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cái Central Asset Investments

中環資產投資有限公司

November 2022

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✓ The Currency of the Future?

Main Contenders:

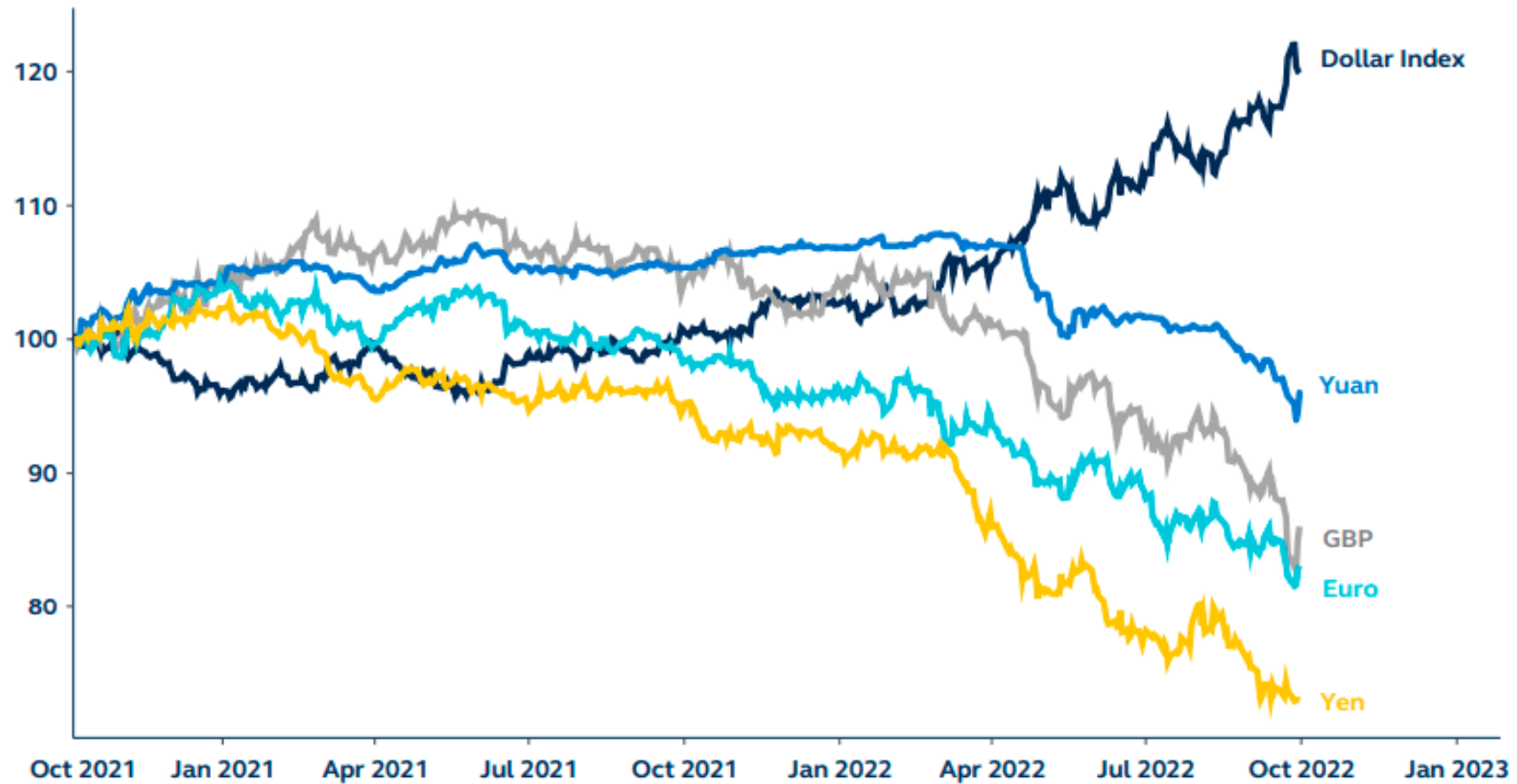
1. \$ US Dollar
2. ¥ Chinese Yuan
3. ₿ Cryptocurrencies



The US Dollar is at multi decade highs against all major crosses

Major currencies vs. U.S. Dollar Index

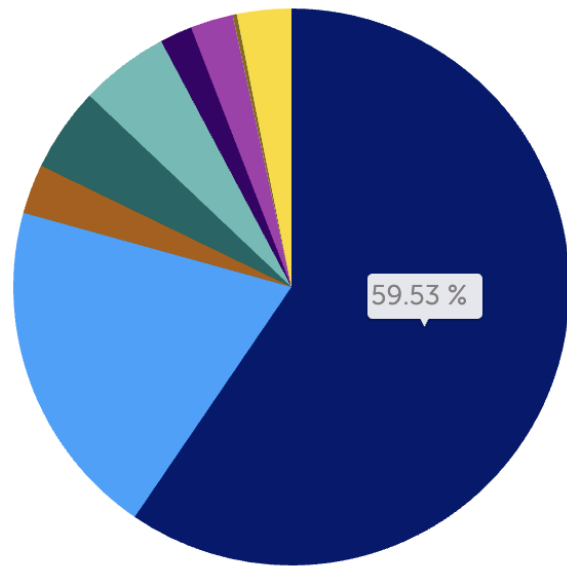
Relative change over the past 24-months, Rebased to 100 on October 1, 2020



