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UEN No: 202203979D

11 July 2025

Re: 6th Investor Newsletter – July 2025 (Mid-Year Market Review & Outlook 2025)

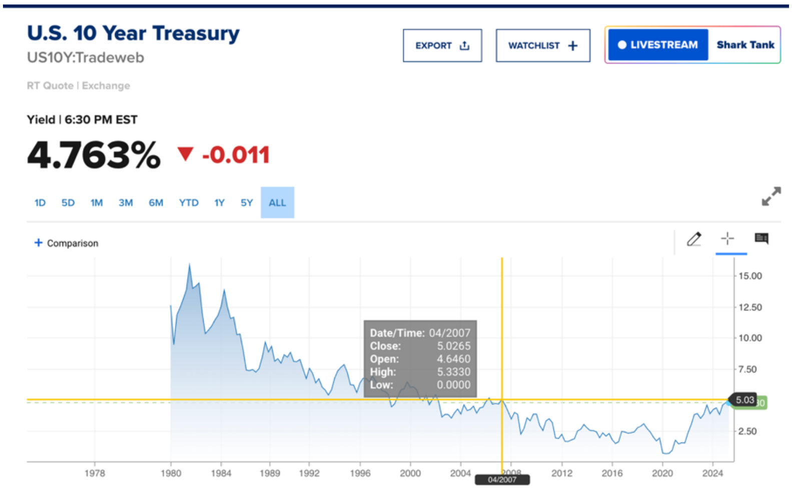
Dear Investors,

We're pleased to share an overview of our key observations, strategies, and performance for the first half of 2025.

Market Observations

US 10-year Treasury Yield Near Record High of 5% (Jan 2025): The last time the 10-year treasury yield was this high was around 18 years ago. We are mindful that this might be the start of a sustained interest rate normalization, which we have not seen since the Global Financial Crisis (GFC) in 2008. A high-rate environment reminds us to be prudent.

US 10-Year Treasury Yield (Jan 2025)



Japan's Central Bank (BOJ) Rate Hike (Jan 2025): The BOJ hiked its short-term interest rate by another 25bps, increasing it to 50bps, its third-rate hike since March 2024. The previous hike in July 2024 caused turmoil in the US markets due to the unwinding of the carry trade. We are observing what could happen this round.

DeepSeek-related Rally (Jan 2025): We've observed a re-rating among Chinese tech-related counters following the launch of DeepSeek's powerful yet low-cost AI model, which triggered a sharp rally in January. The Hang Seng index briefly retested its October 2024 high of over 23,000, buoyed by this renewed optimism.

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US Trade War (Feb 2025): President Trump initiated a trade war with major import trading partners by slapping tariffs ranging from 10-25%. Since World War II, global GDP has grown at an average annual rate of 3-4%, largely thanks to the establishment of the Bretton Woods system (1944) and the creation of the General Agreement on Tariffs and Trade (GATT) in 1947. Prior to that, during the 19th century, global growth averaged around 1% annually. If the trade war escalates, the valuation of growth stocks may be affected.

We are actively monitoring and continue to shun the following: highly leveraged companies and stocks with extreme valuations.

European Central Bank (ECB) Cut its Key Interest Rates (June 2025): The ECB last cut its key interest rates by 25bps and signaled more room for rate cuts. This marked the eighth rate cut in a year. The ECB was among the first central banks to cut rates. We are monitoring the situation and are keen to assess the ECB's neutral stance. As of June, ECB's short-term lending rate stood at 2.15%.

Telecommunications Stock Update

The telecommunication stock we discussed at our AGM reported full year earnings in March. Net profit declined by 30% year-on-year, and dividends were cut by approximately 28% - both in line with our forecasts and briefing during the AGM.

We have since trimmed down our holdings from around 3% to 2% of the portfolio and are currently sitting on a near-zero net return. We will keep the current position and may raise it to a 3% weighting if prices decline further. Our rationale is as follows.

