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March 24, 2017

## **BROCHURE**

This “Brochure” (Form ADV Part 2) provides information about the qualifications and business practices of Swan Global Investments, LLC. (Swan) CRD# 114669. If you have any questions about the contents of this brochure, please contact us at 970/382-8901 and/or email address [compliance@swanglobalinvestments.com](mailto:compliance@swanglobalinvestments.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Swan Global Investments, LLC. is available on the SEC’s website at <http://www.advisorinfo.sec.gov/>.

Swan Global Investments, LLC. is a SEC Registered Investment Advisor. However, please note that registration as an Investment Advisor does not imply any level of skill or training.

## **Item 2 Material Changes**

This section of the Brochure will address only those “material changes” that have been incorporated since the last delivery or posting of this document on the SEC’s public disclosure website (IAPD). Swan Global Investments, LLC.’s (“Swan”) most recent update to Part 2 of Form ADV was made in March 2017.

Material Changes include revision of the current AUM, noted changes in employed personnel, changes to marketing and communications mediums, and support for affiliate advisers Swan Capital Management and Swan Global Management, LLC.

Swan will further provide you with a new brochure as necessary based on changes or new information, at any time, without charge. Currently, Swan’s brochure may be requested by contacting Jim Engelken, Chief Compliance Officer, at (970) 382-8901.

Swan Global Investments, LLC. – 277 East 3<sup>rd</sup> Ave, Durango CO 81301

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### **Item 4 Advisory Business**

A. Swan Global Investments, LLC. (hereinafter “Swan”, “we”, “our”, “us”, or the “Firm”), is wholly owned by Swan Global Holdings (US) LLC, which is majority owned by Randall W. Swan, and has been offering investment management services since 1997. Swan is an independent Investment Adviser headquartered in Durango, CO. Swan is registered with the US Securities and Exchange Commission (“SEC”) under the Investment Advisors Act of 1940 (“Advisors Act”). Swan offers and manages The Defined Risk Strategy for its clients including individuals, institutions and other investment advisor firms. Swan has related affiliation with Swan Capital Management, LLC, a SEC

registered adviser of registered investment company products including four mutual funds:

1. Swan Defined Risk Fund,
2. Swan Defined Risk Emerging Markets Fund,
3. Swan Defined Risk Foreign Developed Fund,
4. Swan Defined Risk Small Cap Fund.

Swan also has related affiliation with Swan Global Management, LLC, a SEC registered adviser in Puerto Rico that primarily serves as a sub-adviser to Swan and Swan Capital Management, LLC.

B. Swan provides discretionary investment management through a strategy called the Defined Risk Strategy (“DRS”). As detailed in Item 8, the DRS is in an index-based strategy that was designed to protect investors from substantial market declines, provide income in flat, up, or down markets, and to benefit from market appreciation. The DRS’s core equity holdings depend on the product, but for the initial and primary DRS product, the DRS SMA offerings, they are S&P 500 correlated securities through exchange traded funds. Options on these indices are additional primary components of the strategy. Options are used to protect the main holdings in down markets and also to generate monthly income for the portfolios.

C. Swan is in the process of introducing new investment strategies and products derived from the DRS process. Our investment team has preferred investment guidelines for each Strategy. On some occasions, we may negotiate with clients and customize investment guidelines, including accepting additional or different limitations if we believe we can effectively manage the account. Our investment team creates and maintains model portfolios based on their preferred benchmarks and guidelines. Investment guidelines that differ significantly from our preferred guidelines may result in exclusions or variances in holdings from the team’s model portfolio that may take additional time for the team to determine alternative holdings or weights for more restricted accounts. Trades to implement changes to accounts managed in line with a Strategy’s model portfolio may be placed earlier than trades for more restricted accounts. As a result, trades for accounts with materially different restrictions could experience different execution prices and different performance than less restricted accounts based on the exclusions and time delay in trade placement. Such restricted accounts also may be placed in a separate performance composite from less restricted accounts in a similar Strategy.

Different Swan DRS product offerings include:

- Swan DRS standard strategy (S&P 500) – The Swan DRS for the S&P 500 is generally offered and managed only for discretionary clients and not tailored to the individual needs or requests of the clients. The DRS strategy varies slightly for regular (or taxable) accounts and IRA accounts due to regulatory options restrictions placed on IRA accounts.
- Swan Overlay Strategy – The Swan DRS Overlay strategy enhances an existing large underlying asset position by creating additional protection and/or income for the clients.
- Swan Mutual Funds – Swan offers the DRS in mutual funds using essentially the same DRS strategy for various asset classes, such as the S&P 500, emerging markets, developed markets, small caps, etc.
- Swan ERISA plans – Swan co-manages an ERISA plan with Gordon Asset Management, LLC with trust administration by Alta Trust.
- Other products that Swan is focused on include a DRS strategy placed on other asset classes besides the S&P 500, such as technology, real estate, aggressive growth, commodities, etc. and in different

venues.

D. Swan does not sponsor any wrap fee programs or utilize any wrap fee programs for clients. However, Swan has third party advisor relations that use and sponsor wrap fee programs that incorporate the Swan DRS strategy as SMA accounts into the wrap fee program. Investment management provided to sub-advised wrap fee clients is substantially the same as that provided to non-wrap fee clients. However, practical restraints to the management of wrap fee accounts may exist. Most notably, the smaller asset value of certain wrap fee accounts and IRA accounts may result in slightly different returns due to investment limitations imposed by options restrictions, administrative restrictions, and wrap fees imposed by wrap fee sponsors.

