Monthly Commentary April and May 24

Market Overview and Performance:

April was a relatively stable month for Cayler Capital, with a performance of +0.17%. Despite a volatile market environment, our disciplined approach and diversified strategy allowed us to maintain a positive return. This stability underscores our commitment to risk management and the robustness of our investment models. Overall, May was a relatively calm period for our markets with few significant disruptions.

May has been one of our more challenging months for Cayler Capital, with a performance of -8.90%, taking our YTD loss to around -13.25%. These are our preliminary performance numbers; we will have the final ones in a week or so. This drawdown was primarily due to trade entry and exit point timing mismatches attributed to a particularly choppy, low-volatility market environment. Despite these challenges, our stop-loss measures and risk management protocols limited further losses. This also prompted a deep dive into and thorough review of the models to identify and assess the factors behind the losses. As weird as it sounds, this process has fully reinforced my confidence in the models and validated their ability to perform in the long run.

We are cautiously optimistic about the coming months. Our systematic approach and risk management practices position us well to capitalize on future opportunities. As the market dynamics evolve, we remain focused on delivering uncorrelated, absolute returns. We have not had any style drift or amended risk-taking in any way; we remain committed to trading systematically and disciplined.

Our thorough research identified two reasons for the losses: .
Timing of Trades: Many of our trades were mistimed by a day or so, resulting in losses that could have been gains if executed slightly earlier or later. Looking back over the history of the models this seems to have been an anomaly and a 'bad run' of sorts.
Market Environment: The low volatility and choppy conditions led to several reversal days, which adversely affected our strategy.

Annual Drawdown Overview:

Year	Annual Drawdown	Annual Return
2019	-8.31%	6.97%
2020	-11.64%	23.44%
2021	-14.30%	1.83%
2022	-21.46%	32.15%
2023	-18.35%	4.84%
2024	-17.25%	-13.25%

Observing only the annual drawdown column of the table, the first thing that stands out is "this drawdown is fairly normal." The challenges stem from the necessity to combine the consecutive nature of the drawdown of the second half of 2023 with our current annual drawdown, which has resulted in a sizeable cumulative drawdown. Naturally, if the drawdown of 17.25% occurred after being up 40% earlier in the year, the perspective on this year's performance might differ.

Timing plays a crucial role, and recent events highlight the challenges in our current environment.

Enhanced Drawdown Stop Loss Plan:

To manage risk more effectively moving forward, we have modified our drawdown stop-loss plan slightly:
Monthly Losses: At a 10% loss, we will implement a three-day trading pause and resume trading at half risk, i.e. 50% exposure
Annual Losses: At a 15% loss, similar measures will be taken with exposure once again being cut 50%. If we are already running at 50% VaR we won't cut an additional 50%.

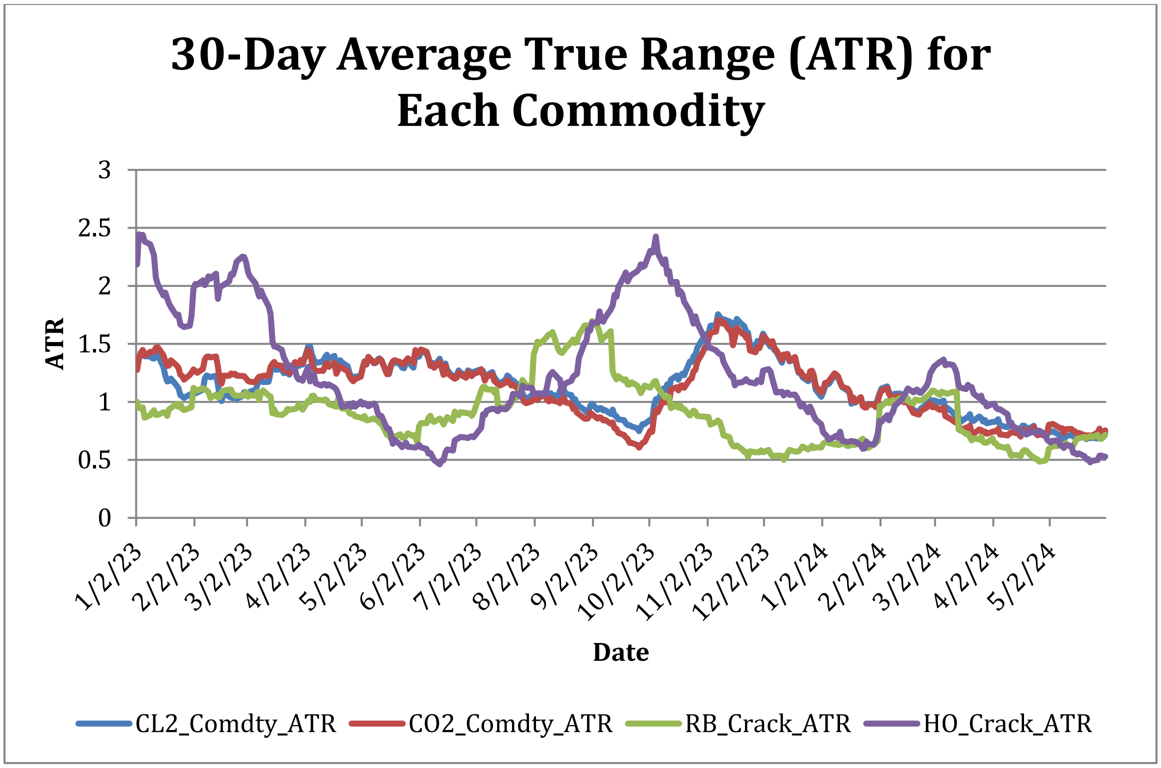
Increase VaR: Once we achieve a 5% recovery off stop loss levels, we will revert to full risk mode.

