QUARTERLY COMMENTARY

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Manager Update: October 2026

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Offshore listed Chinese equities are enduring yet another punishing year. After a brief rebound from second quarter lows, they have slid again over the past two months. Ironically, the surge in U.S. and developed market interest rates appears to have weighed more heavily on offshore Chinese stocks than on their global peers, pushing the valuation gap to historical extremes.

Region / Broad Asset Class	Current Forward P/E Multiple	10-Year Historic Average / Median	Historical Position Summary
Broad Offshore China Equities (MSCI China Index)	**10.1x – 10.7x**	**11.4x – 12.5x**	**Significantly Discounted** (Trading 15%+ below its historical mean tracker due to a heavy structural risk premium, despite stabilizing EPS)
Global Developed Market Equities (MSCI World Index)	**21.3x – 22.7x**	**19.1x**	**Premium / Overvalued** (Trading ~1.3 standard deviations above its historical baseline, heavily inflated by Western mega-cap tech concentration)
U.S. Large Caps (S&P 500 Index)	**20.3x – 20.9x**	**18.2x**	**Elevated** (Supported at premium historical levels via secular enterprise cloud and AI infrastructure cycles)

That gap is even wider for offshore listed Chinese tech stocks. The Hang Sen Tech Index and KWEB ETF have fallen over 40% in the past year, back to plumbing the lows of 2022-2024.

Index / ETF	Current Forward P/E Multiple	10-Year Historic Average / Median	Historical Position Summary
Hang Seng TECH Index (HSTECH)	**16.9x**	**22.5x**	**Deeply Discounted** (Trading roughly 25% below its historical fair baseline due to structural and macro headwinds)
KraneShares China Internet ETF (KWEB)	**12.4x**	**21.4x**	**Historically Cheap** (Reflects the steep "China discount"; highly compressed multiples despite stabilizing corporate earnings)
Nasdaq 100 Index *(U.S. Peer)*	**21.8x – 23.9x**	**23.1x**	**Fair to Slightly Premium** (Supported near long-term medians by secular AI and enterprise cloud megatrends)
MSCI World IT Index *(Global Developed Tech)*	**21.3x**	**19.8x – 21.8x**	**Premium to High-Normal** (Dominated by U.S. megacaps; sitting right at the upper bound of long-term historic averages)
STOXX Europe 600 Technology *(European Peer)*	**22.0x**	**18.5x**	**Historically Elevated** (Trading at a clear premium to history, driven heavily by premium semi equipment leaders like ASML)

Yet from a fundamental perspective, these are healthy, growing companies. The Chinese tech sector's projected growth rate remains in the double digits - competitive with major U.S. and European peers. Collectively, these companies hold substantial net cash positions and generate strong positive free cash flow. Trading at low-teens multiples of forward earnings, the major Chinese tech names are priced like value stocks while retaining the operational profile of growth companies.

We have long sounded the same note on the cheapness of offshore Chinese equities, but by any measure, the valuation disconnect today is excessive. Additionally, investors today face a far more precarious market environment than they did a few years ago. Interest rates across most countries outside China are spiking, with rates in major Western economies at their highest levels since the late 1990s and early 2000s. Meanwhile, U.S. stocks account for a historic 45–50% of total global equity market capitalisation (the highest since the dot-com bubble peak at ~52%) even as U.S. market breadth diverges dramatically. A handful of large-cap U.S. tech companies are driving the bulk of headline index gains and expected earnings growth, while most U.S. stocks sit in bear market territory.

We are not predicting an imminent crash, but the similarities to the dot-com era are striking. That bubble ultimately burst under the combined weight of unsustainable cash burn, rising interest rates (U.S. rates peaked at 6.5% in May 2000), and a sudden collapse in investor confidence. In the aftermath, value stocks delivered massive outperformance as investors gravitated toward tangible cash flows and dividends. Should a similar migration of capital occur today, it would likely trigger a mean reversion in the performance of offshore Chinese equities.

Fund Update

Fund returns remain poor at -26.7% YTD and -5.2% annualised since inception. Poor performance was again concentrated in our top five positions.

Portfolio Update

During the quarter, we added to our Macau casino and China e-commerce positions while trimming our U.S. petrochemical and Other holdings.

Stock prices of Macau casinos (and U.S. listed majors) have continued falling this year, driven by rising U.S. interest rates and capital crowding into AI growth themes. Sands China's stock price is now down to 15 year lows, even as it doubled its dividend to HK$1 per share this year (9% dividend yield on HK$11 share price) and is likely to raise it to HK$1.2-1.3 per share next year (11-12% dividend yield). In our view, the current share price is unusually attractive given the large dividend yield spread over U.S. interest rates and our expectation for annual growth in dividends and earnings of high single digits to low teens over the coming years.

Among our Chinese e-commerce holdings, we've initiated a new position in PDD. In the past we struggled with the operational opacity of this company and had even considered the possibility that PDD was fraudulent or that its model would eventually burn out like Groupon. However, we recently gained comfort on a key element of its business - the fulfillment cost efficiency underpinning its operations - which completely changed our view of the company. Trading at a forward EV/EBIT of 2.2-2.5x with net cash (excluding merchant payables) equivalent to 65% of its market cap, PDD is extremely cheap. Even with perennial concerns about opaque reporting and the lack of capital returns to shareholders, PDD's net cash will likely exceed its current market cap within the next 2-3 years. Lastly, aggressive share purchases by key insiders over the past year convinced us to buy the stock. We now own all of the major Chinese e-commerce players.

Despite sharply rising profitability from product price increases due to the Iran War, weak end-market demand and Chinese overcapacity have suppressed volume growth for most U.S. petrochemical companies. Share price performance has remained muted amid questions about earnings sustainability. We exited all of our U.S. petrochemical positions except for one integrated acetyls major. We believe this company's upstream natural gas cost advantage and downstream integration into high-value engineered materials and specialty polymers offer structural long-term resilience against Chinese capacity expansions. Furthermore, 30% of global methanol exports remains offline (majority exported to China) which is driving a significant supply-side shakeout of sub-scale and non-integrated acetyls capacity in China.

Within the Other basket, we sold Lantheus soon after it received a takeover offer in early August. The offer price was low, but the board backed it, making further upside from our investment unlikely. This marks the third lowball takeover of a portfolio company in the last two years - both unlucky and a testament to the value embedded within our holdings.

Portfolio Overview

ORLOG CAPITAL

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$[1]	
Since Inception (Jan 3, 2022)	-5.2%
3 Year	-7.8%
1 Year	-36.6%
Non Annualised Net Returns in US$[1]	
Year to date	-26.7%
3 months	-0.4%
Net Returns By Year in US$[1]	
2025	26.2%
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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