ZEGA FINANCIAL

ZEGA’s Buy & Hedge

December 2019

Disclosure

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Information presented does not involve the rendering of personalized investment advice, but is limited to the dissemination of general information on products and services. This information should not be construed as an offer to buy or sell, or a solicitation of any offer to buy or sell the securities mentioned herein.

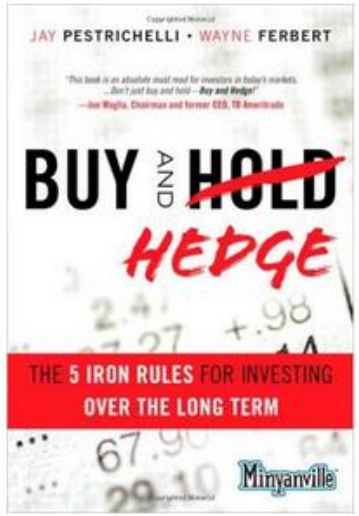
This presentation should not be regarded as a complete analysis of the subjects discussed. All expressions of opinion reflect the judgment of the adviser as of the date of the presentation and are subject to change.

Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that the future performance of any specific investment or strategy will be profitable or equal to past performance levels. All investment strategies have the potential for profit or loss. 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. There are no assurances that a portfolio will match or outperform any particular benchmark.

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

About ZEGA

- SEC Registered Investment Advisor* founded in 2011
- Over $465 million in Assets Under Management as of December 2019
- Authors of the best-seller: *Buy And Hedge: The 5 Iron Rules for Investing over the Long Term*
- *Awarded 5-star rating for HiPOS Conservative and ZBIG Leverage in 2019*
- Claims compliance with the Global Investment Performance Standards



About ZEGA

ZEGA FINANCIAL

ZEGA's mission is to partner with small to mid-size advisors and deliver industry leading options-based investing solutions and insights.

Our passion is developing strategies centered on the balance between risk and reward.

We are conservative in our market positioning and follow the strictest of ethical codes to act only in the best interest of our clients.

The media is taking notice. ZEGA is recognized as the go to source for options insights.

FOX BUSINESS

THE WALL STREET JOURNAL.

TheStreet.

YAHOO! FINANCE

Bloomberg

Nasdaq

ZEGA Team

ZEGA FINANCIAL

With over 120 years of combined investing experience, we follow a progressive, forward thinking approach to investing.

