



Sector Change for S&P 500

Impacts for the Swan Defined Risk Strategy

Real estate became its own equity sector within the GICS classification of the S&P 500 as of the market close on August 31st, 2016. It was promoted from its current position as an industry group within the financials sector. This will be the first new sector established since the GICS classifications were created in 1999.

This sector change only impacts Swan's investment products/funds that utilize the SPDR Select Sectors.

What will this mean for our equal-weight sector approach within our S&P 500 DRS?

After much analysis and research, we have decided to continue to take the same 9-sector equal weight approach that we have taken for the past four years. Thus, these sector classification changes will not change or impact the overall portfolio allocation of the core equity for the S&P 500 DRS.

However, it will mean that a 10th Sector Select SPDR ETF will be owned, with the ticker XLRE. This ticker will be the real estate stocks that are coming out of the Financials ETF, XLF. In order to keep the same exposure that all of our research and actual accounts have shown, we will own the percentage of XLRE that will equate to XLF still having a 1/9 equal weight position.

Upon effectiveness of the changes to the Financial Sector Index, XLF intends to issue a special dividend to its shareholders on September 22nd (Record Date of September 21st). The special dividend will be comprised of shares of XLRE.

Right now, XLRE's stocks make up around 20% of XLF. Thus, in order to hold the same 11.1% allocation to the stocks that now make up XLF, we will hold approximately 8.88% in XLF and 2.22% in XLRE to equal around 11.1% amount (percentages will vary and could change at dividend issuance).

Why are we not just adopting real estate as another sector and making each sector equally weighted at 10% each?

We believe there are numerous good reasons for not doing so, but the main one is that doing so would push the core equity further away from the S&P 500 and the correlation of this new mix to the S&P 500 cannot be properly quantified. If more information and data becomes available in the future, we will continually check and research each quarter whether this new GICS sector should receive its own equal portion or not. As it stands now, doing so would considerably overweight to real estate stocks and further underweight numerous other already underweight sectors.

Our first and foremost consideration is in making sure that the strategy is always invested and always hedged against large market declines and this will not change.

If anyone has any questions about these sector changes and the research behind our decision to continue with our current investment approach, please don't hesitate to reach out to us for further information.

Call 970.382.8901 or email sales@swanglobalinvestments.com.

For more information about the Select Sector SPDR Fund (XLF) change and related dividends please see this [State Street release](#).

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Further information may be obtained by contacting the company directly at 970-382-8901 or by visiting our website swanglobalinvestments.com. 233-SGI-091616