What a difference a quarter makes! We ended the 3rd quarter with the S&P 500 up 10.56% on the year. Notwithstanding the volatility in the 1st quarter, it seemed like smooth sailing for the bull market in the U.S., despite significant losses in overseas equity markets. However, during the 4th quarter the S&P 500 dropped -13.52% to leave investors wondering whether or not a bear had begun in the 4th quarter.

An article dated December 2018, “Investors should prepare for the Worst” cites Alan Greenspan (aka Mr. Irrational Exuberance), “The former Fed chairman also warned that the U.S. may be poised for a period of stagflation, ‘a toxic mix’ when the economy suffers from high inflation and high unemployment.”

Chris Martenson recently wrote in an article titled, “The ‘Everything Bubble’ Has Popped,” “Now that the world’s central banking cartel is taking a long-overdue pause from printing money and handing it to the wealthy elite, the collection of asset price bubbles nested within the Everything Bubble are starting to burst. The cartel (especially the ECB and the Fed) is hoping it can gently deflate these bubbles it created, but that's a fantasy. Bubbles always burst badly; it's their nature to do so. Economic suffering and misery always accompany their termination. It’s said that ‘every bubble is in search of a pin.’ History certainly shows they manage to find one.” Perhaps it is not a coincidence that the ramping up of the Fed’s quantitative tightening in late Q3 occurred right before the big correction of Q4.

2018 saw declines across the board in the global equity markets as highlighted by the chart on page 2. We believe the bear market could just be getting going and the topping process that we have discussed over the past several issues might be occurring.
Percentage of Stocks Down 50% or More in MSCI World, Europe, the S&P 500 and S&P 1500

Source: SG Cross Asset Research, Factset, MSCI, S&P

The Good

There is not much good from most investors’ perspective given the significant sell-offs in the global equity markets in 2018. Technically, the market fell just shy of the magic -20%, peak-to-trough breakpoint for a bear market. The depth, duration and shape of the sell-off remain to be determined but if the 10 year-old bull is not yet dead, then it just suffered a near-death experience.

On the other hand, if the market (as defined by the S&P 500) only experiences an approximate 20% sell-off over the past three months and a new bull market began in late December 2018 then this would constitute the “best” bear market in quite some time. In fact, that would be a very meaningful “Good” if the recent sell-off has already bottomed. Personally, I find it highly unlikely the worst is behind us given the debt, demographics, and denial that exists today in light of the central bank’s policy of ending QE and raising interest rates. Estimates show that for another 1% rise in interest rates, the U.S. debt payment will increase by another $200 billion a year. This problem isn’t going away any time soon.

With respect to the DRS, we have repeatedly extolled the benefits of bear markets for our relative and absolute performance. Assuming this turns into a significant bear market closer to the historic average (35%) or greater, we look forward to once again illustrating the value of hedged asset and option income strategies. This value should be even greater in a low yield and arguably rising interest rate environment.

As a result, I would like to address why I believe a substantial bear market is good for the DRS investor. The reasons are as follows:

1. Increases long-term returns,
2. Increases relative performance, and
3. Non-correlated returns

Increases Long-Term Returns

The DRS tends to have a relatively short recovery period unlike the buy and hold strategy that takes years to recover from bear markets. When the market has lost 20% or more, the DRS provides an opportunity to acquire additional shares at a market low, positioning the DRS investor to rebound more rapidly when the market recovers. This is a major factor why the
DRS has outperformed on an absolute and relative basis since inception, historically speaking. Although we cannot guarantee future results, our long-term performance has benefitted from bear markets.

**Increases Relative Performance**

Focusing on relative performance over short-term periods often leaves investors and advisors to chase returns or make emotional decisions, impacting their long-term returns and ability to achieve goals. The DRS is a goals-based, long-term approach that requires a full market cycle to realize its long-term benefits: an increased relative performance of the DRS Select Composite 7.82% versus the S&P 500 6.95% since inception (as of 12/31/18).

The most recent example of a full market cycle with the DRS approach is our DRS GLD track record which has shown a 2.65% per year relative out-performance versus the GLD benchmark over the past almost 6 years (and net of a 1% fee).

