

# The Defined Risk Strategy

A Time-Tested Hedged Equity Approach

*Define Risk, Seek Improved Outcomes – Investing Redefined®*

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## What's Driving Risk?

- Rising geopolitical turmoil
- Implications of low-to-rising interest rates
- Rising and persistent inflation
- COVID-19's lingering impact on economic recovery
- Monetary policy & rising federal debt



## The Dual Dilemma

### State of Bond Markets

- Bond bull market appears out of gas
- Traditional role of bonds in peril
- Current Low Yields, High Duration Risk
- Inflation at 40-year high
- Fed Reserve indicates rate hikes ahead

### State of Equity Markets

- Inflation and supply chain issues weighing on earnings
- Valuations appear rich
- Disconnected from the economy?
- “QE punchbowl” being taken away
- Long-term return expectations are muted



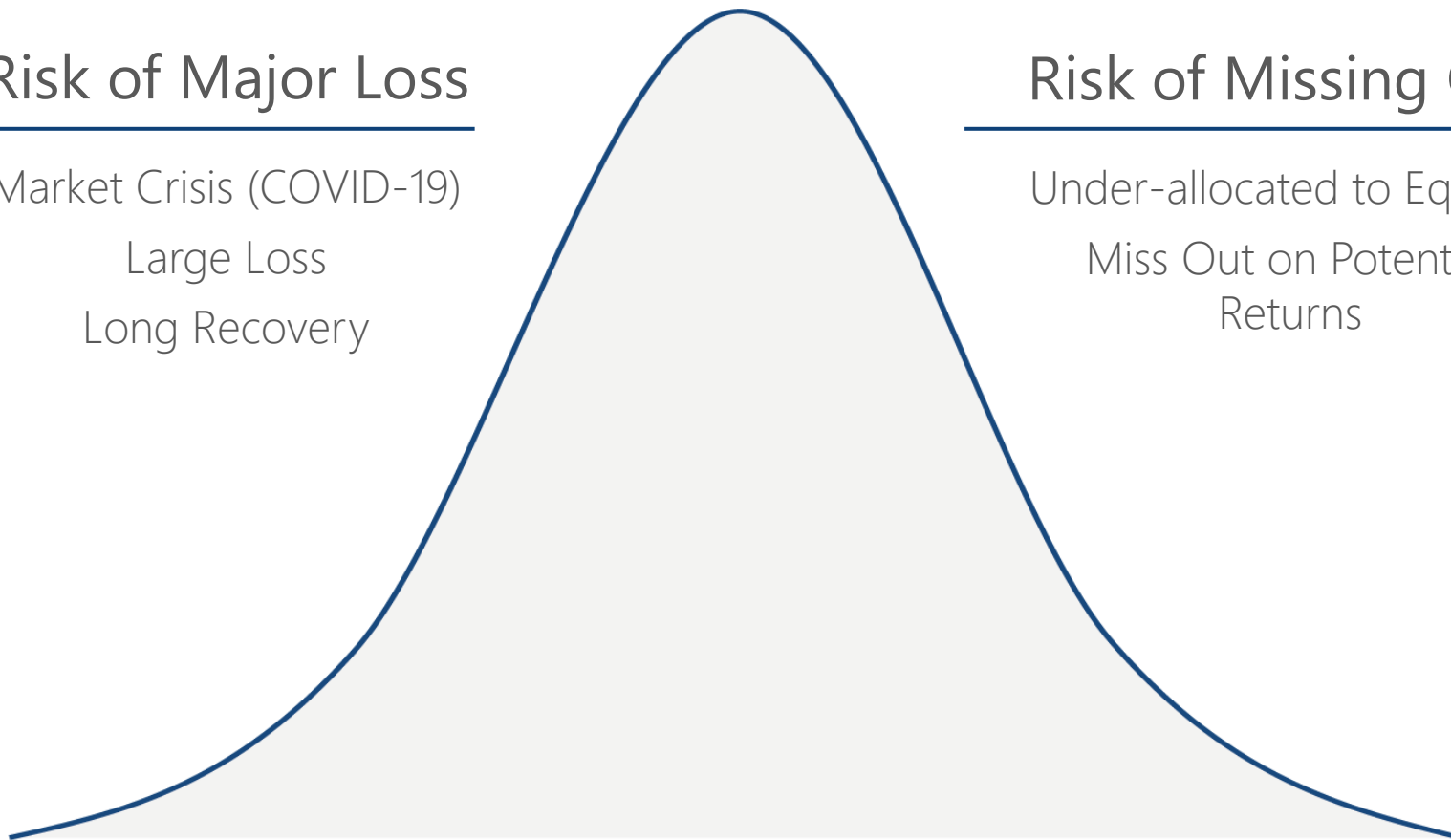
## Need a 'Hedge' for Both Risks

### Risk of Major Loss

Market Crisis (COVID-19)  
Large Loss  
Long Recovery

### Risk of Missing Out

Under-allocated to Equities  
Miss Out on Potential  
Returns



