Global Asset Management

Confidential: For institutional investors only

True Partner Capital

09-2021, Chicago / Hong Kong

Opportunities Ahead in Chinese Markets

True Partner Capital

Suite 2902-03, 29/F,
The Gateway Tower 2,
Harbour City, 25 Canton Road,
Kowloon, Hong Kong

111 West Jackson boulevard,
Suite 1700, Chicago,
60604, USA

www.truepartnercapital.com

Being a True Partner

Opportunities Ahead in Chinese Markets

The asset management industry in China is growing at a rapid pace. With capital markets expanding in multiple avenues, China is becoming increasingly important to global investors. Specific areas of development include derivatives, which we believe have the potential to deliver new opportunities.

True Partner Capital actively monitors developments on the world's major financial markets. Given the interconnectedness of global capital markets and supply chains, this includes not only those markets we currently trade, but also those that can influence our traded markets, or which may be suitable for inclusion in our opportunity set in future. At the moment, one of the markets in this group has been seeing significant developments: China. China is by any measure one of the world's most important economies, with major influences on global markets. Having had an office in Hong Kong for over 10 years, but also an international presence in the US and Europe, we have long followed developments in China. Through our strategic relationship with Holland & Muh, we also have a presence in onshore China, which we expect to bring additional opportunities over time.

China's financial markets, which include some of the largest and most liquid in the world, offer potentially strong sources of diversification and are also becoming more accessible. As derivative markets develop, a growing suite of more sophisticated strategies will be applied to them. There are also vast pools of retail and institutional capital seeking more advanced investment management solutions, and asset managers can now apply their investment processes and business models to Chinese markets, via majority or wholly owned local management companies.

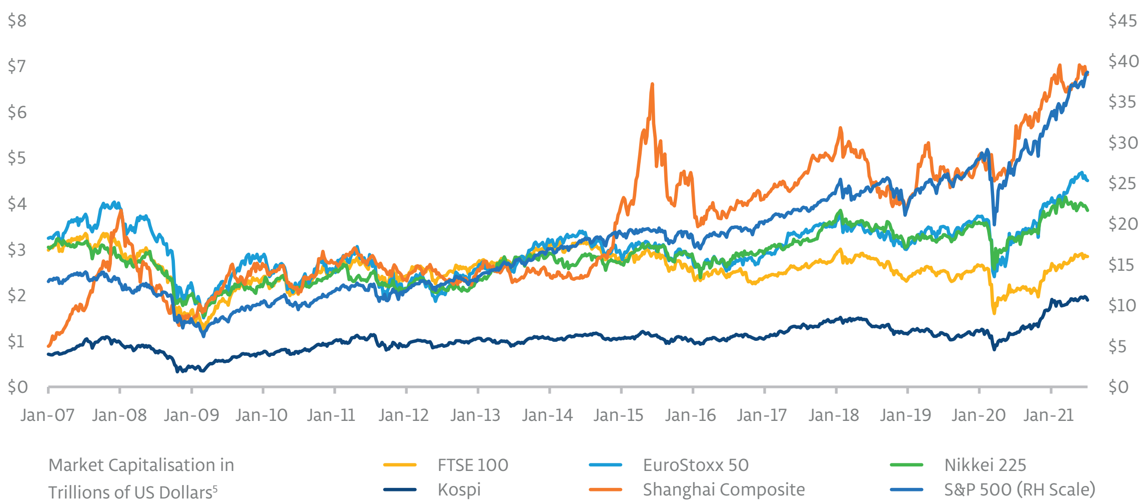
Equity markets

Chinese public equity markets, worth over $10 trillion (or closer to $20 trillion including Hong Kong and US-listed ADRs), now rank second only to the US market capitalisation at around $50 trillion. They are global leaders for liquidity: the turnover ratio of around 300% for Shanghai and Shenzhen shares is between

two and six times higher than for US or European equities, and in effect makes them the world's most liquid equity market.[1] However, surveys suggest most foreign investors have small positions or no position at all,[2] though inflows have recently been increasing.[3]

