



## Covered Call Strategy

## Manager Profile

**Michael J. Borgen**  
Founder & Chief  
Investment Officer



University of Nevada  
M.S., Economics  
B.S., Finance

Over the preceding two decades, Michael has researched, constructed, and managed a variety of systematic equity and equity derivative strategies, ranging across the market capitalization spectrum, first while with Navellier & Associates, as a Senior Portfolio Manager, and currently at Sapphire Star Capital.

## Investment Process

Sapphire Star Covered Call portfolios are based on the “buy-write” approach to investing in the equity markets. The buy-write strategy involves the simultaneous purchase of equity securities and the writing of call options on these same securities and the subsequent collection of the call premium income. The Sapphire Star strategies combine the innovative Sapphire Star Large Cap Core Tactical strategy with a buy-write option overlay. Because the U.S. markets are expansive, most stocks have monthly options, giving the strategies flexibility. The option selection process focuses on contracts that are “close-to-the-money” and seeks the highest amount of income possible (the target range is 0.10% - 1.00% per month). The expiration dates of the calls are out to 9 months for the portfolio. An objective of this strategy is to generate income (via the call premiums and dividends) and to limit the volatility of the portfolio. Volatility can be lowered due to the portfolio’s ability to hold higher levels of cash, up to 50%, when conditions warrant.

## Recent Performance

	Sapphire Star Covered Call Income (Net) Wrap Composite	Russell 1000 <sup>®</sup> (65%) / 3-Month T-bill (35%) Return (%)
Q4 2023	6.87%	8.18%
Year-to-Date	12.35%	18.78%

## Strategy Highlights

The Sapphire Star Covered Call Strategies utilize a strategy of buying stocks and the simultaneous writing call options against them (also know as a “buy-write” strategy).

We offer two portfolio styles either a fully-diversified version (20 - 30 positions) or a concentrated version (8 - 15 positions).

Two major objectives of the portfolios are the ability to generate income (via premiums earned on the calls and the dividends) and to limit overall portfolio volatility.

The portfolios typically consist of well-known companies spanning the market capitalization range. In addition, the portfolios seek companies with low debt levels and high dividends.

The call premium goal is 5 - 8% per year for the Income portfolio.

Many stocks contained in the portfolios pay dividends, generating additional income.

In a further attempt to limit volatility of the portfolios, a higher level of cash can be held (up to 50%) if conditions warrant.

## Benefits of Covered Call Strategies

Sapphire Star developed the Covered Call Strategies with three principal purposes:

- 1) Provide investors with the ability for capital preservation
- 1) Provide investors with an additional source of income,
- 2) Provide investors with moderate upside equity appreciation potential

As such, we believe the portfolios should be viewed in terms of how well they meet these criteria for the investor and not whether the portfolio beats a particular benchmark. The benchmark used for the portfolios was chosen because it most closely approximates what the portfolio is intended to do, not as a number to be beaten.

**Past performance does not guarantee future results; investment in equity strategies involves substantial risk and has the potential for partial or complete loss of funds invested. Results presented include reinvestment of dividends and other earnings. See GIPS Performance Report on the last page of this document**



## Covered Call Strategies

## Performance Returns

	Sapphire Star Covered Call Income (Net) (Wrap Composite)	Russell 1000® (65%) / 3-Month T- bill (35%) Return (%)
<b>Annualized Returns: through 12/31/2023</b>		
Year-to-Date	12.35%	18.78%
Trailing 1 Year	12.35%	18.78%
Trailing 3 Year	7.69%	6.93%
Trailing 5 Year	9.00%	11.14%
Trailing 10 Year	6.23%	8.39%
<b>Calendar Year Returns</b>		
2023	12.35%	18.78%
2022	-4.59%	-11.84%
2021	16.51%	16.75%
2020	7.53%	15.02%
2019	15.84%	20.60%
2018	0.87%	-0.22%
2017	11.57%	14.00%
2016	3.74%	8.00%
2015	-4.62%	0.88%
2014	6.75%	8.59%
2013	9.36%	20.63%
2012	7.86%	10.62%
<b>Quarterly Returns</b>		
12/31/23	6.87%	8.18%
9/30/2023	-0.28%	-1.57%
6/30/2023	3.15%	5.98%
3/31/2023	2.23%	5.26%
12/31/2022	-4.59%	-11.84%
9/30/2022	-2.68%	-2.73%
6/30/2022	-11.51%	-10.94%
3/31/2022	0.54%	-3.22%
12/31/2021	5.77%	6.32%
9/30/2021	-0.88%	0.18%
6/30/2021	3.17%	5.51%
3/31/2021	7.82%	3.89%
12/31/2020	7.04%	8.80%
9/30/2020	4.19%	6.17%
6/30/2020	11.56%	14.04%
3/31/2020	-13.60%	-12.68%

