PHOENICIAN INTERNATIONAL LIMITED

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Investment Outlook 2Q 2023

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COMPANY PROFILE

Trusted | Innovative | International

WHO WE ARE

The Group

Phoenician International Limited (“Phoenician”) is a publicly listed investment firm headquartered in Hong Kong, dedicated to providing wealth management, investment management and investment banking services to a select group of private, institutional, and corporate clients.

Our Strategy

Phoenician help innovators, entrepreneurs, industry leaders achieve their financial goals by serving as a bridge between China and the West, while connecting leading foreign institutional investors with markets in Asia.

Our Business

From managing wealth for successful individuals and institutions to helping businesses fulfil their ambition, Phoenician’s comprehensive suite of solutions empowers our clients to make the most of global opportunities.

Trusted by the Most Demanding Clients

We manage wealth for highly sophisticated, multi-jurisdiction private clients and family offices with global investment interests

We offer a comprehensive suite of bespoken portfolio management solutions combined with high-touch, personalized approach to client needs across products and jurisdictions.

Our discretionary and non-discretionary investment solutions are combined with state-of-the-art market connectivity across 50 markets and over 30 currencies.

As most of our clients are successful entrepreneurs, we also provide best-in-class corporate advisory services to facilitate monetization of their business interests.

Independent Minds Delivering Performance Through “Dual World” Innovative Solutions

We offer our clients a constant stream of high-performance investable ideas actionable across the East/West divide, specifically tailored to their financial circumstances

As an independent investment firm, Phoenician has the ability to work with leading platforms and service providers worldwide in order to offer clients best-in-class advisory services and trading capabilities across asset classes, with major benefits on portfolio diversification.

Our key focus is to address the ever-increasing demand for multi-national cross-border investment flows between China/ASEAN financial markets and the rest of the world.

We leverage on our global network of clients and relationships coupled with our decade long presence in the Greater China region to offer clients global access to exclusive investment opportunities across multiple jurisdictions.

International Footprint Delivering Local Insights

Across our Regional Offices, we have Built a Network of Reputable Local Professionals who Speak the Language, Know the Culture and Have First-Hand Knowledge of Clients' Needs

As a result of our relationship-based approach to private and institutional clients, Phoenician has the ability to scout co-investment opportunities in promising early-stage ventures, especially within the Greater China region, that are generally not available for investment by the general public;

As a result of its deep connection with local communities both globally and within Greater China, over time we have hired and developed outstanding talent to enhance our client service and expand our private, institutional and corporate client network;

Phoenician management team is constantly involved in local communities' activities, with substantial benefits in terms of employee loyalty and client trust.

CONTACT US

KEY PEOPLE

Managing Director
Marco Arosti
Investment Advisors
Gordon Hui
Frankie Lin

TICKER

NSX: PHI

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RETURNS IN Q1 2023

In 1Q2023 investment performance has been overall very positive across asset classes, on the back of a uniquely disappointing full-year 2022 performance, when both US Equity and US Bonds registered a substantial, coordinated drawdown which has put to test even the most consolidated defensive strategies.

The only exception were Global commodities indexed which retreated marginally, on the back of a strong 2022 performance. However, within the commodity space, Gold performed very strongly.

This implies all asset classes performed relatively well, which reinforces a positive correlation trend which we have been observing over the past 12 months. This phenomenon is highly problematic for traditional wealth management strategies that rely on historically low correlation between US Equity and US Bonds.

Correlation between US Bonds and US Equities

0.65 in the past 12 months

0.01 in the past 3 years

0.06 in the past 5 years

(0.02) in the past 10 years

In addition to providing diversification, MSCI China A Share Index revived strongly in Q1 2023, with a positive return of 6.07%. Correlation between China and US Equities and Bonds remained very low.

