



## Horizon Capital

HSBC Global Private Banking Case Challenge 2024 (4 Oct 2024)

# Agenda



# Client Profile

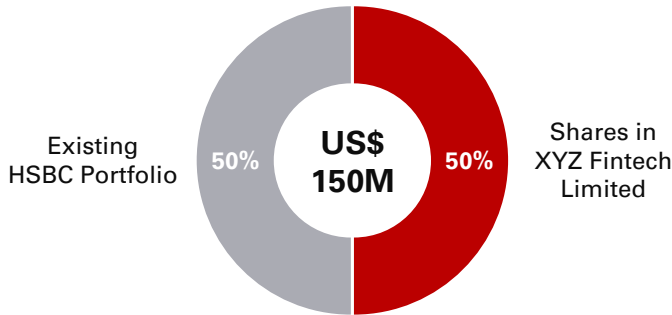
## Your Background



### Mr Gary Sinclair

- Hong Kong Citizen
- CEO of XYZ Fintech
- 45 years old

### Your Net Worth



Your shares in XYZ Fintech represents significant exposure to US Technology equity

#### Stage of Life

Middle Adulthood

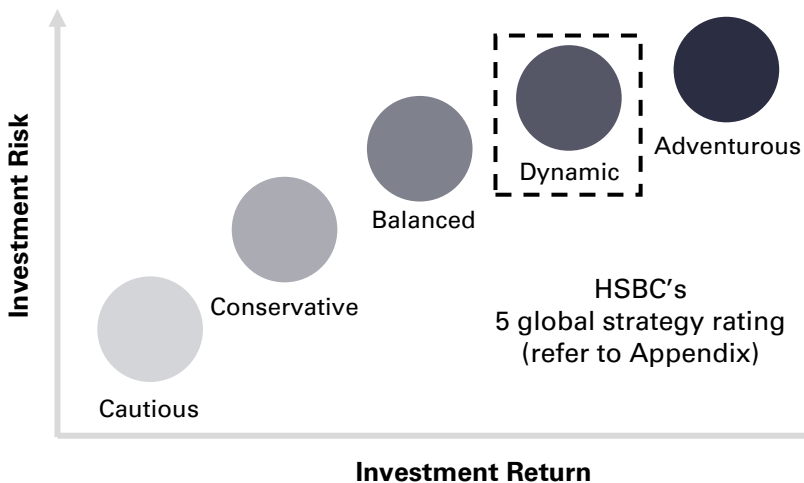
#### Current Net Worth

US\$150M

#### Dependents

- Parents
- Wife
- Daughter

## Charting Your Portfolio Rating



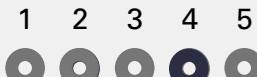
With the aim of maximising his wealth over a mid- to long-term investment horizon, a **dynamic portfolio** would be more suitable for Mr Sinclair

## Risk Appetite and Tolerance

**Financial Goals:** Maximise wealth while maintaining liquidity, hopeful to create lasting generational wealth



**Risk Attitude:** Moderate to aggressive risk appetite with mid- to long-term investment horizon



**Future Liabilities:** Living expenses of his wife and child, daughter's education, and to take care of his ageing parents



Score of 3-6  
**Low**

Score of 7-9  
**Enhanced**

Score of 10-12  
**Moderate**

Score of 13-15  
**High**

**Total Risk Tolerance and Capacity Score: 12 (Moderate)**

## Addressing Your Concerns

1



**Retaining sufficient liquidity** to provide for Sally's education and parents' expenses



**Curating a portfolio with liquid investments**

2



Investing prudently to **grow his wealth**, with specific interests in AI and private investments



Maintaining a **well-diversified portfolio**, taking his profile and interests into consideration

3

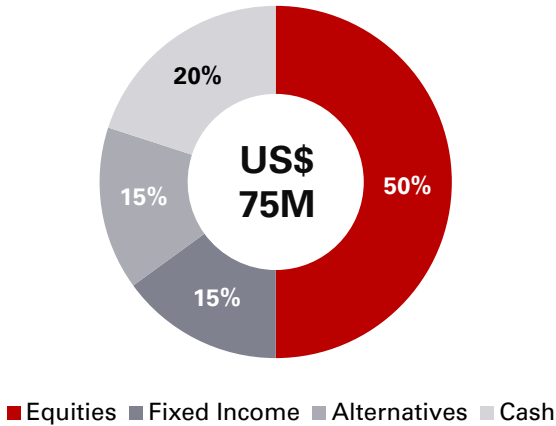


Keen to learn more about **wealth planning solutions**



**Exploring available solutions**, including family office set-ups

## Revising Your Current HSBC Portfolio

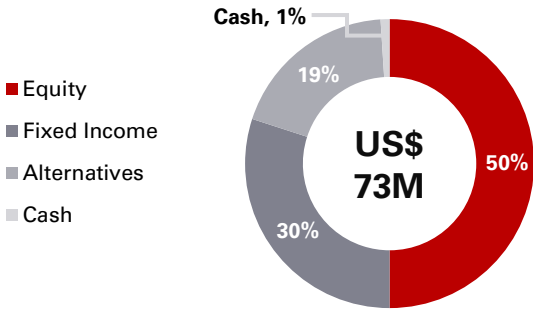


- Lower allocation to FI and Alternatives
- Concentration risk in US Tech equities
- High cash holdings

- **Rebalancing** to improve stability, cash yield, and risk-adjusted returns
- **Consider leveraging shares** to improve diversification and boost returns
- **Increased deployment** of cash

## Addressing Your Financial Concerns

### Investment Portfolio



Focused on maximising capital gains with the use of accumulating funds

### Education Fund

■ US 7Y Treasury @ 3.64%



Ensuring liquidity and stability for Sally's university's fund

## Leveraging Your Core Assets

For core assets that will be held for an extended period, you can consider using them as **collateral** for loans to enhance returns

### Secure Asset Value with a Collar



How it works...

Short Call Options  
+  
Long Put Options

Cap the downside of your shares at **no cost**

### Additional Considerations



High Borrowing Costs

Constant strategy reviews to ensure suitability of loan



FX Risks

Hedge by shorting USDHKD futures



Liquidity Risks

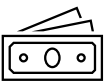
Cash-yielding investments could be selected



Asset Assignment Risks

Large buffer could be set with conservative loan amounts

### Potential Investments



Investing in Our Curated Portfolio



Optionally Convertible Debentures (OCDs)



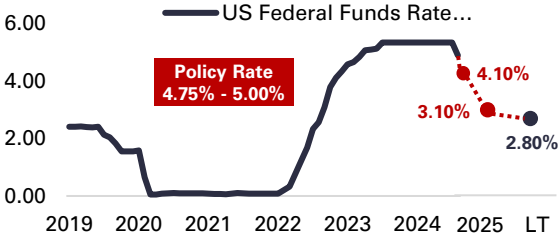
Growth/ Late-Stage Venture Capital

Risk Profile

# Macroeconomic Themes

## Riding the Rate Cut Tailwinds

### Feds Cut Rates for the First Time in 4 Years



Source: Bloomberg, Federal Reserve Bank of St. Louis

- After the Feds have announced a **50bp cut**, markets are looking towards recession risks, although **soft landing seems more likely**
- By end of 2024, a total of **100bps** cut seems the most likely outcome according to CME FedWatch (49%)

Supportive environment for quality assets such as **US Large-cap Equities and Investment Grade Bonds**

## Disruptive Technologies



**Generative AI** can expand automation capabilities while improving productivity in key manufacturing and service industries



**Digital Infrastructure** experiences multi-year growth cycle from accelerated AI demand and increased tech spend



**NextGen Medicine** such as GLP-1 agonists, initially used for diabetes, show promise in treating obesity, which affects 1 billion people globally

High conviction themes include **Technology, Industrials, Healthcare Equities and Digital Infrastructure**

## Continued Geopolitical Tensions

**US-China Trade War** exacerbated by EVs and semiconductors tariffs

**Russia-Ukraine War** prolongs volatility in energy infrastructures

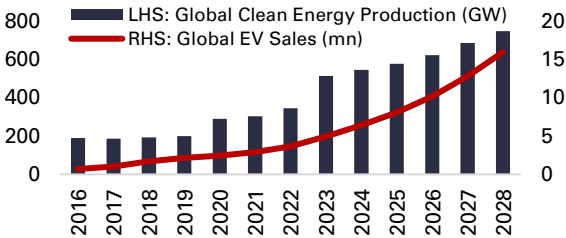
**Israel-Hamas War** disrupts supply chain and regional stability in ME



**Hedge Funds and Private Infrastructure** provide diversification and hedge against global volatility

## Climate Action

### Global Surge in EV Sales and Renewable Energy Production



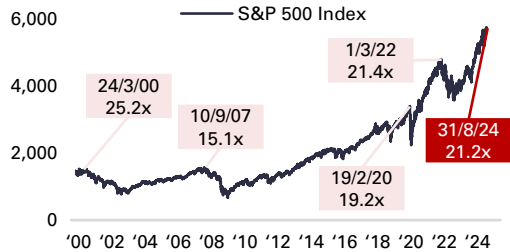
Source: Bloomberg, International Energy Agency

- US and China saw **rising EV sales and clean energy production** while Europe advanced carbon pricing reforms
- Resultantly, ESG funds have **outperformed traditional funds** and their AUM have now grown to **7.2% of the total AUM**

**ESG Funds and Renewable Infrastructure** capture additional returns while diversifying portfolio

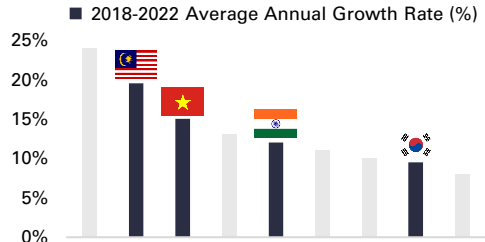
Equities

Valuations Are Below Past Peaks



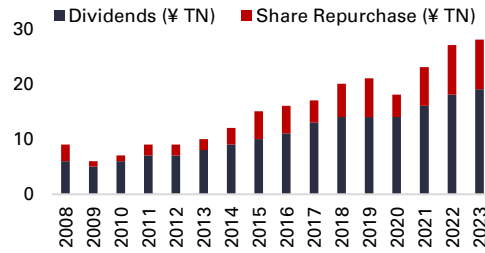
Source: Bloomberg

World's Fastest Growing Trade Corridors



Source: HSBC Global Private Bank

Successful Corporate Reforms



Source: Bloomberg, Okasan Securities

US

OW

- ✓ 250bps of cuts expected by end-2025
- ✓ Corporate profits set to grow 15% in FY25, with valuations still below past peaks despite some expansion
- ✓ Growth in operating leverage creates sustained earnings growth

Asia ex-Japan

OW

- ✓ India: Modi's re-election rejuvenates long-term investor confidence
- ✓ ASEAN: TIGER (Tech, Income Growth, Green Transformation, Energy Infra, Regional Comprehensive Economic Partnership)
- ✗ China: Recent policy stimulus provides tailwind, but long-term impacts unsure

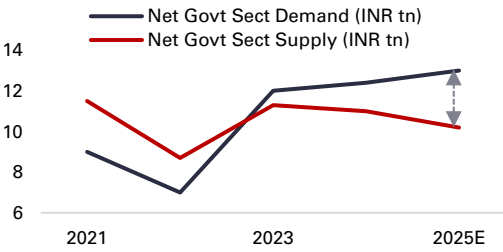
Japan

OW

- ✓ JPY 20tn was returned to shareholders, over 3x a decade ago
- ✓ Undervalued relative to global equities and its historicals despite recent outperformance
- ✗ Stronger Yen poses headwinds; focus on quality amidst domestic economy recovery

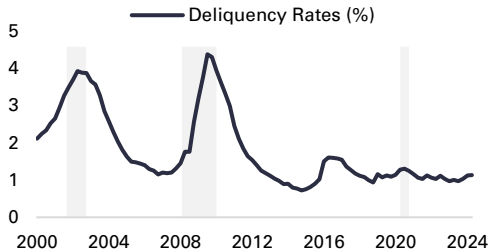
Fixed Income

IGB Demand-Supply Skew Widens



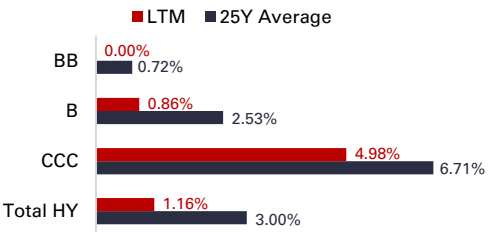
Source: Bloomberg, HSBC Global Private Bank

Muted Corporate Default Rates



Source: Federal Reserve Bank of St. Louis

US HY Default Rates vs Historical



Source: Bloomberg, J.P. Morgan

Sovereigns

OW

- ✓ US: Expect further yield declines; since markets have already priced in rate cuts in long-duration, we see optimism in medium-duration Treasuries
- ✓ India: Increased demand from index inclusions and reduced supply from falling fiscal deficit; OW long duration IGBs

Investment Grade

OW

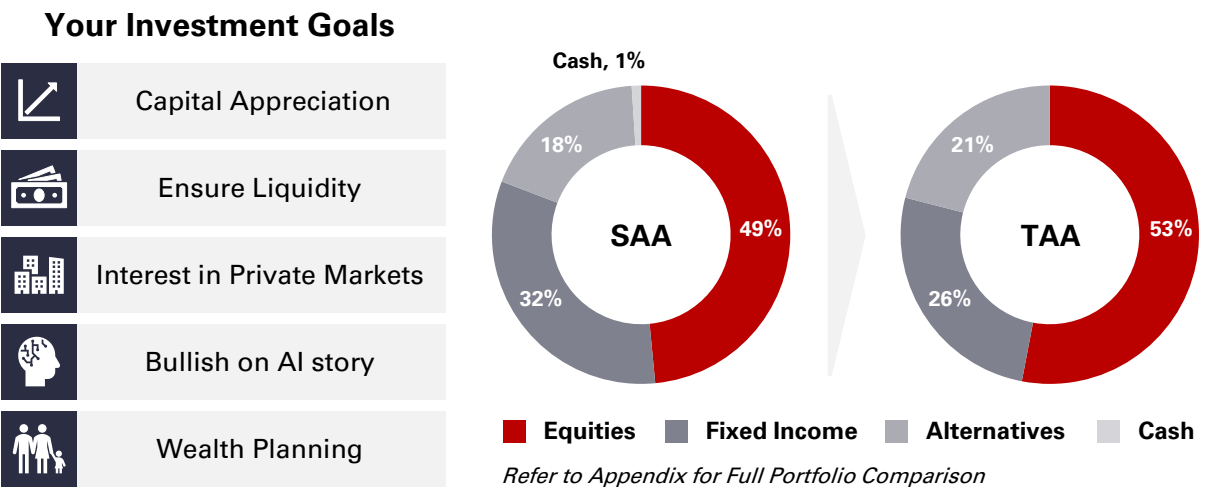
- ✓ US: Muted default rates and Treasury rates driving IG nominal yields offer risk-adjusted spreads in 5-7Y IG Corporates, CMBS, ABS
- ✓ Asia: Robust balance sheets and corporate reforms poises OW Korea and ASEAN Tech & Financials IG Corporates

High Yield

UW

- ✗ High dispersion of default across issuers calls for focus on quality within HY space
- ✗ US: Lower-than-historical HY default rates initiates narrative for long-term recovery
- ✗ EM: State-owned enterprises with lower ST refinancing offer higher risk-adjusted returns

Portfolio Construction



	Total Returns	Volatility	Expected Yield
SAA	8.52%	10.62%	7.21%
TAA	9.16%	11.46%	7.19%
Benchmark <sup>1</sup>	6.51%	13.11%	3.43%

<sup>1</sup>Morningstar Global 60/40 Portfolio

Your new SAA portfolio emphasises...



