Strictly For Professional Investors Only

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EQUITIESFIRST®
Progressive Capital

PRIVATE BANKING PARTNERSHIP WITH OUR LOW-COST FINANCING: A WIN-WIN STRATEGY

EXECUTIVE SUMMARY

- EquitiesFirst has partnered with private banks in Hong Kong to offer tailored financing solutions for high-net-worth and institutional investors across Asia.
- Our innovative financing model allows clients to leverage equity and crypto holdings for low-cost loans with flexible terms.
- The non-recourse structure provides significant downside protection, allowing clients to walk away from the loan in the event of a sharp decline in securities value.
- Investors can invest loan proceeds with wealth management products, generating fixed income while retaining the upside potential of the underlying securities.
- This strategy offers a more cost-effective alternative to traditional hedging methods, such as long-term put options.

EquitiesFirst has strategically partnered with private banks in Hong Kong to deliver superior financing products tailored to the needs of high-net-worth individuals (HNWIs) and institutional investors. These collaborations are designed to provide innovative and competitive financial solutions that address the unique liquidity and capital requirements of our clients.

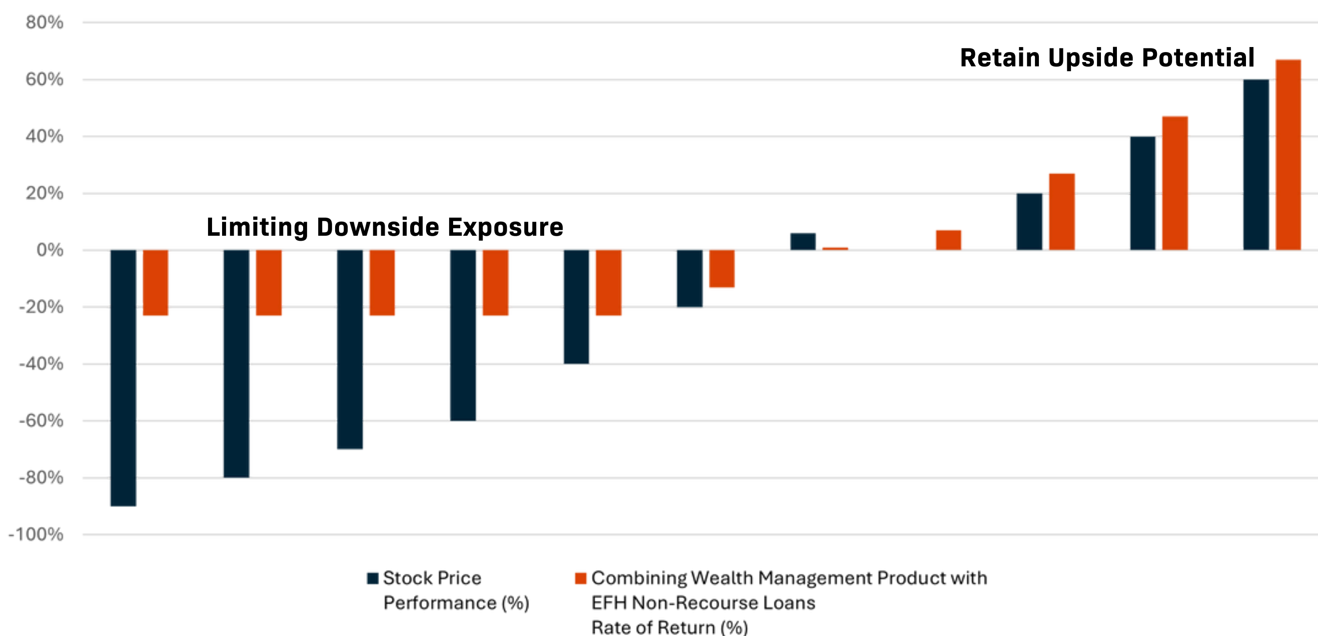
Private banks choose to work with EquitiesFirst because of our ability to offer low-cost, flexible funding options to their clients. Through these partnerships, we provide equity and crypto-backed financing solutions that stand out in the market due to several key benefits:

Low Interest Rates (3-4%): With highly competitive interest rates ranging from 3-4%, our financing options offer significant cost savings compared to traditional funding sources.

