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Belmont Capital Group
1875 Century Park East, Suite 1780
Los Angeles, CA 90067

Tel 310-203-2670
Fax 310-203-2673
info@belmontcapgroup.com
belmontcapgroup.com

November 20, 2017

CFA Institute
Global Investment Performance Standards
Re: Guidance Statement on Overlay Strategies
915 East High Street
Charlottesville, VA 22902

Dear Sir or Madam:

We are providing this letter in connection with your Exposure Draft of the Guidance Statement on Overlay Strategies. The Public Comment Period is 8/29/2017 through 11/27/2017.

Belmont Capital Group™ (Belmont) is a SEC-registered investment adviser and has been in business as an investment adviser since 2010. Our investment management services provide for continuous advice through specialized options strategies for individuals, high-net-worth individuals and institutional clients.

1. THETA OVERLAY PROGRAM℠

Theta Overlay Program (TOP) is an Option Overwrite Overlay strategy designed as a return-enhancement strategy. TOP is designed to provide incremental income through a systematic process of selling S&P 500 Index (SPX) option call spreads and put spreads requiring no initial funding by the client.

2. COLLATERAL BACKING and NOTIONAL VALUE

a) Clients designate underlying investment portfolios comprised of equities, fixed income, or cash as "Collateral Accounts".

b) Belmont does not have discretionary portfolio management responsibility for Collateral Accounts, so the Collateral Accounts are not included in Belmont's AUM.

c) The type of holdings in the Collateral Accounts will determine the "Collateral Backing" value:
   - Cash or T-Bills: Margin Release = 100%
   - Muni or Corp. Bonds: Margin Release = 75%
   - Equities or Mutual Fund: Margin Release = 50%

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d) **Collateral Backing value represents the client's capital contribution into the Theta Overlay Program**. Collateral Backing is the "Effective Portfolio Capital".

e) "Target Notional" value is determined by the strategy's 3x Collateral Leverage Multiple.

f) **Belmont discloses that 3x Collateral Leverage Multiple will magnify losses as well as gains**.

g) "Notional" value is based on the number of SPX Options traded, and is computed by converting into the equivalent positions in the underlying SPX and valued on the basis of that equivalent position. Notional Value is computed by the following formula: *(Number of SPX Options Contracts Traded) x (Value of SPX) x 100*.

h) **Collateral Backing value is used in the denominator for calculation of investment performance: "Return on Collateral"**.

As per GIPS Guidance Statement on Alternative Strategies and Structures: **4.3. Performance Measurement** [4.3.1 Question on Page 18]: "An "**unleveraged**" return is hypothetical, and it is **not appropriate** to include such a return in a composite, regardless of whether the leverage arising from derivatives is discretionary (decided by the firm) or non-discretionary (required by the client). Unleveraged performance is only permitted to be presented as supplemental information in accordance with the Guidance Statement on Supplemental Information. A firm may calculate the performance of derivatives on an "unleveraged" basis by using their delta-adjusted exposure. For example, the exposure of an option can be calculated by multiplying the market value of the underlying instrument by the option delta. Using the exposures instead of the **effective portfolio capital** in the denominator would "deleverage" the performance."

For Theta Overlay Program, Collateral Backing is the Effective Portfolio Capital, and Return on Collateral is the leveraged return.

i) Notional value is used to calculate portfolio AUM, and for asset-weighted composite returns.

As per Form ADV: Instructions for Part 1A [Instruction 5.b(4) on Page 9]: "**Value of Regulatory Assets Under Management**. Determine your regulatory assets under management based on the current market value of the assets as determined within 90 days prior to the date of filing this Form ADV. Determine market value using the same method you used to report account values to clients or to calculate fees for investment advisory services."

For Theta Overlay Program, Assets Under Management is determined using the Notional value which was used to calculate fees for investment advisory services.

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3. CUMULATIVE-ARITHMETIC RETURNS (CAR)

a) External cash flows are defined as cash, securities, or assets that enter or exit a portfolio and are generally capital additions or withdrawals.

b) Income earned on a portfolio's assets is not considered an external cash flow.

c) TOP's cash generated/required by the sale/purchase of SPX Options are accounted for as an immediately withdrawal/contribution, and results in an external cash flow.

d) TOP's cash flows are immediately moved from/into the portfolio, as result gains and losses are **not** compounded from day to day.

e) Cumulative-Arithmetic Return (CAR) is calculated using the Return on Collateral method, which calculates the daily rate of returns on Collateral Backing value and arithmetically sums daily returns to calculate monthly returns:

$$CAR = (G_1 / C_1) + (G_2 / C_2) + (G_3 / C_3) + \ldots + (G_n / C_n)$$

Where:
C_i = collateral backing value at day i
G_i = mark-to-the-market gain on day i
n = number of days in measurement period

f) **As CAR is computed on a daily basis, a change in the Collateral Backing value will not require any changes to the methodology**.

g) Cumulative-Arithmetic Returns for cumulative periods are calculated by summing the monthly rates of return within such periods.

h) The annualized Cumulative-Arithmetic Return is equivalent to the annual rate of return which, if earned in each year of the indicated multi-year period, would average the actual cumulative rate of return over the time period. Only periods greater than 1 year are annualized.

