

Subject: RE: DB - Harvest Collateral Yield Enhancement Strategy [I]
From: Vahe Stepanian <[REDACTED]>
Date: Thu, 22 Feb 2018 16:09:09 -0500
To: Stewart Oldfield <[REDACTED]>, Andrew King <[REDACTED]>
Cc: Martin Zeman <[REDACTED]>

Classification: For internal use only

Stew/Andrew – was there any follow up on this?

Best,

Vahe

From: Stewart Oldfield
Sent: Wednesday, February 07, 2018 11:22 AM
To: Andrew King <[REDACTED]>
Cc: Martin Zeman <[REDACTED]>; Vahe Stepanian <[REDACTED]>
Subject: RE: DB - Harvest Collateral Yield Enhancement Strategy

Andrew,

Just spoke to Paul. He's ready to focus on this. Please send him the latest book and any updated performance. Once he reads it, he will want a call with Rick or Allan.

Only complexity here is that KCP trades all of his brokerage. So, the SMA will need to be set up alongside that account. Hoping we can all work together to get this done.

Thanks

From: Andrew King
Sent: Tuesday, October 17, 2017 12:25 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

Paul Barrett

Alpha Group Capital LLC

142 W 57th Street, 11th Floor, New York, NY 10019

[REDACTED] (o) [REDACTED] (c)

[REDACTED]

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

Paul,

I'm an Investment Specialist on Stew Oldfield's team at DB. During your last meeting with Stew, you had discussed a managed option strategy on our platform: the Harvest Collateral Yield Enhancement Strategy (CYES). As a follow-up, I thought I would send more information for your review.

As background, CYES is an overlay that seeks to exploit the volatility risk premium and time decay properties of options by actively managing a portfolio of short-dated index option spreads on the S&P 500 index. The strategy sells options to generate premium while purchasing further out of the money options to contain risk. In a disciplined manner, the strategy seeks to mitigate exposure to market directional risk by defensively adjusting positions in response to a large move or reducing exposure ahead of specific market events.

The strategy enables an investor to add an incremental return stream to their existing portfolio, and the potential diversification benefit provided by the strategy's historically low correlation to equities. It requires no capital outlay and instead uses an investor's existing portfolio as collateral. The strategy is implemented through a separately managed account (SMA) with complete transparency and daily liquidity.

Harvest is an established leader in managed option strategies. It was founded in April 2008 and has over \$10BN in AUM. The strategy is managed by an experienced team of 15 investment professionals that have deep trading and portfolio management backgrounds and have demonstrated success through the global financial crisis and other market events.

If you have any questions or would like to discuss further, please just let me know.

There are risks associated with investing in this strategy, please see slide 20 of the attached presentation for a summary of risks.

Best regards,
Andrew King

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Andrew King, CFA
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