Investment Playbook Weekly Update

17th to 21st April 2023

LIGHTHOUSE CANTON



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Weekly Spotlight

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Fund Spotlight: Saba Carry Neutral Tail Hedge

FUND INFO

Asset Type	Portfolio Hedge	**Fund AUM (m)**	837
Investment Geography	Americas	**Inception Date**	Jul-18
Strategy	Long Biased CDS		
Currency	USD		

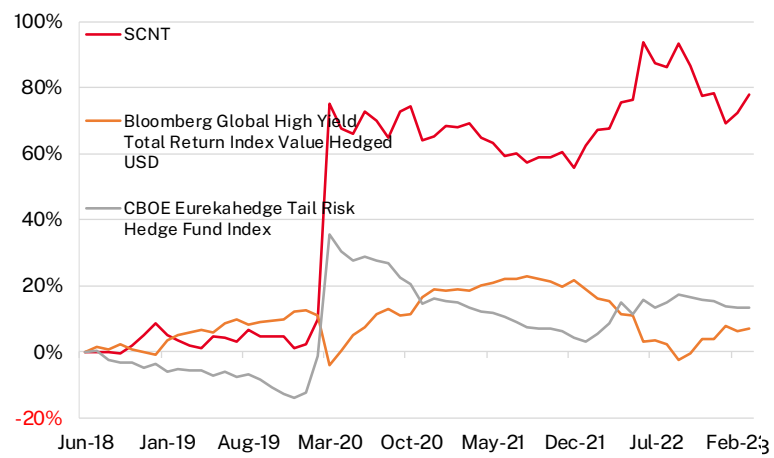
PERFORMANCE STATISTICS

	SCNT	Bloomberg Global High Yield Total Return Index Value Hedged USD	CBOE Eurekahedge Tail Risk Hedge Fund Index
Annualized Return	12.90%	1.42%	2.69%
Annualized Volatility	29.06%	9.97%	19.44%
Annual Sharpe Ratio (Rf)*	0.43	0.09	0.11
Annual Sortino Ratio (vs Rf)*	1.92	0.12	0.42
Max Drawdown	12.62%	20.55%	23.98%
Correlation to Global Equities	-0.61	0.85	-0.54
Correlation to Global IG	-0.25	0.51	-0.24
Correlation to Global HY	-0.82	1.00	-0.72

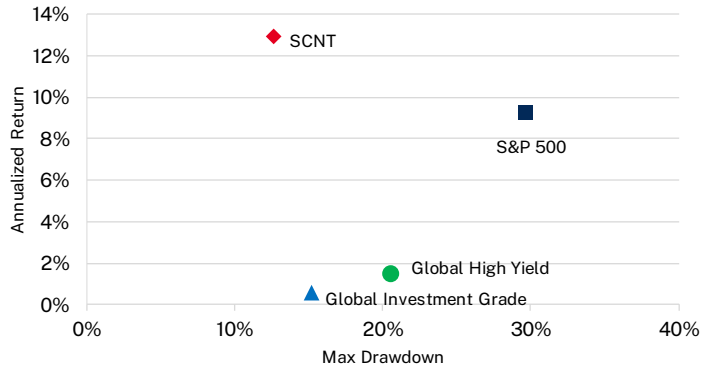
ANNUAL PERFORMANCES

2022 Return	-0.28%	2.89%	-1.61%
2021 Return	14.58%	-14.61%	10.55%
2020 Return	-5.68%	2.53%	-10.30%
2019 Return	63.22%	5.73%	34.84%

HISTORICAL CUMULATIVE RETURNS



RETURN VS MAX DRAWDOWN SINCE FUND INCEPTION



STRATEGY SUMMARY

The Carry Neutral Tail Hedge Fund is a long / Short strategy on CDS. The Fund buys protection on single name CDS which historically have high spread volatility and sells protection on "Blue Chip", high quality single name CDS and IGCDX indices.

The short leg is composed of 30-40 IG names (avg Mkt Cap $29 bn), still included in the IG space but for which financials have deteriorated (Higher Leverage, Lower Altman Z-scores than peers). Historically, these CDS have widen to 680 bps in Q1 2009.

