(This copy is an AI-assisted translation of the original letter in Chinese)

2025 Annual Letter

Our partnership began on August 15, 2025. This is the first letter I am writing to you.

I. Performance

The table below outlines the partnership's returns from inception through the end of 2025:

(Returns %)	Aug 15, 2025 – Dec 31, 2025
Normal Capital (Total Return)	9.3%
Normal Capital (Net Return, after fees)	7.6%
MSCI World Index[1]	6.6%

For comparison, here is the performance of select indices over the same period:

S&P 500 Index	6.5%
Hang Seng Index	2.4%
CSI 300 Index	10.8%

Clearly, a track record of merely four and a half months is not statistically significant for evaluation. As I have stated before, a meaningful assessment requires at least three years. Short-term stock price fluctuations do not reflect changes in intrinsic value, therefore the figures above are less a measure of return and more a measure of volatility – our portfolio's price volatility was roughly in line with the overall market. Although the timeframe is too short to serve as a reference, I have listed these figures primarily to illustrate the format we will use for reporting performance in the future.

Buying a stock is buying a business. When measuring performance, rather than focusing on share price movements, we should focus on the return on capital of our portfolio and whether it has changed significantly. As of the end of 2025, the ROIC[2] of the companies in our equity portfolio was 25.8%. This metric measuring a company's ability to generate earnings from invested capital is crucial. By comparison, the average ROIC for the S&P 500 and CSI 300 is approximately 18% and 12%[3], respectively. Over a sufficiently long horizon, an investor's return will approximate the business's ROIC. Therefore, we should remain confident in the future of these companies we invest.

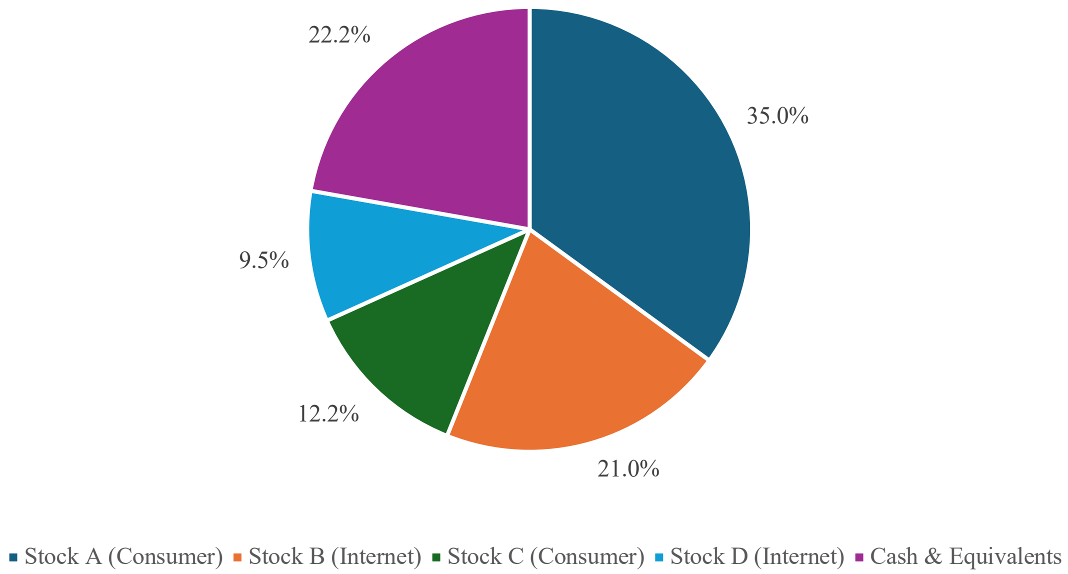
II. Investment Concentration

[1] Given our investment coverage, the MSCI World Index serves as our primary benchmark for performance comparison. It is an authoritative index tracking approximately 1,300 to 1,500 large- and mid-cap stocks across 23 developed markets (including the US, Japan, UK, France, and Hong Kong), covering about 85% of the free float of developed markets. The index return used here is the Net Total Return, which assumes the reinvestment of dividends after the deduction of withholding taxes. This applies hereinafter.

[2] ROIC (Return on Invested Capital) is calculated as EBIT (Earnings Before Interest and Taxes) divided by the sum of equity and debt capital. The number here represents the weighted average ROIC (trailing 12 months) of all portfolio companies, weighted by their current market value.

