LIGHTHOUSE ADVISORS
Keeping Your Capital Safe

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Public Newsletter for the period ended 30 September 2021

Welcome to the Lighthouse Advisors newsletter for September 2021.

1. **Summary**
2. **Market Commentary**
3. **Portfolio Review**
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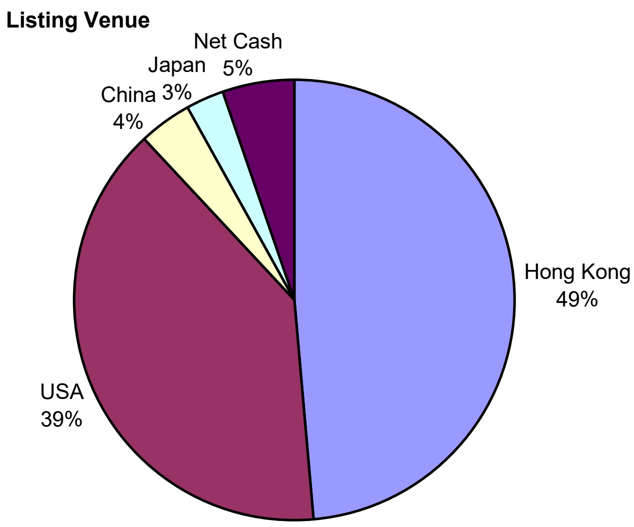
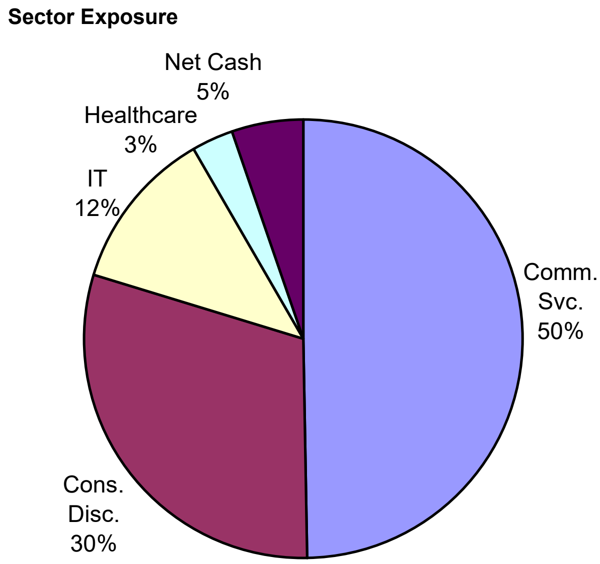
1. Summary

The NAV for September 2021 was USD 85.09. (SGD: 115.50). The year-to-date return was -8.7% (SGD: -6.2%). As the Fund's current exposure is mainly to US- and HK-listed technology stocks, the reference indices have been changed to the NASDAQ and the Hang Seng Tech Index.

Market (Index)	1Q21	2Q21	3Q21	YTD
Hang Seng Tech	-2.9%	-0.4%	-25.2%	-27.6%
USA (NASDAQ)	+2.8%	+9.5%	-0.4%	+12.1%
Fund	**+1.9%**	**+2.0%**	**-12.2%**	**-8.7%**

19 securities made up 95% of the Fund's holdings, with the balance in cash and cash equivalents. The following charts show the approximate exposure by place of listing and sector (numbers may not add up or match exactly due to rounding).





NAV values (USD and SGD) are tabled in Annex I.

Updated 24 December 2021

2. Market Commentary

Today, technology is so deeply embedded in the average Chinese person's life that some regulation is inevitable. The old "Wild Wild East" environment fostered innovation in e-commerce, ride-hailing, food delivery, short-form video, online learning etc, but also market power abuse as conglomerates used profitable businesses to subsidize new ones, or exploited human weaknesses for profit.

Regulations to protect the vulnerable, especially children, have spooked investors, resulting in a bear market for Chinese technology stocks, despite relatively small fines indicating that bad behaviour is mainly at the fringes, and that corporate profits derive primarily from adult spending.

It is widely agreed that Alibaba and Tencent, the two most obvious targets of regulation, are too useful to kill; replacing them would be too expensive for the state. What is not agreed upon is whether they will be able to earn a reasonable profit in future.

