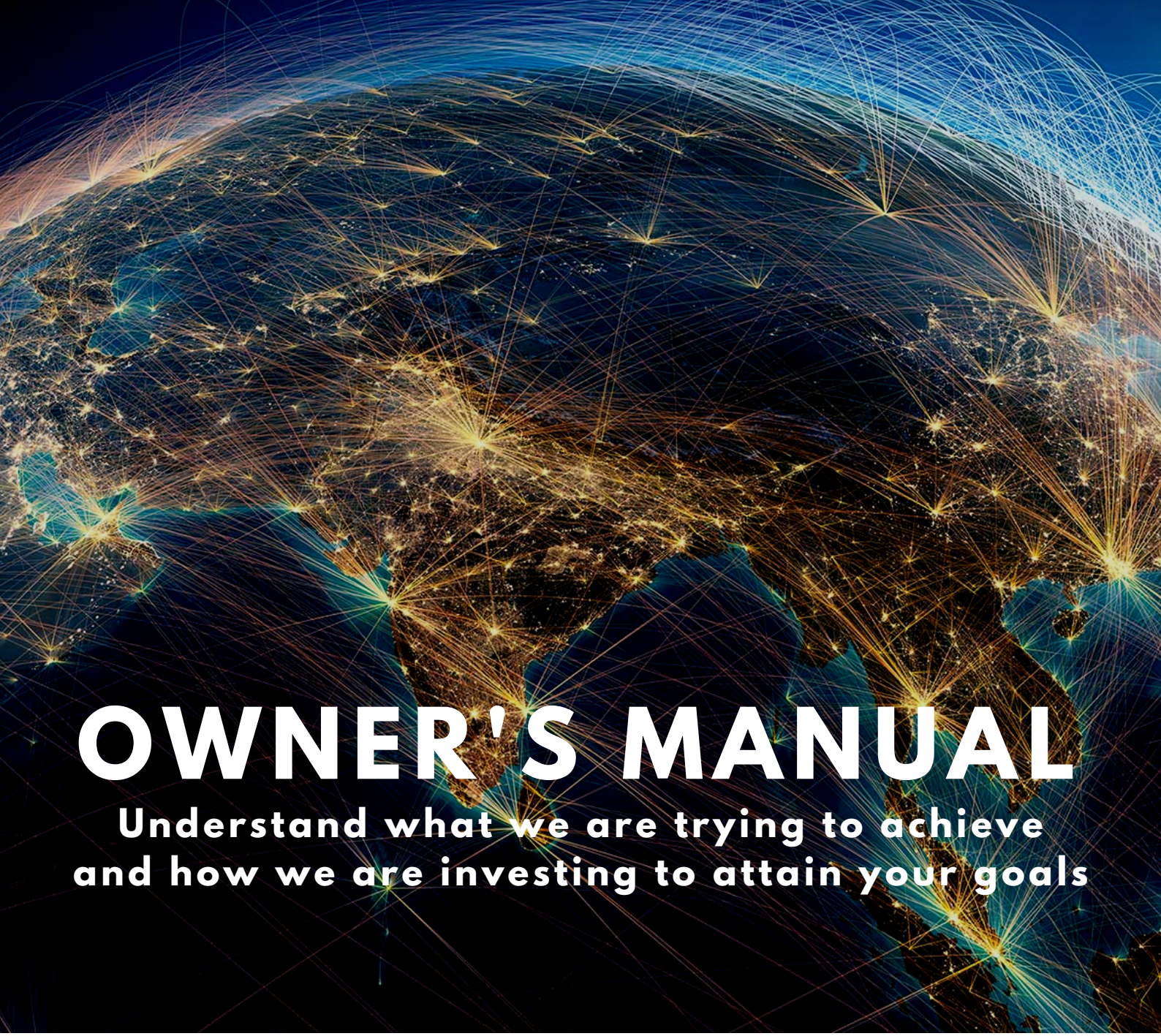

OWNER'S MANUAL

Understand what we are trying to achieve and how we are investing to attain your goals

DESIGNED AND MANAGED BY

DANIEL LEE

As at December 2021

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READY-MADE PORTFOLIOS

Retail Portfolio

A portfolio designed using **retail funds.**

The returns will be from the economic growth and **development of the Asia region** as a whole.

