

Public Newsletter for the period ended
31 March 2023

Welcome to the Lighthouse Advisors newsletter for March 2023.

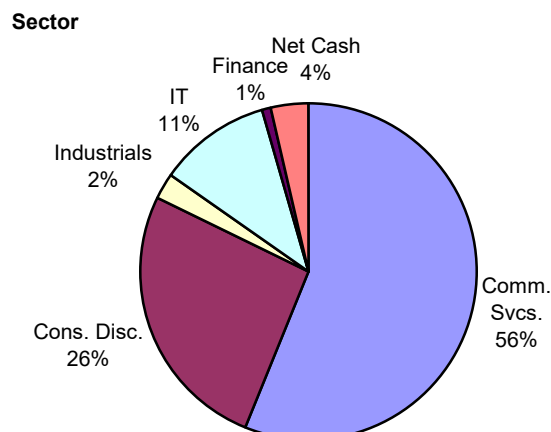
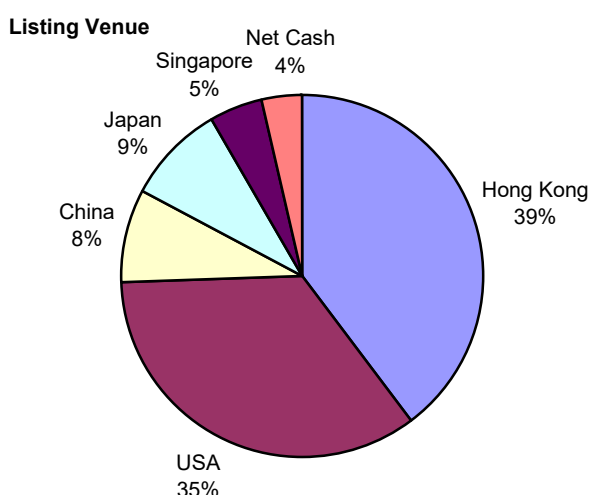
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1. Summary

The NAV for March 2023 was USD 65.54 (SGD: 87.22). The year-to-date return was +14.1% (SGD: +13.3%).

Market Index	1Q	YTD 2023
Hang Seng Tech	+4.2%	+4.2%
NASDAQ	+16.8%	+16.8%
Fund	14.1%	14.1%

21 securities made up 97% of the Fund's holdings, with the balance in cash and cash equivalents. The following charts show the approximate exposure by place of listing and GICS sector (percentages may not add up or match exactly due to rounding).



NAV values (USD and SGD) are tabled in Annex I.

2. Market Commentary

The first quarter of 2023 was mixed. Markets were strong in January, fell off in February, then bounced back in March.

Rising interest rates through 2022 forced many investors to deleverage their portfolios. The biggest selloffs were consequently in the biggest winners i.e. tech companies that benefited from Covid.

This in turn prompted many tech companies to cut fixed costs, as they could no longer rely on selling shares at high prices to finance their operations. They are now better businesses, yet selling at lower prices i.e. they are better investments. Tech is not dead – far from it.

At the same time, many old-economy stocks have been left for dead in the past 3 years. Some now sport dividend yields unheard of in the last 10 years. We expect to make more bargain-type investments this year.

Benjamin Koh
 Chief Investment Officer
 Lighthouse Advisors
 27 April 2023

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3. Portfolio Review

To protect the interest of clients, detailed discussion is confined to the client-only version of this newsletter. Client newsletters are embargoed for one year, after which they are made available online.

4. Ready Player None

Ernest Cline's 2011 book *Ready Player One* was a bestseller and became a movie in 2018. It is set in 2045, and people spend a large amount of time in a virtual world, the OASIS. The protagonists hunt for a secret key within the OASIS that grants ownership of the virtual world itself.

While fictional, it struck a chord among companies in online entertainment and social networking. After all, control of a virtual universe with millions of paying customers would surely be lucrative. Among the most famous converts is Facebook, which renamed itself **Meta Platforms** in 2021. But Meta is actually late – *really* late – to the game.

At its core, the “metaverse” refers to any persistent virtual online world where people can interact with each other and make changes to their environment. Early proto-metaverses include text-based multi-user dungeons (MUDs) where players could communicate, exchange goods, fight each other, and interact with objects in the dungeons.

Ultima Online probably holds the title of the oldest “real” metaverse. Launched in 1997(!), it models the fantasy world of Britannia, where previous *Ultima* games were set. The developer, Origin Systems, soon encountered many real-world problems when governing its virtual world, including exploitation of loopholes, repression of low-level players by the rich and powerful, and runaway inflation¹.