**Non-Correlated Returns**

Another benefit is the downside risk mitigation through non-correlation that the DRS may provide during bear markets. The goal of non-correlation is to smooth out returns over various market conditions. Non-correlated returns of hedged equity solutions allow investors to allocate more of their portfolio to such investments, thus avoiding overweight in un-hedged positions in equities and fixed income.

**The Bad**

2018 could be characterized as a “Perfect Storm” for the DRS. Negative option income, underperformance of Equal-Weighted sectors vs. Cap Weight, small calendar year losses in the market, and rising rates all conspired to give the DRS its worst annual performance since inception. Had any one of those variables worked out differently, they could have salvaged the DRS in 2018. For example, having positive 3% return on the options trades would have added 5% to our performance (3 – (-2) = 5% - 8.5% = -3.5. As it turned out, these factors were all unfavorable to the DRS and overall performance was negative. Occasional losses in the DRS are frustrating, but they are unavoidable and necessary to capitalize on the opportunities that the strategy is built around.

The good news is that this convergence of negative outcomes we believe is highly unlikely to happen again in the foreseeable future. The “Perfect Storm” analogy implies a remote probability, unlike bear markets that historically occur every 3.5 years. This is one of those rare market environments that can call into question certain aspects of the DRS. The term “Perfect Storm” is appropriate because by definition a hedged strategy should have offsetting positions. Yet every component of the DRS failed to sufficiently deliver in 2018.

That being said, 2018 performance was very close to being within the targeted return band that we regularly discuss. Across all assets, the vast majority of the time the DRS has fallen within or above the target return band, despite a few assets falling just below it in 2018.

**The Ugly**

If you’ve been a long-time reader of Swan’s quarterly “The Good, The Bad, and The Ugly” newsletter, you know I’m gravely concerned about the fiscal path the global economy is on and the lack of adequate solutions. Rather than make the case myself, I thought it would be better to point out some articles that put the current situation in perspective and reinforce why I believe that the combination of all of these events and circumstances could be indicating an inflection point in the global world order.

According to DoubleLine, the Dow Jones eCom Index (Amazon, Netflix, Google and Facebook) was up over 617% at the peak, which is the third largest bubble of the past 40 years (behind the Tech bubble and the Housing bubble).

“Navigating the Great Divide” by Stephen Moore discusses how the political divide in this country is probably going to have a significant negative impact on our country with no easy solution. The proposed solution is federalism or divorce.

Trump: “I Won’t Be Here When the Coming Debt Crisis Goes Nuclear.” President Trump reportedly shrugged off concerns over the ballooning national debt, telling senior advisors in an early 2017 meeting, “Yeah, but I won’t be here” when presented with charts and graphics that lay out the numbers and show a ‘hockey stick’ spike in the national debt set to occur in the not too distant future. The source, though, according to the Daily Beast, was someone in the room, so this quote should be considered with that in mind, but the point is that no current politician truly cares about the future impact of the coming debt crisis.

In an Econimica article by Chris Hamilton titled “A Debt Based System Can’t Succeed Without Population Growth,” he concludes, “Without population growth, assets don’t appreciate, homes are just shelter rather than investments, and debt is generally only a drag on future spending.” The coming debt crisis will be ugly, and it is coming.

**The DRS Bottom Line**

A tough year like 2018 generates many questions. Some investors are questioning the efficacy or design of the DRS. That said, many DRS investors are aware of our Consistent Outcomes chart (also referred to as spaghetti/rope) that shows all of our 10 year rolling returns vs the S&P 500 since inception. Historically, this has been our most valuable illustration on why the DRS is an extremely compelling investment strategy if consistent returns through full market cycles is the end goal. We have included this chart here for discussion purposes. With the addition of 2018, it now highlights how extreme and unusual this current bull market has been for the S&P 500, jumping out far beyond any other 10-year period.
Swan's strategic goal is to re-define investing in a way that allows investors to win without subjecting their portfolios to catastrophic losses. Historically, we have been able to achieve that through the two worst bear markets since World War II.

