

Quarterly Round-Up

Portfolio Management Team

April 25th, 2023

Define Risk, Seek Improved Outcomes – Investing Redefined®

Quick Review of Q1 2023

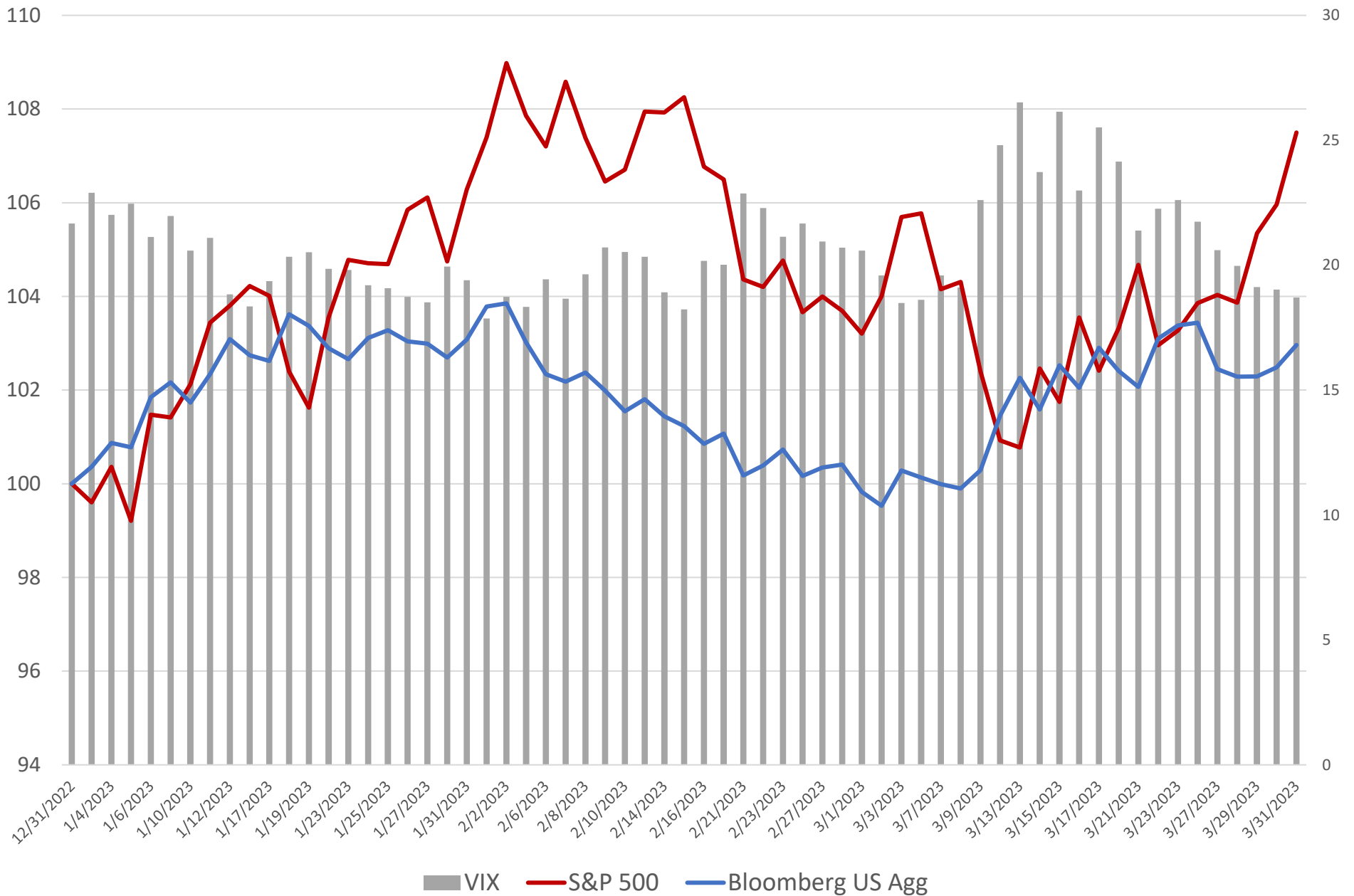
- Continuation of 2022's uncertainty
- 2022's worst went to first
- Path to a "soft landing" narrows

	Q1	Q2	Q3	Q4	YTD
S&P 500	7.50%				7.50%
Russell 2000	2.74%				2.74%
MSCI EAFE	8.62%				8.62%
MSCI EM	4.02%				4.02%
Russell 1000 Growth	14.37%				14.37%
Russell 1000 Value	1.01%				1.01%
Bloomberg US Agg	2.96%				2.96%



