SWAN GLOBAL INVESTMENTS

The Power of the Re-Hedge

Case Study: Value of Active Management of Long-Term Hedges for Long-Term Investors

For Investment Professional Use Only

Re-Hedging a Portfolio is Akin to Rebalancing

One of the keys to successful investing is the old maxim, "Buy low, sell high." The concept of portfolio rebalancing is based on this maxim: selling holdings that have run up in value and buying more of those holdings that have fallen in value in order to return to a strategic target allocation of those holdings.

How do Swan Global Investments' hedged equity strategies seek to apply this tried and true rule? And how does Swan's approach differ from other hedged equity solutions?

Swan uses Long-Term Equity Anticipation Securities, or LEAPS, to hedge its market exposure. LEAPS are options that don't expire for at least a year, and the LEAPS that Swan typically purchase have two years to expiration.

A key point to remember about options is that every option eventually expires. By purchasing options with a long time frame until expiration, Swan is hoping to monetize the value of the put option by re-hedging, or resetting the hedge, should the market fall below the strike price – i.e., to sell high and buy low.

Let's take a moment to review Swan's investment process.

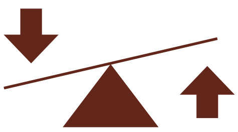
Distinct, Hedged Equity Approach - Powered by Re-hedging the Portfolio

A leader in hedged equity and options-based strategies, Swan Global Investments is committed to helping long-term investors grow and preserve wealth.

The Defined Risk Strategy (DRS), launched in 1997, is based upon our time-tested "Always Invested, Always Hedged" philosophy that combines passive equity investing and active risk management using long-term put option hedges.

DEFINING RISK WITH PUT OPTIONS

Put options are an ideal diversifier because a put option is inversely correlated to the asset it seeks to hedge, moving in the opposite direction as the underlying investment.



The Swan Defined Risk Investment Process

Distinct combination of passive investing with active risk management.

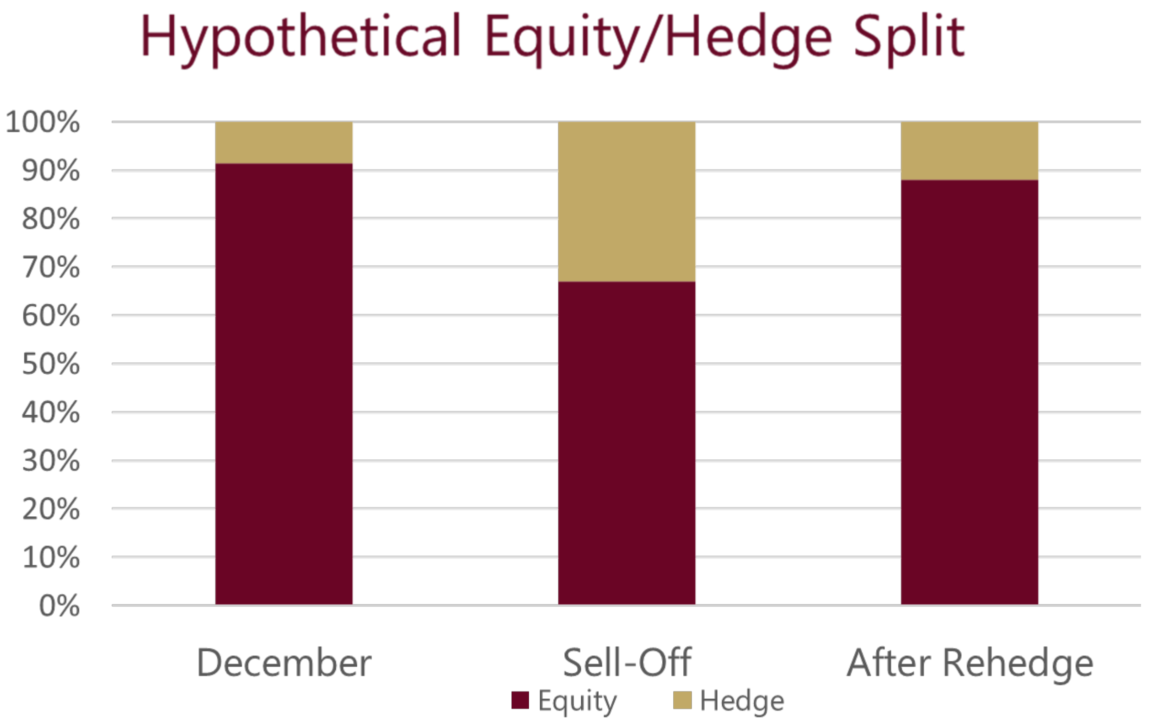
1. **Invest in Equities** - Always Invested, passively, in equity index ETFs
2. **Hedge the Equities** - Always Hedged, actively managing long-term put options (LEAPS)
3. **Seek Additional Return** - Actively managing shorter-term options, utilizing a disciplined, time-tested approach.