Chinese equity markets are also growing fast due to a buoyant IPO (and secondary offering) calendar. The tally of public companies has more than doubled over the past decade to around 4,000 listed on China's Shanghai and Shenzhen exchanges, and there are another 8,000 OTC listed companies. In contrast, while the market capitalisation of US public equity markets has grown substantially over time, the breadth has narrowed, as the number of public companies in the US has roughly halved from approximately 8,000 in the mid-1990s to a little over 4,000 today. Greater China leads the world in IPOs[4]: in 2020, China's Shanghai and Shenzhen exchanges recorded 383 new listings, while Hong Kong saw 140, according to KPMG. On the mainland bourses, replacing the old approval system with a new registration-based regime has streamlined the process. Overall, the IPO pipeline has contributed to the significant growth of market capitalization over the past years, as is reflected in the graph below.

Chinese equities have a bigger market cap than many other globally significant equity indices



Equity derivatives are developing both inside and outside China. Onshore equity index futures were historically restricted to hedging but can now be used for directional trading. Furthermore, regulators want to encourage more institutional participation in futures markets, CSRC Chair Fang Xinghai told the FIA in December 2020.

However, listed futures and options are currently limited to indices and ETFs, but that could change: Hong Kong's Financial Services Development Council has proposed augmenting the Stock Connect schemes with more derivatives and structured products linked to mainland equities.[6]

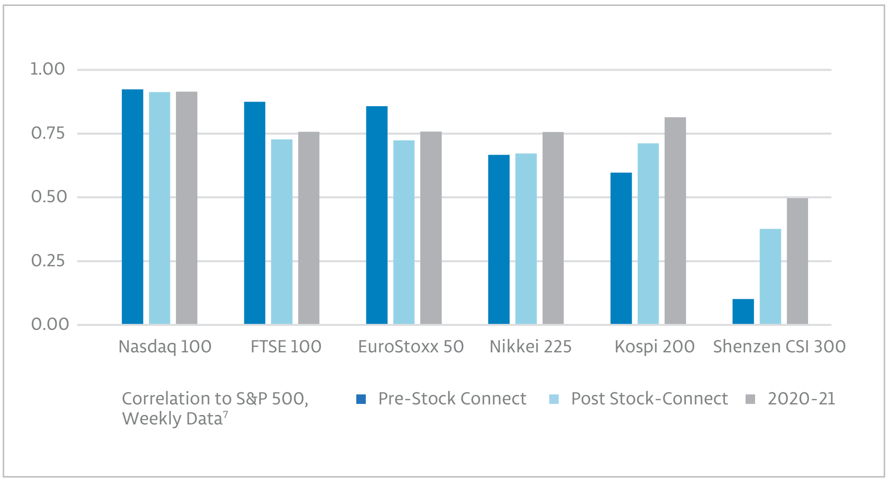
1. 10 things to know about China equities, Allianz Global Investors, accessed June 2020 https://www.allianzgi.com/-/media/allianzgi/globalagi/china-microsite/10-things-to-know/allianzgi-10-things-to-know-about-china-equities.pdf
2. "The merits of a standalone equity allocation to China", Willis Towers Watson, November 2020
3. "International investors flock to Chinese assets", Financial Times, 15 July 2021. One factor affecting the share of assets in Chinese markets may be restrictions on foreign access to Chinese domestic markets. These have historically been significant but many barriers to such access have been reduced or removed in recent years.
4. China to dominate world IPO league in 2020, Nikkei Asia, December 18, 2020 https://asia.nikkei.com/Spotlight/Caixin/China-to-dominate-world-IPO-league-in-2020-report
5. Sources: Bloomberg, True Partner. Data from Jan 2007 to July 2021
6. Expanding Access to the A Share Market, Hong Kong Financial Services Development Council, September 2020 https://www.fsdc.org.hk/media/soepdalk/fsdc_paper_no_47_expanding_access_to_the_a-share_market_en.pdf

Some brokers also offer shorting via swaps. And overseas exchanges are listing Chinese equity index futures: for instance, Eurex in June 2021 launched futures on the MSCI China Tech 100 Index, as well as futures and options on the MSCI Hong Kong Listed Large Cap and the MSCI China Hong Kong Listed Large Cap indexes.

