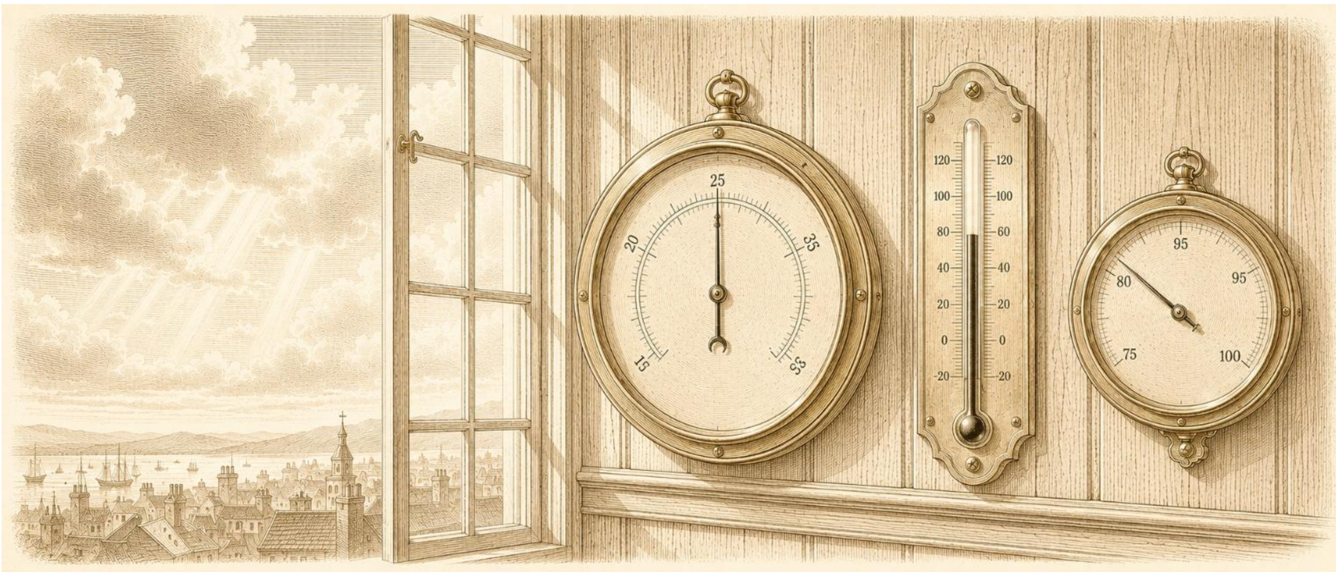
ALTERNATIVE INCOME OPTION STRATEGY – AUGUST 2026

Structured Income Strategy.

Contractual High Income. Deep Expertise. In-House Design. Competitively Executed.



01 – THE STRATEGY

High Income: Defined and Transparent.

Fixed terms before capital is committed, including the single condition that puts principal at risk.

We entered this trade in the final week of July 2026[1]. The strategy pays a conditional annualized coupon of 10.5% to accept one observable condition: that the worse-performing of two major equity indices does not fall more than 35% from execution levels. The market does not have to rise for that coupon to be paid, which makes it valuable in flat or moderately falling markets. If both indices are above their initial level on a quarterly observation, the quarterly coupon is paid and the strategy's principal is fully redeemed (callable).

In a recent paper, we compared this type of strategy vs Private Credit. Private credit pays for the continued solvency of hundreds of leveraged borrowers, an outcome no investor observes directly, and it commonly charges 1% to 2% annually plus 10% to 20% of profits while locking capital for three to seven years behind redemption gates. You can read our full paper here: [Defined Outcome Strategies. Alternatives to Private Funds.]

[1]Trade Date: 07/30/2026. Trade details, economics, coupon was set at trade date and does not represent future trades.

02 – THE DETAILS

Defined Outcome, Explained.

This trade pays a 10.5% annualized coupon each quarter when the worse-performing index between the S&P 500 (SPX) and Nasdaq 100 (NDX) sits above 65% of its level at entry. Above the entry level at any quarterly observation, the trade redeems early with the current quarterly coupon and full principal paid back.