Click here to learn more about how we unlock the power of LEAPS to help investors capitalize on market cycles.

This approach enables long-term investors to navigate market uncertainty, while seeking to capitalize on periods of major market weakness.

Portfolio Re-hedge - In Theory

The graph below illustrates conceptually what might happen to one of Swan's hedged equity solutions under a market sell-off scenario.



Source: Swan Global Investments

- Swan typically starts out the year with a portfolio that is roughly 90% long exposure to an equity asset and about 10% invested in an at-the-money or near-the-money put option with a two-year expiration cycle.

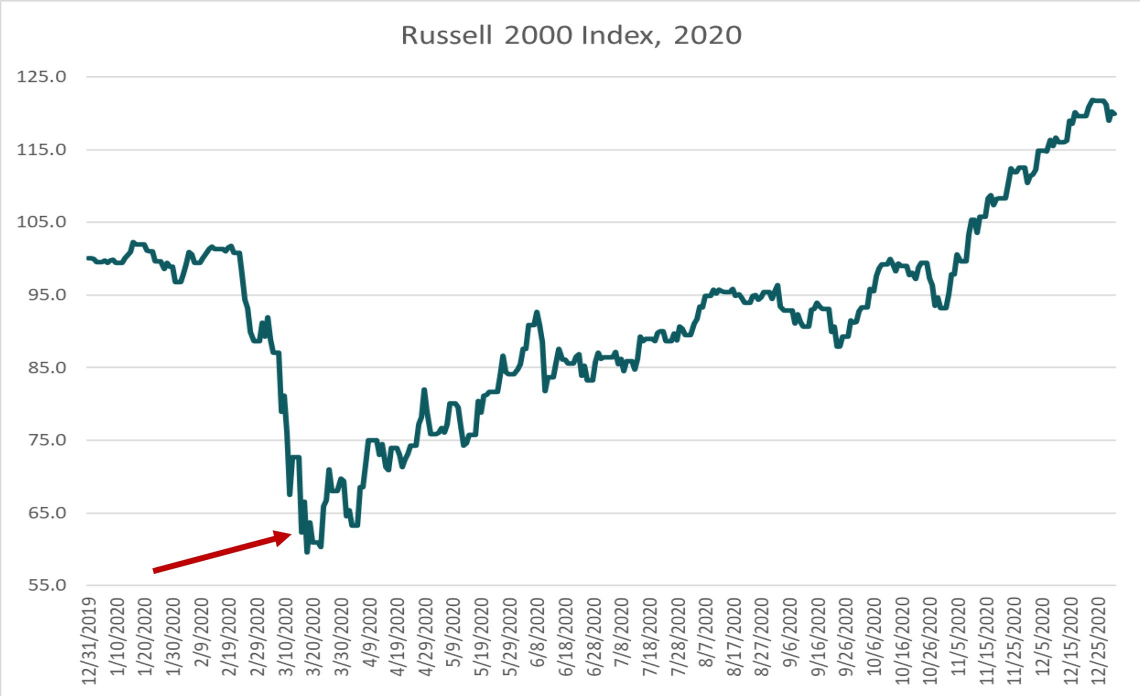
- If the underlying asset sells off significantly, one wouldn't expect the ratio to be 90%/10% anymore. The equity portion will track the market downwards. The put option is expected to not only increase in value, but accelerate in value the further the market sells off. Under this scenario, the ratio might be something like 65%/35% after a major market move.

