QUARTERLY COMMENTARY

30 September 2025

Manager Update: October 2025

John Qiu, Founder

This quarter extended the paradoxical trend of safe-haven assets and speculative assets rallying in tandem. Gold has surged over 60% YTD while global equity indices continue to post strong returns. Interestingly, gold has appreciated 2.6x over the past three years, outpacing the Nasdaq-100's 2.3x return (despite ChatGPT's launch in late 2022). Gold miners have been even more remarkable with GDX and GDXJ ETFs soaring 2.4x and 2.5x YTD, and 3.5x and 3.8x over the past three years. We maintain no direct exposure to gold as the line between hedging and speculation appears increasingly blurred, but we remain vigilant to the implied risks.

Our views on the AI investment theme remain cautious. The astronomical scale of AI infrastructure spending (2025 U.S. data centre capex alone is ~$375bn, eclipsing investments in manufacturing, power, roads/highways) and dealmaking today exerts a massive influence over equity valuations. The question is: what comes afterwards? We see significant headwinds to monetisation given intense competition, marginal output differences and the proliferation of open-source models which commoditise core services. Even maintaining the market's excitement will be difficult at these elevated levels of expectations. Considering the history of other transformative technologies, AI may endure several boom-bust cycles before sustainable winners emerge.

Recent escalations in U.S./China trade tensions have introduced fresh volatility, but it is too early to predict a sustained derailment of the equity bull market. Escalating a trade war with China would risk stalling some of President Trump's signature policy goals, postpone further Fed rate cuts and force conciliatory moves with allies. We think it is more likely the U.S. will prioritise its domestic economic agenda and seek some form of détente with China.

However, these are all known risks that the market is watching closely. Perhaps the greater underpriced risk is complacency over liquidity conditions. An unexpected contraction could trigger a severe repricing across all assets.

Fund Update

Our net performance was +33% for the quarter and +46% YTD driven by the significant rally in Chinese equities. The market narrative has decisively shifted and for the first time in many years, more investors are seeking reasons to buy Chinese stocks than those looking for excuses to declare it 'uninvestable'.

This shift is supported by structural reforms over the past year improving equity quality:

- **Enhanced shareholder returns**: legal and regulatory actions aimed at boosting dividends and buybacks among public companies

- **The Anti-Involution campaign**: a crucial policy curbing irrational competition which has already driven capacity rationalisation in the polysilicon and petrochemical industries and reined back a destructive price war among food delivery/e-commerce players. More sectors are expected to follow boosting overall industry profitability

While we believe this is the start of a new bull market for Chinese equities, we trimmed positions and reduced gross exposure during the quarter as valuations rose. Some prudence is essential during rapid, broad-based rallies. We've also been capitalising on the elevated volatility by increasing our sale of covered calls and naked puts.

Wuxi XDC was a new addition to our portfolio this year which we discuss below.

About Wuxi XDC (WX)

WX was spun out from Wuxi Biologics (WB) in 2023 but remains a fully consolidated subsidiary (WB owns ~51%). It is among the top two global Contract Development and Manufacturing Organisations (CDMOs) in the niche area of antibody drug conjugates and other bioconjugates (broadly known as 'Various Conjugate Drugs' or XDC).

XDCs are a fast-growing area of drug development with the market expected to grow at ~30% CAGR from ~$13bn in 2024 to ~$65bn by 2030. The technology combines a targeting molecule, a linker and therapeutic payload to create a 'biological missile' to deliver drugs directly to a target site. This mechanism of action makes XDCs very useful in oncology and its use will likely spread to other medical fields such as autoimmune, bone and cardiovascular diseases. See Appendix A for illustrated overview.

Creating XDC drugs is highly complex requiring specialised capabilities across multiple disciplines to ensure the drug is stable, accurate and reliable in the delivery of its toxic payload. This makes CDMO services particularly important (outsourcing rate for XDC projects is ~90% vs general biologics at ~50%). Among XDC CDMOs, WX has significant competitive advantages:

- Reputation: a strong global reputation inherited from WB for service quality, speed and client IP protection. WX works with >500 global clients including 13 out of the top 20 largest pharmaceutical companies

- Expertise: WX a cumulative total of ~900 projects (more than most global peers) and ranked no1 for IND approvals (~40% 2024 global total). Accumulated know-how and its biologics and chemistry expertise is leveraged across its services including its fully integrated tech platforms that allow clients to mix-and-match technologies and use in-house proprietary solutions

- Human resources: China's vast talent pool (a key bottleneck) and lower costs (e.g. scientists cost ~1/3 of Lonza's in Switzerland) allows WX to deliver faster project timelines at a quality level that is above international standards

- Accelerated development timeline: WX's time from DNA sequence to IND filing is just 13-15months which is around half of the industry average of 24-30months

- One-stop solution: WX's services cover the entire value chain which reduces risk and creates a stickier revenue pipeline. In-house biologics production, chemical payload/linker synthesis and bioconjugation happen in clustered facilities (all within a 2hr drive of each other) which allows faster collaboration and lowers costs. See Appendix A for comparison with global peers

WX's operations reminds us of TSMC within the semiconductor industry.

