Axel Cap

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JPM PB Challenge 2022 (Date of Submission: 12 April 2022)

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Agenda

1. Your Needs
2. 60/40 Allocation
3. Alternatives
4. 2021 Review
5. 2022 Outlook
6. Tactical Allocation
7. Risk Management

Understanding Your Needs

Curating the best suited portfolio for you

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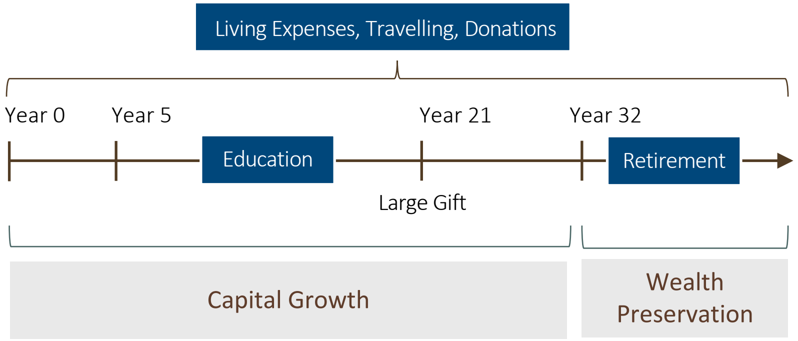
Client Profile

Age	35 Years Old	
Stage of Life	Working Phase	
Net Worth	USD $105 Million	
Dependents	1 Spouse & 1 Child	
Liquidity Needs	• Living Expenses • Travelling • Donations	• Child's Education • Retirement • Gifts

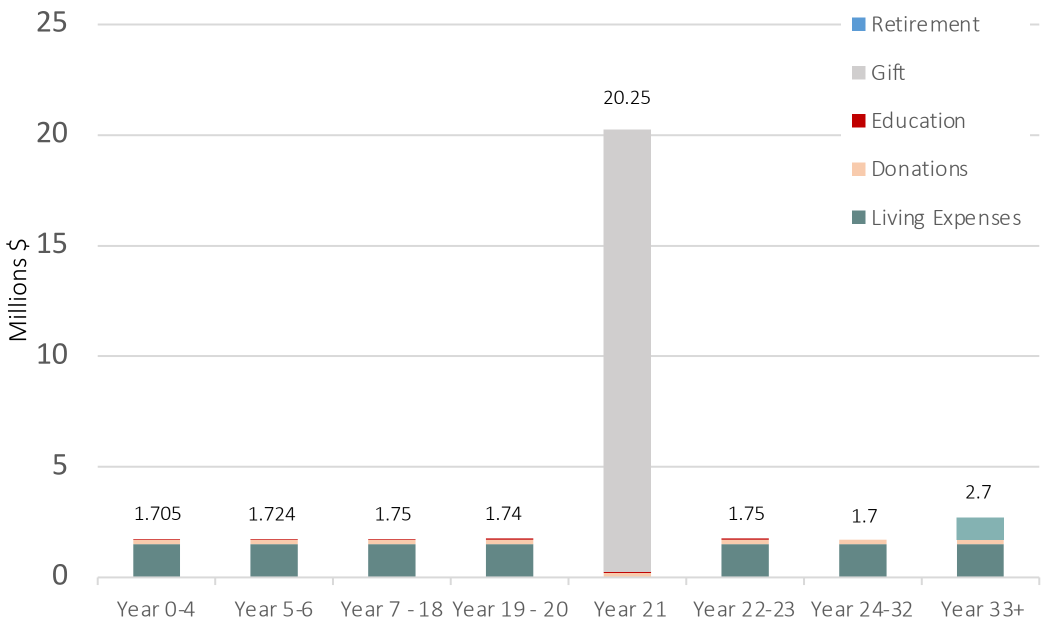
Investment Profile

Investment Objective	1) Capital Appreciation to meet distribution needs 2) Wealth Preservation
Investment Horizon	Approximately 32 Years[1] [1]Assuming retirement at the age of 67
Return Objective	Moderate Returns: 5-8%
Risk Objective	Medium Risk: 7-15% Volatility

Timeline



Liquidity Needs



Trust Planning

Planning to best suit your child's needs

- We believe that the gift of US$20 million for Emma upon 21 is best distributed in a lifetime trust in order to manage her wealth independently and responsibly.

Upon Turning 21	20%	USD $4M
22 to 35 years	3% annually	USD $0.6M
35 years onwards	5% annually	USD $1M

- Allows Emma to explore financial literacy while continuously developing her independent wealth management skills.

Wealth preservation for generations to come

- A lifetime trust will also allow for inter-generational wealth preservation, lasting for generations to come.

Your Donations

Young Musicians Foundation	USD $50,000
The Young Musicians' Society	USD $50,000
NAFA School of Young Talents	USD $50,000
Young Musicians Unite	USD $50,000

Emma's Education

Years 0 – 4: Nursery	USD $25,000 per annum
Years 5 – 6: Preschool	USD $25,000 per annum
Years 7 – 18: Primary, Secondary, Pre-University	USD $40,000 per annum
Years 19 – 23: University	USD $50,000 per annum

Source: Hawksford

Understanding Your Needs

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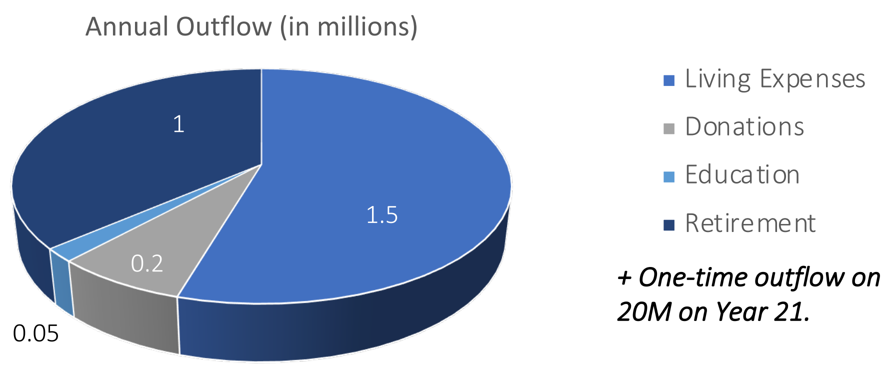
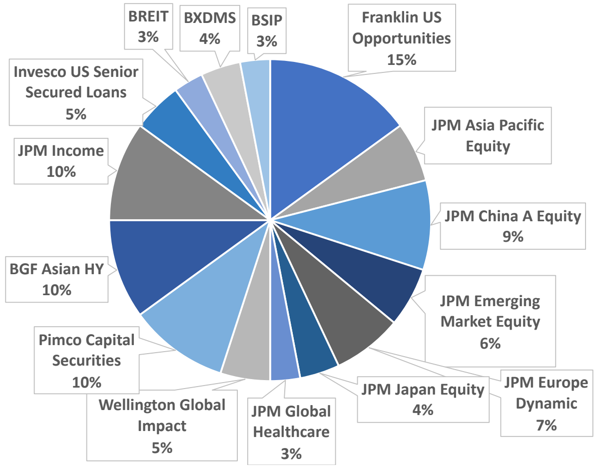
Summary of Needs



