MAI Managed Volatility Strategy

Thesis and Process

For additional disclosure information, please see the Important Disclosures in the back of this presentation.

MAI’s Thesis:

We believe in:

1. **Multiple sources of return.** We achieve our performance objectives by taking advantage of stock appreciation, option premium, and dividend yield.

2. **Individual stock selection.** Dividend growing equities produce stronger long-term performance over a market cycle with generally less volatility.

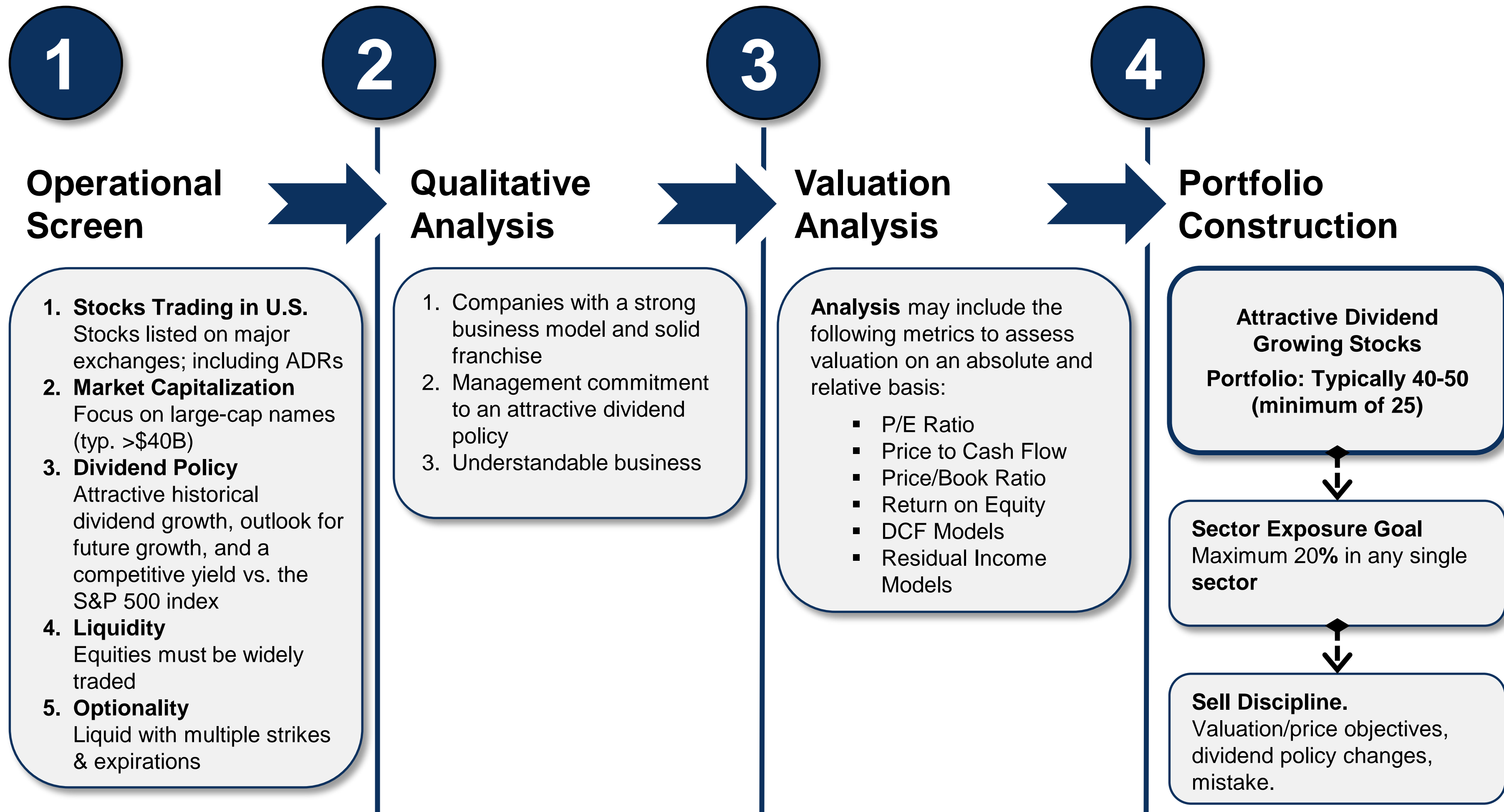
3. **Option writing (covered strangles).** Short duration covered calls & cash-secured puts on individual stocks can increase portfolio cash flow and dampen portfolio volatility.