Institutional Portfolio

A portfolio designed using **institutional funds.**

The returns will be from the **exclusive access** to the expertise of renowned fund manager and the development of the Asia region.

What are the historical returns like? (Per Year)

Duration / Portfolio	Retail	Institutional
Three Years Return	15.14%	15.55%
Five Years Return	12.98%	13.55%
Ten Years Return	11.37%	**14.79%**

*Past performances does not indicate future performances

*The returns are based on an "Aggressive" portfolio allocation

How do we invest or participate in the portfolio?

	Retail	Institutional
Platform:	Retail Broker (iFast)	Structured Product
Flexibility in withdrawals:	Since Day 1	**After 19th month**
Flexibility to make changes:	Since Day 1	**After 49th month**
Recommended Duration:	5 to 10 years	15 to 25 years
Cost and Breakeven Point:	1.37% per year*	1.25% per year*

*Based on a monthly investment of $1,000 over the recommended latter duration

FREQUENTLY ASKED QUESTIONS

Questions on returns and risks:

Questions on how your investments are managed:

Questions on the use of platforms:

FREQUENTLY ASKED QUESTIONS

Q. How do I make a return from my investments?

A. The returns will come from two sources - capital gain and dividends.

The first source of our returns comes from capital gains. Let's explain what capital gains are.

Essentially, capital gain refers to the **increase in the price of an asset when it is sold**. There are two main forms of capital gains - speculative capital gain and fundamental capital gains

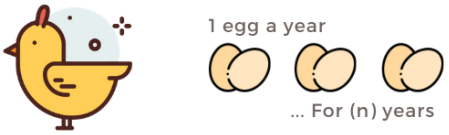
A speculative capital gain occurs when there is **no change** in the value of the asset but due to higher demand, the asset is now selling at a higher price than it previous was.

A fundamental capital gain occurs when there is a **visible improvement** in the value of the asset. Because of that, it is now worth more than it previously was and could fetch a higher price on a reasonable basis.

For our investment portfolio, we are **only concerned with fundamental capital gain** and because of that, we will not be making decisions to attempt to benefit from a speculative environment.

All of our decision will be based on the fundamental situation and outlook of our investments and a call-to-action will only be initiated if there are major disparity between the current market price and the actual value that we can receive from our investments.

The second source of our returns comes from the dividends that we receive from our investments. Let's explain what dividends are.



Essentially, dividends are the **additional output produced** by our investment. While it does not affect the fundamentals of our investments, the fundamentals will affect the amount of dividends we can expect to receive.

To give you an analogy, a chicken will not fall sick just because it is laying an egg. But a sick chicken may lose its ability to produce good quality eggs. The same concept applies.