+ One-time outflow on USD 20M on Year 21.

Proposed Core Portfolio



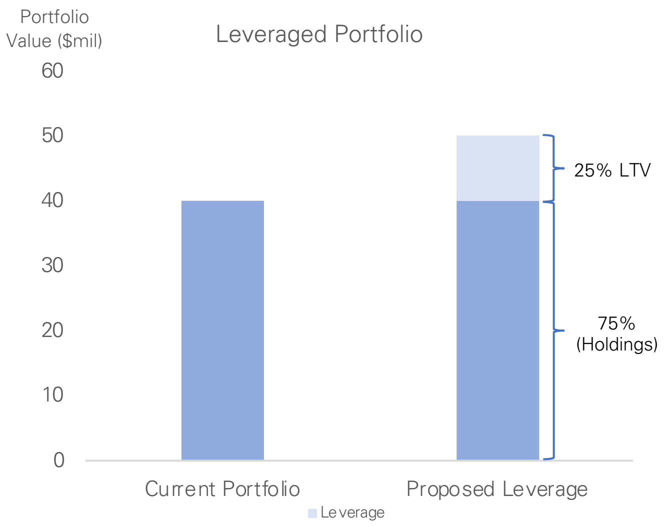
Annual Expected Return	**7.16%**
Standard Deviation	**13.21%**
Dividend Yield	**4.51%**

Dividend yield	Annual Dividend
4.51%	US$1,804,000

Sufficient dividend yield to meet annual cash liquidity needs

Lending Leverage

Taking out a loan for leverage using existing holdings as collateral



Value of Current Holdings

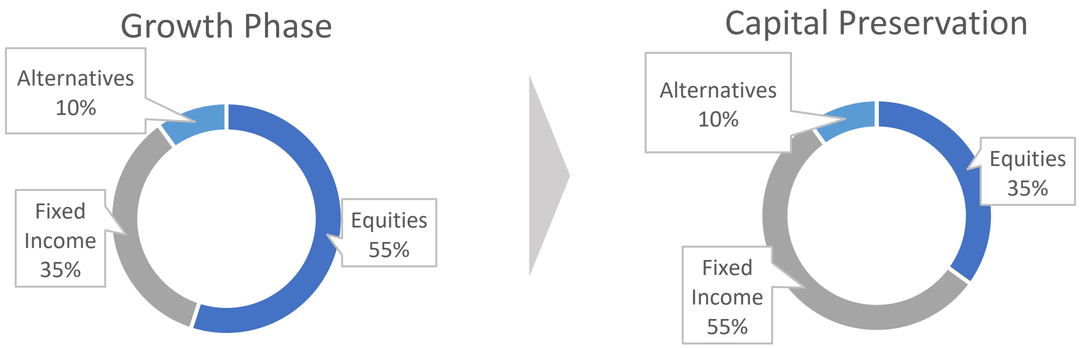
USD 40,000,000

USD 10,000,000
25% (Leverage)

Nominal Leveraged Portfolio Value

USD 50,000,000

Growth Phase to Capital Preservation



- Larger fixed income allocation → Capital Preservation while ensuring sufficient cash distributions
- Shift to dividend-producing area→ Fulfil objective of income generation and lower volatility
- At Year 32, a conservative estimate of your capital would be $200m

→ achieving a cash distribution of US$4million per year (at 2% dividend yield)

Source: Bloomberg, Morningstar and Fund houses

60/40 Is Not The Way Forward

A 60/40 asset allocation may have worked in the past but there are key issues which compromise on returns

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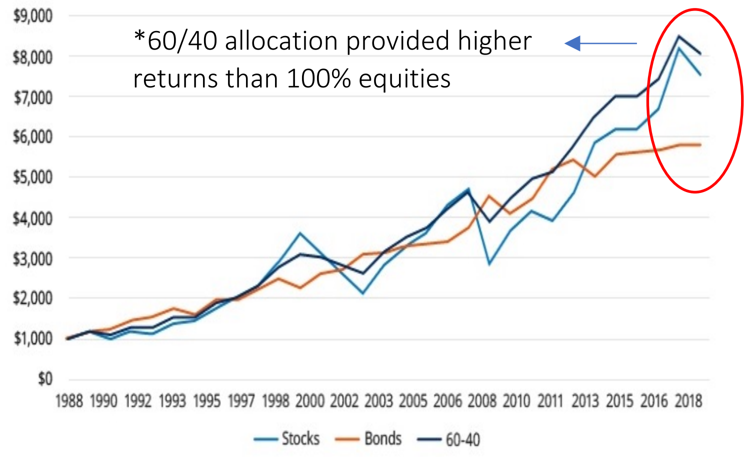
Benefits of a 60/40 Allocation



Source: Schroders - Historical Investment Returns (1988–2018)

Balancing risk & return

Equities yielded higher returns during periods of growth; fixed income acted as a hedge

Fits your needs

40% allocation to income smoothens volatility; apt for moderate risk appetite

Key Issues

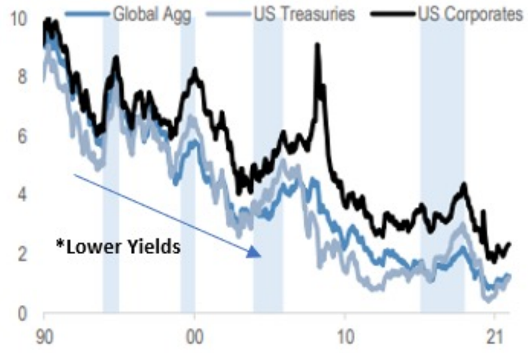
The "Recency Bias"

