Investment Playbook Weekly Update

19th May, 2023

LIGHTHOUSE CANTON



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Weekly Spotlight

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Bond Spotlight: MEITUAN 3.05 10/28/2030

Bond Details

ISIN	USG59669AC89
Security	MEITUA 3.05 10/28/30
Issuer	MEITUAN
Country	CN
Sector	Communications
Rank	Sr Unsecured
Currency	USD
Issue Size	1,250,000,000
Outstanding	1,250,000,000
Min Piece	200,000
Series	REGS
Liquidity Score	31
Issue Date	28/10/2020
Maturity Date	28/10/2030
Year to Mty	7.45
Mty Type	CALLABLE
Next call Dte	28/07/2030
Next call Px	100.00
Mod. Duration	6.6

Bond Price

Source Bloomberg



Rating (Bond)

Moody's	Baa3
S&P	BBB-
Fitch	BBB-
	BBB-

Coupon

Cpn rate	3.05
Cpn Type	FIXED
Cpn Freq.	2.00

Parent Company

Equity Ticker	3690 HK
Parent Company	#N/A Field Not Appli
Ultimate Parent	Meituan

Liquidity (Issuer level)

Current Ratio	1.9
Quick ratio	1.5
Interest Coverage	(3.9)

Default Risk

Default BBG	0.1%
CDS (%)	0.9%

Leverage (Issuer level)

Net Debt / Mkt Cap	(0.1)
Net Debt / EBITDA	(12.9)
Liabilities / Assets	0.5

Profitability (issuer level)

Return on Capital	-3%
Return on Equity	-5%
Altman ZS	5.0

Price Change (bond)

1M	-1.8%
3M	-0.4%

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Bond Spotlight: Investment Rationale

- **Issuer Description:** Meituan operates as a web based shopping platform for locally found consumer products and retail services. The Company offers deals of the day by selling vouchers on local services and entertainment, dining, delivery and other services. Meituan provides it services throughout China.

- **Investment Rationale :** Meituan's 4Q22 results showed continued improvement in its credit profile and 3rd consecutive quarter of positive EBITDA margin. Its debt metrics also improved and the company comfortably maintained a net cash position. This bond is trading at a wide spread vs Meituan 25, hence, on a relative value basis, we prefer Meituan 30.

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Fund Spotlight: Ironshield Credit Fund

FUND INFO

Asset Type	Fixed Income	**Fund AUM (m)**	76
Investment Geography	E.U. & U.K.	**Inception Date**	Apr-20
Strategy	Special Situations/Event-Driven Credit		
Currency	EUR		

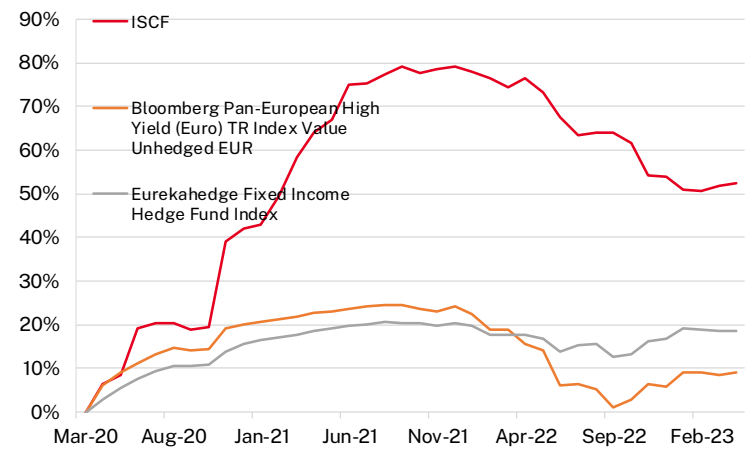
PERFORMANCE STATISTICS

	ISCF	Bloomberg Pan-European High Yield (Euro) TR Index Value Unhedged EUR	Eurekahedge Fixed Income Hedge Fund Index
Annualized Return	14.63%	2.87%	5.81%
Annualized Volatility	13.04%	7.86%	4.35%
Annual Sharpe Ratio (Rf)*	1.08	0.30	1.22
Annual Sortino Ratio (vs Rf)*	3.38	0.44	2.30
Max Drawdown	16.01%	18.94%	6.51%
Correlation to Global Equities	0.42	0.87	0.80
Correlation to Global IG	0.10	0.65	0.60
Correlation to Global HY	0.38	0.95	0.92

