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SCA REPORT
4Q 2025

Markets

Asian Markets (local currency)	*4Q 2025 % Chg*	*FY 2025 % Chg*	*Other Markets*	*4Q 2025 % Chg*	*FY 2025 % Chg*
Korea	23.1%	75.6%	Gold	11.9%	64.6%
Vietnam	7.4%	40.9%	Brazil	10.2%	34.0%
MSCI China	-7.6%	28.3%	DAX	2.6%	23.0%
Hong Kong	-4.6%	27.8%	FTSE	6.2%	21.5%
MSCI Asia ex Jap	3.2%	26.8%	MSCI World Index	3.0%	20.6%
Taiwan	12.2%	25.7%	Nasdaq	2.6%	20.4%
MSCI Asia Pacific	3.2%	25.3%	EuroStoxx 50	4.7%	18.3%
Singapore	8.0%	22.7%	S&P 500	2.3%	16.4%
Japan Topix	8.6%	22.4%	MSCI Europe	5.9%	16.3%
Indonesia	7.3%	22.1%	Russell 3000	2.1%	15.7%
CSI 300 (A-shrs)	-0.2%	17.7%	Dow Jones	3.6%	13.0%
India (Nifty)	6.2%	10.5%	Bitcoin	-23.5%	-6.5%
Australia	-1.5%	6.8%			
Malaysia	4.2%	2.3%			
Philippines	1.7%	-7.3%			
Thailand	-1.1%	-10.0%			

Commentary

From Liberation Day tariffs to AI, the economy and markets moved in unconventional directions this year. As an investor, it was an easy year to be profitable as most global equity markets were up. Whether one could beat the benchmark was perhaps a bit harder, as managers would have had to be unafraid of momentum and concentration in order to seek alpha. Asia was particularly buoyant, with most regions up over +20%, and extraordinary returns in Vietnam (+40%) and Korea (+75%).

It is interesting to observe how well Asian markets did in 2025 despite the new tariffs. Whether you believe Trump acted out of fear (TACO) or was always his strategy to threaten high tariffs as negotiation tactic, it became clear by summer that his policies would find compromise and balance, yet the pathway to equilibrium would be full of volatility. Presently, Washington seems less bothered with Asia and more concerned with Venezuela, viewing it as the weakest link in the Western Hemisphere increasingly vulnerable to Russian and Chinese influence. As we write this report, US just captured Maduro and plans to temporarily "run" the country.

While US and China are on a one-year hiatus from escalating tensions, there have been some positive signs. One example is the US changing its export policy to allow Nvidia to sell H200 to China. Nvidia plans to begin shipping its H200 chips by mid-Feb ahead of the Lunar New Year holiday as part of an effort to satisfy initial demand. The company will use existing inventory for the first shipments but must still secure approval from Chinese authorities for the exports. Initial shipments are expected to consist of between 5,000-10,000 chip modules, which is equal to about 40,000-80,000 individual processors. At $30K-$40K per GPU, that's $1.2B to $3.2B in sales just in the first shipment. Another positive step was TikTok, where a new JV to be majority owned by American investors will be created, and data security to be independently controlled.

Rest of Asia is also a beneficiary of the US/China truce, such as the case of South Korea. US allowed Samsung Electronics an annual license to import U.S. chipmaking equipment into its China manufacturing facilities for 2026, replacing the previous broad waiver system that was set to expire at the end of 2025. This approval offers short-term operational certainty for Samsung and also applies to SK Hynix under the new annual approval framework for semiconductor tool exports to China. Since Samsung and SK represent 47% of the country's MSCI benchmark, this move is a significant boost to Korean economy and stock market.

Japan has been less adept, choosing to lean-in with US while insulting Beijing (hard to tell if it was accidental or on purpose) by showing support for Taiwan. Beijing responded with curbing holiday travel and visa's for Christmas and upcoming Lunar New Year travel. There is also some backlash of Japanese goods in China. We are curious to see if this conflict is more noise and posturing, or will have real visible economic effects by 1Q26.

In 4Q, we met numerous Chinese VC/PE managers and handful of tech firms. We were duly impressed. The US still leads in frontier foundation models, benchmark performance, venture funding, and global commercial platforms, which together control a majority share of LLM markets and AI cloud infrastructure. However, China has largely closed the quality gap on leading models, and now leads in AI deployment scale, pricing power, patents, low-hanging fruit applications, and government-coordinated infrastructure spending. The US policy focuses on reinforcing private-sector innovation and exportable "American AI stacks", versus China's approach centers on coordinated investment (hardware, software, infra, energy), data localization, and international partnerships.