Correlation between US Equities and China Equities

0.03 in 2022

(0.05) in the past 3 years

Correlation between US Bonds and China Bonds

0.02 in 2022

0.01 in the past 3 years

As of December 2022, the decline of the MSCI Emerging Markets Index (-20%) had exceeded the average decline of the previous 10 bear markets, including the 1997 Asia Financial Crisis. Q1 2023 sees the index recovered by 3.96%, of which 3% was contributed by Mar 2023 result, indicating a strong recovery, especially in the light recent Western banking crisis evolve during March.

Outside the US, China Government Bonds and China Corporate Bonds performed well, in a context of declining inflation and monetary rates.

The underlying economic drivers delivered a few surprises during Q1 2023, which caught most US-centric investors unprepared:

- US real gross domestic product (GDP) grew at an annualized rate of 1.1%, significantly lower than the 2.6% growth in the fourth quarter 2022 and the consensus forecast of 2%.
- Non-residential fixed asset investment, which reflects the investment of corporations, only increased by 0.7% in Q1 2023, significantly lower than that in the previous quarter of 4% while the decline in residential fixed asset investment is even greater, narrowed from 25.1% in the fourth quarter of last year to only 4.2%.
- US inflation was more persistent and stubborn than the market expected, with inflation expectation for 2023 raising steadily.

In this context, each upward movement on the economy real growth forecast for the economy were immediately followed by raising expectations in terms of inflation and monetary rates, with substantial negative implication for US Bonds.

PERFORMANCE BY ASSET CLASS

	1Q 2023 % Return	1Y % Return
US Equity (Vanguard Total Stock Market ETF)	6.75%	-10.35%
US Treasury Bonds (iShares 20+ Year T-Bonds)	6.84%	-19.47%
US IG Debt (MSCI USD Investment Grade Corp Bond Index)	3.16%	3.16%
US HY Debt (MSCI USD High Yield Corporate Bond Index)	2.03%	-4.79%

	1Q 2023 % Return	1Y % Return
China Equity (MSCI China A Index USD)	6.07%	-9.53%
China Treasury Bonds (FTSE Chinese Gov Bond Index) [1]	0.66%	3.15%
China IG Debt (FTSE Chinese USD Broad Inv Grade Index)[1]	1.87%	-4.64%
China HY Debt (FTSE Chinese USD Broad High Yield Index)[1]	2.23%	-9.10%

	1Q 2023 % Return	1Y % Return
EU Equity (MSCI European Union Index USD)	7.95%	1.11%
EU Treasury Bonds (S&P Eurozone Gov Bond Index USD)	2.42%	-10.78%
EU IG Debt (MSCI EUR Inv Grade Corporate Bond Index)[2]	3.66%	-9.81%
EU HY Debt (MSCI EUR High Yield Corporate Bond Index)[2]	1.97%	3.03%

	1Q 2023 % Return	1Y % Return
Global Equity (MSCI ACWI Index USD)	7.40%	-8.64%
Gold (SPDR Gold Trust ETF USD)	8.01%	1.42%
Broad Commodities (S&P GSCI USD Index)	-3.71%	-17.41%

1. Expressed in Hedged USD
2. Expressed in EUR

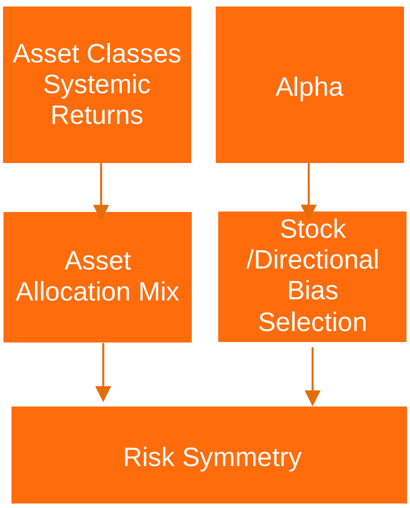
PHOENICIAN PORTFOLIO PERFORMANCE

Our Approach to Portfolio Design

We approach portfolio design with risk/return efficiency as our main concern, both for asset class allocation and in the pursuit of alpha.