For sub-advised clients and wrap fee clients whose accounts are managed by Swan pursuant to a wrap-fee, consulting, or other referral program, advisory and wrap fee services may be provided by the third-party broker-dealer, investment advisor, trust company or other financial services provider who sponsors the program and advises the client. Under these arrangements, the financial services provider typically interviews the client or has the client complete a written questionnaire, assesses the client's financial situation and financial needs and makes a determination as to whether the investment styles and services offered by Swan and the DRS investment strategy would be appropriate for the client before Swan is retained to manage the client's account. The financial services provider also normally is responsible for determining and notifying Swan of any changes in the client's investment objectives or personal or financial circumstances that should be taken into account in managing the account. Similar to Swan clients, sub-advised clients have Swan imposed account restrictions such as a minimum investment levels and option approval levels. If clients cannot meet these restrictions or fall out of certain restriction thresholds, then Swan reserves the right to terminate the management of the account.

Swan manages client assets mostly on a discretionary basis. As of December 31, 2016, Swan Global Investments, LLC, managed AUM of \$3,620,079,197 which consists of \$1,445,545,921 AUM in Separately Managed Accounts ("SMAs"), of which \$6,194,731 is non-discretionary assets, \$207,959,390 AUM in ERISA plans and as affiliate and advisor to Swan Capital Management, LLC, which is the Swan mutual funds adviser with AUM of \$2,227,245,477 in mutual funds. This is the entire amount of assets under our discretion as computed by our client accounting software (Orion). All account data is downloaded on a daily basis from the brokerage firms holding custody of the client assets (Interactive Brokers, TD Ameritrade, Charles Schwab, Union Bank, Goldman Sachs, JPMorgan Chase, Pershing, etc.).

## **Item 5 Fees and Compensation**

Swan charges a negotiable asset based fee ranging between 0.75% to 1.50% per annum based on an annualized percentage of total monies invested, as authorized per client agreement, applied on a daily, monthly, or quarterly basis. The fees charged may vary based on the size of the investment account. Sub-advised clients have fees that are negotiated between their advisor and Swan and generally follow a similar range, although there may be rare instances of lower negotiated fees. On rare occasions, fee paying arrangements may differ from those stated above. While we believe our standard fees are reasonable, services similar to those provided by us may be available for lower fees from other sources. The fees that we charge for investment advisory services are specified in the agreement between us and each individual client.

A. Swan's management fees are paid daily by one custodian and monthly or quarterly by the others in arrears. These are paid by the qualified custodian that is holding the client's funds and securities; provided the client supplies written authorization permitting the fees to be paid directly from the account. Swan also acts as Sub-Adviser money manager to other Advisers for their clients. In some of these relationships, the Adviser prefers to bill the client for Swan and pays Swan the money management fee. These Advisers bill in different time cycles, with some in arrears and some in advance.

B. Clients pay brokerage commissions to the custodian/brokerage firm for each transaction including the purchase and sale of any exchange traded fund or mutual fund invested in and any and all option trades. Swan does not share in any portion of these fees. Additionally, the client pays the exchange traded fund expenses and mutual fund fees, which are built into the price of the fund and charged daily by the fund company. These additional fees and expenses are described in each fund's prospectus and may include administration, custody, distribution, shareholder servicing, and transfer agency fees. The advisory fee also does not cover debit balances or related margin interest or SEC fees or other fees or taxes required by law. Swan may also invest client assets in the Swan advised mutual funds. In these instances, Swan does not bill the client on any assets invested in the Defined Risk Funds. For information on broker practices, please see Item 12, Brokerage Practices.

C. Wrap Fee Accounts – As stated in Item 4, we participate in several “wrap-fee” accounts programs, which are sponsored by unaffiliated investment advisory and/or brokerage Firms (each a “Sponsor” and collectively, the “Sponsors”). As a client in such a Program, you should carefully review the Sponsor's Appendix 1 of the Sponsor's Form ADV, for complete details regarding the Program. As a client participating in these Programs, you should be aware that you may be charged various Program fees in addition to the advisory fee charged by us. All such fee disclosures will be provided in the Program Sponsor's ADV Part 2A, Appendix 1.

D. Our clients do not pay fees in advance. Clients may terminate their contract at any time and will only pay fees through the end of the day in which they terminate their contract.

E. Swan co-manages an ERISA plan, Swan Defined Risk Collective Investment Trust, with Gordon Asset Management, LLC with trust administration by Alta Trust. For its services as CIT co-manager and portfolio manager, Swan receives management fees on a monthly basis. The Swan Defined Risk Funds (each a “Fund,” and together the “Funds”) are collective investment funds maintained by Alta Trust that are designed to serve the investment needs of tax-qualified employer sponsored retirement plans. The Funds are not mutual funds registered under the Investment Company Act of 1940, as amended, (“1940 Act”) or other applicable law, and unit holders are not entitled to the protections of the 1940 Act. The regulations applicable to a collective investment fund are different from those applicable to a mutual fund. The Fund's units are not securities registered under the Securities Act of 1933, as amended or applicable securities laws of any state or other jurisdiction. In addition, the Fund's units are not publicly traded on any exchange or over-the-counter market and, as a result, the unit values are not available for publication in the newspapers.

The five Swan CIT funds are: Defined Risk Income, Defined Risk Conservative, Defined Risk Moderate, Defined Risk Moderate Growth, and Defined Risk Aggressive Growth. The CIT is currently available on the Schwab Trust, TD Trust, Matrix, and Empower retirement platforms and is expected to be added to a number of others, as well as made available through individual company employee benefit/retirement plans.

Gordon Asset Management, LLC is an independent investment advisory firm located in the Raleigh-Durham area of NC and manages over 150 corporate retirement plans as a plan level fiduciary under ERISA section 3(21)A(ii) without discretion or with discretion under ERISA 3(38) as an investment manager. The firm is certified as an investment advisor with the Centre for Fiduciary Excellence ([www.CEFEX.org](http://www.CEFEX.org)) for adhering to global best practices in fiduciary excellence. Please contact Gordon Asset Management at [wealthqb.com](http://wealthqb.com) if you are interested in reviewing the CIT documents and disclosures. Alta Trust Company is a South Dakota chartered trust company that partners with world class investment managers such as Swan and Gordon to provide retirement plans with quality investment options. Collective Investment Trusts are bank maintained trusts and are not registered with the Securities and Exchange Commission. For general inquiries please contact Alta Trust at: 866-516-4015. For Investment related questions please contact Swan Global Investments at: (970) 382-8901. Or visit the Fund web page at [www.trustalta.com/swan](http://www.trustalta.com/swan).