We continue exploring the addition of new supplemental models and the potential launch of a fund vehicle to onboard uncorrelated traders in the oil space. This is an ongoing process.

Impact of Heating Oil Volatility:

Heating oil became significantly more volatile in the second half of last year, contributing to our drawdown, see ATR chart below.

This year, losses have been more evenly distributed across directional trades and gasoline. We remain confident that these conditions will pass, and our focus is to keep dry powder ready for when that time comes.



Confidence in Our Models

We continue to have strong confidence in our models. Historical hypothetical returns from 2008 have averaged around 20% annually. Given our daily volatility, 30-40% drawdowns are statistically expected, although we hadn't reached that number until this year. Despite the painful timing, our models remain robust and fundamentally sound.

We remain steadfast in our commitment to our strategy and the principles that guide our decision-making. While our core risk-taking approach remains unchanged, we have adjusted our drawdown management plan to navigate current market conditions better. Notably, there has been no style drift in our trading strategy. As market volatility begins to normalize, we are optimistic and well-prepared for the opportunities the summer months may bring. Detailed Drawdown Analysis:

Over six weeks, we ran a number of analyses and deep dives into our models - herewith our findings:

1. Performance Issues:

- Our in-depth analysis revealed that our distillate model had developed a bullish bias over the past six months, beginning with the Hamas/Israel escalation, resulting in losses as the market turned decidedly bearish. This bias stemmed from the increased cost of shipping and insurance, which resulted in longer shipping times and caused some arbitrages to stay open longer than expected.
- This month's losses were primarily driven by our Gasoline model, with additional impacts from directional positions and minor distillate trades. Notably, the Gasoline model's underperformance is an anomaly, as it has been our best performer over the past nine months.

2. Diagnosis and Assessment:

- A thorough audit of our models confirmed that they are **not fundamentally flawed**; they are simply experiencing a challenging period. Statistically, we are within the expected drawdown ranges.
- In response, we temporarily reduced risk in our distillate model while conducting this audit, aligning with industry consensus on recent market difficulties.

3. Implemented Fixes:

We are rolling contracts out to later expiries, such as the September contract, to manage risk more effectively.

Additionally, we have updated our drawdown management plan as detailed above.

4. Model Validity:

The core of our models are based on fundamental analysis and inputs, which remains unchanged. Our long-term assessments and macro forecasts have been accurate, with recent entry and exit signal issues being anomalies in the broader market moves.

Conclusion:

Despite recent setbacks, we remain confident in our models and strategy. Our commitment to delivering long-term value to our investors is unwavering. We appreciate your continued support and trust.

I understand that this has been an ill-timed drawdown for many of our investors. However I hope that through transparency, discipline, clear communication, and understanding, that they remain confident in Cayler Capital's ability to deliver alpha.

Thank you again,

Brent Belote

CIO and Portfolio Manager, Cayler Capital