ENVESTNET ADVISOR SUMMIT ON-DEMAND 2021

Hedged Equity

& The New Modern Portfolio

PRESENTED BY

SWAN GLOBAL INVESTMENTS

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Marc Odo, CFA®, FRM®, CAIA, CIPM®, CFP®

Marc is responsible for helping investors gain a detailed understanding of hedged equity strategies, including how these solutions fit into an overall investment strategy. His responsibilities also include producing most of Swan's thought leadership content.

Prior to joining Swan, Odo was Director of Research for 11 years at Zephyr Associates, a leading provider of investment analysis software. He was responsible for developing next generation risk analytics. Prior to that he was a portfolio manager with Accessor Capital Management, a mutual fund company; and part of the investment analytics team at Pacific Portfolio Consulting, an RIA catering to high net worth individuals and ERISA plans.

The Dual Dilemma

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State of Bond Markets

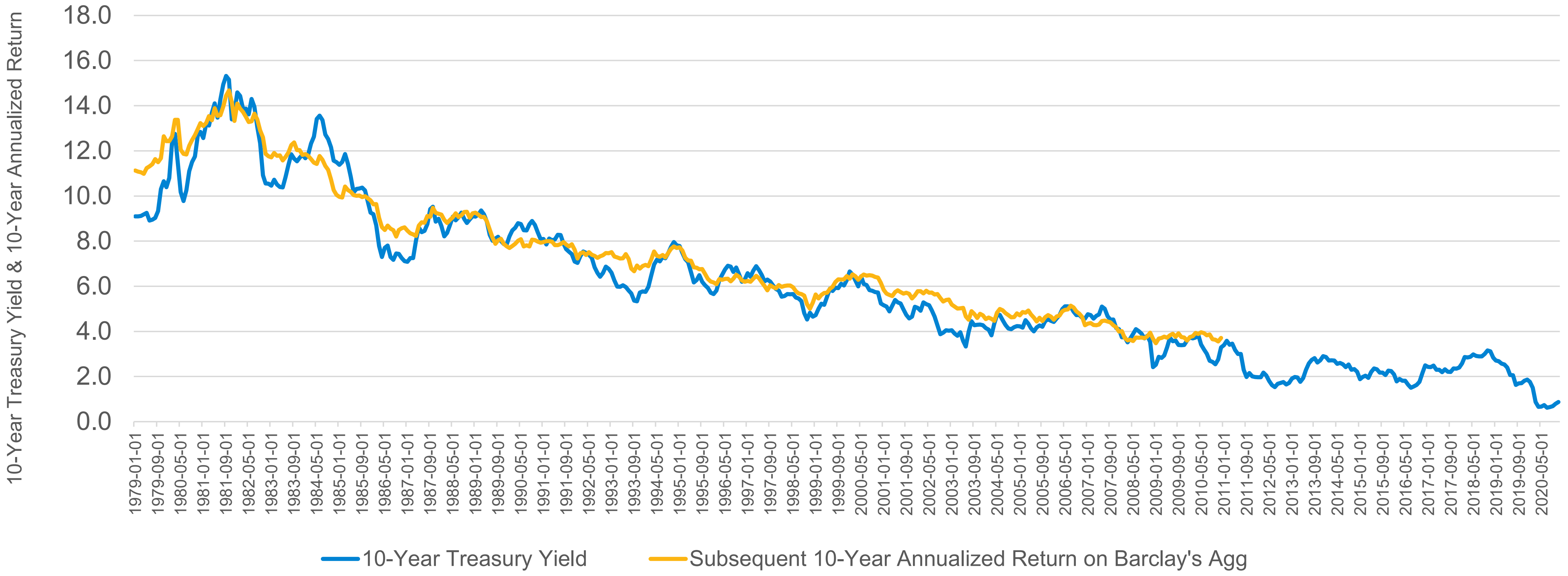
- Bond bull market appears out of gas
- Traditional role of bonds in peril
- Low Yields, High Duration Risk
- QE Forever?
- Inflation concerns rising

State of Equity Markets

- US equity markets near all-time highs
- Valuations appear rich
- “Irrational Exuberance II: The Sequel”?
- Long-term return expectations are muted

Yield: Driver of Bond Returns

Relationship Between 10-Year Treasury Yields and Subsequent Returns on Barclay's U.S. Aggregate Bond Index



Source: Swan Global Investments, Zephyr StyleADVISOR

Two Drivers of Inflation

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Supply Side

- Bottlenecks in global supply chains
- Lingering effect of trade wars

Demand Side

- Pent-up demand from a year of lock-down
- $1.9tn in stimulus, with talk of trillions more

Limited supply + increased demand

= higher prices

= inflationary pressures

Sensing Inflation Pressure?