¹ *Ultima Online, which just turned 25, offers a lesson in the challenges of building virtual worlds*, MIT Technology Review, 17 Feb 2023.

Second Life came into being in 2003. Like *Ultima Online*, players can do whatever they want – or nothing at all. Unlike *Ultima Online*, which has the monsters-and-treasure trappings of a fantasy adventure, *Second Life* is akin to a *simulation* of real life. It does include games within the virtual environment, but players can do many other things, like in real life – go to a gathering, attend a concert, watch a press conference, take classes at a university, work at a job, or even get married. Some people found their real-life partners through playing *Second Life*. Others left their real-life spouses over affairs taking place in *Second Life*².

EVE Online was also launched in 2003. It is a massively multi-player online role-playing game (MMORPG) set in space. Players choose from a dizzying array of spaceships and can work independently, or join factions. They can mine resources, trade resources, engage in ship combat, all of the above, or do nothing at all. *EVE Online*'s universe includes corporations and stock markets, and the political intrigues read like novellas: an in-game murder took 10 months to execute, a corporation's founder orchestrated a stealth vote to regain control, and one officer's betrayal of his in-game alliance led to real-world threats and expulsion of the offender³.

The metaverse is *not* about photorealistic 3-D virtual reality. Indeed, **Maplestory** and **Minecraft** feature blocky graphics as part of their appeal. It is about engagement: there has to be a reason for the user/player to return. In other words, people come for the game, but stay for the community. Companies operating successful metaverses understand that gameplay comes first: the game must be interesting on its own before players will create the communities that make them stay.

Can one know if a new metaverse will succeed? It is akin to predicting the fate of a

² *Second Life affair leads to real life divorce*, **The Guardian**, 13 Nov 2008.

³ *Threats, bribes, and corporate espionage – down the rabbit hole of EVE Online's metaverse*, **For The Win**, 10 May 2022.

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new book or movie: if it is part of a successful series, the odds are good. But something totally new is a pure gamble.

As of December 2022, **Meta Platforms** had invested over US\$36bn into its metaverse vision. So far it has only accumulated losses of US\$35bn to show for it⁴.

Decentraland, which sells virtual real estate for cryptocurrency tokens (combining *two* manias at one stroke), recently had just 26,000 attendees for its 4-day Fashion Week, a 76% decline from the year before. Despite brands like Dolce & Gabbana, Tommy Hilfiger and Adidas sponsoring shows, the highest concurrent attendance was just over 1,000⁵.

“In practice it’s a bad video game made up of smaller, worse video games wrapped in real-estate scheme cosplaying as The Matrix.”

– influencer Dan Olson, describing Decentraland in a YouTube review

Are there successful metaverses? Of course. Here are some:

Game	Premise	Owner
Grand Theft Auto V	Action-Adventure	Take-Two Interactive
Maplestory	Fantasy Adventure	Nexon
Minecraft	World Exploration	Microsoft
Animal Crossing: New Horizons	World Simulation	Nintendo
World of Warcraft	Fantasy Adventure	Activision Blizzard
Fortnite	Survival Combat	Epic Games

Clearly, these games are diverse: there is not “one” metaverse, but many, because people

⁴ *Facebook’s Metaverse Is Apparently Filled with Mostly Empty ‘Sad’ Worlds*, **Kotaku.com**, 17 Oct 2022.

⁵ *Decentraland Metaverse Fashion Week attendance plummets 76% amid ‘worrisome’ trading volume*, **The Block**, 5 April 2023.

want different things. The common thread uniting such games is that players are so engaged, they may sometimes log in but not actually play in the traditional sense: the “open world” nature of these games encourages exploration beyond traditional missions or quests, and the ability to customize the world allows extension / crossover into real life (“meatspace”).

In 2019, **Fortnite** held an in-game movie preview for *Star Wars Episode IX: The Rise of Skywalker*, and in 2021 it hosted Ariana Grande for an in-game concert. Star Wars is a major movie franchise, while Ariana Grande is a global best-selling music artist, so these are not trivial collaborations.

Animal Crossing: New Horizons became political turf in 2020, as the Joe Biden-Kamala Harris election campaign provided signs for supporters to place in their virtual yards, and Hong Kong protesters used their islands to create signs and graphics in lieu of real-life demonstrations⁶.

All the successful metaverses listed above started as games first and evolved into metaverses thereafter. Without a good game to play, there is little reason for players to return, and profits will remain elusive.

❧ End ❧

⁶ *Nintendo’s Animal Crossing changes game of politics in US and Asia*, **Nikkei Asia**, 2 Sep 2020.

