LEE CAPITAL MANAGEMENT

Lee Adaptive Strategies Update

Monthly Commentary

August 2019

Unimportant Volatility

August was, if not yet forgotten, forgettable. The S&P gave up -1.58%. Not a happy result, to be sure, but also not dramatically awful. The loss was roughly equal to July's gain. Over the American cultural summer, Memorial Day to Labor Day, the S&P gained a tidy 4.05% and is up a not inconsiderable 18.34% for the year to date.

Of course, August did not feel so dull while it was going on. Markets were unstable and volatile. Grave threats to prosperity loomed. The trade war with China continued, Brexit remained unresolved, the Fed was inscrutable, and the yield curve inverted.

And yet none of those worrisome narratives progressed meaningfully during August. There were incremental bits of news here and there, but by and large the market's main sources of anxiety were no more or less anxiety provoking at the end of the month than they had been at the start. Thus the muted loss for the month as a whole, even if there were moments of great terror and relief along the way.

It is perhaps in the nature of the markets and of the humans who populate them that what seems at the time to be notable and historic often turns out to be unremarkable just a few weeks later. August certainly had its moments of apparent significance. The S&P lost more than 2% on three separate days, something that felt more extraordinary than it was. (It has lost more than 2% on three or more days in a month 35 times over the past 25 years, or about one month in nine. In December of last year it lost more than 2% five times.)

Measured conventionally and put into the context of history, August's price swings were large but not especially so. Daily volatility was 1.43%, above the 25-year monthly average of 1.00%, and enough to make this August the 47th highest volatility month over the past 300 months. That is a long way from the highest volatility months on the list, September through December of 2008, all of which cleared 3%. October 2008 had a volatility over 5%.

Why does volatility, the jumpiness of daily prices, concern us so? Perhaps it should not. The argument could be made that investors would be better off ignoring it. Indeed, it might be considered a profit opportunity. Buy after big down days and sell after big up days.

And yet we worry. At the most basic level there is the undeniable fact that volatility is an unpleasant experience. When markets get volatile investors tend to get unhappy and sell. Put in somewhat more philosophical terms, investing is the balance of risk and reward, and if the risk, in the form of volatility, increases, investors naturally reduce exposure.

But as a strategy, selling when the market becomes volatile is not obviously profitable. The average S&P return in months that followed below average volatility months was 0.87%, while the average return for months that followed above average volatility was 0.88%. And, it must be noted, if the last four months of 2008 are excluded, the average return following high volatility months is 1.19%.

Longer horizons do not help much. Over the three months following lower than average volatility months the S&P had an average return of 2.73%, while the three months following higher volatility months averaged 2.57%. Again, excluding the end of 2008 is meaningful. Without those four months the higher volatility returns averaged 3.27%.

In our view, the flaw in the logic of selling in volatile times is the bit where we assume that volatility is risk. The two are related, and volatility is convenient and easy to quantify, but they are not the same thing. Daily price swings are upsetting, but what investors worry about is the danger of a large loss. A clever friend of ours likened the difference between volatility and investment risk to the difference between airplane turbulence and airplane crashes.

Nobody is losing sleep over the fear that we might have another August of 2019. It is repeating the end of 2008 that investors worry about. And although those were exceptionally volatile months, volatility is not what made them scary. High volatility was a symptom of something else, a fundamental breakdown in the market.