**Capital appreciation**  
with higher allocation to quality and growth

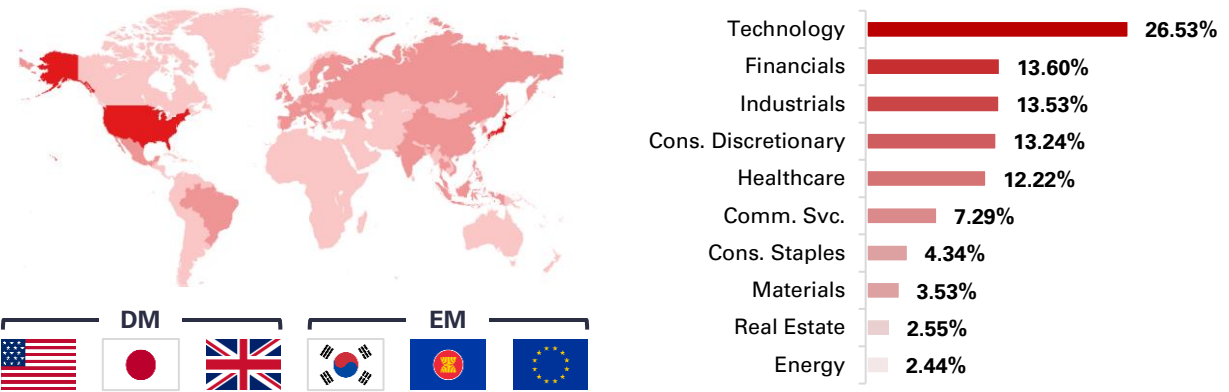


**Rebalancing holdings in HK & EU to US & Japan** to ensure diversification



**Private Investments & AI** as the main theme for the portfolio

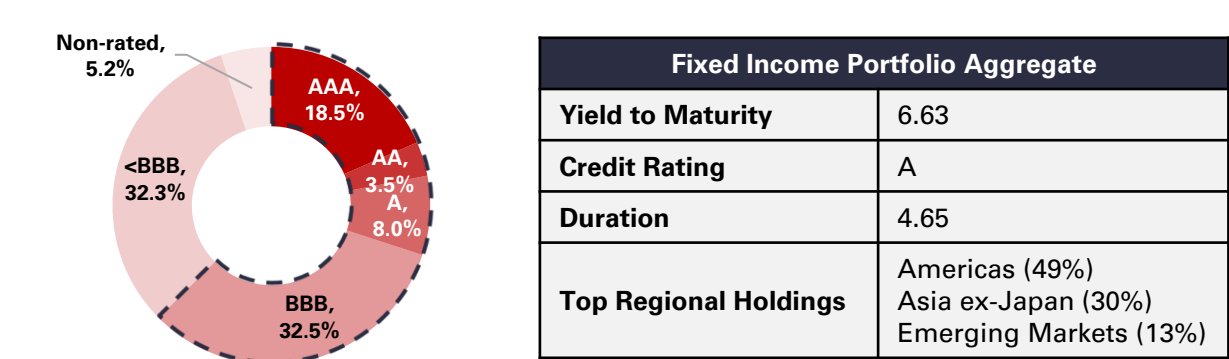
Equity Positioning



Focus on quality in DM while seeking undervalued opportunities in EM


Diversified equity allocations while keeping your AI interests in mind

Fixed Income Positioning



Invest in medium-duration Investment Grade bonds and diversify into underweight equity regions for a balanced, diversified portfolio


# Wealth Planning Recommendations



Mr Sinclair


Key Information  
for Wealth  
Planning

**Nationality**




Hong Kong Citizen

**Occupation**



CEO of XYZ Fintech Limited  
(listed in NYSE)

**Dependents**



Aging Parents and Daughter

1

How does Mr Sinclair envision the distribution of wealth to Kate or Sally?


2

What level of protection (and cost) would Mr Sinclair like to have over his asset?


3

Is Mr Sinclair considering any philanthropic initiatives as part of his legacy?


3 Key Needs



**Succession Planning**  
Ensure continuity of Mr Sinclair's wealth and longevity



**Tax Planning**  
Minimising potential tax for Mr Sinclair as he transfer his wealth



**Asset Protection**  
Protecting Mr Sinclair's asset during unfortunate events


3 Key Risks

**Poor Financial Decision by Beneficiaries**  
Given Sally's young age, she might engage in bad spending habits when inheriting Mr Sinclair's wealth


**Taxation Risks**  
Need to consider inheritance law and tax regulations

**Insufficient Insurance Coverage**  
Increasing likelihood of critical illness for Mr Sinclair's age and no existing coverage on his wealth


How HSBC Can Help You to Mitigate




Setting up a **spendthrift trust** structure that releases income incrementally




HSBC-organised events to **educate next generation** on wealth planning




Consider setting up a **Family Office** to minimise tax



Regular review with **HSBC Legal Counsel** to ensure compliance



**Director's & Officer's (D&O) Insurance** protect your work interest



**Property & Causality (P&C) Insurance Solutions** covers all professional needs

CLIENT PROFILE

HOUSE VIEWS

PORTFOLIO CONSTRUCTION

WEALTH PLANNING

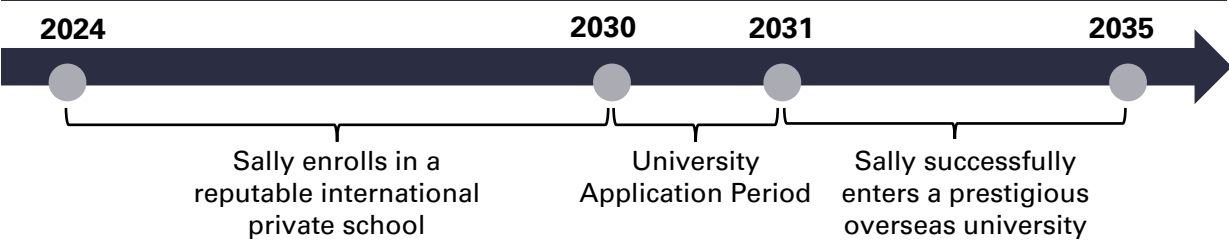
CROSS COLLABORATION

DIGITALISATION

EXECUTIVE SUMMARY

# Education and Insurance Planning


## Education Planning for Sally




Treasuries	Yield	Amount Invested
US Treasury (7 Years)	3.64%	USD 2m

Investing into 7-Year US Treasuries sets aside education fund that **matures in time** for Sally’s university years


## HSBC as Universal Bank for Sally’s Overseas Education



**Partnering with International School in HK**  
HSBC partners with American School HK and Wycombe Abbey School HK to offer discounted summer programmes and private school tour



**Overseas Education Consultation**  
HSBC partners with Crimson Education and British United Education Services to offer discounted student visa application and services



**HSBC as a Global Bank**  
HSBC can assist in overseas and junior premier account opening, dependent card, 24/7 foreign exchange and overseas StudySurance

## Insurance Planning



## Our Insurance Solution

 **HSBC Life Private Wealth VUL**

**Whole life plan** for estate, legacy and wealth accumulation needs

 **HSBC Jade Ultra Legacy Universal Life**

**Whole life plan** for protecting you and your next generations

- ✓ Joint-Life coverage for Mr and Mrs Sinclair
- ✓ Estate Planning and Equalisation
- ✓ Annual Costs are paid for by built-in collar financing
- ✓ Accelerated Death Benefit
- ✓ Charitable Giving Benefit
- ✓ Flexibility with Premium Payment Timings

行百里者半九十

“A journey 90% complete is considered half done”

HSBC’s comprehensive insurance solutions is the **last 10%** of your wealth planning journey

# Building Your Legacy

## Importance of Family Governance

“富不过三代”

Research shows that **90%** of family wealth is depleted by 3<sup>rd</sup> generation

Hence, establishing a **governance framework** is important to safeguard family wealth

**Family Constitution:**  
Establishing shared mission and values


**Family Council:**  
Strengthening business and wealth

**Relationship Management:**  
Regular family activities and communication

As a bank that serves the Sinclair family since the first generation, we believe it is crucial to **uphold the family’s mission and value** over generations to come


### HSBC Is The Bank for Your Next Generation

1



Sally could participate in **HSBC “Next Generation” event** in the future to connect with other new leaders

2




**HSBC’s in-house family governance team** can assist in continuity planning, conflict management across generation

## Philanthropic Recommendation


	Private Foundation	Donor Advised Funds (DAFs)
Tax Consideration	HK charitable donations deduction is restricted to <b>35% of the assessable income</b> after allowable deductions	HK charitable donations deduction is restricted to <b>35% of the assessable income</b> after allowable deductions
Privacy	Required to disclose the grants details in public filings	Names of donors can be kept <b>private and confidential</b>
Ease of Operations	High initial set up cost, administrative work and legal regulations involved	<b>Lower minimum contribution</b> and <b>less administrative</b> or investment management responsibilities for donor
Control	<b>Full control</b> over grant decisions and investments	Has legal authority in choosing grant

Our advisors at **HSBC Philanthropy Services and Advisory** will offer customised and comprehensive solution for Mr Sinclair to manage his charitable giving

### You can partner with...



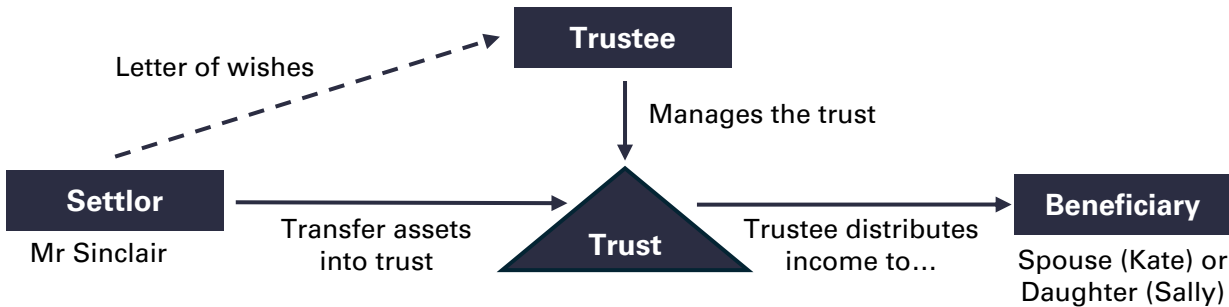
**HSBC & Hong Kong Science and Technology Parks (HKSTP)** who is a 3-year strategic partner driving a more effective Bank-Fintech system



**HSBC Innovation Banking & HKUST** to organise a hackathon and develop young talents in the Fintech industry

## Proposed Trust Structure



Assisting you in understanding a typical trust structure:



## Comparison of Different Succession Plans

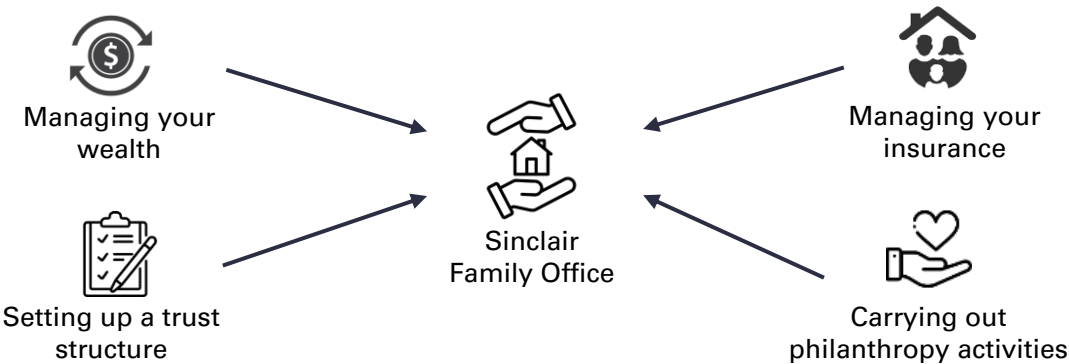
	Will	Revocable Trust	Irrevocable Trust
Privacy	Low confidentiality	High confidentiality	High confidentiality
Tax Planning	Assets not exempted from tax	Assets not exempted from tax	Assets exempted from tax
Protect from creditor	No protection before death	No protection before death	No protection before death

We recommend a **spendthrift irrevocable trust**:



-  Funds release incrementally to prevent Sally's bad spending habit
-  Tax exemption as assets are excluded from grantor's income

## Additional Considerations: Family Office

Considering that you have various needs, we recommend you consider setting up a Family Office:



## Comparison of Hong Kong and Singapore Family Offices

		
Taxation	Exempt from profit tax (with criteria)	Tax exemption under 13O and 13U
Additional Advantages	Faster application than SG Family Office	100% tax deduction for overseas donation
Ease of Setting Up	SFOs automatically qualify if minimum criteria met	Requires MAS pre-approval

**SG** Family Offices allows for more **tax exemption** whereas **HK** Family Offices can have **ease of establishment** if you have urgent needs

# Partnership with HSBC Global Banking (GB)

1

## Trustworthy partner in capital raising for company expansion

Connecting you with our investment banking teams



Leveraging a Best-in-Class M&A & Capital Markets Team




How we value add	How we value add
<ul style="list-style-type: none"><li>Connecting you with trusted <b>corporate finance advisers</b></li></ul>	<ul style="list-style-type: none"><li>Top-tier ECM and DCM, an M&amp;A teams for your <b>corporate finance needs</b></li></ul>

### How it suits and benefits XYZ Fintech Ltd:



- Bespoke advisory services allow XYZ Fintech Limited to navigate complex financing decisions



- Global Banking and Markets can advise XYZ Fintech Limited on more complex corporate decisions like JVs, Carveouts, and follow-ons to facilitate inorganic expansion strategies

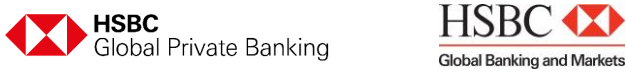
2

## Empowering growth through research insights and innovation

Acting as a gateway to our industry specialists



Leveraging on extensive network of Global Research



How we value add	How we value add
<ul style="list-style-type: none"><li>Connecting you with the <b>right sector specialists</b></li></ul>	<ul style="list-style-type: none"><li>Comprehensive research for the <b>Fintech landscape</b></li></ul>

