QUARTERLY COMMENTARY

31 March 2025

Manager Update: April 2025

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Ray Dalio's Principled Perspectives newsletter on LinkedIn offers a compelling analysis of the current Trump tariff situation - a must read for those seeking to understand the deeper dynamics at play. I wholeheartedly agree that these tariffs and the broader backlash against globalisation are merely symptoms of larger fundamental forces which have been building over a long time.

Contrary to U.S. government rhetoric, this isn't about fairness; it's about the unsustainable debt trajectory of the U.S. and its economic evolution from an industrial powerhouse to a coordinator of global supply chains. Perhaps this was always inevitable in the post-WWII world order led by the U.S. As the old-world powers faded, the U.S. took on the role of a modern-day Rome to which all financial and trade roads flowed for almost a century. Dollar driven trade and U.S. led credit drove the engine of progress to which other countries hitched their economies. American corporations accelerated globalisation in pursuit of resources, lower costs and new markets while the U.S. enjoyed the 'exorbitant privilege' of having the rest of the world support its consumption.

This system intensified after Nixon abandoned the Bretton Woods agreement, unleashing the era of fiat currency. The U.S. trade deficit, growing since the mid-1970s, was not the root cause but a symptom of America's deepening addiction to credit. Fiscal discipline in federal budgets eroded over time which became evident over the past 20 years as the budget deficit % GDP consistently outpaced GDP growth, culminating in the Biden era's easy money policies.

The narrative that the U.S. has been exploited is misleading. Trade deficits are not losses - when Apple or Walmart outsource production and sell domestically, those deficits simply represent the costs before their profits. With unemployment at just 4.1%, the claim that foreign competition 'steals' jobs is also baseless. Telling American workers earning $31/hour that their living standards are worse because their shoes were made by workers earning $6/hour makes little sense. The real issue is internal: runaway government debt and reckless spending. Figures like Elon Musk (via his DOGE initiatives) and Stanley Druckenmiller have proposed solutions, though Druckenmiller's call for slashing Social Security benefits remains politically toxic.

Trump, however, sees trade as an excuse to kill four birds with one stone:

- Balancing the books by extracting concessions (forced purchases of U.S. goods and investments) and monetising geopolitical tensions to offset military spending
- Boosting exports by tilting trade terms in America's favour
- Reviving manufacturing with foreign capital footing the bill
- Containing China's rise

His approach is one of shock and awe - a global tariff offensive creating a prisoner's dilemma: comply and suffer less, resist and face harsher penalties. Some nations have acquiesced; others, particularly those with security ties to the U.S., face tough choices. If the radical 'Mar-a-Lago Accord'[1] are part of these negotiations, it would mark an unprecedented financial strong-arm tactic (which would explain the dramatic sell-off in U.S. Treasury bonds).

China has retaliated with reciprocal tariffs (now up to 125% on U.S. goods versus Trump's 145% on Chinese imports), positioning itself as the defender of the existing trade system. Beijing's calculus hinges on several factors:

- Supply chains cannot reconfigure overnight
- Inflation will erode Trump's political support
- Global public opinion opposes his tariffs
- Most nations still favour the current trade framework
- China retains ample room for domestic stimulus
- Its 1.4 billion consumers offer long-term leverage

For China, this is a war of attrition - its economic pain is more tolerable than the political backlash Trump faces as U.S. businesses and consumers bear the costs (readers familiar with Isaac Asimov's Foundation series might find parallels in how such standoffs unfold). Trump, meanwhile, must move quickly to isolate China, pressuring vulnerable allies first (e.g. security-dependent partners) while enticing alternative suppliers like India and Vietnam. The diplomatic battleground now centers on key players: the EU, Japan, South Korea, and India. Notably, Trump has already granted a 90day tariff reprieve (excluding China), while Beijing is poised to roll out stimulus measures to bolster domestic demand and counter with its own trade incentives.

[1] An aggressive rehash of the Plaza Accord, aiming not just to weaken the dollar but also pressure foreign governments into swapping U.S. Treasuries for century bonds (100yr bullet bonds with lower yields)

Who Wins?

Trump's divide and conquer tactics using market access and security as bargaining chips, should not be underestimated. Past U.S. presidents have secured major concessions (though never this aggressively or on this scale). Yet China holds strategic advantages: its interests align more closely with the global majority, and time is on its side.

Trump's unilateralism has already alienated allies - threatening Canada, Greenland and NATO within his first three months. By discarding the fundamentals of diplomacy and trade, his administration has exposed the raw meaning of 'American Exceptionalism' undermining the stability, predictability and policy continuity expected from the world's dominant superpower. While he may extract short-term wins, the long-term consequence will likely be accelerated efforts by nations to reduce dependence on the U.S. market, the dollar system and U.S. credit.

