2021 2H 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%	0.71%	3.56%	20.18%	28.71%
2022:	-12.32%					-4.95%
Total Return					158.4%	150.7%
Annualized Return since Inception					15.1%	14.6%

Our portfolio returned 20.2% for 2021, in line with the Nasdaq but underperformed the S&P 500. The market is off to a very volatile start in 2022. Our portfolio is down 12.3% in 1Q/2022, versus a return of -5.0% on the S&P and -9.1% on the Nasdaq. The primary catalyst for the market sell-off has been higher inflation persisting longer than expected, forcing the Fed to accelerate the timetable of raising interest rates and shrink its balance sheet (Quantitative Tightening). In response, investors sold shares in growth companies in particular due to rate hike fears, regardless of their fundamentals. Events such as geopolitical conflicts in Russia/Ukraine and COVID lockdowns in China also resulted in additional market volatility.

As of 1Q/22, our portfolio is divided into four categories: financials, core technologies, consumer internet, and cash. Our financial holdings performed well as they benefited from rate hikes. Our core technology holdings, such as Amazon/Microsoft/Workday, held up well due to their strong fundamentals and reasonable valuation.

Since 2020, we have established positions in several consumer internet companies, such as Netflix and PayPal. As COVID winners, these companies saw their share prices rise substantially in 2020 and most of 2021. However, since Oct/20, their share prices have dropped considerably due to rate hike fears. Some of our holdings are now trading at 25% to 45% below our purchase price, resulting in a disproportionally large impact on our portfolio performance. We made the error of not trimming exposure earlier. We believe these are still exceptional businesses. Moreover, at current depressed levels, the shares are a bargain, and we believe they will recover over time.

In addition, we recently established a position in RH, which we discuss later in our letter. As is customary, we highlight some updates on our holdings and share our thoughts on macro events and technology trends. Below is a snapshot of the top contributors and distractors of 2021 and 1Q/22.

2021 Top Contributor	2021 Top Distractor:
Google: 5.290%	BABA: - 0.99%
AMD: 5.12%,	PYPL: - 0.80%
BRK: 4.06%	3690: -0.67%
BAC: 2.78%	

2022 1Q Top Contributor	2022 1Q Top Distractor:
BRK: +2.49%	PayPal: -2.30%
AMZN: + 0.23%	Netflix: -2.03%
	AMD: -1.85%
	SE: -1.03%

<u>Existing Holdings:</u>

1) Financial Holdings：

Our positions in Berkshire and BAC did well in 2H/21 and 1Q/22, benefiting from Fed interest rate hikes. While not on purpose, these two positions have acted as hedging positions in the rising rate environment for our portfolio. Financial holdings plus cash account for 30.5% of our portfolio as of 1Q/22.

- **Berkshire Hathaway:**

Berkshire has been a long-term holding in the portfolio. We have consistently argued that Berkshire was undervalued on a sum-of-part basis. For years, Buffett has been reluctant to execute an elephant deal due to valuation concerns. After the pandemic, Buffett finally found his elephant deal, which is Berkshire itself. By the end of 2021, Berkshire had repurchased $51.7 billion worth of shares over two years, resulting in continued shareholder owning 10% more of the company.

As Buffett pointed out in his latest annual letter, most of Berkshire's operating businesses serve as the "core infrastructure" of the American economy. Berkshire's large holdings in insurance, railroads, and utilities provide stable cash flow regardless of macro-economic conditions. Berkshire's collection of manufacturing and services companies have benefited from the economic reopening. Berkshire's significant equity investments in Apple, banks, and consumer staples performed well despite recent market turmoil. We believe that Berkshire has ample upside as Buffett is deploying capital when others are fearful. For example, Berkshire recently started making large investments in OXY and Alleghany, after years of sitting on the sidelines.

- **Bank of America (BAC):**

2021 turned out to be BAC's most profitable year ever. BAC made a $30.6 billion net profit, partially aided by a $4.6 loan loss reserve release. Fundamentals continue to improve for BAC.

The company is one of the most rate-sensitive banks, given its significant exposure to consumer deposits, with $6.5 billion of rate sensitivity to a 100-basis point increase. Rate hikes will significantly boost BAC's interest income. Furthermore, loan volume begins to rise as US consumers return to their pre-pandemic spending habits (using credit). BAC's total loans increased by 11% in 4Q/21 on an annualized basis. The company repurchased $25.1 billion common stock in 2021 and paid out a $6.6 billion dividend. We think BAC's EPS growth can expand meaningfully on rate hikes and repurchase. Trading less than 2X tangible book value ($21.8), we think there is still ample upside for BAC.

2) Core Tech Holdings：

As of 1Q/22, core tech holdings accounted for approximately 52.4% of our portfolio, roughly the same as at the end of 2021. We built up those positions in the last few years and continue to believe they are undervalued compared to the market. We added to our positions in Amazon and AMD while keeping most of our other core tech holdings stable.