The 60/40 Portfolio may not continue to produce sustainable returns just because it has in the past

1. **Fixed Income: Low yields**
2. **Equities: Stretched Valuations**

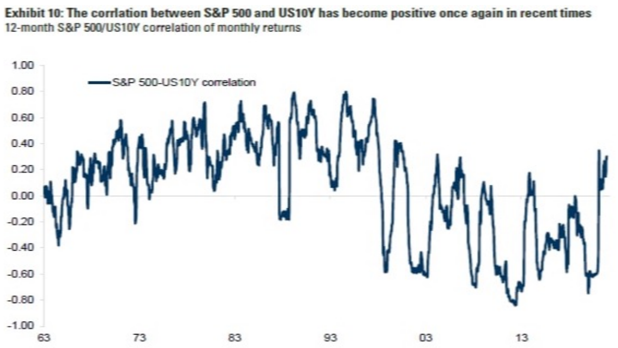
Fixed Income: Current Low Yields Reduces Diversification Benefits

Bond yields have fell steadily in the past decades, currently nearing the zero-bound



Source: JP Morgan

Correlation between stocks and fixed income were largely negative since the GFC; recently turned positive

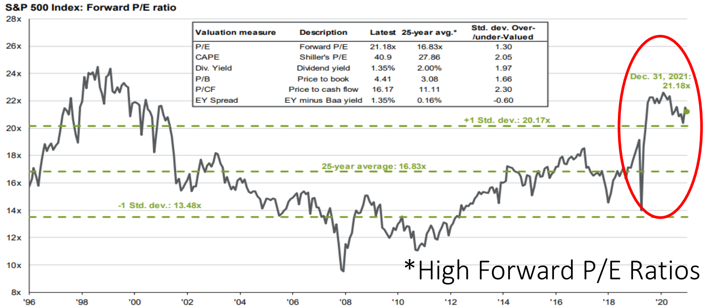


Source: Goldman Sachs

Rates near effective lower bound limits diversification potential

- Inverse correlation between stocks and bonds turning positive in recent times
- Rates unlikely to drop in inflationary environment, does not provide diversification

Equities: Stretched Valuations



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	21.18x	16.83x	1.30
CAPE	Shiller's P/E	40.9	27.86	2.05
Div. Yield	Dividend yield	1.35%	2.00%	1.97
P/B	Price to book	4.41	3.08	1.66
P/CF	Price to cash flow	16.17	11.11	2.30
EY Spread	EY minus Baa yield	1.35%	0.16%	-0.60

Stretched valuations and other headwinds will negatively affect your stock-heavy portfolio

Source: JP Morgan

End Of The 40-Year Bond Bull?

We still recommend incorporating Fixed Income into your portfolio, but rebalancing is required

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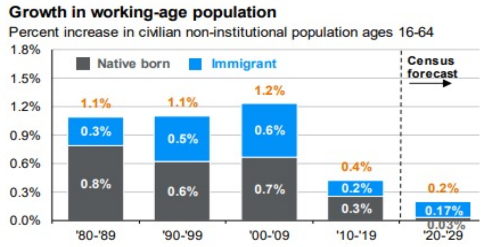
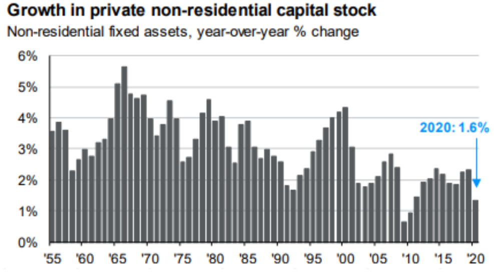
Does Fixed Income still have a role to play?

- Source of Income: Fixed Income still provides a steady stream of income that allow for yearly payouts in your portfolio
- Diversifier: While rates hover near the effective lower bound, there is still room to lower rates in response to growth shocks. Repricing of global yields also mean distribution of risk is now two-way

Lower yield world means Fixed Income still critical

- Poor long term growth drivers:
  - Falling trend productivity growth
  - Population ageing
  - Higher demand for safe assets
  - Rising inequality





Source: JP Morgan

Rebalancing required within Fixed Income portfolio

Duration Management

- Market volatility and hawkish policy likely to poses larger risk to longer duration bonds
- We have a bias towards short duration in the near term due to the rising rate environment

Floating Rates

- Floating rates decent hedge against inflation
- Within the fixed income space, we are overweight products like US Senior Secured Loans and Floating Rate funds

Selecting Defensive Credit

- Selection of higher quality credit allow an investor to be insulated from current market and geopolitical volatility

Bond Ladder Strategy

- Purchasing of bonds with successive maturity dates to allow the investor to respond relatively quickly to interest rate changes

The Age Of Alternatives

Alternatives provide non-correlated returns in order to better diversify your portfolio, smooth out return profile and minimize large fluctuations

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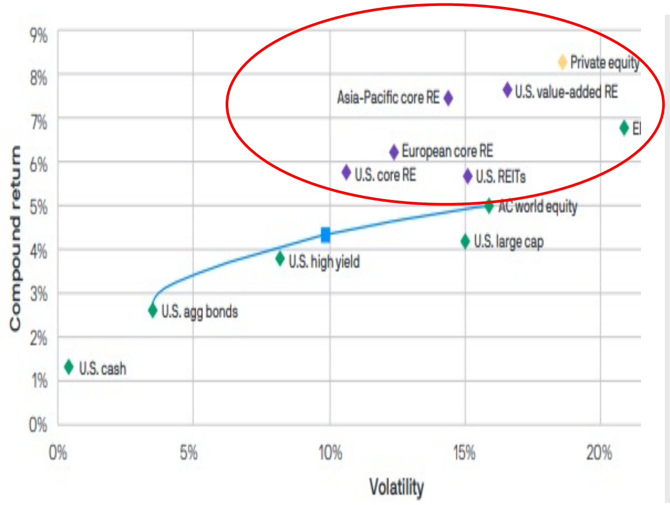
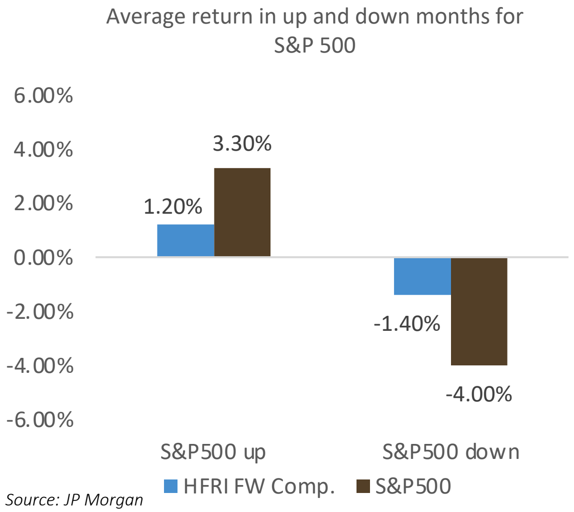
Real Estate



