Lighthouse Canton Monthly Investment Memo

March 2023

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

PRIVATE BANKING AWARDS 2023 ASIAMONEY
RISING STAR, SINGAPORE

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

GLOBAL Private Banking INNOVATION AWARDS 2022

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

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
Multi-Asset Defensive	Absolute Return	Benchmark + 2%	< 5%	Monthly, Quarterly	SOFR*
Multi-Asset Growth	Absolute Return	Benchmark + 6%	< 20%	Monthly, Quarterly	SOFR*
Income	Long Only	5% Distribution	Up to 25%	Daily	33% IG**, 33% HY***, 33% Dvds****
Fixed Income	Long Only	Benchmark + 2%	Up to 20%	Daily	50% IG** / 50% HY***
Equities	Long Biased	Benchmark + 5%	Up to 50%	Daily	S&P 500

*SOFR: Secured Overnight Financing Rate
**IG: iShares iBoxx Investment Grade Corporate Bond ETF (LQD US)
***HY: iShares iBoxx High Yield Corporate Bond ETF (HYG US)
****Dvds: SPDR S&P Global Dividend ETF (WDIV US)
S&P 500: Standard & Poor's 500 Index

Source: Lighthouse Canton, Feb 2023

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Multi-Asset Model Portfolio - Updates

Defensive Portfolio

- No major change to asset allocation
- Switched out of Luxence to UBS O'Connor L/S Ucits in favor of liquidity. Both deliver similar risk adjusted returns. Prefer UBS over Luxence at the moment also due to larger China bias.

Growth Portfolio

- Added positions to gold in view of stagflationary outlook and peaking policy rates which are macro tailwinds for the yellow metal
- Added CRC Bond Opportunities in response to capture opportunities in AT1 markets which the fund is well-positioned for.
- Removed Element Advisors, reduced directional exposures, reduced FCNs and reduced Sphereinvest to fund the above additions.
- Post rebalancing, portfolio liquidity has 20% of monthly dry powder down from 30% due to addition of CRC. We remain comfortable with this decision given the tactility of the opportunity we hope to capture post banking turmoil

Source: Lighthouse Canton, Mar 2023

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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	55%	23%
Fixed Income	30%	20%
Equities	15%	53%
Portfolio Hedge	0%	5%
Expected Performance		
Exp. Return	7-10%	>10%
Exp. DD	<5%	<20%
Beta to MSCI ACWI	0.08	0.14
Product Risk Allocation (LCPL) *(Internal product risk rating – 1 being lowest risk and 5 being highest)*		
1	0%	0%
2	30%	0%
3	35%	8%
4	15%	15%
5	20%	78%

	Defensive	Growth
Liquidity (based on current allocation)		
<1 week	15%	15%
>= 1 week	10%	5%
>= 30 days	30%	38%
>= 90 days	35%	35%
>= 180 days	10%	8%

Source: Lighthouse Canton, Feb 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 >5% 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 distribution	6.0%
Expected Total Return	9.9%
Expected Drawdown	18.2%
Equities	17%
Fixed Income	68%
Alternatives	15%
USD	98%
EUR	0%
GBP	2%
AUD	0%
Others	0%
Fund	30%
Direct	70%

Fixed Income Rating Split	
Average Yield	8.8%
Average Credit Rating	BB-
Average Duration	1.5

Stocks	
Average Dividend Yield	8.6%
Average Analyst Upside	34%

Source: Lighthouse Canton, Mar 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			
29-Mar-23	$ 20,459,817			
Performance (ITD) (iv)	2.30%	-2.88%	-2.46%	-2.67%

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, 29 Mar 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	8.2	-	20.0
Weight	59%	41%	0%	100%
Avg Duration	1.85	2.20	-	2.00
Avg Yield	5.65	9.22	-	7.12

Maturity	Inv. Grade	High Yield	Not rated	Total
2023	0%	0%	0%	0%
2024	16%	5%	0%	21%
2025	10%	20%	0%	29%
2026	6%	14%	0%	21%
> 2026	20%	0%	0%	20%
				100%

Seniority	Inv. Grade	High Yield	Not rated	Total
Sr Unsecured	33%	29%	0%	61%
1st lien	5%	10%	0%	15%
Sr Non-Preferred	2%	0%	0%	2%
Subordinated	12%	0%	0%	12%
				100%

Sectors	Inv. Grade	High Yield	Not Rated	Total
Banks	5%	2%	0%	7%
Coal	0%	5%	0%	5%
Auto Manufacturers	0%	5%	0%	5%
Gas	0%	5%	0%	5%
Computers	0%	0%	0%	0%
Investment Companies	5%	0%	0%	5%
Electric	5%	0%	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	5%	5%	0%	9%
Commercial Services	4%	0%	0%	4%
Insurance	16%	0%	0%	16%
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, 29 Mar 2023

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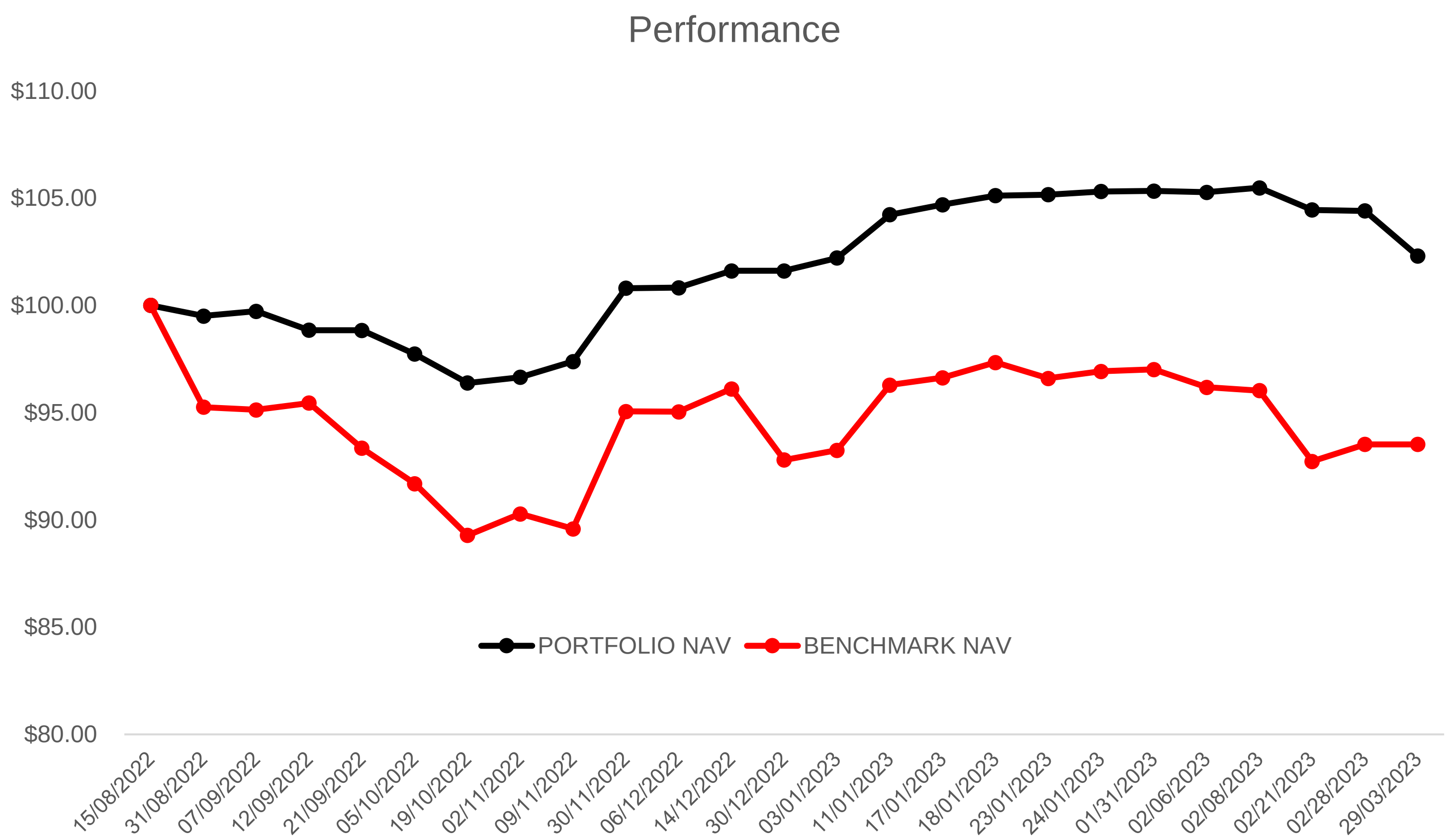
Fixed Income Model Portfolio – Performance

MONTHLY PERFORMANCE

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022								-0.49%	-1.78%	-1.11%	4.30%	0.80%	1.61%
2023	3.67%	-0.88%	-2.02%*										0.68%



*Source: Lighthouse Canton, 29 Mar 2023

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.

