Harpswell
CAPITAL ADVISORS, LLC

March 13, 2023

Dear Harpswell client and stakeholder:

Thank you for the confidence and trust you place in Harpswell. We place immense value on our partnership and strive to best serve you every day.

On Friday March 10, 2023, Silicon Valley Bank (SVB) was shut down by the California Department of Financial Protection and Innovation and the Federal Deposit Insurance Corporation (FDIC) was named as the receiver. SVB customers have been scrambling to assess their exposure, understand business risks and prepare for the possibility of operating their businesses without immediate access to bank accounts and other banking services.

We wanted to provide an update regarding the bank failure. The Federal Deposit Insurance Corporation (FDIC) took immediate action to isolate the situation and protect depositors. We want to assure you that Harpswell has no banking relationship with Silicon Valley Bank, and our operations on behalf of our clients, have continued without interruption. On the investment front, our assessment is that the direct exposure to Silicon Valley Bank is expected to be de minimis.

As Silicon Valley Bank ("SVB") was the 16th largest bank in the United States, its failure marks the second largest bank collapse in U.S. history behind Washington Mutual in 2008 ($300B). While markets are still digesting the news, and we would expect new factors to emerge over the next few days, we want to communicate what we know about the situation and how it impacts you, our clients. Below is a brief summary of what has happened.

What happened?

On Tuesday, SVB announced it needed to raise $2B for liquidity purposes and that lead to clients' efforts to withdraw $40B from the bank. Banks use deposits from customers to lend and make other investments to earn a yield, part of which provides a yield to the depositing customer that holds the account.

Three primary issues played a key role in SVB's insolvency:

A) SVB primarily caters to startups and venture capital funds. The startups raise large sums of cash from venture capital funds and they burn through the cash as they evolve. Startups also continuously raise investment and replenish those deposit accounts. In the last year, there has been less investment into these startups, while they have continued to burn through cash. This means the deposits into SVB has been declining rapidly.

B) SVB invested a meaningful portion of their deposits into 10 Year Treasuries. While these are very safe investments, it does not mean their value doesn't change. Inflation and interest rate increases resulted in the value of these Treasury Bonds declining.

C) Banks don't have to mark their investments to market (and realize losses) unless they classify them as assets that may be liquidated. SVB was forced to reclassify their bonds and realizes losses as a result of them reclassifying them as being available for sell to meet the precipitous flow of withdraws. The drop in the value of the 10-year bonds created the shortfall that the bank announced on Tuesday.

What do I need to know?

- Harpswell carefully chooses both our banking relationships and our partners to custody our client assets. We had no banking or custody relationship with Silicon Valley Bank thus our operations on behalf of clients have continued without disruption.
- On the investment side, Harpswell has no direct exposure to SVB and our clients indirect exposure to Silicon Valley Bank is expected to be de minimis. Thus far, we have only one fund with indirect exposure to SVB and the impact is minimal as the deposits are not meaningful in size and a good portion of them should be recovered through FDIC insurance.
- Looking ahead, we will be closely monitoring developments and will be on watch for potential for second derivative effect on capital markets. We expect this weekend will bring additional information, including the possible sale of the company assets, which could accelerate liquidity for clients and help restore confidence.

- With the failure of a second bank over the weekend (Signature), we would not be surprised to see a couple additional liquidity events for a few smaller banks as there are always people out there trying to "pick pennies up in front of a steamroller."
- While the situation at SVB was idiosyncratic in some ways, sharply higher interest rates have resulted in material unrealized losses totaling $620 billion across FDIC-insured US banks as of December 31, 2022. Relative to a $20 trillion banking system, 3% in unrealized losses may not seem like a lot but we feel the implications of rapidly rising interest rates have likely not fully materialized.

- Interest rates have increased at an unprecedented rate; we would anticipate other reverberations throughout the economy.

- Finally, we could envision this "banking crises" to be part of the mosaic for the Federal Research to soften their hardline hawkish stance. If the market anticipates some changes in the Fed's aggressive inflation fighting posture, we would expect it to be positively received by the markets.

Protecting your assets and safeguarding your legacy is a responsibility we take extremely seriously every day! We are constantly focused on responsible stewardship of your assets and are grateful for your continued trust and partnership.

As always, please feel free to reach out with any questions you may have.

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