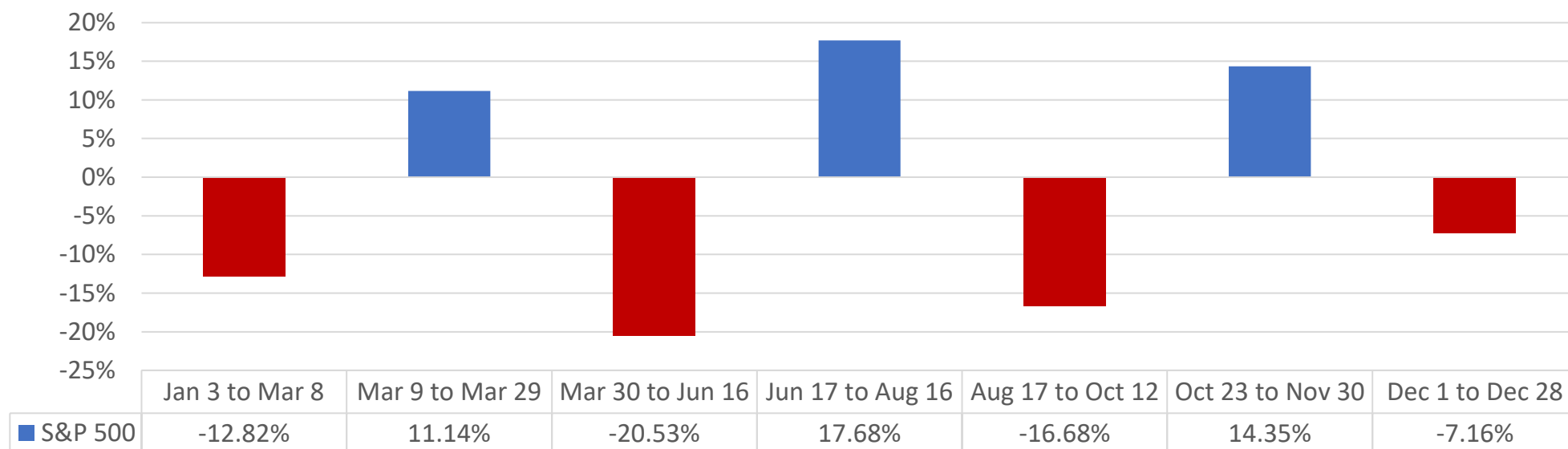
Market Environment

S&P 500 and Bloomberg Agg vs. VIX

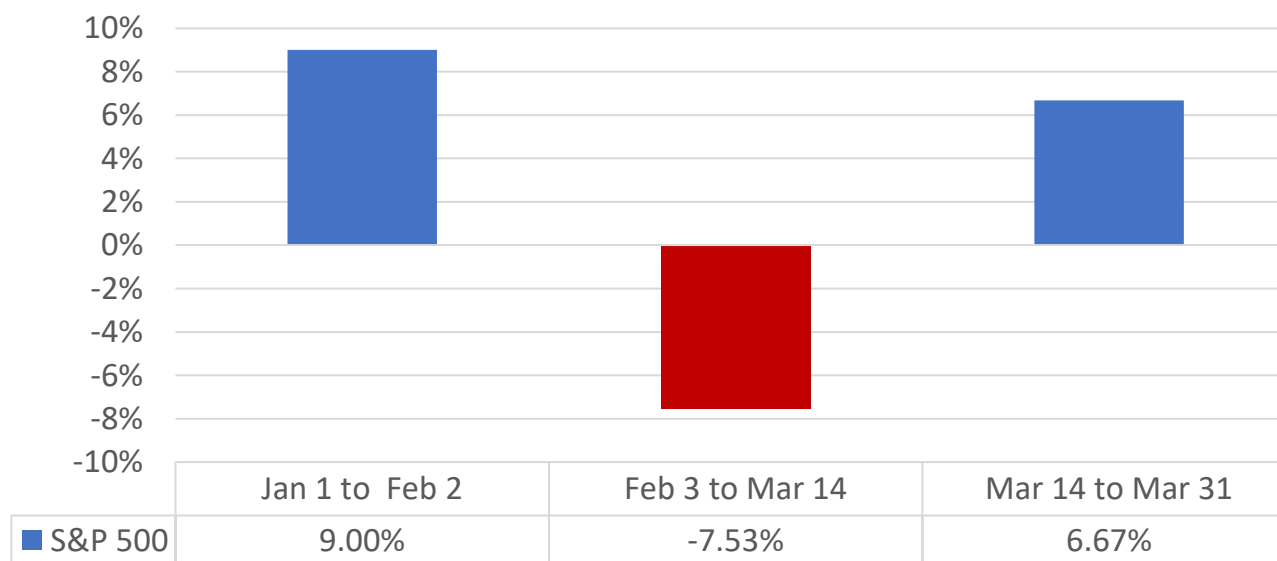


More of the Same

2022: Bear Markets and Bear Market Rallies



2023: More of the Same



Always Invested, Always Hedged

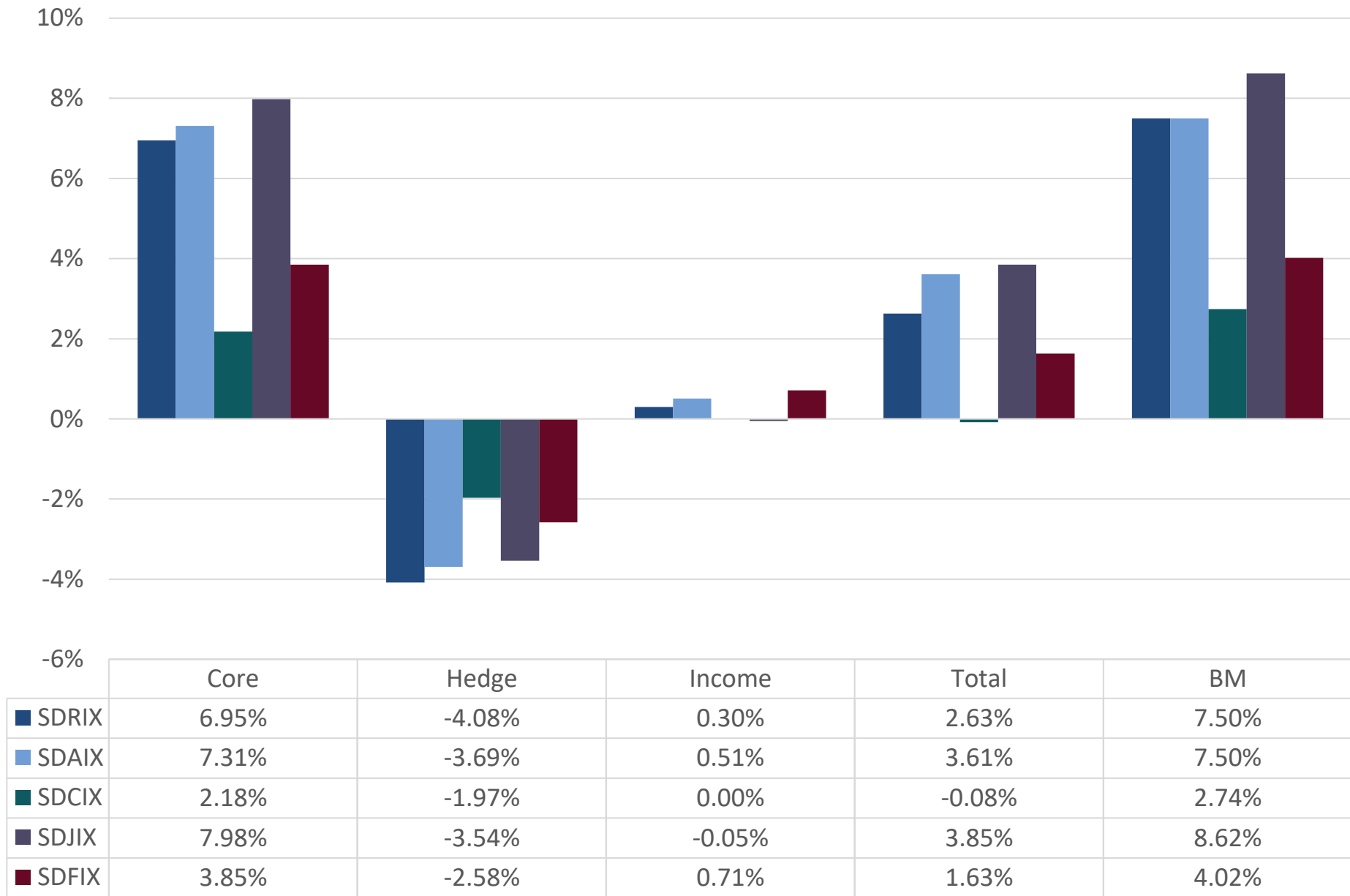


A HEDGE IS NOT INSURANCE AGAINST LOSSES



Attribution: 2023, Q1

First Quarter 2023 Attribution



For Financial Professional Use Only. Source: Swan Global Investments. Past performance is no guarantee of future results. SDRIX refers to the Swan Defined Risk Fund (I Share) and the benchmark referenced is the S&P 500 Index. SDAIX refers to the Swan Defined Risk Growth Fund (I Share) and the benchmark referenced is the S&P 500 Index. SDCIX refers to the Swan Defined Risk U.S. Small Cap Fund (I Share) and the benchmark referenced is the Russell 2000 Index. SDJIX refers to the Swan Defined Risk Foreign Fund (I Share) and the benchmark referenced is the MSCI EAFE Index. SDFIX refers to the Swan Defined Risk Emerging Markets Fund (I Share) and the benchmark referenced is the MSCI EEM Index. Indexes are unmanaged and have no fees or expenses. An investment cannot be made directly in an index.

