

Investment Playbook Weekly Update

February 6th, 2023

**LIGHTHOUSE
CANTON**


2022
ASIAN PRIVATE BANKER
AWARDS FOR DISTINCTION

BEST INDEPENDENT WEALTH MANAGER
ASIA PACIFIC


2021
ASIAN PRIVATE BANKER
AWARDS FOR DISTINCTION

BEST INDEPENDENT WEALTH MANAGER
WEALTH PLANNING SERVICES


2021
ASIAN PRIVATE BANKER
AWARDS FOR DISTINCTION

BEST INDEPENDENT WEALTH MANAGER
INVESTMENT ADVISORY

GLOBAL
**Private
Banking**
INNOVATION
AWARDS 2022

OUTSTANDING DIGITAL
TRANSFORMATION IN COVID 19 BY
A FAMILY OFFICE

BEST FAMILY OFFICE –
MIDDLE EAST

BEST FAMILY OFFICE –
UNITED ARAB EMIRATES

lighthouse-canton.com

Disclaimer

The contents of this document are confidential and are meant for the intended recipient only. If you are not the intended recipient, please delete all copies of this document and notify the sender immediately.

This document, provided as a general commentary, is for informational purposes only and is not to be construed as an offer to sell or solicit an offer to buy any financial instruments in any jurisdiction. This does not constitute any form of regulated financial advice, and your independent financial advisor should be consulted prior to taking any investment decision(s).

This document is based on information from sources which are reliable but has not been independently verified by Lighthouse Canton Pte Ltd and its subsidiaries ("LC"). LC has taken the reasonable steps to verify the contents of this document and accept no liability for any loss arising from the use of any information contained herein. Please also note that past performances are not indicative of future performance.

Information contained herein are those of the author(s) and does not represent the views held by other parties. LC is also under no obligation to update you on any changes made to this document.

This document is prepared by Lighthouse Canton Pte Ltd and its subsidiary, Lighthouse Canton Capital (DIFC) Pte Ltd, which are regulated by Monetary Authority of Singapore ("MAS") and Dubai Financial Services Authority ("DFSA") respectively. MAS and DFSA has no responsibility for reviewing, verifying and approving the contents of this document and/or other associated documents. The contents of this document may not be reproduced or referenced, either in part or in full, without prior written permission from LC.

This document is confidential and is only intended for Accredited Investors and/or Professional Clients, as defined by MAS and DFSA.

Weekly Spotlight

1

Fund Spotlight: Saba Carry Neutral Tail Hedge

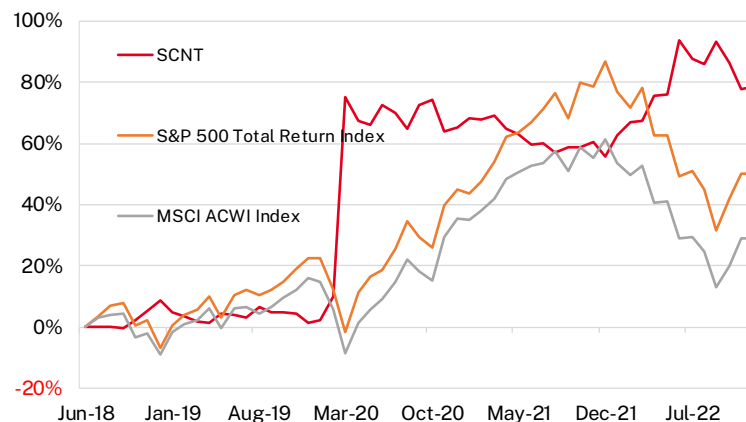
FUND INFO

Asset Type	Portfolio Hedge
Investment Geography	Americas
Strategy	Long Biased CDS
Currency	USD