The U.S. risk

In 2024, a bipartisan bill called the Biosecure Act was introduced which prohibits federal funding to any entity using biotechnology services or equipment from a company associated with a U.S. foreign adversary. The bill targeted Chinese firms and explicitly named Wuxi Apptec and WB among the various companies. Although that bill didn't pass, a revised version was passed recently by the Senate on October 9, 2025 as an amendment to the FY2026 National Defense Authorisation Act (NDAA).

The revised bill removes the explicit naming of entities and instead uses the Department of Defense's 1260H list (entities linked to the Chinese military) as well as a process-based approach for the Office of Management and Budget (OMB) list to designate companies as 'biotechnology companies of concern'. It also delays the implementation timeline to ~3 years and grandfathers existing contracts to ~7 years after the legislation is signed into law[1].

The final details could change depending on negotiations with the House (yet to pass the revised NDAA) and specific implementation rules (flexibility given to federal agencies). We think it has a moderately high chance of making it into the final legislation given it is part of the NDAA (a must-pass annual bill related to military funding). Of course Trump will have a large say on the final NDAA legislation given he has the power to sign it into law or veto it.

After the original Biosecure Act was introduced in December 2023, the share price of WB and WX fell -80% and -50% over the course of several months. The recent price reaction was far milder (less than -20%) but given North American clients account for over 50% of WX's revenues, future U.S. legislation against the Chinese biotech industry is a major risk.

What we see

The challenge for new drug development has always been the high costs, long timeline and finding enough end demand. CDMOs (overview in Appendix B) have democratised this process by allowing small teams to advance ideas with lower risk and capital commitment. Meanwhile, China has become a crucial end-market (2nd largest in the world) and source of technical talent and new innovations.

We believe the long-term interests of the pharmaceutical industry and individuals (even politicians get cancer) will outweigh the shorter term risk of U.S. politics - if China helps create cheaper, better drugs and remains a vital end market, then lobby groups will protect those interests. This is particularly true for XDC drugs (China accounts for >40% of the global pipeline and >50% of global clinical trials) and WX, a major enabler in this field. At worst, the situation becomes like TikTok where license-out and M&A deals (not prohibited in the current bill) still offer some relief. This is already a common pathway with Chinese companies accounting for >75% of global XDC licensing deals over the past year.

[1] Overview of revised bill: https://www.bhfs.com/insight/senate-adopts-updated-version-of-biosecure-act-in-ndaa/

We are confident in the continuing fast growth of XDC drugs and in WX's crucial role in servicing this gold rush. The advantages it offers in terms of time savings, technology support, development infrastructure and cost efficiencies is difficult to find elsewhere.

WX's strong backlog growth supports our view with the 2025H1 backlog growing 58% to US$1.3bn. Also note there was no major slowdown in project wins (+36%) or backlog growth (+71%) in 2024 when the risk of the Biosecure Act was at its peak. Given switching CDMOs is highly disruptive, this would suggest the indispensable value of WX's services and/or the low risk of the bill.

Financials/Valuation

See Appendix C for WX financials.

WX currently has a MCap of RMB76bn and EV of RMB70bn which implies a forward FY26E PE of 36x (1.1x PEG) and EV/EBIT of 31x (0.9x PEG).

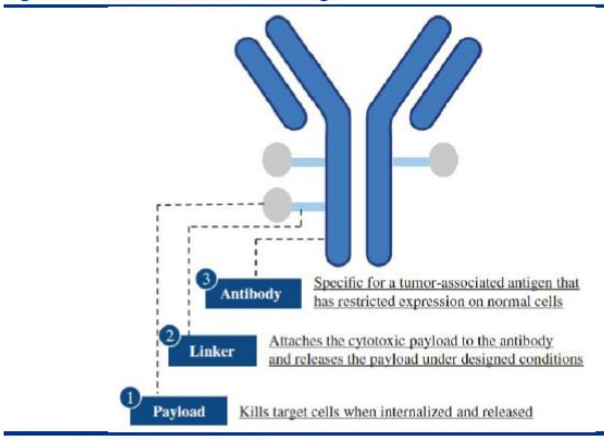
We believe WX will continue winning market share which drives a 3yr revenue CAGR >30%. Profits will grow faster than revenues driven by operational efficiencies and likely future royalties.

