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EQUITIESFIRST® Progressive Capital

TIME VALUE OF MONEY & 100% COLLATERAL RETURN

The EquitiesFirst financing model requires a temporary title transfer of shares during the term of the loan transaction. In a previous piece, we addressed the key concerns on the temporary transfer in the ownership of the collateral (shares). This includes sharing the empirical data on post-transactional share price performance with EquitiesFirst and a generic share pledging disclosure. The share price of the transactions with EquitiesFirst outperformed to the respective indices by 15% on average, and the average volume increased by 4.2% comparing to the prior 30 days' average trading volume. [FIRSTNEWS VOL 01, FEB 2021]. We discussed the 5 essential questions about title transfer, which includes our key differentiation with margin lenders [FIRSTNEWS VOL 08, JUL 2021]. In this report, we want to discuss our business model, 100% track record in returning the collateral and the correlation with Time Value of Money.

TIME AS A CRUCIAL ASSET FOR US:

Time value of money is an important concept for EquitiesFirst. Shareholders will pay more for an investment that could promise returns over years 1 to 5 than they will generally pay for an investment that estimates identical returns for years 6 through 10. Essentially one must determine if future benefits are sufficiently large to justify current outlays. The development of mathematical tools for the time value of money is important as the first step towards making capital allocating decisions.

The time value of money is essentially saying that today's dollar is worth more than if I would get the same amount in the future. Whenever one decides to allocate capital, make purchases of new plant and equipment or introduce a new product, one must determine if the projected future benefits are large enough to justify the current outlay. The abovementioned concept has many applications for given interest rates in calculating the future value of an amount compounded over a period of years, the present value of an amount discounted over a period of years, future value of annuity, present value of annuity and how mortgage amortization is calculated.

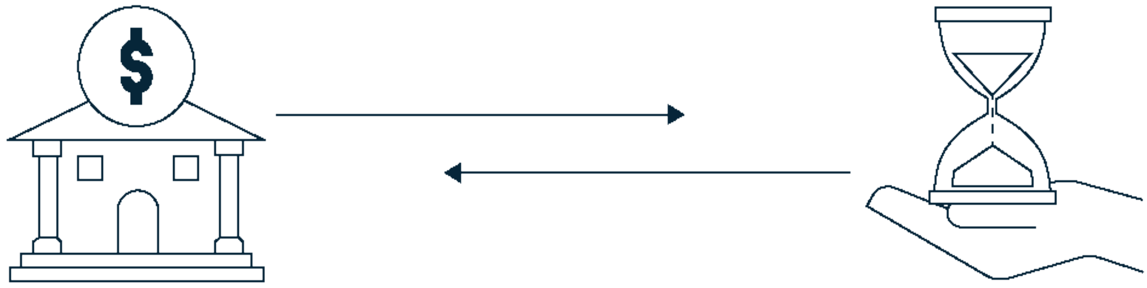
EquitiesFirst understands the time value of money. We take the borrowers shares for a fixed time period and earn our economics from the shares. To us, the time value is worth more by holding shares than cash.

EquitiesFirst vs. Traditional Banks

- We have an established risk management process that allows us to take on a broader range of collateral quality
- A fixed loan tenor provides us the time to execute various kind of trading strategies
- Asset owners can unlock value from their asset holdings to further invest while retaining all upside in their shares
- We earn our economics from actively rebalancing the position
- EF's interest rates are low and fixed

EquitiesFirst aligns the interest with borrowers by taking more risks than traditional banks do and offering better lending terms. In return for their shares and time, borrowers unlock the value from their asset holdings and are able to benefit from the time value of money to utilize it, while EquitiesFirst benefits the time value of money by holding shares. With sophisticated trading techniques and time provided by the borrowers, EquitiesFirst can earn from the volatility of the collateral.

SHARE BACKED FINANCING: VALUE PROPORTION OF THE LENDER & THE BORROWER



EquitiesFirst (Lender) provides:

- Low & fixed interest rate
- High loan-to-value ratios (LTV)
- Non-recourse loan
- Non-purpose loan
- Borrower friendly margin call mechanism

Shareholder (Borrower) provides:

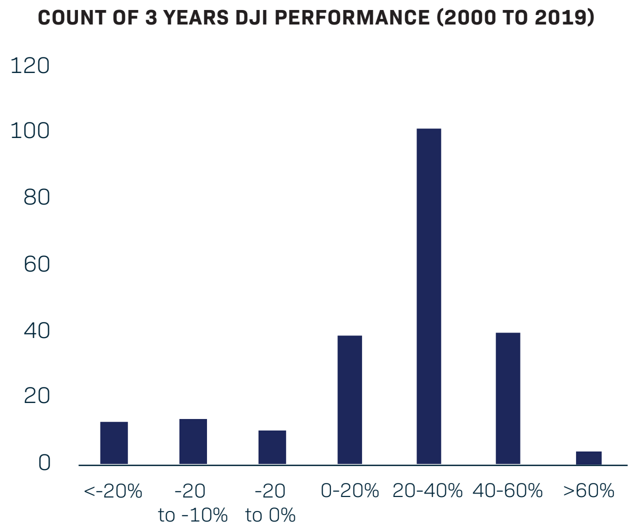
- Temporary transfer in ownership
- Time (Fixed Loan Tenor)