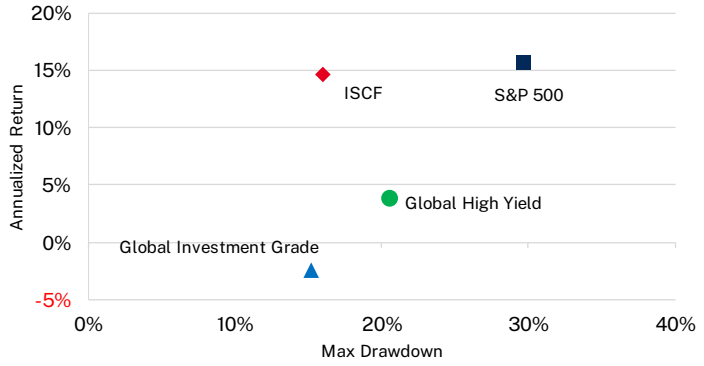
ANNUAL PERFORMANCES

2022 Return	-1.06%	3.20%	1.43%
2021 Return	-14.13%	-14.83%	-3.03%
2020 Return	26.21%	3.43%	4.22%
2019 Return	42.06%	2.29%	5.66%

HISTORICAL CUMULATIVE RETURNS



RETURN VS MAX DRAWDOWN SINCE FUND INCEPTION



STRATEGY SUMMARY

-The fund runs a long/short event driven strategy focusing on European credits, in a UCITS format.

- Its objective is to achieve high absolute returns by exploiting periods of market mispricing caused by operational and capital structure changes in corporates.

- The team uses a probability and scenario driven approach to evaluate opportunities and assess risk.

- Credit selection and position sizing are based on in-depth analysis and due diligence of a select group of corporates that the team typically tracks over a multi-year period.

- The fund can take up to 25 to 35 long and short positions with an average position size of 4%. 100% of the portfolio can be liquidated within 1 week.

- Gross exposure can range between 100-150% with a very dynamic net.

- All positions are sized appropriately for the risk so that in our downside scenario, the credit wouldn't detract more than 2% of NAV.

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Fund Spotlight: Investment Rationale

- The fund offers a liquid way to gain exposure to a multi-year opportunity set in event driven credit where we are entering a more prolonged distressed and disruptive credit environment which is generally the best for the fund to deliver strong asymmetric returns (+42% in 2020 and +26% in 2021).
- 100% of its portfolio can be liquidated in a week which is achieved by investing in the most liquid part of the HY market (BBs to CCCs)
- Short to medium term event-driven approach provides a relatively lower volatility and uncorrelated return stream compared to the underlying credit markets.
- Highly experienced team with the longest track record amongst the European based competitors in special situations credit
- The fund has with a proven track record of protecting capital in challenging markets. Since pre-GFC, the manager has only had 6 positions that lost more than 2% of NAV.
- This gives us the comfort in the ability for fund to identify and monetize high payout event driven opportunities that are often complex and tricky to navigate.

