



**JULEX** CAPITAL

## OPTIONS OVERLAY STRATEGIES

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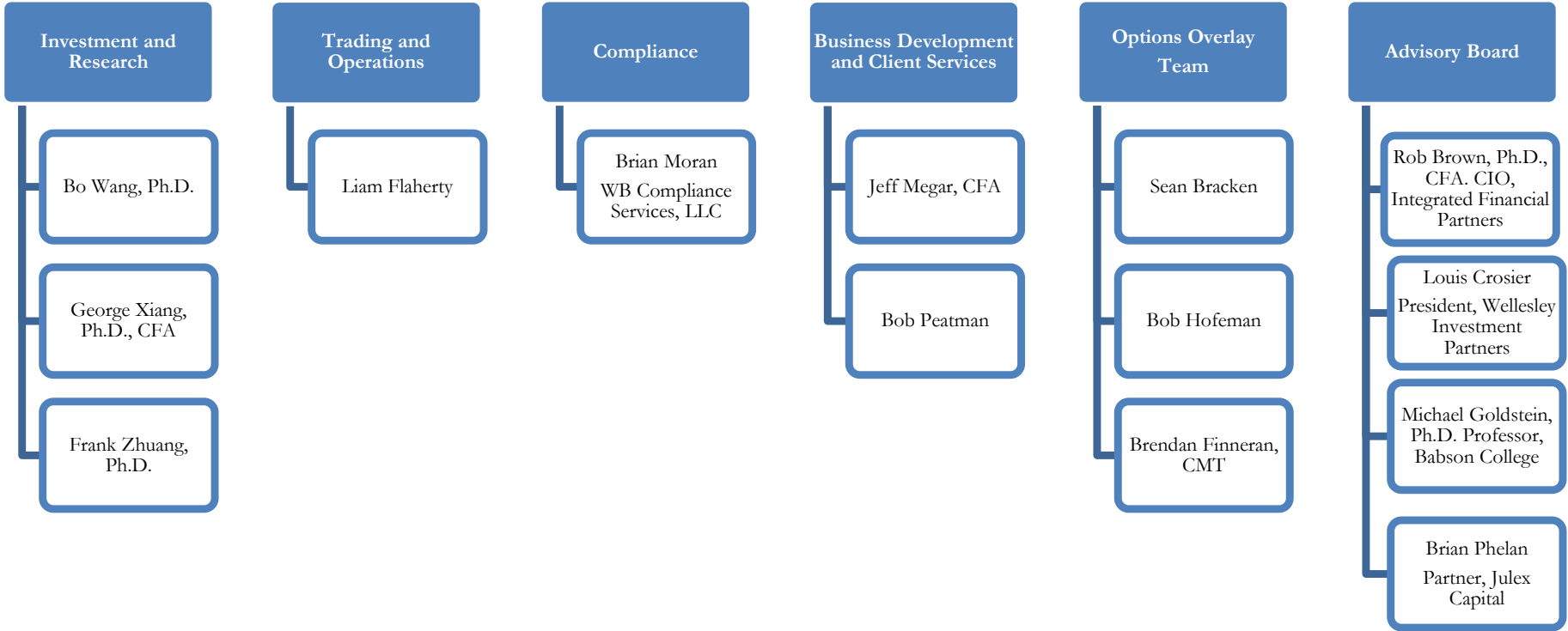
Web: [www.julexcapital.com](http://www.julexcapital.com)

# Firm Overview

**Firm**

- Employee-owned, established 2012
- Model driven, rules-based investment process
- Specializes in tactical asset allocation, quantitative equity, and options overlay

Henry Ma, Ph.D., CFA  
President/CIO



# Strategies Overview

## Tactical Strategy

Dynamic Sector

Dynamic Income

Dynamic Multi Asset

Dynamic Developed Market

## Quantitative Equity

TrueAlpha™ Large Cap

TrueAlpha™ ESG

TrueAlpha™ Small Cap

## Income Solution

High Dividend Stocks

Real Estate

## Risk-Based Solution

Dynamic Aggressive

Dynamic Defensive

Dynamic Moderate

Dynamic Conservative

## Goal-Based Solution

Destination - 6-10 years, Target Return  $\geq$  5.5%

Destination - 11-15 years, Target Return  $\geq$  6.5%

Destination - 16-20 years, Target Return  $\geq$  7.5%

Destination - 21+ years, Target Return  $\geq$  8.5%

## Overlay Service Suite

### Index Based Solutions – Can be used with any Marginable Asset

**Enhanced Yield**

Generate tax-advantaged net income of 2-3% annually

**Capital Appreciation**

Enhance short-term appreciation for equity portfolios

**Defensive Overlay**

Provide short-term protection in turbulent markets

### Combination Strategies

### Single Stock Based Solutions – Typically used with concentrated positions

**Enhanced Yield**

Conservative Covered Call Strategy Stock Specific

**Defensive Overlay**

Provide short-term protection in turbulent markets

- For each strategy, the underlying accounts will continue to be managed as before.
- Clients can exit the strategies at any time.
- The Index Based Defensive Overlay and Capital Appreciation are partially self-funding

