



August 2024

# THE CAYLER ENERGY PROGRAM

A FUNDAMENTAL SYSTEMATIC APPROACH



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The following page contains a monthly breakdown of returns by the Relative Value and Oil Directional components of the main program. These are not compounded and only represent a month by month breakdown of the returns. These monthly returns take into account fees and all related charges. For every month the two results will always equal the verified returns of Systematic Energy Diversified. Annual returns for these components are the total sum of the monthly returns and may deviate from the actual verified returns of the Systematic Energy Diversified program.

CAYLER CAPITAL ENERGY PROGRAM IS ONLY AVAILABLE TO QUALIFIED ELIGIBLE PERSONS ("QEP"), AS THAT TERM IS DEFINED BY CFTC REGULATION 4.7



# BRENT BELOTE – CEO & Portfolio Manager

## JP MORGAN – VICE PRESIDENT

### Oil Product Derivatives Trader – 2012 to 2016

- Traded Oil Product Derivatives book for North America, managing \$1B+ derivative portfolio
- Traded macro prop portfolio of currencies, metals, grains, and energy futures & options
- Spearheaded sales growth by identifying and reclaiming lost market share for JPM Business
- Created and executed complex refinery margin hedging strategies using swaps and options
- Managed complex risk portfolio of oil derivatives in Heating Oil, Gasoline, WTI, & Brent Markets

### Crude Oil Derivatives Trader – 2009 to 2012

- Traded WTI and Brent flow trading book for North America
- Traded volatility and flat price across the WTI, Brent, and Dated Brent curves
- Made markets on forward curve prices for consumers and producers on the Brent and WTI Crude forward curve
- Identified macro trading strategies and opportunities in the crude complex and volatility markets

### NEW YORK UNIVERSITY – Leonard N. Stern School of Business

Masters of Business Administration, May 2009 with specialization in Quantitative Finance, Strategy, and Entrepreneurship

### UNIVERSITY OF SOUTHERN CALIFORNIA – Leventhal School of Accounting

Bachelor of Science in Accounting, May 2005

## KEY INDUSTRY RELATIONSHIPS



*Deep ties to global oil refiners, shippers, exploration companies and traders provide real-time data updates*



# OPERATIONS & MARKETING

## SAM VOGEL - Chief Operations & Growth Officer

25 years experience in the Energy, Hedge Fund, & Commodity Markets - tasked to institutionalize Cayler Capital and enhance operations.

### Energy and Hedge Funds Business Development

- Head of OTC Global Holding's Introducing-Broker (EOX)
- Bus Dev & Fundraising for OTCGH Hedge Funds and Commodity Trade Advisors
- Due diligence and vetting of Hedge Fund strategies at FirstLossCapital.com

### Commodities and Equities Derivatives Trader

- Metals & Softs Sales Trader for Holcom Futures (S. Africa) - JV Rudolf Wolff London
- Ran equity derivatives books for Finansbank, Nedbank & West Merchant Bank

### Institutional Energy Derivatives Broker

- Natural Gas Derivatives broker for OTC Global Holdings, largest independent commodity broker in the world- focusing on NY Banks, Energy Funds & Traders
- Team recognized by Risk Magazine as #1 Gas Options Brokers in USA