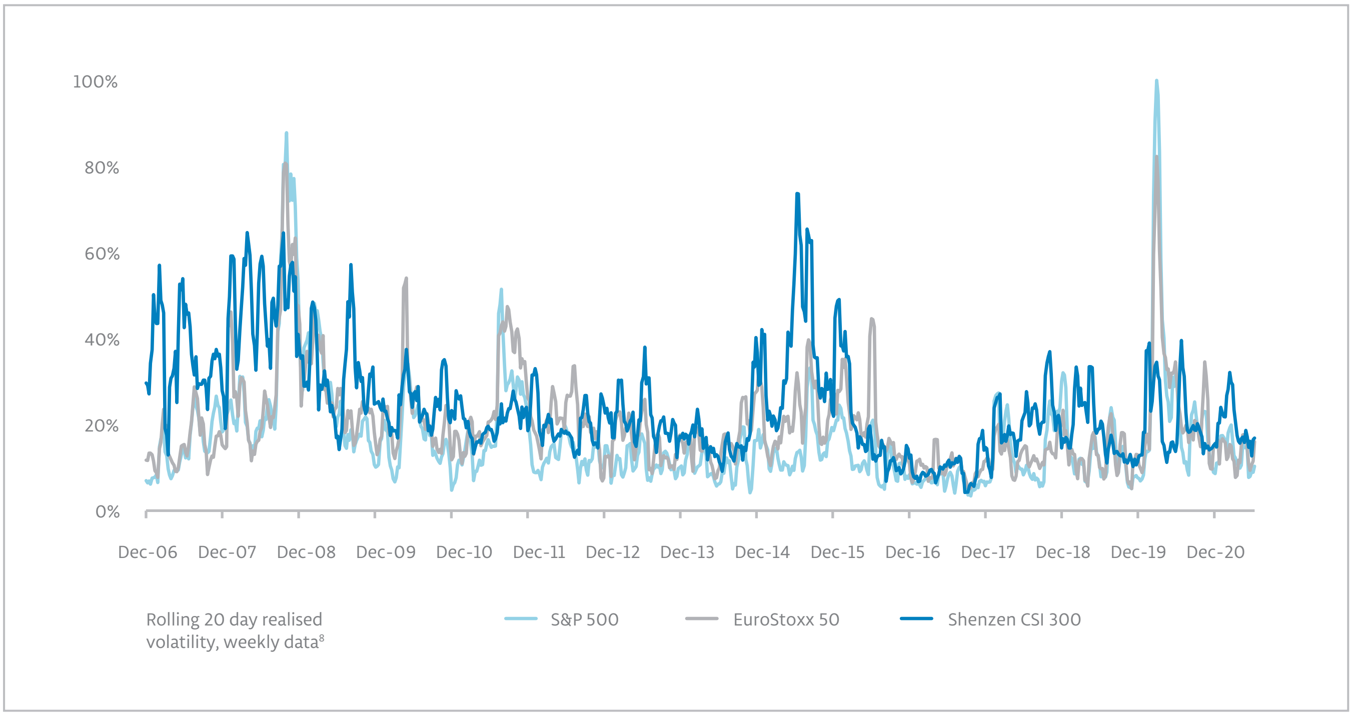
Not only are the Chinese equity markets interesting given their sheer size, they also tend to behave somewhat differently from most of their global peers. The chart below shows that while the correlation between Chinese markets and the S&P 500 has increased following the Stock Connect, the correlation remains significantly lower than the correlation of other global markets with the S&P 500. From this perspective, China still offers the potential for significant diversification benefits.