As Dalio rightly observes, we are witnessing a once-in-a-lifetime rupture in the world order. The real question isn't just who 'wins' this trade war, it's how the global system will be reshaped in its aftermath. Personally, I think the next chapter in humanity's shared destiny lies in the development of the Global South (85% of the world's population) and the transition to a low carbon economy. China, much like the early U.S. empire, is already building this future through industrialisation, decarbonisation and creation of new markets. Maybe this isn't the end of globalisation, just the painful rebirth of a new type of globalisation and world order.

Fund Update

Our first quarter 2025 net performance was +19.7%. We were beneficiaries of the 'DeepSeek moment' which catalysed market attention towards Chinese equities. While the event itself was unexpected, China's rapid innovation made such advancements unsurprising. The swift public adoption of DeepSeek and other high quality Chinese offerings highlights a defining trend of our era: consumers embrace superior products and ideas, irrespective of origin. This shift reflects a broader reality: information is becoming a universal social currency, transcending borders and state influence.

Our China technology stocks did exceptionally well, especially Alibaba which entered our top five holdings. However, the major disappointment was again Dada, which finalized its takeover on April 1, expected to close in Q3 2025. Dissenting shareholders can alternatively seek 'fair value' under Section 238 of the Cayman Islands Companies Act with the final determination made by a court based on valuations from both company appointed and dissenter shareholder's experts. The challenge lies in the lengthy and uncertain process: such cases usually take 12-36 months from petition to trial, with historical premiums over merger prices ranging widely - from +3% (Qunar 2019) to +53% (Trina Solar 2023). Also, Cayman courts favour DCF based valuations which given JD's control, puts Dada at a distinct disadvantage. Given these hurdles, we concluded that pursuing further action to unlock value would not be prudent.

However, after Trump's tariff turmoil, Dada's share price slipped to $1.86-1.89 which offers an interesting carry trade opportunity. The returns table is shown below.

Today's Date	10/4/2025		
End Date	30/9/2025	**Takeover Price**	**$2**
No. Days	**173**	**Borrowing Cost**	**5.0%**

Purchase Price	Ungeared IRR	10% Gearing	30% Gearing	50% Gearing
1.86	16.5%	17.7%	20.0%	22.3%
1.87	15.2%	16.3%	18.3%	20.4%
1.88	13.9%	14.8%	16.6%	18.4%
1.89	12.7%	13.4%	15.0%	16.5%
1.90	11.4%	12.1%	13.4%	14.6%
1.91	10.2%	10.7%	11.8%	12.8%
1.92	9.0%	9.4%	10.2%	11.0%

Our portfolio remains concentrated in leading Chinese technology and consumer companies. These businesses are attractively valued, have minimal direct exposure to U.S./China tariffs, and stand to benefit significantly from potential consumer focused stimulus measures in China. We also anticipate a meaningful increase in capital returns over the coming years.

Since the start of Trump's tariff war, Macau gaming stocks have plummeted, with most (except MGM China) revisiting or dropping below their 2022 lows – levels previously driven by COVID-era lockdowns and gaming license uncertainties. While short-term Gross Gaming Revenue (GGR) may face pressure from broader economic challenges, Macau's casinos retain a near monopoly over China's vast gambling market making their long-term growth compelling.

We've been adding to our Sands China and Wynn Macau positions, both now trading below replacement cost and offering mid-teens FY25/FY26 free cashflow yield. These two operators are likely to lead peers in dividend payouts due to: 1) derisking potential U.S./China tensions (though we see low risk of Chinese regulatory intervention) and 2) funding their new Dubai projects.

Looking forwards, we agree with Wall Street views that a U.S. recession is probable this year which would weigh on global growth. Amid persistent uncertainty around inflation, interest rates and the broader operating environment, volatility across asset classes is likely to persist. This justifies a higher risk premium, reducing the odds of U.S. equity valuations mean reverting to prior elevated levels.

From a valuation standpoint, Chinese equities remain compelling-trading on low multiples on depressed earnings while U.S. equities remain on high multiples near peak profitability. Nevertheless, anticipating further market dislocations, we are selectively tracking a handful of high-quality U.S. and European companies. Should sharp sell-offs occur, we expect opportunities to buy these businesses at prices meaningfully disconnected from their long-term historical valuations and entrenched consumer demand trends.

Portfolio Overview

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Top Five Major Holdings (in alphabetical order)	
Alibaba	E-Commerce
Dada Nexus	E-Commerce
Full Truck Alliance	Logistics
JD.com	E-Commerce
Wynn Macau	Casino

Performance	
Annualised Net Returns in US$[1]	
Since Inception (Jan 3, 2022)	0.1%
1 Year	11.5%
Non Annualised Net Returns in US$[1]	
3 months	19.7%
6 months	-2.6%
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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