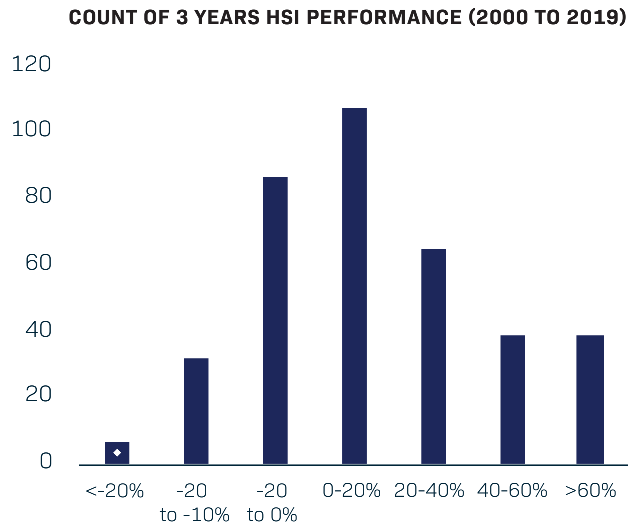
Time Value of Money is a popular concept in Finance, and this is also at the core of EquitiesFirst. By managing additional risks and offering more competitive terms compared to traditional banks, **we get time (a fixed tenor to trade the collateral)** which is key to grow economics.

As we have fixed loan terms, we can utilize the time and strategically rebalance the position with various holding period lengths. A three-year loan term provides us with 756 trading days to trade shares patiently and carefully.

LONG-TERM BULL MARKET - IN FAVOR OF OUR PATIENT TRADING STRATEGY

To further examine our strategy, we analysed more than 400 data points for the Dow Jones Index and Hang Seng Index from 2000 to 2019. We found that over 80% of times (184/221) the Dow Jones Index and about 70% of times (147/221) the Hang Seng Index performed positively after 3 years. Furthermore, the Dow Jones Index's and the Hang Seng Index's return are 21% and 18% in average respectively over the 3 years, allowing us to be patient even when the share price drops in the short-term as the share price tends to bounce back within 3 years.

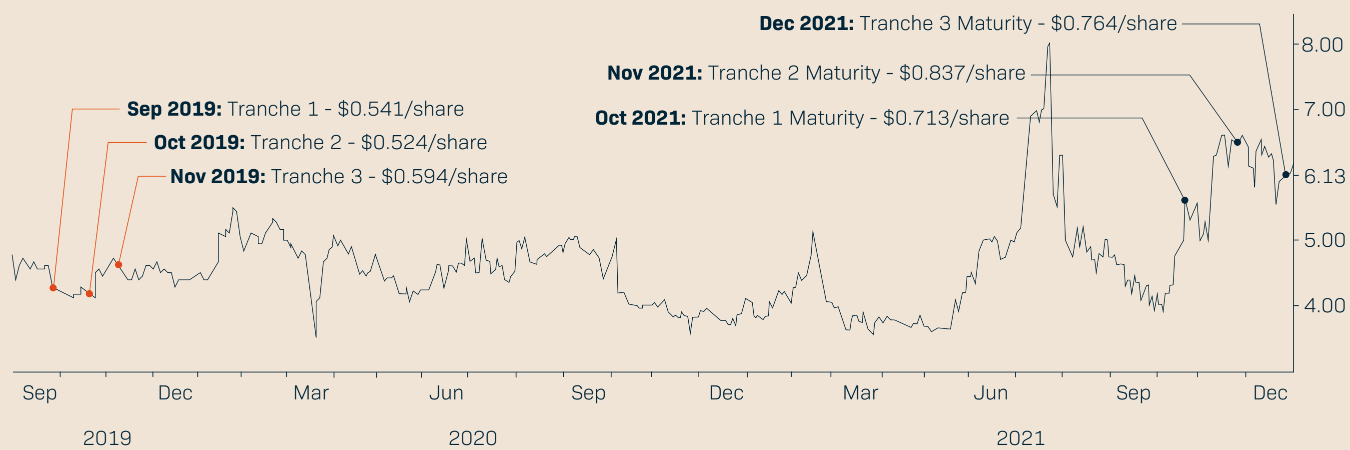




The volatile nature of the stock creates opportunities for us. Our trading technique and algorithms enable us to earn our economics. We sell on highs and buy on lows through applying our algorithms. For example, if the share price fluctuates in between the ascending channel, there is plenty of room for trader to gain profit from the movement. The price fluctuation is mostly caused by the other large market participant who trades more shares (i.e., institutional investors, major shareholders).

