Liquid Strategies™

Uncapped Upside While Hedging Equity Exposure



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Rethinking Traditional Equity Exposure

Financial advisors seeking to optimize portfolio risk-adjusted returns often rely on broad-based U.S. large-cap equity allocations. While this provides significant growth potential, it also exposes investors to full downside risk during periods of market turbulence. Traditional hedging approaches, such as reducing equity allocations or defined outcome strategies that sell covered calls, often limit upside participation or introduce timing complexities.

A more efficient potential solution lies in **hedged equity strategies that maintain full upside participation while mitigating downside risk through a structured put option overlay**. By systematically purchasing **laddered, out-of-the-money put options**, investors can establish a cost-effective hedge against significant market declines without capping equity gains. This disciplined approach, implemented in a systematic manner, is available through the **Overlay Shares Hedged Large Cap Equity ETF (OVLH)**, which offers advisors a **turnkey, professionally managed hedged equity solution**.

The Case for a Hedged Equity Overlay

Market history demonstrates that while equity markets trend higher over time, **downside volatility remains a persistent risk**, especially during periods of economic uncertainty. A hedged equity strategy can potentially provide:

- **Tail risk hedging**: Mitigating losses during sharp market drawdowns.
- **Behavioral benefits**: Helping investors stay invested during volatile markets by reducing emotional decision-making.
- **A smoother return profile**: Enhancing long-term compounding by reducing large portfolio drawdowns.

Significant Equity Market Drawdowns Since 1980

12/31/1979 - 2/28/2025

Date Range	S&P 500 Drawdown	# of Trading Days to Recover
11/18/1980 – 8/12/1982	-20.16%	40
8/25/1987 – 10/19/1987	-32.93%	410
3/24/2001 – 10/9/2002	-47.42%	1,053
10/9/2007 – 3/9/2009	-55.22%	800
2/19/2020 – 3/23/2020	-33.79%	100
1/2/2022 – 10/12/2022	-24.50%	305
Average	**-35.67%**	**451**

> *Source: Bloomberg, Liquid Strategies/Overlay Shares. Past performance is not a guarantee of future results. Index performance is not illustrative of fund performance. One cannot invest directly in an index.*

One of the most effective ways to structure a hedged equity strategy is through the **laddered purchase of out-of-the-money put options**. This ensures consistent potential downside protection while managing costs and avoiding the pitfalls of binary hedging (e.g., buying puts only when volatility spikes). **OVLH** implements this approach systematically, offering investors a transparent and efficient way to manage equity risk.

Structuring an Effective Hedged Equity Strategy

A hedged equity approach involves purchasing put options on the S&P 500 Index at multiple strike prices and expirations, creating a **laddered hedge structure**. This design provides several advantages over a single-expiration, single-strike put hedge:

- **Cost efficiency**: Laddering helps mitigate the cost and natural decay of hedging while still potentially providing meaningful downside mitigation.
- **Consistent coverage**: By staggering expirations, the portfolio maintains ongoing fully-covered hedging without exposure to sudden gaps in coverage.
- **Market adaptability**: The put ladder dynamically adjusts to market conditions, balancing risk mitigation with cost control.