Short-Term Pressures

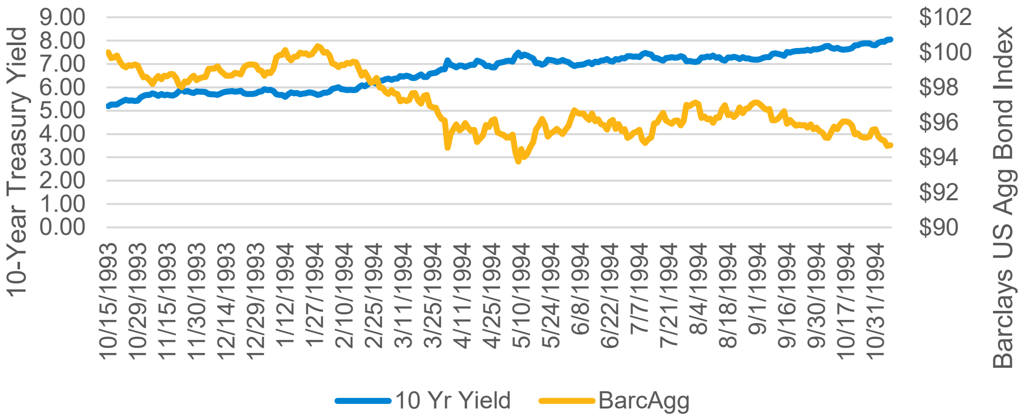
- Post-COVID demand surge
- Supply chain bottlenecks
- Dovish monetary policy

Longer-Term Pressures

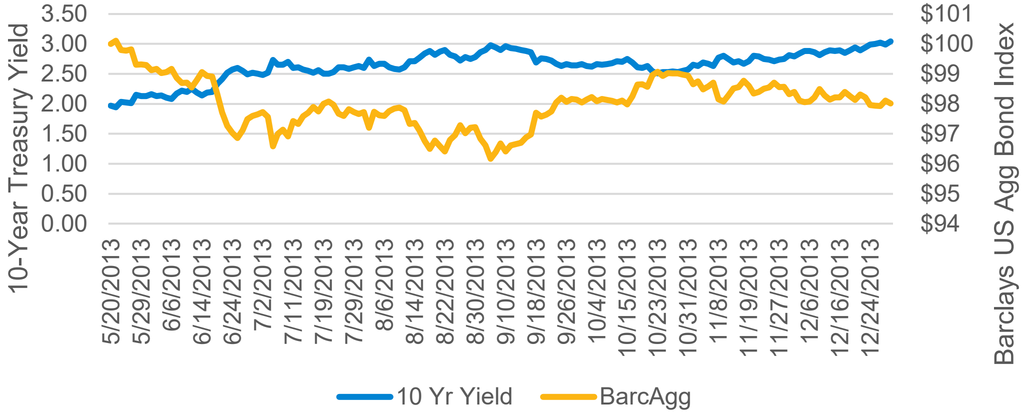
- Pro-labor / Anti-business regulations & laws
- Poorly skilled labor
- De-globalization
- Massive increase in debt & deficits

