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## ZEGA FINANCIAL LLC

ZEGA's Buffered Index Growth  
(ZBIG)  
March 2019



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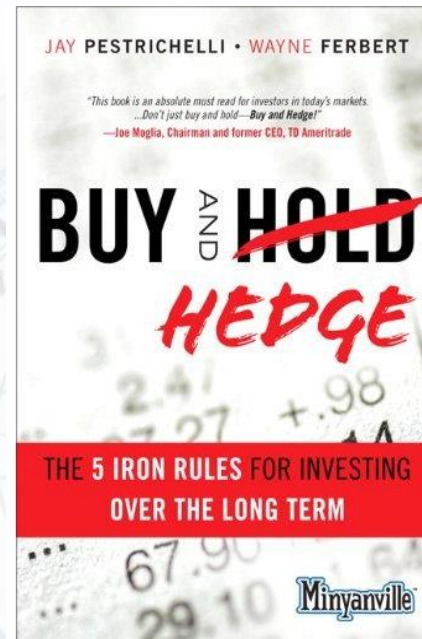


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# WHO IS ZEGA?

Product Developers turned Investment Managers

Jay Pestrichelli Co-Founder



- Registered Investment Advisor\*
- ZEGA Founded in 2011
- Co-author of *Buy And Hedge*
- Former TD Ameritrade Executive
- Claims compliance with the Global Investment Performance Standards (GIPS)
- Over \$413 Million Assets Under Management as of March 2019



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# ZEGA'S BUFFERED INDEX GROWTH STRATEGY (ZBIG)



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

- Aims to provide upside market exposure when markets appreciate
- Employs a buffered zone of protection designed to avoid stock market risk
- Swaps out stock risk for short duration fixed income risk within the buffered zone.
- Designed for a fixed holding period of 18 to 36 months by aligning option expiration and fixed income maturity
- Generates monthly dividends from short duration fixed income ETFs
- Transparency of holdings, transactions, and fees as it is deployed in an Separate Managed Account (SMA) format