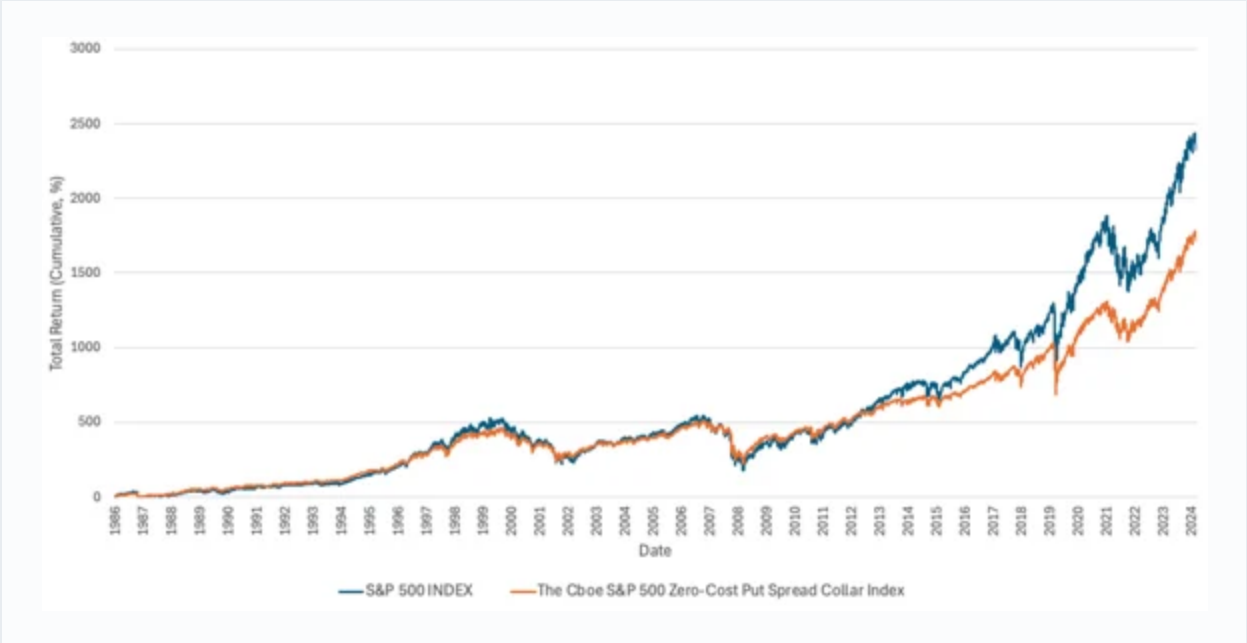
This strategy preserves the **full upside potential of large-cap equity exposure** while reducing portfolio sensitivity to severe downturns. It is particularly valuable for investors concerned about unreliable stock/bond correlations, economic cycles, geopolitical risks, or black swan events.

Downside mitigation is the focal point of defensive, hedged equity strategies. Yet many "costless" hedging strategies that sell covered calls to finance downside protection via put options are often giving up the best feature of the asset class: long-term upside potential. In the example below, we show the return differential between the CBOE S&P 500 Zero-Cost Put Spread Collar Index, which fully funds its downside protection by selling call options, versus the S&P 500 Index. The divergence across an investment life cycle is staggering and emphasizes the true cost of capping upside.

The Cost of Zero-Cost Put Spread Collars

CBOE S&P 500 Zero-Cost Put Spread Collar Index vs. SPX

12/31/1986 - 2/28/2025



> *Source: Bloomberg, Liquid Strategies/Overlay Shares. Past performance is not a guarantee of future results. Index performance is not illustrative of fund performance. One cannot invest directly in an index.*

Addressing the Challenges of Direct Implementation

While the benefits of hedged equity strategies are clear, **direct implementation poses challenges**:

● **Options selection complexity**: Determining optimal strikes, expirations, and hedge ratios requires expertise.

● **Rolling and rebalancing**: Maintaining a laddered put structure involves ongoing adjustments.

● **Cost management**: Hedging too aggressively can erode returns, while inadequate protection leaves portfolios vulnerable.

As a result, many investors struggle to execute hedged equity strategies effectively. **OVLH** seeks to solve these challenges by providing a **rules-based, professionally managed hedged equity overlay** within a tax-efficient, liquid ETF structure.

How Overlay Shares Hedged Large Cap Equity ETF (ovlh) Delivers a Turnkey Solution