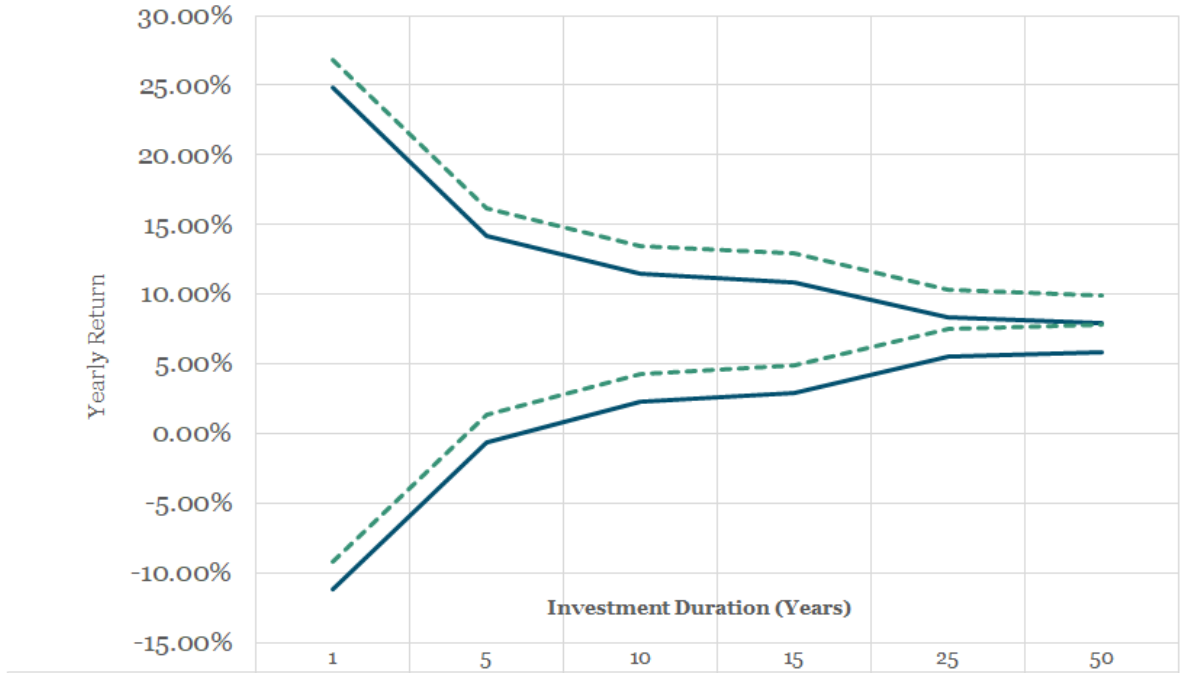
FREQUENTLY ASKED QUESTIONS

Q. Is it safe to invest? what are my risks?

A. Whether it is safe to invest depends on your investment duration

To help us gain better insights as to the expectations for the future, we have to look further into the past.

Based on the study conducted on US Returns from 1959 to 2009 - when they were growing, we can project the expected return behaviour of our portfolio to be as follows:



	1	5	10	15	25	50
Retail (Lower)	-11.17%	-0.60%	2.30%	2.90%	5.50%	5.80%
Retail (Upper)	24.80%	14.20%	11.50%	10.90%	8.30%	7.90%
Institution (Lower)	-9.17%	1.40%	4.30%	4.90%	7.50%	7.80%
Institution (Upper)	26.80%	16.20%	13.50%	12.90%	10.30%	9.90%

The above behaviour is **only relevant to investments in developing regions** (e.g. Asia) and is no longer applicable to regions that are developed (e.g. Europe)

From the above, we can draw two insights:

- your investment risk decreases the longer you have to invest as the range of returns receivable decreases over time

- Beyond the 5th year mark, the probability of you making a loss on your investments is extremely low - as long as you invest in things that are developing or growing

So, as long as you have a long enough investment duration (more than 5 years), it is safe to invest as you are essentially **mitigating your downside risk with time**.

FREQUENTLY ASKED QUESTIONS

Q. Is there a chance I may lose all my investments?

A. In theory - yes. In practice - no. Here's why

As the **portfolio only invests in broadly diversified regional funds**, the only way you will lose all your investment is if 100% of the companies that the fund invests in goes bankrupt of which is highly unlikely.

This risk of you losing all your investments is more likely if you invest in only a handful of companies and do not diversify your investments accordingly.

In this case, a scenario of 100% loss of our investments is unlikely unless the world comes to an end and all the company that we invest in goes bankrupt.

What is more likely in our case would be a sudden decline in prices of about 30% to 50% due to the impact of a financial crisis and recessions on the businesses that we invest in.