The long leg is composed of 50% Index / 50% single names for a total of 200+ names. Historically, these CDS have widen to 220 bps in Q4 2008.

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Fund Spotlight: Saba Carry Neutral Tail Hedge



Source: Bloomberg, Apr 2023

Investment Rationale :

- US BBB Credit spreads are too low since the chance of a recession is non-trivial
- Current spreads trade at nearly 2 standard deviations below historical mean.
- We think the likelihood that spreads widen further remains high given higher downgrade risks in face of a recession.
- Saba has taken advantage of this mispricing and is now positioned to benefit sharply from any adverse credit events.
- We reiterate its relevance in **aggressive clients' portfolios** as a credit tail hedge, given that we are in a new interest rate regime and likely to be at the infancy of a default cycle.

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Bond Spotlight: GEELY 4 Perp

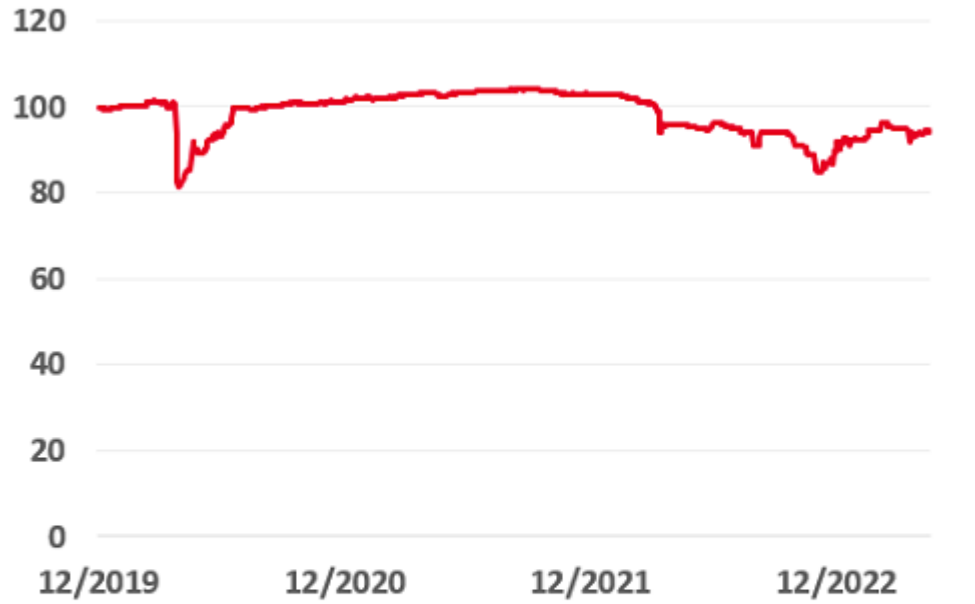
Bond Details

ISIN	XS2078897928
Issuer	GEELY AUTOMOBILE
Country	CN
Sector	Consumer, Cyclical
Rank	Sr Unsecured
Currency	USD
Outstanding	500,000,000
Maturity Date	
Mty Type	PERP/CALL
Next call Dte	09/12/2024
Next call Px	100.00
Mod. Duration	1.6
Yield to Worst (Ask)	7.5%
Price (Ask)	94.7

Ratios (Issuer level)

Current Ratio	1.1
Quick ratio	0.9
Interest Coverage	6.8
Net Debt / Mkt Cap	(0.2)
Net Debt / EBITDA	(2.1)

Bond Price



Rating (Bond)

Moody's	Baa3
S&P	
Fitch	

Default Risk

CDS (%)	1.3%
Altman ZS	2.6

Source: Bloomberg

Date: 19/04/23

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Bond Spotlight: Investment Rationale

- **Company Description** : Geely Auto is a wholly owned subsidiary of Zhejiang Geely Holding Group. It is the biggest privately owned automobile manufacturer and seventh biggest manufacturer overall in China.