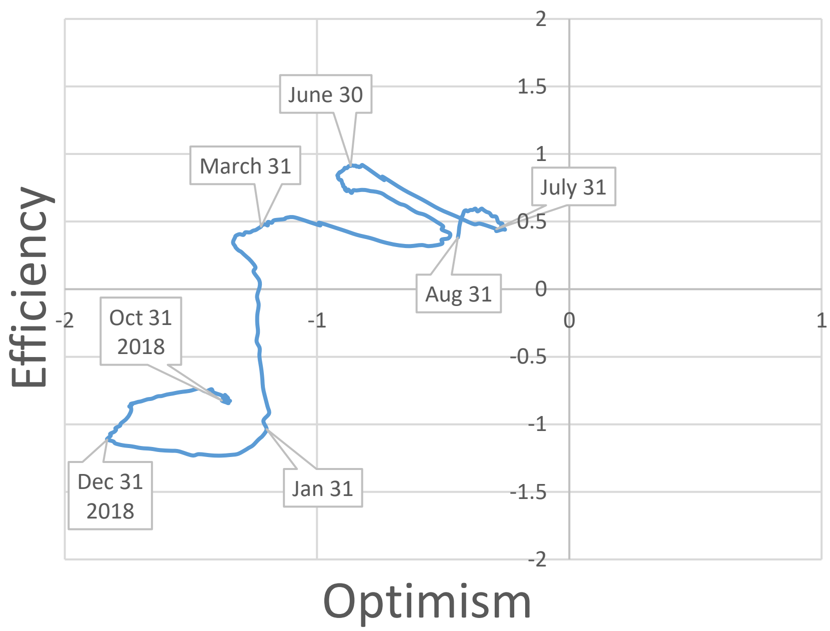
We do not use volatility as an input to our investment process. That sometimes surprises people. But we do use our Efficiency score, a multi-factor measure of market functionality and dislocation. Lately it has not changed much, suggesting that, volatile or not, the market is clicking along just fine. For now.

The Market Sentiment Framework

We use our Market Sentiment Framework to adapt the mechanics and weightings of our full quantitative models to changing market conditions. The Sentiment Framework gauges the current state of market psychology on two dimensions. Efficiency measures the crowdedness of the market, the volume of participants seeking investment opportunities. Lower levels of efficiency imply more market mispricing. Optimism measures the willingness of investors to take on risk in exchange for distant and uncertain rewards. Higher levels of optimism imply a better outlook for risky asset classes.

During August both Efficiency and Optimism changed very modestly.

After a summer in which Optimism see-sawed, August saw it recede a bit from highs at the end of July, falling from -.27 to -0.44.



Although still slightly negative in absolute terms, implying a somewhat lower than average outlook, Optimism is still far above its levels of late 2018.

Efficiency held steady during August, moving from 0.46 to 0.38. Over a longer time horizon, Efficiency is still much above the levels seen in January, which suggested a market under meaningful stress.

Middling levels of Efficiency, as we currently have, are neither good nor bad news for value and momentum investors, suggesting that some opportunities exist for both.

The current positioning of the Sentiment Framework implies a market that is functioning well but is still less efficient than it could be, with moderate opportunities for relative gains from stock picking as well as from momentum. Optimism holds at a level that would suggest courage in market exposure.

Performance and Portfolio positioning

Lee Adaptive Large Cap Sector (LALCS)

For the month of August 2019, the LALCD composite, on a net of fee basis, was down an estimated -1.27%, somewhat ahead of the S&P 500, which was down -1.58% on a total return basis.

The strategy began and ended August holding all sectors and did not make any trades.

Lee Adaptive Broad Market Sector (LABMS)

For the month of August 2019, the LABMS composite, on a net of fee basis, was down an estimated -1.65%, ahead of Russell 3000 index which was down -2.04% on a total return basis.

The strategy began and ended August holding all sectors and did not make any trades.

Lee Adaptive Global Equity (LAGES)

For the month of August 2019, the LAGES composite declined by an estimated -2.29%. This was in line with the MSCI All Country World Index, which declined -2.33% on a total return basis.

The portfolio began and ended the month invested in all equity geographies with no cash in the portfolio. Ending positions were approximately 54% US equity, 2% Japan, 11% Emerging Markets, 22% Europe, and 11% Asia ex-Japan.

Lee Adaptive Global Allocation (LAGA)

For the month of August 2019, the LAGA composite, on a net of fee basis, was down an estimated -0.50%, behind our blended benchmark, which was down -0.36% on a total return basis.

The strategy remained fully invested during July at levels near its baseline weights. Fixed income was slightly overweighted, at 43%, and both US and Japanese equity were underweighted. Overall, the portfolio is maintaining a cautiously optimistic stance, which is a meaningful shift away from the defensive positioning it had a few months ago.

