ZIEGLER CAPITAL MANAGEMENT, LLC

FAMCO COVERED CALL STRATEGIES

Overview

Covered Call investment strategies can be tailored to a wide range of objectives and risk/return preferences. Option strategies in the marketplace range from lower risk absolute return type approaches (bond substitutes) to high beta strategies, and everything in between. In spite of this wide variety, many are referred to as "covered call" strategies and are benchmarked versus the CBOE S&P 500 BuyWrite Index (BXM).

The BXM is an index designed to track the performance of a hypothetical buy-write strategy on the S&P 500 Index. It is a passive total return index based on buying an S&P 500 stock index portfolio and selling a one-month, at-the-money call option on the S&P 500 Index, on the third Friday of each month. The BXM Index has an equity beta of 0.64 (using 20 years of monthly data[1]). When the call option is initially sold, the BXM Index has an equity beta of approximately 0.5. During market declines, the downside protection can reduce dramatically and the beta to the equity market tends to rise.

Ziegler Capital Management's (ZCM's) FAMCO Group has a 20-year, GIPS compliant track record in covered call investment management.[2] The FAMCO Covered Call Strategy (FCC) was developed as a low volatility equity strategy and was launched on January 1, 1997 – long before the BXM was created. In recent years, ZCM's FAMCO group developed an in-the-money covered call strategy (FITM), launched in April 2013. In December 2016, we launched an at-the-money covered call strategy (FATM). These three strategies cover a wide range on the risk-return spectrum and all would be considered covered call strategies. The characteristics of each are outlined below:

STRATEGY	STOCK SELECTION	CALL OPTIONS	EQUITY BETA	OVERALL
FAMCO In-the-Money (FCC)	• Stock Specific • Active: add alpha	Generally OTM, Active, Diversified	≈ 0.7	• All active. • Equity like returns with 1/3 less risk.
FAMCO At-the-Money (FATM)	• ETF • Replicate S&P 500	1-week, near ATM (Maximize time decay relative to BXM Index)	≈ 0.5	• Rules-based call process — theta focus
FAMCO In-the-Money (FITM)	• Stock Specific • Active: protect downside	ITM, Downside protection	≈ 0.3	• Bond complement. • Lower risk.

Where Covered Call Fits

Covered call strategies are gaining popularity due to recent periods of market uncertainty and concerns regarding rising interest rates. Depending on the covered call strategy selected, investors can utilize the strategy in different ways.

Core Equity Holding: Given the high correlation to the S&P 500, the FCC and FATM strategies can be considered a core component of client equity allocations.

Beta Budget: The FCC strategy is designed to produce equity like returns, over a market cycle, with less volatility. The 0.7 beta can be attractive to investors seeking less risk in the equity allocation of their portfolio. By allocating a portion of the equity "beta budget" to FCC, investors can either reduce their overall equity beta to less than 1.0 or create a "beta barbell" by allocating to higher beta strategies, complementing the FCC lower beta. This theme can be adjusted based on client risk tolerance, economic outlook, or view on equity valuations. FATM is designed to produce higher income than FCC with a 0.5 beta. It can therefore also be utilized in an equity beta budget allocation. FATM will tend to have returns closer to the BXM Index than FCC, and therefore could be considered a first step into a covered call strategy.

Total Return: T he reality of low bond yields, coupled with the bond price risk in a rising rate environment, can create the desire to seek non-bond total return allocations. FITM sells away equity market upside in exchange for call premium, creating downside protection. This strategy is designed as a bond complement and has similarly volatility of returns to the Barclays Aggregate Bond Index.

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FAMCO Covered Call Strategy (FCC)

Highly correlated to the returns of the S&P 500 over an economic cycle with one-third less risk, improved Sharpe ratio, equity beta objective of ≈ 0.7

Overview: FCC is the flagship product of the FAMCO Group. FCC is a covered call strategy utilizing actively managed individual stocks and actively managed call options sold on those stocks. The strategy takes advantage of higher call premiums afforded to individual stocks, relative to calls sold on an Index such as the S&P 500. Historically, the strategy has produced a 0.7 equity beta, often outperforming the S&P 500 in modest and negative markets, while underperforming in strong stock market rallies. Over the 20-year track record, FCC has produced highly correlated equity like returns with one-third less volatility.

Stock Selection: Stocks are purchased that meet the investment strategy, quality, economic sensitivity and valuation criteria of FAMCO Group. Stocks tend to be high quality, large cap, and industry leading companies. Option premiums are reviewed as part of the stock selection process, but the strategy does not target stocks for high call premiums alone.