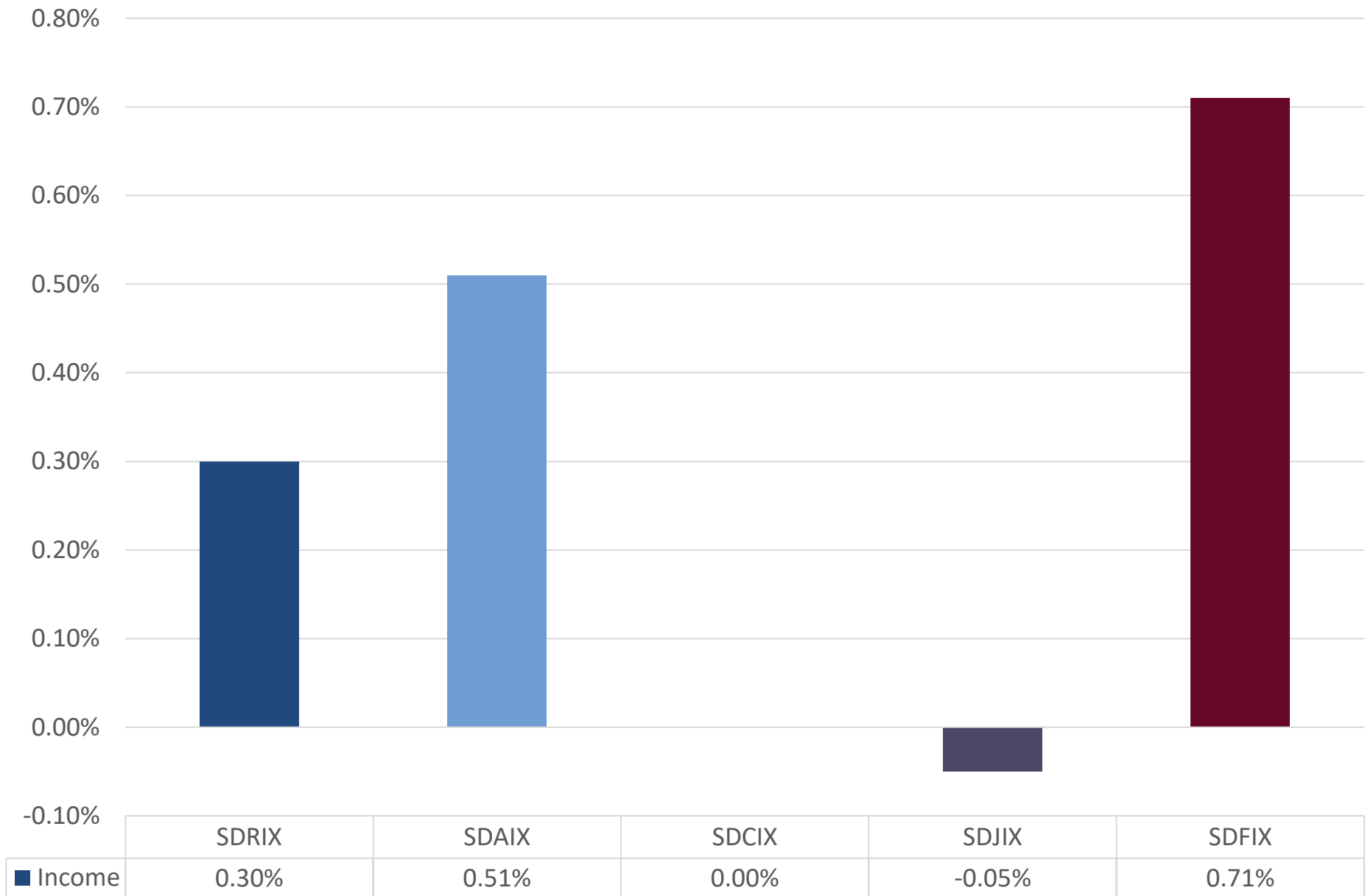


- Broad asset classes posted gains
- Income was either flat or positive across line-up, despite a volatile market
- All products entered 2023 with a new set of hedges



The Good: Income Trades

Supplemental Trades, Q1 2023



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Why does the strategy have this component?

- The goal is to offset the carrying cost of the hedge.

What do these trades look like?

- The trades involve buying and selling shorter-term calls and puts with the intent of generating additional gains.

What if I simply don't want exposure to short volatility trades?

- Swan has variations of its "always invested, always hedged" strategy that have alternative ways of trying to offset the carrying cost of the hedge. This is our ETF "HEGD" and our "Prime" SMA.



The Good: Hedge Levels & Re-Hedge

	Reference for Hedge	Year-End Re-Hedge	Composite Strike	Current Level (4/17/23)
US Large Cap	S&P 500	100%	3852	4151
Growth	S&P 500	100%	3727	4151
US Small Cap	Russell 2000	100%	1788	1803
Foreign Developed	EFA ETF	100%	66	73.09
Emerging Markets	EEM ETF	100%	38	39.89