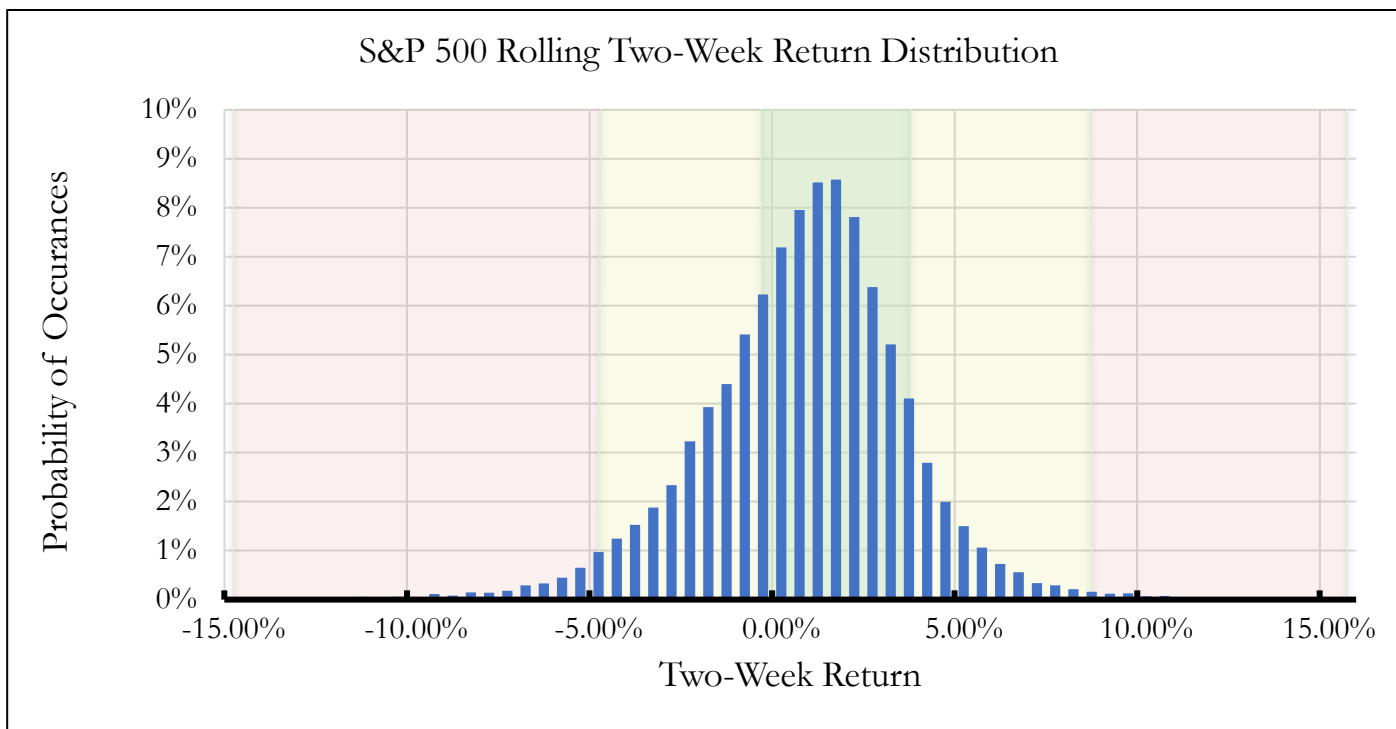
# Options Strategy Team Background

Team	Role	Experience	Education
Henry Ma Ph.D., CFA	Chief Investment Officer	Geode Capital – Hedge Fund Manager Loomis Sayles – Director of Quantitative Research Fortis Investments - Director of Quantitative Research Sun Life Financial– Portfolio Manager	Ph.D. Economics – Boston University BA, MA – Peking University
Dick Davis CFA	Managing Director	Rampart – Head of Quantitative Research Geode Capital – Senior Quantitative Analyst SunTrust – Chief Investment Officer Goldman Sachs – Sell Side Analyst	MBA– University of Texas BA – Hamilton College
Sean Bracken	Managing Director	Fidelity – Head of Institutional Managed Account Group Fidelity – Vice President of Electronic Commerce	MBA – University of Chicago BS – Boston College
Brendan Finneran CMT	Portfolio Manager & Trader	Rampart – Portfolio Manager & Trader Andover Capital Advisors – Operations Manager & Trader	BA – Brown University
Bob Hofeman	Portfolio Manager & Trader	Rampart – Portfolio Manager & Trader Evergreen Investments – Senior Equity Trader Ironwood Investment Management – Equity Trader	MBA – Emory University BS – Boston College
Liam Flaherty	Portfolio Manager & Trader	MFS Investments – Fund Treasury MassMutual – Trading & Valuations	BA – Babson College

## What Is An Overlay?

- Overlays are unfunded - do not need to sell other assets to purchase them.
- They use the value of the existing account to collateralize the strategies
- Overlays can enhance returns of existing assets through additional:
  - Income
  - Protection
  - Capital Appreciation
- Overlays can be tax-sensitive
- Can be closed at any time.

# S&P 500 Return Distribution



- In the short-term (two-week) and medium-term (three-month), equity returns are largely normally distributed
  - Historically, 62.0% of two-week returns (green highlight) fall between -0.5% and 3.5% while 95.4% (yellow highlight) fall between -5% and 8%

Note: Graphic is based on rolling two-week (ten trading day) price returns on the S&P 500 from January 1950-December 2019.