However, such a scenario is uncommon and does not occur frequently and hence they are known as black swan events.

Even if it did happen, while our investments may be badly affected in the short run, in the long run, the value of our investments would eventually recover.

You can refer to the page (7) & (8) to find out more about what will happen to your investment during a financial crisis and recession and how would the portfolio be managed to mitigate the impact of such events.

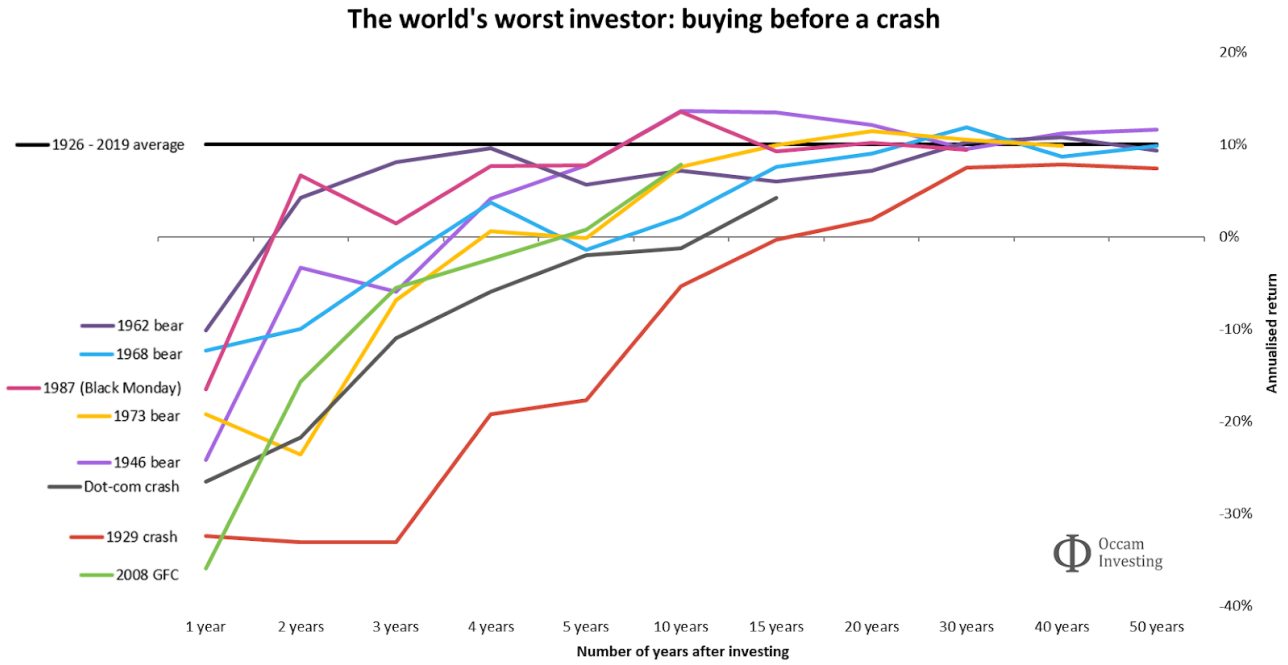
Definition:
A black swan is an unpredictable event that is beyond what is normally expected of a situation and has potentially severe consequences.

Black swan events are characterized by their extreme rarity, severe impact, and widespread insistence they were obvious in hindsight.

FREQUENTLY ASKED QUESTIONS

Q. What will happen to my investment during a crisis?

A. There is no need to worry so long as your investment duration is more than 5 years and your investments are broadly diversified.



Drawing lessons from the financial crisis since the year 1926, here's what you can take away:

We realize that, with the exception of the 1929 Great Depression, it would usually take the investor an **average of 5 years to break even** from the major financial crisis.

In other words, if you invest 1 day before the financial crisis occurred, it would take you 5 years for your investments to go back to the levels that you previously bought in. Hence, you will not make a loss on your investment.

