# Horizon Asia Opportunity

## Q1 2021 Commentary

May 2021

In the first quarter of 2021, the Horizon Asia Opportunity Institutional Composite (the "Strategy") rose 4.1%, net of fees, compared to the MSCI All Country Asia Index (the "Index"), which rose 2.3%. The Strategy's holdings in a cloud system and network security service provider in Japan, as well as in a Japanese animated film content owner and provider, contributed positively to returns. Investments in a conglomerate with significant properties and in a consumer service business in Myanmar detracted from performance.

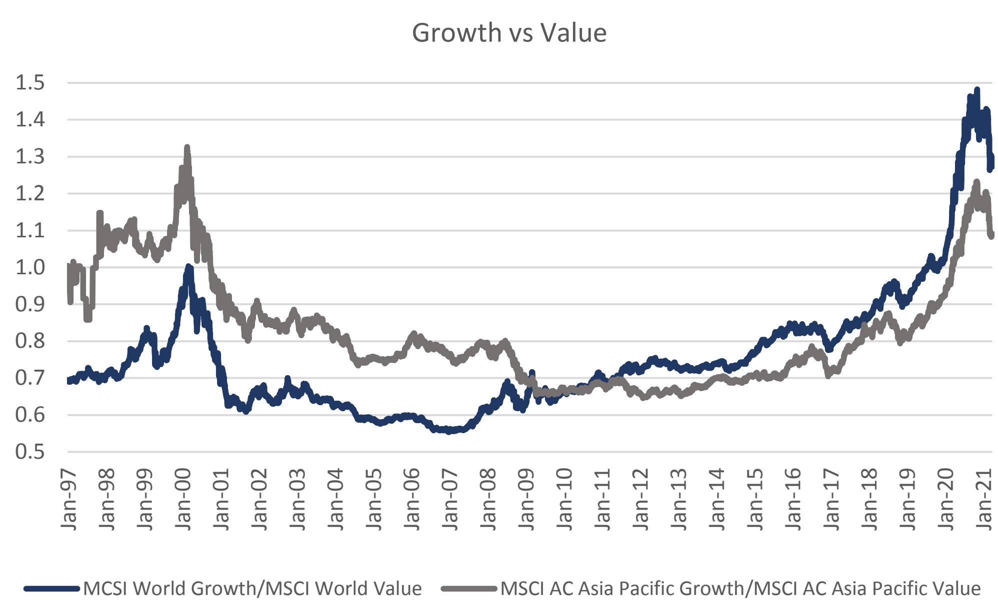
In the first quarter of 2021, global equity markets continued to rally, and the Asian markets were no exception. The region's relative return was weaker (2.3% vs 4.6% for the MSCI All Country World Index) thanks to exceptionally strong Asian equity returns realized in the fourth quarter of 2020 and a stronger US dollar compared to regional currencies, such as the Japanese yen.

| Q1 2021 Total Return | | | |
|---|---|---|---|
| MSCI China Index | -0.16% | MSCI Phillipines Index | -9.44% |
| MSCI Japan Index | 8.91% | MSCI Singapore Index | 10.69% |
| MSCI S Korea Index (NAV) | 2.80% | MSCI Hong Kong Index | 7.54% |
| MSCI Taiwan Index | 12.67% | MSCI Malaysia Index | 2.90% |
| MSCI Indonesia Index | -4.39% | S&P 500 Index | 6.17% |
| MSCI Thailand Index | 8.91% | MSCI Europe Index | 8.50% |
| MSCI India Index | 5.24% | MSCI Emerging Markets Index | 2.24% |

*Source: Bloomberg*

The reopening trades again led global equity markets higher, and value style outperformed growth.