- At this point, Swan's active management takes advantage of the market dislocation. The strategy is re-hedged, meaning the deep-in-the-money put options are sold (i.e. "selling high"), a new hedge using LEAPS is established, and additional shares of the underlying equity are purchased (i.e. "buying low"). New LEAPS are purchased at or near depressed market levels, as Swan maintains its "always invested, always hedged" risk profile.

If markets rally, the strategy will be in a better position for the rebound than if Swan had pursued a passive, "do nothing" approach. Further, while investors may understand the benefits of "buying low", many investors may lack the discipline or capital to buy when markets are in turmoil. Swan's distinct hedged equity process seeks to provide the dispassionate means and mechanism to do so.

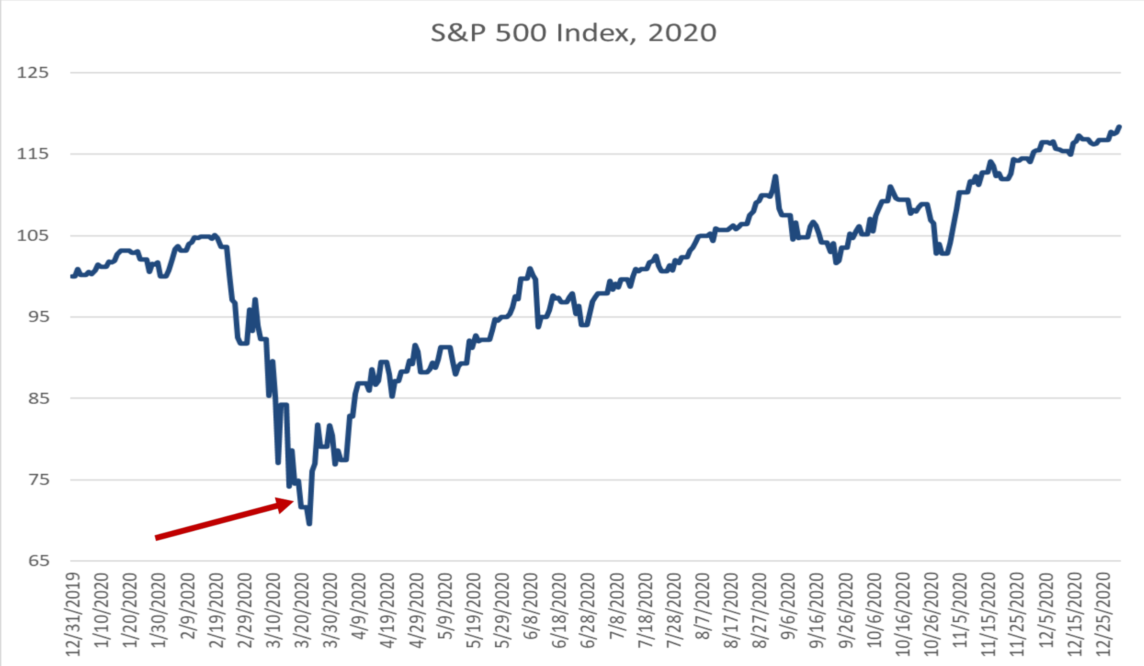
Portfolio Re-hedge - In Practice

There have been multiple instances over the last few years where some of Swan's strategies were able to exploit market weakness and implement an intra-year re-hedge. The data below illustrates the details of the re-hedges that occurred during the Covid-19 Panic of 2020:

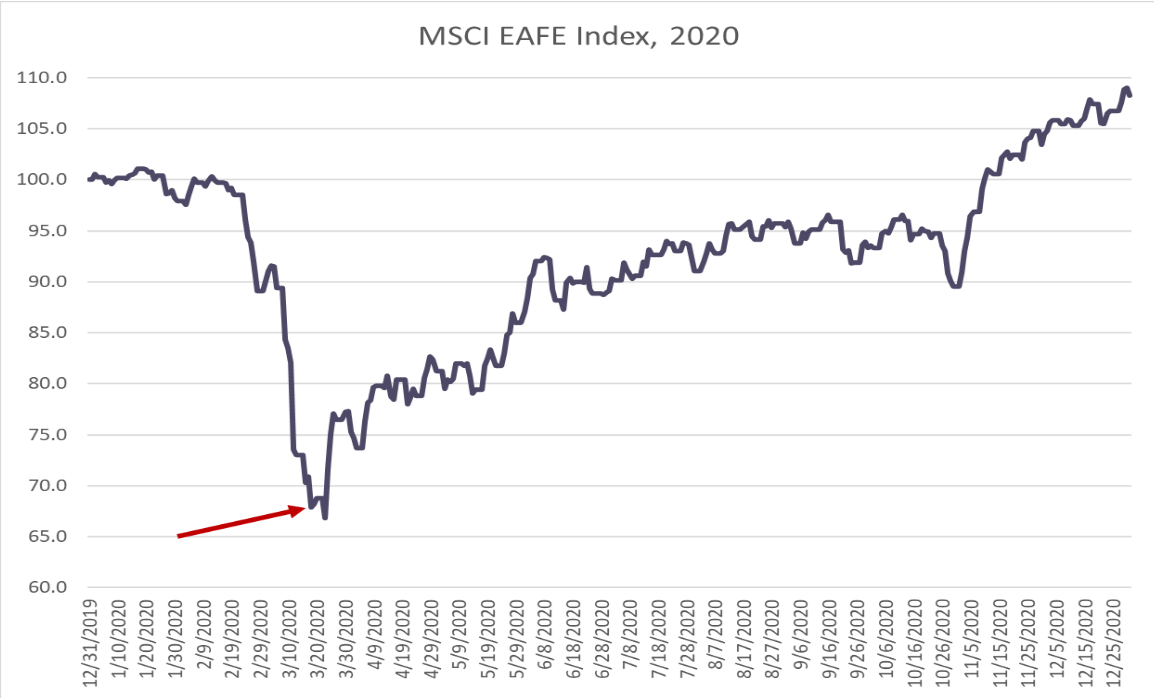


Asset Class	*Reference Asset*	*Market sell-off to Re-Hedge Point*	*Timing of Re-Hedge*	*Size of Re-Hedge*	*Subsequent Market Move to Year End*
US Small Cap	Russell 2000	-18.9%	March 2020	100%	52.1%

Source: Morningstar Direct, Swan Global Investments



Asset Class	*Reference Asset*	*Market sell-off to Re-Hedge Point*	*Timing of Re-Hedge*	*Size of Re-Hedge*	*Subsequent Market Move to Year End*
US Large Cap	S&P 500	-15.7%	March 2020	50%	53.6%



Asset Class	*Reference Asset*	*Market sell-off to Re-Hedge Point*	*Timing of Re-Hedge*	*Size of Re-Hedge*	*Subsequent Market Move to Year End*
Foreign Dev	MSCI EAFE	-29.7%	March 2020	100%	48.4%

Source: Morningstar Direct, Swan Global Investments

In 2022 markets have entered bear market territory as investors grapple with the end of easy-money policy and 40-year high inflation. Swan has started the re-hedge process, taking advantage of the market sell-off by dollar-cost-averaging back to its strategic targets.