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Annex I

NAV in USD (Official)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2008										34.16	33.49	35.62	4.3%
2009	34.57	33.52	33.37	36.69	46.20	46.00	50.06	49.68	52.66	54.17	56.68	59.94	68.3%
2010	59.05	61.09	65.17	68.27	64.14	65.69	70.65	72.24	81.06	83.56	85.10	90.30	50.6%
2011	87.21	86.29	88.13	92.81	90.85	91.35	91.17	83.69	69.04	78.23	73.00	72.88	-19.3%
2012	77.40	82.90	82.52	83.32	76.36	77.25	77.27	77.91	80.57	79.44	82.70	84.92	16.5%
2013	91.43	97.36	99.96	100.24	99.14	95.09	98.50	100.00	100.86	102.24	102.63	102.93	21.2%
2014	99.15	101.78	99.80	101.84	105.45	106.57	109.05	108.58	103.60	103.91	101.87	99.94	-2.9%
2015	97.97	98.16	97.74	103.80	103.69	100.99	96.17	85.91	84.17	88.91	86.20	86.35	-13.6%
2016	81.56	83.81	88.82	92.18	91.50	91.52	94.48	94.86	94.87	93.34	91.92	90.20	4.5%
2017	93.18	97.08	101.10	101.39	105.74	107.11	109.67	108.57	109.35	112.57	108.28	109.41	21.3%
2018	113.04	109.56	109.03	105.39	109.62	104.37	101.26	93.71	94.25	85.19	86.83	86.66	-20.8%
2019	91.98	92.36	90.04	90.21	82.80	84.21	82.57	78.45	76.52	77.82	78.75	82.80	-4.5%
2020	78.58	75.37	67.15	71.23	70.50	77.22	82.23	88.36	84.97	86.77	90.34	93.20	12.6%
2021	99.54	99.36	94.98	99.37	96.76	96.86	86.54	87.88	85.09	90.51	85.32	82.81	-11.1%
2022	78.21	74.05	70.58	65.87	65.29	64.03	61.31	60.68	53.29	46.97	56.74	57.43	-30.7%
2023	63.58	58.90	65.54										14.1%

Note: The Net Asset Value of the Fund has been linked to the rebased NAV of the Reference Account, which had the same investment style. Until the launch of the Fund, the Reference Account served as the model portfolio for all the separately-managed client accounts. Its trading records were distributed to clients as proof that the Manager's interests were fully aligned with those of the clients. The Reference Account was started at the end of 2008 and became inactive following the launch of the fund on 1 September 2013.

The following data is for the convenience of SGD-based investors and is for reference only.

NAV in SGD (for reference only)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2008										50.68	50.69	51.20	2.4%
2009	52.22	51.91	50.74	54.21	66.70	66.59	72.06	71.60	74.19	75.67	78.50	84.15	64.4%
2010	83.11	85.83	91.17	93.55	89.79	91.72	96.10	97.84	106.70	108.12	112.34	115.86	37.7%
2011	111.57	109.76	111.06	113.64	112.11	112.14	109.75	100.70	89.85	97.91	93.64	94.48	-18.5%
2012	97.39	103.46	103.79	103.05	98.44	97.76	96.12	97.20	98.89	96.95	100.95	103.74	9.8%
2013	113.19	120.44	124.03	123.50	125.34	120.54	125.55	127.49	126.57	126.83	128.86	127.81	23.2%
2014	124.51	128.55	125.58	127.84	132.26	132.85	135.95	135.58	132.14	133.61	132.91	132.34	3.5%
2015	132.68	133.74	134.11	137.66	139.74	136.08	131.71	121.30	119.78	124.68	121.53	122.26	-7.6%
2016	116.13	117.82	119.59	123.86	126.08	123.36	126.71	129.30	129.32	129.95	131.79	130.54	6.8%
2017	131.35	135.81	141.22	141.04	146.29	147.44	148.75	147.28	149.30	153.38	146.00	146.32	12.1%
2018	148.13	145.04	142.95	139.64	146.74	142.24	137.76	128.59	128.83	117.98	119.13	118.06	-19.3%
2019	123.77	124.86	123.01	122.81	113.88	113.93	113.02	108.85	105.83	105.92	107.71	111.33	-5.7%
2020	107.23	105.02	95.47	100.41	99.64	107.68	112.93	120.15	116.02	118.55	121.20	123.14	10.5%
2021	132.30	132.32	127.74	132.16	127.85	130.26	117.21	118.19	115.50	122.11	116.41	111.73	-9.3%
2022	105.70	100.32	95.63	91.14	89.43	88.99	84.64	84.78	76.49	66.51	77.25	76.95	-31.1%
2023	83.53	79.42	87.22										13.3%