2021 1H Investor Letter:

	1Q	2Q	3Q	4Q	Full year	S&P 500 (including dividends)
2015	NA	NA	-4.42%	9.51%	4.67%	1.40%
2016	0.39%	-0.07%	1.95%	10.03%	13.87%	11.96%
2017	3.82%	5.45%	6.32%	9.75%	27.77%	21.87%
2018	-0.58%	5.08%	1.05%	-10.05%	-4.54%	-4.39%
2019	12.86%	1.36%	0.01%	10.65%	26.6%	31.49%
2020	-11.78%	15.90%	16.51%	5.85%	26.14%	16.03%
2021	3.67%	11.15%			15.23%	15.25%
Total Return					167.5%	130.4%
Annualized Return (6 years)					17.8%	14.9%

Our results were in line with the S&P 500 and better than the Nasdaq Composite for the 1st half of 2021(1H/21). Most of our holdings contributed positively to our returns. Our long-term investments in financial companies were paid off, and we trimmed some exposure to buy more tech shares. We kept most of our megatech position stable and materially increased our position in AMD and Netflix. We also took advantage of market turbulence to initiate new positions at Elastic NV and Sea Ltd. As usual, we will provide update on our existing and new holdings and share some of our thoughts on recent technology trends.

Existing Holdings:

Financial holdings:

Berkshire was up 19.8% in 1H/21 and contributed to 3.1% of our portfolio gains. All Berkshire's operating businesses performed well thanks to strong U.S economy. In the last quarter, compared to a year ago, pretax earnings from Berkshire's railroads, manufacturing, and services increased by 32%, 39%, 94%, and 191%, respectively. All surpassed peak pre-pandemic profit. Berkshire's equity portfolio has also risen considerably because of its bank exposure. Buffett continued to buy back its shares at a reasonable valuation, with a $6 billion repurchase in 2Q/21 and $35.5 billion deployed since the pandemic. We trimmed some Berkshire shares as we found more attractive tech ideas.

Our position in Bank of America (BAC) rallied 50% in 1H/21. We made a mistake in trimming some BAC positions too early at $34.5 in 1Q/21. Macro-wise, bank shares were significant because of a reopen economy, steepening yield curve, and potential interest rate rise. The pandemic has dramatically changed U.S. consumer and business behavior. Consumers and enterprises hold more cash than ever while carrying fewer loans. Since 4Q/19, BAC's total deposits surged by 33.1%, while on the other hand, total loans decreased by 6.6%. In the last decade, banks' loan-to-deposit

ratios have dropped from 93% to 48%. On a positive note, BAC's asset quality is in its best shape ever, with net charge-off at a twenty-five-year low. However, BAC's earning is unlikely to increase dramatically unless the loan volume picks up or Fed raises interest rate. BAC's valuation is attractive, with a P/E multiple well below the broad market. BAC's new repurchase program ($25 billion per year) is likely to enhance shareholder value further.

Tech holdings: (kept stable or trimmed)

Mega techs:

Our position in mega tech has performed solidly in 1H/21, contributing to a 6.6% gain of our total portfolio. Alphabet was up 43% on strength from both its advertising and cloud units. For 2Q/21, Google Search and YouTube revenue were up to 68.1% and 83.7% due to strong ad inflation, which we expect to continue to carry into 2H/21. Microsoft's share was up 22.3%, as the company's non-Azure businesses were exhibiting accelerated growth, particularly in the Office and Security segments. PayPal share was up 25% as it raised its TPV outlook despite near-term eBay transition headwinds. PayPal's new initiative in BNPL (Buy Now, Pay Later), Q.R. codes, and Crypto are still in their early stages with tremendous growth opportunities ahead.