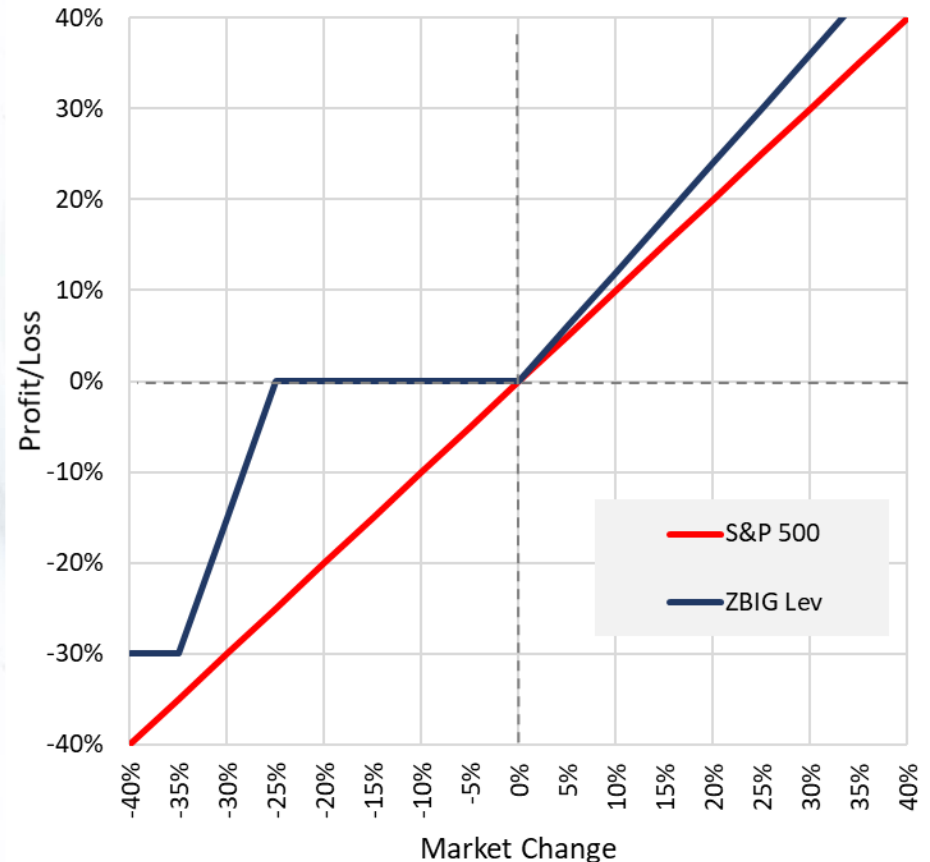


- The strategy is a complement or replacement for large-cap equity allocations
- There are 3 version available according to client profile and account type
  - **ZBIG Leveraged** – for clients looking to outperform the S&P 500 and have stock-type risk tolerance
  - **ZBIG Standard** – for clients looking to capture the majority of market upside moves and want equity protection.
  - **ZBIG IRA** – for accounts without margin, this version will capture 60-75% of the upside of the market and carries little to no equity risk
- ZBIG aims to prevent giving back recent equity gains at market highs without sacrificing exposure to market growth going forward.
- Clients should have moderate growth to aggressive growth risk tolerance. Not appropriate for conservative allocations.
- Clients should expect to hold for 18-36 months allowing for full valuation of positions

- Purchases At-the-Money calls to simulate leveraged long market exposure of 120-140%
- Put spreads are sold at 25 to 35% out of the money to generate income
- Hold-to-maturity corporate high yield fixed income ETFs with low duration are purchased with free cash.
- The income from the put spread and dividends from the fixed income intends to pay for the long call options.
- Option expiration and fixed income maturity dates are aligned to durations/expiration dates of 18 to 36 months
- As options approach expiration and fixed income approaches maturities, periodic rolls may be deployed to lock in gains or re-invest avoided losses while market prices are lower.

**\*Important Note:** P&L represents equity component and based on fixed income ETF allocation suffering no losses from defaults, delivering all dividends, and returning full expected intrinsic value at maturity Fixed income reflected in risk section.

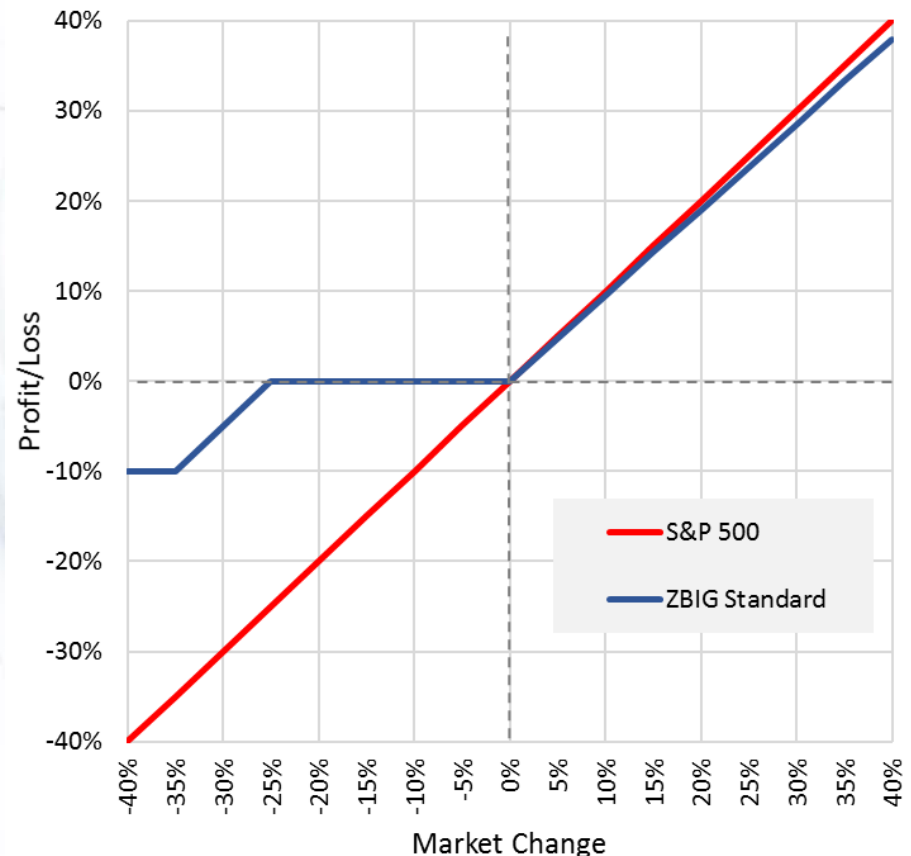
### ZBIG Lev. Equity Risk Compared to Long SPY