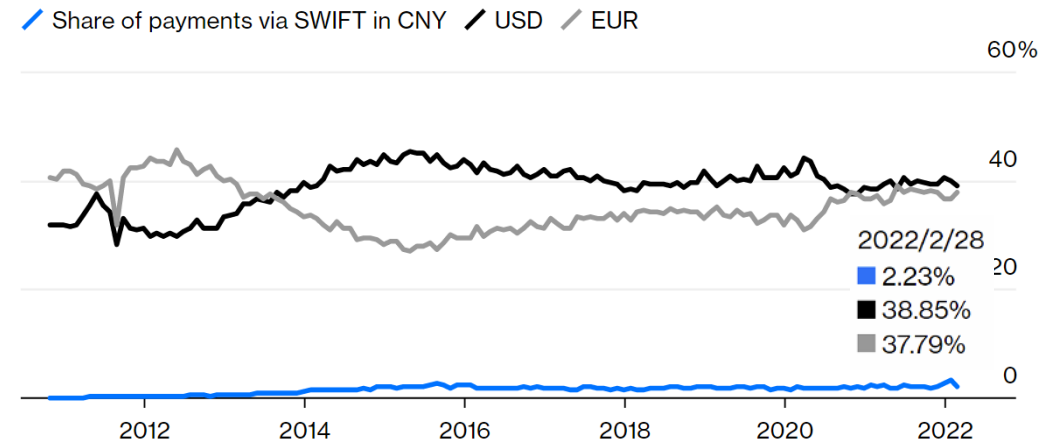
Source: Cleareconomics, Refinitiv, Principal Asset Management. Data as of September 30, 2022.

US Dollar is still by far The Global Reserve & Transactional Currency of Choice

World - Allocated Reserves by Currency for 2022Q2



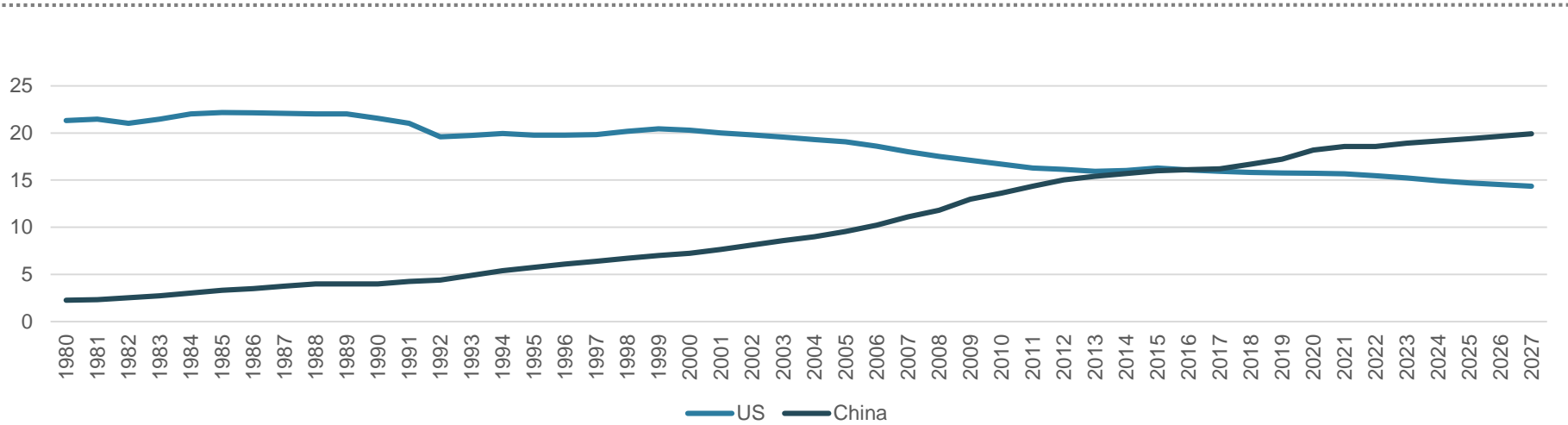
- U.S. dollars
- Euro
- Chinese renminbi
- Pounds sterling
- Japanese yen
- Australian dollars
- Canadian dollars
- Swiss francs
- Other currencies



