Asia Pacific Strategy Commentary 2Q22

Southeastern Asset Management

For Institutional Investors Only

Portfolio Returns at 6/30/22 – Net of Fees (%)

	2Q22	YTD	1 Year	3 Year	5 Year	Since Inception 10/31/2014
APAC Strategy (USD)	-5.40	-13.02	-32.02	-3.67	-1.86	1.89
MSCI AC Asia Pacific Index	-11.85	-17.12	-22.24	1.82	2.79	3.81
Relative Returns	+6.45	+4.10	-9.78	-5.49	-4.65	-1.92

Selected Indices*	2Q22	YTD	1 Year	3 Year	5 Year
Hang Seng Index (HKD)	0.81	-4.90	-21.99	-5.83	-0.15
TOPIX Index (JPY)	-3.75	-4.80	-1.42	8.99	5.43
TOPIX Index (USD)	-13.76	-19.18	-19.28	0.97	1.53
MSCI Emerging Market (USD)	-11.45	-17.63	-25.29	0.57	2.18

*Source: Bloomberg; Periods longer than one year are annualized

Please see the GIPS Report included at the end of this document

The Strategy declined -5.40% in the second quarter, significantly outperforming the MSCI AC Asia Pacific Index for the quarter and in the year-to-date period. The strategy's overweight position in Hong Kong/China, which drove relative and absolute underperformance in the last year, was the driver of outperformance in the current quarter. Sentiment around Chinese equities started recovering from the extreme pessimism we witnessed in the first quarter as Covid lockdowns eased, regulatory pressure abated, and government crackdowns were replaced with aggressive stimulus.

Weakness in currencies – particularly the Japanese Yen and Asian EM currencies – accounted for approximately half of the quarter's negative returns, as interest rate and inflation differentials between the US and Asian countries increased. The yen hit a 24-year low against the US dollar as the Bank of Japan continued to suppress the Japanese yield curve while the US yield curve climbed in response to rising inflation and quantitative tightening, making it compelling for investors to take advantage of the yen carry trade. The yen's real effective exchange rate is as cheap as it was in the early 1970s. A bowl of Ichiran's tonkotsu ramen costs $19.9 before taxes and tips in New York vs. ¥980 in Tokyo, implying a real exchange rate of ¥49 per dollar. A comparison of Big Mac prices between the US and Japan suggests a real exchange rate of around

¥65 JPY/$. With the cheap yen, the de-rating of the Japanese market, and improving corporate governance, we are spending more time evaluating Japanese opportunities.

Real Broad Exchange Rate for Japan: January 1994 to June 2022

Source: Bloomberg
Real effective exchange rates are calculated as weighted averages of bilateral exchange rates adjusted by relative consumer prices.

We believe we are still in the early days of re-rating of our Chinese investment holdings from severely depressed valuation levels. Human emotions and behavioral biases distort investment decision-making. Investors focused on the recent past, extrapolated into the near future, and decided that China is uninvestable. Global funds reduced their allocations to Chinese equities as the "China is uninvestable" mantra became louder. JP Morgan's declaration on March 14 that "China Internet is uninvestable on a six-12 month view" marked the bottom. As Chinese stocks began to re-rate and outperformed other geographies in the second quarter, China is beginning to be viewed as investible again. On May 16, just two months after declaring China's internet uninvestable, JP Morgan changed their rating on seven Chinese internet companies from underweight to overweight.

Our investment objective is to buy high-quality businesses run by intelligent capital allocators at discounted prices. We define risk as permanent capital loss and consider volatility an opportunity. We are benchmark agnostic and invest across Asia to maximize risk-adjusted return regardless of sector and geography. For the most part, country weightings result from our bottom-up, fundamentals-based, individual security selection. Over the last 18 months, a confluence of factors led to extreme undervaluation in Chinese companies, allowing us to upgrade the quality of our portfolio while simultaneously lowering the overall price-to-value (P/V) ratio. Most of the strategy's incremental capital has been deployed in Chinese investments because they appeared the most attractive on business, people, and price metrics. The strategy's Greater China exposure has increased to around 70%, at the high end of our historical range.

When most Western democracies were unleashing unprecedented amounts of stimulus to grow their economies out of Covid disruption in 2020-21, China was on a tightening path on fiscal, monetary, and regulatory fronts. China's economy was relatively unaffected by Covid and did not require extreme monetary intervention. Rather, policymakers focused on addressing socio-economic concerns and strengthening the foundation of its economy. The underlying objectives for regulatory crackdown (tackling excess leverage, fair competition, inequality, data privacy, cybersecurity, gig worker rights) seem rational, but the intensity and manner of the implementation had unintended consequences – stalled property markets, developer defaults and sapped investor sentiment – and triggered a broad consumption slowdown. The economy started slowing down in 2H 2021 and collapsed in Q1 with Covid-induced lockdowns in many large cities nationwide.

The slowdown was policy-induced, and a change towards a supportive policy stance started to feed through into stronger economic growth (and market returns) in early 2022. The Central Economic Work Conference in December 2021 mandated local governments and ministries to prioritize economic stability and support the "healthy development of capital." The 3 Red Lines policy to reduce leverage in the real estate industry was relaxed in January 2022 to support the collapsing real estate sector. Retail sales grew by over 6% YoY in Jan-Feb 2022, but this early recovery came to a screeching halt with Covid's resurgence and the ensuing lockdowns in some of the biggest cities in China at the end of the first quarter. Combined with ADR delisting fears and China's close relationship with Russia, investor sentiment in Chinese investments hit its nadir in March, offering enduring franchises at insanely attractive valuations.