The next newsletter will be written for the period ending 31 December 2021.

Benjamin Koh
Chief Investment Officer
Lighthouse Advisors
24 December 2021

3. Portfolio Review

To protect the interest of clients, detailed discussion is confined to the client-only version of this newsletter. Client newsletters are embargoed for one year, after which they are made available online.

4. Hidden Figures

Since 2008, local government financing vehicles (LGFVs) have been used in China to fund various infrastructure projects. LGFV debt is issued by local government-owned companies and is not counted in government debt. It has been estimated that such hidden LGFV debt may total as much as 52% of China's GDP[1].

But hidden debt goes beyond LGFV bonds issued to investors: unpaid subsidies are another form of debt.

Risks with trade receivables were discussed over a decade ago in the newsletter for June 2009. And stoppage of government subsidies was documented in the newsletter for December 2016.

In this newsletter we discuss hidden debt in the form of unpaid subsidies, and the possible implications for investors. The following 4 companies are covered:

Company / Stock Code	Business
China Datang Corporation Renewable Power (1798 HK)	Wind and solar power generation
Beijing Jingneng Clean Energy (0579 HK)	Gas, wind, solar and hydropower generation
Xinyi Energy (3868 HK)	Solar power generation
GCL New Energy (0451 HK)	Solar power generation

All 4 companies generate and sell power to local governments. Many investors consider such businesses essentially risk-free. But China's renewable energy push uses above-market rates (feed-in-tariffs, FITs). FITs have not always been paid on time, resulting in a large percentage of tariff receivables being recorded as late:

Company	% of receivables overdue >1 yr			
	2017	2018	2019	2020
Datang Corp. Renewable	20.1%	31.3%	42.8%	49.0%
Beijing Jingneng Clean Energy	23.8%	29.8%	47.3%	40.0%
Xinyi Energy	27.1%	31.6%	42.6%	55.5%
GCL New Energy	4.3%	16.1%	19.0%	49.5%

The table above shows all 4 companies have faced increasing delays collecting their tariffs. The knock-on impact of late collections is that these supposedly profitable companies must then raise funds for their own working capital needs, whether by borrowing or by issuing new shares.

[1] *China's hidden debt: 'corruption problem' at local levels threatens political, economic stability*, **South China Morning Post**, 22 Dec 2021

Things become distinctly risky when late receivables form a large part of the companies' equity, as both lenders and potential investors may shy away.

Company	receivables overdue >1 yr vs. shareholder equity			
	2017	2018	2019	2020
Datang Corp. Renewable	10.8%	22.7%	36.9%	51.6%
Beijing Jingneng Clean Energy	15.9%	20.7%	26.2%	39.3%
Xinyi Energy	9.1%	9.1%	12.7%	18.1%
GCL New Energy	3.2%	12.9%	14.6%	88.1%

In fact, Beijing Jingneng attempted to go private earlier this year, on the grounds that it had been persistently trading at a discount, making it unattractive to issue new shares.

Xinyi Energy has traded at a significant premium in the past, allowing it to issue new shares in 2019, increasing the share count that year by 42%. This has given it a larger equity buffer.

GCL New Energy has not been so lucky. In the last 2 years, it has been selling assets to reduce gearing. Last year it booked an impairment loss of RMB 321m against receivables, and another RMB 1.1bn against plant, and property and equipment. Its shares have also been depressed for some time, making new share sales unattractive.

Datang Renewable has been unscathed so far and trades at a premium, but it behooves investors to scrutinize its balance sheet. The events befalling GCL New Energy do not bode well.

The local governments have benefited from the investments into wind and solar power, but shareholders have not benefited uniformly. For these 4 companies, their investors are effectively financing the government, providing **interest-free loans of unknown duration**. The poor risk-reward ratio needs no further elaboration.