Source: JP Morgan

- **Inflation Hedge:** Returns more closely correlated to inflation than other asset class
- **Multiple Layers of Diversification:** Real estate markets are determined by regional demand and supply dynamics more strongly than other asset classes

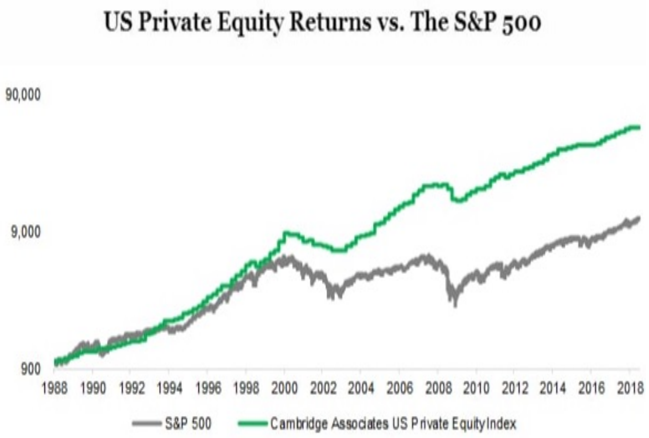
Hedge Funds



Source: JP Morgan

- **Risk Offset Strategies:** In a highly volatile climate with high dispersion of returns, active management by experience professionals offered by hedge funds are key in producing outsized returns
- **Targeted Alpha Sources:** Access to complex strategies that provide diversified and uncorrelated sources of alpha (e.g., thematic funds, trend following, merger arb, etc.)

Private Equity & Venture Capital



Source: Cambridge Associates

- **Strong Returns:** Private Equity alone has produced annualized returns of 10.48% over 20 years despite illiquidity
- **Capitalizing on Opportunity:** Aggressive growth of private markets in recent years has led to more high-quality companies ripe for investment staying private

Strategy

Real Estate provides steady income and reduces reliance on fixed income

Investing in Hedge Funds will allow you capitalize on high-growth strategies

High returns from PE & VC funds provides capital appreciation and reduces on equities

We recommend at least of **10%** of your portfolio invested into Alternatives

The Search For Yield

Alternative ways to generate income

Risk Rating: ☆☆☆

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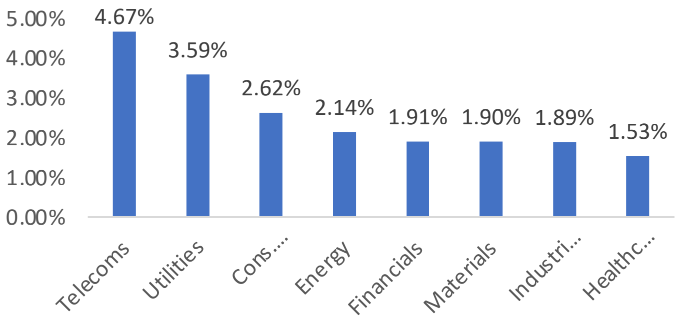
High Dividend-Yielding Equities ★☆☆

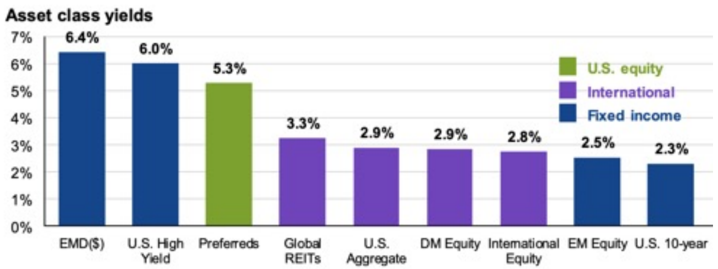
- Companies/sectors that generate and distribute a consistent source of income to shareholders



- **Examples**: REITs, Commodity Producers, Financials
- **Risks**: Recession, Equity Underperformance

High Yield Fixed Income ★★☆

- Moving down the credit curve to purchase higher-yielding fixed income instruments to boost cashflow.



- **Examples**: US High Yield, Emerging Markets Debt
- **Risks**: Credit Risk, Duration Exposure

FX Carry ★☆☆

- Earning income from borrowing in a currency with lower interest rates and lending at one with higher rates to earn the interest rate differential.

BUYING / SELLING

Target Currency / Funding Currency

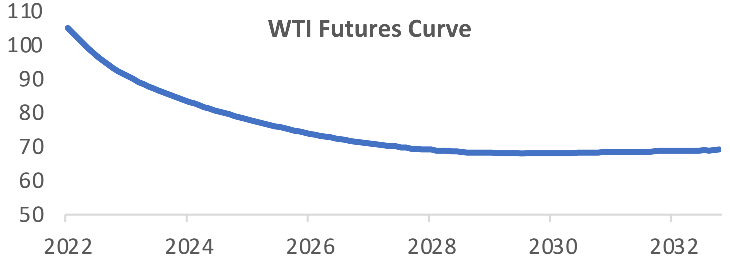
BRL / JPY

Interest Rate / Interest Rate

- **Examples**: Long BRL against JPY (11.75% vs 0.10% i/r)
- **Risks**: Volatility, Currency Risk, Interest Rate Risk

Commodity Carry ★★☆

- Benefitting off difference in prices between the front-month and deferred commodity futures contracts



