Issue 28 - Q1, 2018

The Good, the Bad, and the Ugly

Quarterly Update of the Swan Defined Risk Strategy

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THE GOOD, BAD, UGLY
The S&P 500 DRS returned -4.43% and -4.13% for Premier and Institutional respectively in Q1 versus -0.76% for the S&P 500.

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REMINDER
THE 10TH BOX
Thinking Outside the (9-Style) Box

We are hosting a series of regional due diligence events and inviting advisors from across the nation to discuss solutions to the unique and pressing investment challenges facing investors today and beyond.

A look at the world of managed finance from Durango, CO and elsewhere...
From the Desk of Randy Swan

The Good

Normally we start each issue discussing the consistency, transparency, and repeatability of the DRS across all of our assets ("DRS assets"). This is coupled with the strategies shown on our targeted return band and a performance table to illustrate that we are performing as expected. We believe that consistency is the most important characteristic in evaluating whether a particular strategy is worthy of a long-term investment.

The bottom line is that our performance across all of the DRS assets relative to expectations is consistently in the "good" section because we usually end up somewhere near our targeted return. This is true despite the continued underperformance of the equal-weighted sector strategy (EQW) and losses from the market neutral income program, which are discussed later in the "bad" section.

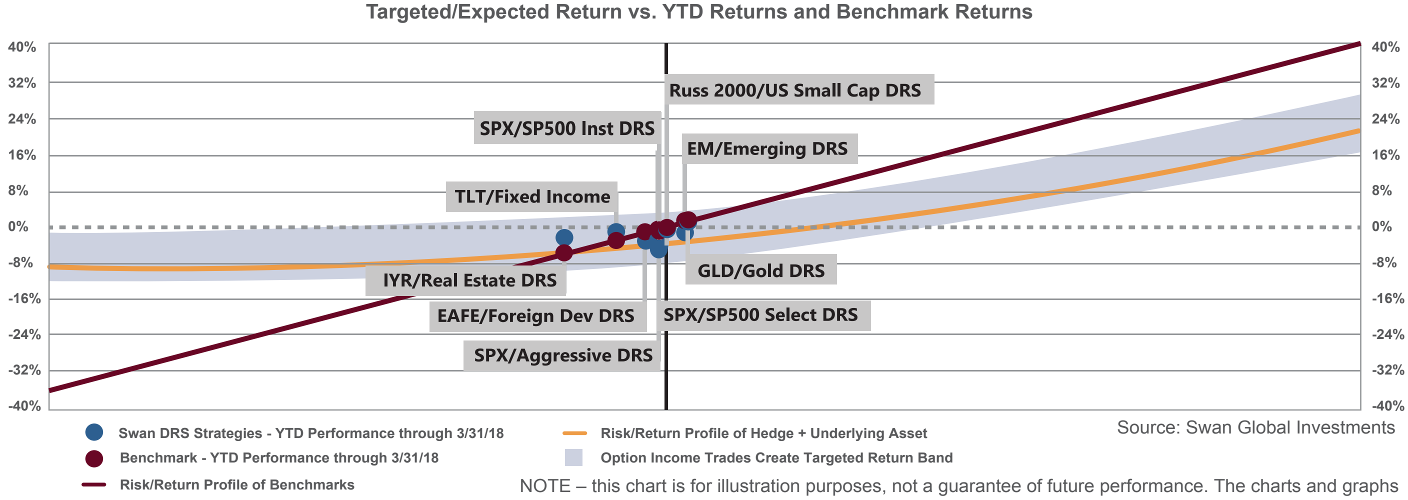
Beyond the performance graph and table, we are going to deviate from our normal layout for two reasons: (1) three months typically isn't enough time to accurately assess performance unless there has been either a large advance or decline across our DRS assets and (2) we think it is more important to focus on expectations in case we are experiencing the beginning birthing pains of a new bear market.

Although there was tremendous volatility in the 1st quarter, the net change in the markets was not enough to make a meaningful impact on the performance of the equity/hedge portion of our portfolios. In addition, the variability of the performance of the hedged equity portion of the DRS is very minimal. This should give investors tremendous confidence in the design and implementation. In other words, it almost always performs as expected. The equal weight versus cap weight in the S&P 500 products and the option income strategies are a different story and will be discussed in more detail later in this issue.