This once again reinforces the findings that we see on page 4 which is, as long as you are investing in things that are growing and you invest for more than 5 years, the probability of you making a loss on your investment is extremely low.

As such, you need not worry about downside risks as long as you have a long enough investment duration. Essentially, you are lowering your risks with the passage of time.

FREQUENTLY ASKED QUESTIONS

Q. How will you mitigate the impact of a crisis?

A. Prevention is better than cure.

The key to protecting our investment is to **refrain from participating in an unsustainable market** that is has a high probability of becoming a financial crisis.

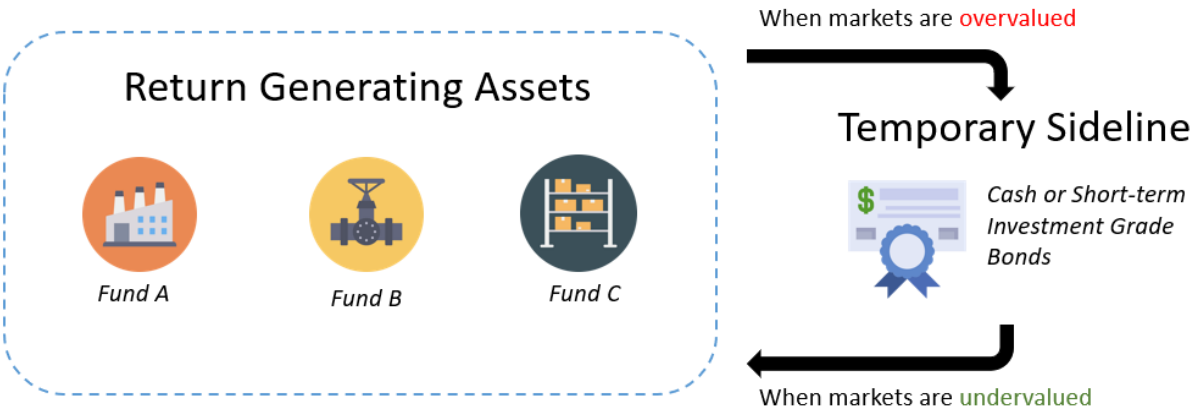
The only way we can "not participate" in an unsustainable market is to either:

- sell off your investments and withdraw the proceeds in cash or
- switch your investments to a non-sensitive asset class

That way, when the inevitable market downturn occurs, our investments are already sidelined and hence will not be affected by the drop in prices.

In fact, when that happens, we will inject the investments that were previously sidelined back into the market to take advantage of the low prices.

All in all, here is how the process would be like:



FREQUENTLY ASKED QUESTIONS

Q. How will you determine when to buy/sell?

A. What we are looking out for is alignment & congruence

To determine when we should make changes in your existing portfolio - be it buy or sell - what we will be looking for is two things:

1. Alignment and suitability of investments in relation to your financial goals
The first reason as to why a buy/sell may be made is **dependent on your situation**.

Depending on the performances of our investments and/or the changes in your existing financial goals there may be a need to adjust the portfolio to suit your financial goals.

This creates a need to either buy or sell to facilitate the adjustments in your investment portfolio.

2. Congruence in the fundamental and technical indicator
The second reason as to why a buy/sell may be made is **dependent on the market**.

If our existing investments remain suitable to your financial goals, the next reason that we will initiate a buy/sell call-to-action is due to the market conditions.

Basically, if the market presents an opportunity for us to accelerate our investment growth and performances, a buy call may be initiated to take advantage of the market conditions.

If the market flashes warning signals - be it due to high valuations or inconsistency between the fundamental and technical indicators - a sell call may be initiated to lower our risk exposure and safeguard our investments from an eventual market downturn or crisis.

FREQUENTLY ASKED QUESTIONS

Q. How do you select the right funds to invest in?

A. With regards to fund selection, the top-down approach is adopted

1. Defining the investment objective
For both the retail and institutional portfolio, they are designed with the focus of acquiring returns through **fundamental capital gains**.