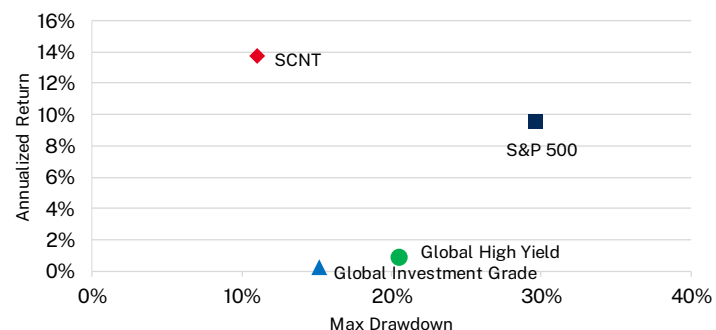
PERFORMANCE STATISTICS

	SCNT	S&P 500 Total Return Index	MSCI ACWI Index
Annualized Return	13.74%	9.62%	5.96%
Annualized Volatility	29.70%	18.88%	18.14%
Annual Sharpe Ratio (Rf)*	0.45	0.48	0.30
Annual Sortino Ratio (vs Rf)*	2.14	0.71	0.43
Max Drawdown	11.08%	29.56%	29.99%
Correlation to Global Equities	-0.62	0.98	1.00
Correlation to Global IG	-0.25	0.37	0.39
Correlation to Global HY	-0.82	0.80	0.85
ANNUAL PERFORMANCES			
2022 Return	14.58%	-19.60%	-19.95%
2021 Return	-5.68%	28.71%	18.99%
2020 Return	63.22%	18.40%	16.84%
2019 Return	-6.75%	31.49%	27.26%

HISTORICAL CUMULATIVE RETURNS



RETURN VS MAX DRAWDOWN SINCE FUND INCEPTION



STRATEGY SUMMARY

The Fund runs a long / Short strategy on CDS. It buys protection on single name CDS which historically have high spread volatility and sells protection on “Blue Chip”, high quality single name CDS and IGCDX indices.

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

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

Source: Lighthouse Canton, Saba Capital

Fund Spotlight: Investment Rationale



Source: Morgan Stanley, Dec 2022

- Increasing borrowing rates have increased fat tail risks in credit markets.
- Current BBB Spread levels remain low compared to levels seen in recessions and may not be pricing in higher credit tail risks.
- The fund (SCNT) runs a strategy that benefits from widening of spread differential between bad quality IG issuers from good quality IG issuers
- The recent risk rally has compressed the spread differential further and created a good entry point for the strategy.
- A scenario where S&P falls more than -20% while IG spreads reach 138bps or more, could present an upside to the fund of more than 30%.

Equity Spotlight: Clearfield Inc.

Stock of the week:

CLEARFIELD INC

At a Glance

Ticker	CLFD US EQUITY
Exchange	NASDAQ GM
Sector	Information Technology
Industry	Telecom Eq Fiber Optics
Listed Currency	USD
Mkt Cap (m)	952
Country Risk	US
Beta	1.00
3M implied Vol.	59%

Profitability

Return on Capital	32.3%
Return on Equity	26.1%

Sales Growth

YoY	92%
CAGR 3Y	51%

Share Price



Valuation

Price / Sales	2.9
P / E (fwd)	13.9

Yield

Dvd	
1 / PE Ratio	7.2%

Lighthouse Canton

LC Target Price	91.0
Current Price	63.6
% Upside	43%

Analysts

Buy	5
Hold	1
Sell	0
Target Price (Avg)	109.8
% Upside	73%

Risk Consideration

Product Risk Rating	5
Shorts (% float)	11.4%
CDS	1.0%
Price Change 3M	-28.3%
Price Change 1Y	-0.1%