- **Examples**: iShares Commodity Curve Carry Strategy ETF, Bloomberg GSAM Commodity Carry Index
- **Risks**: Volatility, Geopolitical Risk

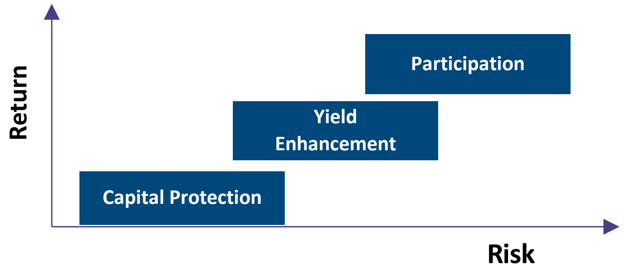
Cryptocurrencies ★★★

- Putting idle crypto-assets to work, gaining a reward (yield) for providing liquidity or participating in consensus.

- **Examples**: Yield Farming, Staking, Liquidity Mining
- **Risks**: Smart Contract Risk, Counter-Party Risk, Impermanent Loss

Yield Enhancement Structured Products ★★☆

- Allows clients to achieve a pre-defined yield in return for a certain amount of downside risk



- **Examples**: Equity Linked Notes, Fixed Income Notes, Daily Range Accrual
- **Risks**: Principal Risk, Credit Risk, Liquidity

2021 – Red-Hot Pandemic Exit

Unprecedented combination of loose fiscal and monetary policy has culminated in decades-high inflation prints across the world

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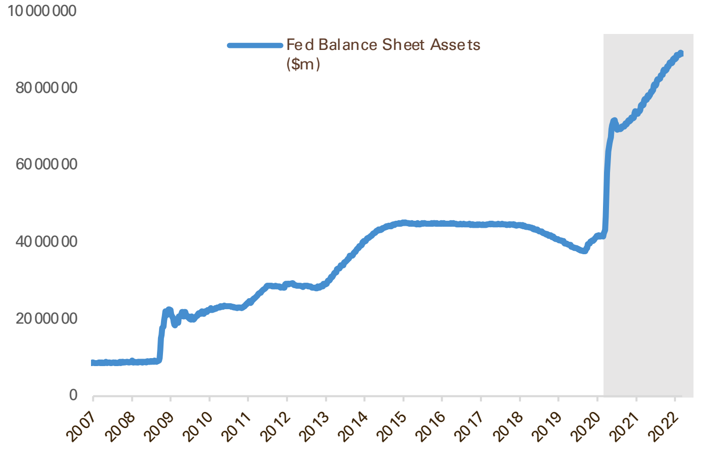
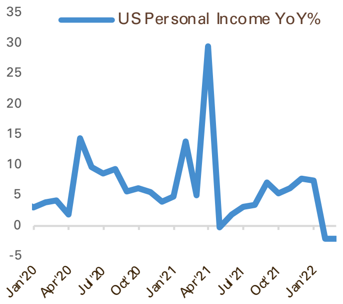
Combination of extremely easy monetary and fiscal policy created a global economic boom…

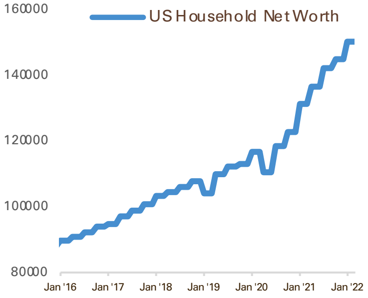
With interest rates near the zero-bound, governments across the world turned to fiscal levers to stimulate the economy



Source: Bloomberg

In the US, personal incomes and household net-worth actually rose throughout the pandemic





Source: Bloomberg

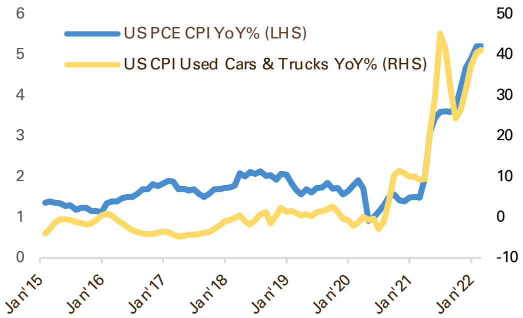
Different from last time

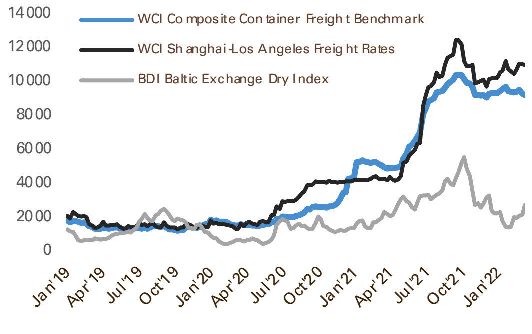
Post-GFC	Post-COVID
US$11 trillion lost in U.S. net worth, from fall in housing and stock prices, taking years to recover	Most major indices, commodities breaking above pre-COVID highs
Federal Reserve's balance sheet rose by $3.6 trillion over a 6-year period	Federal Reserve's balance sheet rose by $3 trillion in 3 months. ECB and BOJ's balance sheets also bloated significantly
Stimulus went towards recapitalizing banks, which did not boost velocity of money	Much of stimulus went to consumers and small businesses (i.e., the real economy). Sharp rise in M2 and real incomes

…causing inflation to rear its ugly head after decades

As economies reopened in the early part of the year, growing inflation pressures were waved away as "transitory" and ascribed to energy, supply chain disruptions, etc.