The brunt of Covid business disruptions will be felt in Q2 results as lockdowns were more pervasive in April and May. In April, cities with new Covid cases and movement restrictions represented more than half of Alibaba's China retail GMV. China has lately been the market everyone loves to hate, but we remain highly optimistic on prospective returns in both absolute and relative terms for the following reasons:

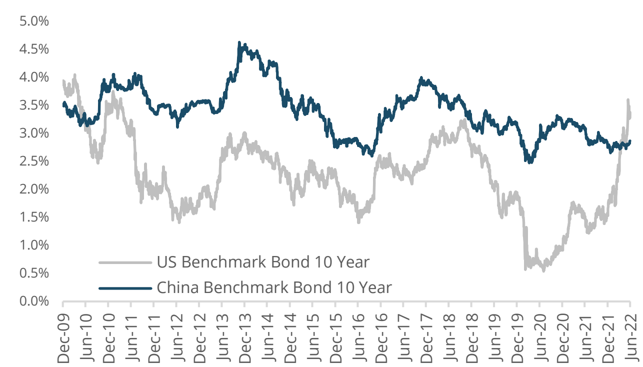
Policy tailwind: Capital allocation and price discovery get distorted when the cost of capital is artificially suppressed. After years of ultra-loose monetary policy, the US faces massive price inflation. The Fed is committed to price stability, which means higher interest rates, quantitative tightening, and an ensuing market correction. China is at a diametrically opposite starting point. It did not embark on unprecedented monetary and fiscal stimulus, and the economy is starting from a low base. While US inflation is running at ~8% and the UK's RPI hit 11.7% in May, China's inflation rate remains around 2%, leaving ample policy headroom for stimulus measures. Just as important, US valuations are close to historical highs, while Chinese equities are close to historically low valuations. We expect a re-rating of Chinese equities in a relatively low inflation environment. While Europe is suffering from high energy costs, China benefits from buying discounted energy and natural resources from sanctioned nations like Russia, Iran, and Venezuela. This is a politically important year for President Xi Jinping, and we believe Beijing is willing and able to double down on easing measures to stimulate further growth. This could take the form of more rate cuts, increased credit flow to corporates and households, tax cuts, relaxed home purchase restrictions, increased infrastructure spending, rent relief for SMEs, and handouts and subsidies to consumers. The government policy backdrop is an important driver for stock market returns in Asia, and this is finally turning from unfavorable to favorable in China.

US vs China

Year-over-Year Inflation
12/31/2009 to 6/30/2022

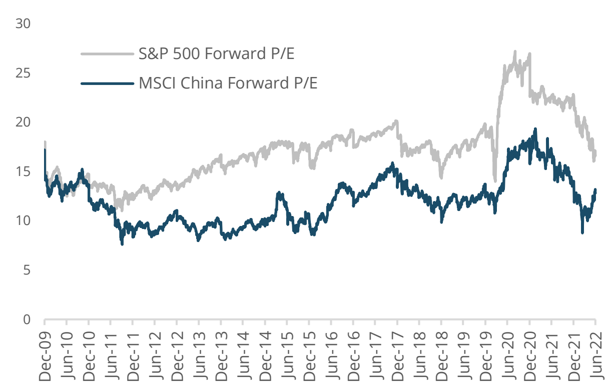
Source: Bloomberg

10-Year Treasury Yields
12/31/2009 to 6/30/2022



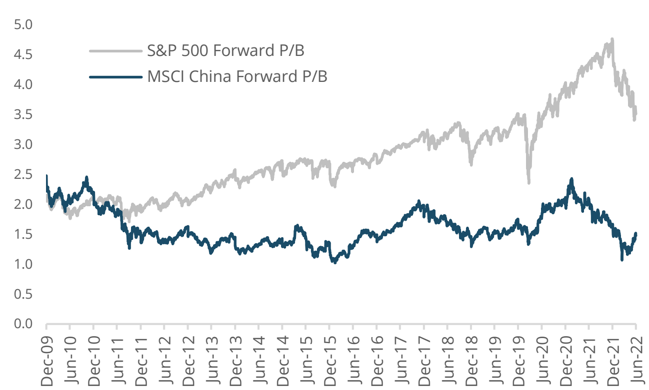
Source: Bloomberg

Forward Price to Earnings (Bloomberg BEST)
12/31/2009 to 6/30/2022



Source: Bloomberg

Forward Price to Book Value (Bloomberg BEST)
12/31/2009 to 6/30/2022



Source: Bloomberg

Regulations: Beijing's regulatory crackdown targeting internet platforms and overleveraged real estate developers has profoundly impacted investor sentiment and asset prices over the last two years, but there are clear signs that this crackdown is easing:

- In January, the National Development and Reform Commission (NDRC) was assigned to coordinate internet regulation. The NDRC has said that "ensuring normal operations of platforms" should be a "precondition" for taking new regulatory actions.
- In March, Vice-Premier Liu He chaired a special Financial Stability and Development Committee (FSDC) meeting and resolved to: "carry out more easing policies, deal with the struggling property sector, signal a quick end to anti-monopoly policies, and work with Public Company Accounting Oversight Board (PCAOB) for cross border audit check."
- In April, President Xi Jinping chaired a Politburo meeting "to complete the rectification of platform economy and transition toward a normalized regulatory framework" and "to come up with specific measures to support the healthy development of platform companies."
- In May, Vice-Premier Liu He attended a consultation session held by the CPPCC National Committee and said, "the country should support the sustained and healthy development of the platform economy and private sector, formulate measures to boost the orderly and sound development of the platform economy." Liu He also said, "the government needs to support the listing of digital companies in the capital markets at home and abroad, and cling to the strategy of opening-up for the development of the digital economy."
- In June, it was reported that China was concluding its cybersecurity probe and lifting the ban on new user registration for Didi. In addition, Ant Financial was reported to be close to obtaining regulatory approval for its financial holding company structure and reviving its IPO plans. In the video gaming space, the government approved 60 new games in June, in addition to 45 games approved in April. These are the clearest signs that regulatory headwinds are easing.

