MASH CAPITAL

4Q24

INVESTOR NOTE

Overview.

For the quarter ended, the Mash Global Multi-Asset Fund gained +2.3% versus a loss of 1.2% for the MSCI ACWI. This translates to a relative outperformance of +3.5% for 4Q24.

Top contributors for the quarter were an Equal-Weighted S&P 500 ETF, Apollo Global Management and Amazon while Top detractors for the quarter were ASML, Silver and Gold.

This quarter ends the calendar year as well. Therefore, allow me to encourage you to revisit our Owner-Investor Guide. As a reminder, our economic objective is to Own the World and outperform the world over a 5-year horizon without taking undue risk.

In the nine 5-year rolling periods we have completed since 2011, we have succeeded in achieving our objective roughly 80% of the time. When we have succeeded, we have outperformed by 8% on average; when we have fallen short, we have underperformed by less than 2% on average.

Perspective.

With that backdrop in mind, as I thought about how the year unfolded, two things became crystal clear.

First, we are well-suited for prudent investors of two kinds: (1) Those who are already wealthy and would like to remain so peacefully and (2) Those who are willing to get wealthy slowly but surely.

And second, that the underperformance, especially during times of extreme giddiness, is a feature and not a bug of our risk-conscious investment approach. Before I proceed any further, allow me to share an excerpt from Berkshire's 2023 shareholder letter:

"Though the stock market is massively larger than it was in our early years, today's active participants are neither more emotionally stable nor better taught than when I was in school. For whatever reasons, markets now exhibit far more casino-like behaviour than they did when I was young. The casino now resides in many homes and daily tempts the occupants.

One fact of financial life should never be forgotten. Wall Street - to use the term in its figurative sense - would like its customers to make money, but what truly causes its denizens' juices to flow is feverish activity. At such times, whatever foolishness can be marketed will be vigorously marketed - not by everyone but always by someone."

Did Buffett's words ring true in CY24? Well, review the top three poster children for the year and be your own judge.

Argentina, up 116% in USD terms while the MSCI Emerging Markets gained single digit returns. President Milei's reforms are nothing short of radical but how does one account for the country's corruption and default history?

Bitcoin, up 125% in USD terms. And how can I miss mentioning Fartcoin, which holds a market capitalization of $1.5 billion. To put this into perspective, according to AI, Fartcoin is a humorous meme cryptocurrency built on the Solana blockchain that allows users to submit fart jokes and memes to earn tokens, featuring a unique "gas fee" system that produces a digital fart sound during transactions. Can you ever believe this?

Palantir, up 340% in USD terms and now part of the S&P 500 index since October 2024 and Nasdaq 100 recently (along with MicroStrategy, a leveraged Bitcoin hoarder). Unquestionably the poster child of AI this year. With earnings below $500m and a market capitalization of over $150b (yes, that's 150 billion), it does not surprise me that CEO Alex Karp dumped $400m of stock in November 2024 alone. To justify the current price, Palantir would have to grow revenues at 30% CAGR for the next 10 years while generating 40% profit margins. How does one even begin to underwrite these investments?

Within this context, allow me to share a couple of reasons for the Mash Global Multi-Asset strategy's underperformance relative to the MSCI All-Country World Index (ACWI) for the calendar year. First, my skew. And second, the index's skew. Allow me to elaborate.

First, my skew. My overly conservative, risk-conscious approach throughout the year. It was near impossible for me to suspend all negative possibilities amidst two geopolitical conflicts and a globally relevant US Presidential election against a rich valuation backdrop. However, this trait of risk-consciousness and therefore conservatism comes with its own trade-offs: it helps us during tough times such as 2022 but hurts us during exuberant periods such as 2023-2024.

And second, the index's skew. The extreme concentration in US equity indices, which has now spilled over to the MSCI All-Country World Index (ACWI). As of today, the US accounts for nearly 70% of this so-called world index. To put this number into perspective, it was 55% just three years ago and was closer to 45% around the inception of our strategy thirteen years ago.

