Truffle Portfolio
1Q 2025 Investor Letter

Dear Long Term Investors,

I originally meant to send this issue of the Truffle Portfolio Investor Letter out in the first week of April. It was pretty much done — just a few finishing touches left. Then, just as I was wrapping up, Trump's tariffs dropped like a bomb and sent global markets into a tailspin. Suddenly, what I had written no longer felt relevant. So I hit pause and started rewriting, because so much had shifted in just a few days. If you've found it hard to keep up with everything (and you wouldn't be alone), here's a quick timeline to help make sense of what's happened.

📆 April 2, 2025 – "Liberation Day" Tariff Announcement

- **Universal Tariff:** President Trump announced a 10% universal import tariff on all goods entering the U.S., effective April 5.
- **Reciprocal Tariffs:** Additional tariffs ranging from 11% to 50% were set for 57 countries, based on trade deficits and perceived unfair practices, scheduled to take effect on April 9.
- **China-Specific Tariff:** A 34% tariff was imposed on Chinese imports, raising the total tariff rate on Chinese goods to 54% when combined with existing duties.

📆 April 9, 2025 – Escalation with China

- **China's Retaliation:** China imposed 84% tariffs on U.S. goods in response to U.S. measures.
- **U.S. Response:** The U.S. increased tariffs on Chinese imports to 125%, and later clarified the rate had risen to 145%.

- **90 Day Pause**: Trump announced a 90-day pause on his newly enacted reciprocal tariffs. This pause applied to most countries, reverting their tariff rates to a baseline 10%. Market soared that day.

📆 **April 10–11, 2025 – Further Developments**

- **China's Countermeasures:** China announced an increase in tariffs on all American imports from 84% to 125%, effective April 12.
- **Export Controls:** China suspended exports of rare earth minerals and magnets essential to various industries, aiming to impact U.S. sectors like automotive and defense.

📆 **April 12, 2025 – U.S. Adjustments**

- **Exemptions:** The U.S. exempted certain consumer electronics, including smartphones and computers, from the new tariffs for most countries, but maintained a 20% tariff on electronics from China.

📆 **April 14, 2025 – Sector-Specific Investigations**

- **Pharmaceuticals and Semiconductors:** The Trump administration initiated investigations into imports of pharmaceuticals and semiconductors under Section 232 of the Trade Expansion Act, citing national security concerns. Proposed tariffs of 10–25% on these industries are anticipated by mid-May.

📆 **April 15, 2025 – Temporary Exemptions and Market Response**

- **Automotive Sector:** President Trump hinted at temporary exemptions from new vehicle tariffs, leading to a surge in global carmaker shares.

📆 April 16, 2025 – Current Status

- **Universal Tariff:** The 10% universal import tariff remains in effect.
- **China Tariffs:** Tariffs on Chinese goods stand at 145%, with China maintaining 125% tariffs on U.S. imports.
- **Restrictions on Chip**: The Trump administration has imposed new export restrictions on Nvidia's H20 chips to China. This move requires Nvidia to obtain a license for such exports, effectively halting sales of the H20 chips to Chinese entities.

As the trade war intensifies, market volatility has surged. **The S&P 500 has declined approximately 12% from its recent peak, with intraday losses reaching up to 21% during the most turbulent sessions. Consequently, the Truffle Portfolio managed accounts have experienced an average year-to-date decline of 10.6%.** While such drawdowns are challenging, they also present opportunities for strategic investment.

Here is where I want to offer my perspective on the state of global affairs and how I am positioning the portfolio.

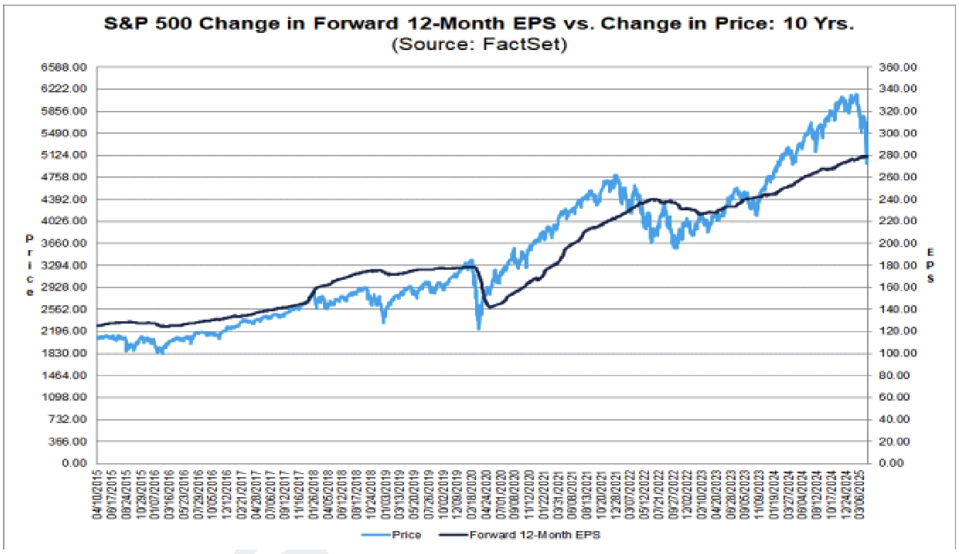
China–U.S. Will Not Head into the Abyss – With tariffs now at a mind-boggling 145%, the actual number almost doesn't matter anymore. At this point, it's about "saving face" and national pride. It's clear that China has no intention of backing down, while the U.S. seems to be walking back some of its own bark, issuing exemption after exemption. Still, despite the noise and heightened tensions, I don't believe either country is reckless enough to let this unravel into a full-blown economic meltdown.