Covid lockdowns: China continues to stick with its Zero Covid (now called Dynamic Clearing) policy. The current Covid vaccine used in China is not as effective as Western vaccines. China is still awaiting approval of Covid mRNA vaccines. When looking more broadly, the vaccination rate among the elderly (30 million over 80-year olds) remains low, and health services infrastructure, especially in rural China (where most elderly live) is lacking. The policy response to the latest Omicron surge in March left dozens of key cities (including Shanghai) and hundreds of millions of people under complete or partial lockdowns. The impact on overall economic activity was severe, with shops and factories closed and the supply chain disrupted. But here, too, we see signs of optimism:

- China has repeatedly proven its ability to weed out Covid by brute force (hard lockdowns, track, test, quarantine), and this time was no different. After nearly four months, both

Shanghai and Beijing reported zero new cases on June 27. Inter-province domestic travel is showing a V-shaped recovery. China's largest online travel agency Trip.com reported that hotel room nights booked in the last two weeks have already surpassed 2019 pre-Covid levels. Disneyland in Shanghai has re-opened after being closed down for 101 days.

- On June 28, the State Council reduced the quarantine requirements for inbound travelers and close contacts from 14 (govt quarantine) +7 (home quarantine) days to 7+3 days of quarantine. This is a strong directional signal for relaxation in the coming months.
- Despite the surge in Covid cases in April, the situation never devolved into a public health crisis. Since the start of the pandemic in 2020, China has reported three deaths per million compared to 3,000 deaths per million in the US. Domestic mRNA vaccines are under development, and Pfizer's Covid drug Paxlovid is approved in China. We believe the recent Omicron episode served as a wake-up call to increase vaccination and booster rates among the elderly, putting China on a more solid footing for future outbreaks.

Valuation: Most of the headlines out of China have been gloomy in recent quarters, and it has been a safe consensus bet to be pessimistic. Combine domestic issues (slowing economy, Covid lockdowns, regulations) with geopolitics (Russia-Ukraine war, ADR delisting fears), and you get extremely attractive valuations. For example, Alibaba's market capitalization reached a recent low of $300 billion. Adjusted for cash and investments, the underlying enterprise value for Alibaba is about $185 billion. In a year when everything went wrong, from regulatory crackdowns to macro slowdown to Covid lockdown, Alibaba generated $18 billion of underlying free cash flow (adjusted for the anti-monopoly fine). Alibaba's FCF is understated by $8-10 billion attributable to losses from new initiatives and an under-earning Cloud business. We believe Alibaba's true FCF generation power is closer to $25 billion. We were paying less than 7.5x FCF for a capital-light, growing company. As rising rates and inflation increase discount rates and operating and refinancing costs, companies with long-duration cashflows, significant debt, and low margins are susceptible to substantial value decline. With its 13% FCF yield, capital-light business model, pricing power, and much shorter duration cash flows anchored by its significant net cash position, Alibaba is much less susceptible to a world of higher rates and inflation.

Stock Market Capitalization to GDP
12/31/2009 to 6/30/2022

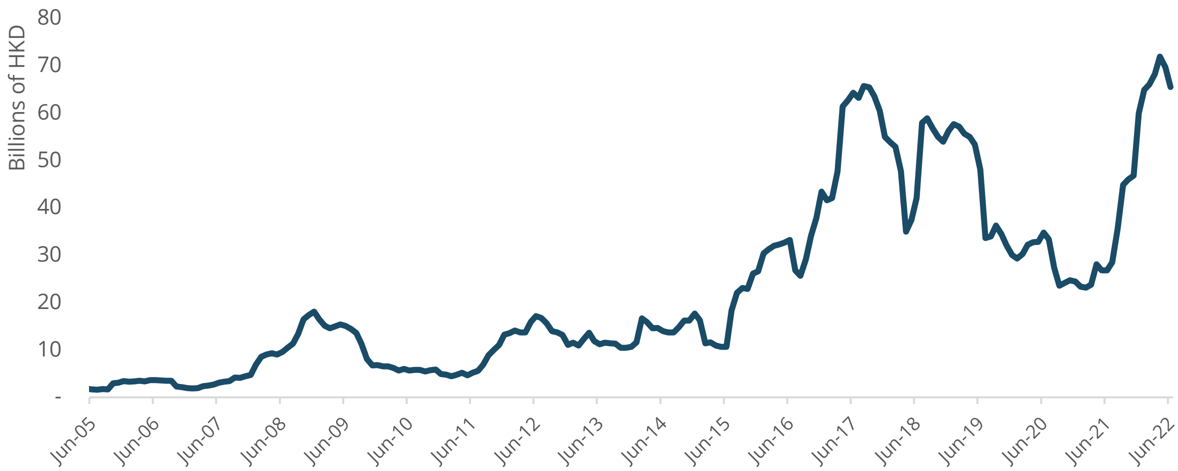
Source: FactSet

On a broader level, Chinese equities are under-owned and under-valued, as demonstrated by the Buffett Indicator (stock market capitalization to GDP ratio) chart above. We believe offshore listed Chinese equities are tightly wound coiled springs. Valuations have become more attractive, and the policy headwind is finally turning into a tailwind. Ongoing monetary and fiscal stimulus measures, Covid re-opening, credit growth, and an improving regulatory environment bodes well for our Chinese investments. We are already starting to see a strong rebound in our travel exposed names like hotel operators Huazhu and online travel agency Tongcheng as lockdowns in China ease. This backdrop contrasts sharply with most developed markets where liquidity is being drained from the system, and interest rates are increasing meaningfully.