Green = in-the-money puts

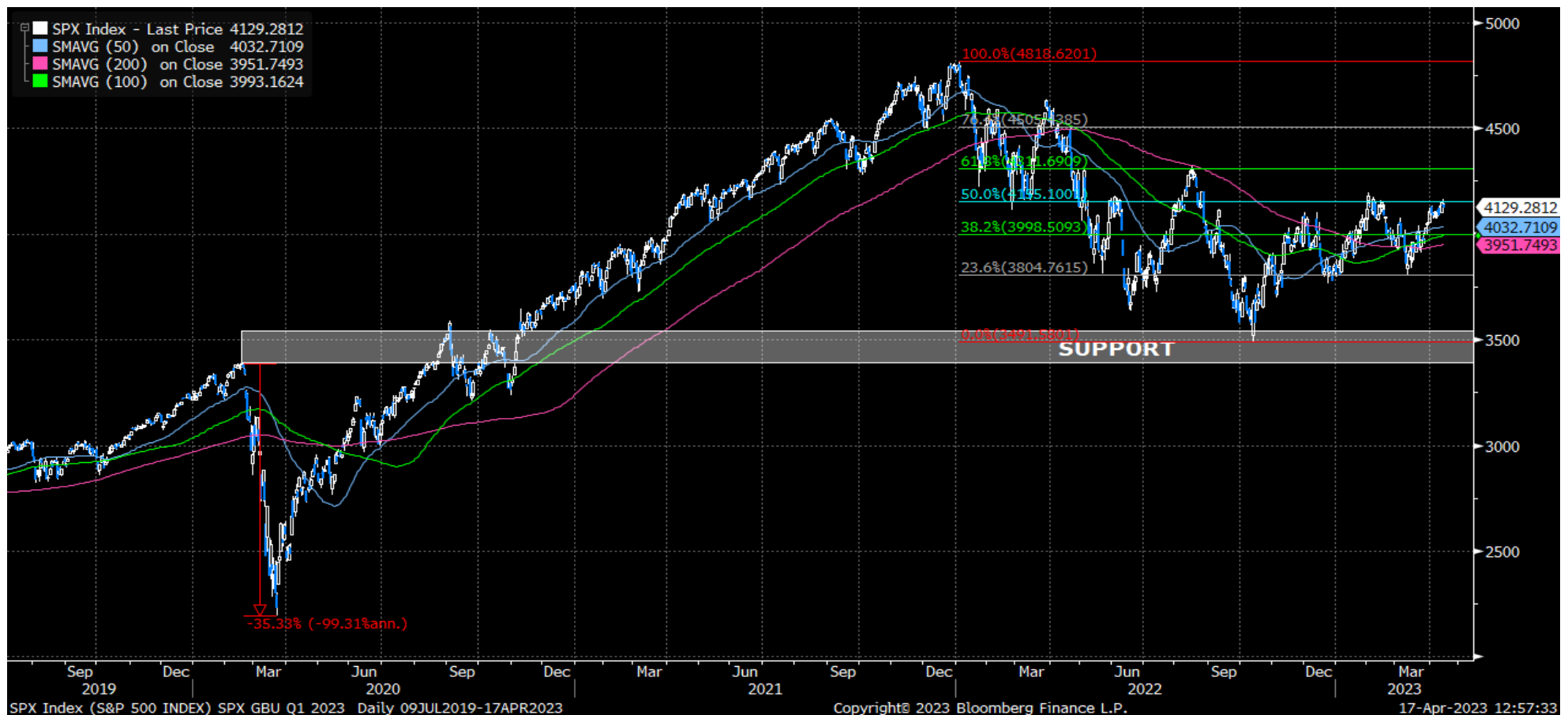
Red = out-of-the-money puts



Market Conditions and Options Review

- S&P 500 mostly range bound in 2023
- Range established between 3800 and 4200
- 200-day moving average (3950) has turned higher

S&P 500 Index



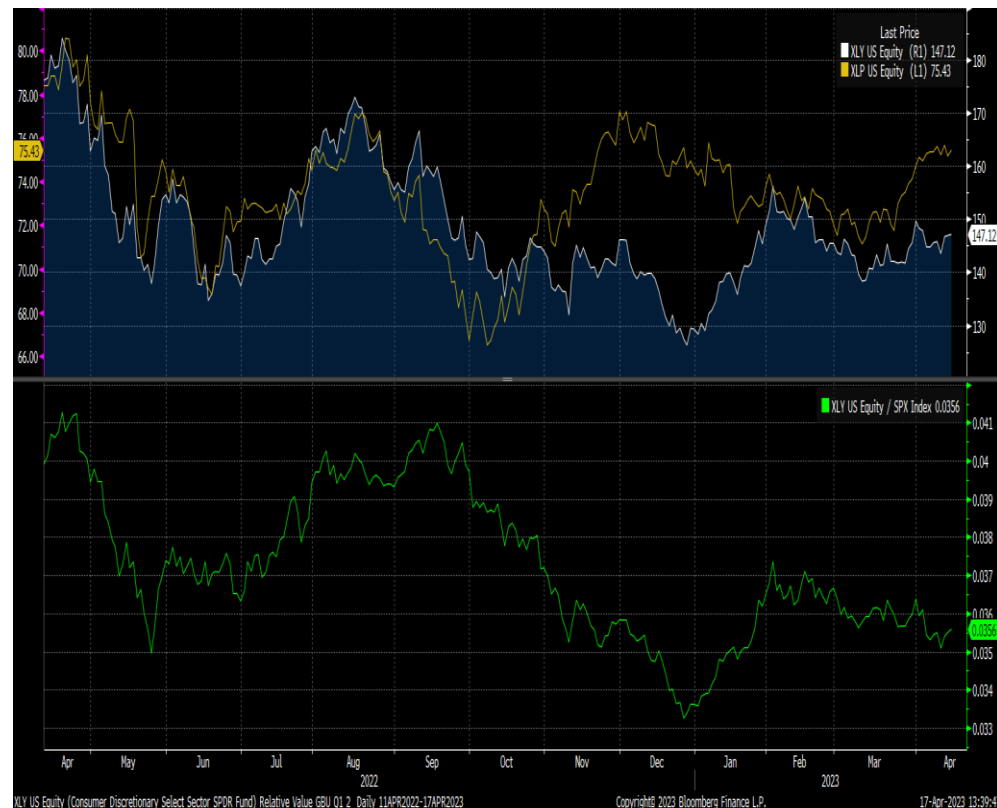
Market Conditions and Options Review

- Last year's underperformers now rallying
- Rotation back into Communication Services, Technology, and Consumer Discretionary
- Performance this year dominated by a handful of names

