Lighthouse Canton Monthly Investment Memo

February 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
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

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%	13%
Fixed Income	30%	18%
Equities	15%	65%
Portfolio Hedge	0%	5%
Expected Performance		
Exp. Return	7-10%	>10%
Exp. DD	<5%	<20%
Beta to MSCI ACWI	0.10	0.13
Product Risk Allocation (LCPL) *(Internal product risk rating – 1 being lowest risk and 5 being highest)*		
1	0%	0%
2	30%	0%
3	20%	15%
4	25%	5%
5	25%	80%

	Defensive	Growth
Liquidity (based on current allocation)		
<1 week	10%	15%
>= 1 week	10%	15%
>= 30 days	33%	25%
>= 90 days	35%	38%
>= 180 days	13%	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	>5% Distribution p.a.
Expected distribution	5.6%
Expected Total Return	8.0%
Expected Drawdown	19%
Equities	17%
Fixed Income	68%
Alternatives	15%
USD	93%
EUR	3%
GBP	2%
AUD	0%
Others	2%
Fund	30%
Direct	70%

Fixed Income Rating Split	
Average Yield	7.9%
Average Credit Rating	BB-
Average Duration	1.3

Stocks	
Average Dividend Yield	8.3%
Average Analyst Upside	24%

Source: Lighthouse Canton, Feb 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			
21-Feb-23	$ 20,904,993			
Performance (ITD) (iv)	4.52%	-5.86%	-4.21%	-5.03%

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, Feb 2023

Fixed Income Model Portfolio – Characteristics

Statistics	Inv. Grade	High Yield	Not Rated	Total
# Issuers	16	9	-	25
Value (m USD)	11.8	9.1	-	20.9
Weight	57%	43%	0%	100%
Avg Duration	1.92	1.83	-	1.88
Avg Yield	4.87	7.36	-	5.95

Maturity	Inv. Grade	High Yield	Not rated	Total
2023	0%	0%	0%	0%
2024	11%	14%	0%	25%
2025	14%	19%	0%	33%
2026	8%	10%	0%	18%
> 2026	24%	0%	0%	24%
				100%

Seniority	Inv. Grade	High Yield	Not rated	Total
Sr Unsecured	33%	28%	0%	61%
1st lien	0%	15%	0%	15%
Sr Non-Preferred	2%	0%	0%	2%
Subordinated	21%	0%	0%	21%
				100%

Sectors	Inv. Grade	High Yield	Not Rated	Total
Banks	11%	0%	0%	11%
Coal	0%	5%	0%	5%
Auto Manufacturers	0%	9%	0%	9%
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%	8%
Real Estate	0%	5%	0%	5%
Mining	0%	5%	0%	5%
Internet	4%	0%	0%	4%
Commercial Services	4%	0%	0%	4%
Insurance	15%	0%	0%	15%
Agriculture	5%	5%	0%	9%
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, Feb 2023

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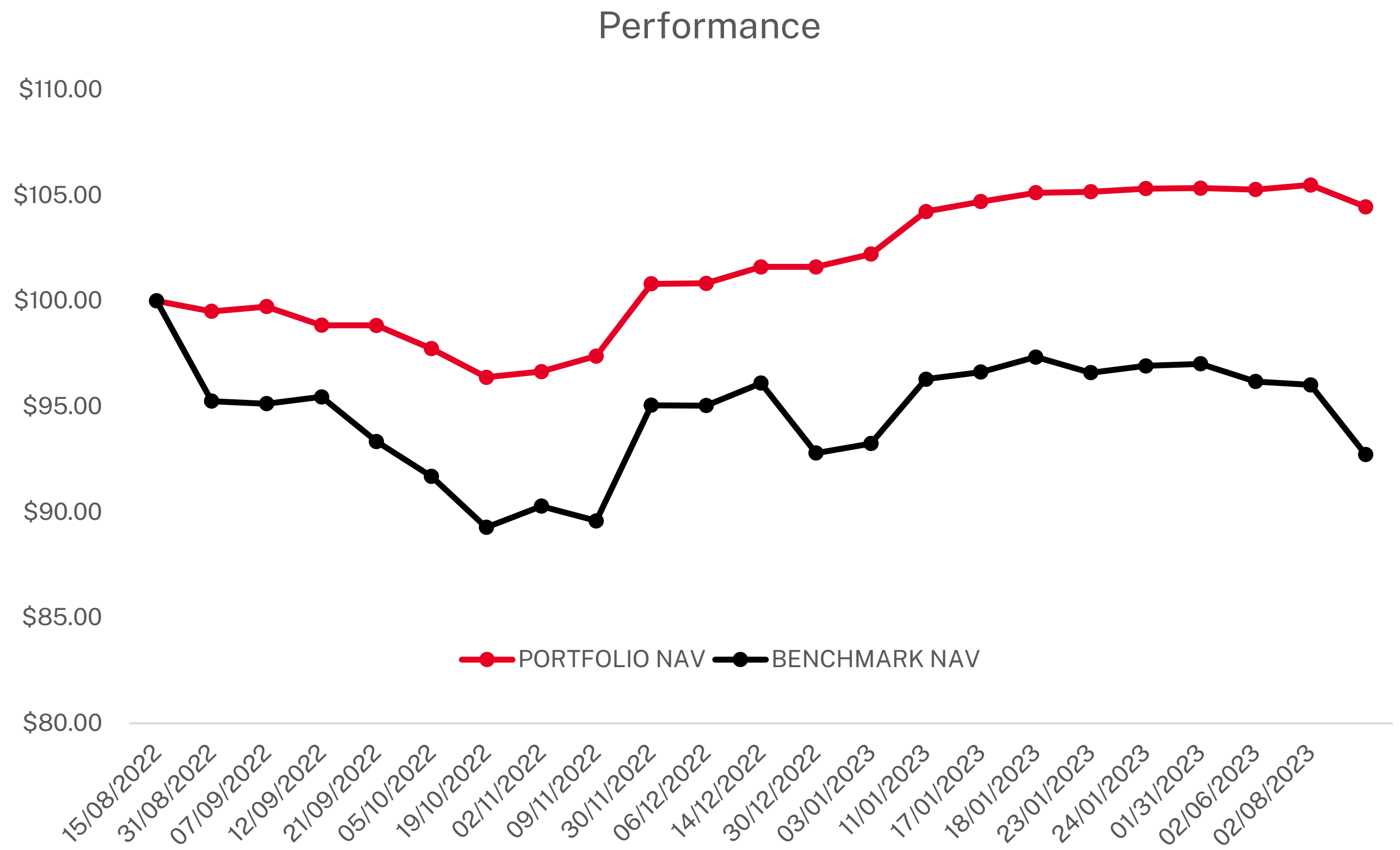
Fixed Income Model Portfolio – Performance