What are our management teams doing in this environment?

On top of business quality and margin of safety, the third pillar of our confidence in our prospective returns is our management partners, who have a proven track record of going on offense during tough times to grow value per share and narrow the discount to this value. Buyback activity in Hong Kong reached record highs during the quarter, as shown in the chart below.

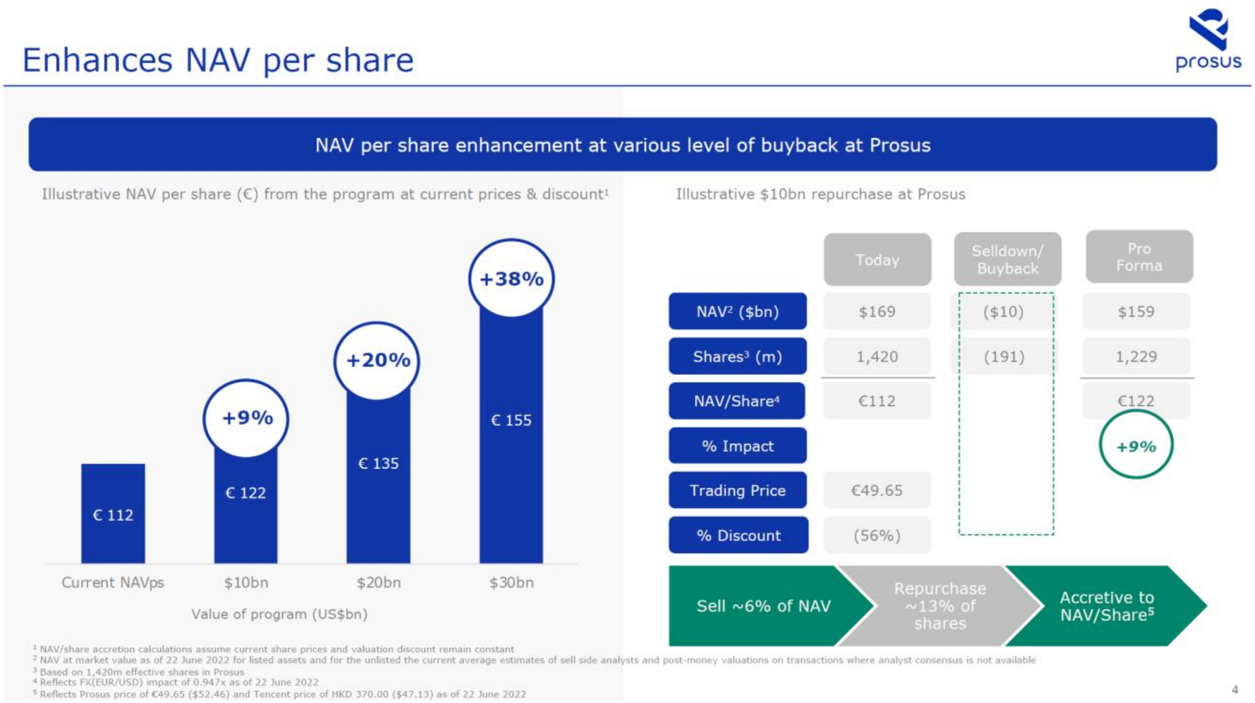
Buyback Activity in Hong Kong Near All-Time Highs
6/30/2005 to 6/30/2022



Source: webb-site.com and FactSet
This data is comprised of on-market buybacks by HK-listed companies whether executed on SEHK or on another exchange.