### Index Based Solutions – Can be used with any Marginable Asset

Enhanced Yield

Capital Appreciation

Defensive Overlay

Combination Strategies

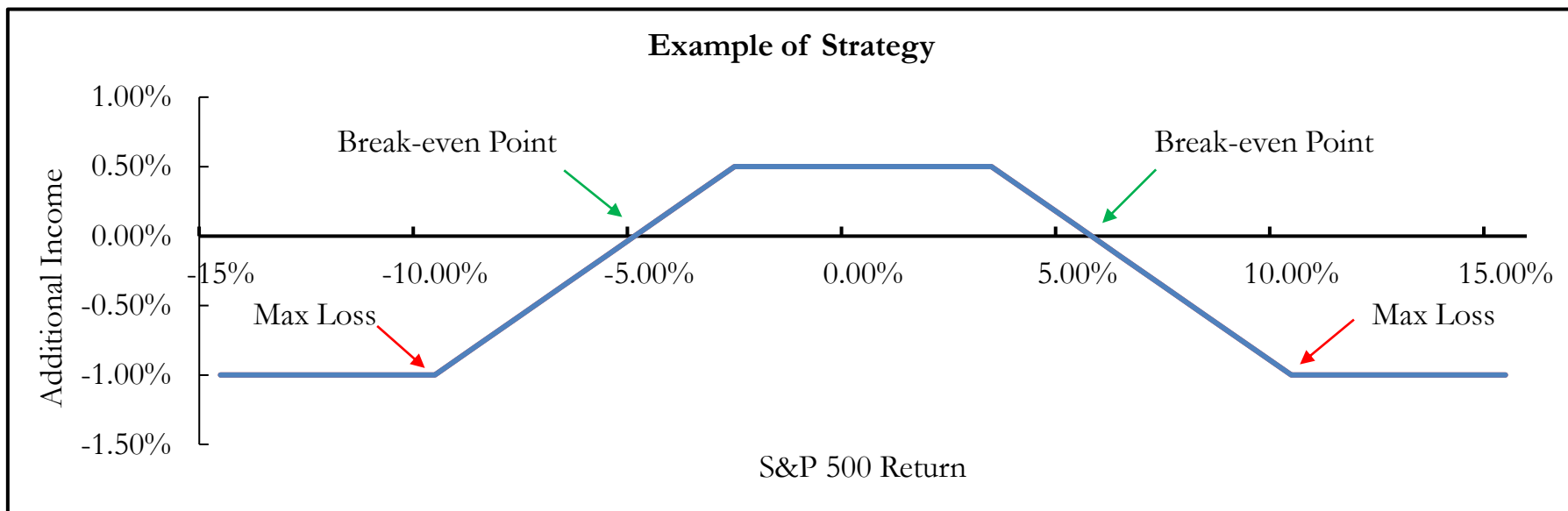
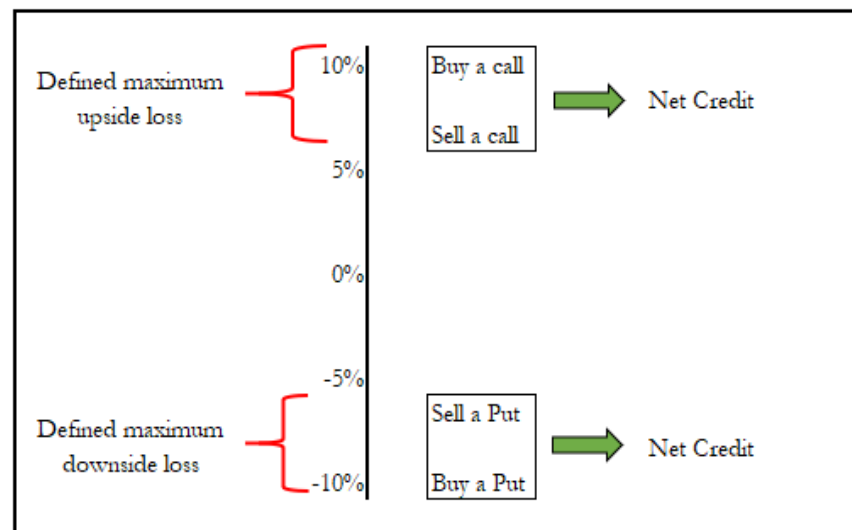
- For each strategy, the underlying accounts will continue to be managed as before.
- Clients can exit the strategies at any time-- there's no lockup period.



# Enhanced Yield Overlay (EY)

**Objective:** Provide tax-advantaged incremental income (target 2-3 on any marginable asset (equity, fixed income, cash)).

**Attributes:** Defined weekly downside risk and expected average annual net yield of 2-3%, taxed at 60% long-term and 40% short-term capital gains.



# Enhanced Yield Back Tested Returns – Calendar Year

Year	Portfolio Returns
2009	5.11%
2010	3.70%
2011	3.01%
2012	8.53%
2013	4.48%
2014	3.71%
2015	3.17%
2016	5.25%
2017	5.67%
2018	-3.10%
2019	2.92%
2020	-1.16%
Annualized	3.59%

- **Uncorrelated Returns:** 10-year trailing correlation with Barclay’s Aggregate Bond Index of -8.95%.
- **Expands Efficient Frontier:** Can generate similar return at a lower risk level.

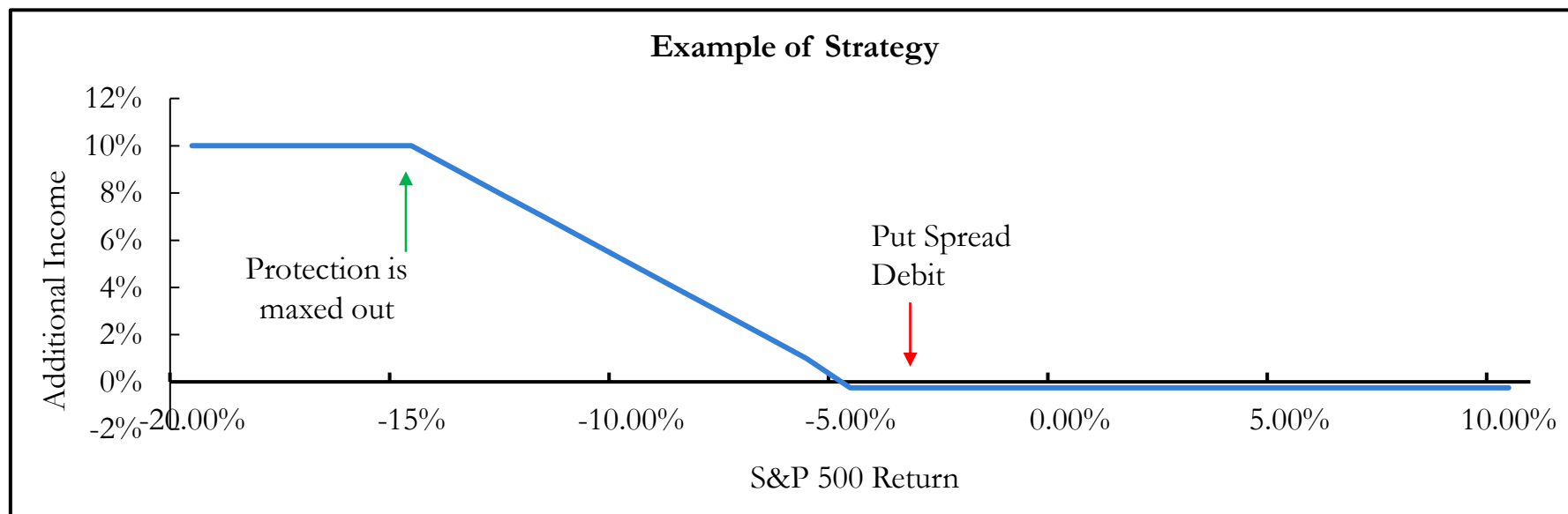
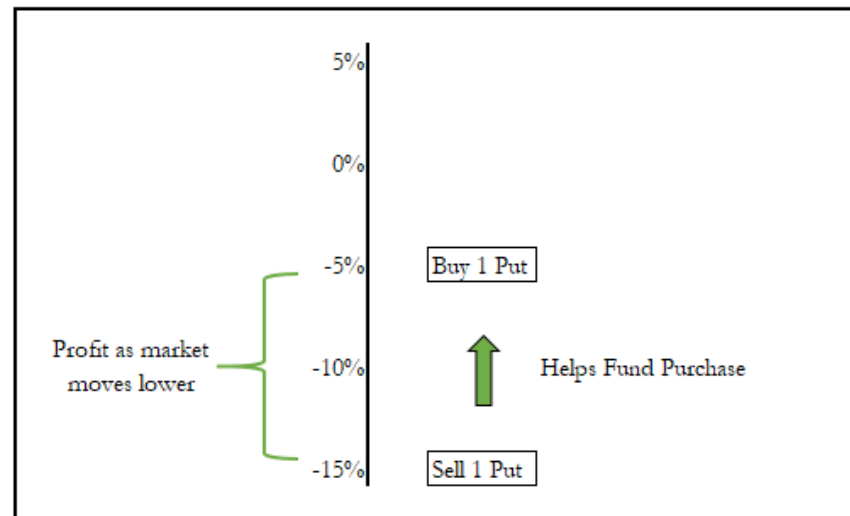
Trailing Periods Through 12/31/2020	Average Return	Standard Deviation
10 year	3.20%	3.41%
5 year	1.85%	3.26%
3 year	-0.48%	3.94%
1 year	-1.16%	5.74%

