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EQUITIESFIRST™ Progressive Capital

PRIVATE BANKS: A PARTNERSHIP APPROACH

EquitiesFirst's capabilities complement traditional banks and their client offerings

KEY TAKEAWAYS

- Opportunity to collaborate with **EquitiesFirst** to solve immediate client needs.
- Private banks and traditional lenders are under increasing pressure from macroeconomic, regulatory and secular forces. These include the general low-interest rate environment, Basel III and reduced risk appetite from banks.
- The result is a general risk managed reduction in certain types of lending, including single-stock financing.

COLLABORATION VS. COMPETITION

Over the past few years, **EquitiesFirst** has partnered with Private Banks (PB), External Asset Managers (EAM), and Independent Advisors (IA) throughout Asia as a specialist capital provider to solve for the Equity-Backed Financing needs of their clients such as **single stock lending** or portfolio realignment. This comes at a time when traditional lenders such as banks and securities houses are reducing capacity and restricting risk limits due to regulatory pressures (Basel III) and headline risk (Archegos).

A full comparison of the **EquitiesFirst** facility vs. traditional bank lending is provided below:

Terms	EquitiesFirst	Share-Backed Financing
Structure	Repo structure	Share pledge
Non-recourse	Yes	No
Personal guarantee	No	Yes
Minimum loan size	Flexible	Medium to high
For purpose	No	Yes. Need to keep with the bank
Tenor	No early repayment	Flexible
Interest rate	Fixed	Floating
Lending shares to third parties	No	Yes
Minimum market cap	No	Yes
Minimum trading volume (ADV)	US$200,000	>US $1,000,000
Transfer of title	Yes	No
Margin call terms	Fixed	Variable at bank's discretion
Margin call: Volatility trigger	No	Yes
Margin call: Liquidity trigger	No	Yes
Margin call: Price trigger	Yes	Yes
Price trigger range	44% — 52% drop	10% — 20% drop
Margin call: diversification	No	Yes
Margin call: Top-up to initial margin	No - Only to threshold	Yes

(For illustrative purposes only)

SOLVING CLIENT NEEDS

The evolving and dynamic needs of UHNW clients require immediate solutions. **EquitiesFirst** provides a lending facility which complements the traditional private banking and margin loan structures in a variety of ways.

Appetite at banks for single-stock financing is declining for a variety of secular and macroeconomic reasons. This raises the barriers for certain assets and deals to be considered. Banks will have mandatory minimums on loan sizes, average daily trading volume (ADTV), and market cap.

Risk parameters at private banks for share-backed lending can be highly restrictive and risk impacting the overall client relationship. Margin calls can be made by the bank at its own discretion based on changes in volatility and ADTV as well as price.

SOLVING PROBLEMS BANKERS FACE

CLIENT SERVICE

EquitiesFirst financing can help bankers solve for the needs of their clients, preventing them from searching for solutions elsewhere including at competing institutions. **EquitiesFirst's** offering is solely focused on equity-backed financing and will not cannibalize the bank's business.

MONETIZATION

This transaction can help to access value which is otherwise locked in a single concentrated equity position. The loan capital can be repatriated back to the client's private banking account where it can be deployed into the bank's other products and offerings.

AUM GROWTH

Banks that lack balance sheet or risk appetite for this type of financing can work with **EquitiesFirst** to offer this facility to new clients and win business from their competitors, thereby growing their AUM.

EFFICIENT EXECUTION

After nearly 20 years refining this business model, **EquitiesFirst's** process is highly efficient. The firm can provide indicative terms for a single-stock financing within a few hours. Client onboarding, KYC and AML checks can be completed within a few business days. **A single loan tranche** can be executed in 5-7 business days.

