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QUARTERLY REPORT – DECEMBER 2020

The three pillars of Chinese-style compounding

China has achieved in decades what in the west took centuries. But there's still a long way to go.

By Sam Lecornu, co-founder and CEO

For most of the past two millennia, human existence, characterised by poor health, hard labour and early death, barely changed. Then, from around 1760, it changed beyond all recognition.

Before the industrial revolution, economic output - largely agricultural - was a zero-sum game predicated on land ownership. With the yield on farmland stable, expanding physical territory was the only way to increase output because economies of scale barely existed.

The industrial revolution changed that, beginning in 1733 when John Kay patented the flying shuttle, allowing the weaving of wider fabrics and automatic looms. The productivity of the emerging textile industry doubled.

Three decades later, the cotton gin improved the process of removing cotton from seed. With advances in steam power, textile production became mechanised and labour was needed to keep the machines humming.

Lured by the prospect of better lives, people traded a feudal existence on the land for higher incomes in noisy, dangerous factories in the city. As economies of scale increased, prices dropped, and more goods fell within the reach of more people.

In contemporary terms, we call this 'increasing TAM' - Total Addressable Market. The wealth that this created allowed for the building of roads, railways and schools. In time, malnutrition began to fall and life expectancy rose.

About Stonehorn Global Partners

Stonehorn Global Partners believes an alignment of interest with their clients is what builds sustainable partnerships.

- Founding members have partnered together in Asia for over 12 years.
- Strong track record investing in Asian equities.
- Extensive network and relationships with Asian companies, government bodies and industry contacts.
- A high conviction, long-only, all-caps portfolio of Asian ex-Japan listed companies.
- Actively managed, unconstrained and benchmark unaware.



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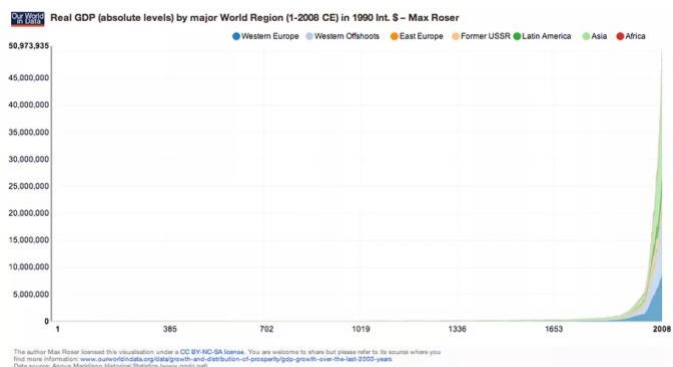
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Humanity, in transforming its material conditions, had transformed itself. In around a couple of centuries of the arrival of the cotton gin, we had put a man on the moon.

As the chart below shows, the effects on global GDP since the agricultural era to the present have been astonishing. In economic terms, nothing much happened for almost two millennia, and then everything happened at once.

Chart: Real GDP by region (1AD – 2008)



Historians, economists and anthropologists still debate the causes of the industrial revolution. Why western Europe, and why Manchester rather than Madrid or Marseille? And what roles did politics, economics, religion and culture play?

Capitalism complicated

There are theories of course, but none conclusively answer these questions. Capitalism, it turns out, is complicated.

In China, the process of 250 years of western industrialisation, from early mechanisation to a knowledge-driven economy, has been compressed into 40 short years. This might be more easily explained if China had simply copied the paths of nearby Japan and South Korea.

But it didn't. With a unique political system, geography and cultural heritage, how could it? If capitalism is complicated, Chinese capitalism is more so.

About the Stonehorn Global Partners Investment Team



Sam Lecornu

Co-Founder & Chief Executive (CEO)

20 years industry and funds management experience

Sam was born in Australia and has lived in Asia for 13 years.

Sam holds a Bachelor of International Business, a Bachelor of Commerce and a Graduate Diploma in Applied Finance and Investments. Recognized as one of Asia's 'Best-of-the-Best' Chief Investment Officers (CIO), Sam received CIO of the Year-HK Equity by Asia Asset Management in 2014 & 2015.

Sam is known for his very strong track record. He attests the performance from the mentoring he received early in his career.

Sam and the team believe in responsible investing and have a key focus on Environmental, Social, and Governance (ESG) aspects.



Duke Lo, CFA, MBA.

Co-Founder & Portfolio Manager

16 years industry and funds management experience

Duke was born in Taiwan and received his education in Australia and Hong Kong. He has lived in Asia most of his life.

Duke holds an MBA from HK University of Science of Technology, a Master of Commerce (University of NSW), a Bachelor of Engineering (1st Class Honors) and is a Chartered Financial Analyst (CFA).

Duke is a realist. He is widely recognised for his ability to cross-check and 'verify' information. He is an expert in 'scuttlebutt' analysis and thinking laterally - checking information across customers, competitors and suppliers.



John Lam, CFA.

Co-Founder & Senior Analyst

18 years industry and funds management experience

John was born in Hong Kong and received his education in Australia and has lived in Asia most of his life.

John holds a Bachelor of Engineering (Honors 1st Class), Bachelor of Science and is a Chartered Financial Analyst (CFA).