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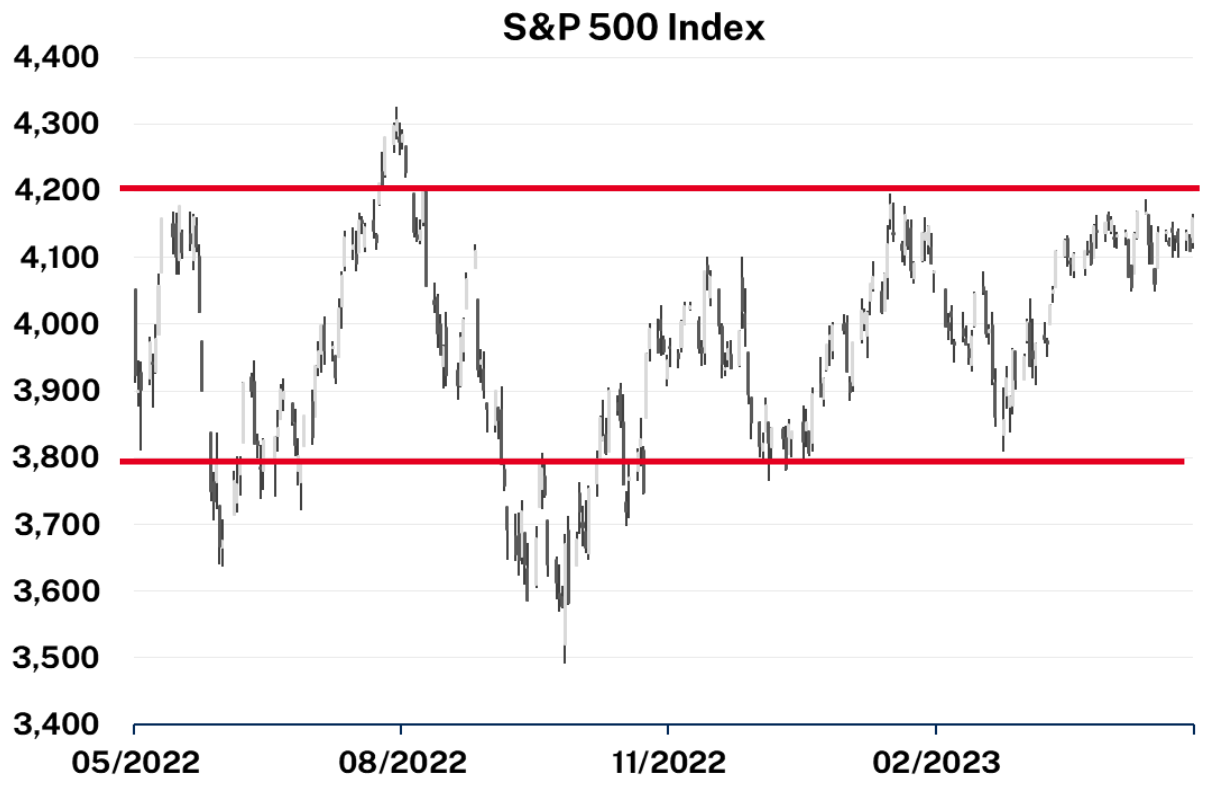
Charts of the week

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US Stocks Remain in a Narrow Trading Range

Indecisiveness has persisted for an entire year and may endure further



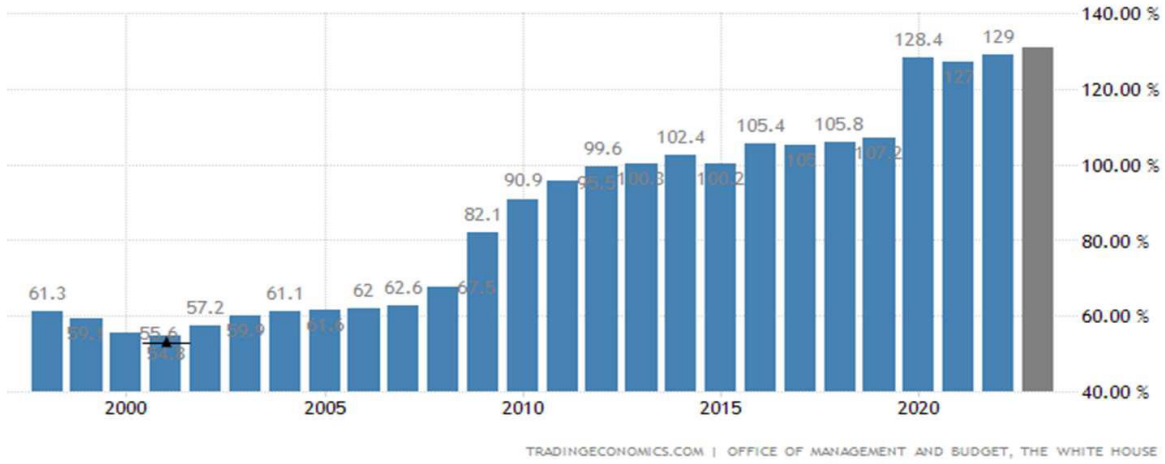
Source: Lighthouse Canton, May 2023

- Over the past year, the S&P 500 index, representing US stocks, has consistently traded within a relatively tight range. Out of the last 254 business days, the index has been actively traded for 204 days, accounting for approximately 81% of the observed period. During this time, the S&P 500 has fluctuated between 3800 and 4200 points, representing a relatively narrow range of just 10%.
- The current state of the stock market is characterized by a lack of a definitive catalyst that could provide a clearer direction for investors. Factors such as tighter financial conditions and a slower pace of economic growth contribute to an increased downside potential, from our perspective.

