Chandler Investment Consultancies and **Mechelany Advisors FZE** are pleased to submit to you our proposal for a timely and innovative investment Certificate

EFG YUAN GLOBAL PORTFOLIO Index Tracker

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We believe it will be a great differentiating factor for investment managers and private banks to include in their range of investment products **a Chinese Yuan denominated product.**

Our analyses lead us to conclude that a major shift from overvalued US assets to undervalued Chinese assets will take place over the course of the next few years as **China rises to become the world's largest consumer market and the world largest economy.**

After a traumatic year that saw the peak of the 2009 -2018 US bull market, the launch of a Trade war between America and China, a sharp devaluation of the Yuan and Chinese equities falling by 25 %, **Chinese equities are trading at exceptionally cheap valuations** and the **Chinese Yuan stands to appreciate substantially in the coming years**, as this is the only option to resolve the US – China Trade dispute and contain China's structural trade surplus.

We propose **A Balanced Portfolio of Chinese Assets denominated in Chinese Yuan** investing in a combination of money market instruments, bonds and equities, structured as a convenient, transparent and cost-efficient Index Certificate issued by …….

The purpose of the product is to allow Banks and investment managers to build their clients exposure to the Chinese Currency through a highly diversified and professionally-managed investment vehicle with **a target performance of 6 to 8 % per annum in Yuan,** enabling their clients to benefit from the structural appreciation of the Chinese Yuan on top.

Why a YUAN Portfolio ?

Chandler Investment Consultancies and **Mechelany Advisors FZE** believe that the 2008 crisis marks a turning point in the world economic order and that a new long-term economic cycle has started in 2016.

The **Kondratieff cycle of the Chinese Dominance has** just started and it will last for 60 years. It follows the Kondratieff cycle of the **American Dominance** that lasted from 1949 to 2016, and will correspond to the emergence of **China as the next World dominant economic power**, in the same way the USA overtook the UK after WWII.

During the coming cycle, China's economy will surpass the US economy in size and its financial markets will dwarf its financial markets. Over that period of time, many Chinese corporations are bound to overtake the current US leaders in many industries, due to the cheer size of their domestic markets.

China is already the second largest economy of the world with a GDP of US$ 12.2 Trillion growing at 6.5 % per annum. It is expected to surpass the US economy by 2025.

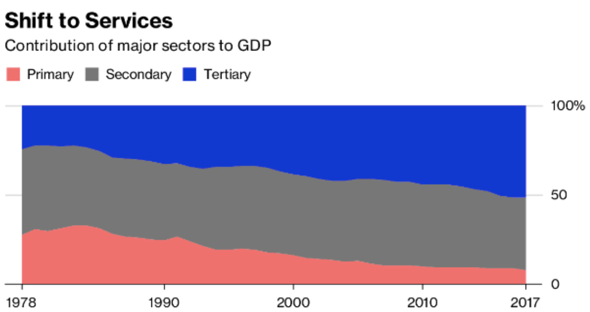
China's rise to this predominant role will have tremendous consequences on the world financial markets and the composition of global savings.

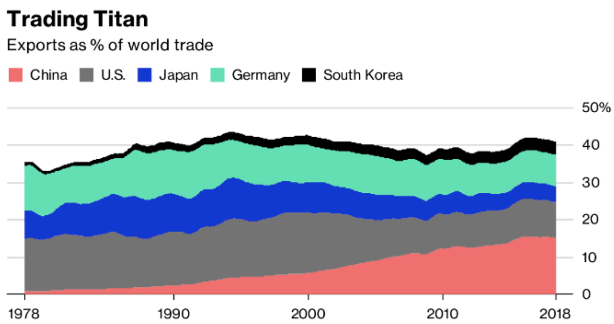
In exactly the way the US Dollar replaced the British Pound when the US surpassed the UK as the dominant economic power after WWII, the Chinese Yuan is bound to become the world's main reserve, trading and investment currency as China rises to economic dominance in the coming decade.

- **China is completing a major economic and social transition.** Over the past four decades the Chinese Leaders priorities were to pull hundreds of millions of Chinese out of poverty, to achieve agricultural efficiency and to build a solid industrial and service base for its economy. To create urban jobs and increase living standards, China resorted to the traditional export-led model of development and became the world manufacturer and exporter of everything from clothing, toys, and steel to computers and mobile phones.

