1H2024 shareholder letter

Dear shareholders,

For the first 6 months of 2024, our fund generated a net return of +16.1% for Class A shares and +11.1% for Class B shares (launched in March' 24). Since inception in February 2019, Class A shares has achieved a cumulative net return of 1648%.

Over the past six months, we have made several changes to our long-term portfolio (primarily additions), our traders have generated good trading gains, and we have also allocated additional capital to our quantitative investment strategy

Long term investing

We continually seek out conservatively financed businesses with robust competitive advantages, led by capable and fair-minded management teams. If we can acquire these investments at sensible, or even better, attractive prices, we are confident that we will generate good returns over time.

We made two new and meaningful investments in Q2 2024. Both companies are easy to understand and operate in industries that are largely resilient to rapid changes. Although they are still small, with market capitalizations of less than $100 million each, they each possess unique niches within their respective industries and have competitive advantages that give us confidence in their long-term earnings potential. Importantly, both businesses are run by capable management teams, with asset-light and capital expenditure-light business models that generate returns on equity of over 30% while maintaining minimal gearing. Assuming stable industry conditions, both companies should continue to experience good earnings growth in future years. Given their current low market shares, management teams should be able to reinvest incremental earnings at similar rates of return.

Importantly, we were able to invest almost 12% of our capital into both companies at a mid-single-digit earnings multiple. The low earnings multiple ascribed by market participants may indicate either undervaluation or low business quality - only time will tell. Since our initial purchase, both companies' share prices have moved up, but we remain hopeful about the possibility of adding more to both stocks at lower levels, perhaps after short-term speculators exit their positions. As we have not yet completed our buying, we will keep the details of the companies and their industries private for now.

We remain positive on the prospects of both TSMC and CNOOC, and have also added a small amount to both positions during the past quarter. Although they operate in cyclical industries, we believe both companies possess strong competitive advantages (TSMC boasts superior technological capabilities in advanced semiconductor chips, while CNOOC is one of the lowest-cost oil and gas producers) that should ensure a bright future for years to come.

Obviously, these highly attractive attributes are also widely recognized by other market participants, and the key question is whether their stocks have become overvalued. We don't think so, and past experiences have taught us that it's possible to pay a slight premium for a great business and still achieve good overall returns. The risk of overpaying for a great business is more a risk of time, rather than capital.
Naturally, we continue to search globally for 'Great businesses at cheap prices' (which may become available during temporary difficult periods); however, we are also happy to settle for 'Great at a reasonable price' or 'Good at a cheap price'.

There were no significant sales made during the quarter, except for some minor adjustments on the fringes. New investments were largely funded by a combination of new money inflows and gains from short-term trades. As always, some companies in the portfolio experienced strong share price performances over the past six months, while others did not. Most importantly, there were no major disappointments in their business performances.
We remain focused on evaluating the weights of fundamental values and not swayed by the votes dictated by short term psychology.

Regarding the current AI hype, we have no unique insights to offer beyond what is already widely reported and read by market participants. It seems common sense to us that when attempting something novel, unproven, and risky, an investor should prioritize caution over maximizing returns. The key to survival lies in maintaining a margin of safety. The riskier the underlying assets or business, the less leverage should be used to purchase them. Adopting conservative assumptions in risky endeavours may limit potential gains, but more importantly, it prevents severe capital losses.

As Buffett wisely says, 'To achieve extraordinary results in investing, it is not necessary to do extraordinary things. Don't get excited. Just keep doing the right things, repeatedly."

Short term active trading (Long/Short)

While our preference is always to make long-term investments in good companies selling for significantly less than their intrinsic value, the waiting process for such opportunities to arise (through research, analysis, management meetings, and waiting for attractive valuations) can be lengthy and unpredictable (as seen in late 2021 or early 2022, when we made minimal long-term stock commitments).