### How it suits and benefits XYZ Fintech Ltd:



- Detailed industry research helps XYZ Fintech Limited with key strategic decisions like product launches or market expansion



- In-house CDD reports allow for smoother coordination with Global Banking during transaction due diligence processes

3

## Streamlining transactions and unlocking potential in your firm

Collaboration with GPB's RMs




Efficient cash management to focus your growth




How we value add	How we value add
<ul style="list-style-type: none"><li>Connecting you to a best-in-class <b>cash management team</b></li></ul>	<ul style="list-style-type: none"><li>Optimising XYZ Fintech Limited's <b>working capital needs</b></li></ul>

### How it suits and benefits XYZ Fintech Ltd:



- HSBC Omni Collect can help XYZ Fintech Limited collect funds from multiple payment channels



- Receivable financing which can be initiated through HSBCnet allows XYZ Fintech Limited to receive early payment and protect bad debts

# Digitalisation Initiatives

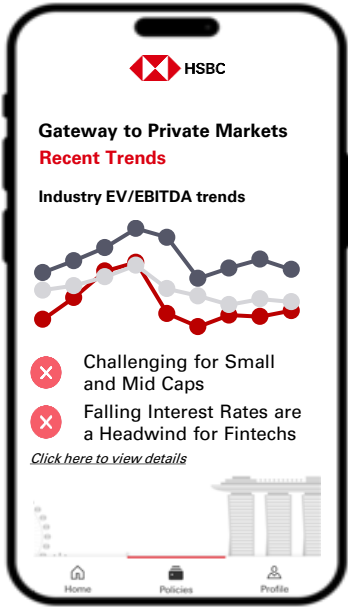
## Universal HSBC Mobile Application



A **one-stop-shop** to allow for convenient access to the expertise of **HSBC GPB, GB and Markets**

- Currently, HSBC operates separate applications for Private Bank and Global Bank (through HSBCnet) without a common application
- We want to leverage on **synergies** that can be obtained through integrating a **cross-functional application** to cater to diverse needs of clients

## A Gateway to Opportunities in the Private Markets

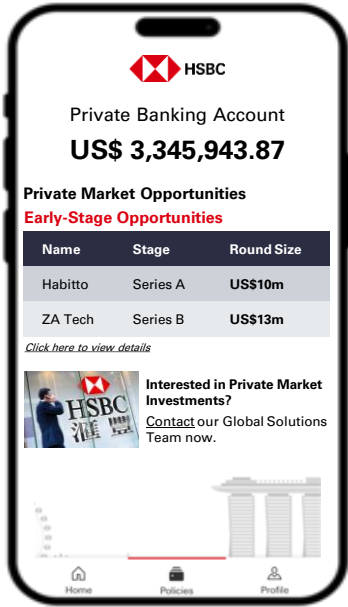


### 1 Industry Statistics

Autonomously **pull data by API** from Bloomberg, Pitchbook etc on the trends (i.e, valuation multiples) of **private market industries**

### 2 Detailed Analysis

Using **LLMs to synthesise key industry trends/findings** (i.e headwinds/tailwinds, top players etc)

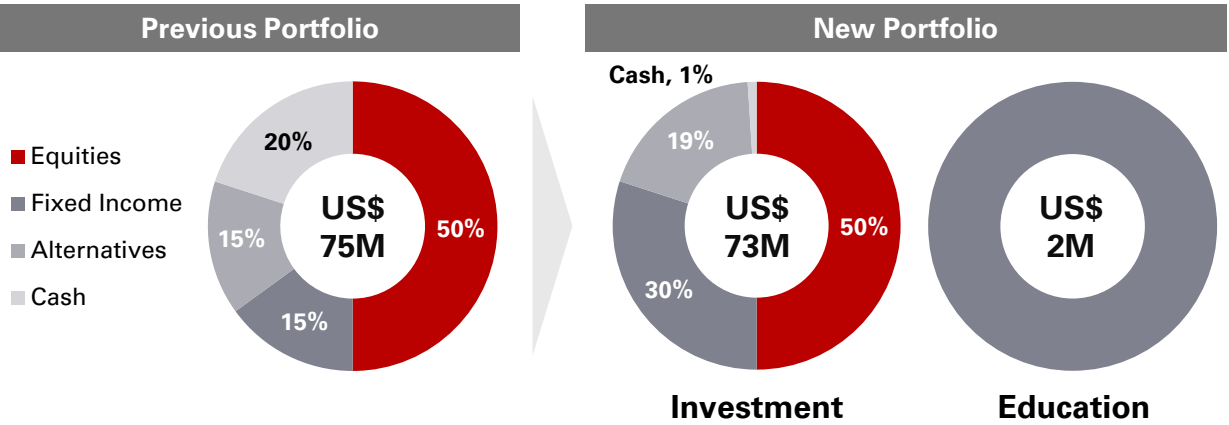


### 3 Deal Sourcing

Leverages on the deal flow of GBM and AM to **recommend potential direct investment and M&A opportunities** for you and XYZ Fintech Limited

- HSBC Global Banking and Global Asset Management compile deal flow sheets to **track opportunities/potential mandates** in the region
- This information can be helpful in **assisting you or XYZ Fintech Limited's direct investment decisions**

Empowering Your Portfolio

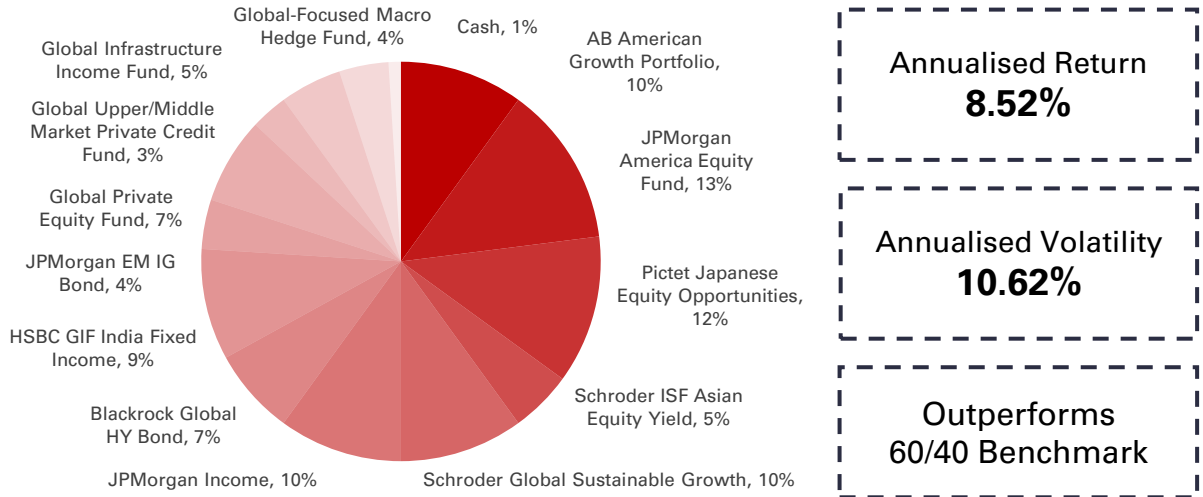


Rebalanced your portfolio to better serve your interests, needs, and goals

Financial, Wealth, and Legacy Planning

Wealth Planning		Envisioned your comprehensive wealth plan
Education		Chartered your daughter's educational pathway
Insurance		Safeguarded the future of you and your loved ones
Family Governance		Ushered generational prosperity with governance
Trust & Family Office		Explored trusts, family offices, and philanthropies

Your Long-Term Investment Portfolio (50/30/19/1)





Value Adding to Your Business and Banking Needs

Value Adding to Your Enterprise

Explored ways HSBC can serve you as a universal bank

Improving your Digital Banking Experience

Understood how HSBC can better serve your needs digitally



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# Appendix Network

## Appendix Network

(click to jump to page)

### I. Our Capabilities

1. [HSBC Global Strategy Portfolio Rating](#)
2. [HSBC House Views](#)
3. [Your Portfolio Changes](#)
4. [Portfolio Backtesting](#)

### II. Thematic Outlook

1. [Rate Cuts and Geopolitical Tensions](#)
2. [Disruptive Technologies and Climate Action](#)
3. [AI Deep Dive](#)
4. [Yen Carry Trade](#)
5. [China Policy Stimulus](#)
6. [ASEAN Tiger](#)

### III. Regional and Alternatives Outlook

1. [US](#)
2. [Asia ex-Japan](#)
3. [Japan](#)
4. [Europe](#)
5. [China](#)
6. [Hong Kong](#)
7. [Latin America](#)
8. [Private Markets and Infrastructure](#)

### IV. Fund Selection

1. [Select Fund Justifications](#)

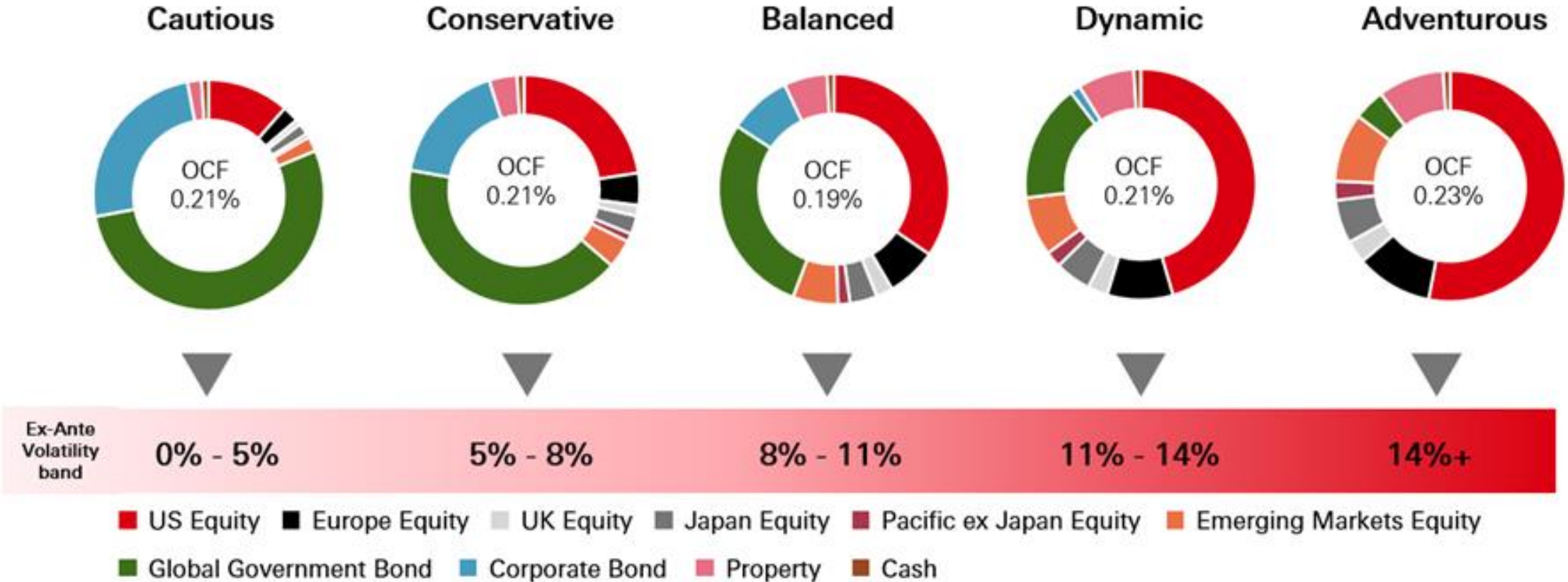
### V. Uses of Collar Financing

1. [Wealth Portfolio Lending](#)
2. [Offering Both Financial and Strategic Value](#)
3. [Understanding Fintech Investments Landscape](#)

### VI. Wealth Planning Structure


1. [HSBC Philanthropy Planning](#)
2. [Comparison of Succession Plans](#)
3. [Comparison of SG vs HK Family Office](#)
4. [Probate and Estate Planning](#)

# HSBC Global Strategy Portfolio Rating



Source: HSBC Asset Management

HSBC CIO Views	
Asset Class	Rating
US Equities	OW
AeJ Equities	OW
Japan Equities	N
EMEA Equities	UW
China Equities	OW
Emerging Markets Equities	N
Sovereign Bonds	OW
Investment Grade Corporate Bonds	OW
High Yield Corporate Bonds	UW
Cash	UW

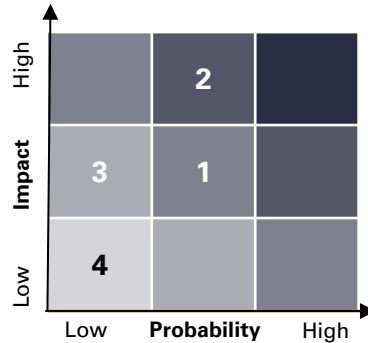


**Alignment with HSBC CIO** views whenever possible ensures that our proposed allocations take both our client’s and HSBC’s best interest into account, resulting in a **bespoke portfolio** backed up by the views of HSBC Global Research Team

# Your Portfolio Changes

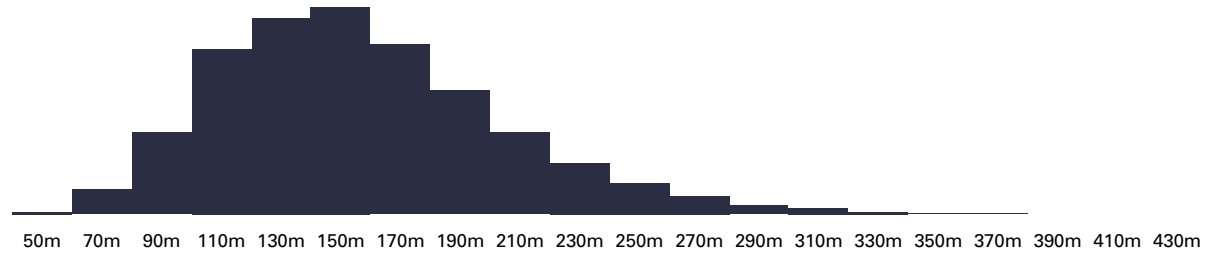
SAA and TAA				
Selected Funds	Asset Class	SAA	+/-	TAA
AB American Growth Portfolio	Equity	9.7%	+1.0%	10.7%
JPMorgan America Equity Fund	Equity	12.7%	+0.9%	13.6%
Pictet Japanese Equity Opportunities	Equity	11.7%	+1.0%	12.7%
Schroder ISF Asian Equity Yield	Equity	4.9%	+0.5%	5.4%
Schroder Global Sustainable Growth	Equity (Thematic)	9.7%	+0.5%	10.2%
US 7Y Treasury Note	Fixed Income	2.7%	0.0%	2.7%
JPMorgan Income	Fixed Income	9.7%	-1.9%	7.8%
BlackRock Global High Yield Bond	Fixed Income	6.8%	-3.9%	2.9%
HSBC GIF India Fixed Income	Fixed Income	8.8%	0.0%	8.8%
JPMorgan Emerging Markets Investment Grade Bond	Fixed Income	3.9%	0.0%	3.9%
Global Private Equity Fund	Alternatives	6.8%	+1.0%	7.8%
Global Upper Middle Market Private Credit Fund	Alternatives	2.9%	0.0%	2.9%
Global Infrastructure Income Fund	Alternatives	4.9%	+0.9%	5.8%
Global-Focused Macro Hedge Fund	Alternatives	3.9%	+1.0%	4.9%
Cash	Cash	1.0%	-1.0%	0.0%