NAV & Benchmarks

Date	Model Portfolio	SPX Index	Bank Deposit *
9-Nov-22	100.00	100.00	100.00
30-Mar-23	108.68	106.67	101.90
Performance (ITD)	8.68%	6.67%	1.90%

* Calculations done assuming a 5% p.a. deposit rate

Source: Lighthouse Canton, Mar 2023

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Equities Model Portfolio – Characteristics

Beta	Ptf	S&P 500
Cash	0.000	
Stocks	0.85	1.00
Options	-0.046	
Futures	-0.00	
	0.81	**1.00**

Market Capitalization	Ptf
Large Caps (> 10 bn)	53%
Mid Caps (2 - 10 bn)	26%
Small Caps (< 2 bn)	17%
	96%

	Ptf	S&P 500
Return On Capital	35%	8%
CAGR 3Y	10%	8%
Dvd Yield	0.9%	1.8%

Industry	Stocks	Options	Total	S&P 500	Difference
Software & Services	10%	0%	10%	13%	-3.1%
Media & Entertainment	6%	0%	6%	11%	-5.3%
Technology Hardware & Equipment	13%	1%	15%	9%	6.2%
Pharmaceuticals, Biotechnology & Life Sciences	10%	2%	11%	8%	3.9%
Retailing	0%	0%	0%	6%	-6.1%
Health Care Equipment & Services	14%	3%	17%	6%	11.1%
Diversified Financials	0%	0%	0%	5%	-5.1%
Capital Goods	4%	0%	4%	5%	-1.1%
Semiconductors & Semiconductor Equipment	10%	0%	10%	5%	5.5%
Energy	0%	0%	0%	4%	-4.2%
Food, Beverage & Tobacco	0%	0%	0%	4%	-3.7%
Banks	0%	0%	0%	3%	-3.4%
Utilities	0%	0%	0%	3%	-2.8%
Automobiles & Components	0%	3%	3%	3%	0.1%
Real Estate	0%	0%	0%	3%	-2.6%
Materials	0%	0%	0%	2%	-2.3%
Insurance	0%	0%	0%	2%	-2.0%
Food & Staples Retailing	0%	0%	0%	2%	-1.9%
Consumer Services	0%	0%	0%	2%	-1.8%
Transportation	0%	0%	0%	2%	-1.7%
Household & Personal Products	0%	0%	0%	2%	-1.5%
Telecommunication Services	0%	0%	0%	1%	-1.3%
Consumer Durables & Apparel	2%	0%	2%	1%	1.3%
Commercial & Professional Serv	0%	0%	0%	1%	-0.8%
	68%	*9%*	*77%*	*100%*	

Source: Lighthouse Canton, Mar 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
2022											10.85%	-4.04%	6.37%
2023	5.39%	-3.21%	-0.02%										2.17%

* Inception date of 9th November, 2022

Source: Lighthouse Canton, Mar 2023

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SpotLight

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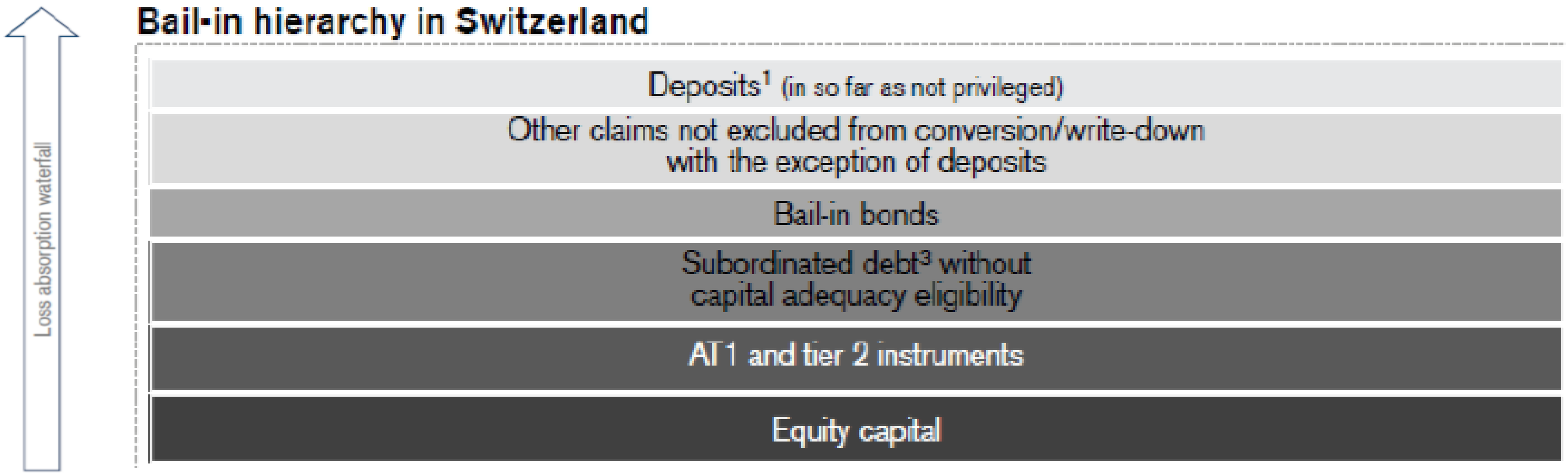
Credit Suisse's Impact On AT1s (1/2)

Perception on Bail-In Hierarchy in Switzerland before UBS/CS merger

The below chart of "Bail-in hierarchy" is extracted from the Fixed Income Investor presentation issued by **Credit Suisse in February 2023**, illustrating that **Equity Capital is the first layer to absorb losses**, followed by Additional Tier 1 (AT1) and Tier 2 capital instruments. While regulators indeed have the contractual right to write-off Bank's capital issue, market participants had **NOT anticipated** that the authorities would enforce a 100% write-down in CS's AT1, without also wiping out its common equity capital.



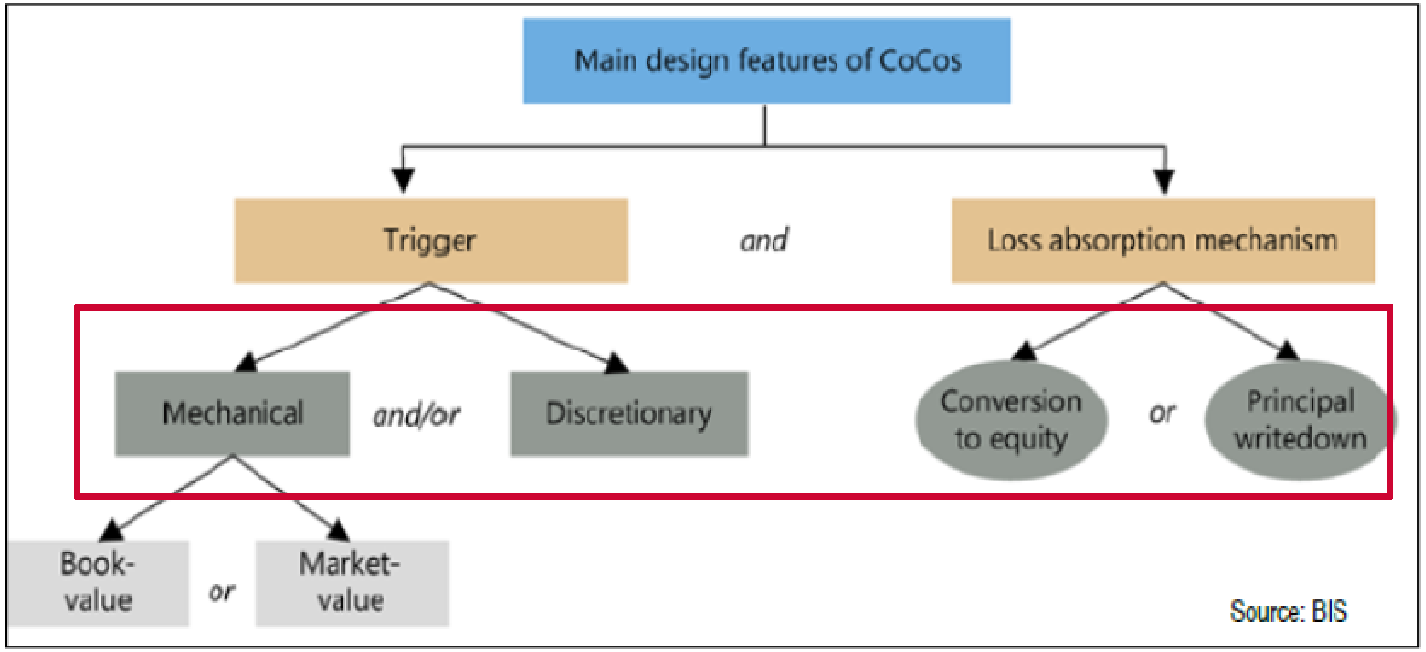
Source: Credit Suisse, February 2023

Credit Suisse's Impact On AT1s (2/2)

Back to Basics: Contingent Convertible Capital Instruments (CoCo)

What is a Contingent Convertible Capital Instruments (CoCo)

- According to the BIS, CoCos are (1) **hybrid capital securities** (i.e. subordinated) that (2) **absorb losses** when the capital of the issuing bank (3) **falls below a certain level** (A Trigger level).
- A broader definition of a CoCo would include loss absorption at (3) the **Point of Non-Viability (PONV).**



