Lighthouse Canton Monthly Investment Memo

January 2023

LIGHTHOUSE CANTON

2022
ASIAN PRIVATE BANKER
AWARDS FOR DISTINCTION
BEST INDEPENDENT WEALTH MANAGER
ASIA PACIFIC

2021
ASIAN PRIVATE BANKER
AWARDS FOR DISTINCTION
BEST INDEPENDENT WEALTH MANAGER
WEALTH PLANNING SERVICES

2021
ASIAN PRIVATE BANKER
AWARDS FOR DISTINCTION
BEST INDEPENDENT WEALTH MANAGER
INVESTMENT ADVISORY

GLOBAL Private Banking INNOVATION AWARDS 2022

OUTSTANDING DIGITAL TRANSFORMATION IN COVID 19 BY A FAMILY OFFICE

BEST FAMILY OFFICE – MIDDLE EAST

BEST FAMILY OFFICE – UNITED ARAB EMIRATES

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Model Portfolios

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LC Model Portfolios - Overview

The following are portfolios and frameworks that are run by the Lighthouse Canton Investment Consulting team. For more information about these portfolios, please reach out to us at ir@lighthouse-canton.com.

LC Portfolio	Strategy	Return Target	Drawdown	Assets Liquidity	Benchmark	Beta
Multi-Asset Defensive	Absolute Return	7% - 10%	< 5%	Monthly, Quarterly	SOFR + 2.0%	0.1
Multi-Asset Growth	Absolute Return	> 10%	< 15%	Monthly, Quarterly	SOFR + 5.0%	0.2
Fixed Income	Long Only	6% - 8%	Up to 20%	Daily	50% IG / 50% HY	0.2
Equities	Long Biased	10% - 12%	Up to 50%	Daily	S&P 500	1.0
Income	Long Only	>4% Distribution	Up to 25%	Daily	33% IG / 33% HY / 33% Global Dvd	0.4

Source: Lighthouse Canton, Jan 2023

Multi-Asset Model Portfolios – Overview

Investment Philosophy

- All-weather approach to portfolio construction that seeks to maximize risk adjusted returns and be uncorrelated with market cycles.
- We aim to minimize correlation amongst constituents to ensure ample portfolio diversification.
- Dynamic allocation depending on views on the opportunity set. This gives the portfolio flexibility in making strategic tilts if needed.

Allocation Summary

	Defensive	Growth
Core		
Alternatives	50%	22%
Fixed Income	30%	15%
Equities	20%	53%
Portfolio Hedge	0%	10%
Expected Performance		
Exp. Return	7-10%	>10%
Exp. DD	<5%	<20%
Beta to MSCI ACWI	0.08	0.15
*Product Risk Allocation **		
1	0%	0%
2	25%	0%
3	20%	7%
4	30%	15%
5	25%	78%

* Internal product risk rating - 1 being lowest risk and 5 highest

Source: Lighthouse Canton, Jan 2023

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Fixed Income Model Portfolio – Overview

Investment Philosophy

- Dynamically traded, unconstrained and opportunistic fixed income portfolio, which invests in a globally diversified, high conviction portfolio of corporate bonds and, at times, short-duration US Treasuries.
- The allocation is long only and will primarily be in USD but may opportunistically invest in non-USD bonds.
- New bonds are added at the ask price and removed at the bid price. The performance is calculated "Total Return" i.e., including both changes in price as well as accrued interest over the holding period.
- Since both Investment Grade and High Yield bonds are eligible, the benchmark is composed of 50% Investment Grade (LQD US) and 50% High Yield bonds (HYG US).
- Each holding will be capped at 5% of assets (on recommendation date).
- The portfolio was initiated on August 15th, 2022, with a virtual capital of 20m USD.

NAV & Benchmarks

Date	NAV	LQD US (i)	HYG US (ii)	Benchmark (iii)
15-Aug-22	$ 20,000,000			
24-Jan-23	$ 21,063,091			
Performance (ITD) (iv)	5.32%	-1.44%	-1.03%	-1.24%

Reference: US$ term deposit for 12 months yields 5% p.a.

(i) LQD US is the iShares iBoxx $ Investment Grade Corporate Bond ETF

(ii) HYG US is the iShares iBoxx $ High Yield Corporate Bond ETF

(iii) The benchmark is composed of 50% LQD US & 50% HYG US

(iv) Performance inception till date (ITD) is the total return performance since August 15th, 2022

Source: Lighthouse Canton, Jan 2023

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Fixed Income Model Portfolio – Characteristics

Statistics	Inv. Grade	High Yield	Not Rated	Total
# Issuers	16	9	-	**25**
Value (m USD)	11.8	9.1	-	**21.0**
Weight	57%	43%	0%	**100%**
Avg Duration	2.34	1.71	-	**2.06**
Avg Yield	4.73	6.40	-	**5.46**

Maturity	Inv. Grade	High Yield	Not rated	Total
2023	0%	0%	0%	0%
2024	11%	14%	0%	25%
2025	16%	19%	0%	35%
2026	8%	10%	0%	18%
> 2026	22%	0%	0%	22%
				100%

Seniority	Inv. Grade	High Yield	Not rated	Total
Sr Unsecured	35%	28%	0%	**64%**
1st lien	0%	15%	0%	**15%**
Sr Non-Preferred	2%	0%	0%	**2%**
Subordinated	19%	0%	0%	**19%**
				100%

Sectors	Inv. Grade	High Yield	Not Rated	Total
Banks	11%	0%	0%	**11%**
Coal	0%	5%	0%	**5%**
Auto Manufacturers	2%	9%	0%	**11%**
Gas	0%	6%	0%	**6%**
Computers	0%	0%	0%	**0%**
Investment Companies	5%	0%	0%	**5%**
Electric	0%	5%	0%	**5%**
Diversified Finan Serv	5%	0%	0%	**5%**
Semiconductors	4%	5%	0%	**9%**
Real Estate	0%	5%	0%	**5%**
Mining	0%	5%	0%	**5%**
Internet	4%	0%	0%	**4%**
Commercial Services	4%	0%	0%	**4%**
Insurance	13%	0%	0%	**13%**
Agriculture	5%	5%	0%	**10%**
Chemicals	2%	0%	0%	**2%**
Food	3%	0%	0%	**3%**
Apparel	0%	0%	0%	**0%**
Forest Products&Paper	0%	0%	0%	**0%**
Auto Parts & Equipment	0%	0%	0%	**0%**
				100%