## Risks and Portfolio Rebalancing



	Events	Implications	Recommendations	Impact		
				L	M	H
External Risks	1) Escalation in global tension and conflicts	Broad market sell-off and flight to safe haven assets	<ul style="list-style-type: none"><li>Reduce exposure in EM Equities</li><li>Increase US Treasuries holdings and include precious metals like gold and silver</li></ul>			
	2) Global downturn from US economy hard landing	Possibility of rate re-hike and falling bond yields with USD strengthening	<ul style="list-style-type: none"><li>Reduce exposure to risk-on assets</li><li>Short duration bonds and lower exposure to junk-rated bonds as refinancing cycle approaches.</li></ul>			
Market Risks	3) Under-performance of asset class	Negative alpha	<ul style="list-style-type: none"><li>Biannual review and rebalancing according to macro trends</li></ul>			
	4) Under-performance of fund	Negative alpha	<ul style="list-style-type: none"><li>Quarterly review of funds' performance and thesis</li><li>Explore and switch to better performing funds</li></ul>			

## Monte Carlo Simulations (in USD mn)

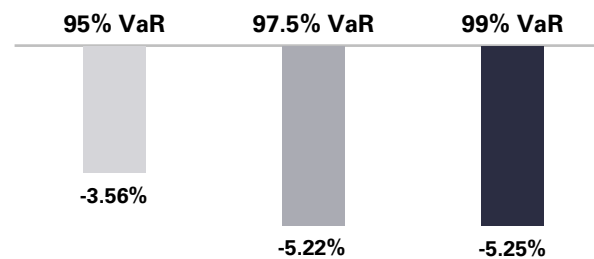


Percentile	Current Portfolio
5 <sup>th</sup>	125%
25 <sup>th</sup>	174%
75 <sup>th</sup>	268%
95 <sup>th</sup>	362%

We are focused on **maximising your returns** to meet your investment needs, while also keeping volatility in mind

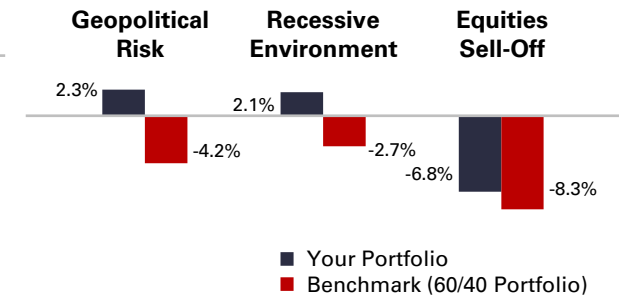
## Protection Against Downside Risk

### Value-at-Risk Analysis



Your portfolio has **95% confidence** that it will not lose **more than 3.56%** of its value over a period of 10 days

### Scenario Analysis



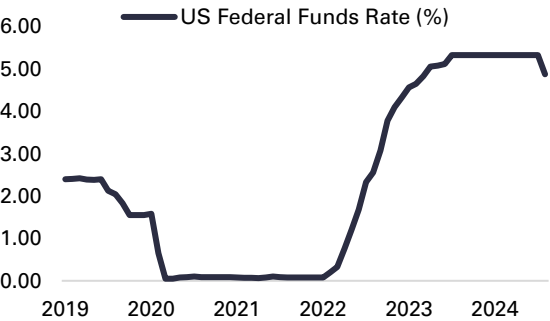
Your portfolio remains **resilient** to geopolitical risks and market events, with **limited drawdown** vs benchmark

# Secular Trends

## Riding the Rate Cut Tailwinds

### Summary of Recent FOMC Meeting (18 September)

#### Dual Mandate of the Feds



Source: Bloomberg, US Federal Reserves

- FOMC has lowered the target range for the Fed Funds Rate by **50bps** to 4.75-5.00%
- FOMC was '**strongly committed to supporting maximum employment**' along 2% inflation target with dual-mandate goals '**roughly in balance**'
- Participants' estimate of longer-run rates are at **2.80%**

### Selected Impact of Rate Cuts on Sectors

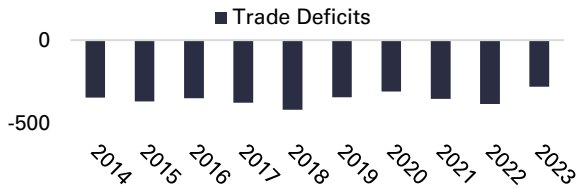
Sector	Risks/Benefits	Mitigation	Adjustments
Large-cap Technology Stocks	Overvaluations after a year-long bull run	Rebalance to other sectors	Stability-focused consumer staples
Cash Holdings	Reduced yields for savings account and CDs	Increase allocation to risk-adjusted assets	Will still hold 1% considering your liquidity needs
Fixed Income	Reinvestment risks for short duration bonds	Pivot to IG corporates	Maintain OW on IG corporates
Real Estate	Mortgage rates falling	Explore RE and REITs	Maintain cautious approach for now

Source: Bloomberg, HSBC Global Private Bank

## Continued Geopolitical Tensions

### US-China Trade War

#### Total Value of US Trade with China

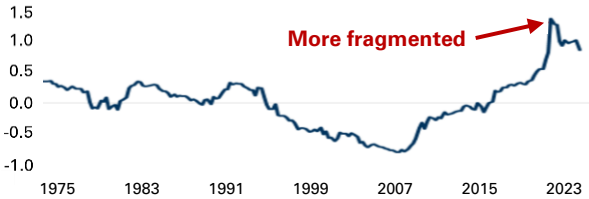


Source: Statista

- Tensions are rising ahead of the November US presidential elections
- Both candidates **firmed up their anti-China rhetoric** during the first debate, which exacerbates trade relations regardless of the outcome

### Russia-Ukraine War

#### Ukraine War Lifted Global Fragmentation

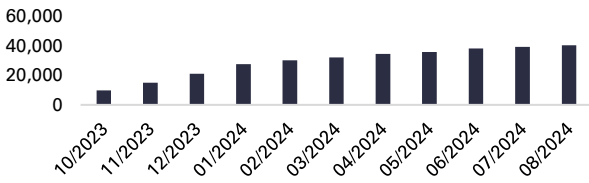


Source: Goldman Sachs Research

- Russia-Ukraine War is the largest military conflict in Europe since WWII, with more than **1 million casualties**
- Military aid from US to Ukraine and support from Iran and North Korea to Russia points to a **continued war of attrition**

### Middle East Conflict

#### Death Tolls in Gaza Has Crossed 40,000



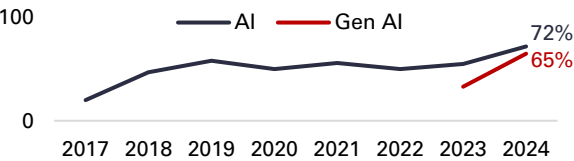
Source: UN OCHA

- Tensions exacerbated in the Middle East, with **recent explosions of pagars** across Lebanon, targeted at Hezbollah members
- Hezbollah leader Hassan Nasrallah was **killed by Israel's strike on Beirut** – Iran's retaliation may increase tensions in the Middle East

## Disruptive Technologies

### Generative AI

Organisations Adopting AI in At Least 1 Function (% of respondents)

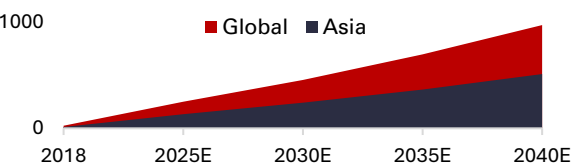


Source: McKinsey

- Shows **pervasiveness in all industries** as AI beats historical tech adoption rates due to high accessibility and economic utility
- May bring short-term unemployment with shift in labour demand, but job creation from Gen AI likely to **beat displacement**

### Digital Infrastructure

Increasing Digital Infrastructure Opportunities (USD bn)

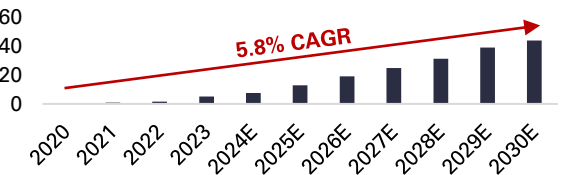


Source: Houlihan Lokey

- Hyper scalers are expected to reach **record capex in 2024** with continued investments in data centres with rising AI demand
- Digital infrastructure gap in Asia is increasing, with **more than 50%** of the total gap in Asia by 2040

### NextGen Medicine

US Obesity Drug Market Growth (USD mn)

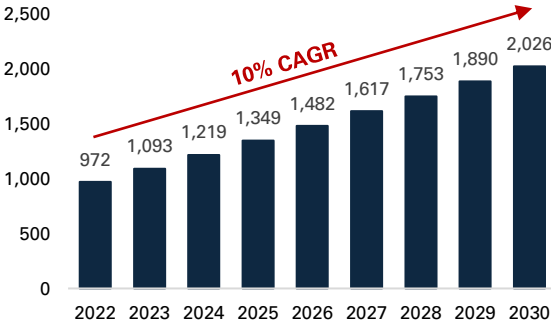


Source: J.P. Morgan, McKinsey

- US obesity drug market experiences tailwinds from **increased manufacturing and commercial penetration**, and similar patterns are seen globally
- Healthcare sector also remains **resilient in recessions**, outperforming market by 10% on average

## Climate Action

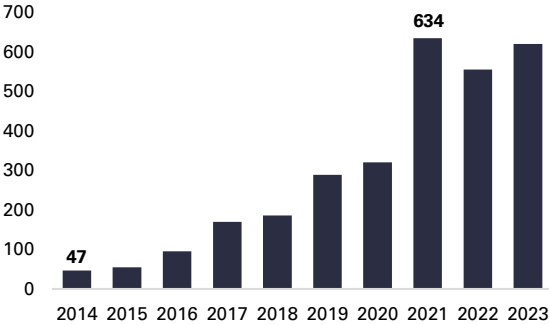
### Promising Renewable Energy Growth (USD bn)



Source: Statista

- The global renewable energy market is poised to double in size, reaching US\$ 2tn in size by 2030, signaling a **global shift to renewable infrastructure**
- Strong global commitment to sustainable investing** with spiking issuances of green bonds, especially from sovereigns

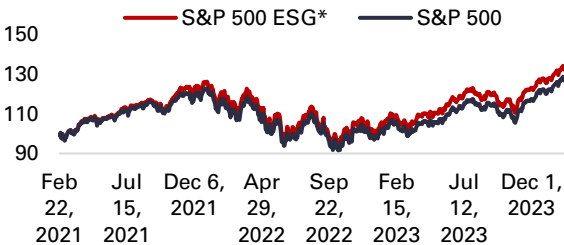
### Spike in Green Bond Issuances (USD bn)



Source: Statista

## Outperformance of ESG Investments

### ESG Index Outperforms Traditional Index



Source: S&P Global

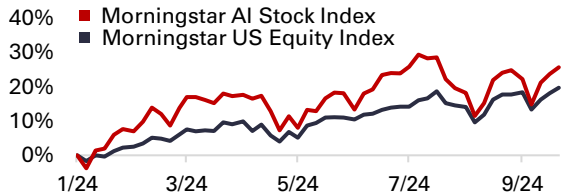
- Trends in sustainable investing has been materialising in the equity markets since 2021, with the **S&P 500 ESG Index outperforming traditional investments by 15.1%** over the past 5 years
- As ESG investments continue to grow, we can expect a **continuation of the increasing divergence in performance**

# Hype Around Artificial Intelligence is Not Artificial

## The market is bullish on AI ...

### AI outperforms the equity markets...

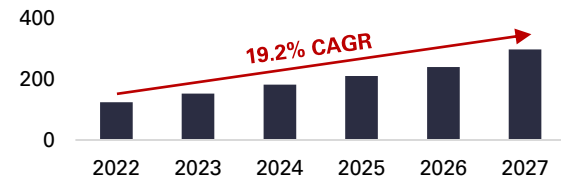
#### AI's Outperformance Relative to US Equities (%)



- Despite slowing performance from big names like NVIDIA and Microsoft, AI performance still **exceeds expectations**
- Strong demand and monetisation ensure long-term overperformance of AI-linked equities

### ... due to the increasing deployment in the B2B space...

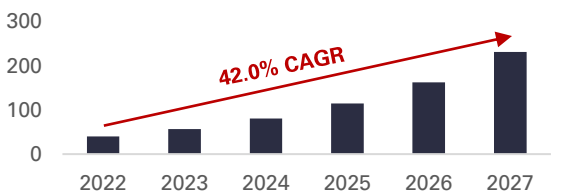
#### Spending on AI software is projected to 2.5x by 2027 (USD bn)



- Recent uptake in AI-powered data management, customer management and enterprise software leads to a robust **19.2% CAGR** in the AI Software market

### ... and proven traction in the B2C space

#### Generative AI Market Size (USD bn)



- Generative AI is a **key driver of consumer AI markets**, with its explosive growth stemming from training infrastructure in the near term and LLM and Digital Ads in the medium-to-long term

## ... and have strong performance relative to their price

### AI Stocks continue to be below intrinsic values...

#### Select AI Stocks: Current Price and Fair Value

Name	Current Price	Intrinsic Value
Microsoft	US\$428	US\$490
Alphabet	US\$164	US\$209
Adobe	US\$515	US\$635

Source: Morningstar

- AI-linked equities are below their intrinsic value as they have **not fully recovered** from the tech sell-off earlier this year
- This makes it an attractive time to buy into the trend and increase the returns of your portfolio

### ... which makes them a suitable pick for your portfolio

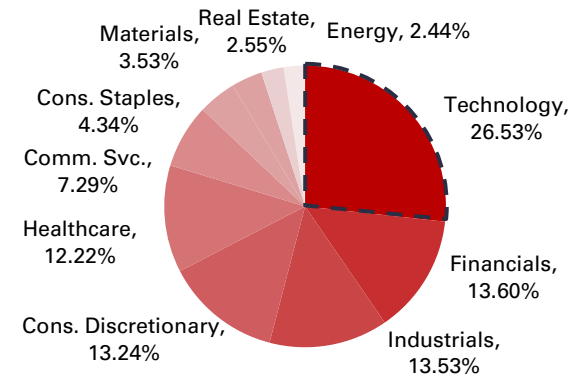


**Robust AI demand with increased penetration in B2B and B2C**



**Your interest in AI investments**

#### Concentration in Portfolio



- As such, we have allocated **~27%** to Technology equities, which is also our largest allocation within equities space