### Alternative Investments Bus Dev & Founder Texas HF Assoc.

- Conceived & launched THFA - Board Members from TEXPERS, TRS , EY & Akin Gump

### UNIVERSITY OF THE WITWATERSRAND – Johannesburg, South Africa

Bachelor of Commerce



## SERVICE PROVIDERS & OPERATIONAL PARTNERS



# PERFORMANCE

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2019	(3.67)	+2.64	(0.92)	+6.47	+6.37	(1.11)	(1.02)	(5.59)	+3.99	+3.54	(0.77)	(2.38)	<b>+6.97</b>
2020	+7.15	(3.60)	+14.94	+10.39	+3.55	+1.03	(1.82)	(1.08)	+1.72	(8.81)	+0.22	(0.28)	<b>+23.44</b>
2021	+3.15	+7.02	(2.67)	(7.51)	+1.68	+3.75	+3.27	(2.91)	(1.35)	+4.03	(5.10)	(0.53)	<b>+1.83</b>
2022	+5.58	+10.05	+25.16	(5.53)	(1.36)	+0.86	(7.30)	(1.01)	+0.30	+4.33	(4.95)	+6.03	<b>+32.15</b>
2023	+0.56	(4.10)	+7.27	+7.84	+2.30	+2.74	+6.30	(4.86)	(1.25)	(5.88)	(2.86)	(2.07)	<b>+4.84</b>
2024	+2.46	(2.81)	(3.72)	+0.17	(8.91)	(0.14)	(1.39)	(4.16)					<b>(17.46)</b>

CAROR	+7.89%
ANN. VOLATILITY	19.59%
SHARPE (0%)	0.43
SORTINO (0%)	0.71
MAX. DRAW DOWN	(30.56)
MARGIN/EQUITY	6.50%
HIGHWATER MARK	YES
AVG. HOLDING PERIOD	7 DAYS
R/T PER \$1M	2,800
CORREL. TO S&P 500	(0.06)
AUM (in M)	\$45.5
MIN. INVESTMENT	\$500,000
FEE STRUCTURE	1 & 20

## KEY REASONS TO INVEST

- Niche strategy – under-invested opportunity for most investors
- Daily liquidity – No lockup period, with High-Water mark
- Low margin requirements – Average margin usage is under 10%
- Strong alignment of interests – Significant capital invested by the principal
- Six siloed algorithms offer diversification and uncorrelated investing within the portfolio
- Diversification – 70% of VaR is relative value based

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. TRADING COMMODITY FUTURES AND OPTIONS IS SPECULATIVE, INVOLVES RISK, AND IS NOT SUITABLE FOR ALL INVESTORS. CAYLER CAPITAL ENERGY PROGRAM IS ONLY AVAILABLE TO QUALIFIED ELIGIBLE PERSONS (“QEP”), AS THAT TERM IS DEFINED BY CFTC REGULATION 4.7



## BEST MONTHS vs WORST MONTHS – RETURN ANALYSIS

### Monthly Returns Ranked

	Best	Worst
1	+25.16%	8.91%
2	+14.94%	8.81%
3	+10.39%	7.51%
4	+10.05%	7.30%
5	+7.84%	5.88%
6	+7.27%	5.59%
7	+7.15%	5.53%
8	+7.02%	5.10%
9	+6.49%	4.95%
10	+6.38%	4.86%

Sortino Ratio	0.71
Sharpe Ratio	0.43

Standard Deviation is heavily skewed to the upside which leads to compressed Sharpe Ratio. The Sortino Ratio recognizes this aspect of return distributions.

	Positive Months	Negative Months
Total Number	33	35
Average Return	+5.06%	3.24%
St Dev	4.90%	2.44%
Cumulative Return	+166.91%	113.40%



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## PRODUCT SPECIFIC ALGORITHMIC MODELS

- ✓ Product Specific Algorithms:
  - ✓ Directional – predicting the direction of prices
  - ✓ Relative Value – predicting prices of one product versus another product
- ✓ Models use a wide array of fundamental data inputs based on a deep understanding of the oil industry value chain and market microstructure
- ✓ Designed to track a barrel of oil from drilling -> transportation -> storage -> blending -> refinery processes -> consumer
- ✓ Trade signals are actively managed to target strategy return and risk objectives

## Systematic Diversified

### Relative Value

- ✓ Delta Neutral
- ✓ WTI vs. BRT
- ✓ Crack Spreads (HO and RBOB)

### Oil Directional

- ✓ Long or Short Oil
- ✓ WTI and Brent are analyzed independently



# PROCESS OVERVIEW

## Objective

- Diversified, uncorrelated, and consistent returns is long term goal
- Target risk to reward ratio of 3:1 on each trade
- Control left-tail risk

## Investment Strategy

- Invest globally long and short in a diversified range of liquid energy investments
- 100% Systematic strategy that utilizes fundamental data inputs

## Universe

- Exchange cleared energy futures and options
- WTI, Brent, RBOB, and HO
- Calendar spreads, refinery margins, and basis markets

## Algorithm Composition

- 30% Long Term Supply & Demand
- 25% Industry Information Flow
- 25% Physical Price Algorithm
- 20% Relative Value

## Risk Management

- Exchange cleared derivatives only
- 25% target annualized volatility
- VaR monitored daily
- Strong internal emphasis on PNL management
- Low margin requirements <10% average usage

## Competitive Edge

- Deep ties to global oil refiners, shippers, exploration companies and traders
- Fundamental data inputs create a truly one of a kind systematic program
- Quantamental analysis combined with petroleum engineering.

