaction costs incurred. Wrap fee accounts pay a fee based on a percentage of assets under management. Other than brokerage commissions, this fee includes investment management, portfolio monitoring, consulting services, and in some cases, custodial services. The weighted average percentage of assets that were in Wrap fees is available upon request. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor. Net of fee performance was calculated using actual management fees. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The investment management fee schedule for the composite varies. Our fee for portfolio management services is based on a percentage of your assets we manage and ranges from 0.50% to 1.7%. The fee is negotiable depending upon the complexity and scope of the plan, your financial situation, and your objectives.

## Hedged Equity Comparison Matrix

As of 2/28/19

Name	Gross Returns (%)				Standard Deviation		Sharpe Ratio		AUM (in \$M)	Fee (bps)	
	YTD	1yr	3yr	5yr	3yr	5yr	3yr	5yr			
ZEGA Buy & Hedge Master Composite	7.87	1.91	10.97	7.17	8.47	8.17	1.16	0.79	139	1.50	
<b>Separately Managed Accounts (SMAs)</b>											
Swan Defined Risk Strategy	5.32	1.67	6.19	4.46	6.69	6.36	0.74	0.60	677	1.25	
Wellington Hedged Alpha Opportunities	6.41	4.50	6.99	3.71	5.46	5.81	1.04	0.53	266	0.75	
Scharf Hedged	2.18	2.67	1.95	3.70	5.67	5.24	0.15	0.57	30	1.50	
Quantum Hedged Equity	6.21	1.17	7.20	5.46	6.33	6.29	0.94	0.76	20	0.85	
<b>Mutual Funds</b>											
	<b>Ticker</b>	YTD	1yr	3yr	5yr	3yr	5yr	3yr	5yr		
Gateway A	GATEX	4.11	0.50	5.64	4.01	4.93	4.84	0.88	0.68	8,300	0.94
Swan Defined Risk A	SDRAX	5.38	-0.33	4.45	2.62	6.95	6.74	0.48	0.30	2,300	1.52
JPMorgan Hedged Equity Class A	JHQAX	3.64	2.47	9.75	6.12	5.37	5.87	1.52	0.91	4,000	0.85
AQR Long-Short Equity Fund Class I	QLEIX	3.11	-15.37	3.86	8.26	7.94	7.66	0.36	0.97	2,000	2.11
Touchstone Dynamic Equity A	TDEAX	4.59	-5.88	3.01	3.07	7.30	7.36	0.27	0.34	64	1.94
Toews Tactical Opportunity Fund	THSMX	7.24	3.18	3.63	-2.25	8.59	10.37	0.32	-0.24	44	1.29
<b>Benchmark</b>											
S&P 500 Index		11.48	4.68	15.29	10.68	11.06	11.08	-9.29	-5.62		

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Note: Returns are expressed in US Dollars. Performance includes reinvestment of dividends and other earnings.

All data for this supplemental report is sourced from Morningstar as reported by each advisor. Hedge equity Strategies selected from Morningstar's hedged and options categories based on description and tactics.

ZEGA Financial is a registered investment adviser and investment manager that specializes in derivatives. ZEGA is a separate accounts manager and all returns expressed herein are solely from the separate accounts business within ZEGA. ZEGA Financial claims compliance with the Global Investment Performance Standards (GIPS®). To receive a full list of composite descriptions of ZEGA Financial and/or a presentation, contact Jay Pestrichelli at 1-800-380-9342, ext 101 or [jay.pestrichelli@zegafinancial.com](mailto:jay.pestrichelli@zegafinancial.com).

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. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment or strategy will be suitable or profitable for a client's portfolio.

These results should not be viewed as indicative of the advisor's skill. 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 portfolio will generate over a long time period. The performance presented 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 presented results based upon the timing of contributions and withdrawals from individual client accounts. Employee accounts do not pay advisory fees, so the returns illustrated for the strategy are higher than they would be if employee accounts paid similar fees.