Lee Adaptive China (LACS)

For the month of August 2019, the Lee Adaptive China Strategy composite declined an estimated -3.30%. This was ahead of the MSCI China Index Net, which was down -4.19% on a total return US Dollar basis.

The portfolio began and ended the month fully invested in equity. It held 50% in KBA, the broad market A Shares ETF, 25% in PGJ, the US-listed (or N Share) ETF, and 25% in TAO, the China real estate ETF.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS OR PROFITABILITY.

Definitions:

Lee Adaptive Large Cap Sector Composite ("LALCS Composite"). A capital weighted performance composite of an investment strategy known as the Lee Adaptive Large Cap Sector strategy (the "LALCS Strategy") that holds some combination of the U.S. large cap sector ETFs and/or cash, as determined by a proprietary quantitative model. The LALCS Composite performance is based on actual trading profits/losses/expenses net of a management fee of 0.55%. Actual expenses of operating the LALCS Strategy may vary, depending on the investment structure in which the Strategy is used, which could result in lower returns than those stated for the LALCS Composite. Such expenses may detract materially from the performance of the LALCS Strategy and, consequently, the results shown above may not be fully indicative of the actual performance results of the LALCS Strategy.

The LALCS Composite is being shown for illustration purposes only and should not be relied upon. No representations or assurance is made that any investor will or is likely to achieve results comparable to those shown above or will make any profit or will be able to avoid incurring substantial losses.
PAST PERFORMANCE OF THE STRATEGY AND THE LALCS COMPOSITE ARE NOT INDICATIVE, OR A GUARANTEE, OF FUTURE RESULTS. IT SHOULD NOT BE EXPECTED THAT THE LALCS STRATEGY'S ACTUAL RETURNS WILL REPLICATE THE RETURNS SHOWN IN THE PERFORMANCE MODEL.

Lee Adaptive Broad Market Composite ("LABMS Composite"). A capital weighted performance composite of an investment strategy known as the Lee Adaptive Broad Market Strategy (the "LABMS Strategy") that holds some combination of the U.S. large cap sector ETFs, a small cap ETF and/or cash, as determined by a proprietary quantitative model. The LABMS Composite performance is based on actual trading profits/losses/expenses net of a management fee of 0.55%. Actual expenses of operating the LABMS Strategy may vary, depending on the investment structure in which the Strategy is used, which could result in lower returns than those stated for the LAUSE Composite. Such expenses may detract materially from the performance of the LABMS Strategy and, consequently, the results shown above may not be fully indicative of the actual performance results of the LABMS Strategy.

The LABMS Composite is being shown for illustration purposes only and should not be relied upon. No representations or assurance is made that any investor will or is likely to achieve results comparable to those shown above or will make any profit or will be able to avoid incurring substantial losses.
PAST PERFORMANCE OF THE STRATEGY AND THE LAUSE COMPOSITE ARE NOT INDICATIVE, OR A GUARANTEE, OF FUTURE RESULTS. IT SHOULD NOT BE EXPECTED THAT THE LAUSE STRATEGY'S ACTUAL RETURNS WILL REPLICATE THE RETURNS SHOWN IN THE PERFORMANCE MODEL.

Lee Adaptive Global Equity Composite ("LAGE Composite") Performance. A capital weighted performance composite of the of an investment strategy known as the Lee Adaptive Global Equity strategy (the "LAGE Strategy"). The LAGE Strategy is currently offered by LCM to certain qualified investors through certain accounts managed by LCM on a discretionary basis ("LAGE Managed Accounts"). The LAGE Managed Accounts use the same investment program as the LAGE Strategy. The LAGE Composite performance is based on actual trading profits/losses/expenses net of a management fee of 0.50%. Actual expenses of operating the LAGE Strategy may vary, depending on the investment structure in which the LAGE Strategy is used, which could result in lower returns than those stated for the LAGE Composite. Such expenses may detract materially from the performance of the LAGE Strategy and, consequently, the results shown above may not be fully indicative of the actual performance results of the LAGE Strategy.

