**ARKENOMICS CAPITAL PTE LTD**

418 Joo Chiat Road, #02-01
Singapore 427640

+65 6993 9282
contactus@arkenomics.com.sg
www.arkenomicscapital.com.sg

UEN No: 202203979D

**27th January 2023**

**Re: Investor Newsletter – January 2023**

Dear Investors,

This is the first letter from Arkenomics Provident Fund (the "Fund"). I want to welcome you onboard. The frequency of communication will be twice annually since it usually takes time for our allocations to bear fruit. You can expect to receive a newsletter in July, for a half-year review, and in January, for a full-year review. Besides the newsletter, you will continue to receive monthly NAV reports from our fund administrator, Portcullis.

Arkenomics Provident Fund went live in September 2022 and began accepting external investors starting October 2022. It has been almost four months since we opened the Fund to investors, and I would like to introduce you to the Fund's founding principles. These principles will enable our investors to have a better understanding of how the Fund operates.

1. **Discussion on Asset Allocation**

   Topics on specific stock positions will not be discussed openly. Discussions on stock positioning will be done through newsletters to ensure fairness and transparency to all investors.

2. **Time Horizon**

   As the Fund currently focuses on equities, a time horizon of 3-5 years is needed to measure the Fund's performance. Investors should only invest if they have an investment horizon of at least three years.

3. **Investment Approach**

   Our primary investment strategy is to invest in undervalued equities globally. As equities are volatile, investors must be able to stomach fluctuations in the value of their investments. As seasoned investors, we realize:

   - The most important organ when investing is not the brain but the stomach.
   - Most investors want to enjoy equity like returns but wish to avoid equity like volatility. Sadly the market does not behave nor reward us in this manner.
   - Volatility isn't always bad; it provides us with opportunities to take advantage of.
   - Time in the market is more important than timing the market.

- In the short run, a market is a voting machine, but in the long run, it is a weighing machine. Transitory news and emotions may influence prices in the short run; however, in the long run, the market has to assess the underlying fundamentals of a company to give its true weight, or value.

- Most investors like to collect stocks that are "cheap" in terms of pricing. We want to accumulate stocks priced attractively with business moat.

- Companies that are well-managed and can grow at a higher rate of return versus GDP will eventually be re-rated to a higher valuation.

**4. Yardstick**

The performance of the Fund depends on the market. In a typical bull market, the Fund will generally perform well. The additional performance, over and above the benchmark we use, will help identify whether we can deliver alpha. Likewise, if we decline less than the benchmark in a bear market, we would consider that we have done well. In other words, if our performance is better than the benchmark for that year, it means we have done well, regardless of whether we end the year with positive or negative returns.

As the Fund has a wide investment mandate and can invest in a variety of financial instruments and markets, we will use the MSCI All Country World Index ("MSCI ACWI") as our benchmark. We will also include the STI index since we are an SGD-denominated fund. The MSCI ACWI is quoted in USD, and we will be rebasing it to SGD.

**5. Margin of Safety in a Raging Bull Market**

The Fund will likely underperform in a raging bull market as we will not be overly exposed to a particular sector if the valuation does not make sense. For instance, during the market's peak in late 2021, technology and growth stocks saw rapid price increases. The Fund would have very likely underperformed the raging 2021 bull market due to our steadfast focus of investing at the right price.

Conversely, the unwinding of a raging bull market and investing with a margin of safety are reasons why the Fund fared significantly better than the benchmark in 2022 when overvalued technology and growth stocks tanked.

**6. Compounding**

Arkenomics Provident Fund is focused on creating additional alpha over and above the benchmark. Compounding capital is the core objective of the Fund. Table 1 shows the effect of compounding over an extended period. As illustrated in table 1, a 12% CAGR versus an 8% CAGR over a period of 30 years will generate an additional $20M, assuming an initial investment of $1M.

**ARKENOMICS CAPITAL PTE LTD**

418 Joo Chiat Road, #02-01
Singapore 427640

+65 6993 9282
contactus@arkenomics.com.sg
www.arkenomicscapital.com.sg

UEN No: 202203979D

| Table 1: Effects of compounding over an extended period of time | | | | |
|---|---|---|---|---|
| Starting Capital 1M | Year 1 | Year 10 | Year20 | Year 30 |
| @4% return CAGR | 1.04M | 1.48M | 2.19M | 3.24M |
| @8% return CAGR | 1.08M | 2.16M | 4.66M | 10.06M |
| @12% return CAGR | 1.12M | 3.11M | 9.65M | 29.96M |
| @16% return CAGR | 1.16M | 4.41M | 19.46M | 85.85M |

**7. Alignment of Interest**

The Management Team has a large portion of its net worth invested in the Fund. To date, the Management Team is collectively the single largest investor in the Fund.