## Address Two Biggest Investor Concerns

1. "Don't Lose My Money"



Mitigate Downside Risk (Hedge)

2. "Don't Outlive My Money"



Participate in Market Growth (Equity)



# Invest for Growth, Hedge Against Losses

*"By actively seeking to not lose big,  
we believe investors will be  
better off in the long run."*

Randy Swan, CEO and Lead Portfolio Manager

## Hedged Equity



### We Believe...

Difficult to consistently and successfully time the market

Difficult to select stocks that will consistently outperform the market

The key to long-term wealth creation is to minimize downside risk

Smoothing the investment experience is critical to helping investors stick to their plans and achieve long-term goals

Important to control risk in every phase of a market cycle



### Therefore, we...

Remain Always Invested – buy-and-hold

Invest in index-based ETFs

Remain Hedged – actively manage a long-term put hedge to mitigate market risk

Seek to generate equity-like returns with less volatility

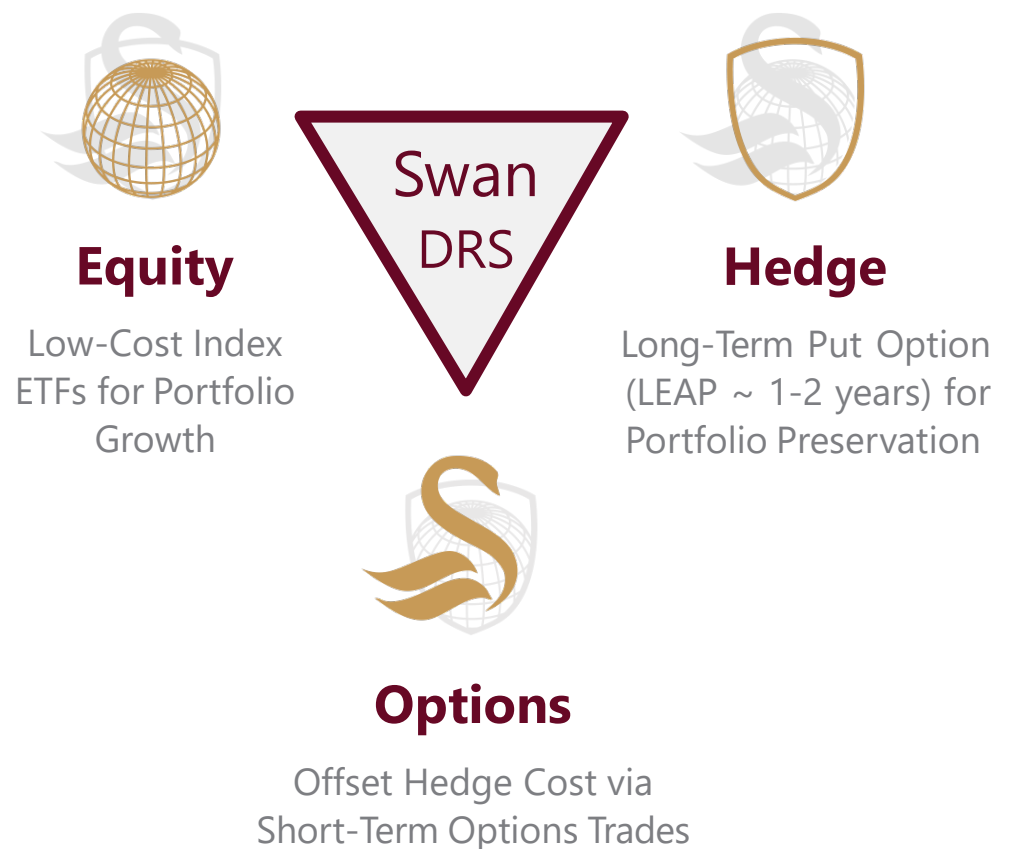
Follow a disciplined approach to remove emotions from process



