

March 5, 2024

# Letter to Investors - 2024 Jan Bright Thematic Value Investing Fund

Dear Investors,

Greetings from LC Capital, this is the fourth letter from LC Capital. We are pleased to share with you the update on the fund's performance in **Jan 2024**, as well as the latest investment trends. The letter for January 2024 was released later since we wanted to wait for the announcement of fourth-quarter performance of several companies in our fund portfolio.

On February 28th, the performance of all companies in our fund portfolio had been announced, and we have outlined their performance below. They have maintained a strong ability to generate profits. This robust profit-making capability contributes to the potential for high returns for our fund's holdings.

	2024.02.09	2023 Full Year	
Stock Code	Closing Price	Ajusted EPS	Adjusted PE
CROX	122.25	12.03	10.16
DQ	21.28	7.21	2.95
OXY	60.61	3.69	16.43
MRO	24.25	2.61	9.29
IBKR	108.72	5.67	19.17
WHC	6.92	1.39	4.98

The first two months of 2024 were particularly memorable for us.

In January, the fund's net asset value experienced a decline primarily due to substantial unrealized losses in our major holdings. However, with the release of February's performance reports, the fund's net asset value gradually recovered starting from the end of February. In fact, it even reached a new peak on the last day of February. Then

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the closing gain narrowed, leaving the closing net asset value close to the fund's historical peak.

After the drop in January and the rise in February, we successfully executed some tactical trading maneuvers within the two months, resulting in nearly 1% of additional realized gains and reducing the overall cost basis of our holdings. We hope that these fluctuations provide investors with deeper insights into our methods and capabilities for achieving excess returns. I am eagerly anticipating the potential returns of our holdings over the coming months. Given the robust profit-making ability, strong balance sheets, and solid cash flows of our portfolio companies, I am confident that by the year's end, the fund's returns will outperform our benchmark index, the MSCI ACWI.

Additionally, we are deeply passionate about the transformative impact of artificial intelligence (AI) on human society and its potential to enhance corporate profitability. Beside our focus on the opportunities of the energy structures transition, we will allocate most of our time to research on AI. While we have made some initial progress, further time and in-depth research are needed to make investment decisions. I believe that 2023 was just the beginning for AI, similar to the energy structure transition, offering sustained opportunities for over a decade.

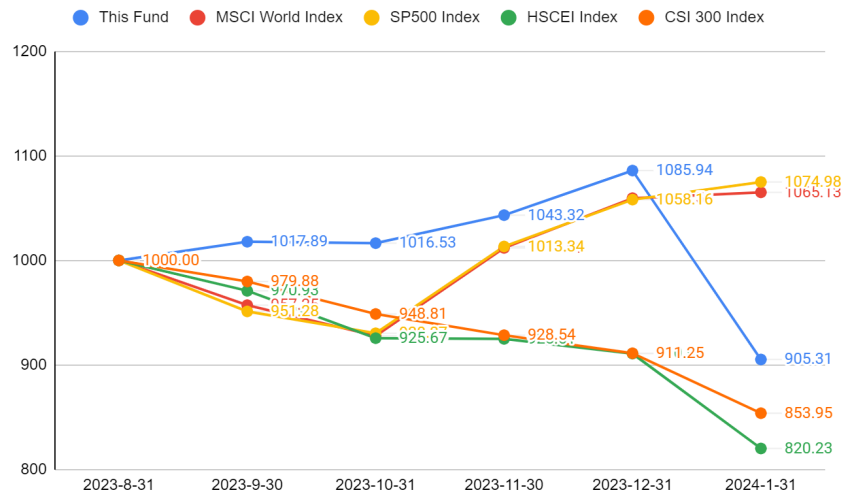
If investors wish to have a detailed understanding of the fund's fluctuations in these first two months of 2024, please feel free to contact us at any time.

In the next page, I will delve into the performance and specific operational situations of our portfolio companies.

# 1. Performance of the Fund Since Establishment

End Date	This Fund	MSCI World Index	SP500 Index	HSTEI Index	CSI 300 Index
Jan 31, 2024	<b>-9.47%</b>	6.51%	7.50%	-17.98%	-14.61%

**Return comparison: The corresponding value of the initial investment of 1,000USD**



\*The fund returns shown above are the fund's gross returns recorded starting from August 31, 2023, as the initial date (gross return before performance fee).

This fund commences its performance evaluation against the MSCI All Country World Index **starting on August 31, 2023**. The fund outperformed the index by **-15.98%** as of January 31, 2024.

\*MSCI's ACWI Index, which captures large- and mid-cap returns across 47 developed and emerging markets, comprises 2,895 constituents (as of June 30, 2022) and is the industry's accepted gauge of global stock market activity.