BACKGROUND

MACROECONOMIC HEADWINDS

Traditional banks face a challenging secular and macroeconomic environment for lending activities and other financial services for their UHNW clients. Within the current prolonged low interest rate environment, lending revenue for banks has diminished. This has reduced the overall profitability of this business line, and encouraged banks to shift assets from their loan to trading book in order to generate more fee-based income.[1]

Further compounding this trend has been the impact of the Basel III regulatory framework imposed on banks in the aftermath of the Global Financial Crisis (GFC). The requirement for banks to maintain higher capital ratios in proportion to perceived "riskier" assets has resulted in a diminished risk-reward for certain kinds of lending activities.[2]

Banks in Asia have been known to apply "prescriptive" lending criteria for loans. Their risk limits favor links to real estate collateral rather than taking into account other factors such as cash flows, structured receivables financing or equity-backed loans. This has left even many otherwise sufficiently accredited clients with reduced access to financing.[3]

Factoring-in overall fee pressure within the asset management sector, the aggregate result of these trends has been a retreat by many private banks from areas of service and interest to their clients.

RISE OF A NEW ECOSYSTEM

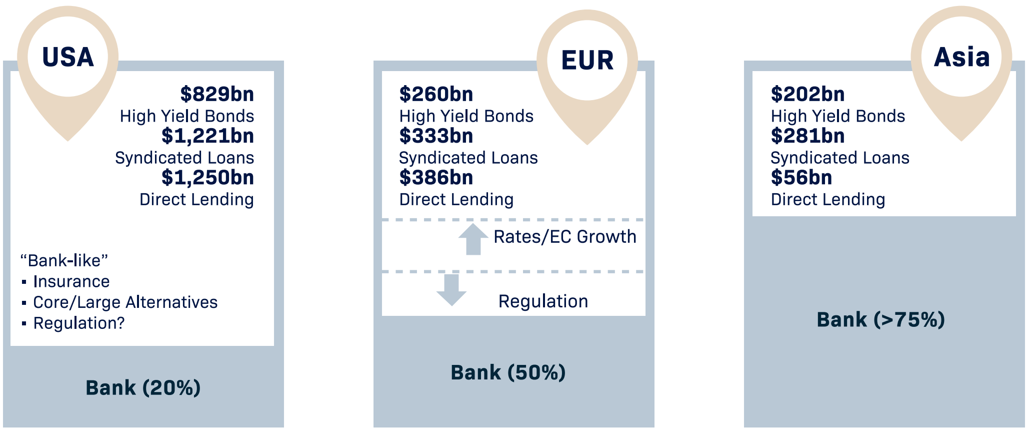
To meet the demand and requirements of clients left underserved by the retreat of traditional banks, a new and diverse "ecosystem" of players has begun to emerge. These include External Asset Managers (EAMs), family offices, funds, and other private capital investors such as EquitiesFirst who have developed complementary partnerships with private banks.

EquitiesFirst is an example of a private investment firm uniquely positioned in Asia as a partner to private banks and specialist capital provider for borrowers. Over the past two years, the firm has grown its collaborative relationships with private banks by 4X in the region to provide equity-backed financing to long-term, concentrated investors.

We have seen a wide variety of family offices, funds and EAMs coming forward with specific skills, risk tolerances and capital to support private banking clients and collaborate amongst themselves in various ways. These kinds of deal structures are on the rise as family offices reported more than 90% of their co-investments and club deals met or exceeded performance expectations.

This bank disintermediation is already further along in the US and Europe with bank financing reduced to 20% and 50% of the overall market, respectively. With Asia still at 75% of financing by traditional lenders, a significant rebalancing is to be expected.

BANK DISINTERMEDIATION



Source: Alternative Credit Council, Simmons+Simmons, Ernst & Young. "Private Credit in Asia". July 2020.

EXTERNAL ASSET MANAGERS

EAMs have become increasingly common and active in the Asian financial landscape. Over the past few years, the amount of wealth overseen by EAMs in Hong Kong and Singapore has grown to over US$ 91 billion according to Asian Private Banker and is expected to grow further. The current penetration of EAMs in major Asian financial centers is estimated to be 3% to 6% of assets. That level is expected to grow to up to 15% of assets according to Asian Private Banker.