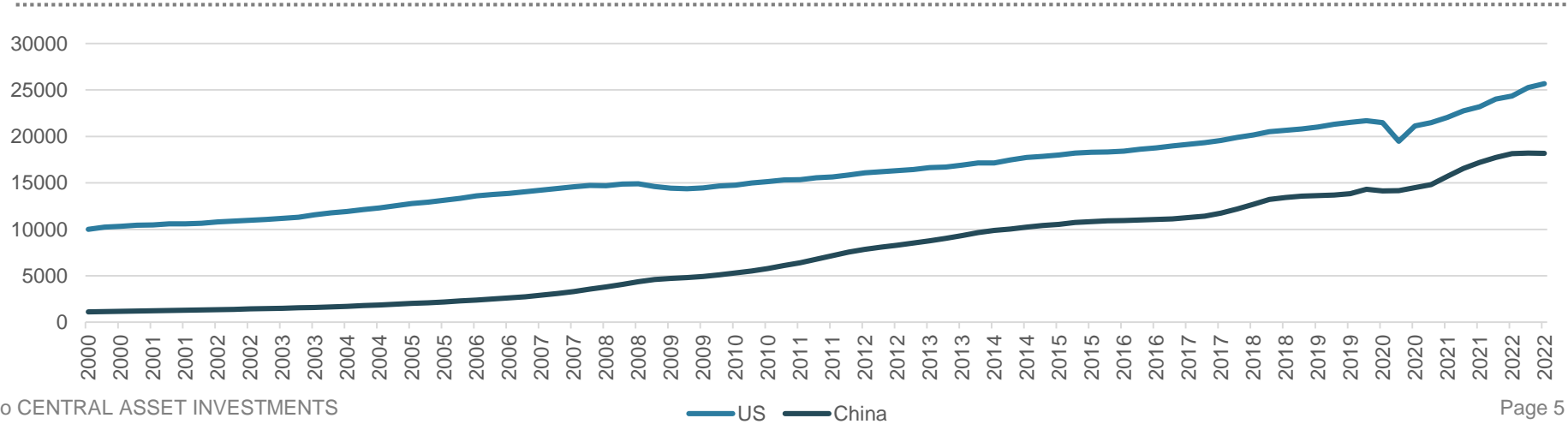
Source: SWIFT/Bloomberg

✓ The logical contender to challenge the US Dollar is the Chinese Yuan

US vs. China GDP based on PPP as a % of World's GDP since 1980

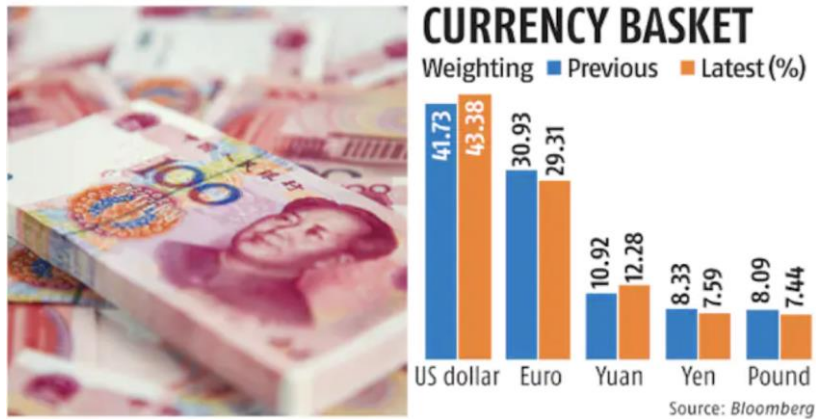


US vs. China nominal GDP since 2000



China's Financial WTO Moment

1 Yuan enters Special Drawing Rights Basket



2 Chinese Bonds Inclusion into Major Indices

Potential impact of index inclusion

	Bloomberg Barclays Global Aggregate Index	FTSE WGBI	JP Morgan GBI-EM
AUM	USD2.5tn	> USD2tn	USD200bn
China's weight	6%	5%	10%
Fund inflows (estimate)	USD150bn	> USD100bn	USD20bn

Sources: Reuters, Bloomberg, DBS

3 A-Shares increased weighting in MSCI Indices

China A-Share Weight in MSCI Emerging Markets Index



4 Setup of HK-China Bond & Equity Connects



...Yet no gain in RMB transaction & Reserve market share, WHY?

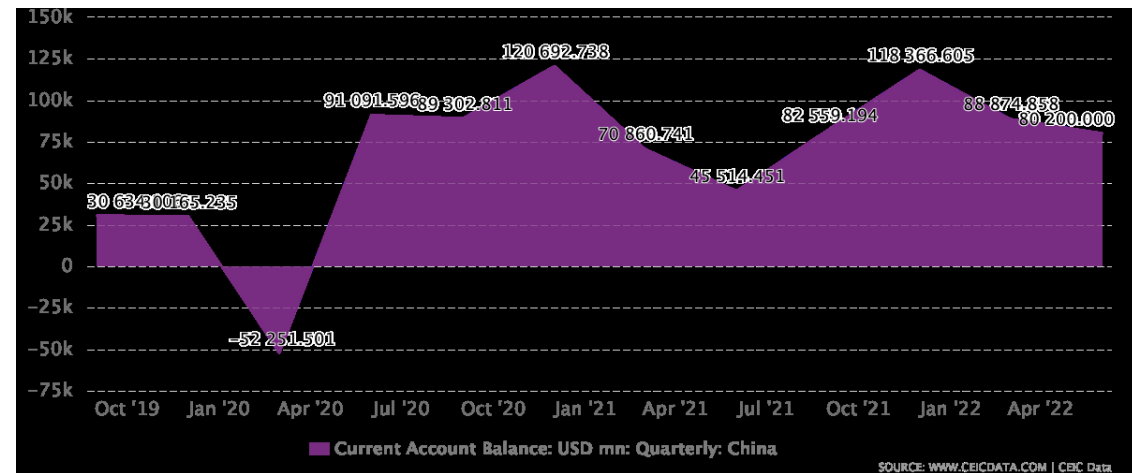
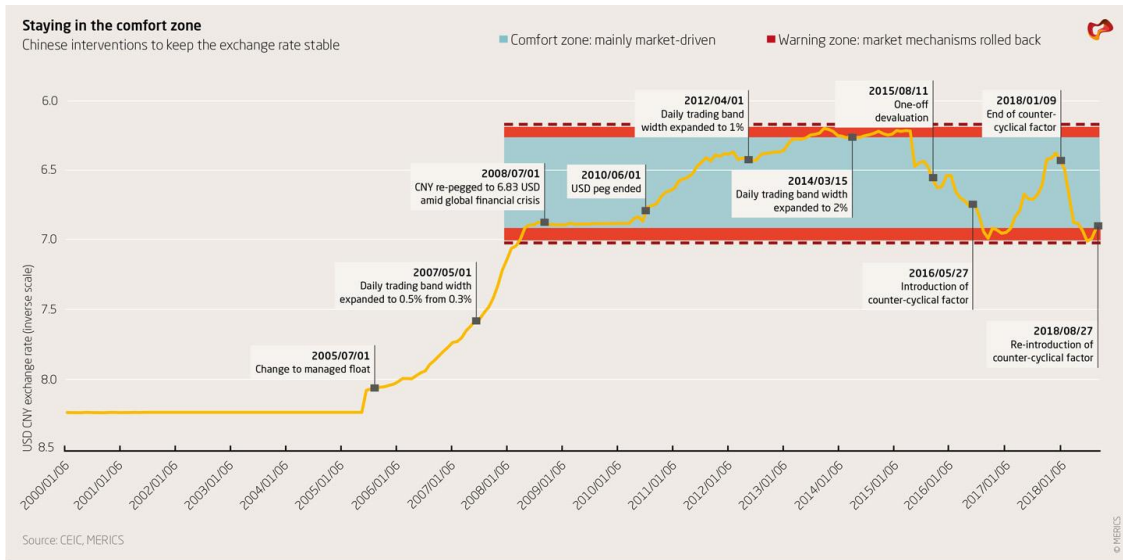
#1 China has a nominally closed Capital Account & Current Account surplus unlike US

