MAY 2023

INVESTOR PROSPECTUS

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Investor Prospectus – David Chen

Investor Profile

David Chen is a successful **business owner** who has built a **sizeable net worth** over the years. He has **extensive investment experience**. David has a deep understanding of the stock market and has been actively managing his investments for many years.

Financial Objectives
David's main investment objectives are to **preserve his wealth** for future generations, generate **passive income** to support his lifestyle, and protect and grow his wealth. He has a **long-term investment horizon** and is focused on building a **diversified** investment portfolio with a mix of asset classes that provide steady income and long-term growth potential. David's investment strategy is designed to balance risk and return to achieve his financial goals.
To protect and grow his wealth, David aims to achieve capital appreciation through long-term investments in **high-quality stocks** and **funds** with **strong fundamentals**. To generate passive income, David focuses on income-generating investments such as **bonds**, **dividend-paying stocks**, and **real estate**. Finally, David's investment strategy preserves wealth by allocating a portion of his portfolio in **alternative investments** including **private equity** and **hedge funds**.

Risk Appetite
David has a **moderate risk tolerance**, which means he is prepared to accept some risk in order to achieve greater returns, but he is also cognizant of the risks that come with investing, and while making investments, he seeks to strike a balance between risk and return.

Overall, David is a **skilled investor** who prioritizes building **passive income** and **protecting his capital** while maintaining a **well-diversified** investment portfolio. His investment plan balances risk and return to help him reach his **long-term financial objectives**. David is dedicated to **actively managing** his investments to meet his financial goals.

Market conditions

Market Turmoil and Geopolitical Factors
Over the past three years, beginning with the outbreak of the COVID-19 pandemic, a series of economic and geopolitical events has created significant uncertainty. The pandemic greatly influenced production and markets, and it's only with **China's recent reopening** on March 15th that we see the era of restrictions possibly drawing to a close. Other key geopolitical events include Russia's invasion of Ukraine in February 2022, leading to its **economic isolation**, and the ongoing struggle for **Taiwan's independence**, which holds particular significance due to Taiwan's dominance in the **semiconductor industry**.

Inflation Concerns and Portfolio Management
Inflation concerns, alongside fears of **interest rate hikes**, **unemployment**, and the potential for **recession**, have complicated the task of portfolio creation. Yet, despite these challenges, a strategically structured portfolio remains an essential tool for preserving wealth, aligning with our client's primary goal.

Stability and Risks in the Banking Sector
The recent defaults of **SVB**, **First Republic** and **Signature Bank** have triggered concerns about the stability of the financial sector. Stress tests conducted by the International Central Bank (ICB) and the Federal Reserve should instill confidence in the resilience of European and American banking institutions. However, regional American banks still face significant risks due to **higher cost of capital** and the potential for **deposit outflows**.

Economic Indicators: Inflation, GDP, and Labor Market

Core inflation in the US and Eurozone has hit a high of respectively 5.5% and 5.6%, propelled by rising private sector wages and increased housing costs. Meanwhile, the US labor market presents a troubling outlook, with data from several sources suggesting a pessimistic scenario. Despite these challenges, the ratio of corporate liquidity to national GDP and household savings provides a more optimistic outlook compared to the 2008 financial crisis.

Real Estate Market and Impact of China's Reopening

The real estate market, highly sensitive to interest rates, has seen varied forecasts, but recent buyer influx has led to a more optimistic outlook.

China's reopening stands as a significant economic turning point, expected to stimulate global demand and potentially **exacerbate inflation**. However, it also presents **opportunities**, particularly for **emerging economies** that supply raw materials or rely on **Chinese tourism**.

Asset Allocation

Healthcare, Consumer Staples, and Utilities: Defensive Sectors in Volatile Times

In the face of today's macroeconomic challenges, three sectors stand out for their potential to offer a mix of stability and growth: Healthcare, Consumer Staples, and Utilities.