Note: Past performance is not a guarantee of future returns; returns are hypothetical based on back testing. All information posted is believed to come from reliable sources. We do not warrant the accuracy or completeness of information made available and therefore will not be liable for any losses incurred. Trailing Returns are annualized and based on compounded monthly performance of realized and unrealized performance. 2020 YTD returns are through 12/31/2020 and include unrealized performance.

# Defensive Overlay (DO)

**Objective:** Offer incremental protection of equity portfolios in downward trending markets.

**Attributes:** Preserves Capital. Returns are tax advantaged.



# Defensive Overlay Back Tested Returns – Calendar Year

Year	Portfolio Returns
2009	1.23%
2010	1.52%
2011	4.75%
2012	-4.37%
2013	-3.80%
2014	-3.02%
2015	-4.19%
2016	-3.95%
2017	-2.78%
2018	3.96%
2019	-3.61%
2020	-0.01%
Annualized	-1.23%

Trailing Periods Through 12/31/2020	Average Return	Standard Deviation
10 year	-1.75%	4.69%
5 year	-1.32%	5.21%
3 year	0.07%	6.55%
1 year	-0.01%	9.63%

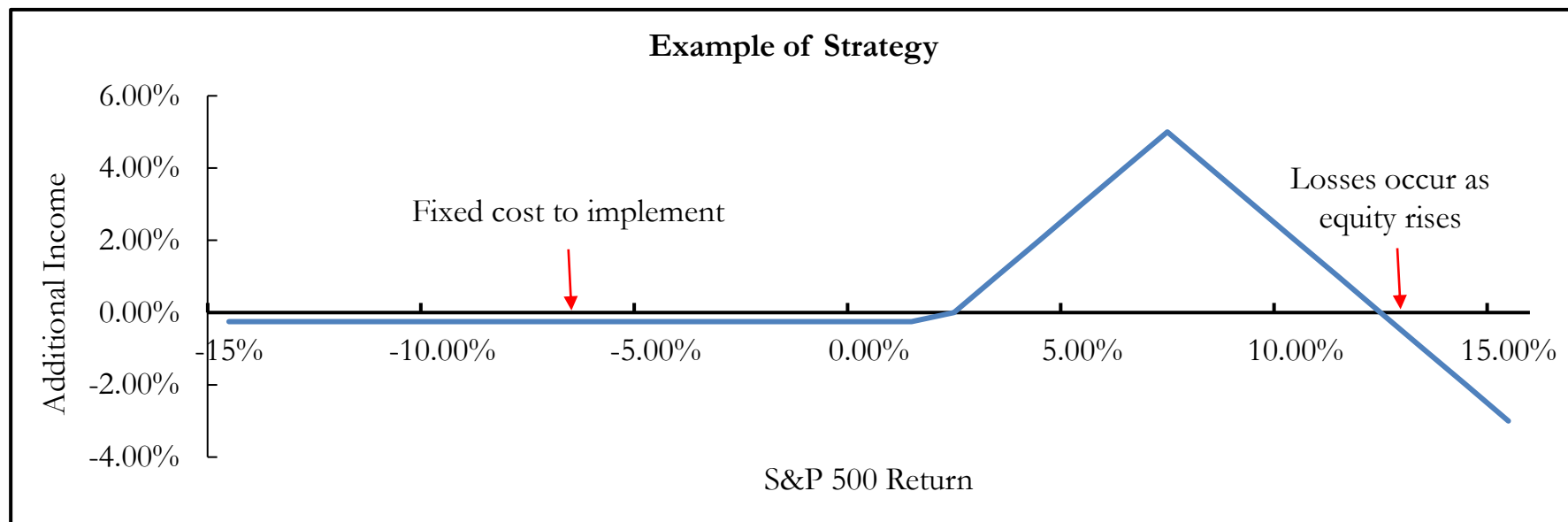
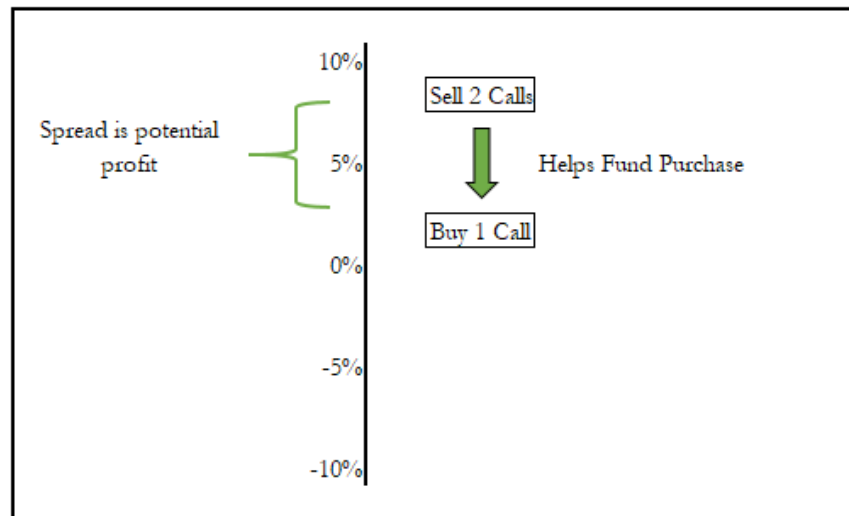
- **Low Cost to Implement:** Marginally reducing upside in a bull market may be a worthwhile tradeoff for downside protection.
- **Defined Loss:** Maximum loss is the debit from the Put Spread.