Given the current stage of fast growth, we think the simplest and best way to evaluate WX's valuation is using an EV and EBIT based PEG ratio with a discount applied for the U.S. political risk.

Our original entry point was ~0.5x PEG which we think is very cheap for a company of this quality and growth characteristics. More caution is warranted today.

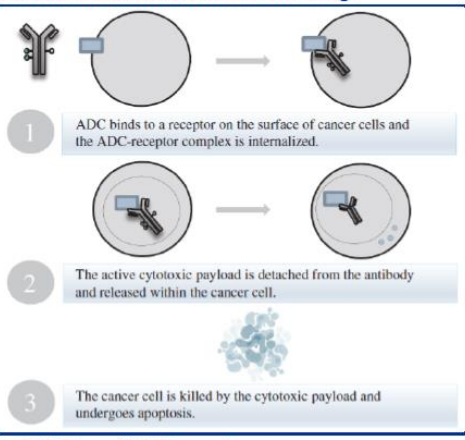
Appendix A – XDC drugs and CDMO players

Figure 6: Structure of the ADC drugs



Source: Frost & Sullivan, SWS Research

Figure 7: Mechanism of action of the ADC drugs



Source: Frost & Sullivan, SWS Research

ADC drugs use antibodies as the targeting molecule but the structure and mechanism is the same for all XDC drugs - just substitute the antibody for other bioconjugates e.g. peptides, small molecules, lipids, carbohydrates, etc

Figure 33: Comparisons of Top 10 global bioconjugates CDMO players

Company name	Capabilities				ADC dedicated process			Full spectrum of ADC production facilities located within 1-2 hours' driving
	mAb	Payload-linker	Conjugation	DP	Research	Development	Manufacturing	
WuXi XDC	√	√	√	√	√	√	√	Yes
Lonza	√	√	√	√	-	√	√	No
Merck Millipore	√	√	√	-	-	√	√	No
Axplora	-	√	√	-	-	√	√	No
AbbVie	√	√	√	√	-	√	√	No
BSP Pharma	√	√	√	√	-	√	√	Yes
Catalent	√	-	√	√	-	√	√	No
Piramal	-	√	√	√	√	√	√	No
Fujifilm	√	-	-	√	-	√	√	No
Baxter	-	-	-	√	-	√	√	No

ource: Frost & Sullivan, companies' websites, SWS Research

Appendix B - CDMOs

Drug development is expensive, time-consuming and competitive with low rates of success. CDMOs are essential partners in navigating this complex, risky process through the provision of specialised expertise, infrastructure and scalability. Key areas include:

1. **Innovation focus**: allows a small team to focus limited capital and human resources on their core discovery (e.g. a novel molecule or process) without the need to invest in development infrastructure and staff
2. **Specialised expertise and technology**: CDMOs invest in the latest technologies and consolidate technical experience across projects which is essential for overcoming the challenges of new therapeutic modalities
3. **Speed and flexibility**: CDMOs accelerate the drug development timeline through optimised processes, regulatory expertise and scalable manufacturing. Faster speed to market translates to lower competition and earlier profitability
4. **Production advantages**: GMP manufacturing facilities cost millions to billions of dollars and years to build. Spreading this huge investment across multiple clients and offering them flexible production solutions helps adaptation across development stages
5. **Regulatory compliance**: CDMOs are well-versed in global regulatory requirements which reduces risks of delays or rejections during regulatory reviews
6. **Supply chain resilience**: CDMOs provide geographic diversification which helps de-risk the supply chain from geopolitical issues and regional disruptions

Appendix C – WX financials

	2020	2021	2022	2023	2024		1H23	2H23	1H24	2H24	1H25
Preclinical	28	45	57	84	102		67	84	91	102	122
Phase 1			27	38	58		27	38	47	58	66
Phase 2			7	13	18		11	13	17	18	17
Phase 3			3	8	15		5	8	12	15	19
Clinical	12	15	37	59	91		43	59	76	91	102
Commercial	0	0	0	0	1		0	0	0	1	1
Number of Integrated Projects	**40**	**60**	**94**	**143**	**194**		**110**	**143**	**167**	**194**	**225**
Preclinical		*61%*	*27%*	*47%*	*21%*			*118%*	*36%*	*21%*	*34%*
Phase 1				*41%*	*53%*			*100%*	*74%*	*53%*	*40%*
Phase 2				*86%*	*38%*			*157%*	*55%*	*38%*	*0%*
Phase 3				*167%*	*88%*			*167%*	*140%*	*88%*	*58%*
Clinical		*25%*	*147%*	*59%*	*54%*			*116%*	*77%*	*54%*	*34%*
Commercial											
Total project no. growth		*50%*	*57%*	*52%*	*36%*			*117%*	*52%*	*36%*	*35%*
Backlog (US$m)			**318**	**579**	**991**		**411**	**579**	**842**	**991**	**1,329**
growth				*82%*	*71%*				*105%*	*71%*	*58%*