Healthcare companies, producing a range of vital products and services, often experience consistent demand, even in challenging economic conditions. However, regulatory risks, potential changes in healthcare policy, and high research and development costs can impact this sector.

Consumer Staples, encompassing food, beverages, and everyday household products, are items people continue to purchase during economic downturns. They provide a steady revenue stream for companies in this sector. Yet, they are not immune to risks such as changing consumer preferences, supply chain disruptions, and potential increases in raw material costs.

Utilities, providers of essential services like electricity and water, are known for their relative stability. Their demand is constant, and they often operate as regulated monopolies. However, they also face risks such as regulatory changes, infrastructure deterioration, and the substantial capital required for their operations.

ETFs: Diversification and Ease

Exchange-Traded Funds (ETFs) offer an effective alternative to direct investment in specific companies. With the diversification they provide, they spread risk and lessen the impact of individual company performance. They also offer **liquidity**, **transparency**, **lower costs**, and the ability to track various market indices or sectors. However, they also come with market risk, as poor market performance will impact ETFs. Additionally, while their costs are generally lower than managed funds, they do still carry fees which can impact returns.

Fixed Income Securities: Reliable Returns Amid Uncertainty

Investing in **short-term government bonds**, particularly from politically stable countries with robust economies, can provide a reliable return. These bonds are often viewed as a safe haven during economic downturns. However, they're not without risk. Interest rate increases can negatively impact bond prices, and in the case of a severe economic crisis, there may be a risk of default.

During a recession, investors usually flock to U.S government bonds, because they are considered a safe haven. Considering the **inverted** US Yield Curve, there is the opportunity to invest in 6-month T-Bills, thus locking in a 5.16% rate for the next half year.

Residual Maturity	Yield			ZC Price			Last Change
	Last	Chg 1M	Chg 6M	Last	Chg 1M	Chg 6M	
1 month	5.711%	+159.8 bp	+211.7 bp				12 May
2 months	4.539%	-25.4 bp	+70.9 bp				11 May
3 months	5.207%	+21.3 bp	+100.8 bp				12 May
4 months	5.150%	+8.6 bp	*n.a.*				11 May
6 months	5.116%	+16.0 bp	+56.6 bp				12 May
1 year	4.759%	+8.5 bp	+18.1 bp	95.46	-0.07 %	-0.17 %	12 May
2 years	3.910%	-6.2 bp	-43.9 bp	92.62	+0.12 %	+0.85 %	12 May
3 years	3.578%	-12.7 bp	-63.6 bp	89.99	+0.37 %	+1.86 %	12 May

Gold: A Safe Haven in Troubled Times

Gold serves as a hedge against inflation, currency weakness, and economic disruptions, making it an appealing choice for investors during times of crisis. It is widely considered a **safe haven** during turbulent periods. Nevertheless, the price of gold can be **highly volatile** and is influenced by various factors, including central bank reserves, interest rates, and geopolitical instability. It's important to note that gold does not generate any income, such as interest or dividends, unlike other types of investments.

The recent **failure of three regional US banks** has prompted investors to seek refuge in the precious metal, which serves as a reliable store of value when uncertainty prevails. However, the expectation of interest rate increases diminishes gold's appeal for investors, as they miss out on potential bond yields by holding onto bullion, which does not yield any returns. Whether gold could experience further upward momentum depends on whether investors perceive signs of a deepening banking crisis, certainty regarding the Federal Reserve's timing for rate cuts, and a weaker dollar.

Real Estate: Tangible Assets with Intrinsic Value

Real estate can provide both income and capital appreciation, often maintaining its intrinsic value even during economic downturns. However, it carries risks such as **property market fluctuations**, potential decreases in **rental income**, and the significant costs associated with **property maintenance** and **taxes**. Also, real estate is relatively **illiquid** compared to other investment types.

Alternative Investments: Adding Variety and Potential

Alternative investments, such as private equity investments (through PE funds), can offer portfolio diversification beyond traditional stocks, bonds, and cash. However, they often come with higher fees, less liquidity, and more complex tax considerations. Also, some alternative investments, such as hedge funds and private equity, can be highly volatile and may be more suited to sophisticated investors with a higher risk tolerance.