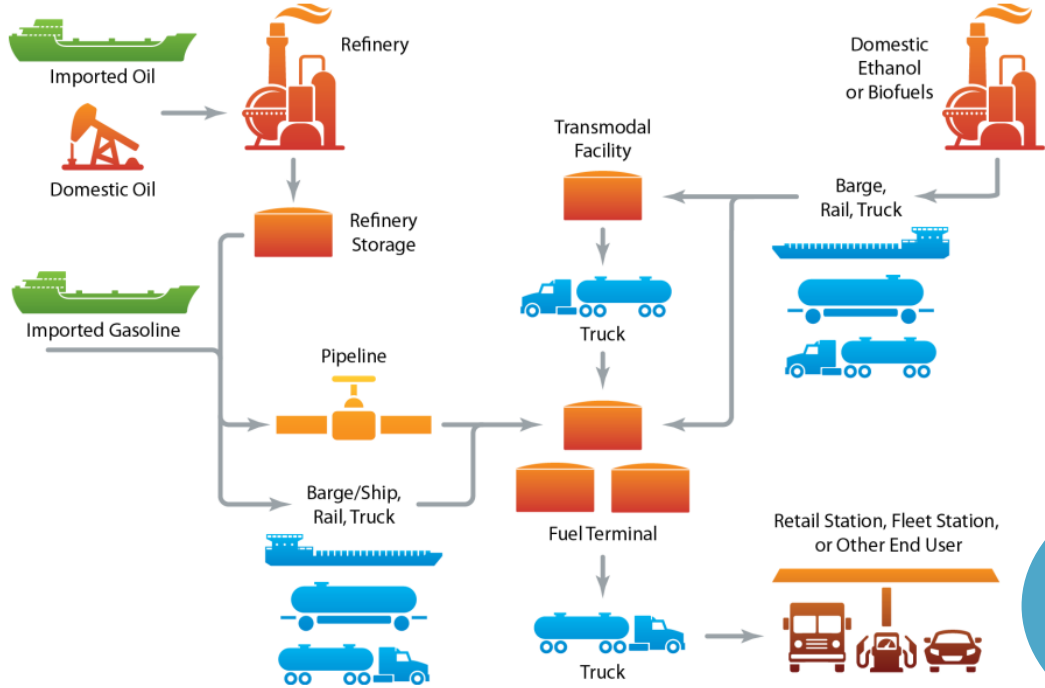
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# OIL INDUSTRY VALUE CHAIN

Brent  
WTI



Gasoline  
(RBOB)  
Heating oil  
(HO)

Cayler  
program  
trading  
products

Source: U.S. Department of Energy Office of Energy Efficiency & Renewable Energy - [https://afdc.energy.gov/files/u/publication/hof\\_terminal\\_backgrounder.pdf/gasoline/where-our-gasoline-comes-from.php](https://afdc.energy.gov/files/u/publication/hof_terminal_backgrounder.pdf/gasoline/where-our-gasoline-comes-from.php)



# SYSTEMATIC STRATEGY

## Fundamental Data Algorithms

- Six algorithms model the integrated, fundamental relationships along the energy market value chain
  - WTI, Brent, Heating Oil Cracks, RBOB Cracks, WTI/BRT Differential, and WTI volatility
- Fundamental data inputs create a differentiated portfolio
- Data is pulled from EIA, IEA, Genscape, DOE, Commitment of Trader reports, JODI, Bloomberg, and key industry relationships
- Inputs include refinery production models, physical oil movements around the world, field level oil production and forecasts, demand forecasts, refinery turnarounds, and the term structure of the oil futures market