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# Capital Appreciation Overlay (CA)

**Objective:** Add incremental returns in upward trending markets.

**Attributes:** Risk is only to the upside. Returns are tax advantaged.



# Capital Appreciation Back Tested Returns – Calendar Year

Year	Portfolio Returns
2009	9.12%
2010	7.26%
2011	1.65%
2012	5.44%
2013	12.27%
2014	2.74%
2015	-4.10%
2016	5.44%
2017	6.49%
2018	1.06%
2019	7.15%
2020	6.57%
Annualized	5.16%

- **Consistent Performance:** Added value in 10 of the past 11 years.
- **Low Cost to Implement :** By selling calls to fund a purchase, the cost to implement the strategy is minimal.
- **Risk Only on the Upside:** On the downside, the only risk is the premium. On the upside, the losses move in inverse to what is assumed to be an underlying equity position.

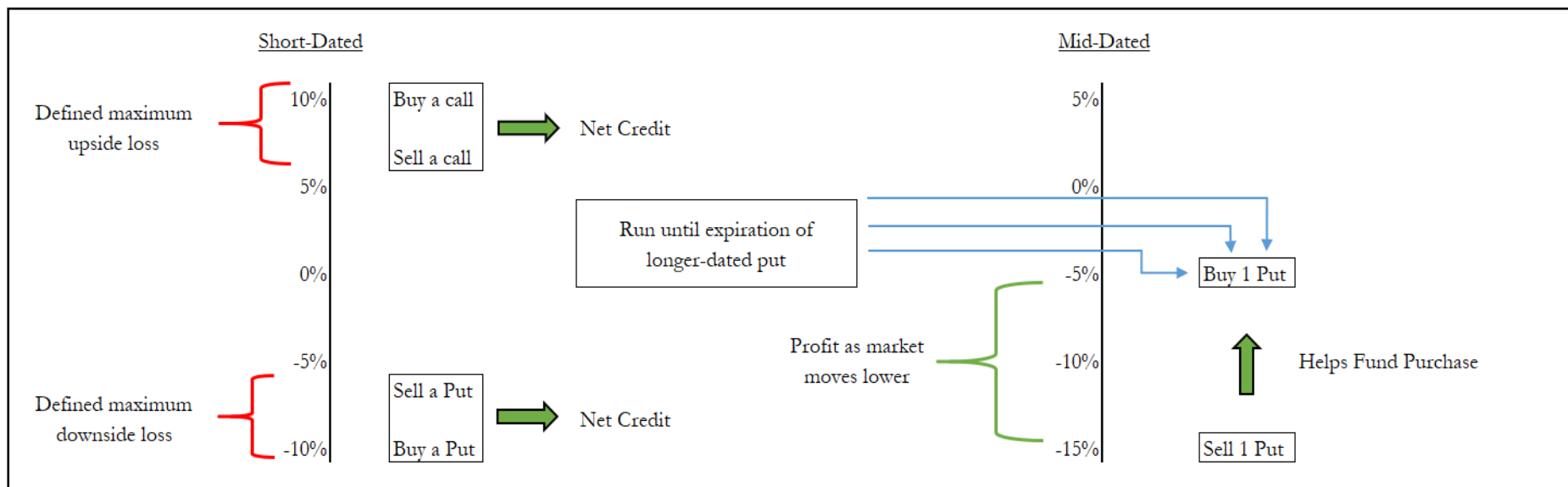
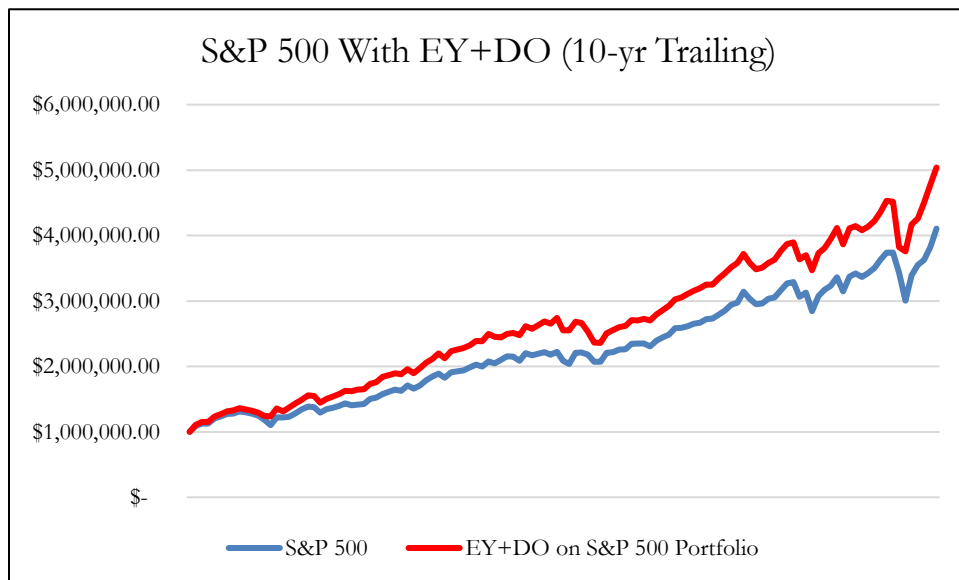
Trailing Periods Through 12/31/2020	Average Return	Standard Deviation
10 year	4.39%	5.73%
5 year	5.32%	6.23%
3 year	4.89%	7.29%
1 year	6.57%	9.51%

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# Combined Strategies– Enhanced Yield & Defensive Overlay