Low wages and an undervalued Yuan favored extremely competitive terms for hundreds of millions of Chinese laborers competing head-on with the workforce of the industrial countries in a globalized world. But the pool of poor workers from the farmlands is now drying up and the agricultural sector now only represents 15% of the Chinese economy.

China is quickly becoming a service-oriented and consumer-oriented economy and the export-driven model that has fueled the urbanization of hundreds of millions of Chinese is no longer competitive.





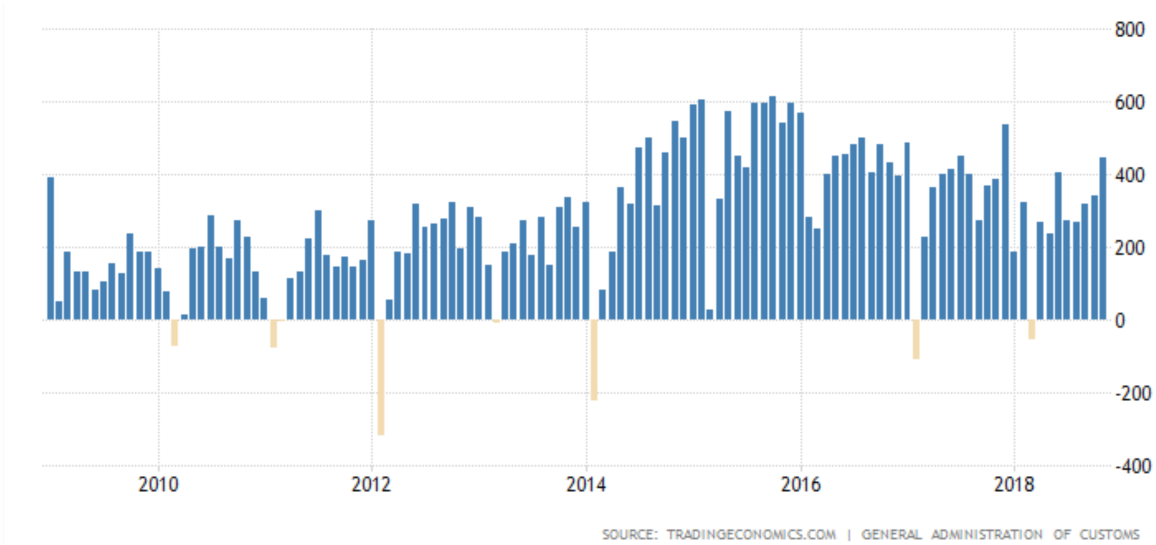
As was clearly stated by the Chinese National congress in 2013, the priority now is for China to **transform herself into the world's largest consumer economy.**

China's consumption showed ample resilience despite trade friction in 2018, with final consumption contributing to **78.5 percent of GDP**, up from 58.8 percent last year, according to the National Bureau of Statistics (NBS). Room for consumption expansion is still considerable in China as Household Debt represented 49.3 % of GDP in the second quarter of 2018 against 79.1 % in the USA.

As the transition takes place and consumer's habits evolve with savings ratios diminishing in favor of consumption, **China and its 1.37 Billion people stand to become the largest consumer market in the world.**

In the coming decade, the world economy will evolve from a "**Made in China"** to a "**Sold in China"** mode and China's consumers will become the main drivers of the world's growth.

■ **The structural Trade surplus of China with the world and the USA is at the heart of the current Trade War.**



China's Trade constant and structural surplus represents 450 Bln US$ per annum and is the direct consequence of a pro-active policy of maintaining the Yuan undervalued to keep growth and employment strong.

Keeping the Yuan artificially low allowed China to keep its labor and export sector competitive for decades, to engineer employment and to facilitate the human migration from agriculture to urban centers.

Donald Trumps' administration knows full well that Tariffs on goods imported from China will have little impact on the trade deficit between the two countries and the ultimate objective, as stated many times by the US President and his advisors, is a structural appreciation of the Yuan to restore the competitiveness of US labor and manufacturing industries.

■ The export-led development model made China **the largest creditor nation of the world with US$ 3.1 Trillion of foreign exchange reserves, or 25 % of GDP.** By comparison US foreign exchange reserves represented US$ 124 Billion last month and never exceeded 1 % of its GDP.