Prior to his asset management career, John was an R&D engineer in Telecom, Artificial Intelligence and Geographical Information Systems based in Singapore and Hong Kong.

John approaches investing as might a professor. With a high level of intellect (high IQ) and pedantic research, he tests investment opportunities with enormous detail and consideration.



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Again, academic theories purport to explain it. Some emphasise the institutional view¹, focusing, for example, on market reforms, the emergence of a private sector, special economic zones and WTO membership. Then there is the [development strategy view](#), the [Beijing Consensus](#) model and various cultural perspectives.

This is fascinating territory for intellectuals but fallow ground for investors. Unless you have an academic mind and a tolerance for jargon, my advice is to disregard it. Being mystified as to the reasons for China's transformation should not inhibit one's ability to potentially profit from it.

I'd like to propose a different framework for thinking about China and the Asian region, one not explicit in previous quarterlies but running through them like water. The aim is to tie together some of the themes we've addressed over the previous year, built around the notion of compounding in the broadest possible sense.

The pandemic has delivered a striking example of compounding in biology but in finance, it gets its biggest airing. This calendar year, we have delivered NET returns of 38% compared to our benchmark figure of 25%. If we can achieve, say, 8% a year over each of the next 20 years, a US\$500,000 investment made on 1 January 2020 would be worth \$2,330,479 on 1 January 2040.

Returns Net of Fees - Calendar 2020 return

Stonehorn Asia Equity Fund (Class I USD)	38.2%
Benchmark Index (MSCI AC Asia Ex-Japan Net Total Return)	25.0%

Compounding principle

Stonehorn is built on the principle of compounding, dedicated to investing in stocks we think will grow at an attractive rate for decades to come. Our focus is on preserving and growing capital, letting compounding do its work over many decades.

Except in their capacity to create mispricings, this approach means we need not pay too much attention to events like pandemics, trade wars and geopolitical tensions. As long as Asia continues to deliver high-quality investment opportunities, short term issues need not lead us astray.

The same goes for official Chinese statistics like GDP growth, about which many westerners are circumspect.

After 13 years traipsing around the region, we understand better than most the value of scepticism. China remains an emerging economy and its leap over the middle-income trap - a jump that newly industrialised countries like Brazil and South Africa have yet to take - isn't assured.

This is where we have an advantage. If you're sitting in an office in Sydney, Zurich or New York, it makes perfect sense to give due weight to China's quarterly GDP or PMI stats, especially if you can't jump on a plane. Our options are more extensive. We get to see Asia's economic activity on our way into work, on the factory floor in Shenzhen, the R&D lab in Guangzhou and the noodle bar around the corner where we sometimes go for lunch.

This is a trite way of saying that it is better to understand the forces driving China's economic transformation than to rely on a series of arbitrary figures that purport to describe the velocity of it. In the spirit of John Maynard Keynes' famous quote, we would rather be roughly right than precisely wrong.

Compounding factor #1: Innovation

We think we are roughly right about the three compounding forces driving China's economic transformation, with innovation front and centre.

In our September quarterly, John Lam explained why we believe China is "likely to continue to apply new innovations to commercial ends at a pace at least as fast as the country has achieved over the last few decades." The reason is simple; most real-world innovation is a result of incremental improvements rather than paradigm shifts. China excels in this field, which is how it has come to dominate industries like battery technology, telecommunications and artificial intelligence.

Such improvements have a compounding effect. We wrote about BYD's new blade battery in our June quarterly. Progress in the energy density of lithium iron phosphate technology is lowering production costs, making safer products and delivering longer range, in this case upwards of 600km per charge. The result should be expanded TAM for electric batteries. Such are the fruits of BYD's investment in research and development over 25 years. It is but one example among thousands across the region.

Here, there are echoes of England's mill towns and the prosperity delivered through innovation and increasing

¹ The political economy causes of China's economic success, Yang Yeo



economies of scale. With a huge and growing domestic market, this effect is more pronounced in China than elsewhere and is creating some truly wonderful businesses. BYD is a case in point.

There are also differences. In a knowledge economy, if I exchange an idea with you, you get my idea, I get yours and - most importantly - we both get to keep our own, allowing more ideas to combine across a society. This is why Matt Ridley, author of [The Rational Optimist](#), believes we should let “ideas have sex”.

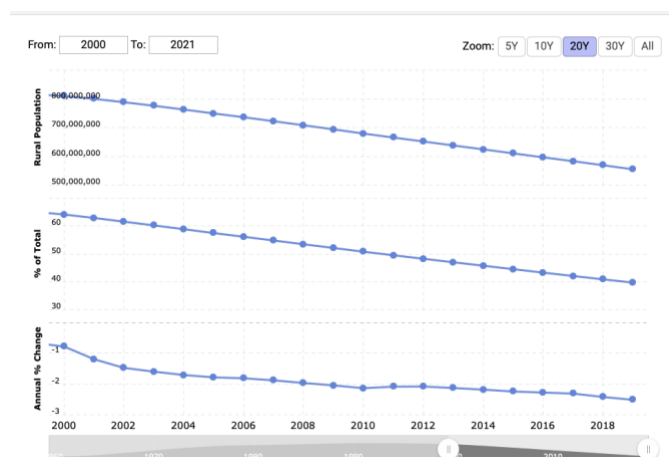
This is different from the mechanistic forms of early industrialisation and also the basis for new forms of growth. The digitisation of everything has led to many sectors benefiting from near-zero marginal costs but has also allowed for a more collaborative economy where ideas are easily exchanged. This point is central to understanding how China will secure future economic growth.