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%	-0.84%											2.80%



Source: Lighthouse Canton, Feb 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
22-Feb-23	108.51	107.01	101.41
Performance (ITD)	8.51%	7.01%	1.41%

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

Source: Lighthouse Canton, Feb 2023

Equities Model Portfolio – Characteristics

Beta	Ptf	S&P 500
Cash	0.000	
Stocks	0.857	1.00
Options	-0.036	
Futures	-0.113	
	0.71	**1.00**

Market Capitalization	Ptf
Large Caps (> 10 bn)	52%
Mid Caps (2 - 10 bn)	19%
Small Caps (< 2 bn)	15%
	86%

	Ptf	S&P 500
Return On Capital	35%	8%
CAGR 3Y	17%	8%
Dvd Yield	0.9%	1.8%

Industry	Stocks	Options	Total	S&P 500	Difference
Software & Services	13.6%	2.7%	16%	12.6%	3.7%
Media & Entertainment	6.0%	0.0%	6%	11.2%	-5.2%
Technology Hardware & Equipment	15.5%	0.0%	15%	8.5%	7.0%
Pharmaceuticals, Biotechnology & Life Sciences	11.0%	1.9%	13%	7.5%	5.4%
Retailing	7.9%	0.0%	8%	6.1%	1.8%
Health Care Equipment & Services	14.0%	3.5%	17%	5.6%	11.9%
Diversified Financials	0.0%	0.0%	0%	5.1%	-5.1%
Capital Goods	2.6%	0.0%	3%	5.0%	-2.4%
Semiconductors & Semiconductor Equipment	11.8%	0.0%	12%	4.6%	7.2%
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%	3.2%	3%	2.8%	0.5%
Real Estate	1.9%	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%	0.0%	0%	1.7%	-1.7%
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	2.8%	0.0%	3%	0.9%	1.9%
Commercial & Professional Serv	0.0%	0.0%	0%	0.8%	-0.8%
	88%	*11%*	*99%*	*100%*	

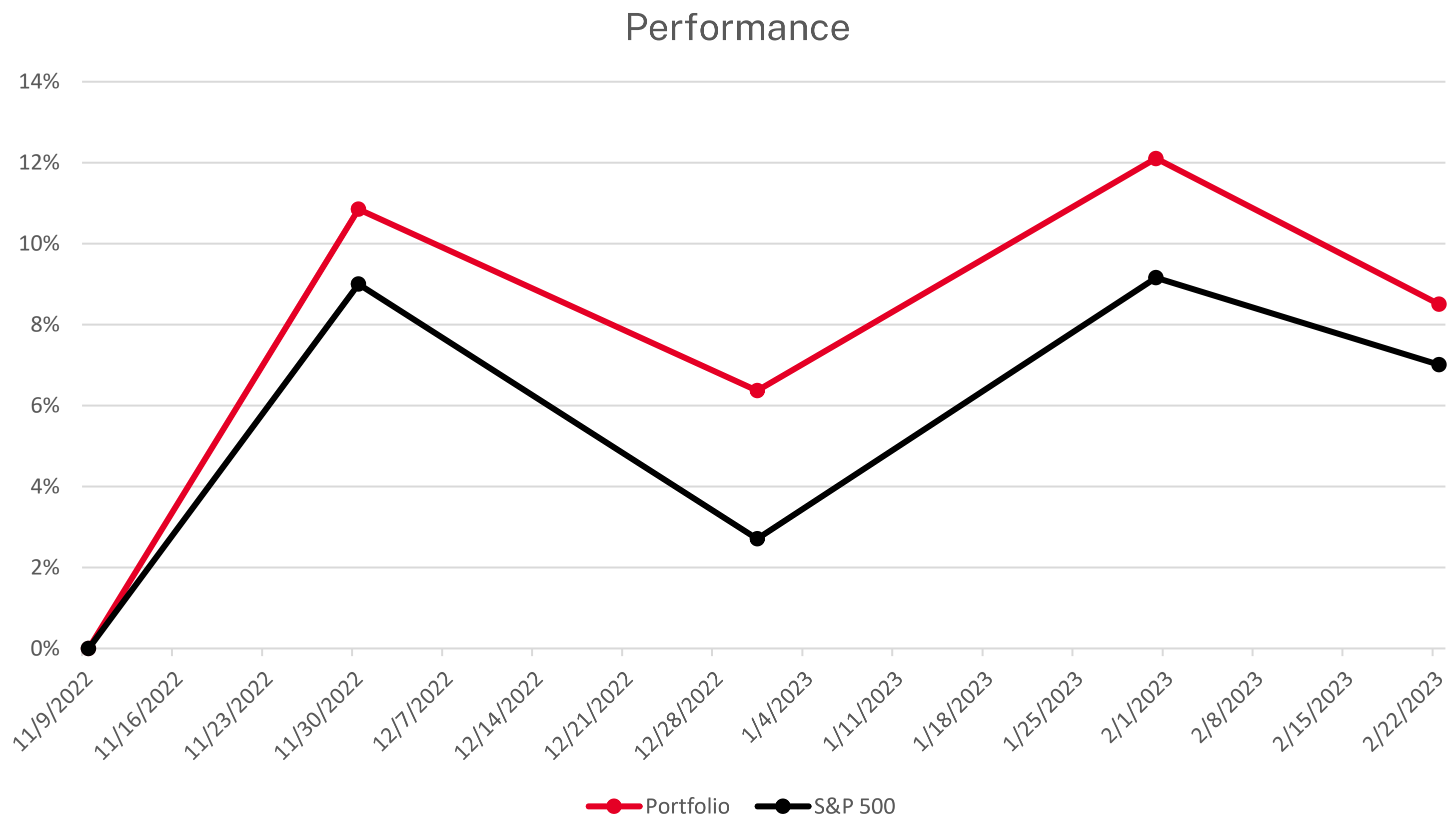
Source: Lighthouse Canton, Feb 2023

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%											2.01%

* Inception date of 9th November, 2022



Source: Lighthouse Canton, Feb 2023

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SpotLight

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The Equity Risk Premium Points To Complacency

Part I – Understanding the ERP concept

Let's assume the following:

- Stock XYZ trades at 20x **Price-to-earnings** (P/E) ratio.
- US Treasury 10Y bond yield (**risk-free**): 4.0%
- Expected **inflation** rates for next 10 years: 2.5%

From this assumptions:

a. **XYZ earnings yield** is 5% (E/P ratio)

b. **Real rates** for next 10 years: 1.5% (Risk free – inflation)

c. **Equity Risk Premium (ERP)** of stock XYZ: 3.5% (a-b)

The ERP is an important measure for investors as it calculates the "compensation" required to hold XYZ stock instead of treasuries.