Source: BIS, LGT, March 2023

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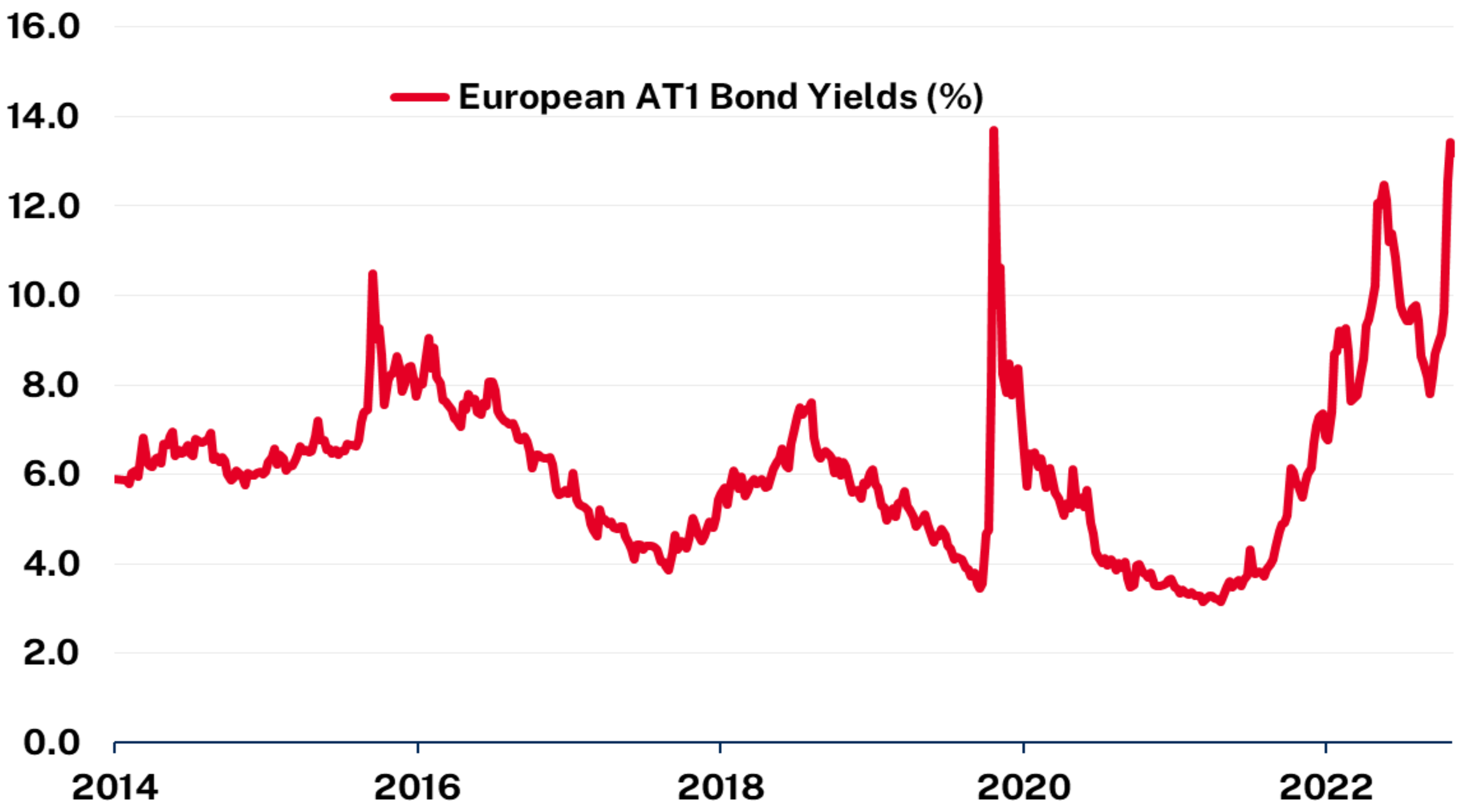
European AT1 Bond Yields At Historical High



Source: Bloomberg, March 2023

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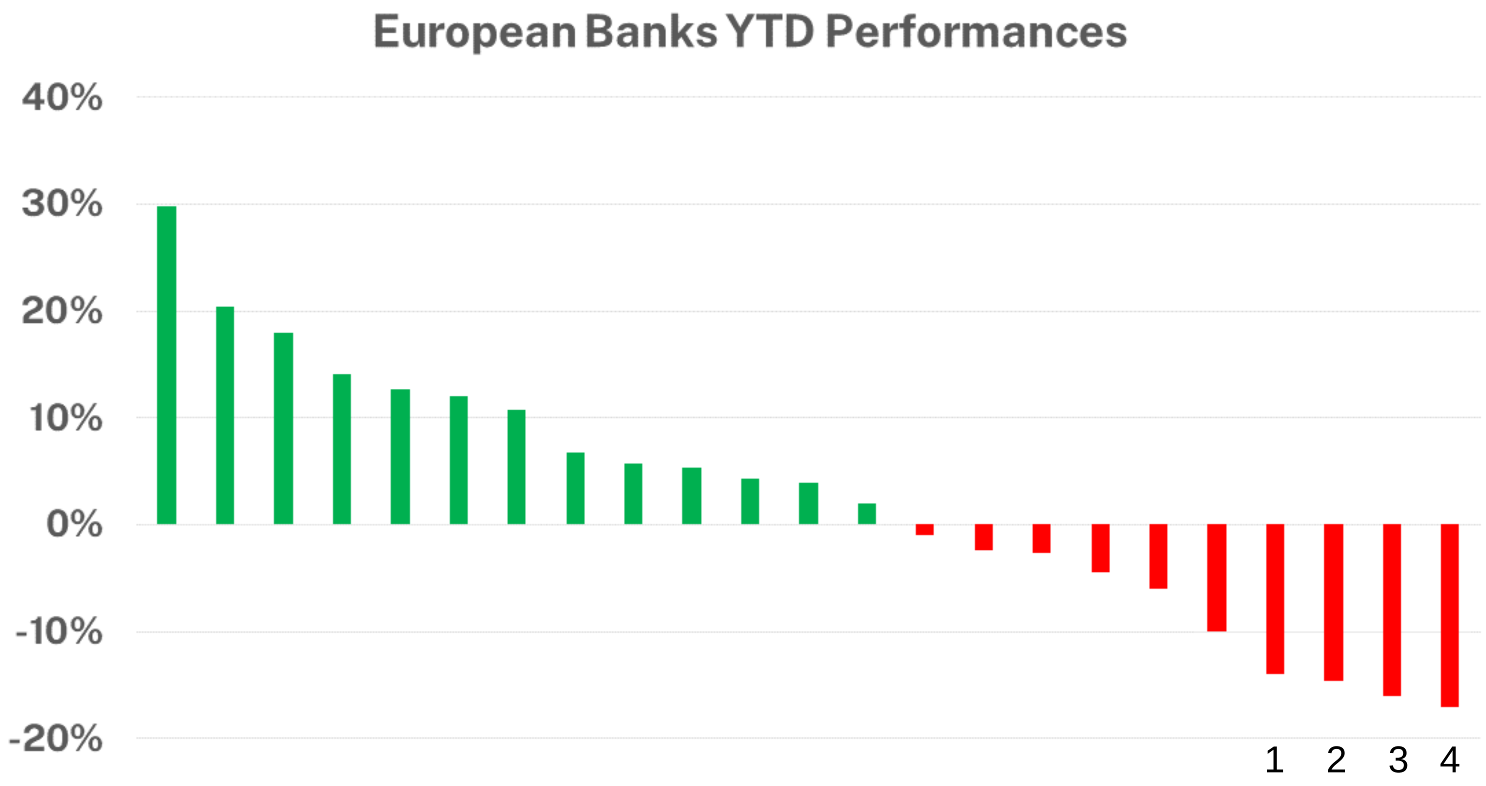
European Banks: So Far, So Good