# The Defined Risk Strategy (DRS)

## Our Hedged Equity Strategy

- Seeks consistent returns over full market cycles (bull & bear market)
- Hedges against large stock market declines
- Disciplined, repeatable process
- Available in separately managed accounts, ETF, mutual funds, and custom portfolio overlays





### Defense

Direct way to mitigate undiversifiable market risk.



### Keep Calm

Helps investors mitigate big losses and emotional reactions.



### Reliable Hedge

A reliable hedge during large selloffs and bear markets.



### Acquire More Equity

As the Hedge gains value during a selloff, it can be sold to buy more equity at a low, improving rebound & long-term growth potential.

# Long-Term Hedge

for

# Long-Term Investors

A HEDGE IS NOT INSURANCE AGAINST LOSSES



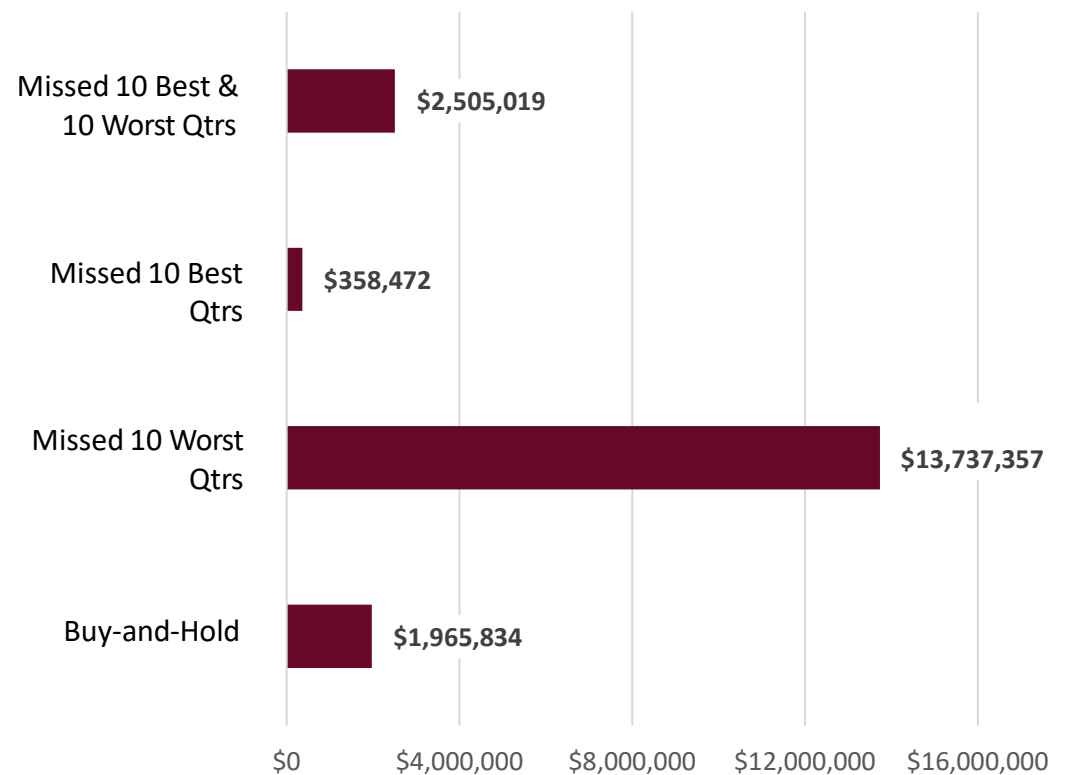
# Participate in Growth, Mitigate Losses

