AGT Partners

Q1 2025 Shareholder Letter

Dear Shareholders,

For Q1 2025, our portfolio generated a net return of +7.45% for Class A shares and +8.94% for Class B shares. Gains were generated broadly across all 3 strategies: long term investments, short term active trading and the quantitative strategy. In this letter, I wish to focus on the impact of U.S. tariffs on our portfolio, our thoughts on the situation, and outline the adjustments we've made to navigate these challenges.

US's imposition of tariffs, China's retaliation and markets impact

The US's recent tariff announcement on April 2nd has triggered a significant escalation in trade tensions, particularly with China. The imposition of a 10% baseline tax on imports, with higher rates for countries running trade surpluses with the U.S., has sparked a retaliatory response from China.

Both countries are now engaged in a tariff war, with rates exceeding 100%. Despite acknowledging the potential for severe economic pain, neither side appears willing to back down, each prioritizing the avoidance of appearing weak instead.

This standoff has raised concerns about a prolonged slowdown in global trade. In the worst-case scenario, it could mark the beginning of a broader trade war, prompting major countries to turn inward and enact protectionist policies.

The uncertainty surrounding this situation has significant implications for the global economy, and its trajectory remains difficult to predict.

This escalation of trade tensions has triggered a significant risk-off sentiment, resulting in severe corrections in major equity markets:

- S&P 500: down almost 20%
- Nasdaq: down 25%
- Hang Seng Index: largest one-day drop of 13% on April 7th since the Asian financial crisis

Currently, the trade situation shows signs of potential de-escalation, with the US administration willing to engage in negotiations and granting tariff exemptions on key products like chips, smartphones, computers, and rare minerals.

Other major economies are also affirming free trade relationships, with the European Union considering lowering tariffs on Chinese electric vehicles. China has also promised to ease monetary policy and increase fiscal stimulus.

However, the global economic situation remains fluid and could quickly turn negative due to miscalculations, domestic political pressures, or an unwillingness to compromise on trade negotiations. A prolonged period of unproductive negotiations could still have a negative impact on global trade.

Short term impact on our portfolio and transparency on drawdowns

A global trade war, if it escalates, poses a serious threat to the global economy. Frankly, your portfolio managers are uncertain of the full consequences and impact on our portfolio at this stage. We are closely monitoring the situation and hoping for a rational resolution. A prolonged trade war can have unforeseen second- and third-order effects that may harm almost all companies, making it challenging to predict and prepare for the potential impact.

As of April 25th, our fund's Net Asset Value (NAV) per share has declined by approximately 5-10% for the month of April. We anticipate continued volatility and potential further declines in NAV in the near term.

Furthermore, we wish to highlight that:

- From April 2nd to April 7th, our fund's NAV per share declined by almost 24%
- On April 7th alone, our NAV per share dropped by approximately 16.4%

(The personal wealth of the 3 of us was marked down by an average of 2% per hour on that day. Our room was extremely quiet.)

We want to clearly communicate the potential risks and drawdowns associated with our fund. As this event has illustrated, market volatility can result in significant declines. We believe it's essential to be transparent about these potential losses. Monthly maximum drawdowns can mask underlying volatility, so we highlight daily maximum drawdowns to better reflect short-term downside potential. Our goal is to ensure you have a clearer understanding of the fund’s risk profile so that you can make well-informed decisions about your investments.

(Needless to say, Avrian, Tim and I don't enjoy losing our own hard-earned money, but we'd hate it even more if we lost someone else's without them fully understanding the risks from the outset.)

Portfolio adjustments

In this uncertain period, we're prioritizing caution over opportunistic buying. This stance may lead to relative underperformance if major trade deal(s) materializes. Our primary hope is for a more peaceful world, which will pave the way for prosperity. We'll remain informed and agile, ready to capitalize on opportunities as they arise.

We expect higher portfolio turnover during this period of uncertainty, and we will keep you informed as our partner and act intelligently to navigate these challenges.

In response to the current uncertainties, we've taken steps to mitigate potential risks by reducing the fund's leverage and reallocating holdings to focus on domestically oriented companies, consumer staples, and defensive positions.

We've also utilized some of the sales proceeds and new subscription monies to take moderately sized short positions in companies that have a large proportion of revenue arising from global trade. This strategic move aims to further manage risk and capitalize on potential market fluctuations.

Long term goal and commitment

Our primary goal is to grow your investment by acquiring ownership in businesses with strong long-term earnings power (growing) at reasonable prices. While recent tariff uncertainties have prompted some tactical adjustments in our portfolio, we view this as a temporary deviation. We remain focused on the bigger picture and are confident in our ability to achieve our objectives over time.

You may wish to know that Avrian, Tim and I have also made further subscriptions to the fund for the month of May. We do so not because we have any inklings about where markets are headed in the next month or the next year. Rather, it reflects our conviction in the underlying economics of the investments we hold and our view of current price-versus-value dynamics. We also anticipate elevated volatility will present opportunities for strategic trades.

Most importantly, we want the fund to have ample resources to capitalize on potential opportunities. Cash provides valuable optionality in the current environment, allowing us to be agile and responsive to market developments.

While we can't guarantee short-term results, we're optimistic about our long-term performance. What we can promise is that Avrian, Tim, and I will maintain a significant stake in the fund, with over 90% of our wealth invested. Additionally, our younger team members also have a substantial portion of their wealth invested, aligning our interests with yours.

Thank you for reading and I look forward to sharing more with you soon. Please contact us directly if you have any questions regarding your investments.

Best regards,

Greg, on behalf of the whole AGT team

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