
From: Andrew King [REDACTED]
Sent: 10/17/2017 12:24:31 PM
To: Paul Barrett [REDACTED]
CC: Stewart Oldfield [REDACTED]
Subject: RE: DB - Harvest Collateral Yield Enhancement Strategy

Paul,

You're right that the returns have been around 70bps since Dec 2013. However, it's important to note that this is an overlay strategy, and doesn't require additional capital outlay. Due to this, all returns are incremental to the return that you would also earn on your collateral.

Additionally, the strategy has a 25% margin requirement. Depending on the margin release available on the underlying collateral, you're able to increase your exposure to the strategy up to ~4x on a given amount of collateral. Of course, this would increase the potential return and risk, but would also maintain the favorable Sharpe ratio and low correlation to equities. As an example, on a given amount of collateral, 3x exposure would result in 210bps of incremental return over the past four years.

I'd also highlight that this incremental return would not be earned by applying leverage to the risks already in most portfolios (equity beta, credit, and duration). Due to the low correlation of the strategy to equities, for most investors the addition of the overlay has a diversification benefit to the overall portfolio, improving the risk adjusted return.

Please let me know if you'd like to discuss further.

From: Paul Barrett [mailto:REDACTED]
Sent: Monday, October 16, 2017 9:55 PM
To: Andrew King <REDACTED>
Cc: Stewart Oldfield <REDACTED>
Subject: RE: DB - Harvest Collateral Yield Enhancement Strategy

Hi Andrew

I reviewed the returns over the past 4 years and they are not that exciting. It has averaged around 70bps return over that time period. I like the concept but not sure the strategy generates enough returns. Happy to discuss more if you think I missed something.

Paul

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From: Andrew King [REDACTED]
Sent: Friday, October 13, 2017 5:03 PM
To: Paul Barrett <REDACTED>
Cc: Stewart Oldfield <REDACTED>
Subject: DB - Harvest Collateral Yield Enhancement Strategy