A red-hot reopening saw goods demand skyrocket, which was initially explained away by central banks as a result of supply chain disruptions and an energy price rebound

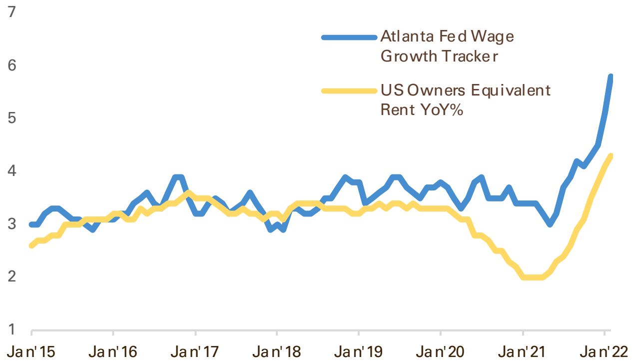




Source: Bloomberg

However, signs of inflation staying for an extended period appeared as the year went on

In the latter of the year, a booming housing market and tight labor conditions resulted in an acceleration in sticky components of CPI such as wages and rents



Source: Bloomberg

2021 – Central Bank Divergence

Strong growth and inflationary pressures have prompted central banks to pull forward policy normalization

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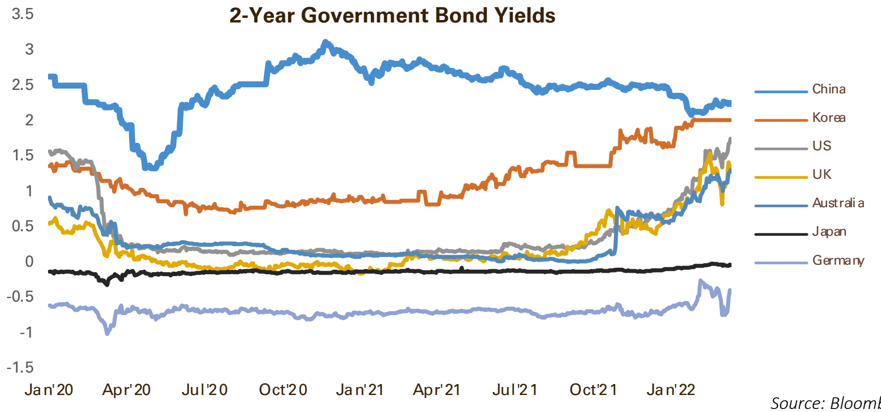
Shifting from a uniform and predictable easy policy stance to a period of policy divergence

Rising inflation and tight labor markets brought forward plans for policy normalization

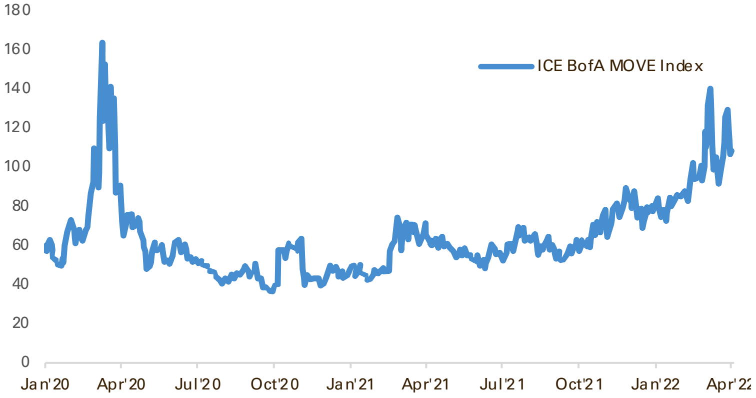
Markets have been pricing in increasing tightening for many countries



Source: Bloomberg

Consequently, volatility in the rates space has significantly increased, signaling high levels of uncertainty in the markets.

Rates vol increased steadily throughout 2021, almost reaching pandemic highs in early '22

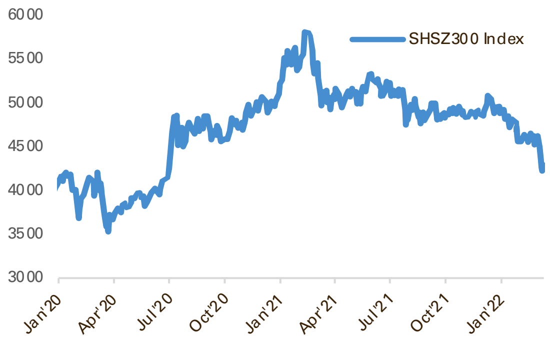


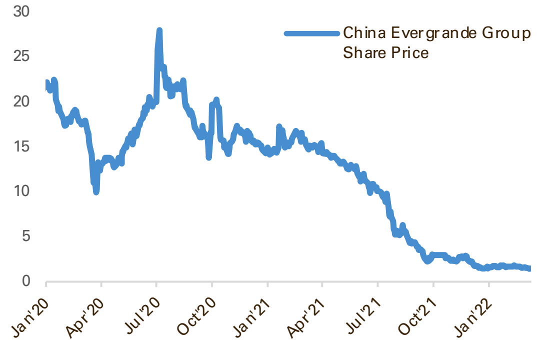
Source: Bloomberg

China's common prosperity crackdown

Crackdowns on the tech, property, and education sectors wiped more than $1 trillion off the market caps of some of the country's largest companies

2021 saw a bear market for Chinese assets, with the collapse of large property developers, led by Evergrande, causing fears of systemic contagion

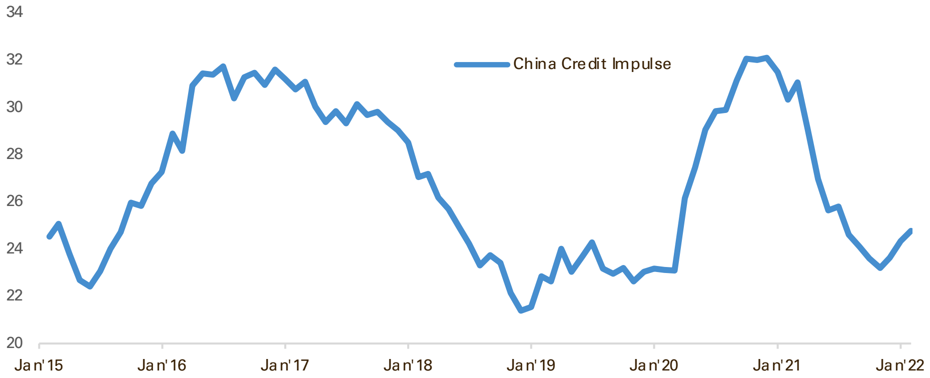




Source: Bloomberg

Monetary policy was tight in the first half of the year, before starting to ease in H2'21

Chinese credit impulse bottomed in the second half of the year



Source: Bloomberg

2022 – Volatility Here To Stay

Ukraine-Russia top of mind now, before revisiting inflation and growth themes

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On the Ukraine-Russia Conflict