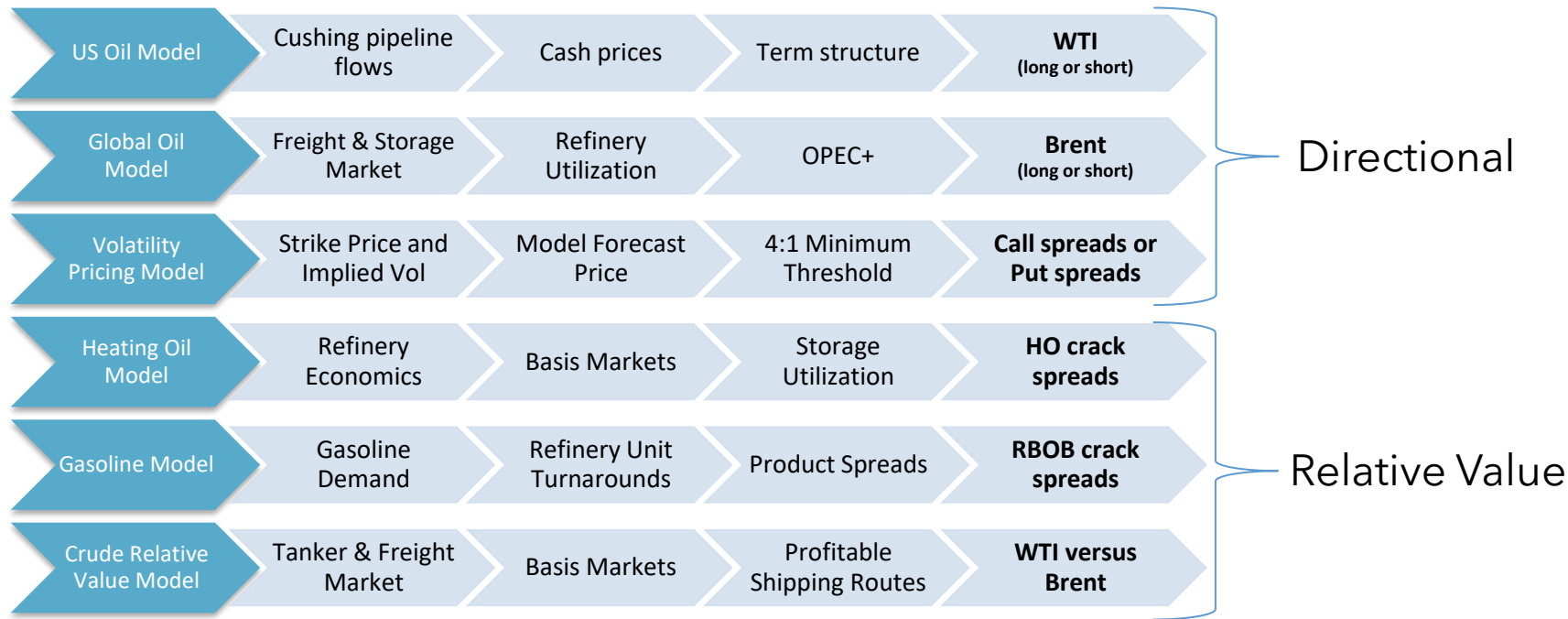
## The Difference

- Does not use momentum indicators, RSI, stochastics, MACD, moving averages, or any other backward-looking indicators
- Each algorithm gives a signal based on the fundamentals of that specific market/product
- Avoids correlation to most other systematic strategies because the inputs are different, and the signals can be long or short
- End of day execution minimizes price slippage

*Where petroleum engineering meets quantitative analysis*



# PRODUCT-SPECIFIC ALGORITHM DESCRIPTIONS



*Product diversification*



# ALGORITHMIC TIME ANALYSIS

Percentage	Strategy Drivers	Time Horizon	Related Inputs
30%	Long Term Supply & Demand	12+ Months Out	Imports & Exports, Transportation Costs, Oil Field Production, Geopolitical Oil Disruptions, Global Oil Demand Growth, Oil Inventory Data
25%	Industry Information Flow	Daily to 12 Months	Pipeline Flows, Oil Hedging Programs, Production Data, Physical Oil Prices, Refinery Outages, Weekly DOE Statistics
25%	Technical Price Action	Daily to 12 Months	Realized & Implied Volatility Average Prices, Swing Highs & Lows, Calendar Spreads, Seasonal Inventory Data
20%	Relative Value	Multiple/All	Prices, Spreads, & Cracks, Basis & Cash Markets, Intra Product Volatility