4. **Risk management.** We feel our ability to value individual equities then write options on each individual name is an advantage over using index options.

5. **Not taking bets.** The Strategy is diversified and has no embedded interest rate bets.

Transparent & Consistent Process with No Leverage

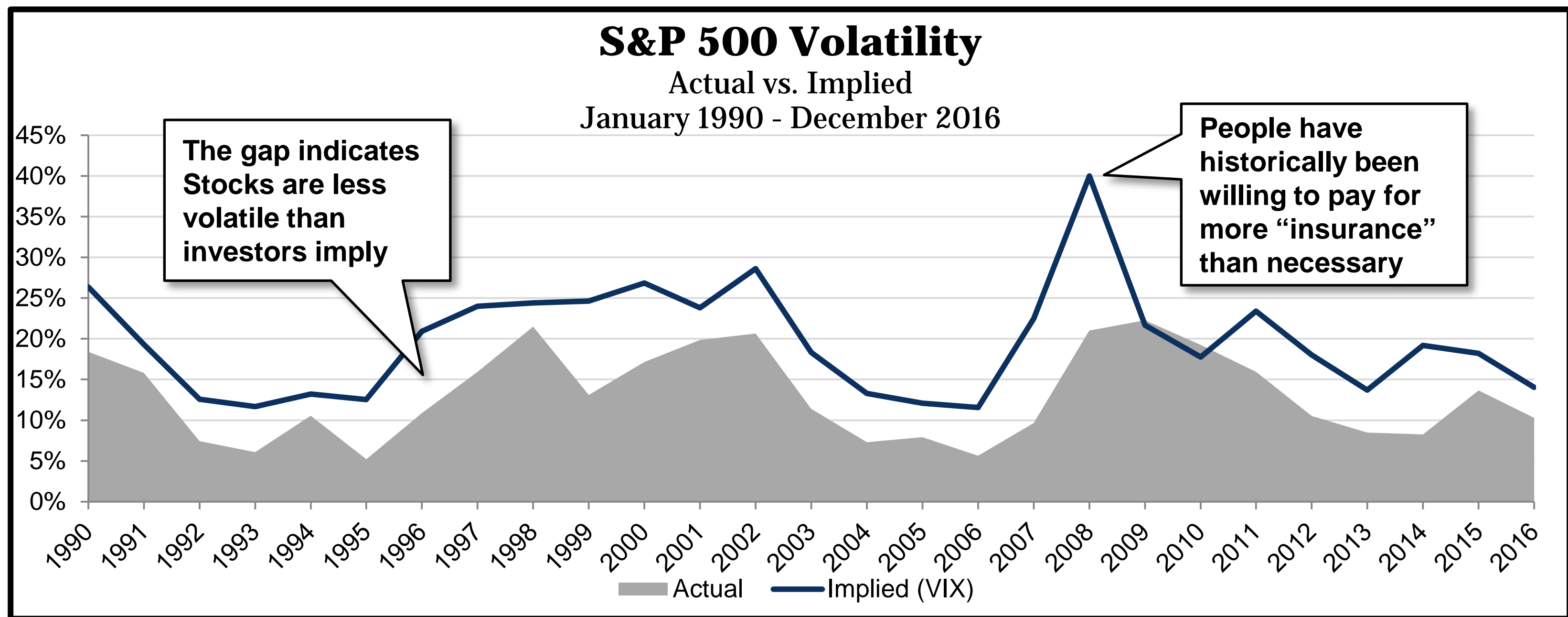
Individual Equity Selection



*For illustrative purposes. Criteria can change at MAI's discretion.