China is also focused on building its domestic chip industry to relieve itself of the dependence on foreign players like Nvidia, AMD, ASML who are always under some type of embargo. Chinese chipmakers are aggressively fundraising, even entering the IPO market, driven by strong investor demand following a string of high-profile trading debuts that signal confidence in the nation's push for tech self-reliance in AI hardware. Many of these firms – MetaX, Moore Threads, Biren to name a few -- remain relatively unknown to international investors, making their stock offerings important tests of confidence as China seeks to build domestic champions.

Another aspect of Chinese investment scene which impressed us was robotics. With high technical manufacturing ability at reasonable pricing, the Chinese robotics sector is growing much faster than rest of the world. With a rapidly aging population as a result of the one-child policy, Beijing is especially motivated to promote robotics and autonomous machines.

Lastly, we have always been fans of, and remain positive on China's pharma sector. It combines massive, cost-efficient production capacity with increasingly sophisticated innovation, making it structurally difficult for other countries to replicate or displace. China dominates in active pharmaceutical ingredients and biomanufacturing scale, underpinned by dense industrial clusters, integrated supply chains, and a large pool of technically trained labour. At the same time, China has rapidly upgraded from generics to innovative oncology, biologics, and GLP-1 pipelines, supported by Beijing's pro-R&D regulation, abundant clinical trial activities, and an established ecosystem of CROs, CDMOs, and biotech firms that now generate a large share of globally in-licensed drug candidates. It is high switching cost to rebuild equivalent infrastructure, talent networks, and regulatory experience elsewhere. Our view is most multinational firms are incentivized to adapt to China rather than to seek to replace it – hence the strong lobbying so far in Washington to light tap restrictions in pharma.

It was a pleasant surprise in 4Q to see numerous US and European investors visit Hong Kong. HK held numerous conferences, hosted by a variety financial institutions from HK Monetary Authority to FinTech Week to the major banks and family offices. Most of our visitors mentioned the impressive progress achieved by the region's AI, and China's coordinated ability to build the energy needed to supply the boom. One consistent message we heard was the interest to hedge AI bets by possibly investing in both the US and Chinese ecosystems.

Portfolio

2025 saw equity markets give the US and Europe positive returns a third-year in a row, and outsized returns in Asia. Our Global book was +26% (vs MSCI World +21%), Asia book +35% & Far East book +21% (vs MSCI AxJ +27%), and China book +25% (vs MSCI China +28%). The Global book outperformed as we overweighted China, AI, energy, and underweighted consumer. The Asia book moved adeptly between regions of India, China, Korea, and Japan, while overweighing in tech and defence sectors. The Far East book took profit in Korea and Taiwan too early hence the underperformance. In China, we were satisfied with performance close to beta; historically we have delivered alpha during the lean years (and there have been many recently) while matching beta during the bull years. Since inception (2012), our China book has achieved 275% vs benchmark of 55%. Per the first paragraph of our commentary, we note the stock and sector concentration of major indexes as a cause for concern, and currently still remains the case.

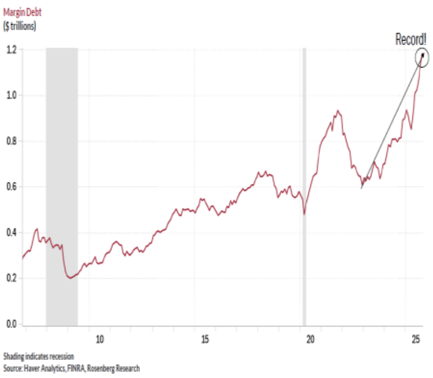
While we are still waiting for 4Q and FY private equity results, the increased M&A and IPO activity should be beneficial to the asset class. Private credit received bad press from Jamie Dimon's "cockroach" comment, but liquidity is still deep, allowing refinancings to occur. We see concern in the rise of continuation funds -- why do PE need so many continuation vehicles if public markets and M&A are up? At the same time, credit funds are slightly marking down their NAV showing potential defaults emerging.