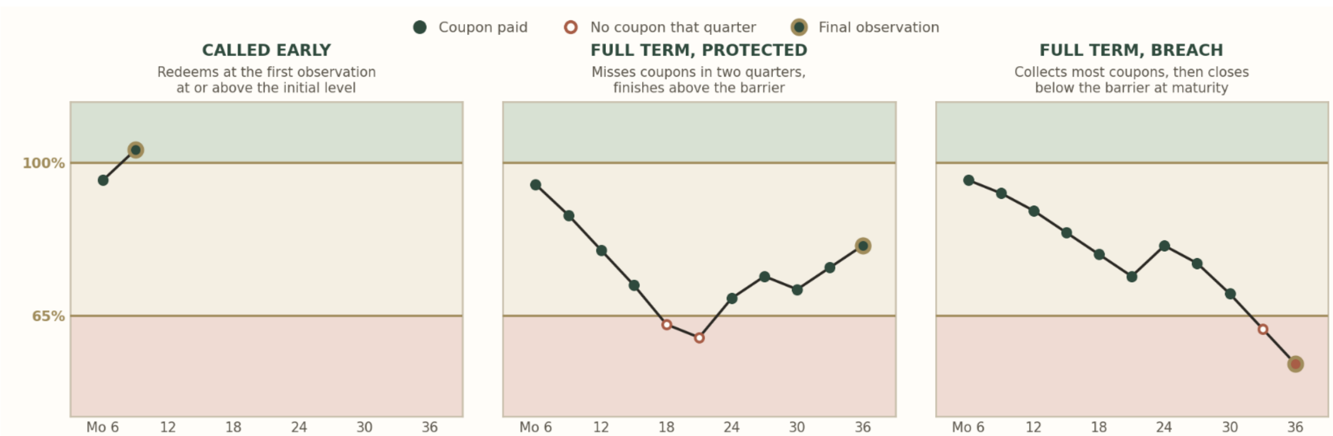
STOCK MARKET INDICES	DOWNSIDE BARRIER	IF ABOVE BARRIER	BELOW BARRIER AT MATURITY
SPX / NDX	-35%	10.5%	1 : 1
LOWEST PERFORMER REFERENCED FOR COUPON	BELOW ENTRY LEVEL REFERENCED FOR COUPON & MATURITY	ANNUALIZED CONDITIONAL COUPON	PRINCIPAL TRACKS INDEX DECLINE AT MATURITY

Terms describe an actual transaction executed in July 2026, not its performance since inception. The trade has not matured: whether it is called early, and whether principal is returned in full, will not be known until a future observation date. This is not an offer with respect to this strategy.

The trade runs three years with the first six months non-callable, observed quarterly thereafter. Each observation asks two questions in order:

1. Is the worse-performing index at or above its entry level? If so, the trade ends that day and full principal is returned with the coupon.
2. If not, is it above the lower barrier? If so, the coupon is paid and the trade continues. A quarter's coupon does not require the market to recover, only to stay above the lower barrier.

Principal is at risk in exactly one scenario: the trade reaches its final observation without ever having been called, and the worse-performing index closes below the lower barrier on that date. Principal is then reduced in line with the decline. This is observed once, at maturity, not continuously. [2]



[2] Hypothetical paths shown to illustrate how the trade resolves. Not projections, forecasts, or the results of any account. Actual outcomes will differ.

03 – THE TIMING

We Take the Opportunities the Market Gives Us.

Favorable entry conditions improve the terms of the trade. They do not determine its outcome.

This structure sits in our "Alternative Income" *(Risk Capacity)* allocation alongside credit exposures accessed through liquid ETFs. The table below compares high-yielding alternatives, describing the potential yield and diversification benefits of the opportunity referenced in this paper.

COMPARISON[3]

EXPOSURE	YIELD	CONDITIONS	RISKS	LIQUIDITY
THIS TRADE Autocallable strategy	**10.5%**	Contractual rate, paid when above the barrier	Equity index level at maturity, plus single-issuer credit	Secondary market bidding
HYG High yield corporate bond	**6.5%**	Variable market yield	Corporate default risk across many issuers	Daily
EMB EM sovereign bond	**5.9%**	Variable market yield	Sovereign credit, plus longer-term duration risk	Daily
JAAA AAA-rated CLO	**4.8%**	Variable market yield, floating rate	Extreme corporate default risk across many issuers, minimal duration risk	Daily

The higher coupon is the price of accepting a different set of risks: stock market volatility, early-callability, exposure to one issuer credit, and principal tied to two equity indices on a single future date. The question is not which number is largest, it is whether we are compensated for the risks. The recent market volatility gave us a desirable entry point to achieve a high yield while reducing the risk of the trade maturing below the lower-barrier where principal is at risk.