Amazon was up to 5.6% in 1H/21. However, the share fell after the 2Q/21 earnings due to weak revenue growth. We are not particularly worried, as most of the revenue growth slowdown comes from U.S. first-party segment. Amazon's U.S. first-party stores carry low margins and represent a declining share of the total company size. Amazon's 3rd party e-commerce services and subscription business grew at a healthy rate. Amazon's profitable businesses, such as AWS and advertising, continued to grow significantly on an enormous scale. In 2021, AWS is projected to a $60 billion business, and Amazon advertising to be a $40 billion business. All carry a high margin and high growth. We think Amazon's AWS and advertising units could be worth more than Amazon's current market capitalization, leaving the 1st party/ 3rd party/subscription businesses free for investors. In the long term, Amazon's strategy of using profits from AWS and Advertising to build nationwide micro-fulfillment centers for faster delivery will markedly improve its long-term competitive moat.

CRM/WDAY:

Salesforce (CRM) was up to 9.8% during 1H/21. Two encouraging developments can further drive Salesforce's valuation: strong business fundamentals and improving operating margins. First, Salesforces' underlying businesses are booming as large enterprises embrace digital transformation post pandemic. Sales, service, marketing, and platform clouds all delivered strong results. Management also layout detailed CRM/Slack integration plans to better compete with Microsoft. Second, Salesforce has traded at a considerable discount to large-cap software in recent years because of its inability to improve operating margins. From FY18-FY21, Salesforce's revenue doubled, while the operating margin barely changed from 16.5% to 17.7%. The situation has changed under the new CFO, Amy Weaver, who leverages "virtual sales engagement" and "financial automation" to drive operating efficiency. We believe that Salesforce can potentially be re-rated if it continues to show margin expansion.

Workday share was flat in the 1H/21. Workday faced some near-term headwinds on backlog growth, which is essentially an accounting problem due to a weaker renewal base coming out of the pandemic. The latest earnings result (2Q/FY22) effectively removed investors' concern, as strong annual contract value (ACV) growth offset weak renewal. The weak renewal headwinds will disappear in 23FY. Most importantly, enterprises' transition to cloud ERP is still in its early stages. Workday has invested in cloud HCM, cloud financial, and "unified cloud ERP" (planning/procurement) for a number of years. We expect Workday to capture significant market share as cloud ERP adoption accelerates the post-pandemic period. After a trough year in 2022, Workday growth rate will reaccelerate and sustain above 20% for many years. At ten 23FY P/S, we think the company is deeply undervalued compared to its peers.

China Tech holdings:

We trimmed some of our positions in Alibaba and Meituan throughout 1H/21 on antitrust concerns. However, we did not sell them all, and the latest sell-off will likely affect our performance. Since July, the Chinese government has taken a series of crackdowns in several industries. The most significant ones being the shutting down of K-12 for-profit education and the creation of new regulation guidelines for tech platforms. Investors are caught off guard in a series of black swan events. Forced selling creates a market crash, pushing valuation into a multi-year low.

At the time of writing (08/31), our position in Alibaba and Meituan are down by 26.4% and 22.1% since July 1st, and a staggering 47.3% and 44.8%, respectively, from their peak. Together they make up 6.1% of our total portfolio while contributing to a negative 1.7% return for the complete portfolio since 3Q/21.

Despite extreme market pessimism, investors should identify the crackdowns of the "education sector" and "tech sector" as two separate cases. We believe that the Chinese government does not want to destroy the technology sector. Instead, regulators are setting guidelines for tech platforms to avoid vicious competition，protect consumers and merchants rights, while serving state interests better. We believe that the earning power of Alibaba and Meituan will undoubtedly be affected in near term，but is more than what is reflected in their valuation. We are following the situation closely and will look to add or trim our exposure accordingly.