- **Investment Rationale** : The bond is senior unsecured, with an investment grade rating. Yield is attractive at 7.5% with a duration of 1.6 (call date Dec 2024). Besides the company having excellent liquidity and credit metrics, the outlook of the domestic auto market is healthy. In addition, policy makers have said during their NPC meeting in March that they are in support of the auto industry as it is an important contributor to China's consumption growth. We are in the view that the bond will most likely be called in Dec 2024. This is due to the hefty 300bp reset spread taking the coupon to 7% and based on its recent bank loans, the company has the ability to get cheaper financing elsewhere.

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Bond Spotlight: 6.85% Motiva 2040

Bond Details

ISIN	USU61999AC95
Security	MTVD 6.85 01/15/40
Issuer	MOTIVA ENTERPRISES L
Country	US
Sector	Energy
Rank	Sr Unsecured
Currency	USD
Issue Size	1,000,000,000
Outstanding	673,184,000
Min Piece	2,000
Series	REGS
Liquidity Score	27
Issue Date	11/01/2010
Maturity Date	15/01/2040
Year to Mty	16.75
Mty Type	AT MATURITY
Next call Dte	
Next call Px	
Mod. Duration	10.3

Parent Company

Equity Ticker	ARAMCO AB
Parent Company	Saudi Arabian Oil Co
Ultimate Parent	Kingdom of Saudi Ara

Leverage (Issuer level)

Net Debt / Mkt Cap	(0.0)
Net Debt / EBITDA	(0.1)
Liabilities / Assets	0.3

Bond Price

Source Bloomberg



Rating (Bond)

Moody's	Baa1
S&P	BBB+
Fitch	
	BBB+

Liquidity (Issuer level)

Current Ratio	2.6
Quick ratio	2.0
Interest Coverage	100.2

Profitability (issuer level)

Return on Capital	28%
Return on Equity	47%
Altman ZS	8.7

Product Risk Rating 3.0

Current Price (Ask)	108.06
Yield to Worst (Ask)	6.1%

as on 19th April 2023

Coupon

Cpn rate	6.85
Cpn Type	FIXED
Cpn Freq.	2.00

Default Risk

Default BBG	0.0%
CDS (%)	0.5%

Price Change (bond)

1M	-1.7%
3M	1.4%

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Bond Spotlight: Investment Rationale

- **Company Description:** Saudi Arabian Oil Co., doing business as Saudi Aramco, operates as an oil exploration company. The Company focuses on hydrocarbons exploration, production, refining, distribution, and shipping, as well as provides crude oil marketing services. Saudi Aramco serves customers worldwide.

- **Investment Rationale:** Motiva is owned by Saudi Aramco which in turn is owned by the Kingdom of Saudi Arabia. Hence it is treated as a Government owned entity enjoying complete state support. Robust credit and liquidity metrics are the hallmark of this entity. It boasts of -ve Net Debt with the current cash on the balance sheet exceeding its total debt. This coupled with robust liquidity metrics are reflective in its high Altman Z Score. Such high-quality issuer provides the comfort of extending duration thereby enabling us to participate in likely capital appreciation as and when longer dated yields compress.