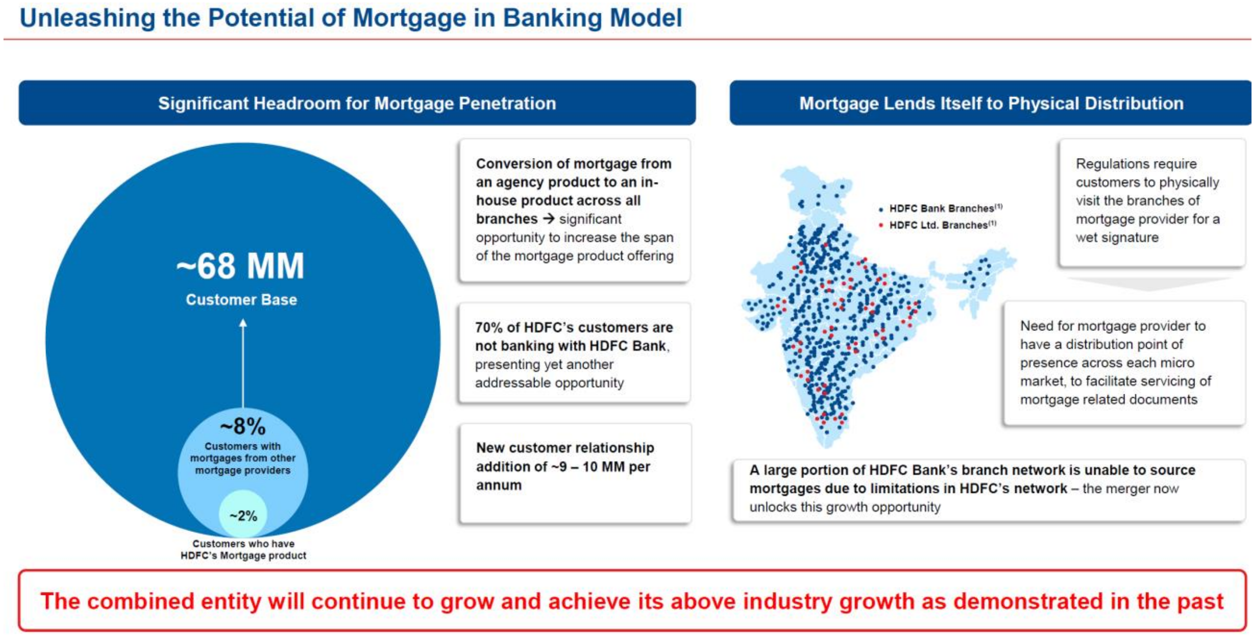
The level of share repurchase and insider buying within our portfolio companies continues unabated. We cite two examples of smart capital allocation by our management partners during the quarter:

Prosus: Prosus, a top contributor in the quarter, just announced a large, open-ended, multi-year share repurchase program. As we discussed in our prior letters, Prosus was trading at a record high 55% discount to its NAV. Its 28.9% stake in Tencent alone is worth €90 per share (using Tencent's current share price, which we believe is highly depressed) vs. Prosus market price of €53 per share (before the buyback announcement). In addition, Prosus has a net cash balance sheet and a fast-growing unlisted e-commerce portfolio valued at €31 billion. We added to our investment during the quarter (before the share price rebounded). In our meetings with management, they shared our frustration with the wide discount and said it was "unacceptable." Prosus is asking for a 50% buyback authorization to be funded by selling small amounts of their Tencent stake. We believe this is a highly accretive transaction (see below) with Prosus (and Naspers) repurchasing and canceling shares at a deep discount to NAV, while increasing exposure to Tencent on a per-share basis. The magnitude of the buyback could be sizable ($10-$30 billion per annum), and the stock price reacted accordingly (up 16% on the day for this €170 billion mega-cap). This is an example of the outsized moves our portfolio companies can quickly benefit from when our aligned management partners make smart capital allocation moves.



Source: Prosus FY22 Investor Presentation

HDFC: Our holding HDFC Limited, which was a detractor in the quarter, announced plans to merge with its 21% equity associate HDFC Bank to create the largest private financial services company in India with leading positions in lending, deposits, life insurance, general insurance, and asset management. Canceling HDFC's holding in HDFC Bank will extinguish the substantial holding company discount and immediately make this transaction accretive to book value and EPS. We believe this merger is highly synergistic on both revenue and cost fronts. 70% of HDFC's customers do not bank with HDFC Bank. And 8% of HDFC Bank's 68 million customers have a mortgage from other providers. There is ample scope to increase cross-selling within the existing customer base and increase distribution points for the HDFC mortgage business. HDFC Limited cannot access low-cost deposits in its current Non-Banking Financial Company (NBFC) form. As a result, its funding cost is more than 250 basis points higher than HDFC Bank. While there will be incremental regulatory costs as HDFC's balance sheet will be subject to banking regulations, we believe revenue and cost synergies will more than offset this drag, resulting in higher ROE in coming years. HDFC Bank CEO Sashidhar Jagdishan expects the merged entity to double profits every five years.



Source: HDFC Bank Investor Presentation, April 11, 2022

We believe the business quality of our portfolio is the best it has ever been. When we launched this strategy in 2014, our portfolio comprised of good businesses at great prices. Over the years, we have continually upgraded to higher quality businesses at great prices. Our portfolio today increasingly consists of relatively simple, pure-play, capital-light compounders and consumer brands with long runways for growth. The market dislocation has allowed us to own these quality franchises without compromising our price discipline. We have prioritized high-quality businesses and prospective IRR over the cheapest P/V investments. This is the reason we prioritized our investment in Huazhu, the second-largest hotel chain operator in China (discussed below), over adding to other potential investments. We doubled our weighting in Huazhu because domestic travel will recover faster than cross-border travel from government-mandated Covid lockdowns.

Outlook

Stock prices often get disconnected from their underlying fundamentals in the short run, as we have seen in China lately, due to understandable reasons. However, they have historically converged to intrinsic value over time. When they turn, the compounding rate to reach intrinsic value is very attractive. We believe the external environment is favorable, especially for our Chinese investments, and valuations are the most attractive since the GFC. As Sir John Templeton said – "Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria." We own best-in-class businesses that generate growing amounts of free cash flow every year, led by managers who act like owners. In the spirit of putting our money where our mouth is, we added more personal capital to the strategy during the quarter, as the "China is Uninvestible" mantra became deafening.

Portfolio Changes

We exited China Lesso during the quarter. While it remains cheap, we limited our total exposure to the China real estate sector and prioritized more compelling opportunities in the current environment. We re-deployed capital into investments with better competitive advantages and a longer runway for growth, which we believe should rebound faster and generate better IRR as the economy re-opens.