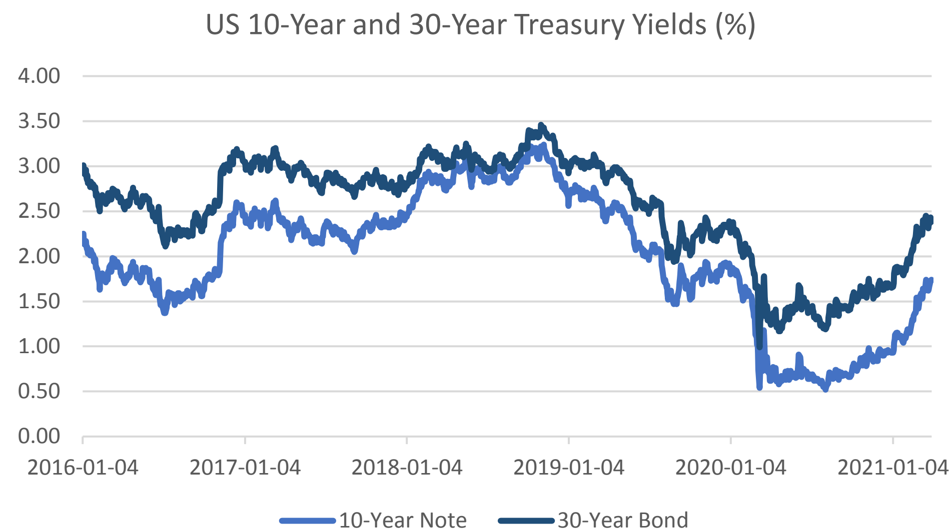
The highest beta[1], highest valuation technology stocks peaked in February 2021, but the technology sector in general still generated very good performance




*Source: Bloomberg*

[1] Beta is a measure of the systematic risk of a security or portfolio compared to the market as a whole.

during the quarter, as did economically sensitive sectors such as financials and natural resources. The expectation of economic normalization around the globe was most prominent in US longer-dated treasuries, such as the 10 year and 30 year bond. In particular, the US 10-year yield rose from 0.93% at the end of 2020 to 1.74% as of March 31, 2021.




*Source: Federal Reserve Bank of St. Louis*

In Asia, we have not seen the official inflation statistics change much in the first quarter. However, most countries are net importers of commodities, with exceptions such as Australia and Malaysia. China and India are the largest net importers of these commodities. Already, China's producer price index (PPI) rose 0.9% in April, recording a 6.8% year on year increase as of the April reading. Cost push inflationary pressures are clearly on the horizon in 2021. In the meantime, the earnings recovery that started last year in Asia continued, and valuation parameters remain relatively attractive. This bodes well for the future performance of the Asian equity markets.

**Global Valuation Comparison**

| | P/E FY21e | PE FY22e | P/B FY21e | EV/EBITDA FY22e | ROE FY21e | Div Yield FY21e | 10yr Bond Yield Current |
|---|---|---|---|---|---|---|---|
| Japan | 15.9 | 14.1 | 1.3 | 9.2 | 6.9 | 2.1 | 0.1 |
| China | 15.8 | 13.5 | 2.1 | 15.5 | 10.9 | 1.7 | 3.1 |
| Asia ex-Japan | 15.6 | 13.8 | 1.9 | 12.9 | 11.2 | 2.1 | NA |
| US | 22.5 | 20.0 | 4.5 | 14.9 | 21.2 | 1.4 | 1.6 |
| Europe | 18.4 | 16.0 | 1.8 | 10.4 | 8.2 | 2.7 | 0.1 |

Japanese universe is TSE 1. Chinese universe is MSCI China Index. US universe is S&P 500. European universe is STOXX Europe 600. Asia ex Japan universe is MSCI AC Asia ex-Japan Index. As of 5/18/2021.
Sources: Bloomberg

China was the first country in the world to suffer from and emerge from the COVID pandemic in 2020. Therefore, it is not surprising to see that the Chinese government has begun tightening in the first quarter of 2021. People's Bank of China (PBOC) expressed its desire to contain the Debt/ GDP ratio and to limit the debt growth rate to the same level as the GDP growth rate. PBOC publicly expressed concerns with respect to overheating property sectors, and it imposed some limits on lending by the financial sector in early 2021. We remain very concerned about poor corporate governance in China. What Ant Financial and Alibaba's former chairman, Jack Ma, had to go through recently after comments suggesting that Chinese regulators were stifling innovation, serve as great examples that any private companies could be subject to arbitrary sanctions[2], if the Chinese Communist Party (CCP) were to decide to impose them. We continue to underweight the Chinese market in our portfolio.

Japan is making further progress on the corporate governance reform front. The corporate governance code was updated in early April 2021, resulting in a further clarification of the board's responsibility in the event of proposals to change corporate controls, such as unsolicited buyout offers. We are refocusing our efforts on finding attractive investment opportunities in deep value sectors of the Japanese market, as we foresee increased pressure on the managements of these undervalued companies to increase shareholders' returns.

In general, we expect inflationary pressures to mount in the region, and we are focusing our research on identifying businesses that could benefit from reflation.