Call Option Selection: Call options are typically diversified across strike prices and expiration dates. Calls are generally sold out-of-the-money and strike prices are actively managed, seeking to participate in some upside as stocks appreciate. Call option expirations are also actively managed, extending when volatility is higher than average in order to lock-in higher call premiums for longer.

FAMCO At-The-Money Strategy (FATM)

Stocks replicate S&P 500, sell short-term at-the-money call options to maximize income, equity beta objective of ≈ 0.5

Overview: This strategy is a U.S. index-based, covered call strategy that purchases S&P 500 Exchange Traded Fund ("SPY") and systematically writes 1-week (or shorter), near at-the-money call options utilizing a quantitative option selection process designed to maximize time decay (theta) relative to the BXM index, which provides income. The objective is to produce attractive, risk-adjusted returns relative to equities. This is accomplished by providing equity like returns over a market cycle with less volatility.

The strategy is quantitative, focusing on maximizing theta with 1-week or shorter calls sold on SPY to maximize income, while avoiding call away risk and maintaining dividends. No use of leverage is required as the short option contracts are fully covered by long SPY shares.

Discretionary trading in the underlying securities does not occur, making turnover rate a non-factor, as the portfolio is continuously invested in SPY shares. There will be a small amount of cash in the account, which is necessary to cover the cost of rolling the short call options. There will be turnover on the written call options, as they tend to be short term in nature, but the overall turnover rate on the portfolio will be minimal.

Call Option Selection: Written call options are typically short-term (1-week or less) and the overall portfolio tends to average at-the-money. As such, short dated at-the-money call options have the benefit of increased time decay given their proximity to expiration and their strike price is close to the underlying stock price. Calls are actively managed utilizing a rules-based, quantitative selection process. This process seeks to maximize the call premiums and allow the strategy to capture those premiums at expiry.

FAMCO In-The-Money Strategy (FITM)

Lower risk, bond complement, equity beta objective of ≈ 0.3

Overview: This strategy was designed as a bond complement without the inherent interest rate risk. The objective can also be described as an absolute return focus. The strategy has volatility characteristics close to the Barclays Aggregate Bond Index and an equity beta of approximately 0.3.

Stock Selection: Single stocks are selected based on quality and attractive valuations. Once selected call premiums are evaluated. Avoiding stock specific downside risk is a key attribute of the strategy, creating a focus on quality and attractive valuations. As stocks outperform the market, the stock specific volatility can fall, creating a natural sell discipline.

Call Option Selection: The call options are sold approximately 10% in-the-money, providing significant downside protection. Call premiums are actively managed, but with the objective of collecting the premium while avoiding downside risk. The strategy is designed to protect dividends from call away risk, assuming the stock continues to meet our selection criteria.

1. BXM index was created in 2002. Back test data was used for earlier results.
2. Source: eVestment Alliance

INVESTMENT TEAM		EXPERIENCE	EDUCATION
	**Wiley D. Angell** Chief Investment Officer, FAMCO Group Senior Portfolio Manager	> 30 Years	B.A. Ottawa University
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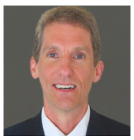	**Thomas L. Engle** Senior Portfolio Manager	> 30 Years	B.S. University of Kansas
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The FAMCO Covered Call strategy is an integrated, diversified portfolio of equity securities with a selective covered call writing strategy. Value added comes from macroeconomic, sector, individual security, strike price and duration decisions. Call options are derivatives and may be subject to greater fluctuations in value than an investment in the underlying securities. The benchmark is the S&P 500 Index. This index is widely regarded as a standard for measuring U.S. large capitalization stock market performance. The CBOE S&P 500 Index (BXM) is also shown as it closely represents the investment strategy. This index is designed to track the performance of a hypothetical buy-write strategy on the S&P 500 Index. The composite creation date is June 1, 2015. Prior returns reflect the portfolio managers' performance at Fiduciary Asset Management Company ("FAMCO") where the composite began on January 1, 1997. Gross-of-fees returns are presented after trading expenses and before management fees. Net-of-fees returns are presented after the highest applicable management fee applied on a quarterly basis. The highest applicable management fee is 1.00%. Fees are calculated separately for each portfolio, and therefore, performance may differ from one portfolio to another. The fee schedule is: 0.60% on the first $25 million; 0.45% on the next $25 million; and 0.30% on all additional assets.

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