New Investment

In March, we invested in Chinese hotel operator Huazhu (1179 HK / HTHT US). Huazhu is China's second-largest hotel operator, with about 8,000 hotels and 750K rooms. While Huazhu's brand portfolio spans the full spectrum of the lodging industry, the key value driver is the economy and mid-scale hotel business in China, where the company leads the market with the Hanting and Ji brands. The Chinese lodging sector has a long runway for growth. There are over 500K hotels in China, of which around 120K hotels have 60 rooms or more – this is the target market for Huazhu. In this fragmented market, Huazhu has a 6.5% market share and can keep adding at least 1,000 net new hotels annually for many years. Chain brand penetration is just around 25% vs. >70% in the US, and Covid disruption has accelerated industry consolidation in favor of branded players who can provide franchisees with the best financial returns.

Huazhu started as a leased and operated model in 2005, but it has been transforming itself into a capital-light compounder over the years. Around 90% of Huazhu's rooms are under the capital-light franchise model, where franchisees are responsible for capital investment and daily operations of the hotels. Huazhu, as the brand owner, collects a recurring fee stream linked to franchisee revenues. Over time, Huazhu has built a competitive moat with a sizable and growing base of 190 million loyalty members by investing in brands, services, network, and technology. Its reservation system generates 60% of bookings, and the reliance on costly OTAs is the lowest in the industry at 15%. Revenue per available room for Huazhu's economy and midscale brands are ~25% and ~15% higher than their closest peers, while the staff per room ratio is the lowest. As a result, the returns and payback periods for franchisees are the most attractive in Huazhu brands, which fuels network expansion at lucrative returns (over 70% margin on franchise revenues).

Huazhu Brand Portfolio to Consolidate Full Spectrum of China Lodging Industry

Source: Huazhu

Founder Qi Ji owns 22% of the company and has an unparalleled track record in the travel sector, having founded not one but three leading companies, namely Huazhu, Trip.com, and Home Inns. Huazhu has a close relationship and cross-shareholding with French hotel operator Accor as its master-franchisee for the economy and midscale brands in China. We know Accor well, as our firm has a history of owning Accor through other portfolios, enabling us to quickly underwrite the quality of Huazhu's management and operations through our network. We started buying Huazhu in mid-March and doubled down in Q2 as the price retreated for two key reasons:

1. Covid lockdowns in China: Huazhu's footprint skews to Shanghai, which impacted it more than its peers.
2. ADR delisting fears: Huazhu has a primary listing in the US (HTHT) and a secondary listing in Hong Kong (1179 HK)

Huazhu has two publicly traded competitors, both of which are SOEs and listed on the A-share market. Despite better fundamentals and management, we were able to purchase Huazhu at a discount to its less efficient SOE peers due to ADR delisting fears.

Portfolio Review

2Q22	Contribution to Portfolio Return (%)	Total Return (%)
Top Five		
WH Group	+1.18	+25
Huazhu	+1.15	+16
Tongcheng Travel	+1.11	+20
Prosus	+0.51	+21
Baidu	+0.51	+5
Bottom Five		
Oisix	-2.75	-51
Jollibee Foods	-1.47	-15
Melco International	-0.99	-20
Redbubble	-0.95	-47
New World Development	-0.52	-12

YTD 2022	Contribution to Portfolio Return (%)	Total Return (%)
Top Five		
Huazhu	+1.54	+61
WH Group	+0.96	+26
Tongcheng Travel	+0.93	+16
CK Asset Holdings	+0.53	+14
CK Hutchison Holdings	+0.32	+8
Bottom Five		
Redbubble	-2.47	-74
Oisix	-2.38	-36
Melco International	-2.27	-39
L'Occitane	-1.56	-23
Jollibee Foods	-1.48	-12

WH Group, the largest pork packaged meat company globally, was a top contributor for the quarter. The company reported strong first-quarter results with EBITDA up 26% YoY and net profit up 35% YoY, beating expectations driven primarily by the solid performance of Smithfield US operations. Despite the input cost headwinds, we remain optimistic about its outlook. For the US packaged meat business, revenues were up +17%, and operating profit was up 56% for the quarter. The company is able to more than offset input cost inflation by increasing prices. As hog prices were increasing, WH Group adjusted the price by around 20% and product mix to offset the pressures. Its operating profit per ton reached over $800 in the first quarter, which is above the historical average and is likely to normalize in the rest of the year but remain above the historical average. For the China packaged meat business, its operating profit was up 25%, YoY despite the revenue being down 3% YoY because of Covid-related logistics disruptions in March and increased competition amidst lower input prices. Its operating profit per ton reached RMB4,500, a record high driven by a sharp decline in input prices. Its sales should recover along with the re-opening. In terms of profitability, hog prices are expected to increase going into 2H22, but will be offset by low-cost frozen pork inventories that the company has built during the quarter leading to higher profitability. Despite the strong share price performance year to date, WH Group remains attractively priced as the market is still assigning negative value to Smithfield Foods, a high-quality dominant business.

Tongcheng Travel, one of the top three online travel agencies in China was a contributor for the quarter. The company continues to do better than the overall travel sector and is gaining share. It posted over 20% YoY growth in room nights and 15% YoY growth in air tickets for the first two months of 2022. In fact, Tongcheng posted over 50% growth in room nights compared to pre-Covid levels, gaining significant market share, especially in the lower-tier cities. However, with the resurgence of Covid and the government's stringent zero Covid policy, the operating environment in the second quarter has become challenging, with April-May travel activity plunging below 2020 levels. Tongcheng has shown strong resilience during tough times and is expected to be profitable in the second quarter. We are encouraged by the solid management team who has demonstrated execution excellence by controlling costs, cheaply acquiring offline users, and focusing on student promotions. We believe the worst is behind us, and the company will show a strong recovery when the economy re-opens.