Tech holdings (Net adds):

AMD:

We significantly increased our position in AMD at an average price of $80 in 1H/21. AMD is now the 4th largest holding in our portfolio. AMD share underperformed in 1H/21 for two reasons not related to fundamentals. First, the short interests of AMD have increased dramatically since the Xilinx acquisition and may pressure the near-term stock price. The rising short interest is due to hedge funds longing Xilinx and shorting AMD, betting on a successful deal to remove the price discount, a common merger arbitrage practice. Second, Intel, AMD's main competitor, has made bold promises on its processor roadmap (7 nm) and foundry strategy (IDM 2.0) under the new CEO Patrick Gelsinger. However, Intel's ambitious plan is risky and capital-intensive. It will at least be a few years before we see real progress.

While Intel is busy making promises, AMD is taking advantage of its product leadership. AMD's data center business is one of the most promising areas. While data centers today only account for 20% of AMD revenue, we expect it has the potential to exceed 50% in the next few years. AMD's latest EYPC solution (Milan) exceeds Intel's price and performance by a considerable margin. While cloud giants already use AMD chips for internal applications, the broad adoption of AMD-powered instances in public clouds has just begun. In addition to CPU chips, AMD's other data center products, such as Instinct accelerators and potential FPGA solutions from Xilinx, are likely to further boost AMD's competitiveness of in the cloud.

A booming data center business will also help the topline and margin expansion of AMD. The company has raised its growth target twice in 2021. AMD is now looking to grow revenue by over 60% by 2021, compared to the 37% target provided in Feb/21. Strong revenue growth drives margin expansion. The gross margin of AMD reached 48%, and the operating margin reached 24% in the latest quarter. We would not be surprised if AMD will eventually exceed Intel on both gross margin and operating margin in the long term.

Netflix:

Netflix was down 2.3% in 1H/21, and we significantly added our position. The underperformance in the Netflix share price was because the company added few subscribers in 1H/21 due to production delays from Covid. Investors were concerned if Netflix's secular growth story is over. We fundamentally disagree for two reasons.

- Low penetration: Internet streaming is still in its early days, and Netflix's share remains low. In the United States, while Netflix accounts for over 60% of broadband households, it only accounts for only 7% of the total television streaming time. Globally, Netflix is 20% penetrated in 800-900 million broadband homes, with a much lower share of television streaming time. Despite adding fewer subscribers, it is heartening to see that engagement on Netflix has been up to 20% since Q2/19. Subscriber growth is likely to regain strength as Netflix's hit shows are heavily back-weighted for 2021. In addition, Netflix's entry into mobile gaming will further push up subscriber growth and engagement levels.

- Low APRU: We think Netflix is one of the few global companies that can consistently raise prices. Netflix is significantly cheaper than residential video in many countries. In the U.S., Netflix's ARPU is only 1/7th that of Comcast or Charter's ARPU videos. In addition, similar to the cable video era, the global streaming market is still dominated by traditional U.S. networks (Disney, Warner Media, and ViacomCBS). It is an oligopoly structure that has historically avoided price competition.

In addition, Netflix's financial profile is improving. Management has layout three-percent increase in operating margin annually. In the long term, Netflix's EBITDA margin may match or exceed the 40% that cable companies currently enjoy today. Netflix committed free cash flow to reduce the share count. We think Netflix's situation is similar to that of Apple's and Alphabet's share prices in 2012 and 2015 when both companies started large-scale repurchases. Despite a gradually declining growth rate, Apple and Alphabet's shares increased seven times and 3.5 times respectively since repurchase.

New Holdings:

Sea Ltd:

We initiated a mid-sized position in Sea at an average price of $232 per share. We have followed Sea since it went public and built a position in our WUGI ETF at $42 in 1Q/2020. Not building a position in Sea early was one of the biggest mistakes we made for Bogaya Capital portfolio. We took advantage of the March/21 sell-off to initiate our Sea holding, as we still think the company was trading below its sum-of-the-part valuation.