## A Viable Long-Term Strategy

### Passive vs. Active Risk Management

S&P 500 Index 1970-2019 (last 50 years)

Hypothetical Investment of \$10,000

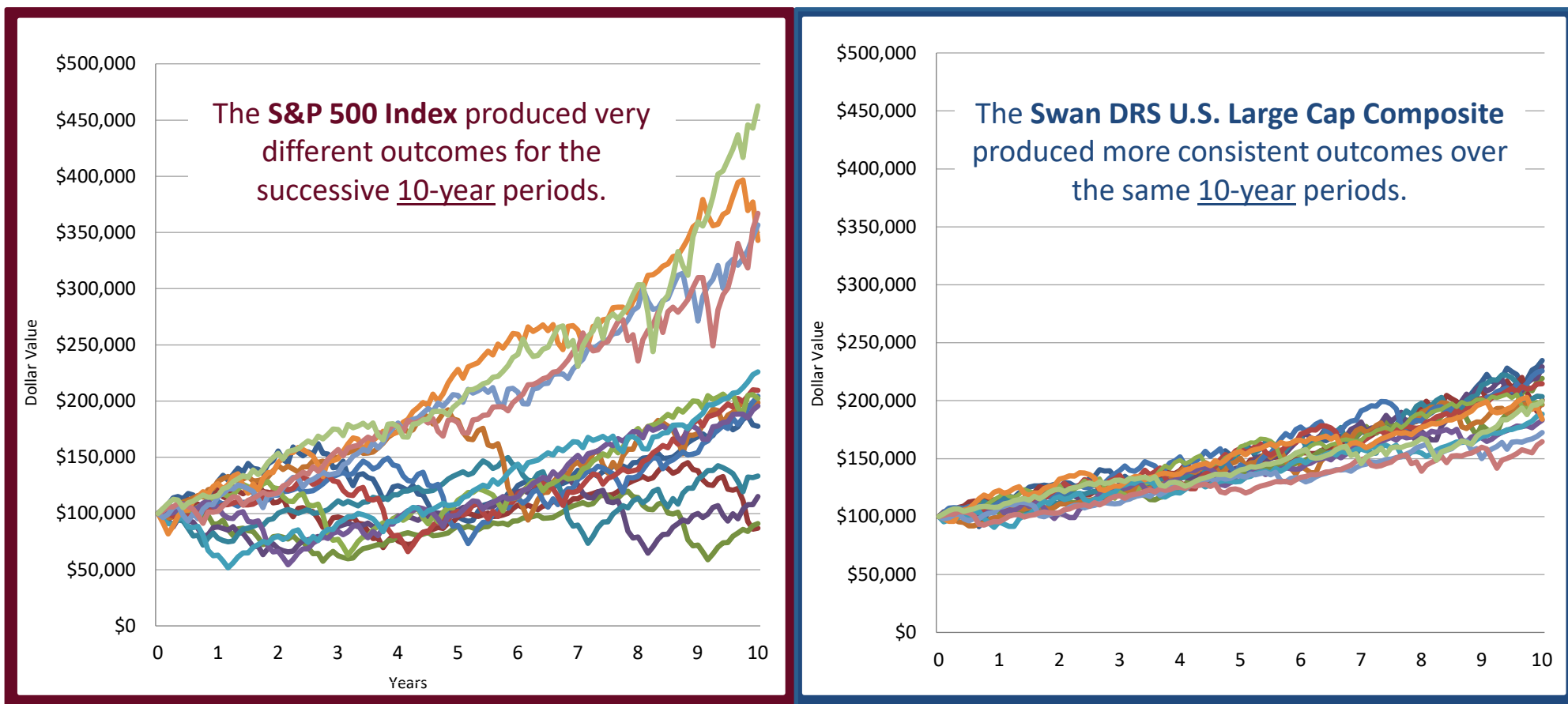


Source: Zephyr StyleADVISOR, Swan Global Investments, LLC



# A Time-Tested Hedged Equity Approach – Through Market Cycles

## Define Risk, Improve Outcomes – *Investing Redefined*®



The graphs above show an investment of \$100,000 over fifteen successive, 10-year investment periods.  
The first period is 1/1998 to 12/2007; the last period is 1/2012 to 12/2021.