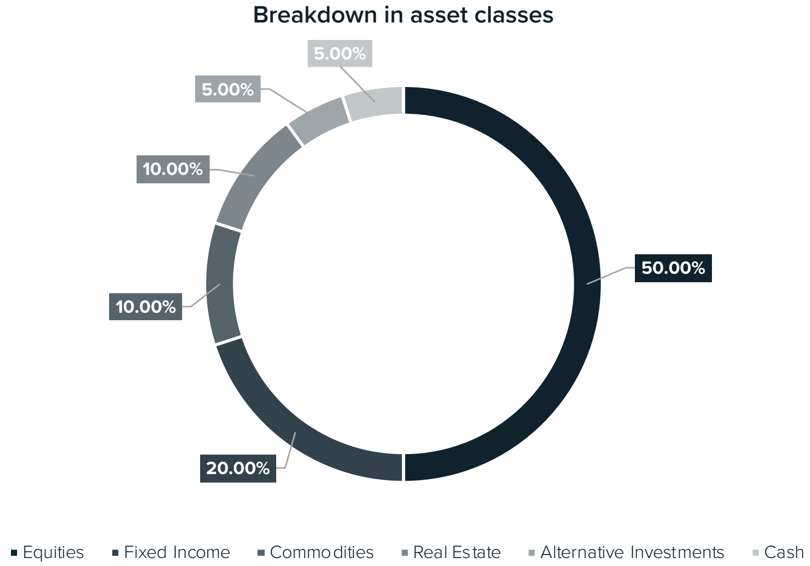
Cash: Stability and Liquidity

Holding cash provides liquidity, flexibility, and a buffer against market volatility. However, inflation can erode the purchasing power of cash over time, and in periods of low interest rates, returns on cash and cash equivalents can be minimal. Also, holding too much cash could lead to missed opportunities for growth in other asset classes.

Portfolio

Considering the concerns about asset allocation, a portfolio that fits the financial objectives and risk appetitive of our client was constructed. The portfolio will have the following exposures to asset classes:

- Equities – 50.00%
- Fixed Income – 20.00%
- Commodities – 10.00%
- Real Estate – 10.00%
- Alternative Investments – 5.00%
- Cash – 5.00%



Of the total equity exposure, 20.00% is invested in the healthcare sector through ETFs, namely the **Health Care Select Sector SPDR Fund** (**XLV**), the **iShares U.S. Healthcare ETF** (**IYH**), and **Vanguard Health Care ETF** (**VHT**). Additionally, 30.00% of the overall equity exposure is allocated to the Consumer Staples sector via investments in the **Consumer Staples Select Sector SPDR Fund** (**XLP**), **Vanguard Consumer Staples** (**VDC**), and **iShares U.S. Consumer Goods ETF** (**IYK**). The remaining 30.00% is invested in two Utilities sector ETFs: **Vanguard Utilities ETF** (**VPU**) and **iShares Utilities ETF** (**IDU**).

Fixed income exposure is achieved through investments in two ETFs: **iShares 1-3 Month Treasury Bond ETF** (**SHY**) and **Vanguard Short-Term Government Bond ETF** (**VGSH**). Both ETFs represent 10.00% of the overall portfolio, providing the client exposure to the current high short-term yields of US government bonds.

A 10.00% allocation in Commodities is achieved through equally valued investments in **SPDR Gold Shares** (**GLD**) and **iShares Gold Trust** (**IAU**) ETFs. Both ETFs track the value of gold in USD, offering the client exposure to this precious metal.

Exposure to Real Estate represent 10.00% of the portfolio. Within this segment, 5.00% of the portfolio is allocated to the **Vanguard Real Estate ETF** (**VNQ**), while the remaining 5.00% is allocated to the **iShares U.S. Real Estate ETF** (**IYR**). These REIT-focused ETFs provide exposure to a diversified portfolio of real estate assets.