Sea was founded in Singapore as a gaming publisher (Garena) in 2009. The company is run by one of the best management teams in internet business, led by Forrest Li and Chris Feng. The secret of the Sea's success is management's ability to execute the Chinese internet business model in the global market. Sea is comprised of three segments: gaming (Garena), e-commerce (Shopee), and fintech (SeaMoney)

Garena is a highly profitable mobile gaming business that is expected to generate $4.7 billion bookings in 2021 with a >60% EBIT margin. Its self-developed title, "Free Fire", is a global success with over 725 million quarterly active users, more than some of the best-known social platforms. Garena is rapidly expanding in a highly lucrative market such as the U.S., which we believe will significantly increase its ARPU over time.

Since 2017, Sea has been deploying its excess cash flow from Garena to build its e-commerce platform Shopee. Shopee rose to become the largest e-commerce platform in Southeast Asia in less than four years despite competing with established rivals such as Lazada. Shopee recently expanded into the LATAM market and become the top e-commerce platform in less than two years. E-commerce profitability depend highly on scale. We think Shopee will reach group-level profitability in a few years. Shopee's units Taiwan and Malaysia are already profitable. SeaMoney is still at an early stage but shows explosive user adoption. Seamoney's user and TPV all increase triple digits percentage year over year.

We believe that Sea's three businesses can be substantially larger and profitable if management can maintain its execution excellency. We also noticed that the stock is widely followed, and its share is volatile. We would only add if the share trade is significantly below the sum of the part valuation.

Elastic NV:

We reinitiated a position in Elastic at an average price of $112 during 1H/21. Elastic has traded well below the hypergrowth of its peers due to concerns about AWS competition. We believe that management has successfully addressed this issue in 2021. In Jan/21, Elastic announced a licensing change of Elasticsearch and Kibana to "proprietary dual license" and away from the open-source Apache-2.0 license. Another open-sourced company, MongoDB, made a similar license change in 2018 to better compete with AWS, which was widely successful.

Elastic's business has performed well since its licensing change. Elastic cloud revenue is up to 89% in the latest quarter (1Q/21FY). Elastic cloud expanded slightly faster than MongoDB's Atlas cloud when it was at a similar scale a few quarters ago. Strong cloud revenue growth can partially be attributed to higher customer adoption of elastic services on non-AWS platforms, such as Microsoft Azure and Google Cloud.

Elastic faces steep competition as it diversifies beyond the core enterprise search market and expands into "observability" and "security" markets. We are monitoring the competitive landscape and will add to our ESTC share only when a) the company is trading at a significant discount to peers and b) the fundamental thesis remains unchanged.

Technology Trends: digital transformation in retail and its potential implications

In our previous letter, we discussed several emerging technology trends in-depth, including "Public Cloud," "New Stack in SaaS," "Artificial Intelligence," "Fintech," and "AR/VR." These enabling technologies and digital tools were the backbones of our digital economy. Since the pandemic, many American businesses have accelerated their adoption of digital tools, resulting in a significant improvement in operating efficiencies. One of the most significant impacts of digital transformation is the offline retail sector. This letter will review how digital tools have transformed the retail industry and their potential implications.

Retailers adopting multiple digital tools:

Traditional offline retailers have lost market share against online rivals for more than a decade, notably to Amazon. However, as Amazon began to dominate U.S. e-commerce market, it became impossible for any single company to change the competitive environment. To fight back, traditional retailers and technology companies have begun to collaborate closely to redefine the entire value chain. Traditional offline retailers now realize that using only one or two digital tools is insufficient.

Tech companies seized retailers' mind shifts and poured resources into building retail-specific solutions. For example, public cloud giants, such as Azure and Google Cloud, have built specific retail cloud solutions. SaaS companies, such as Salesforce and Shopify, are developing end-to-end software tools for retailers, from creating online stores to digital marketing to data analytics. Fintech companies such as PayPal and Square integrate their solutions into the retailer's omnichannel strategy, providing customers with new shopping experiences like BNPL/QR codes. Short video platforms such as TikTok and Snapchat leverage AR/VR to help retailers design innovative marketing campaigns. In addition to public companies, countless private companies outside the Amazon ecosystem have innovative ideas to redefine retail.