1. Deutsche Bank
2. Societe Generale
3. Bawag Group
4. Bankinter

Source: Bloomberg, 28TH March 2023

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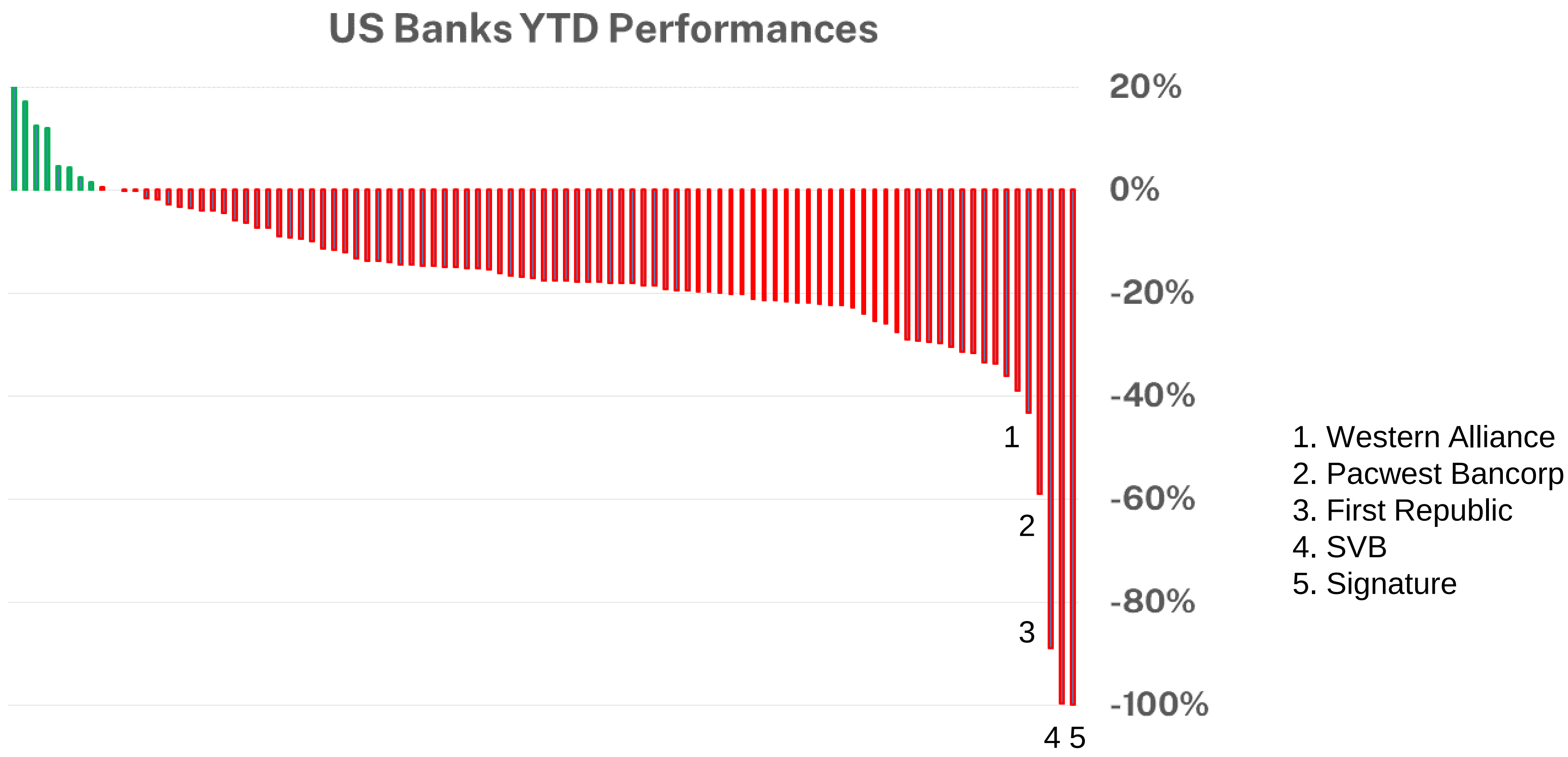
US Banks: Under Stress



Source: Bloomberg, 28TH March 2023

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Market Updates

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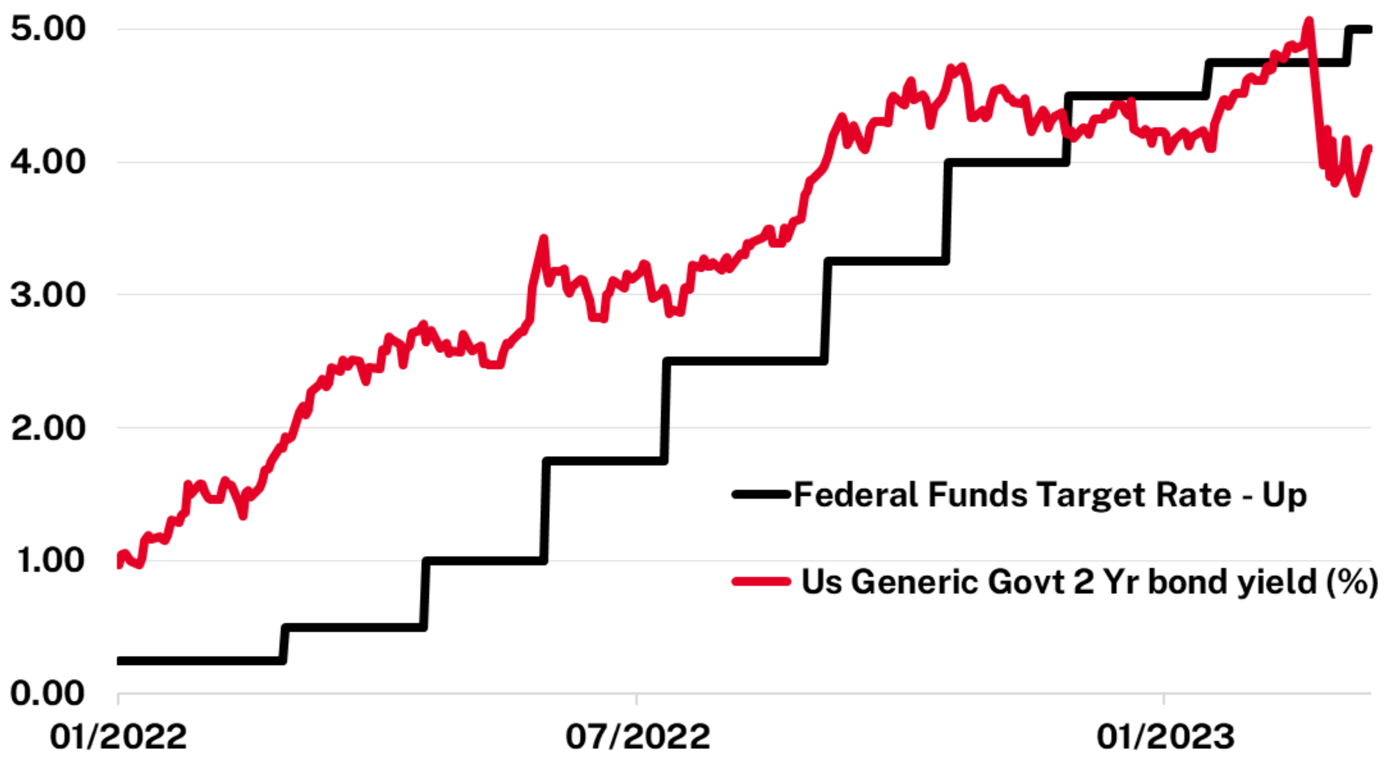
Investors Are Expecting Fed to Cut Rates

The yield on 2Y US Treasuries has dropped significantly since SVB's failure



Source: Bloomberg, March 2023

- US Treasuries have rallied sharply on the expectation that the Fed will halt rate hikes in response to the collapse of Silicon Valley Bank. The 2-year yield has lost 110bps over the last 2 weeks and now trades below 4%, as investors have raised bets on rate cuts later this year.
- The SVB fallout has raised the Fed's attention to financial stability risks stemming from the 450 bps of rate increases delivered over the past year.

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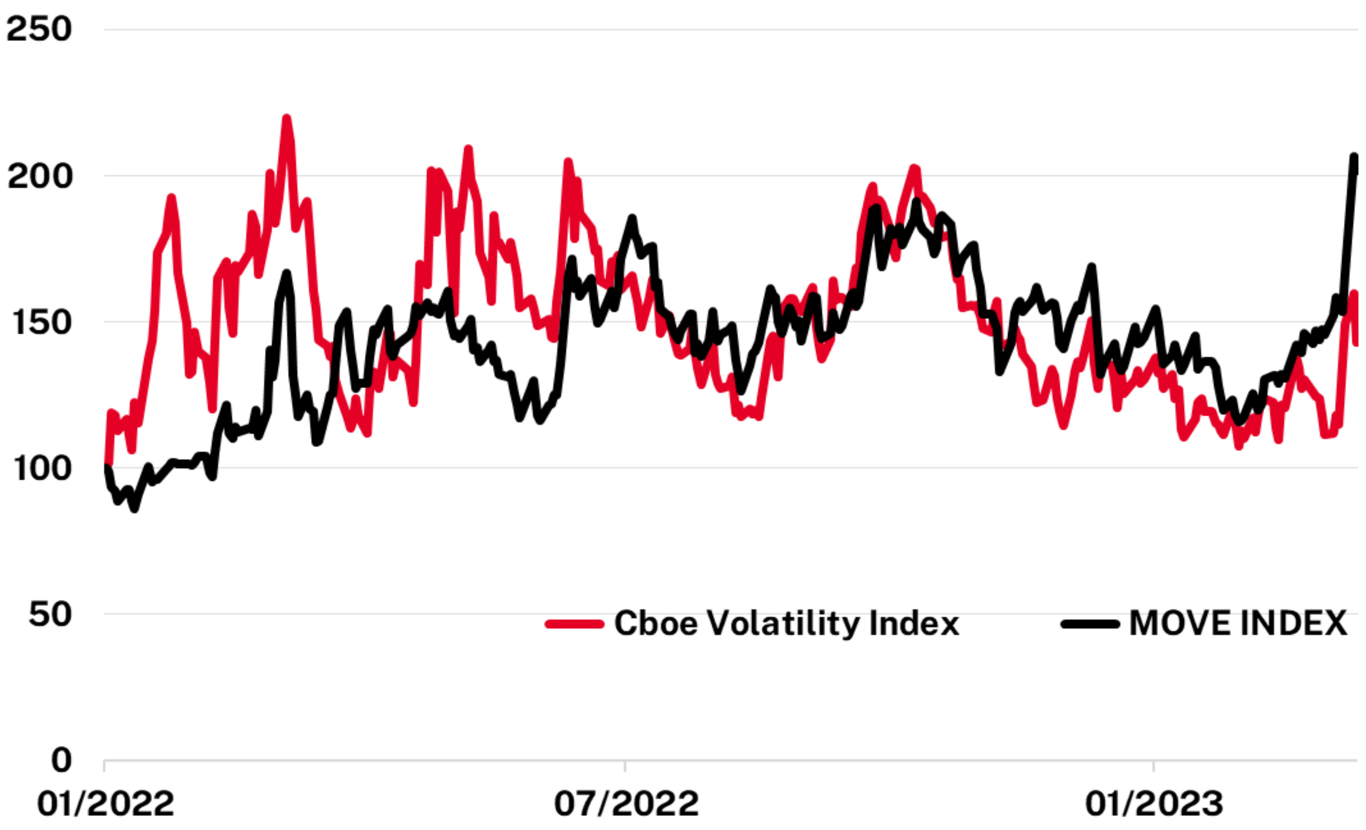
Bond Volatility Surges

The MOVE has surged more than double the magnitude of the VIX over the week.