- Amazon: Net Adds.

We increased our holdings in Amazon in the 2H/21, and it remains our largest holding in the portfolio. In the near term, Amazon's e-commerce business looks to be impacted by supply chain issues, particularly with regard to 3rd party merchants' service, as small businesses are facing difficulties in moving goods to the U.S. due to port congestion.

Amid the supply chain crisis, Amazon is accelerating its investment in logistics infrastructure. Amazons' total CAPEX rose to a staggering $55 billion in 2021, on top of a $40.1 billion investment in 2020. Many investments were funneled into logistics, especially for the micro-fulfillment center (MFC). Amazon has now built a nation-wide network of MFCs, many of which are located in metropolitan areas, to serve the **same-day delivery.**

Amazon is already surpassing UPS/FDX in the U.S. market in terms of delivery capacity. Amazon can now use its logistics infrastructure to flexibly serve its 1st party stores, 3rd party merchants, as well as customers outside the Amazon ecosystem. We believe Amazon's competitive moat in logistics is incredibly hard to replicate. We are heartened to see Amazon starting to monetize its infrastructure assets, such as raising prices on both Prime and FBA.

AWS is also doing tremendously well as it grew 40% in the 4Q/21 and had an annual revenue run-rate of $71 billion. Long-term contracts on AWS have grown by 61% to $80.4 billion. While Amazon's advertising saw some deceleration, we think this is mainly due to supply chain headwinds from its 3rd party merchants, which will eventually be solved. We believe the intrinsic value of Amazon is well above $2.5 trillion, and the current price represents an incredible opportunity.

- AMD (Net Add)

We increased our position in AMD in 1Q/22. AMD's businesses are firing on all cylinders heading into 2022. After a 64% revenue increase in 2021, the company guided 31% revenue

growth in 2022. Powering the results was AMD's strong data center business, which was our reasons to invest in this company. AMD's data center products are widely adopted by public vendors and have begun to gain traction in the traditional enterprise market. Even after significant share gains in 2021, AMD's total server CPUs share is only slightly above 10%. As AMD is ready to roll out Zen-4 powered EYPC 4 server products, we believe that AMD can gain a greater data center market share from Intel.

AMD's purchase of Xilinx received all the necessary approvals in 2022. The Xilinx acquisition allows AMD to gain leading positions in three computing architectures: CPU, GPU, and FGPA. With leading computing architectures, AMD will achieve a further leg up in "accelerated data center computing," which is the fastest growing market in the semiconductor industry. In addition, with Xilinx, AMD will also gain exposure in the industrial/auto/communication market, which has historically not been in the company's addressable market.

We think the market continues to underestimate AMD's growth in multiple growth semi-conductor sectors. Management also views the company as undervalued. AMD has repurchased nearly $1.8 billion worth of shares in 2021 and another $1 billion so far in 2022.

- Others:

We maintain our exposure in our other core technology holdings, such as GOOG/MSFT/CRM/WDAY. Their businesses performed well due to the accelerated digital adoption of U.S. enterprises. Cloud backlogs are reaccelerating meaningfully YoY. With a growth rate universally above 20% and a reasonable valuation, we assume these businesses have substantial upsides. We sold our remaining shares in Alibaba at an average price of $150 in 2021, as we think Alibaba's investment theise has broken due to government crackdowns and intensified competition.

3) Emerging holdings (Dragger so far):

Since 2020, we have established four consumer-facing technology holdings, Netflix/PayPal/SEA/Meituan. The four holdings collectively had initially performed very well as COVID winners. However, fortunes changed in Oct/21 as the Fed reversed its monetary policy, which caused many high-multiple stocks to fall by over 50% from their peak. The four holdings, on aggregate, caused a 2.0% decline and a 6.1% decline for the portfolio in 4Q/22 and 1Q/22, respectively. As of 1Q/22, the four holdings accounted for 10.6% of the total portfolio, down from 15.5% since the beginning of the year.

We acknowledge several errors made during that period. First, while we did not think our entry prices were excessive, we could have trimmed some positions when they were overpriced. Second, we were affected by "crowd thinking" and bought from popular COVID winners rather than concentrating on our existing core-tech holdings, a mistake we will diligently work towards avoiding in the future.

The most serious mistake we made was that we underestimated the potential disruption in consumer internet businesses. Even for the most established and well-capitalized companies,

their commanding position could have been quickly challenged by new business models (such as Tiktok and Web3).