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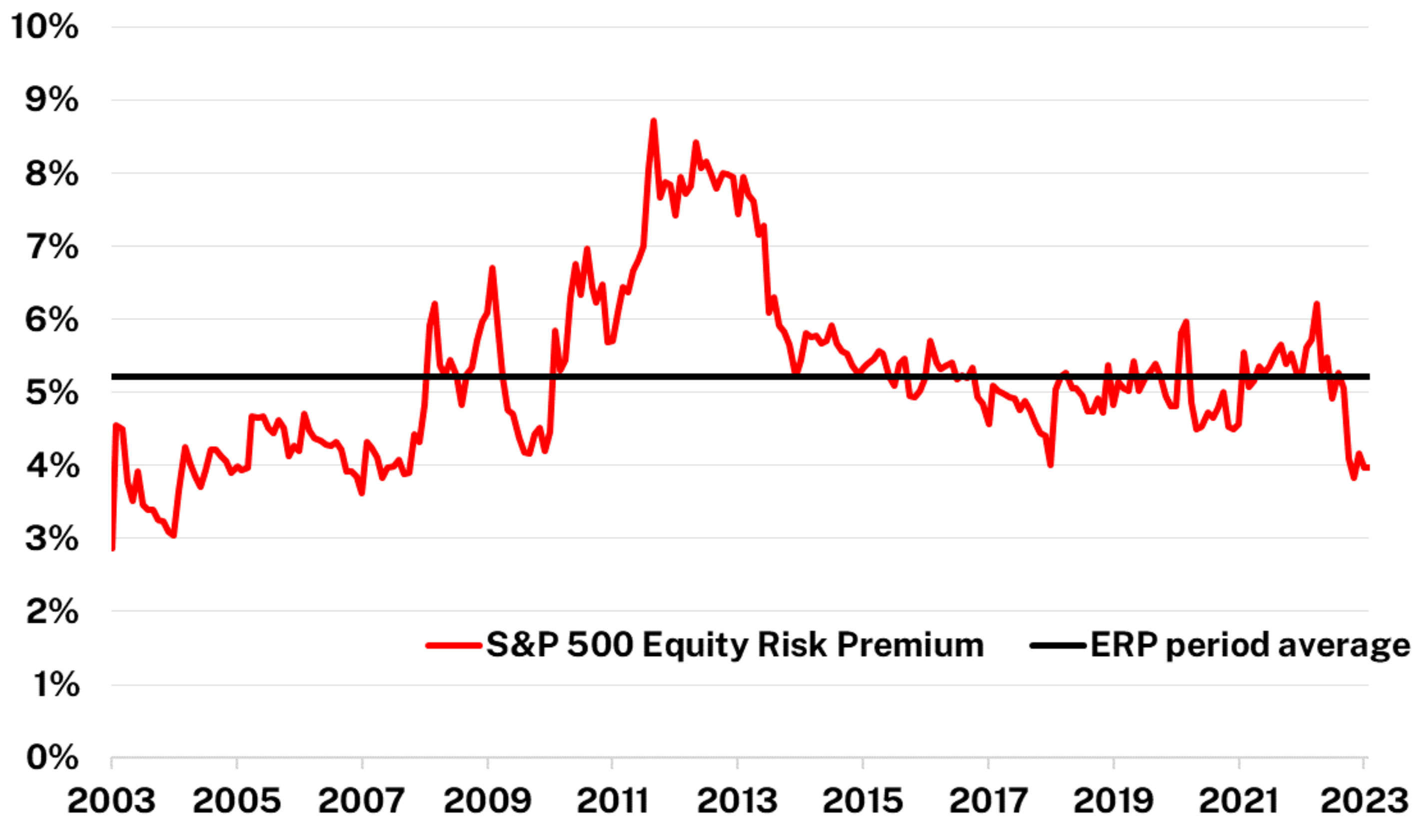
The Equity Risk Premium Points To Complacency

Part II – 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.

US Equities: What To Expect?

Understanding the relationship between earnings and multiple is key when predicting returns

Earnings Growth \ PE Ratio (12M fwd)	15.00	16.00	17.00	18.00	19.00	20.00	21.00
-14%	2842	3032	3221	3411	3600	3790	3979
-10%	2992	3191	3391	3590	3790	3989	4189
-5%	3149	3359	3569	3779	3989	4199	4409
0%	3315	3536	3757	3978	4199	4420	4641
5%	3481	3713	3945	4177	4409	4641	4873
10%	3655	3898	4142	4386	4629	4873	5117
16%	3838	4093	4349	4605	4861	5117	5373

Earnings Growth \ PE Ratio (12M fwd)	15.00	16.00	17.00	18.00	19.00	20.00	21.00
-14%	-29%	-24%	-19%	-14%	-9%	-5%	0%
-10%	-25%	-20%	-15%	-10%	-5%	0%	5%
-5%	-21%	-16%	-10%	-5%	0%	6%	11%
0%	-17%	-11%	-6%	0%	6%	11%	17%
5%	-13%	-7%	-1%	5%	11%	17%	23%
10%	-8%	-2%	4%	10%	16%	23%	29%
16%	-4%	3%	9%	16%	22%	29%	35%

Source: Bloomberg, February 2023

- We expect restrictive monetary policies worldwide (quantitative tightening, higher rates) to start impacting corporate earnings.
- A 10% drop in US earnings would lead to a 10% drop of the index, assuming no PE multiple contraction.
- Should PE multiple also contract from 18x to 16x, then the index is expected to drop by 20% from current level.