Periods of Rising Rates

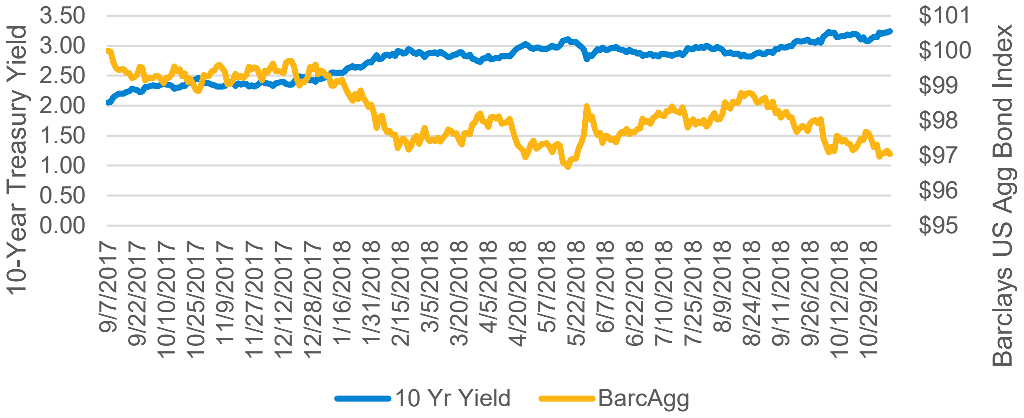
1994 Surprise



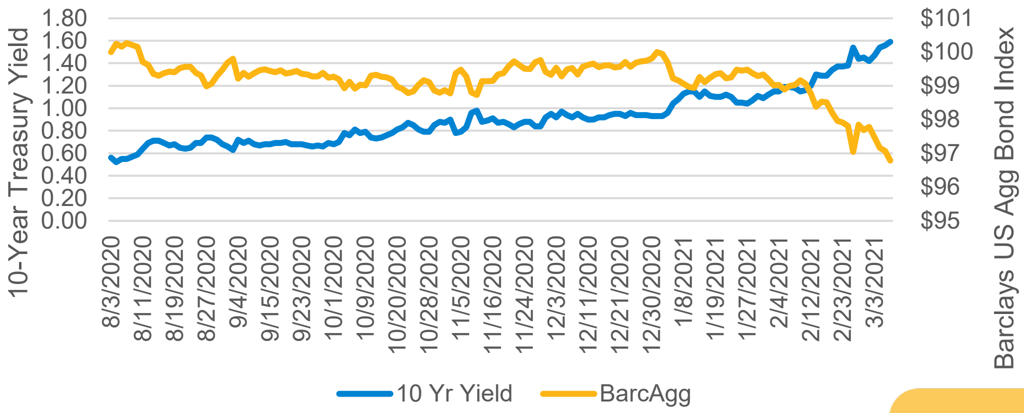
Taper Tantrum



2018 About-Face



Post-COVID



Source: Swan Global Investments, Morningstar Direct, www.treasury.gov

Market Valuations Appear Rich

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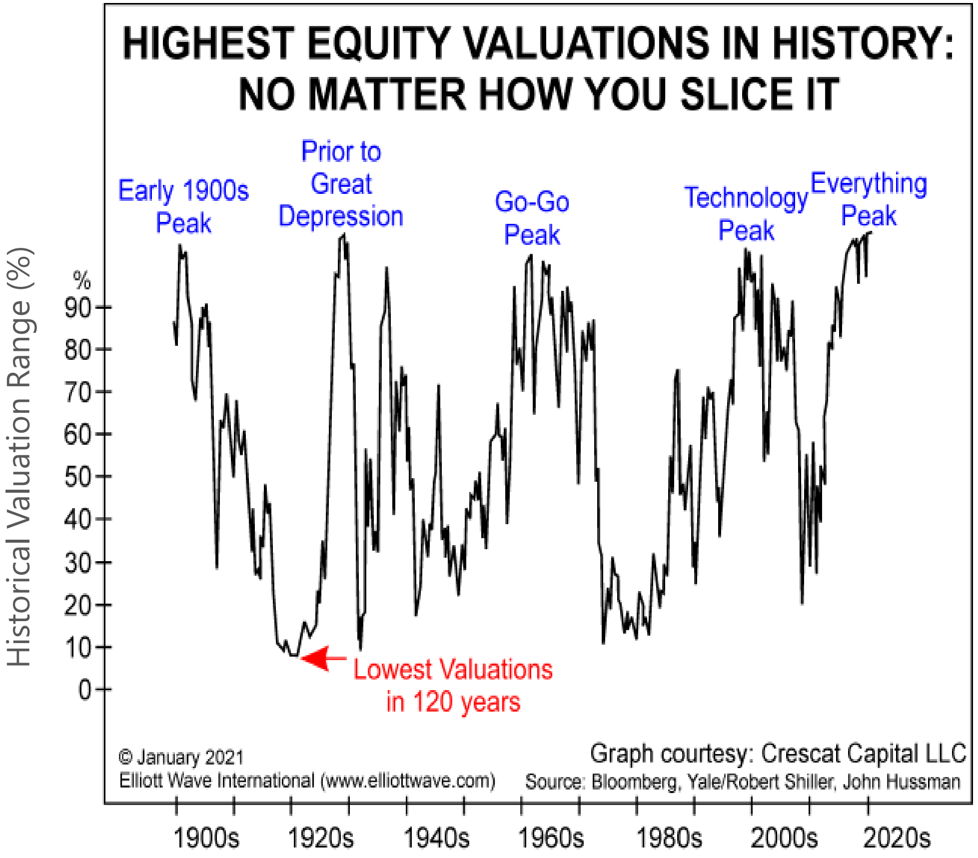
Equity Valuation as of 12/31/2020



