

Subject: FW: Harvest CYES Update - July 2018
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From: Rick Selvala [mailto:RSelvala@hvm.com]
Sent: Thursday, August 09, 2018 3:19 PM
Subject: Harvest CYES Update - July 2018

Dear Friends,

Summarized below is the Harvest Collateral Yield Enhancement Strategy (CYES) monthly update for July of 2018. CYES, which prefers moderate equity market gyrations and range trading, was +0.36% on notional for the month and is -0.79% YTD; -1.15% on a trailing 12-month basis and +1.15% annualized since inception in April of 2008 (124 months or 10.3 years). These are composite returns – individual client returns may differ depending on when they started or based on changes in notional levels along the way.

July was the 4th straight positive month for CYES, during which time it is +1.63%. We continue to respond and adjust to changing market conditions and moves in the SPX and VIX.

The S&P 500 (SPX) resumed its impressive rally in July, shrugging off heightened trade-war rhetoric and a late month swoon in technology shares (including a 20% decline in Facebook). Overall it was more of a risk-rotation than a risk-off move. The SPX traded an intra-month low of 2699 on the morning of 7/2, the first trading day of the month. It then rallied impressively, finally breaking back above 2800 after several failed attempts since February, to an intra-month high of 2848 on 7/25. It then sagged back to 2800 (previous resistance becomes support) before closing the month at 2816. Overall, it was +98 points on the month (+3.6%) with a peak-to-trough range of 149 points (5.5%).

As usual, the VIX moved with a negative correlation to the SPX. It peaked at 18.1 on 7/2 (as the SPX bottomed) then slumped to an intra-month low of 11.4 on 7/18 before mostly oscillating in the 12-14 range and closing the month at 12.8. Overall, it was -3.4 points on the month (-21%) with a peak-to-trough range of 6.7 points (42%).

The intra-month and intra-day trading for both the SPX and VIX is shown below:

{cid:image001.jpg@01D42FF2.564CC590} {cid:image002.jpg@01D42FF2.564CC590}

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 at inception or change your existing asset allocation.

Manages a portfolio of short 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 generally range bound or trending at a moderate level (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 2.33% on notional; annualized standard deviation has averaged closer to 1% during the past 6 years (2012-17).

Correlation to the S&P 500 of 0.08 (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.

Kind Regards,

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