This extraordinary accumulation of China's foreign reserves is the direct consequence of a pro-active policy of not recycling its trade and financial surpluses back into the Yuan and to hoard foreign currencies obtained by selling goods to the world.

The sheer size of China's foreign exchange reserves has become a problem in itself.
As China's economy matures and relies less on exports and more on consumption, foreign exchange reserves are bound to trend lower towards Japan's ratio of 15 % of GDP and Europe's ratio of 10% of GDP.

This implies that in addition to the recycling of its US$450 Billion annual trade surplus, **China needs to sell close to US$ 2 Trillion of foreign currencies back into Yuan** to bring its reserves to manageable levels.

■ In 2013, China started the process of making its currency fully convertible and generalizing the use of the Yuan as an international Trade and Investment currency.

These strategic evolutions are not a choice for China, but a necessity. China is one of the most globally-integrated economy of the world and foreign trade represents 42% of its GDP against 22% in the USA. To reduce its exposure to foreign exchange fluctuations, China needs to encourage the use of the Yuan in foreign trade and to develop investments in Yuan.

In December 2015, the IMF included the Yuan in its basket of strategic reserve currencies alongside the US Dollar the EURO, the Japanese Yen, the Sterling Pound and the Swiss Franc. As a result, 10 and 20 % of the US$ 11.7 Trillion of aggregate foreign exchange reserves held by central banks around the world must shift into Yuan.

This represents another US$ 1 to 2 Trillion of structural pent-up demand for the Yuan.

■ **The Asian Development Bank estimates that Asia needs US$ 8 Trillion to fund infrastructure construction for the next 10 years.**

China knows that its long-term development is linked to Asia and the launch of the **One Belt One Road Initiative** by President Xi JinPing in October 2013 is a response to China's neighbors' huge infrastructure needs.

At the heart of One Belt, One Road lies the creation of an **economic land belt** that includes countries on the original Silk Road through Central Asia, West Asia, the Middle East and Europe, as well as a **maritime road** that links China's port facilities with the African coast, pushing up through the Suez Canal into the Mediterranean.

The project aims at redirecting China's domestic overcapacity and capital towards regional infrastructure development, improving trade and relations with Asian, Central Asian and European countries and generalizing the use of the Yuan as an investment currency across the whole region.

In October 2014, China launched the **Asian Infrastructure Investment Bank** together with 56 other founding members to promote pan-Asian investment. The AIIB was capitalized at US$ 100 Billion and started its operations on December 25th 2015. Its objectives are to finance at least US$ 1 Trillion of investments in the region, most of which will be funded in Yuan.

More than 60 countries, representing a third of the world's economy and half the world's population are beneficiaries of the One Belt - One Road initiative, and the Yuan is bound to become their main trading and funding currency.

- **In 2013, China started the process of developing its domestic financial markets to allow market forces to take the leading role in the allocation of savings and capital needs**.

There again, the development of free and efficient bond and equity markets in China is not a choice but a necessity. Over the three decades that saw China grow from being one of the poorest country of the world to becoming one of the richest, investments in infrastructure and production were funded by the state-owned banking system and directed by strategic choices of the Government.

As China matures and becomes an affluent society and the world largest consumer market, efficient capital markets and free market forces are needed to fulfill the financial intermediation function and channel the massive pool of savings accumulated by the Chinese towards productive investments.

Enabling Chinese and International corporations to tap Chinese domestic savings to finance their growth is key to the sustainability of the Chinese economy. Favoring the development of efficient government and municipal bond markets is key to proper and accountable regional and municipal development and the sustainability of China's social development.

- **China's bond market** is already the third largest in the world with **US$ 11 Trillion of outstanding debt** and US$ 60 Trillion in trading volume.

The inclusion of Chinese Bonds into the MSCI Indexes in 2016, the establishment of the Hong Kong connect in 2017 and of the London connect in 2018 opened the market to foreign investors and it is expected to **unleash in excess of US$ 10 Trillion of net inflows** into Chinese bonds as global portfolios start reflecting the size and weight of the Chinese economy in their global asset allocation. This represents yet another significant source of structural pent-up demand for the Chinese currency in the years to come.

- **China's stock market** had a roller-coaster year in 2015 and again in 2018 where it lost 25 % of its value, making it the worst performer as well as **the cheapest of all investable equity markets.**

China's stock markets are barely 25 years old while the U.S. stock market is 223 years old. US individual investors have developed an equity culture over generations, Chinese individual investors, although already 110 million of them, are the first generation of investors.