Compounding factor #2: Population density

Naturally, old factors still apply. China’s vast population and growing middle class as an engine of growth are well understood, the impact of population density less so.

China’s industrialisation mirrors that of the first industrial revolution in its urbanising form. Already, six of the world’s 25 biggest cities are in China. With about 40% of China’s population, equivalent to 550 million people, still living in rural areas, that figure is likely to increase.

Chart: China Rural Population: 1960-2021



Source: World Bank, via [Macrotrends](#)

Rural migration to the cities is occurring at the rate of between 2% and 3% each year, increasing city densities and driving economic growth.

Cities aren’t just places to get a better education, start a business and enjoy a higher standard of living. Their serendipitous nature and capacity to connect like-minded people have a compounding-like effect evident in the statistics of the world’s great urban areas. London accounts for almost half the UK’s GDP and, in the United States, the area from Boston to Washington plus greater Los Angeles generates about one-third of America’s GDP.

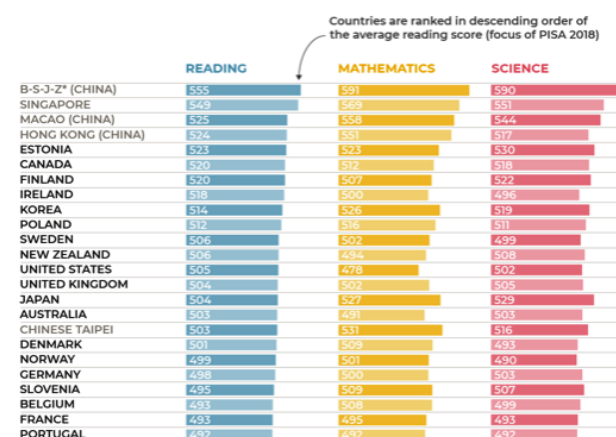
With 10-15 million people moving from rural areas each year, China’s cities will benefit from higher levels of density. Companies like Meituan, discussed in our June quarterly, are set to benefit. This is a powerful and established tailwind for many such businesses.

Compounding factor #3: Education

The circulation of ideas and the compounding of innovation in the knowledge economy can be accelerated through education, an area in which China is beginning to excel.

PISA 2018 results

Snapshot of students’ performance in reading, mathematics and science



Source: [OECD 2018 PISA study](#)

Every three years, the OECD tests the skills and knowledge of 15-year old students from around the world in science, reading and mathematics. Known as the PISA survey, four of the top five spots are occupied by Asian countries, with the Chinese cities of Beijing, Shanghai, and the provinces of Jiangsu and Zhejiang (collectively used as a proxy for developed China) coming top in all three subjects.

This year, China’s Ministry of Education expects a record [9 million university graduates](#) to join the workforce. Many are entering the scientific and engineering fields. With the appetite for further education among Chinese families only growing - a trend that drove our investment in China Yuhua Education - we expect more such opportunities.



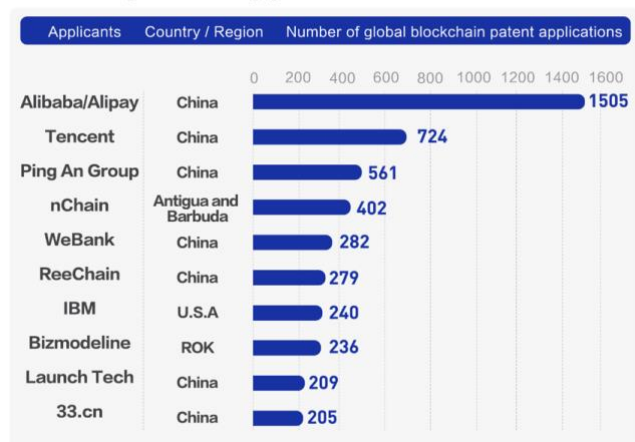
This is the recipe for China's future growth - the sheer number of people; the places where they live; how much they know; how much they share; and how much their incomes are growing. These factors - innovation, increasing population density and education, leading to income growth - are central to China's development and its ability to deliver compounding investment returns.

Secondary factors

Of course, there are secondary factors. Infrastructure investment is designed to squeeze every last drop of value from the above factors, and the vibrancy and energy of Asia's growing entrepreneurial class is a point often lost on western investors. But it is the overall quality of China's industrialisation, a result of these three factors, on which we are focused, not a GDP number that obscures it.

In our September quarterly, we presented a chart from the National Science Foundation showing how China is catching up to the U.S. in terms of science-oriented research and development. This investment is leading to many new commercial applications.