Model Factors	Most Recent Values	Historical Percentile
Median EV to Sales (Ex-Financials)	4.0	100%
US Total Market Cap to GDP	170%	100%
EV to Free Cash Flow Margin-Adjusted (Ex-Financials)	48.8	100%
Median Price to Sales	2.8	100%
Median Price to Book	3.9	100%
Median EV to EBITDA (Ex-Financials)	15.0	100%
Aggregate EV to Sales	3.0	100%
Aggregate EV to Trailing 12 M EBITDA	17.5	100%
Aggregate EV to 2021 EBITDA Estimate	15.9	100%
Aggregate Price to 2021 Book Value Estimate	3.8	100%
Aggregate Price to Tangible Book Value	12.8	100%
Aggregate Price to Earnings	27.9	98%
Cyclically Adjusted P/E (CAPE)	32.9	97%
Aggregate Price to 2021 Earnings Estimate	25.6	97%
Aggregate Price to Book	3.9	91%

*Numbers as of November 2020 **Table courtesy: Crescat Capital LLC**

Source: Swan Global Investments, Crescat Capital LLC

How Are Investors Responding?

Conservative	Vs.	Aggressive
▪ Piling into cash ▪ More structured products ▪ Traditional havens like gold		▪ Increasing stock allocations, chasing “winners” in NASDAQ ▪ Bonds: Chasing yield by increasing credit & duration risk ▪ Speculative bets like cryptocurrency, NFTs, SPACs