**Objective:** Provide no-cost protection to equity portfolios.

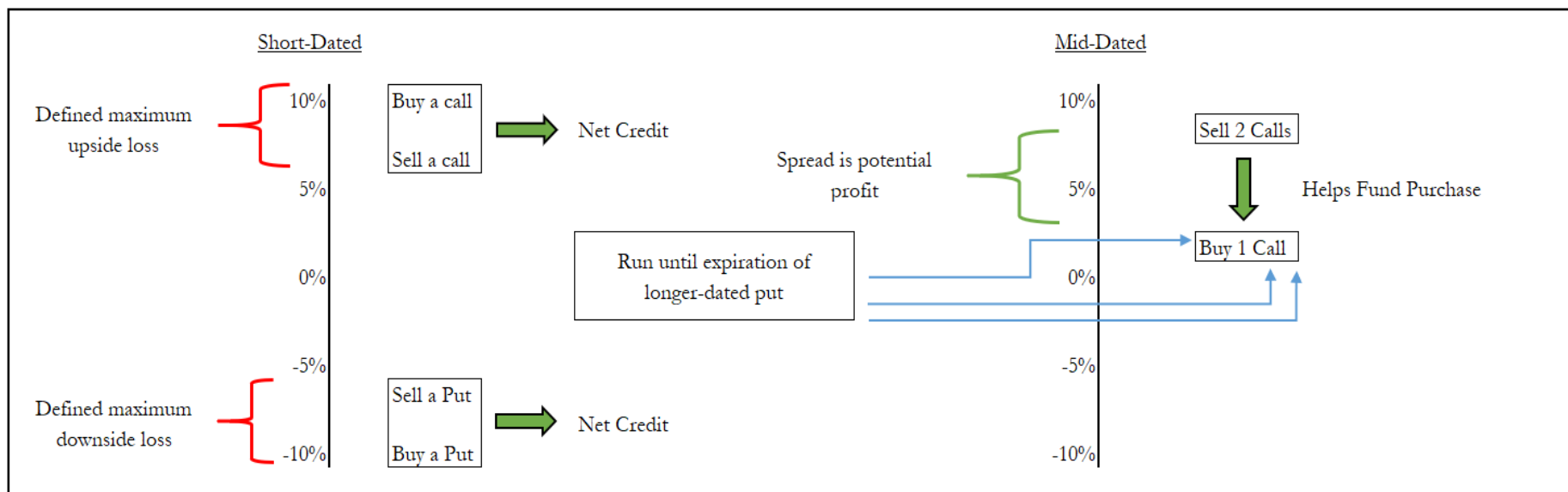
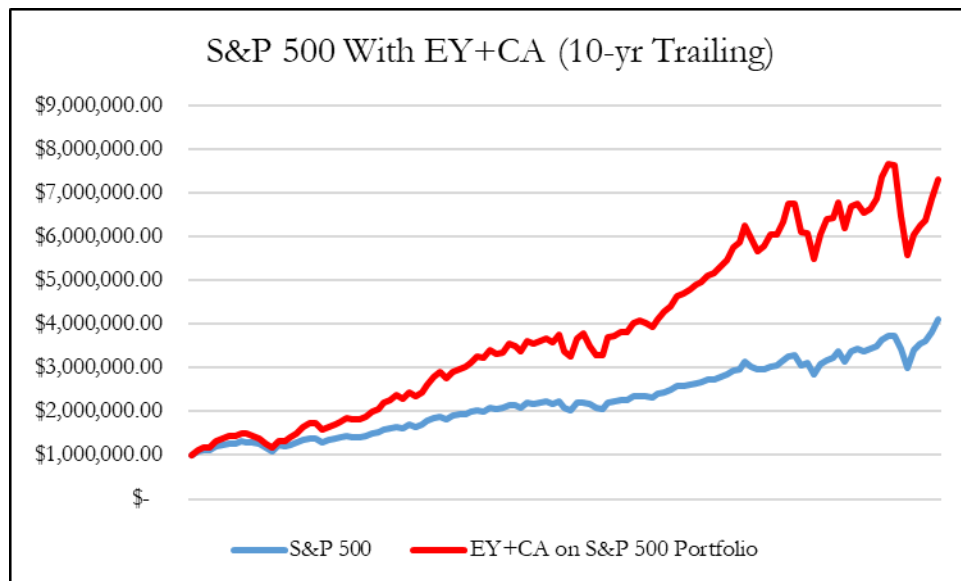
**Attributes:** Self-funding. Returns are tax advantaged.