US individual investors keep 40 % of their savings in equities; **the Chinese have barely 6 % of their savings invested in the equities.**

US shares currently represent 40% of the US$ 68 Trillion world equity market while Chinese shares represent less than 5%, despite the Chinese economy being already 2/3 the size of the US economy.

The US Pension fund, insurance and fund management industry is 200 years old, the Chinese insurance and pension fund industry is 30 years old. The development of a pension fund and insurance industry catering for 1.3 Billion people will make it the largest institutional asset management industry in the world in less than 10 years.

As China opens its financial markets and makes its currency fully convertible, and as MSCI increases the percentage of Chinese equities into its Emerging, Asian and World equity Indexes, **the proportion of Chinese Equities in global portfolios is bound to rise from the current 5 % to 20 % over time, unleashing at least US$ 5 Trillion of net new inflows into Chinese equities and the Yuan.**

- **As the world moves into the Chinese Kondratieff long term cycle the reserve currency of the world will change too, as was the case with the transition between the Sterling pound and the US Dollar after WW2 and Bretton Woods.**

As the dominant political and military power, the USA benefitted from what economists call the "exuberant privilege" of having the world reserve currency and being the highest credit risk in a world of FIAT money..

America could increase its public finances deficits without limits and without consequences.

But all this is changing fast…

With 1.5 Trillion of predictable deficit at the height of the cycle and another 1.5 Trillion of unfunded, but needed, investments in the coming ten years, when the next economic downturn comes, the US will find it extremely difficult to finance its deficits and **investors will start to question their faith in the US Dollar as the best reserve currency and in US debt as the best store of value.**

In sum, the structural forces at play indicate that the Chinese Yuan is about to embark on a one-off, structural and secular path of appreciation, similar to the one experienced by the Japanese yen when Japan was at the exact same stage of its economic development.

Between 1980 and 1990, as Japan was making its own transition from an export-led economy to a consumer-led economy, the Japanese Yen rose from 360 to 120, effectively trebling in value.

As the Japanese Yen appreciated, global portfolios increased their exposure to Japanese stocks from 5% to 20 % of their holdings, pushing the Nikkei Index from 4'000 to 40'000 and valuations to extremes.

WE ARE ONLY AT THE BEGINNING OF A POWERFUL PHASE OF STRUCTURAL APPRECIATION OF CHINESE ASSETS THAT WILL MARK ITS ACCESSION TO THE ROLE OF WORLD LEADING ECONOMIC POWER.

This appreciation will be fueled by the US$ 18 to 20 Trillion of pent-up demand for Chinese bonds, equities and currency coming from global investors, foreign exchange reserves rebalancing, and a generalization of the use of the YUAN in global and commodity trading.

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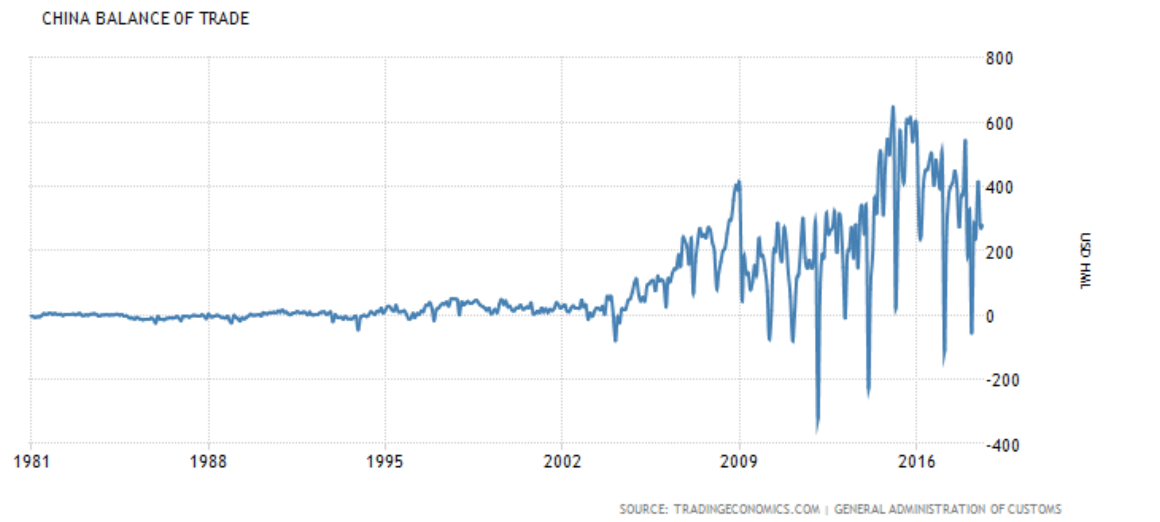
The Case in a Few Charts