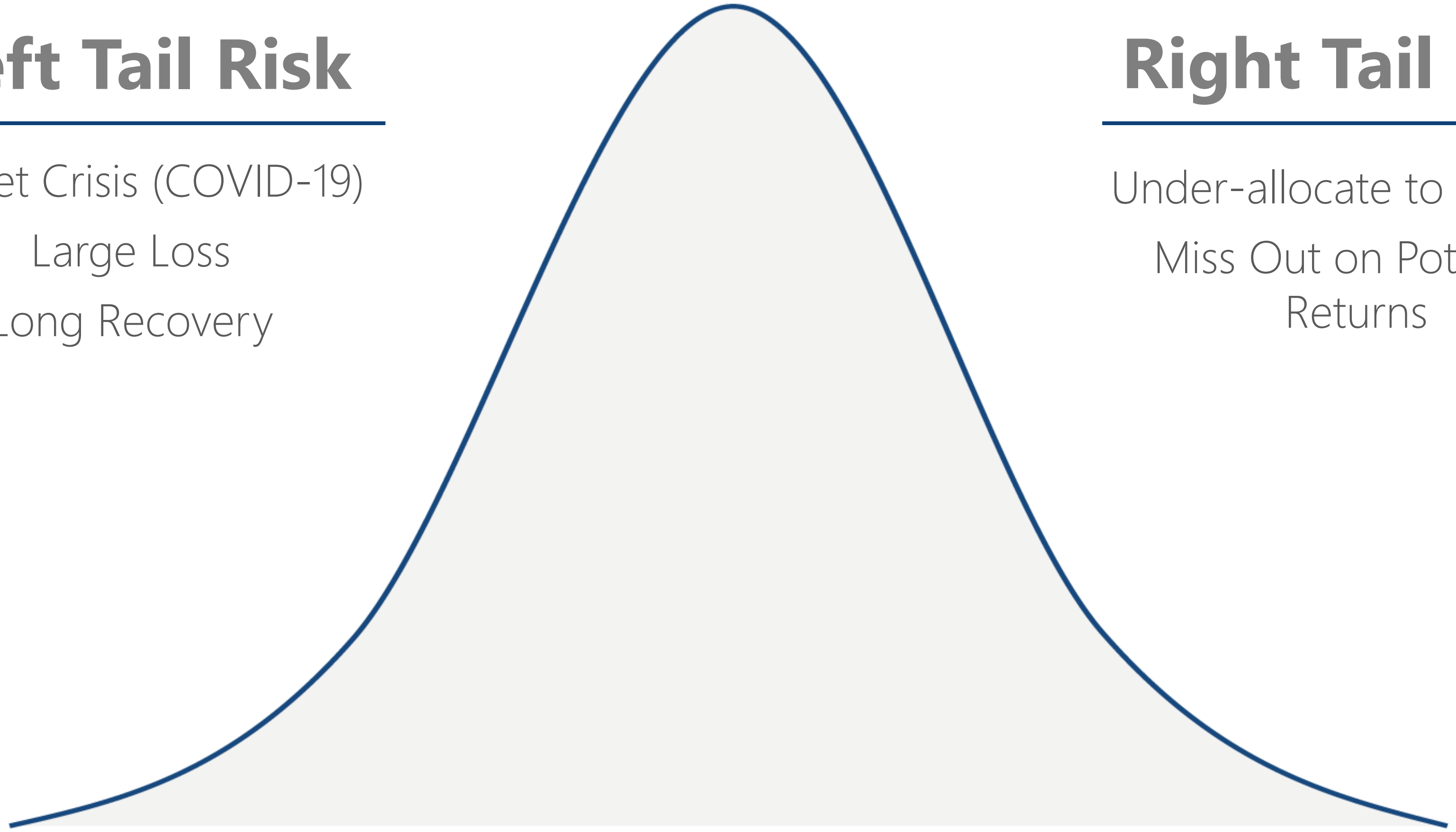
Need a ‘Hedge’ for Both Tails

Left Tail Risk

Market Crisis (COVID-19)

Large Loss

Long Recovery



Right Tail Risk

Under-allocate to Equities

Miss Out on Potential Returns

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Hedged Equity Managers – Since 1997

SWAN GLOBAL INVESTMENTS

- ✓ Leader in Hedging & Options-Based Solutions
- ✓ Disciplined, Innovative Outcome-Oriented Approach, Launched in 1997
- ✓ Committed to Help Investors Achieve Long-Term Goals

Always Invested, Always Hedged

Swan DRS

Equity

Seek Growth

Hedge

Seek to Mitigate Risk

Options

Seek Additional Return

A HEDGE IS NOT INSURANCE AGAINST LOSSES

Note - The effectiveness of the hedge and degree of downside risk mitigation varies with market conditions. The DRS can and does have periods of losses.

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Defined Risk Strategy:
Distinct, Time-Tested Process

1 Invest in Equities

WHY?
To participate in equity markets.

- Always Invested – Passive position in low-cost equity index ETFs
- No market timing or stock selection

2 Hedge the Equities

WHY?
To mitigate risks of bear markets.

- Always Hedged – Actively managing long-term put options (LEAPs), generally one to two years to expiration, initially
- Purchased at, or near-the-money

3 Seek Additional Return

WHY?
To offset the cost of the hedge.

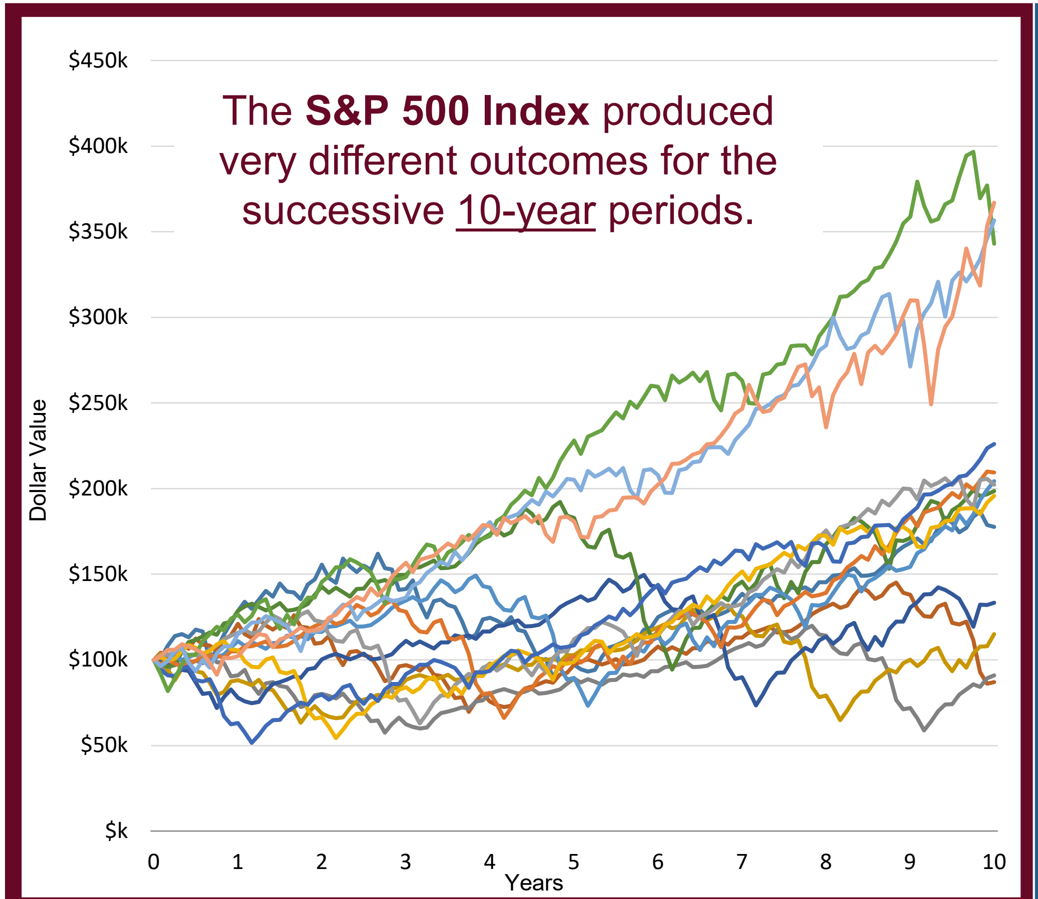
- Actively managing shorter-term options portfolio
- Utilizing a disciplined, rules-based approach