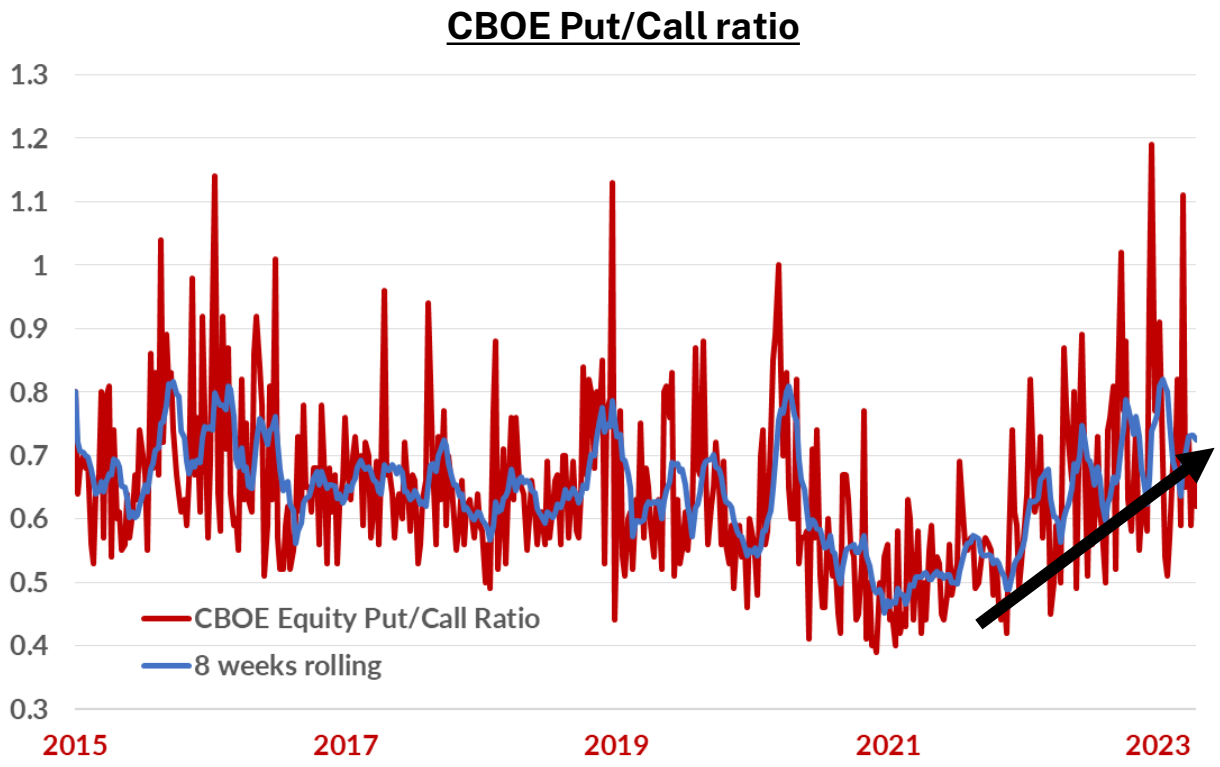
Charts of the week

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Put/Call Ratio: Investors Are Increasingly Hedging

The Put/Call ratio has increased over the last six months and its 8-week average is now at 0.72