Chinese equity markets have had a low but evolving correlation to other key equity markets

And interestingly, Chinese markets not only provide diversification in terms of correlation. The magnitudes of market movement, as reflected in realized volatilities also differs from other key global markets. The chart below highlights the volatility differences, with both periods in which Chinese markets moved disproportionally (such as late 2015), or in which these markets were somewhat shielded from global movement (such as in early 2020).



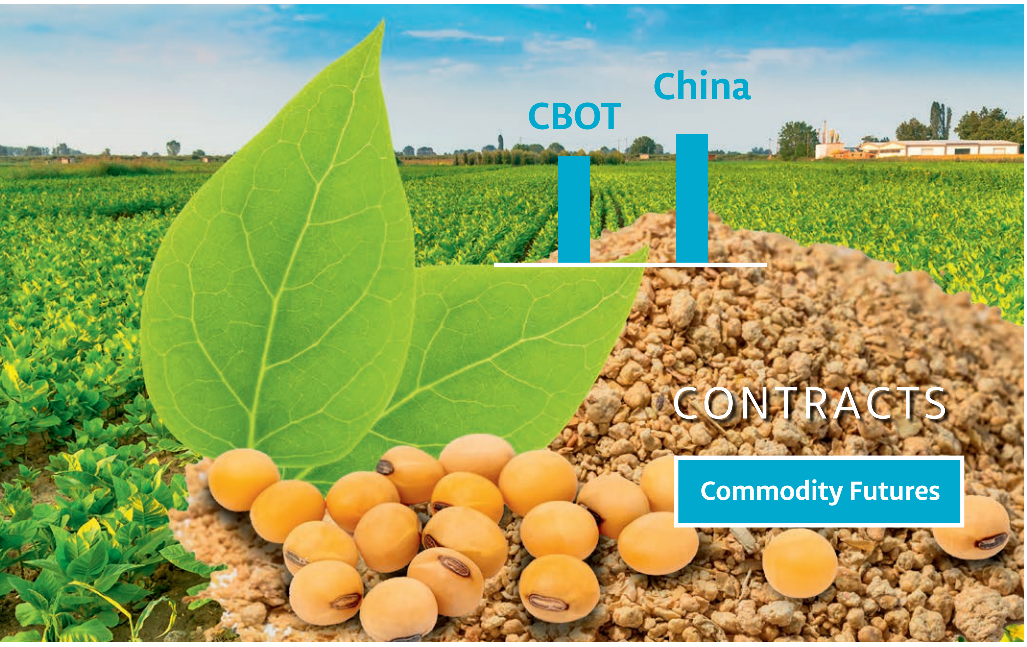
Chinese equity volatility has a dynamic relationship with US and European markets



7. Sources: Bloomberg, True Partner. Data from Jan 2007 to July 2021.
8. Sources: Bloomberg, True Partner. Data from Dec 2006 to July 2021

Commodity markets

China's commodity markets include three of the world's biggest five exchanges. According to the Futures Industry Association's 2020 exchange and contract rankings, Shanghai, Dalian and Zhengzhou rank within the top five largest commodity exchanges, as measured by their trading volumes, along with CME Group and ICE. Focusing on individual contracts, 14 of the top 20 agricultural contracts are in China while 11 of the top 20 metals contracts, and five of the top 20 energy futures contracts are in China. China's soybean meal and soybean oil contracts are now bigger than CBOT's.



A growing number of commodities can only be traded in China or have their key markets there, including steel rebar, hot rolled steel, coking coal, thermal coal, PTA (purified terephthalic acid), PVC (polyvinyl chloride); PP (polypropylene), LLDP (linear low-density polyethylene), apples and eggs, some of which are not traded on other international exchanges. In 2020, China introduced 12 new commodity derivative products, and exchanges soon plan to add carbon futures amongst other potential new products. Zhengzhou Futures Exchange chairman, Lu Dongsheng, addressing the China Futures Association, announced plans readying a wide range of new futures products, including peanuts, chicken, steel billet, caustic soda and paraxylene – and might develop contracts in potatoes, sunflower seeds, garlic, cement and propylene.