[3] These figures are estimates for reference only. Financial stocks are excluded from the calculation as standard ROIC metrics are not applicable to them. The overall return on capital for US stocks is extremely high, driven by asset-light, high-margin tech giants like Microsoft and NVIDIA. A-shares are at a moderate level, mainly dragged down by asset-heavy industrial and utility sectors, though top-tier companies like Moutai and CATL still maintain very high returns on capital.

The following is the allocation of our investment portfolio as of the end of 2025:



Currently, our entire portfolio consists of only four stocks. This is highly concentrated. Although there are many stocks within sight, there are very few within my circle of competence that I truly understand. Combined with the discipline to wait for the right price, a "less is more" approach is the inevitable path and norm for value investing. As long as the companies meet the three criteria – good business model, good team and culture, and good price – concentration itself is not a risk. On the contrary, excessive diversification is essentially a sign of "not understanding". Imagine if you had a crystal ball and knew which stock would rise the most, you would certainly buy only that one. For me, holding four stocks is not ideal. If possible, I would prefer to hold just two. Just as Charlie Munger, in his 99 years, truly only needed to hold Berkshire Hathaway and Costco. For Duan Yongping, it is Apple and Moutai. Another investor I admire, Nick Sleep, achieved a 9.2x return over 13 years (approx. 20% annualized) at the Nomad Partnership, driven decisively by just two companies: Amazon and Costco.

It is also worth noting that our current portfolio is concentrated in the Consumer and Internet sectors, with almost zero AI flavor. I understand the importance of AI, but judging who the ultimate winners will be ten years from now is beyond my capability. Making heavy bets without sufficient certainty is speculation. Therefore, even if we allocate to AI-related companies in the future, it will be a very small proportion. Of course, I will continue to learn and improve my understanding of AI. Furthermore, the portfolio currently contains no U.S. companies, meaning we missed the great U.S. bull market. While there are undeniably many great companies in the U.S., valuations are generally too high. I have not yet found any that meet the standards, though I hope for opportunities in the future.

In summary, I prefer concentration. I will not buy companies I do not understand, I will not chase hot trends or new concepts, and I will not buy good companies at just any price. Rather than maximizing short-term gains, I am acutely aware that permanent loss of principal is the greatest risk. Not losing money is the essence of true investing.

III. Cash Position

As of the end of 2025, we held a 22.2% cash position. Cash and equivalents earn only risk-free returns[4] and are typically seen as a drag on average performance (especially in a bull market). No investor likes to tell their partners at year-end: "I am happy to report that your money is sitting safely in the bank." I am no exception. Theoretically, like Warren Buffett and Duan Yongping, I am a "fully invested" advocate. Holding large amounts of cash is uncomfortable because we know that, in the long run, the purchasing power of cash constantly declines. To defeat the gravity of inflation, one should invest in the equity of good companies.

However, being a "fully invested" advocate does not mean being fully invested every single moment. As Buffett said: *"Cash is oxygen. You don't need to be surrounded by it every minute, but if you're without it for four or five minutes, you realize its importance. Cash is the same; you must have it ready at all times because you don't know what will happen in the stock market or the business world tomorrow."* Thus, cash is an option – a right that allows us to be "greedy when others are fearful." The higher the market valuation and the wilder the speculation, the more valuable of this option. Therefore, I will not harbor the irrational thought of "deploying money quickly just to look competent and avoid explanations".

My memory of seeing a major opportunity arrive while having empty pockets is still fresh and painful. We do not need to predict when a crisis or a major opportunity will strike. We only need to know that they *will* arrive, and ensure our pockets are deep enough when they do.

IV. Value Investing, Antifragile, and Tranquility

Value investors primarily learn from figures like Buffett, Munger, and Duan Yongping. My investment system is certainly not original; it is copied from them. I have spoken about this at length on my podcast. However, I also constantly remind myself not to become a so-called value investing fundamentalist. I see many "value investors" on Xueqiu who memorize master quotes and apply them mechanically – claiming, for example, that "buying tech stocks isn't value investing", "value investor means never sells", or dismissing companies without a "grand narrative".