Early adopters become structurally more profitable:

For companies whose technology stack has been upgraded early, the Covid-19 pandemic has dramatically accelerated their digital transformation. Since the pandemic, retailers that have adopted various digital technologies can increase e-commerce penetration, optimize physical

stores, and reduce operating expenses at the same time. The result is that early adopters have emerged from the pandemic as structurally more profitable businesses.

In the Softline retail industry, Nike and Lululemon made an early bet on developing DTC e-commerce. This effort paid off immensely during the pandemic. In 2020, Nike's digital business doubled, accounting for 20% of total sales. High e-commerce penetration helped Nike increase its EBIT margin from 12% to over 15% since the pandemic. In 2020, Lululemon's e-commerce sales doubled and accounted for 52% of the total company revenue. Lulu's e-commerce EBIT margin of 45% is also significantly higher than the 28% at offline stores. Even as Lululemon's offline store reopens, management still expects its e-commerce to count for most of overall profits going forward.

In the restaurant industry, Chipotle experienced an impressive turnaround under its new CEO Brian Nicol in 2018. The company partnered with DoorDash to boost its delivery services, rolled out loyalty programs, and invested heavily in digital marketing campaigns. The digital turnaround was successful. Chipotle's digital sales increased from 10.9% in 2018 to 49% in 2Q/21. With higher digital sales, the company's store economics also dramatically improved. As a result, Chipotle's "adjusted unit volume" (AUV) increased from $2 million in 2018 to $2.5 million currently. Management also set a goal of $3 million in the next few years. Most incremental revenue is expected to drop directly to the bottom line, leading to a higher return on invested capital.

Nike, Lululemon, and Chipotle are just a few examples of how digital tools has transformed early adopters into higher growth and higher profit companies. We encouraged readers to study digital transformation cases in Walmart and Target in broadline retail, Home Depot and Lowes in home furnishing, and Abercrombie and Victoria's Secret in apparel, to get a glimpse of the changing U.S. retail dynamics.

Retailers invest excess profits, benefit sectors such as digital advertising and logistics:

As American retailers become structurally more profitable, management is reinvesting profits in further upgrading their technology stack, creating a vicious cycle for many digital enablers. In addition, the management's decision to invest excess profits also has potential implications for other industries, such as digital advertising and logistics.

One hot topic in 1H/21 is inflation in digital advertising. Due to strong demand from brands, advertising costs have surged in 1H/21, befitting digital platforms such as Alphabet and Facebook. While some believe that digital advertising inflation is temporary, we think it could be more structural. Top management from brands see the current ROI as "attractive" and plan to increase their advertising spending for the rest of 2021.

Logistics is another industry that we expect to attract heavy investments from retailers. The demand for faster deliveries from consumers is increasing. Some grocery delivery start-ups already offer on-demand delivery within 15 minutes. Traditional retailers need to be completely redesigned their supply chain for the e-commerce era to compete effiectively. Many software start-ups or third-party logistics (3PL) providers are engaged in designing new e-commerce

specific solutions. We expect "robotic automation" and "micro-fulfillment" to be among the best growth opportunities ahead.

Conclusion

Digital transformation does not occur solely in retail. Verticals such as consumer goods, banking, healthcare industries across America have all accelerated their digital transformation. In general, American businesses' ROIC have improved since the pandemic because of the available technology infrastructure. In the future, we will broaden our view when searching for ideas. We would expect our new investment ideas would not only come from digital enablers, but also from traditional businesses that have been transformed by technology. We always run the portfolio as conservatively as possible, especially when the market is at an all-time high. Most of our tech holdings are secular winners that trade below their peers. We held some financial shares as a natural hedge against inflation. We still have over 10% in cash and patiently wait to deploy new ideas at an attractive price. We look forward to reporting to you in 2022.