Number of global blockchain patent applications in 2019



data source: IncoPat and IPRdaily

In 2015, for example, China accounted for 18% of the digital communications applications to the [European Patent Office](#). By 2019, that figure had increased to 26%, the same proportion as the US. And in critical new technologies like blockchain, China already plays a [leading role](#).

This is how China's investments in education, population migration and innovation are playing out, an example of what Charlie Munger might term a [lollapalooza effect](#), where a combination of factors generate grand-scale compounding.

"20 years from now, the metric I will focus on is not China's GDP growth, but the compounding nature of returns delivered for our clients"

In an investment sense, this is what we are seeking. When I look back 20 years from now, the metric I will focus on is not China's GDP growth but the compounding nature of returns delivered for our clients.

Great transformation

This will be a product of three factors: the constant refinement of our investment process, the accumulation of experience to add to our combined four decades of investing in the region, and our location in the midst of one of the world's great transformations, perhaps the greatest since the original industrial revolution.

It is exciting to be a part of this transformation but also to be able to invest and profit from it, guiding our clients through an epochal economic shift, no matter what the official figures say.



A year to remember, and to forget

Despite an astonishing year, our focus remains on stocks that can compound returns over decades.

By John Lam, co-founder and senior analyst

Instead of the usual deep dive into a particular topic, this quarter I'm going to make a few general observations and cover some notable issues that may help western investors understand what's going on in the region and how we're approaching it.

First, a confession. Last year offered good evidence to support Peter Lynch's dictum that if you spend 13 minutes on economics each year, you've just wasted 10 minutes. Last year, we wasted a good deal more than that. Any attempt to make a useful near-term prediction during a global pandemic was immediately overwhelmed by events.

In that regard, the last quarter followed a pattern similar to those that preceded it, with a twist. Shortly after the U.S. election, the clinical trials of a U.S. vaccine were released, China announced new fintech regulations, thwarting Ant's float, a draft antitrust policy was circulated for comment and geopolitical tensions, focused on China, Taiwan, Hong Kong and Australia, increased.

Confusing environment

It was as if all stakeholders had decided to postpone activities until the earliest possible moment after the U.S. election. As a consequence, in the first half of November, there was a lot of volatility in the market and the fund.

It is easy to become gloomy in this confusing environment. The recent intervention of antitrust regulators in the finance sector, for example, is the kind of rapid, sweeping action that understandably spooks many investors because it is so different to what typically occurs in the west.

And yet to overlay this mental model on China is to misunderstand not just the country's approach to regulation but also its recent history.

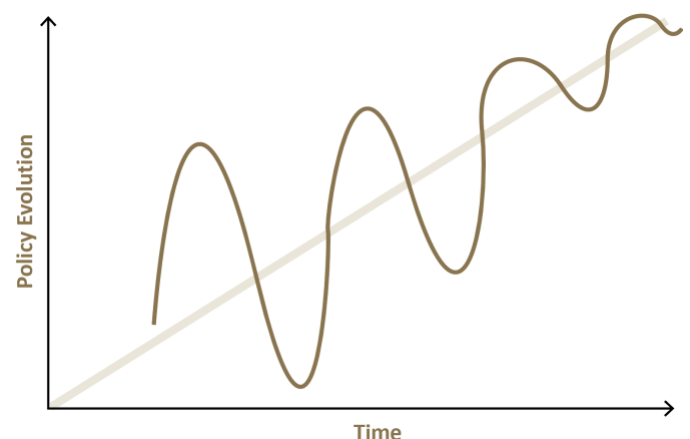
There continues to be no private ownership of Chinese land and citizens have only been able to start businesses since the reforms of the late 1970s. In a very tangible sense, China is still feeling its way.

This is a country too big and diverse for one-size-fits-all rules. As a result, the government typically starts with regulations that permit a broad interpretation. Over time, as policymakers figure out where the holes are, usually through businesses trying to exploit them, regulations become more specific.

This process is well understood by the Chinese. The general policy direction doesn't change that often but new implementation details can make investors sweat, especially those unfamiliar with the approach.

In electric vehicle policy, for example, initial subsidies were very generous. Due to the abuse that subsequently occurred, they were then drastically tightened. This eliminated the pretenders but also punished legitimate players, causing regulators to realise they cut too deeply. Rules were eased and other measures, including charging, quotas and emission targets, introduced to help the industry develop.

The intervention of regulators in the float of Ant Financial, included as our stock focus in the September quarterly, can be seen in a similar light. This model of policy evolution explains why such interventions should be expected. Taking a long term view, the approach makes more sense, especially when compared with fretting over the details embedded in one policy iteration over another.



Out in the real world, there was some good news. There were 15 signatories to The Regional Comprehensive Economic Partnership ([RCEP](#)), including most South East and East Asian nations, plus Australia and New Zealand. Together, they account for 30% of the world's population. Had India not pulled out it would have been far more. This is not a silver bullet for trade but is an important step. In terms of population, the RCEP trading bloc is bigger than the E.U. and the former NAFTA countries.

There is also likely to be a lot of capital coming China's way. The country is poised to join the World Government Bond Index and US banks, including Goldman Sachs, JPMorgan Chase and Morgan Stanley, have been promoting the sale of Chinese government bonds.