Market Updates

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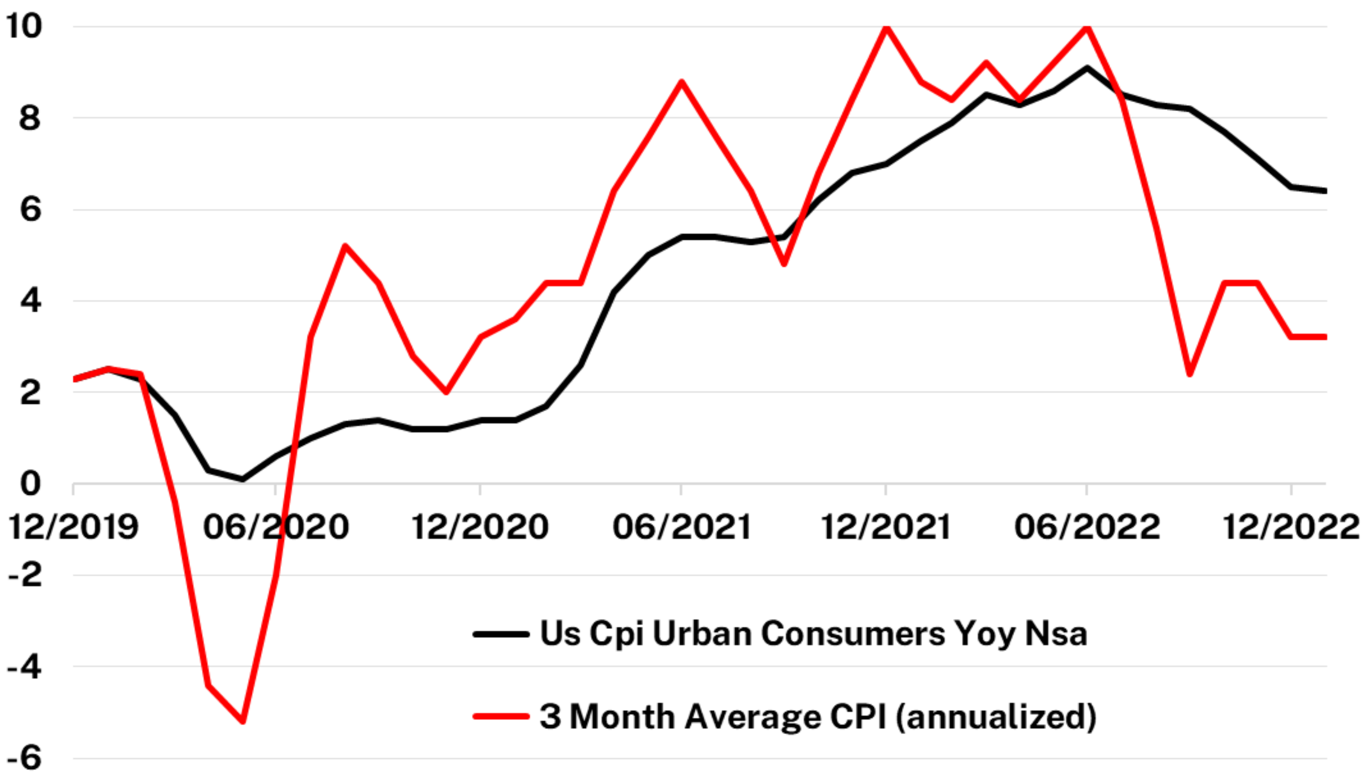
US Inflation Dropping Quickly

The average 3-month inflation has dropped to levels last seen in 2020



Source: Bloomberg, Feb 2023

- The average 3-month inflation rate is now annualizing at 3.2%, well below levels seen in 2022.
- Still, with a US CPI Urban Consumers printing +0.5% MoM in January (i.e. 6% annualized), the road to a 2% inflation (central banks target rate) is likely to be long. Investors should be patient and acknowledge that rates are unlikely to decrease anytime soon.

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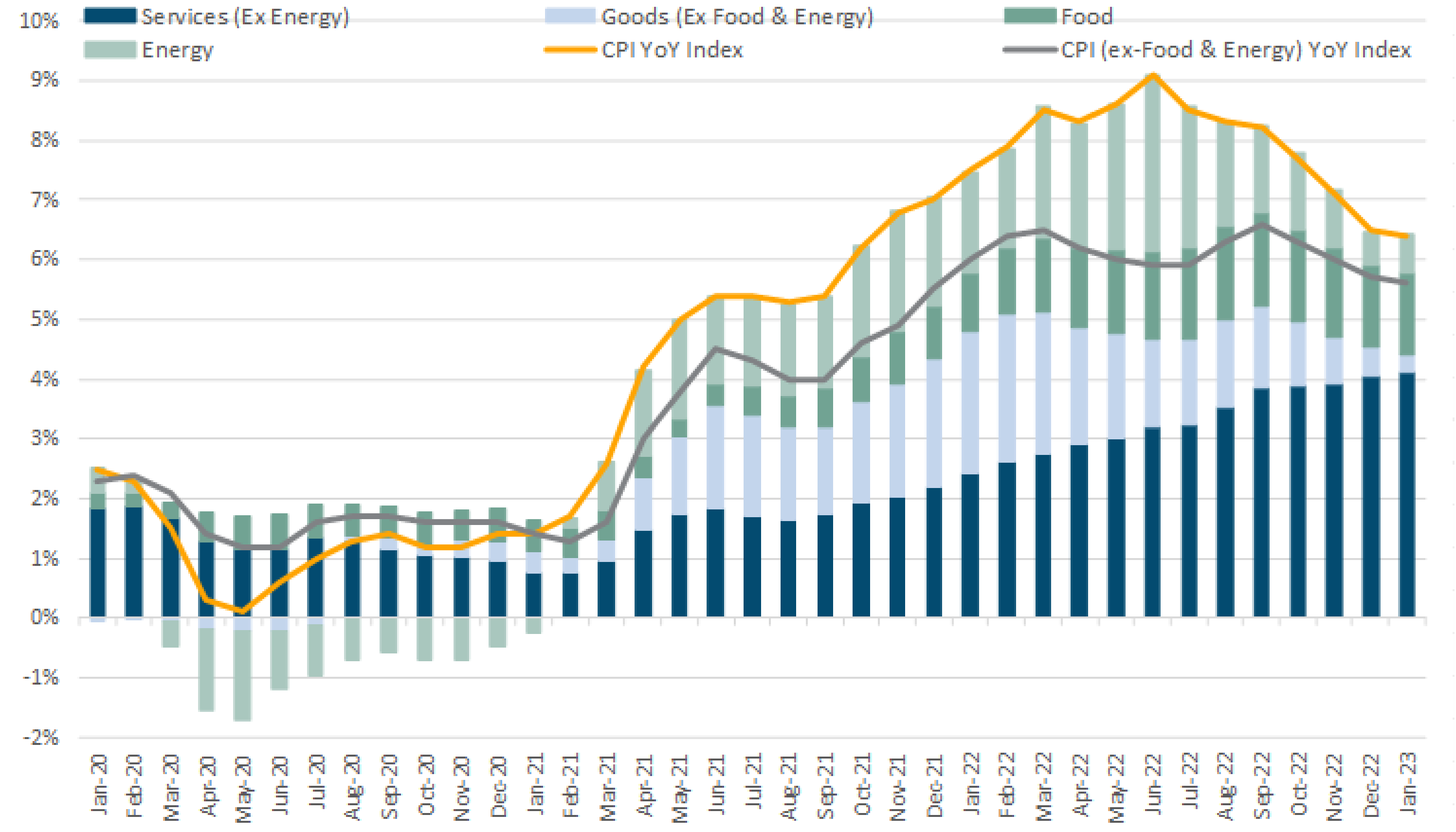
US Inflation -Attribution

Higher contribution from Services is a result of strong labor market.