2. Narrowing down the key themes or areas to invest in
Given the investment objective, the next step is to **identify the key themes or areas** that our investments should be focusing on.

In order to acquire fundamental capital gains, an investor must invest in things that grow fundamentally. As such, these will be the 2 key areas that our portfolio will be focusing on

- Investing in region and countries that are growing (i.e. Asia, China, etc)
- Investing in good companies and fair price (value investing approach)

Ultimately, the portfolio invests in broadly diversified regional funds as opposed to being too narrowly focused on a specific country or industry.

Investing in broad-based regions that are growing will help you increase the certainty of returns whilst at the same time lowering the risks to the investors in the long run.

3. Selecting the best fund within the key theme or area
Now that we've defined the key investment objective, themes and areas to focus our resources on, the next step would be to **compare and select the best funds** within the theme or area of our interest.

To determine what the "best" fund is, we will be looking to strike a balance between:

1. cost of investing (the lower the better)
2. consistency in the fund's past performances
3. alignment between the fund management style and our investment style

From there, we will be able to identify the "best" performing funds within the theme or area of our interest and include it in our portfolio.

FREQUENTLY ASKED QUESTIONS

Q.How do you determine the right portfolio allocation?

A. To shape the investment portfolio to the investor, we will consider:

1. Your investment objective and existing portfolio allocation

When it comes to investments, **everything is and will be tailored to your investment objective** while taking into account your existing investments.

To keep things simple, both the retail and institutional portfolio already have three different portfolio allocation to produce the following results:

Aggressive: appropriate for people with high return requirement and can afford to take on more risks due to a long investment duration.

Balanced: appropriate for people with moderate return requirements and may not see a need to take on more risk to achieve their financial goals.

Conservative: appropriate for people who have already achieved their financial goals and would like to focus on wealth preservation or income generation.

Depending on what you need and what you already have, we will then select the right allocation to suit your investment needs.

2. The market situation and whether or not we should be taking on more or less risk

Depending on how the market is performing and whether **is it still safe to remain invested**, I may initiate a shift among the three different portfolio allocation even if there are no changes to your investment objective.

This is done to either protect our investments from a potential downturn or benefit from a potential opportunity.

For example, if you are an aggressive investor and the market is showing signs of overvaluation, I may initiate a move to change us to a balanced portfolio allocation to reduce our overall risk exposure.

FREQUENTLY ASKED QUESTIONS

Q.Why do you only invest in a handful of funds?

A. We invest to achieve diversification and not diworisification

Essentially, building your own investment portfolio is similar to building a team for a project that you may be working on. Would you rather have:

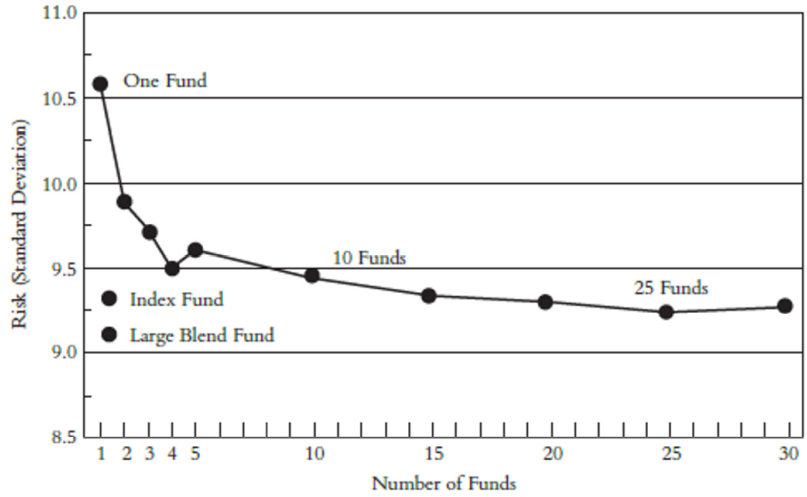
- a small team that comprises of members with complementary skill sets that are meant for the sake of achieving the project objective or
- a large team that comprises of members with conflicting skill sets that is randomly put together just for the sake of hitting headcount

Just as having more members in the team doesn't automatically make the team more productive, **having more funds in your portfolio doesn't necessarily lower your risk**.