From transaction reporting to facial recognition: Selected measures to control capital flows

06/2016	Restrictions on cross-border transactions
09/2016	Regulations on stricter review of trade-related foreign exchange rate
10/2016	Special licences required for cross-border internet sales
11/2016	Adjustments to RQFII and QFDII, introduction of stricter rules for OFDI, shutdown of UnionPay channel to purchasing insurance products in Hong Kong, measures to prevent cash outflow via Macao (chips for cash), stricter measures for payments made in Hong Kong for jewelry, clampdown on bitcoin
12/2016	Stricter reporting obligations for financial institutions on suspicious transactions, bank's reporting threshold reduced from 200,000 CNY to 50,000 for daily cross-border transactions
01/2017	Tighter regulatory rules for overseas foreign direct investment of state-owned enterprises
05/2017	Facial recognition at Macao ATM necessary to get cash
06/2017	Restrictions on overseas cash withdrawals changed from "per bank" to "per person" account
07/2017	Profit seeking capital flight discouraged in NPC proposal
08/2017	Rules preventing "irrational" overseas investments

Sources: PBOC, SAFE, CIRC, MOF

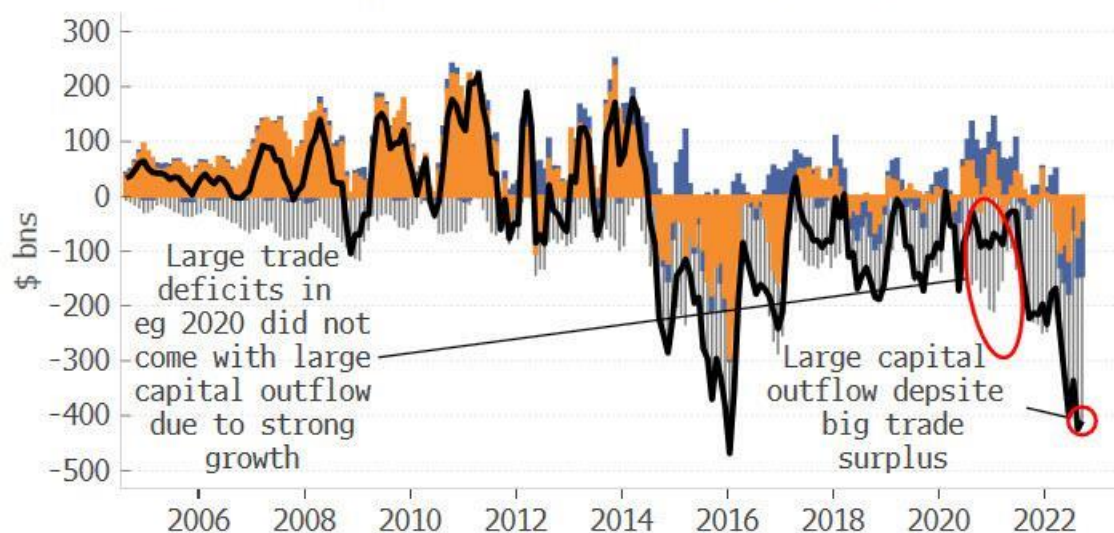
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✓ #2 China Slowdown leading to Capital Outflow and likely more Capital Control

Slowing Growth in China Is Leading to More Capital Outflow

— China Capital Outflow Gauge (FX Reserves + FX Depos - Trade Balance)
 ■ China Imports & Exports Trade (Reversed; Rolling 3m Sum)
 ■ China FX Deposits (Rolling 3m Sum) ■ FX Reserves (Rolling 3m Sum)