Source: Lighthouse Canton, Jan 2023

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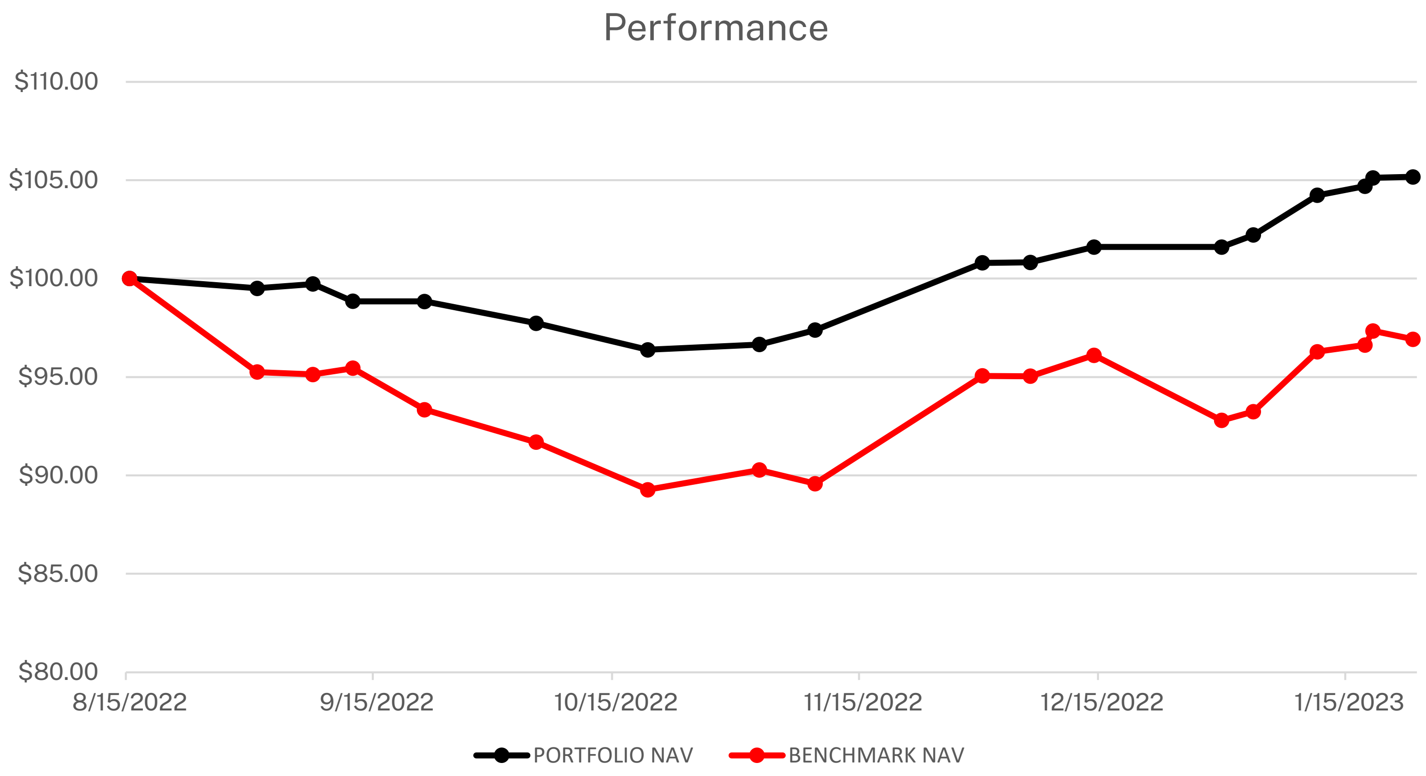
Fixed Income Model Portfolio – Performance

MONTHLY PERFORMANCE

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2023	3.65%												
2022								-0.49%	-1.78%	-1.11%	4.30%	0.80%	**1.61%**



Source: Lighthouse Canton, Jan 2023

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Equities Model Portfolio - Overview

Investment Philosophy

- Unconstrained equity portfolio with the ability to allocate capital across geographies and companies with varying market capitalizations, primarily following the growth at a reasonable price philosophy.
- We invest in companies with top line growth greater than the benchmark, which are able to maintain/increase their operating profit margins over time and strategically reinvest profits back into the business to deliver growth accompanied with a superior ROIC.
- The allocation will be a mix of long only direct equity holdings accompanied with the use of derivative overlays in the form of futures and options either for hedging or performance enhancement purposes.
- The Standard & Poor's 500 Index (S&P 500), which is the most used gauge of the overall economy, will be used as a benchmark.
- The portfolio was initiated on November 9th, 2022, with a paper capital of 20 million USD.

Source: Lighthouse Canton, Jan 2023

Equities Model Portfolio – Characteristics

Beta	Ptf	S&P 500
Cash	0.000	
Stocks	0.791	1.00
Options	-0.015	
Futures	-0.108	
	0.67	**1.00**

Market Capitalization	Ptf
Large Caps (> 10 bn)	52%
Mid Caps (2 - 10 bn)	20%
Small Caps (< 2 bn)	15%
	87%

	Ptf	S&P 500
Return On Capital	35%	9%
CAGR 3Y	13%	8%
Dvd Yield	0.9%	1.7%

Industry	Stocks	Options	Total	S&P 500	Difference
Software & Services	12.9%	2.6%	15%	12.6%	2.8%
Media & Entertainment	6.3%	0.0%	6%	11.2%	-5.0%
Technology Hardware & Equipment	12.6%	0.0%	13%	8.5%	4.2%
Pharmaceuticals, Biotechnology & Life Sciences	8.9%	0.0%	9%	7.5%	1.5%
Retailing	9.3%	0.0%	9%	6.1%	3.3%
Health Care Equipment & Services	13.2%	5.9%	19%	5.6%	13.5%
Diversified Financials	0.0%	0.0%	0%	5.1%	-5.1%
Capital Goods	2.3%	0.0%	2%	5.0%	-2.7%
Semiconductors & Semiconductor Equipment	9.5%	0.0%	10%	4.6%	4.9%
Energy	0.0%	0.0%	0%	4.2%	-4.2%
Food, Beverage & Tobacco	0.0%	0.0%	0%	3.7%	-3.7%
Banks	0.0%	0.0%	0%	3.4%	-3.4%
Utilities	0.0%	0.0%	0%	2.8%	-2.8%
Automobiles & Components	0.0%	3.1%	3%	2.8%	0.3%
Real Estate	2.0%	0.0%	2%	2.6%	-0.7%
Materials	0.0%	0.0%	0%	2.3%	-2.3%
Insurance	0.0%	0.0%	0%	2.0%	-2.0%
Food & Staples Retailing	1.0%	0.0%	1%	1.9%	-0.9%
Consumer Services	0.0%	0.0%	0%	1.8%	-1.8%
Transportation	0.0%	2.1%	2%	1.7%	0.4%
Household & Personal Products	0.0%	0.0%	0%	1.5%	-1.5%
Telecommunication Services	0.0%	0.0%	0%	1.3%	-1.3%
Consumer Durables & Apparel	2.6%	0.0%	3%	0.9%	1.7%
Commercial & Professional Serv	0.0%	0.0%	0%	0.8%	-0.8%
	81%	*14%*	*94%*	*100%*	

