

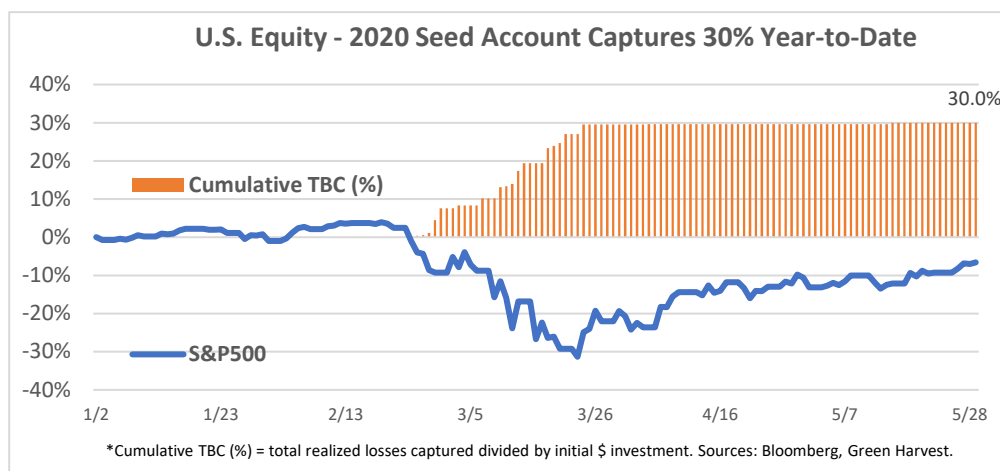
## Harvesting Strategy

Just Another May Away From All Time Highs

5 percent. The S&P500 lost 5 percent over the first 5 months of this year. In that time 40, million Americans lost their jobs, 100,000 their lives to CV19 and 1.7 million tested positive for CV19. This last week saw civil unrest, Hong Kong lost, and further recognition that the Sino-American cold war has already begun. But amidst all that, add another 5% gain like we just saw in the month of May and the S&P500 would be nearly back at peak. In the course of all that is going on, many are understandably incredulous to the market's recovery. To be sure, not all stocks are doing as well as the S&P500 and just a few months ago, the index fell at its fastest pace ever, losing 34% in 22 trading days. In hindsight, avoiding panic selling was in investors' best interests though getting out of the market is an all too common occurrence in the investment world.

What if there was a way to protect client assets by reducing capitulation? As the saying goes, "past performance is no guarantee of future results," but there are some signs that tax-loss harvesting can help. The story from the robo-advisers, many of which implement some form of tax-loss harvesting, was that [relatively few clients cashed out](#).

Similarly, very few Green Harvest clients liquidated during the downturn. Having a robust TBC program may help clients feel better about being fully invested during times of high volatility. As many of you know, we strive to provide best in class Tax Benefit Capture (TBC) or tax-loss harvesting<sup>1</sup>. Below is a picture of our TBC process in action this year. Specifically, the chart plots the day-to-day TBC in a live U.S. Equity S&P 500-benchmarked strategy seed account invested at the beginning of the year<sup>2</sup>.



<sup>1</sup> Tax Benefit Capture (TBC) in this context refers to the practice of purposely capturing realized losses to minimize taxes by offsetting realized gains.

<sup>2</sup> Green Harvest Seeded Account allocated to U.S. Equity strategy on December 31, 2020. This account was managed in accordance with all other U.S. Equity strategy accounts and is included in Composite performance.



A few observations:

- What this chart shows is 30% cumulative TBC as of Friday's close. To put this in practical terms, this would be equivalent to \$300,000 of cumulative potential capital gain offsets on a \$1 million investment in this strategy at the beginning of the year.<sup>3</sup>
- Nearly all of the TBC occurred during the period of the S&P500's decline. This was atypical from most clients' experience but owes to the magnitude of the decline as well as the specific timing of when this account was allocated.
- Similarly, there were no additional TBC's in April or May. Also unusual, but not surprising given the coordinated decline and rebound across sectors.

Like the S&P500, this account has also recovered to within a few percent of where it started the year. A TBC of 30% when the underlying index fell 30.75% from January demonstrates the power of a strategy that is in the game every day.

While few competitors publish side by side results, from what we've seen, our capture rate is significantly higher. Our goal is to capture tax benefits in all market conditions, including sideways and even rising markets. We engineer our portfolios to facilitate maximum capture. One thing we learned after having managed through Q4 2018, and have experienced again in this recent decline, is that TBC during a short-lived pullback is actually the more difficult challenge. If ever there was a test though, this dip and recovery has been it. Moreover, it's a test of whether investors will stay the course and by delivering tax benefits in all market conditions, we're cautiously optimistic.

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<sup>3</sup> The TBC opportunity during this period was significant given the sharp declines in equity markets in February and March. As such, these results would not be expected to be achievable in the future.

**Market Data Heat Map Summary for month of May 2020:**

Market Exposure	Sectors/Regions with GHAM Tax Benefit Capture	Total Return (%)	Standard Deviation	Max Drawdown	
				(%)	Date of Low
<b>S&amp;P500</b>		<b>4.8%</b>	<b>22.4%</b>	<b>-6.7%</b>	<b>5/14</b>
Materials	X	6.9%	28.5%	-7.9%	5/14
Energy	X	2.0%	53.6%	-11.6%	5/14
Financials	X	2.7%	42.9%	-11.9%	5/14
Industrials	X	5.4%	38.9%	-11.3%	5/14
Consumer Staples	X	1.7%	17.0%	-3.9%	5/14
Utilities	X	4.2%	28.2%	-6.3%	5/14
Health Care	X	3.3%	18.0%	-3.5%	5/14
Real Estate	X	2.2%	34.3%	-11.5%	5/14
Info Tech	X	7.2%	22.5%	-5.5%	5/14
Consumer Discretionary	X	6.5%	26.6%	-6.1%	5/14
Communication Services	X	7.4%	20.4%	-5.5%	5/14
<b>MSCI ACWI Ex-US</b>		<b>4.6%</b>	<b>23.3%</b>	<b>-4.5%</b>	<b>5/14</b>
Asia Ex-Japan	X	1.6%	24.9%	-4.4%	5/22
Japan	X	7.1%	22.8%	-3.8%	5/14
Australia	X	3.9%	16.9%	-3.9%	5/14
Switzerland	X	1.9%	27.0%	-6.9%	5/14
EuroZone	X	7.4%	31.6%	-8.0%	5/14
United Kingdom	X	2.2%	26.9%	-6.9%	5/14
Lat America	X	7.2%	48.6%	-10.9%	5/14
Canada	X	4.0%	26.5%	-6.4%	5/14

Areas with Tax Benefit Captures (TBCs) indicates where individual tax-loss harvest trades were executed in each market exposure across all eligible accounts for period specified. Darker shaded areas contained more TBCs.

Max Drawdown calculated as max decline from interim peak to Intra-Day Low.

Market Data Source: Bloomberg

Market statistics calculated using representative ETFs.



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The availability of tax alpha is highly dependent upon the initial date and time of investment as well as market direction and security volatility during the investment period. Tax loss harvesting outcomes may vary greatly for clients who invest on different days, weeks, months and all other time periods.

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