Green Harvest
ASSET MANAGEMENT

March 1, 2021

Harvesting Strategy

Tax Benefits in February?

Amidst rising bond yields, volatility returned last month yielding new Tax Benefit Capture (TBC) opportunities.[1] For those new to the discussion, TBC is the stuff from which Tax Alpha is made. Here are a few highlights of our TBC activity in February along with accompanying statistics in the chart below:

- The S&P 500 ended the month up 2.8% even as 4 of its 11 sectors fell.
    - The Utilities sector was the most frequently harvested sector representing a third of all domestic equity TBC trades. Utilities both fell the most last month (8.3% drawdown) and lagged all other sectors over the last six months with a 0.2% return.
    - In past years, Energy was a frequent source of TBC due to its volatility and dismal multiyear performance. More recently, however, it's become the sector top dog returning 113% since last March's market bottom, including 22.5% in February alone. The sector still tops the list in volatility which helped allow for several TBC opportunities for clients who invested new money recently.
    - The InfoTech sector's recent stumbles have been well covered in the press. We captured tax benefits during the recent volatility making InfoTech our 3rd most frequently harvested sector. As InfoTech is the largest sector with a 27% weighting, the total dollar amount of the benefits was actually the greatest.
- Outside the U.S., TBC activity was greatest in Latin America and Asia as markets swooned globally last week.
- Finally, we were able to harvest tax benefits in hedged positions in the first half of February as stocks made new all-time highs. When stocks fell, bonds were declining too, making the hedges one of the few available sources of risk reduction.

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Download Our White Paper: Benchmarking Tax Alpha

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

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Market Data and Green Harvest TBC Heat Map Summary for month of February, 2021:

Market Exposure	Sectors/Regions with TBC	Total Return (%)	Max Drawdown (%)	Max Drawdown Date of Low
S&P 500		**2.8%**	**-3.7%**	**2/26**
Materials	X	4.1%	-4.2%	2/26
Energy	X	22.5%	-7.1%	2/26
Financials	X	11.6%	-4.1%	2/26
Industrials	X	6.9%	-3.1%	2/26
Consumer Staples	X	-1.2%	-4.1%	2/26
Utilities	X	-6.1%	-8.3%	2/26
Health Care	X	-2.1%	-4.2%	2/26
Real Estate	X	1.6%	-3.4%	2/26
Info Tech	X	1.4%	-7.2%	2/23
Consumer Discretionary	X	-0.5%	-8.2%	2/26
Communication Services	X	7.0%	-4.2%	2/23
MSCI ACWI Ex-US		**2.0%**	**-4.9%**	**2/26**
Asia Ex-Japan	X	1.9%	-7.7%	2/26
Japan	X	1.5%	-5.2%	2/26
Australia		-1.8%	-5.3%	2/26
Switzerland	X	3.9%	-4.4%	2/26
EuroZone		4.2%	-3.0%	2/26
United Kingdom	X	4.1%	-4.1%	2/26
Lat America	X	-2.3%	-9.7%	2/26
Canada		5.4%	-3.9%	2/26

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.
Max Drawdown calculated as max decline from interim peak to Intra-Day Low.
Market statistics calculated using representative ETFs. Market Data Source: Bloomberg

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Reasons to harvest capital losses, sources of capital gains and the suggestion that mutual funds distribute capital gains are for example purposes only and not meant to be tax, estate planning or investment advice in any form or for any specific client.

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Hedged Strategies Risk

The Hedged Strategies take "short" positions by selling an index ETF that the client portfolio does not own, which exposes the portfolio to costs and risks that are not associated with owning securities long. Certain of these costs and risks are described in the margin disclosure statement provided to you by the financial institution holding your account, and we encourage you to discuss those risks and costs with your advisor. The following disclosure discusses the risks related to Green Harvest's investment strategy.

A short position has an opposing or "inverse" relationship to a long position on the same asset. Generally, the short index position will lose money when the overall long portfolio is rising in value, and the short position will increase in value when the long portfolio is losing money. This relationship provides the "hedging" aspect of the Strategy. Green Harvest seeks to short an index ETF that is expected to have a strong inverse relationship with the strategy benchmark. If the index ETF underlying the short position deviates from this inverse correlation to the benchmark performance, then the Strategy will not perform as desired, and you could have limited tax loss

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harvesting outcomes as well as low or negative portfolio returns. Although the short position is intended as a hedge against negative or low returns of the markets, the Strategy's return may be negative. Any dividends paid by ETFs underlying the short position must be paid to the institution lending the security and thus will not generate income for your account.

Tax loss harvesting opportunities exist when the long portfolio has gains and when the short position has losses. Portfolio losses may result in margin calls from your financial institution, and when you instruct Green Harvest to sell portfolio assets in response to margin calls, such sales could generate taxable capital gainmns. Alternatively, you will be required to add cash to the account in response to margin calls.

Short positions can lead to more volatile performance of the underlying security. In addition, the ETFs underlying short positions may experience periods of low trading volume or reduced liquidity, which would restrict the ability to enter short positions. In these periods, Green Harvest can seek to enter short positions through other available transactions, which may have higher transaction costs. All investments are subject to liquidity risk, especially when markets are not functioning normally. If Green Harvest is unable to acquire or dispose of holdings quickly or at prices that represent perceived market value, then the Strategy will be negatively impacted. Examples of events that can lead to heightened liquidity risk include domestic and foreign economic crises, natural disasters, political instability, and regulatory changes.