GROWTH OF IAMs IN 2018 - 2019

	AUM	Avg. clients/firm	Avg. RM headcount/firm	YoY% increase for revenue
2018	US$ 570 million	48	7	36%
2019	US$ 677 million	54	8.8	27%

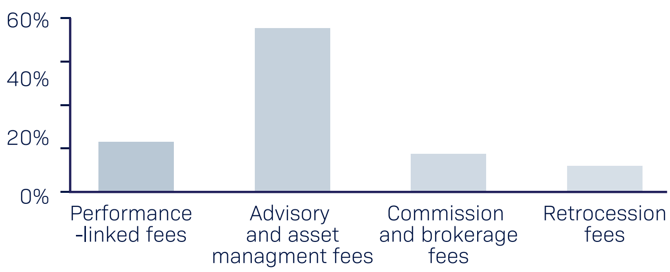
Source: Asian Private Banker: IAMs' Investment Strategy Report, July 2019.[4]

According to Asian Private Banker, "this revenue increase is a sign of a scaling-up process, as more than half of those firms which increased their revenue also hired RMs… 55% increased their RM headcount by 78% on average, and only 3% reduced their headcount".[4]

EAMs are independent wealth professionals who provide financial advisory and other related services. They work directly with clients whose assets remain in custody with traditional private banks. EAMs face reduced regulatory burdens around client onboarding and risk control measures.

The majority of EAM compensation comes from advisory and asset management fees. On that basis, they focus on capital preservation and are not incentivized to take outsized risk. They have the flexibility to access a wider variety of external partners and service providers without regard to commissions, fees or retaining assets "in-house".

BREAK DOWN OF IAMs' REVENUE MIX



Source: Asian Private Banker: IAM Report: Asia-Pacific Ready for Take-off?, April 2018.[5]

FAMILY OFFICES / PRIVATE CAPITAL

Family offices and other proprietary investment firms have a long history of providing direct lending, private credit and asset-backed financing. According to a UBS / Campden Wealth Global Family Office Survey (6), 37% of Asia-based family offices include this strategy in their asset allocation.[6]

PROPORTION OF FAMILY OFFICES THAT ARE INVOLVED IN THE FOLLOWING TYPES OF PRIVATE EQUITY INVESTMENTS BY REGION

	Europe	North America	Asia-Pacific	Emerging Markets
Growth	73%	67%	77%	55%
Venture	50%	62%	66%	36%
Buyout	68%	53%	46%	45%
Private Debt	55%	53%	37%	55%
Real Asset (e.g. land, real estate)	45%	52%	40%	66%
Special Situation	32%	53%	34%	34%
Other	9.1%	1.7%	8.6%	0%

Source: The UBS/Campden Wealth Global Family Office Survey 2019
Note: Figures may not sum to 100% because respondents can select multiple options

Because these types of lenders rely primarily on their own discretionary capital, their risk tolerances are broader. They can also be more flexible in regards to terms and deployment as in asset-backed and structured credit, for example. Financings are bilateral and can be tailored to fit the risk/reward profile of the investor and the specific needs of the borrower.

This dynamic represents an intriguing symbiosis and value-add and for private banks to family offices. According to a study by BNPP and Campden Wealth[7], 82% of "next generation" family office principals see some kind of role for private banks in supplying investment deals. Providing elite introductions among their own clients is one way that banks can create a virtuous cycle of capital and opportunity.

CONCLUSION

The maturation of the EAM model and dynamism among private capital providers comes at an inflection point in the world of private banking. What we are witnessing is an organic shift into a "network" rather than "top-down" model of financing and advisory partnerships. Private banks which are able to embrace the value inherent in network effects will continue to thrive in this new environment while serving the needs of their clients. In this way, **EquitiesFirst** has been able to collaborate with private banks and other advisors on equity-backed financing.

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