*Temporal diversification*



## SYSTEMATIC STRATEGY EDGE

### Cayler Capital is where Petroleum Engineering meets Quantitative Analysis

#### Petroleum Engineering

- Refinery Configuration Models
  - Track real-time RBOB and HO yield of every refinery in the USA
  - Oil Input Efficiency
- Gasoline Blending Economics
- Shipping Arbitrage Tracker
- Ship Tracking Software

#### Quantitative Analytics

- Algorithm based off velocity of Physical Markets for trade entry and exit signals
- Physical Market triggers are the only stops we utilize based on historical moves and volatility
- 10 year backtest utilized for portfolio construction and historical analysis



## CORRELATION MATRIX –PRODUCT ALGORITHMS

Low correlation across product-specific algorithms is a key component of portfolio diversification and risk control

	WTI/BRT	RB Crack	HO Crack	WTI Fut	BRT Fut	Directional	Rel Value
WTI/BRT	1.00						
RB Crack	(0.00)	1.00					
HO Crack	(0.01)	0.04	1.00				
WTI Fut	(0.07)	(0.01)	0.01	1.00			
BRT Fut	0.02	0.11	0.15	(0.38)	1.00		
Directional	(0.04)	0.10	0.14	0.56	0.55	1.00	
Rel Value	0.16	0.53	0.85	(0.01)	0.18	0.16	1.00



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## CORRELATION MATRIX – TRADITIONAL ALTERNATIVES

	Cayler Capital Program	HFR Macro: Commodity-Energy Index	Oil Prices (WTI)	S&P GS Commodity Index	S&P 500 Index	Bloomberg Barclays US Aggregate Bond Index
Cayler Capital Program	1.00					
HFR Macro: Commodity-Energy Index	0.16	1.00				
Oil Prices (WTI)	(0.03)	0.14	1.00			
S&P GS Commodity Index	(0.02)	0.33	0.89	1.00		
S&P 500 Index	(0.06)	(0.05)	0.43	0.54	1.00	
Bloomberg Barclays US Aggregate Bond Index	(0.18)	(0.21)	(0.02)	(0.06)	0.45	1.00



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## TRADE EXAMPLE

### Russian Invasion of Ukraine – Mar 2022 +25.16%

Feb 23rd – Oil directional models already bullish due to increasing global oil demand and seasonal strength. Brent \$96.84

Feb 24th – Russia invades Ukraine. Brent \$99.08

Mar 7th – Brent hits a high of \$139.13 with anticipation that Russian oil will be taken off the market due to sanctions.

Mar 8th – Cayler Capital exits all long positions in Brent oil.

**Real-time physical oil data confirmed that Russian oil is still being purchased and delivered. The price increase was all speculation! Very little oil was actually lost from the market.**

Why should we be \$40 higher in the price of oil with the same amount of oil being delivered?

Mar 9th – The biggest negative day in Brent Oil history, closing lower by \$19 on the day.