Why are we discussing expectations in the good section? Educating DRS investors as to what to expect during market sell-offs and/or bear markets is essential for long-term success. The gap between investor expectations and actual performance must be minimal if the investor is to stay the course during tumultuous times. Swan takes our education of investors very seriously as evidenced by our numerous blogs and whitepapers located on our website.

We have spent considerable time since early February discussing the performance of the DRS and why we are uniquely positioned in the event of a bear market. Marc Odo recently finished a new whitepaper titled, "Managing Expectations: Drawdown Scenarios and Swan

Targeted/Expected Return vs. YTD Returns and Benchmark Returns



Source: Swan Global Investments

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.

SWAN CONTENT

THOUGHT LEADERSHIP

Managing Expectations: Drawdown Scenarios & DRS Performance

New Risk Metrics for a New World

Passive vs. Active: Losing the Forest for the Trees

SWAN BLOG

Picking Your Battles

Making Sense of Risk Metrics

Tale of Two Volatilities, Part 1: January

Tale of Two Volatilities, Part 2: February

DRS vs. Long/Short Strategies

ARTICLE COVERAGE

Investor's Business Daily: How to Use ETFs to Stay Invested without Fearing the Bear

WEBINARS

Quarterly Round-Up
with PM, Randy Swan
Wednesday, 4/18 - 4pm EST
Click to Register

DRS Performance Analysis" to further clarify and educate our investors of what to expect when investing in the DRS.

The paper explores the different variables that impact the DRS's performance during sell-offs and provides examples of both favorable and unfavorable sell-offs over the 20+ year history of the DRS. "Special situations" are discussed to further educate and clarify proper investor expectations. The bottom line is no two sell-offs are exactly alike, so time must be spent to understand the variables and nuances. The three primary variables that we use to differentiate downturns are (1) the speed of the sell-off, (2) the magnitude of the sell-off, and (3) the duration of the sell-off. Differences in these variables will determine how the DRS will perform.

Rest assured, we have the proper design, execution, and experience to handle whatever develops over the next several years. Our 37 years of aggregate experience across all of our separate DRS assets should give solace to those concerned about what may come. Please keep in mind that the DRS was designed to provide value to an investor regardless of market condition over a full market cycle.

We are extremely excited about the potential of a bear market not only because of the potential downside protection of the DRS but also because bear markets have historically been profitable opportunities. In other words, the DRS needs to be fed regular bear markets in order to thrive. Strategies that don't adequately plan for bear markets or take them into account are doomed to fail. We are the first to admit that we are hungry for a bear market and have been denied due to the central bank efforts since 2009.

So are we entering a new Bear Market?

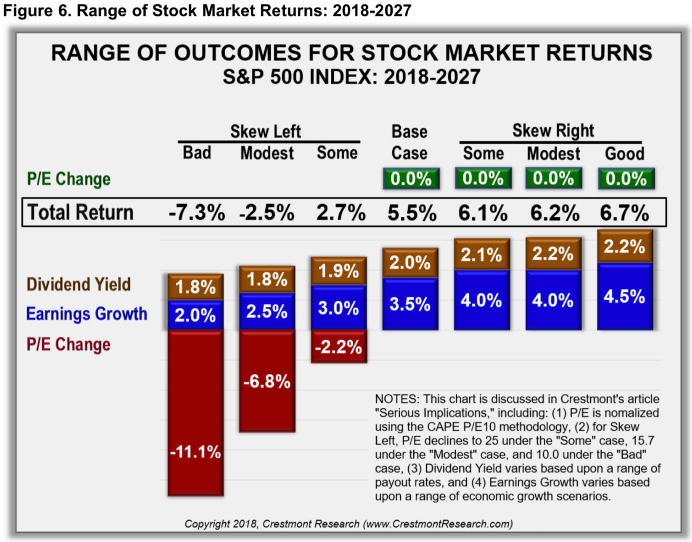
No one knows for sure, but it sure smells like a bear as evidenced by current valuations, extreme bullish investor sentiment, and recent market action. Regardless, we believe a brief survey of these three variables is warranted.