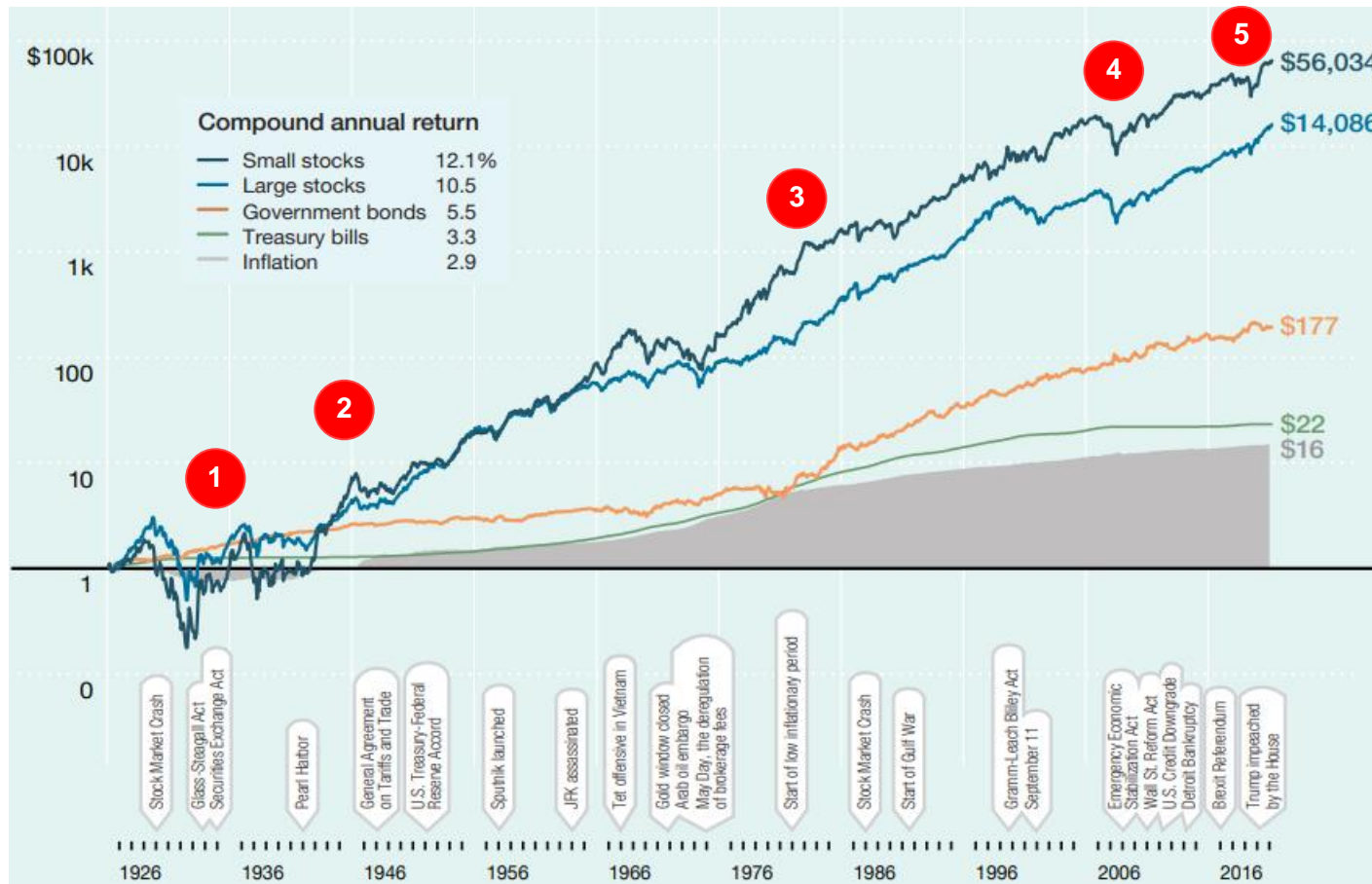
Source: Bloomberg

- China faces economic pain on three fronts – from its policy of seeking to eradicate Covid, the collapse in its property sector leading to the growing risk posed by debt deflation, and the demographic cliff due to fall in birth rate.
- Capital votes with its feet, even in a country with a nominally-closed capital account. We can infer capital is leaving China at an increasing rate as FX reserves are not rising, despite the huge inflows from exports.

#3 US Treasury and Equity Markets are the most liquid and stable in the World

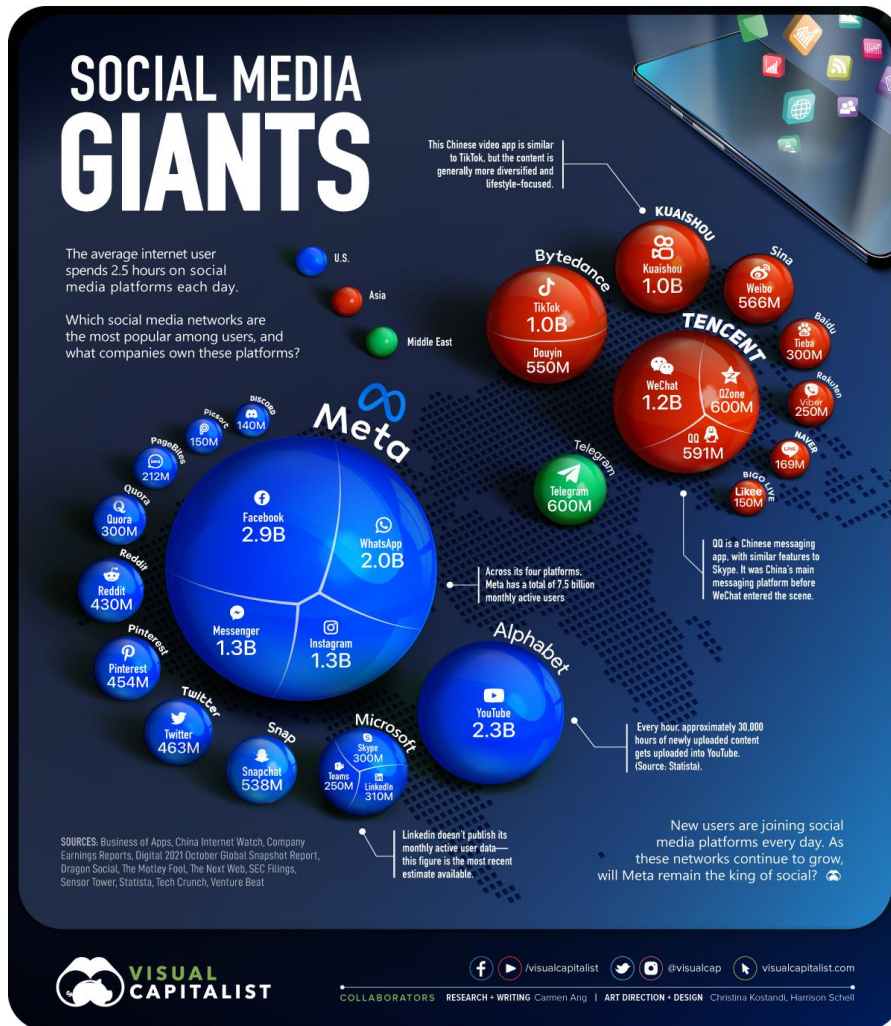
Ibbotson® SBBI® Stocks, Bonds, Bills, and Inflation 1926-2021

