Interim update

From: Gregory, July 2023

Subject: Fund's performance update (1H23)

Our fund has achieved +24% returns (net of all fees) for the six months ending June 2023. Broad equity markets (except for China and Hongkong markets) has delivered impressive returns of >20% since Jan 2023. Since Nov 22, most equity markets have also not suffered a decline of more than 5%. Under this constructive environment, our performance is satisfactory.

<u>Investment portfolio – Long term focus, concentrated portfolio</u>

The investment portfolio posted returns of around +16% for the first half of the year.

On your behalf, we own good quality, publicly listed businesses in United States, Hong Kong, and Singapore. 6 to 8 of such businesses constituted most of the investment portfolio. Other than us increasing (materially) our stake in one existing stock, no other major changes were made in the portfolio during the past half year. In terms of business performance, as expected, some of them did well and some did not. We will share more about their business developments on an annual basis.

We pick our investments very carefully and seek to purchase them at prudent prices. In analyzing the businesses that we think are likely to grow, we research and think deeply. We make conservative projections of future cash flows over the next few years, then comparing the multiple of those cash flows to today's share price. If the multiple based on near future earnings is reasonable (i.e., no higher than mid double digits) then the downside is probably limited. On top of that, the business's long term outlook has to be favorable and offers good growth opportunities beyond the next few years. Hence broadly speaking, we aim to earn for all our investments an internal rate of return modeled under conservative assumptions in at least the mid-teens (15%), a level high enough to result in a margin safety of our capital.

Once we do the above, we regard our commitment to these businesses as similar to the minority ownership of private businesses for which no market quotation exists. That is, we let the fundamental attributes of the businesses (Returns on capital, growth potential, dividends, and share buybacks etc.) guide our future buy/add and sell decisions. Our focus is on long-term business potential and growing earnings power and not short term stock performance. If our judgement is proven right, business value per share and its stock price will eventually converge.

<u>Active Trading strategy – Opportunistic long/short; short term bets</u>

Other than a brief spite in market volatility during March 2023 (US regional banks' Assets-Liabilities duration mismatch crisis), equity markets generally have been on a quiet upswing since November 2022. Under this largely non-volatile backdrop, major trading opportunities are rather limited.

As a recap, given that our trading strategy employs borrowing and hence our overall fund employs certain level of gearing, we are always careful to maintain 1) Only a moderate amount of borrowings and 2) Strong management oversight of the overall portfolio especially our trades. Avrian and Timoty, (more than 14 years of trading experiences each) and Sebastian and Hong Jun (more than 4 years of trading experiences each) are actively managing our trades. So, we have 4 pairs of attentive eyes coupled with cool rational heads seeking for trading gains whilst managing risks.
Under their careful watch, we managed to add good value to the overall fund's returns by approximately +8% during the first half of the year.

As always, the success of any sound idea is only as good as its execution. For our traders, risks management is vital and takes priority. Profits come second.

Reflecting on an opportunistic investment

In Aug 2022, we started to purchase Food Empire, a coffee and snacks manufacturer listed in the Singapore stock exchange. We have followed this company closely since 2016 and despite good efforts to diversify geographically over the years, Russia still constituted almost 50% of its earnings in 2021. As such once the Russia-Ukraine armed conflict broke out in Mar 22, its share price declined precipitously.

Over a span of 4 months, we accumulated a decent number of shares (average price of S$0.64) at a free cash flow yield approximating 20% (5x PE), at a valuation we deem half of private market valuations (when conditions eventually stabilized).

The share price continued to trend downwards almost immediately after our first few rounds of purchase, a circumstance that we do not dislike, for declining prices allow us to increase our holdings at a lower price. We also understood the factors that led to its undervaluation (more on this later). Internally we expect it may take two years for a share price reappraisal. Given the right business and conditions, we are quite willing to venture into possibilities where dark clouds currently prevail. Our bet is that even the heaviest thunderstorm will run out of rain someday and when that happens, prices blossom. We deemed such opportunities as fine businesses experiencing one time temporary difficulties that can be resolved over time.

In this situation, we are looking to profit in 3 ways; First from the cash flows generated by the underlying business (We have received 4.4c of dividends since our purchase). Second, from the shares repurchases conducted at a price lower than intrinsic value (Management has bought back 10.5mln number of shares since Apr 22 to July 23, approximately 2% of all outstanding shares), hence further increasing its earnings per share and increasing our proportional ownership of the company. Third, from eventual capital gain when the market better recognizes the underlying value and reprices the security (Current share price is around $1.10 as of early July 23). However, most importantly, we also benefit from an important margin of safety conferred by the bargain purchase price (5x PE multiple on a consumer staples business).