- Purchases At-the-Money calls to simulate leveraged long market exposure of 90-110%
- Put spreads are sold at 25 to 35% out of the money to generate income
- Hold-to-maturity corporate high yield fixed income ETFs with low duration are purchased with free cash.
- The income from the put spread and dividends from the fixed income intends to pay for the long call options.
- Option expiration and fixed income maturity dates are aligned to durations/expiration dates of 18 to 36 months.
- As options approach expiration and fixed income approaches maturities, periodic rolls may be deployed to lock in gains or re-invest avoided losses while market prices are lower.

**\*Important Note:** P&L represents equity component and based on fixed income ETF allocation suffering no losses from defaults, delivering all dividends, and returning full expected intrinsic value at maturity Fixed income reflected in risk section.

### ZBIG Standard Equity Risk Compared to Long SPY

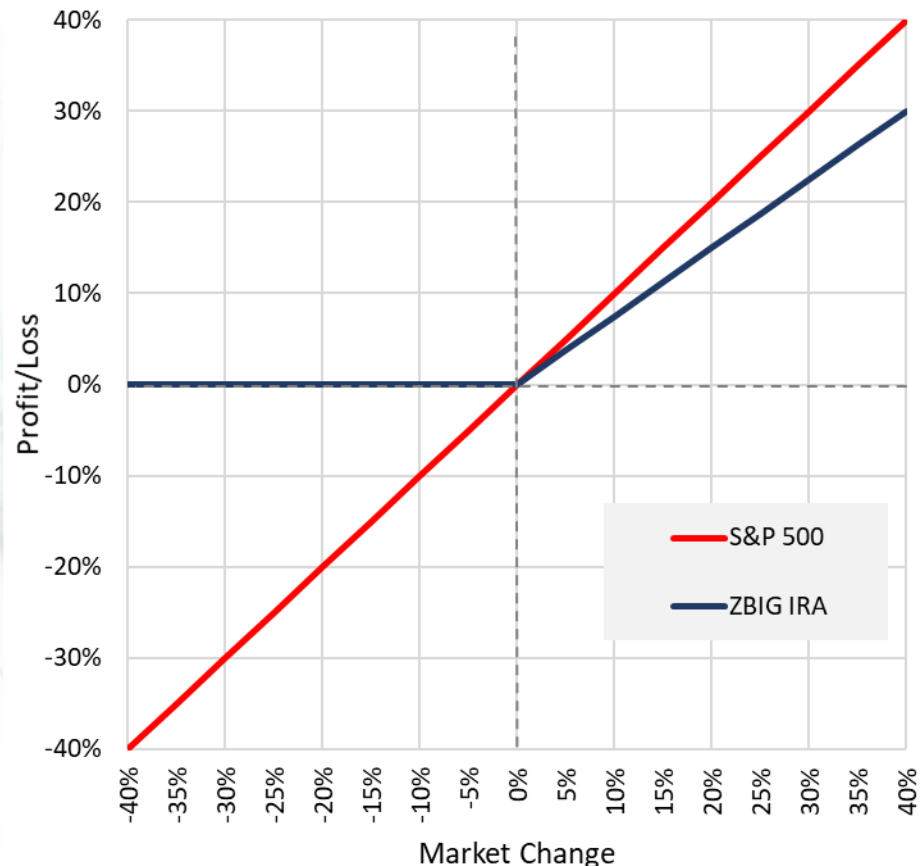




- Purchases At-the-Money calls to simulate long market exposure of 65 to 85%
- Hold-to-maturity corporate high yield fixed income ETFs with low duration are purchased with free cash.
- The income dividend income intends to pay for the long call option.
- Option expiration and fixed income maturity dates are aligned to durations/expiration of 18 to 36 months
- As options approach expiration and fixed income approaches maturities, periodic rolls may be deployed to lock in gains or re-invest avoided losses while market prices are lower.