We believe the best form of alignment is continually investing a large percentage of our net worth alongside our investors. Our skin is in the game, so we will not take excessive risks. We DO NOT classify risk as a gyration in prices – a price is a simply a quote that the market temporarily attaches to a security and not necessarily reflective of its true intrinsic value. Risk to us is acquiring assets at prices with little to no margin of safety. We conduct thorough research on companies and will only purchase when we believe stocks trade at a reasonable margin below their intrinsic values, among other factors.

**8. Remuneration for Fund Manager**

To date, there are two classes of shares which are open for subscription. There are no annual management fees for class A shareholders, but we charge 20% performance fees above a high-water mark. For Class B shareholders, we charge a 1% management fee and 15% performance fees above a high-water mark.

The high-water mark is the highest level of value per share that the investor has reached for a specific performance period. To receive a performance bonus from an investor, the Fund must reach a new high for that investor. The high-water mark clause protects investors by paying for performance instead of participation. We believe these rules are fair to both manager and investors.

**How Did We Fare in 2022?**

2022 was a challenging year for the stock market. At the beginning of 2022, the market had a very bullish outlook. Most analysts were expecting a higher market return when polls were made. However, the prevailing market narrative broke and many people turned bearish on the stock market, expecting a lower end-of-year value.

The Fund has performed better than the benchmark MSCI ACWI index (rebased to SGD) since inception, with the caveat that this is a brief period.

**ARKENOMICS CAPITAL PTE LTD**

418 Joo Chiat Road, #02-01
Singapore 427640

+65 6993 9282
contactus@arkenomics.com.sg
www.arkenomicscapital.com.sg

UEN No: 202203979D

*Country Allocation*

The Fund has been well positioned for the recovery in the Hong Kong market, generating healthy returns from its capital allocation there. We have invested in specific thematic sectors which have seen significantly lower valuations in Hong Kong versus the US.

*Sector Allocation*

The allocation of financial sector stocks that usually perform well in a rising rate environment has boded well for the Fund. A higher interest-rate environment is here to stay. Higher interest rates create higher Net Interest Margins ("NIMs") for the financial sector. Hence a re-rating of selected financial stocks should occur, creating a favorable tailwind.

*Sector Avoidance*

We generally avoid highly geared stocks that do not generate positive cash flows in an interest rate normalization environment. The previous thesis of many that supported growth at any valuation should not do well, as the cost of funds are likely to remain high. We expect businesses generating negative cash flow to continue to face headwinds.

**Outlook**

At Arkenomics, we tend not to predict the future. We are focused and will continue to acquire financial assets that are mispriced, lower than intrinsic value with margin of safety. This strategy has worked well for us in the past and should continue to serve us well.

We wish you a Happy 2023 and a very Happy Lunar New Year.

Regards,

Peter Lum Shuncai
Portfolio Manager
Arkenomics Provident Fund

DISCLAIMER: THIS DOCUMENT IS NEITHER AN OFFER OF SECURITIES NOR A SOLICITATION TO BUY SHARES IN ARKENOMICS PROVIDENT FUND. ANY OFFERING WILL ONLY BE MADE VIA A PRIVATE PLACEMENT MEMORANDUM PURSUANT TO THE SECURITIES AND FUTURES ACT AND ONLY TO ACCREDITED AND INSTITUTIONAL INVESTORS WHERE PERMITTED BY LAW.

THE INFORMATION PROVIDED IN THIS COMMUNICATION IS FOR GENERAL INFORMATIONAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS PERSONALIZED INVESTMENT ADVICE OR A RECOMMENDATION TO BUY, SELL, OR HOLD ANY SECURITIES OR FINANCIAL INSTRUMENTS. THE OPINIONS EXPRESSED HEREIN ARE THOSE OF THE RESEARCH TEAM OF ARKENOMICS CAPITAL AND DO NOT REPRESENT THE VIEWS OR OPINIONS OF ANY INDIVIDUAL WITHIN THE TEAM.

IN NO EVENT WILL ARKENOMICS CAPITAL OR ANY OF ITS AFFILIATES, PARTNERS, EMPLOYEES, OR REPRESENTATIVES BE LIABLE FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL, OR INCIDENTAL DAMAGES ARISING OUT OF OR IN CONNECTION WITH THE USE OF THIS INFORMATION OR THE OPINIONS EXPRESSED HEREIN.

BY READING AND ACCESSING THIS COMMUNICATION, YOU ACKNOWLEDGE AND AGREE TO THE TERMS OF THIS DISCLAIMER. IF YOU DO NOT AGREE WITH THESE TERMS, PLEASE REFRAIN FROM USING THIS INFORMATION OR RELYING ON THE OPINIONS EXPRESSED HEREIN.