- Overall over a century, US equities and treasuries provide strong returns even with many challenges e.g. The Great Depression, WWII, The Cold War, the Global Financial Crisis, and the Covid19 Pandemic.
- US Treasury Market is \$23 Trillion while US Equity Market Capitalization is around \$46.5 Trillion



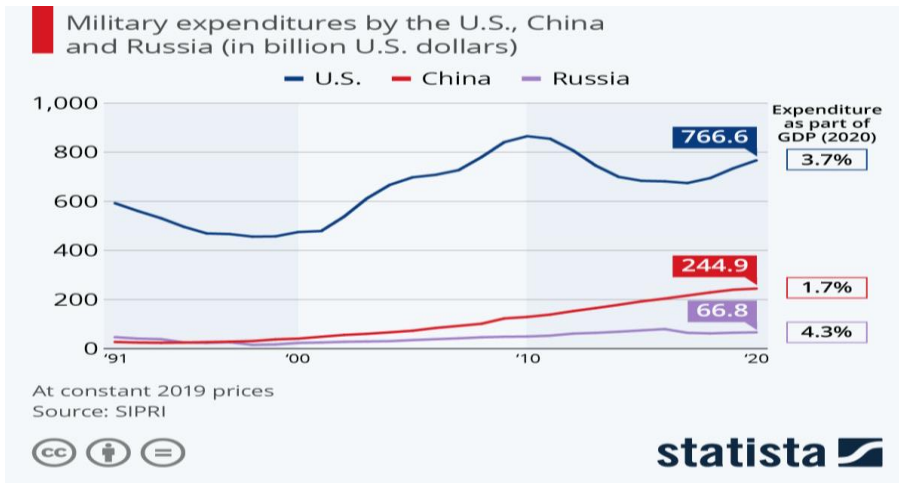
- 1 The Great Depression
- 2 WWII
- 3 The Cold War
- 4 Global Financial Crisis
- 5 Covid19 Pandemic

#4 US Dominance of Global Traditional & Social Media



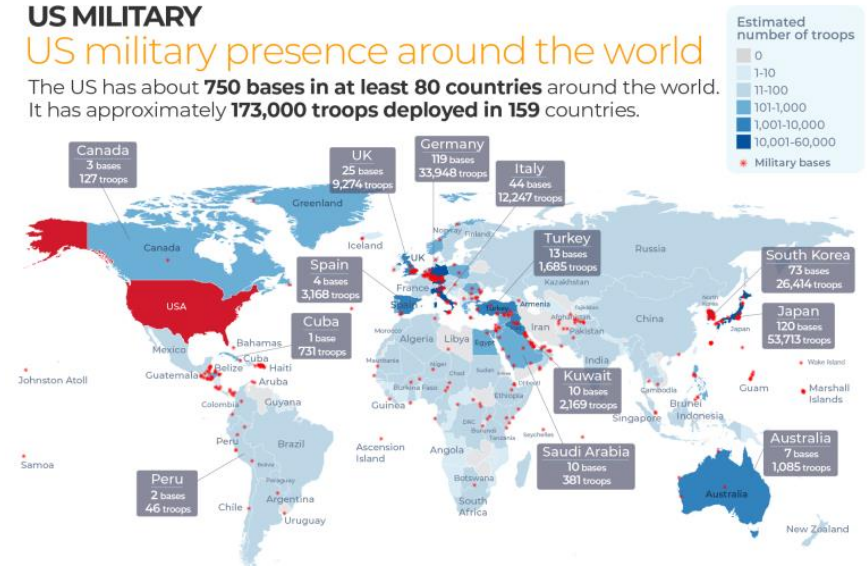
Sources: Visual Capitalist, Mother Jones Illustration, Daily Sabah, Silicon Valley Invest Club

#5 US Military Dominance



US MILITARY US military presence around the world

The US has about **750 bases** in at least **80 countries** around the world. It has approximately **173,000 troops** deployed in **159 countries**.



The Countries Holding The World's Nuclear Arsenal



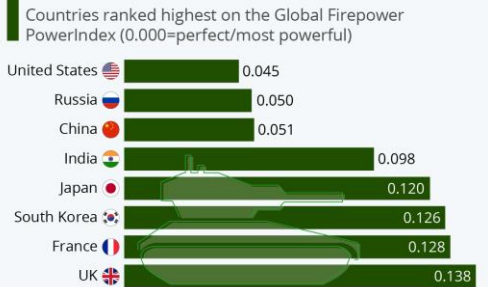
* Includes deployed, stockpiled and retired warheads awaiting disarmament
Source: Federation of American Scientists

The Largest Militaries in the World



Source: Global Firepower

The World's Most Powerful Militaries



As of January 2022. Takes into account (among others): weapon numbers, weapon diversity, natural resources, available industries, manpower, financial stability
Source: Global Firepower

✓ For the Foreseeable Future, Currency of the Future will Remain the Dollar

- Thucydides Trap - According to history, in the last 500 years 12 out of 16 similar titanic struggles between empires end in wars, only 4 avoided it
 - Competition is multi faceted : Trade, Technology, Diplomacy, Arms Race, PR/Media, Ideology
 - China's rise is unique - has been peaceful for over 40 years, while US hasn't been in a war for only 16 years total in its history
 - China's nominal GDP was estimated to surpass the US in 5 to 8 years, this looks increasingly unlikely.
 - China is nowhere close in surpassing US in diplomacy, science, technology, military force
 - US has over 7,000 nuclear warheads and China has over 300
 - 2 of the 4 empires that didn't end in a war were the Soviet Union and Japan, both happened after WWII, possibly due to nuclear deterrent
- Hong Kong is the main battle ground on PR and Ideology
- Russo-Ukraine War has accelerated distrust and division, leading to even more capital flow to the US Dollar.