The following two tables present the weighted average valuations and characteristic indicators of the fund's holding companies for investors' reference in order to have a comprehensive understanding of the fund.

## Portfolio Valuation and Characteristics

Average Company Marketcap	8.44 Billion USDs
Price To Sales Ratio	0.99

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Free Cash Flow Yield	22.4%
Estimated Long Term EPS Growth Rate (Annualized)	14.61%

### Balance Sheet and P/L Statement Analysis

Net Debt/Ebitda	-0.69
Return On Assets	12.44%
Return On Equity	30.13%
Net Profit Margin	23.60%
Free Cash Flow Margin	33.63%

\*Statistical data is based on the weighted average of data reported by listed companies over the past 12 months, and the statistical date is January 31, 2024. Expected growth figures are based on estimates for the future, Enterprise value/free cash flow is an adjusted figure that combines the latest statements and future forecasts. Because accounting standards are different, some data have been reasonably adjusted accordingly.

## 2. Update of Holding Companies

### 1. DQ

Our top holding has now shifted to Daqo New Energy Corp (DQ). During a downturn period in DQ's stock price, we transferred the profits gained from WHC and IBKR into DQ. Additionally, I have disclosed industry background and company opportunities on Xueqiu.com. Everyone is welcome to take a look.

[二十年光伏商业路，十年一遇周期大机会又起上：至暗黎明](#)

[二十年光伏路，十年一遇周期大机会又起下：深度价值股- 大全能源DQ-兼具安全边际和爆发性](#)

We believe that this stock will present three major profit opportunities in the short, medium, and long term, outlined as follows:

#### (1) Short-term opportunities for DQ:

The following image depicts the performance of major polysilicon listed companies and solar energy ETFs as of February 26, 2024.

#### Stock price performance of silicon related company

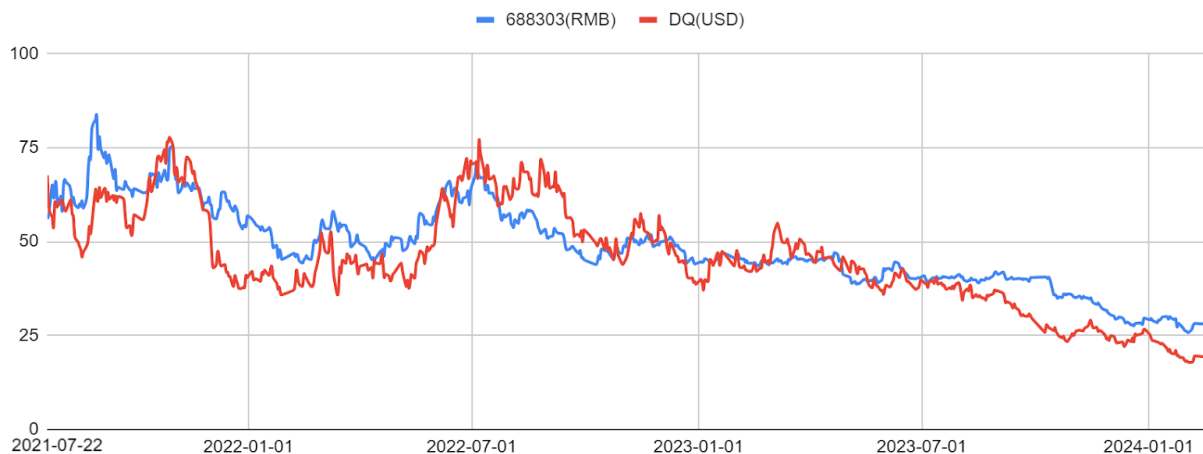
01799	Xinte Energy	-4.02%
03800	GLC Tec	-14.52%
600438	Tongwei	+5.11%
688303	Daqo New Energy	-2.71%
603260	Hoshine Silicon	-4.71%
TAN	Invesco ETF	-21.29%
DQ	Daqo New Energy	-30.45%

We can observe that as of 26th February 2024, the overall decline in the combined performance of polysilicon producers listed in the Hong Kong and A-share markets (including DQ's subsidiary 688303) was only around -4%. However, DQ's stock in the US market fell by 30%. This is because solar energy ETFs in the US dropped by 20-30%. DQ, being relatively smaller in market capitalization in the US market, faced greater selling pressure. The company's operational condition has not worsened, but in fact, has improved. The decline was merely a result of changes in industry fund flows.

Therefore, from this perspective, we see more opportunities. If the gap is corrected in the future, the stock price may return to \$26, presenting a potential double-digit increase in our fund's NAV. I believe that with the company's dividend and buyback plans expected to be announced in March-April, stock price recovery is likely to be achieved within six months.