In equity markets there was another example of policy evolution as per the aforementioned model when QFII and RQFII criteria were relaxed, further opening up capital markets to foreigners and delivering much-needed U.S. currency to China's domestic market.

Pushes and pulls

As well as the pulls, there are the pushes. The U.S. has increased restrictions on capital flows into China by forcing foreign companies non-compliant with PCAOB listing rules to delist from U.S. exchanges. Many are seeking dual-listings in Hong Kong. This is something we anticipated and, as explained in the second quarter report of 2020, one of the reasons for our purchase of HKEX.

The U.S. has also sanctioned a list of Chinese companies with military ties, removing them from indices altogether. Some companies are attracted to the Hong Kong exchange; others are being forced to consider it.

The Holding Foreign Companies Accountable Act has also been signed into U.S. law, placing a deadline for U.S.-listed Chinese companies to be compliant with audit requirements.

Recently, SMIC (Semiconductor Manufacturing International Corporation), the largest Chinese semiconductor foundry, was placed on the blacklist. This potentially handicaps China's near-term ambitions in this area of technology. China National Offshore Oil Corporation, the largest producer of offshore crude oil is also sensitively placed. China is still dependent on imports and foreign know-how in areas like deepwater drilling.

China's response to these events is to accelerate the opening up of capital markets, increase the pace of development in the domestic semiconductor sector, and quicken the adoption of renewables to lower external fossil fuel dependencies.

Latest developments

The latest developments in the financial sector offer an example of the 'opening up' approach, with the country reshuffling technology companies' representation in indices like the CSI 300 Index and launching new benchmarks like the Hang Seng TECH Index. The long-contentious VIE (variable interest entity) structure is also getting attention with the Government allowing Segway-Ninebot's Chinese depositary receipts (CDRs) to list on Shanghai's STAR market.

While policy evolution proceeds and geopolitical tensions mount, China's government seems intent on exerting a stabilising influence, minimising the unknowns for investors and making strategic industries more attractive to capital. But there is also a clear message being communicated. The fines levied on Tencent and Alibaba for violations of antitrust regulations are a reminder that the government wants to retain the ability to control such giants rather than dismantle them.

As for the U.S., overall policy direction towards China seems unlikely to change much under a new administration, although it may not be as clear-cut under Biden. How Huawei, which recently sold its Honor smartphone brand to a consortium 98% owned by a company wholly owned by SASAC (State-owned Assets Supervision and Administration Commission), is treated by U.S. authorities could be revealing in this regard.

In the meantime, Hong Kong Chief Executive Carrie Lam will continue to receive her salary in cash. Having been denied basic banking services due to US sanctions, this is a street-level example of the extent to which China is willing to lose face to avoid handing the U.S. an excuse to sanction non-compliant Hong Kong banks.

Missing the nuance

A less well-known anecdote shows how the headlines miss the nuance. After almost 15 years, the US unconditionally lifted sanctions on Macau's Banco Delta Asia. Perhaps there is still some breathing room for rapprochement. And even though both territories fall under the One Country, Two Systems principle, maybe Macau will be treated differently from Hong Kong. It remains to be seen how things will play out but China has shown pragmatism when needed.

The ebb and flow of rhetoric and policy between two great powers, one established, the other emerging, should not detract from the big picture enunciated by Sam this quarter. China still has over 600 million people with a monthly income of barely 1,000 yuan (US\$140). Its economic growth over the past few decades has been impressive, yet it would be a mistake to measure China by the same yardstick as that used for developed western nations.

There are plenty of measures of national strength, including military capability, that correlate with absolute GDP. There are many more where the per capita measure paints a more reliable picture of the economic well-being of a nation.

Then there is the intent. This year, at home and abroad, whilst China has displayed potential and deficiencies in its capabilities, there has been no shortage of political will. The Japanese experience demonstrates the importance of this



through its absence. When a golden era came to an end with the bursting of the asset price bubble in early 1992, the country failed to tackle several tough domestic issues. The result was decades of stagnant growth.

China appears intent on avoiding this mistake, allowing bond defaults from SOEs, capping property developer expansion with so-called three redlines, reigning in peer-to-peer lending and shadow banking, enacting differentiated regulatory requirements for systemically important domestic banks and establishing fintech regulations. Whilst the rest of the world expands its balance sheet, China is attempting to deleverage.

We would like to see more development lending to bolster the country's market-driven economy and would prefer the country to assume more responsibility on the global stage. But we can't have everything. Instead, we recall the domestic turbulence caused by China's anti-graft campaign, which got underway in 2013. As the years have passed, the result has become clearer - a more stable environment for business.

Amidst the market chaos of March last year, we commented that whilst stocks had generally plummeted, not everything was cheap. Given the extent of the rally since then, we now face the opposite scenario; not everything is expensive. Baidu, for example, has doubled since inception but remains undervalued.

Value harder to find

There is no doubt though that value is now harder to come by. A sector rally usually begins with a sensible rationale but proceeds beyond a point where excitement overpowers logic. At the beginning of the pandemic, who among us imagined people would be buying new electric vehicles (EVs)? And yet, thanks to favourable government policies and a desire to avoid public transport, EV sales, particularly in Europe, have been surging.