F. Swan Capital Management, LLC, our affiliated adviser to our mutual funds, receives management fees for being adviser of the Swan Mutual Funds. Please see the Swan prospectus for complete and detailed presentation of fees. A prospectus may be obtained by calling the firm at (877) 896-2590 or referencing the website at [www.swandefinedriskfunds.com](http://www.swandefinedriskfunds.com). The fund is distributed by Northern Lights Distributors, LLC, member FINRA/SIPC (“Northern Lights”). Northern Lights Distributors, LLC and Swan Capital Management, LLC are not affiliated.

G. Swan Global Management, LLC, an affiliated adviser, receives management fees for being sub-adviser to the other affiliated Swan companies, including Swan Capital Management, LLC and Swan Global Investments, LLC. Swan Global Management may also act on its own and receive fees for advisory services offered. Please reference Item 10 for more information on our affiliates.

H. Certain Swan supervised persons and related sales personnel may also be associated with Northern Lights, an un-affiliated limited purpose broker-dealer, and in that capacity may engage in marketing or selling activities with respect to shares in the our affiliated mutual funds or to solicit our separate account business to other registered investment advisers. Supervised persons and related sales personnel may be internally compensated for successful marketing or selling activities with respect to shares in our mutual funds.

## **Item 6 Performance-Based Fees and Side-By-Side Management**

Swan Global Investments, LLC. and its affiliated companies do not charge any performance based fees.

## **Item 7 Types of Clients**

Swan provides investment management services to investment advisors, individuals, institutions, trusts, pension plans, corporations and family offices. Swan focuses its services on asset management and generally does not provide financial advisory services or financial planning services to clients. Swan’s clients include third party investment advisers whereby Swan acts as a sub-advisor money manager. In addition, Swan serves as investment adviser to privately placed pooled investment vehicles including limited partnerships. Investment advisory clients are not solicited to invest in these vehicles.

The Firm's minimum account size is \$250,000 which may be waived at the sole discretion of the Firm. Swan asset management offerings, as detailed further in Item 1, include mutual funds, ERISA plans, Overlay type SMAs, sub-advised SMAs, and direct SMAs.

## **Item 8 Methods of Analysis, Investment Strategies and Risk of Loss**

Swan specializes in hedged equity index-based strategies with option income components that are designed to allow investors to possibly participate in the upward price movement of the invested equities (e.g. S&P 500 correlated indices and other ETFs depending on the DRS product), while reducing downside risk on those equities. Swan manages client assets using a proprietary defined risk approach (called the "Defined Risk Strategy" or DRS) that combines equities and options to create risk-reward trade-offs that are not typically offered in other financial products. The DRS was developed by firm founder Randy Swan based on his experience in searching for a way to participate in the upside opportunity presented by equity markets while at the same time having in place protection against market dislocations. Mr. Swan has managed money since 1997 and has developed significant expertise in option markets since launching the DRS. The investment philosophy that underpins the DRS is based upon the recognition that risk-adjusted excess returns from market timing, manager selection, and stock selection are extremely difficult to achieve consistently over time, and that the risk reduction benefits of asset allocation are often limited when markets break down. The DRS seeks to limit the effect of equity market declines on an investor's core equity exposure, while seeking to reduce the cost of that insurance by engaging in option income-generating strategies.

### **Swan Investment Philosophy**

Swan's investment strategy is based on the belief that no one can control market risk, only protect against it. Swan believes that diversification of a portfolio across various asset classes is not enough to minimize risk. Under normal market conditions (i.e. slowly rising, mild recession, etc.), Swan believes that Modern Portfolio Theory strategies work quite well. The problem however, is that diversification only reduces unsystematic risk. It does not protect against systematic or un-diversifiable risk (i.e. market risk).

Systematic risk is the risk inherent in the aggregate market that cannot be solved by diversification. Though systematic risk cannot be fixed or reduced with diversification, it can be hedged. In the same way that homeowners can insure their home against catastrophic loss, investors are able to protect their financial assets against financial catastrophe by the use of options.

Swan's core philosophical beliefs are:

- (1) No one can accurately predict with any consistency what the markets are going to do in the short term or long-term,
- (2) Equity markets are likely to rise over the long term due to increasing profits stemming from population growth, technological innovation, and increased productivity,
- (3) Market forecasting, market timing, manager selection, and stock selection are investment strategies that generally have below average results when compared to the general market indexes,
- (4) Asset allocation is limited in its ability to diversify systematic risk and tends to break down when market dislocations occur, and



(5) There is a need for investors to participate in the long term growth of the market while at the same time enacting effective downside protection.

### **About the Defined Risk Strategy**

Swan's DRS investment management philosophy utilizes statistical probabilities and trade management rules as a basis for absolute risk management and risk reduction using multiple layers of hedging techniques across multiple time horizons with the goal of maximizing gains and minimizing losses.

The DRS is a proprietary investment strategy that seeks superior risk-adjusted returns over an entire market cycle by purchasing equity shares in a broad-based index, such as S&P 500 Index (SPY/Select Sector SPDRs or other correlated ETFs) and then hedging the underlying with correlated long term put options (LEAPS). The option income portion of the strategy is specifically designed to limit a portfolio's exposure to falling markets. In this way, Swan "defines risk" by putting a downside floor on the strategy's core equity component. This option component is an investment similar to an insurance policy on your house. The deductible for this policy is specifically chosen by Swan intending to reduce or limit (not eliminate) losses and/or to secure profits.

The DRS also includes short term option income strategies to provide income and complementary risk/return pay-offs in a broad range of market conditions. Option income strategies consists of option income trades executed in each account and then monitored daily for optimization adjustments. The frequency of option income trades are designed to smooth out the overall DRS returns which intends to generate income over various market conditions and various time cycles. At the same time these trades are executed, all adjustments points and liquidations for these positions are typically prepared in advance. This trading policy is designed to protect profits and minimize losses.