China is also internationalizing more commodity futures.[9] At least seven contracts are available to overseas investors: bonded copper futures, crude oil, TSR 20 rubber and low-sulphur fuel oil on the Shanghai International Energy Exchange; iron ore and palm oil on the Dalian Commodity Exchange, and PTA (purified terephthalic acid) on the Zhengzhou Commodity Exchange. There is a long pipeline of other contracts that should soon be internationalised: alumina, ferrochrome, synthetic rubber, refined oil, natural gas, naphtha, corrugated paper, woodfree paper and electric power, Shanghai Futures Exchange (SHFE) Chairman Jiang Yan said at the 18th Shanghai Derivatives Market Forum.

China is also adding a growing number of options on commodity futures: 18 over the past three years, with aluminum and zinc options added in 2020.[10] The long-term plan is for all commodity futures to have associated options, according to Fang Xinghai, vice-chairman of the China Securities Regulatory Commission. Crude oil options trading on the Shanghai IFE has just started in June 2021.

9. China opens futures markets further to outside world, Futures Industry Association, November 25, 2020
https://www.fia.org/articles/china-opens-futures-markets-further-outside-world
10. China launches aluminum, zin options to serve real economy, XinhuaNet, August 10, 2020
http://www.xinhuanet.com/english/2020-08/11/c_139280255.htm

Bonds, rates and credit

China's onshore bond market is the second largest in the world, at $15 trillion,[11] of which $9.2 trillion is rates (government bonds, municipal bonds, policy bank bonds and central bank bills) and $5.8 trillion is in corporate bonds (including corporate bonds, enterprise bonds, financial bonds, debt financing instruments and asset backed securities). China's domestic corporate bond market is second only to the US, which has $10 trillion, and is a similar size to the entire European investment grade market. China's offshore corporate bonds of $750 billion make up around one third of Asia Pacific corporate debt markets.

Despite offering a useful yield pickup, China's bond markets remain largely undiscovered territory for overseas investors. Although foreigners can access the main venue – the interbank bond market – via CIBM Direct, foreign ownership is below 1% (3% if one includes government bonds) and derivatives such as credit default swaps (CDS) and repo's for corporate bonds are somewhat nascent.[12] This is changing fast: in April 2021 BNY Mellon became the first US bank to offering triparty repo's, using Chinese debt bought via Hong Kong's Bond Connect as collateral.[13]

Accelerating derivatives development and foreign participation

Whereas the aforementioned market for credit derivatives is in its relative infancy, regulators in China are committed to further developing all financial derivatives markets. "Currently, China's financial futures and options market is at an early stage of development. It far lags market participants' growing needs to manage their risks. It also fails to keep pace with China's economic development and financial reforms," Fang Xinghai, vice chairman of the China Securities Regulatory Commission, told the China Futures Association in December 2020. At the second Bund Summit in Shanghai also in 2020, he promised to further open capital markets and products, as well as securities, funds and futures.

For instance, China has drafted a new Futures Law, which was supported by the US-based Futures Industry Association. The FIA and its members have requested some clarifications and additions to the law, and are working collaboratively with the National People's Congress, the China Securities Regulatory Commission, the China Futures Association and others to hone and refine the new law. There are also initiatives to link the interbank and Shanghai/Shenzhen exchange venues for trading bonds in order to widen access.