In fact, if you include additional investments for the sake of diversifying your portfolio, chances are is that you are self-sabotaging your own performances.

This is statistically proven in the book: Common Sense On Mutual Fund

FIGURE 4.6 Reducing Risk by Owning Multiple Funds



Data from *Morningstar Investor.*

From the study, the optimal number of funds - index or large blend - to have is actually only four funds.

Having more funds would result in a diminishing returns as the cost of investing increases without significantly decreasing the overall portfolio risk.

As we only include **broadly diversified regional funds** for both our retail and institutional portfolio, adding any other country or sectorial specific fund would only increase our portfolio risk exposure.

As such, unless an opportunity presents itself, having just 2 to 3 funds for our portfolio would provide us with the most optimal reward to risk ratio for our long term strategy.

FREQUENTLY ASKED QUESTIONS

Q.Is it safe to invest through the platform providers?

A. Yes. The platform providers we work with are licensed and regulated

You can rest assured that your investments are safe with the platform providers that we work with as they are licensed and regulated by the Monetary Authority of Singapore (MAS).

The role of these platform provider is to act as a "brokerage" to facilitate the transaction and a custodian that holds your investments on your behalf.

In an event where the platform provider ceases all operations in Singapore, be it due to business exit or bankruptcy, your investments are still safe as they are **kept in a trust** that ensures that your investments are kept off the hands of the creditors of the platform providers themselves.

When the above situation occurs, you will either be given two options:

1. transfer your investments to another platform provider
2. sell off your investments and receive the proceeds

Either way, your investments are safe with the platform provider that we work with to facilitate the implementation of the investment portfolio.

We will never work with a platform provider that is not licensed or regulated by the MAS and because of that, you can invest knowing fully that your assets are safe.

Definition of a brokerage:
A broker is a person or firm who arranges transactions between a buyer and a seller when the deal is executed.

Definition of a custodian:
A custodian is a financial institution that holds customers' securities for safekeeping to prevent them from being stolen or lost.

FREQUENTLY ASKED QUESTIONS

Q.How do we invest through iFast?

A. Here's what you need to know about iFast as a platform.

1. The role that iFast play as a platform provider

iFast is a listed company in Singapore that provides a comprehensive range of investment products and services to its customer - both business and consumer.

In our case, iFast serve as our broker and custodian when investing in retail funds. iFast is preferred over other platform providers as they have the **most comprehensive list of funds** that investors can gain access to.

2. Flexibility of the platform

Because we are investing directly into the retail funds, there are no contracts involved and hence no obligation when it comes to the investment arrangement.

You have full control and the ability to stop, pause, increase, decrease or withdraw your investments anytime you want without any penalty or cost.

3. Limitation of the platform

The only downside of this platform is that you are unable to invest in accredited investor funds or institutional funds unless you are an accredited investor or a high-net-worth individual.

As a result of this, you are limited to what is available in the retail consumer platform which may not be the most ideal way of investing depending on your investment horizon and objective.

FREQUENTLY ASKED QUESTIONS

Q.How do we invest through structured products?