CASE STUDY: IDREAMSKY TECHNOLOGY (1119.HK)

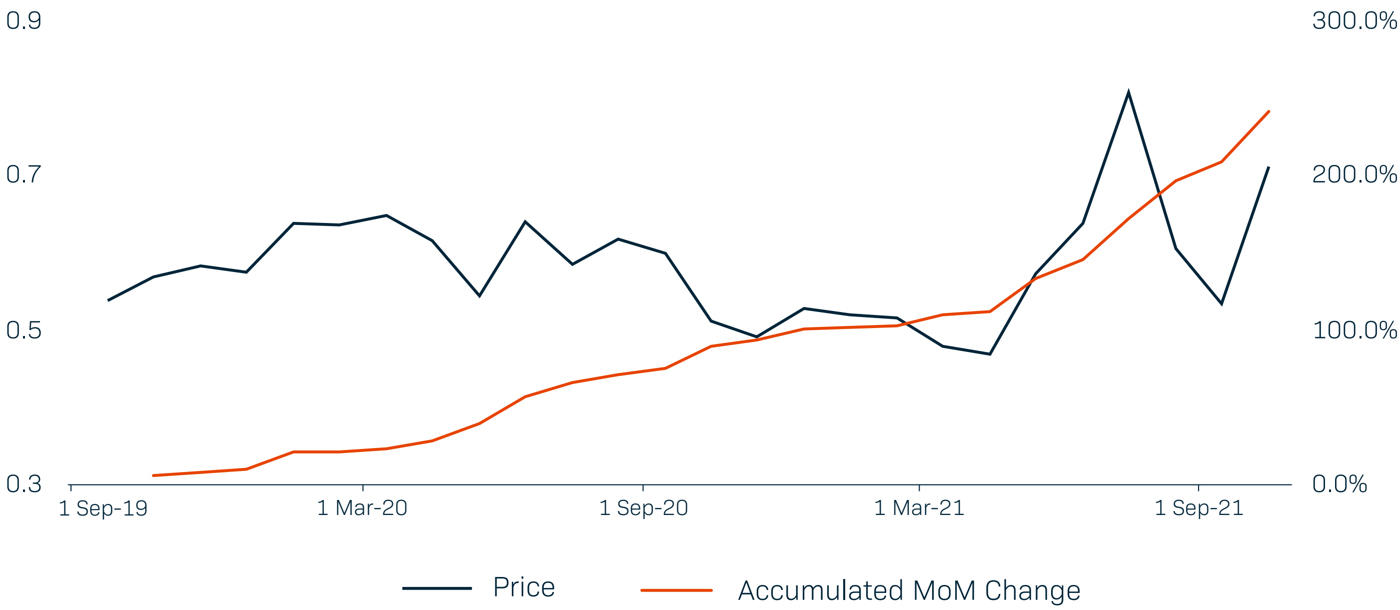
A good case study is iDreamSky (1119.HK). We completed 3 transactions for one of the substantial shareholders (all publicly disclosed) and all of the shares were subsequently returned to the shareholder (traceable via CCASS).



Source: Bloomberg, EquitiesFirst

VOLATILITY - THE CORNERSTONE OF OUR TRADING STRATEGY

Here is an example of potential successful trading using market volatility for iDreamSky Technology shares on monthly basis.



Based on the chart, we can observe that although the share price of iDreamSky Technologies only rose around 30% within two years, the potential profits was around 250%. This shows that with patient decisions to take positions through trading, the profits could be much higher than the returns of holding stocks. Furthermore, if we trade more frequently with shorter holding periods, the potential profits could be higher than 250%.

Although our business involves trading risk, our established trading techniques and risk management processes, together with the time generally available to implement such measures, mean that our trading risk is generally well managed.

INTEREST RATE AS THE BUFFER FOR OUR PROFTIS

We charge interest rate over the loan term, allowing us to earn from the time value of money and use this as buffer for us to generate profits over time for our clients. Combined with our fixed loan tenor and the observation, major indices usually perform positively within three years, we can use time to trade strategically.

Source: Bloomberg

SELECTED PREVIOUS PUBLICATIONS

Vol 1- Share Pledging Downside Myth Dispelled

Vol 8- Essential Questions about Title Transfers

Vol 10- Update on Performance Data

Source: EquitiesFirst

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