SMH (Semiconductors) vs. S&P 500

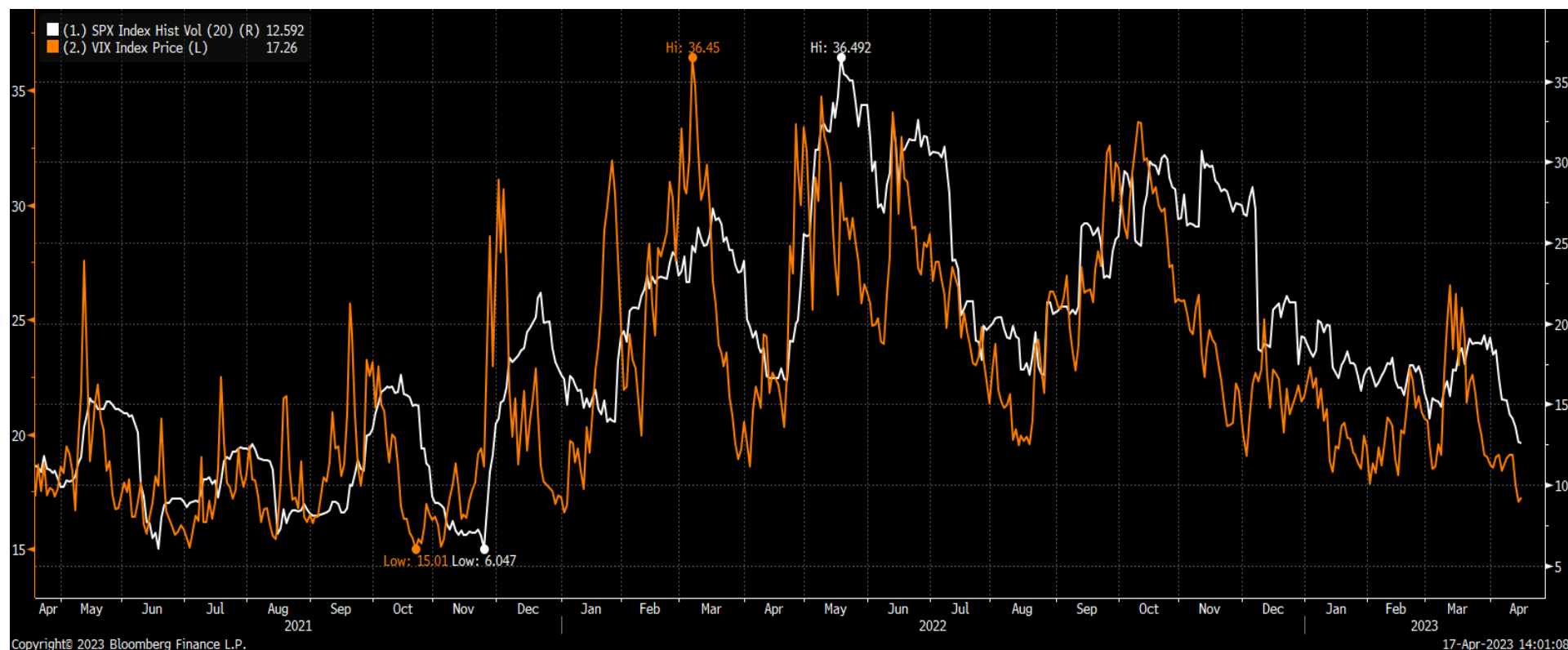


XLY (Cons. Disc.) vs. XLP (Cons. Stap.)



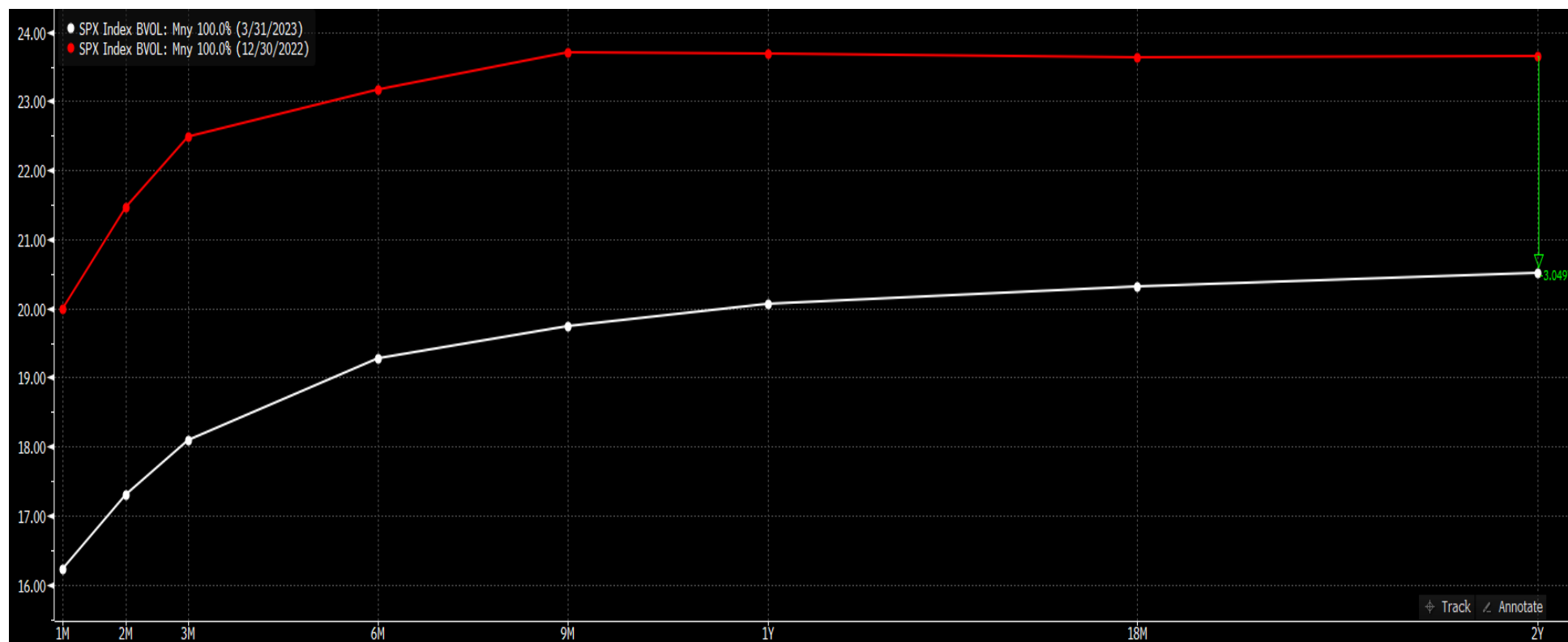
- Banking “crisis” reminder of fragility and equity volatility convexity
- VIX average in 2022 = 25.60
- Historical volatility and VIX now heading lower

S&P 500 Historical Volatility and VIX



- Term structure shift down
- Longer-term volatility decrease as a function of structural shift in economy
- Inflation and rate hikes not top line news anymore. Earnings season?