During the 12th Lujiazui Forum 2020, the Chairman of the CSRC reiterated the message that China is inviting investors globally to participate more widely and deeply in the Chinese

11. The internationalization of the China corporate bond market, ICMA, January 2021; Bond Market Size, ICMA, August 2020 https://www.icmagroup.org/assets/documents/About-ICMA/APAC/The-internationalization-of-the-China-corporate-bond-market-January-2021-270121.pdf; https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Secondary-Markets/bond-market-size/
12. The internationalization of the China corporate bond market, ICMA, January 2021 https://www.icmagroup.org/assets/documents/About-ICMA/APAC/The-internationalization-of-the-China-corporate-bond-market-January-2021-270121.pdf
13. BNY Mellon opens 4 trillion repo niche to holders of China debt, Bloomberg, April 13, 2021 https://www.bloomberg.com/news/articles/2021-04-13/bny-mellon-opens-4-trillion-repo-niche-to-holders-of-china-debt?sref=ztUfOWRz

market. A much wider variety of asset managers, including smaller and younger firms, can now apply for their own QFII license to directly access most financial markets, and there are no longer quotas on QFII. Asset managers with a good understanding of Chinese markets should increasingly be able to deploy a wider variety of traditional and alternative strategies to them, with capital raised from inside and outside China.

Potential growth of assets

China's savings of CNY 120 trillion (USD 18.8 trillion) are already around one third of the US total of USD 57 trillion, and China's savings pool could catch up quite quickly as some predict it could to treble to CNY 320 trillion (USD 50 trillion) by 2030.[14]

Historically, China's gargantuan savings ratio was deployed conservatively into relatively familiar and predictable areas: property, bank account savings and various guaranteed return products. Retail investors have also been taking rather more risk with varied results actively picking and trading stocks. Now that wealth management products/ cash management products cannot guarantee principal nor promise higher returns than deposits or money market funds and are subject to stricter risk criteria on leverage, credit quality, liquidity, and diversification, investors and banks are moving to NAV based products and accept that they need to tolerate some volatility in their search for higher returns. The explicit objective of the new rules is to educate investors about the risks they are taking. Investors will likely seek diversification in both traditional and alternative strategies.

Control of local asset management companies

The participation of foreign companies may help offer a wider range of investment strategies and a broader variety of business models in terms of culture and governance. Having initially been restricted to minority participation in joint ventures, they can now have full or majority ownership of an asset management, wealth management, securities or futures company in China, including companies advising retail investors, known as fund management companies (FMCs). This opens up access to a wider spectrum of savings pools: including retail fund management, private asset management (segregated accounts), qualified domestic institutional investor (QDII) and offshore investment pending both licensing and quota availability, investment advisory, and possibly basic pension, enterprise annuity investment management, social security fund investment management, and insurance funds.[15]

Foreign firms can also get involved in securities investment advisory, funds investment advisory, and issuance of securities research reports. In other cases, however, asset managers may still prefer a minority joint venture and some of the largest western asset and wealth managers have entered into distribution partnerships with the biggest Chinese banks, in order to access networks of thousands of branches and millions of customers. It is also now easier for asset managers to avail of the QDLP programme to raise assets onshore to invest outside China.

14. Data from Oliver Wyman cited in "Foreign asset managers are eyeing China's vast pool of savings", The Economist, June 12, 2021
https://www.economist.com/finance-and-economics/2021/06/10/foreign-asset-managers-are-eyeing-chinas-vast-pool-of-savings
15. China market liberalisation for global asset managers, HSBC, July 16, 2020
https://www.gbm.hsbc.com/insights/securities-services/china-market-liberalisation

Conclusions

Given the size and global importance of China's economy, its wealth and the scale of its capital markets, it already has a major influence beyond onshore markets. Therefore, even where investors are not directly trading China's onshore markets, it is important to be aware of developments. We believe that China's financial markets offer an unusual combination of liquidity and diversification benefits, that could make them attractive places for global investors, both for strategic exposure and for exploring directional and relative value alpha opportunities.

The availability and liquidity of financial derivatives, initially focused on commodities, has already expanded to some areas in equities and fixed income. Furthermore, China is steadily taking steps towards opening its financial derivatives markets to the outside world. We believe that as China's markets become more open to offshore investors, the experience of following their evolution over time will help to provide important context. We expect China's markets to present attractive opportunities in the future that will be accessible to both onshore and offshore investors. By following market developments today, we believe investors may be better placed to take advantage of opportunities as China's derivatives markets further open up.

