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QUARTERLY COMMENTARY

30 June 2025

Commentary

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Manager Update: July 2025

John Qiu, Founder

Despite escalating fundamental risks - ongoing trade wars, geopolitical instability, and U.S. domestic tensions - global equities have rebounded sharply since the April 2, 2025, Liberation Day sell-off with major indices nearing new highs. Markets appear to have adapted to policy unpredictability, betting that the economic fallout will remain contained. Optimism also hinges on expectations of easing monetary conditions and fiscal stimulus as U.S. policy shocks force a global liquidity response. Governments fearing the economic repercussions, are likely to loosen fiscal restraints to prime their economies with stimulus and rate cuts.

Equities are surging on expectations of significant capital spending, government stimulus, and declining interest rates - reminiscent of wartime conditions that are historically favourable for stocks. Meanwhile, gold is up +27% YTD while demand for long-duration sovereign bonds is muted, signalling deep concerns about long-term inflation and sovereign debt risks.

Parts of the U.S. equity market is beginning to echo the speculative mania of the early 2020s with SPACs, NFTs and meme stocks replaced by AI and crypto darlings trading at eye-watering valuations:

- **Circle** (USDC stablecoin operator): up 6.5x since its June 4, 2025, IPO, now valued at $46bn or 150x FY25E free cashflow. Consensus assumes 30% CAGR growth through 2028, but even then, its valuation represents >60x FY28E free cashflow

- **CoreWeave** (AI hyperscaler): market cap of $80bn, up 4x since its March 28, 2025, IPO[1] despite only $1.9bn revenue and -$6bn free cashflow in FY24. Growth is heavily capex dependent and positive cashflow (~$570m) isn't expected until 2028, requiring ~$65bn in cumulative capex and net debt ballooning to $36bn

- **Bitcoin treasuries**: pioneered by MicroStrategy (+33% YTD) and emulated by firms like GameStop and Japan's Metaplanet, these reincarnated business failures trade at unreasonably high premiums to their NAV[2]. Their entire business model is a self-reinforcing cycle of issuing securities using their massive NAV premium and buying more BTC. An infinite money glitch (aka modern Ponzi scheme) independent of one's beliefs on BTC

The disconnect is glaring. Pricing assumes a benign world of endless liquidity whereas soaring gold prices indicates otherwise. High interest rates and inflation are terrible for the operations and valuations of most tech and capex heavy businesses.

We get it. The short-term path of least resistance remains higher stocks and crypto, especially with Trump's push for USD stablecoins further amplifying crypto market liquidity and speculative risk appetite. But this setup is inherently unstable:

- Liquidity is being added to already stretched valuations and high earnings levels

- Global trade and capital flow disruptions are pulling countries pre-maturely into cycles which they're ill-prepared for

- Yet to be seen butterfly effects are likely to be profound. This could accelerate old issues and create new black swan events

- The U.S. fiscal position is worsening

Meanwhile, traditional safe-haven assets are either no longer safe (U.S. treasuries) or expensive (gold), while those crowding into new safe-haven assets may find they were actually speculating on liquidity rather than buying inflation and currency debasement protection. When the tide turns, today's winners could evaporate overnight.

Fund Update

Our fund delivered +9.4% YTD return in 2Q2025, though annualised performance since inception remains disappointing at -2.5%. The sharp retreat in market sentiment towards Chinese tech stocks weighed on results compared to 1Q2025. However, late June marked an inflection point for our portfolio, with renewed momentum continuing in July. While we're encouraged by this rebound, sustainability requires navigating volatile market conditions.

Key highlights:

- **Macau Casinos**: our largest purchases during April's sell-off (now our largest combined position) as stock prices fell to 2022 trough levels. Prices recovered to end 2025Q2 flat vs 2025Q1 but continued rising in July after exceptional June GGR figures (+19% YoY) caught the market off guard. We believe investors still undervalue these monopoly assets which trade below replacement cost and on mid-teens free cashflow yields.

[1] The Coreweave IPO was originally considered a failure: downsized from 49m shares to 37.5m shares, price reduced to $40 from the initial $47-55/share target range. The three lead book runners: Goldman Sachs, Morgan Stanley and JP Morgan initiated coverage with two neutral and one modest buy rating

[2] EV/NAV on 10 July 2025: Microstrategy 1.93x, Metaplanet 4.1x

- **KION**: benefited from capital flows into European securities and the anticipated rise in EU defense spending and German debt reform. The stock rose +23% in 2Q2025 and breached €50 in July, its highest in three years. Gains stem mostly from a valuation rerating while FY25E earnings expectations remain muted. But there are emerging signs of a new automation capex upcycle which is prompting analyst upgrades

- **JD.com/Alibaba**: were the major detractors, down -20% and -15% in 2Q2025 due to JD's aggressive food delivery expansion and reduced investor interest. While short-term profitability will likely suffer, historical trends suggest margins will recover as market share matures. This is a different situation to capex driven competition which leads to lingering supply overhang and lower margins. JD's execution and fulfillment strengths position it to potentially become the No. 2 player in on-demand/food delivery

Liquidity will likely bail out equity investors this year, but we only want to own the antifragile companies – those with monopoly-like assets, durable competitive advantages, pricing power, strong cashflows, healthy balance sheets. Our focus is on acquiring these businesses at low starting cashflow multiples and/or at a significant discount to their replacement value. Suitable diversification is critical; we've learned our expensive lesson on concentrated exposure to immature companies with hidden long-tail risks. Our portfolio is changing and adding new sources of idiosyncratic alpha which we hope to discuss in our next quarterly report.

The riddle of this market isn't whether liquidity will keep it afloat, it's what to do when the punchbowl is spiked.

Portfolio Overview

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Top Five Major Holdings (in alphabetical order)	
Alibaba	E-Commerce
Full Truck Alliance	Logistics
JD.com	E-Commerce
Sands China	Casino
Wynn Macau	Casino

Performance	
Annualised Net Returns in US$[1]	
Since Inception (Jan 3, 2022)	-2.5%
1 Year	15.6%
Non Annualised Net Returns in US$[1]	
3 months	-8.6%
6 months	9.4%
Net Returns By Year in US$[1]	
2024	-13.0%
2023	-27.8%
2022	33.4%

1. Net of 1.5% annual management fee and 20% performance fee (excess return above 5% hurdle rate and subject to HWM)

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