Q1 2023

Commentary

The first quarter of 2023 can only be characterized as a "bounce-back" investment environment from the lows of 2022. All the same issues that plagued the equity and fixed income markets in 2022 have continued in 2023 with some issues getting markedly worse as is the case for regional banks and the failure of a few banks to adequately adapt to the Fed's tightening policy. The net result of the continued malaise has been a significant precipitous drop in risk appetite by equity market investors as measured by our friends at S&P Global. [1] In fact, based on S&P Global's Investment Manager Index (IMI), only March & April of 2022 produced lower readings. If there are to be any positives to be gleaned from the most recent data and information, it is that the Fed started talking about pausing their historic rate hike cycle at the March meeting. What this ultimately means is that the light at the end of the tunnel seems to be getting much closer for equity market investors seeking higher long-term returns.

Portfolio Review

The bounce back market conditions during Q1 created a surge in market prices during the quarter, predominantly focused in the technology sectors as more "value" oriented sectors such as healthcare, financials and energy sectors retreated during the quarter. The Sapphire Star Covered Call Strategy steadily gained 2.24% net of fees versus a gain of 5.26% for our blended benchmark and a gain of 7.49% for the S&P 500 Index. Apple Corporation +27.11%, Microsoft Corporation +20.52%, and American Express +12.04% added to the strategy, while Chevron Corporation (8.29%), Bank of America Corporation (13.08%), and Amgen (7.14%) were the biggest detractors. By the end of the quarter the energy minerals, finance, and health technology sectors continued to be the three sectors with the largest portfolio weight while the communications, producer manufacturing, and consumer non-durables sectors continued to be the three lowest weighted economic sectors represented in the strategy. Despite the technology sector not being in the top three weighted sectors, Microsoft Corporation (9.19%) and Apple Corporation (8.01%) are the two largest holdings in the strategy.

Looking Forward

"Fits & starts" is how we expected the market to regain its footing in 2023, and so far, year to date, we haven't been disappointed. We continue to believe the market will climb out of the

[1] https://www.spglobal.com/marketintelligence/en/

bear market but a “V” or “U” shaped recovery in the equity markets is off the table. This recovery is going to take effort on the part of equity investors to be patient as the market slowly finds its footing amid relatively high equity valuations, high investor risk aversion, and increasing investment alternatives as fixed income yields have increased. These conditions are favorable for our covered call strategy as further equity gains should be muted from a historical perspective.

Unfortunately, the March rate hike will not be the last, however, the end of the cycle is certainly much closer. We feel that in this current environment investors must focus on a longer-term perspective while keeping in mind that it will continue to be a volatile recovery as we have seen year to date. We remain focused on our fundamentally superior stocks combined with our opportunistic call writing process that aims to maximize the call premiums we receive on our holdings. From a fundamental viewpoint, our equity portfolio currently has a PE ratio of 14.2 versus the S&P 500 at 21.6, in addition the Price to Sales ratio for the portfolio is 1.5 versus the S&P 500 at 2.4. While it is comforting that the strategy is on average trading at lower valuations than the market (which should offer some protection against negative volatility in addition to our call writing) the portfolio also possesses a significantly higher Return On Equity of 30.6 versus 25.2 for the S&P 500. With strong fundamental characteristics such as these, combined with our opportunistic call writing process and currently elevated cash position, we feel confident that the strategy possesses an appropriate level of market exposure and enough dry powder to endure projected elevated negative volatility and take advantage of opportunities as they present themselves in the coming months and quarters.

As always, we welcome any questions or concerns that you have and thank you for confidence in the Sapphire Star Covered Call Strategy.

Regards,

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