1. The starting yield is 8.2%, with upside potential once the messaging service revenue issue — already disclosed — is resolved;

2. Other business segments are growing well, and we see the above issue as a one-off event.

Convergence of Valuations

For the first time since inception, our fund recorded a 12% positive divergence versus the MSCI ACWI index. This surge may signal a potential convergence between our undervalued Asia-centric portfolio and the broader, more US-focused MSCI ACWI. We are closely monitoring this development to capitalize on any favorable adjustments.

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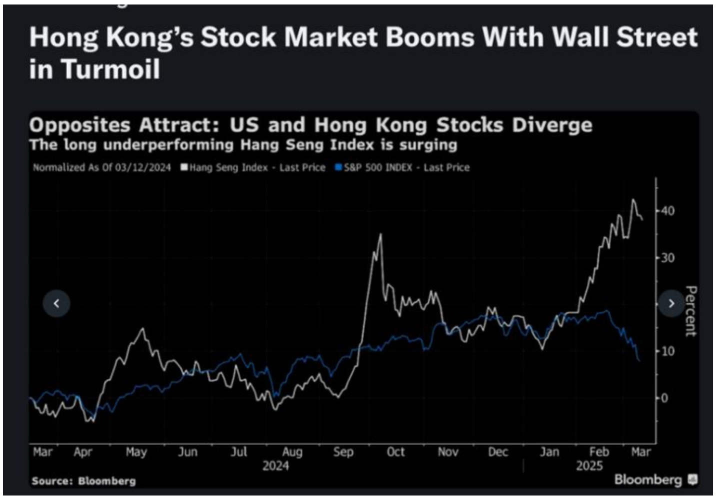
Outperformance of Hang Seng Index vs. S&P 500



Deglobalization

We are assessing what may be the beginning of a new era of deglobalization, marked by the US imposing trading tariffs on trading partners with whom it runs deficits – aimed at balancing its budget. Globalization has long been the foundation of the modern world, with major developed countries printing fiat money in exchange for goods or services produced more efficiently elsewhere. This system is deeply entrenched and not easily destabilized.

Our experience during COVID has taught us that while consumption may slow during dislocation, it does not disappear. If these tariffs persist, they could cause a rebalancing of global trade. Deglobalization would disproportionately hurt smaller or less developed countries, potentially undermining their economic stability, and ultimately EVERYONE would be worse off. We see a few scenarios unfolding:

1. **Global Realignment Without the US:** The rest of the world may respond by deepening trade independently, effectively isolating the US like how global markets have adjusted around Russian sanctions.

2. **Return to Status Quo:** The US could eventually reach new trade agreements, allowing global trade patterns to resume with minor adjustments.

3. **Full-Blown Global Trade War:** Countries may adopt protectionist policies to defend local businesses and employment, leading to widespread tariffs and fractured supply chains.

At Arkenomics, we believe the spirit of capitalism will ultimately prevail over a protectionist world. However, if reason does not prevail, stronger nations may impose their will on weaker governments – effectively taxing them in any form they choose.

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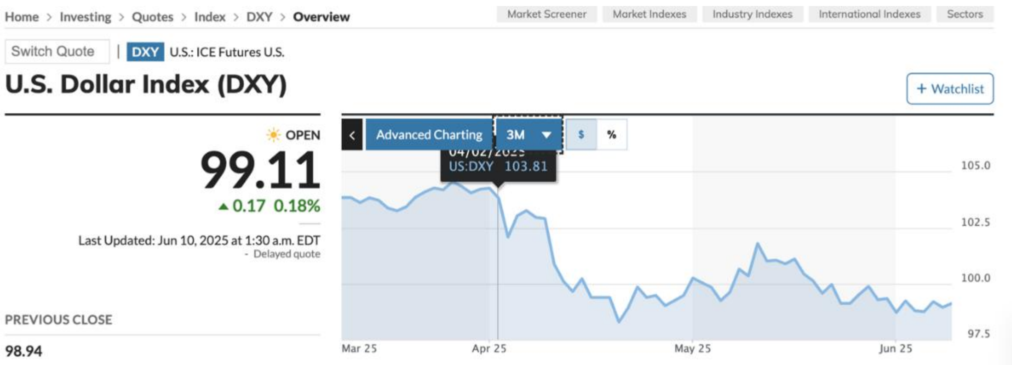
Regardless how events unfold, we believe US-centric asset classes may decline amid America's increasingly protectionist posture. We continue to allocate capital through disciplined, downward dollar-cost averaging targeting quality companies with strong pricing power.