The LAGE Composite is being shown for illustration purposes only and should not be relied upon. No representations or assurance is made that any investor will or is likely to achieve results comparable to those shown above or will make any profit or will be able to avoid incurring substantial losses.
PAST PERFORMANCE OF THE LAGE STRATEGY AND THE LAGE COMPOSITE ARE NOT INDICATIVE, OR A GUARANTEE, OF FUTURE RESULTS. IT SHOULD NOT BE EXPECTED THAT THE LAGE STRATEGY'S ACTUAL RETURNS WILL REPLICATE THE RETURNS SHOWN IN THE PERFORMANCE MODEL.

Lee Adaptive Global Allocation ("LAGA Composite"). A capital weighted performance composite of the of an investment strategy known as the Lee Adaptive Global Equity strategy (the "LAGA Strategy"). The LAGA Strategy is currently offered by LCM to certain qualified investors through certain accounts managed by LCM on a discretionary basis ("LAGA Managed Accounts"). The LAGA Managed Accounts use the same investment program as the LAGA Strategy. The LAGA Composite performance is based on actual trading profits/losses/expenses net of a management fee of 0.50%. Actual expenses of operating the LAGA Strategy may vary, depending on the investment structure in which the LAGA Strategy is used, which could result in lower returns than those stated for the LAGA Composite. Such expenses may detract materially from the performance of the LAGA Strategy and, consequently, the results shown above may not be fully indicative of the actual performance results of the LAGA Strategy.

The LAGA Composite is being shown for illustration purposes only and should not be relied upon. No representations or assurance is made that any investor will or is likely to achieve results comparable to those shown above or will make any profit or will be able to avoid incurring substantial losses.

Lee Adaptive China Equity Composite ("LACS Composite") Performance. A capital weighted performance composite of the of an investment strategy known as the Lee Adaptive China strategy (the "LACS Strategy"). The LACS Strategy is currently offered by LCM to certain qualified investors through certain accounts managed by LCM on a discretionary basis ("LACS Managed Accounts"). The LACS Managed Accounts use the same investment program as the LACS Strategy. The Composite performance is based on actual trading profits/losses/expenses net of a management fee of 0.50%. Actual expenses of operating the LACS Strategy may vary, depending on the investment structure in which the LACS Strategy is used, which could result in lower returns than those stated for the LACS Composite. Such expenses may detract materially from the performance of the LACS Strategy and, consequently, the results shown above may not be fully indicative of the actual performance results of the LACS Strategy.

The LACS Composite is being shown for illustration purposes only and should not be relied upon. No representations or assurance is made that any investor will or is likely to achieve results comparable to those shown above or will make any profit or will be able to avoid incurring substantial losses.
PAST PERFORMANCE OF THE LACS STRATEGY AND THE LACS COMPOSITE ARE NOT INDICATIVE, OR A GUARANTEE, OF FUTURE RESULTS. IT SHOULD NOT BE EXPECTED THAT THE LAGE STRATEGY'S ACTUAL RETURNS WILL REPLICATE THE RETURNS SHOWN IN THE PERFORMANCE MODEL.

S&P 500 Total Returns Index. The returns for the S&P 500 index on a total return basis, that is, with dividends included and does not reflect the deduction of fees and expenses. You cannot invest directly in this index. The returns for the S&P 500 Index are provided for comparison purposes only to show how the LALCS Composite compares to a broad-based index of securities. The S&P 500 is comprised of a representative sample of 500 large-cap companies. The index is an unmanaged, float-weighted index with each stock's weight in the index in proportion to its float, as determined by Standard & Poors. The index is one of the most widely used benchmarks of U.S. equity performance. The index is not subject to any of the fees or expenses to which the LALCS Composite is subject. It is not possible to invest in this index. The index is used for comparison purposes only. It should not be assumed that the LALCS Strategy will invest in any specific securities that comprise the index or that the investment program of the LALCS Strategy will track the index. Consequently, the returns of the LALCS Composite may or may not be highly correlated with those of the index.