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Persistent Increase in US Budget Deficits

Increasing US government debt and budget deficits are a cause of concern



- There has been a significant increase in the US Government Debt/GDP ratio, which currently stands at 129%. This rise has been particularly prominent, surpassing the pre-pandemic level of approximately 100% and doubled from the pre-Great Financial Crisis (GFC) levels.
- Furthermore, the budget deficit for the year 2022 remains elevated at 5.7%, exceeding the pre-GFC range of 1-3% and the post-GFC range of 2-4%.
- These statistics highlight the need to pay closer attention to the growing debt burden and persistent budget deficits in the United States.

Source: Tradingeconomics.com, Office of Management and Budget, The White House, May 2023

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Wobble in US Consumption

Credit Card spend data points to slowdown in April

Exhibit 2: Aggregated monthly card spending per HH by major category (%m/m, SA)

Spending was generally tepid in April

	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22
Gas	0.3%	-4.0%	1.0%	0.2%	-3.9%	-3.0%
Furniture	-1.4%	-3.0%	-1.5%	0.6%	-5.5%	2.5%
Home improvement	0.1%	-2.2%	0.3%	-0.3%	-0.6%	-2.3%
Clothing	-0.5%	0.1%	-2.0%	4.7%	-6.0%	2.5%
Grocery	-0.4%	0.0%	-0.2%	-0.3%	-1.1%	0.3%
General Merchandise	-0.1%	-0.5%	-0.2%	3.0%	-0.3%	-1.1%
Department Store	0.5%	-2.3%	0.4%	0.6%	-1.7%	-1.7%
Restaurants	0.3%	-0.4%	0.1%	0.8%	0.3%	-0.5%
Lodging	-0.8%	-2.1%	0.3%	-2.4%	2.2%	1.3%
Airlines	-3.5%	-0.2%	-0.8%	8.8%	-0.8%	-1.2%
Total online retail (card not present)	1.0%	-1.5%	0.6%	0.3%	-1.0%	-2.2%

Source: BAC internal data. Card not present is largely online but could include purchases made over the phone.

BofA GLOBAL RESEARCH

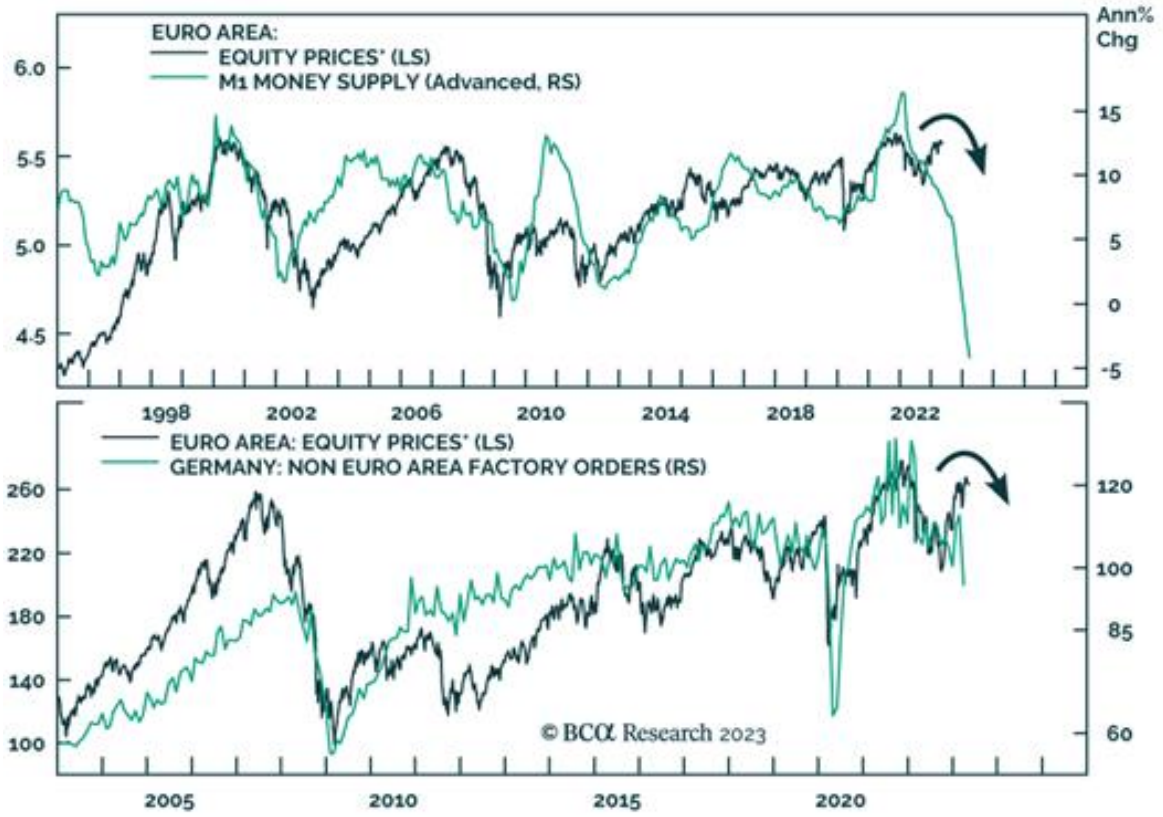
- April was a tepid month in terms of consumer spends.
- Key highlights being dip in Airlines spend perhaps indicating that the pent-up demand spent is coming to a close .
- BofA is of the opinion that the pattern in card spends as evidenced points to a benign slowdown as opposed to a full-blown period of stress.
- As per BofA lower income households (most impacted at periods of stress) continues to outperform higher income households in terms of YoY spends.