Valuations

According to Crestmont, the range of expected outcomes for stock market returns over the next decade ranges from -7.3% to 6.7%, annualized. However, the outcome range displays a significant bias towards losses because the starting P/E ratio of the market is relatively high. In fact, it is exacerbated by the current near extreme level P/E which is higher than any other period other than late 1990s era. Additionally, the current level for P/E is not justified by most quantitative approaches to stock valuation given current economic and historical growth rates.

Taking these expected returns from equities along with the interest rate risk in bonds, it is obvious future returns must be muted if you are relying on traditional methods of investing (e.g., a 60/40 portfolio).

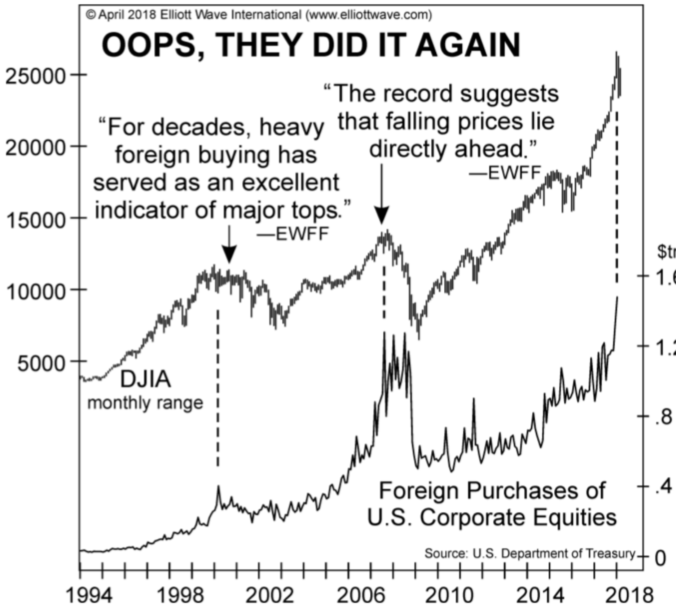
Figure 6. Range of Stock Market Returns: 2018-2027

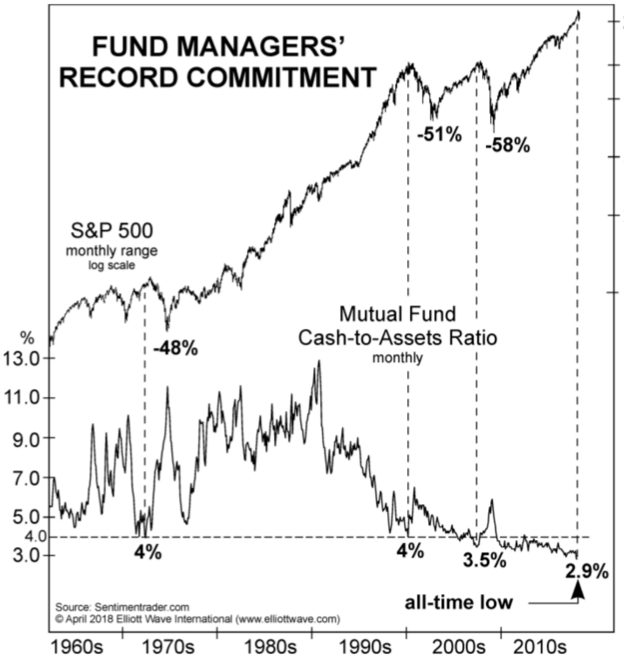


Source: Crestmont Research

According to Societe Generale's Cross Asset Research Report from September 14, 2017, "We look at two strong valuation tools to draw this conclusion about the U.S. market. Schiller's cyclically adjusted P/E ratio is currently above 30x, a level seen only during the "irrational exuberance" period at the end of 1990s/early 2000s and in 1929. The second, tool we look at is our proprietary equity-risk premium (ERP), which has been very consistent over time and also highlights the expensive valuation of US equities. The US ERP is now well below its long-term average. This is particularly remarkable given that the U.S. bonds are also clearly in expensive territory, with a 10y Treasury yield at 2.10%."

