

1H 2026 Investor Letter – From GDP to GPUs

July 15, 2026

I. Market and Fund Review: The Onshore-Offshore Divergence

The first half of 2026 marked a sharp reversal from the offshore-led “**silent bull run**” that began in early 2024. Mainland A-shares regained leadership as investment accelerated across semiconductors, advanced manufacturing and the broader AI ecosystem, while Hong Kong equities struggled with weak domestic demand, persistent selling in internet platform stocks and tighter global liquidity.

The divergence was striking. The STAR 50 Index surged 63%, helping lift the CSI 300 by 8%. In contrast, the Hang Seng Index fell -10% and the Hang Seng Tech Index declined -19%, making Hong Kong one of the weakest-performing major markets globally. Investors rewarded companies exposed to the global AI investment cycle while continuing to discount much of China's traditional economy.

Against this backdrop, the **FountainCap Greater China Select UCITS Class I USD Accumulating** returned **0.0%** during the first half of 2026. We outperformed the MSCI China All Shares Index by **5.1%** but lagged the CSI 300, reflecting our structural exposure to offshore Chinese equities.

Performance attribution mirrored the market's divide. **Tencent** and **Alibaba** declined 27% and 34%, and became the largest detractors as liquidity weakened and competition intensified across China's internet sector. These headwinds were partly offset by strong gains from **TSMC**, **Advanced Micro-Fabrication Equipment (AMEC)** and **Yantai Jereh**, which benefited from sustained investment in AI infrastructure and resilient export demand¹.

Although market leadership shifted dramatically during the period, our investment philosophy did not. We continue to invest in businesses with durable competitive advantages, strong balance sheets and the ability to compound earnings through market cycles. Market sentiment changes quickly; business quality rarely does.

II. From GDP to GPUs

The defining investment story of 2026 is not simply the rise of artificial intelligence. It is a fundamental change in how global capital is allocated.

For decades, investors assumed that capital would naturally follow economic growth. Larger economies attracted larger investment flows because rising incomes, urbanization and consumption ultimately translated into stronger corporate earnings.

That relationship is now breaking down.

We believe technology, rather than geography, has become the primary driver of global capital allocation. Equity markets are no longer rewarding economic scale. They are rewarding technological bottlenecks. Capital is flowing toward the companies—and increasingly the countries—that control the critical infrastructure required to power the next generation of computing.

Put simply, **capital has moved from GDP to GPUs** (or from **Gross Domestic Product** to **Graphics Processing Unit**).

The change is already visible in global equity indices.

¹ Refer to “Holding disclosure” in the section headed “Important note and disclaimers”

Economic Weight vs. Equity Weight (June 2026)

Country / Region	GDP (US\$ tn)	Share of Global GDP*	MSCI ACWI Weight
United States	31.0	31%	63.6%
China	19.5	20%	2.8%
India	4.5	4.5%	1.5%
Taiwan	0.8	<1%	3.3%
South Korea	1.9	2%	2.5%
Taiwan + Korea	2.7	3%	5.8%
China + India	24.0	24%	4.3%

*Approximate shares based on a global economy of US\$100 trillion.

Sources: Bloomberg, MSCI.

China and India together account for nearly one-quarter of global economic output, yet represent just 4.3% of the MSCI All Country World Index. By contrast, Taiwan and South Korea—whose combined economies account for only 3% of global GDP—command a larger index weight, largely because of three companies: **TSMC, Samsung Electronics and SK Hynix**.

The implications extend well beyond index weights. Global capital is paying unprecedented premiums to the technological bottlenecks that enable AI. The market is no longer rewarding the largest economies; it is rewarding the companies that the AI ecosystem cannot function without.

The same transition is evident within the MSCI Emerging Markets Index.

MSCI Emerging Markets Country Weights

Country	End-2020	End-2024	Jun-2026
China	42%	28%	19%
India	9%	19%	11%
Taiwan	15%	20%	27%
South Korea	15%	9%	24%
Taiwan + Korea	30%	29%	51%

Sources: Bloomberg, MSCI.