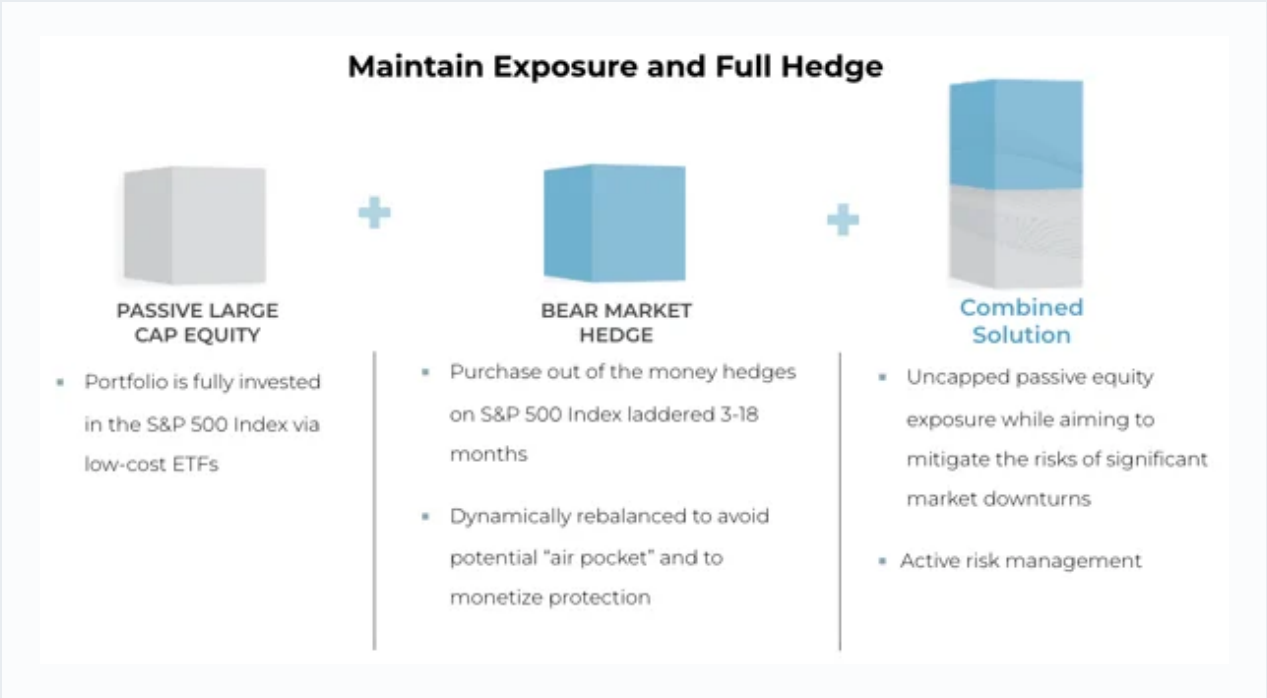
OVLH systematically implements a **hedged equity overlay on top of a core large-cap U.S. equity allocation**, allowing investors to efficiently access the potential advantages of structured downside mitigation. The fund's key features include:

● **A laddered put option overlay**: Provides consistent downside risk mitigation without frequent discretionary adjustments.

● **Full upside equity participation**: Unlike covered call strategies (such as defined outcome or fully-funded put spread collars), there is no cap on portfolio gains.

● **Disciplined, rules-based execution**: Ensures that hedging remains cost-effective and systematically managed.

● **Tax-efficient structure**: Designed to minimize turnover-related capital gains while maintaining liquidity.