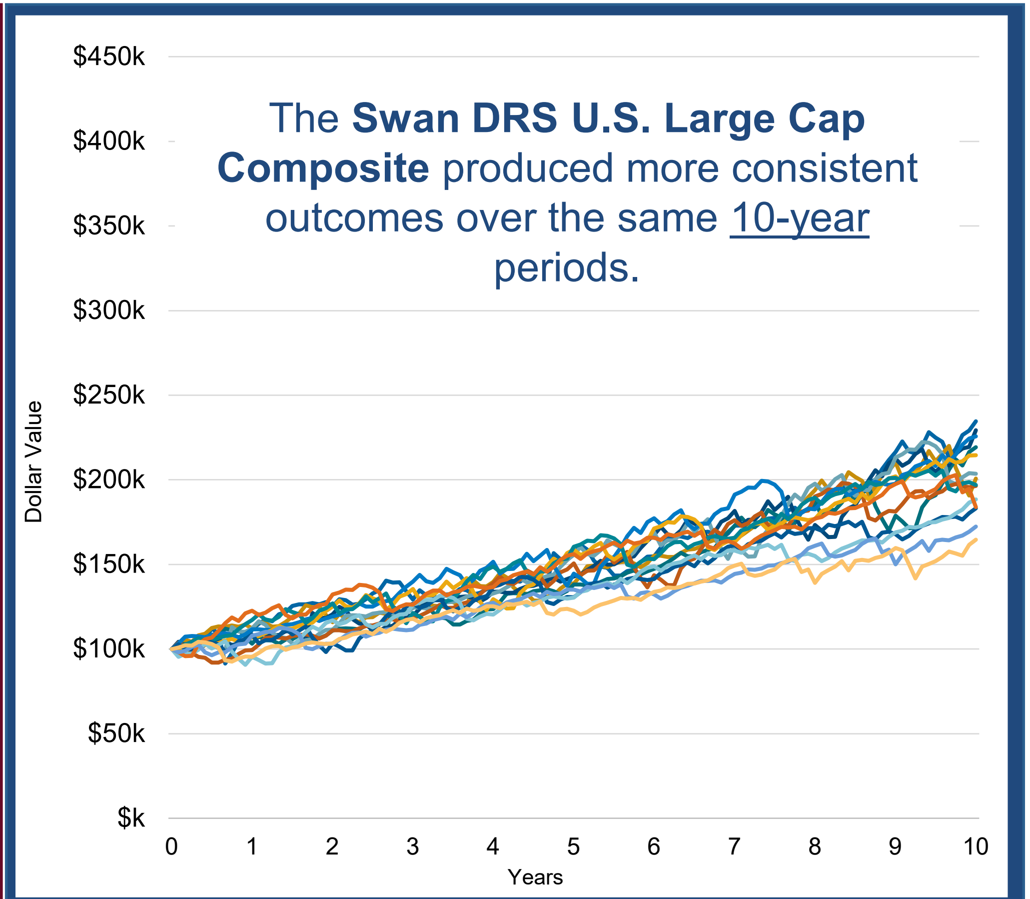
Transparent | **Disciplined** | **Repeatable**

A HEDGE IS NOT INSURANCE AGAINST LOSSES

Note - The effectiveness of the hedge and degree of downside risk mitigation varies with market conditions. The DRS can and does have periods of losses.

