PURSUING 2 STRATEGIES TO GENERATE ALPHA

Ask the PORTFOLIO MANAGER

How does the portfolio management team pursue alpha in your covered call writing strategy?

Transcript of a video recorded on May 1, 2018

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Experience and flexibility set our strategy apart.

First I think it's important to understand how we look at it in two pieces: the first piece being the option-hedge portion, and the other piece being the S&P replication basket.

Historically, we've added the most alpha through the option side which is a flexible strategy that tries to take advantage of current market opportunities. With our team having over 60 years of options experience this is definitely where we feel we have the biggest edge. Also setting us apart is our flexible option strategy versus competitors and other funds that are more constrained and rigid and passively managed.

On the equity side, we manage an equity book of 250 to 270 S&P names trying to replicate the strategy. However, we are trying to add alpha at the margin, but our main goal here is keeping tracking error low and beta in correlation to the S&P 500 high. You won't find any large sector, factor or industry bets. We do have a small natural bias toward mega cap names because of the amount of names that we own, but we do mitigate this risk through optimizing the lower portion of the index.

WATCH VIDEO

Ask the PORTFOLIO MANAGER

Video recorded 5/1/18.

Before investing, carefully consider the fund's investment objectives, risks, charges and expenses. Please see the prospectus and summary prospectus containing this and other information which can be obtained by calling 1-800-582-6959. Read it carefully before investing.

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Important Information About Risk: An investment in the Fund(s) is subject to risks, and you could lose money on your investment in the Fund(s). There can be no assurance that the Fund(s) will achieve its invest- ment objective. Your investment in the Fund(s) is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. The risks associated with an investment in the Fund(s) can increase during times of significant market volatility. More detailed information regarding these risks can be found in the Fund's prospectus.

Alternative investments are not suitable for all investors.

Delta: How much the convertible value rises or falls for a given stock move.

Options Risk: The Fund's ability to close out its position as a purchaser or seller of an over-the-counter or exchange-listed put or call option is dependent, in part, upon the liquidity of the option market. There are significant differences between the securities and options markets that could result in an imperfect correlation among these markets, causing a given transaction not to achieve its objectives. The Fund's ability to utilize options successfully will depend on the ability of the Fund's investment adviser to predict pertinent market movements, which cannot be assured.

Covered Call Writing involves selling (or "writing") a call option against an equity the writer holds. When managers sell a call option, they earn a premium from the option sale. If the shares trade below the strike price, the option will expire worthless and they keep the premium from the option and retain the security. If the share price exceeds the strike price, the buyer will likely exercise the option and the seller must sell the shares at the strike price. To hedge additional risk, managers could also purchase put options to protect against significant equity market declines.

In the money. A call option's strike price is below the market price of the underlying asset or that the strike price of a put option is above the market price of the underlying asset. Being in the money does not mean you will profit, it just means the option is worth exercising. This is because the option costs money to buy.

Call and Put Spreads. Options strategies when a manager buys a call/put option, while simultaneously selling a less expensive call or put/option. Because the call/put options share similar characteristics, this trade is typically less costly than an outright purchase, but still provides similar protection.

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