We have developed a proprietary methodology underpinning both our asset mix allocation and our stock/financial instrument selection, which rest on the principle or *risk symmetry*.

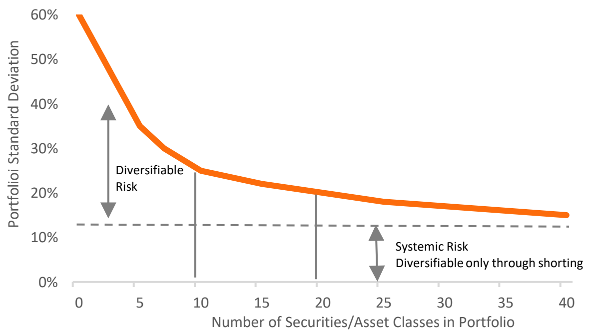
Phoenician Risk Symmetry Framework



Risk symmetry enables us to take full advantage of diversification (both asset class diversification and financial instruments diversification) to build risk balanced portfolios that maximize return for a given level of risk.

Including uncorrelated asset classes in an allocation mix or uncorrelated financial instruments in an actively managed portfolio is highly beneficial in terms of risk management.

Portfolio Standard Deviation vs Number of Securities/Asset Classes

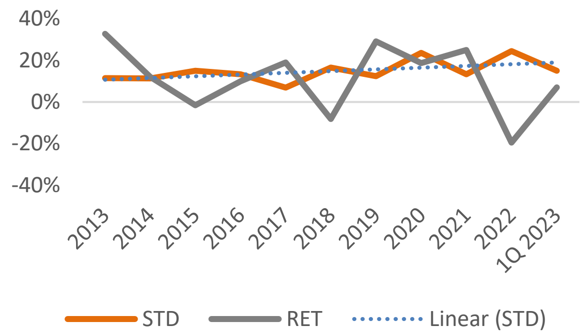


As an example, for asset classes with correlation below 0.5, having 6 asset classes in the allocation mix can reduce the risk measured as standard deviation of the portfolio by more than 50%.

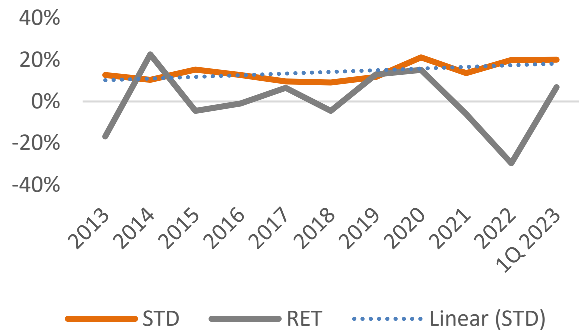
This in turn reduces dramatically the probability for the portfolio to lose money in a given year, with obvious benefits for the investors.

The reason why the most efficient portfolios have to be built around a thorough understanding of risk, rather than around asset class return predictions, is that risk is certainly more predictable than returns within the various asset classes, as displayed below by the performance of benchmarks for US Equity and US Bonds over the past 10 years, with standard deviation for both asset classes behaving in a much more predictable and consistent manner than the actual returns of the same asset classes over the same period of time.

Vanguard US Equity (Ret vs Std)



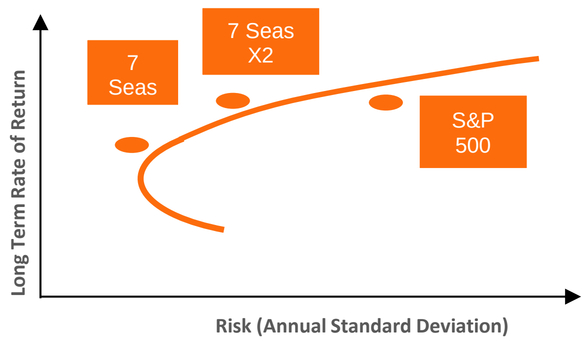
iShares 20+ Years US Bonds



The pursuit of a risk-balanced portfolio inevitably delivers highly efficient low-risk low-return portfolio, which might not be suitable for investors with a high-risk tolerance.