Source: Bloomberg, March 2023

**Cboe Volatility Index – 30-day expected volatility of the U.S. stock market, derived from S&P 500 Index call and put options*

**MOVE Index - measures Treasury rate volatility through options pricing*

- This reflects the uncertainty markets have pertaining to the Fed's policy direction as a result of the stresses manifesting in the US Regional Banking Sector
- Inflationary uncertainties prevail, further adding to volatility we are seeing with rates
- Our slow and cautious approach to extending duration remains warranted, while the heightened volatility should create alpha opportunities for macro managers in the near term,

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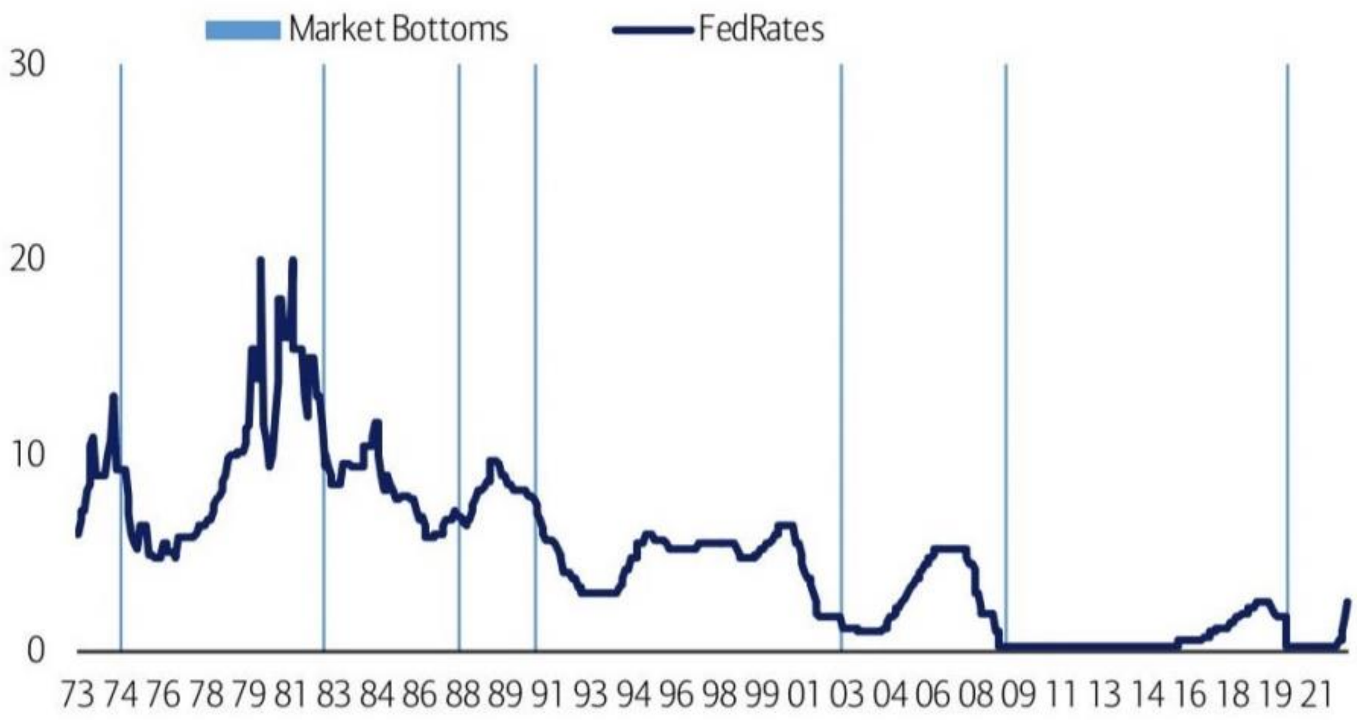
Fed Historically Cut Before Each Market Bottom

If history is any guide, the bottom will be seen only after the fed start decreasing rates

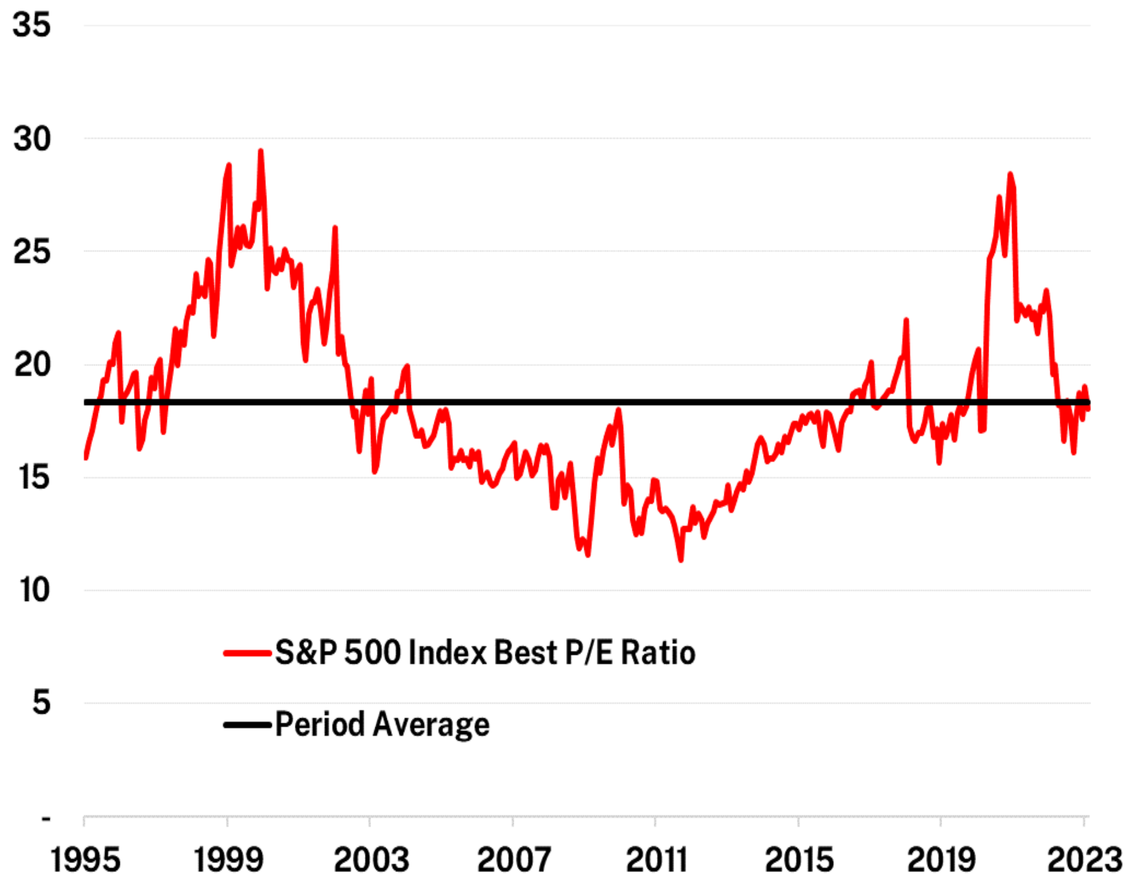


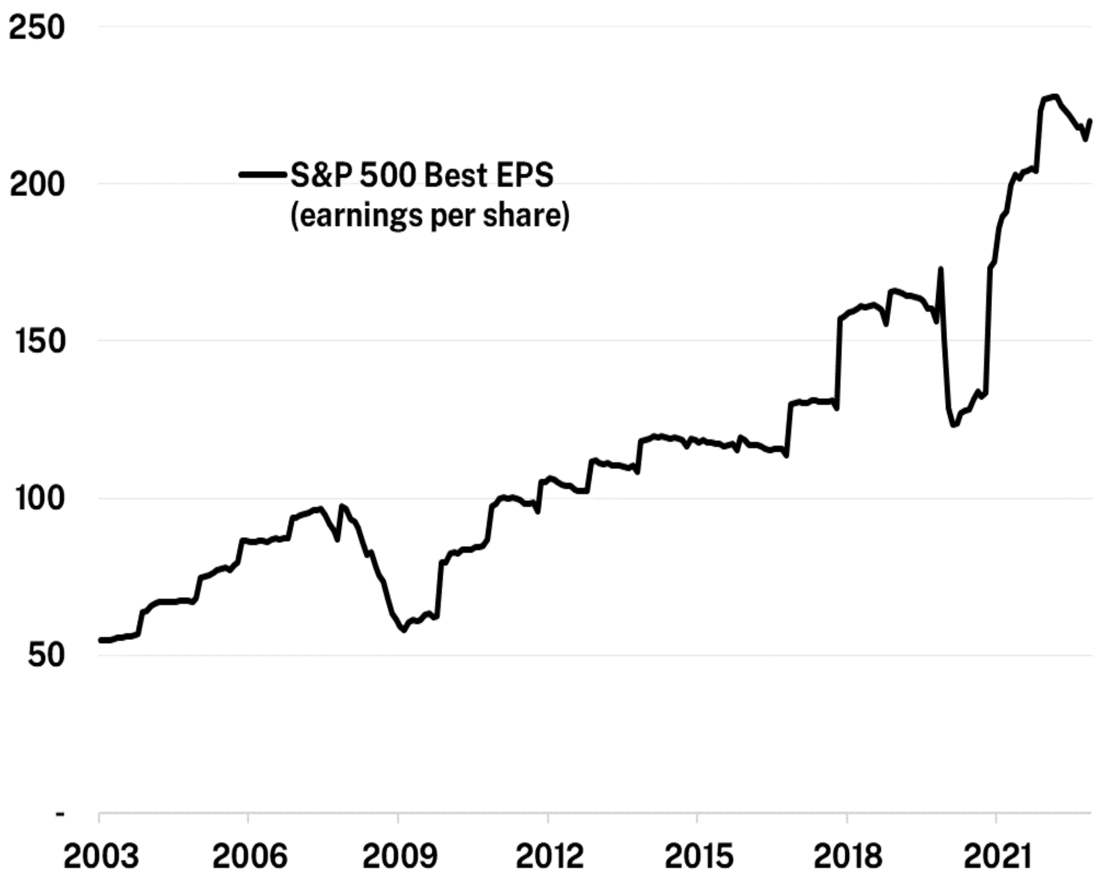
Source: Bloomberg, BofA Global Research, March 2023