# Combined Strategies– Enhanced Yield & Capital Appreciation

**Objective:** Provide no-cost enhanced appreciation for equity portfolios.

**Attributes:** Self-funding. Returns are tax advantaged.

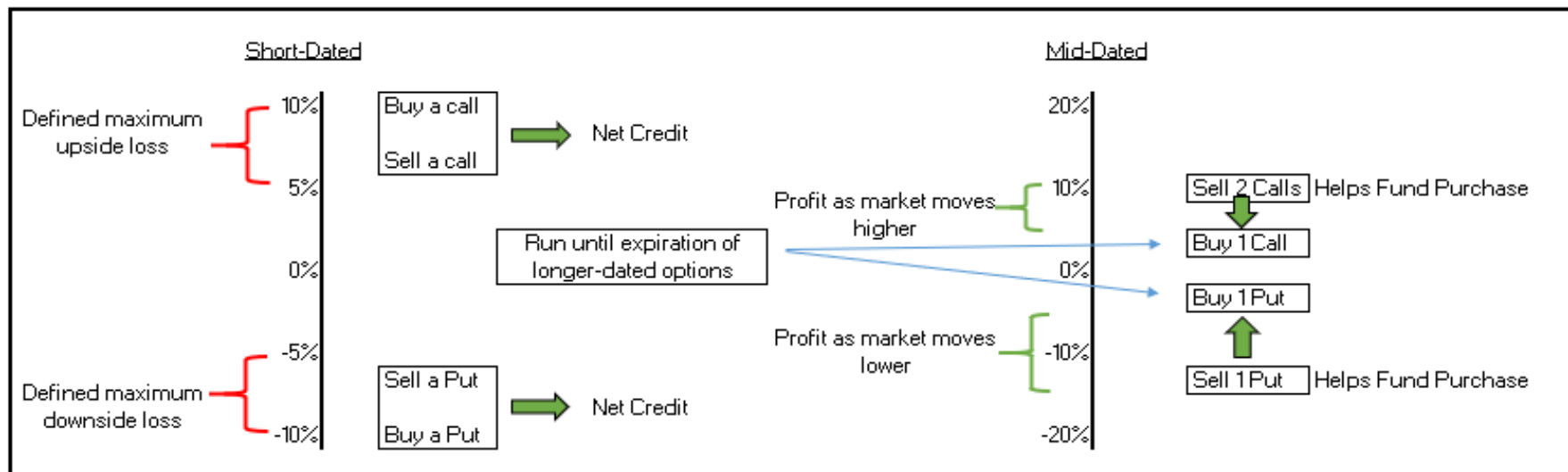
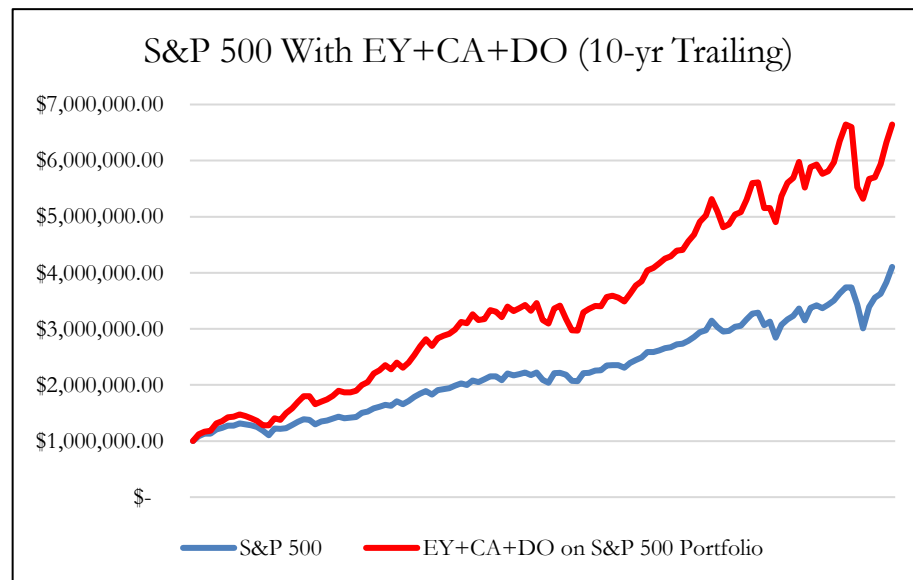




# Combined Strategies– EY, DO, and CA

**Objective:** Provide no-cost enhanced appreciation and protection for equity portfolios.

**Attributes:** Self-funding. Returns are tax advantaged. Profit when market trends either higher or lower



# Back Tested Return Summary of Combined Strategies

## Average Annual Gross Returns as of 12/31/2020

Trailing Period	S&P 500	EY+CA on S&P 500	S&P 500 Std. Dev.	Combined Std. Dev.
10-year	13.89%	21.83%	13.54%	18.80%
5-Year	15.22%	22.62%	15.26%	20.69%
3-Year	14.18%	17.95%	18.79%	25.13%
1-Year	18.40%	22.49%	25.95%	34.39%

Trailing Period	S&P 500	EY+DO on S&P 500	S&P 500 Std. Dev.	Combined Std. Dev.
10-year	13.89%	15.83%	13.54%	12.32%
5-Year	15.22%	16.29%	15.26%	13.53%
3-Year	14.18%	14.50%	18.79%	16.36%
1-Year	18.40%	18.64%	25.95%	22.23%

## Gross Returns from 12/31/2019-12/31/2020

Trailing Period	S&P 500	EY	DO	CA	EY+CA+DO on S&P 500
Q1 2020	-19.60%	-4.99%	8.90%	-1.83%	-17.83%
Q2 2020	20.54%	1.98%	-2.86%	4.01%	24.37%
Q3 2020	8.93%	1.43%	-1.75%	3.44%	12.14%
Q4 2020	12.15%	0.57%	-3.80%	0.90%	9.53%

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# Back Tested Return Summary Of Funded Strategies

## Average Annual Gross Returns as of 12/31/2020

Trailing Period	S&P 500	US Aggregate Bond	Bond+	Enhanced Income	Equity+	Enhanced Equity	Hedged Equity
10-year	13.89%	3.80%	7.12%	8.87%	18.33%	20.45%	12.41%
5-Year	15.22%	4.44%	6.38%	8.60%	20.72%	21.99%	14.39%
3-Year	14.18%	5.34%	4.86%	5.80%	18.95%	19.49%	15.35%
1-Year	18.40%	7.51%	6.32%	7.32%	24.72%	25.52%	20.67%

## Gross Returns from 12/31/2019-12/31/2020

Trailing Period	S&P 500	US Aggregate Bond	Bond+	Enhanced Income	Equity+	Enhanced Equity	Hedged Equity
Q1	-19.60%	3.15%	-1.90%	-9.94%	-21.21%	-17.83%	-11.48%
Q2	20.54%	2.90%	4.92%	10.69%	24.81%	24.37%	17.50%
Q3	8.93%	0.62%	2.03%	3.39%	12.31%	12.14%	7.23%
Q4	12.15%	0.67%	1.24%	4.13%	12.93%	9.53%	8.20%

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# Live Composite Return Summary

As of 3/31/2021

Trailing Period	S&P 500	US Aggregate Bond	Enhanced Yield	Defensive Overlay	Capital Appreciation
3-month	6.17%	-3.37%	2.73%	-2.05%	4.09%

### Single Stock Based Solutions – Typically used with concentrated positions

Enhanced Yield

Defensive Overlay

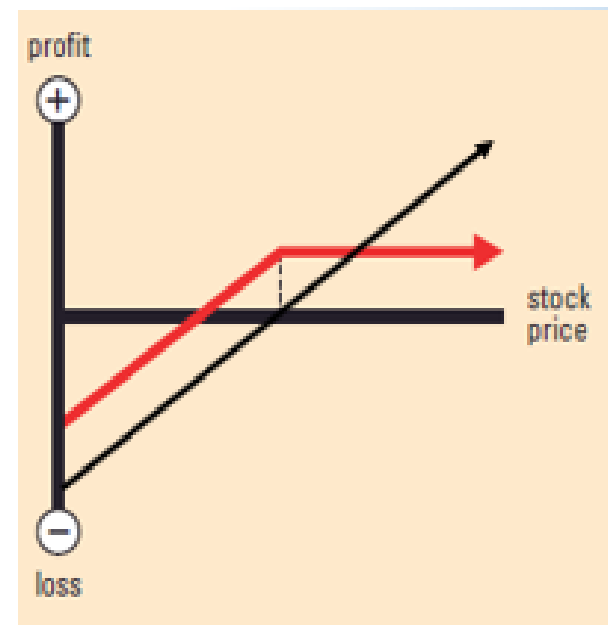
- For each strategy, the underlying accounts will continue to be managed as before.
- Clients can exit the strategies at any time – No Lockup Period.