Source: Bloomberg

Date: 09/02/23

Equity Spotlight: Investment Rationale

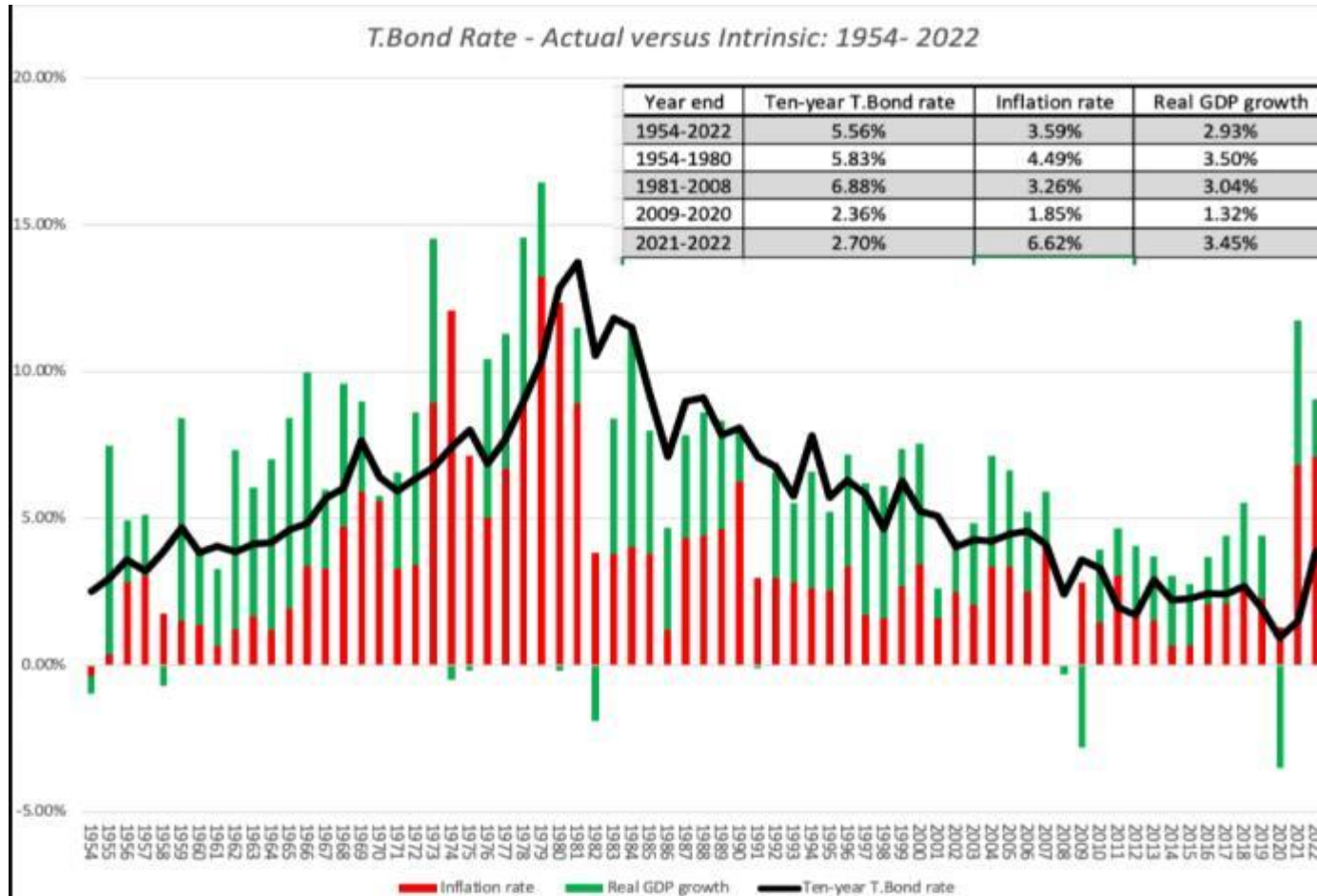
- **Company Description** : Clearfield Inc. operates as an end-to-end fiber delivery provider, primarily manufacturing proprietary power cabinets, fiber pathways, cassettes and protection systems. The company focuses on serving the rural areas of the United States, where it faces lower competition from its peers.
- **Investment Rationale** : -
 - The company has carved out a leadership position in the rural fiber optics market primarily because of the better build quality of its products which allows telecom providers to reach households that it would not have been able to, using products of other optic fiber delivery providers.
 - The entire industry currently has strong tailwinds in the form of rapid 5G deployment and a significant number of new households likely to come up over the next 10 years, which are going to utilize the company's proprietary products.
 - From a valuation standpoint we believe that the company trades below its intrinsic value of **91.04\$** per share. The stock currently trades at **63\$** per shares, which offers a reasonable margin of safety. We believe that a **TTM P/E of 16.4** times is more than fair for a company that is likely to grow at a CAGR of **25%** over the next 2-3 years.