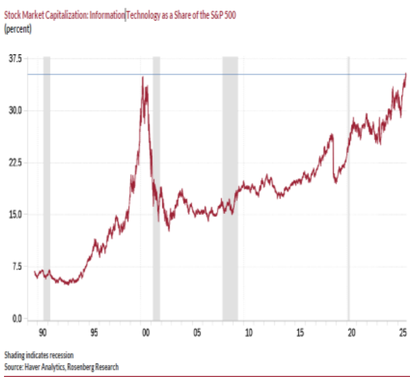
Last but not least, gold and silver prices are at all-time highs. Gold was up +65% and silver +145%. The rise in gold is an expression of worry towards the USD and US debt volume. The beta of gold is typically relatively low or even negative, making it a safe haven asset. Yet, the current monthly beta for SPDR GLD ETF is 0.13, which is higher than the historical beta post-GFC. The rise in price can be explained by the mix of geopolitical risk and the Fed pivoting towards easier policy.

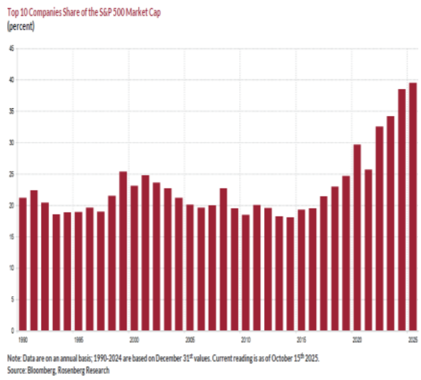
Miscellaneous

Everyone is asking "are we in a bubble?" I know it is a cop-out answer but honestly "we don't know."

So far, the market has weathered multiple macro and market hiccups, with any bad news or draw-downs to be replenished with investors buying on the dip. The naysayers and bubble-crowd are pointing to a scrapbook of indicators that rhyme with late-cycle froth. According to the Rosenberg Research, we see the classic signs of a market bubble. Margin debt has soared from \$0.5T to \$1.2T within 5 years, signaling potential overleverage. Historically, debt is always the major culprit in building and bursting the bubble. Another factor is there is extreme concentration in the S&P, information technology takes up 35% of the S&P 500, and the top 10 companies take up almost 40% of the total market cap.







Valuation metrics such as P/E, P/B, and P/S ratios are also at near all-time highs.

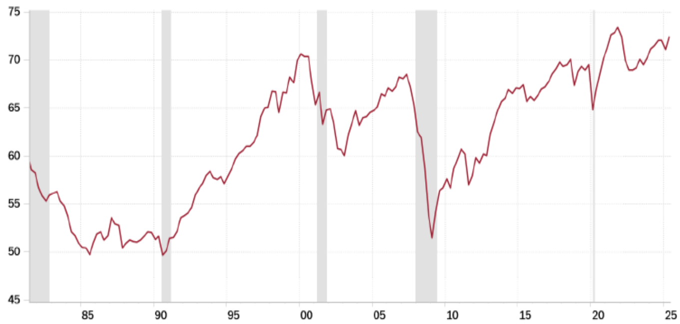
12-Month Forward Price-to-Earnings Ratio
(ratio)

Price-to-Book Ratio
(ratio)

Price-to-Sales Ratio
(ratio)

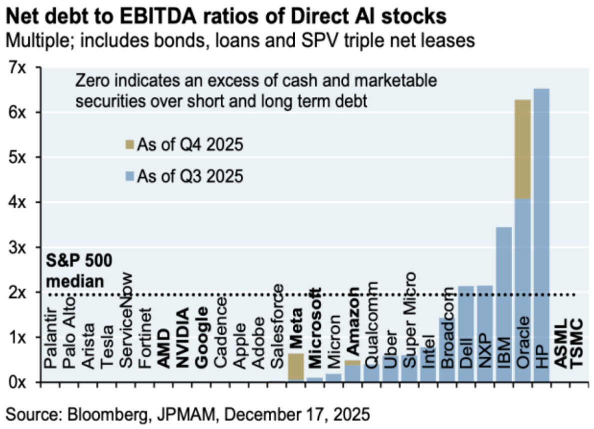
Households are overexposed to equity markets, with 72% of their financial assets in stocks, 8% in bonds, and 20% in cash.