## (2) Mid-term opportunities for DQ: Valuation recovery in A/U shares

Valuation recovery in A/U shares: Since DQ's listing on the A-share market (688303) in July 2021, the maximum value ratio of DQ/688303 was 0.45, the minimum was 0.19, and the average level was approximately 0.32. As we have invested in DQ, if the mean reverts, there could be a potential increase of +45%. If valuation recovers and assuming the A-share value remains unchanged, the stock price could potentially exceed \$35 after mean reversion.



Discount ratio: DQ Value/688303 Value



**(3) Long-term value of DQ primarily lies in two aspects: capacity expansion and profit recovery.**

**Capacity Expansion:** DQ New Energy plans to launch a new 100,000-ton N-type polysilicon production line in mid-2024. If capacity expansion proceeds smoothly, DQ is expected to achieve a production growth rate of around 23% in 2024 and 2025.

**Profit Recovery:** We believe a reasonable price for N-type polysilicon is likely around 80,000 RMB per ton (expected in the second half of 2024 to 2025). Based on our model assumptions, DQ's profit is expected to reach \$810 million in 2025, with an ADR profit per share of \$11.99. Additionally, the company is expected to have over \$2 billion in cash by then, equivalent to a cash value of approximately \$29.6 per share. According to our calculations, under these assumptions, the intrinsic value of the company by the end of 2025 is expected to reach \$72 per share, representing a 215% upside from the current price of \$22.89.

The above analysis represents a significant opportunity for DQ from various perspectives over the course of five years.

**2. CROX**

Crocs' adjusted net profit is \$12.02 per share, higher than the expected \$11.80 per share, and the company's guidance for growth in 2024 has been revised upward. With the completion of Heydude's second-quarter channel adjustments and the opening of dozens of direct stores, the company is expected to regain higher growth rates. Our approach primarily revolves around holding positions, waiting the company's development, while also benefiting from annual free cash flow of over 10% and solid growth prospects.

### **3. WHC**

The performance of WHC is in line with our expectations. The main point of interest lies in the data to be released after the acquisition of two coking coal mines in April. We sold most of our positions in WHC at a relatively high level of AUD8.1 and switched to DQ.

We believe that there may be good opportunities after the completion of the acquisition, and we are closely monitoring the situation.

### **4. OXY & MRO**

The performance of these two oil producers meets our expectations, and Western Oil's carbon capture is progressing as usual. With recent increases in oil prices, we are patiently waiting for further developments.

### **5. IBKR**

We've held our position in Interactive Brokers (IBKR) for about six months and have already profited nearly 30%. Considering the changes in performance, we believe it's a bit overvalued. Therefore, we've decided to take back our initial investment and retain the remaining position with the profits.



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### 3. Industries and Companies Under Research

We have divided our research work into the following three levels:

- Level 1: Current holdings, actively monitored industries in the global supply chain
  - **Polysilicon Industry**
  - **Footwear Industry**
  - **Crude Oil and Natural Gas Production Industry**
  - **Globalized Electronic Brokerage Industry**
  - **Thermal Coal and Coking Coal Industry**
  - **Copper Mining Industry**
  
- Level 2: Industries with potential, but requiring patience for opportunities to unfold
  - **AI Application:** We are actively seeking platform companies with cash flow and the potential for extensive AI applications to reduce costs or enhance productivity.
  - **Lithium Mining Industry:** The price of lithium carbonate is going down recently and may have reached a bottom. (Stock Price Outlook: Low, as of November 2023)
  - **Global Semiconductor Industry:** We have been tracking this high-tech industry for many years. There are long-term investment opportunities but need to be studied in detail. (Stock Price Outlook: High)
  - **U.S. Residential Construction Industry:** It is benefiting from booming demographic cycles. (Stock Price Outlook: High)
  - **Online Dating Software Industry:** The stock price of Match Group (MTCH) experienced a significant 80% decline, while GRINDR rose by 88% in 2023. Despite large industry divergence, there is potential due to industry characteristics. (As of December 2023)
  
- Level 3: Preliminary research, the valuations of these industries did not match our main strategies currently
  - **Shipbuilding Industry:** Yangzijiang Shipbuilding (BS6.SI) listed in Singapore has relatively good operating data. (Further investigation is needed)
  - **Beauty Device Industry:** Stock prices like Inmode (INMD) have fallen more than 80% from highs. The industry's overall stock prices are significantly influenced by weight loss drugs, currently with low certainty. (Waiting for greater certainty, as of December 2023)

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- **Automobile Manufacturing Industry:** Intense competition with the entry of new players such as Apple, Huawei, Xiaomi, leads to unclear industry tracks and future trends. The growth rate of electric vehicle penetration is now slowing down, but the overall valuations of automobile manufacturers remain high, waiting for suitable investment opportunities. (As of December 2023)
  - **Battery Factory Industry:** Preliminary research is underway
  - **Electric Vehicle Power System Industry:** Preliminary research is underway

After in-depth research, if we make an investment decision, we will share with you in subsequent letters.