A 5.00% allocation is dedicated to alternative investments, consisting of a diversified mix of private equity and hedge funds. This segment includes a 2.50% allocation to **Blackstone Group Inc** (**BX**), a private equity company, which provides exposure to their portfolio of alternative investments. The remaining 2.50% is allocated to the **AQR Managed Futures Strategy HV Fund** (**AQMIX**), a hedge fund strategy mutual fund.

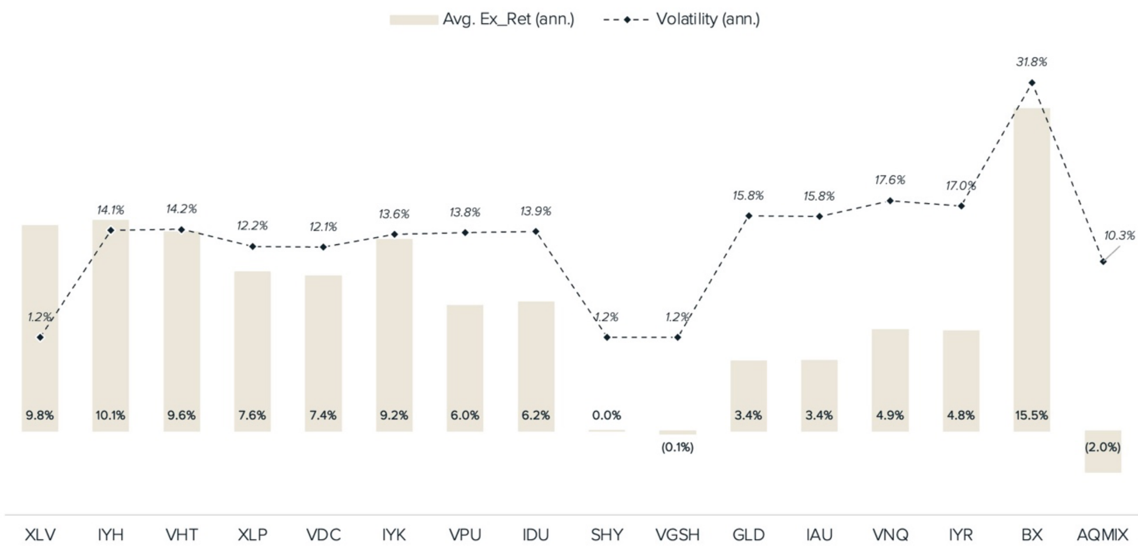
The remaining 5.00% is held in **cash or cash equivalents** (Money Market Funds), providing the client with liquidity and flexibility.

The investment date is as of May 16th, 2023, the size of the overall portfolio is $200,00m, with the following structure:

TICKER	Asset	Investment date	Initial no. Shares	Entry Price	Initial investment	Weight
CASH	Cash	16-May-23	–	–	10,000,000.00	5.00%
XLV	Health Care Select Sector SPDR Fund	16-May-23	106,984.56	130.86	14,000,000.00	7.00%
IYH	iShares U.S. Healthcare ETF	16-May-23	50,752.22	275.85	14,000,000.00	7.00%
VHT	Vanguard Health Care ETF	16-May-23	49,716.20	241.37	12,000,000.00	6.00%
XLP	Consumer Staples Select Sector SPDR Fund	16-May-23	131,095.96	76.28	10,000,000.00	5.00%
VDC	Vanguard Consumer Staples	16-May-23	50,681.67	197.31	10,000,000.00	5.00%
IYK	iShares U.S. Consumer Goods ETF	16-May-23	48,894.97	204.52	10,000,000.00	5.00%
VPU	Vanguard Utilities ETF	16-May-23	103,634.10	144.74	15,000,000.00	7.50%
IDU	iShares Utilities ETF	16-May-23	181,796.15	82.51	15,000,000.00	7.50%
SHY	iShares 1-3 Month Treasury Bond ETF	16-May-23	243,664.72	82.08	20,000,000.00	10.00%
VGSH	Vanguard Short-Term Government Bond ETF	16-May-23	342,172.80	58.45	20,000,000.00	10.00%
GLD	SPDR Gold Shares	16-May-23	54,092.06	184.87	10,000,000.00	5.00%
IAU	iShares Gold Trust	16-May-23	265,111.35	37.72	10,000,000.00	5.00%
VNQ	Vanguard Real Estate ETF	16-May-23	125,250.50	79.84	10,000,000.00	5.00%
IYR	iShares U.S. Real Estate ETF	16-May-23	121,980.97	81.98	10,000,000.00	5.00%
BX	Blackstone Group Inc	16-May-23	62,189.05	80.40	5,000,000.00	2.50%
AQMIX	AQR Managed Futures Strategy HV Fund	16-May-23	62,034.74	80.60	5,000,000.00	2.50%
	Portfolio Total				**200,000,000.00**	**100.00%**