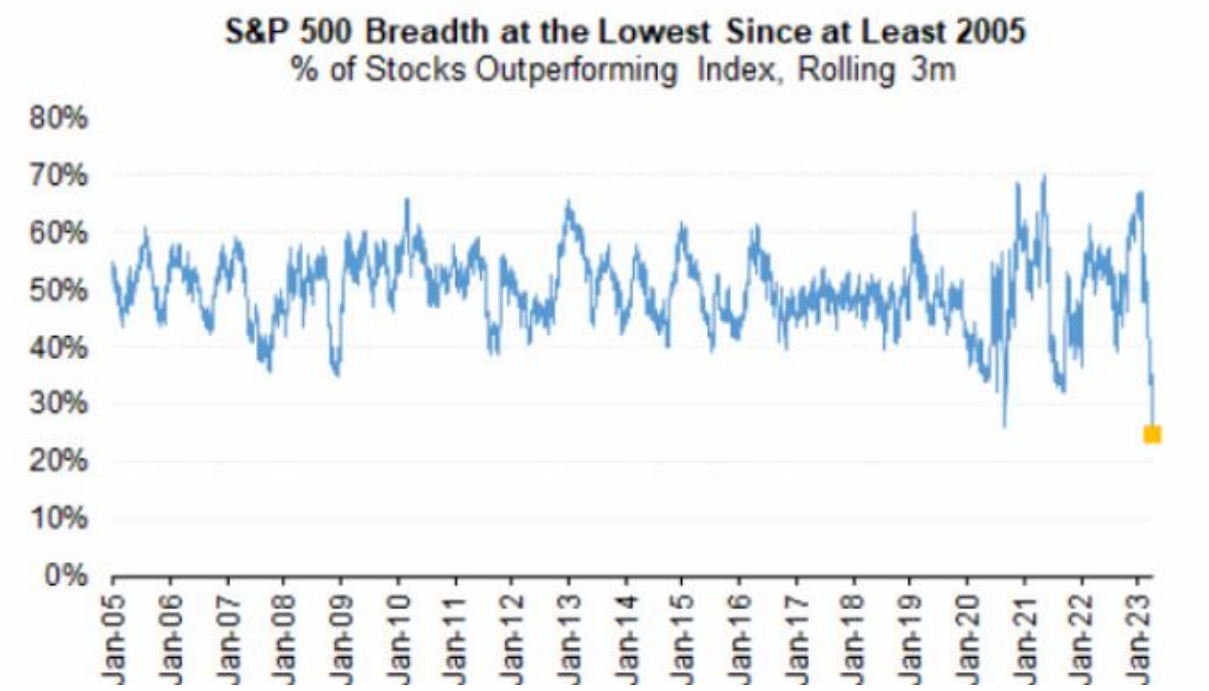
Source: CBOE, Bloomberg, Apr 2023

- The CBOE (Chicago Board Options Exchange) Put/Call ratio is a market sentiment indicator that measures the relative trading volume of put options to call options.
- The ratio is calculated by dividing the total volume of put options by the total volume of call options.
- A high Put/Call ratio indicates that traders are buying more put options, which suggests a bearish sentiment and a possible expectation of a market decline.

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Mega cap tech names drive 1st quarter rally (1/2)

The ratio of stocks outperforming the markets drops to one of the lowest levels on record



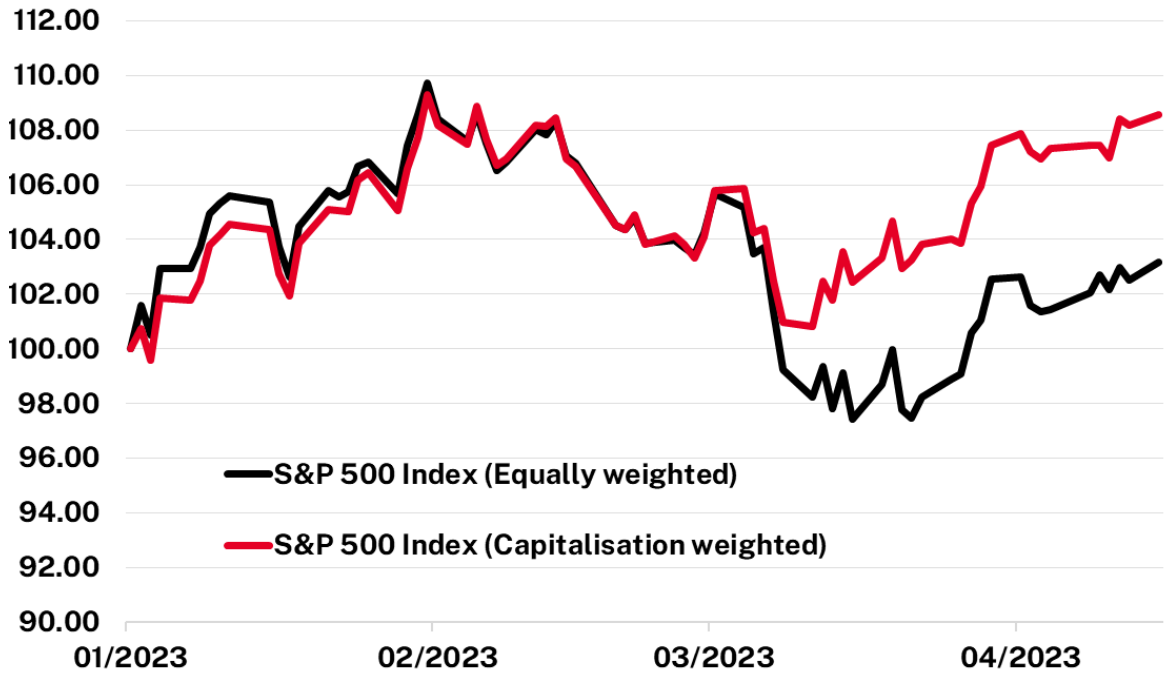
Source: Morgan Stanley QDS, Apr 2023

- Technology names saw a massive run-up over the last quarter on the back of receding treasury yields, based on the hopes that the recent banking turmoil and softer inflation prints will cause the Fed to pivot and start cutting rates.
- We believe that the recent equity market rally faces the threat of inflation proving to be stickier than expected, causing rate cut expectations to be rolled back and treasury yields rising sharply which is likely to hurt the high growth tech names the most.