MSCI All Country World Index. The returns for the MSCI All Country World Index ("ACWI") on a total return basis, that is, with dividends included and does not reflect the deduction of fees and expenses. The returns for the index are provided for comparison purposes only to show how the above composite returns compare to a broad-based index of securities. The MSCI AC World Index is composed of large and mid-capitalization developed and emerging market equities. The index is one of the most widely used benchmarks for global equity performance. You cannot invest directly in this index. It should not be assumed that the strategies above will invest in any specific securities that comprise the index or that the investment program of the strategies above will track the index. Consequently, the returns of the composites above may or may not be highly correlated with those of the index.

MSCI China Index Net. The returns for the MSCI China Index Net on a total return basis, that is, with net dividend tax withholding and does not reflect the deduction of fees and expenses. The returns for the index are provided for comparison purposes only to show how the above composite returns compare to a broad-based index of securities. The MSCI China Index represents large and mid-capitalization across H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 495 constituents, the index covers about 85% of this China equity universe. Currently, the index also includes Large Cap A shares represented at 5% of their free float adjusted market capitalization**.** It should not be assumed that the LACS strategy will invest in any specific securities that comprise the index or that the investment program of the LACS strategy will track the index. Consequently, the returns of the composite above may or may not be highly correlated with those of the index.

Bloomberg Barclays US Aggregate Bond Index. The returns for the Bloomberg Barclays US Aggregate Bond Index ("US Agg") on a total return basis, that is, with dividends included and does not reflect the deduction of fees and expenses. The returns for the index are provided for comparison purposes only to show how the above composite returns compare to a broad-based index of securities. The US Agg is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The US Agg index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency). The index is one of the most widely used benchmarks for fixed income performance. You cannot invest directly in this index. It should not be assumed that the strategies above will invest in any specific securities that comprise the index or that the investment program of the strategies above will track the index. Consequently, the returns of the composites above may or may not be highly correlated with those of the index.

Blended Benchmark. Is a hypothetical index comprised of 60% MSCI AC World Index and 40% the Bloomberg BarCap US Aggregate Bond Index. You cannot invest directly in this index.

<u>Disclaimer:</u>

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS OR PROFITABILITY.

This document (this "Update") does not constitute an offer to sell or a solicitation of an offer to purchase interests in any investment vehicles or securities. This Update is not, and under no circumstances is it to be construed as, a prospectus, advertisement or an offering of any interests in either the Strategy or other portfolios. This Update is intended for informational purposes only. It does not constitute investment advice or a recommendation with respect to investment in the LALCS Composite, LABMS Composite, LAGA Composite, LAGE Composite, LACS Composite, the LALCS Strategy, the LAGA Strategy, the LAGE Strategy, the LABMS Strategy, the LACS Strategy or any other portfolio.

Lee Capital Management LP ("LCM") has relied upon and assumed in the LALCS Strategy, the LAGA Strategy, the LAGE Strategy, the LABMS Strategy and the LACS, without independent verification, the accuracy and completeness of all information available from public sources. No assurance can be given that an investor will receive a return of all or a part of his or her initial investment, and investment results may vary substantially over any given time period. An investment is not a deposit and is not insured or guaranteed by the FDIC or any other government agency or by LCM, its affiliates or subsidiaries.

This Update and the material contained herein are confidential and may not be distributed in whole or in part to anyone other than the intended recipients. By accepting receipt of this Update, the recipient will be deemed to represent that they possess, either individually or through their advisers, sufficient investment expertise to understand the risks involved in any purchase or sale of any financial instruments discussed herein. Unauthorized reproduction or distribution of all or any of this material or the information contained herein is strictly prohibited.

Notwithstanding anything set forth herein, each recipient of this document (and each of the employees, representatives or agents of such recipient) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of (i) the LALCS Strategy, LAGA Strategy, LABM Strategy, the LACS Strategy or LAGE Strategy and (ii) any of their transactions, and all materials of any kind (including, without limitation, opinions or other tax analysis) that are provided to each recipient relating to such tax treatment and tax structure. ***LCM does not provide tax advice and nothing herein should be construed as such.***