Portfolio Dilemma: Buy or Sell Insurance?

- Options may be recognized as a form of financial insurance. The volatility risk premium is compensation paid by option buyers to option sellers.
- Research has shown that options are often overpriced—which creates an opportunity for those who sell them.[1]



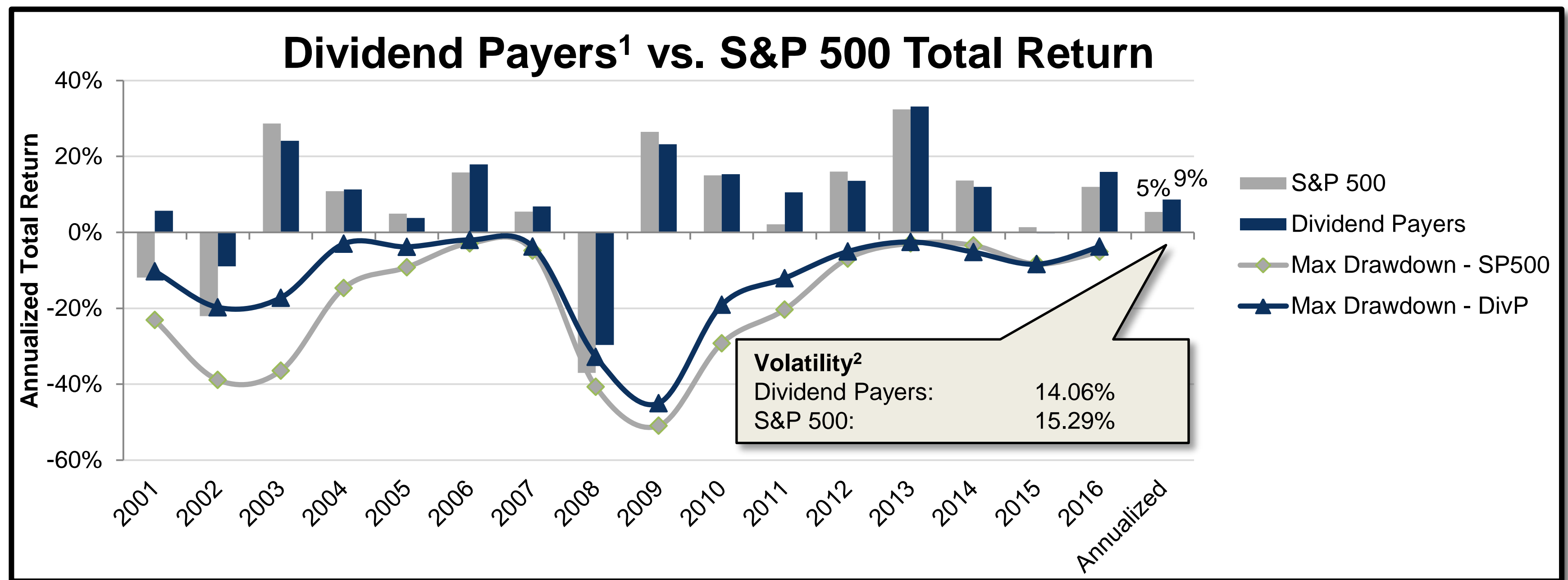
[1]Multiple studies, per the CBOE, including: Ackert, L. and Tian, Y. "Evidence on the Efficiency of Index Options Markets." First Quarter 2000. Federal Reserve Bank of Atlanta, Economic Review.