Inflation: Contribution by Category (% YoY)



Source: Bloomberg, BLS
Note: Not Seasonally Adjusted

- Headline inflation has dropped sharply with the cooling of food & energy prices.
- Services inflation, a key component of the Core PCE Index is reflecting strong growth. This points to the stickiness in the inflation print.

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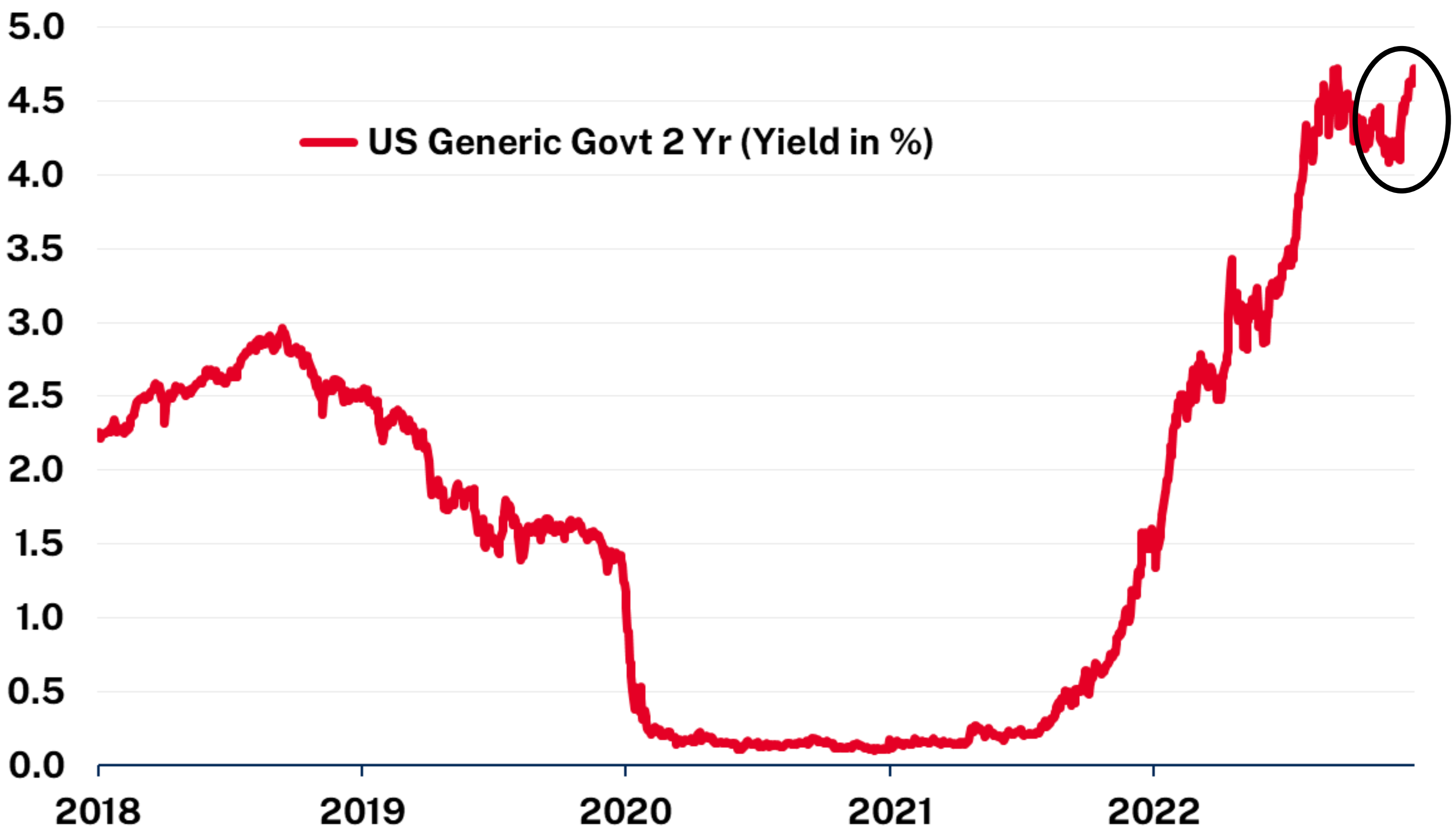
US Rates Have Resumed Their Upward Trend

The 2Y / 10Y yields spread has been negative since July 2022



Source: Bloomberg, Feb 2023

- US Treasuries yields have resumed their upward trend as investors now realized that the Fed (and other central banks) has no choice but to keep on hiking interest rates.

- Indeed, with a US unemployment rate at 3.6%, close to historical low level, and an annualized inflation rate at 6.4% (CPI YOY), well above their 2% target, their credibility is now at stake.

- “Higher for longer” is slowly becoming 2023’s investment motto.