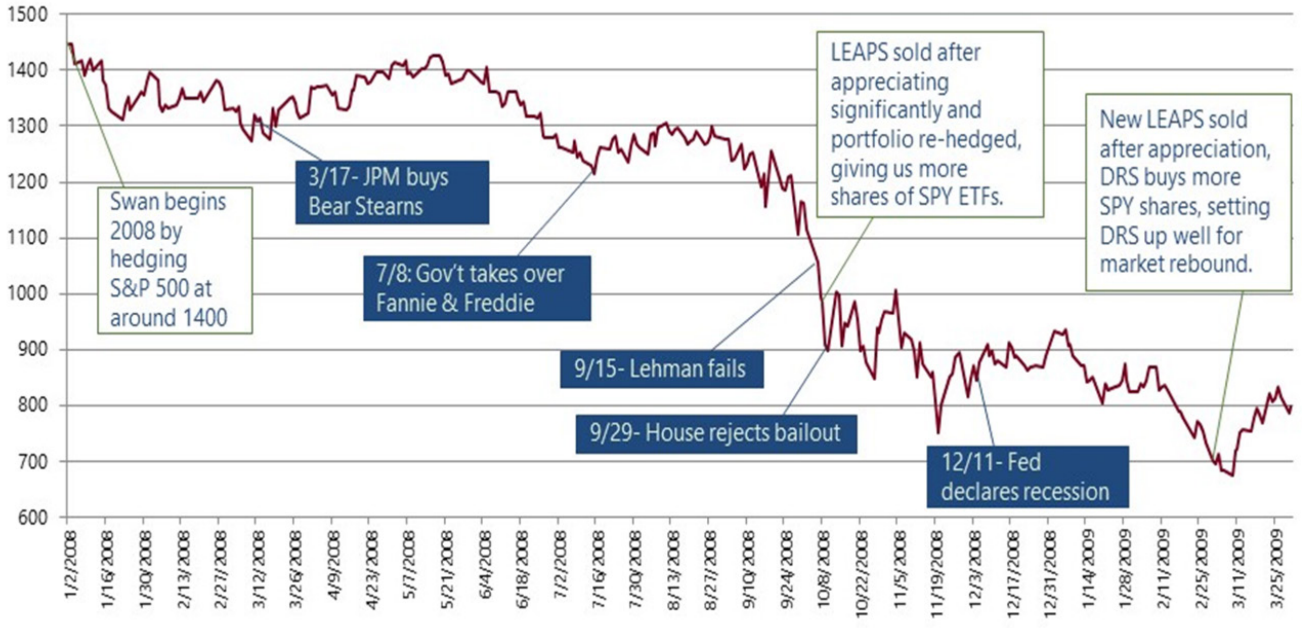
Asset Class	*Reference Asset*	*Market sell-off to Re-Hedge Point*	*Timing of Re-Hedge*	*Size of Re-Hedge*	*Subsequent Market Move to Year End*
US Small Cap	Russell 2000	-21.2%	May 2022	50%	TBD
Emg Mkt	MSCI EM	-19.3%	May 2022	25%	TBD

Source: Morningstar Direct, Swan Global Investments

It is important to note that the value of the re-hedge is illustrated through a full market cycle- both the bear market downturn and then subsequent rally. The 2022 bear market is in its early stages. Should the markets continue to sell off Swan intends to initiate further re-hedges. The full value of the re-hedging becomes apparent as markets recover from the bear.

While the recent market sell-offs have illustrated the value of re-hedging, the turmoil of the last few years pales in comparison to the Global Financial Crisis (GFC) of 2007-09. The GFC was the greatest financial calamity since the Great Depression and the S&P 500 lost over half its value in the span of a year and a half.

This extreme market move gave Swan's flagship Defined Risk Strategy the opportunity to re-hedge its entire portfolio not once, but twice as the markets collapsed. The graph below illustrates how the GFC unfolded.



Source: Morningstar Direct, Swan Global Investments

Long-Term Vs. Short-Term Hedging

This approach of actively re-hedging differs from many other options-based hedging strategies. Other strategies use put options with shorter times to expirations. Many strategies use options that expire on a quarterly basis and others use options that might expire monthly or even weekly.

While this shorter-term approach to hedging has some advantages, there are drawbacks to using short-term options. First of all, every option eventually expires. If the option is not in-the-money at the time of expiration, it will expire worthless and become an expense to the strategy. If a shorter-term hedging strategy is continuously having to purchase new put options to replace those that have expired worthless, these costs can add up.

Second, during times of market volatility, put options often become very expensive. A strategy using short-term options might see an initial benefit during the first leg of a sell-off but be forced to pay eye-watering prices for its subsequent rounds of hedges.

Finally, shorter-term put options don't offer the potential to actively rebalance the portfolio as described previously. Rather than "selling high and buying low", a strategy using short-term options is likely to be forced to "buy high" if they want to remain hedged during an extended market sell-off.