Define Risk, Improve Outcomes – *Investing Redefined®*





The graphs above show an investment of $100,000 over fourteen successive, 10-year investment periods. The first period is 1/1998 to 12/2007; the last period is 1/2011 to 12/2020. 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).

Source: Zephyr StyleADVISOR and Swan Global Investments. All S&P 500 data based on historical performance of the S&P Total Return Index. The S&P 500 Index is an unmanaged index and cannot be invested into directly. All historical performance of the Swan Defined Risk U.S. Large Cap Composite is net of fees. Prior performance is not a guarantee of future results.

Hedged Equity Solutions – *Available on Envestnet*

		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 (S&P 500) ▪ U.S. Large Cap Growth (S&P 500) ▪ U.S. Small Cap (Russell 2000) ▪ Foreign (MSCI EAFE) ▪ Emerging Markets (MSCI EM)			
	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	

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Portfolio Implementation

Hedged Equity Applications

1. **Bond Surrogate**: Provide equity-fueled returns while mitigating risk; reduce credit and interest rate risks

2. **Equity Supplement:** Reduce risk in equity portfolios and capitalize on full market cycles

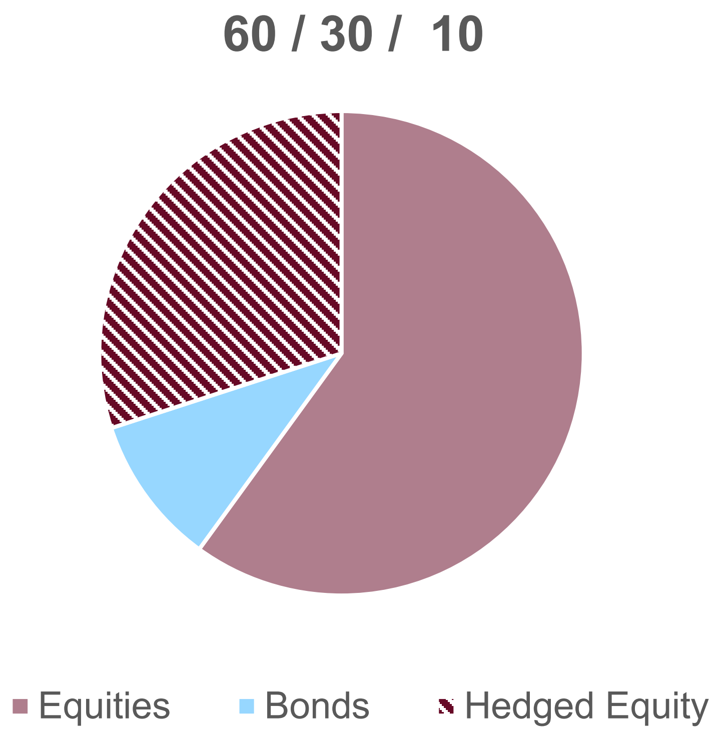
3. **Cash Off sidelines:** Re-enter equity markets while mitigating risk versus long-only equity investments

A 'New' Balanced Modern Portfolio

Hedged Equity – Strategic Allocation as Bond Surrogate

Reduce Left Tail Risk

- *Prevent Over-Allocation to Long-Only Equities*
- *Reduce Interest Rate Risk*
- *Reduce Credit Risk*



Reduce Right Tail Risk

- *Capitalize on strength of equity markets*
- *Benefit from fed monetary & fiscal policy*
- *Reduce allocation to low yield bonds*
- *Get cash off sidelines*

Impacts on Portfolio Risk/Return

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Summary Statistics: July 1, 1997 – March 31, 2021	Return	Beta vs. SP 500	Standard Deviation	Sharpe Ratio
60% S&P 500 40% Barclays US Agg	7.44%	0.60	9.27%	0.59
60% S&P 500 30% Barclays US Agg 10% Swan DRS Hedged Equity	7.72%	0.63	9.78%	0.59
60% S&P 500 20% Barclays US Agg 20% Swan DRS Hedged Equity	7.98%	0.66	10.35%	0.58
60% S&P 500 10% Barclays US Agg 30% Swan DRS Hedged Equity	8.23%	0.70	10.98%	0.57

Source: Zephyr StyleADVISOR and Swan Global Investments; the S&P 500 Index and the Bloomberg Barclays US Aggregate Bond Index are an unmanaged index and cannot be invested into directly. Swan DRS Hedged Equity refers to the Swan Defined Risk US Large Cap Composite results, displayed herein net of fees, as of 3/31/2021. Past performance is no guarantee of future results.