"Stocks trade partly like a bond and partly like a Rembrandt."

Against this backdrop, a portion of Tesla's seven-fold rise in share price appears justifiable. What is being ignored by Tesla-wannabes and their investors is that the margin for error among automotive start-ups is razor-thin. With just a handful of models, long product cycles, high capital requirements and fixed costs, few survive. Tesla's valuation - now greater than the nine largest automakers combined - is less of a problem than using it to infer that other EV start-ups should trade at similar multiples.

Stocks trade partly like a bond and partly like a Rembrandt. The future is not deterministic and there is no such thing as

God-like foresight acting as a hypothetical reference point for relative over or under-valuation comparisons.

The key to a good investment track record is to focus on what is knowable and be realistic about what is not, taking advantage of favourable market pricing when it appears to compensate for those unknowns. This, rather than predicting market peaks after a good run, is the Stonehorn way.

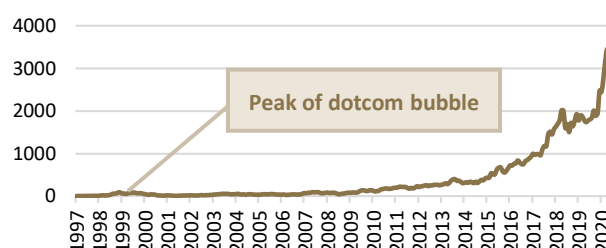
The charts below, the first showing Amazon's stock price since 1997 and second Cisco's, point to the sense in such an approach.

Had you purchased Amazon at the peak of the dotcom bubble in early 2000, your gains over the ensuing 20 years would be in the region of 3,000%. Given the fear at the time, not many would have held on – humans aren't programmed to intuit exponential growth. On the other hand, had you bought Cisco Systems at the same time, you'd still be underwater.

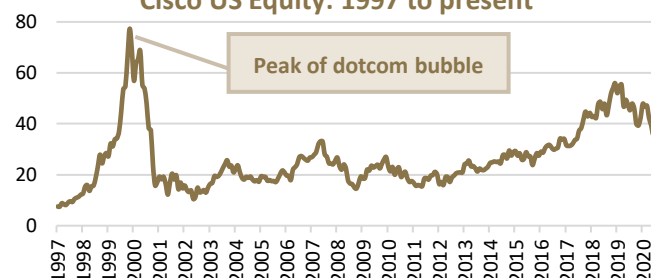
Whilst others spend their time predicting market peaks, we'd rather invest our allocation of this precious resource identifying whether a company is an Amazon or a Cisco, focusing on those that can compound returns over decades.

With multiple Covid-19 vaccines ready for commercialisation, we look forward to further recovery of economic activities in 2021, acknowledging that some businesses will take longer than expected to recover and others may never be the same. But we should all be grateful to get back to some semblance of life as it was before the pandemic.

Amazon US Equity: 1997 to present



Cisco US Equity: 1997 to present



Portfolio Commentary

When you own stocks like Northern Pikes and Super Jumbos there's no need to swap and change.

By Duke Lo, co-founder and portfolio manager

There's a page in our presentation that gets more attention than any other. The phrases 'Northern Pike', 'Super Jumbo', 'Top Drawer' and 'Charlie and Warren' (see page 10) might not make immediate sense but they somehow connect with clients, describing how we look at compounding opportunities at the company level.

Allow me to elaborate. In the September 2019 quarterly, we explained the Northern Pike effect in relation to Kakao, "South Korea's Tencent". The term was coined by Charlie Munger at the 2010 Wesco annual meeting. "Throw a few [northern pikes] into a lake dominated by trout and soon enough", said Charlie, "there will be a lot less trout and some very big pikes".

Northern pikes companies are innovative, disruptive companies that eradicate competition. In Asia, we're fortunate to have lots of them, including the aforementioned Kakao, up 193% since our initial purchase, Alibaba Health and Dada Nexus, which have compounded at 7% p.a. and 42% p.a. respectively since our first purchases.

GDP-plus compounders

Super jumbos companies don't colonise their operating environments in quite the same way but do have a long runway ahead of them. They too are effective at compounding returns. Greg Perry, an esteemed Australian investor, calls them GDP-plus companies because their tailwinds mean they can grow earnings faster than the general economy. In high growth Asia, with demographics on our side, the GDP-plus effect is everywhere, especially in portfolio holdings like Samsung, JD.com and China Yuhua Education.

Top drawer stocks are different and constitute less of a focus for our portfolio. These dominant, high-quality businesses tend to be well-established and simple to understand - companies you can put in the top drawer for the grandchildren. Portfolio holdings TSMC and Alibaba are good examples.

Finally, to Charlies and Warrens companies. These are Berkshire Hathaway-style Asian companies with high castles, wide economic moats, unique competitive advantages and good earnings visibility. These tend to be monopoly or duopoly-style businesses like portfolio holdings Baidu and BYD, which have compounded at 50% p.a. and 153% p.a. respectively since our first purchase.