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## Covered Call Strategies

Supplemental Information as of December 31, 2023

### Portfolio Highlights Covered Call Income

5-Yr Beta (Relative to S&P 500)	0.60
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5-Yr Standard Deviation	11.87%
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5-Yr Beta (Relative to Russell 1000(65%)/3 Month T-Bill (35%))	0.90
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### Portfolio Highlights Covered Call Strategy

Forecasted PE	8.04
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Average Market Cap (\$ billion)	428
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Median Market Cap (\$ billion)	222
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Average Dividend Yield	2.5
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Average Number of Holdings	26
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### Sector Weights

1. Energy Minerals
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2. Finance
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3. Technology Services
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4. Health Technology
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5. Electronic Technology
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6. Transportation
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7. Retail Trade
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8. Consumer Services
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9. Consumer Non-Durables
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10. Consumer Durables
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### Top 10 Stock Holdings Covered Call Model

1. Microsoft Corporation
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2. Apple Inc.
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3. Union Pacific Corporation
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4. Amgen Company
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5. Chevron Corporation
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6. Exxon Mobil Corporation
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7. American Express Company
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8. Phillips 66
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9. McDonald's Corporation
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10. Home Depot, Inc.
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# Sapphire Star Capital Covered Call Income Wrap Composite

Reporting Currency U.S. Dollar

Year	Firm Assets (\$M)	Composite Assets (\$M)	Percentage of Firm Assets	Number of Accounts	Composite Pure Gross Return (%)	Composite Net Return (%)	Russell 1000® (65%); 3-Month T Bill (35%) Return (%)	Composite Dispersion (%)	Composite 3-Yr Std Dev (%)	Russell 1000® (65%); 3-Month T Bill (35%) Return (%) 3-Yr-Std Dev (%)
2022	92	9	9.15%	11	-3.42	-4.59	-11.84	1.38	13.91	13.68
2021	142	11	8.44%	13	17.91	16.51	16.75	1.21	10.86	11.27
2020	138	22	15.66%	14	7.95	6.66	14.35	1.95	11.20	12.37
2019	114	21	19.35%	16	16.89	15.82	20.61	.78	6.67	7.81
2018	109	19	17.65%	21	2.12	-.66	-2.18	.58	7.14	7.10
2017	118	11	9.58%	22	13.32	11.53	13.67	0.63	7.57	6.48
2016	112	20	17.51%	47	5.62	3.72	7.99	0.98	7.83	6.90
2015	103	24	23.64%	59	-2.9	-4.61	0.87	1.13	7.12	6.77
2014	**	26	**	60	8.68	6.76	8.59	1.01	5.63	5.91
2013	**	17	**	48	11.32	9.37	20.64	0.79	16.46	7.97
2012	**	14	**	38	9.76	16.55	15.81	0.55	19.70	10.01
2011	**	7	**	20	8.71	7.08	-1.66	1.23	N/A <sup>1</sup>	N/A <sup>1</sup>
2010	**	4	**	14	9.86	8.28	10.66	0.59	N/A <sup>1</sup>	N/A <sup>1</sup>

\*\*Firm Assets prior to 2015 equaled zero since the firm had not yet been established.

<sup>1</sup>N/A information is not statistically meaningful due to an insufficient number of portfolios for the entire year.