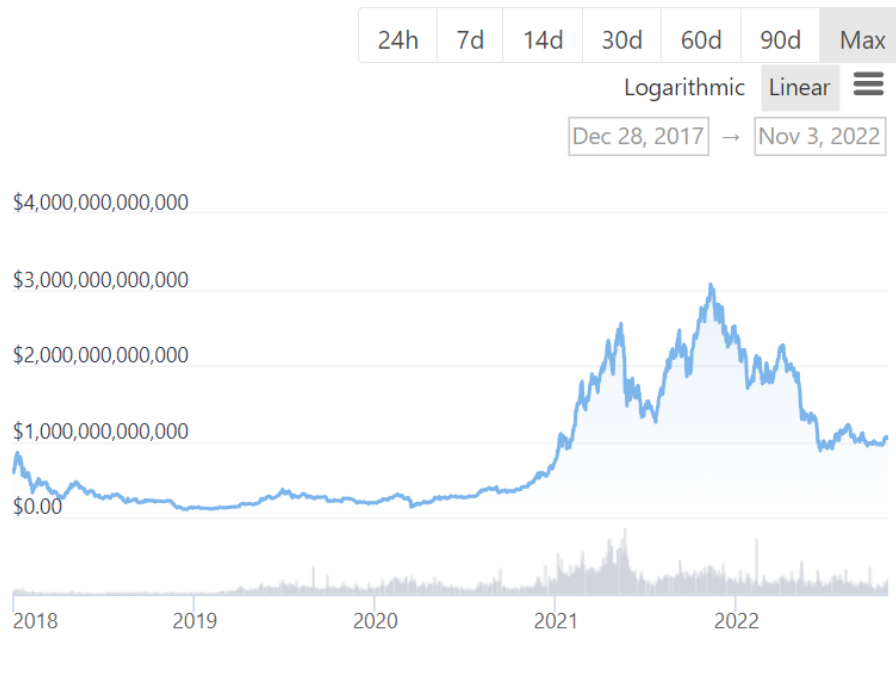


✓ Total Cryptocurrency Marketcap

- As of Nov 8th 2022, the total crypto marketcap is ~\$930 bn USD, with BTC making up ~37% and ETH making up ~17%

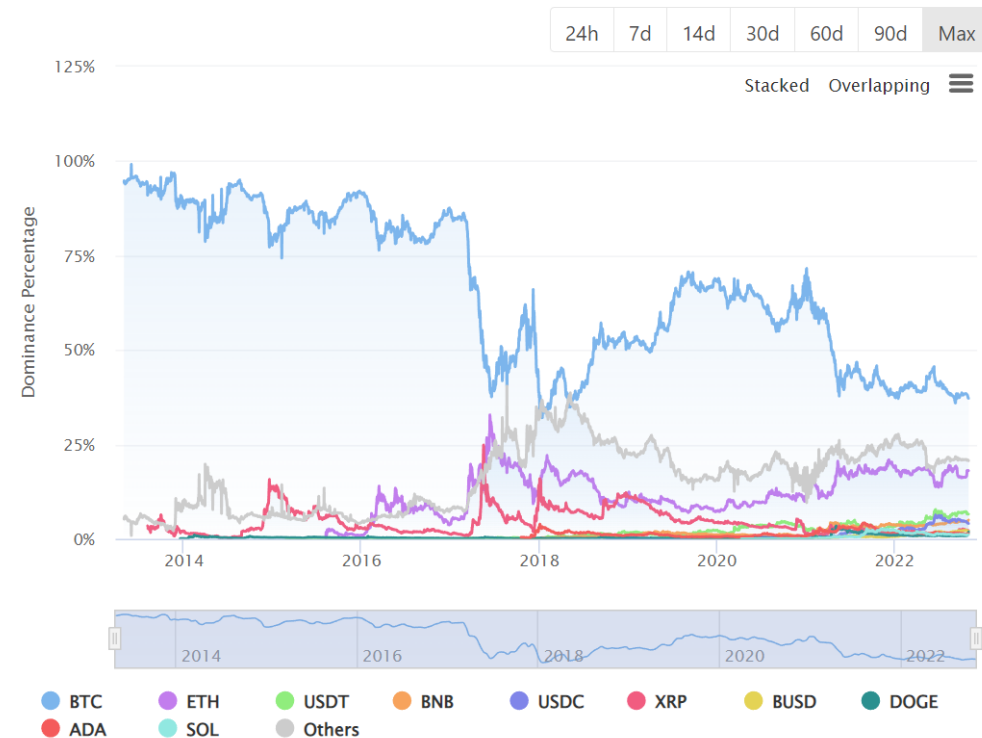
Total Crypto Market Cap Chart

The chart below shows the total market cap & volume of cryptocurrencies globally, a result of 13,266 cryptocurrencies tracked across 605 exchanges.



Bitcoin (BTC) Dominance Chart

Chart below shows the bitcoin dominance percentage as compared to other cryptocurrencies in the top 10 ranking.