However, with the judicious use of leverage, risk efficient portfolio can be enhanced and transformed into risk efficient medium-risk medium-return portfolio above the efficient frontier line, and clearly superior to single asset classes or 60/40 equity/debt portfolio in terms of risk adjusted returns.

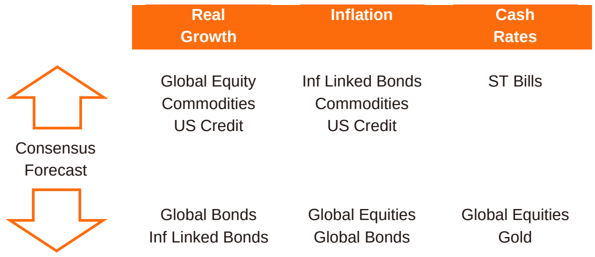
Portfolio Risk Return Profile Comparison



Beside looking for uncorrelated assets/financial instruments, asset and instrument weighting is the most critical decision.

At Phoenician we have mapped over time asset classes with consensus expectation shifts that mostly determine price movements on those same assets.

Risk Symmetry Framework



A good portfolio weighting should enable a decent offsetting between each asset class price movement, whenever a shift in market expectations related to real growth, inflation or cash rates determines market movements.

To achieve this, the risk symmetry approach prescribes that the level of risk in the various quadrants should be symmetrical.

Our approached differs from earlier methodologies based on "risk parity" because it does not prescribe the same level of risk in each quadrant, but simply prescribe the risk allocated to the quadrants above the consensus line should mirror the risk allocated to the quadrants below the consensus line.

In addition, shifts in expectation on cash rates (i.e. expectations on monetary policy decisions) are considered in their own merit as market moving events, separate from shifts in inflation expectations.

Phoenician Portfolio Performance

Leveraging on our extensive research on market moving shifts in expectations and their impact across asset classes, and applying the *risk symmetry* methodology described earlier, Phoenician has designed its flagship *Phoenician 7 Seas USD Portfolio*, which intends to provide USD denominated low-risk medium-return performance and is intended to perform in risk efficient manner under all type of market conditions, with the potential to enhance returns through leverage. For clients with base currencies different from USD, we tailor make 7 Seas Portfolios in their own base currencies.

2022 has been the perfect testing ground for the 7 Seas Portfolio, and the portfolio mix has performed very well relative to other defensive portfolios under very challenging conditions.

On the long term, returns and standard deviation table for Phoenician 7 Seas show a superior risk-return profile when compared to less diversified asset allocation strategies such as 60 Equity/40 Debt.

Phoenician 7 Seas vs 60/40 US Equity US Debt, 31 Mar 2023

	Phoenician 7 Seas USD		60/40 US Equity US Debt	
	Return	Standard Deviation	Return	Standard Deviation
1 Y	-11.49%	11.75%	-20.53%	16.98%
3 Y	3.35%	9.60%	6.44%	13.44%
5 Y	2.65%	9.20%	4.11%	13.01%
10 Y	3.53%	7.77%	7.40%	10.61%
20 Y	5.61%	7.46%	7.58%	10.80%
30 Y	6.48%	7.42%	7.98%	11.96%

Note: Portfolios back tested prior to.2015. 60/40 Portfolio includes US market equity and long-term US Debt (+20 years)

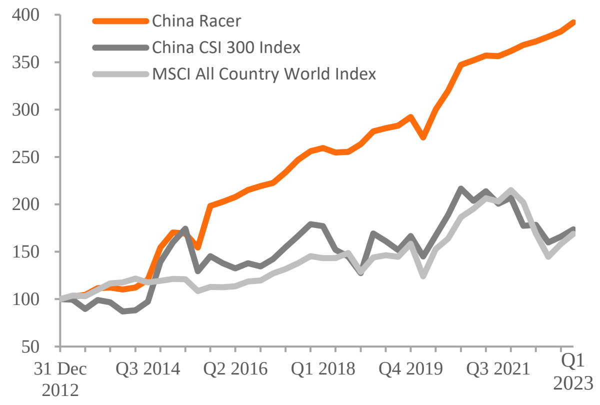
Our strategy to make short term adjustment to our client asset allocation model with heavier weight on broader commodity also paid off significantly in 2022.