The DRS was created to seek elimination of most, but not all of the downside risk of the stock market. The different aspects of the DRS strategy work together to limit risk. In many cases, when one component may be losing value, at least one of the other components is gaining value.

The strategy has been developed and fine-tuned over time with the **goal** of meeting the following objectives:

1. Provide an improved return on an absolute and risk adjusted basis compared to a typical long only investor in a diversified equity fund (e.g. S&P 500),
2. Provide greater downside protection compared to a traditional diversified asset allocation strategy (e.g. mixture of stocks, fixed income securities and mixed asset classes),
3. Provide positive returns in up, down, & flat markets,
4. Provide a level of protection to client equity (i.e. "Defined Risk") in large market downturns,
5. Provide a diversified exposure to equity markets,
6. Provide risk diversification through different indexes, strategy components, and component time horizons, and

7. Provide investors an alternative to traditional long only investment offerings

### **Equity Investment: Invested Equity and Hedged**

100% of a client's portfolio is invested. For the hedged equity portion of the portfolio, 85-90% of the portfolio is invested in a broad based equity index depending on the asset class/product, generally using highly liquid ETFs such as the S&P 500 correlated ETFs (generally SPY and/or nine Select Sector SPDRs) and 10-15% is invested in a hedge through long term options correlated to the ETFs/index. By investing in a broad based index fund such as SPY, Swan believes this reduces company/sector risk through diversification across multiple companies and sectors. Buying and holding a broadly diversified ETF(s) also eliminates futile attempts in manager selection, market timing, and/or stock selection. The hedge portion of the strategy is typically designed to limit a portfolio's exposure to declining markets and is designed to limit maximum loss to about 7-10% with assumed volatility. For those investors who are able to utilize the nine Select Sector SPDR components, Swan will take an equal-weighted approach to industry weightings as it believes this approach has the potential to lower risk, increase yield, and create a more diversified portfolio of stocks than the market capitalization weighted S&P 500. The protective put strategy is executed using exchange-traded S&P 500 Index (and/or correlated ETFs and SPX Futures) put options to hedge the portfolio, with the goal of reducing the strategy's exposure to large equity market declines and lowering portfolio volatility. Generally, S&P 500 Index put options have an inverse relationship to the S&P 500 Index and its nine sector-specific constituents.

### **Rebalancing and Re-Hedging**

The adviser may periodically rebalance the ETF portfolio to maintain equal weighting across the nine sectors. Long-term put options are typically re-hedged annually to protect capital and/or allow for profit potential depending on whether or not the market has increased or decreased.

### **Market Decline Profit-Taking**

In the event of a sustained equity market decline the advisor may take profits on the hedge, and use the cash generated by the sale to purchase more shares of the core equity asset, while re-hedging the portfolio. This strategy allows the investor to accumulate a larger investment in the core equity position at more favorable prices. As such, the DRS is sufficiently flexible to allow the manager to take advantage of unforeseen market events.

### **Option Income Strategies:**

#### **Option Writing**

Option Income trades are an independent income generating component of the strategy which has been designed in type, size and frequency to provide an offset to some of the risk within the hedged equity portion of the portfolio. Option income trades include short strangles executed in the near term with each account and monitored daily within a rules-based risk management framework that has been tested and refined over many years. Historically, option income trades have helped produce a more consistent, more stable return for the DRS over time.

Other types of option trades are used to further enhance the strategy by providing additional diversification through different ETF's, indexes, and time horizons. Swan expects option income trades to stabilize & enhance DRS market-neutral income to an even broader range of market conditions. Swan

employs several short-term option income strategies within the strategy – for example calendar spreads, iron condors, vertical spreads and iron butterflies. A disciplined rules-based risk management framework has been developed to actively monitor, control and manage the risk of the strategy.

### **Adjustments and Rolls**

As part of the DRS rules-based risk management framework, Swan actively monitors risk within its portfolio baskets and from time to time will make adjustments to existing positions based upon market conditions to manage returns.

### **Decision-Making Process**

All portfolios and trade strategies receive direction and oversight from the Portfolio Manager, Randy Swan. Swan's portfolio management is sub-advised by Swan affiliate, Swan Global Management, LLC ("SGM"), a Puerto Rico investment advisor that is majority owned by Randy Swan. Strategic decisions are handled by the firm's sub-advisor, SGM, and the investment committee. The sub-advisor is responsible for the overall composition of the portfolios and the various aspects of the strategy for all products offerings and portfolios. This includes the timing of the re-hedge of equities, the re-balance of the portfolios and the various option income trades.

Swan DRS investment management follows a rules driven strategy with rules, processes, and procedures that are designed and pre-approved by the sub-advisor and investment committee. The sub-advisor provides additional guidance and oversight for all tactical investment management and trading decisions, allowing the tactical decisions and trading to be handled by the investment management team. The tactical decisions relate to; entry and exit points, expirations of option trades, trade adjustment points, trade execution, analysis of all income trades, accounting and reporting of gains and losses and risk management.

Idea generation is initiated by the investment sub-advisor and across the investment team and then researched to identify high probability target trades with entry and exit points. The final decision to adopt any new trading strategies will be made by the sub-advisor with support from the investment committee. The decision of individual trade execution will be made by the investment management team with supervision of the sub-advisor and investment committee.

Additionally, all portfolios, trades and positions receive daily monitoring from the operations and compliance staff.

### **Portfolio Construction/Risk Controls Guidelines**

- The portfolio construction process includes broadly based equity indexes represented by ETFs such as S&P 500 correlated equities including SPY, Select Sector SPDRs, and other ETFs and/or indices and the options involved with these indices and securities.
- Each Swan product offering has its own asset class focus and respective securities, ETFs, Options.
- For Select Sector SPDR eligible accounts, Swan utilizes an equal weighted approach to allocating capital across the sectors and rebalances as necessary.
- A typical portfolio consists of one to several ETFs not including options. Equity positions are intended to be held indefinitely and are only sold as a result of account cash management processes such as required cash reserves, margins, re-hedging or rebalancing and only then if

over/underweighted.

