

Subject: FW: Harvest CYES Summary - February 2018
From: Stewart Oldfield <[REDACTED]>
Date: Wed, 14 Mar 2018 11:32:08 -0400
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Thought you would find this helpful. Have a great trip

From: Rick Selvala [mailto:[REDACTED]]
Sent: Friday, March 09, 2018 5:41 PM
Subject: Harvest CYES Summary - February 2018

Dear Friends,

Summarized below is the Harvest Collateral Yield Enhancement Strategy (CYES) monthly update for February of 2018. The CYES was -0.63% on notional (which is -1.90% on a "33% of notional" margin requirement) for the month. The strategy, which prefers more moderate market gyrations and range trading, was hurt by the sharp pullback in the S&P 500 (the first 10% correction since 2015) coupled with a surging VIX (we don't like the spike on the way up but prefer the more elevated levels going forward). YTD, trailing 12-month and annualized since inception numbers are provided below:

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Monthly Metrics (SPX and VIX):

The SPX closed the prior month at 2824 -> after peaking at 2873 intra-month in January it slid then collapsed on fears of the impact of higher interest rates on equity valuations (before bouncing sharply once again): Traded an intra-month low of 2533 on 2/9 (-291 points or -10.3% from the prior month close; -340 points or 11.8% from the prior month high). Rebounded sharply to a post-plunge high of 2789 on 2/27 before sagging to close the month at 2714. Lost 110 points or +3.9% from the prior month close (but much larger intra-month swings).

The VIX closed the prior month at 13.5 -> surged to multi-year highs (as the SPX was bottoming) before retracing towards its long term average (as the SPX bounced): Traded an intra-month high of 50.3 on 2/6 before retracing sharply
Reached a post surge low of 15.8 on 2/27 before increasing again to close at 19.9.

Ø Up 6.4 points or +47% from the prior month close; but

Ø The intra-month low to high range was 36.8 points or 273%

It has obviously been a challenging start to the new year for the CYES but we have experienced similar drawdowns in the past (most notably in 2008 and 2011). While past performance is no guarantee of future results, we recovered those previous drawdowns in 2-4 months on average. Either way, going forward, the strategy should benefit from:

An SPX that remains choppy but more constrained The bulls look to global growth, strong earnings and continued low interest rates (by historical standards)

The bears point to richer valuations, increasing interest rates and other unknowns (such as trade tensions and global tensions)

A VIX that should remain more elevated i.e., closer to its long term average of 20 than the historic lows closer to 10 seen during much of 2017

As a reminder, the CYES:

Seeks to deliver additional cash-flow returns to your portfolio, over and above the return on your other liquid investments (equities, fixed income, municipal bonds, mutual funds, ETFs, MLPs, REITs, cash).

Enhances portfolio risk-adjusted returns given its low volatility and low correlation to other asset classes.

Has no opportunity cost since you are not required to commit capital or change your existing asset allocation.

Manages a portfolio of index option spreads (modified iron condors) on the S&P 500 to generate option premium with limited risk: Market and collateral agnostic.

Maximum potential loss in any given month ~5% of notional value (program size).

Conservative ongoing risk management.

Provides daily liquidity with no lock-up and Section 1256 tax efficiency. Performs best when the equity market is choppy but generally range bound (i.e., doesn't care whether the market goes up or down, but doesn't like extreme collapses (or surges) in the S&P 500).

Additional CYES Performance Metrics:

Positive in 8 out of 10 years since inception (including 2008, 2009, 2010, 2011, 2012, 2015, 2016, 2017).

Best year +3.6% on notional; worst year -0.7% on notional.

Monthly return distribution (66% positive; 34% negative).

Best month +3.5% on notional (December 2008); worst month -2.8% on notional (October 2008).

Worst drawdown -3.8% on notional (2 months from September 2008 thru October 2008); worst drawdown recovery = 2 months (November 2008 thru December 2008).

Annualized standard deviation since inception of 2.32% on notional; annualized standard deviation has averaged closer to 1% during the past 6 years (2012-17).

Correlation to the S&P 500 of 0.06 (even lower correlation to other liquid investments).

As ever, if you have any additional questions or comments, please don't hesitate to reply or call the office number below. Also, please advise if you would like to be removed from our distribution list.

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