Charts of the week

2

Understanding Long Term Rates

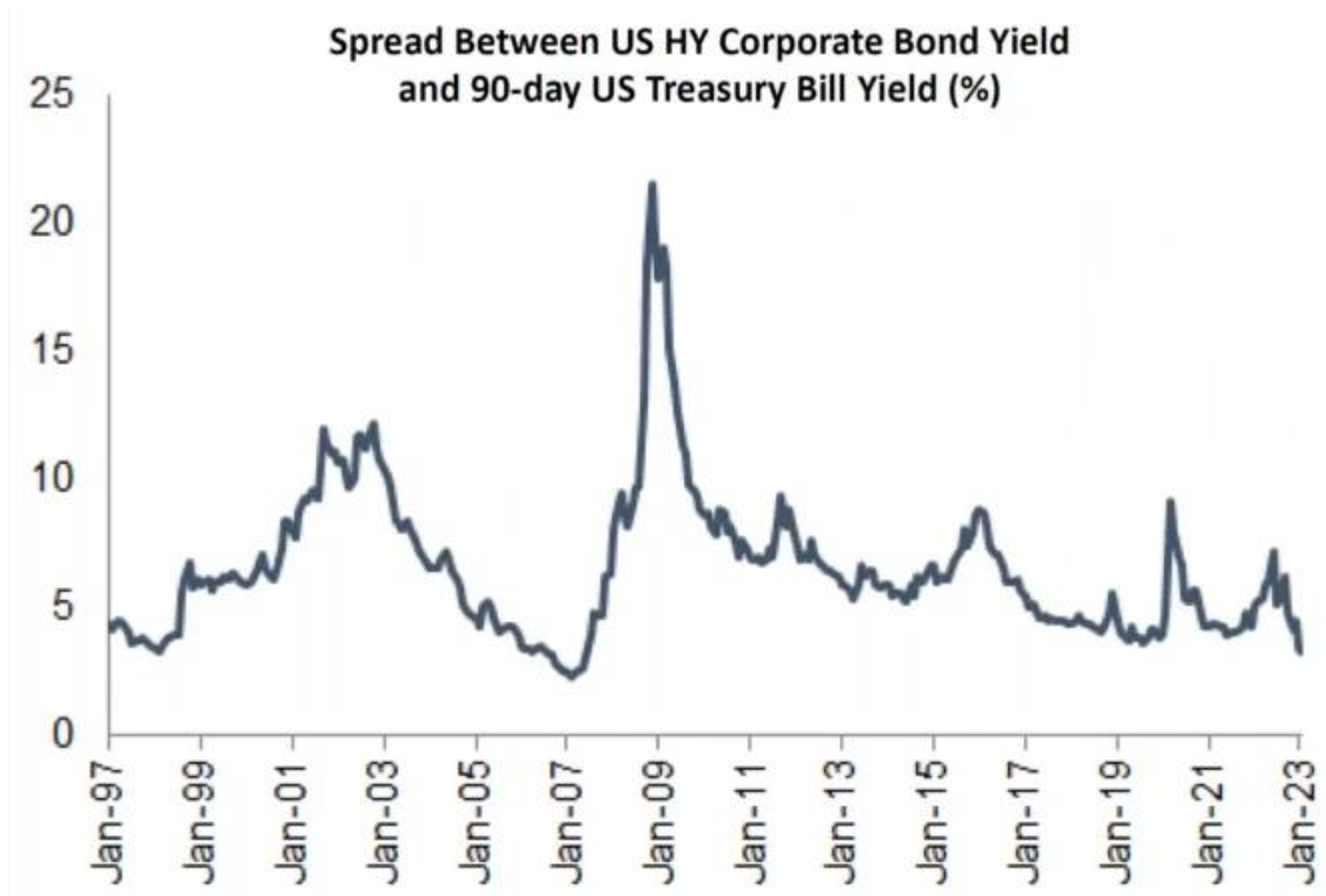
Central Banks have been creative (via Quantitative Easing) trying to control long term rates



- Long-term rates (10-year and over) are influenced by two main factors: inflation and the GDP growth.
- Aswath Damodaran of NYU writes in the Financial Times that “It was the combination of low inflation and anemic growth that was at the heart of low rates over the last decade”.
- The US 10-year yield is now at 3.6%. Assuming that the US economy keep growing at 2.5% for the next decade (which is reasonably close to its past 10 years average), then investors expect the average inflation to be 1.1% for the next 10 years, a rather optimistic scenario considering that inflation is currently at 6.5%.