Baidu, the dominant artificial intelligence (AI) company in China, contributed to the quarter. The market reacted positively to Baidu's better-than-expected first-quarter result. Despite challenging macro conditions, Baidu's ads business declined by only low single-digits YoY, materially better than some of its peers. Baidu benefited from a diversified advertiser base and its smaller exposure to the education sector, which faced regulatory headwinds since the second half of 2021. Baidu APP MAU was up 13% YoY to 632 million, and the e-commerce GMV facilitated by Baidu search grew by about 14 times from a small base. Baidu's cloud business also beat market consensus, with revenue up 45% YoY in the quarter, higher than other industry players. The fast growth will enlarge Baidu cloud's scale and improve the margin profile over time. Baidu also made solid progress on autonomous driving. Apollo Go, the robotaxi ride-hailing service, is now available in 10 cities and provided 196K rides in Q1 2022. The accumulated backlog for Apollo Self Driving, the software suite sold to OEMs, has reached RMB 10 billion. Baidu's EV brand JIDU released its first concept car and is expected to deliver cars starting in 2023. While the ads business will likely face challenges in the second quarter of 2022, this is a high margin, solid cash cow business and will recover when the re-opening starts. Baidu can navigate through the macro headwinds smoothly with material net cash on the balance sheet. As the cloud and intelligent driving businesses continue to make progress, the market should at some point give these businesses value, which is missing in the current market cap, and reward the long-term shareholders.

Oisix ra Daichi, the leading online fresh food retailer in Japan, was a detractor for the quarter. The stock underperformed the market because of its 44% decline in operating profit for the March 2022 fiscal year compared to last year's record-high profits boosted by Covid demand and a de-rating among global meal kit delivery peers. Last year, some one-offs negatively affected subscriber growth and profitability. Operational issues caused by start-up pains at the new Ebina distribution center caused customer churn, lost revenue, and increased cost, as the company stabilized operations during the first few months of its distribution center operations. Secondly, Oisix removed non-active users to optimize tight capacity for more active users. Excluding the one-offs, we think the normalized subscriber growth is in the high teens. Given the large total addressable market with an increasing awareness of online food/grocery/meal kit delivery, we believe Oisix will continue to deliver solid growth.

Oisix is not an internet company that has generated running losses. Rather, Oisix has generated 2.5x more after-tax operating cash flow than the company has spent on Capex and acquisitions in the last ten years to March 2022. We are also encouraged to see the management team echoing our view on the company's low valuation. CEO Takashima mentioned during the AGM in June that the company is undervalued and would consider a share repurchase if the stock price remains undervalued. In June, Oisix announced that they are buying Unison's (Japanese PE firm) preferred shares in Shidax for 8 billion yen, equivalent to 26.5% of Shidax upon conversion to common shares. Not only did the company acquire the shares cheaply – about 7x Shidax's March 2024 FCF estimate – but this investment greatly expanded Oisix' total addressable market beyond B2C business to B2B business. Shidax is one of the largest restaurant operators in Japan and provides food service catering to hospitals, nurseries, factories, elderly homes, government offices, and dormitories. The opportunity to expand Oisix's meal-kit business to this B2B market by cooperating with Shidax is significant. Oisix has a long-standing relationship with Shidax, pre-IPO investors in Oisix with a 5.4% holding; they have collaborated in food service for over two decades.

Jollibee, the largest restaurant chain in the Philippines, was a detractor for the quarter. It performed in-line with the Philippine stock market, which weakened due to macroeconomic concerns over inflation, a dovish central bank, presidential elections, and currency depreciation. As a net importer of both food and energy, the Philippine peso weakened. Despite macro uncertainty, such as the Omicron surge and cost inflation, Jollibee reported solid results in the first quarter. Despite cost inflation, its operating margin still expanded on a YoY basis, thanks to the improved operational efficiencies in the stores and manufacturing facilities and continued price hikes. We believe there is still more room for margin expansion with the recovery of topline performance thanks to operating leverage and improved cost structure after the business transformation program. We are already seeing positive momentum, with April same-store sales only down 2.3% compared to pre-Covid levels, thanks to the solid performance of international businesses and a robust recovery in the Philippines. We also see a longer-term opportunity with the company's mid-to-long-term strategy of shifting towards higher margins, capital-light franchising, and expanding the higher-margin international business.

Our Macau holdings Melco International and MGM China were detractors for the quarter. Covid-related travel restrictions continued to impact Macau visitations and gross gaming revenue

(GGR). Macau GGR in the first quarter remains lackluster, reaching only about 28% of pre-Covid GGR. During the quarter, MGM China continued to show market share strengths with improved product offerings, and Melco reported solid property EBITDA with a good recovery of its Philippine business. With the resurgence of Covid cases in China and recently in Macau, normalization has been further delayed. In times like today, balance sheet strength is paramount. Both Melco and MGM China remain financially strong with ample liquidity. Our holdings have their earliest debt maturity at least two years out and can sustain cash burn for over two years under the worst-case scenario of zero revenues. Based on the normalized free cash flow, the sector is trading at an extremely attractive valuation, and we are confident that pent-up demand will lead to prompt normalization once border restrictions are removed. While the timing of the full re-opening remains unclear, we are starting to see some relaxation from the China side recently (quarantine restrictions cut in half). Macau legislators have approved the New Gaming Law, and we expect licenses to be renewed by the end of this year, removing a key regulatory overhang on the sector.