Combine this nearly 70% US weight with the Magnificent Seven accounting for more than 33% of the US S&P 500 index weight and more than 50% of its returns, our multi-asset strategy could not stand a chance at outperforming a concentrated equity index unless we allocated at least 50% of our equity portfolio to a subset of seven highly correlated names. To be clear, Apple, Nvidia, Microsoft, Amazon, Alphabet, Meta and Tesla are highly correlated in terms of sector, theme and fund flows — Technology, AI and Passive investing respectively. Not surprising then, this reflected a position I was <u>not</u> willing to underwrite.

Which, at this time, raises a fundamental question. How does a globally diversified, multi-asset portfolio outperform a pure equity index that itself is 70% concentrated? The simple answer is it does not outperform during years of extreme optimism such as 2024 but it does outperform, and generally by a decent margin, during years of pessimism such as 2022. If we outperform during years of exuberance, then by definition, we have violated our risk-conscious approach. After all, how could a relatively lower risk, lower volatility offering that belongs to your <u>core</u> portfolio beat a relatively higher risk, higher volatility bet, especially during times of extreme giddiness?

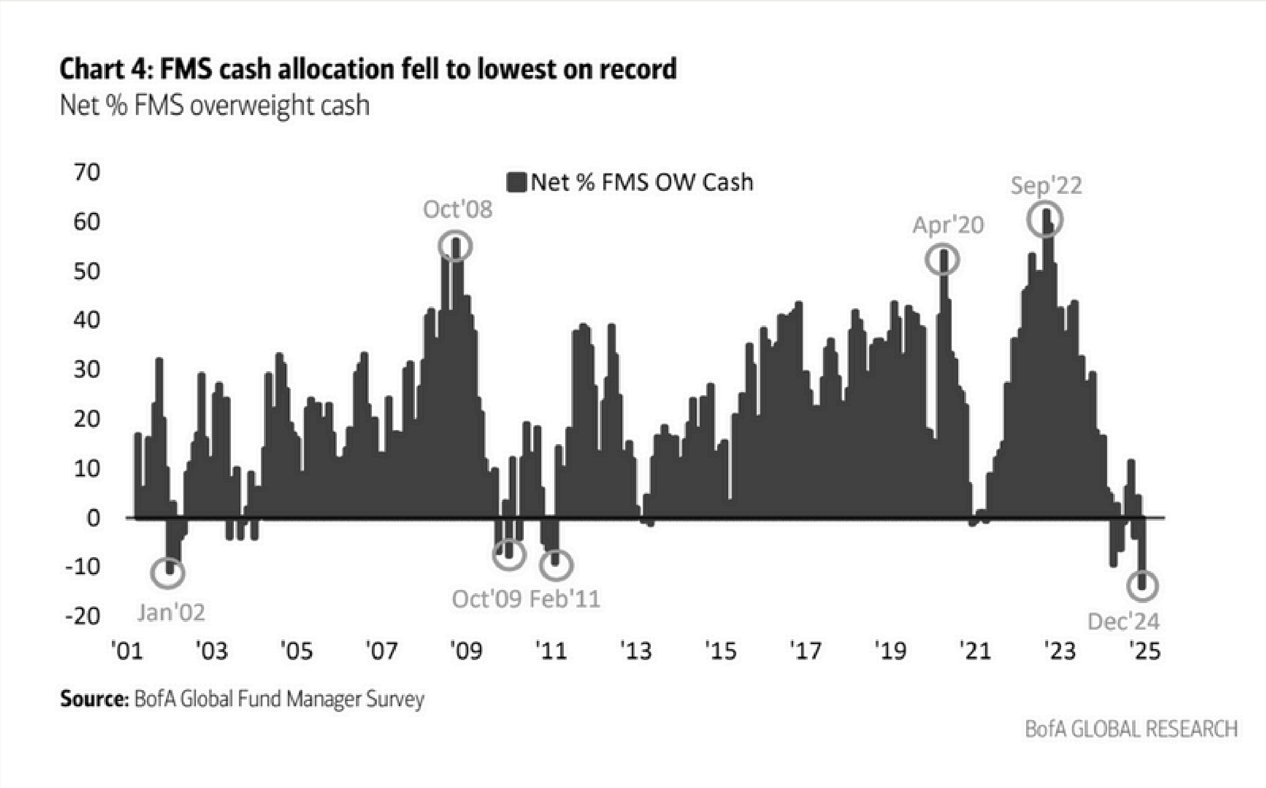
Now here's the kicker. <u>By definition, extremes simply cannot sustain</u>. 2008/09 and 2020/21 fit that "extremes" bill in recent times. While 2008/09 rewarded extreme bearishness, 2020/21 rewarded extreme bullishness. 2024 smelled like 2021, when poor processes and poor risk management were disproportionately rewarded. The wise already know the stark reality that one can have a year or two of extreme giddiness. But then, things change. That's life. And investing is no different.