S&P 500 Option Term Structure

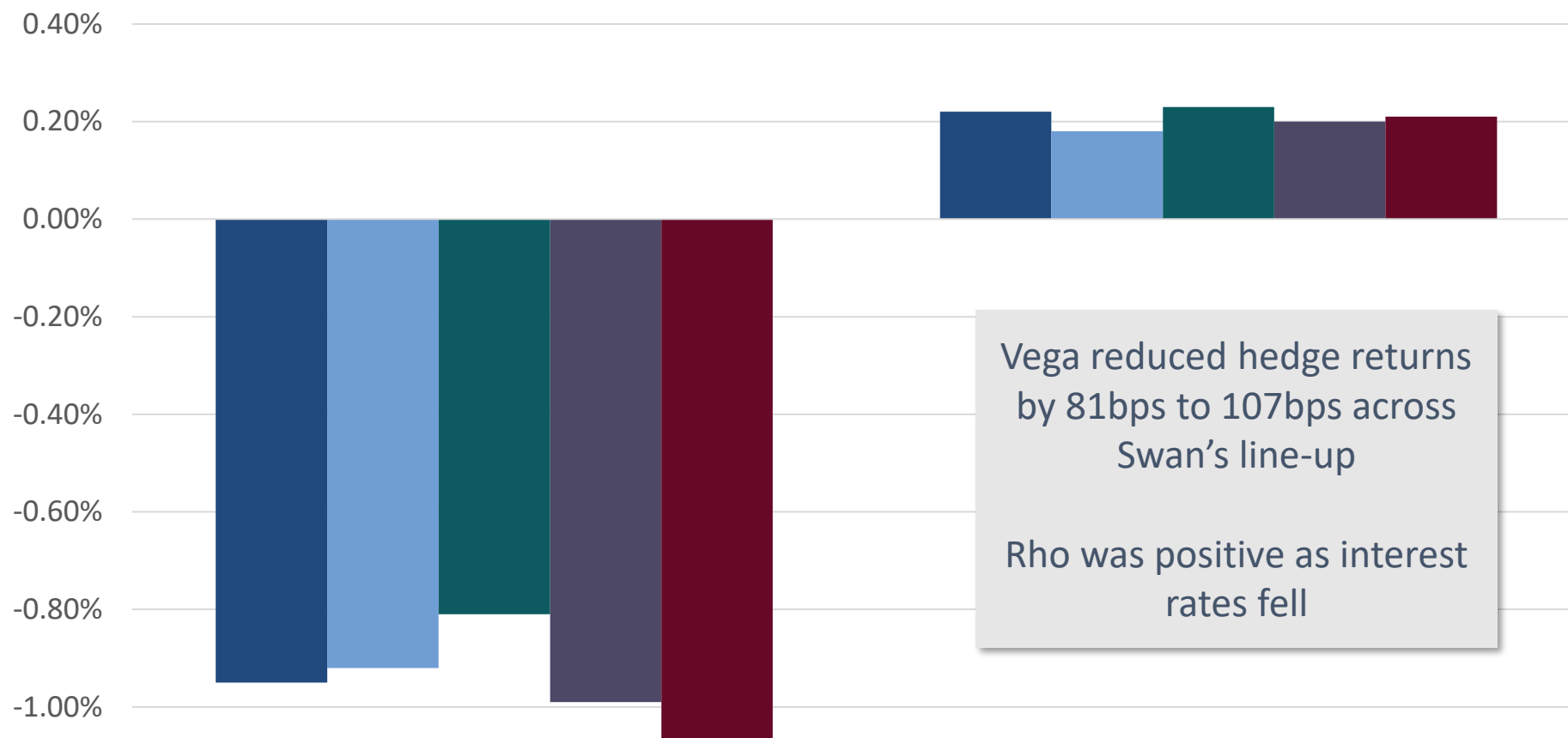


- Lack of direction or momentum in market
- Decline in the volatility premium detracted from the value of the long-term put options



The Bad: Volatility Decline on Long End

Greek Attribution, Q1 2023



	Vega/volatility	Rho/interest rate
■ SDRIX	-0.95%	0.22%
■ SDAIX	-0.92%	0.18%
■ SDCIX	-0.81%	0.23%
■ SDJIX	-0.99%	0.20%
■ SDFIX	-1.07%	0.21%



- Path to a “soft landing” is increasingly narrow; “no landing” talk quickly died out
- Risk of recession rising
- Silicon Valley Bank – canary in the coal mine?
- Leading economic indicators tilting negative



Fed Painted Into a Corner



Recession

Inflation



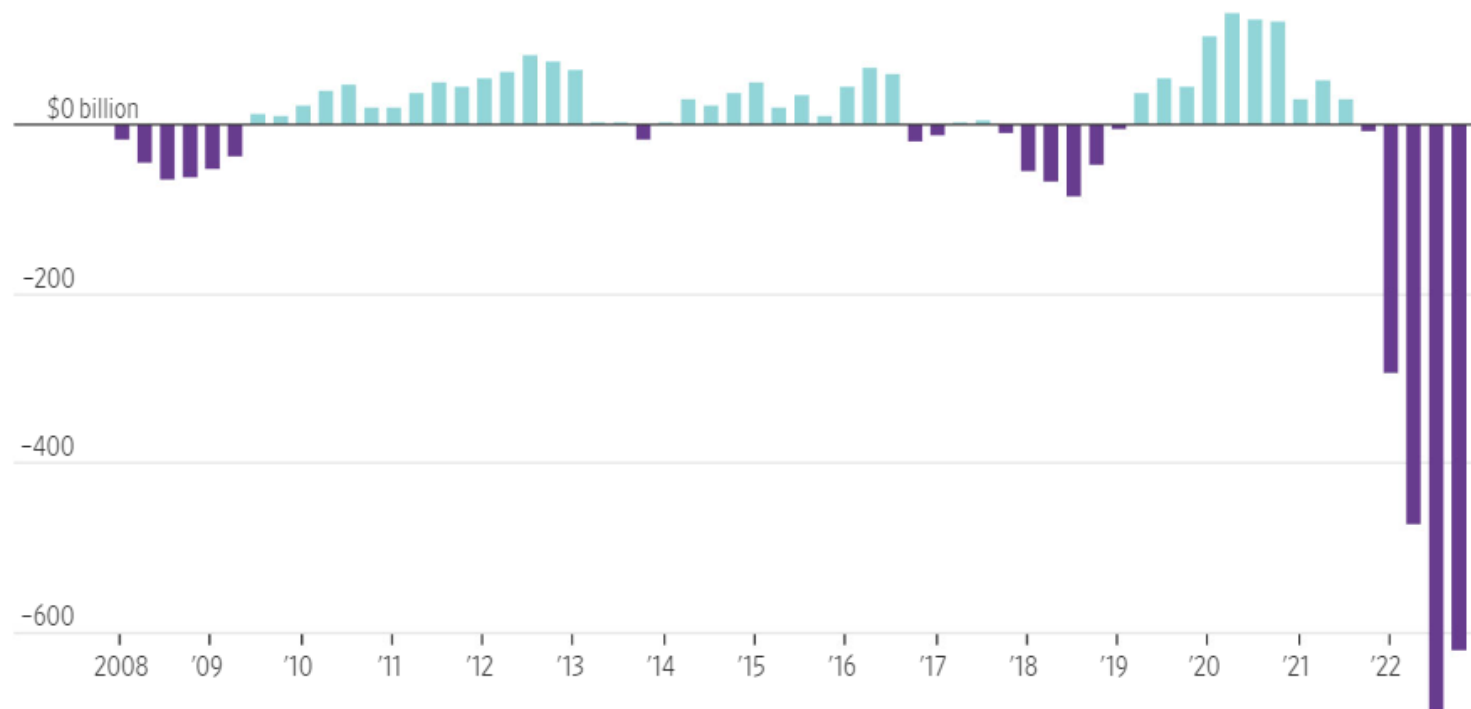
History doesn't repeat but it often rhymes...

Savings & Loans Crisis	SVB Fiasco
Assets were long-duration mortgages	Assets were long-duration bonds
Interest rate increases hit value of mortgages	Interest rate increases hit value of bonds
S&Ls grew quickly in Texas & SW due to energy boom	California banks grew quickly due to tech boom
Moral hazard of secured deposits	Moral hazard of secured deposits
Problem metastasized on the hopes that S&L's would "outgrow" their problems	TBD. First banks quickly shut down, but unclear how deep the rot is