Metrics[1]

David's main investment objectives revolve around **wealth preservation** for future generations, generating **passive income**, and protecting and growing his wealth. With a long-term investment horizon and a focus on diversification, the portfolio is structured to achieve these objectives.



The computed **weighted average excess return** of **5.25%** (annualized) reflects the portfolio's ability to generate returns above the risk-free rate. This performance metric is aligned with the client’s objective of growing his wealth and achieving **capital appreciation** over the long term. **Volatility**, with an annualized rate of **8.12%,** thanks to the highly diversified nature

[1] Computed using monthly data from 1/1/2010–1/5/2023

of the portfolio, indicates a relatively **moderate** level of **risk**. This aligns with David's moderate risk tolerance, as he aims to strike a balance between risk and return.

Considering the client's objective of generating passive income, the portfolio allocation to income-generating assets such as **bonds**, **dividend-paying stocks**, and **real estate** plays a significant role. These assets contribute to the overall risk-adjusted return and provide a source of steady income to support his lifestyle. Furthermore, the inclusion of **alternative investments** like private equity and hedge funds helps in preserving and growing David's wealth. These investments offer diversification benefits and potentially higher returns while carefully managing associated risks.

The calculated **Beta** of **0.46** indicates that the portfolio is less volatile than the overall market, reflecting the client's objective of protecting his capital during market downturns. This **defensive positioning**, coupled with a focus on **high-quality stocks** and **funds**, supports his aim of preserving wealth for future generations.

The **Sharpe Ratio** of **0.65** and **Sortino Ratio** of **0.98** further emphasize the portfolio's risk-adjusted performance. These ratios highlight the portfolio's ability to generate favorable returns relative to its risk profile, aligning with David's balanced approach to risk and return.

Comparison with Benchmark (S&P500)

Metric	Portfolio	S&P500
Beta	0.46	1.00
Avg. Ex_Ret (ann.)	5.25%	9.29%
Volatility (ann.)	8.12%	15.08%
Sharpe Ratio	0.65	0.62
Sortino Ratio	0.98	0.88

The **average excess return** of the portfolio (**5.25%**) is lower than the **S&P 500**'s one (**9.29%**). Whereas in terms of volatility, the portfolio exhibits an **annualized volatility** (**8.12%)** significantly lower than the **S&P 500's volatility** of **15.08%**. The **Sharpe** (**0.65**) and **Sortino** (0.98) **ratios** for the portfolio are slightly higher than the ones of the benchmark which are respectively **0.62** and **0.88**.

Overall, the computed metrics indicate that the portfolio has achieved a **lower average excess return** but with **reduced volatility** compared to the S&P 500. The portfolio's **higher Sharpe ratio** and **Sortino ratio** suggest a relatively **more attractive risk-adjusted performance**

In summary, the computed portfolio metrics showcase a **well-rounded investment strategy**. The portfolio's performance, volatility, diversification, and risk-adjusted returns fit the client's preferences thus allowing him to achieve his long-term goals of wealth preservation, passive income generation, and capital protection.

Sources

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