Over the past six years, investors have rotated through three distinct narratives: China's consumer and internet champions, India's structural growth story, and now the semiconductor and infrastructure companies enabling the AI revolution.

For the first time in nearly two decades, Taiwan has overtaken mainland China as the largest market in the MSCI Emerging Markets Index.

We believe the defining capital flow of this decade has not been a migration across countries. It has been a migration toward technological bottlenecks—from GDP to GPUs.

III. One Country, Two Markets

This global shift helps explain an equally remarkable development within China.

Today's Chinese equity market is no longer trading as a single market. Instead, it is behaving like two very different markets operating side by side.

The New China

The first is driven by semiconductors, robotics, automation and advanced manufacturing. Supported by Beijing's industrial policies and growing investor enthusiasm, these companies have participated fully

in the global AI rally. The STAR 50 Index gained 63% during the first half of the year, while the ChiNext Index advanced 35%.

The Old China

The second market is priced for macroeconomic disappointment. Many consumer, healthcare, financial and internet companies remain highly profitable and cash-generative, yet continue to trade at depressed valuations as investors focus on weaker consumption, the property downturn and geopolitical uncertainty. While AI-related companies surged, nearly 70% of A-share stocks declined during the first half of the year.

As legendary short seller Jim Chanos observed, *"Bull markets put a premium on promises. Bear markets put a discount on reality."*

China is unusual because both conditions coexist. One market is trading on tomorrow's possibilities; the other remains anchored to yesterday's disappointments. For long-term investors, this divergence matters. Periods of extreme concentration often create opportunities outside the market's favourite themes. While today's headlines are dominated by AI, much of China's broader equity market continues to trade at valuations that already discount a great deal of pessimism.

Understanding where optimism is excessive—and where pessimism has gone too far—remains central to our investment process.

IV. Bubble, Bull Market, or Obsession?

With the STAR 50 Index rising 63% in just six months and many AI-related stocks advancing several-fold, it is natural to ask whether we are witnessing another technology bubble.

History offers a useful perspective.

Every transformational technology—from railways and electricity to the internet and smartphones—has gone through periods of excessive optimism. Capital pours into the new economy, valuations detach from fundamentals, and speculation inevitably follows. Yet history also teaches us that financial excess does not invalidate technological progress. The dot-com bubble destroyed enormous amounts of capital, but it also laid the foundation for many of today's most valuable companies.

Artificial intelligence is unlikely to be any different.

Our recent research trips suggest that enthusiasm is becoming increasingly widespread. Golf caddies exchange semiconductor stock ideas with their clients. Foot massage workers discuss AI trades during treatments—**reminiscent of the famous *Shoeshine Boy* anecdote that preceded the 1929 market crash**. Retail investors are piling into Korean chipmakers and leveraged technology ETFs, while professional fund managers increasingly crowd into the same narrow group of AI leaders. At the same time, an expanding IPO pipeline across China and Hong Kong reflects investors' willingness to finance almost anything associated with AI.

None of these observations tells us when sentiment may turn. But together they suggest that expectations in parts of the market have become increasingly optimistic—and in some areas, are approaching what Alan Greenspan famously described as **"irrational exuberance."**

So, are we witnessing a bubble?

To some extent, yes.

But bubbles rarely burst simply because valuations look expensive. More importantly, technological revolutions almost always outlast the market cycles built around them. The railway boom, the internet revolution and today's AI wave all remind us that **transformative technologies can create both extraordinary speculation and extraordinary businesses at the same time.**

Our task, therefore, is not to predict the next correction. It is to distinguish enduring businesses from temporary excitement, and to invest only when long-term fundamentals justify the price we pay.

V. Investing Through the AI Era

How should a portfolio be positioned during a technological revolution?

Looking back over the past half century, information technology and energy transitions have created some of the greatest wealth-creation opportunities in market history. While the ultimate winners are difficult to predict, one lesson has remained remarkably consistent: transformative technologies create value across an entire ecosystem, not just within a handful of market leaders.