Inevitably, the question arises of how we have been able to achieve enviable consecutive 10 year rolling returns using the DRS process. The answer is simple: by developing an annual target based upon market performance for the DRS and designing the strategy to have as high a probability as possible to meet that target.

We include the target return band in every issue to illustrate the consistency of the DRS and to try to explain how and why the DRS is able to perform in line with expectations with an extremely high level of confidence.

That being said, in order to achieve the results seen in the “spaghetti-vs-rope” chart or the Target Return Band, an investor must accept certain risks. The DRS does feature some level of variability and certain risks that are not obvious to the casual investor. Without taking on some risks, there cannot be return. You cannot have one without the other.

The following is our attempt to briefly list these risks that must be accepted and are necessary to understand how and why the DRS performs the way it does. We believe these are better risks to take on as compared to the risks accepted by a buy-and-hold equity investor.

Five things you need to accept along the DRS journey:

1. **Little to No Protection of Intra-Year Gains:** The DRS has strategically chosen to re-hedge every year unless a significant (read: abnormal or rare) decline or increase occurs from the most recent re-hedge. Re-hedging more frequently lowers returns unless you can accurately predict the markets. For example, 2018 was the first year in 70 years where the market was up intra-year over 10% but ended the year negative. While rehedging on September 30th would have helped 2018's returns, it would have hurt performance in the vast majority of other cases and gone against the established DRS process.

2. **Short-term Increases in Volatility/Quick Transition Periods from Low Vol to High Vol:** The DRS can suffer unrealized short-term losses due to our actively managed short-term option positions. This sometimes masks our long-term put as short-term losses might offset the gains of a hedge during a quick correction. To be clear, our short-term option trades are actively managed and are separate from our long-term put.

3. **Short-term market fluctuations:** Short-term market fluctuations do not influence long-term performance for either the equity (i.e., buy and hold) or the hedged equity (i.e., ETF + hedge). The positions in equity and the hedge are strategic and long-term in nature. Worrying about daily fluctuations in these portions of the strategy are distracting at best and counter-productive to our long-term goals at worst.

Source: Zephyr StyleADVISOR and Swan Global Investments. The S&P 500 Index is an unmanaged index, and cannot be invested into directly. Swan DRS returns are from the Select Composite, net of all fees. NOTE – this chart is for illustration purposes, not a guarantee of future performance. The charts and graphs contained herein should not serve as the sole determining factor for making investment decisions.
4. Cost of hedging in flat and up markets: Remaining “always hedged” carries an annual cost in flat or up markets, absent an increase in the implied volatility. This is not necessarily true for those costs over a full market cycle. During previous market cycles the annual “cost” of the hedge during bull markets was more than recovered in subsequent bear markets. It is too early to know if this most recent bull market with the expected bear market delivers similar results.

5. One or Two Cost Outlays in a Bear Market: The DRS expects to incur one or two cost outlays (the amount of decline exposure before the hedge really starts to kick in) depending on the size of the bear market. For example, the DRS incurred a 13.6% drawdown from Oct 2007- Feb 2009 on a monthly close basis, and was probably significantly more on an intra-month basis. It was after that point that the hedges really kicked into gear and limited further losses. It is also true that a bear market that is longer and slower in duration and volatility could generate a better outcome since our option income could offset a lot of the built-in deductible. The EQW performance could also lessen the drawdown.

It is important to note that these five characteristics are baked into our performance. We believe that accepting and understanding these risks are necessary to avoid bad decisions based upon emotion or short-term thinking.

Below we have included the top five drawdowns in the DRS since inception to illustrate these five necessary “evils” to win the war. I would only remind you of our long-term goals: outperformance on an absolute and risk-adjusted basis with a smoother ride that allows the investor to stay the course and not make bad decisions based upon behavioral biases. This has been achieved despite these drawdowns.

Of course, we believe the risks are worth the reward given that no investment strategy can defend every proverbial hill or win every battle. The goal is to win the war, and we believe you win the war by not losing big in bear markets. For example, we have to accept that we are going to trail in bull markets even if they are longer than normal (e.g., this recent 10-year bull market) and even if the smartest guys in the room manipulate the game to avoid natural law from exerting what is natural and normal.