Source: Lighthouse Canton, Jan 2023

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Equities Model Portfolio – Performance

MONTHLY PERFORMANCE

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2023	5.49%												
2022											10.85%	-4.04%	6.37%

* Inception date of 9th November, 2022

Source: Lighthouse Canton, Jan 2023

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Income Model Portfolio – Overview

Investment Philosophy

- The portfolio aims to achieve a diversified allocation across multiple asset classes with a focus on maximizing income generation – targeting >4% cash flow yield
- We also intend to maintain a liquid portfolio and hence there will be a large bias towards exchange traded instruments and /or mutual funds.
- Dynamic allocation depending on views on the opportunity set. This gives the portfolio flexibility in making strategic tilts if needed.

Allocation Summary

Investment Objective	>4% Distribution p.a.
Expected Income	5.6%
Expected Return	10.3%
Expected Drawdown	19.3%
Benchmark	33% IG, 33% HY, 33% Dvd Stocks
Estimated LTV	30-50%
Equities	20%
Fixed Income	60%
Alternatives	20%
USD	88%
EUR	10%
GBP	0%
AUD	0%
Others	2%
Fund	35%
Direct	65%

Fixed Income Rating Split	
Average Yield	8.4%
Average Credit Rating	BB+
Average Duration	1.2

Stocks	
Average Dividend Yield	18.6%
Average Analyst Upside	25%

Source: Lighthouse Canton, Jan 2023

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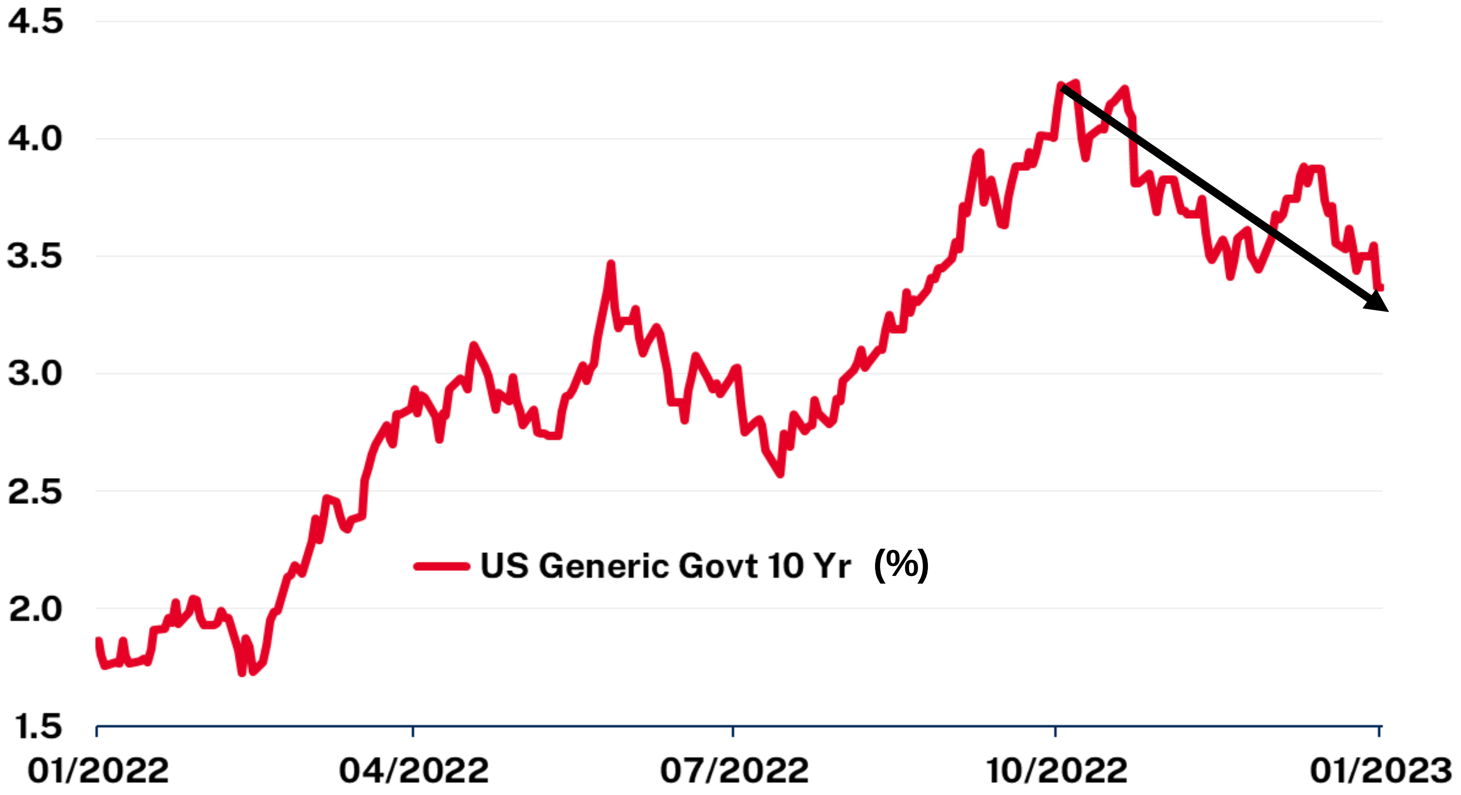
SpotLight

2

US 10Y Yield Has Receded To 3.36%

Recession fears act as a glass ceiling on long dated bonds



Source: Bloomberg, January 2023

- The 10Y US treasury yield has dropped almost 100 bps since October 2022.
- The spread between UST 3M & UST 10Y is now at -134bps, at its most inverted since 1980.
- Such a drop is due to receding inflation as well as a potential economic slowdown (recession fears).
- Any chance to see the 10Y US Treasury yield moving back above 4% should be taken as an opportunity to add duration to the portfolio.