*IMPORTANT RISK DISCLOSURES*

*Past performance is not indicative of future returns. This information should not be used as a general guide to investing or as a source of any specific investment recommendations, and makes no implied or expressed recommendations concerning the manner in which an account should or would be handled, as appropriate investment strategies depend upon specific investment guidelines and objectives. This is not an offer to sell or a solicitation to invest.*

*This information is intended solely to report on the investment strategies of Horizon Kinetics LLC. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. There are risks associated with purchasing and selling securities and options, and investments can lose money.*

*The MSCI All Countries Asia Index® captures large and mid-cap companies represented across 3 Developed Markets countries and 8 Emerging Markets countries in Asia. With 930 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.*

*The MSCI China A Index measures large and mid-cap representation across China securities listed on the Shanghai and Shenzhen exchanges. The index covers only those securities that are accessible through "Stock Connect".*

[2] https://time.com/5926062/jack-ma/

*The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.*

*The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.*

*TOPIX is a free-float adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the TSE First Section. TOPIX shows the measure of current market capitalization assuming that market capitalization as of the base date (January 4, 1968) is 100 points. This is a measure of the overall trend in the stock market and is used as a benchmark for investment in Japanese stocks.*

*Note that these indices are unmanaged, and that the figures shown herein do not reflect any investment management fees or transaction costs. Investors cannot directly invest in an index. References to market or composite indices, benchmarks or other measures of relative market performance (a "Benchmark") over a specific period are provided for your information only. Reference to a benchmark may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, correlations, concentrations, volatility, or tracking error targets, all of which are subject to change over time. This strategy is a total return strategy, and the benchmark is provided for illustrative purposes only. It is not our intention to state, indicate or imply in any manner that our future results will be profitable or equal to past results.*

*Horizon Kinetics LLC is the parent company to several US-registered entities, including Horizon Kinetics Asset Management LLC ("HKAM"). HKAM manages separate accounts and pooled products that may hold certain of the securities mentioned herein. HKAM is the investment manager for the strategy referenced herein. For more information on Horizon Kinetics, you may visit our website at www.horizonkinetics.com.*

# Asia Opportunity - Institutional Composite

## As of 3/31/2021

HORIZON KINETICS

### Investment Approach

- The strategy seeks long term capital appreciation by investing in undervalued stocks in Asia.
- Our investment process involves bottom-up, fundamental research to identify mispriced securities. We conduct face to face meetings with managements and competitors as well as analysis of business models and balance sheets. The strategy emphasizes management quality, with a preference for owner-operator companies.
- Returns are often generated by identifying businesses that cater to local economies, e.g. infrastructure, consumer, financial services, etc. Although the majority of the holdings are equities, the portfolio may invest in other parts of the capital structure when the research process identifies unique opportunities.

### Portfolio Construction

- Maintain a long-term investment perspective and seeks to avoid significant portfolio turnover by limiting rebalancing. Avoid attempting to time the market, and instead average into and out of positions over time.
- Portfolio typically holds 30 to 50 securities. Multi-security positions are used when we have a high degree of conviction regarding a group of related businesses or a theme.
- The portfolio seeks to manage co-dependency across business models and does not measure risk versus a specific benchmark.
- Cash allocation is a function of the attractiveness of investment opportunities at any given point in time.

**Investment Time Horizon:**
5+ Years

**Representative Benchmark:**
MSCI All Country Asia

**Assets Under Management:**

| | |
|---|---|
| Horizon Kinetics ($bln) | 6.6 |
| HKAM Institutional ($bln) | 5.7 |

**Inception Date:**
January 2008

**Portfolio Manager:**
Murray Stahl
41 yrs investment experience

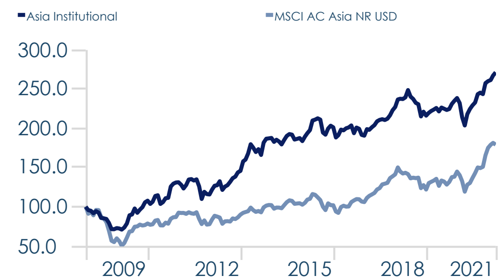
Aya Weissman
36 yrs investment experience