Value investors must not speculate, but neither should they cling rigidly to textbooks – any extreme is dangerous. Buffett and Munger improved upon Graham's classic methods, and Duan Yongping improved upon Buffett's. Fundamentalists often lack real understanding, and their lack of flexibility suggests they haven't touched the underlying first-principles truths, leaving them only with dogma. If an investor can consistently beat the market over the long run, they are successful. Thus, successful investors should come in many forms. Ultimately, value investing is about making money, and we should remain open to learning from all types of successful investors (excluding speculators of course).

The most pleasant surprise for me this year was reading Nassim Taleb. Taleb comes from a background as a Wall Street options trader, and his primary strategy remains options trading nowadays. In value investing circles, options traders are often viewed as naked speculators. Yet I learned a great deal about the world and the why's of investing from Taleb's books. His five-book *Incerto* series constructs a complete worldview and investment system:

- *Fooled by Randomness*: Success is often due to luck; acknowledge the power of randomness, remain humble, and avoid blind confidence.
- *The Black Swan*: The world is driven by unpredictable, high-impact events; accept uncertainty and do not trust predictions.
- *Antifragile*: How to benefit from disorder by building convex structures (rather than predicting the future).

[4] To maintain liquidity, I mostly invest cash into short-term U.S. Treasuries, currently yielding approximately 3.5% annually.

- *Skin in the Game*: The business world is full of agency problems where decision-makers do not bear the risks; do not trust agents whose interests are not aligned with yours.
- *The Statistical Consequences of Fat Tails*: Provides the mathematical explanation for the above system.

Of these, *Antifragile* is arguably the most brilliant and refreshing. Taleb points out that the opposite of fragile (a building collapsing in an earthquake) is not robust (a stronger structure), but antifragile (like the Hydra – cut off one head, and two grow back; what doesn't kill it makes it stronger). A so-called "convex structure" is one that benefits more from volatility than it loses. His highly successful Black Swan fund is convex: it buys put options, bleeding small amounts of money 99% of the time, but making astronomical gains the 1% of the time a crisis hits. Taleb's advice for the average person is the Barbell Strategy: keep one end in highly safe cash-like assets (e.g., Treasury bonds) and the other in high-risk, high-reward offensive assets (e.g., venture capital, put options), completely avoiding the middle ground. An antifragile investment structure does not fear volatility. Instead, it craves crisis.

It is strange, yet perhaps not, that Taleb's fans seem to flock to options trading, while value investing gurus rarely mention his name, as if there is no common ground. I believe, however, that value investing is also antifragile, convex, and a form of the Barbell Strategy, just using different tools (stocks of great companies vs. options). Value investing also loves volatility and craves crisis (buying more as prices drop). By maintaining a safe structure (zero leverage, high cash, demanding a margin of safety), we aggressively buy great companies that can traverse cycles when the market undervalues them, to achieve excess returns. The greater the market volatility, the greater the gain.

So now you should understand what I'm trying to say here: it's not that I am unwilling to learn other methods, but that value investing is truly a good thing. All roads lead to Rome. Just choose one simple, broad path that suits you. We invest not for wealth itself, but for a better life. But what is a better life? For me, it is tranquility – freedom from anxiety, eating well, sleeping well, and playing well. There is no need to touch investments that are too difficult, too tiring, or that cost me my sleep. Value investing fits just right.

V. AI and the World Ten Years Hence

Although we do not currently invest in AI stocks, this does not mean we should ignore new technology. Buying a stock is buying a company, and for any company we buy, we must consider what it will look like in ten years. AI is undoubtedly a key variable affecting the next decade or two, so we must study and research it carefully.

Discussions about an AI bubble are currently popular. But these are just opinions. Opinions are cheap, and analysis (in the face of AI) is also cheap. Only betting with your own money is real. Have those asserting there is a bubble shorted the stock or market? Are those saying there is no bubble AI practitioners or related parties?

AI changing the world is an ongoing process and we stand at the start of another industrial revolution. Humanity moved from the Atomic World to the Bit World, and now we are welcoming the Token World. Each stage sees rounds of new replacing old. Recall that in the Atomic World before computers, steam-driven manufacturing was the absolute force changing the world. But in later stages, if products lacked differentiation and businesses were asset-heavy, manufacturing became unprofitable. It then evolved into today's high-end manufacturing – companies with the strongest ability to manipulate atoms (lithography machines, 2nm chips, F1 cars, surgical robots, iPhone) remain at the top of the commercial pyramid. Then humanity entered the interconnected Bit World, a host of great companies was born – both pure Bit (search, gaming, social networks) and those connecting Bit and Atomic worlds (e-commerce, food delivery). There were bubbles along the way (.com, metaverse, NFT). Now, as we enter the Token World, new business models and new champions will certainly be born (pure Token, or connecting Token with Bit/Atomic worlds), and bubbles will certainly appear.