We are constantly on the lookout for similar good opportunities, favoring businesses that are well capitalized and at the same time offering some yield. In the latter case, we are being paid to wait for business conditions to recover. In the final week of May, another opportunity of this sort presented itself, and we have acted accordingly. While we are not certain of the time frame, we are quite certain of the value. We will remain patient, and let time tell whether we are right or wrong.

Opportunities on the horizon and why long term capital is vital

Why the strong emphasis on long term sticky capital base? We do so to help maximize the returns achieved by the fund. With long term, stable capital, we can build an edge for our investors by taking a long term view. Let me explain.

Due to having loss aversion bias, a short term focus and constant performance comparisons, most investors find it hard to look past a valley to imagine the next peak. As such, not many want to buy a stock if the next few quarters look disappointing, since stocks that fail to meet sell-side analysts' estimates are regularly punished. Hence even when short term negatives have been more than fully baked into share prices, many hold back, waiting for obvious turnaround or recovery. In effect, they are saying they would rather pay a higher price when the road ahead seems clear, even though by the time everyone can see what they see, the moment of greatest opportunity will have passed.

The really big opportunities in stocks occur when investors are pessimistic and gloomy. When this occurs, the average investors will tend to withdraw their capital from the hands of their fund managers and the purchasing power of fund managers will be minimized. As a result, when opportunities are at their most abundance, it is quite likely that most fund managers (Of short-term capital base) will not be of sufficient size to take full advantage of the opportunities. (To make matters worse, they tend to need to offload existing positions to raise cash to meet redemption requests).

When such a situation occurs, which they do so periodically, only the fund manager with the more stable, sophisticated investor base will retain buying power amid turmoil and opportunity. As a result, the entire investment operation benefits. Only when fund managers are being paired with well-chosen investors that possess a long term focus can agreement and harmony within the investment vehicle be maximized and everyone wins eventually.

<u>Our goal and raising new capital</u>

Our goal is to stick to (and keep refining for the better) an investment process that allows us to earn reasonable returns on our invested capital, so that these returns, compounded over a decade and more, will amount to significant absolute sums of capital. As such, the goal here should be neither to take profits when the fund is up significantly nor to cut losses when the fund is down significantly in the short term. Your conviction in this statement should stem from the belief that our team actively manages the fund for intelligent capital allocation and that an overwhelmingly large proportion of our wealth is invested alongside yours.

The vast majority of our wealth (Avrian, Tim and myself), aside from money set aside for modest living expenses, is invested in this single fund. If we manage to compound the fund returns at 15% (net of fees) annually, each of us will have $XXXm in 20 years. This is the way we think about our fund's investment. It is also why we do not think in terms of monthly, quarterly, or even a single year's snapshots of performance, lest short termism creeps into our carefully protected mindset of focusing on long term value creation instead of short term p&l swings. That being said, we deem it reasonable for external investors to expect positive outperformance from us after 3 – 5 years, and we fully intend to provide it.

As long as valuations remain reasonable and/or we see attractive opportunities, we will continue to raise new capital. While doing so, we will not seek to achieve this by compromising our existing investment objectives. We strongly intend our fund to consist of investors with a long term view, rather than by speculators attempting to score a brief period of performance. In fact, our fund's policies are structured specifically to attract patient investors that have a long term focus.

<u>Keeping our heads down and looking ahead</u>

In June, we welcomed Jia Jun to our team, joining us as an equity research analyst. He recently graduated from Nanyang Technological University, with double degree first class honors in Business and Accountancy. He is also awarded the gold medal by the Institute of Singapore Chartered Accountants, in recognition of being the most outstanding student of his cohort for the degree of Bachelor of Accountancy. With his addition, our fund currently employs 8 full-time professionals (3 Portfolio managers, 3 research analysts and 2 equity traders.)

We remain highly committed to managing your wealth responsibility and prudently. Our fund will do our best to achieve satisfactory growth in both our long term investment portfolio and active trading strategy. While we may at times communicate with you more than several times a year, we hope this will not in any way cultivate a short term mindset in you assessing our performance. I find it helpful to remember Bill Gates's words "People always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next 10." We hope you assess our achievements in measurement of decades.

Thank you and speak to you soon.

Greg,

On behalf of Avrian and Tim