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Mega cap tech names drive 1st quarter rally (2/2)

Significant outperformance of the S&P 500 Index compared to an equally weighted index



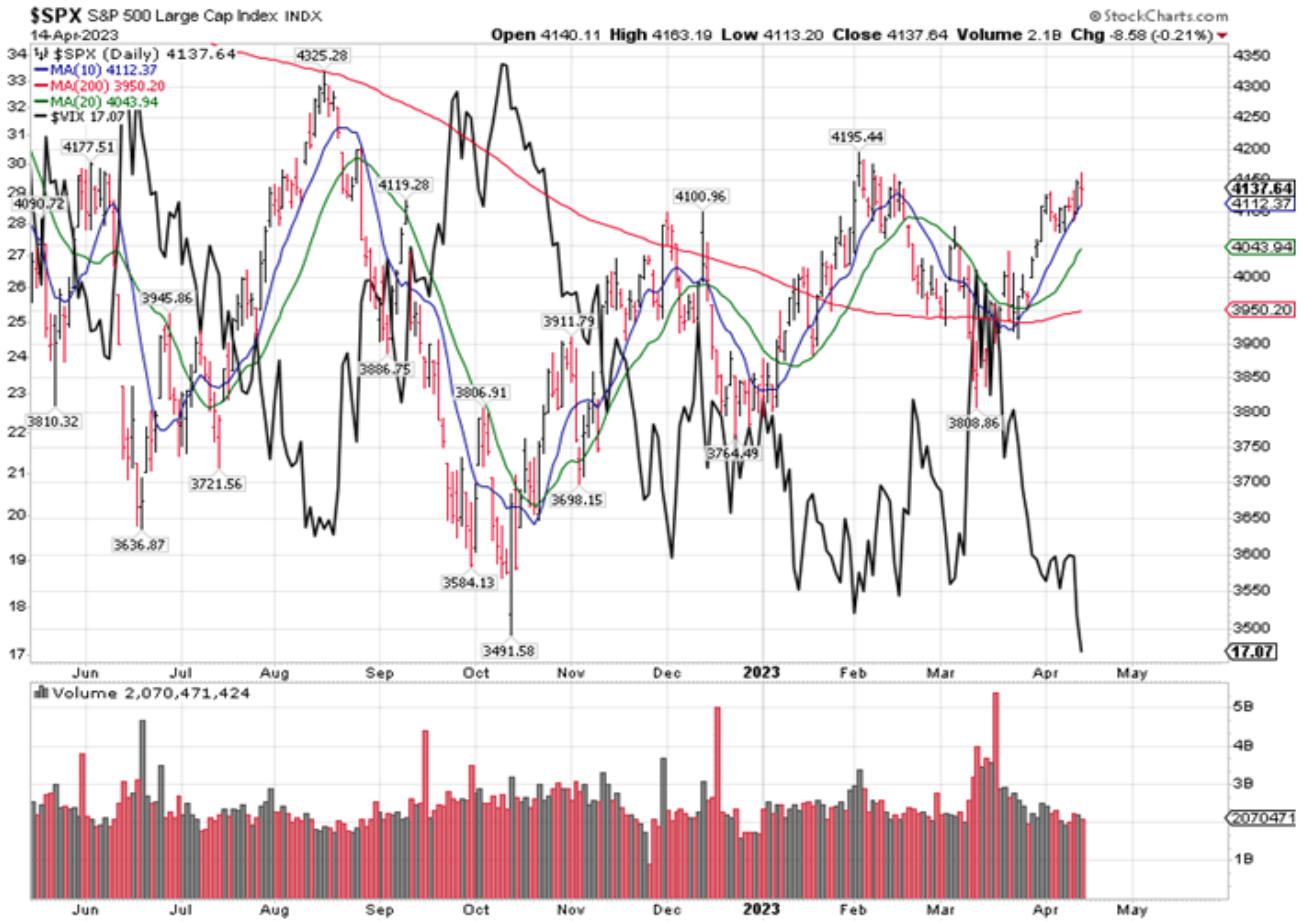
Source: Morgan Stanley, Bloomberg, Apr 2023