Today, we have a new regime taking shape in the US and I believe it will have global repercussions. Whether it's a Trump premium or a Trump overhang remains to be seen — likely a bit of both. What is certain though is there will be a <u>Trump Uncertainty Factor</u> (TUF). To withstand TUF, you will need prudent risk control. And believe you me, this forgotten notion will matter more over the next 5 years than it did over the last few.

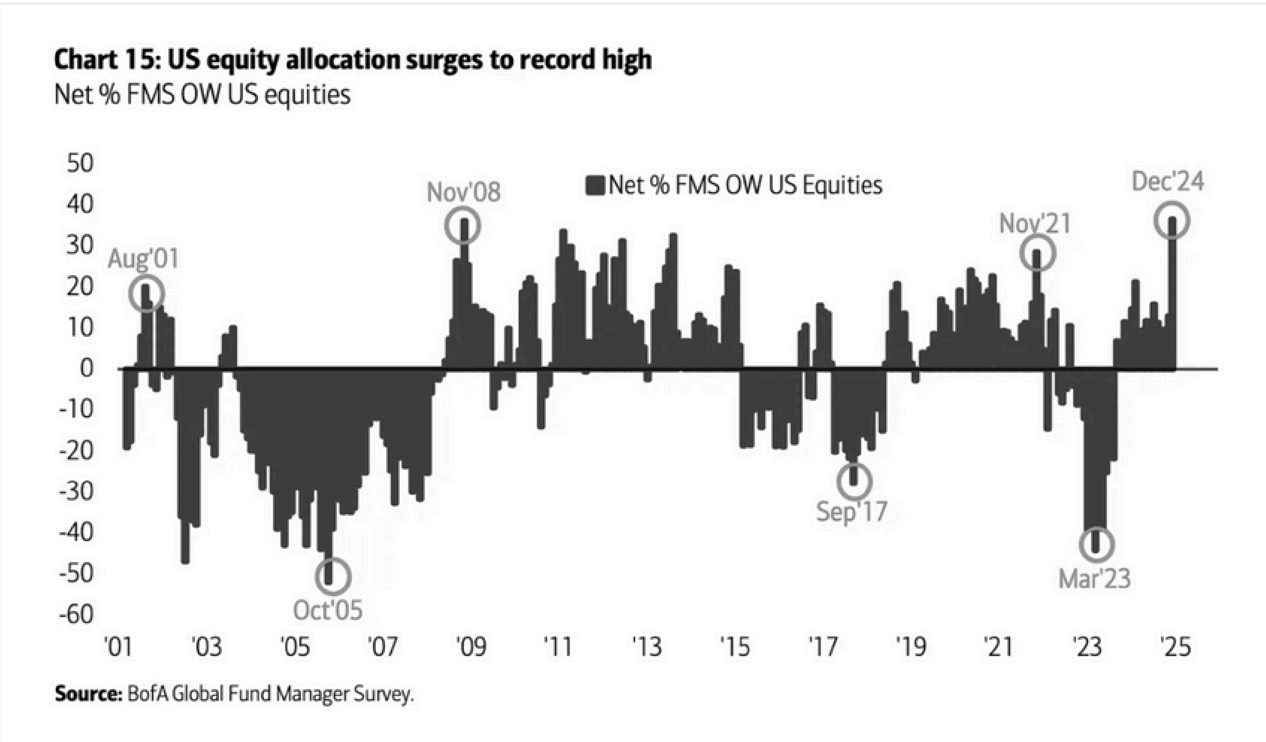
Today, Warren Buffett's portfolio holds 30% in cash but the average Joe has resumed trading esoteric coins all night long while leveraging AI to post their selective profit dashboards across Instagram, LinkedIn and X during the day. Which one would you rather follow?