Going forward, whether we hold these stocks will largely depend on a) management's executions, and b) their relative valuation. Below, we summarize our recent thoughts on these holdings:

- **Netflix:**

Netflix saw its share price tumble by 38% in 2022. The primary catalyst has been the 1Q/22 sub guidance of 2.5M, falling far short of the expectation of 6M. We think intensified competition may be the core reason behind Netflix's declining growth. Media players have ramped up their spending on streaming content since the pandemic. Financial Times estimates that the top 8 media players will spend $115 billion on new movies and TV shows in 2022. Moreover, the rise of the short-format video also poses a risk for time spent on streaming platforms.

As a result, Netflix may be forced to scale up content spending than they had initially planned. Higher investment in programing will translate to lower free cash flow, thus reducing its intrinsic value on a DCF basis. In the long-term, however, we still place confidence in Netflix's management ability to execute on several growth markets:

- Large TAM in Asia and Latam: Netflix's penetration in the emerging market is still nascent. Netflix has only 32.6 million subscribers in Asia and 40.5 million subscribers in LATAM. However, Netflix is also the only streaming player that successfully makes and releases original local content to global users.

- Strong Pricing power: In a mature market such as the US, Netflix's costs ($14.6) are significantly below cable prices ($116). Netflix still has a long way to raise its price, given its pricing power.

- New ventures: Netflix is pushing hard into consumer goods and gaming. Netflix's CEO commented that new ventures might account for 20% of the business in a couple of years, translating to >$10 billion in new business opportunities.

In sum, we believe Netflix's long-term fundamental remains solid amidst competition. Management's execution has been consistent, and its new ventures in gaming and consumer goods may provide a further upside. The stock valuation is also very cheap. We will likely retain our holding if Netflix management executes according to their stated plan.

- **PayPal:**

It has been a tough year for payment stocks. PayPal has been affected by the industry sell-over and also has its own business problems. PayPal stock is down 39% in 2022 as the management abruptly changed its user acquisition strategy.

PayPal now expects to add only 15-20M new users (NNA) in 2022, versus a consensus of 55M . The company abandoned its midterm user target of 750M users by 2025. The primary reason for this is that PayPal finding that among the 120 million users it added during the pandemic, many were lower-end users that generated little revenue. For example, 4.5 million accounts were "illegitimately created" only to take advantage of incentives. In the future, instead of expanding user bases, PayPal will rather "clean up" lower-end users and focus more on engagement. Going into 2023, management expects the NNA to return to the pre-pandemic level of around 30M.

In addition, management also blames weak e-commerce/cross-border businesses. While they did not comment on competition, we are of the opinion that rising fintech rivals also play a role in the weak user metrics.

Thus far, PayPal has not changed its forecast of >20% revenue growth in the long-term. But with a substantially lower NNA, the company has to deliver a lot of higher engagement metrics, such as "payment per account" and "ARPU." With management credibility being low, there is a legitimate reason why investors are abandoning its stocks until the problem clears up.

PayPal's issue is more severe than Netflix's. The recent earning has put PayPal management's credibility under scrutiny. Going forward, it depends on whether PayPal can execute its new financial model and return the company to >20% growth. We have trimmed some positions and will adjust our position depending on further development.

- **Others：**

We also hold positions in Meituan and SE. Both positions are relatively small, each accounting for < 2% of the total portfolio. Going forward, we expect our fund to concentrate more on our top ideas than venture ones, which is a costly lesson we learned during the 2020–2021 period.

We remain confident in our holding in WUGI， which is an active ETF that is focused on Semi and software. The latest resource can be found at: https://www.esotericacap.com/our-solutions/exchange-traded-funds/wugi/

New Holdings:

RH:

We initiated a position in RH in the late 4Q/21 and continue to build our position through 2022. We have long admired how CEO Gary Freidman rescued RH from a near-bankruptcy furniture company into a modern luxury brand. In the past few months, the market has been particularly worried about the strength of the housing market as mortgage rates surged. There are also concerns about how the demand for high-end furniture has been impacted by office reopening and the negative wealth effect caused by market turmoil. More recently, the CEO noted that the demand for the company's furniture has dropped by 10–12% due to a number of issues such as the Ukraine war and run-away inflation.

While the near-term RH does face some macro headwinds, we are very bullish on RH's long-term potential. In our view, RH is not a traditional furniture company that carries a low margin, nor is it a traditional luxury company that monetizes century-old product lines. Instead, RH is a modern luxury brand at an inflection point, with multiple growth opportunities ahead.

Gary Freidman joined RH in 2001 when the company had a $20 million market cap and was near bankruptcy. Under his leadership, the company completely revamped its product line. Starting a decade ago, RH began reducing its smaller traditional retail stores (usually 8,000 sq. ft) and replacing them with much larger designer stores. The first three designed stores were rolled out in 2011. The stores were over 20,000 sq. ft in size and offered a highly differentiated retail setting.