US HY Bonds Are Not Cheap

US HY spreads at tightest levels since GFC

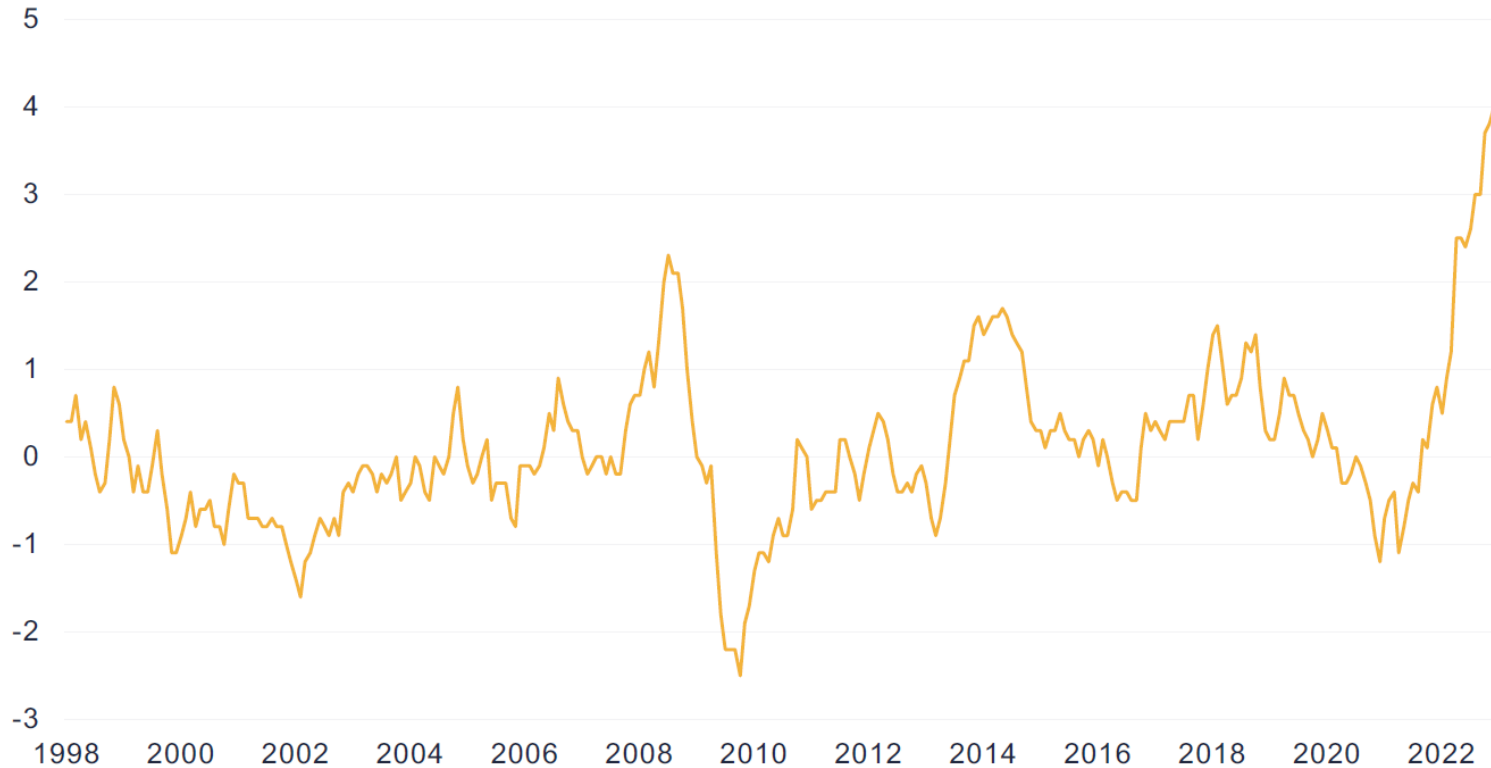


Source: Saba Capital, Feb 2023

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

Japanese Inflation at Multi-Decades High

Case for tighter monetary policy is strong and recent YCC pivot has sparked the shift