Today, data on Insider transactions of tranches over $100k show that $30b worth of stock was purchased while $250b was offloaded during 2024. Extend this exercise to two years and we have $50b worth of stock being purchased and $400b offloaded. In other words, for every $1 bought, $8 were sold. On which side of the deal table would you rather sit?

The latest Fund Manager Survey from Bank of America shows Fund Managers have the lowest level of cash allocations on record.



At the same time, US equity allocations are at record highs.



Layer these two charts with the fact that the average US Baby Boomer household balance sheet holds more than 50% in equities and it will become glaringly obvious that we are priced for a nothing-can-ever-go-wrong scenario in the US equity markets.

From my vantage point, between the Trump Uncertainty Factor and concentrated equity indices with rich valuations that ignore a higher inflation scenario, the market is set up for our risk-conscious, global multi-asset strategy to outperform during CY25. I expect a less-than-linear year and sensible hedging will likely be rewarded should the markets dislocate.

Speaking of dislocation, the biggest mistake one can make after a couple of relatively soft years is to force change by chasing momentum. In markets, bulls make money and bears make money but pigs get slaughtered. To be clear, pigs is a reference to the wayward, the reckless and the undisciplined. We're simply going to stay the course. Not just because it seems like the most prudent approach at the moment but also because we know that investment success accrues not so much to the brilliant but to the disciplined.

One of the cornerstones of our global multi-asset strategy has been the resilience in-built within the nature of cash flows that feed into our portfolio. We prefer revenues from at least a few countries and a few asset classes. Over the last thirteen years, this approach has led us to a solid 75% downside capture ratio without any hedging. And, equally importantly, it has led us to an even better 100% outperformance frequency during major drawdowns. These are attributes of our prudent strategy that have proven incredibly valuable to our Owner-Investors over time.

Portfolio.

Naturally then, as we enter CY25, our weighted average portfolio now earns close to $50 billion in revenue sourced from more than a few countries — with over 40% in gross margins and 20% returns on equity.

In addition to Amazon, Apollo Global, MercadoLibre and Taiwan Semiconductor that you are all familiar with now, there are some new names that surface in our Top holdings. In no particular order, I offer some colour on the new names below.

An equal-weighted S&P 500 ETF helps us participate in the market's momentum while offering relative downside protection in the event of a market pullback.

GDS Holdings is a leading developer and operator of high-performance data centers in China. Data centers are mission critical infrastructure to support the future of AI and the Cloud. And I believe data center sovereignty is absolutely critical.

Speaking of sovereignty, Intel Corporation will be absolutely critical to America's AI sovereignty. Should our hypothesis hold, we would have purchased our participation at a price that incorporates meaningful bad news and that yields satisfactory returns over the next couple of years.

Valaris is an American company, 100 years old if I may add, that has one of the best risk-rewards in the offshore drilling industry. President Trump's energy policy will likely drive swift replenishment of the US strategic petroleum reserve and Valaris, among others, will be a direct beneficiary.

With some new names surfacing, some existing names have descended. Over the last two quarters, we booked profits — some partial, some complete — in existing holdings including Brookfield Corporation, iShares Gold Trust, Novo Nordisk and Philip Morris International.

As I write this, we are one week into the latest earnings season. So far, JP Morgan, Goldman Sachs and Taiwan Semiconductor have delivered robust numbers.

The next two weeks are unlikely to provide a dull moment. President-elect Trump will take office next week and more than 100 Executive Orders are expected to be issued on Day 1. As if that weren't enough, roughly 700 publicly listed firms are expected to release their quarterly numbers over the next nine market days to be precise. Above average market volatility cannot be ruled out, if not at the market level, then at least within various pockets.

As far as earnings seasons ago, this isn't unusual per se. But as I said earlier, what is new this time around is the Trump Uncertainty Factor. President Trump is now a known unknown. And I suspect this factor will seamlessly oscillate between known and unknown for the foreseeable future, easily throwing off the most seasoned of market participants. Naturally then, prudent risk control will matter more over the next few quarters and years than it did over the last few.

Come what may, from our strategy's viewpoint, I have never felt more confident about our prospects. I will wrap up saying its darkest before dawn — and I can already see the first ray of the sun.

As always, thank you for your continued trust.

Sincerely,
Kunal Mashruwala

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