Mar 31st – Brent closing price \$107.91

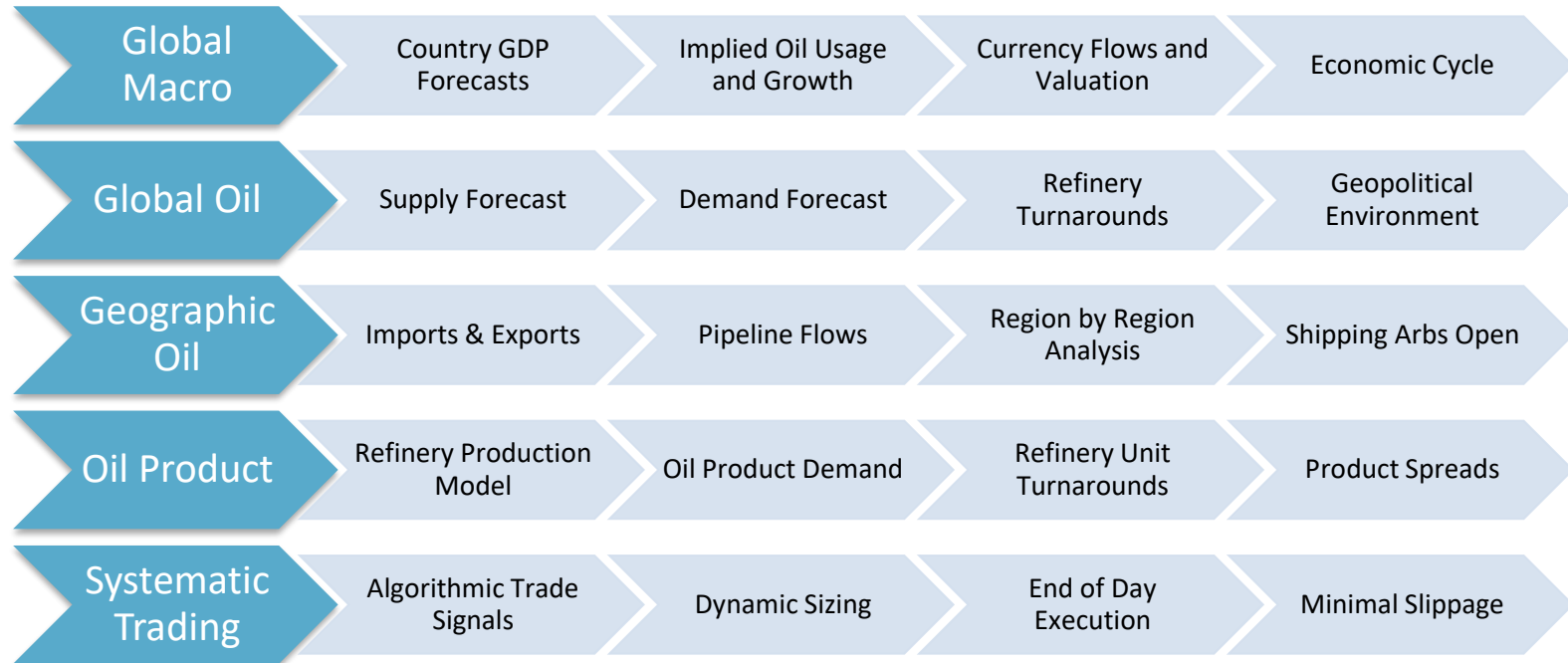
Cayler Capital focuses on the underlying Fundamental data and trades are not skewed by fast money flows or speculation.



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# TOP DOWN PROCESS



## KEY REASONS TO INVEST

- ❖ Niche strategy – under-invested opportunity for most investors
- ❖ Separately-managed account (SMA) – investor retains account control
- ❖ Highly liquid – exchange-cleared securities
- ❖ Daily liquidity – no lock-up period
- ❖ Favorable tax treatment – 60% of net gains treated like LT capital gains, the other 40% treated as ST capital gains
- ❖ Limited leverage – average margin usage is under 10%
- ❖ Low correlation to traditional alternatives – 70% of VaR is relative value based
- ❖ Strong alignment of interests – significant capital invested by firm principal



## SUMMARY OF TERMS

Structure	Individually Managed Accounts
Capital Contributions	Daily
Liquidity	Daily
Fees	1% Management Fee, 20% Incentive Fee (High Water-Mark)
Minimum Investment	\$500,000
Reporting	Monthly performance reporting Daily Trade Statements



# CONTACT

Brent Belote  
Cayler Capital LLC

Jackson, WY

Tel: 323-632-6380

[Brent@CaylerCapital.com](mailto:Brent@CaylerCapital.com)



Sam Vogel  
Cayler Capital LLC

Houston, TX

Tel: 307-264-0310

Cel: 713-449-6202

[Sam@CaylerCapital.com](mailto:Sam@CaylerCapital.com)