*(1)Horizon Kinetics LLC is the parent company to Horizon Kinetics Asset Management LLC, which is an SEC-registered investment adviser.*
*(2)Horizon Kinetics Asset Management Institutional ("HKAM Institutional") is defined as the traditional, long only separate accounts and private investment fund assets managed by Horizon Kinetics Asset Management LLC. HKAM Institutional excludes separately managed, non-direct accounts and other accounts that either are serviced by wrap/dual contract sponsors or utilize a wrap or bundled fee structure. Please refer to Important Disclosures on the following page.*

| Performance Statistics | YTD | 1 Yr | 3 Yrs | 5 Yrs | 10Yrs | ITD |
|---|---|---|---|---|---|---|
| Total Return (gross) | 4.3 | 33.3 | 4.6 | 6.5 | 7.8 | 7.8 |
| Total Return (net) | 4.1 | 32.0 | 3.5 | 5.4 | 6.8 | 6.8 |
| MSCI All Asia NR | 2.3 | 50.3 | 8.0 | 12.5 | 7.0 | 4.5 |
| Excess Return (gross) | 2.0 | -17.1 | -3.4 | -6.0 | 0.8 | 3.3 |

### Cumulative Growth of $100 *(gross)*

Time Period: 1/1/2008 to 3/31/2021



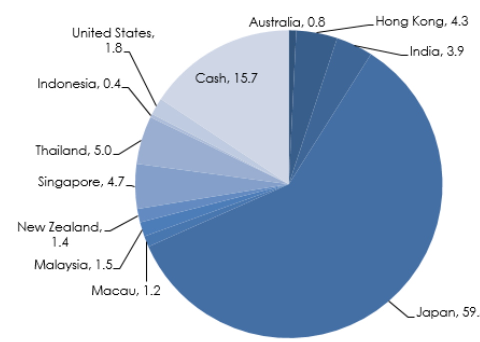

| Top 10 Holdings* | % Port |
|---|---|
| GMO Internet Inc. | 6.2% |
| Internet Initiative Japan Inc Sponsored ADR | 5.7% |
| Biofermin Pharmaceutical Co., Ltd. | 5.7% |
| Digital Garage, Inc. | 4.3% |
| Minor International Public Co., Ltd. | 4.2% |
| Kakaku.com, Inc. | 3.9% |
| Mahindra & Mahindra Ltd. Sponsored GDR RegS | 3.9% |
| Galaxy Entertainment Group Limited | 3.7% |
| Mitsui & Co.,Ltd | 3.5% |
| Singapore Exchange Ltd. | 3.1% |

*The top ten holdings are not necessarily representative of the entire portfolio and may exclude cash and cash equivalents, including ETFs used as a cash substitute.*

| Strategy Characteristics | |
|---|---|
| Number of Positions (1) | 38 |
| Market Cap. Range ($B) | 0.09-39 |
| Median Market Cap($B) | 3.3 |
| Price/Book (2) | 2.1 |
| Turnover (1 Year)(3) | 10.7% |
| Turnover (5 Year)(3) | 10.6% |
| Active Share(4) | 99.5% |

*(1) Calculated such that all securities issued by one issuer are counted as a single position.*
*(2) Weighted Harmonic Average*
*(3) Average annual turnover based on model portfolio*
*(4) Calculated using the MSCI AC Asia Index as a benchmark. Index data as of 9/30/20.*
*Tax considerations may have led certain accounts in the composite to temporarily hold index ETFs. Such ETFs, which are not part of the composite, are included for performance purposes, but are not included in the chart above.*

### Country Allocation* (%)




**Tax considerations may have led certain accounts in the composite to temporarily hold index ETFs. Such ETFs, which are not part of the composite, are included for performance purposes, but are not included in the chart above.*

Source: Morningstar Direct

***Definitions: Historical Statistics***

- *Excess Return is the measurement of a portfolio's return minus the return of the representative index.*
- *Turnover is the lower of total buys or total sells divided by the average market value of the account. Turnover ratio is calculated by Fiserv APL.*
- *Active Share is a measure of the percentage of holdings in a portfolio that differ from a benchmark index. It is calculated by taking the sum of the differences of the weight of each holding in the portfolio and the weight of each holding in the benchmark index and dividing by two. Active share is measured against the strategy's primary benchmark.*

***Important Disclosures***

Horizon Kinetics LLC (the "Firm") is parent company to Horizon Kinetics Asset Management LLC ("HKAM"), a SEC registered investment adviser.

Past performance is not a guarantee of future returns and you may lose money. Opinions and estimates offered constitute our judgment as of the date made and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. This information should not be used as a general guide to investing or as a source of any specific investment recommendations. This material makes no implied or expressed recommendations concerning the way an account should or would be handled, as appropriate investment strategies depend on specific investment goals of investors.