- There may be a few minor differences in portfolio construction between some SMA accounts. Because of regulatory requirements or broker requirements, there may be restrictions imposed on IRA accounts versus regular accounts. Some of these restrictions may impact the use of some ETFs such as the Select Sector SPDRs, while others prevent the utilization of option trading strategies or use index options such as SPX versus ETF options such as SPY for the equity hedge. As a result of these differences and restrictions, there may be small tracking differences between accounts.
- The adviser continues to research and seek out new products, asset classes and portfolio management opportunities for the Defined Risk Strategy.
- Portfolio management of the DRS investment model and process is provided for:
  - (1) Direct client SMA accounts and sub-advised SMA accounts
  - (2) DRS Overlay SMA accounts (DRS hedge and income strategy over-laid on top of existing non-discretionary equity portfolios, e.g. restricted stock)
  - (3) Mutual funds advised by affiliate Swan Capital Management including;
    - (i) Swan Defined Risk Fund
    - (ii) Swan Defined Risk Emerging Markets Fund
    - (iii) Swan Defined Risk Foreign Developed Fund
    - (iv) Swan Defined Risk Small Cap Fund
  - (4) ERISA retirement and pension plans – Swan Defined Risk Collective Investment Trust (Income, Conservative, Moderate, Moderate Growth, and Aggressive)
  - (5) Re-Insurance accounts advised by affiliate Swan Global Management.
- The SMA accounts and the Defined Risk Mutual Fund are generally invested in the same strategies, similar equities and similar investment models. The mutual fund Swan Defined Risk Fund and DRS SMAs have been closely correlated but are not the same and will not have the same performance.
- Because the DRS is intended as an absolute return strategy, the timing or market conditions when these trades are executed is not critical. When trades are executed, adjustments and liquidation points are typically pre-determined and enforced during the life of the trade and position.
- The DRS rules allow for re-hedging and rebalancing of the portfolio after significant market movements which may allow the strategy to profit from the hedge and benefit even more in the equities after a subsequent rebound.
- The DRS generally does not sell the underlying equity except for purposes of cash management, rebalancing, and re-hedging but does rebalance the Select Sector SPDRs based on relative performance resulting in minimal selling of securities.
- Portfolio management and risk control are implemented and integrated into the DRS portfolio management process by the proprietary DRS Trader software and embedded rules. Additional oversight includes day-to-day oversight of the firm's compliance, internal controls, policies, and procedures by Swan's Portfolio Manager, Investment Committee and the Chief Compliance Officer.

## **Sell Process**

The DRS generally does not sell the underlying equity but may perform rebalancing depending on the product and portfolio equities (e.g., the Select Sector SPDRs based on relative performance), resulting in minimal selling of securities. Option income trades are predicated upon a set of pre-defined decision rules, and pre-established risk parameters, and incur a higher level of trading.

### **Trading and Transaction Costs**

Certain components of the DRS have a fairly low level of turnover and associated transaction costs, specifically, the equities/ETFs and long put option purchases/sales in the hedge equity portion of the portfolio. Other components of the DRS exhibit a higher level of trading turnover and associated transaction costs such as the option income trades.

### **Risk of Loss**

Although The DRS employs certain risk mitigation techniques which are designed to limit losses, investing in general and investing in option securities involves risk that all clients should understand and thus be prepared to bear any losses that may occur.

### **Tax Strategy**

Swan intends to minimize taxes by holding the majority of the ETF portfolio indefinitely subject to periodic re-balancing and cash management requirements. In certain circumstances, capital losses may be harvested to minimize current year capital gains. Most of the dividends received will constitute qualified dividends and as a result will be taxed at the lowest rate. In addition, the hedging and option writing components of the DRS attempt to seek the benefit of securities contracts that qualify as §1256 contracts when appropriate and thus are taxed at the preferable tax rate regardless of the length of the holding period.

### **Risks**

All investments carry with them certain risks, including potential loss of principal. The Swan DRS investment strategy uses ETFs, mutual funds and options which all have risks. The following describes some of the risks the DRS may bear indirectly and through investments in the various securities used and depending on the DRS product, including ETFs, mutual funds, options.

ETF Risk: ETFs are subject to investment advisory and other expenses, which will be indirectly paid by the DRS. As a result, the cost of investing in the DRS will be higher than the cost of investing directly in ETFs and may be higher than other mutual funds that invest directly in stocks. ETFs are subject to specific risks, depending on the nature of the fund.

Mutual Fund (Fund) Risk: The DRS strategy may use the Swan mutual funds, including the Swan Defined Risk fund for cash management purposes. Mutual Funds may be subject to investment advisory fees, fund fees, 12b1 fees, and other expenses, which will be indirectly paid by the DRS. Many factors affect a Fund's net asset value and performance. A Fund may bear risks operationally and indirectly through investments in ETFs as well as directly through investments in put and call options. Swan does not bill clients on assets invested in its own mutual fund(s).

Leveraging Risk: The use of leverage, such as that embedded in options contracts, could magnify the resulting DRS gains or losses.

Management Risk: The adviser's dependence on its DRS process and judgments about the attractiveness, value and potential appreciation of particular ETFs and options in which Swan invests or writes may prove to be incorrect and may not produce the desired results.

Market Risk: Broad securities market risks will affect the value of individual instruments in which the DRS invests. Factors such as economic growth and market conditions, interest rate levels, and political events, can affect the US securities markets. When the value of the DRS investments go down, your

investment in the DRS decreases in value and you could lose money.

**Option Risk:** Purchased options may expire worthless and may have imperfect correlation to the value of the Fund's long equity positions (i.e. ETFs and mutual funds). Written call and put options may limit the DRS's participation in equity market gains and may amplify losses in market declines.

