RS LOW BETA
OPPORTUNITY FUND

Dear Investors,

The second quarter of 2023 began with relatively low volatility, which was the first time over the past 18 months the words “low volatility” could be used when discussing financial markets. By the middle of May, after First Republic Bank was rescued by JP Morgan Chase, the fear of regional bank failures began to subside. Once the Senate passed the debt-ceiling deal on June 1, there was a risk-on appetite in equities, which sent the VIX to a multi-year low. This rally continued throughout the remainder of the quarter, even as interest rates continued to rise, allowing RS Low Beta Opportunity Fund to fully monetize almost every option sold in the first half of 2023. It was another solid quarter for the Fund, as our net return was just under 3% in 2Q23.

In our end of year 2022 letter, we projected 2023 to be a “Can’t Wait” year for the Fund, and with a first half net return of 11.72%, this has begun to play itself out. While we are no longer bullish on Equities in the short term, as the Fed stimulus from additional bank liquidity programs diminishes, we are extremely optimistic about the Fund’s outlook over the coming months. As the S&P 500 rallied in the latter half of Q2, our beta naturally got lower. In addition to completely monetizing most of our portfolio, this also allows us to enter Q3 with a slightly larger monthly buffer than normal (1.5-2.5% instead of our normal 1-2%). In addition, our return profile should remain the same if we were to re-enter a sideways or up market. As a refresher, our income generation has 2 components:

1. Our put sales will generate 0.5 to 1.2% per month.

2. Given the structure of continuously rolling our puts, the entire AUM of the fund is always in short term treasuries.

In 2023, and in our opinion the next few years, we should make an additional 4-5%/year from our treasuries, which when combined with our main core strategy of put selling, should generate annual returns in the low to mid teens for investors.

As stated in our 1Q23 letter, the strategy of RS Low Beta Opportunity Fund performs best as markets begin to stabilize, and the last few quarters have illustrated this. Since markets began to stabilize in the middle of 2022, the performance by RS Low Beta Opportunity Fund has been incredibly strong, as the Fund has captured more than 100% of the S&P 500’s performance, while only taking a fraction of the risk. This has always been the core thesis of the Fund and is why we launched this strategy.

While it would be unrealistic to expect the Fund’s performance in 2H23 to be as high as it was in the first half, a net return for 2023 in the high teens is now our base case. In addition, when looking beyond 2023, having a strategy that takes substantially less risk than equities but has a much better return profile than fixed income will continue to be favorable for investors.

We appreciate your trust and as always, please don’t hesitate to reach out to David or Brian with any comments or questions.

David Rosenblum & Brian Shapiro