- Within Technology equities, **~86%** of the companies use AI or produce AI-related products or services

# Protection From Carry Trade Unwind

## Carry Trade Mechanism

Borrow in low-interest currency (JPY) and invest in high-interest currency (USD)

Borrow JPY  
e.g. JPY 1,000,000 @ 0.5%

Convert JPY to USD at  
spot (USD 1 = JPY 160)  
Per spot rate, we receive  
USD 6,250

Invest USD 6,250 @ 5%,  
assuming 1 year horizon

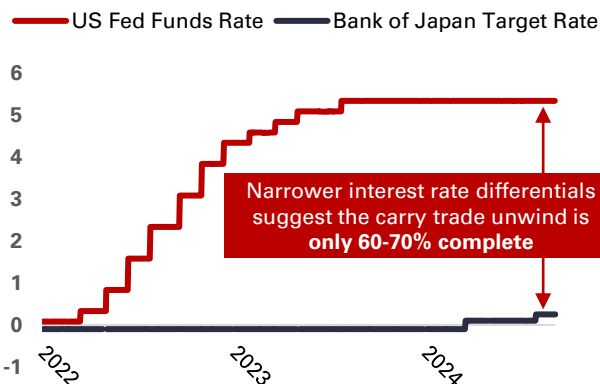
Repay JPY loan with  
interest; investor profits  
JPY 1,050,000 – 1,005,000  
= JPY 45,000

Convert USD back to JPY;  
assuming same spot rate,  
investor receives  
JPY 1,050,000

Receive USD 6,562.50 by  
the end of 1 year

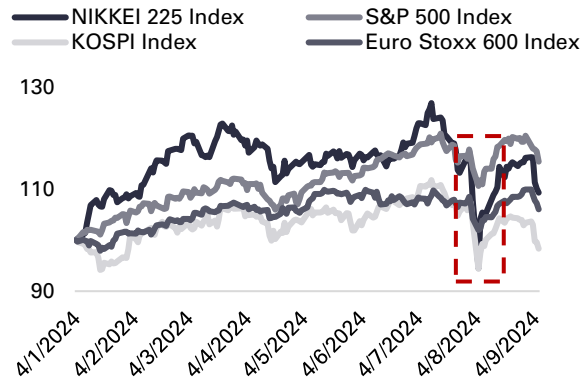
## Carry Trade Unwind is Not Done

### Interest Rate Differentials



Source: Bloomberg

### Black Monday Around the World



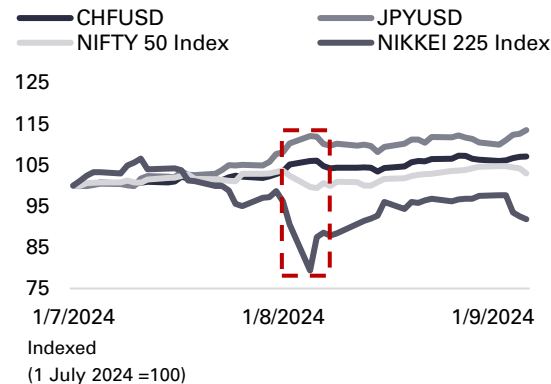
Source: Bloomberg, LSEG

## What Caused the Global Equity Sell-Off?

- 1 Disappointing US tech earnings and faster-than-expected cooling of labour market resulted in larger rate cut and recession expectations
- 2 Bank of Japan raised rates for the second time since March, which pushed Yen higher and hence making it more expensive to pay back the Yen-based loan
- 3 Carry trade involves leveraged positions, and the smallest of losses will lead to margin calls on securities, which led investors to close their positions
- 4 The combined expectations of Fed rate cut and BoJ rate hike caused expected interest rate differentials to narrow, which caused Yen carry trade to unwind
- 5 Volatility-induced selling, where investors have a trigger to sell when VIX hits a certain level (30 on 5 August 2024), exacerbated the global sell-off

## Protecting Your Portfolio

### Trades That Stayed Resilient During Sell-off



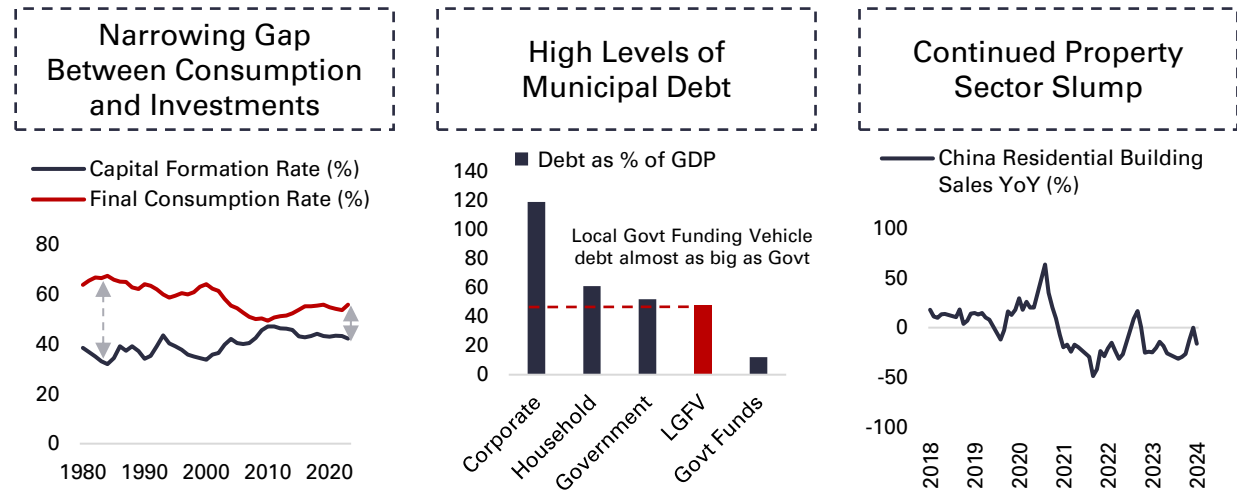
Source: Bloomberg

- **CHFUSD** rose as investors flocked to safe haven currency due to the sell-off
- **JPYUSD** are to rise with Governor Ueda suggested further rate hikes
- **Nifty 50** remained resilient; India was one of the regions with muted impact

To protect Mr Sinclair's portfolio from another global sell-off, we recommend allocating capital to these assets in the short term

# China Policy Stimulus Updates

## Why is China Economy Slowing?

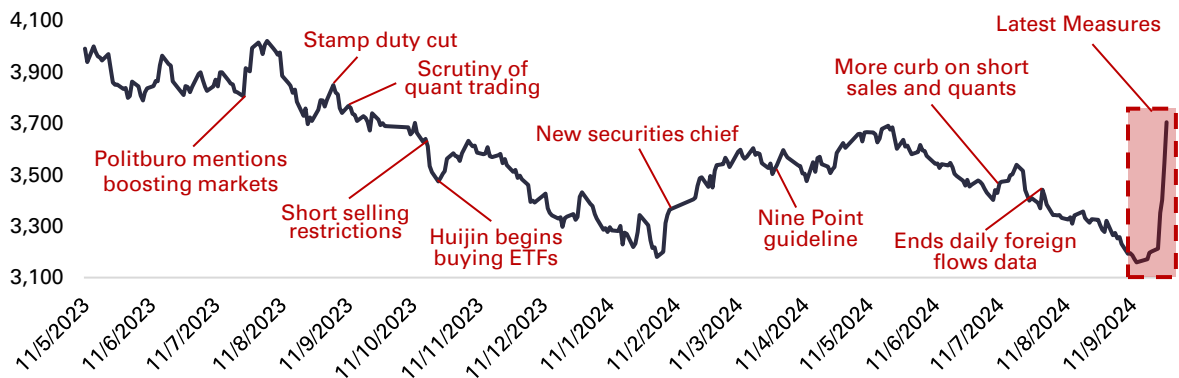


## What Has the Government Done?

Monetary	<ul style="list-style-type: none"> <li><b>Policy Rate Cuts:</b> 20bps OMO rate cut, 30bps MLF rate cut, follow-up LPR adjustments</li> <li><b>RRR Cuts:</b> 50bps cut, providing ~RMB1tn long-term liquidity to the banking system; governor also hinted potential 25-50bps cut by end of 2024</li> </ul>
Property	<ul style="list-style-type: none"> <li><b>Cut Downpayment for Second-Home Buyer:</b> 10ppt reduction to 15% (same as first-home buyer)</li> <li><b>Raise Relending Quota:</b> Raise direct funding support to account for 100% of RMB300bn relending quota from previous 60%</li> <li><b>Cut Interest Rate for Existing Mortgage:</b> Reduce existing mortgage rates by ~50bps</li> <li><b>Allow Banks to Support Land Reserve Buyback:</b> Potential plan to permit policy and commercial banks to lend to qualified entities for buyback of land reserves</li> </ul>
Equity Markets	<ul style="list-style-type: none"> <li><b>RMB 500bn liquidity provision</b> for non-bank FIs to borrow money directly from the PBOC with qualified collateral</li> <li><b>RMB 300bn relending programme</b> for banks to support share buybacks</li> <li>Promote high-quality development and serving the real economy, promote M&amp;A</li> </ul>

## What is the Expected Outcome?

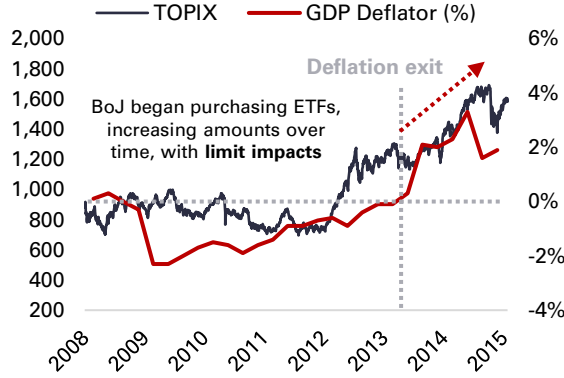
### China's Previous Effort to Boost Stocks Fell



Source: Bloomberg

## What Should You Do?

### Drawing Parallels from Japan



Source: Morgan Stanley, CEIC

- Seen as a **positive** signal, but likely insufficient to address deflation and depressed consumption
- Can draw parallels to Japan (2010-2012), where ETF purchases by the BoJ **failed to restore investor confidence** until deflation ended

- **Remain cautious** in China until we see:
  - 1) aggressive fiscal expansion and
  - 2) exit from deflation

## TIGER Leads to ASEAN Outperformance



### Technology

- Positioning itself as a **hub** for AI, data centres, EVs and semiconductors
- Digital economy** expected to skyrocket to ~\$300mn by 2025



### Income Growth

- ASEAN's growing middle class is projected to **double its spending power** to ~\$4tn in the next decade



### Green Transformation

- Main benefactor** of global decarbonisation movement, unlocking more than ~\$1tn in annual green opportunities



### Energy Infrastructure

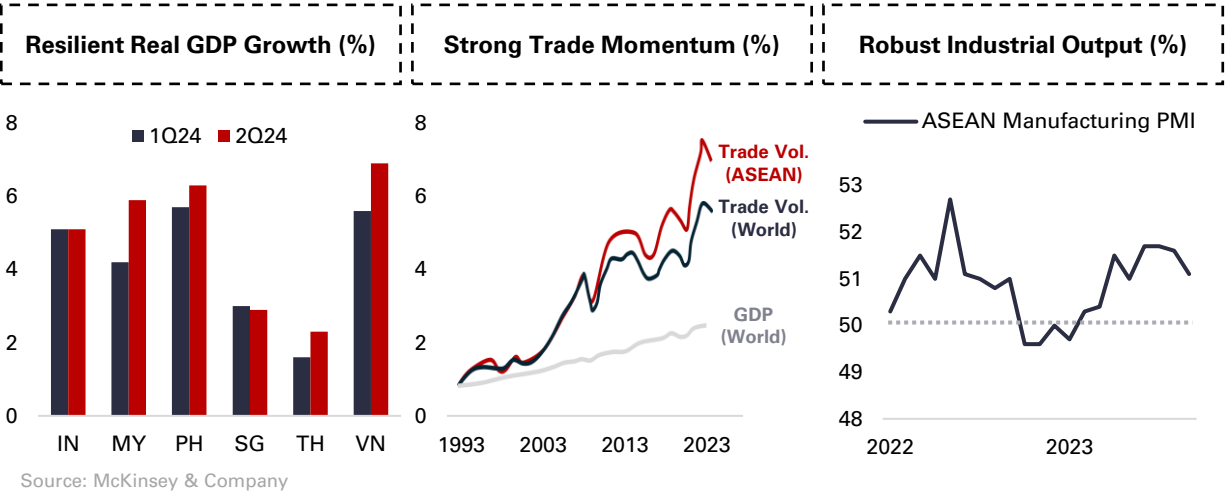
- Renewable energy** will be crucial in meeting energy needs for ASEAN's 90 million population by next decade



### RCEP

- Regional Comprehensive Economic Partnership (RCEP), the world's largest FTA, is set to **accelerate trade integration** and investments in ASEAN

## Bullish Recent Statistics

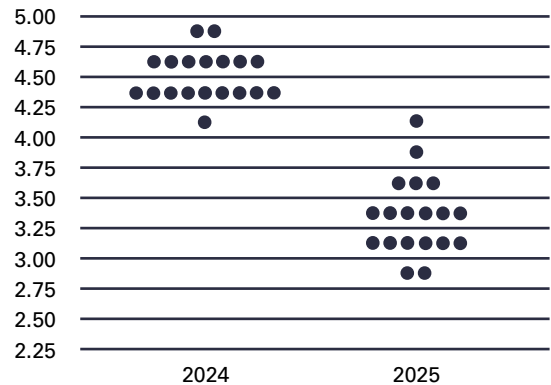


## Portfolio Positioning



## Fed Governors expect a total of 100bps cut by 2025...

US Federal Reserves Dot Plot – Sept 2024

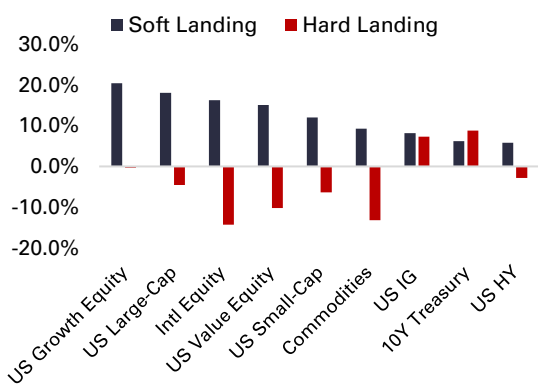


Source: Bloomberg, US Federal Reserves

- US Federal Reserve has cut their benchmark rate by **50bps**, which signified the Fed's determination to achieve a soft landing
- This marked Fed's first cut in **more than four years**, but there were little surprises as the market priced in a 50bps cut nearer to the meeting
- By end of 2024, a total of **100bps** cut seems the most likely outcome according to CME FedWatch (49%)

