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Don't Trust Bonds: Own More Stocks and Hedge the Risk

If you've ever talked with someone at Aptus or listened to a podcast/presentation we've been on, you've heard us screaming this for the past 8 years.

Why Not Bonds?

> Where to even begin? For the purposes of this conversation, let's leave it at this:
>
> Bonds *can* act as a diversifier and have in the past. They *can* act as a hedge and have at times. But both of those require negative correlations, which is not presently the case.
>
> Secondly, and much more importantly, bonds *appear* to be lower risk because their value can be more stable than stocks, but what most investors need is growth and growth beyond inflation. **Bonds don't do that.** Which ultimately means that owning bonds is just ***Losing Money Safely***.

How to Own More Stocks, and Hedge the Risk

ACIO is an actively-managed strategy that can be a Swiss Army Knife to any portfolio that wants to own more equities.

> Use ACIO (Hedged Equity) in place of bonds to increase exposure to stocks but not change the original risk profile.
>
> The 60/40 Portfolio Example: Reduce bond exposure by adding hedged equities to create a 70/30 with similar risk.

How does it work?

ACIO is built to help investors own more risk with built-in risk management. To achieve this mix of compounded growth and downside mitigation, we target 70% upside capture and 50% downside capture, relative to the S&P 500.

Think of it like insurance, where the more coverage you want, the more you have to pay or give up on the upside. Within ACIO, we make the tradeoff of riding out the first 5%, and then want our hedges to kick in at increasing rates if markets slide towards -10% and further. There is good reason for this, as -5% occurrences are fairly frequent, even in bull markets, so we don't want to limit our upside by cutting off normal fluctuations.

314 Magnolia Ave | Fairhope, AL 36532 | 251.517.7198 | info@apt.us
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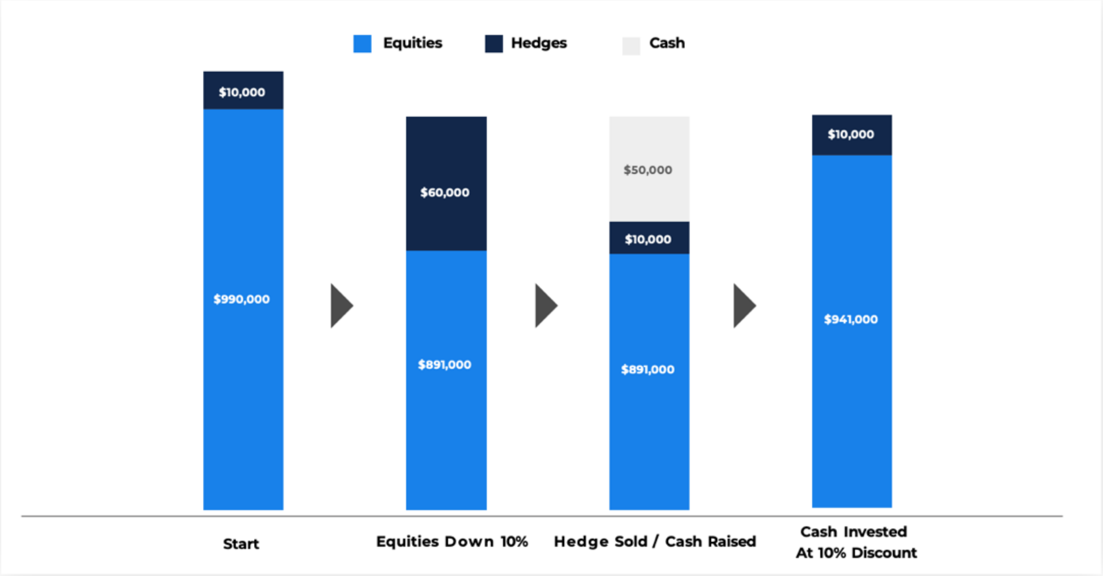
As markets slide further, you'll see the hedges kick in more rapidly. Here are a few instances where you see how we participate and mitigate in notable markets:

Start Date	End Date	Regime	iBoxx LQD Bond Index	ACIO	SPX
02/19/2020	03/23/2020	Covid Crash	-14.91%	-12.28%	-33.79%
03/24/2020	12/31/2020	Covid Recovery	26.91%	27.01%	70.17%
01/21/2021	12/31/2021	Stocks Up/Bonds Down	-1.49%	18.03%	28.68%
01/01/2022	12/31/2022	Stock Down/Bonds Up	-18.04%	-10.30%	-18.11%
01/01/2023	12/31/2023	Mag 7 Recovery	9.49%	15.90%	26.29%
01/01/2024	12/31/2024	Megacap Stocks Rally	1.15%	21.91%	25.02%

Source: Bloomberg

The performance data represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares may be worth more or less than their original cost when sold or redeemed. Current performance may be lower or higher than the performance quoted. Chart does not reflect reinvestment of dividends or capital gains. For performance data current to the most recent month-end, please call (251) 517-7198 or visit www.aptusetfs.com.

From a management standpoint, having the hedges in place also gives us an opportunity to buy stocks at more attractive valuations. Using the insurance analogy, think of it as when your insurance (hedges) pays off, you can keep your home (current stocks), and now have capital to buy when the housing (stock) market is down.



Conceptual Illustration

Information presented above is for illustrative purposes only and should not be interpreted as actual performance Of any investor's account. These figures are entirely assumed to illustrate the concept of hedging during an assumed 10% drawdown in equities. As these are not actual results and completely assumed, they should not be relied upon for investment decisions. Actual results of individual investors will differ due to many factors, including individual investments and fees, client restrictions, and the timing of investments and cash flows.

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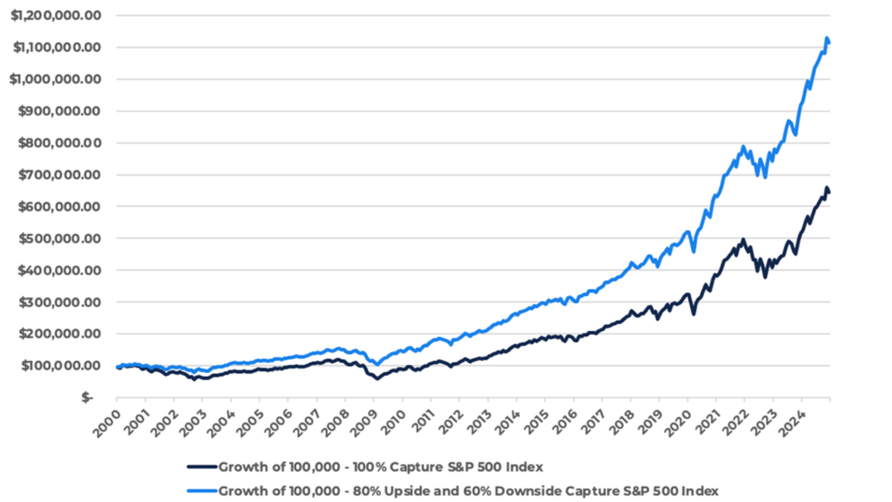
From a long-term perspective, the math of this is very attractive. In the simple example below, you can see what having an asymmetric upside/downside capture can do relative to just riding the ups and downs of markets over longer periods.