Using these four categories of stocks, since inception on 11 June 2019, the Stonehorn portfolio has NET returned 48.5% to 31 December 2020 compared to the benchmark return of 37.5%. Having only opened our doors in June 2019, it's early days but not a bad start. What counts will be revealed in the decades ahead, when the effects of purchasing compounding stocks will by then be self-evident.

In the most recent quarter, south-east Asian stocks performed particularly strongly, along with the financial, real estate, materials and energy sectors. The overall benchmark returned a remarkable 19%.

Beta rally

Despite this, we kept pace with the beta rally. The fund outperformed by 2%, assisted by the quarterly performances of BYD, Baidu and Xinyi Solar, up another 61%, 74% and 65% respectively. Strange times indeed.

The information technology and internet sectors, as our largest overweights, drove most of the performance this quarter but, with valuations rising significantly, we took profits in BYD and Xinyi Solar.

The IT sector deserves special mention. Rising 34% in the quarter, it is now our number one top active sector. The supply chain is adjusting to changes brought about by the Huawei ban and, as John noted in his overview of the semiconductor sector in the September quarter, its importance to China and Asia more generally adds to its favourability. One of our biggest portfolio exposures now is TSMC while SK Hynix is our number one active weighting. Being optimistic about the 5G rollout and the Asian beneficiaries of the tech war, there's much to like in this area of the market as well.



In addition to the IT sector, Internet, communication services and the consumer sectors remain our favourite areas in which to fish. Unlike, say, cyclical, all have powerful tailwinds and will produce many impressive stocks capable of compounding over time. The portfolio is already full of these three categories but we're expecting to find more in the years to come.

Detractors

The detractors for the quarter were limited. This continues to highlight our strength in capital preservation and downside protection.

One name that has begun to disappoint is Largan, a maker of lenses for high-end smartphones. It was down 5% over the quarter. With phone brands cutting specs, customers less willing to upgrade and Huawei exiting the market, Largan also lost sales. These may well be short term issues but earnings will suffer. Largan remains in the portfolio but we'll be closely monitoring the upcoming product rollout to assess whether the slowdown is structural or temporary.

SunArt, one of the largest supermarket chains in China, is another disappointment, down 10% for the quarter. Whilst offline sales are declining, its profitable online business is growing rapidly, offsetting the weakness.

We like the grocery delivery business, believe an offline-to-online model can do well and that SunArt, the only profitable business model in grocery delivery, is the company most likely to make a go of it. With Alibaba recently buying out the major shareholder, along with Hema, SunArt is now a key Alibaba position in the new digital retail space.

Risk appetite rising

Aside from the continued rebound in stock prices since March, not much has surprised us this quarter. Risk appetite is rising, resulting in some investors selling into more defensive sectors. Despite this, our portfolio churn remains low and the stocks within it are little changed.

That's as it should be. When you own Northern Pikes, Super Jumbos, Charlies and Warrens and Top Drawer stocks, there's little need to swap and change, except in recognising a mistake and trying to correct it. Otherwise, it's all about letting the businesses we own make the most of their competitive advantages, letting time and compounding do its work.

Stonehorn Global Partners looks for compounding opportunities



Northern Pikes

"Introduce a northern pike into a pond and sooner or later you have a pond of only northern pikes."

Disruptors of the market
Takedown the competition
Constantly adapting to the environment
New industries and new technologies
Innovation



Super Jumbos

"Companies with a very long runway ahead of it."

Clear long-term trend ahead
Strong tailwinds such as regulatory support, demographic growth
High growth industries, the industry is growing GDP-plus



Top Drawers

"Put it in your top drawer and leave it there for the grandchildren."

Blue chip and highest quality
Dominant market share
World-class stewardship
Simple and easy to understand



Charlies and Warrens

"Berkshire Hathaway styled companies in Asia."

High castles and wide economic moats
Unique comparative advantage
Clear earnings visibility
Monopoly or duopoly businesses
Strong comparative advantages

Stonehorn Portfolio Overview

Class I USD Net Performance

	Stonehorn Asia Equity Fund [^]	Relative to MSCI AxJ [†]
1 month	8.18%	1.39%
3 months	20.46%	1.86%
6 months	38.72%	7.47%
YTD	38.22%	13.20%
1 year	38.22%	13.20%
Since Inception *	48.47%	11.01%
Since inception (CAGR)	28.86%	6.21%

* Inception date 11 Jun 2019

† Benchmark MSCI AC Daily Total Return Net Asia Ex Japan USD Index

[^] Includes (net) 70bps of costs and impact on inception date (one-off)

Minimum investment is USD 1 million – For Professional Investors (PI) only

Class Super-II USD Net Performance

	Stonehorn Asia Equity Fund	Relative to MSCI AxJ [†]
1 month	8.08%	1.28%
3 months	20.32%	1.71%
6 months	38.28%	7.03%
Since Inception *	57.98%	14.49%