Weakening of USD



Portfolio Strategy Update

Before the trade wars ignited by the US government, our portfolio maintained a stable trajectory.

The major market allocations within our portfolio are now showing signs of an early uptrend, driven by earnings re-ratings. If we were to accept new money without managing the inflows, we would face 2 options:

1. to add to holdings at higher valuations, thus increasing the cost base of our current positions;

2. hold new capital in short-term bills/notes, which would yield a lower return than our CAGR and potentially dilute existing investor returns.

Neither approach aligns with our strategy.

We plan to use new funds raised to diversify our holdings beyond an Asia-centric approach towards a more balanced global allocation. We will look to increase exposure to US and European equities, if market conditions or bear market conditions create opportunities to acquire quality assets at attractive valuations. We expect this to be a gradual process and will only raise capital as opportunities arise at our target prices.

The fund has always used leverage sparingly, with a debt-to-equity ratio of below 6% since inception (the fund is currently in a net cash position). Given the speed and severity of the current market correction, we believe leveraging beyond 20-30% of total assets would be risky and irresponsible. With this in mind, we aim to keep our peak leverage, if any, to no more than 20%, using fresh capital to reduce existing leverage before considering further investments.

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Our current geographic allocation remains Asia-centric, with 89% in listed Asian stock exchanges, 5% in the US and 4% in Europe (2% of the portfolio is in cash). The portfolio currently yields approximately 4%, and a more defensive approach could potentially increase it to 6%.

Performance in First Half 2025 & Since Inception

Arkenomics Provident Fund Class A shares generated a net total return of approx. 7.7% in SGD terms for the first half of 2025 and approx. 51.9% in SGD terms for the 33-month period since inception Oct'22 to Jun'25. This translates to a compounded annual growth rate of 16.4% / year in SGD.

Arkenomics Provident Fund Class B shares generated a net total return of approx. 7.7% in SGD terms for the first half of 2025 and approx. 52.3% in SGD terms for the 33-month period since inception Oct'22 to Jun'25. This translates to a compounded annual growth rate of 16.5% / year in SGD.

Our performance has exceeded that of the STI and the MSCI ACWI index, which has a heavy US focus.

Capping Subscriptions

We continue to monitor developments closely and will rebalance the portfolio as needed. We remain mindful of only adding at good odds and will continue to cap/pause new subscriptions in the event of unfavorable market quotations. Instead, we are adopting a more selective approach—only opening subscriptions, via the EOI process, to position to accumulate stocks at attractive valuations.

Outlook for H2 2025

While today's geopolitical tensions may seem daunting, it is still too early to turn pessimistic. If history is any guide, the 2003 Iraq War saw the S&P 500 rally ~16% within six months of the invasion and ~32% over the next 12 months, as markets looked past initial uncertainty. What matters more is maintaining discipline in acquiring quality assets at reasonable valuations. Often, the best opportunities emerge when sentiment is clouded by fear. Looking ahead, we believe the "higher-for-longer" interest rate environment will persist. Against this backdrop, we remain focused on acquiring assets at the right valuations and ensuring we are adequately compensated to hold.

Sincerely,

Peter Lum Shuncai
Portfolio Manager
Arkenomics Provident Fund.