This is not an offer or solicitation to any person in any jurisdiction in which such action is not authorized or to any person to whom it would be unlawful to make such offer or solicitation. Horizon Kinetics does not provide tax or legal advice to its clients and all investors are strongly urged to consult their tax and legal advisors regarding any potential strategy or investment.

**GIPS CLASSIFICATION EXPLANATION**:

Under the Horizon Kinetics Asset Management LLC legal entity, only a subset of accounts are eligible to claim compliance with the Global Investment Performance Standards (GIPS®). We call this subset of accounts Horizon Kinetics Asset Management Institutional and refer to it herein as its own separate firm even though it falls under Horizon Kinetics.

Horizon Kinetics Asset Management Institutional is defined as the traditional, long-only separate accounts, mutual funds, and private investment funds managed by Horizon Kinetics Asset Management LLC ("HKAM"). This means that Horizon Kinetics Asset Management Institutional specifically excludes other accounts that are either serviced by wrap/dual contract sponsors or which utilize a wrap or bundled fee structure. Beginning in April of 2019 the Horizon Kinetics Asset Management Institutional firm includes assets that were previously part of Kinetics Asset Management, and which are now included within the Horizon Kinetics Asset Management LLC legal entity.

This material contains performance information for accounts that fall under the Horizon Kinetics Asset Management Institutional classification. Horizon Kinetics Asset Management Institutional claims compliance with the Global Investment Performance Standards (GIPS®).

Our GIPS composites represent a subset of a larger strategy. As such, the performance for our GIPS composites are expected to be materially different than the performance for each corresponding strategy. Importantly, regardless of whether an account falls under the GIPS classification or not, it is managed pursuant to the same investment objective and investment strategy as all other accounts in the strategy. A GIPS® compliant presentation and/or list of composite descriptions are available upon request by contacting csbd@horizonkinetics.com.

**INVESTMENT STRATEGY AND RISKS:**

The investment objective of the Asia Opportunity-Institutional Composite Strategy (the "Strategy" or "Composite") seeks above market long-term returns by investing primarily in a focused portfolio of common stocks of Asian issuers. Note that indices are unmanaged and the figures shown herein do not reflect any investment management fee or transaction costs. Investors cannot directly invest in an index. References to market or composite indices, benchmarks or other measures of relative market performance (a "Benchmark") over a specific period are provided for your information only. Reference to a Benchmark may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, correlation, concentrations, volatility or tracking error targets, all of which are subject to change over time. The Portfolio is a total return strategy and the benchmark is provided for illustrative purposes only. It is not our intention to state, indicate or imply in any manner that our future results will be profitable or equal past results.

The Strategy combines qualitative and quantitative financial measures to identify fundamentally superior businesses trading below their intrinsic value. Returns are often created by distinguishing between permanent and transitory problems and having the patience to allow transitory issues to be resolved. The bottom-up process often leads to thematic exposures. However, carefully attention is given to ensure that underlying earnings or sector concentrations are understood and limited. Positions may be sold when the research team identifies changes to the investment thesis.
The Strategy typically holds approximately 30-50 securities, however it may hold more or less. The portfolio's cash position may vary across time and accounts depending on the availability of attractive opportunities. We do not strictly follow a portfolio model and as a result dispersion among client portfolios may be experienced. We maintain a long-term investment perspecitve and seek to avoid significant portfolio turnover by limiting rebalancing. Although the focus of the Strategy is equities, it may invest in other parts of the capital structure when the research process identifies opportunities that may offer superior risk/return. The portfolio manager also has discretion to utilize derivatives opportunistically when the research process identifies superior risk/return of such positions. The Strategy may also opportunistically invest in countries outside of the benchmark.

The Strategy is appropriate for investors who have a long investment time horizon of approximately 5 years or longer. The Firm reserves the right to modify the Strategy and associated techniques based on changing market dynamics or client needs. The Strategy may invest in both equity and fixed income securities without regard for market capitalizations or issue size. The Firm does not necessarily fully invest a client account immediately after it is funded. There can be no assurance that any securities mentioned herein or otherwise will remain in an account. The securities discussed herein may not represent the entirety of an account and in the aggregate may only represent a small percentage of an account's overall composition.