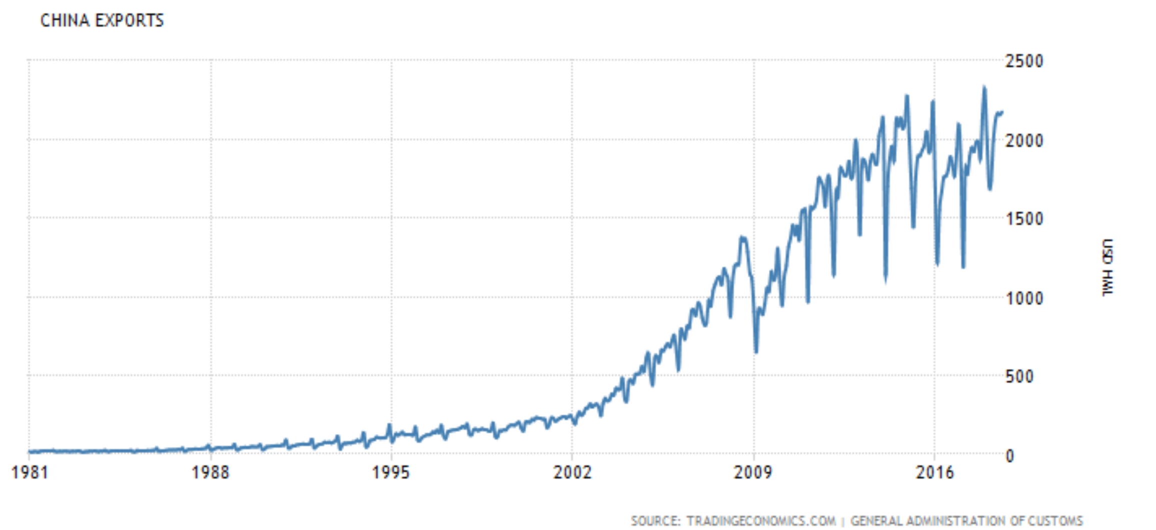
In 2018, the Chinese Yuan fell following the launch of Donald Trump's Trade war in February. The markets interpreted tariffs on exports and a slowing Chinese economy as a reason for the Yuan to weaken. The Yuan just completed a major double -bottom (top) and a resolution or an easing of the Trade War will probably entail a commitment by China to let its currency rise structurally.

As the longer-term chart shows, The Yuan has been kept at 8.5 to the US Dollar for decades and started to appreciate in 2005 as China was opening its financial markets. The market panic of 2015 led to a phase of capital outflows and the Trade war has again countered the structural uptrend, but the secular uptrend is in motion.

China's **balance of trade** exploded upwards since 2004 and the country has generated hundreds billion of USD of surpluses for the past 10 years. The interesting part is the fact that over the past three years, the trade surplus has reached record highs and remains at levels that are structurally too high, meaning the currency is too low.