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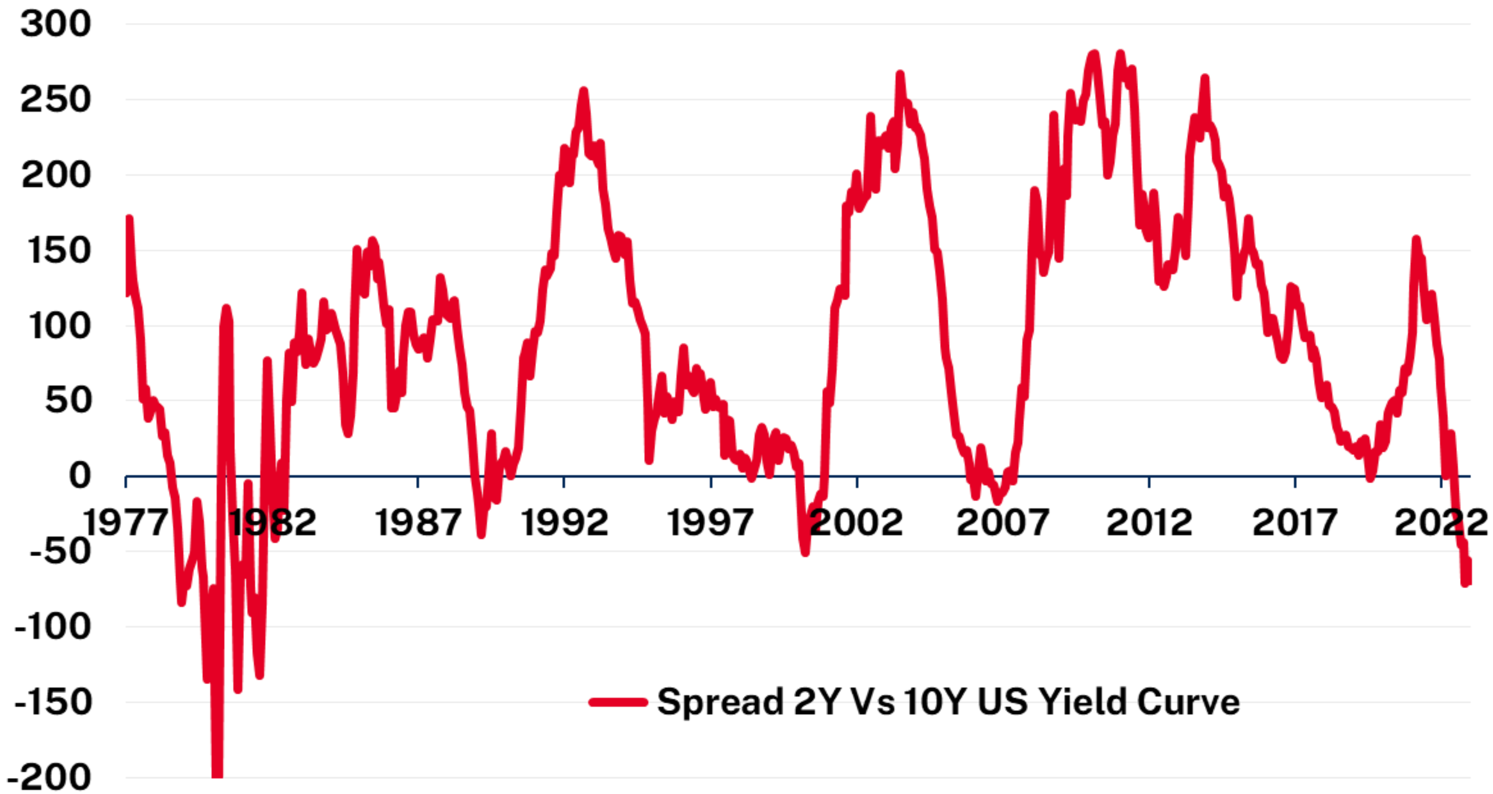
Longest Inversion Since 80s

The 2Y / 10Y yields spread has been negative since July 2022



Source: Bloomberg, Feb 2023

- US Treasuries are pointing to a concern that the Fed will drive the US into recession.
- The expression of that angst can be seen in the yield curve, which is likely to stay inverted for longer as the economy decelerates.
- The gap between two- and ten-year yields just reached both its deepest and longest streak of inversion since 1982.

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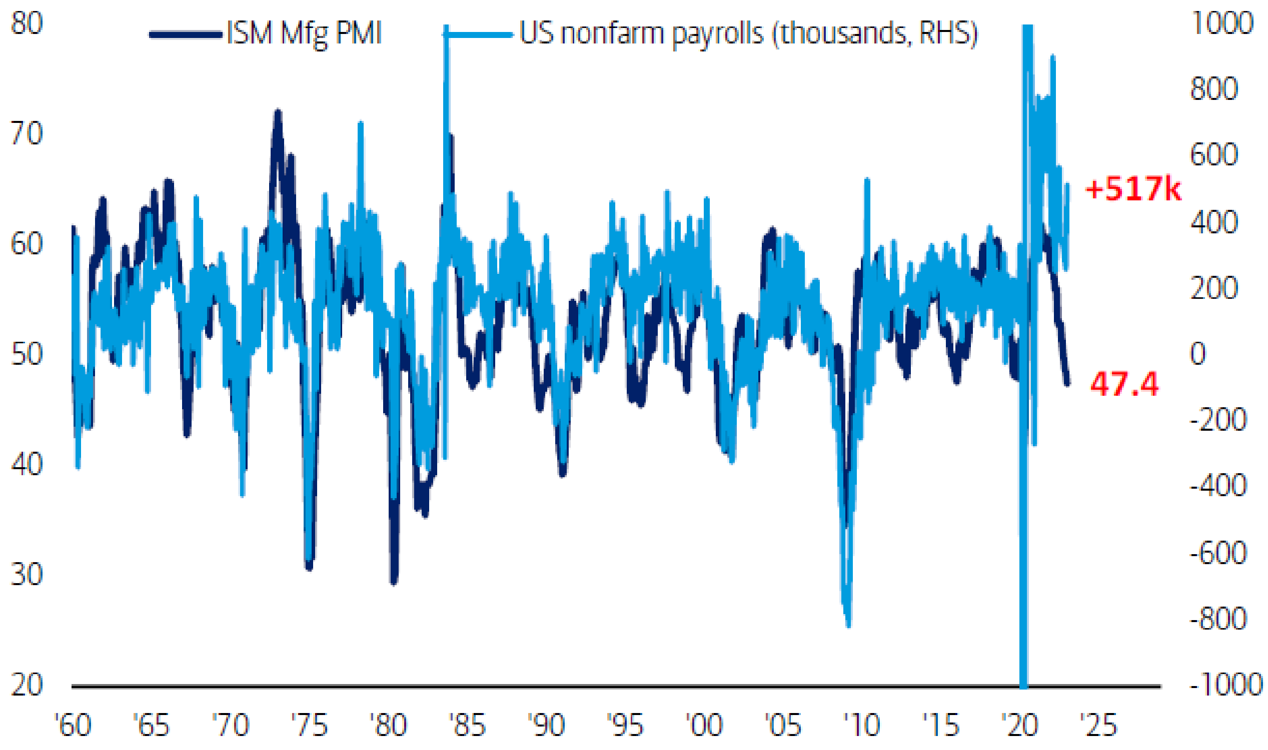
ISM Number Point to Weaker Labor Market