All but two of these periods contain at least one bull market and one bear market (1/2009 to 12/2018 and 1/2010 to 12/2019).



### Our Firm

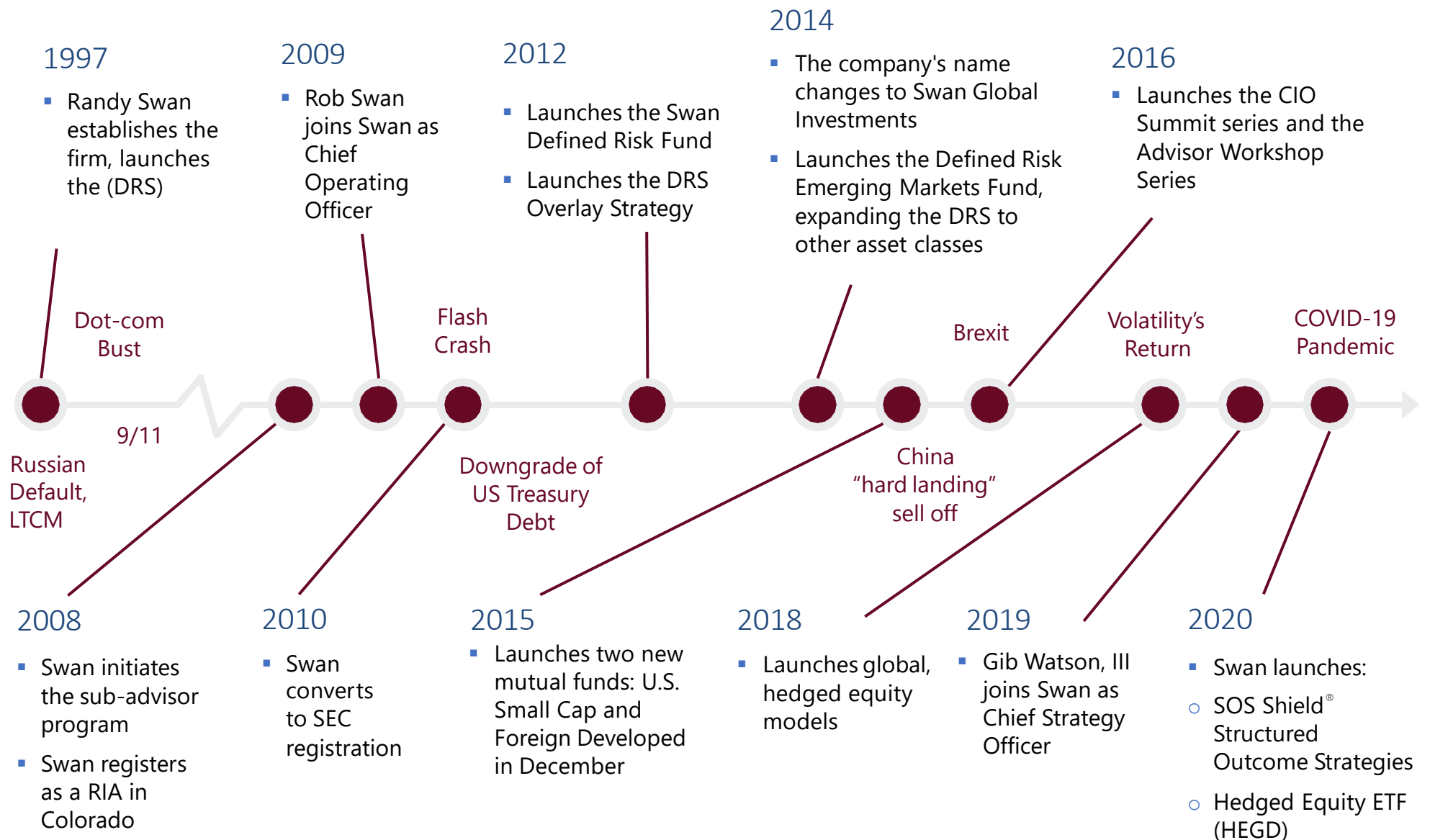
- Asset Management Firm, based in Durango CO
- Manages over \$2.7 billion in assets as of 12/31/21
- Leaders in Hedging & Options-Based Strategies Since 1997
- Management team with over 85 years collective experience
- Developed the Defined Risk Strategy