The bottom line is that the DRS offers a proven investment solution built to produce consistent compelling long-term returns regardless of asset class. We believe the DRS gives investors the highest probability of success given some level of necessary risk. Seeking to preserve irreplaceable capital from catastrophic losses is at the core of the DRS. We seek to give the investor a smoother more consistent return stream that doesn’t rely on Modern Portfolio Theory (MPT), market timing, or stock selection. In other words, the DRS is a transparent, repeatable process with a long-term focus that also takes into account today’s unprecedented market conditions (e.g., debt, demographics, and denial). Today’s investment climate is fraught with grave danger given the antics of the central banks and lack of any discipline by politicians worldwide to control spending. We remain steadfast in our belief that the DRS is well positioned to navigate the turbulent waters ahead.

<table>
<thead>
<tr>
<th></th>
<th>Max Drawdown</th>
<th>Max Drawdown Begin Date</th>
<th>Max Drawdown End Date</th>
<th>Max Drawdown Recovery Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swan Defined Risk Strategy (net)</td>
<td>-18.56%</td>
<td>Jul-98</td>
<td>Aug-98</td>
<td>Jan-99</td>
</tr>
<tr>
<td>Swan Defined Risk Strategy (net)</td>
<td>-13.59%</td>
<td>Sep-08</td>
<td>Nov-08</td>
<td>Jul-09</td>
</tr>
<tr>
<td>Swan Defined Risk Strategy (net)</td>
<td>-11.62%</td>
<td>May-11</td>
<td>Sep-11</td>
<td>Jan-13</td>
</tr>
<tr>
<td>Swan Defined Risk Strategy (net)</td>
<td>-11.24%</td>
<td>Feb-03</td>
<td>Jul-03</td>
<td>Feb-04</td>
</tr>
<tr>
<td>Swan Defined Risk Strategy (net)</td>
<td>-9.33%</td>
<td>Oct-18</td>
<td>Dec-18</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: Swan Global Investments
# Swan DRS Product Performance Summary

As of: December 31-2018

<table>
<thead>
<tr>
<th>YTD 2018</th>
<th>DRS Products</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Core Equity</td>
<td>Hedge</td>
</tr>
<tr>
<td>S&amp;P 500 DRS Select Composite (1)</td>
<td>-5.52%</td>
<td>-0.32%</td>
</tr>
<tr>
<td>S&amp;P 500 DRS Institutional Composite (2)</td>
<td>-6.11%</td>
<td>0.55%</td>
</tr>
<tr>
<td>DRS Emerging Markets Composite (3)</td>
<td>-14.44%</td>
<td>6.55%</td>
</tr>
<tr>
<td>DRS Foreign Developed Markets Composite (4)</td>
<td>-13.55%</td>
<td>6.04%</td>
</tr>
<tr>
<td>DRS U.S. Small Cap Composite (5)</td>
<td>-10.67%</td>
<td>4.51%</td>
</tr>
<tr>
<td>DRS Growth/Aggressive (6)</td>
<td>-2.34%</td>
<td>-1.07%</td>
</tr>
<tr>
<td>DRS Real Estate (6)</td>
<td>-3.66%</td>
<td>1.63%</td>
</tr>
<tr>
<td>DRS Fixed Income (6)</td>
<td>-1.52%</td>
<td>-0.01%</td>
</tr>
<tr>
<td>DRS Growth/Aggressive (6)</td>
<td>-7.43%</td>
<td>0.24%</td>
</tr>
</tbody>
</table>

Source: Swan Global Investments and Morningstar

Performance is net-of-fees; total portfolio return includes all expenses. The core equity, hedge, and income components do not sum to the Total Portfolio (Net) return due to fees and differences resulting from geometrically smoothing component returns.

1. The Defined Risk Strategy Select 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. ETFs and options are the primary components of the strategy.