WHAT THIS MEANS FOR THE PORTFOLIO

- **Income that does not require a rising market.** The coupon is paid whether the indices are up, flat, or moderately down. Only a decline beyond 35% interrupts it.
- **Terms known before capital moves.** The rate, the barrier, and the exact condition that impairs principal are contractual, not projected.
- **No fee layer above execution.** Lakewood charges no separate management fee, performance fee, or carried interest on this trade. It sits inside the existing Lakewood portfolio architecture.
- **A barrier struck from a corrected level.** Because the trade was executed after a market decline, its 65% barrier sits below the lows reached during the 2025 tariff-driven selloff.

[3]Source: Bloomberg. Data as of 07/30/2026. ETF yields shown are 30-Day SEC Yield, the standardized measure, net of fund expenses. The 10.5% figure is a contractual coupon rate on a specific transaction, not a yield calculated under SEC methodology, and is not comparable on a like-for-like basis

WHY WE ENTERED WHEN WE DID

These trades are available every trading day. We monitor the conditions below and enter these trades during more favorable environments. The coupon is the direct output of three observable variables, and when the three align, a structure that was unattractive weeks earlier becomes compelling. Lakewood monitors all three continuously and enters only on alignment.

- **Volatility elevated.** A coupon is compensation for selling volatility. Entering after volatility rises means selling it expensive rather than cheap.
- **Indices corrected.** The barrier is struck as a percentage of the level at execution, so entering after a decline places the absolute barrier further below prior trading ranges.
- **Correlation depressed.** Correlation measures how closely two indices move together, rising and falling in step. A worse-of structure pays more when divergence between the two indices is priced as likely. For indices whose constituents substantially overlap, unusually low correlation translates into a higher coupon when entering the trade.

REFERENCE CHARTS[4]

EXHIBIT 1 · VOLATILITY

Volatility rose on a decline in the Nasdaq-100, raising the coupon this structure pays.

[4]Source: Bloomberg, 07/30/2026. Charts depict historical market data for the referenced indices to document conditions observed at execution. They do not depict the performance of this trade, any Lakewood strategy, or any client account, and are not a forecast. Market conditions change continuously and comparable terms may not be available at any future date.

EXHIBIT 2 · INDEX LEVELS

Both indices corrected from prior highs, placing the 65% barrier below the 2025 sell-off lows.

Source: Bloomberg

EXHIBIT 3 · CORRELATION

Correlation between the two indices was low relative to history, making the coupon rich vs history.

Source: Bloomberg

UNDERSTANDING THE RISKS

Lakewood analyzes and designs this trade in-house. A multi-year coupon on the worse of two indices, an early redemption feature, and a barrier observed on a single future date cannot be structured efficiently from listed options contracts, and replicating the payoff ourselves would add costs that consume the economics. We source the completed payoff from global bank issuers. That decision carries risks the listed-options do not. Return of principal depends on the issuing bank's ability to repay: this is single-issuer credit exposure and not deposit insurance. Liquidity before an early redemption or maturity event depends on the issuer making a secondary market, which it is not obligated to do, and any bid may be materially below par. Because the payoff references the worse-performing of two indices rather than an average, wider divergence between them increases the effective risk to principal, a dynamic distinct from owning either index outright. A breach of the barrier at final observation reduces principal in line with the full decline, which can exceed the coupons collected over the life of the trade.

Lakewood allocates this trade to the “Alternative Income” (Risk Capacity) allocation and evaluates suitability for this trade on a client-by-client basis.

04 - YOUR TEAM AT LAKEWOOD

The Partners.

THE EXPERIENCE BEHIND THE TRADE

Two of our three partners spent their careers as Executive Directors in JPMorgan's equity derivatives business; our portfolio manager traded multi-asset derivatives at Transamerica. We spent those years on the side of the table where these structures are designed and priced. That is why we specify the terms ourselves and price them against competing bids from multiple issuers, and why what reaches a client portfolio is a position we analyzed and designed rather than a product that was offered to us.

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