Opportunistic Investing

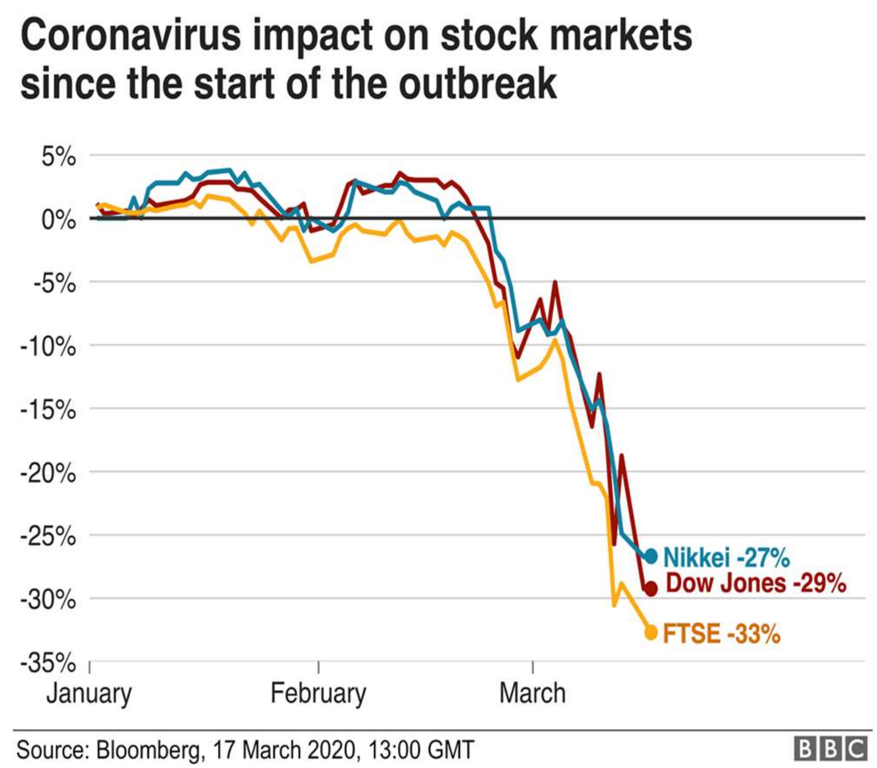
Case Study:

Upside Opportunity in a Turbulent Market

OBJECTIVE CAPITAL MANAGEMENT

The Market Drops

- As the coronavirus spread rapidly and stay at home orders were put in place, the stock market tumbled.
- Recession fears grew as businesses were closed and employees were furloughed or laid off.
- Uncertainty led to an unprecedented quick selloff.
- In just one month the market declined more than 30%, bottoming on March 23rd.



Recognizing Opportunity to Add Value

- While the general messaging to clients was to stay the course, OCM knew there was a **unique opportunity to accelerate recovery** and maximize profits in the event of a market rebound.
    - Opportunity does not have to be synonymous with higher risk. The swift market dislocation left an abundance of opportunities...we felt it was inadvisable to simply do nothing.
- Rather than merely rebalancing portfolios we wanted to adopt a forward thinking strategy. How could we reposition certain assets into a more compelling risk/reward proposition?
- **We sought to create a unique solution to give certain clients upside leverage while taking no additional market risk.**

Thesis on the Trade

- Our goal: **control what we can control**.
  - Although we cannot control what the market is going to do, we can control risk/reward propositions and how our clients participate in markets.
- How can we take advantage of the swift irrational selloff and market dislocation?
- With large cap stocks down ~35%, we felt the timing was right to best position our clients for a rally.
- We decided to explore customizing a security (Structured Note) with a highly rated domestic issuer to provide **maximum upside leverage** on an eventual stock market recovery.

Taking Action- Specifics of the Trade

Utilizing OCMs industry contacts, flexibility, and an opportunistic mindset, we decided to custom create a Structured Note **exclusively available for our investors**. We reached out to various investment banks to discuss terms of a deal.

- Citigroup came back to us with the best offer as follows:
  - **230% Leveraged Upside (uncapped)**
  - **1:1 Market Downside**
  - **5 year Maturity (non-callable)**
  - **Performance tied to the worst performing of the Dow Jones Industrial Average (DJIA) and the S&P**
- The note was issued and traded in select client accounts on March 25, 2020 just two days after the market bottomed on March 23, 2020.

How Does The Note Work?

- The note will be valued on March 25, 2025 (5 years) and make a final payment at maturity (original investment +/- any applicable gain or loss).
- The return will be based on the performance of the S&P 500 and The Dow Jones Industrial Average over that 5 year time period.
  - In the event both indices are positive, 2.3x leverage will be applied to the upside of the lower performing index. I.e. if the lower performing index is up 50%, this note will return 115%.
  - If one or both indices are negative, investors will lose 1:1 downside on worse performing index.
- The index start levels on March 25th, 2020 were:
  - **DJIA: 21,200.55**
  - **S&P 500: 2,475.56**

As of June 30th, 2021, the DJIA was up 62.74% since March 25th, 2020 level. Per the terms of the note, our investors' current value at maturity is up 144.30% in just over 15 months.