Chart Source: CBOE Volatility Index. Zephyr StyleADVISOR, MAI Capital Management. Based on monthly returns. Data as of 12/31/2016

Why We Focus on Dividend Growing Equities

Dividend paying stocks[1] have two historical advantages relative to the broader market:

1. Total return outperformance
2. Less volatility and lower drawdowns



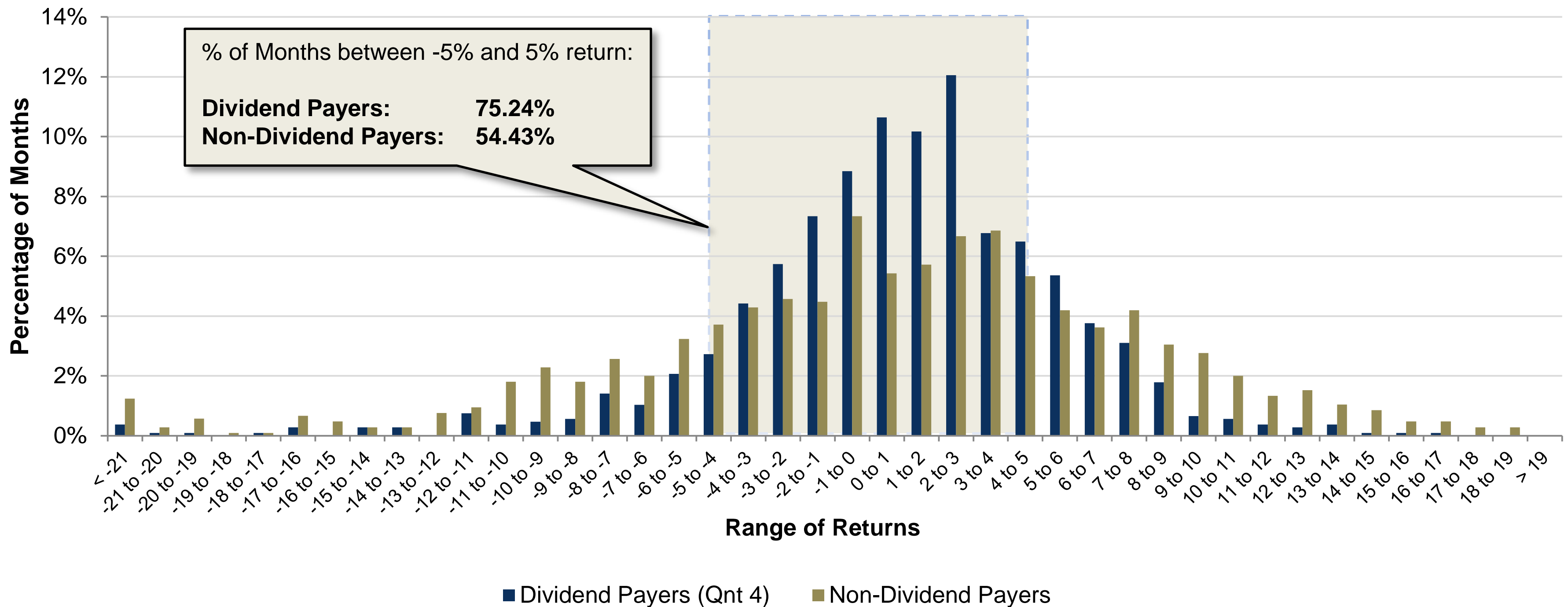
Past performance is no guarantee of future similar results

Source: Kenneth R. French: "Portfolios Formed on Dividend Yield"; S&P 500 data from Zephyr StyleADVISOR

[1]Stocks were separated into quintiles by their dividend yield with quintile 5 representing the highest yield stocks and quintile 1 the lowest yield stocks. In this analysis, "Dividend Paying Companies" are represented by quintile 4 (value weighted data set). Quintile 4 is displayed due to its likelihood to be more representative of underlying stocks held in the MAI Managed Volatility Strategy based on quintile breakdown of the actual 40-50 names. Returns are annualized from 2001 to 2016.

[2]Volatility is represented as the annualized standard deviation of monthly returns.

