

15th January 2025

Re: 5th Investor Newsletter – January 2025 (Jul-Dec 2024 Market Observations & Annual Update)

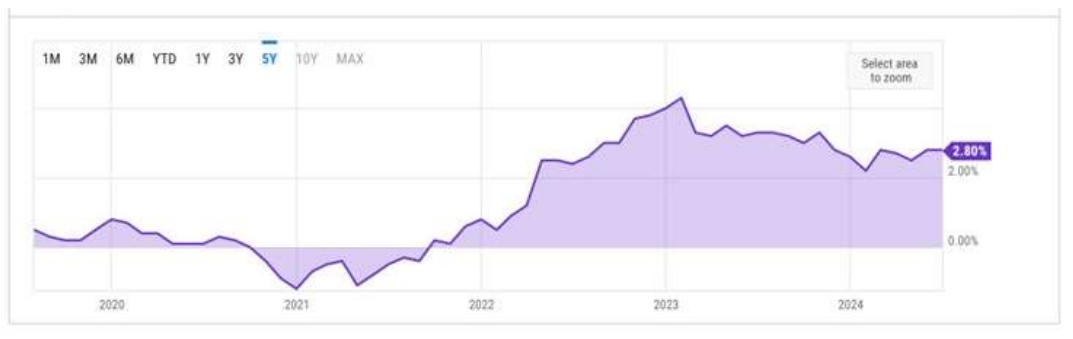
We trust this letter finds you in good health and spirits as we begin 2025. We are pleased to share an update on our recent insights, strategy, and performance.

Events

China Securities Regulatory Commission (CSRC) Higher Margin Requirements (July 2024): CSRC raised margin requirements for shorting China-listed stocks likely targeting momentum-driven, quant and high-frequency trading funds. This is expected to be short-term bullish for our Asia-centric portfolio. Following the announcement, HSI rallied 2.1% and HSI tech rallied 2.7%. We are monitoring this situation and will react accordingly.

Japan Central Bank (BOJ) rate hike (July 2024): The BOJ hiked rates by 15 bps, its second rate hike since March. The BOJ targets inflation to be below 2% annually. The move signals ongoing efforts to normalize rates and achieve inflation control.

Japan Inflation Rate (2.80% for June 2024)



Yen Carry Trade Unwinding (Aug 2024): A few days after the rate hike, the yen strengthened against the dollar, causing carry trade unwinding and a brief global market pullback. Based on our observations, Chinese and Hong Kong markets were less affected.

We remain aware that carry trade 'arbitrage,' seemingly riskless in normal market conditions, can significantly impact our portfolio if unwound during abnormal times. We avoid carry trades and use leverage sparingly and selectively.

Interim Reporting Season (Jul - Aug 2024):

Telecommunications Stock Profit Warning

In July 2024, one of our portfolio positions, a telecommunications stock, issued a profit warning, leading to a 30% drop in its share price which contributed to an approx. 1% loss to the portfolio in July.

The position makes up approx. 3% of the portfolio. We are reassessing our holdings following the company's interim earnings report in August, which highlighted key developments. Despite a decline in revenue from international messaging services, the company's mobile, internet, and enterprise solutions segments showed strong growth, with respective year-on-year increases of 11.6%, 4.5%, and 6.8%. While the interim dividend remained unchanged, we are factoring a 20-30% reduction in the final dividend based on the interim report and have adjusted our analysis accordingly.

Given this outlook, we continue to evaluate our position, considering the expected dividend yield of approximately 8%, after factoring in a potential 30% total dividend cut. We currently face a 10% mark-to-market loss on this position, inclusive of dividends received, and will address this further at our AGM in February.

Other Updates

In addition to this telecommunication stock, a Hong Kong-based property developer in our portfolio announced a 9.3% reduction in its interim dividend. However, the company repurchased around 49 million shares, totalling HK\$1.5 billion, which, if included with the dividend, would translate into an increase in returns to shareholders.

Overall, we are satisfied with the portfolio's interim performance, with most yield stocks either maintaining or increasing their dividends as compared to the prior year.

ECB & Fed Rate Cuts (Sept-Nov 2024): The European Central Bank (ECB) and the Federal Reserve both implemented rate cuts during the second half of 2024, with inflation data remaining subdued. The ECB's deposit rate fell to 3%, while the Fed reduced its key rate by a cumulative 1.25% to 4.25-4.50%.

China's Central Bank Unveils Stimulus (Oct 2024): China's Central Bank unveiled the most aggressive stimulus since the pandemic triggering a 4% rally in the HSI and a 12.75% weekly gain—the best since February 1998.

We believe this marks the beginning of a bull market in Hong Kong. We have positioned our portfolio to take advantage of the upside in valuations re-rating from the new bull market when it materializes.



Donald Trump Elected as US President (Nov 2024): Following the re-election of the Trump administration in late November, cryptocurrency assets and certain tech stocks surged significantly. However, the HSI and CSI 300 indices dropped by around 5% during the same month. We remain cautious and continue to avoid crypto assets until we understand how to value them.

Arkenomics Provident Fund's Asset Allocation

Our geographic allocation remains Asia-centric, with 90% in listed Asian stock exchanges, 5% in the US, and the remainder in Europe. The current portfolio yield stands close to 4.5%, and a more defensive approach could increase it to 6%.

Please refer to Appendix 1: Fund Portfolio Sheet for further information on the Portfolio composition.

Capping Subscriptions

If the market continues to trend upwards and we are unable to deploy additional capital at good odds, we will cap our subscriptions after accumulating a 5% to 10% cash float. As at end December, we reduced our leverage ratio to under 1% of total assets from a peak of 6%.

Arkenomics Provident Fund Performance in 2024 & Since Inception

Arkenomics Provident Fund Class A shares generated a net total return of approx. 23.6% in SGD terms in 2024 and approx. 41.1% in SGD terms for the 27-month period since inception Oct'22 to Dec'24. This translates to a compounded annual growth rate of 16.5% / year.

Arkenomics Provident Fund Class B shares generated a net total return of approx. 24.2% in SGD terms for 2024 and approx. 41.4% in SGD terms for the 27-month period since inception Oct'22 to Dec'24. This translates to a compounded annual growth rate of 16.6% / year.

While our performance has exceeded that of the Singapore and Hong Kong markets, we recognize it trails behind the MSCI ACWI index, which has a heavy US focus. Nevertheless, we remain confident in our portfolio's positioning.



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Outlook

We anticipate interest rates to remain elevated for the foreseeable future; as such, we remain focused on acquiring assets at the correct pricing and getting paid while we wait.

As previously mentioned, we will limit new subscriptions if we are unable to deploy additional funds beyond dividends received, due to unfavorable market pricing.

We look forward to discussing further at the AGM in February.

Sincerely,

Peter Lum Shuncaï
Portfolio Manager
Arkenomics Provident Fund

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