Investor Sentiment





Two types of investors who traditionally have had poor timing are mutual fund managers and foreign investors. Both groups have recently gone "all in" on their U.S. investments as indicated by the all-time record low of 2.9% cash levels in February 2018 for MF managers and $1.5 trillion in net U.S. equity holdings for foreign investors which only exceeded its prior record of August 2007 in December 2017.

Market Action

Here are some recent headlines that should give every serious investor pause:

> "Market volatility is reminiscent of the 1987 crash: Veteran trader Art Cashin" – CNBC
>
> "Tech stocks are flashing a warning sign similar to before the dot-com bubble popped." – CNBC
>
> "Former Fed Chair Alan Greenspan Sees Bubbles in Stocks and Bonds" – Bloomberg

Please tell me you remember his famous irrational exuberance speech in 1996 because I have mentioned it ad-nauseam in the past. I must also point out that he was 3.5 years too early. I wish there would have been a way to participate in a lot of that run-up to the top without risking too much capital. In actuality, there was since the DRS was around in July of 1997.

"More evidence that it's very hard to 'beat the market' over time, 95% of finance professionals can't do it," according to Mark Perry.

In terms of timing, we are long overdue for a bear market. A normal bull market lasts about 3.5 years, but this current bull market recently passed the nine-year mark. Of course, there are no magical formulas or reliable indicators to accurately identify the onset of a bear market. In fact, what indicators would anyone trust given the market manipulation that has existed the past two decades? It's impossible to know and the possibility for a larger impact of the next bear market seems higher given the central bank intervention that has occurred on a repeated and regular basis.

What a Difference a Quarter (Year) Makes?

As we moved from 2017 to 2018 it became very clear that 2018 was shaping up to be very different from 2017. Notwithstanding the continued rise in January of this year, 2018 has started the exact opposite of 2017 as measured by recent volatility. We spent the last issue discussing all of the record breaking calm that occurred in 2017. We even discussed how the all-time low volatility could be viewed as a contrarian indicator and that trouble could be right around the corner.

We stated that "those who were only long volatility had a bad year in 2017" whereas the first quarter in 2018 was bad for those only short volatility as evidenced by failure of several funds and continued large losses of others. Anyone invested in these funds experienced a catastrophic loss because these funds were counting on taking advantage of what was perceived to be the "easy fruit" (see the "Ugly" section). Picking the "easy fruit" on leverage doesn't work as a long-term strategy. Eventually the law of averages catches up.

The Bad

Although the performance has improved since the market top in January 2018, the equal weight sector strategy (EQW) has continued to underperform the cap-weighted S&P 500 this year by 1.4% as of March 31, 2018. In fact, it has underperformed by 12% since mid 2012 which equates to a 1.22% annualized underperformance.

Here is a table that shows relative performance going back to 1999, when the Select Sector ETFs became available. It is interesting that technology led the dot com bubble and has led in the most recent bull market. Is this recent underperformance a foreshadowing of future market declines? Time will tell, but it sure looks like it given the narrow market leadership in recent years and the apparent wound the FAANG stocks have recently suffered.

Jan. 1, 1999 — Mar. 31, 2018	Return	Cumulative Return	Standard Deviation (Population)	Beta vs. Market	Excess Return Vs. Market	Sharpe Ratio	Cumulative Excess Return	Batting Average
Equal-Weight Select Sector SPDRs (Monthly)	7.44%	298.18%	14.01%	0.94	1.39%	0.40	88.40%	54.55%
S&P 500	6.05%	209.78%	14.42%	1.00	0.00%	0.29	0.00%	0.00%