Dividend Payers tend to have stable monthly returns



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Source: Kenneth R. French: "Portfolios Formed on Dividend Yield"

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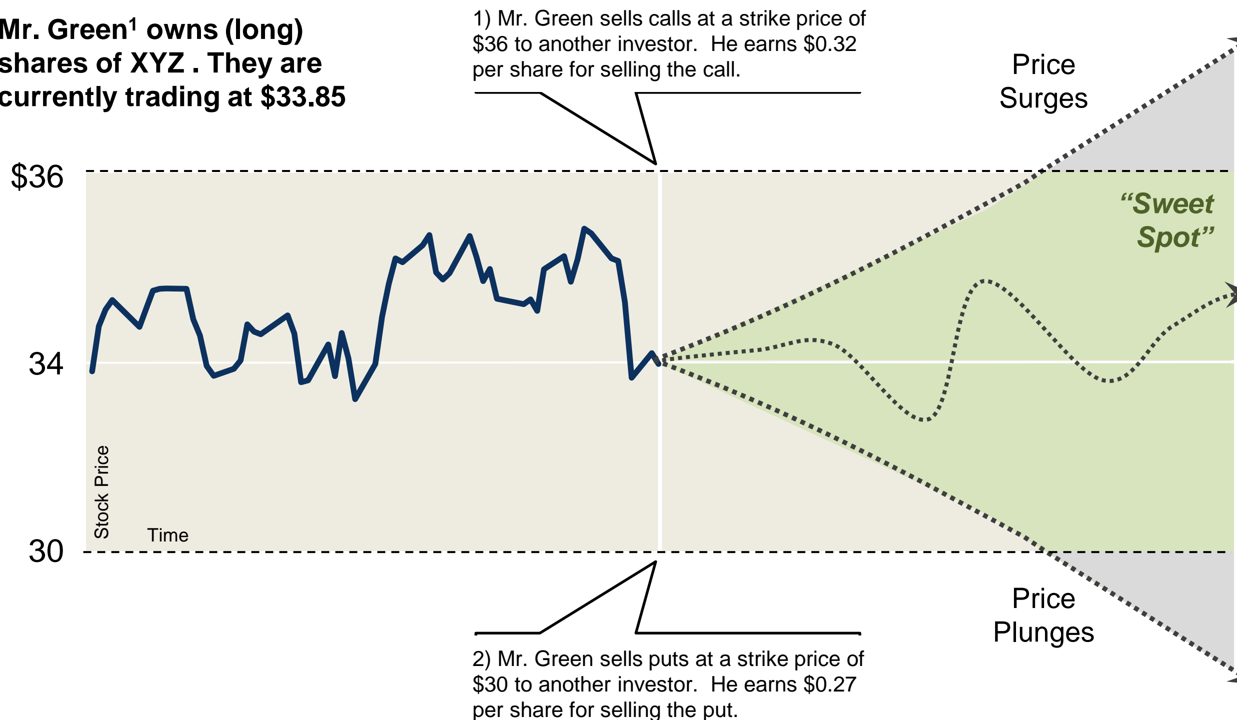
Covered strangles typically profit from stable stock returns