When it comes to the pursuit of alpha, Phoenician is running two actively managed portfolios, Phoenician China Priority USD Portfolio and Phoenician Managed Futures USD Portfolio, and both performed extremely well in 2022.

Phoenician Actively Managed Portfolios Performance, 31 Mar 2022

	China Priority USD Portfolio	Managed Futures Portfolio
	Returns	*Returns*
1 Y	6.51%	5.52%
3 Y	13.17%	11.20%
5 Y	8.60%	8.20%
10 Y	14.49%	7.41%

Phoenician China Priority Performance Over Time



The Phoenician China Priority portfolio employs a long/short strategy, with the goal of capturing above-market capital growth from investing in prudently selected publicly-listed Chinese companies. In order to enhance performance as well as for hedging purposes, this portfolio also invests in futures and other hedging instruments, which differentiates this portfolio from most China focused equity portfolios.

To achieve our investment goals, we identify companies, which are undervalued and demonstrate significant growth potential or very likely benefit enormously from the structural changes in their own operations or within the industries they participate by establishing long positions in those high-quality companies. Conversely, the China portfolio can also make profit by selling short overvalued companies whose market positions are deteriorating.

Phoenician China Racer Performance Over Peers/Benchmark

Net Returns in US$	China Racer	CSI 300 Index	Peer Group*	Percentile
Since 01/01/2013	14.26%	5.95%	2.11%	100
5 years	8.60%	1.06%	-2.27%	100
3 years	13.17%	6.66%	0.80%	100
2022	5.67%	-30.79%	-27.61%	35
2021	4.25%	-4.43%	-10.55%	89
2020	19.18%	36.99%	38.83%	17
2019	10.80%	38.96%	28.80%	6
2018	2.80%	-28.83%	-24.48%	100
2017	16.90%	32.99%	42.27%	1
2016	10.60%	-7.38%	-3.26%	98
2015	28.20%	1.15%	-9.28%	93
2014	37.80%	52.27%	13.14%	82
2013	12.20%	-2.65%	-0.23%	93
Q2 2022	1.06%	0.59%	-0.01%	63
Q3 2022	1.36%	-10.41%	-20.55%	100
Q4 2022	1.40%	3.83%	7.68%	23
Q1 2023	2.54%	4.54%	0.35%	80

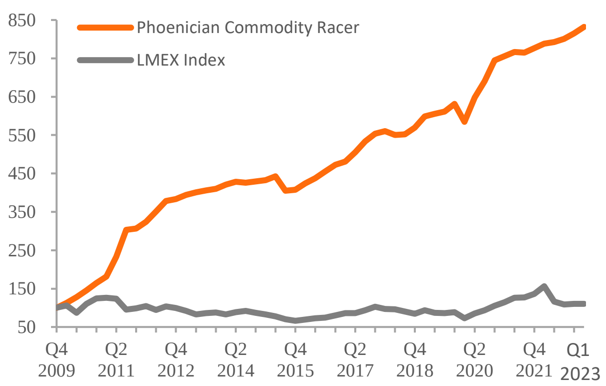
*Note: *Peer Group is Bloomberg open-end equity funds with focus on China, with country of domicile in Hong Kong. Around 100 funds were used for the comparison analysis.*

The China portfolio is also designed to capitalize on market volatility, so we also invest in futures and other hedging instruments to potentially profit from both rising and falling markets as well as reducing risk.