During these periods, as our cash levels build up (due to fund inflows, sales proceeds from fully valued investments, and trading gains), we actively seek to deploy our cash into short-term trading ideas. Our trades can range from small intraday trades to larger multi-month trades, but only when fundamentals are aligned, and the odds are heavily in our favour. All trades are subject to strict risk management criteria, including cut-loss percentage points and appropriate reductions in trading capital.

We find this dual approach effective in preventing us from compromising our long-term investment standards.

Two attractive trading opportunities arose during the quarter, and I will briefly summarize our traders' investment theses for each of them."

<u>ESR Group (1821 HK), market cap HKD$50bln</u>

ESR is the largest owner, developer, operator and manager of logistics and data centers in APAC, with $156b of AUM across Australia, Japan, Korea, China, SEA and India.

We have been following the company for a long time, maintaining the view that its long-term outlook remains bright despite experiencing cyclical weakness in China's warehouse rents. The share price has also been particularly weak due to broad market negative sentiment surrounding China's economy and real estate sector. The catalyst to enter as a trade presented itself when publicly announced rumors emerged about a consortium looking to privatize ESR. Although a privatization is by no means certain, the setup was deemed attractive enough for a trade, given the privatization speculation is supported by the company's depressed valuation, trading at 0.7x book and 10x EV/EBITDA – a significant discount to Sydney-listed peer Goodman Group (GMG AU), which trades at 25x EV/EBITDA despite similar exposure to the growing APAC logistics and data centers market. We bought stock on two occasions, in March and early May 2024, at an average price of HK$9.65. In our view, a privatization bid (if any) would likely be at or above HK$12-14/share (a 24-36% premium over our purchase price) to entice long-suffering minority shareholders into a deal.

On May 13th, the company announced receipt of a non-binding, conditional privatization proposal from a consortium controlled by Starwood Capital Group, Sixth Street Partners, and SSW Partners. Although no official offer price was indicated, shareholders quickly bid the share price up to $13, sensing an increased possibility of a deal. In the subsequent month, we assessed that, while a deal is still more likely than not given the close alignment of interests among parties involved, the timeline remains largely

uncertain. We decided to partially sell out the position at an average price of around $11.80, while continuing to monitor future material developments closely.

Singtel group (ST SP), market cap S$50bln

Asset-heavy and highly capital-intensive businesses are rarely attractive, unless reinvested earnings can be deployed at good rates of return long into the future. While these companies usually fall short of our long-term investment criteria, we have often found that they can be profitable trading opportunities when management embarks on initiatives such as disposing of non-core assets, selling inefficient business operations, increasing dividends, and share buybacks. These actions do not typically improve a company's long-term earnings power (a well-managed airline that allocates capital brilliantly within its industry is a good airline, but not a good business). However, by shrinking into better profitability, companies can achieve healthier balance sheets and free up resources for management to deploy into better opportunities or, at the very least, increase dividends and/or conduct share repurchases. When management's attitude shifts towards prioritizing profitability and minority shareholders' interests, existing or prospective shareholders' confidence tends to improve, bidding up the share price in anticipation of higher future returns.

More than a decade of poor returns on equity, resulting from operating in a highly competitive and saturated local telco industry where competition is largely based on price, and the need to periodically invest in costly new digital infrastructure while adhering to strict regulatory requirements, has led to poor share price performance for Singtel. This has long frustrated minority shareholders. Well-intentioned managements have repeatedly sought to redeploy excess earnings into overseas businesses and investments (such as Bharti Airtel, Optus Australia, Telkomsel, AIS, Globe, and Intouch). While it's possible that these investments may still prove fruitful in the future, we have often wondered whether increasing the dividend payout ratio and conducting aggressive share repurchases would be a smarter choice. This is partly due to our strong preference for investing in companies with simple corporate structures run by focused managements.

The first sign of possible change emerged in mid-2021 when management pledged to enhance total shareholder returns by unlocking the value of its quality infrastructure assets[1]. Over the next 2.5 years, management delivered on its promises, launching initiatives to capture cost savings, streamline its asset portfolio, dispose of loss-making divisions, and monetize non-core assets. These efforts released over $7 billion in capital (with an additional $4 billion in the pipeline) and significantly reduced the company's net debt-to-equity ratio from 49% in 2020 to 29% in March 2024. The company also increased its dividend payout ratio to 70-90% of net profit (from 60-80% previously). In May 2024, the company announced additional dividends of 3-5 cents per share and a renewed focus on data centers' expansion.