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

14 years Investment Experience

Jim Granger
Operations Manager

20 years Investment Experience

Wayne Ferber
IAR of ZEGA/Co-Founder

19 years Investment Experience

Derek Moore
IAR of ZEGA

25 years Investment Experience

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

Buy & Hedge

Buy & Hedge Description

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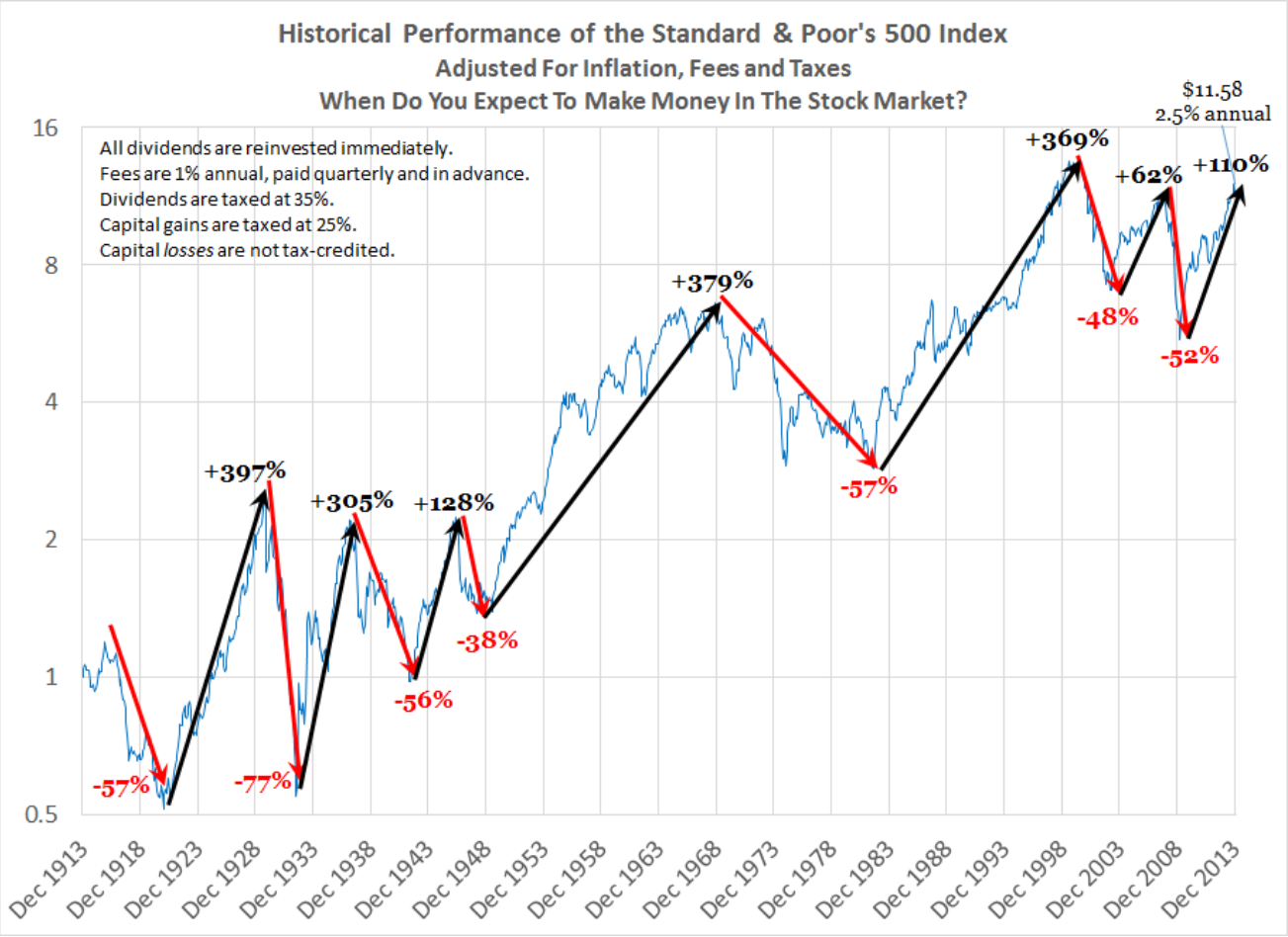
What does it mean to be Hedged with ZEGA Financial?

- 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

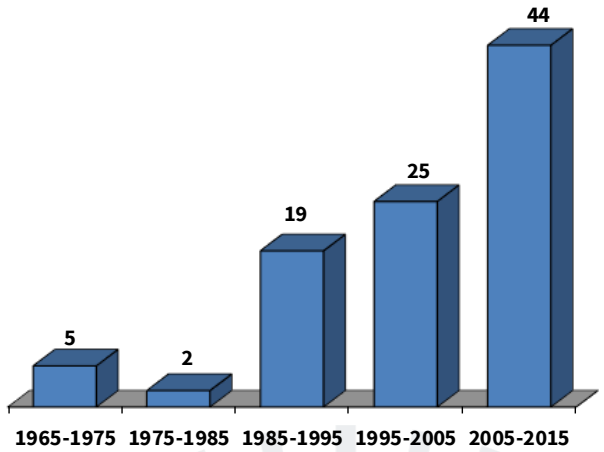
Strategy executed through a separate managed account structure

- **Individual account** attention given to position management – Not a Fund
- **Full position and fee transparency**
- No lock-up periods. Positions are **highly liquid**

The Case for Hedging



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.