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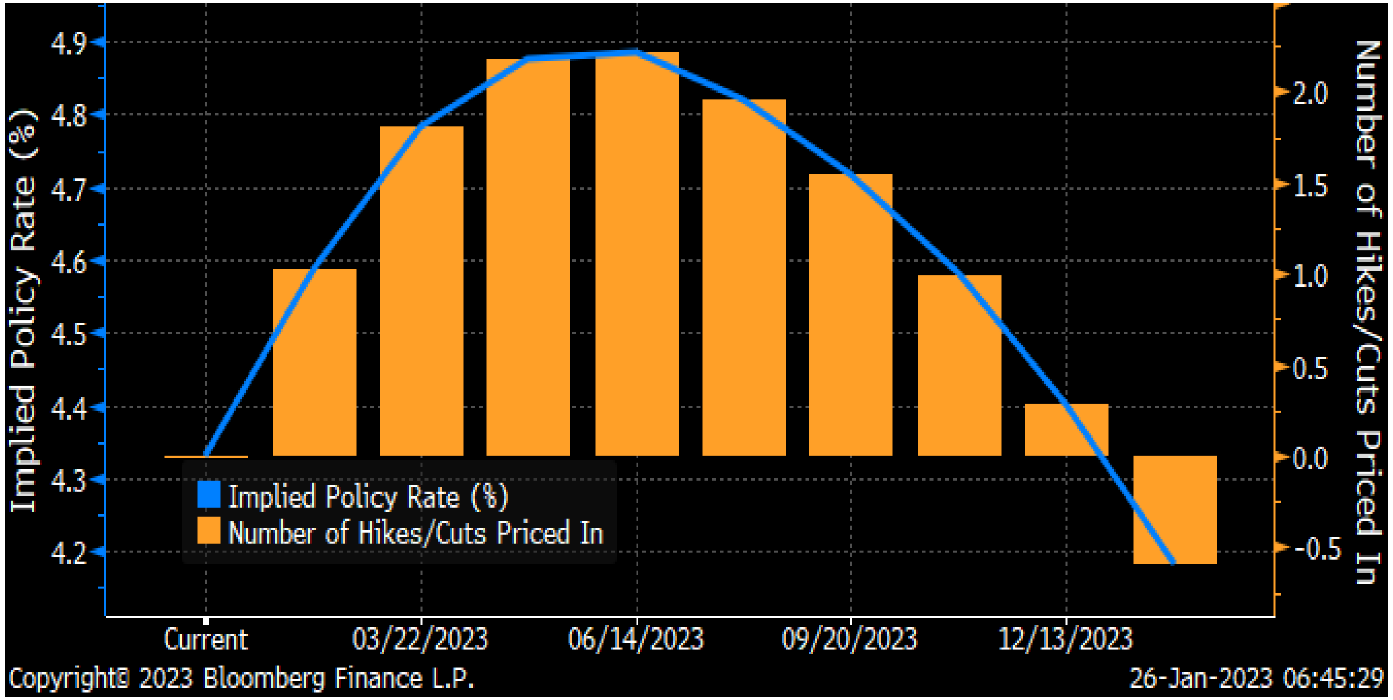
When Should Duration Be Increased?

With Fed Fund rates targeting 5%, when should investors start adding duration in their portfolio?



Source: Bloomberg, January 2023

- With softening inflation data, the Fed is expected to pause rate hikes soon.
- It is now worth considering to extend durations to a moderate level of 3-7 years for some strong IG names.
- However, as inflation rate is still much higher than the 2% target, the employment data is still strong, and China's reopening may push commodities prices to go up again, it is too optimistic to expect a quick Fed pivot to rate cuts.
- We, hence, remain cautious on high yield issuers and ultra long bonds.

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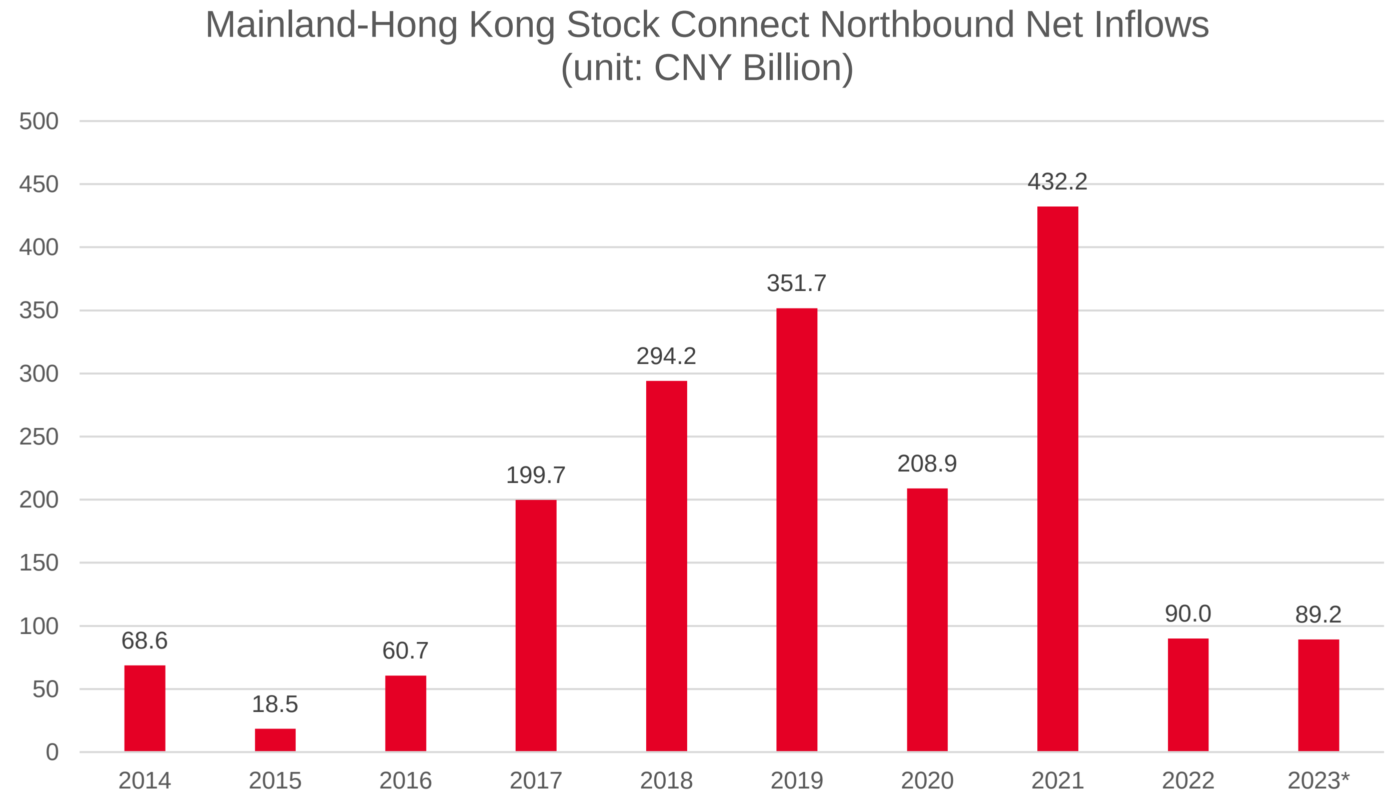
Buying the Dip on Chinese Onshore Assets

Net inflows in the first 11 trading days in 2023 is close to the total amount of 2022.