2. DRS Institutional Composite includes high net-worth, non-qualified accounts that utilize cash-settled, index-based options held at custodians that allow participation in Clearing Member Trade Agreement (CMTA) trades. The Composite relies on LEAPS and other options to manage risk. This composite owns S&P 500 exchange traded funds (ETF) and LEAPS associated with the ETFs as well as multiple other option spreads that represent other indices that are widely traded. The DRS was designed to protect investors from substantial market declines, provide income in flat or choppy markets, and to benefit from market appreciation. ETFs and options are the primary components of the strategy.

3. Emerging Markets DRS Composite demonstrates the performance of mutual fund accounts invested in the DRS Emerging Markets strategy. DRS emerging markets accounts 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. The Funds invest in exchange traded fund(s) (ETF) that own emerging markets equities and LEAPS associated with the ETFs as well as multiple other option spreads that represent other indices that are widely traded. The DRS was designed to protect investors from substantial market declines, provide income in flat or choppy markets, and to benefit from market appreciation. ETFs and options are the primary components of the strategy.

4. Foreign Developed Markets DRS Composite demonstrates the performance of research and development account(s) and mutual fund accounts invested in the DRS Foreign Developed Markets strategy. DRS Foreign Developed Markets accounts 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. The Funds invest in exchange traded fund(s) (ETF) that own foreign developed markets equities and LEAPS associated with the ETF as well as multiple other option spreads that represent other indices that are widely traded. The DRS was designed to protect investors from substantial market declines, provide income in flat or choppy markets, and to benefit from market appreciation. ETFs and options are the primary components of the strategy.

5. U.S. Small Cap DRS Composite demonstrates the performance of mutual fund accounts invested in the DRS U.S. Small Cap strategy. DRS U.S. Small Cap accounts 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. The Funds invest in exchange traded fund(s) (ETF) that own U.S. small cap equities and LEAPS associated with the ETF as well as multiple other option spreads that represent other indices that are widely traded. The DRS was designed to protect investors from substantial market declines, provide income in flat or choppy markets, and to benefit from market appreciation. ETFs and options are the primary components of the strategy.

6. Research and Development account. No fees are being charged in the R&D accounts but performance reflects a 1% management fee being charged monthly in arrears for illustrative purposes.

## Annualized Returns as of December 31, 2018

<table>
<thead>
<tr>
<th>Composite</th>
<th>One Year</th>
<th>Three Year</th>
<th>Five Year</th>
<th>Ten Year</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>DRS Select Composite</td>
<td>-7.74%</td>
<td>3.87%</td>
<td>2.99%</td>
<td>6.32%</td>
<td>7.82%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>-4.38%</td>
<td>9.26%</td>
<td>8.49%</td>
<td>13.12%</td>
<td>6.95%</td>
</tr>
<tr>
<td>DRS Institutional Composite</td>
<td>-8.13%</td>
<td>2.69%</td>
<td>2.31%</td>
<td>6.22%</td>
<td>7.77%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>-4.38%</td>
<td>9.26%</td>
<td>8.49%</td>
<td>13.12%</td>
<td>6.95%</td>
</tr>
<tr>
<td>DRS Emerging Markets Composite</td>
<td>-10.86%</td>
<td>4.72%</td>
<td>N/A</td>
<td>N/A</td>
<td>0.42%</td>
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<tr>
<td>MSCI EM (Emerging Markets)</td>
<td>-14.25%</td>
<td>9.65%</td>
<td>N/A</td>
<td>N/A</td>
<td>3.05%</td>
</tr>
<tr>
<td>DRS Foreign Developed Markets Composite</td>
<td>-11.09%</td>
<td>0.55%</td>
<td>N/A</td>
<td>N/A</td>
<td>-0.55%</td>
</tr>
<tr>
<td>MSCI EAFE</td>
<td>-13.36%</td>
<td>3.38%</td>
<td>N/A</td>
<td>N/A</td>
<td>3.59%</td>
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<tr>
<td>DRS U.S. Small Cap Composite</td>
<td>-9.99%</td>
<td>2.58%</td>
<td>N/A</td>
<td>N/A</td>
<td>1.58%</td>
</tr>
<tr>
<td>Russell 2000</td>
<td>-11.01%</td>
<td>7.36%</td>
<td>N/A</td>
<td>N/A</td>
<td>4.94%</td>
</tr>
</tbody>
</table>