**Sector ETF Risks:** The adviser invests in ten, sector specific ETFs that are each commonly known as a "SPDR" (short for Standard & Poor's Depositary Receipts). Sector SPDRs are unique ETFs that divide the S&P 500 Index into ten sector index funds. Together, the Sector SPDRs represent the S&P 500 Index as a whole. However, each Sector SPDR can also be bought individually, providing the Fund with undiluted exposure to a particular sector of the US economy. The Sector ETFs are:

- (1) Consumer Discretionary Select Sector SPDR,
- (2) Consumer Staples Select Sector SPDR,
- (3) Energy Select Sector SPDR,
- (4) Financial Select Sector SPDR,
- (5) Health Care Select Sector SPDR,
- (6) Industrial Select Sector SPDR,
- (7) Materials Select Sector SPDR,
- (8) Technology Select Sector SPDR
- (9) Utilities Select Sector SPDR.
- (10) Real Estate Select Sector SPDR

Each Select Sector Index is calculated using a modified "market capitalization" methodology. This formula ensures that each of the component stocks within a Select Sector Index is represented in a proportion consistent with its percentage of the total market cap of that particular index. However, all ten Select Sector SPDRs are considered diversified mutual funds with respect to the Internal Revenue Code tax treatment. As a result, each Sector Index will be modified by the ETF manager so that no individual security comprises more than 25% of the index. Each Select Sector SPDR is not "actively managed" by traditional methods and is designed to closely track the price performance and dividend yield of a particular Select Sector Index, before fund expenses are applied. Each Sector ETF's portfolio is principally comprised of shares of constituent companies included in the S&P 500 Index. Each stock in the S&P 500 Index is allocated to only one Select Sector Index. The combined companies of the Select Sector Indexes represent all of the companies in the S&P 500 Index. However, if Swan buys all ten Select Sector SPDRs it will nearly replicate the S&P 500 Index only if it purchases the Select Sector SPDRs with weightings that correspond to the S&P 500 Index weightings for each sector. Due to IRS diversification requirements, certain Select Sector SPDRs will not have the exact individual component weightings of the broad S&P 500 Index.

## **A Word on Options**

Options are versatile instruments which can provide unique opportunities for generating returns and reducing risk as well as used to generate income. Options have unique characteristics that involve risk and are not suitable for all investors. On a standalone basis options often exhibit a higher degree of risk compared to traditional financial assets due to their leverage. However, as with any financial asset, their risk is a function of how they are utilized within an overall investment strategy. More important than a naïve risk perspective of using options as an investment strategy, is the manner, purpose, design and intent with which options are incorporated into a portfolio. As a result, a properly designed risk mitigation strategy can utilize options in a

cost effective way to help manage and lower portfolio risk. Generally, options should only be utilized by an advisor or investor with experience in trading these instruments. A margin account and option approval is required for SMA accounts invested directly in the Swan DRS.

All investments carry with them certain risks, including potential loss of principal. The Swan DRS investment strategy uses ETFs, mutual funds and options which all have risks. Options may also involve risk and are not suitable for all investors. To ensure suitability, the Advisor recommends that the Client familiarize themselves with Option risks and rewards through review of information provided by the Options Clearing Corporation (OCC) in the booklet “Characteristics And Risks of Standardized Options” available through their broker or by calling 1-888-OPTIONS, or from The Options Clearing Corporation, One North Wacker Drive, # 500, Chicago, IL 60606.

### **Item 9 Disciplinary Information**

Swan Global Investments, LLC. has no legal or disciplinary events. Additional information can be found at the SEC’s public disclosure website, which can be accessed at <http://www.advisorinfo.sec.gov/>.

### **Item 10 Other Financial Industry Activities and Affiliations**

Swan is not registered nor does it have an application pending to register as a broker-dealer, a registered representative of a broker-dealer, a futures commission merchant, a commodity pool operator, or an associated person of the foregoing entities – except as provided below (see Northern Lights). While Swan is currently exempt from registration as a commodity pool operator, it may be required to register in the future.

The following is a list of material related persons of Swan:

- **Swan Capital Management, LLC** (CRD# 164280) is an affiliated registered investment advisor that serves as investment manager to the Swan Family of Mutual Funds including; Swan Defined Risk Fund, Swan Defined Risk Foreign Developed Fund, Swan Defined Risk Small Cap Fund and Swan Defined Risk Emerging Markets Fund.
- **Swan Global Management, LLC** (CRD# 173621) is an affiliated registered investment advisor that serves as sub-investment manager to the Swan Family of Mutual Funds and the separate accounts managed under Swan Global Investments, LLC.
- **SG&F Partnership** is a pooled investment vehicle that Randy Swan advises for family and friends and Swan advisory clients are not solicited to invest, and are not invested in, this pooled investment vehicle. This takes up only a small amount of his time, and there are no plans to expand this business.
- **LDC Enterprises, LP** is a company controlled by Randy Swan and Laura Swan that provides accounting services to a small number of long time clients and owns some real estate holdings. This takes up only a small amount of his time, and there are no plans to expand this business.
- **Swan Re Ltd.** is an asset manager for Swan Group Holdings Ltd, a private shareholder owned re-insurance company and client of Swan Global Management, LLC. Randy Swan, as related person, is portfolio manager for Swan Global Management, LLC and advises the assets of Swan Re Ltd as he would any other client of the advisory.
- **Northern Lights Distributors, LLC** (CRD# 126159) is an un-affiliated limited purpose broker-dealer

registered under the Securities Exchange Act of 1934. Northern Lights is a material to Swan because certain of Swan's supervised persons and/or persons affiliated with other Swan entities are registered representatives with Northern Lights. We utilize the distribution services of Northern Lights for our affiliated mutual funds. In addition, these same persons may solicit our separate account business to other registered investment advisers.

Swan does not recommend or select other investment advisers for our clients. However, Swan does offer its money management services to other Advisory firms. In the instance of Swan being hired by a client of another Advisory firm, Swan is referred to as the "Sub-Advisor".