Swan believes that using long-term LEAPS is more cost effective and confers more advantages than short-term put options. We believe that long-term put options give investors a unique opportunity to mitigate market uncertainty, as well as potentially exploit and profit from bear markets.

Managing Risk & Meeting Return Objectives

Hedged Equity as a Full Market Cycle Solution

Successful long-term investing involves navigating market uncertainty and staying the course through market ups and downs.

Hedged equity strategies that employ and actively manage long-term put options as a hedging mechanism, like the Defined Risk Strategy (DRS), may help long-term investors navigate market uncertainty. By remaining invested to participate in market upside while remaining always hedged to mitigate and potentially capitalize on market weakness, the DRS seeks to provide a full market cycle solution.

"MARKET RISK IS TOO BIG A THREAT TO BE DEALT WITH PASSIVELY.

SO WE HEDGE IT."

- Randy Swan

Advisors, contact us for more information about our philosophy, distinct process, and suite of hedged equity solutions.

swanglobalinvestments.com

sales@swanglobalinvestments.com

970.382.8901

Suite of Hedged Equity Solutions

Our hedged equity funds and strategies are available at most platforms and custodians*.

	Active Hedge Management		Passive Hedge Management
Building Blocks			
Exchange Traded Funds	▪ U.S. Large Cap (ticker: HEGD)	**Pacer-Swan SOS ETF Series**	▪ SOS FLEX ▪ SOS Moderate ▪ SOS Conservative ▪ SOS Fund of Funds
Open-End Mutual Funds	▪ U.S. Large Cap (SDRIX) ▪ U.S. Large Cap Growth (SDAIX) ▪ U.S. Small Cap (SDCIX) ▪ Foreign (SDJIX) ▪ Emerging Markets (SDFIX)		
Separately Managed Accounts	▪ U.S. Large Cap ▪ U.S. Large Cap Growth ▪ U.S. Large Cap Prime ▪ U.S. Small Cap ▪ Foreign Developed ▪ Emerging Markets	**Swan SOS Shield® SMA Series**	▪ SOS Shield® FLEX ▪ SOS Shield® Moderate ▪ SOS Shield® Conservative
Overlays			
Hedged Equity Overlays*	Single or Multi-Asset Equity Portfolio Overlays	**Custom Portfolio Overlays***	Concentrated Equity Holdings, Low-Cost Basis Equity

* NOTE – Account minimums apply to certain products. Availability of certain strategy variations or structures may be unavailable for qualified accounts or at certain custodians.

About Swan Global Investments

Investing Redefined®

Since 1997, our hedging and options strategies have been redefining investing to directly address the biggest threat long-term investors face: market risk.

Market risk is too big a threat to investors to be dealt with passively. So we hedge it.

Our simple, yet innovative investment philosophy is the foundation of our Defined Risk Strategy, a rules-based, multi-asset hedged equity strategy, with a track record of generating consistent returns while defining, or limiting, downside risk to help improve investment outcomes and protect irreplaceable capital through full market cycles (bull and bear).

Swan Global Investments is an asset manager headquartered in Durango, Colorado.

1099 Main Ave. Suite 206
Durango, CO 81301

Important Notes & Disclosures

Swan Global Investments is an SEC registered Investment Advisor that specializes in managing money using the proprietary Defined Risk Strategy (DRS). Please note that registration of the Advisor does not imply a certain level of skill or training. This communication is informational only and is not a solicitation or investment advice. Further information may be obtained by contacting the company directly at 970-382-8901 or www.swanglobalinvestments.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 that future performance will be comparable to past performance. Investments in mutual funds involve risk including possible loss of principal. There is no guarantee that any investment strategy will achieve its objectives, generate profits, or avoid losses.

Investors should carefully consider the investment objective, risks, charges and expenses of the Swan Defined Risk Funds. This and other information is contained in the prospectus and should be read carefully before investing. For a prospectus please call Swan Defined Risk Fund at (877) 896-2590. The Fund is distributed by Northern Lights Distributors, LLC, member FINRA / SIPC. Northern Lights Distributors, LLC and Swan Capital Management, LLC & Swan Global Investments, LLC are not affiliated. 3030-NLD-06/30/2022

Financial Professional use only. Not for public distribution.