About the authors

Mr. Govert Heijboer, Co-CIO of True Partner, has been active as a market maker trading in the European and Asian derivatives markets as well as positional trading since 2003. Govert started as a trader/ researcher at Saen Options in Amsterdam and rose to become the director of derivatives trading and a member of the executive team in 2007. In 2008 he moved to Hong Kong to set up and assume responsibility for all trading activities in the new Saen Options Hong Kong branch office. Govert holds a PhD in Management Science and an MSc in Applied Physics from the University of Twente, Netherlands. He is a founding partner and has worked on the launch of the True Partner Fund since March 2010.

Mr. Tobias Hekster, Co-CIO of True Partner, has been actively trading for the past 21 years in various different roles in several markets across the globe. Starting at IMC in 1998 as a pit trader in Amsterdam, Tobias has established the off-floor arbitrage desk, headed the Chicago office in the transition from floor trading to electronic trading and set up the Asian volatility arbitrage desk in Hong Kong. Tobias holds an MSc in Economics from University of Groningen, Netherlands. Next to his role as Senior Strategist, he taught as an Adjunct Associate Professor at the Chinese University of Hong Kong and as an Adjunct Professor of Financial Practice at National Taiwan University.

Mr. Robert Kavanagh, CFA, Head of Investment Solutions of True Partner, has been in the hedge fund industry since 2004 and joined True Partner in 2019. Prior to joining True Partner he was an Executive Director at Goldman Sachs Asset Management where he spent 15 years within the Alternative Investments & Manager Selection (AIMS) group. Robert has extensive experience investing in hedge funds and working with a wide range of hedge fund investors. Robert is a CFA charterholder and holds a First Class (Honours) BSc in Philosophy and Politics from the University of Bristol, UK, where he was awarded a Social Sciences Scholarship.

About True Partner Capital

True Partner Capital is a team of former market makers and IT specialists that have been working together for more than 15 years.

Their combined expertise on trading, execution and risk management as well as the proprietary trading technology, allows the team to identify and capitalize on trading opportunities.

Addresses:

True Partner Advisor Hong Kong Ltd.
Suite 2902-03, 29/F, The Gateway Tower 2,
Harbour City, 25 Canton Road,
Tsim Sha Tsui, Kowloon, Hong Kong

Tel: +852 3845 5900
Email vol.contact@truepartnercapital.com

True Partner Capital USA Holding, Inc.
111 West Jackson boulevard,
Suite 1700, Chicago,
60604, USA

Tel: +1 312 675 6128

which contains additional information about the Fund and expenses associated with an investment therein, only to sophisticated investors in jurisdictions where permitted by law. All relevant Offering Documents should be carefully reviewed before investing. Any decision to invest in the Fund should be based solely on the information included in the Memorandum. In the case of any inconsistency between the descriptions or terms in this presentation and the Memorandum, the Memorandum shall control.

Past performance is not indicative of future results. The information contained herein is preliminary, is provided for discussion purposes only as a summary of key information, is not complete and does not contain certain material information about the Offering. The information contained herein does not take into account any particular investment objectives or financial circumstances of any specific person who may receive it. Parties should independently investigate any investment strategy or manager, and should consult their own advisors as to legal, tax, accounting, regulatory and related matters prior to investing. These materials may contain historical market data; however, historical market trends are not reliable indicators of future market behavior. Due to, among other things, the volatile nature of the markets and the investment strategies discussed herein, the investment strategies may only be suitable for certain investors. There can be no assurance that the Offering will have a return on capital similar to historical returns provided because, among other reasons, there may be differences in economic conditions, regulatory climate, portfolio size, leverage use, expenses and structure, as well as investment policies and techniques. Any information provided with respect to how the portfolio will be constructed is merely a guideline, which True Partner may change at any time in its sole discretion. Unless otherwise indicated, the information contained herein is believed to be accurate as of the date indicated. No representation or warranty is made as to its continued accuracy after such date.