Source: HKEX, Lighthouse Canton, January 2023

**Till 17th Jan 2023*

- International investor sentiment has been significantly boosted by China ending the zero-covid controls, providing support to the property sector and easing crackdown on large internet platform companies.
- Chinese assets, including A shares, H shares and ADRs, are still relatively cheap, after the recent rally. For example, Hang Seng Index's forward PE ratio is still trading at around 10x, much lower than SP500's 18x.

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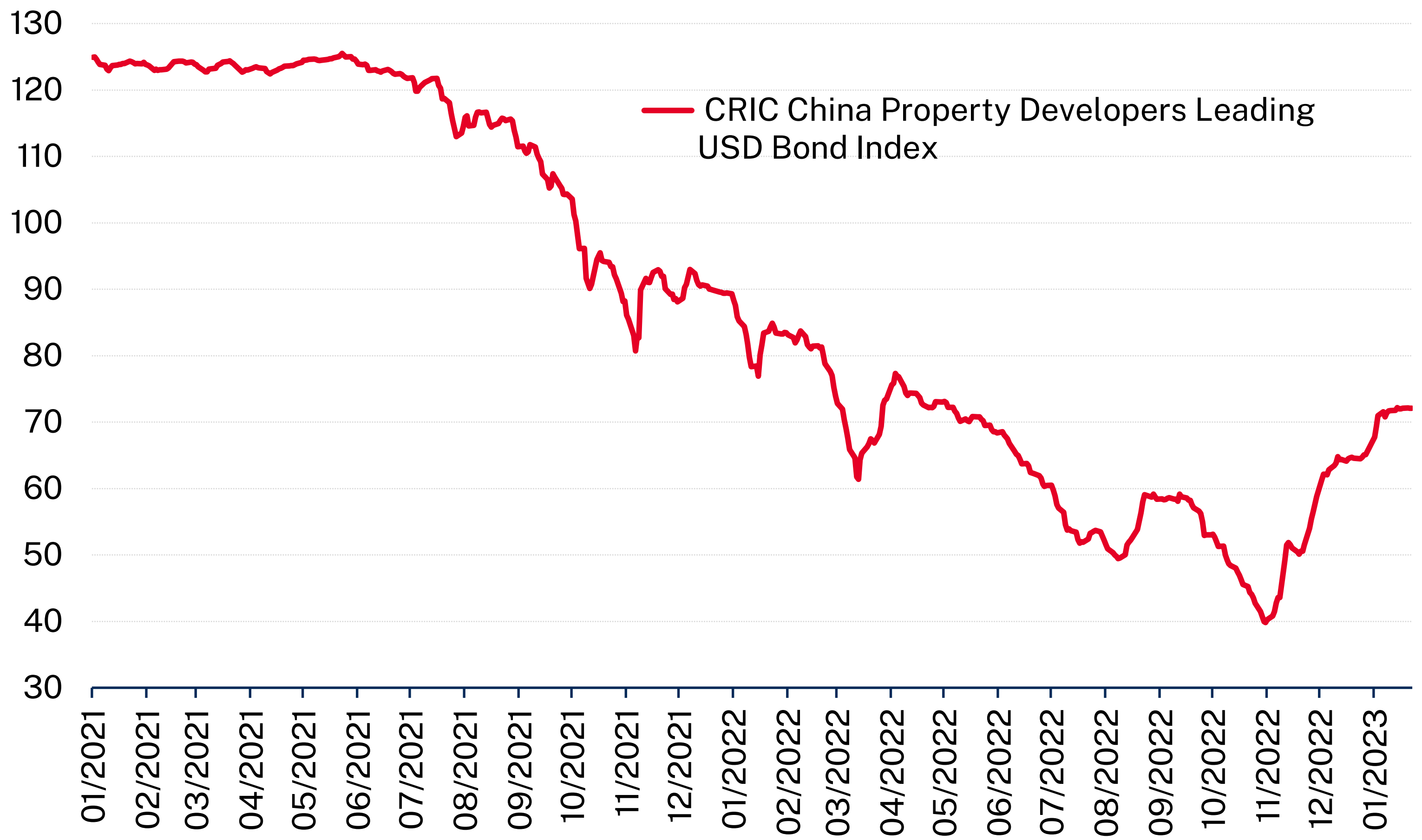
China RE $Bonds Rebounding amid Supports

Bonds of stronger borrowers, e.g., COGARD & LNGFOR, are getting close to par after 400+% surges.



Source: Bloomberg, January 2023

- Offshore real estate dollar bonds are recovering rapidly. However, this is purely driven by sentiments.
- Central government's financial supports to the sector do help to prevent widespread bankruptcies. But households' confidence is still extremely low. Property sales numbers are still at historical low.
- We feel more optimistic for the few bonds that are still held by some clients, but still do not recommend to add more exposures.