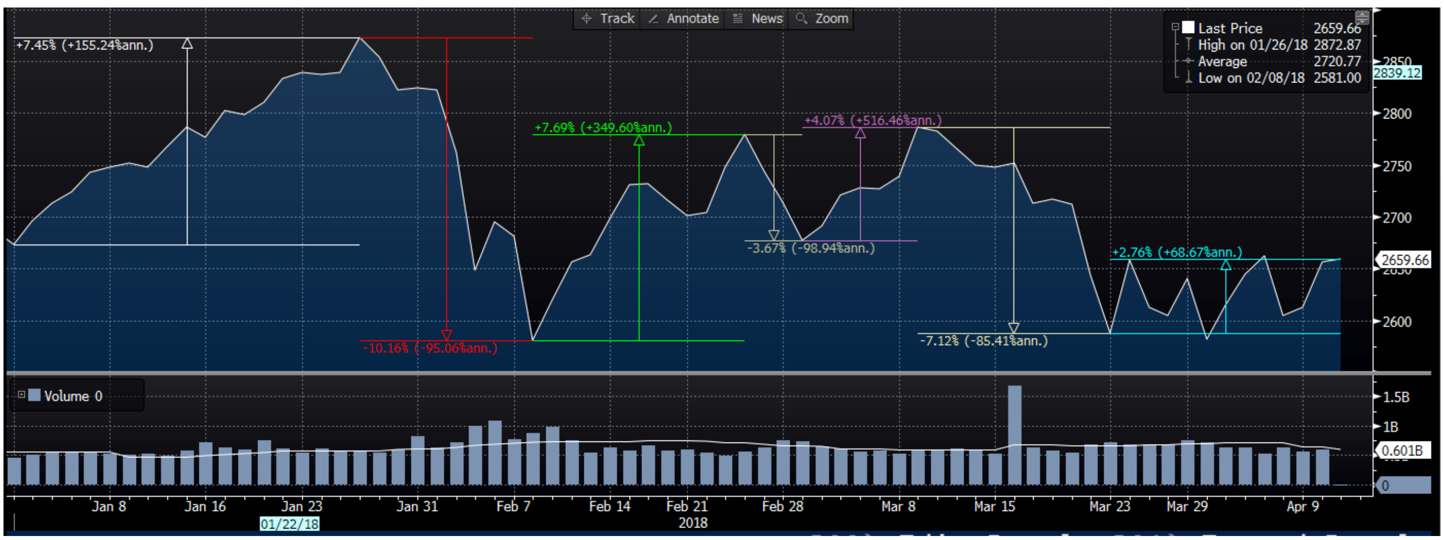
Source: Zephyr StyleAdvisor

Please keep in mind that EQW has still outperformed cumulatively by almost 90% since 1999, or around 1.4% annualized. Of course, we would rather not have this underperformance but sometimes it is necessary to win the long-term prize.

Another bad in Q1 was our market neutral income, which averaged a loss of -1.31% across all 7 assets, whereby the equities averaged -2.15% and non-equity averaged 0.34%. To be clear, diversification does have some positive benefits and this is the best example of such value. As repeatedly stated, the limitations are reflected in its inability to eliminate market risk.

These losses are to be expected given the rapid rise in the equity markets in January only to see those gains given up in record speed and then some in early February. The whipsaw and dramatic increase in volatility from record calm will almost always generate losses in our market neutral income trades as we seek to actively manage those trades to reduce volatility and risk.

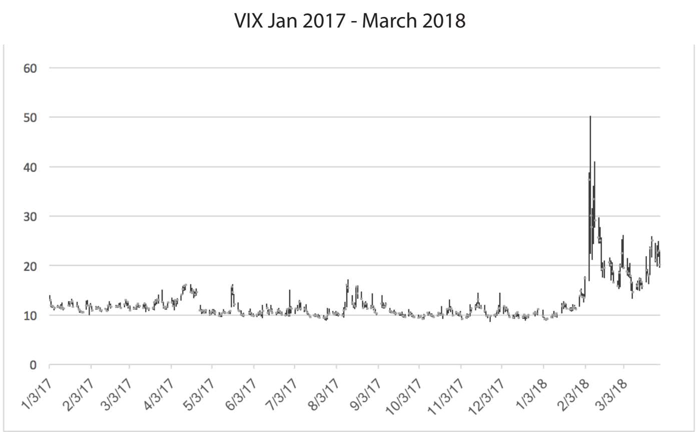
Whipsaw Action of Q1



Source: Bloomberg

The following is a brief write-up on the income trades from Chris Hausman, Director of Risk Management and Chief Market Technician, and Pat Stiefel, Director of Trading:

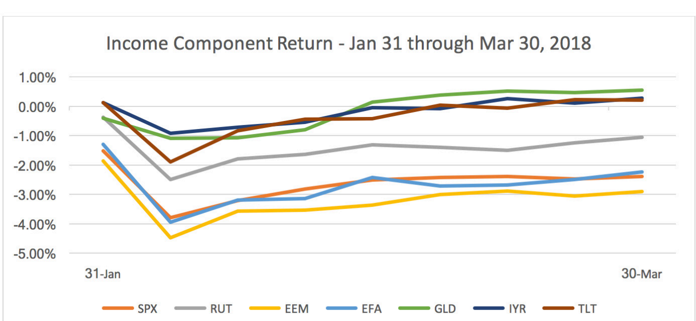
The first quarter of 2018 witnessed two distinct market environments with respect to both directional movement and volatility. January's rally was more than 4 standard deviations to the upside based on end of year option pricing in SPX and EEM, a rare occurrence. The January surge put pressure on the DRS income component in most Swan products. Many strategies incurred income losses through the end of January.



Source: SGI and Cboe

The young year's second move brought with it a distinct change in the volatility regime. VIX ended 2017 at 11.04. It settled 33.46 on February 8 after printing a multi-year high of 50.3 two days prior. The largest one-day VIX spike on a percentage basis ever occurred on February 5th. From January 26 to February 8 the S&P 500 Total Return Index lost -10.16%, the fastest -10% correction over the past twenty years. Emerging Markets, as represented by EEM, lost -12.27% during the same period. The corresponding moves down were more than 3 standard deviations based on option pricing prior to the sell-off, likelihoods of less than 1%. The pull-back put further pressure on many of Swan's DRS income component strategies. More losses had to be taken in order to fight another day; risk management is always our first priority.

One week into February, option prices were beginning to reflect the larger equity moves. Many income strategies were adjusted based on our rules-based guidelines. Some losses were realized. Between February 8 and March 29, DRS income components in all four equity markets had positive income returns (S&P 500, U.S. Small Cap, Foreign Developed, Emerging Markets). The blended average of the four equities markets had seven consecutive positive weeks for income. The three non-equity assets also incurred income losses through February 8 (Gold, Bonds, Real Estate). The average of the three non-equity assets similarly experienced seven consecutive positive income weeks after the February plunge.



Source: SGI

These short-term losses for the income component are typical when markets transition quickly from low to high volatility regimes. The DRS has been through these sorts of moves before. There is typically a short "pain period" while the market transitions from a low volatility regime to a higher volatility environment, where the premiums are richer and the income trades typically have more breathing room.

The Ugly

Funds that didn't adequately manage risk make up "the ugly" in this issue. It seems every time market dynamics change we read about another mutual fund, ETF, or hedge fund "blowing up." Without naming names, a couple of popular funds, one in the options-based category, lost well over half their value and were forced to shut down when volatility spiked in late January and early February. Unfortunately, this casts a pall over all options-based strategies. Investors ask, "If it happened to X, why won't it happen to you?"