The Duration Hole

Banks' total reported unrealized gains or losses, quarterly



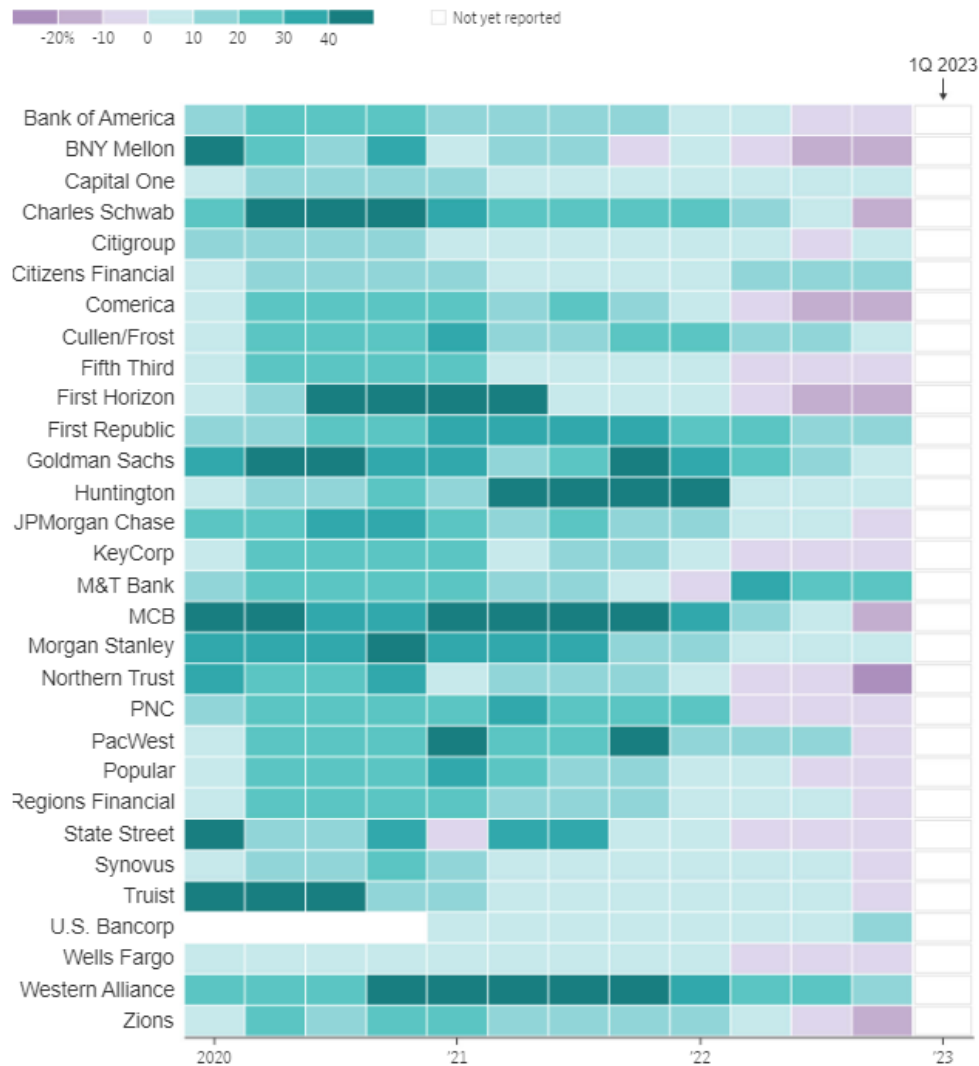
Source: Federal Deposit Insurance Corp.

- **Best case:** Fed cuts rates, low-yielding bonds claw back some losses
- **Dead weight case:** Banks hold bonds to maturity, act as a drag on lending
- **Worst case:** Banks forced to sell bonds at a loss to cover withdrawals



Deposit Base is Shrinking

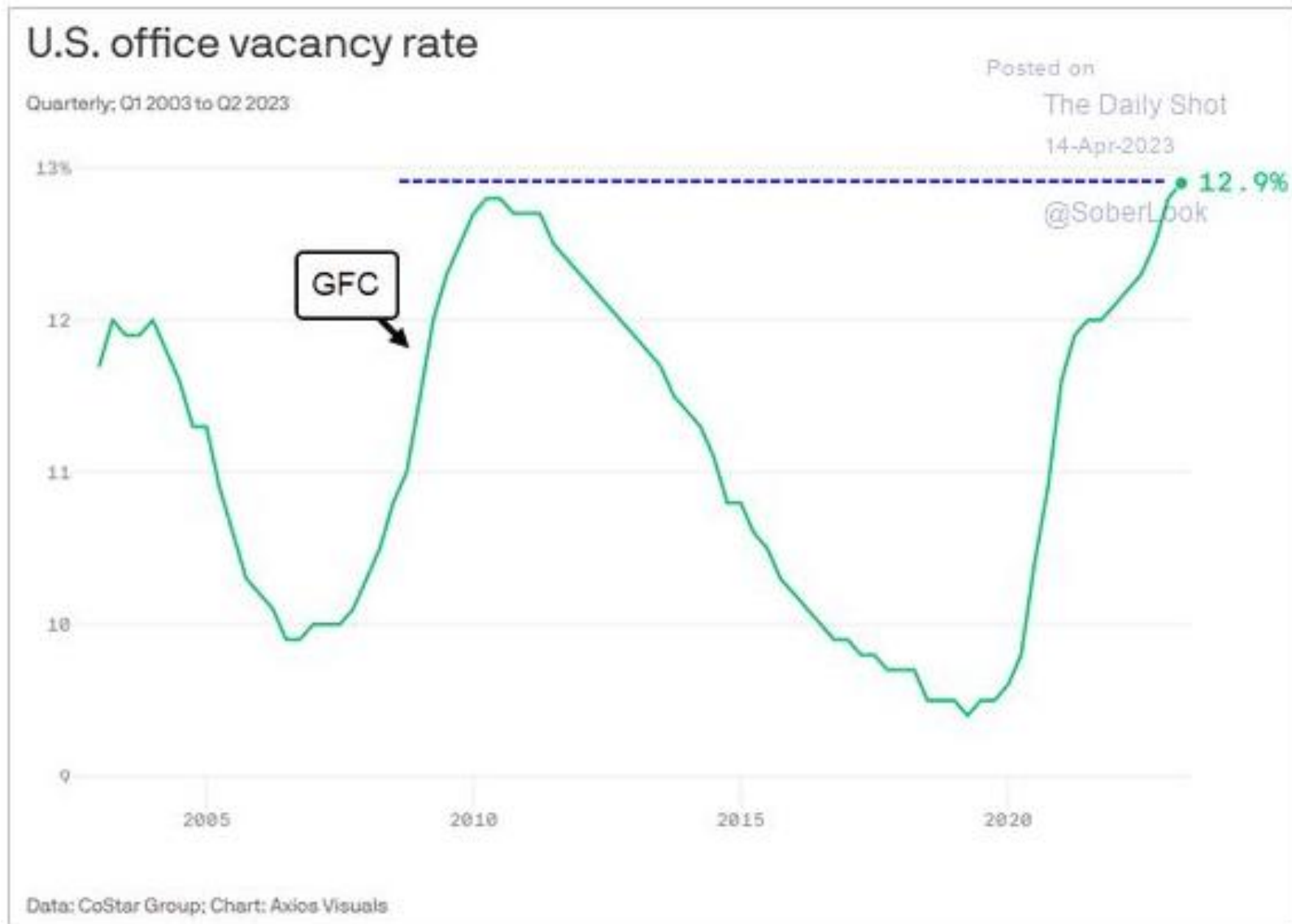
Deposits, change from a year earlier



- Consumers running down post-pandemic savings
- Savers seeking better yields
- Move away from smaller, regional banks to “Too big to fail” banks