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Market Updates

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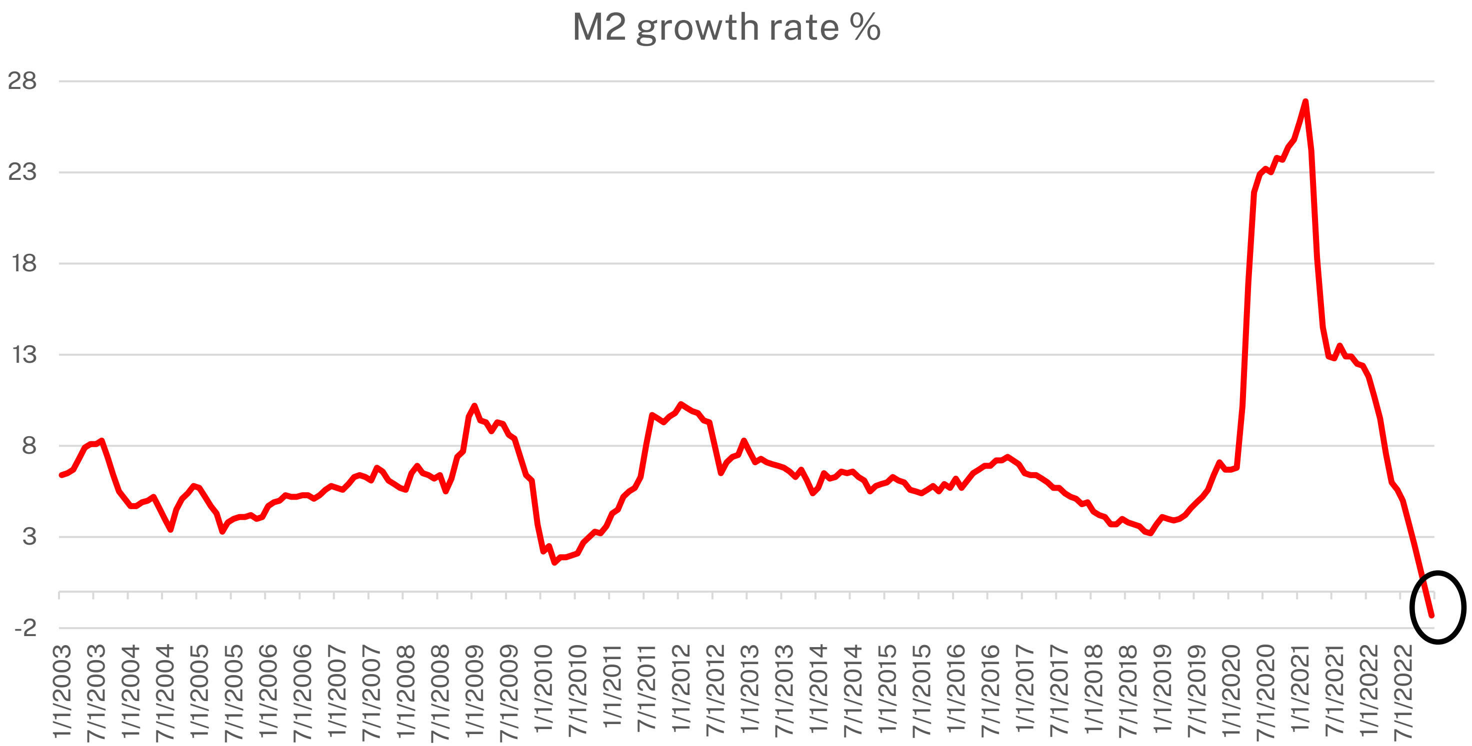
Liquidity is Tight in the US

M2 growth rate turns –ve for the first time (-1.3%) in almost 2 decades.



Source: Bloomberg, January 2023

- Rate hikes and Quantitative tightening is showing effect.
- This clearly is cooling inflation . Labour markets are also slowing down albeit not at a pace the Fed wants.
- The trend is unlikely to reverse soon because Central Bankers have made it clear that rates would be higher for longer.

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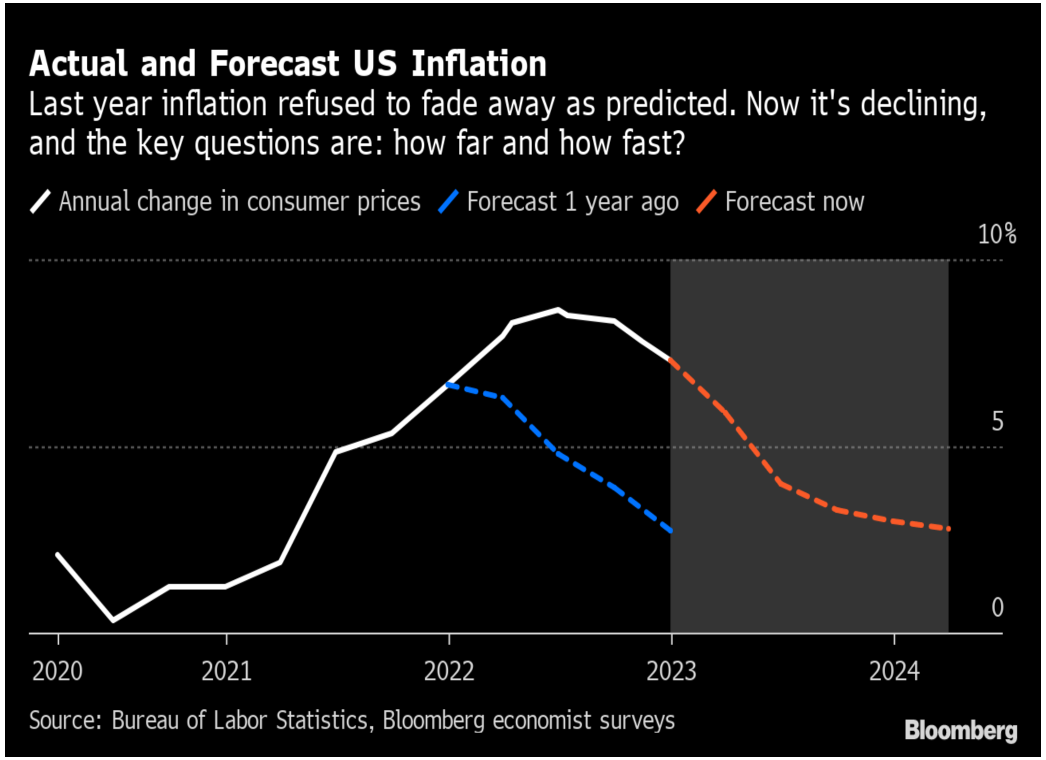
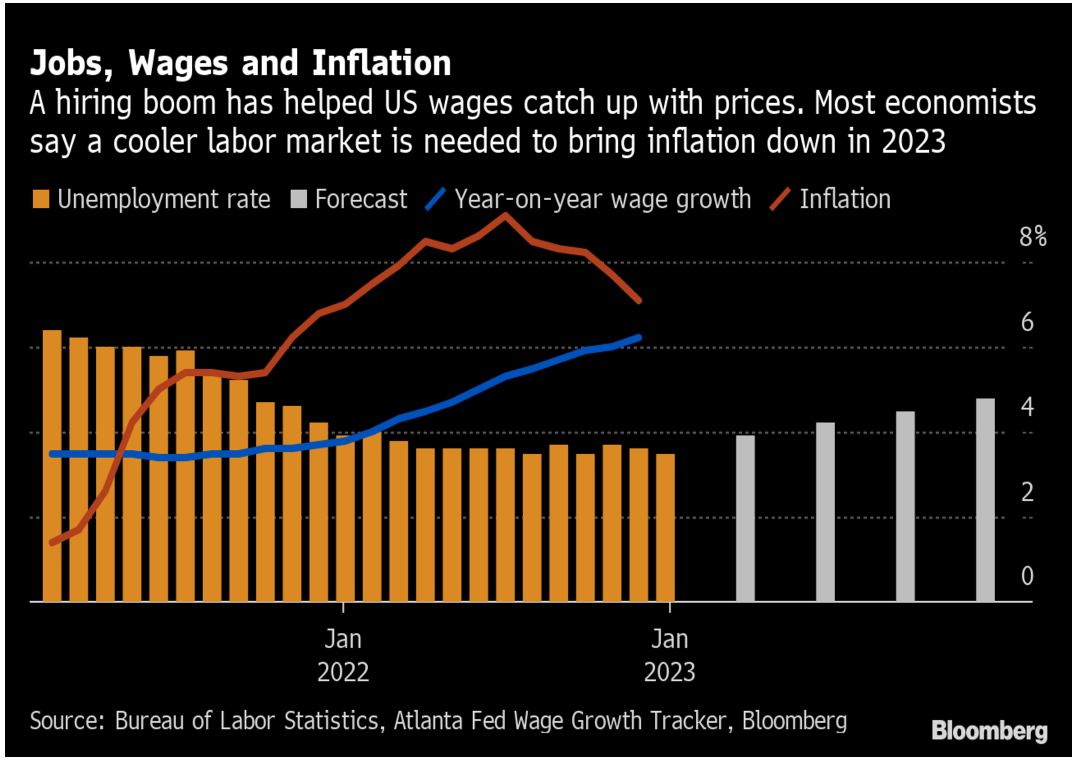
US Inflation- Path Ahead