Why Hedging Works

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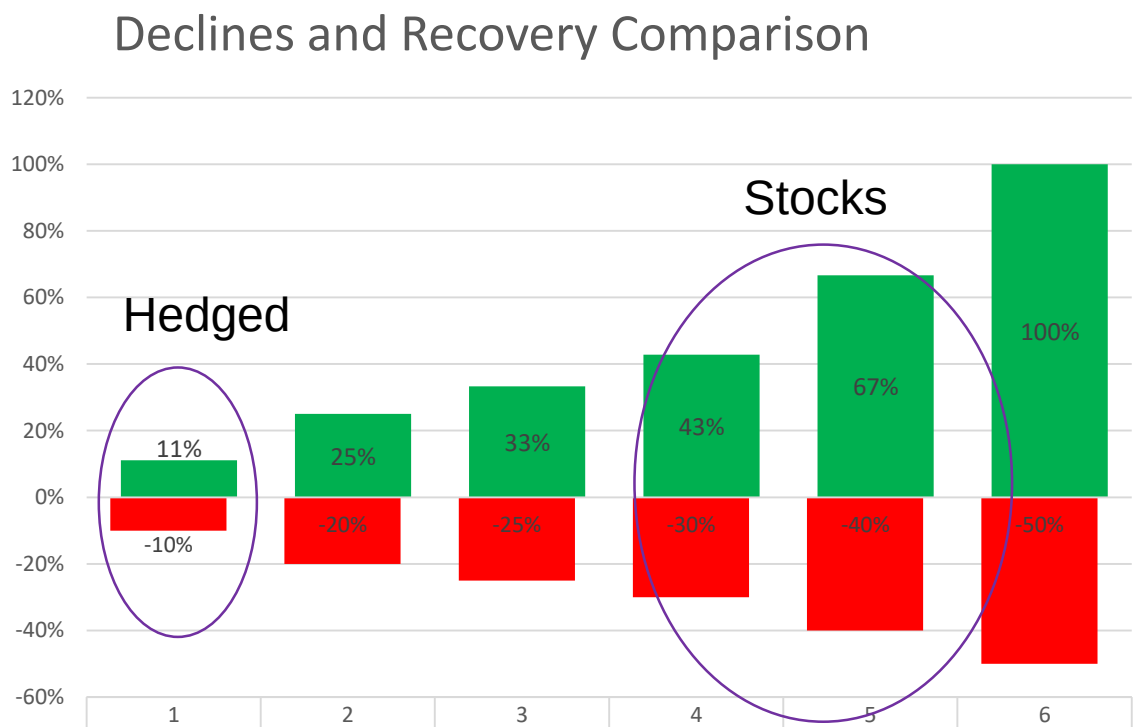
- Long-term outperformance can come in two ways: Improved **Appreciation** over time and **lower losses** in the **down years**. **Hedging intends to do both**
- Pretty Straight forward. Over coming smaller percentage losses requires smaller magnitude rebounds to recover than larger percentage declines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

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

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



	1	2	3	4	5	6
Market Decline	-10%	-20%	-25%	-30%	-40%	-50%
Growth to Recover	11%	25%	33%	43%	67%	100%

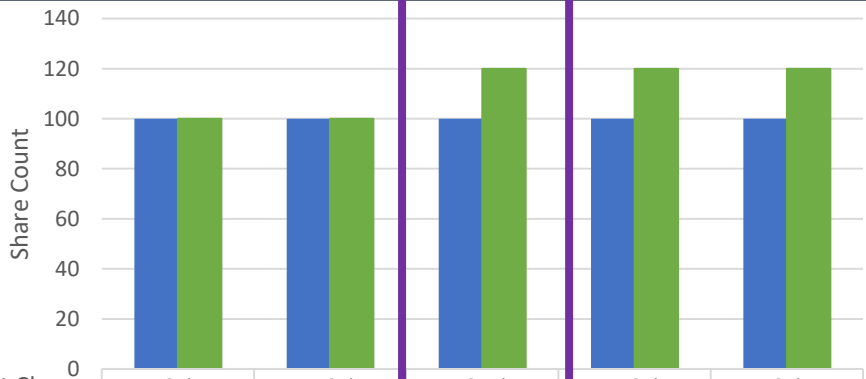
- Avoiding losses allows **reinvestment at lower levels** to have additional exposure on rebounds than held during declines. This can drive improved growth over time.
- Reducing drawdowns and volatility delivers **smoother returns** over time reducing pressure to act and client anxiety

The Math of Hedging

- 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

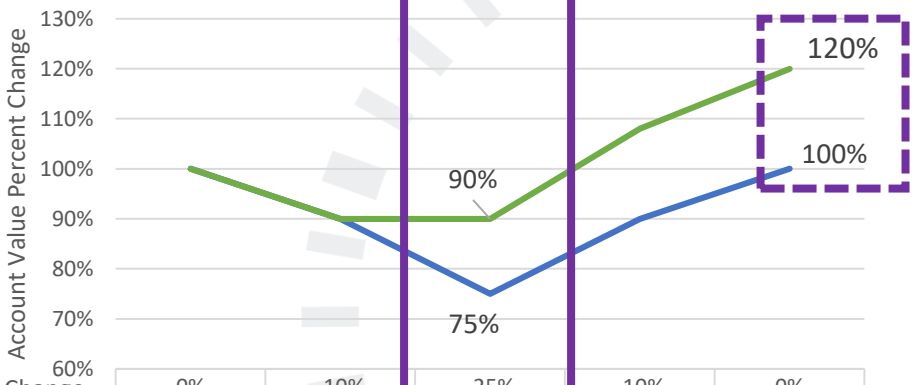
Market capture of +20% vs. Non-Hedged at recovery