Mr. Green[1] owns (long) shares of XYZ . They are currently trading at $33.85



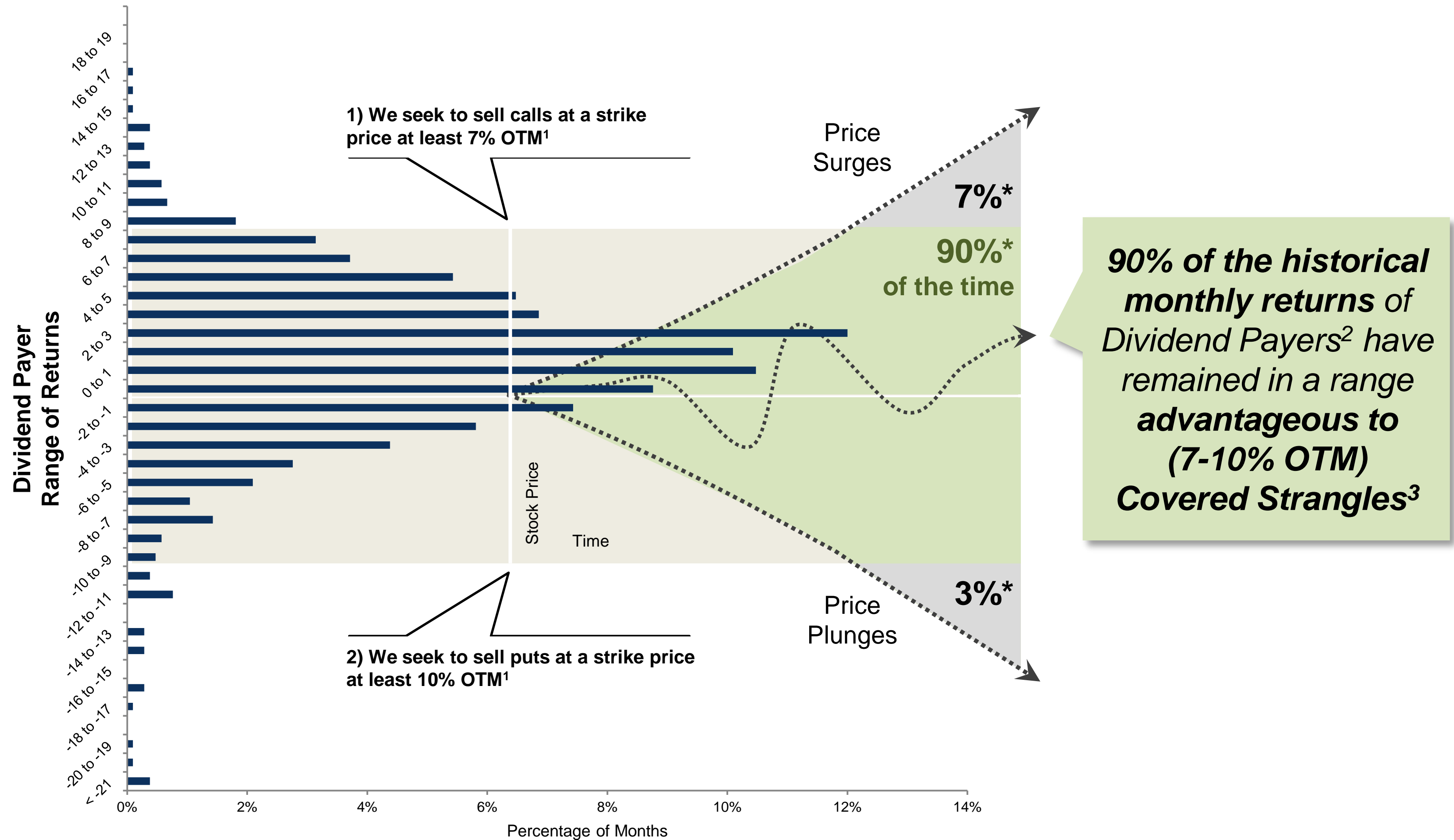
Obligated to sell shares; keep premium. If XYZ is above the strike at expiration, Mr. Green is obligated to sell the shares he owns (long) at $36. The put expires OTM and worthless. He keeps the $0.32 + $0.27 net option premium.

Between $30 and $36, the options expire and Mr. Green keeps the combined $0.59 premium per share. Which is equivalent to 0.93% portfolio cash flow on the position.[2]

Obligated to buy shares; keep premium. If XYZ is below the strike price at expiration, Mr. Green is obligated to buy shares at $30 with the cash he holds in his account for collateral. The call expires OTM and worthless. He keeps the $0.32 + $0.27 net option premium.