While this macro analogy is interesting, as individuals within it, we can look back but cannot predict the world's direction or the ultimate commercial winners. Could a wise man witnessing Edison invent the lightbulb or Watt invent the steam engine predict which company would win? We all witnessed the birth of the Internet; who among the wise in the late 90s could have foreseen that the giants would not be Yahoo or eBay? Similarly, the AI revolution has just begun – who will be the winner in ten years? Looking forward, we can be certain about the macro narrative, but micro choices offer almost zero certainty. History has seen people who predicted correctly and made a fortune, but they were likely just random-walking fools. Therefore, it is hard to practice value investing (heavy betting) in new tech. Perhaps doing some venture capital (many small bets) is understandable, but many who are currently placing heavy bets are speculating.

Value investors need not speculate, but that doesn't mean we should ignore it or "lie flat". The task of investing is to find certainty in an uncertain world. No matter how the Token World surges, the Atomic and Bit worlds must continue to turn. There remain many certain, unchanging things with moats, such as:

- No matter what, humans will always pursue happiness and love (drinking good wine, giving good gifts).
- As social animals, the need to distinguish social status will not disappear (consuming luxury goods; though the carrier may change – e.g., after autonomous driving becomes ubiquitous, driving freely in the Atomic World might become a new luxury).
- Regardless of when AGI arrives, people will still need hardware to access and experience intelligence (top-tier ability to harness atoms, product balancing capabilities, and taste remain key moats).
- Efficiency advantages in the Atomic World accumulated through hard, tiring work will not collapse overnight (the ability to efficiently match buyers and sellers, supply chain dominance, and warehousing/logistics will remain core competencies).
- Etc.

In fact, this is my basic requirement for screening companies: companies we invest must possess this kind of certainty and a moat. On the surface, not investing in AI stocks looks like missing an opportunity. But if it is something I don't understand, those so-called opportunities never belonged to me, and there is nothing to regret. Our money – including my own – must never be used to gamble on a single future. Otherwise, if we were all just going to Macau, you wouldn't need to entrust your money to me.

Looking forward, to find our next opportunity, we should focus on those unchanging things, rather than wasting effort guessing the winner amidst great changes. Of course, we must also be vigilant and avoid sectors and companies that could be completely disrupted by AI, to avoid falling into value traps.

VI. The Road of Rationality

2025 was undoubtedly an important year for me. I ended one journey and started another. Chicken soup for the soul says life is a journey full of cultivations. I understand that now, because human nature (greed, short-sightedness, jealousy, arrogance, conformity...) inherently brings suffering. Whether poor or rich, wherever you are, no one can escape it.

If the goal of life is to pursue tranquility, the only choice is to step onto the road of rationality. Whether in investing or in life, emotions/instincts only disturb tranquility, and they must be tamed by reason. I need to remain constantly alert: *Is my current impulse driven by emotion? Is my thinking and* *judgment of this company just a lazy response from System 1?* So, cultivation for me is a lifelong quest on the path of rationality. At the same time, rationality is a virtue, and the ability to resort to reason is what fundamentally distinguishes humans from animals. However, like any virtue, rationality is an inward requirement for oneself, not a "demon-revealing mirror" to shine on others, especially those close to us. That only hurts our most important relationships.

Rationally speaking, in financial markets, most people – amateur or professional – are unaware of their own ignorance. Their confidence in their stock-picking skills stems from a reality distortion of the brain's instincts, not from objective data proving they have beaten the market over the long run. So, am I just ignorant and fearless too? It is hard to say now, and it must be left to time to test. However, for a rookie like me, the fact that you are willing to entrust your money to me is a massive vote of trust. I am deeply grateful and will do my utmost not to let you down.

Behaviorally, investing looks very opportunistic: most of the time you sit still, only occasionally making a move. But I know clearly, as Roger Federer said, there is no such thing as effortless tennis; it’s just that the hard work behind it wasn't seen. So, in 2026, I need to continue my cultivation. What I must practice hard is rationality.

Patrick, in Hong Kong

January 30, 2026