Crypto Stablecoins

- Stablecoins are cryptocurrencies that attempt to have their value pegged to another currency or financial asset
- Try to provide an alternative to the highly volatile crypto market
- \$146 Bn market cap as of early November 2022

Different types of Stablecoins

Fiat-Collateralized

- Most popular type; maintain a reserve of a fiat currency like USD as collateral to back the stablecoin's value
- USDT (Tether) \$69 Bn marketcap, USDC (Circle) \$43 Bn marketcap. BUSD (Binance) \$23 Bn marketcap

Crypto-Collateralized

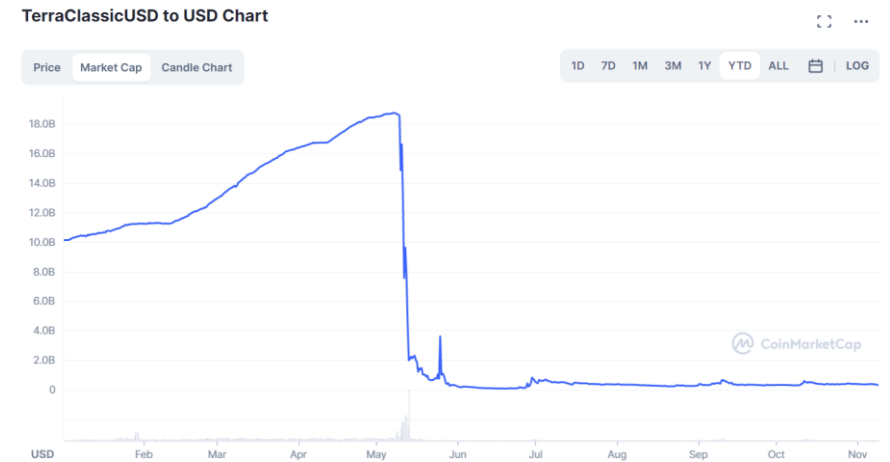
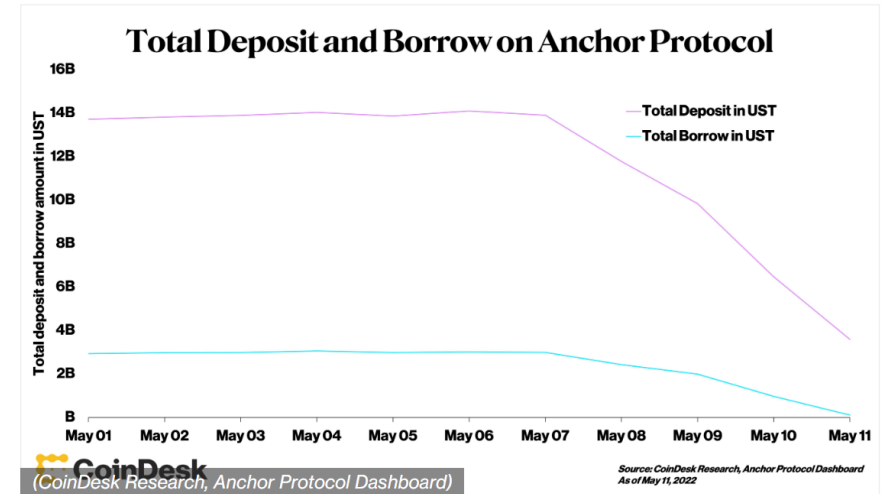
- Usually overcollateralize to account for the volatility of cryptocurrencies
- Dai – pegged to the USD but uses Ethereum as collateral

Algorithmic

- Controlled by a computer code that controls supply to keep the value stable
- Can lead to bank runs and de-pegging from the intended asset – UST (Terraform Labs)

UST and Luna Collapse

- The Anchor Protocol offered yields up to 20% for users that deposited their UST there
- In early May the Deposits on the Anchor Protocol started to decrease from \$14 Bn all the way to \$3 Bn
- People started to panic and started to withdraw Anchor and sell their UST causing a death spiral
- The Luna Foundation tried to protect the peg by selling 80,394 BTC (~\$2.5 bn at the time) from their reserves to buy UST, but it was too late
- Users lost confidence in UST and the protocol and now UST is worth \$.03, and a market cap of \$330 mn, down from \$18.7 Bn from the peak.



FTX Collapse

- Binance announced to Liquidate \$FTT (native token of FTX)
- \$FTT crashed (low float)
- People panicked and started to withdraw from FTX (i.e. Bank Run)
- FTX loaned client asset to Alameda Research (crypto hedge fund owned by Samuel Bankman-Fried) with a collateral in \$FTT, now collateral = 0, triggering margin call and forced selling by Alameda Research
- With a multibillion dollar hole in FTX balance sheet, SBF turned to Binance for help, only to get rejected today due to weak Balance sheet
- FTX now asking investor to inject billions of cash, or else it would have to file for bankruptcy

Price of FTX token (FTT)



Source: Refinitiv, CoinMarketCap • By The New York Times



Central Bank Digital Currency (CBDC) – Digital Yuan

- As of Aug 2022, digital yuan spending surpassed 100 billion yuan (\$13.9 billion USD)
 - The spending involved 360 million transactions in pilot areas in 15 provinces and municipalities and 5.6 million merchants now accept payments with the digital currency
 - As of Dec 2021 there were 261mm personal wallets
 - The digital yuan is available as a payment option on WeChat and Alipay to some users only
- For perspective:
 - Alipay in 2020 had monthly payment volume of \$10 tn yuan (~\$1.4 tn usd) and 711 mm monthly active users as of June 2020
 - WeChat pay in 2021 has 900mm users, with around 1bn transactions a day
 - Paypal in 2021 had \$1.25 tn usd in Total payment volume, 426 mm active accounts, and 34 mm merchant accounts

HK Fintech Conference

- May explore opening up retail trading of cryptocurrency, right now HK restricts exchanges to clients with \$1mm usd or more in assets
- Potential for ETFs on virtual assets
- HK government also mentioned exploring Greenbond tokenization and e-HKD (CBDC)