[1]The above graphic is just an illustration and should not be considered a recommendation to buy or sell any security. "Mr. Green" is a fictitious investor. Please see important information regarding the risks of options on page 10.
[2]Calculation: $0.59 (premium received) / [$33.85 (long stock) + $30 (put cash commitment) - $0.59 (premium received)] = 0.93%

Dividend Payers are a natural match for Covered Strangles

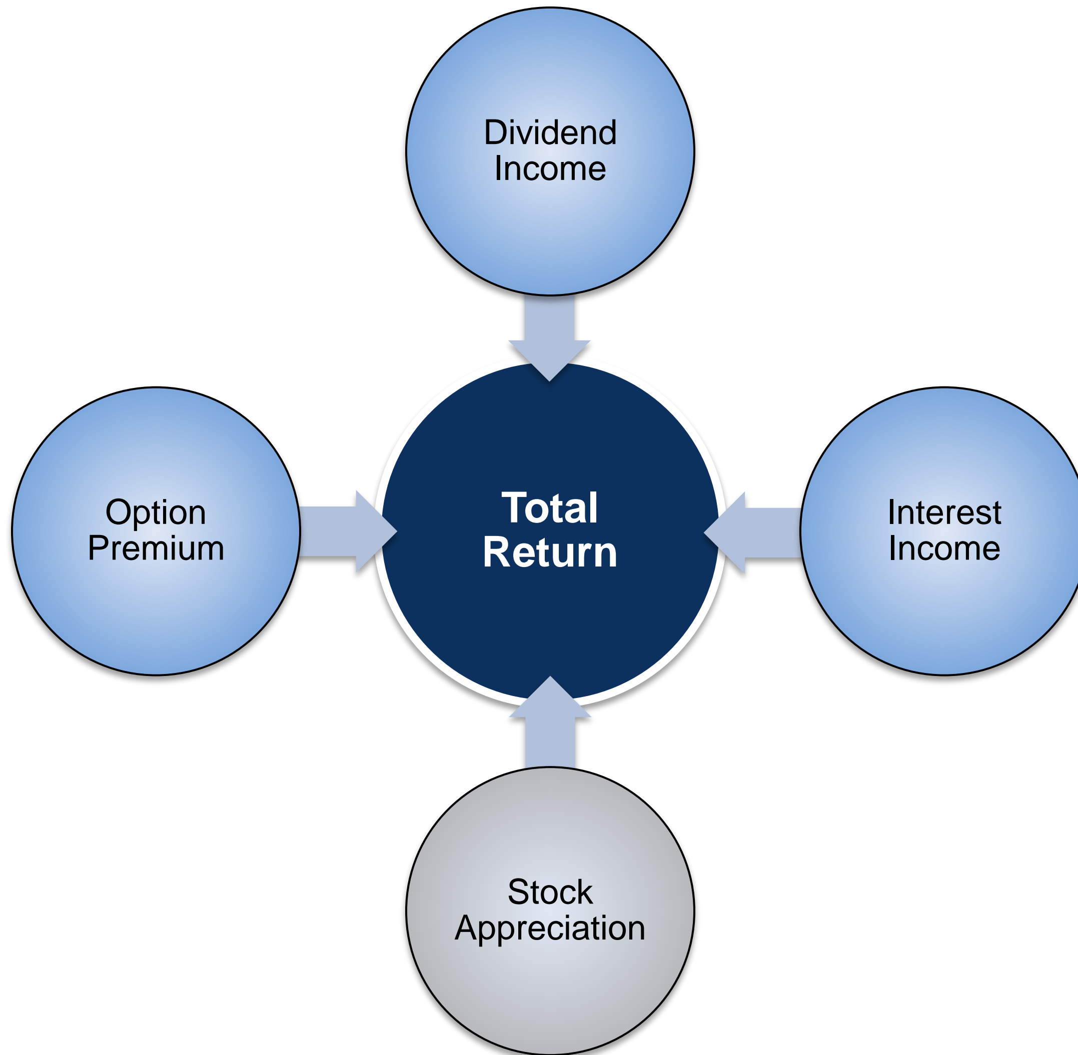


[1]The above graphic is just an illustration. Actual moneyness of the Strategy can vary based on volatility levels.