RMBm	**2020**	**2021**	**2022**	**2023**	**2024**		**1H23**	**2H23**	**1H24**	**2H24**	**1H25**
North America	0	5	260	726	1,983		290	436	790	1,193	1,376
China	96	291	566	849	1,133		471	378	488	645	505
Europe	0	5	129	460	610		213	247	295	316	602
Rest of World	0	10	36	89	327		19	70	93	234	218
Total Revenue	**96**	**311**	**990**	**2,124**	**4,052**		**993**	**1,130**	**1,665**	**2,387**	**2,701**
North America			*4796.2%*	*179.8%*	*173.1%*				*172.2%*	*173.7%*	*74.3%*
China		*202.3%*	*94.6%*	*49.9%*	*33.4%*				*3.6%*	*70.6%*	*3.4%*
Europe			*2373.1%*	*257.5%*	*32.7%*				*38.1%*	*28.1%*	*104.4%*
Rest of World			*276.8%*	*148.0%*	*267.7%*				*392.1%*	*234.0%*	*134.5%*
Total Revenue Growth		*223.1%*	*218.3%*	*114.5%*	*90.8%*				*67.6%*	*111.2%*	*62.2%*
% North America		*2%*	*26%*	*34%*	*49%*		29%	39%	47%	50%	51%
% China	*100%*	*94%*	*57%*	*40%*	*28%*		47%	33%	29%	27%	19%
% Europe		*2%*	*13%*	*22%*	*15%*		21%	22%	18%	13%	22%
% Rest of World		*3%*	*4%*	*4%*	*8%*		2%	6%	6%	10%	8%
Selling & Marketing Expenses	0	-2	-9	-15	-56		-6	-9	-24	-32	-49
Admin Expenses	-10	-28	-49	-124	-164		-43	-81	-76	-89	-108
R&D Expenses	-4	-14	-34	-77	-100		-30	-47	-48	-52	-49
Impairment losses	0	-11	-43	22	-7		24	-2	-3	-4	-2
Operating Income	**-6**	**59**	**126**	**366**	**913**		**175**	**190**	**385**	**528**	**767**
OPM	*-6.3%*	*19.1%*	*12.7%*	*17.2%*	*22.5%*		*17.7%*	*16.8%*	*23.1%*	*22.1%*	*28.4%*
EBIT growth		*-1073.8%*	*112.1%*	*190.1%*	*149.8%*				*119.7%*	*177.5%*	*99.1%*
Selling & Marketing % Sales	*-0.4%*	*-0.6%*	*-0.9%*	*-0.7%*	*-1.4%*		*-0.6%*	*-0.8%*	*-1.4%*	*-1.3%*	*-1.8%*
Admin Expense % Sales	*-10.0%*	*-8.9%*	*-5.0%*	*-5.8%*	*-4.1%*		*-4.3%*	*-7.2%*	*-4.5%*	*-3.7%*	*-4.0%*
R&D % Sales	*-4.2%*	*-4.4%*	*-3.4%*	*-3.6%*	*-2.5%*		*-3.0%*	*-4.2%*	*-2.9%*	*-2.2%*	*-1.8%*
Impairments % Sales	*-0.2%*	*-3.4%*	*-4.4%*	*1.0%*	*-0.2%*		*2.4%*	*-0.2%*	*-0.2%*	*-0.2%*	*-0.1%*
Total Opex % Rev	*-14.7%*	*-17.4%*	*-13.6%*	*-9.1%*	*-8.1%*						
Interest Income	0	0	5	47	185		3	44	102	84	75
Interest Cost	0	0	-3	-1	-3		-1	0	0	-3	-8
Other Income	39	8	68	1	125		41	-39	75	50	33
NPBT	33	67	196	413	1,220		219	195	562	658	867
Tax	-6	-12	-40	-76	-150		-34	-42	-73	-77	-121
Minorities											
Normalised NPAT	**27**	**55**	**156**	**337**	**1,070**		**185**	**153**	**489**	**581**	**746**
Normalised NPM	*27.6%*	*17.7%*	*15.7%*	*15.9%*	*26.4%*		*18.6%*	*13.5%*	*29.3%*	*24.3%*	*27.6%*
Normalised NPAT growth		*107.5%*	*182.2%*	*116.5%*	*217.1%*				*164.8%*	*280.4%*	*52.7%*

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$[1]	
Since Inception (Jan 3, 2022)	5.5%
1 Year	18.5%
Non Annualised Net Returns in US$[1]	
Year to date	45.7%
3 months	33.2%
6 months	21.7%
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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