**1. Compliance Statement** - Sapphire Star Capital, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sapphire Star Capital, LLC has been independently verified for the periods January 1, 2015 through December 31, 2022. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

**2. Definition of Firm** - Sapphire Star Capital, LLC is a registered investment advisor established in 2015. Registration does not imply a certain level of skill or training. Sapphire Star Capital, LLC manages a variety of equity assets for primarily U.S. institutional and retail clients. The firm's list of composite descriptions as well as information regarding the firm's policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

**3. Composite Description** - The Sapphire Star Capital Covered Call Income Wrap Composite includes all discretionary Covered Call Income equity accounts that are charged a wrap fee and are managed with similar objectives for a full month, including those accounts no longer with the firm. The strategy is designed for aggressive investors and seeks to achieve greater returns than its blended benchmark while minimizing risk and generating income. The "covered call" strategy is one in which an investor writes a call option contract while at the same time owning an equivalent number of shares of the underlying stock. Writing call options generates income in the form of premium paid for the option to buy the stock at a certain price and date. The stock is generally held in the same brokerage account from which the investor writes the call, and fully collateralizes, or "covers", the obligation conveyed by writing a call option contract. By writing the call option, the owner of the stock is selling a contract to the buyer of the call option, giving the buyer the right to purchase the stock at a given price by a specified date.

If the current market value of each security rises above the strike price in the contract, then the buyer will exercise the option, and the stock must be forfeited at the specified price. Additionally, by a portion of the stock's ability to appreciate. If the option expires while the stock's current market value is less than the strike price, the writer will keep the income generated from writing the options. The strategy's goal is to achieve the premium income while forfeiting the least amount of stock appreciation. To generate greater income potential, the strategy will generally write covered calls on all equity positions in the portfolio and will generally focus on higher dividend paying companies. Option trading involves a number of inherent risks and is not suitable for everyone. Investors considering options should consult with a tax advisor. Investors should read the option Clearing Corp's Option Disclosure provided by their brokerage firm or advisor carefully before investing. The strategy typically invests in approximately 20-30 stocks. Cash holdings may vary as widely as 5% to 50%. At any given time, the strategy may hold up to 15% in American Depositary Receipts (ADRs). This strategy has been managed by Michael Borgen for the following period: January 2010 to present. However, performance shown prior to January 1, 2015, represents results achieved by the investment team while working or consulting for a prior firm, Navellier & Associates, Inc. Performance figures that are net of fees take into account advisory fees, wrap fees, and any brokerage fees or commissions that have been deducted from the account. "Pure" gross-of-fees returns do not reflect the deduction of any trading costs, fees, or expenses, and are presented only as supplemental information. Performance results are total returns and include the reinvestment of all income, including dividends. The composite was created January 1, 2010. Valuations and returns are computed and stated in U.S. Dollars.

**4. Management Fees** - The management fee schedule for accounts is generally 50 to 100 basis points; however, some incentive fee, fixed fee, and fulcrum fee accounts may be included. Fees are negotiable, and not all accounts included in the composite are charged the same rate. Bundled fee accounts make up 100% of the composite for all periods shown. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor. Wrap fees generally range from 100 to 200 basis points and include custody, trading expenses, and other expenses associated with the management of the account.

**5. Composite Dispersion** - If applicable, the dispersion of annual returns is measured by the standard deviation across asset-weighted portfolio level gross returns represented within the composite for the full year.

**6. Benchmark** - The primary benchmark for the composite is based on a combination of the Russell 1000® Index and the 3-Month T-bill and is a 65% allocation of the Russell 1000® Index and a 35% allocation of the 3-Month T-bill for each period. The benchmark is rebalanced monthly. The Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents approximately 92% of the total market capitalization of the Russell 3000® Index. The 3-month T-bill is a short-term debt obligation backed by the U.S. government with a maturity of three months. This blended index is considered a reasonable measure of the general performance of the broad U.S. equity market. The returns for the index include the reinvestment of any dividends. The asset mix of Sapphire Star Covered Call Income accounts may not be precisely comparable to the presented index. Presentation of index data does not reflect a belief by the Firm that the blended index, or any other index, constitutes an investment alternative to any investment strategy presented in these materials or is necessarily comparable to such strategies.

**7. General Disclosure** - The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. Actual results may differ from composite results depending upon the size of the account, custodian related costs, the inception date of the account and other factors. **Past performance does not guarantee future results. Investment in equity strategies involves substantial risk and has the potential for partial or complete loss of funds invested. Results presented include reinvestment of all dividends and other earnings.** The securities identified and described do not represent all of the securities purchased, sold, or recommended for client accounts. It should not be assumed that any securities recommendations made by Sapphire Star Capital, LLC in the future will be profitable or equal performance of securities made in this report. A list of recommendations made by Sapphire Star Capital, LLC for the preceding twelve months is available upon request.

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