High Loan-to-Value (LTV) Ratios (60-70%): We offer LTV ratios between 60-70%, enabling clients to access substantial liquidity relative to their underlying asset holdings, whether in equities or crypto.

Non-Recourse, Non-Purpose Loans: Our financing products come with non-recourse terms, meaning that in the event of default, EquitiesFirst voluntarily forgoes its right to pursue repayment. Additionally, the non-purpose structure provides clients with the flexibility in how they utilize the funds, without the restrictive conditions often associated with traditional bank loans.

LEVERAGING WEALTH MANAGEMENT PRODUCTS WITH LOW-COST FINANCING: A WIN-WIN STRATEGY



In this scenario, a private bank's client holds a significant equity position in Apple. The client engages with EquitiesFirst to pledge their Apple shares (AAPL US) in exchange for low-cost financing. By pledging these equity holdings, the client secures funding with an attractive interest rate of just 3-4% and a loan-to-value (LTV) ratio of 70%. This means that if the client's Apple stock is worth USD 10 million, they can borrow up to USD 7 million.

Once the client receives the USD 7 million loan, they can invest the funds into alternative investment opportunities. For instance, many clients choose to purchase wealth management products offered by their private banks, which provide fixed income. In this case, the client may invest in a wealth management product yielding an expected 9% annual yield.

LIMITED DOWNSIDE RISK

EquitiesFirst's non-recourse financing structure is designed to protect the client in the event of a market downturn. With an initial LTV ratio of 70%, a margin call would only occur if Apple's share price fell by 44%. This is based on our margin call mechanism when the stock's value drops to 56% of its original level (70% initial LTV × 80% threshold), triggering the margin call.

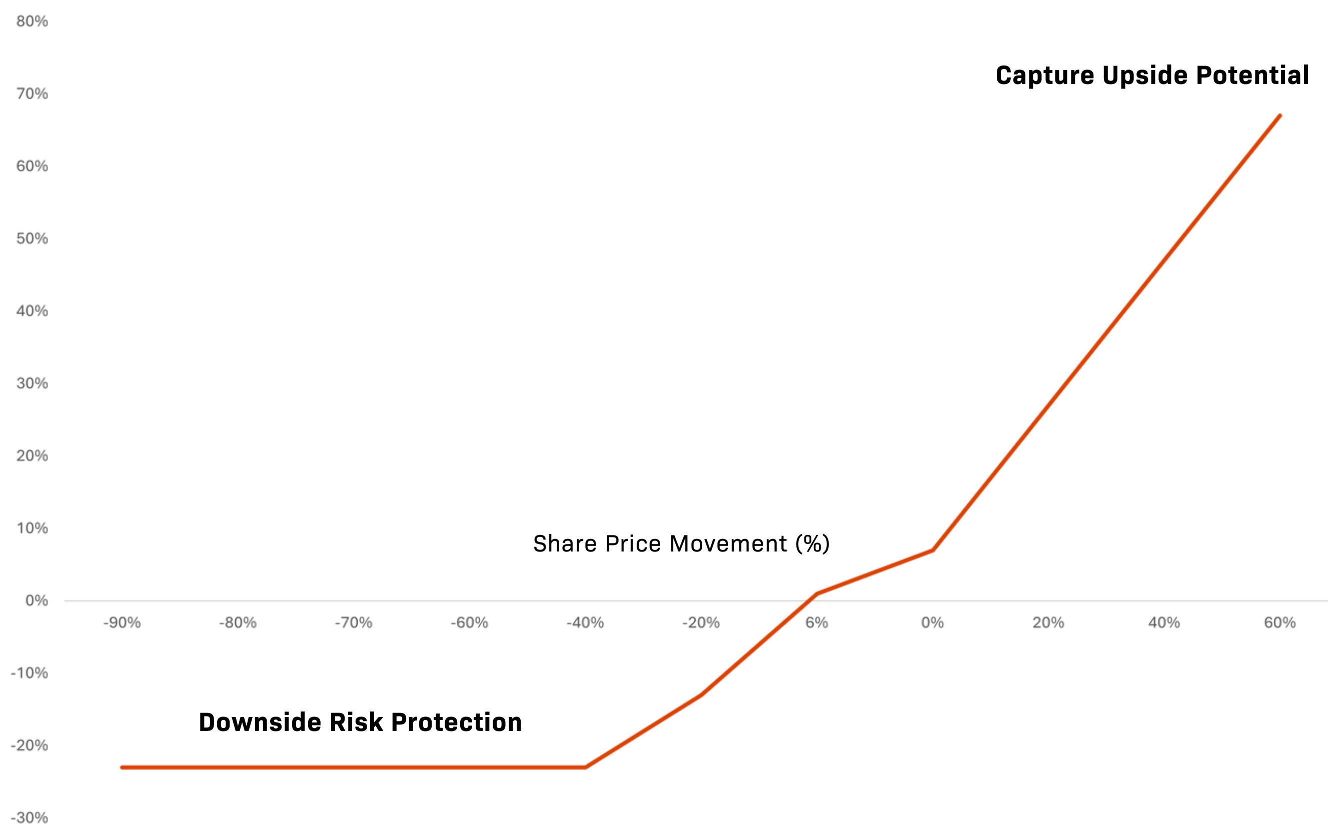
However, since the loan is non-recourse, the client is under no obligation to repay the principal if the share price drops significantly, say by more than 40-50%.