Higher inflation, lower growth

- Surrounding regions to bear brunt of impact
- Global commodity inflation likely to persist, increasing pressure on central banks to tighten policy

European unity

- Increased cooperation within the EU, higher fiscal spending and shift to alternative energy sources (renewables, nuclear, hydrogen)

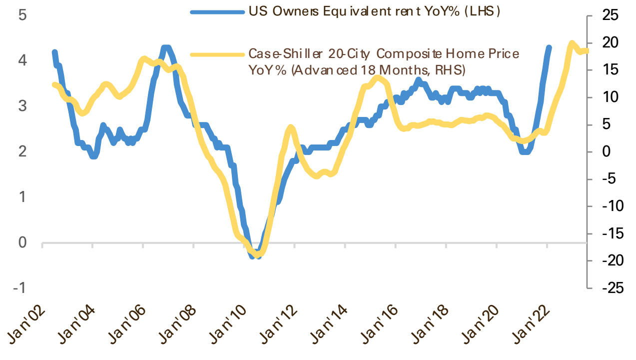
Further deglobalization and bipolarization of global power.

- ASEAN likely to benefit as substitutes to China/Russia for the west, and as trade partners for China

Inflationary spiral? Recession risk?

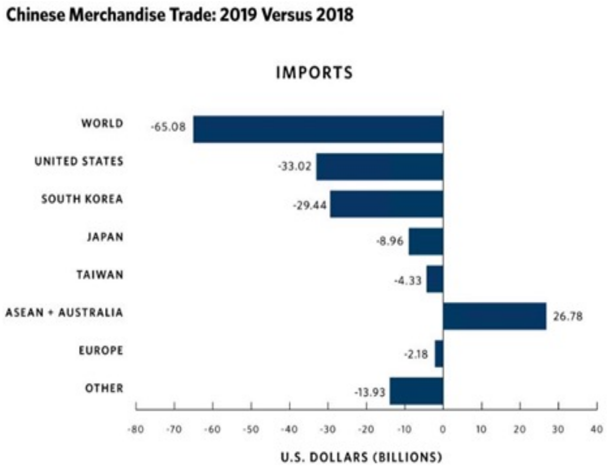
- Leading indicators show signs of supply chain and housing pressures abating
- Reopening economies and strong private and corporate balance sheets to sustain growth momentum
- Against that backdrop, recession not our base case, with central banks obscuring bond market function and real yields still deeply negative.

Housing prices (which lead OER by 18 months) looks to have peaked



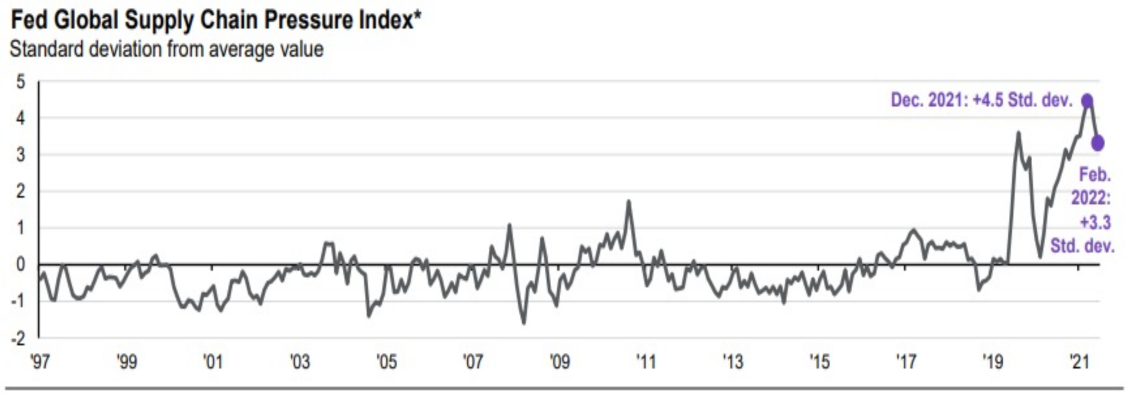
Source: Bloomberg

ASEAN nations have been significant beneficiaries of trade flows in past episodes of US-China trade tensions



Source: Carnegie Endowment, International Monetary Fund

Global supply chains showing signs of having peaked



Source: JPMorgan, Federal Reserve Bank of New York

2022 – Global Macro Outlook

Ours views for the next 12 months

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United States — Neutral

Strong tailwinds for a pro risk sentiment

- Despite lowering growth expectations, healthy consumer and corporate balance sheets, sustained consumer demand and strong labor markets are supportive of growth in the short term.

Uncertainty around quantitative tightening and Fed's aggressive hiking policy

- Quantitative tightening poses an immense threat to liquidity and the Fed's aggressive hiking outlook poses an uncertain and volatile future for US assets in the medium term. Ideal entry point after analyzing the impacts of Quantitative tightening on the markets.

China — Overweight

Easing policy stance

- Unlike other central banks, the PBOC is moving more towards easing, with the bottoming of the credit cycle and acceleration in fiscal spending offsetting the growth shock from the zero-covid policy and property crisis and move towards the 2025 GDP goal of 5.5%.

Relatively insulated from global inflationary pressures

- With supply chain disruptions showing signs of abating, China's self-sufficiency in commodities combined with sufficient national stockpiles largely insulate them from food and energy inflation that could spur policy tightening and hurt growth.

Europe — Underweight

Prolonged Russia-Ukraine Tensions

- A longer and escalated war between Russia and Ukraine is likely to result in severe disruptions in energy flows, causing more uncertainty and hurt growth.

France's election frenzy

- France's presidential election has already started affecting European markets with widening spreads. Le Pen's political agenda of nationalizing industries, anti immigrant stance, cynicism of the EU and links to Putin pose a threat to European economic stability.

Emerging Markets — Neutral

Commodity super-cycle provides significant boost to exporters

- Many EM net-exporters of commodities should see boost to balance of payments and terms of trade.

Laggard policy and currency risk

- Emerging Markets have been laggard in terms of economic reopening due to less agile central banking policies, trading liquidity and USD exposure risk.