On the other hand, the Phoenician Managed Futures Portfolio utilizes a long/short strategy with the goal of achieving consistent, above-market returns from investing in a combination of commodity, currency and financial futures.

Designed to capitalize on market volatility and inefficiencies, managed futures are an important and major alternative asset class that not only provides the necessary hedge but also potentially makes profit in both rising and falling markets. Increased diversity is also achieved through international exposure that is facilitated by trading access to global markets 24 hours a day.

Phoenician Managed Future Performance Over Time



Phoenician Managed Future Performance Over Peers/Benchmark

Net Returns in US$	Managed Futures	LME Commodity Index	Peer Group*	Percentile
Since 01/01/ 2010	17.00%	1.30%	-4.46%	100
5 years	8.20%	4.70%	-0.10%	84
3 years	11.20%	21.00%	7.80%	64
2022	4.89%	-10.37%	-6.56%	96
2021	5.77%	28.78%	-5.04%	75
2020	9.96%	19.42%	23.87%	29
2019	8.66%	5.05%	18.38%	15
2018	11.65%	-18.20%	-9.29%	91
2017	11.72%	28.56%	10.57%	61
2016	15.87%	20.91%	7.91%	78
2015	-4.93%	-24.01%	-15.92%	94
2014	4.55%	-0.84%	-11.54%	91
2013	7.09%	-12.06%	-22.29%	87
2012	25.03%	1.05%	6.31%	100
2011	86.55%	-20.69%	-1.18%	100
2010	64.27%	24.62%	25.61%	80
Q2 2022	0.46%	-25.55%	-6.62%	79
Q3 2022	1.12%	-6.90%	-8.50%	87
Q4 2022	1.72%	12.50%	9.37%	15
Q1 2023	2.12%	1.67%	1.05%	46

*Note: *Peer Group is global commodity ETFs. Around 170 funds were used for the comparison analysis*

WHAT'S NEXT

We look at consensus estimate in order to detail where our predictions are not in line with market expectations so that we can then determine which asset classes will be impacted if market expectation on a given indicator would shift in the manner we have predicted.

	2022	2023	2024
USA			
Real GDP (YoY%)	1.9	0.3	1.3
CPI %	8.0	4.0	2.5
Unemployment %	3.6	4.4	4.8
Budget %	-3.9	-3.5	-3.4
Curr. Acc. %	-4.4	-4.4	-4.4
Bank Rate %	4.5	4.7	3.35
USD Index	103.5	95.1	95.0
China			
Real GDP (YoY%)	3.0	4.8	5.0
CPI %	2.1	2.3	2.2
Unemployment %	4.1	4.1	4.0
Budget %	-5.7	-5.0	-4.9
Curr. Acc. %	2.2	1.5	1.0
Bank Rate %	3.65	4.3	3.35
USD/CNY	6.73	6.55	6.45
EU			
Real GDP (YoY%)	3.4	0.1	1.5
CPI %	8.5	6.5	2.7
Unemployment %	6.6	6.9	6.9
Budget %	-.35	-3.5	-2.9
Curr. Acc. %	1.1	1.3	1.9
Bank Rate %	2.9	3.5	2.75
EUR/USD	1.05	1.15	1.16

Note: In bold indicators where our forecast are not in line with consensus expectations

DE-DOLLARISATION TRENDS

We observe the start of a major de-dollarization trend which will significantly weaken Western currencies over the mid to long term and accelerate inflationary pressures in the Western world.

We expect weaker than consensus USD Index forecast over the next 24 months, which in turn will lead to higher than consensus CPIs and lower than consensus GDP growth in the US, EU and UK economies.