***Please note that prior to maturity, value of notes on secondary market will not always correlate with actual index performance and can vary significantly. Terms only apply at maturity.*

The OCM Difference

- We pride ourselves on being forward thinking, staying on top of industry trends, and working hard to **deliver clients creative and thoughtful bespoke solutions**.
- Our independence and our size make us nimble and we can execute and act quickly to take advantage of opportunities.
  - OCM had a limited window to maximize upside return and take advantage of a low point in an extremely volatile market.
  - We conceived the idea, priced the deal, locked in terms, and presented to clients within a day.

Our clients appreciate our proactive approach to investing and for always looking for ways to bring them relevant, exclusive, and actionable ideas.

Appendix:

What is a Structured Note?

- Debt security offered by investment banks as an alternative way to quickly raise capital
- Offers enhanced participation terms in market (often tied to underlying index or basket of securities)
- Notes can be structured in a variety of ways:
    - Varying durations (13 months- 10 years)
    - Designed for enhanced income
    - Built in downside protection
    - Enhanced upside participation

- Risks include default risk, market risk, and liquidity risk
- Offered by many different investment banks such as JP Morgan, Goldman Sachs, Bank of America, Citigroup, Barclays, Credit Suisse, etc.

Opportunity Created

Stock Market Returns After Large First Quarter Declines

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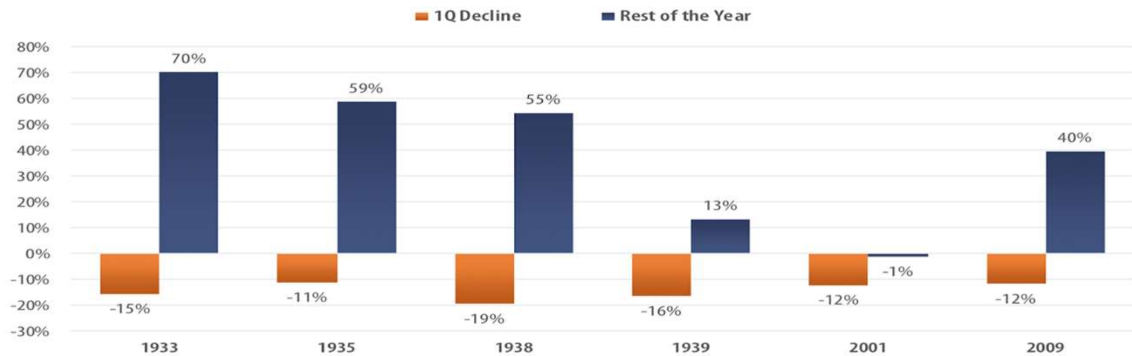
After a down first quarter, it is natural to wonder what is in store for the rest of the year. Although it is impossible to predict what will happen, we can look at historical data from previous down first quarters to see what has happened in the past. From 1928-2019, there were 6 first quarters with a decline of >10%. In 5 of 6 cases the rest of the year provided a positive return, with an average price return of 39%. Although past performance is no guarantee of future results, we believe it's important to stay the course and focus on long-term goals and potential future gains.

S&P 500 INDEX HISTORICAL PRICE RETURNS AFTER DOWN 1ST QUARTER



S&P 500 Index Price Returns

Year	1Q Decline	Rest of the Year
1933	-15.46%	70.43%
1935	-11.05%	58.93%
1938	-19.43%	54.59%
1939	-16.44%	13.48%
2001	-12.11%	-1.06%
2009	-11.67%	39.76%
2020	-20.00%	?
Average*	**-14.36%**	**39.36%**

Source: Bloomberg, as of 3/31/20. First quarters with >10% decline since 1928. *Average does not include 2020 1Q decline. Performance is price return only (no dividends). **Past performance is no guarantee of future results.** The charts are for illustrative purposes only and not indicative of any actual investment. Index returns do not reflect any fees, expenses, or sales charges. These returns were the result of certain market factors and events which may not be repeated in the future. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index.