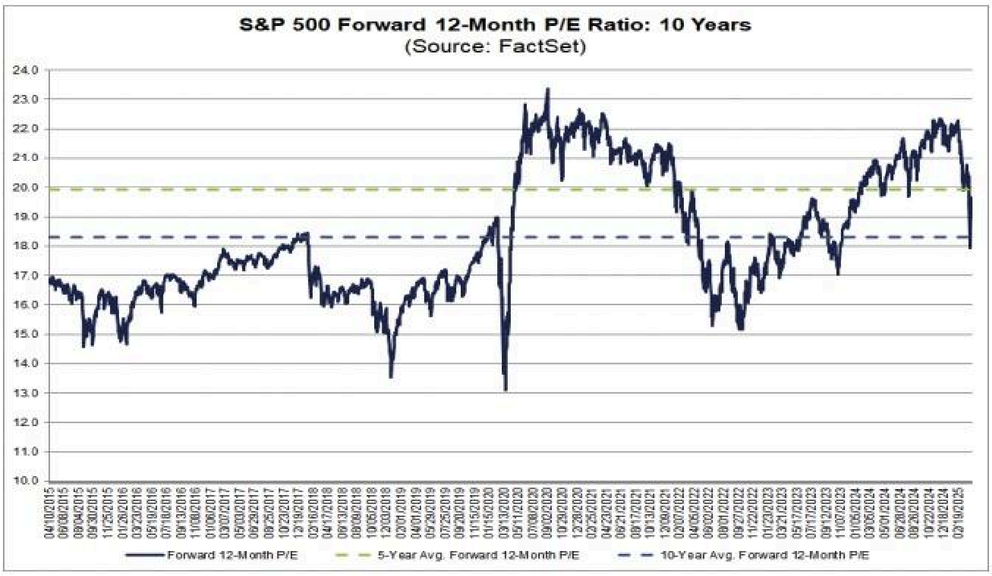
If Trump pushes the economy into a recession, he risks losing support from within his own party — a political price he likely can't afford. On the flip side, China's entire model of legitimacy relies on its ability to grow and support a strong middle class, and a huge portion of that growth still comes from selling goods to the U.S. This is not a situation Xi can afford to ignore. At the end of the day, the world's largest producer and the world's largest consumer need each other. That's why I continue to believe that some form of resolution will be reached before the year is out.

No Second Best – With all the uncertainty in the U.S., there's been growing chatter about diversifying away — investing more in regions like China or the EU. Personally, I don't subscribe to that line of thinking. For me, it's always about the quality of the business, not where it happens to be located. Sure, China has giants like Alibaba and Tencent, and they're impressive in their own right. But let's be real — the bulk of the world's truly great companies are still based in the U.S.

Even with concerns about China and Japan reducing their U.S. Treasury holdings, it's not like there are compelling alternatives. Are countries really going to swap U.S. Treasuries for Chinese or EU bonds? Given the EU's anaemic growth, I doubt it. As for China, maybe other countries can buy Chinese bonds — but what's China going to buy in return? Buy its own bonds, like Japan? That's practically asking for currency chaos. The U.S. dollar is the global reserve currency for a reason — it can handle massive bond issuance without imploding. In short, there is no second best. The U.S. remains the most reliable home for high-quality investments.