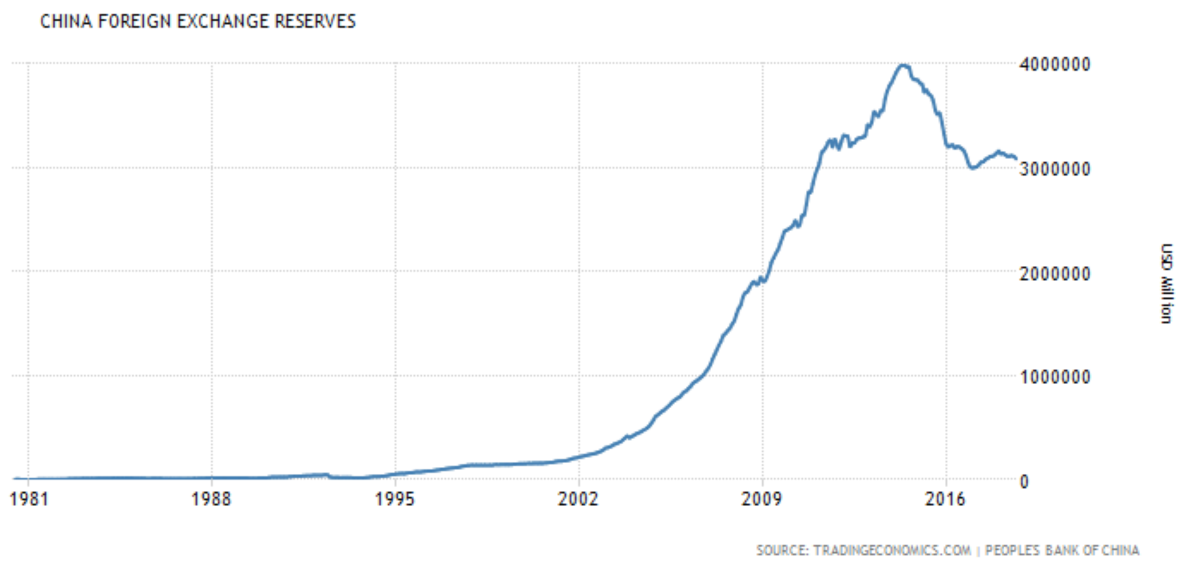


Chinese **exports** are booming and are re-accelerating upwards, testifying of the competitiveness of the Chinese economy and the structural undervaluation of the YUAN. China's export problem is **structural** by nature and Donald Trump analysis of the problem is correct. **Only a significant appreciation of the Chinese currency will solve it.**

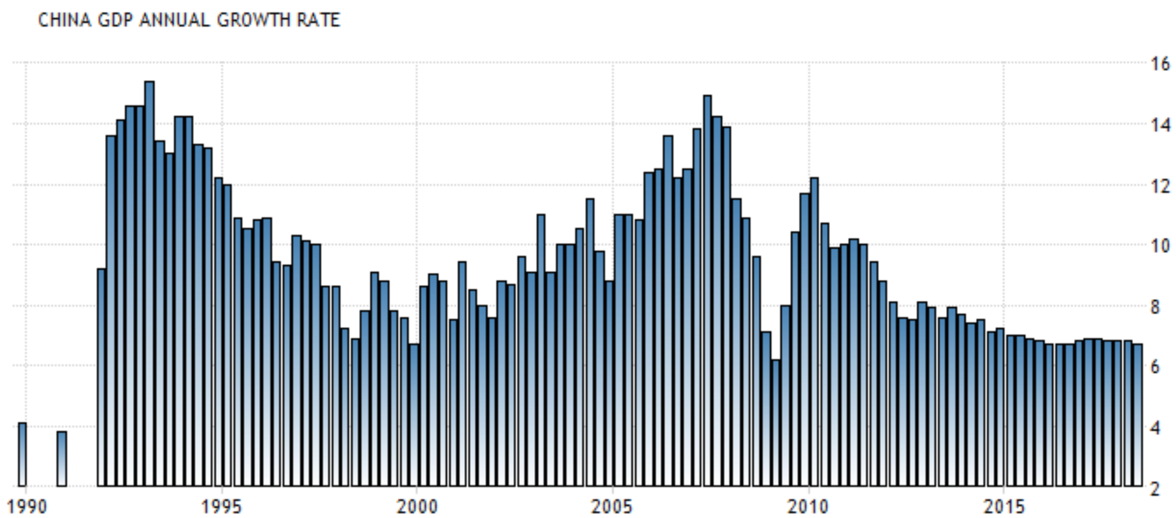


To keep its export engine booming and to create hundreds of millions of jobs, China implemented for years a policy of not recycling its trade surpluses into Yuan and to keep them in foreign currencies. As a result, it built a massive pool of **Foreign exchange reserves** which peaked at **US$ 4 Trillion in 2015, or 40 % of GDP.**

No country can stay with 40 % of its GDP in foreign exchange reserves, especially if it continues to generate in excess of US$ 450 Bln. trade surpluses per annum.