## ...and there are variations in asset class performances post-cut

Asset Class Performance 1984-Present



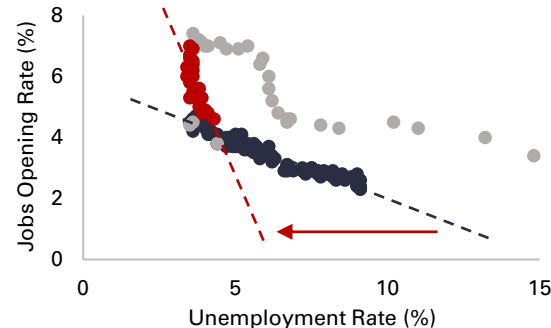
Source: Bloomberg, FactSet

- **Increasing polarity** of asset class performance is expected as debates on whether the economy is approaching a **soft or hard landing** resurfaces
- **Soft Landing:** Risk assets (e.g. large-cap, HY bonds) have done well
- **Hard Landing:** Risk assets have suffered whereas quality bonds have outperformed
- Across both scenarios, we should focus on **quality**

## Steepening of Beveridge Curve may delay policy effectiveness

US Beveridge Curve

● Post-GFC to COVID ● COVID-19 ● Post-COVID to 2024

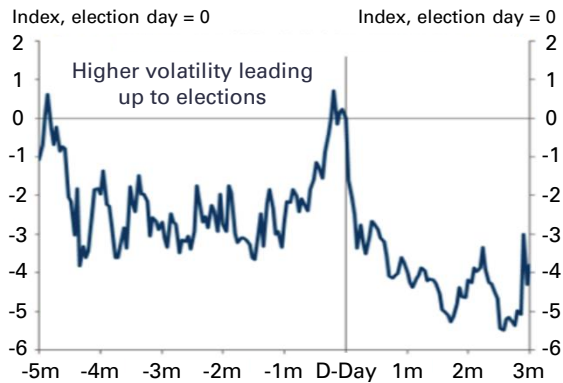


Source: Bloomberg, Federal Reserve Bank of St. Louis

- Beveridge Curve shows the inverse relationship between unemployment rate and job openings rate
- It remained flat in a low-interest rate environment leading up to the pandemic, but **steepened thereafter**
- If the graph turns non-linear in later stages of economic slowdown, **job openings may decrease more slowly** while unemployment rises more sharply

## ...amidst higher volatility leading up to the Election Day

Cboe Volatility Index (VIX)

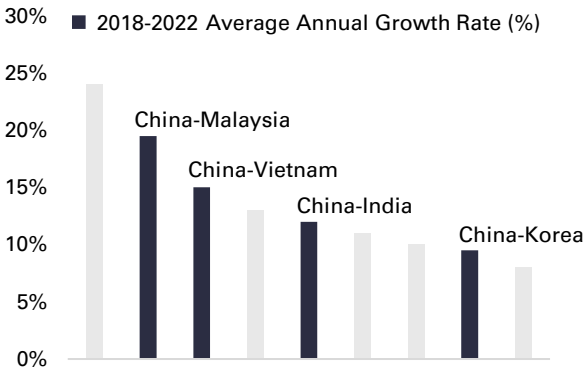


Source: Goldman Sachs Research

- Historically, we have seen higher volatility in 1-2 months before the Election Day
- This is also supported by the recent equities sell-off which caused a spike in the VIX index
- Leading up to the end of 2024, we recommend Mr Sinclair to focus on **quality**, with regular **portfolio rebalancing** discussions

## Asia is in the New World Order...

Fastest Growing Trade Corridors

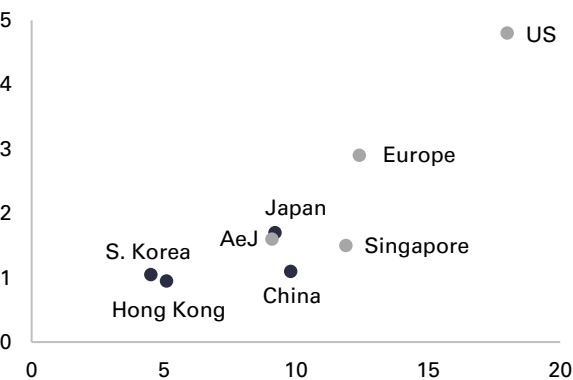


Source: HSBC Global Private Bank

- Asia continues to dominate the world's **manufacturing supply chains** and **consumption market**
- Asia is experiencing **rapid trade integration** due to de-globalisation, with intra-regional trade taking up 60% of the total trade flow vs 53% in 2000
- Intra-Asia cross-border FDI flows are expected to double by 2030

## ...with equities having room to improve their metrics

Asia Equities P/E and ROE

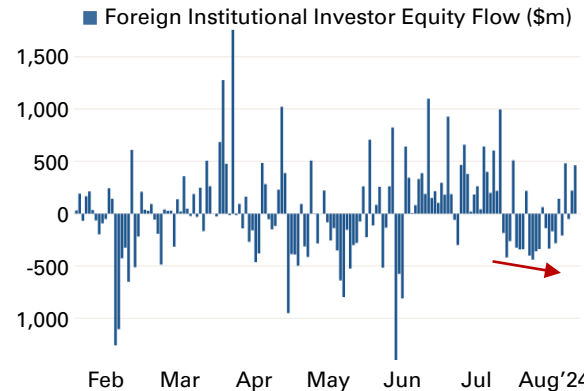


Source: Bloomberg, HSBC Global Private Bank

- Asian governments, including China, Korea and Japan are pushing for corporate reforms to increase shareholders' returns and **close equity valuation gaps** vs global peers
- Such corporate governance reforms bring attractive **re-rating opportunities** in Asian equities space

## ...and the resilient performance of India and ASEAN

Attractive Entry Point into India

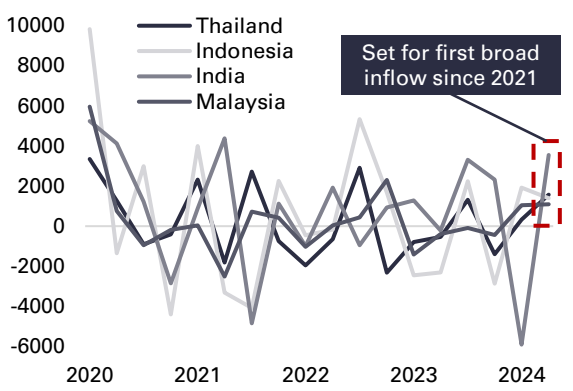


Source: Bloomberg

- Indian equities offer structurally high growth opportunities and higher valuations are justified by their **visibility of earnings** in coming years
- Recent post-election pullback of equity flows may be an **attractive entry point**
- ASEAN countries are also benefitting from **rising domestic demand** and **export growth** as global trade shifts away from China dependence

## ...have also driven heavy inflows into Asia bonds

Asia EM Bonds Set For Net Inflow

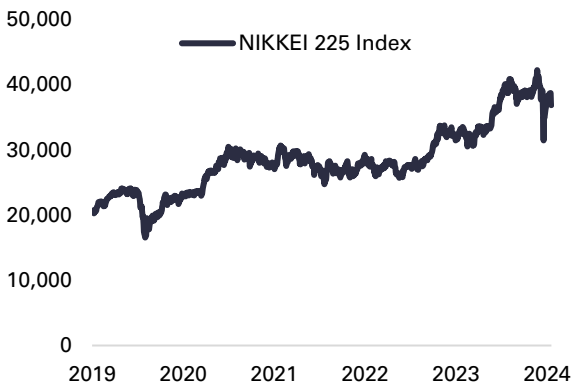


Source: Bloomberg

- India and Indonesian bonds were supported by **improving yield differentials** from the fall in US Treasury yields YTD
- To unlock Asia's best structural growth opportunities, we will **actively diversify** and **adopt thematic approaches** for Mr Sinclair

## We are cautiously optimistic in Japan...

NIKKEI 225 Index

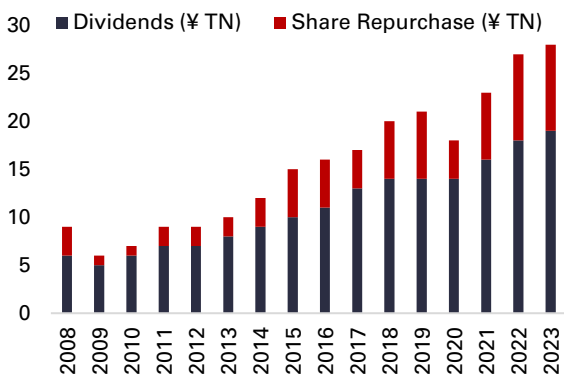


Source: Bloomberg

- Although the global sell-off of equities and the unwinding of Yen carry trade drove NIKKEI 225 Index's downfall in September, we remain **cautiously optimistic** in Japan
- Japan's recent undervaluation with robust corporate fundamentals makes it an attractive region to invest in

## ...with extensive corporate reforms to drive equities

More Money for TOPIX Shareholders

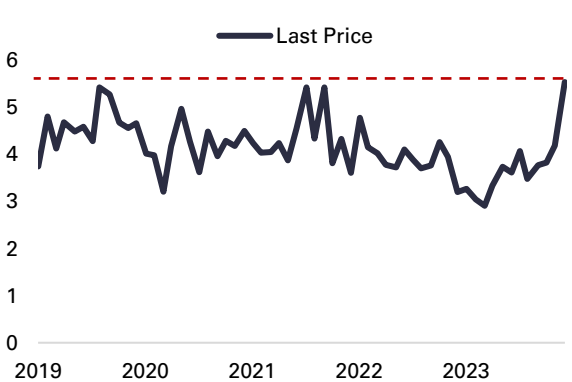


Source: Bloomberg, Okasan Securities

- Once known for their low dividend and share buybacks, Japanese companies have steadily increased cash payouts
- **Cross-holding rate has also reduced** from 34.0% in 1990 to 7.7% in 2023
- The heightened emphasis on **cost of capital and capital usage** are likely to continue driving the Japanese stock index in the next 5 years

## ...and more signs of sustained improvement in its bond markets

JGB 2Y Bond Auction Bid Cover Ratio

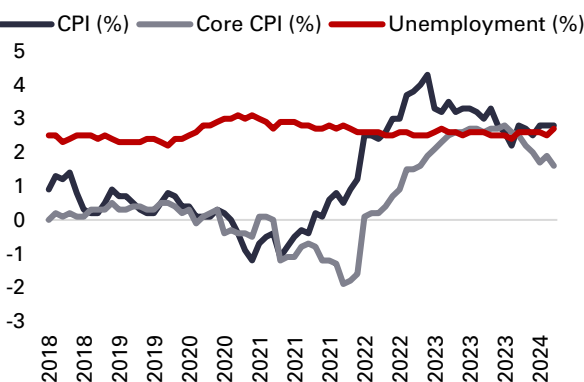


Source: Bloomberg, Bank of Japan

- Recent 2Y JGB auction saw **solid demand** despite low yield, generally coming from investors combatting lower US rates
- Domestic investors are also demanding **shorter duration** as interest rates may rise in Japan according to Governor Ueda
- Nonetheless, BoJ has maintained their policy rate at **0.25%** in September

## ...that paint a brighter picture for its long-term economy

Dual Mandates of BoJ



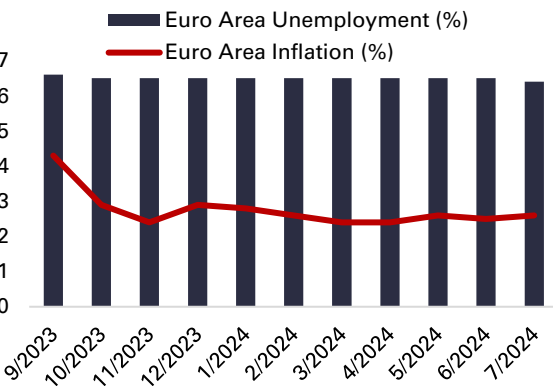
Source: Bloomberg, Okasan Securities

- Japan has escaped its deflationary spiral that has been agonising them for the past decade
- We expect Japan to maintain sub-3% inflation and unemployment

• Mr Sinclair should remain **optimistic on Japan equities and IG corporate bonds**, backed by robust fundamentals and cheap valuation

## Although Europe is troubled by weaker growth...

EU Inflation and Unemployment Rates

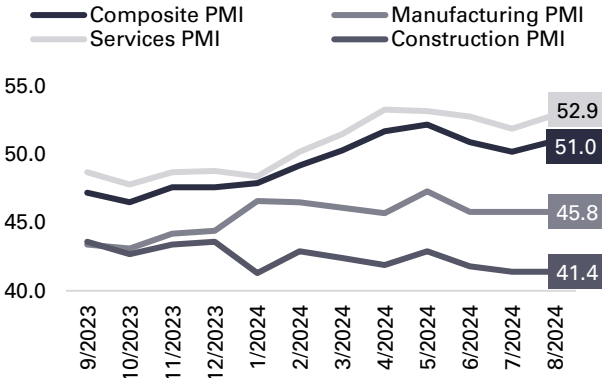


Source: Bloomberg

- Economists predict **six consecutive ECB rate cuts** until the end of 2025, with already a 25bp cut in June
- Moderation in Eurozone wage increases and three-year low August inflation (2.1% YoY) have set the stage for faster rate cuts than the US
- However, **service sector inflation remains sticky**, creating uncertainties for the impact of rate cuts

## ...economic sentiment and growth remains weak

Eurozone Purchasing Manager's Index

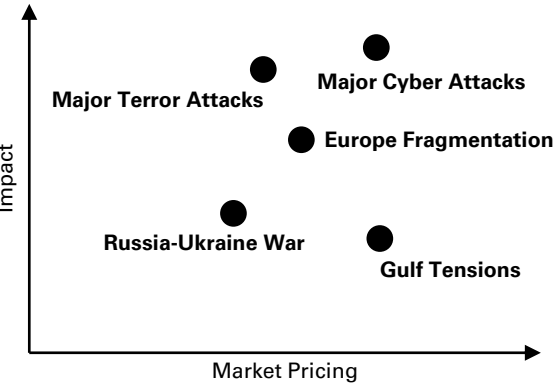


Source: Bloomberg, European Central Bank

- PMI >50 suggests expansion while score <50 suggests contraction
- Although the Eurozone economy received a boost from Paris Olympics, it is likely that struggles in the manufacturing sector will **weigh on services** and on the whole economy
- Eurozone construction activity also **fell markedly** with a sharp fall in orders which posted contractions for 29 consecutive months