Reduced Downside Can Actually Boost Compounded Returns

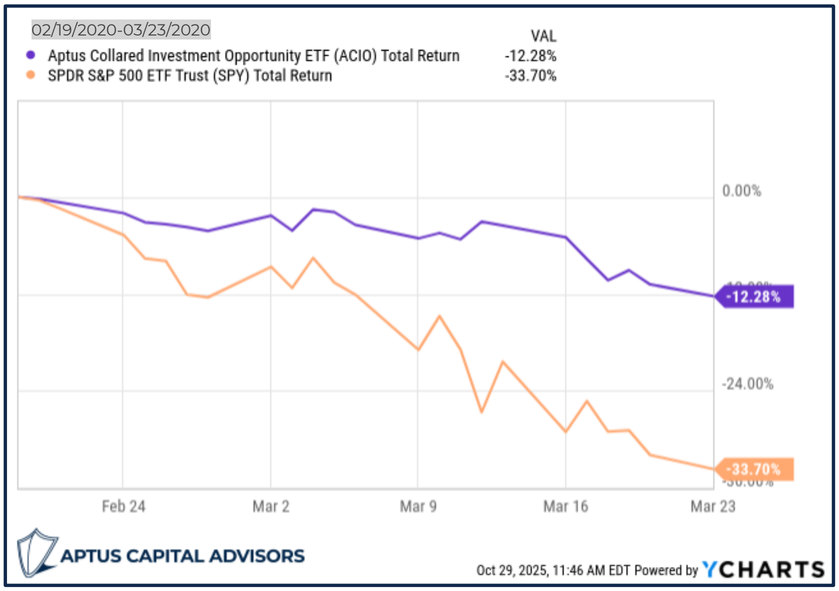
01/01/2000 - 12/31/2024



Source: Bloomberg, Aptus Research. Conceptual Illustration:
This graph assumes an initial investment of $100,000 on 1/1/2000. All dividends and distributions are reinvested. Performance shown does not reflect investor-specific activities, such as contributions, withdrawals, or restrictions. In addition, such results may not reflect the impact that material, economic, and market factors may have had during the entire period portrayed. Actual returns experienced by investors will differ from model results. This is not a recommendation to buy or sell any of the securities mentioned herein. The holdings identified above do not represent all of the securities purchased, sold, or recommended for the adviser's clients. Holdings are subject to change without notice. A complete list of holdings is available upon request.

How quickly does the mitigation kick in? That depends on the severity of the drawdown.

The first example is COVID, where we saw volatility spike as the markets fell rapidly. In a market where fear is more present, the hedges kick in much more powerfully (think of it like an airbag going off in a crash).