Source: Morningstar Direct
Disclosures:
Performance results are presented in U.S. dollars, net of management fees, and include reinvestment of dividends and capital gains. Fees may vary based on account size, custodial relationship and other factors. No current or prospective client should assume future performance of any specific investment strategy will be profitable or equal to past performance. All investment strategies have the potential for profit or loss. Changes in investment strategies, contributions or withdrawals may cause client portfolio performance results to differ from the composite. Different types of investments involve different degrees of risk; we make no assurance that a specific investment will be suitable or profitable for a client’s portfolio.

Historical performance results for market indices and categories do not reflect the deduction of transaction fees, custodial charges, or management fees, the incurrence of which would have the effect of diminishing historical performance. All Swan products utilize the Defined Risk Strategy ("DRS"), but may vary by asset class, regulatory offering type, etc. Accordingly, all Swan DRS product offerings will have different performance results, and comparing results among the Swan products and composites may be of limited use. Economic factors, market conditions, and investment strategies will affect the performance of any portfolio and there are no assurances that it will match or outperform any particular benchmark. Swan Global Investments, LLC ("Swan") is an independent Investment Advisor headquartered in Durango, Colorado registered with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940. Being an SEC-registered advisor implies no special qualification or training. Swan Global Investments, LLC is affiliated with Swan Capital Management, LLC, Swan Global Management, LLC, Swan Wealth Advisors, LLC, and Swan Wealth Management, LLC.

There are eight DRS Composites offered: 1) The DRS Select Composite which includes non-qualified accounts; 2) The DRS IRA Composite which includes qualified accounts; 3) The DRS Composite which combines the DRS Select and DRS IRA Composites; 4) The DRS Institutional Composite which includes high net-worth, non-qualified accounts that utilize cash-settled, index-based options held at custodians that allow participation in Clearing Member Trade Agreement (CMTA) trades; 5) The Defined Risk Fund Composite which includes mutual fund accounts invested in the S&P 500; 6) The DRS Emerging Markets Composite which includes mutual fund accounts invested in emerging markets; 7) The DRS Foreign Developed Composite which includes research and development account(s), and mutual fund accounts invested in foreign developed markets; 8) The DRS U.S. Small Cap Composite which includes research and development account(s), and mutual fund accounts invested in U.S. small cap issues.

Additional information regarding Swan’s policies and procedures for calculating and reporting performance returns is available upon request. Swan claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with GIPS standard. Swan investment performance has been independently verified from its inception on July 1, 1997 through December 31, 2017. A copy of the verification report is available upon request by calling 970.382.8901 or emailing operations@swanglobalinvestments.com. Verification assesses whether (1) the firm has compiled 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 performance in compliance with GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

The Defined Risk Strategy Select Composite demonstrates the performance of all 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, LEAPS associated with the ETFs, as well as option strategies based on other widely traded indices. The Defined Risk Strategy Select Composite includes all nonqualified discretionary accounts which are solely invested in the Defined Risk Strategy. 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 performance benchmark used for the Defined Risk Strategy is the S&P 500 Index comprised of 500 large-capitalization stocks, and which does not charge fees.

The performance benchmark for the DRS Institutional Composite is the S&P 500.

The performance benchmark for the DRS Emerging Markets Composite is the MSCI (Morgan Stanley Capital International) Emerging Markets Index, which is designed to measure equity market performance in global emerging markets.

The performance benchmark for the DRS Foreign Developed Markets Composite is the MSCI (Morgan Stanley Capital International) EAFE index, which comprises the MSCI country indexes capturing large and mid-cap equities across developed markets, excluding the U.S. and Canada.

The performance benchmark for the DRS U.S. Small Cap Composite is the Russell 2000 Index, which is designed to measure the equity market performance of U.S. small-cap to mid-cap companies.

One cannot invest directly in an index.

033-SGI-012419