## ...and amidst heightened geopolitical tensions,

Europe Geopolitical Risk Matrix

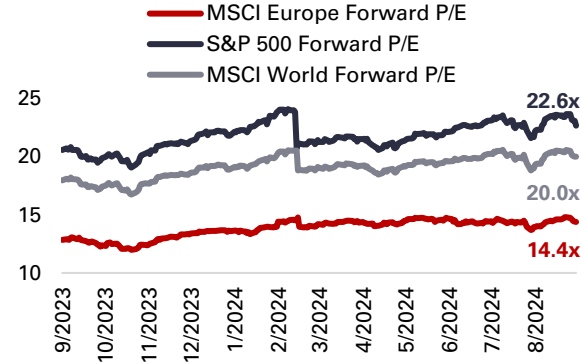


Source: Bloomberg, Blackrock

- Recent additional military aid from the US has bolstered Ukraine's ability to improve its defense, which points to a **continued war of attrition**
- Although Gulf tensions have remained contained, there are **heightened risks** of escalation, which may lead to volatile gas and energy supply
- Conflict in the Red Sea has strained shipping routes, **increasing costs for energy commodities**

## ...we remain highly selective in Europe

Europe is More Attractively Priced

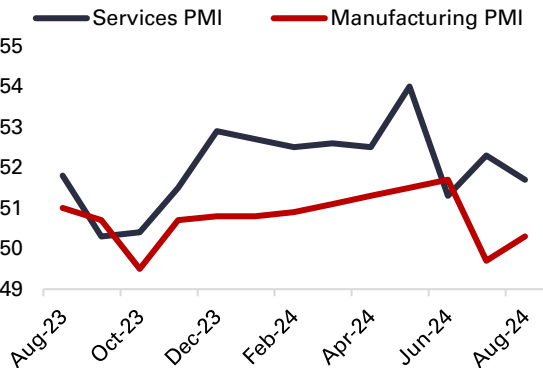


Source: Bloomberg

- Nonetheless, we believe in the improvements in Europe's cyclical momentum
- We see opportunities in **sector leaders** with **cheaper valuations**
- Considering Mr Sinclair's **moderate-high** risk appetite, we can explore opportunities in quality assets, especially in ESG investments

## Although China is troubled by weaker growth...

### Sluggish Manufacturing and Services

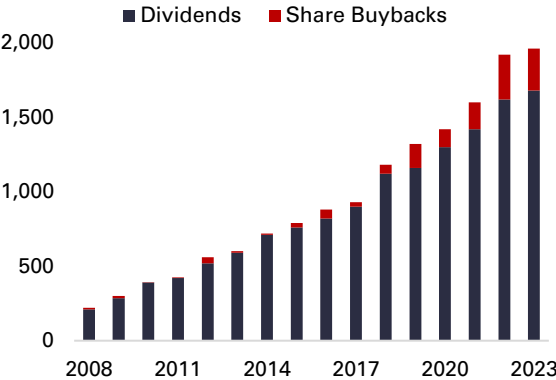


Source: Bloomberg

- The US has raised **tariffs on 14 different Chinese product groups**, creating speculation of a tariff war
- **Manufacturing and services**, traditionally bright spots in the Chinese economy **slumped from 2Q24**
- China's core inflation cooled to the **weakest in more than three years** (+0.6% YoY), fueling calls for greater efforts to boost household spending

## ...improved corporate governance reforms are tailwinds to equity

### Dividends and Share Buybacks At A High

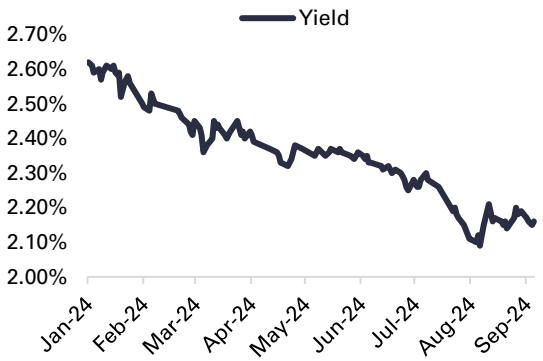


Source: Bloomberg

- China has recently announced a 'Nine-Point Guideline' which stresses the importance of **high dividends and share buybacks**
- With CSI 300 Index falling by 18% since 2019, **Chinese industry leaders** are trading at **attractive valuations**
- However, we remain **cautious** as investor confidence remains muted in China, with looming after-effects of its real estate crisis

## ...but China's low bond yields are unsustainable,

### China's 10Y bonds YTM

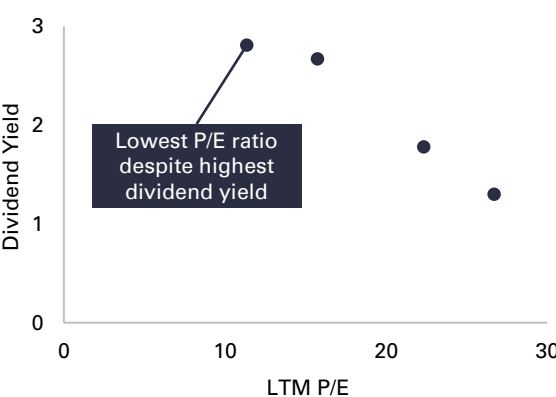


Source: Bloomberg

- China sold 35bn CNY of 50-year bonds at a yield of 2.53%, which **drove strong investor interest into the bond market**
- The Bank of China and state officials warn that the **long-term bond yields have deviated from a reasonable range** and that there is a tendency for bubble
- The macro-level exposure to Chinese Bonds could lead to a **large-scale collapse** much like Silicon Valley Bank should interest rates rise

## ...leading us to a cautious approach towards China

### Dividend Yield plotted against LTM P/E



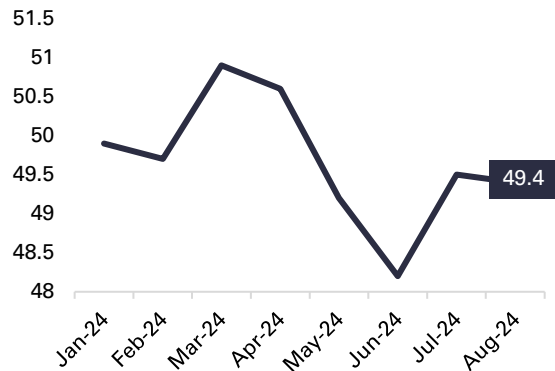
Source: Bloomberg

- Despite recent macroeconomic weaknesses, China remains to be significantly cheaper than other regions
- As such, we recommend selective exposure in your portfolio

• We can investigate opportunities in high-quality assets from State-Owned Enterprises for Mr Sinclair

## Hong Kong is troubled by weaker private sector growth...

### Sluggish Private Sector PMI

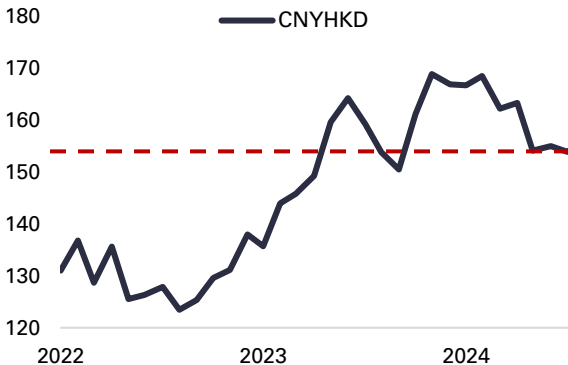


Source: Bloomberg

- PMI >50 suggests expansion while score <50 suggests contraction
- Hong Kong's private sector has **continually been contracting** despite efforts to create more jobs and increase capital expenditures
- This leads to a **gloomier outlook** on Hong Kong and its ability to recover from its poor macroeconomic performance in the short to near term

## ...which is exacerbated by China's weakening performance

### CNY Weakening Against HKD

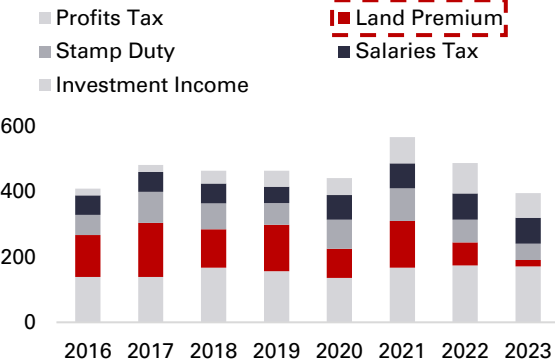


Source: Bloomberg

- Hong Kong's economy is highly dependent on Chinese travellers' demand, but their numbers have remained **42% below 2018 levels**
- As **CNY weakens** against HKD, the purchasing power of Mainland Chinese have reduced significantly
- **Borrowing costs have also remained elevated** for the past few years as HKD is pegged with USD, which forces them to import US monetary policy

## ...and its real estate slump

### Hong Kong's Land Premium is Reduced

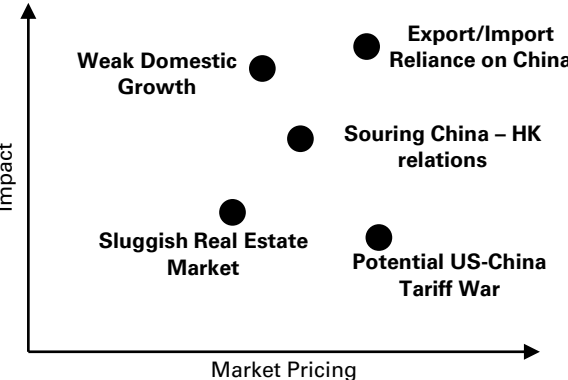


Source: Bloomberg

- Hong Kong government gained massive income from **auctioning land** to cash-rich developers as prices soared for the last decade, supporting their low-tax system
- A protracted property downturn now **undermines this system**, as developers have reduced their biddings
- Its real estate slump and population decline seems to be **deep-rooted** in the economy

## ... which further exacerbates our bearish outlook on Hong Kong

### Hong Kong's Macroeconomic Risks

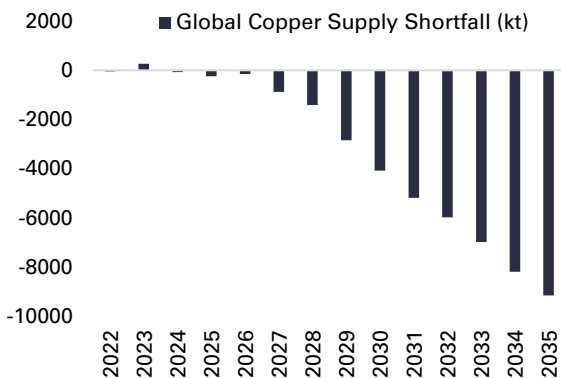


Source: Bloomberg

- We underweight Hong Kong given its weak performance across asset classes and macroeconomic risk
  - As such, we recommend minimal exposure in your portfolio
- We continuously remain underweight in Hong Kong, and will continuously find other geographies and sectors that offer **better risk-adjusted returns**

## Although Latin America is rich in minerals and ores...

### Growing Demand for Copper



Source: Bloomberg, J.P. Morgan Private Bank

- Ending off its bullish run in 1H24, copper has slumped ever since China has experienced slower growth and subsequent surge in copper inventory
- However, global copper shortfalls are likely to be exacerbated with **growing demand from green transitions** and **supply-side restrictions** such as lack of infrastructure and political pushbacks
- These are **accretive** to mineral-rich Latin America countries

## ...with robust earnings and attractive equity valuations,

### Latin America Forward Valuations

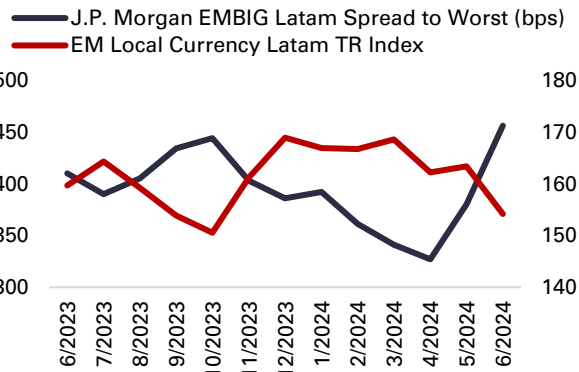


Source: Bloomberg, MSCI

- Latin American equities trade at **10x 12M forward P/E**, lower than its historical 12x and global peers
- Latin America equities also enjoy tailwinds from **falling interest rates**; with an average of 200bps cuts thus far, additional 300bps cuts are expected till end of 2025
- Increasing exports can spur economic growth and boost profits

## ...risk spreads on LatAm sovereign bonds have jumped

### Risk Spreads on USD-Denominated Bonds

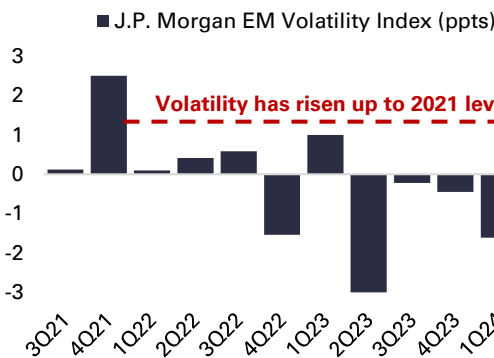


Source: Bloomberg, J.P. Morgan

- Latin America is **highly vulnerable** to the impact of the US presidential election, due to proximity and deep economic and trade ties
- In Argentina, local bonds have **shed ~11%** amidst worries over President Javier Milei's monetary policy
- Nonetheless, speculation that lower US rates will allow for **more easing** has provided tailwinds to LatAm bonds

## ...due to political and currency instability

### EM Currency Turbulence is Back



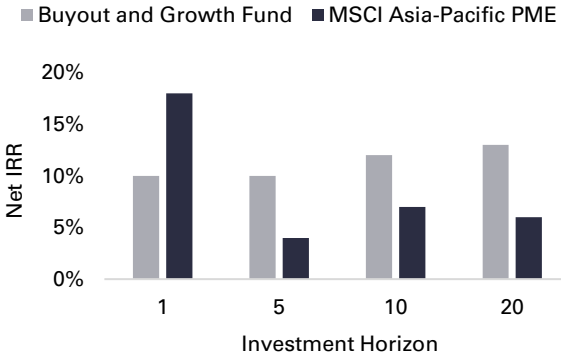
Source: Bloomberg

- Shinebaum's reforms have sparked political instability in Mexico, which resulted in elevated **currency volatility** and unwind of the carry trade
- Similar stories are being told across the region

• For Mr Sinclair, we recommend exposure to EM equities, particularly focusing on companies with robust balance sheets

## Private Markets

### Buyout funds outperform public market over the horizon



Source: MSCI

- **Rate cuts and normalisation in fund raising** as well as valuation adjustment aligns with growth of private market investment
- **Global AI trend** and the **3D Reset** (decarbonisation, deglobalisation, demographics) will be the key drivers for private market investment into **data centre** and **renewable energy**

### Risks

#### Illiquidity

- The typical maturity for Private Credit and Private Equity investments is 5-10 years