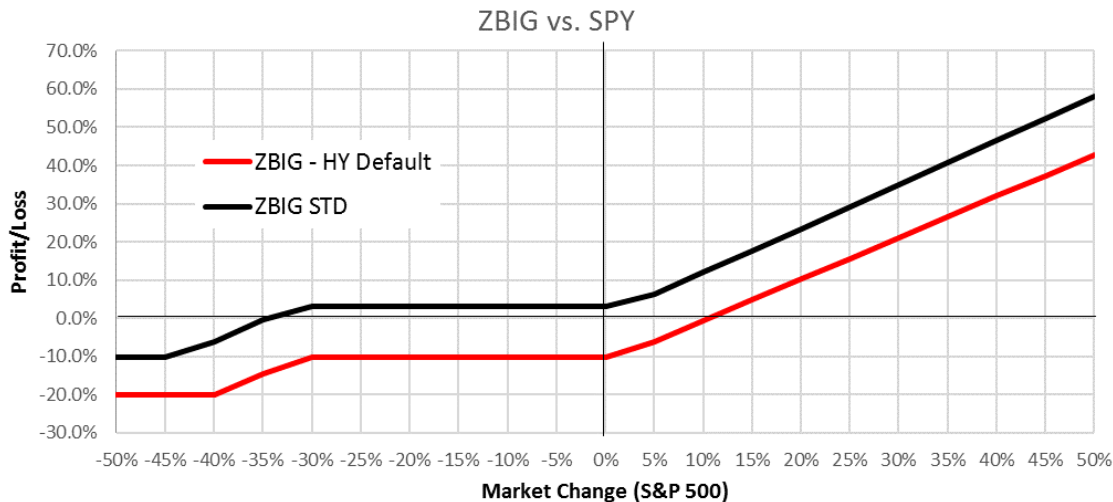
**\*Important Note:** P&L represents equity component and based on fixed income ETF allocation suffering no losses from defaults, delivering all dividends, and returning full expected intrinsic value at maturity Fixed income reflected in risk section.

