QUARTERLY COMMENTARY

30 June 2026

ORLOG CAPITAL

Manager Update: July 2026
John Qiu, Founder

I began my investment career in Australia in August 2007 - at the peak of the global equities bull market and on the precipice of the Global Financial Crisis. In retrospect, the timing was fortuitous. I joined a fund that rapidly scaled its capital base during the market collapse, backed by institutional investors who correctly recognised the suitability of a contrarian, deep-value investment philosophy in the environment ahead. Equally important, I worked under two mentors who invested heavily in my development, fast tracking my learning through their decades of experience navigating market crises, cycles and people.

An analyst who comes of age during a market winter develops a very different psychological framework than one shaped by a prolonged bull market. I was trained to focus on fundamentals and find bargains in tangible value with downside protection. Our entry into Australian REITs is a case in point: we began accumulating at 60% of Price/Tangible book and continued buying all the way to single digit multiples, even as property valuations declined. The structure of their debt (largely held by the Big Four banks who were afraid of triggering a national fire sale) and the stabilising presence of Australia's cash rich superannuation funds gave us the conviction to gorge on REITs and underwrite deeply discounted placements. At one point, we were the largest shareholder in the majority of Australia's listed REITs. That period etched the value and contrarian tenets of my investment belief system deep into my DNA.

In 2013, I relocated to Hong Kong, arriving just as China's equity markets were entering a major bull phase. This was a fundamentally different market psychology and stage of the cycle. Instead of cyclicals and deep-value turnarounds, the focus was on growth. The Asia ex-Japan fund I joined had established a stellar multi-decade track record running a GARP strategy, buying and holding quality growth companies. This approach proved ideal as China accelerated its market opening to foreign capital and many high-quality private companies began to IPO. We ramped our China exposure, and both performance and capital inflows followed suit.

I also quickly learned that conflicts of interest and outright fraud were far more prevalent in Asia than in Australia. Deep-value, contrarian positions carried a higher risk of becoming value traps and mean-reversion payoffs were generally less rewarding than owning sustainable compounders at reasonable prices. Overpaying for quality was a shorter duration risk compared to the permanent downside of buying a poorly managed company solely because it was cheap. My conception of value broadened to incorporate GARP style assessments of price relative to quality and trajectory of future free cashflows.

After striking out on my own in late 2019, market behaviour has often mirrored my past experiences. The onset of COVID in early 2020 bore a strong resemblance to 2008, and I navigated 2020 to 2022 in a familiar fashion - buying deep value stocks during the initial meltdown (substituting REITs with oil & gas positions) and rotating into GARP as markets recovered.

The surprise, however, has been the prolonged downturn and stark divergence of Chinese equities from the rest of the world. Even after the post-COVID reopening in late 2022, Chinese stocks have broadly underperformed despite significant liquidity injections, government support and bright spots of growth in technology, advanced manufacturing and trade. Although we got most of the fundamental analysis right, our Chinese investments have not performed, even in most cases where the companies delivered strong earnings recovery and growth. JD.com, for instance, grew normalised profits by ~55% in FY23 and ~46% in FY24, yet a severe valuation de-rating drove its share price down over 50% from 2022 to 2024.

What I failed to anticipate was the lingering negative market sentiment stemming from weak consumer spending and geopolitical tensions. Offshore listed Chinese equities have been particularly susceptible given their reliance on structurally fickle international institutional capital flows. Narratives intertwined with price momentum formed a feedback loop that took on a life of its own. Investor sentiment continued free-falling until late 2024 and even today, offshore capital flows seem quick to rotate from Chinese stocks to hotter areas of the market. Since the start of this year, China's offshore listed big tech companies have been falling and are now trade at a fraction of their international peers. To put this in perspective, the combined market cap of Alibaba, JD.com and PDD is now less than 50% of Walmart despite these companies doing 3x Walmart's annual retail sales; owning dominant AI/Cloud, logistics, fintech assets; and holding average net cash equivalent to ~30% of their market cap.

You can smash your head against a wall in frustration, but that won't change the fact that the market reality is all that matters. My mistake was allowing confidence in individual stock fundamentals to breed overconfidence in their future price, failing to recognise that the market state had shifted from past cycles. This experience has convinced me that our portfolio management approach must evolve to operate with greater sensitivity to the prevailing market context. That applies to position sizing (discussed in our Q4 2025 report), overall portfolio exposure and the choice of instrument. For example, when the post-reopening recovery fizzled in early 2023, our portfolio should have reacted more decisively to that signal by reducing exposure. At the time, our GARP names were trading at modest discounts to their historical valuation – which, in hindsight, was a reasonable price for that phase of the market.