Redbubble, the leading print-on-demand marketplace operator, was a detractor for the quarter. The company announced a quarter trading update posting -7% revenue growth and -A$10mm EBITDA. Redbubble is making solid progress on developing internal capabilities, such as tracking cohort data and building solid engineering teams. Redbubble made some progress in increasing customer repeat rate, which is the strategic priority of the company and a key to re-rating in our view. It achieved a 47% repeat rate in the third quarter, which was an all-time high. Despite some positives, the company continues to see ongoing margin headwinds. Elevated acquisition costs were still evident in the quarter (16.1% of marketplace revenue in 3Q22 v. 13.7% in 3Q21), driven by weak consumption and increasing competition in the digital channels. Delays in hiring partly helped with profitability. The market is skeptical of Redbubble's execution capability to deliver the medium-term target of A$1.25 billion in marketplace revenue with a 13-18% EBITDA margin. We believe this is achievable given the unique business model in a large, underpenetrated TAM and the solid management team with improving execution. Despite some headwinds, the risk-reward is very attractive at the current price.

See the following pages for important disclosures.

This document is for informational purposes only. Further information about Southeastern Asset Management can be found in our ADV Part 2, available at www.southeasternasset.com. Statements regarding securities are not recommendations to buy or sell the securities discussed. The statements and opinions expressed are those of the author and are as of the date of this report. Holdings identified do not represent all of the securities purchased, sold, or recommended for advisory clients. Current and future holdings are subject to risk and past performance does not guarantee future results. Portfolio information is based on a sample account at June 30, 2022. Portfolio makeup and performance will vary on many factors, including client guidelines and market conditions.

P/V ("price-to-value") is a calculation that compares the prices of the stocks in a portfolio to Southeastern's appraisal of their intrinsic values. The ratio represents a single data point about a strategy and should not be construed as something more. P/V does not guarantee future results, and we caution investors not to give this calculation undue weight.

"Margin of Safety" is a reference to the difference between a stock's market price and Southeastern's calculated appraisal value. It is not a guarantee of investment performance or returns.

Asia Pacific Equity Composite Annual Disclosure Presentation

Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Number of Accounts	% of Non-Fee Paying Accounts	MSCI AC Asia Pacific (with net dividends)	Annual Performance Results Composite		Composite Dispersion	Composite 3-Yr Annualized EX-Post Standard Deviation	Benchmark 3-Yr Annualized EX-Post Standard Deviation
						Gross	Net			
2021	10,816	763	<5	0%	-1.5%	-12.3%	-12.9%	na1	22.1%	14.8%
2020	10,270	824	<5	0%	19.7%	13.6%	12.8%	na1	21.9%	16.3%
2019	12,481	603	<5	0%	19.4%	20.2%	19.3%	na1	17.1%	11.7%
2018	13,881	377	<5	0%	-13.5%	-21.0%	-21.7%	na1	16.9%	12.3%
2017	18,203	157	<5	0%	31.7%	41.4%	40.1%	na1	17.0%	12.7%
2016	19,302	111	<5	0%	4.9%	13.0%	12.0%	na1	na2	na2
2015	20,315	98	<5	0%	-2.0%	-2.0%	-2.8%	na1	na2	na2
2014*	30,542	19	<5	100%	-2.5%	-5.3%	-5.3%	na1	na2	na2

*Composite and benchmark performance are for the period 11/01/14 through 12/31/14
na1 - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.
na2 - Information is not statistically meaningful due to an insufficient period of time.

<u>Institutional Asia Pacific Equity Composite</u> - Portfolios included in this composite invest in securities in Asia Pacific markets. These markets include developed and emerging markets in Asia or the Pacific region, including Japan, Australia and New Zealand which the manager deems eligible. These portfolios normally contain 15-25 holdings. Country, industry weightings and market cap size are a by-product of bottom-up investment decisions. Cash is a by-product

of a lack of investment opportunities that meet Southeastern's criteria. The benchmark used for comparison is the MSCI All-Country Asia Pacific Index with net dividends.

Southeastern Asset Management, Inc. claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Southeastern Asset Management, Inc. has been independently verified for the periods January 1, 2001 through December 31, 2021. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Institutional Asia Pacific Equity Composite has had a performance examination for the periods November 1, 2014 through December 31, 2021. The verification and performance examination reports are available upon request.

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Southeastern is an independent investment management firm that is not affiliated with any parent organization. Southeastern invests primarily in equities.

Results are based on fully discretionary portfolios under management that are managed without regard to tax considerations. Past performance is not indicative of future results.

A list of composite descriptions, a list of limited distribution pooled fund descriptions, and a list of broad distribution pooled funds are available upon request.

The U.S. dollar is the currency used to express performance. Returns are presented gross and net of management and performance fees and include the reinvestment of income. Dividends are recorded either gross or net of foreign withholding taxes based on the treatment of these taxes by the accounts' custodian. Net of fee performance is calculated using actual management and performance fees. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the portfolios in the composite the entire year. Composite dispersion and 3 year annualized ex-post standard deviation are reported using gross returns. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

The investment management fee schedule for accounts with a market value less than $100 million is 1.15% on the first $50 million and 1.00% on the next $50 million. The fee schedule for accounts with a market value exceeding $100 million is 0.90% on all assets. Actual investment advisory fees incurred by clients may vary.

The Institutional Asia Pacific Equity Composite was created on November 1, 2014. The inception date for this composite is October 31, 2014