### ZBIG IRA Equity Risk Compared to Long SPY



## 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.

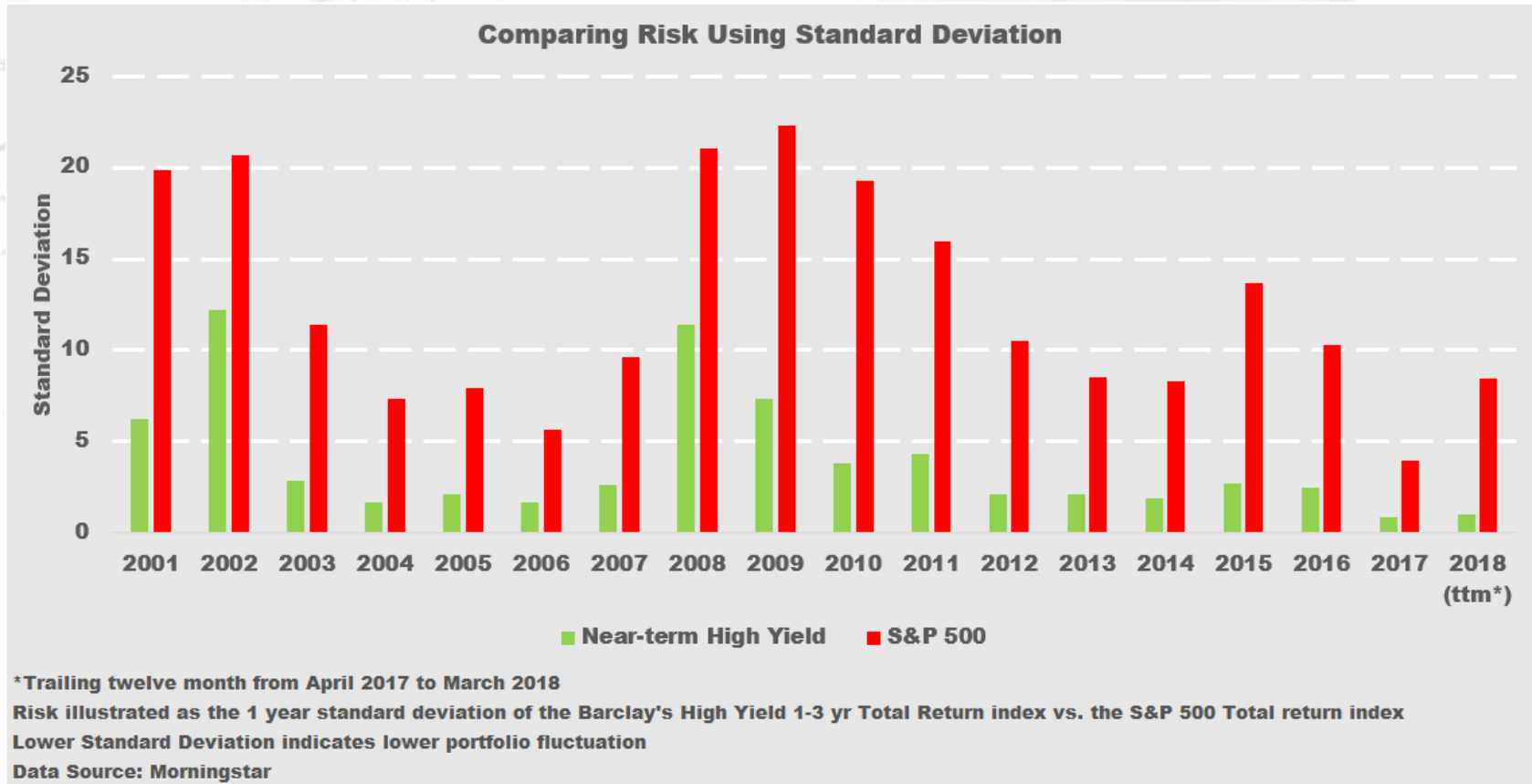
## Other Investment Risks

- 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.



# SHORT DURATION HIGH YIELD RISK VS. S&P

16 out of the last 16 years between 2001 and 2017, the volatility of short duration High Yield has been less than that of the S&P 500



## A fixed maturity product with liquidity

- Strategy is deployed in an Separately Managed Account (SMA), hence realized returns will vary according to market prices on the day of entry
- We recommend implementation in a ladder with multiple expirations for accounts over \$250,000.
- While positions are very liquid and permit early exits, we recommend holding close to maturity to optimize the return profile
- As positions approach maturity and expiration, it is possible that some positions will be rolled out to the next series to lock in gains.
- Fixed income distributions are taxed as ordinary dividends, but the intention is to hold the core positions for more than a year to get long-term capital gains treatment.