Strong Corporate Earnings – Amid all the headlines about tariffs and geopolitical tension, it's easy to overlook the fundamentals. And those fundamentals are telling a pretty encouraging story. Many companies in the S&P 500 continue to post strong earnings, and valuations across the board have come down — with the index now trading below its 10-year average P/E. That spells opportunity. This recent pullback has opened the door to accumulate positions in some really solid businesses at much more attractive prices. For the Truffle Portfolio, it's a good moment to lean in a little and continue backing companies with the strength to ride out the storm — and thrive beyond





Winners Still Take All - That brings us to the question of why certain companies account for most of the growth in the stock market. Actually, if you take a step back and look at other areas of life, it starts to make a lot more sense. In any corporate setting, the CEO earns the lion's share of the compensation compared to a line worker. Why? Because of the value they create. The same pattern holds true at the level of entire nations — the U.S. makes up around 25% of global GDP, while every other country trails significantly behind.

There's no rule that says business growth must be evenly distributed. The world doesn't work that way. More often than not, we see the 80/20 principle in action — where 80% of the outcomes come from 20% of the inputs. And in the business world, that translates into 20% of the companies delivering 80% of the value. Why is that? Because companies aren't competing to be equals. They're competing to dominate. It's not a game of fairness — it's a game of outperformance.

So when the MAG7 gets flak for driving most of the gains in the S&P 500, I actually see it differently. To me, it's just a reflection of how much value they're creating. These companies consistently lead the pack in both revenue and earnings growth. That's not by chance — it's by design.

The truth is, not all companies are good, and even fewer are great. And that's the reality we need to embrace as investors. Our job isn't to spread bets evenly across every name in the market. It's to find and invest in the exceptional ones — the true value creators.

Because at the end of the day, this is a "winner takes all" environment. And if we want to win, we need to be on the side of the winners.

Seek Out Winners Beyond the Obvious - Thankfully, good businesses are not limited to MAG7, some of them exist in very small niches which are worth exploring. Peter Thiel, a prominent investor and entrepreneur, famously stated, "*Competition is for losers*". He argues that the ideal business model involves avoiding competition and aiming for a monopoly, focusing on creating a unique product or service that serves a niche market

With that said, let me share more on one of our investments in such a monopoly.

The company is **Heico Corporation.**

Heico isn't a household name — and that's exactly what makes it interesting. Based out of Florida, Heico is an aerospace and defense company that's been around since 1957, quietly building itself into a powerhouse. It operates through two main segments: the **Flight Support Group,** which produces and repairs aircraft replacement parts, and the **Electronic Technologies Group**, which builds everything from space sensors to missile components. What makes Heico unique is that it doesn't try to do everything. Instead, it focuses on **specialized, high-margin components** — the kind that keep planes in the air and satellites functioning but don't usually make headlines.

What really sets Heico apart is its dominance in the aftermarket parts — that's FAA-approved for commercial aircraft. In simple terms, **Heico reverse-engineers parts that would otherwise only be available from the original aircraft manufacturers (OEMs) and sells them at a discount**. Airlines love it. These parts are fully certified, significantly cheaper, and help drive down maintenance costs. But for competitors? Good luck. You need deep engineering expertise, regulatory approval, and relationships with airlines to even get started — all of which Heico has been building for decades. That kind of moat is hard to replicate.

Now picture yourself as an airline executive. You've been using Heico parts for years — they've worked flawlessly, they're FAA-certified, and your engineers trust them. Sure, they're not the cheapest, but they do the job, and when it comes to planes flying 35,000 feet in the air, "cheap" isn't exactly the word you want front and center.

Then along comes a new parts supplier. They're offering components at a lower price, but they're unproven. No long track record, no widespread adoption, and certainly no guarantee they'll perform under pressure (literally). So now you've got a decision to make: **Do you take the risk to save a bit of cost? And more importantly — are you willing to stand in front of your passengers and say, "We chose cheaper, less-tested parts for your aircraft, and we hope it works out"?**

Of course not. The margin you save on parts is nothing compared to the catastrophic cost — in both dollars and reputation — if something goes wrong. **In aviation, trust and reliability aren't just nice to have; they're everything.** That's why airlines stick with Heico. It's not just the part you're buying — it's the peace of mind that comes with it. And that's worth a premium.