### Our Mission

- Everything we do is to help long-term investors meet long-term goals—that starts by improving the investor's experience.
- Help long-term investors directly address the biggest risk they face: market risk
- Help investors seek consistent returns while mitigating risks to irreplaceable capital through market cycles.
- Provide suite of products to serve a wide range of investor needs, objectives and risk tolerances.



# Swan Global Investments – Key Milestones



### 1. Allocating Capital is Challenging in a Low-Yield World

- ✓ Outlook for bonds has turned from bleak to dire

### 2. Hedged Equity: A Solution to Challenges Today & Beyond

- ✓ Address uncertainty: COVID-19, election, recession, US/China
- ✓ Surrogate for fixed income
- ✓ Allocate more to risk assets, without all of the risk



# Disclosures

The Swan Defined Risk Strategy or DRS as used in this document refer to the Swan Defined Risk US Large Cap Composite.

Swan Global Investments, LLC DRS U.S. Large Cap Composite										S&P 500 ("The Benchmark")				
Year	Net-of-Fee Return	Net-of-Fee Cumulative Return	Net-of-Fee Annualized Return	Beta (Net of Fees)	Standard Deviation (External) Net of Fees	Sharpe Ratio (Net of Fees)	# of Accts / Assets in Millions	Total Firm Assets (\$MM)	Dispersion (Internal) Gross of Fees	Return	Cumulative Return	Annualized Return	Standard Deviation (External)	Sharpe Ratio
1997+	19.17%	19.17%	19.17%	N/A	N/A	N/A	1 / .22	0.22	<6	10.58%	10.58%	10.58%	N/A	N/A
1998	11.55%	32.94%	20.90%	N/A	N/A	N/A	1 / .32	0.32	<6	28.58%	42.18%	26.44%	N/A	N/A
1999	12.26%	49.24%	17.37%	N/A	N/A	N/A	1 / .72	0.72	<6	21.04%	72.09%	24.25%	N/A	N/A
2000	3.17%	53.97%	13.12%	N/A	N/A	N/A	1 / .90	0.90	<6	-9.10%	56.43%	13.64%	N/A	N/A
2001	7.46%	65.46%	11.84%	0.36	7.23%	0.51	3 / 1.66	1.66	<6	-11.89%	37.83%	7.39%	16.71%	0.13
2002	12.22%	85.68%	11.91%	0.20	10.20%	0.56	3 / 1.97	1.97	<6	-22.10%	7.37%	1.30%	18.55%	-0.17
2003	-0.65%	84.47%	9.88%	0.16	10.11%	0.47	6 / 3.74	3.74	5.68%	28.68%	38.17%	5.10%	18.07%	0.07
2004	11.76%	106.17%	10.13%	0.17	9.89%	0.55	8 / 4.66	4.66	5.80%	10.88%	53.21%	5.85%	14.86%	0.14
2005	6.69%	119.97%	9.72%	0.17	6.12%	0.55	8 / 4.98	4.98	2.66%	4.91%	60.73%	5.74%	9.04%	0.14
2006	17.26%	157.94%	10.49%	0.17	4.52%	0.63	12 / 7.69	7.69	3.71%	15.79%	86.12%	6.76%	6.82%	0.21
2007	8.39%	179.57%	10.29%	0.18	5.92%	0.62	14 / 9.40	9.40	3.79%	5.49%	96.34%	6.64%	7.68%	0.20
2008	-4.57%	166.78%	8.91%	0.23	9.34%	0.49	17 / 15.65	15.65	5.00%	-37.00%	23.70%	1.87%	15.08%	-0.11
2009	22.63%	227.15%	9.95%	0.25	10.70%	0.62	73 / 55.78	55.78	4.18%	26.46%	56.44%	3.64%	19.63%	0.02
2010	7.88%	252.94%	9.79%	0.27	10.57%	0.63	105 / 97.90	97.90	2.21%	15.06%	80.00%	4.45%	21.85%	0.09
2011	-4.59%	236.73%	8.73%	0.27	9.21%	0.56	146 / 59.44	59.44	3.16%	2.11%	83.80%	4.29%	18.71%	0.09
2012	8.29%	264.64%	8.71%	0.28	7.45%	0.59	436 / 129.08	386.76	1.44%	16.00%	113.22%	5.01%	15.09%	0.15