Source: BofA, FT, May 2023

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Potential Correction for European Equities

Tight credit standards and subdued loan demand further indicate looming economic troubles.



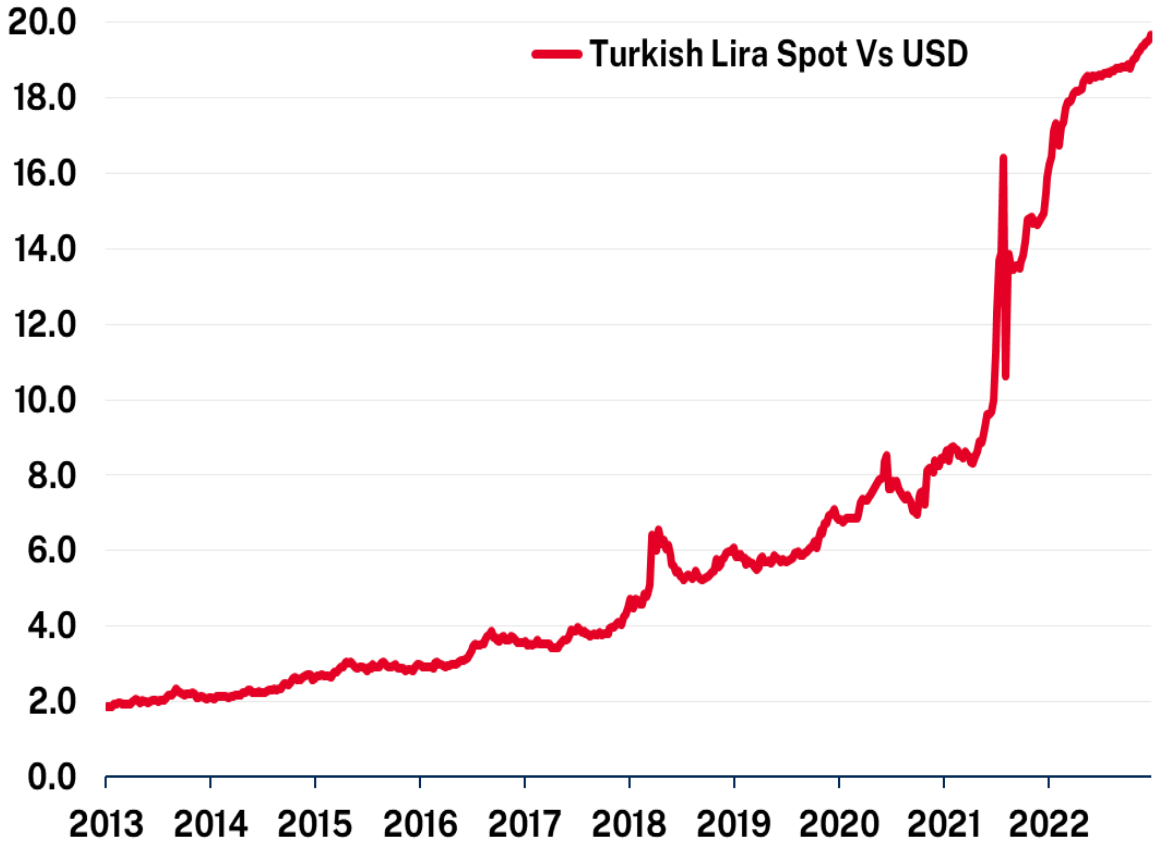
- BCA Research's indicates the likelihood of a correction in European stocks in the coming months. The decrease in Euro Area M1 and the curtailment of earnings revisions are key factors contributing to the decline in Eurozone equity prices.
- The correlation between European credit standards, credit demand, and economic troubles is evident, albeit not as strong as with money supply. The presence of tight credit standards and weaker loan demand signifies an upcoming period of economic challenges.