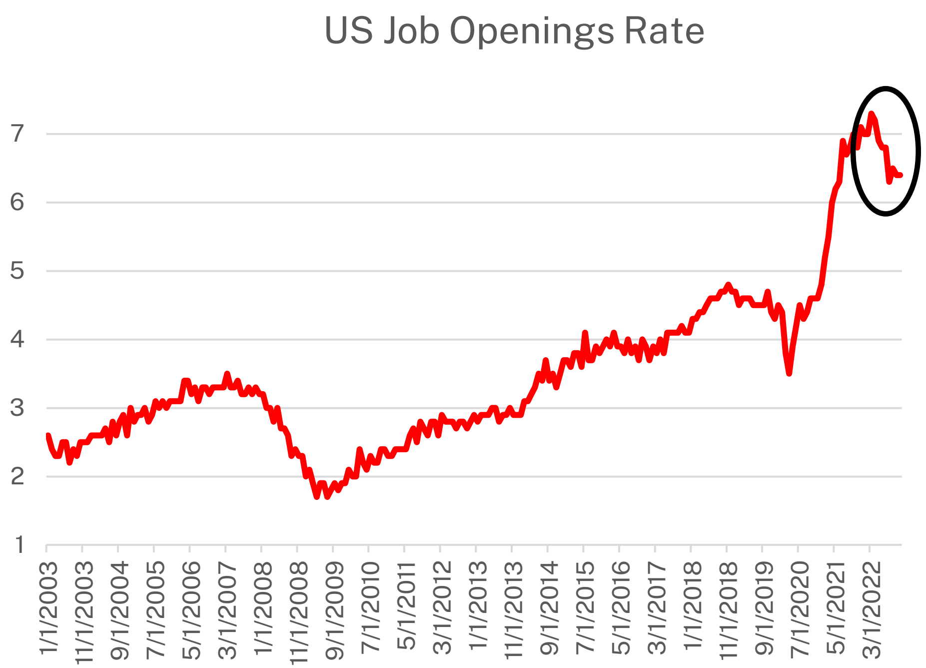
State of labour market is key in the path forward



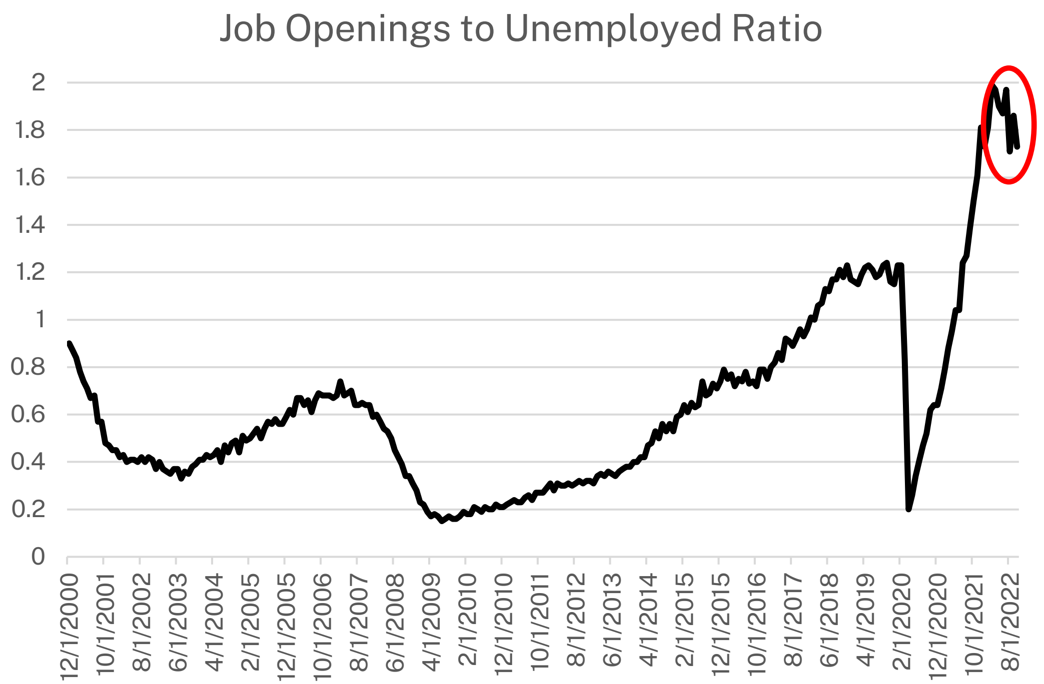


US Labour Market-Weakening but Still Strong

The job openings rate (6.4%) and the ratio of job openings per unemployed is still elevated (1.7398)