[1] https://www.singtel.com/about-us/media-centre/news-releases/singtel-sets-new-strategic-direction-to-capture-growth-and-unlock-value

Shortly thereafter, we purchased stock at around $2.59 per share, effectively earning a ~6% dividend yield while awaiting better times ahead led by higher profitability and payout. The stock price has since performed well, reaching a high of $3 per share in early July.

Concluding words

Since opening to external investors in 2023, we have attracted a steady stream of investors who have placed their trust in us. We are deeply grateful for the trust and while we cannot guarantee constant outperformance, we promise to manage your money with the same care and prudence as we would our own. Our approach always prioritizes capital preservation first, followed by capital growth.

We aim to double our NAV/share value every 5 years, averaging ~15% p.a. To achieve this, we seek to invest in high-quality companies that can grow their earnings power at a strong rate over time. The longer an investor holds onto their shares in the fund, the more their investment results will depend on the underlying earnings power of the companies we invest in, and the less it will matter whether their initial starting NAV/share point is at a slight premium or discount to the then underlying companies' intrinsic values.

That's one key reason we always emphasize the importance of accepting investors who share our investment philosophies, attitudes, and have a common long-term investment horizon. We do not wish to disappoint anyone, especially investors who have entrusted us with their hard-earned money. We have also discouraged potential investors who are solely attracted to our strong returns from the initial years (2019-2021), pointing out that those returns were largely due to factors such as a low asset base and extraordinary circumstances during the Covid-19 pandemic.

If you buy for non-value reasons, you will sell for non-value reasons. Rational and investment-oriented shareholders will always serve us better in the long run. To achieve this, we should focus on long-term business prospects rather than short-term market prospects.

Tim, Avrian, and I thoroughly enjoy our work, and our five younger colleagues share the same enthusiasm. They think and act like owners, demonstrating integrity and ability. Management's role is to maintain a high-performance culture with minimal bureaucracy, eliminating unnecessary reporting and paperwork.

We remind ourselves daily to stay focused and grounded. We look forward to creating long-term value for you.

Thank you for reading.

Greg,
On behalf of the AGT team

Inspiring story on the importance of having courage and seizing opportunities

“The head of the investment bank in New York where I worked as a young man was Nicholas F. Brady, who had an extraordinary career in investment banking and had served as a U.S. senator from New Jersey as well. I was the most junior of employees, but I wanted to introduce myself and tell him about my own aspirations. But approaching him was daunting. Maybe he would decline to meet with me. Maybe he would think I was not committed to the firm if I told him I was interested in public service. I finally summoned the courage to present myself at his office. I told him that I grew up in Washington, had been a federal law clerk and a congressional staffer, and wanted to do public service along the way. I said that if you need someone to staff you on anything you do in Washington, I'm your guy. He said something along the lines of, "Great, thanks." I then crept back down the stairs to my broom closet of an office wondering whether that was going to matter. A few months later, I got a call from his secretary. I can still hear her gravelly voice. “Can you come up and see Mr. Brady?" When I got there, he said, "I need you to help me out with this thing." This thing was defending an oil company from a hostile takeover attempt by a colourful corporate raider of that era named T. Boone Pickens. I ended up spending months going back and forth from New York to Washington with Nick. A few years later, Nick Brady became the Treasury Secretary. Nick asked me to join him at Treasury, which opened the door for me to higher levels of public service. The point is this: if I had not forced myself to get up from my desk, taken the stairs up to the 15th floor, and presented myself to his office that day, the rest of my life would have been very different, and I would not be standing here today. Mustering that little bit of initiative changed my life. A little initiative can make all the difference in anyone's career”

- ***Federal Reserve Chair, Jerome Powell***