Source: MSCI, BCA Research , May 2023

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Turkey Slides Deeper Into Crisis

Erdogan's political momentum puts Turkish democracy to the test



- Turkish assets (stocks, bonds and currency) slid as the nation heads for a runoff election on May 28th.
- Stronger-than-expected support for Recep Tayyip Erdogan — who garnered 49.5% of votes — wrongfooted investors who'd bet on a quick end to his unconventional economic policies.
- Stocks and bonds dropped, and the cost of insuring the government's debt against a default spiked.

Source: Bloomberg, May 2023

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LC Views - Summary

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LC Views Summary (1/2)

Sub-Asset	Recommended Positioning
Rates	• Post May FOMC, the Fed had hiked by 25bps as widely anticipated. It also signaled a pause, citing that policy will be more data dependent. Meanwhile bank lending standards have tightened further on back of banking stresses, with headline CPI at 4.9% and core CPI at 5.5% nowhere near the Fed's long-term average of 2%. The Fed will likely be challenged with balancing inflationary risks and containing any further deterioration to financial stability. We feel policy rates have likely peaked and markets are expecting cuts to start materializing early next year – this makes longer duration positioning more favorable.
Credit	• We continue to favor investment grade bonds to build a strong foundation for the portfolio and seek to compliment the latter with selective high yield bonds for yield enhancement. While we recommend to allocate a larger portion of the portfolio in short duration bonds due to the elevated yields, we are actively seeking to extend duration into the 7-10Y space as opportunities arise. Due to the challenging economic outlook ahead, we see further opportunity in special situations bond funds, which could provide asymmetric returns in a prolonged distressed and disruptive credit market.
Equities	• The benchmark S&P 500 rose 7.4% year-to-date after dropping nearly 20% in 2022, while gains across technology stocks have pushed the Nasdaq 100 up 22% since the start of January. Equity valuations do not appear compelling once adjusted for the shortfall in corporate earnings, and equities do not seem attractive relative to bonds when using a 3-year Z-score Bond-Yield to Earnings-Yield ratio. 465 members of the S&P 500 have reported earnings till now and on a consolidated basis they have reported a 3.3% drop in earnings and modest 4.2% growth in sales. We expect earnings to continue deteriorating on the back of tighter credit conditions as the US banking crisis continues to unfold and contrary to the consensus estimates, do not expect a strong rebound in earnings in the back half of the year. Consequently, we maintain our bearish outlook on equities for the next six months and recommend (in order of preference) Long/Short managers, options (FCNs or Puts), and quality stocks.

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LC Views Summary (2/2)

Sub-Asset	Recommended Positioning
Currencies	• **Currencies** are expected to remain volatile throughout 2023. Given higher recessionary risks, the USD may strengthen over a short-term tactical horizon but for longer term investors, we continue to hold the view for a bearish USD. Exposure to JPY, EUR and GBP could be increased over time to benefit from the recent lows and a peak in dollar's strength driven by peak policy rates. We also recommend adding active managers (Macro funds) to monetize opportunities in currencies and rates.
Commodities	• Our long-term view for a bearish USD is likely to be supportive for Gold. We also like the yellow metal for structural reasons: diversification benefit, inflation hedge, geopolitical risk and de-dollarization trend. • Oil is likely to remain highly speculative this year as witnessed in March. On one hand, recessionary fears should temper demand. On the other hand, the production cut by OPEC+ members will inevitably support prices in the mid-term.
Real Estate	• Tightening financial conditions have started to cause sharp repricing in property prices globally and threaten rental growth rates. The risk of further correction in real estate prices should not be underestimated. There will be opportunities to pick good REITs cheaper next year. • With the recent banking turmoil, Commercial Real Estate exposure is increasingly at risk given the large exposures the smaller banks have to the sub-sector. Clients holding on to any related exposures should consider removing them.

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