## 4. Summary

The first two months of 2024 saw significant volatility. To summarize with a recent saying: "The bigger the waves, the more expensive the fish." Although there were large price fluctuations at the stock level, our portfolio companies possess robust cash flows, excellent balance sheets, and a remarkable operating history, allowing us to seize profit opportunities amidst the turbulence and ultimately achieve excess returns. We will continue to closely monitor the companies' performance and make prudent decisions.

Our deep dive into the theme of energy transition is nearing completion, from traditional fossil fuels to renewable energy, and now extending to the electric vehicle supply chain. Recently, the AI boom has been vibrant, primarily at the hardware level. I firmly believe that AI technology will revolutionize human society's lifestyle, work patterns, and investment methods, representing a significant breakthrough following the internet era, with the potential to sustain technological growth for over a decade.

Currently, we are observing and researching the following AI-related sectors:

1. Compute power industry chain
2. AI applications
3. Transformers and energy shortages

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According to the seller's model, due to the emergence of AI computing power, the annualized growth rate of human society's demand for electricity is expected to increase from 2.5% to 4% over the next three years. However, rapidly replenishing energy resources is challenging, which could result in robust energy prices in the next 2-3 years. Solar energy, in particular, is the fastest source of replenishment. We believe our current investment layout will benefit from AI demand.

We will continue to delve deep and diligently track developments, aiming to deliver more favorable returns to investors.

“Although our form is a fund, our attitude is partnership.”

*Liang Xiao*

**Liang Xiao**

**Chief Investment Officer**

**LC Capital Management**

## Main holdings of Bright Theme Value Investment Fund - as of January 31, 2024

Company Name	Stock code	Industry	Company Profile
WhiteHaven Coal	WHC.AX	Coal	Whitehaven Coal is an Australian independent large-scale thermal and semi-soft metallurgical coal miner with mines located in the Gunnedah Basin of New South Wales. It also owns the large Vickery and Winchester South deposits in New South Wales and Queensland respectively.
Crocs	CROX.NASDAQ	Footwear	Crocs Corporation engages in the design, development, promotion and sale of casual footwear accessories for men, women and children. The company's business regions include the Americas, Asia Pacific and EMEA.
Interactive Brokers	IBKR.NASDAQ	Brokerage firm	Interactive Brokers Group, Inc. is an investment holding company engaged in the business of broker or dealer and proprietary trading. It operates through the following segments: Electronic Brokerage and Market Making.
Daqo New Energy	DQ.NYSE	Photovoltaic	Daqo New Energy Co., Ltd. is a leading manufacturer of high-purity polysilicon for the global solar photovoltaic industry. The company is headquartered in Shanghai, China, and its products are mainly sold to solar cell and module manufacturers. The company is one of the world's lowest-cost producers of high-purity polysilicon.
Teck Resources	TECK.NYSE	Copper	Teck Resources is a diversified mining company with coal, copper and zinc operations in Canada, the United States, Chile and Peru. Coking coal is Teck's main commodity, followed by copper, with zinc making a smaller contribution to earnings. Teck is the world's second-largest seaborne coking coal exporter and one of the world's top three zinc miners.
Occidental Petroleum	OXY.NYSE	Oil and Gas	Occidental Petroleum is the fourth largest oil and gas company in the United States, engaged in the exploration and production of oil and natural gas. Its business areas include: oil and gas, chemicals, midstream and marketing.
Marathon Oil	MRO.NYSE	Oil and Gas	Marathon Petroleum Corporation engages in the exploration, production and sale of liquid hydrocarbons and natural gas. It operates through two segments: United States and International.

## Monthly Fund Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	MSCI World Index	Outperform
2023	-	-	-	-	-	-	-	-	1.79%	-0.13%	2.63%	4.08%	8.59%	5.95%	2.64%
2024	-16.63%												-16.63%	0.53%	-17.16%

\*The fund returns shown above are gross return before performance fee, and each investor's actual return may vary, depending on the specific time when funds enter the fund.

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## **IMPORTANT DISCLOSURES**

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All performance results presented in this article refer to the performance of non-investor specific investors since the fund's inception. For investors who subscribe on different dates or pay different fees, their performance will inevitably be different from the performance presented in this article. Returns are calculated on a "time-weighted" return basis, minimizing the impact of cash flow on the fund's investment performance. All performance data presented herein are unaudited unless otherwise stated and therefore their accuracy cannot be guaranteed. Past performance is not necessarily indicative of future results. All securities trading involves a substantial risk of loss.

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## **PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.**