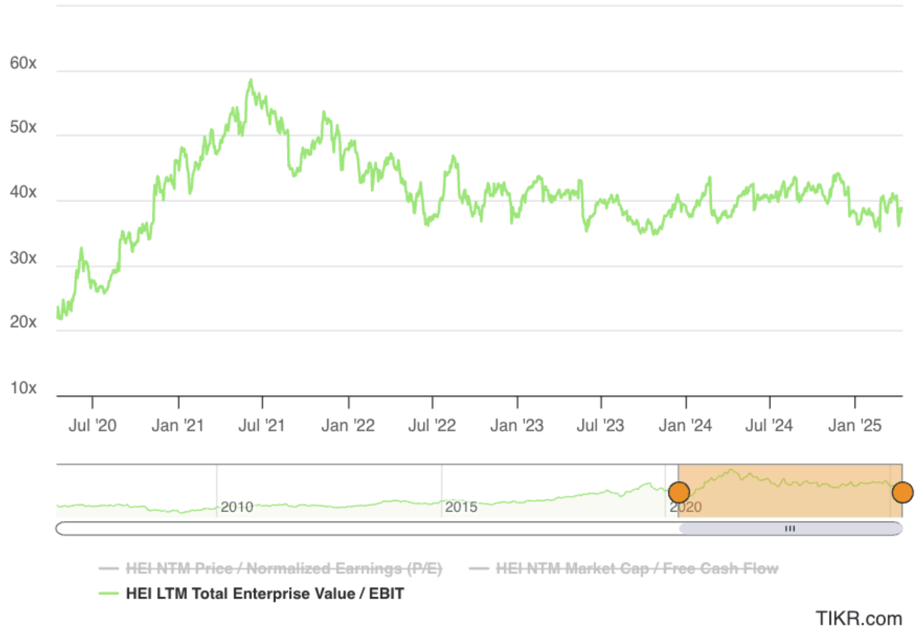
This is what makes Heico's business model so sticky. Once they're in, they're in. Customers don't switch on a whim. The technical bar is high, the regulatory burden is higher, and the reputational risk is massive. It creates a natural moat that's hard to cross.

So when you look at Heico, you're not just looking at an aerospace supplier — you're looking at a trusted partner to airlines who literally bet their entire safety record on the reliability of these components. That's not something you can disrupt with a discount.

On top of that, Heico has a refreshingly old-school approach to growth: buy good businesses and keep them. Since the 1990s, the company has made over 90 acquisitions — often small, niche players that are highly profitable and complementary. They don't overpay, they don't meddle unnecessarily, and they let the companies continue doing what they do best. This approach has created a highly diversified, resilient business model that hums along steadily regardless of whether the economy is booming or not. And the Mendelson family, who runs Heico, owns a big chunk of it. That alignment with shareholders really shows.

Financially, the business is as solid as they come. Revenue growth has been consistent year after year, and their margins are strong (almost 40% gross margin). In the latest quarter, Heico beat expectations again — revenue was up nearly 15% year-over-year and earnings followed suit. Importantly, it's not just growth for the sake of it — their returns on invested capital are healthy, and the balance sheet is clean. When the rest of the market is caught up in hype or panic, companies like Heico just keep executing.

Now let's talk valuation — and this is where Heico gets really interesting. On paper, the EV/EBIT sits at around 38x, which, let's be honest, isn't cheap. But here's the thing: it's been sitting at this level for the past three years. And during that time? The share price has gone up by 200%, absolutely trouncing the S&P 500. So while the multiple might look expensive at first glance, the market clearly sees something here — and it's been consistently willing to pay a premium for quality. When a company performs like this over time, that premium starts to look more like a reflection of confidence than overvaluation.



So when we talk about "winner takes all," Heico doesn't scream for attention like a Big Tech name might — but it's absolutely a winner in its own space. It plays in a niche that's difficult to enter, creates real value, and compounds steadily over time. That's the kind of business we want to own in the Truffle Portfolio — not just because it's growing, but because it's built to keep growing, quietly and relentlessly.

Portfolio Now Open for New Investments

With the current market fluctuation, I am heartened that some of you approach me proactively to add more funds to the portfolio. I really appreciate the confidence and am very happy that you have a similar mindset as me.

Therefore, **I would like to share that the Truffle Portfolio is open for fresh funds from both new and existing investors**. This funding window offers a unique chance to join the Truffle Portfolio as we prepare for upcoming opportunities in sectors that we believe are undervalued and ready for growth. For those interested in opening or topping up accounts, please find the details below:

For New Accounts

- Minimum investment: S$50,000 (Cash)/ (SRS)
- Application: Apply Here

For Topping Up Existing Accounts

- Minimum investment: S$10,000
- Follow instructions at Funding Portal

Deadline is 30 April.

Reminder: SRS investors should fund their accounts by 31 Dec for tax benefits. Read our SRS Guide here.

Our investors benefit from a clear, principled approach to investing, one that focuses on identifying undervalued opportunities and emphasizes long-term growth over short-term swings.

Looking forward, we're optimistic yet cautious as we monitor the market for high-quality investment opportunities. **Our disciplined approach enables us to capitalize on attractive, undervalued opportunities as they arise.**

We're excited to invite new investors to join the Truffle Portfolio at a pivotal time. For those who value long-term stability, our investment philosophy offers a foundation built to endure and thrive across market cycles.

As always, we appreciate your trust and partnership. Please reach out if you have questions or would like to discuss your portfolio. You can reach me at petetanpy@phillip.com.sg

Thank you for your continued support and happy hunting.

Regards,
Pete