A. Here's what you need to know about structured products

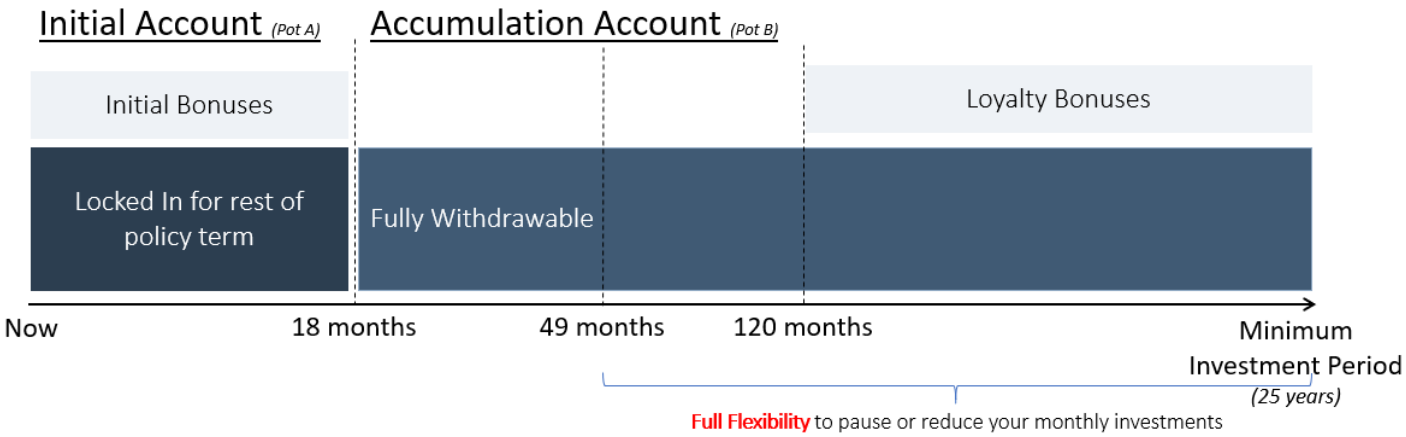
1. The role of structured products

As retail investors, under normal circumstances, we do not have access to an accredited investor or institutional funds. The only way we could gain exposure to those funds is if we invest indirectly via a structured product.

As we do not have the large capital needed to invest directly, we have to **sacrifice a bit of flexibility in exchange for accessibility** through the use of the structured product.

Essentially, we are entering into an arrangement with the platform provider, promising that we will invest over a period of time with them in exchange for the accessibility to the funds.

2. Flexibility of the platform (and how the arrangement works)



Initial Account (Pot A):
For the first 18 months of your investments, you will be rewarded with initial bonuses and together with the total amount invested, the amount will be locked in until the end of the minimum investment period (usually set at 25 years).

Accumulation Account (Pot B):
Any investments made on the 19th month onwards can be withdrawn without any penalty as and when you need them. However, when it comes to the ability to pause or reduce the monthly investments, you can only do so without penalty from the 49th months onwards.

Essentially, by using a structured product, you are **sacrificing short-term liquidity of 49 months in exchange for the accessibility** to accredited investor funds and institution funds that are normally out of your reach.

*Please seek for financial advice before using a structured product due to its inherent complexity

FREQUENTLY ASKED QUESTIONS

Q. How do I monitor my portfolio?

A. Just like all other brokers - through their website or an app

Upon the creation of your own account, be it through iFast or the use of the structured product, you will be able to log in to your account to monitor your portfolio's performances.

In addition to that, all investors can stay updated with the markets simply by following the updates from my website - www.danconsultancy.com - where I will post regular updates on:

- Monthly: Technical analysis
- Quarterly: Market outlook
- Semi-annually: Fundamental analysis
- Annually: Annual review

You can also reach out to me directly through phone should you have any questions regarding your investment portfolio.

On an annual basis, I will also meet with you to do an annual review with regards to your financial planning of which the objective is to:

- review any changes in your financial planning in the last 12 months
- ensure the continued suitability of the portfolio in relation to your financial plans
- explain to you the performance of the portfolio in the last 12 months
- explain to you what you can expect in the next 12 months

When you become my client, there will be no circumstances will you be left on your own with regards to your own financial planning and investment management matters.

You will be able to reach me as and when you need me. That is my service guarantee.