The Fund is not registered under the Investment Company Act of 1940, as amended, in reliance on an exception thereunder. Interests in the Fund has not been registered under the Securities Act of 1933, as amended, or the securities laws of any state; they are being offered and sold in reliance on exemptions from the registration requirements of said Act and laws. Neither the Fund's Operative Documents, nor the offering of its limited partnership interests, have been reviewed or approved by U.S. federal or state regulators. Interests in the Offering are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, The Federal Reserve Board or any other governmental agency. The interests issued by the Fund are offered or otherwise made available only in accordance with available, applicable private placement or offering rules.

An investment in the Offering is illiquid and there are significant restrictions on transferring the Funds' limited partnership interests. There are no secondary markets for the Fund's limited partnership interests and none are expected to develop. True Partner has sole discretion regarding the allocation of the Fund assets. The Fund represents a speculative investment and involves a high degree of risk. The Fund's portfolio, which is under the sole trading authority of True Partner, is principally an Equity Volatility Arbitrage fund. This lack of diversification may result in higher risk.

A private fund is generally not subject to the same regulatory oversight and/or regulatory requirements as a mutual fund. The Offering is not required to provide periodic pricing or valuation information to investors. Investments may involve complex tax structures resulting in delays in distributing important tax information.

Certain instruments may have no readily available market or third party pricing. Performance may be volatile as private funds may employ leverage and other speculative investment practices that may increase the risk of investment loss, and adherence to risk control mechanisms does not guarantee investment returns. Additionally, fees may offset an investor's profits. A comprehensive list of potential risk factors is outlined in the Offering Documents.

Investing in the financial markets involves a substantial degree of risk. There can be no assurance that the investment objectives described herein will be achieved. Investment losses may occur, and investors could lose some or all of their investment and successfully overcoming barriers to entry, e.g., legal and regulatory enterprise does not guarantee successful investment performance. No guarantee or representation is made that the Fund's investment program, including, without limitation, its investment objectives, strategies or risk monitoring goals, will be successful and investment results may vary substantially over time. Investment losses may occur from time to time. Nothing herein is intended to imply that the Fund's investment methodology should be considered "conservative", "safe", "risk free" or "risk averse." An investment in any fund should be discretionary capital set aside strictly for speculative purposes.

Certain information contained in this document contains: forward-looking statements" which can be identified by the use of forward-looking terminology such as "may", "will", "should", "expect", "anticipate", "target", "project", "estimate", "intend", "continue" or "believe" or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the performance of the Fund may differ materially from those reflected or contemplated in such forward-looking statements. Forward looking information is subject to inherent uncertainties and qualifications and could be based on numerous assumptions. Forward looking information is provided for illustrative purposes only and is not intended to serve as, and must not be relied upon by any investor as, a guarantee, an assurance, a prediction or a definitive statement of fact or probability.

Performance Methodology: Past performance is not an indicator of future performance. Annualized Returns or Performance figures for True Partner Fund are based on Class B shares and are shown on a net basis after the deduction of a 2% management fees and a 20% performance fee, trading related and other expenses that an investor would have or actually paid.

The indexes' performances do not reflect the deduction of transaction costs, management fees, or other costs which would reduce returns. References to market or composite indexes, benchmarks or other measures of relative market performance (indexes) over a specified period of time are provided for your information only and do not imply that a portfolio will achieve similar returns, volatility or other results. The composition of an index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which may change over time. Indexes are used as performance benchmarks only, as True Partner does not attempt to replicate an index. The composition of the indexes is not necessarily similar to accounts managed by True Partner. The prior performance of the indexes will not be predictive of the future performance of accounts managed by True Partner. An investor may not invest directly in an index.