C&S Investment

AMC- C&S Volatility Opportunity Certificate

February 2 2022

Strategy Description

The C&S Volatility Opportunity strategy is designed to produce quality risk adjusted returns by focusing on options markets. Asset classes include equities, indices, commodities and interest rates The primary markets are the S&P500, Eurostoxx, DAX, Gold, Silver, Treasury Bonds and Treasury Notes. The objective is to produce absolute returns.

Positioning is opportunistic and depends on analysis of option volatility surfaces and maturity structures. Each of the markets has a deep and liquid options market traded on major exchanges. Positions can be delta long or delta short through options combinations.

Portfolio

January was a negative month for the portfolio. During the week of January 6th, the Fed language about the possibility of tapering and of interest rate hikes was stronger than the market expected. Most assets were sold over the next few days. The S&P dropped as much as 10% by late January. Treasury bond yields increased. Gold fell about $50 over three days. All three were factors in the negative performance for the AMC in January.

As a result, the price of Gold remained within the consolidating triangle for yet another month as shown below.

The January decline in the price of Gold marked the 4th time that the price tumbled on news or announcements from the Fed. On each occasion the market expectations for tapering and for rate hikes increased. Now the market is fully pricing in 4 or more rate hikes in 2022. This is evident from the One Year Fed Funds and Eurodollar futures prices. It now looks like expectations are fully digested in asset prices. The price of Gold has held up and is net unchanged over 9 months. The fact that the bond market has not sold off sharply could be a sign that the prevailing sentiment for higher rates is losing momentum. If so the next surprise from any Fed announcement could be on the dovish side. Such a scenario would be positive for the price of Gold.

An advantage of owning options is that risk is limited. Of course, when markets go sideways, there is risk of premium erosion. On the next page we illustrate how our positioning has lost less value than an alternative way of positioning.
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Current Figures

NAV	907.80
Issue Price	1000.00
Fund Launch	1st March 2021
12 months high	1025.75
12 months low	898.88
Number of positive months	4
Number of negative months	7
Cash	93%
Margin Utilization	35%
Issue Size	0.3 m

Certificate Facts

ISIN	CH0592028051
Valor	59020805
Strategy Manager	Cura & Senectus Investment AG, Vaduz
Issuer Company	Incorporated cell of Swiss Asset Segregated Platform: Asset Segregated SPV no. 26 Jersey
Paying Agent	ISP Securities AG, Zurich
Clearing / Settlement	Six SIS AG, Olten
Issue Date	1st March 2021
Issue Price	1000 USD
Price Calculation	Daily Buy/Sell only between working hours - 8 am. to 5 pm.
Accounting Currency	USD
Minimum Investment	1 Certificate and multiples of 1 Certificates
Minimum Investment Amount at Issuance	USD 50'000
Management Fee	1.50% p.a.
Performance Fee	20% with high-water mark
Setup Fee	CHF 5000
Issuance Fee	100bps
Trading Frequency	Daily (secondary market) Private Placement Switzerland
Calculation Agent / Swiss Paying Agent	ISP Securities AG
Administration Fee	0.50% p.a.
Secondary Market Spread	Up to 100 bps
Offering	Private Placement for qualified investors only Not for public distribution
Jurisdiction	Swiss law

Subscription: For subscription and trading details please contact ISP Securities AG.

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data through Feb 2 2022

C&S VO Certificate Performance

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2021			*-1.06%*	*1.03%*	*2.61%*	*-4.67%*	*-1.28%*	*-1.44%*	*-1.53%*	*0.49%*	*-1.00%*	*0.65%*	***-6.19%***
2022	*-4.18%*	*0.70%*											***-3.50%***

Study in Premium Erosion

Over the past few months we have held a Gold call combination in options which expire on November 23rd 2022.
The combination is a 1 x 1 x 1:
Long Nov 2400 Call;, Short Nov 2800 Call; Short Nov 3200 Call.
The purpose of selling the higher strike calls is to reduce the cost of the long call. This is especially relevant and attractive in the case of Gold options because of the shape of the implied volatility curve. **The higher strike calls trade at a higher implied volatility; this makes them more expensive and therefore good candidates to sell.** The strike prices are very wide apart; this reduces risk.

In the table below we compare the prices of the three legs of this combination three months ago versus now. In the table you can see the movements of the prices over three months. While the price of Gold was relatively unchanged, the prices of the options declined significantly. This is normal premium erosion in a sideways market. The key is that **our combination fell much less in value than the outright options fell**.

If we had simply purchased the Nov 2400 call on its own, the loss in value would have been 37%, from 19.20 to 12.10. Because we sold more expensive options against it and because these options lost even more of their value, our combination declined by only 10%.

	Oct 31 2021			Jan 31 2022		
Option	Price	Imp Vol		Price	Imp Vol	Option Price Decline
Nov 2400 Call	19.20	21.18		12.10	21.23	-37%
Nov 2800 Call	9.10	24.62		5.10	25.12	-44%
Nov 3200 Call	5.30	27.62		2.70	28.39	-49%
Combo 1x1x1	**4.80**			**4.30**		**-10%**
Gold Price	1785			1800		

Another way of looking at it: we controlled the Nov 2400 call at 19.20 for a price of 4.80.

In this trade construction, we are in a position to capture much more upside per unit of premium at risk. Of course, the trade has not worked yet and it may not work. But the trade construction illustrates our process: design trades which are well risk controlled and which can outperform simple positions such as outright long options.