We may periodically enter into agreements to directly compensate another person or firm for client promotion and servicing, commonly referred to as "Referral Agreements." These Referral Agreements are governed by Rule 206(4)-3 under the Advisers Act. The fees paid by the customer to us will not increase as a result of any Referral Agreement. In addition, the compensation of certain Swan personnel whose job responsibilities are related primarily to marketing, sales, or business development is determined in large part on the amount of new client fees generated by their efforts. Referral Agreements are more specifically discussed in Item 14.

Through the Firm's Code of Ethics and Compliance Policies and Procedures, these arrangements are structured in a way as to minimize the potentiality for conflict of interest with clients. To obtain more information on our Advisor relationships, please contact us via phone (970) 382-8901 or email at [jim.engelken@swanglobalinvestments.com](mailto:jim.engelken@swanglobalinvestments.com).

## **Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **A. Code of Ethics**

Swan maintains a Code of Ethics Policy, adopted pursuant to SEC Rule 204A-1, which includes policies on Insider Trading and Personal Securities Transactions. Swan will provide a copy of our Code of Ethics to any client or prospective client upon request.

The general principles of this code state that Swan Global Investments, LLC. is a fiduciary to its investment advisory clients. Because of this fiduciary relationship, it is generally improper for the Company or its Associated Persons to:

1. Use for their own benefit (or the benefit of anyone other than the client), to the detriment of the client, information about the Company's trading or recommendations for client accounts; or
2. Take advantage of investment opportunities that would otherwise be available for the Company's clients.

### **B. Participation in Client Transactions and Personal Trading**

We recommend to clients the purchase of shares in the mutual funds when consistent with the client's investment objectives in which Swan or one or more of its employees or affiliates have a financial interest (the Swan mutual funds). Our aggregate fee revenues may be increased by purchases by clients or others of



shares of these funds. Officers and employees of our Firm are encouraged to invest in shares of the mutual funds or other DRS products. The mutual funds are sold to the public on a “load” basis involving the payment of commission to a broker. However, there are certain share classes where the sales load is waived for the mutual funds.

Swan and its related parties have investments in the mutual funds. From time to time, our Firm or a related party may, for tax purposes, redeem a portion of its mutual fund holdings, reinvesting in shares of the same mutual fund shortly thereafter. These transactions, which are carried out in our mutual funds, are subject to the mutual funds’ Trading Monitoring Procedures and will not be consummated, if in our view such transactions would be, disruptive to the management of the mutual fund under those procedures.

Also, as a matter of business policy, the Company wants to avoid even the appearance that the Company, its Associated Persons or others receive any improper benefit from information about client trading or accounts or from our relationships with our clients or with the brokerage community. The Company expects all Associated Persons to comply with the spirit of the Code, as well as the specific rules contained in the Code. The Company treats violations of this Code (including violations of the spirit of the Code) very seriously. Violation of either the letter or the spirit of this Code may result in the Company taking disciplinary measures. Neither Swan Global Investments, LLC, nor any of its Associated Persons participate in client transactions.

Associated Persons are generally not restricted from investing in the funds, ETFs and options utilized in the DRS portfolios and strategies, however, all Associated Persons must disclose all such investments to firm management for approval and over-site. All of our clients, including Associated Persons who have accounts managed by Swan, buy and/or sell the same securities simultaneously. We execute block trades, which means that we buy and/or sell securities in large amounts that are then broken down and allocated automatically to each account (this would include both client accounts and associated person accounts). All accounts receive the proper number of securities at the same average price, which enables us to avoid the potential for conflicts of interest with our clients.

The Code requires that certain transactions (IPOs and private fund investments) by firm personnel be preapproved, and that firm personnel report all reportable holdings and transactions to firm management on a regular basis. All employee transactions are reviewed by the Compliance Department to ensure that any conflicts can be identified and addressed. Swan collects and maintains records for all employees pertaining to their investments, securities holdings and securities transactions effected by Access Persons. These records are reviewed to identify and resolve potential conflicts of interest. Investment Advisor Representatives and supervised persons must be especially careful to make sure that such trading activities are:

1. not conducted in advance of client transactions in similar securities.
2. not based upon inside information or research analyst reports that the adviser prepared.
3. not otherwise in violation of applicable securities laws or fiduciary duties owed to clients.

Swan does not conduct ‘Principal’ transactions, does not engage in Cross-Trades between advisory clients, and does not participate in Agency Cross Transactions.

## **Item 12 Brokerage Practices**

Swan offers the DRS through multiple brokerage firms including Interactive Brokers, TD Ameritrade, Charles Schwab, Pershing, Wallach Beth Capital, Merlin Securities, TJM Investments, JP Morgan Chase, Convergenx, Goldman Sachs, IA Englander, Wells Fargo, Northern Trust and Bloomberg (“The Brokers”). All of which are members of the Financial Industry Regulatory Authority Inc. (“FINRA”) and the Securities Investor Protection Corporation (“SIPC”). While Swan believes that The Brokers provide Best Execution, the commission rates charged by them may be higher or lower than those charged by other broker-dealers.

Factors which Swan considers in recommending any broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. The commissions and/or transaction fees charged by a broker-dealer may be higher or lower than those charged by other financial institutions. The commissions paid by Swan’s clients comply with Swan’s duty to obtain “best execution.” Clients may pay commissions that are higher than another qualified financial institution might charge to effect the same transaction where Swan determines that the commissions are reasonable in relation to the value of the brokerage services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a financial institution’s services, including among others, the value of research provided, DRS investment and trade execution capability, capability and compatibility of software and technology services, commission rates, and responsiveness. Swan seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Transactions may be cleared through other financial institutions with Swan and financial institutions that have entered into agreements for prime brokerage clearing services. Swan periodically and systematically reviews its policies and procedures regarding its recommendation of financial institutions in light of its duty to obtain best execution.