More on Hedged Equity & Options-Based Strategies

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2. Access more Swan Research & CE Content:

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- Options Education Materials
- Portfolio Construction & Implementation
- Insights & Market Commentary

Disclosure

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

Year	Swan DRS US Large Cap Composite					S&P 500 ("The Benchmark")		60% S&P 500/40% Barclays Aggregate	
	Net-of-Fee Return	Composite Dispersion	Composite Assets (No. of Accounts / AUM in Millions)	Firm Assets in Millions	3-Yr Annualized Standard Deviation	Return	3-Yr Annualized Standard Deviation	Return	3-Yr Annualized Standard Deviation
1997+	19.17%	-	1 / .22	$0.22	-	10.58%	-	9.01%	-
1998	11.55%	-	1 / .32	$0.32	-	28.58%	-	20.98%	-
1999	12.26%	-	2 / .72	$0.72	-	21.04%	-	12.00%	-
2000	3.17%	-	3 / .92	$0.92	-	-9.10%	-	-0.99%	-
2001	7.46%	-	3 / 1.66	$1.66	7.23%	-11.89%	16.71%	-3.71%	9.99%
2002	12.22%	-	3 / 1.97	$1.97	10.20%	-22.10%	18.55%	-9.82%	10.77%
2003	-0.65%	5.68%	6 / 3.74	$3.74	10.11%	28.68%	18.07%	18.48%	10.26%
2004	11.76%	5.80%	8 / 4.66	$4.66	9.89%	10.88%	14.86%	8.30%	8.49%
2005	6.69%	2.66%	8 / 4.98	$4.98	6.12%	4.91%	9.04%	4.00%	5.61%
2006	17.26%	3.71%	12 / 7.69	$7.69	4.52%	15.79%	6.82%	11.12%	4.33%
2007	8.39%	3.79%	14 / 9.40	$9.40	5.92%	5.49%	7.68%	6.22%	4.56%
2008	-4.57%	5.00%	17/ 15.65	$15.65	9.34%	-37.00%	15.08%	-22.06%	9.48%
2009	22.63%	4.18%	73 / 55.78	$55.78	10.70%	26.46%	19.63%	18.40%	12.40%
2010	7.88%	2.21%	105 / 97.90	$97.90	10.57%	15.06%	21.85%	12.13%	13.56%
2011	-4.59%	3.16%	146 / 59.44	$59.44	9.21%	2.11%	18.71%	4.69%	11.28%
2012	8.29%	1.44%	436 / 129.08	$386.76	7.45%	16.00%	15.09%	11.31%	8.64%
2013	14.21%	1.56%	423 / 309.7	$1,052.99	6.62%	32.39%	11.94%	17.56%	7.00%
2014	6.23%	0.65%	599 / 434.3	$1,810.04	4.75%	13.69%	8.97%	10.62%	5.48%
2015	-2.11%	1.36%	766 / 473.21	$2,446.11	5.79%	1.38%	10.47%	1.28%	6.37%
2016	9.08%	0.90%	1,207 / 675.64	$3,620.08	5.38%	11.96%	10.59%	8.31%	6.33%
2017	11.51%	0.78%	1,630 / 982.45	$4,975.33	4.99%	21.83%	9.92%	14.21%	5.85%
2018	-6.83%	1.13%	1,292 / 756.36	$4,063.88	6.23%	-4.38%	10.80%	-2.35%	6.38%
2019	14.93%	1.15%	1,144 / 638.36	$3,065.24	7.01%	31.49%	11.93%	22.18%	10.09%

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Disclosure

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.

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.

The Swan Defined Risk Prime Strategy, Swan Prime, or DRS Prime as used in this document refer to the Swan Defined Risk US Large Cap Prime Strategy, a subset of the Swan Defined Risk U.S. Large Cap Composite.

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Disclosure

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