Hedged vs. Non-Hedged Share Count



Market Change	0%	-10%	-25%	-10%	0%
Stock Shares	100	100	100	100	100
Hedged Shares	100	100	120	120	120

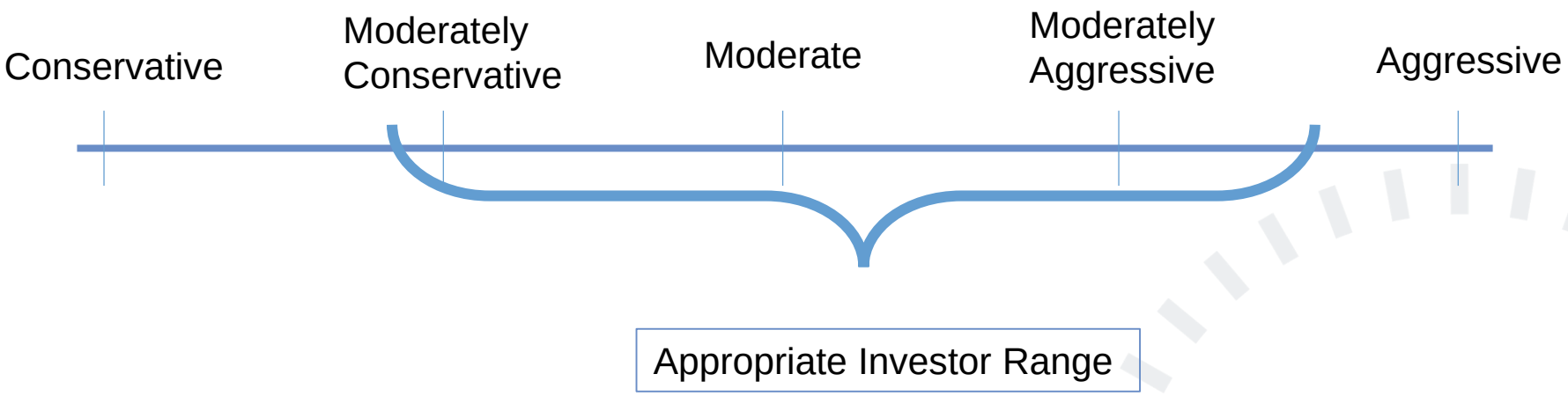
Hedged vs. Non-Hedged Market Stake



Market Change	0%	-10%	-25%	-10%	0%
Stock Portf.	100%	90%	75%	90%	100%
Hedged Portf.	100%	90%	90%	108%	120%

Investor Alignment

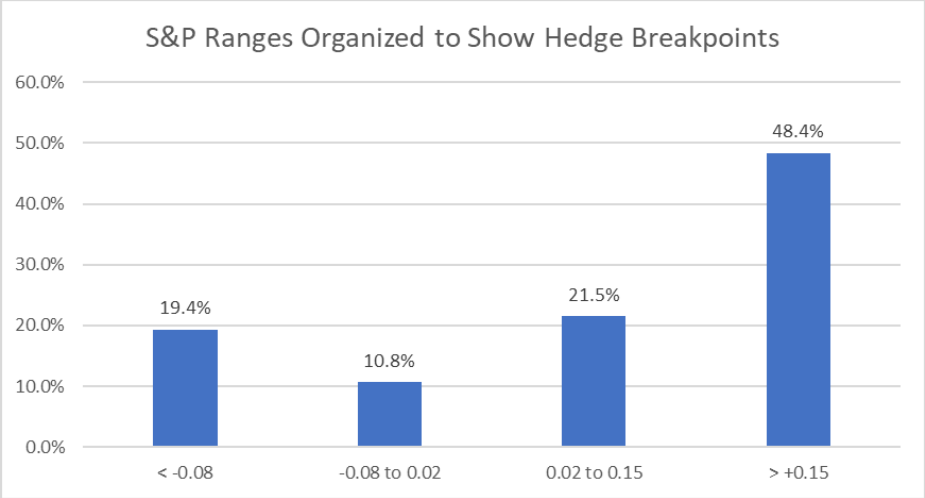
- Hedged equity is appropriate for investors with a **moderately conservative** to **moderately aggressive risk profile**



- 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%

Historical Expectations

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

Buy & Hedge Highlights

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Benefits

- 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.