FLEXIBLE SOLUTIONS FOR VOLATILE MARKETS

This feature gives the investor flexibility. Since they received USD 7 million upfront, they have already secured liquidity in the first week of the transaction. Now, if Apple's stock price drops drastically, the client has the option to walk away from the loan without being pursued for repayment, effectively limiting their downside risk. In this way, even if the stock value drops sharply, their loss is limited to the collateral and they retain the cash proceeds from the initial loan.

DOWNSIDE RISK PROTECTION WITH INCOME GENERATION

ADVANTAGES OF INVESTING EFH LOAN PROCEEDS IN WEALTH MANAGEMENT PRODUCTS
RATE OF RETURN (%)



Moreover, the client used the loan proceeds to invest in a fixed-income wealth management product provided by private banks, yielding an expected return of 9%, which helps cushion their overall financial position. Even in a worst-case scenario, where Apple's share price plummets by 60-80%, the client continues to receive the fixed income from the wealth management product, significantly reducing the impact of the loss on the stock holdings.

CAPTURING UPSIDE POTENTIAL

On the upside, in a positive market scenario where Apple's share price increases by 40-60%, the client can repay the loan, reclaim their pledged shares and benefit from all the upside in the stock's appreciation. Essentially, the client benefits from a low-cost loan that unlocks liquidity initially and generates income while mitigating severe downside risk, with the opportunity to capture the full upside potential if the stock price performs well.

In this case, EquitiesFirst's financing model demonstrates how investors can limit their downside risk while maintaining substantial upside potential. By pledging equity and crypto holdings to access low-cost financing and reinvesting the proceeds into income-generating wealth management products, clients benefit from greater financial flexibility and protection in both volatile and stable market conditions.

WHY NOT HEDGING WITH PURCHASING PUT OPTIONS?