Japan — Neutral

Weak economic fundamentals

- Slow vaccination and an anemic economic recovery does not bode well for Japanese equities in the short to medium term

Continuity of supportive economic policy

- Kishida's efforts to push for greater than expected fiscal stimulus packages, an ultra-accommodative BoJ, and the open nature of Japan's market is likely to attract foreign investment.

Asia Ex-Japan — Overweight

Rapid reopening of the region

- Travel and tourism heavy regions of Asia are set to see massive increases in inflows and GDP after three years of economic closure, coupled with increases in economic activity.

ASEAN to benefit from continued bipolarization of global power

- ASEAN is a key substitute for the west for Chinese and Russian supply chains, while also benefitting from increased trade with China during periods of international trade tensions

Source: JPMorgan, Federal Reserve Bank of New York

Tactical Allocation

Adjusting for risks and opportunities in the short to medium term

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	Fund Name	Strategic Allocation (%)	% Change	Tactical Allocation (%)
Equities		55	+0%	55
US	Franklin US Opportunities	15	-2	13
Asia ex Japan	JPM Asia Pacific Equity	6	+1	7
China	JPM China A Equity	9	+1	10
EM	JPM Emerging Market Equity	6	-1	5
Europe	JPM Europe Dynamic	7	-1	6
Japan	JPM Japan Equity	4	0	4
Healthcare	JPM Global Healthcare	3	+1	4
Thematic (ESG)	Wellington Global Impact	5	+1	6
Fixed Income		35	-10%	25
Financials	Pimco Capital Securities	10	-3	7
High Yield	BGF Asian High Yield	10	-4	6
Global Bonds	JPM Income	10	-3	7
Senior Loans	Invesco US Senior Secured Loans	5	0	5
Alternatives		10	+10%	20
Real Estate	Blackstone REIT (BREIT)	3	+3	6
Hedge Fund	Blackstone Diversified Multi Strategy (BXDMS)	4	+4	8
Private Infrastructure	Brookfield Super-Core Infrastructure Partners (BSIP)	3	+3	6

Data from JPM Long-Term Capital Market Assumptions

Equities — Neutral

Better entry into US markets
- Rapid monetary tightening sets a volatile setting for US equities.

Healthcare and Financials
- Defensive sectors poised to do well in inflationary environments.

ESG as a strong driver for growth
- ESG policy compliance provides a head start in the transition towards sustainability.

Fixed Income — UW

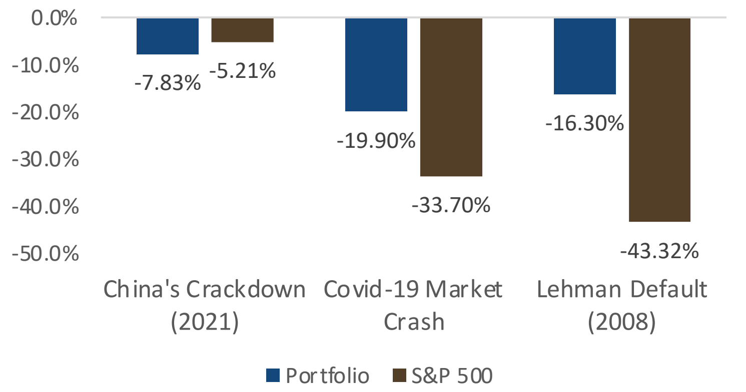
Russia-Ukraine tensions and Inflation worries
- A hawkish Fed stance and prolonged inflation threatens long duration assets and raises credit risks.

China's Covid-Zero policy
- Strict policies leads to low consumption and credit impulse.

Alternatives — OW

Low correlation assets with enhanced returns
- Tool for diversification with enhanced return due to a broader pool of strategies and assets

Back Testing



Key Considerations

1. **Tech dependence**: Adjusted for risk-appetite and existing exposure to technology sector
2. **Inflationary Pressures**: Protection against inflation through floating rate funds and Real estate rents
3. **Portfolio Diversification**: No more than 15% in one asset class

Risk Management

Scenario Analysis and Stress Testing to reduce downside risk

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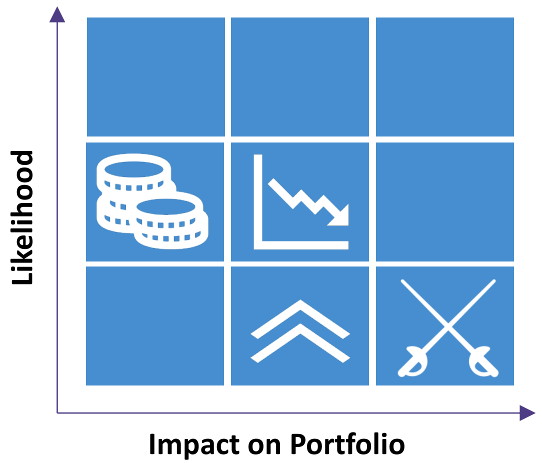
	Risk	Trigger Points	Change
	Protracted escalation of Russia-Ukraine tensions.	• Systemic crises could threaten outsized and prolonged drawdowns in risk assets • Disruptions in energy supply, coupled with incredibly tight inventories pre-conflict could cause recession, akin to the energy crises of 1973 and 1979.	Defensive positioning in the short-term, through sector and asset class selection, as well as convexity hedges, at least until tensions abate.
	Policy normalization – Rising yields and balance sheet reductions	• Rising rates around the world could be a drag on valuations and multiples, with larger impacts on long duration assets such as growth equities and long bonds.	Reducing duration exposure while allocating to sectors that historically outperform in rising rate regimes.
	Increased Funding Costs and Margin Calls	• Rising interest rates can make borrowing expensive • Drastic drawdowns in portfolios can lead to margin calls	Deleverage the portfolio during volatile markets and during the transition towards the capital preservation phase.
	Global Slowdown and Stagflation	• High levels of costs coupled with loose labor markets, weaker manufacturing and lower consumption could cause a stagflationary scenario that causes weakness in portfolio assets	Using leading indicators of market fragility and credit risk to adjust hedges such as flatteners and protection, and reallocate to safe-haven assets



Employing quantitative methods such as leading credit risk indicators, inflation indicators allow us to look out for potential risks

Active management ensures we keep up to speed with market changes, and capitalize on them to generate excess returns

Regular Portfolio reviews and asset rebalancing using proprietary risk management models that aligns with client's and the firm's risk tolerance

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