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.

Performance

Buy & Hedge

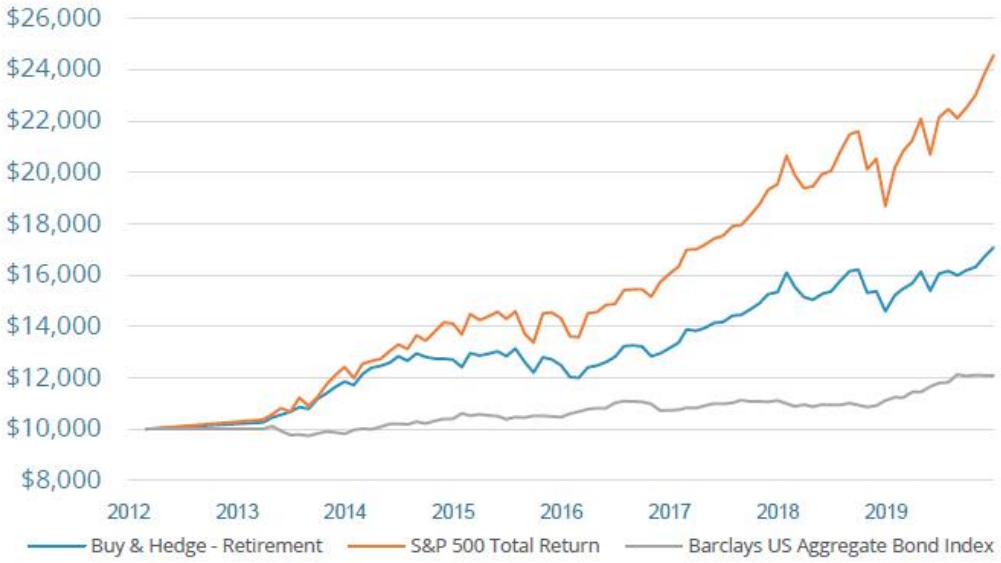
ZEGA FINANCIAL
The disciplined option

Buy & Hedge - Retirement
Through December 31, 2019

Performance Statistics

	ZEGA Financial	S&P 500 Total Return	Barclays US Aggregate Bond Index
YTD Return	17.02%	31.50%	8.73%
Ann. Return: 1 year	17.02%	31.50%	8.73%
Ann. Return: 3 years	9.09%	15.28%	4.03%
Ann. Return: 5 years	6.10%	11.71%	3.05%
Ann. Return: Inception	8.14%	14.05%	2.82%
Annualized Volatility	7.73%	11.07%	3.01%
Sharpe Ratio	1.16	1.20	0.68

Cumulative Growth (since inception)



Monthly Performance

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	S&P500
2013			2.68%	1.80%	1.00%	1.03%	1.78%	-0.53%	3.48%	2.07%	2.12%	1.72%	18.48%	24.18%
2014	-1.09%	3.58%	2.11%	0.50%	0.96%	2.09%	-1.33%	2.22%	-1.10%	-0.44%	0.00%	-0.40%	7.19%	13.69%
2015	-2.22%	4.41%	-0.74%	0.50%	0.73%	-1.45%	2.33%	-4.05%	-3.22%	4.89%	-0.59%	-1.83%	-1.66%	1.40%
2016	-3.75%	-0.19%	3.39%	0.52%	1.11%	1.61%	3.34%	0.16%	-0.34%	-2.87%	0.93%	1.52%	5.30%	11.98%
2017	1.68%	3.82%	-0.39%	0.74%	1.50%	0.19%	1.77%	0.20%	1.42%	1.69%	2.33%	0.57%	16.59%	21.84%
2018	4.97%	-3.47%	-2.56%	-0.67%	1.49%	0.62%	2.68%	2.37%	0.45%	-5.61%	0.41%	-5.05%	-4.84%	-4.38%
2019	4.21%	1.76%	1.26%	2.93%	-4.57%	4.28%	0.69%	-1.11%	1.31%	0.72%	2.53%	2.13%	17.02%	31.50%