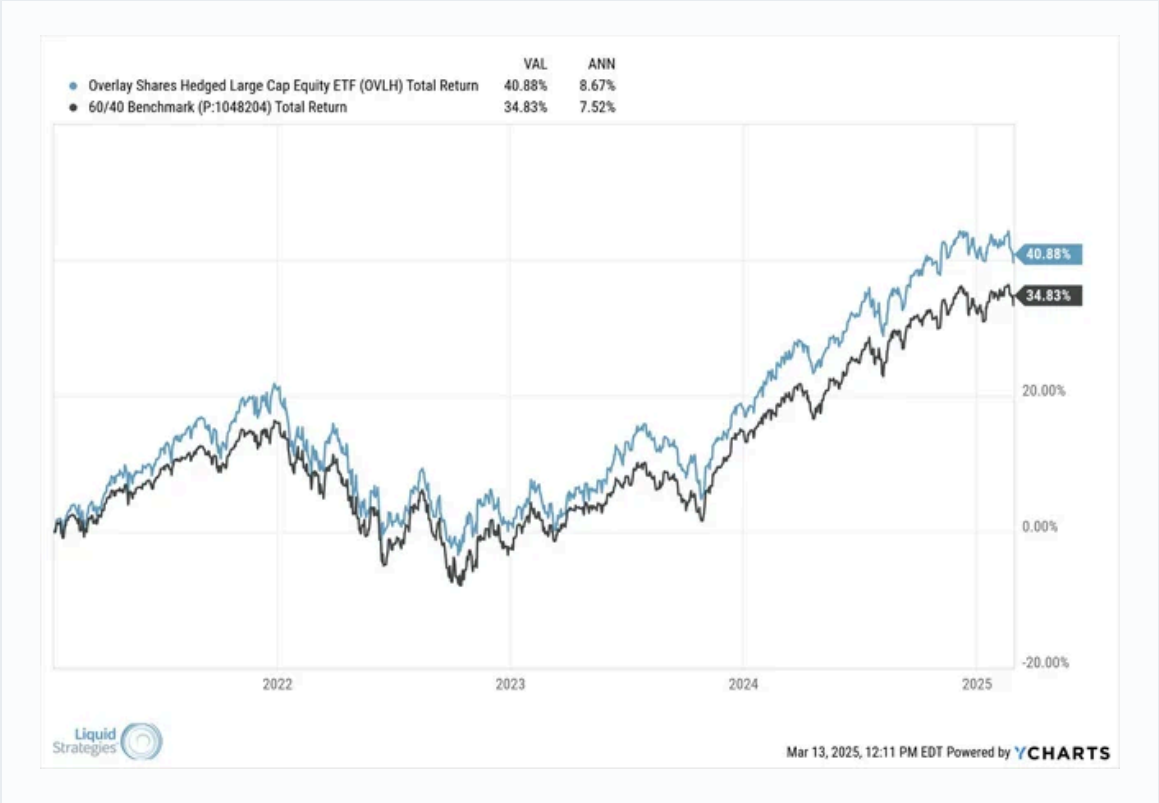


> *Source: Liquid Strategies/Overlay Shares.*

Since its inception, we believe **OVLH has demonstrated the benefits of a structured hedging approach**, offering a more resilient portfolio outcome during periods of heightened market volatility than a traditional balanced portfolio of stocks and bonds.

Overlay Shares Large Cap Hedged Equity ETF (OVLH) vs. Bloomberg 60/40 Index, TR (NAV)

9/30/2019 - 2/28/2025



> *Source: YCharts Performance data quoted represents past performance and is no guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end performance, please call 1-866-704-OVLS. For standardized performance and expenses https://lsfunds.com/ovlh*

Conclusion

For advisors seeking to improve portfolio efficiency while **maintaining equity upside and reducing drawdowns**, a disciplined hedged equity strategy presents a compelling solution. By implementing a **laddered, out-of-the-money put option overlay**, investors can potentially **enhance risk-adjusted returns and improve long-term portfolio resilience**.

Through the **Overlay Shares Hedged Large Cap Equity ETF (OVLH)**, advisors can seamlessly incorporate this strategy into client portfolios, benefiting from a transparent, systematic approach that can deliver meaningful downside protection without limiting equity growth potential.

For more information on hedged equity strategies or OVLH, please visit https://lsfunds.com/ovlh or contact info@lsfunds.com.

Glossary of Terms

Overlay Shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total Returns are calculated using the daily 4:00pm EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

Investors should consider the investment objectives, risks, charges and expenses carefully before investing. For a prospectus or summary prospectus with this and other important information about the Fund, please visit the Documents section of this website or call (866) 704-OVLS. Read the prospectus carefully before investing.

RISK FACTORS: The Fund invests in options that derive their performance from the performance of the S&P 500 Index. Selling (writing) and buying options are speculative activities and entail greater than ordinary investment risks. The Fund's use of put options can lead to losses because of adverse movements in the price or value of the underlying asset, which may be magnified by certain features of the options. When selling a put option, the Fund will receive a premium; however, this premium may not be enough to offset a loss incurred by the Fund if the price of the underlying asset is below the strike price by an amount equal to or greater than the premium. Purchased put options may expire worthless and the Fund would lose the premium it paid for the option. The Fund may lose significantly more than the premiums it receives in highly volatile market conditions.

The Fund will invest in short term put options which are financial derivatives that give buyers the right, but not the obligation, to sell (put) an underlying asset at an agreed-upon price and date. The Fund's use of options may reduce the Fund's ability to profit from increases in the value of the underlying asset. The Fund could experience a loss or increased volatility if its derivatives do not perform as anticipated or are not correlated with the performance of their underlying asset or if the Fund is unable to purchase or liquidate a position.

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