2013	14.21%	316.45%	9.03%	0.28	6.62%	0.65	423 / 309.7	1,052.99	1.56%	32.39%	182.28%	6.49%	11.94%	0.25
2014	6.23%	342.40%	8.87%	0.28	4.75%	0.66	599 / 434.3	1,810.04	0.65%	13.69%	220.92%	6.89%	8.97%	0.29
2015	-2.11%	333.06%	8.25%	0.29	5.79%	0.62	766 / 473.21	2,446.11	1.36%	1.38%	225.36%	6.58%	10.47%	0.28
2016	9.08%	372.39%	8.29%	0.29	5.38%	0.65	1,207 / 675.64	3,620.08	0.90%	11.96%	264.27%	6.85%	10.59%	0.31
2017	11.51%	426.74%	8.44%	0.29	4.99%	0.69	1,630 / 982.45	4,975.33	0.78%	21.83%	343.79%	7.54%	9.92%	0.37
2018	-6.83%	390.74%	7.68%	0.31	6.23%	0.60	1,292 / 756.36	4,063.88	1.13%	-4.38%	324.34%	6.95%	10.80%	0.33
2019	14.93%	463.99%	7.99%	0.31	7.01%	0.64	1,144 / 638.36	3,065.24	1.15%	31.49%	457.95%	7.94%	11.93%	0.40
2020	3.01%	480.97%	7.77%	0.32	9.18%	0.62	893 / 501.09	2,236.86	1.75%	18.40%	560.60%	8.37%	18.53%	0.41

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The Swan Defined Risk US Large Cap Composite demonstrates the performance of non-qualified assets managed by Swan Global Investments, LLC since inception. It includes discretionary individual accounts whose account holders seek the upside potential of owning stock, and the desire to eliminate most of the risk associated with owning stock. The Composite relies on LEAPS and other options to manage this risk. Individual accounts own S&P 500 exchange traded funds and LEAPS associated with the exchange traded funds as well as multiple other option spreads that represent other indices that are widely traded. The Defined Risk Strategy was designed to protect investors from substantial market declines, provide income in flat or choppy markets, and to benefit from market appreciation. Stock and options are the primary components of the strategy. Portfolios in the composite may include non-DRS securities (securities that are not part of the Swan Defined Risk Strategy) that are excluded from composite performance.

The benchmarks used for the Swan Defined Risk US Large Cap Composite are the S&P 500 Index, which consists of approximately 500 large cap stocks, and a 60/40 blended composite, weighted 60% in the aforementioned S&P 500 Index and 40% in the Barclays US Aggregate Bond Index. The 60/40 is rebalanced monthly. The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency). The S&P 500 Index is often used as a proxy for the overall U.S. equity market. Indexes and other benchmarks used herein are generally unmanaged and have no fees or expenses. An investment cannot be made directly in an index or some of these benchmarks. Swan's investments may consist of securities which vary significantly from those in the benchmark indexes listed above and performance calculation methods may not be entirely comparable. Accordingly, comparing results shown to those of such indexes and benchmarks may be of limited use.



