

WHY OPTION OVERLAYS?

Risk management
Contrarian benefit
Complementary to existing portfolios

WHY SPIDERROCK?

Disciplined philosophy
Proven methodology
Advanced technology

PROBLEM

Clients are nervous about the equity markets, but don't want to sell any of their gains because of the tax ramifications.

SOLUTION


Using SRA's Hedged Equity – Portfolio, tactically reduce downside exposure for a defined period of time by collaring portfolios with index options.

STRATEGY DIFFERENTIATORS

- » Downside buffer for equity positions
- » Reduce portfolio volatility
- » Non-disruptive to the underlying portfolio
- » Liquid strategy traded directly in your client accounts
- » Minimize tax impact
- » Responsive to market conditions

REDUCE RISK - WITH OR WITHOUT TAXES

Traditional Approach



reduce a
\$1,000,000
portfolio's beta from
1.0 to 0.3
by selling 70 percent of the portfolio allocated to equities, and reinvest in fixed-income or hold cash.

Consequence: 50% of portfolio * Embedded Gains (assume 50%) * Tax Rate (assume LTCG 23.8%) =

~\$59,500 tax bill

Overlay Approach

keep
\$1,000,000
portfolio intact.
Sell OTM call options and use the premium to purchase OTM put options on the S&P 500, reducing beta from
1.0 to ~0.3

Consequence: No cap gain realization =

\$0 tax bill

WHY COLLAR?

Reduce equity exposure
Shift equity volatility to fixed income volatility while maintaining equity exposure
Mitigate portfolio risk while avoiding tax consequences
Tactical portfolio shift for a defined time period
Typical asset allocation model 60/40 seems problematic

THE PROCESS

- 1** **DEFINE**
Advisors select strategy, holdings, and respective percentage of their clients' portfolio to overlay.
- 2** **ANALYZE**
SpiderRock systematically identifies the optimal collar via its proprietary systems.
- 3** **IMPLEMENT**
Call options are written and put options are purchased against the chosen notional exposure in a broad-based index.
- 4** **REBALANCE**
The options are actively renewed and managed opportunistically to the underlying positions.

We automate and scale option-based investment strategies for institutions and advisors

ABOUT US

SpiderRock Advisors is an asset management firm focused on providing customized option overlay strategies to advisors and institutions. Combining world-class technology with comprehensive derivative expertise, we are making it easy for Institutions and Financial Advisors to add option strategies to their investment portfolios.

WHAT WE DO

MANAGED OPTION OVERLAYS

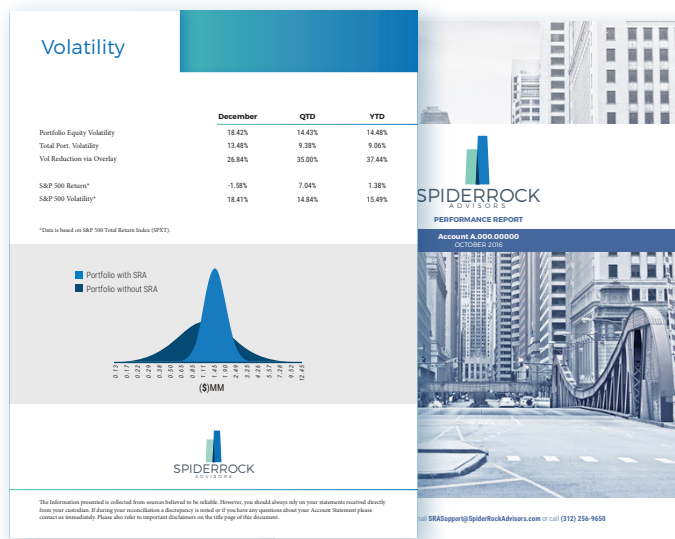
- » Opportunistic Yield Enhancement
- » Hedged Equity Portfolio
- » Hedged Equity Concentrated Stock
- » Managed Index Income
- » Cash Secured Put
- » Strategic Rebalance
- » Negative Duration Equity

SUB-ADVISORY & RISK MANAGEMENT

- » Customized Option Strategies
- » Model Implementation
- » Strategy Automation
- » Product Development

PERFORMANCE REPORTING*

- » Quarterly, YTD, and Since Inception
- » Per strategy, client, and advisor



*Performance report is for illustrative use only. The portfolios and returns of each client and advisor will be different.

RISK DISCLOSURES

- The SpiderRock Hedged Equity Portfolio option overlay strategy is intended to mitigate portfolio losses beyond its put strike price.* Market conditions will dictate the effectiveness of the strategy above the put strike price.
- Portfolio holdings may need to be sold to generate cash to settle options. Such sales may produce tax consequences.
- Investors must be willing to forgo potential upside appreciation above the premium value in exchange for the downside protection.
- Past performance is not a guarantee of future results.
- Options may expire worthless or not perform as expected, resulting in losses.
- There can be no assurance that current investments will be realized as projected. Actual realized returns will depend on, among other factors, future operating results, the value of assets and market conditions at the time of disposition, any related transaction costs, and the timing and manner of sale, all of which may differ from the assumptions on which the information contained herein is based. It should not be assumed that any investments described herein will be profitable.
- Options involve risk and are not suitable for all investors. Refer to Characteristics & Risks of Standardized Options:

<http://www.optionsclearing.com/about/publications/character-risks.jsp>

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