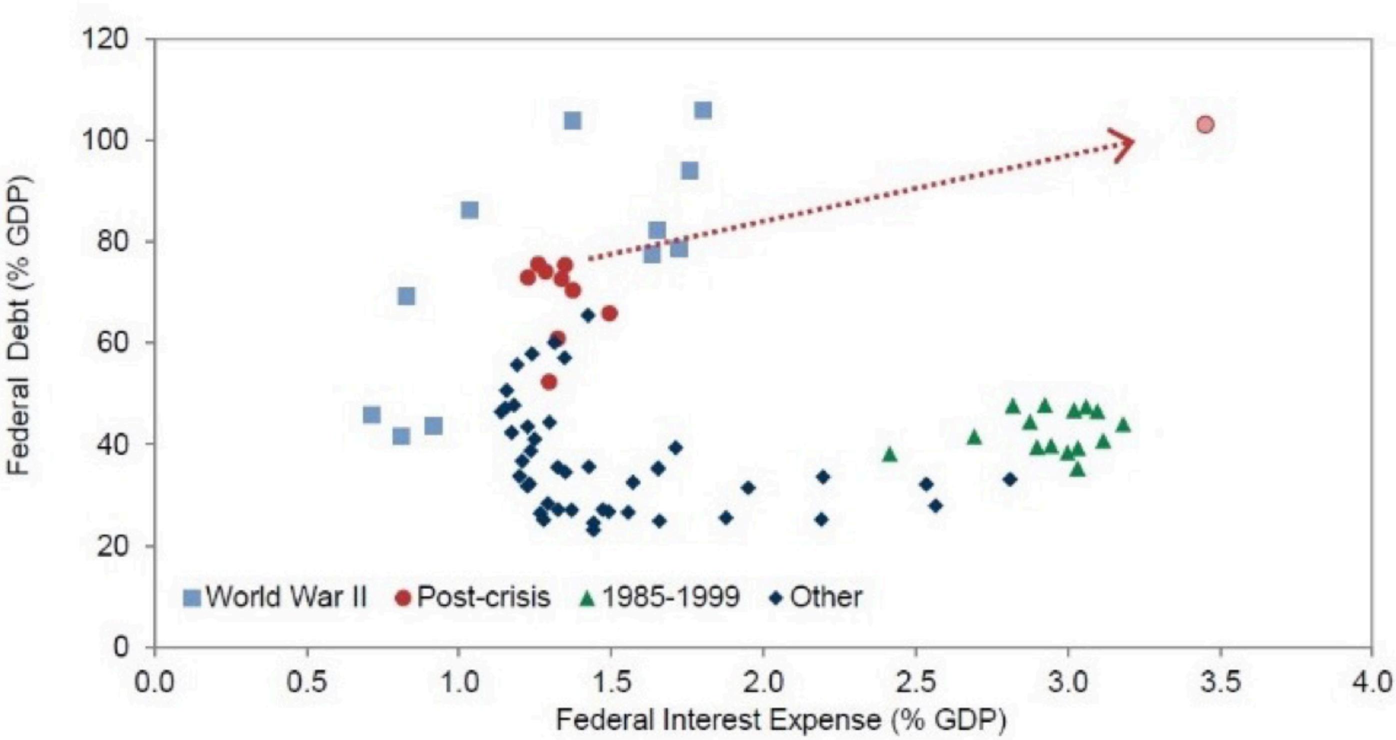
Our response is that it is absolutely essential to "know what you own." Just because a strategy has "capital preservation" or "risk control" in its name or objective is not a guarantee that it will do either. Just because a strategy has produced a steady stream of returns over a few years doesn't mean it always will. But by the same token, just because a strategy utilizes options doesn't mean it is a ticking time bomb. It all depends on how options are used, how robust the risk controls are, and if those risk controls are followed.

In our view, the two largest hidden risks in a strategy are liquidity and leverage. A common theme throughout many of the historic blow-ups has been a lack of liquidity in the investments or a dangerous amount of leverage. Often times both are present. Such strategies are able to rack up a steady stream of profits in benign market environments but are susceptible to large losses if the market turns on them. These two risk factors - liquidity and leverage - are not just limited to option-based strategies. After all, the Global Financial Crisis can be attributed to "the two L's" in the housing market and structured products.

It is worth mentioning that Swan utilizes some of the most liquid options in the world when implementing the DRS. Moreover, Swan's positions are not levered "up". The core equity is approximately 90% of the portfolio, the hedge is approximately 10% of the portfolio, and the income trades are sized off of those two positions. Even in the transitions of these trades, due to the rules-based process for how these trades are managed, the trades do not "borrow" (leverage) money to be put in place. So, know what you own, use extreme caution with strategies that are in hard to trade markets or that utilize leverage to try to generate their returns.

Another ugly that is becoming more at the forefront: the recent budget that was signed by President Trump. According to David Stockman, who was the budget director for Ronald Reagan, the U.S. debt is scheduled to reach $21 Trillion this year and is scheduled to rise rapidly over the next decade. His article titled, "$21 Trillion and Counting: Why This Time the Fiscal Wolf Is Really at the Door (Part 1)" lays out that the annual budget deficit will reach $1.2 trillion in the coming fiscal year; breach the $2 trillion by the middle of the next decade at the latest, and pile a total of $17 trillion on to the national debt over the next 10 years. Moreover,

Exhibit 11: Heading Into Uncharted Territory



Source: Office of Management and Budget, Department of Commerce, Goldman Sachs Global Investment Research

these numbers are about as locked-in as tomorrow's sunrise. So, it is fair to say that objectively the public debt could already be $40 trillion within the decade of the 2020s.