# Enhanced Yield Single Stock Overlay (Covered Calls)

- A Covered Call is when the owner of an underlying security sells a call option on that same security
- This strategy should improve risk adjusted returns versus simply holding the security
- Call Writing can generate incremental positive returns in moderately rising markets, flat, down trending and during sharp drawdowns
- Call selling can be a drag on upward trending markets and sharp rallies, as the short call will cap upside appreciation.

## Julex Covered Call Details

- The strategy looks to sell 30+ day options so that they can be classified as “Qualified Cover Calls”
- Julex monitors the positions and will look to roll the short calls when they hit profit or loss triggers
- The strategy tends to sell calls that still allow the stock to rally substantially more than the market expects over the life of the call option (I.E. sells out of the money strikes)



Represents Stock



Represents Stock + Call



# Defensive Overlay Single Stock (Long Puts, Collars, & Put Spread Collars)

## Wealth Protection

- Providing a financial plan that protects a client's wealth and allows them to continue participating in stocks growth is a valuable offering
- With market volatility, individuals with concentrated positions are concerned about their overall wealth.
- Selling large stock positions to lock in current values can prove costly from a tax perspective and may not be what the client wants
- These plans can be created with Puts and Calls, can be structured for a specific duration, and can be initiated costless or for a specific cost.

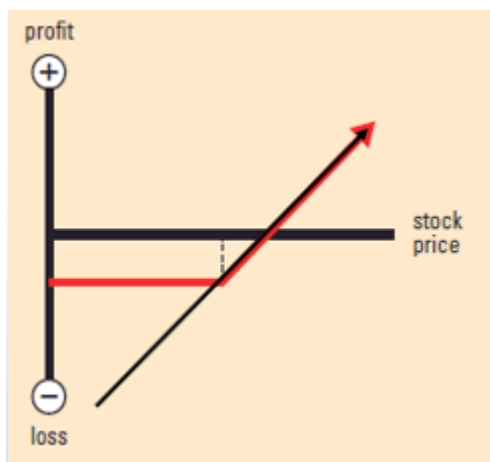
Represents Stock



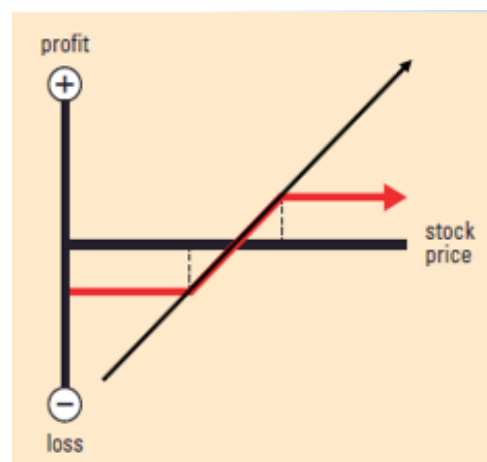
Represents Stock + Option



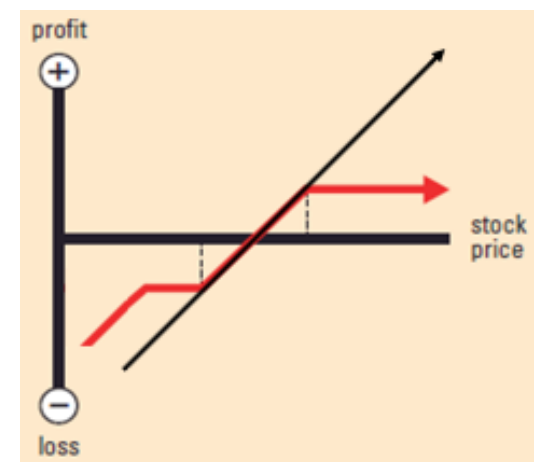
### Long Only Put



### Long Collar



### Long Put-Spread Collar



## Disclosures

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The investment performance shown is HYPOTHETICAL. It is based on the back tests of historical data. Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program.

One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the presentation of hypothetical performance results and all of which can adversely affect actual trading results.

The composition of a benchmark index may not reflect the manner in which a Julex portfolio is constructed in relation to expected or achieved returns, investment holdings, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error targets, all of which are subject to change over time.

No representation or warranty is made to the reasonableness of the assumptions made or that all assumptions used to construct the performance provided have been stated or fully considered.

Please see the “Characteristics and Risks of Standardized Options,” available at [www.cboe.com/Resources/Intro.aspx](http://www.cboe.com/Resources/Intro.aspx)

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# Risk Considerations

- There are several factors to take into consideration when evaluating the risks of options strategies:
  - If the S&P 500® Index becomes more volatile, causing more of the short calls and puts to settle in-the-money, there will be a negative impact on performance.
  - If liquidity and pricing transparency in the weekly expirations diminish, there could be negative impact on performance. In extreme situations, we may be unable to implement the strategy.
  - Transaction costs could be significant in multi-leg options strategies, including spreads, as they involve multiple commission charges.
  - Margin requirements for option writers are complicated and not the same for each type of underlying security. They are subject to change and can vary from brokerage firm to brokerage firm. As they have significant impact to the risk/reward profiles of each trade, writers of options (whether they be calls or puts alone or as part of multiple position strategies such as spreads, straddles, or strangles) should determine the applicable margin requirements from their brokerage firms and be sure that they are able to meet those requirements in case the market turns against them.
  - Taxable clients should consult a tax adviser to determine how options transactions and any sales of underlying stock will affect their tax situation. Tax-exempt investors should ensure that counsel is comfortable that the strategy is allowed and, if not, what steps need to be implemented to amend the plan document.
  - The investor should also confer with their custodian to ensure the full understanding of the options settlement process and collateralization requirements.