# Disclosures

Swan claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with GIPS. Swan's compliance with GIPS has been independently verified for the periods July 1, 1997 through December 31, 2020. The Spaulding Group conducted Swan's verification. The three-year annualized standard deviation measures the variability of the composite and the benchmarks over the preceding 36-month period. The dispersion of annual returns is measured by the standard deviation of asset-weighted portfolio returns represented within the composite for the full year. For those periods with five or fewer portfolios included for the entire year, dispersion is not presented. A copy of the verification report is available upon request. To receive copies of the report, please call (970) 382-8901 or email [operations@swanglobalinvestments.com](mailto:operations@swanglobalinvestments.com). Verification assesses whether (1) the firm has complied with all the composite construction requirements of GIPS on a firm-wide basis, and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with GIPS. Verification does not ensure the accuracy of any specific composite presentation.

Swan offers and manages The Defined Risk Strategy ("DRS") for its clients including individuals, institutions and other investment advisor firms. Swan Global Investments has affiliated advisers including Swan Global Management, LLC, Swan Capital Management, LLC, and Swan Wealth Advisors, LLC. There are seven DRS Composites offered: 1) The DRS U.S. Large Cap Composite which combines non-qualified and qualified separately managed accounts with a moderate risk tolerance invested in S&P 500 equities; 2) The DRS U.S. Large Cap Growth Composite which includes separately managed accounts and mutual fund accounts with a higher risk tolerance invested in S&P 500 equities; 3) The DRS U.S. Large Cap Prime Composite which includes portfolios with a conservative risk tolerance invested in S&P 500 equities; 4) The DRS Emerging Markets Composite which includes separately managed account(s) and mutual fund accounts invested in emerging market equities; 5) The DRS Foreign Developed Markets Composite which includes separately managed account(s) and mutual fund accounts invested in foreign developed market equities; 6) The DRS U.S. Small Cap Composite which includes separately managed account(s) and mutual fund accounts invested in U.S. small cap equities. 7) The DRS U.S. Large Cap Institutional Composite which includes high net-worth, non-qualified separately managed accounts and mutual fund accounts invested in S&P 500 equities that utilize cash-settled, index-based options held at custodians that allow participation in Clearing Member Trade Agreement (CMTA) trades. Additional information regarding Swan's Policies and Procedures used for valuing investments, calculating performance, and preparing GIPS reports are available upon request. There are three composites that have been terminated: 1) The DRS U.S. Large Cap Sectors Select Composite which includes non-qualified separately managed accounts invested in S&P 500 equities terminated on 1/1/2020. 2) The DRS U.S. Large Cap IRA Composite which includes qualified separately managed accounts invested in S&P 500 equities terminated on 1/1/2020. 3) The DRS Solutions Growth Composite which includes all separately managed accounts invested in multiple hedged asset classes and diversified into other asset classes with target allocations guided by a growth-oriented risk tolerance terminated in May 2020. Additional information regarding Swan's Policies and Procedures used for valuing investments, calculating performance, and preparing GIPS reports are available upon request.

Swan Defined Risk US Large Cap Composite (DRS) performance results are presented in U.S. dollars and are net-of-actual-fees and trading expenses and reflect the reinvestment of dividends and capital gains. Actual fees may vary based on, among other factors, account size and custodial relationship. No current or prospective client should assume future performance of any specific investment strategy will be profitable or equal to past performance levels. All investment strategies have the potential for profit or loss. Changes in investment strategies, contributions or withdrawals may cause the performance results of a client's investment portfolio to differ materially from the reported composite performance. Different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will either be suitable or profitable for a client's investment portfolio. Historical performance results for market indices and/or categories generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. Swan uses options in the DRS. Options carry additional risks and are not suitable for all clients. Clients must read and understand the current options risk disclosure documents prior to entering into any options or other derivatives transactions. Prior to implementing a call writing program or any of the strategies described herein, a client should further discuss this investment process with other financial, legal and/or tax advisors. The options risk disclosure document is located at: <http://optionsclearing.com/about/publications/character-risks.jsp>

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