- Based on historical trends, investors in equities should exercise patience and await the Federal Reserve's decision to reduce interest rates before anticipating a possible bottom in the US equity market. This pattern has occurred consistently during the past seven bear markets.

US Equities: Fairly Priced But Earnings Look Weak

Valuations are no longer expensive, but earnings growth will disappoint in case of a recession





Source: Bloomberg, January 2023

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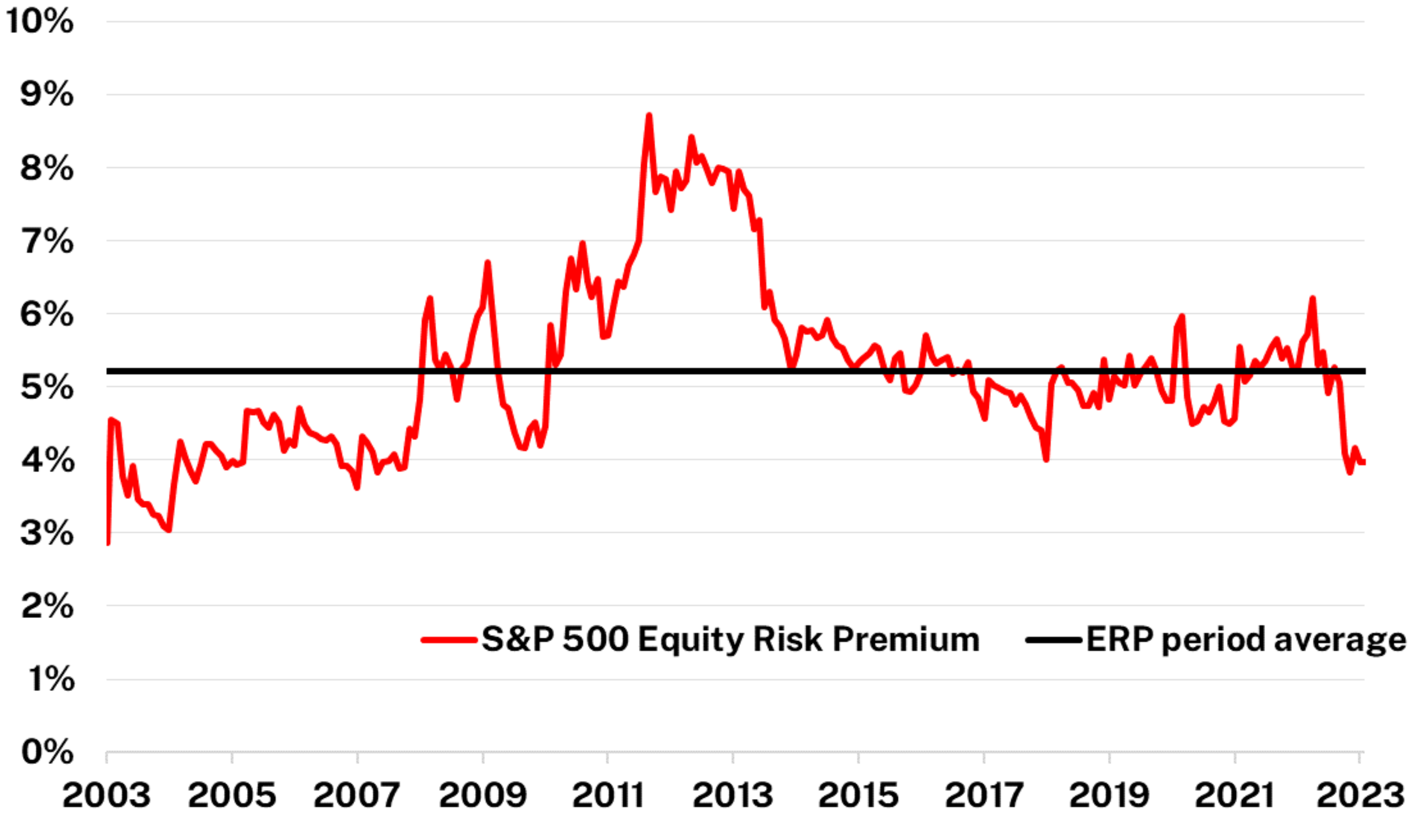
The Equity Risk Premium Points To Complacency

The ERP is close to historical low levels



Source: Bloomberg, January 2023

- The **Equity Risk Premium**, which has averaged at 5.2% since 2003, has recently dropped below 4%, highlighting the complacency from equity investors.

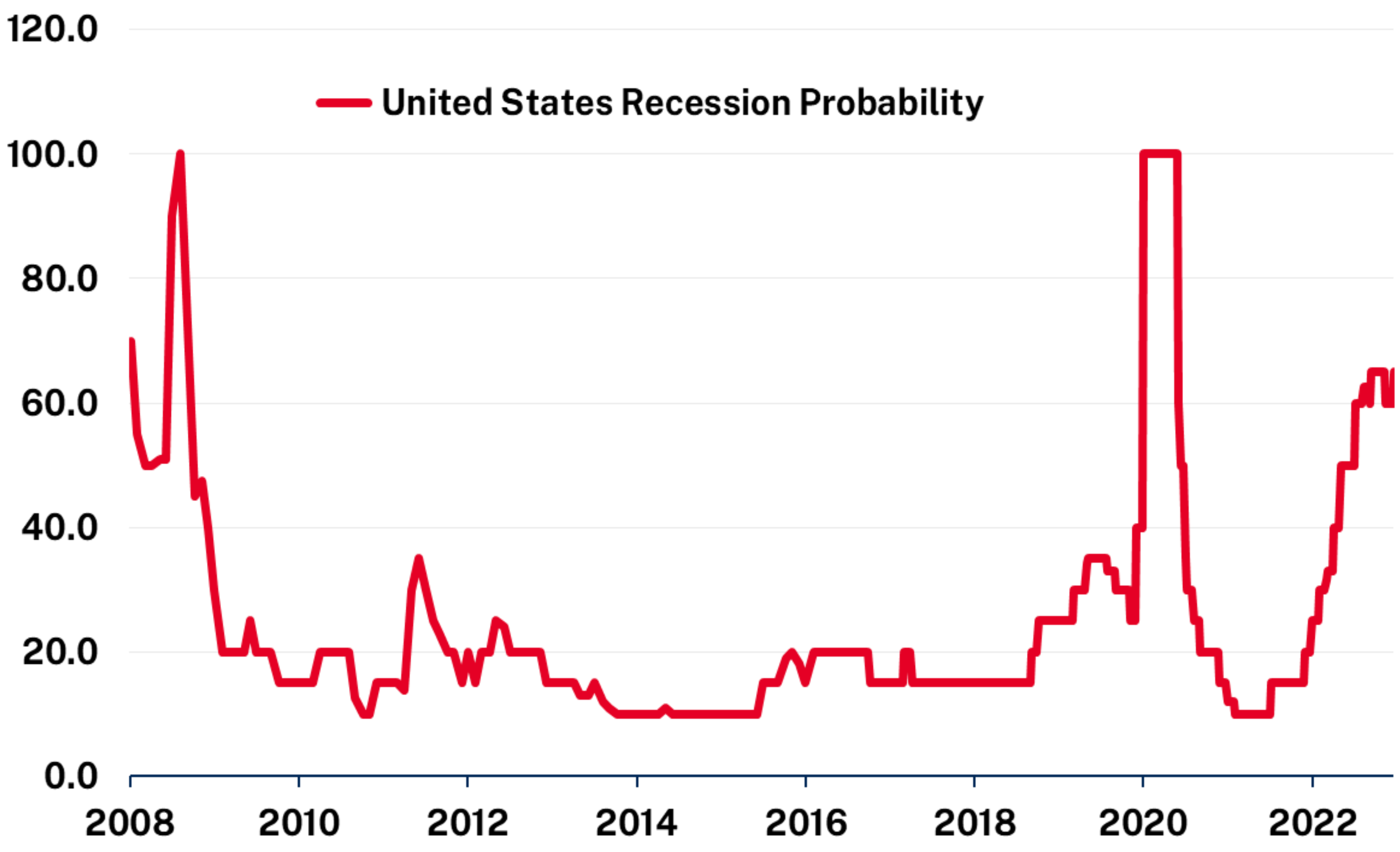
- We believe this is particularly dangerous for two reasons:

1. US interest rates have not peaked yet, and higher rates go hand in hand with lower valuations (as it reduces the present value of future cash flows).