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# PERFORMANCE

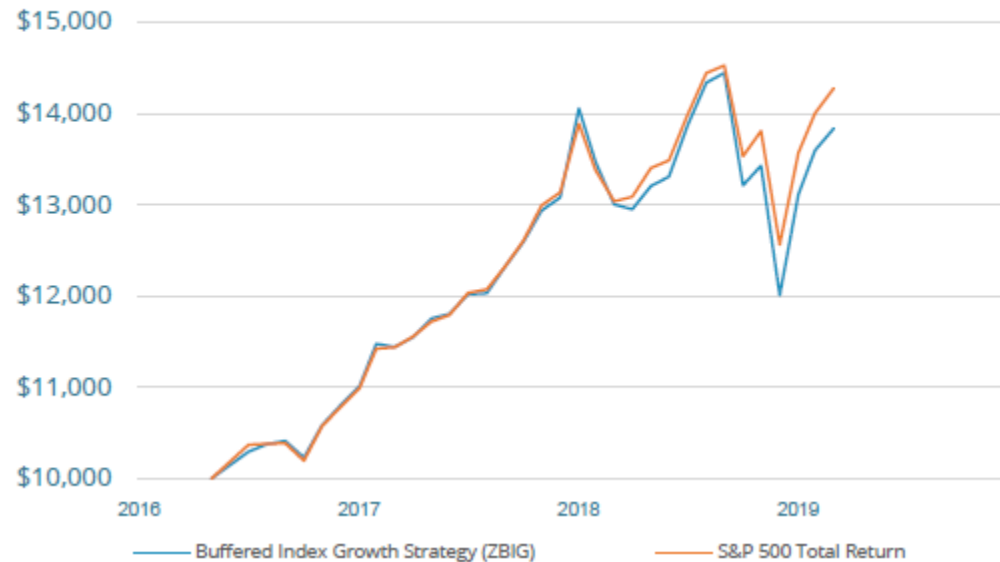




## Performance Statistics

	ZEGA Financial	S&P 500 Total Return
YTD Return	15.22%	13.64%
Ann. Return: 1 year	6.42%	9.49%
Ann. Return: Inception	12.54%	13.82%
Annualized Volatility	12.82%	11.02%
Sharpe Ratio	0.96	1.13

## Cumulative Growth (since inception)



## Monthly Performance

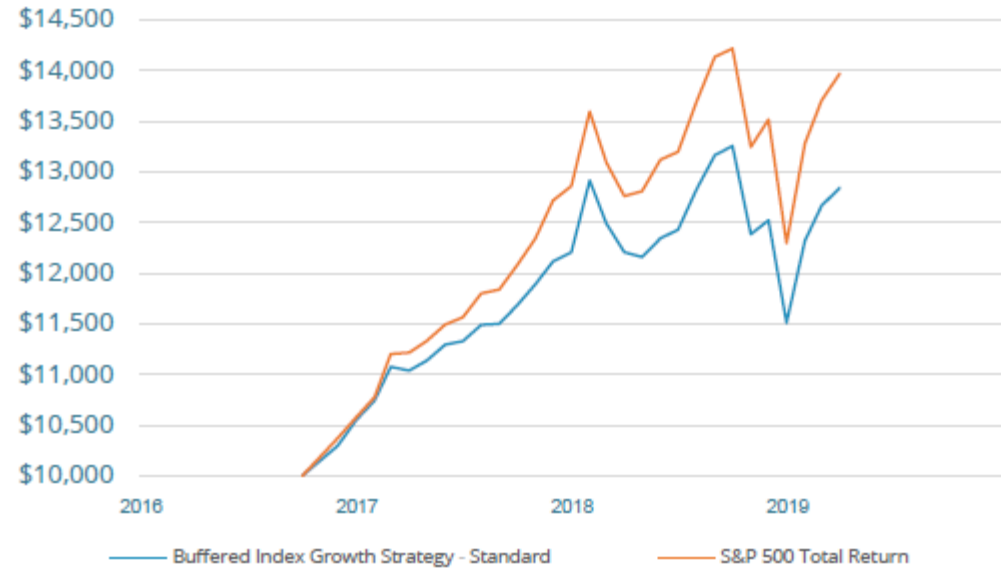
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	S&P500
2016							2.96%	0.80%	0.34%	-1.76%	3.44%	2.11%	8.06%	7.83%
2017	1.88%	4.25%	-0.31%	0.92%	1.78%	0.42%	1.84%	0.08%	2.39%	2.25%	2.72%	1.11%	21.06%	21.84%
2018	7.46%	-4.16%	-3.48%	-0.40%	1.98%	0.77%	4.23%	3.37%	0.74%	-8.53%	1.63%	-10.57%	-8.19%	-4.38%
2019	9.19%	3.68%	1.78%										15.22%	13.64%

**Benchmark: The S&P 500 Index** – a broad-based unmanaged measurement of changes in stock market based on the average of 500 widely held common stocks.

## Performance Statistics

	ZEGA Financial	S&P 500 Total Return
YTD Return	11.57%	13.64%
Ann. Return: 1 year	5.20%	9.49%
Ann. Return: Inception	10.91%	14.85%
Annualized Volatility	10.37%	11.44%
Sharpe Ratio	0.84	0.99