An article published by Money Metals Exchange titled, "Illinois Debt Crisis Foreshadows America's Financial Future," points out that recent tax hikes implemented to fix the budget shortfall aren't working despite a 32% tax hike: "Predictably, it isn't working. People are leaving the state in droves. In fact, Illinois now leads the nation in population collapse. Statistics show people leaving the state at the rate of 1 every 4.3 minutes and the state dropped from 5th to 6th in terms of population. Turns out that people with options aren't planning to stand there and take the epic tax increase."

In another twist that was mentioned last issue, "Taxaholic Governors Try to Dodge Federal Tax Law."

"Several governors from high tax states are suing Uncle Sam because of the new limit of $10,000 for deduction for state and local taxes their residents can deduct." The irony cannot be understated that high tax states are complaining about higher taxes since the low tax states will no longer be subsidizing their excessive spending.

What is more important is that it doesn't work. The bottom line is we can't count on the "rich" to solve government's problems of overspending, fraud, and waste. The laws of nature dictate it cannot go on forever and the economy and the markets tied to it will pay the price. We have discussed this looming problem in many of our previous "The Good, the Bad, and the Ugly" updates and I am exploring it further in a forthcoming book.

Swan DRS Product Performance Summary

As of: Mar-31-2018

	DRS Products				Benchmark		
	Core Equity	Hedge	Income	Total Portfolio (Net)	Benchmark	Return	Over/Under Performance
YTD 2018							
S&P 500 DRS Select Composite (1)	-2.09%	0.72%	-2.94%	-4.43%	S&P 500	-0.76%	-3.67%
S&P 500 DRS Institutional Composite (2)	-1.87%	0.28%	-2.36%	-4.13%	S&P 500	-0.76%	-3.38%
DRS Emerging Markets Composite (3)	2.15%	-0.06%	-3.13%	-1.50%	MSCI EM Index (Gross)	1.47%	-2.96%
DRS Developed Markets Composite (4)	-0.97%	-0.13%	-2.27%	-3.66%	MSCI EAFE Index (Gross)	-1.41%	-2.25%
DRS U.S. Small Cap Composite (5)	-0.32%	-0.15%	-1.03%	-1.82%	Russell 2000 Index (Gross)	-0.08%	-1.73%
DRS Gold (6)	1.69%	-0.82%	0.54%	1.13%	SPDR Gold Shares (GLD)	1.73%	-0.59%
DRS Real Estate (6)	-5.50%	3.40%	0.08%	-2.28%	iShares US Real Estate (IYR)	-6.07%	3.79%
DRS Fixed Income (6)	-3.31%	1.48%	0.30%	-1.79%	iShares 20+ Yr Treasury Bond (TLT)	-3.51%	1.72%
DRS Aggressive (6)	-1.98%	0.44%	-3.30%	-5.22%	S&P 500	-0.76%	-4.46%

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 lack of contribution smoothening from rolling up monthly 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 funds (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 research and development account(s) and 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 funds (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 March 31, 2018

Composite	One Year	Three Year	Five Year	Ten Year	Since Inception
DRS Select Composite	4.48%	3.91%	5.43%	6.48%	8.30%
S&P 500	13.99%	10.78%	13.31%	9.49%	7.41%
DRS Institutional Composite	4.50%	2.85%	5.29%	6.46%	8.29%
S&P 500	13.99%	10.78%	13.31%	9.49%	7.41%
DRS Emerging Markets Composite	12.45%	3.62%	N/A	N/A	3.65%
MSCI EM (Emerging Markets)	25.37%	9.21%	N/A	N/A	9.13%
DRS Foreign Developed Markets Composite	6.57%	1.35%	N/A	N/A	1.82%
MSCI EAFE	15.32%	6.05%	N/A	N/A	8.71%
DRS U.S. Small Cap Composite	4.96%	3.82%	N/A	N/A	4.73%
Russell 2000	11.79%	8.39%	N/A	N/A	10.00%

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 or 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 all research and development account(s), and mutual fund accounts invested in foreign developed markets; 8) The DRS U.S. Small Cap Composite which includes all 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, 2015. 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 complied 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 owing 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.

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