There are risks associated with the Strategy, which may include, but are not limited to, the account: (1) at times being highly concentrated and thus susceptible to a greater degree of loss than if otherwise diversified in a larger amount of holdings; (2) holding securities that are speculative, illiquid and for which there may not be an active market, thus exhibiting a greater degree of volatility than non-speculative and more liquid securities; (4) investing in products that are sponsored or managed by third parties, which may impose their own underlying fees, thereby reducing an investor's overall return; (5) investing in non-investment grade debt securities (i.e., junk bonds) which are subject to greater credit risk, price volatility and risk of loss than investment grade securities; (6) holding options, which carry special risks including the imperfect correlation between the value of the option and the value of the underlying asset; (7) investing in foreign securities, which generally involve more risk than U.S. investments, including the risk of currency fluctuations, political and economic instability and differences in financial reporting standards; and (8) investing in small and medium sized companies, which may experience higher degrees of volatility and price fluctuations than larger companies. This list of risks is not exhaustive, investors should review additional potential risks with their client relationship manager prior to investing. As always, you should consider the investment objective, strategy, risks, fees and expenses carefully before investing.

***DIFFERENCES IN PERFORMANCE BETWEEN ACCOUNTS AND THE COMPOSITE ITSELF:***

The Firm manages its separate accounts with an emphasis on current stock price valuations and reducing unnecessary trading costs. As such, our strategy accounts are not "model driven" in the sense that we maintain a dynamic list for new buys, sells, and holds, which updated on a weekly basis. At Horizon Kinetics, it is acceptable for accounts that follow the same strategy to experience materially different returns over various periods of time. In fact, it is understood that accounts invested in same strategy may have materially different holdings and weightings from one another. Similarly, the aggregate returns of all accounts in a strategy is expected to be materially different than the returns of the corresponding GIPS composite. Not every client's account will have similar returns as that of the Composite based on a number of factors that includes but is not limited to: (i) the size of the account; (ii) the inception date of the account; (iii) the market prices of individual securities at the time of investment; (iv) individual client guidelines or other restrictions including those of the client's custodian; and (iv) the degree of investor activity (subsequent investments or withdrawals) within the account.

By investing in accordance with a "dynamic model," we strive to consider current stock price valuations and reduce unnecessary trading costs. In contrast to other asset managers, we will not necessarily rebalance an account based solely on the dispersion between the account and the strategy "model." For example, we would not typically trim exposure to a security in a client account simply because it had become overweight relative to the model. In our opinion, rebalancing in that regard means a client account will purchase or sell securities regardless of valuation changes that might have occurred in between rebalancing periods and may also lead to higher transaction costs. Thus, certain accounts within the same strategy are expected to be significantly different from one another. Historical performance of the Composite is illustrative of the track record of the portfolio manager within the strategy but it should not be used as a proxy for individual account returns, or as a predictor of future account returns. Each client should consult with their client portfolio manager or other professional adviser about whether the Strategy is appropriate for them.

***FEES & EXPENSES:***

Accounts invested in accordance with the Strategy will pay certain fees and expenses. Net Returns stated herein include trading expenses, but do not include advisory or custodian fees paid to third parties other than our firm. Such additional fees or expenses, if applicable would lower the overall return. The gross returns stated herein are not inclusive of investment management fees, but do include trading expenses. If investment management fees were included in the gross returns, the overall return would be lower. The net returns of the Strategy are calculated using the highest applicable annual management fee of 1%, applied monthly.

**PERFORMANCE CALCULATIONS:**

This material contains performance information for the Asia Opportunity – Institutional Composite, which, as referenced above, relates to that portion of accounts under Horizon Kinetics Asset Management Institutional.
Performance is expressed in USD and includes reinvestment of dividends and other earnings. It is important to note that Composite returns contained herein are calculated using the unofficial (non-custodial) returns of numerous underlying accounts, as generated by the adviser's use of third party software. Such estimates are subject to change. While the information contained herein has been obtained from sources believed to be reliable, no representation is made regarding its accuracy or completeness. For purposes of calculating performance of the Composite, accounts are included as of the first day of the month after which they are established with the Firm.

Performance and other statistics relating to indices are provided for your information only. They are not intended to reflect the manner in which an account will be constructed in relation to expected or achieved returns, portfolio guidelines, correlation, concentration, volatility or tracking error targets, all of which are expected to be materially different from that of any index. Indices do not have expenses or fees and investors cannot invest in an index.

Horizon Kinetics Asset Management LLC is the SEC-registered investment adviser for the Strategy. Additional information about HKAM is also available on the SEC's website at www.adviserinfo.sec.gov.