Source: Bureau of Labour Statistics January 2023



Source: Bureau of Labour Statistics January 2023

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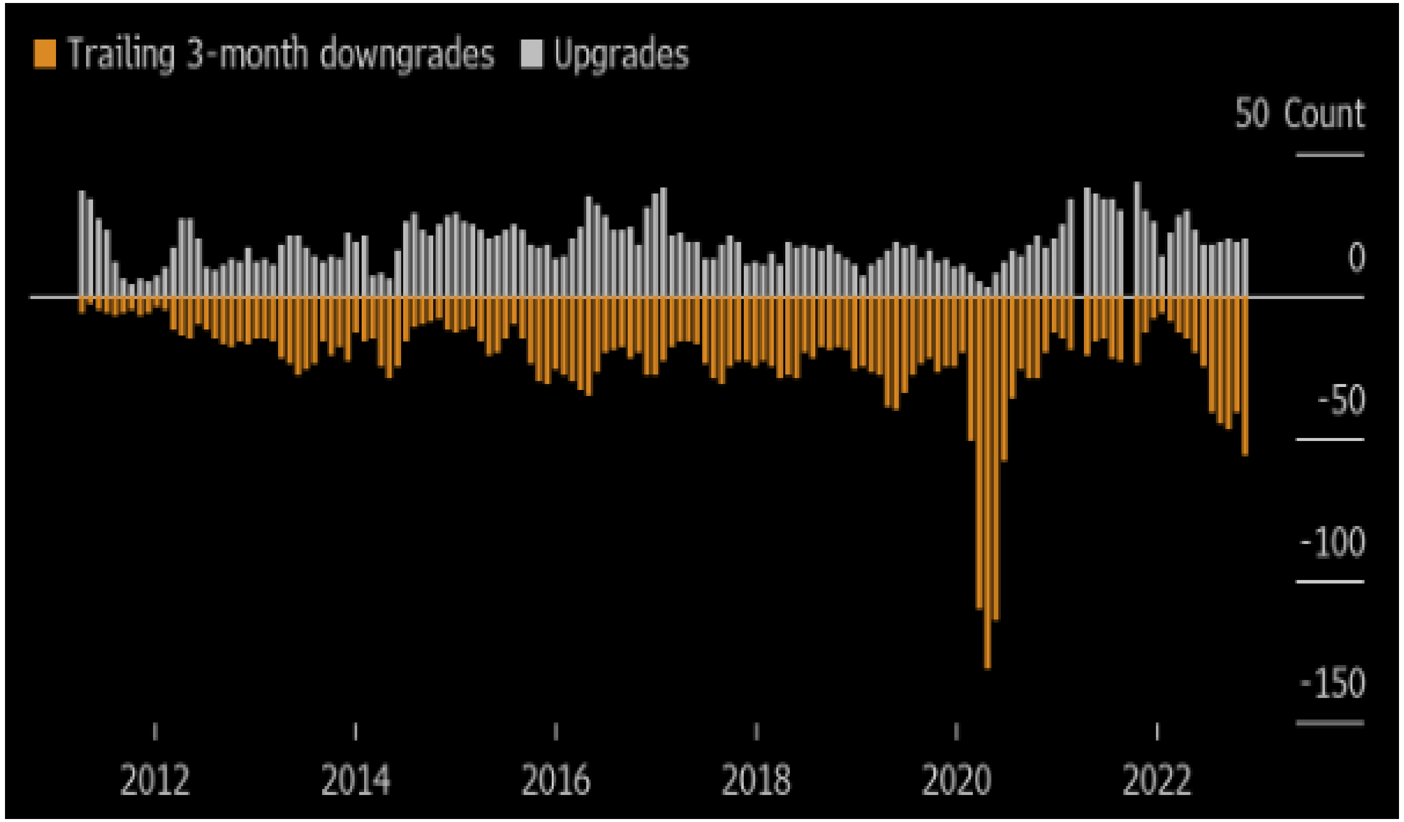
US Loan Downgrade Pace Accelerates

Trailing three-month downgrade pace jumped to highest since 2020



Source: Citigroup, Bloomberg, January 2023

- The number of bonds being downgraded is increasing significantly quicker than those being upgraded by rating agencies.
- This illustrates the difficulty for the weakest issuers to refinance their debt.
- The trend is unlikely to reverse soon because Central Bankers have made it clear that rates would be higher for longer. A recession in the coming quarters is likely to exacerbate the problem.
- Distressed managers (our top conviction currently) are likely to do well since the number of opportunities looks quite supportive.

Recent Ideas

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Recent Trade Ideas

Asset Class	Underlying	Description	Level (on recommended date)	Exit Strategy	Recommended Date	P&L	Status
Bonds	LGEN 5 1/4 03/21/47 **(XS1580239207)**	Buy the bond	96.25 USD	Hold to maturity	19-Jan-23	+0.42%	Live
Equities	Sanmina Corp **(SANM US)**	Buy the stock	61.0 USD	Exit @ 76.4$ (+25%) Stop @ 50.0$ (-18%)	17-Jan-23	+0.25%	Live
Equities	Ingles Markets **(IMKTA US)**	Buy the stock	77.6 USD	Exit @ 150.5$ (+55%) Stop @ 50.0$ (-20%)	16-Jan-23	-2.40%	Live
Bonds	SK Hynix 3Y USD Senior Unsecured **(USY8085FBJ85)**	Buy the bond	99.62 USD	Hold to maturity	10-Jan-23	+1.25%	Live
Equities	Samsung CSI China Dragon Internet ETF **(2812 HK)**	Buy the ETF	12.09 HKD	Exit @ 17.5 HKD (+44%) Stop @ 9.90 HKD (-18%)	9-Jan-23	+3.64%	Live
Equities / Commodities	SPDR S&P Oil & Gas Exploration & Production ETF **(XOP US)**	Buy the ETF	138.52 USD		27-Dec-22	-5.00%	Stopped @ 131.55$
Bonds	3.750% JBS Foods 2031 **(USL56608AF60)**	Buy the bond	83.05 USD	Hold to maturity	5-Jan-23	+2.43%	Live
Equities	**TSLA US 04/21/23 P100 Equity**	Sell the Put	14.2 USD	Hold to maturity	27-Dec-22	+76.41%	Live

Source: Lighthouse Canton, Jan 2023

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