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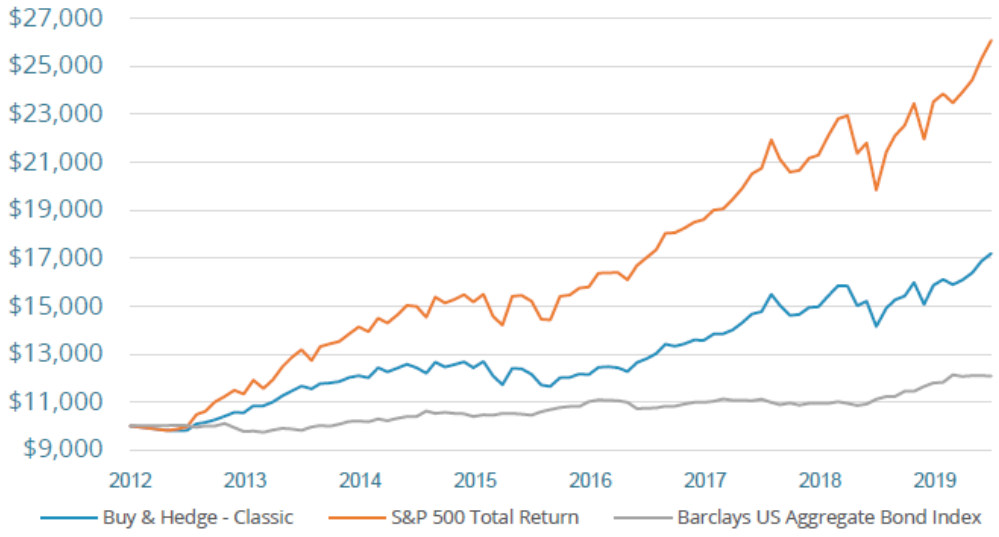
The disciplined option

Buy & Hedge - Classic
Through December 31, 2019

Performance Statistics

	ZEGA Financial	S&P 500 Total Return	Barclays US Aggregate Bond Index
YTD Return	21.51%	31.50%	8.73%
Ann. Return: 1 year	21.51%	31.50%	8.73%
Ann. Return: 3 years	10.34%	15.28%	4.03%
Ann. Return: 5 years	6.72%	11.71%	3.05%
Ann. Return: Inception	7.77%	14.14%	2.65%
Annualized Volatility	8.11%	10.91%	2.95%
Sharpe Ratio	1.08	1.23	0.65

Cumulative Growth (since inception)



Monthly Performance

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	S&P500
2012										-1.84%	-0.02%	0.08%	-1.78%	-0.38%
2013	2.81%	0.50%	1.20%	1.39%	1.50%	-0.13%	2.72%	0.00%	1.44%	2.43%	1.75%	1.74%	18.74%	32.39%
2014	-1.00%	1.98%	0.18%	0.52%	1.50%	0.58%	-0.72%	3.51%	-1.39%	1.19%	1.36%	-1.23%	6.55%	13.69%
2015	-1.79%	3.74%	-1.56%	0.75%	0.96%	-1.89%	2.02%	-4.74%	-3.03%	5.78%	-0.02%	-1.95%	-2.19%	1.40%
2016	-3.66%	-0.42%	2.98%	0.23%	1.17%	-0.28%	2.56%	0.21%	-0.36%	-1.31%	3.07%	1.23%	5.34%	11.98%
2017	1.70%	3.00%	-0.61%	0.73%	1.17%	-0.12%	1.97%	0.09%	1.13%	2.14%	2.57%	0.64%	15.32%	21.84%
2018	4.89%	-2.99%	-2.71%	0.23%	2.00%	0.22%	3.01%	2.77%	-0.06%	-5.22%	1.25%	-6.92%	-4.14%	-4.38%
2019	5.36%	2.37%	1.00%	3.66%	-5.67%	5.27%	1.54%	-1.34%	1.14%	1.87%	3.05%	1.88%	21.51%	31.50%