## Cumulative Growth (since inception)



## Monthly Performance

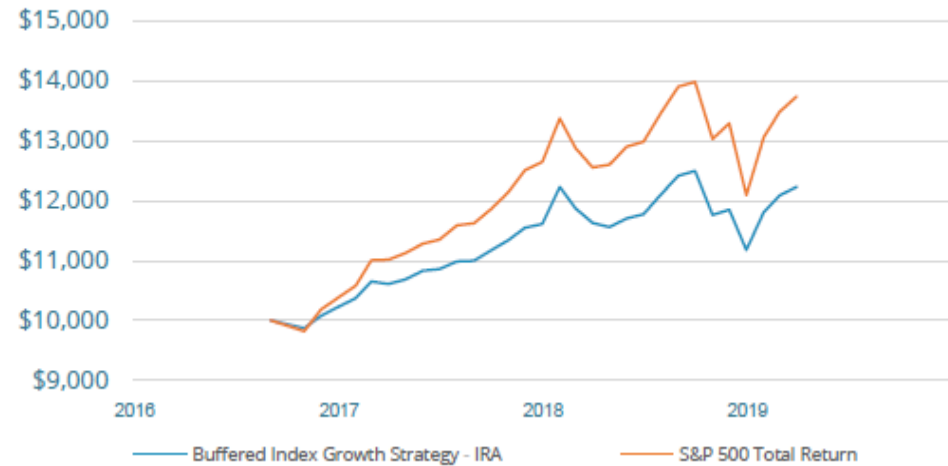
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	S&P500
2016													5.48%	5.75%
2017	1.82%	3.12%	-0.33%	0.90%	1.41%	0.30%	1.43%	0.07%	1.62%	1.76%	1.89%	0.76%	15.73%	21.61%
2018	5.79%	-3.26%	-2.28%	-0.41%	1.52%	0.69%	3.21%	2.64%	0.69%	-6.58%	1.12%	-8.08%	-5.70%	-4.38%
2019	7.02%	2.81%	1.40%										11.57%	13.64%

**Benchmark: The S&P 500 Index** – a broad-based unmanaged measurement of changes in stock market based on the average of 500 widely held common stocks.

## Performance Statistics

	ZEGA Financial	S&P 500 Total Return
YTD Return	9.46%	13.64%
Ann. Return: 1 year	5.15%	9.49%
Ann. Return: Inception	8.39%	13.57%
Annualized Volatility	8.55%	11.41%
Sharpe Ratio	0.68	0.87

## Cumulative Growth (since inception)



## Monthly Performance

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	S&P500
2016														
2017	1.40%	2.66%	-0.38%	0.74%	1.33%	0.27%	1.18%	0.12%	1.59%	1.48%	1.88%	0.51%	13.51%	21.84%
2018	5.35%	-2.93%	-2.02%	-0.62%	1.27%	0.59%	2.81%	2.59%	0.63%	-5.87%	0.73%	-5.71%	-3.75%	-4.38%
2019	5.69%	2.35%	1.19%										9.46%	13.64%

**Benchmark: The S&P 500 Index** – a broad-based unmanaged measurement of changes in stock market based on the average of 500 widely held common stocks.



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# APPENDIX



**ZEGA FINANCIAL, LLC  
BUY & 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>



# ZEGA FINANCIAL, LLC

## BUY & HEDGE MASTER - COMPOSITE

### ANNUAL DISCLOSURE PRESENTATION

\*Composite and benchmark performance are for the period 11/1/2012 through 12/31/2012.

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 2012 through 2014 due to less than 36 months of composite and benchmark data.

**High Probability Options Strategy - Conservative Composite** includes all institutional and retail portfolios that deploy deep out of the money credit spreads across the entire portfolio. This strategy targets out of the money strikes that can typically produce target returns of 1% by seeking strikes that are further out-of-the-money than the trades deployed by the other HiPOS strategies. The strategy aims to deliver risk-adjusted returns that are uncorrelated to the broader markets. A rapidly declining market generally negatively affects the strategy's credit put spreads. This composite includes all portfolios that were at least 70% dedicated to this strategy. The benchmark is the CBOE Put Write Index. The CBOE Put Write Index is an index that measures the performance of a hypothetical portfolio that sells [S&P 500 Index \(SPX\)](#) put options against collateralized cash reserves held in a money market account. There is no minimum account size for this composite. The High Probability Options Strategy - Conservative 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 July 1, 2011 to December 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. 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.

**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 (ie, 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.