

Pathfinder Investment Outlook

For the week ending October 11th, 2019

Recap & Outlook: China Trip – Part I

Part of our investment process is to meet with the management of the companies we own in their offices. This summer, we traveled to China to visit companies involved in eCommerce, big data, AI and Cloud businesses. Not surprisingly, every management expressed a broad concern over recent escalated trade tension between China and the US. However, they remain confident to continue their growth story in the domestic market. A summary of our meetings is the topic of the next two *Investment Outlook*.

- **Tencent (700: HK)**, the largest social media company in China and the largest gaming company worldwide, has experienced enormous growth over the last 20 years. Tencent also built a vast **investment portfolio of over 700 companies** across various fast-growing industries, including Epic Games, Spotify, Tesla and Pinduoduo. The tech giant continues to see itself as a **growth company** and has positioned to broaden that expansion through multiple initiatives in new businesses (Fintech, Cloud, Music, Video). While the Chinese regulatory pressure could potentially slow its ambitions, it also pushes up the business entrance threshold from a regulatory perspective.
- **JD.com (JD: NASDAQ)**, a local partner of Wal-Mart, also backed by Tencent, is the largest online direct sales company in China. Unlike Alibaba and other eCommerce platforms, its IP business model with product quality focus and unique in-house logistic infrastructure offers same day and last mile delivery capabilities, has earned consumers' trust in JD's reputation. Moreover, its **logistics edge** is unlikely to narrow as the company continues to investment in efficiency. Management highlighted that with automation adoption including robotics and digitization, a new warehouse requires only **a tenth of labor** for operation vs. existing warehouses.
- **Pinduoduo (PDD: NASDAQ)**, another Tencent backed internet company founded by a group of engineers in 2015, has achieved massive growth over the past few years. Though an innovative **"team purchase"** model by leveraging Tencent' social network and its own technological infrastructure, PDD has become one of the three largest eCommerce platforms in China. By offering a direct connection between farmers and buyers, the platform removes multiple layers of intermediaries and reduces cost for consumers. The "team purchase" model has gained popularity and made the platform become the **largest online channel for agriculture products** in China. Management believes there are tremendous growth opportunities in China. Agriculture success is expandable to other manufacturer's businesses. Producers will be able to conduct better management in production, logistics and inventory powered by PDD's big data, AI and machine learning capabilities.

"This means that", we continue to see great opportunities for investment in China, particularly where management teams and financial markets have demonstrated maturity. We remain confident in the long-term growth potential of China and also continue to look for other opportunities in different countries.

Fang Zhou, CFA | Associate Portfolio Manager



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Sources: Bloomberg, Pathfinder Asset Management Limited

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*All returns are time weighted and net of investment management fees. Returns from the Pathfinder Partners' Fund and Pathfinder Real Fund are presented based on the masters series of each fund. The Pathfinder North American: Equity Portfolio and The Pathfinder North American: High Income Portfolio are live accounts. These are actual accounts owned by the Pathfinder Chairman (Equity) and client (High Income) which contain no legacy positions, cash flows or other Pathfinder investment mandates or products. Monthly inception dates for each fund and portfolio are as follows: Pathfinder North American: Equity Portfolio (January 2011), Pathfinder North American: High Income Portfolio (October 2012) Pathfinder Partners' Fund (April 2011), Pathfinder Real Fund (April, 2013), Pathfinder International Fund (November 2014) and Pathfinder Resource Fund (May 2018).

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