Questions

Appendix: GIPS Compliant Disclosure

ZEGA FINANCIAL, LLC
BUY AND HEDGE RETIREMENT COMPOSITE
ANNUAL DISCLOSURE PRESENTATION

ZEGA FINANCIAL

Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Number of Accounts	Percent of Assets In Wrap Accounts	Percent of Carve Out Accounts	Percent Assets of Non-Fee Paying	Annual Performance Results Composite		Benchmark S&P 500	Composite Dispersion	Composite 3 Yr St Dev	Benchmark 3 Yr St Dev
							Gross	Net				
June 2019	396	105	526	44%	0%	0%	10.84%	9.99%	18.54%	N.A. 1	8.9%	12.2%
2018	340	88	425	36%	0%	0%	-3.36%	-4.85%	-4.39%	2.20%	8.1%	11.0%
2017	288	79	335	45%	0%	0%	18.72%	16.60%	21.83%	1.42%	7.5%	10.1%
2016	236	33	202	78%	0%	0%	7.41%	5.32%	11.96%	2.76%	7.5%	10.7%
2015	154	10	49	86%	0%	<1%	-0.61%	-1.66%	1.38%	2.09%	N.A. 2	N.A. 2
2014	349	2	9	0%	0%	5%	8.51%	7.19%	13.69%	N.A. 1	N.A. 2	N.A. 2
2013*	111	< 1	1	0%	0%	0%	19.48%	18.48%	32.39%	N.A. 1	N.A. 2	N.A. 2

*Composite and benchmark performance are for the period 3/1/2013 through 12/31/2013.

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 Retirement Composite**: The Buy & Hedge Retirement strategy is designed to provide broad market exposure while limiting the downside risk in the event of a material market correction. The product utilizes index-based options and ETFs. Purchases Index call options to synthetically create long market exposure. The underlying index is U.S. large cap and typically one that represents the S&P 500. 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 creating an income portion designed to generate a low risk 3-4% of annual return. The income portion may be constructed using fixed income or protected equity with a defined risk. The benchmark for this composite is the S&P 500. This benchmark does not use derivatives.*

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 6/30/2019.

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. The Buy and Hedge Retirement composite has been examined for the periods January 1, 2014 through June 30, 2019. The verification and performance examination reports are available upon request.

ZEGA Financial is an independent SEC 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. Long and short option positions comprise 10% to 25% of this portfolio. 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). 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 and actual wrap 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 assets we manage and ranges from 0.50% to 1.7%. The fee is negotiable depending upon the complexity and scope of the plan, financial situation, and objectives.

ZEGA FINANCIAL, LLC
BUY AND HEDGE CLASSIC COMPOSITE
ANNUAL DISCLOSURE PRESENTATION

ZEGA FINANCIAL

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							Gross	Net				
June 2019	396	6	22	3%	0%	0%	12.89%	12.14%	18.54%	N.A. 1	9.8%	12.2%
2018	340	4	16	12%	0%	0%	-2.77%	-4.15%	-4.39%	0.81%	8.4%	11.0%
2017	288	3	10	8%	0%	0%	16.91%	15.31%	21.83%	3.20%	7.5%	10.1%
2016	236	8	19	4%	0%	0%	6.82%	5.33%	11.96%	0.64%	7.5%	10.7%
2015	154	4	12	4%	0%	0%	-1.03%	-2.19%	1.38%	N.A. 1	7.3%	10.6%
2014	349	< 1	2	0%	0%	0%	8.21%	6.55%	13.69%	N.A. 1	5.9%	9.1%
2013	111	< 1	3	0%	0%	0%	21.15%	18.76%	32.39%	N.A. 1	N.A. 2	N.A. 2
2012*	12	< 1	2	0%	0%	0%	5.55%	4.18%	16.00%	N.A. 1	N.A. 2	N.A. 2

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***Buy and Hedge Classic Composite**: The Buy & Hedge Classic strategy is designed to provide broad market exposure while limiting the downside risk in the event of a material market correction. The product utilizes index-based options and ETFs by purchasing S&P 500 ETFs with ~95% of the portfolio value. The downside put options are set at 10% out-of-the-money. The investor has long-term market exposure in an S&P 500 ETF that has been paired with a hedge that has a negative correlation to the market. The hedge is built using a combination of option positions. This strategy targets a high correlation to the S&P 500. The strategy looks to minimize the cost of hedging by possibly selling options premium on both out-of-the money calls and puts. The benchmark for this composite is the S&P 500. This benchmark does not use derivatives.*

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