Our bottom-up, contrarian, value-orientated stock picking philosophy won't change. However, it will be balanced by a more top-down, momentum aligned, market sensitive overlay at the portfolio level. The healthy tension between these two approaches should deliver better performance across different market cycles.

Fund update

Fund returns remain poor at -26.5% YTD and -5.4% annualised since inception. Our top five positions experienced further pressure in Q2 2026:

- Alibaba: -35% YTD
- Full Truck: -24% YTD
- JD.com: -11% YTD
- Sands China: -33% YTD
- Wynn Macau: -15% YTD

Macau casinos stocks are retesting their five-year lows (returning to 2022 price levels, when operations were locked down and license renewals were uncertain). Meanwhile, the China tech names are back to 2024 levels.

The Street attributes the declines to things such as the World Cup impact on Macau GGR and food delivery competition for Alibaba and JD.com. We suspect capital outflows chasing A.I. and new IPOs have been a major contributor. Stock prices began to recover in July, but it is still too early to know if this trend is sustainable.

Portfolio Update

We have been increasing exposure to non-Chinese equities and special situations. In positive trending markets, we've let GARP names like Lantheus run, while remaining sensitive to rebalancing for comparable Chinese positions. New buying in Chinese equities has generally been restricted to stocks meeting the dual criteria of valuation extremes and trading at the low end of their five-year price range. We have also started adding long dated LEAP calls with strikes set at historically low price turning points. The time premium, typically in the single digits, is an acceptable price for time-skipping, certainty of exposure and reduced initial capital commitment.

Current portfolio exposure is summarised below.

Theme	% Port
China E-Comm/Logistics	45%
Macau Casinos	24%
Iran War	7%
Other	24%

- **China E-Comm/Logistics (Alibaba, JD.com, Full Truck Alliance; adding PDD and Meituan)**
  Valuation multiples are approaching historical lows, despite healthy 3-5 year growth expectations. Alibaba, JD.com and Meituan share prices have been discounted on skepticism regarding margin recovery. We believe food delivery subsidies peaked last year, and now with increased government intervention, the risk of this flaring back is low. We expect margin recovery trends to become evident over the next several quarters. For PDD and FTA, we view weak earnings as a temporary FY26 phenomenon.

- **Macau Casinos (Sands China, Wynn Macau)**
  Prices are back to 2022 lows, with dividend yields of 7.5% (Sands) and 8% (Wynn). The World Cup impact is temporary, while Macau visitation and GGR continue to grow. Market fears of intensifying competition are valid but misunderstand the dynamics. The change in junket remuneration structure effectively caps their activity, and the casinos are stepping in to fill that role. Competition is vigorous in this early direct relationship building phase but will subside. The operators have been rational competitors for two decades - that does not change overnight. This structural shift is likely positive for long-term profitability. We believe the Street is underestimating earnings and dividends over a three year time horizon.

- **Iran War (U.S. petrochemical majors; one small-cap marine paint company)**
  These remain incubation size positions. Despite the resumption of hostilities and the feedstock cost and supply advantages that U.S. companies have over international peers, share prices have retreated to pre-war levels. This largely reflects the weak underlying demand tied to the real economy (housing, auto and industrial production), as well as the lingering belief that disruptions are temporary. If the Strait of Hormuz remains closed for several more quarters, oil/naphtha feedstock prices will spike further while capacity closures in Europe and Asia will accelerate.

  We expect the market view to increasingly shift towards a supply driven upcycle and sustainably higher margins for U.S. majors. While the balance of risk leans to the upside, we are content to wait for price confirmation before adding further.

- **Other (China Resources Beer, Lantheus, assorted deep-value/GARP/special situation plays)**
  Half of this bucket is CRB and LNTH. We've trimmed much of our China consumer stocks but CRB - trading at almost 10 year lows and offering a 5% dividend yield - is too attractive to exit. LNTH is arguably our most expensive holding, but it is trending well alongside teens type earnings growth (with significant upside potential).

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$[1]	
Since Inception (Jan 3, 2022)	-5.4%
3 Year	-9.2%
1 Year	-15.2%
Non Annualised Net Returns in US$[1]	
3 months	-17.7%
6 months	-26.5%
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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