The client may direct Swan in writing to use a particular financial institution to execute some or all transactions for the client. Generally, Swan does not accept clients insisting on directed brokerage. In the situation that Swan does accept directed brokerage, the client will negotiate terms and arrangements for the account with that financial institution, and Swan may not seek better execution services or prices from other financial institutions or be able to “batch” client transactions for execution through other financial institutions with orders for other accounts managed by Swan (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Swan may decline a client’s request to direct brokerage if, in Swan’s sole discretion, such directed brokerage arrangements would result in additional operational difficulties. Swan will aggregate orders with respect to the same security purchased for different clients. When orders are aggregated, each participating account receives the average share price for the transaction and bears a proportionate share of all transaction costs, based upon each account’s participation in the transaction. The exception to this is when a new account is received or an account has a redemption request. In that case, the purchase and/or sale of securities is performed for that client only.

To the extent that Swan determines to aggregate client orders for the purchase or sale of securities, Swan generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Swan does not receive

any additional compensation or remuneration as a result of the aggregation.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products, computer software and related systems/trading support which assist Swan in its investment decision-making and trading process. Such services generally will be used to service all of Swan's clients and not directed to any specific client. The investment research products, computer software and related systems support may benefit Swan, but not its clients directly. In fulfilling its duties to its clients, Swan endeavors at all times to put the interests of its clients first. Clients should be aware, that Swan's receipt of economic benefits from a broker-dealer may create a perceived conflict of interest, since these benefits may influence Swan's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services. Swan does not receive brokerage for Client Referrals from any brokerage firms.

Generally, Swan does not engage in principal trading. However, Swan does maintain a "trade corrections account" in which Swan may buy or sell securities to correct any discrepancies in trade or allocation processing as related to advisory clients' accounts. Swan rarely trades for this purpose as Swan's block trading process, proprietary trade management software (DRS Trader), and automation processes keep discrepancies at a minimum. Swan does not receive any economic benefit from any trade correction, discrepancy or trade error.

### **Item 13 Review of Accounts**

Swan employees from either the investment team or investment operations, monitor accounts on a continuous basis and will conduct an internal review of accounts on at least a quarterly basis. Triggering factors that may stimulate a review include, but are not limited to, significant market corrections, significant performance dispersions as compared to other accounts, large deposits or withdrawals from an account, substantial changes in the value of a client's portfolio and a change in the client's investment objectives. All clients receive and are responsible for reviewing and comparing their monthly brokerage statements from their custodian. Swan sends out written reports annually which include; time weighted returns, a summary of transactions for the year, including fees & expenses, dividends, interest, inflows, outflows, realized and unrealized gains as well as securities bought and sold. It also includes year-end holdings.

### **Item 14 Client Referrals and Other Compensation**

A. The Firm does not have anyone who is not a client, providing us with economic benefits.

B. In some situations, the Firm may offer compensation for client referrals. These marketing arrangements are consistent with Rule 206(4)-3 of the Investment Advisers Act as amended. Under no circumstances will the client be disadvantaged by the payment of such fees. Clients of the firm whose accounts involve third party marketing arrangements are advised of the arrangement and do not pay higher fees to Swan as a result of the arrangement than they would if they came to us on their own.

C. The Firm may make payments in connection with marketing efforts or sponsorship by Swan or its affiliates of special events which may be attended by brokers and other financial intermediaries. Such non-cash compensation is in addition to the overall revenue sharing arrangements with other intermediaries

described in this document.

### **Item 15 Custody**

The Firm does not have custody of client funds or securities. Assets are held at various custodians including Interactive Brokers, Charles Schwab, TD Ameritrade, Union Bank, JPMorgan Chase, Goldman Sachs, Pershing, Northern Trust and Merlin Securities/Wells Fargo.

Certain clients allow us or direct us to directly debit advisory fees from their accounts. As part of this billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period.

Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement. In addition to the periodic statements that clients receive directly from their custodians, we also send account statements directly to our clients on an annual basis (as described in Item 13). We urge our clients to carefully compare the information provided on these statements to ensure that all account transactions, holdings and values are correct and current.

### **Item 16 Investment Discretion**

Clients of the Firm grant Swan complete discretion over the selection and amount of securities to be purchased or sold for their account without obtaining their prior consent or approval. However, Swan's investment authority may be subject to specified investment objectives, guidelines and/or conditions imposed by the client. For example, a client may specify that a specific amount of cash remain in the account at all times.

### **Item 17 Voting Client Securities**

Swan generally instructs all clients that Swan will not vote proxies on their behalf and that the client is responsible for voting proxies. If Swan is authorized by the client to vote proxies and Swan agrees, then the vote is based on the Firm's reasonable judgment of that vote most likely to produce favorable financial results for the Firm's clients. Proxy votes generally will be cast in favor of proposals that maintain or strengthen the shared interests of shareholders and management, increase shareholder value, maintain or increase shareholder influence over the issuer's board of directors and management, and maintain or increase the rights of shareholders; proxy votes generally will be cast against proposals having the opposite effect. However, the Firm will consider both sides of each proxy issue.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting us at (970) 382-8901 or email at [compliance@swanglobalinvestments.com](mailto:compliance@swanglobalinvestments.com). Where we are instructed to vote proxies, clients may request, in writing, information on how proxies for his/her shares were voted.

We will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in

class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

### **Item 18 Financial Information**

A. We do not require or solicit prepayment of more than \$1,200 in fees per *client*, six months or more in advance.

B. There is no financial condition that is reasonably likely to impair the Firm's ability to meet contractual commitments to clients.

C. We have not been the subject of bankruptcy petitions at any time.

### **Item 19 Requirements for State-Registered Advisers**

Swan Global Investments, LLC. is an SEC registered Investment Advisor and serves "Notice" through the SEC filed ADV process to the appropriate states that Swan has Investment Advisory clients. Swan is generally used as a third party asset manager by other state registered Investment Advisors and does not provide investment advice or solicit clients on behalf of any state registered investment adviser or representative.