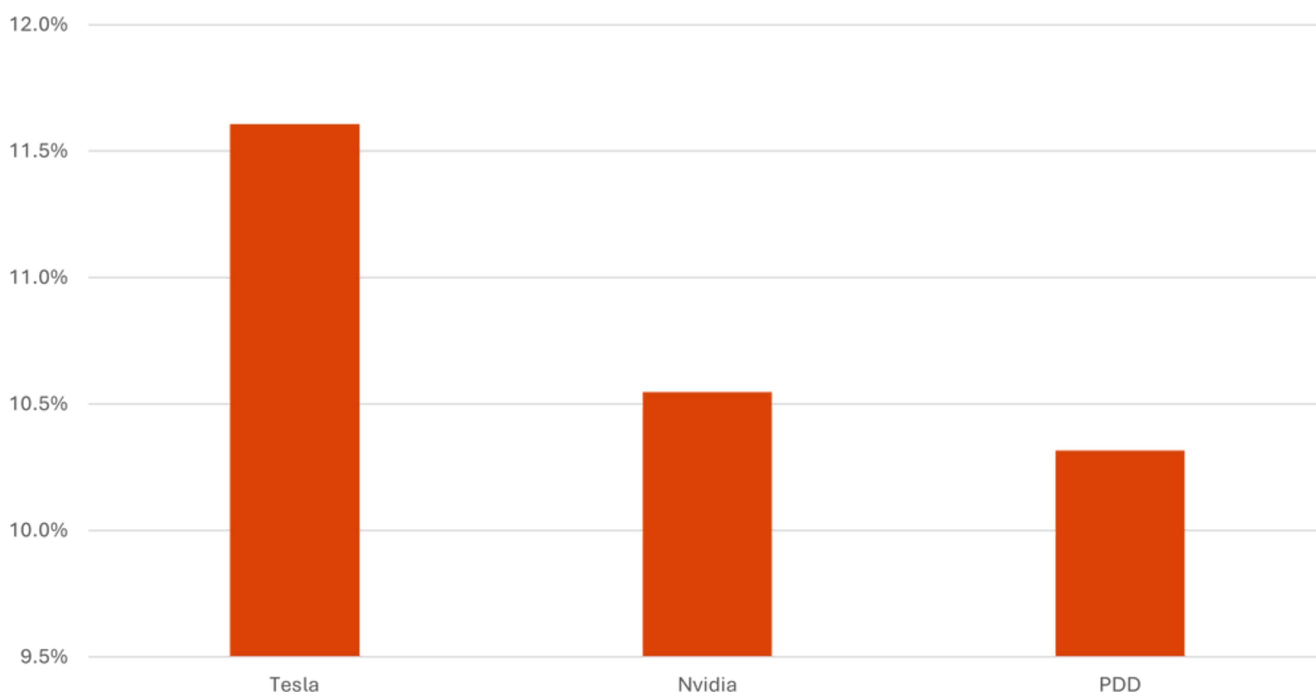
Some clients may wonder why they should not simply buy put options to hedge against the downside risk in their portfolio. While put options can provide downside protection, the main issue is the cost, especially for long-duration puts.

THE COST OF HEDGING: WHY NON-RECOURSE LOANS OUTPERFORMPUT OPTIONS

Long-term put options, which are necessary to offer protection over extended periods, tend to be prohibitively expensive. Purchasing these options can cost a significant percentage of the value of the client's entire equity holdings, typically ranging from a high single digit to double digits.

High-volatility stocks, such as Tesla (TSLA US), Nvidia (NVDA US) and PDD (PDD US), typically come with higher costs for long-duration put options. In our analysis, purchasing puts with a 30% discounted exercise price from the current share price can be quite expensive, often costing a low-teen percentage of the share price. This makes hedging with options on such stocks a costly strategy.

COST OF LONG-DURATION PUT OPTION AS A PERCENTAGE OF CURRENT SHARE PRICE



Source: Bloomberg

This high cost can quickly erode the potential returns of the portfolio and make it difficult for investors to engage in yield enhancement strategies, such as investing in income-generating products.

Because of the expensive premium associated with put options, investors often find that hedging in this way eliminates the opportunity to generate positive returns. For example, if an investor is paying a substantial amount for long-term put options, the cost alone can offset any yield or arbitrage opportunities they might have otherwise gained from their assets.

In contrast, using EquitiesFirst's non-recourse loan structure offers an attractive alternative. It provides effective downside protection without the cost of option premiums, allowing clients to unlock liquidity and redeploy it into higher-yield investments, like wealth management products, without compromising their potential returns.

ADVANTAGES OF EQUITIESFIRST'S LENDING MODEL

EquitiesFirst's non-recourse financing provides a highly effective solution for investors seeking liquidity while minimizing downside risk. By leveraging equity or crypto holdings and reinvesting in wealth management products, clients benefit from low-cost financing, enhanced flexibility and the ability to capture upside potential without the prohibitive costs of traditional hedging strategies like long-term put options. This innovative approach allows investors to optimize their portfolios and achieve better financial outcomes, especially in volatile markets.

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