Payrolls have always been negative when ISM is <45

ISM Mfg PMI vs US nonfarm payrolls

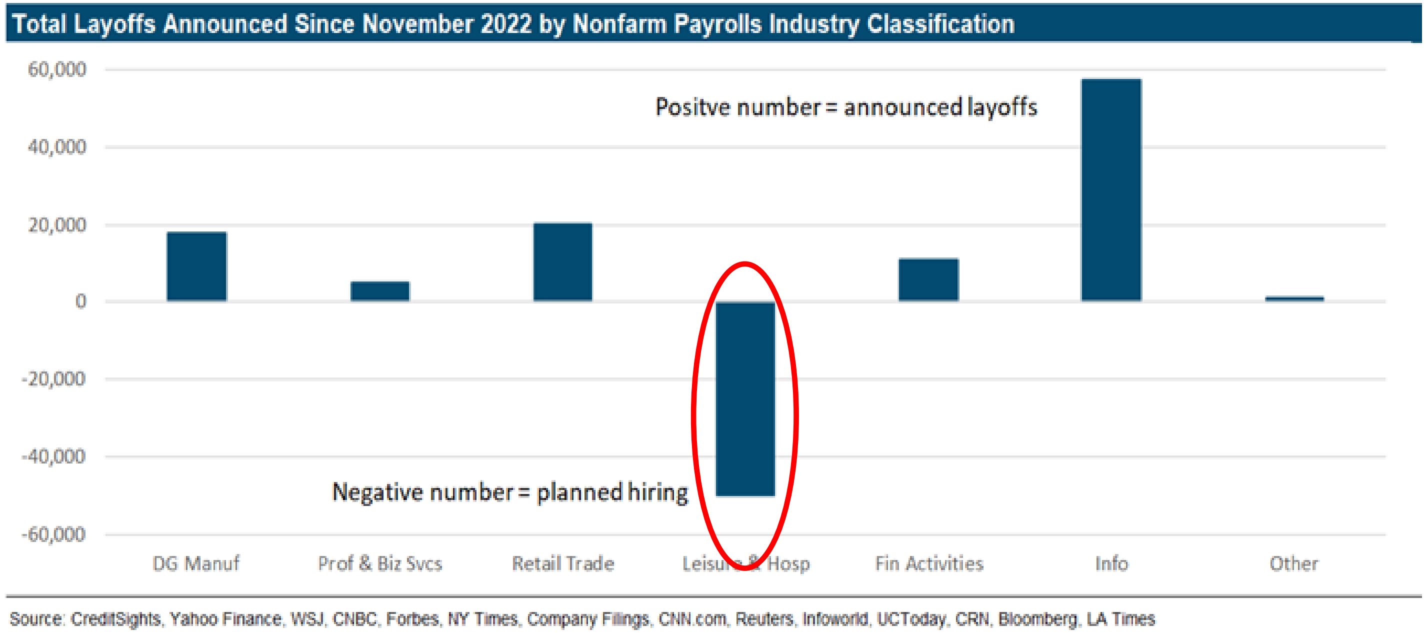


Source: BofA, Feb 2023

- ISM is in contractionary territory with many large corporations announcing job cuts as their outlook on the economy begins to turn murky.
- While the US labor market appears to be resilient (thanks to 500k+ NFP print this month), we do not think this is sustainable and the labor market is more likely to weaken than strengthen from here.

Opposing forces in the US Labour market

Hiring in Leisure and Hospitality (Services sector) acting as an offsetting factor



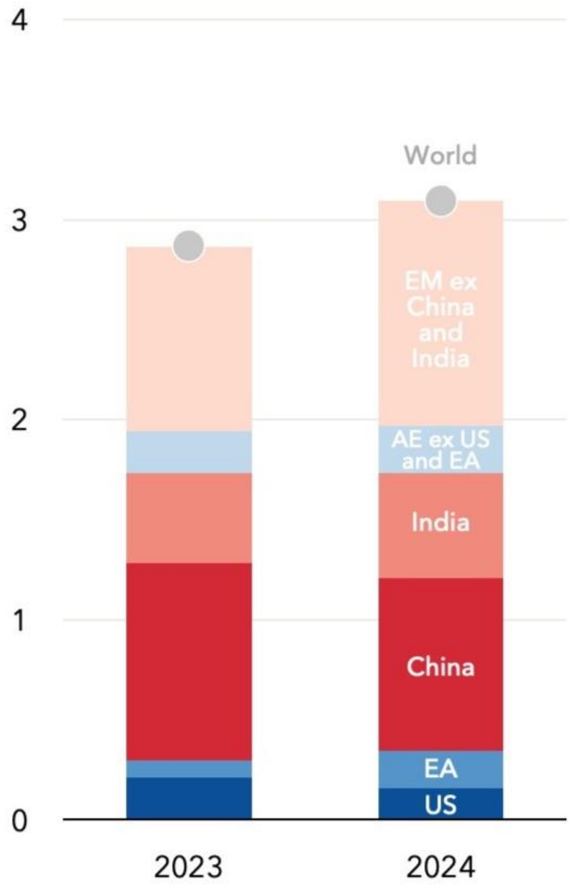
Source: CreditSights, Feb 2023

- Hiring in Services sector is slowing down the weakness in labor market.

- While the labor market is slowing, and most likely will continue doing so, strength in the Leisure and Hospitality sector is acting as a deterrent.

Emerging Markets As Main Growth Engine

The contribution of “emerging ” economies to global GDP growth keeps rising



Source: IMF, Jan 2023

- India and China will be accounting for close to half of the world’s GDP growth in 2023 and 2024, according to the IMF.

- The rest of the emerging economies will be accounting for a third of that growth, bringing the total contribution of emerging countries to 83% of the world’s GDP growth next year.