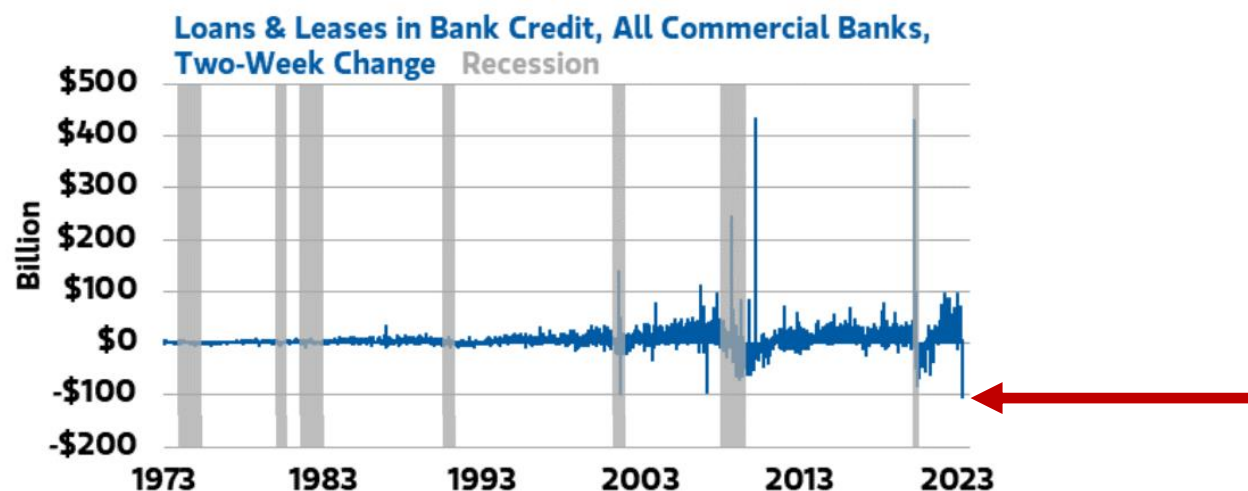


Almost \$1.5tn of US commercial real estate debt is due before 2025



Markets are ***supposed*** to be forward-looking...

- **Employment:** Job postings had its biggest drop in three years
- **Credit:** Commercial banks loans & leases had biggest drop in 50 years



- **Business Environment:** Bankruptcies in Q1 were the most in any first quarter since 2010
- **Earnings:** Negative earnings warnings creeping up

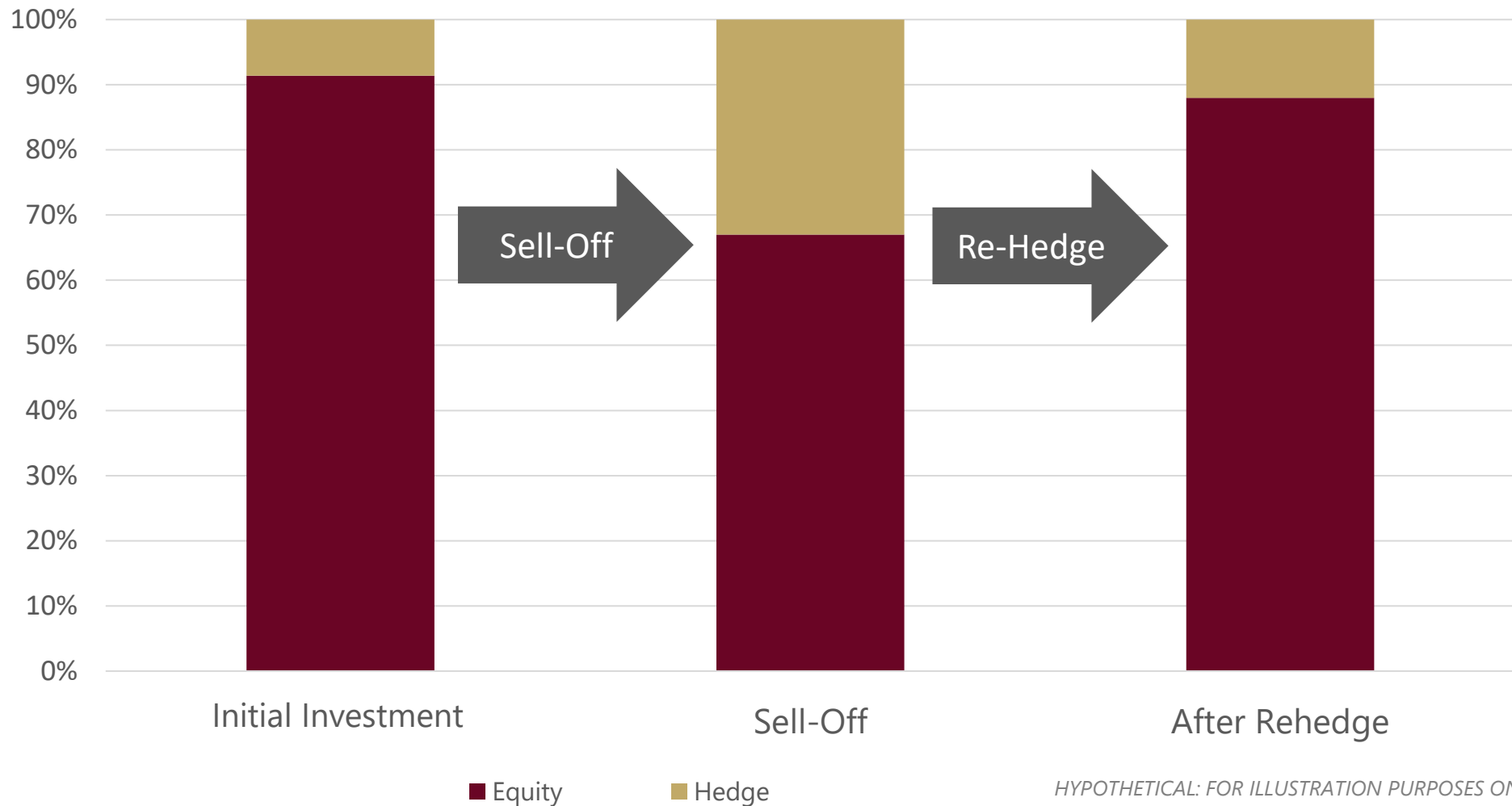


Re-Hedge is an Opportunity to “Sell High, Buy Low”

S&P 500 Drawdowns and DRS Re-Hedges



Hypothetical Equity/Hedge Split: Rebalancing of Portfolio



HYPOTHETICAL: FOR ILLUSTRATION PURPOSES ONLY
A HEDGE IS NOT INSURANCE AGAINST LOSSES



- Swan's line-up performed **within expectations**
- Income trades **contributed to returns** in large cap and EM products
- **Hedges reset** at end of 2022
- We believe significant **downside risks** remain throughout 2023



Questions from the Audience



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3108-NLD-4/21/2023

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