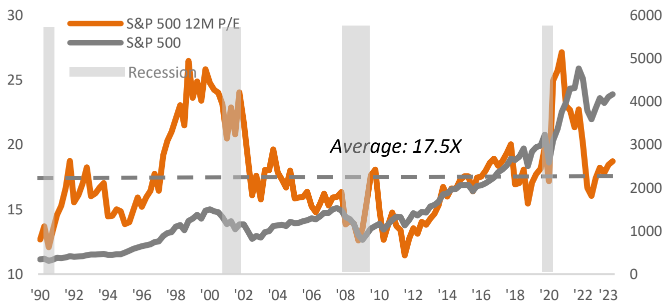
- The turbulence seen in the western banking industry triggered by SVB, Signature Bank, and Frist Republic Bank in the U.S. and Credit Suisse in Switzerland has shattered investors' confidence in the system with profound consequence.
- Sanctions imposed by western countries (primarily the U.S. and EU) against Russia on a comprehensive basis, including import bans, export controls, suspending access to SWIFT, and the confiscation/freezing of Russian assets has induced other nations to develop new or alternative payment means and settlement currencies to avoid becoming the next target and potential threat to their national interests.

In a bid to reduce the reliance on the dollar and saving international transaction costs, an increasing number of countries, including Saudi Arabia, Iran, and Brazil have reached separate agreements with China to use yuan and their own currencies in bilateral trade, while other countries such as Russia, China and Indonesia are developing each of their own payment systems, further contributing to the de-dollarization trend.

Therefore, we continue to expect US and EU equity to underperform significantly in 2023, while US Bonds should have bottomed out. We view China Equity and Commodity as the only bright spot in 2023.

In particular, the US market has been in a substantially uninterrupted bull run since 2008. As bull runs to start require low P/E, we believe 2023 cannot be seen as the start of a new bull run with S&P 500 PE ratios close to 20x, but it must be seen in the context of the ongoing correction started in 2022, which is likely still going to play out in the next 12-24 months.

U.S. PE multiples vs S&P 500

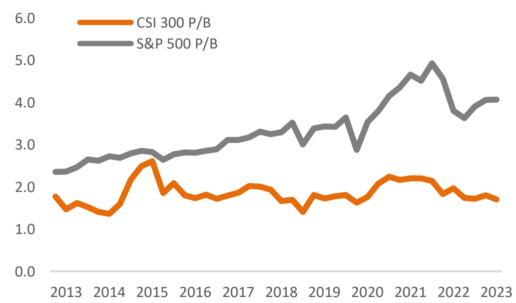


Is the US Equity Premium Sustainable?

US Equity has traded over time at a high premium to Emerging Market Equity and in particular to Chinese Equity, despite recent opening up of Chinese Equity to offshore investors, in the form of the various Hong Kong Connect systems.

At times of economic recession, we believe P/E ratio are not reflecting true valuation multiples, as earnings forecasts tend to be overstated. Therefore, we prefer to look at P/B ratio, which measure the market capitalization of the index against the last reported net asset value of the underlying equity components. Net asset value are not subject to earnings expectations, although they don't capture fully the company future cash flow outlook.

China CSI 300 PB ratio vs S&P 500 PB ratio



We observe that US Equity Premium has reached a substantial level in 1Q2023, with a ratio of 3.9 for S&P 500, against a ratio of 1.5x for CSI 300.

Historically, the reason for the high equity premium has been justified in various ways, which we believe are no longer relevant to explain the substantial differential:

- US Equity should trade higher than other equity markets due to lower US inflation and lower US Debt Yield, which makes the US Equity cash flows less risky than other equity markets and determines USD appreciation against emerging market currencies over time. With bank rates and Gov Bond Yield lower in China than in the US, this factor will gradually become irrelevant.

- The US economy and the US Equity Market has a higher component of "intangible assets" due to the larger share of Media and Communication Services companies in the economy, which are not reflected in the PB ratio, which only keeps into account net asset value. On this front, China is catching up with the US, with 1.95% of the CSI being represented by Media and Communication Companies vs 7.3% for the S&P 500.

Within global equities, our direction bias remains therefore on emerging market equities.