2. Corporate earnings will probably slow down in 2023 which will make current valuations hard to sustain.

65% Probability Of Recession in The US Over 1Y

Bloomberg US recession probability forecast has increased in March to 65%



Source: Bloomberg, March 2023

- The indicator, developed by Bloomberg, displays the median forecasted probability of a US recession over the next 12 months.
- These forecasts are derived from the latest monthly & quarterly surveys conducted by Bloomberg and from forecasts submitted by various banks.

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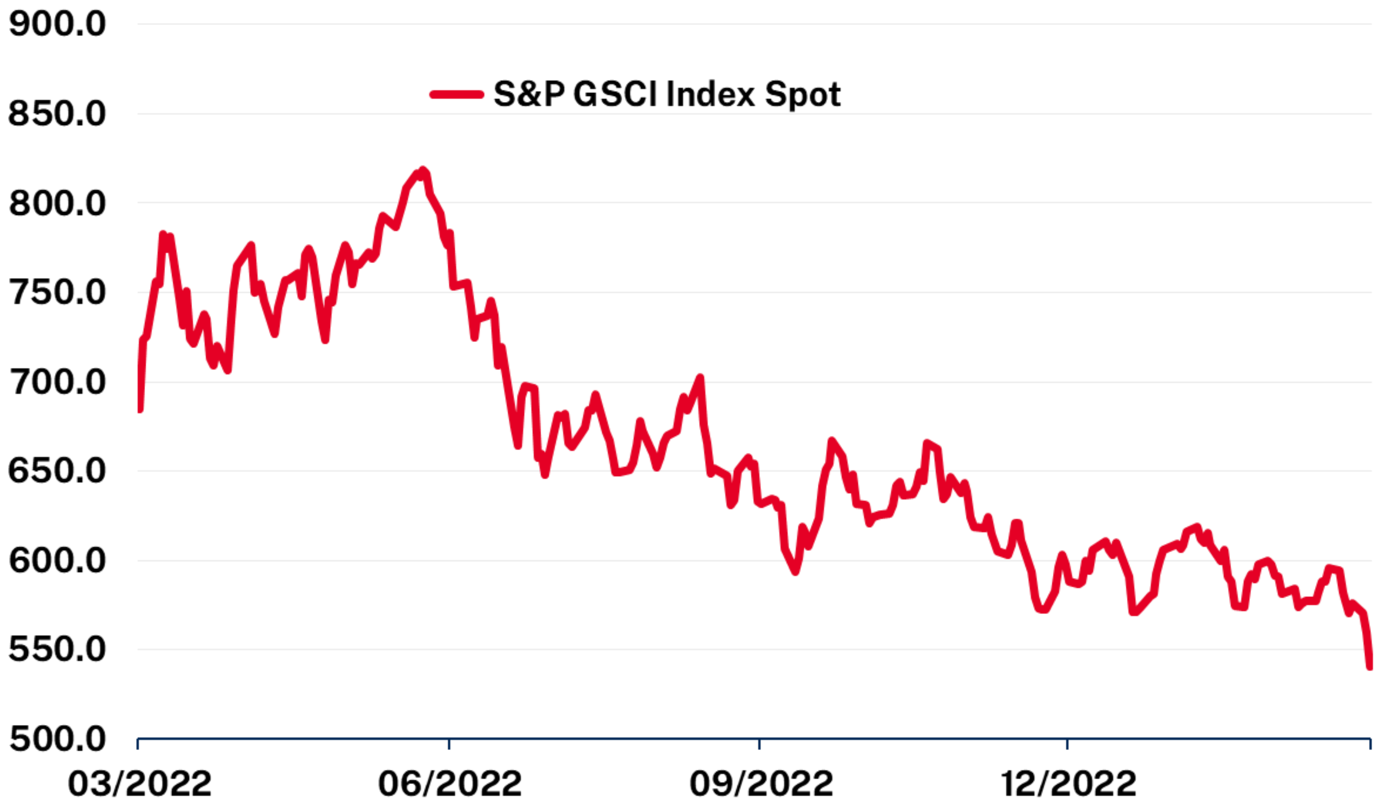
Commodities: Gloomy Picture

Commodity prices are not pointing to a strong economy globally



Source: Bloomberg, March 2023

- The S&P GSCI® index is down -11% YTD and -21% over the last 12 months.
- The S&P GSCI® index is widely recognized as a leading measure of general price movements and inflation in the world economy. It provides investors with a reliable and publicly available benchmark for investment performance in the commodity markets.

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US Mortgage Applications At Lowest Since 95

Real Estate accounts for 11.9% of US GDP

Source: BofA Global Investments, Feb 2023

- 30-year fixed mortgage rate is now at 7.08%, a level last seen in the early 2000's.
- US mortgage applications to purchase homes is at the lowest level since April 1995, not a great news when considering that US Real Estate accounts for 11.9% of US GDP and that spending on housing services accounts for another 4.8%. (source: sgp.fas.org).

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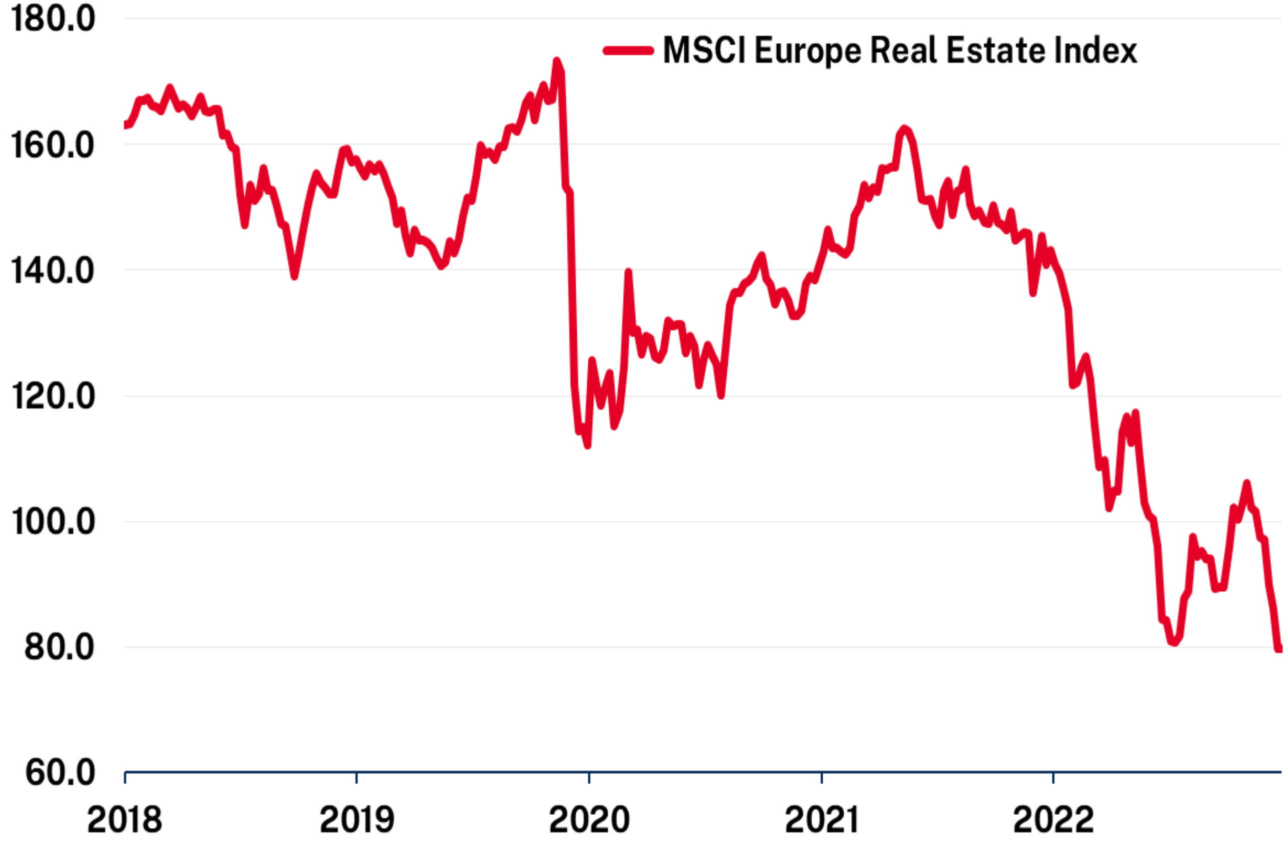
European Real Estate At Decades Low

Property valuations are down about 10 per cent from their peak in June 2022, according to MSCI.



Source: MSCI, Bloomberg, March 2023

- Shares in European real estate groups are on track for their worst month since the start of the pandemic, as investors bet that weeks of banking turmoil will tighten access to credit and send property valuations plummeting.
- Citigroup forecasts that valuations in western Europe will drop by a further 20 to 40 per cent before the end of next year, while real estate stocks could halve in value over the same period.