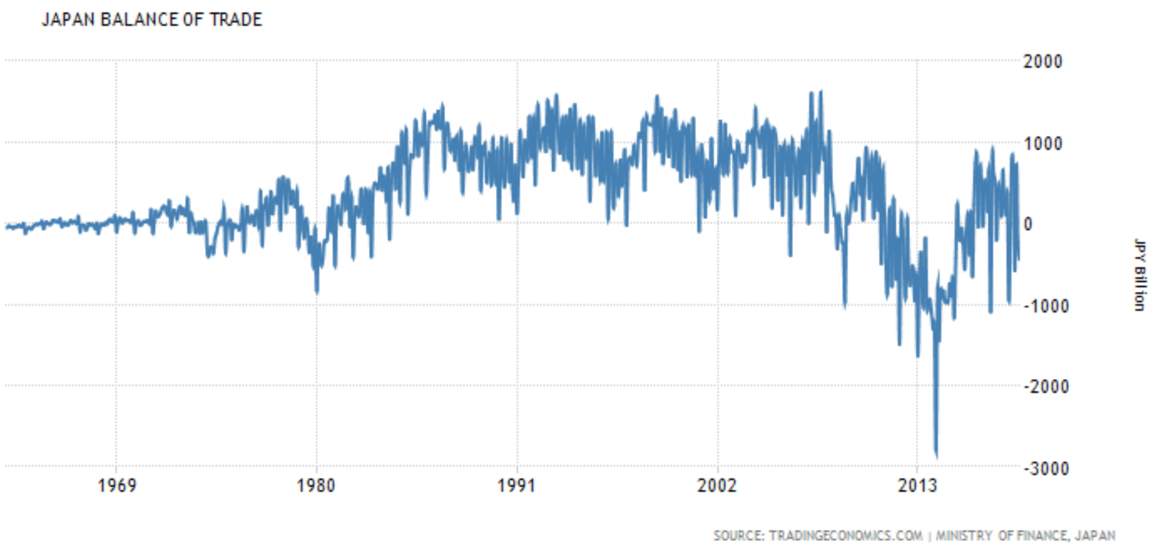
China's **economic growth rate remains strong** at 6.5 % in the third quarter of 2018 even if it is structurally trending down as the economy matures and relies more on consumption than exports. China's domestic consumption has now accelerated sharply toward 78 % of GDP reducing the need to maintain exports growing at the same levels.



The Chart Below shows the evolution of the Japanese Yen between 1970 and 1995, when Japan was exactly at the same stage of development than China is today.

The Japanese Yen rose from 280 in 1982 to 110 in 1989, a 157 % appreciation in five years.

The chart below shows how the Japanese Yen rose structurally when the Japanese Trade surplus accelerated sharply in the 1980's. **Only the doubling of the value of the Yen allowed a containment of the Trade surplus and only its sharp appreciation to 79 in 2010 countered the structural nature of the Trade surplus.**



What makes the

EFG YUAN GLOBAL PORTFOLIO Index Tracker

different?

The EFG YUAN GLOBAL PORTFOLIO Index Tracker Portfolio is a Swiss Securitized index Portfolio issued by EFG Bank, a world-renown banking institution, destined to provide Pension Funds, Insurance Companies, Private Banks, Third Party Managers and Individual Investors with an efficient vehicle to build the Yuan exposure of their portfolios through a balanced portfolio of cash, bond and equity investments.

The Index certificate will invest in Cash, Bonds and Equities denominated in Yuan and will be managed using a dynamic asset allocation process based on macro-economic analysis and sectorial analysis. The Certificate will invest in top quality and highly liquid securities and will keep a wide level of diversification at all times. It will invest in a combination of market trackers, funds and individual securities with a view to provide a global exposure to the growing Chinese capital markets, while maintaining a large risk diversification and optimizing profit potential.

The Index Certificate's objective is to deliver an average 6 to 8 % annual performance in Yuan over rolling five-year periods.

The Certificate will have an absolute return bias and is not concerned with matching or outperforming any particular benchmark.

The Certificate is denominated in Yuan and will not hedge the Yuan currency risk.

Chandler Investment Consultancies FZE, **the advisors**, are a UAE-based consultancy firm with a demonstrable expertise in launching and managing structured products to match clients needs.

Mechelany Advisors, the sub-advisor, has 30 years of first-hand experience of China, its economy and its corporations and its principals have been investing in China and Chinese corporations for decades. The team has a proven global macro-economic expertise and decades-long experience at managing top-down, macro-based asset allocation portfolios for institutional clients.

January 2019