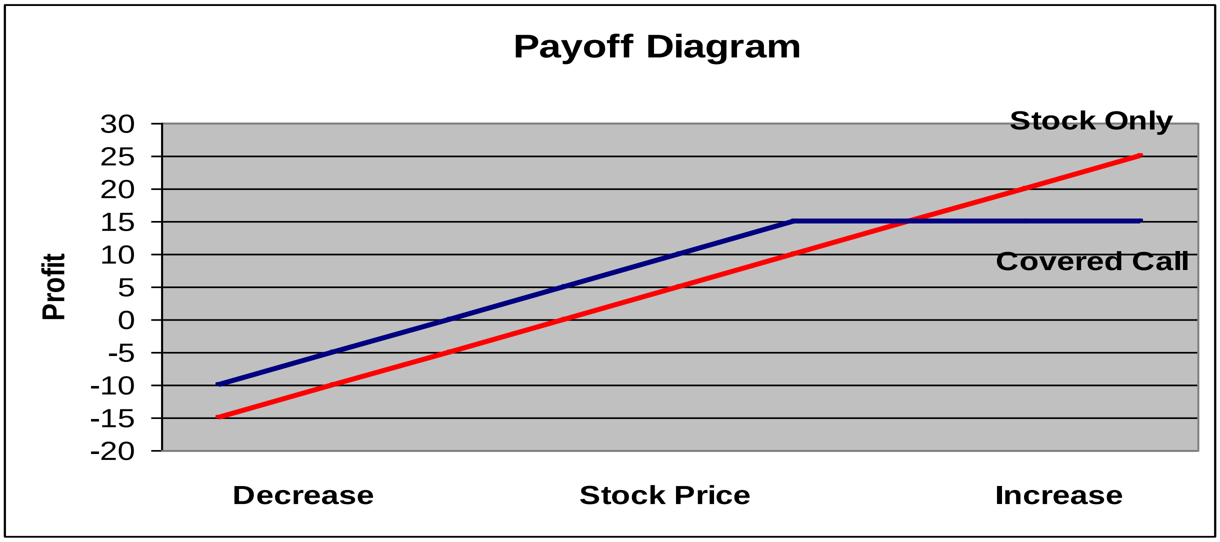
Covered Call Strategies

<u>Overview:</u>

The goal of Exencial's Covered Call Strategy is to generate income and partially hedge downside risk. The strategy is executed by holding a portfolio of equity securities and selling call options on the underlying securities in the portfolio. An investor will receive income from selling the call options but will also forego any stock price gains above the strike price of the call option. The graph below shows a hypothetical example of who the strategy might work. The blue line demonstrates that return is immediately increased when the call option is sold. If the stock price decreases, the income from the call option offsets some of the decrease in stock price. If the stock price increases, the strategy would outperform the stock up until the stock's price reaches the call's strike price. If the stock's price exceeds the call's strike price, the return from the covered call strategy is capped. The strategy is most beneficial during a period of flat to slightly positive market returns as the client collects both dividends on the underlying shares and income from selling the call options.



<u>"Big" Covered Call Strategy</u>:

This is a portfolio consisting of equity ETFs combined with selling covered calls. The purpose of the portfolio is to obtain equity exposure while writing covered call options in order to generate income and provide a partial hedge against minor market declines. The strategy is actively managed and its risk profile may vary over time. The benchmark for the strategy is the CBOE BuyWrite Index which is based on selling covered calls on the S&P 500 Index. The strategy may hold its equity exposure in various indexes such as the S&P 500 and the Nasdaq 100 for example. It may also hold a partial cash position, sell fewer call options than the benchmark, sell calls which differ in strike price or expiry from the benchmark, purchase protective put options, purchase call options to partially replace long equity exposure, or otherwise differ from the benchmark. It is expected that the strategy would resemble the benchmark during most periods but the manager may decide to depart from the benchmark in an attempt to generate a better risk-adjusted return as conditions merit.

<u>Custom Options</u>:

The strategy's goal is to help clients who own a concentrated equity position diversify out of the position via the use of covered calls. Additionally, we may attempt to generate income via options sales or provide some downside risk protection via the purchase of put options. This strategy is customized based on the needs and situation of the client, characteristics of the position, Exencial's and the client's near-term views on the equity and market, and other factors. Until the position is sufficiently diversified, the strategy is monitored and adjusted over time as conditions or client needs change.

13801 Reese Boulevard, Suite 155 Huntersville, NC 28078 704-659-7810 (office) 704-766-0592 (fax) www.exencialwealth.com