[2]See note on page 9. Source: Kenneth R. French: "Portfolios Formed on Dividend Yield". January 1928 – December 2016.

[3]Historically, assuming 1-calendar month cycles that do not necessarily correspond with options expiration cycles. Percentages can fluctuate with increased or decreased volatility in the market. Past performance is not indicative of future results. Please see important information regarding the risks of options on page 10.

Return Streams - Summary



MAI Managed Volatility Strategy Important Information

Past performance is no guarantee of future results. This material is for informational purposes only. Material should not be considered a recommendation to purchase or sell any particular security or shares in any particular investment fund. It should not be assumed that any security transactions, holdings, or sectors discussed were or will be profitable or that the investment recommendations or decisions we make in the future will be profitable. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size.

About Anticipated Performance and Risk

- Performance will depend significantly on market conditions; there is no assurance that the Strategy will achieve its investment objectives.
- The extent of potential option income depends on premiums as they exist during the option cycle. Investors should note that option contracts do not expire at calendar month-end. As such, there tends to be some short-term, month-to-month performance unevenness as it relates to unexpired option positions held at month end. Under most conditions, this is time premium which has not yet decayed, and will affect performance in the following month(s).
- **Option trading entails significant risk and is not appropriate for all investors**:

	Loss of Principal	Opportunity Loss
Covered Calls	Though the Strategy's cost basis may be lower than if the Strategy only purchased the shares, the Strategy can still lose money if the stock falls below its modified cost basis (price of shares less covered call premium). This is basically the same market risk facing anyone who owns equities.	The Strategy expects to typically sell calls at higher strike prices than current market value, however the stock could rise above the strike price and the Strategy can be assigned on its position. The Strategy could lose the stock at the strike price even if the stock is higher-causing it to potentially leave some money on the table. The Strategy attempts to mitigate this risk by generally selling calls higher than current stock levels with holding periods of less than 9 weeks. Additionally, the Strategy may seek to roll the calls forward to potentially prevent the loss of a stock position.
Short Puts	If the Strategy sells puts and the stock falls below the strike price the Strategy may be assigned the shares. This could result in the Strategy owning the stock at a price that is below the current market price adjusted for the premium the Strategy received.	When the Strategy sells puts it might miss opportunities to purchase shares at even lower price levels.

Risk Factors include exposure to financial and market risks that accompany investments in stocks and options. More information, including Form ADV Part II, is available from MAI. Additional information about option trading can be found in the updated Options Disclosure Document (Characteristics and Risks of Standardized Options) located on the Options Clearing Corporation Website http://www.optionsclearing.com/about/publications/character-risks.jsp Copies are available for review with this presentation.

Option risks include, but are not limited to, the possibility of an imperfect correlation between the movement in the options' prices and that of the securities/indices hedged (or used for cover), which may render a given hedge unable to achieve its objective; possible loss of the premium paid for options; and potential inability to benefit from the appreciation of an underlying security above the exercise price. **Premium realized through the sale of options is characterized as short term capital gains and is not distributable as quarterly income.**

About Dividend Growing Equities Performance

It is important to remember that dividends are not guaranteed and a company's future ability to pay dividends may be limited.

ADRs are receipts for the shares of a foreign-based company traded on a U.S. stock exchange. **Call** is an option contract giving the owner the right (but not the obligation) to buy a specified amount of an underlying security at a specified price within a specified time. **Covered Call** is an options strategy whereby an investor holds a long position in an asset and writes (sells) call options on that same asset in an effort to potentially generate increased income from the asset. **Put** is an option contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying asset at a set price within a specified time. **Cash Secured Put** is a put for which the writer deposits an amount of cash equal to the option's exercise price. **Index Option** is an option providing exposure to the movement of the stock market. A **call option is out-of-the-money** if the stock price is below its strike price and a **put option is out-of-the-money** if the stock price is above its strike price. The **spread to strike price** is the difference between the current price of the security and the strike price. **Strike Price** is the price at which a specific options contract can be exercised.

Contact Information

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