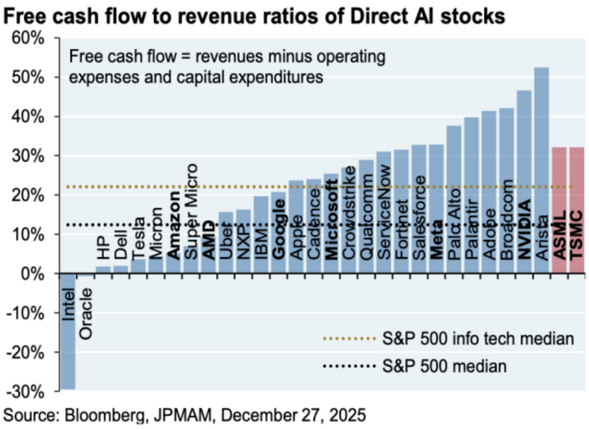
Fed Flow of Funds: Household Equity Holdings as a Share of Financial Assets
(percent)



<u>On the other hand</u>, no one can doubt that AI is transformative. This new technology is already changing the way we search, gather information, how students study, how to problem solve.

Most of the AI capex is funded by cashflow, not debt. Debt/EBITDA and FCF/Revenue ratios remain mostly healthy.





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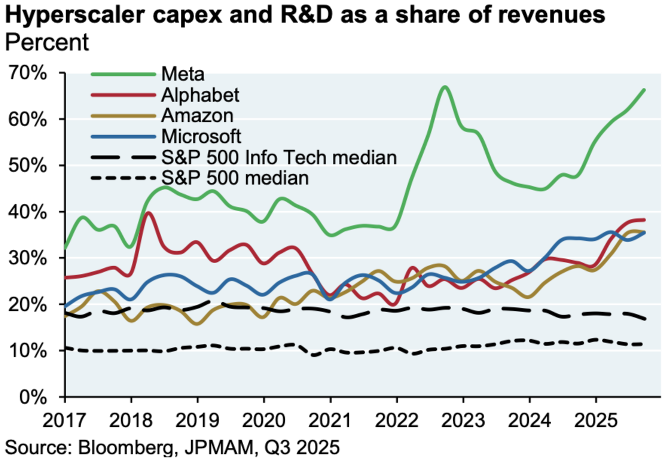
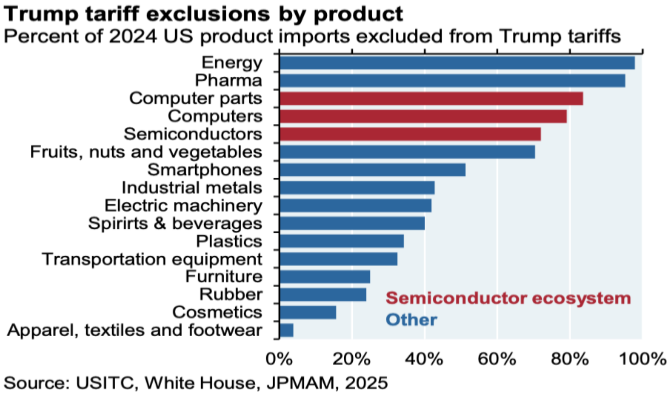
The hyperscalers' capex and R&D as a share of revenues are not outrageous (except Meta).



From a macro view, Trump's tariffs are (for now) not as bad as it seems, with many exclusions.



With Trump putting a bullseye on Powell, a new Fed chief seem likely to be appointed sooner rather than later. Rates are expected to continue to go down, especially if US employment data remains weak. Surprisingly, the effects of tariffs on inflation have so far been muted and the Fed's ability to lower rates not handcuffed.

As economist Michael Cembalest at JPM likes to say, we shouldn't always obsess about "what can go wrong" but also think about "what can go right." AI is definitely a quantum leap and will continue to change our lives. Some of the private multi-billion AI companies will test IPO market in 2026; their ability to tap public money will be important bellwether. As prospectuses publish, we will be able to see whether "solid" or "silly" companies are seeking IPO. History tells us there are more bull markets than bear, so it usually pays to stay invested and optimistic. However, the current economic bull run since GFC seems unprecedented and can we always rely on central banks to provide a safety net? Residing in HK/China, we have a little more recent experience on what an economic downturn looks like, yet this global AI boom doesn't give off the same vibes. While the bubble feels like it can grow more, no investor wants overstay in the game of musical chairs.

As we welcome the new year, we hope our readers enjoyed bubbles of another kind (champagne bubbles) to welcome 2026. We warmly wish everyone happiness, success, and good health in the New Year!