### Mitigating Factors

#### Diversification

- Spread investments across multiple loans or funds with varying maturities

### Type of Private Market Investment Recommended



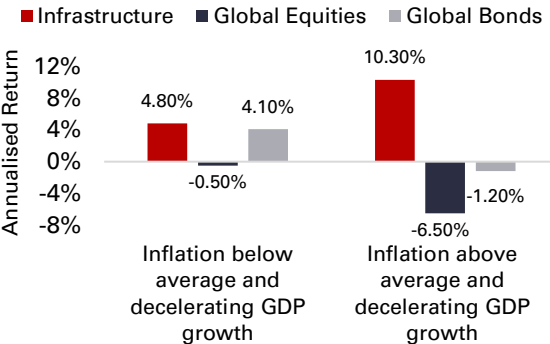
Private Equity



Private Credit

## Infrastructure

### Infrastructure demonstrated a more stable return in poor economic scenarios



Source: Cambridge Associates

- **Decarbonisation, deglobalisation** (re-onshoring) and **demographics** (aging population) will be the secular trends
- Limited supply and strong demand from AI boost will lead to **stronger pricing power** for **digital infrastructure** such as data centers
- Solar PV and wind will account for 95% of global renewable expansion, poising strong prospect for **renewable infrastructure**

### Risks

#### Lower Offtake than 24/7 Electricity

- Preference for off-peak energy leads to decreased demand for solar energy

### Mitigating Factors

#### Selective Investment in Solar Projects

- Prioritise projects with huge capacity and backed by significant organisations

### Type of Infrastructure Recommended







Digital Infrastructure



Renewable Infrastructure

Select Fund Justifications

Fund	Fund Strategy / Rating <sup>1</sup>	Outlook	Geographical & Sector Allocation		Justifications
<div> ALLIANCEBERNSTEIN<sup>®</sup></div> <div>AB American Growth Portfolio</div>	<div>Long term US-large cap focused fund built on fundamental research</div> <div>★★★★</div>	OW US Equity	<div>IT 33.2%</div> <div>Healthcare 17.5%</div> <div>Consumer Disc. 15.2%</div> <div>Comm. Svc. 6.7%</div>	97% allocation to US, with ~3% allocation to Europe	<div>1. Aligns with <b>OW US Large-Cap</b>, <b>UW EU</b> view</div> <div>2. Top company holdings have <b>robust fundamental and earnings</b> this quarter</div> <div>3. Sector-balanced portfolio that is likely to outperform <b>regardless of US election outcome</b></div>
<div> PICTET</div> <div>Pictet Japanese Equity Opportunities</div>	<div>Diversified growth and defensive equities with positive ESG impact</div> <div>★★★★</div>	OW Japan Equity	<div>Industrials 22.2%</div> <div>Tech 22.0%</div> <div>Consumer Cyc. 14.3%</div> <div>Financials 13.3%</div>	Higher allocation to Japan defensives	<div>1. Top 4 holdings align with our views on gradually recovering Japan</div> <div>2. Diversified, <b>ESG-based</b> positioning</div> <div>3. Rate hikes set to <b>benefit financials</b></div>
<div>J.P.Morgan</div> <div>JPMorgan Income Fund</div>	<div>Resilience amid volatility through high quality exposure across a wide spectrum of FI (incl. MBS)</div> <div>★★★</div>	OW US IG	<div>Mortgage 62.4%</div> <div>Corporate 39.3%</div> <div>Government 4.0%</div> <div>Municipal 0.1%</div>	22% in Commercial MBS and 18% in GNMA2 Collateral	<div>1. Aligns with our view on: <b>OW US IG</b>, <b>OW Structured Products</b> (CMBS, ABS rated &lt;AAA)</div> <div>2. Provides stability and income with 7.7% YTM</div> <div>3. <b>Outperformed benchmark</b> (BBG US Aggregate Index) by <b>7.1%</b> over the last 3 years</div>
<div> HSBC</div> <div>HSBC GIF India Fixed Income</div>	<div>Capital gains and income through sovereigns issued by India, one of world's fastest growing economy</div> <div>(Not rated)</div>	OW Sovereigns	<div>Sovereign 59.6%</div> <div>Banks 9.7%</div> <div>Diversified 8.3%</div> <div>Multi-Nation 4.8%</div>	<div>Avg Maturity: 10.20</div> <div>Avg Coupon: 6.91</div>	<div>1. Congruent with our bullish look on <b>10Y Indian Government Bond</b>, backed by index inclusion and declining fiscal balance</div> <div>2. <b>Low correlation</b> with major asset classes</div> <div>3. <b>Longer duration</b> of 6.10 vs benchmark (5.35)</div>
<div></div> <div>Global-Focused Macro Hedge Fund</div>	<div>Thrives under volatility through proprietary trading in G7 Fixed Income and G12 FX</div> <div>(Not rated)</div>	OW Alternatives	<div><div>Bull</div><div>• Long equities</div><div>• Long cyclical FX</div></div> <div><div>Base</div><div>• Long carry trade</div><div>• Long volatility arbitrage</div></div> <div><div>Bear</div><div>• Long duration</div><div>• Long VIX</div></div>	<div>• Long HY bonds</div> <div>• Short duration</div> <div>• Long commodities</div> <div>• Relative value trade</div> <div>• Long safe-haven</div> <div>• Short risky EM FX</div>	<div>1. Perform better in a <b>high-volatility</b> situation, which aligns with our macro theme</div> <div>2. Greater transparency and ease of investing</div> <div>3. Diversification benefit with <b>negative correlation</b> to benchmark (MSCI World)</div>

<sup>1</sup>Morningstar Rating

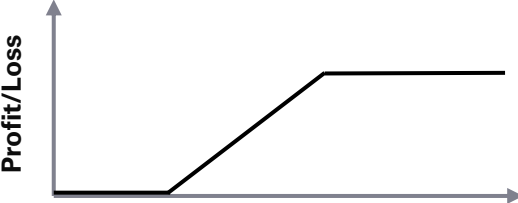
Utilising leverage to maximise returns

# Wealth Portfolio Lending

Advance ratio by asset type	Asset Type		Advance ratio (up to)	
	Foreign Currency Savings Deposits		85%	
	HKD Time Deposits		100%	
	Foreign Currency Time Deposits		85%	
	Deposit Plus		70%	
	Capital Protected Investment Deposits		70%	
	Bonds		95%	
	Certificates of Deposit		70%	
	US Listed Equities		70%	
	HK Listed Equities		70%	
	Unit Trusts		70-90%	
Interest rates by tier	Tier (HKD)		Interest Rate Spread	
	1,000,000 and below		1-month HIBOR + 1.20%	
	Above 1,000,000 up to 3,000,000		1-month HIBOR + 1.00%	
	Above 3,000,000		1-month HIBOR + 0.80%	
Risks	Liquidity Risk		Interest Rate Risk	
	Sufficient liquid assets must be held to service the loan		Interest rate fluctuations may adversely impact cost of borrowing	
	Currency Risk		Risk of Magnified Losses	
	Factor in potential FX losses and increased risks of margin call from currency differences		due to leverage	
Margin Status	Net Margin Ratio (NMR) = Available Margin/ Required Margin Available Margin = Market Value – Loan Balance Required Margin = Market Value – Total Collateral Value		Over-collateralised NMR > 100%	
			Able to continue to draw down	
			Shortfall NMR 80% to below 100%	
			Cannot draw down further	
			Margin call NMR 60% to below 80%	
			Margin call has to be satisfied within 5 days	
			Forced liquidation NMR below 60%	
			Secured assets would be sold	

In special cases, HSBC could also offer a loan deal with increased benefits

Loans are given out on an asset that has its value secured using a collar strategy



Through short call options and long put options on the same security, the security's downside is effectively limited at close to **no additional cost**

Upsides		Downsides	
Higher Advance Ratio	Lower interest rates	May incur additional financing costs	Less flexibility

# Offering Both Financial and Strategic Value

## 1 Reinvesting into Our Portfolio

Reinvesting into our portfolio gives a healthy rate of return above costs of borrowing and diversifies portfolio away from technology

- R**eturns
- About an 8.5% return p.a
  - Diversifies your portfolio away from being overly concentrated in Tech (initial 50% of portfolio concentrated in XYZ Fintech Limited)

- R**isks
- Increased portfolio risks due to leverage
  - Potentially increased portfolio volatility

- R**ealistic
- Executable solely with the expertise of GPB

## 2 Investments into Optionally Convertible Debentures (OCD)

Reinvesting the loaned amount from collar financing into OCDs to amplify portfolio returns

- R**eturns
- OCDs are able to give interest income of up to 9% p.a.
  - Potential for conversion to equity should share price appreciate

- R**isks
- Less risky – OCDs are *Pari Passu* relative to other mezzanine facilities which mitigates investment risks

- R**ealistic
- Can be carried out solely with the expertise of the GPB team, with contributions from global research

## 3 Investments into Growth/Late-Stage Venture Capital

Reinvesting the proceeds of collar financing into growth-stage equity investments in the Fintech Vertical


- R**eturns
- High upside potential – Growth Equity targets returns in excess of a 30-40% IRR target
  - Builds relationship with potential bolt-on M&A targets down the line

- R**isks
- Highly risky – at the growth stage many companies are still net income negative and prone to bankruptcy/unfavourable liquidation events

- R**ealistic
- Expertise of HSBC Innovation Banking and HSBC AM would be required in selecting prudent investment targets

Your gateway to:

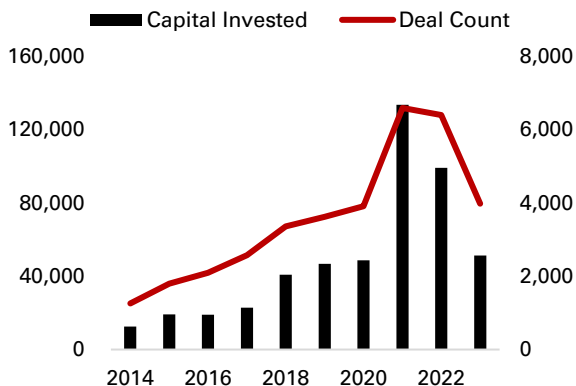


 **HSBC** is committed in ensuring you have best-in-class access to strategic and investment opportunities to preserve your wealth

# Understanding the Fintech Investments Landscape

## Fintech deal activity is still robust despite recent slowdowns...

### Fintech Deal Activity and Capital Invested

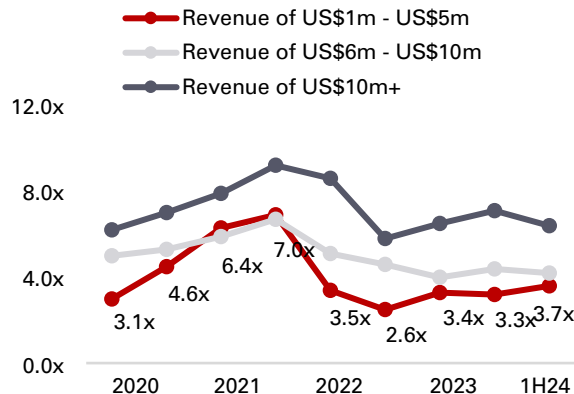


Source: Innovate Finance

- Fintech deal counts in 2023 remains higher than pre-Covid levels despite renewed interest in other sectors post-pandemic
- There are bright spots within APAC in areas such as digital wallet payments and bancassurance
- Direct Investment could yield high MOIC while facilitating the building of a relationship for a future strategic M&A with XYZ Fintech Limited

## ... and valuations are appealing for Fintech Investors

### Fintech Industry EV/Revenue Multiples



Source: Innovate Finance

- Valuations for early-stage Fintech startups have dropped significantly from peak levels Pre-Covid
- Investing now presents a prime opportunity to buy into industry-shaping early-stage technologies at significantly discounted valuations

## Understanding your options when it comes to transaction structuring

### 1 Direct Equity Investments

- ✓ Allows you to reap the full upside from the high growth trajectory of early-stage companies
- ✗ Dividends are not cash dividends but rather non-participating, PIK dividends so you won't get annual cash payouts

### 2 Venture Debt

- ✓ Comparatively the least risky investment given debt's seniority in the capital structure
- ✗ Interest for growth-equity companies are PIK, so you will not get annual interest but rather repaid at the next fundraising round

### 3 SAFEs/Convertibles

- ✓ PIK Interest along with the option to convert to equity at the next fundraising round
- ✗ Likely would be a co-investment with another fund rather than a direct convertible issuance



HSBC's Global Banking and Markets and Global Private Banking teams will help you navigate the complex private investment landscape

HSBC uses a **5-step approach** to customise philanthropic plans to align with your interests so that you can make a **positive impact** on the community



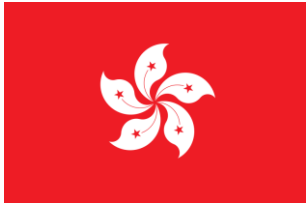
Source: HSBC Trustee

# Comparison of Succession Plans

	Will	Revocable Trust	Irrevocable Trust
Confidentiality	Become a matter of public record when they're submitted to the court for the probate process	Information do not become a public record, minimise PR issues especially when Gary is the CEO of a listed company	Information do not become a public record, minimise PR issues especially when Gary is the CEO of a listed company
Protection from Creditors	Before death, does not protect your assets from creditors	Before death, does not protect your assets from creditors	Protects your assets from creditors
Duration	Assets in a will must go through probate, which is the court-supervised legal process of distributing your estate after you pass away	Assets in a living trust skip probate, allowing your spouse and daughter to receive them faster	Assets in a living trust skip probate, allowing your spouse and daughter to receive them faster
Tax & Estate Exemptions	Assets are not exempted from tax and estate considerations since grantor retains control	Assets are not exempted from tax and estate considerations since grantor retains control	The income from the trust assets isn't included in the grantor's taxable income or the grantor's estate

Considering Mr Sinclair's **listed company** and **tax planning** concerns, we think an **irrevocable trust** will better serve his needs

# Comparison of Singapore and Hong Kong Family Office



Regulatory Environment	Minimum S\$200,000 in local business spending; fund managed by SFO must invest at least 10% of its AUM or S\$10 million, whichever is lower, in Qualifying Local Investments	Minimum amount of operating expenditure incurred in Hong Kong for carrying out investment activities not less than HK\$2 million
Ease of Establishment	Less dynamic, requires pre-approval by MAS first, making it tougher for SFOs to qualify for tax concessions	More dynamic, SFOs automatically qualify as long as they meet the minimum criteria
Taxation	Under Section 13O, tax exemptions (with minimum of S\$10m assets under management with commitment to increase to S\$20m after 2 years)	Exempt from profit tax (with criteria like minimum assets of at least HK\$240m, at least 2 full-time employees in Hong Kong, at least HK\$2m in operating expenditure)
Key Advantages	100% tax deduction for overseas donations made through qualifying local intermediaries (capped at 40% of the donor's Singapore statutory income)	Much faster application process than Singapore, which typically takes 1 – 2 years, depending on complexity of family office involved

# Probate and Estate Planning