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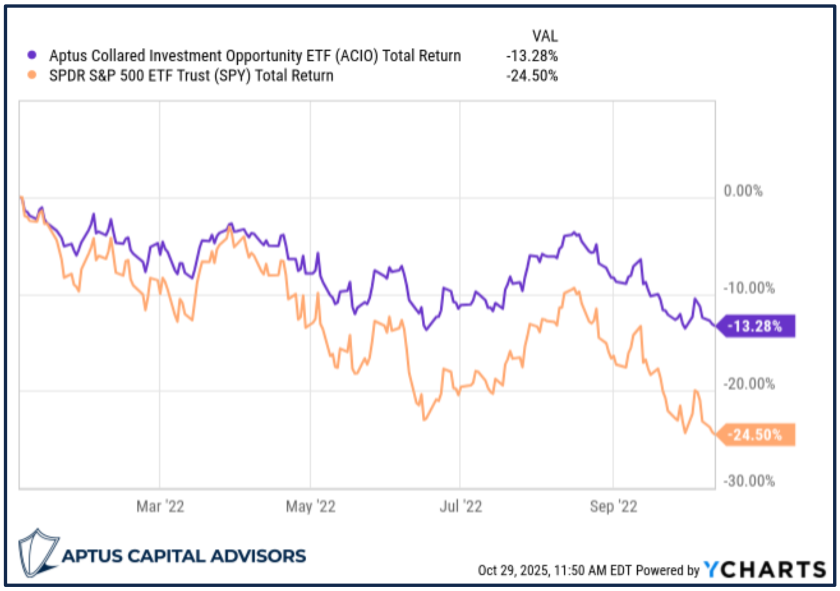
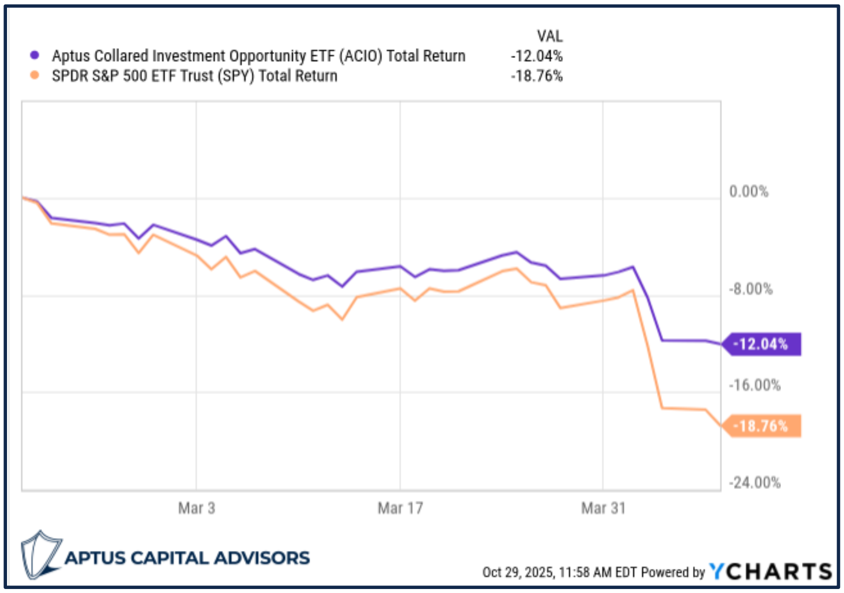
In a slower drawdown like 2022, the hedges are less forceful (think like seatbelts in a slower accident). When this happens, you can see that the hedges still kick in, just less dramatically.



The difference is in COVID; ACIO caught 36% of the downside, and in 2022, that number was 55%.

What we like about this is that the hedges kick in as fear expands, and it does not require Aptus "getting the timing right". It simply uses structure rather than timing (or a crystal ball) to reduce downside.

The last example is earlier in 2025, when we saw the markets slide due to growth concerns starting in February before the sharp downward fall following "Liberation Day." Here you see where ACIO more or less followed the market down as markets started to reset after a hot 2024, and then you can see where the airbags go off, and hedges mitigate when the markets fell off the cliff.



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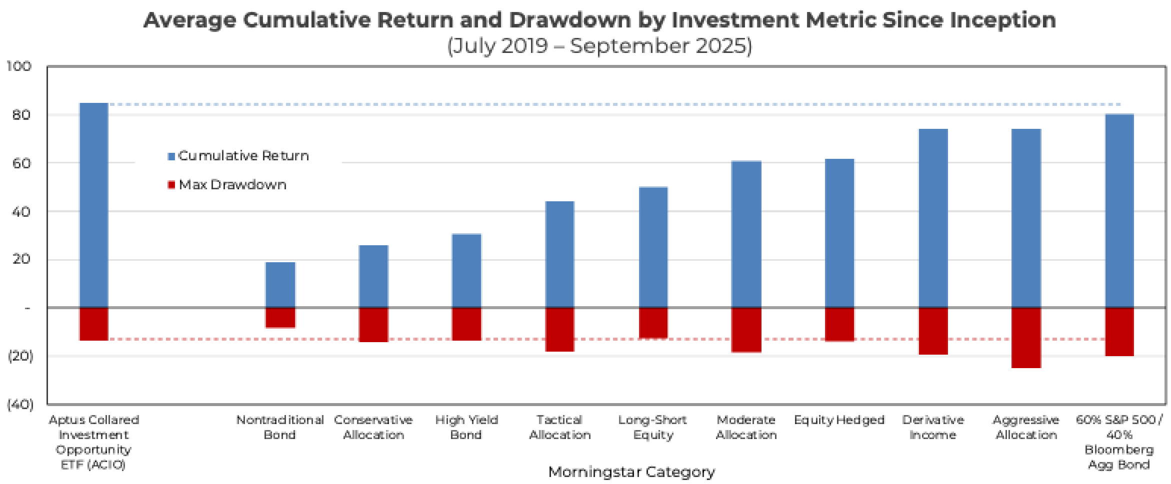
Were we to see a continual run south (aka had Trump not sent "the tweet"), then we expect that ACIO would flatten as markets kept falling. Fortunately, due to the structure of the fund, we still held equities and even added purchased equities as the market slid, which has allowed the portfolio to be up 9.79% through October.