- According to Morgan Stanley's Michael Wilson, the rally in the S&P 500 has been driven by only a handful of stocks, putting the index at risk of fresh lows.
- The biggest risk could come from a slump in the technology sector if inflation proves sticky and bond yields rise, Wilson said. The tech-heavy Nasdaq 100 has surged 20% this year, partly as the sudden collapse of some regional US lenders sparked a rotation away from banking stocks and toward growth shares. Investors have also been betting that cooling inflation would prompt the Federal Reserve to stop hiking rates soon, but Wilson warned those expectations were premature.

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Demystifying low VIX

Algo trading on Friday and Zero Day to Expiry (0DTE) options are the main culprits.



Source: Seeking Alpha, Apr 2023

- Most options expiry happens on a Friday than any other weekdays. Algo trading strategies short OTM put and call options that day thereby suppressing the volatility unless the stock market is under severe pressure that day based on events.
- 0DTE is another reason behind this. Since there is fierce decay in the short-term options price, the best way to make money is by taking a short position. Institutional investors have algorithms designed to capitalize on this pushing the futures lower.

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LC Views - Summary

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LC Views Summary (1/2)

Sub-Asset	Recommended Positioning
Rates	• Market continues to expect a 25-basis points rate hike in May and has factored in the possibility of several rate cuts in 2H2023. This is due to potentially tighter bank lending standards, due to the collapse of the 2 US banks last month, which can be viewed as some form of policy tightening. Contrary to market expectations, we are in the view that the Fed would most likely pause for the rest of the year, after its May rate hike. While bank lending standards might have tightened, headline CPI at 5.1% and core CPI at 5.6% are no where near the Fed's long-term average of 2%.
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 provide absolute portfolio returns with no correlation to the overall economic cycle.
Equities	• The benchmark S&P 500 rose 7% in the first quarter after dropping nearly 20% in 2022, while gains across technology stocks have pushed the Nasdaq 100 up 20% since the start of January. Equity valuations do not appear especially 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. Equity investors look exceedingly complacent. According to ASR Research, "US Equities look poised to return the same as Bonds over a 10-year period but with greater volatility." JPMorgan strategist Marko Kolanovic also notes that "the inflows into stocks over the past few weeks make little sense and were largely driven by systematic investors, a short squeeze and a decline in the Cboe Volatility (VIX) Index". 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. We recommend adding active managers (Macro funds) to monetize opportunities in currencies and rates. 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.
Commodities	• Post March FOMC, it is becoming more apparent that the tightening cycle could likely peak out this year. This sets a supportive stage for gold's strengthening. We also like **Gold** 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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Singapore

Lighthouse Canton Pte Ltd

16 Collyer Quay
#11-02
Income at Raffles
Singapore 049318
Phone: +65 67130570

Dubai

Lighthouse Canton Capital DIFC Pte Ltd

The Exchange
Gate Village 11, Unit 204
Dubai International
Financial Centre
PO Box 507026
Dubai, UAE
Phone: +971 45 861500

India

LC Capital India Private Limited

First Floor, Aloft hotel,
Asset no. 5B, Hospitality
District, Aerocity
New Delhi, 110037 (India)

Balrama Premises Co-Op
Society LTD
Office no. 606-607, 6th
Floor,
BKC Bandra East
Mumbai 400051

Phone: +91 9650473961

info@lighthouse-canton.com
service@lighthouse-canton.in
Lighthouse Canton