4. EXAMPLE

Collateral Account value = $1,000,000

Type of Holdings in Collateral Account:
i. Muni or Corp. Bonds = $500,000
ii. Equities or Mutual Fund = $500,000

Margin Release for Type of Holdings:
i. Muni or Corp. Bonds = 75%
ii. Equities or Mutual Fund = 50%

Collateral Backing value: $375,000 + $250,000 = $625,000

i. Muni or Corp. Bonds = $500,000 x 75% = $375,000
ii. Equities or Mutual Fund = $500,000 x 50% = $250,000

Collateral Leverage Multiple = 3x

Target Notional value = 3 x $625,000 = $1,875,000

Month Ending	Collateral Backing	Gain / Loss	Return on Collateral	CAR	2017 q1
Jan. 2017	$625,000	$3,563	0.57%	0.57%	
Feb. 2017	$625,000	-$4,000	-0.64%	-0.07%	
Mar. 2017	$625,000	$3,625	0.58%	0.51%	0.51%

5. RESPONSE TO EXPOSURE DRAFT QUESTIONS

Question 1: Are these examples regarding the determination of discretion appropriate or are additional examples or other criteria needed? If additional examples or other criteria are needed, please explain your suggestions.

Yes

Question 2: Are the three "allowable methods" for calculating overlay exposure appropriate?

Yes

Question 3: Are there other methods for calculating overlay exposure that are also appropriate? If so, please explain.

No

Question 4: Should the allowable method(s) be required or recommended by strategy type? If so, please propose a required or recommended method by strategy type.

No, but required to disclose which method is being used.

Question 5: Are the methods used to calculate the denominator in an overlay portfolio return calculation appropriate?

No, Return on Collateral could also be acceptable with Disclosure of the Use of Leverage

- **Collateral Backing value represents the client's capital contribution into the Theta Overlay Program.**

- **Collateral Backing value is the appropriate value to use as the denominator for calculation of investment performance of Theta Overlay Program.**

- **The use of Collateral Backing value is NOT MISLEADING as Belmont discloses that 3x Collateral Leverage Multiple will magnify losses as well as gains.**

- As per GIPS Guidance Statement on Alternative Strategies and Structures: **4.3. Performance Measurement** [4.3.1 Question on Page 18]: "An "**unleveraged**" return is hypothetical, and it is **not appropriate** to include such a return in a composite, regardless of whether the leverage arising from derivatives is discretionary (decided by the firm) or non-discretionary (required by the client). Unleveraged performance is only permitted to be presented as supplemental information in accordance with the Guidance Statement on Supplemental Information. A firm may calculate the performance of derivatives on an "unleveraged" basis by using their delta-adjusted exposure. For example, the exposure of an option can be calculated by multiplying the market value of the underlying instrument by the option delta. Using the exposures instead of the **effective portfolio capital** in the denominator would "deleverage" the performance."

- **For Theta Overlay Program, Collateral Backing is the Effective Portfolio Capital, and Return on Collateral is the leveraged return.**

Question 6: Is the requirement to include collateral income in the overlay portfolio return when the collateral is actively managed appropriate? If not, should this be changed to a recommendation?

Yes

However, it seems that the Exposure Draft has an error on Page 13, in the Collateral/Margin bullet points. It seems that it should be:

"For example,

- a client or another party manages the collateral separately from the overlay strategy. Hence, the overlay manager has no discretion over the collateral, so the collateral income must be excluded from the overlay portfolio return. ~~unless the collateral income amount is not available because of administrative limitations. In this case, the inclusion of the collateral income because of administrative limitations must be disclosed.~~

or

- the collateral is actively managed by the overlay manager as part of the overlay strategy. In this scenario, the collateral income must be included in the overlay portfolio return, unless the collateral income amount is not available because of administrative limitations. In this

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case, the exclusion of the collateral income because of administrative limitations must be disclosed."

Question 7: Is the requirement to establish a composite specific policy on the treatment of collateral appropriate? If not, should this be changed to a recommendation?

No, it should be a recommendation.

Question 8: Do you agree that the returns for overlay portfolios must be geometrically linked when the overlay exposure changes over the time period? If not, please explain what method(s) you believe is appropriate.

No, regardless of a change to overlay exposure:

- In the instances where cash generated/required by the sale/purchase of derivative instruments are accounted for as an immediately withdrawal/contribution, and results in an external cash flow,
- Cash flows are immediately moved from/into the portfolio, as result gains and losses are not compounded from day to day,
- Cumulative-Arithmetic Return (CAR) is calculated using the Return on Collateral method, which calculates the daily rate of returns on Collateral Backing value and arithmetically sums daily returns to calculate monthly returns:

$$CAR = (G_1 / C_1) + (G_2 / C_2) + (G_3 / C_3) + \ldots + (G_n / C_n)$$

Where:
C_i = collateral backing value at day i
G_i = mark-to-the-market gain on day i
n = number of days in measurement period

As CAR is computed on a daily basis, a change in the Collateral Backing value will not require any changes to the methodology.

Question 9: Do you agree that overlay returns must not be geometrically linked when the exposure remains constant, but rather the returns must be calculated as the cumulative profit/loss for the calculation period divided by the denominator? If not, please explain what method(s) you believe is appropriate.

This is that same as Cumulative Arithmetic Returns (please see Question 8)

Question 10: Should text be added to this Guidance Statement recommending disclosure of the sum of (a) total firm overlay exposure and (b) total firm assets, also known as total firm economic exposure?

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Yes

Question 11: Are the required disclosures appropriate? If not, please explain.

Yes

Question 12: Is the proposed effective date appropriate or would additional time be needed to implement this Guidance Statement?

Yes, the proposed effective date is appropriate.

Best Regards,

/s/ Stephen J. Remboski, CFA
Signature

Stephen J. Remboski, CFA
Chief Compliance Officer