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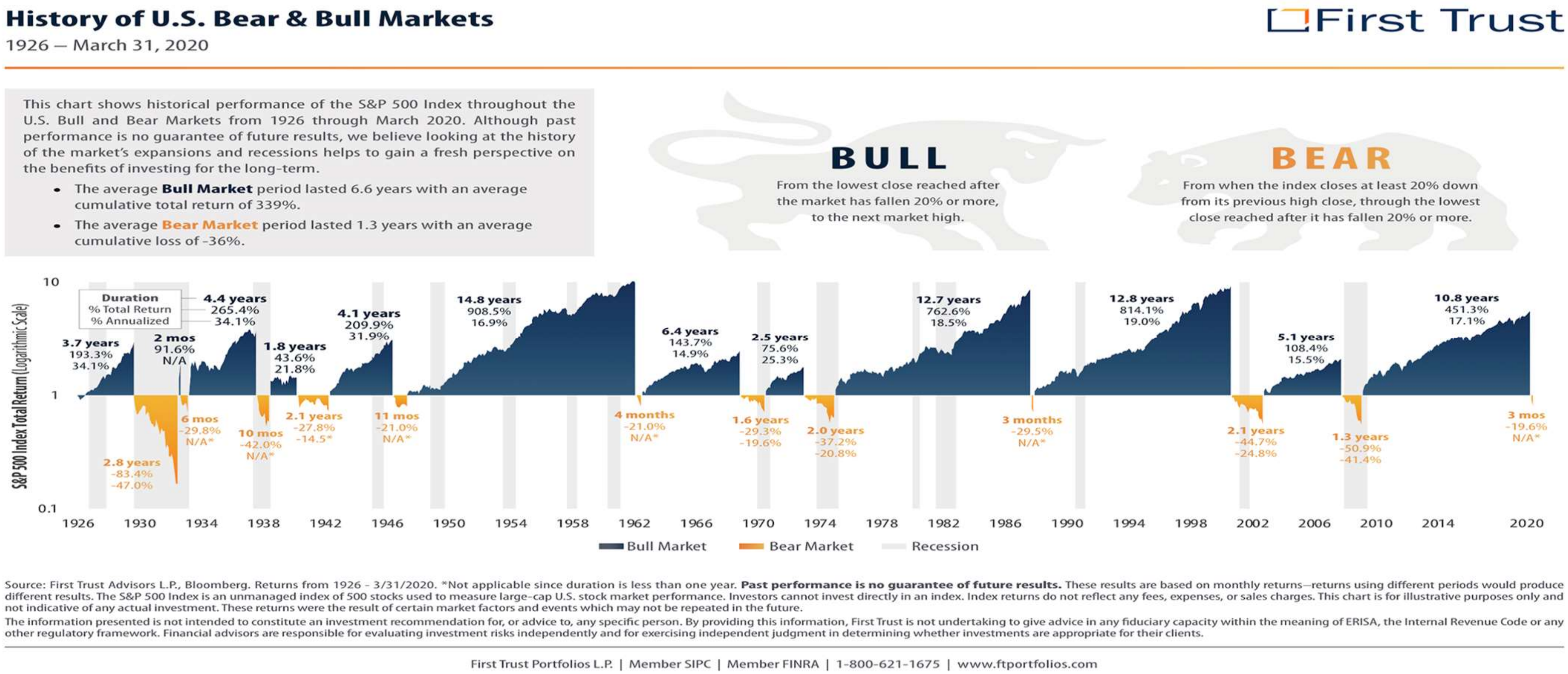

- Volatility is the price we pay for the long term rewards of the market. The biggest risk to long term investors is actually not being in the market.

Why a Five Year Term?

S&P 500 Index: 30% Drawdowns

Since 1928

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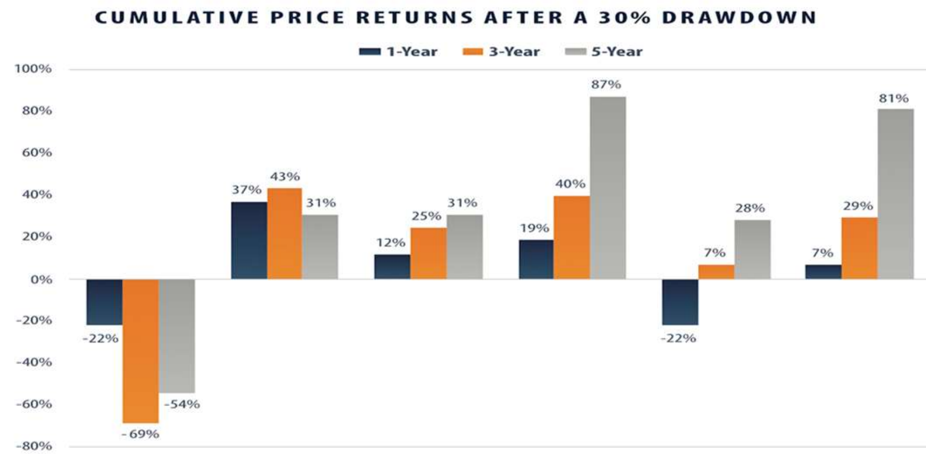

30% Decline Date	November 1929	June 1970	July 1974	November 1987	September 2001	October 2008
Years to Recover	25.1 Years	3.5 Years	7.6 Years	1.9 Years	6.8 Years	5.4 Years

		Cumulative Price Returns		
30% Decline Date	Drawdown	1-Year	3-Year	5-Year
November 1929	-34%	-21.7%	-68.7%	-54.4%
June 1970	-33%	37.1%	43.4%	30.9%
July 1974	-33%	11.9%	24.6%	30.9%
November 1987	-30%	18.8%	39.9%	87.3%
September 2001	-31%	-21.7%	7.1%	28.3%
October 2008	-37%	7.0%	29.4%	81.3%
	Average	**5.2%**	**12.6%**	**34.1%**

Source: Bloomberg. Month-end data as of 2/28/20. Performance is price return only (no dividends). **Past performance is no guarantee of future results.** The charts are for illustrative purposes only and not indicative of any actual investment. Index returns do not reflect any fees, expenses, or sales charges. These returns were the result of certain market factors and events which may not be repeated in the future. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index.

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