End

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Annex I

NAV in USD (Official)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2008										34.16	33.49	35.62	**4.3%**
2009	34.57	33.52	33.37	36.69	46.20	46.00	50.06	49.68	52.66	54.17	56.68	59.94	**68.3%**
2010	59.05	61.09	65.17	68.27	64.14	65.69	70.65	72.24	81.06	83.56	85.10	90.30	**50.6%**
2011	87.21	86.29	88.13	92.81	90.85	91.35	91.17	83.69	69.04	78.23	73.00	72.88	**-19.3%**
2012	77.40	82.90	82.52	83.32	76.36	77.25	77.27	77.91	80.57	79.44	82.70	84.92	**16.5%**
2013	91.43	97.36	99.96	100.24	99.14	95.09	98.50	100.00	100.86	102.24	102.63	102.93	**21.2%**
2014	99.15	101.78	99.80	101.84	105.45	106.57	109.05	108.58	103.60	103.91	101.87	99.94	**-2.9%**
2015	97.97	98.16	97.74	103.80	103.69	100.99	96.17	85.91	84.17	88.91	86.20	86.35	**-13.6%**
2016	81.56	83.81	88.82	92.18	91.50	91.52	94.48	94.86	94.87	93.34	91.92	90.20	**4.5%**
2017	93.18	97.08	101.10	101.39	105.74	107.11	109.67	108.57	109.35	112.57	108.28	109.41	**21.3%**
2018	113.04	109.56	109.03	105.39	109.62	104.37	101.26	93.71	94.25	85.19	86.83	86.66	**-20.8%**
2019	91.98	92.36	90.04	90.21	82.80	84.21	82.57	78.45	76.52	77.82	78.75	82.80	**-4.5%**
2020	78.58	75.37	67.15	71.23	70.50	77.22	82.23	88.36	84.97	86.77	90.34	93.20	**12.6%**
2021	99.54	99.36	94.98	99.37	96.76	96.86	86.54	87.88	85.09	90.51	85.32		**-8.5%**

Note: The Net Asset Value of the Fund has been linked to the rebased NAV of the Reference Account, which had the same investment style. Until the launch of the Fund, the Reference Account served as the model portfolio for all the separately-managed client accounts. Its trading records were distributed to clients as proof that the Manager's interests were fully aligned with those of the clients. The Reference Account was started at the end of 2008 and became inactive following the launch of the fund on 1 September 2013.

The following data is for the convenience of SGD-based investors and is for reference only.

NAV in SGD (for reference only)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2008										50.68	50.69	51.20	**2.4%**
2009	52.22	51.91	50.74	54.21	66.70	66.59	72.06	71.60	74.19	75.67	78.50	84.15	**64.4%**
2010	83.11	85.83	91.17	93.55	89.79	91.72	96.10	97.84	106.70	108.12	112.34	115.86	**37.7%**
2011	111.57	109.76	111.06	113.64	112.11	112.14	109.75	100.70	89.85	97.91	93.64	94.48	**-18.5%**
2012	97.39	103.46	103.79	103.05	98.44	97.76	96.12	97.20	98.89	96.95	100.95	103.74	**9.8%**
2013	113.19	120.44	124.03	123.50	125.34	120.54	125.55	127.49	126.57	126.83	128.86	127.81	**23.2%**
2014	124.51	128.55	125.58	127.84	132.26	132.85	135.95	135.58	132.14	133.61	132.91	132.34	**3.5%**
2015	132.68	133.74	134.11	137.66	139.74	136.08	131.71	121.30	119.78	124.68	121.53	122.26	**-7.6%**
2016	116.13	117.82	119.59	123.86	126.08	123.36	126.71	129.30	129.32	129.95	131.79	130.54	**6.8%**
2017	131.35	135.81	141.22	141.04	146.29	147.44	148.75	147.28	149.30	153.38	146.00	146.32	**12.1%**
2018	148.13	145.04	142.95	139.64	146.74	142.24	137.76	128.59	128.83	117.98	119.13	118.06	**-19.3%**
2019	123.77	124.86	123.01	122.81	113.88	113.93	113.02	108.85	105.83	105.92	107.71	111.33	**-5.7%**
2020	107.23	105.02	95.47	100.41	99.64	107.68	112.93	120.15	116.02	118.55	121.20	123.14	**10.5%**
2021	132.30	132.32	127.74	132.16	127.85	130.26	117.21	118.19	115.50	122.11	116.41		**-5.5%**