* Inception date 17 Apr 2020

† Benchmark MSCI AC Daily Total Return Net Asia Ex Japan USD Index

Minimum Investment is USD 150 million – For large institutional clients only

Top 5 Active Positions

	Weight
SK HYNIX INC	4.5%
SAMSUNG SDI CO LTD	3.5%
BAIDU INC - SPON ADR	3.3%
SEA LTD-ADR	2.9%
KAKAO CORP	2.9%

Sector Allocation

	Weight
Information Technology	35.3%
Communication Services	19.3%
Consumer Discretionary	19.0%
Financials	9.7%
Consumer Staples	6.7%
Health Care	3.7%
Utilities	2.0%
Energy	0.0%
Industrials	0.0%
Materials	0.0%
Real Estate	0.0%
Cash	4.2%
Total	100.0%

Country Allocation

	Weight
China	37.8%
South Korea	21.8%
Taiwan	14.3%
Hong Kong	11.6%
India	6.2%
Singapore	2.9%
Philippines	1.1%
Indonesia	0.0%
Malaysia	0.0%
Thailand	0.0%
Others	0.0%
Cash	4.2%
Total	100.0%

Fund and Share Class Overview

The Stonehorn Asia Equity Fund is a long-only equity fund. The investment objective is to outperform the MSCI AC Asia ex-Japan Net Total Return USD Index (NDUECAXJ Index) over a long-term investment horizon. Although the investment objective is to outperform the Benchmark Index, equities will be selected by the Fund solely based on merit without consideration as to whether it is a constituent of the Benchmark Index.

General Information

Fund	Stonehorn Asia Equity Fund
Umbrella	Stonehorn Asia ICAV
Legal Structure	UCITS, Ireland
Investment Manager	Stonehorn Global Partners Ltd
Management Company	Bridge Fund Management Limited
Auditors – Fund	PricewaterhouseCoopers
Legal Advisors	Dillon Eustace
Fund Administrator	HSBC Securities Services (Ireland) DAC
Custodian	HSBC France, 1 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland
Inception date	June 11th 2019
Base Currency	USD
Benchmark Index	MSCI Asia ex-Japan Net USD
Valuation and Dealing Day	Daily
Performance Fee Period	Yearly
Investible countries	HK, China (H-Shares, A-Shares, B-Shares, US-ADRs), India, Korea, Taiwan, Philippines, Thailand, Malaysia, Singapore and Indonesia
Trusted counterparties	JP Morgan, Credit Suisse, HSBC, Citigroup, CICC

Share Class Details

Share Class	Launch Date	Currency	ISIN Code	Bloomberg Ticker	Management Fee	Performance Fee	Minimum Investment
Class A (USD)	11-Jun-19	USD	IE00BJXRGV39	SAEFUSA ID	1.25%	15% excess over benchmark	\$USD 300,000
Class A (AUD)	03-Dec-20	AUD	IE00BLGZB351	SAEFAUA ID	1.25%	15% excess over benchmark	\$USD 300,000
Class I (USD)	11-Jun-19	USD	IE00BJXRGW46	SAEFUSI ID	1.00%	15% excess over benchmark	\$USD 1,000,000
Class I (EUR)	11-Jun-19	EUR	IE00BJXRGY69	SAEFEUI ID	1.00%	15% excess over benchmark	\$USD 1,000,000
Class I (AUD)	11-Jun-19	AUD	IE00BJXRGZ76	SAEFAUI ID	1.00%	15% excess over benchmark	\$USD 1,000,000
Class I (CHF)	15-Oct-20	CHF	IE00BMY58118	SAEFCHI ID	1.00%	15% excess over benchmark	\$USD 1,000,000
Super-I (USD)	11-Jun-19	USD	IE00BJXRGX52	SAEUSSI ID	0.75%	10% excess over benchmark	\$USD 70,000,000
Super-I (EUR)	20-Jan-20	EUR	IE00BKKKM586	SAEEUSI ID	0.75%	10% excess over benchmark	\$USD 70,000,000
Super-II (USD)	25-Mar-20	USD	IE00BLDGKJ08	SAEUSII ID	0.60%	20% excess over benchmark	\$USD 150,000,000

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The Fund has appointed as Swiss Representative Oligo Swiss Fund Services SA, Av. Villamont 17, 1005 Lausanne, Switzerland, Tel: +41 21 311 17 77, email: info@oligofunds.ch. The Fund's paying agent is Helvetische Bank AG. Any Fund Documentation may be obtained free of charge from the Swiss Representative in Lausanne. In respect of the Shares distributed in or from Switzerland, the place of performance and jurisdiction is at the registered office of the Swiss Representative.



STONEHORN
GLOBAL
PARTNERS

About Stonehorn Global Partners

Stonehorn Global Partners (Stonehorn) is majority owned by its staff and believes an alignment of interest with their clients is what builds sustainable partnerships.

Stonehorn's founding members have partnered together in Asia for over 12 years and have a long and strong record investing in Asian equities. Since then they have built an extensive network of relationships with Asian companies, government bodies and industry contacts.

This level of access together with their experience allows them to select investments carefully by cross-checking investment assumptions with management discussions, financial analysis and industry checks.

Stonehorn conducts research via a deep dive bottom up approach focusing on Environmental, Social and Governance (ESG) factors. Stonehorn's proprietary due diligence and research methods are based on a seamless collaboration with each member correctly trusting each other.

For more information visit: www.stonehornpartners.com

FOR PROFESSIONAL INVESTORS ONLY

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