The company then embarked on an even larger project in 2015 with the opening of RH Chicago (The Gallery at the Three Arts Club). The project is a complete revamp of a museum that spans nearly 70,000 sq. ft across six floors. The construction took years to complete, with both the out- and interior design being exceptional. Products in the gallery are presented in fully appointed rooms, emphasizing collections over individual pieces. Visiting customers are likely to purchase the full collection of products, resulting in a much higher order value. In addition, the store offers integrated hospitality experience, visual arts, and free design consultancy.

RH Chicago was an instant success. Most of RH's galleries built later followed a similar process, but each has their own unique design. Some became a landmark right on debut, such as RH New York/Boston. High-income traffic was generated, creating the perfect environment that landlords desire. By estimates, RH is second only to Apple stores in drawing traffic, well ahead of brands such as Saks Fifth Avenue and Tiffany & Co.

The success of RH's gallery enabled the company to make the best deals with landlords, with some even offering free leases. The economics of operating "gallery stores" are truly extraordinary. RH essentially eliminated discounting and marketing expenses. As of 2021, RH now owns fewer stores than it had more than a decade ago, but with 4X the revenue. The company commands a >25% operating margin and expects its margin to reach 30% as it introduces more expensive product lines (RH contemporary).

Currently, RH operates 27 design galleries in the US and expects to significantly increase its footprint over the next few years. Beyond the domestic market, RH plans aggressive expansion into the international market after a few years of COVID delay. It plans to open its flagship England store and a total of 10 stores in the EU in the next three years. Over the long-run, management believes the company's international business can surpass that in its U.S. businesses if executed well.

In addition to furniture, RH is leveraging expertise in integrated designing to expand into hospitality, lodging, real estate development, and much more. The company's new ventures usually offer a highly differentiated concept. For example, RH's guesthouse in New York does not offer RH's own furniture but focuses on privacy. The company's affluent customer base will be the first to experience RH's new offerings. While financial returns for ventures may be small

in the near term (expect for hospitality), this strategy helps RH climb to the top of the luxury mountain, which very few brands can pull off in modern times.

RH recently only trades less than 14 times 2022 forward earnings. The company's long-term growth potential, strong pricing power, and low valuation fits into our investment criteria. We believe the company has considerable room for earnings growth and multiple expansion ahead, regardless of the housing cycle or geological conflict.

Thoughts on supply chain disruption

Among many factors contributing to the current inflation, we posit that the supply chain crisis is the most profound. Container shippers were undoubtedly the biggest beneficiaries of the supply chain crisis. On aggregate, the top 10 container shippers were en-route to make $150 billion in pre-tax profit in 2021. Studies report freight costs drive up a manufacturer's "cost of goods sold" by 15%. Many of these costs are then passed on to consumers, causing inflation to rise.

Fortunately, we are seeing some developments, stabilizing freight price. For the larger brands, one development is that carriers are signing long-term contracts with large customers. For example, Maersk reported an increase in the share of business on long-term contracts from 50% in 2020 to 65% in 2021. Signing a long-term contract on one side helps carrier secure more profits upfront. In the same time, it makes freight costs more predictive for customers. Unlike in 3Q/21, when many U.S. brands were forced to pay sky-high spot prices to secure spaces, large brands are unlikely to face freight disruption this year. A predictive freight price may allow large brands to roll back price increases in 2022.

For the smaller merchants, 2021 was particularly tough. Since SMAs did not have the required volume to negotiate prices and space with shippers, many faced both high spot prices and a shortage of container space in 2021. The impact is largely evident on e-commerce platforms, such as Amazon, PayPal, and Shopify, which count SMAs as their core customers. Fortunately, there are signs that congestion at the Southern California port, a core bottleneck of US supply chain disruption, is easing since 2022. The removal of supply chain disruptions can greatly help our current inflationary situation.

Conclusion

2022 was one of the most difficult years for our fund. The drawdown in growth stocks is no less than the 2008 financial crisis. Despite the extensive volatility, we remain bullish on long-term tech trends. We saw accelerated innovation in key technologies such as "accelerated computing" and "artificial intelligence." In addition, the digital transformation and cloud adoption of traditional enterprises is re-accelerating. Backlogs of publics clouds and SaaS companies exhibited strong YoY growth. This trend will continue to benefit many of our core infrastructure technology holdings.

However, emerging from the pandemic, many winners in the consumer internet segment are facing new competition with new business models. Going forward, we would be very cautious

about adding to our exposure in this segment. Instead, we will focus on core technologies, an area we spend the most time on.

We are taking actions to simplify our portfolio, concentrating more on core holdings. Preservation of capital continues to be our number one priority. Most of our holdings have strong free flow generation and large buy-back programs that can provide valuation support, especially in a rising interest rate environment. We have also never used leverage in our portfolio. Currently, we still have around 10% of our portfolio in cash. We look forward to reporting back to you in 2H/21.