



## Covered Call Income Strategy

## Manager Profile

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



University of Nevada  
M.S., Economics  
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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 (%)
3rd Quarter	-4.19%	6.17%
Year-to-Date	0.43%	5.72%

## 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 two Covered Call Strategies with two principal purposes:

- 1) Provide investors with an additional source of income, and/or;
- 2) Provide investors with an added cushion in the event of a market downturn

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. It should be viewed as a gauge of the portfolio’s history and not as a number that should necessarily 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 important disclosures at end of 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 09/30/2020</b>		
<b>Year-to-Date</b>	0.43%	-0.22%
<b>Trailing 1 Year</b>	5.46%	12.05%
<b>Trailing 3 Year</b>	6.67%	9.18%
<b>Trailing 5 Year</b>	7.18%	9.87%
<b>Trailing 7 Year</b>	5.43%	8.70%
<b>Since Composite Inception (1/1/2010)</b>	6.11%	9.01%
<b>Calendar Year Returns</b>		
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%
2011	7.09%	1.65%
<b>Quarterly Returns (last 3 years)</b>		
9/30/2020	4.19%	6.17%
6/30/2020	11.56%	14.04%
3/31/2020	-13.60%	-12.68%
12/31/2019	5.00%	5.98%
9/30/2019	0.59%	1.19%
6/30/2019	2.28%	3.01%
3/31/2019	7.22%	9.17%
12/31/2018	-6.81%	-8.89%
9/30/2018	7.85%	4.96%
6/30/2018	4.13%	2.51%
3/31/2018	-3.44%	-0.22%
12/31/2017	3.43%	4.35%
9/30/2017	2.65%	3.00%

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## Covered Call Strategies

Supplemental Information as of 09/30/2020

### Portfolio Highlights Covered Call Income

5-Yr Beta (Relative to S&P 500)	0.56
3-Yr Standard Deviation	9.99%
5-Yr Beta (Relative to Russell 1000 (65%)/3 Month T-Bill (35%))	0.85

### Portfolio Highlights Covered Call Strategy

Forecasted PE	26.8
Weighted Average Market Cap (\$ billion)	453
Median Market Cap (millions)	82
Weighted Average Dividend Yield	2.26%
Average Number of Holdings	26

### Sector Weights

1. Health Technology
2. Electronic Technology
3. Transportation
4. Retail Trade
5. Consumer Services
6. Finance/Insurance
7. Technology Services
8. Consumer Non-Durables
9. Producer Manufacturing
10. Energy Minerals

### Top 10 Stock Holdings Covered Call Model

1. Microsoft
2. Union Pacific
3. Amgen
4. Apple
5. Intel
6. McDonald's
7. Walt Disney Company
8. American Express
9. Eli Lilly and Co.
10. Walmart

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