- Inflation in Japan has reached a multi-decade high and have started to pressure the BOJ in ending its decade long Negative Interest Rate Policy
- A first step toward this was the BOJ's decision to loosen its grip on the YCC
- This had sent a hawkish signal to markets who are now expecting more tightening to come through in 2023
- The pace and magnitude of tightening depends on who Kuroda's next successor is but we think directionally, Japan rates are likely to climb higher from hereon.

Source: Brevan Howard, Feb 2023

LC Views - Summary

3

LC Views Summary (1/2)

Sub-Asset	Recommended Positioning
Rates	<ul style="list-style-type: none">• Rates will be higher for longer globally. Central Banks have no choice but to keep on tightening financial conditions to drive inflation, supposedly back to 2%, over time. Risky assets are likely to remain under stress and we anticipate volatility to remain reasonably high across risky asset classes in 2023. For this reason, we reiterate our views to keep a significant allocation to liquid alternative strategies and bonds which present low correlation to equities and / or thrive during periods of stress.
Fixed Income	<ul style="list-style-type: none">• Bonds now command attractive yields, and the portfolio should have a larger allocation to the asset class. Short Duration (<3) Investment Grade bonds are attractive and should be part of any portfolio. We recommend being selective with High Yield bonds and recommend adding duration if/when 10Y US Treasury yield get above 4%. We also recommend adding distressed managers who benefit from markets dislocations and mispricing. We expect Fed rates in the U.S. to peak in Q2 next year at 5.0%-5.25% but, contrary to what is implied by fixed income investors, we do not believe that the Fed will have to cut rates later this year. Should that be the case (steep recession), equities are likely to be trading much lower by year-end.
Equities	<ul style="list-style-type: none">• US equities have rebounded in 2023 (S&P 500 +7.2%) despite slipping earnings and an inverted US Yield Curve. We hold a slightly bearish view on equities over the next 6-12 months given that interest rates are expected to continue rising and economic growth, while not collapsing, is softening. Equities have discounted higher interest rates, but not the decline in profits that those rates will, in time, bring about. Like in most bear markets, investors should not be surprised by short term rallies (10-15%), as is the case, so far in 2023. While valuations have reverted towards their long-term average (Fwd. P/E 17x for S&P 500), earnings are bound to be revised lower in the coming quarters. In such a context, we recommend (by order of preference) Long/Short managers, Fixed Coupon Notes (FCNs) with low strikes (75%) and quality stocks. We acknowledge that many stocks have now reached attractive levels and will look to opportunistically add exposure to them over time.

LC Views Summary (2/2)

Sub-Asset	Recommended Positioning
Currencies	<ul style="list-style-type: none">• Currencies are expected to remain volatile throughout 2023. We recommend adding active managers (Macro funds) to monetize opportunities in currencies and rates. Exposure to EUR and GBP could be increased over time to benefit from the recent lows.
Commodities	<ul style="list-style-type: none">• We like Gold for several reasons: diversification benefit, inflation hedge, geopolitical risk and weakening USD.• Oil is likely to remain highly speculative. On the one hand, the slowdown of the economic activity globally, (recessionary fears) should reduce demand progressively in 2023. On the other hand, the lack of capex spending during covid as well as the possibility for OPEC to reduce production will inevitably support prices in the long run. China's re-opening will likely be supportive for commodities.
Real Estate	<ul style="list-style-type: none">• Real Estate represents a good hedge against inflation, with its steady income, often linked to inflation. Tightening financial conditions have started to cause sharp repricing in property prices globally and threaten rental growth rates. The risk of further correction in real estate prices should not be underestimated.

LIGHTHOUSE CANTON

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

Singapore

Lighthouse Canton Pte Ltd

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

Dubai

Lighthouse Canton Capital DIFC Pte Ltd

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

India

LC Capital India Private Limited

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

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

Phone: +91 9650473961