We use the Swiss Army Knife analogy for a reason, as ACIO can impact portfolios while pulling from various areas. With a drawdown in line with high-yield bonds and upside potential that has outperformed an aggressive allocation, ACIO's primary focus has helped investors own more risk assets more comfortably. Giving us comparisons that we believe investors care about most: how much did I make and how much did I lose?



Source: Aptus as of 09.30.2025

It's being utilized in a myriad of ways, but most of all as a replacement for bond exposures.

Core Equity Holding

Problem: Investors are looking for ways to increase long-term return expectations without the mark-to-market risk an equity overweight would introduce over shorter time frames.

ACIO Solution: ACIO leverages high-quality stocks and market hedges for tax-efficient returns, enabling equity overweighting without incremental portfolio risk.

Structured Note / Buffered Replacement

Problem: With a typical structured note, the fixed levels are struck at inception and restrict liquidity until maturity. This eliminates the ability for investors to redeploy their proceeds and the managers overseeing the strategy.

ACIO Solution: ACIO mimics a structured note model's return profile in the sense it reduces the level of drawdown risk without the need to reset monthly, ensuring a more consistent risk/reward profile no matter the time of purchase and opportunity to monetize and redeploy capital.

High-Yield Replacement

Problem: High-yield investments can be severely challenged during economic downturns, liquidity events, or when credit spreads do not fairly compensate investors for the risk.

ACIO Solution: ACIO offers a solution by providing returns that are expected to outpace fixed income without subjecting portfolios to excessive credit risk or significant drawdowns.

Alternative Strategy Liquidity Pool

Problem: Private investments often allow for the gradual deployment of capital rather than an immediate full investment. This staged approach can lead to segregating capital in a liquid structure to be deployed, hindering returns and creating a mismatch in desired exposure.

ACIO Solution: ACIO can provide immediate exposure to a highly liquid product with similar return characteristics as the desired exposure relative to sitting in cash, bonds, or stocks as the capital is waiting or being deployed.

Returns are based on the Modified Dietz reporting method. Aptus utilizes best efforts that content provided is compiled or derived from sources believed to be reliable and accurate, but makes no representations thereof and accepts no liability whatsoever for any loss arising from use or reliance on this content.

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ACIO Fund Performance (%) as of 10/31/2025
Inception Date - 07/09/2019

	% as of 10/31/2025		* % Annualized as of 09/30/2025			
	October	YTD	1 Year*	3 Year*	5 Year*	Inception*
NAV	1.29	9.98	9.79	16.70	11.18	10.37
Market Price	1.40	9.79	9.72	16.56	11.13	10.35
S&P 500	2.34	17.52	17.60	24.94	16.47	15.67

The performance data represents past performance & does not guarantee future results. Investment return & principal value of an investment will fluctuate so that an investor's shares may be worth more or less than their original cost when sold or redeemed. Current performance may be higher or lower than the performance quoted.

Returns for periods greater than one year are annualized. Short-term performance in particular is not a good indication of the fund's future performance and an investment should not be made solely on returns. For performance data current to the most recent month end, please call (251) 517-7198, or visit aptusetfs.com.

Disclosures

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