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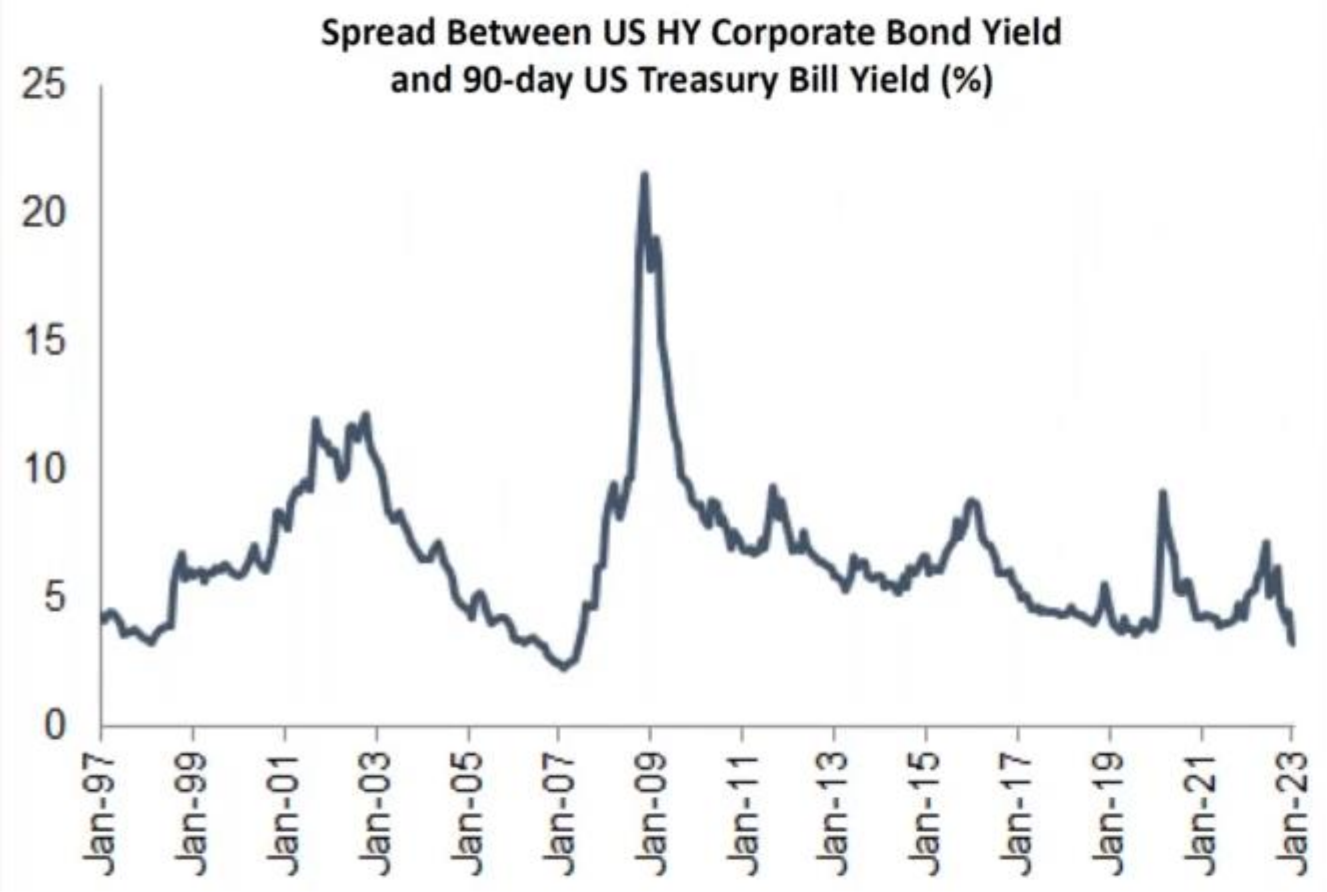
US HY Bonds Are Not Cheap

US HY spreads at tightest levels since GFC



Source: Saba Capital, Feb 2023

- In a recessionary environment and with higher rates, this bucket is the most vulnerable to credit stress downgrade risks
- At tight spreads, US HY's risk reward looks expensive relative to the downside risks.
- It would be prudent to start reducing exposure on a tactical horizon given the recent market rally.

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Recent Ideas

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Recent Trade Ideas

Recommendation Date	Asset Class	Long/Short	Ticker / ISIN	Company Name	Currency	Cost Price	Spot Price	Target Price	Stop Loss	Realized P&L (TR)	Benchmark (MSCI / LQD)	% Upside YTW (%)	Status
28-Dec-22	Equities	Short	TSLA US 04/21/23 P100 Equity	April 23 Puts on TSLA US	USD	12.80	0.73	-	-	10.7%	6.3%	**11.4%**	Live
5-Jan-23	Fixed Income	Long	USL56608AF60 Corp	JBS USA/FOOD/FINANCE	USD	82.31	81.32	100.00	72.31	-0.1%	-0.7%	**6.6%**	Live
9-Jan-23	Equities	Long	2812 HK Equity	SAMSUNG CSI CHINA DRAGON-HKD	HKD	12.09	10.88	15.50	9.90	-10.0%	2.7%	**42.5%**	Live
10-Jan-23	Fixed Income	Long	USY8085FBJ85 Corp	SK HYNIX INC	USD	99.62	100.31	100.00	89.62	-0.1%	-2.3%	**6.1%**	Live
17-Jan-23	Equities	Long	IMKTA US Equity	INGLES MARKETS INC-CLASS A	USD	97.57	92.35	150.50	50.00	-5.4%	0.0%	**63.0%**	Live
17-Jan-23	Equities	Long	SANM US Equity	SANMINA CORP	USD	60.94	61.16	76.40	50.00	0.4%	0.0%	**24.9%**	Live
30-Jan-23	Equities	Long	CLFD US Equity	CLEARFIELD INC	USD	70.71	61.32	106.80	56.57	-13.3%	-0.9%	**74.2%**	Live
13-Feb-23	Equities	Long	STM US Equity	STMICROELECTRONICS NV-NY SHS	USD	48.98	47.34	51.50	39.18	-3.3%	-2.8%	**8.8%**	Live
13-Feb-23	Equities	Long	CLFD US Equity	CLEARFIELD INC	USD	61.94	61.32	106.80	56.57	-1.0%	-2.8%	**74.2%**	Live
13-Feb-23	Equities	Short	MRNA 7/21/23 P130 Equity	July 23 Puts on MRNA US	USD	7.21	8.49	-	-	-0.7%	-2.8%	**4.2%**	Live
19-Feb-23	Fixed Income	Long	LW3771158 Corp	QBE INSURANCE GROUP LTD	USD	97.44	96.81	100.00	87.44	-0.1%	0.3%	**7.0%**	Live
22-Feb-23	Fixed Income	Long	XS1580239207 Corp	LEGAL & GENERAL GROUP	USD	95.86	95.86	100.00	85.86	-0.1%	0.0%	**6.4%**	Live
										-2.1%	-0.2%	**27.4%**	

Source: Lighthouse Canton, February 2023

LIGHTHOUSE CANTON

LIGHTHOUSE CANTON

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

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