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Technical Analysis

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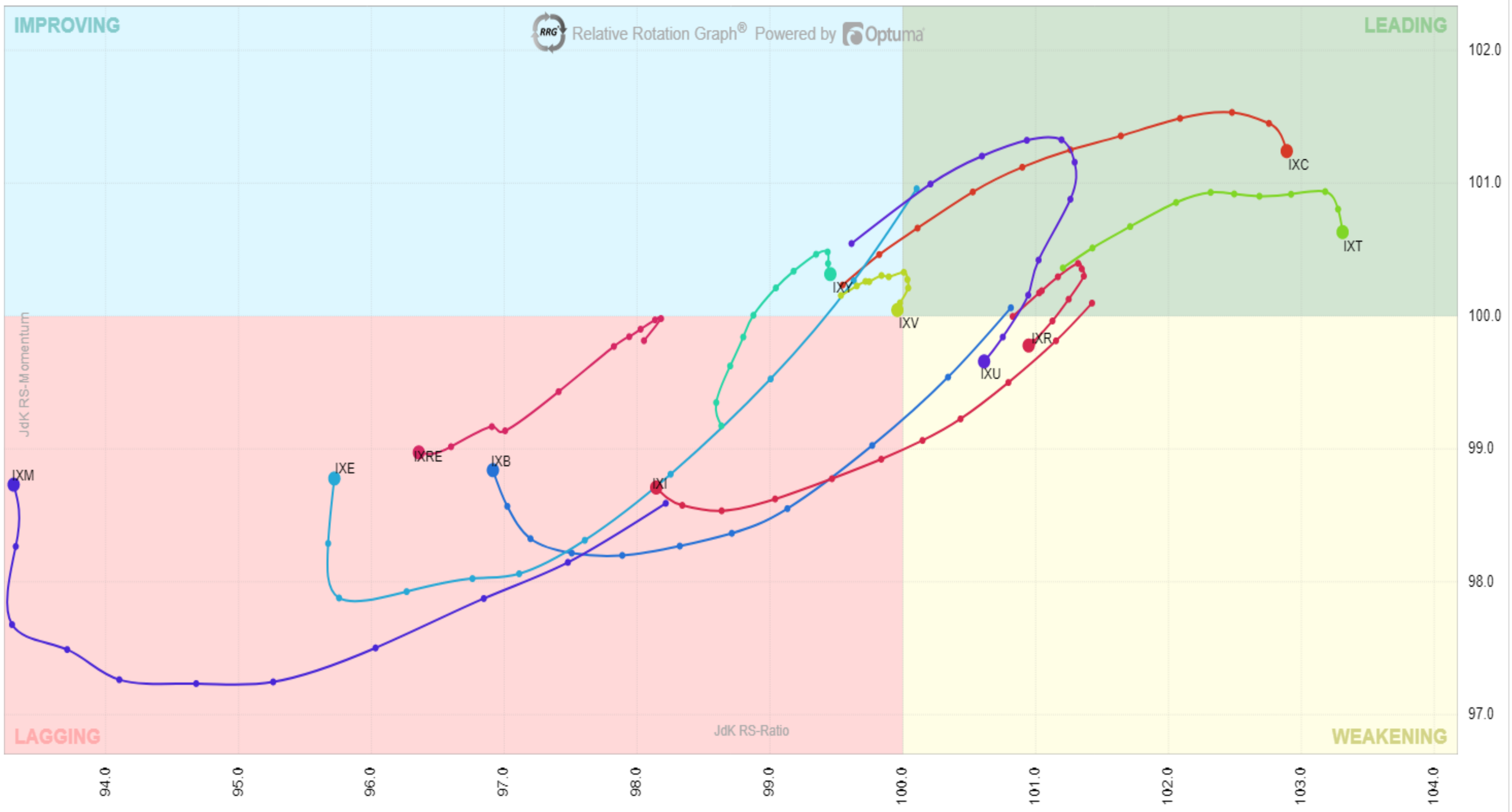
Rotational Trends

On shorter time frames, Tech Appears Stretched

S&P 500 Sector Indices - Daily - Benchmark: S&P 500 Sector Indices - Date: 28-Mar-2023



- Tech continues to outperform BUT, the significant YTD outperformance appears stretched.
- While early days, Energy, Financials and Commodities are showing turnaround signs.

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Tech Stocks – Hitting Resistance

Relative Performance of Tech Majors Stalls After Hitting Resistance Zone

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Are Financials Bottoming…?

While Early Days, Financials show signs of stabilizing recent underperformance

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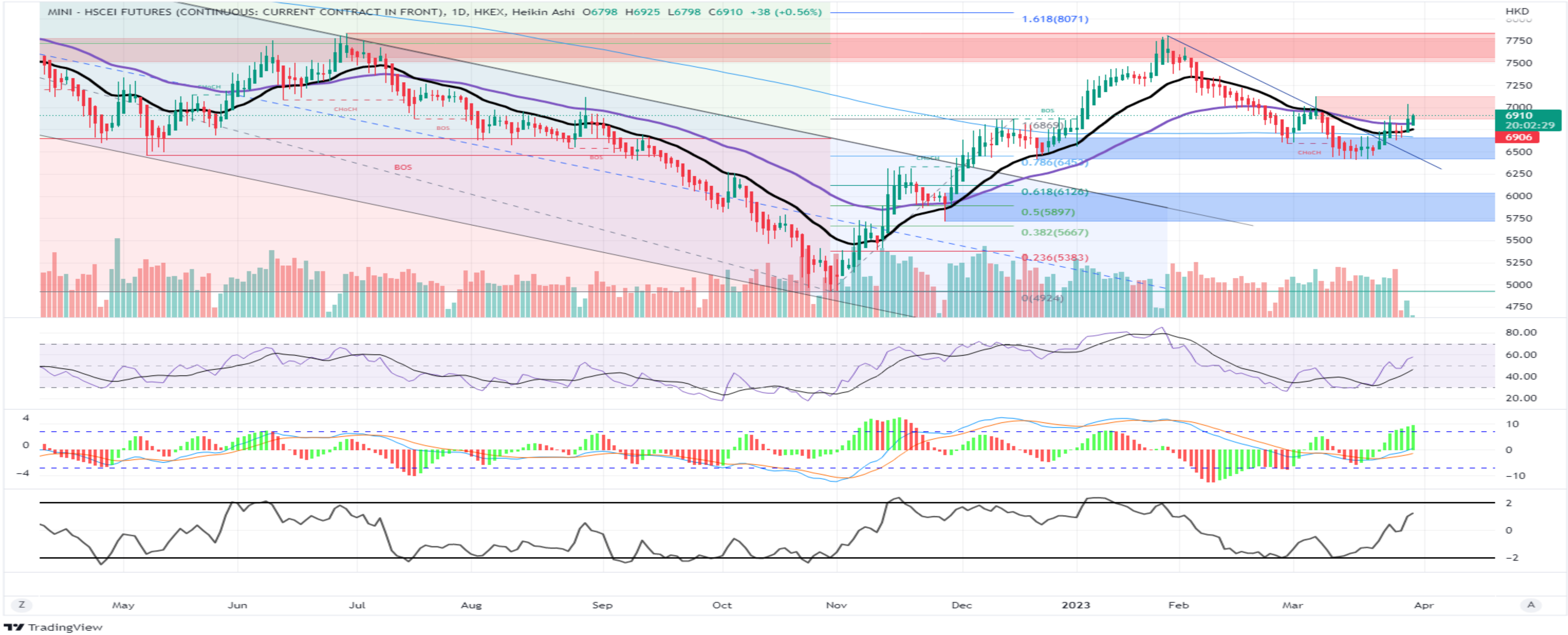
China Revival Underway

HSCEI bounces post 50% retracement – Expected to Accelerate Above 7000

IronFlyLtd published on TradingView.com, Mar 29, 2023 12:42 UTC



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Recent Ideas

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Recent Trade Ideas

Recommendation Date	Asset Class	Long/Short	Ticker / ISIN	Name	Currency	Cost Price	Spot Price	Target Price	Stop Loss	Realized P&L (TR)	Benchmark (MSCI / LQD)	% Upside YTW (%)	Status
2-Mar-23	Fixed Income	Long	US58733RAE27 Corp	MERCADOLIBRE INC	USD	89.11	89.75	100.00	79.11	0.5%	2.9%	**6.4%**	Live
9-Mar-23	Fixed Income	Long	US456837AY94 Corp	ING GROEP NV	USD	76.29	69.18	100.00	66.29	-4.3%	2.5%	**12.9%**	Live
23-Mar-23	Equities	Long	TGLS US Equity	TECNOGLASS INC	USD	37.82	40.21	54.72	34.7	6.32%	2.32%	**36.09%**	Live
23-Mar-23	Equities	Long	INMD US Equity	INMODE LTD	USD	30.41	31.34	37.4	29.35	3.06%	2.32%	**19.34%**	Live
01-Mar-23	Alternatives	Long Short	N.A.	Kilter Rural Water Fund	USD	N.A.	N.A.	10%+ Target Return*	-12% DD	N.A.	N.A.	N.A.	Live
23-Mar-23	Alternatives	Long Short	N.A.	Regal Resources Long Short	USD	N.A.	N.A.	15%+ Target Return*	-22.5% DD	N.A.	N.A.	N.A.	Live

Source: Lighthouse Canton, 29 March 2023
*Target over an investment cycle

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