Nvidia CEO Jensen Huang illustrates this idea with a five-layer AI technology stack comprising

- Energy
- Computing
- Infrastructure
- Foundation models
- Applications.

Whether or not this framework proves exact, it captures an important principle: long-term success is less about identifying a single winner than about owning the ecosystem that enables the transformation.

This philosophy has guided our portfolio construction for several years. Our investments span energy equipment, clean energy, semiconductor design, industrial automation, advanced manufacturing and the infrastructure supporting the next generation of intelligent machines. By investing across the value chain, we seek to participate in the structural growth of AI while avoiding excessive dependence on any single company, technology or business model.

China is particularly compelling through this lens. While the United States leads frontier AI models, Taiwan dominates advanced semiconductor manufacturing and South Korea excels in memory chips, China has quietly built one of the world's most complete industrial ecosystems. Few markets offer meaningful exposure across nearly every layer of the physical AI economy—from power equipment and factory automation to robotics, precision manufacturing and, ultimately, large-scale AI applications. Combined with one of the world's largest end markets for technology adoption, this breadth creates opportunities that we believe remain underappreciated.

The defining investment story of this decade may indeed be the migration of capital from **GDP to GPUs**. Yet successful investing has never been about chasing the market's latest superstars. It is about identifying exceptional businesses, buying them at sensible valuations and allowing time to compound value.

Technology will evolve. Market leadership will change. Our investment philosophy will not. We invest not in the AI theme itself, but in the industrial ecosystem that makes AI possible.

Important notes and disclaimers

Performance disclosure: Performance returns are estimated and pending the year-end audit. Past performance is not indicative of future results. Actual returns may differ from the returns presented. The performance shown does not reflect the performance of any actual investor and the performance of investors holding different series of interests may vary due to, among other things, the management fee applicable to such investor's series of interest, the timing of contributions and withdrawals, and the ability to participate in new issues. To the extent applicable, each investor will receive individual returns from the administrator. All performance returns provided are net of all fees and include reinvestment of all cash flows such as dividends and interest.

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Benchmark disclosure: The MSCI China Index, the MSCI China All Shares Index, Hang Seng Index and the CSI 300 Index (together, the "Indices") are benchmark indices for China equity market. The MSCI China Index captures large and mid-cap representation and covers 85% of the free float market cap of the China Equity Universe across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). The MSCI China All Shares Index captures large and mid-cap representation across China A shares, B shares, H shares, Red chips, P chips and foreign listings and aims to reflect the opportunity set of China share classes listed in Hong Kong, Shanghai, Shenzhen and outside of China. It is based on the concept of the integrated MSCI China equity universe with China A-shares included. For a complete description of the MSCI index methodology, please visit <https://www.msci.com/index-methodology>. Hang Seng Index includes the largest and most liquid stocks listed on the Main Board of the Stock Exchange of Hong Kong. For a complete description of the Hang Seng index methodology, please visit <https://www.hsi.com.hk/eng/indexes/all-indexes/hsi>. CSI 300 Index consists of the 300 largest and most liquid A-share stocks. The index aims to reflect the overall performance of China A-share market. For a complete description of the CSI 300 index methodology, please visit <https://www.csindex.com.cn/#/indices/family/detail?indexCode=000300>. Each of the Indices is a widely unmanaged index of market activity based on the aggregate performance of a selected portfolio of publicly traded common stocks and reflects reinvestment of income and dividends and does not reflect the impact of advisory fees. We have included the results of the Indices to merely give you a perspective of the historical performance of the equity market. Comparison of the Fund's performance to the results of the Indices has limitations because the Indices have volatility and other material characteristics that may differ from the Fund. Furthermore, the Fund may hold substantially fewer positions than the Indices and, in fact, certain or all of securities held by the Indices may not be held by the Fund. Because of these differences, among others, the Indices should not be relied upon as accurate measures of comparison.

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