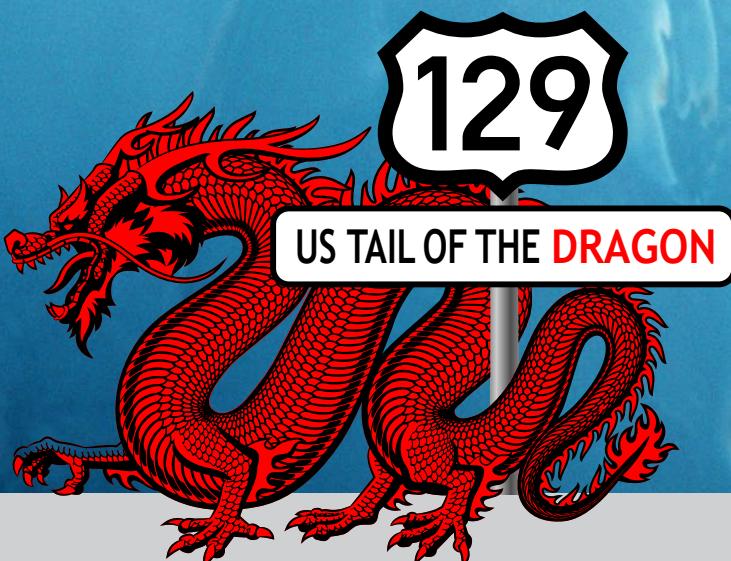


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True Partner
Capital

Are we heading to a new ICE Age?

Into China Equity
(while watching the US tail)



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Being a True Partner

About True Partner Capital

True Partner Capital is a global asset management firm founded by a team of former options market makers and technology specialists, focusing primarily on equity volatility strategies. The Firm has offices in the US, Europe and Asia and the key personnel have been working together for over 15 years. The Firm invests on behalf of a varied global investor base. We offer our investment expertise to investors through commingled funds, separate mandates and customized solutions where we offer tailored volatility solutions, such as tail risk hedging. The Firm's relative value volatility strategy has a track record of over 15 years. The Firm trades close to 24 hours a day across liquid global derivative markets and leverages proprietary technology developed by our experienced team, enabling the portfolio management team to identify and capitalize on trading opportunities.

Are we heading to a new ICE Age?

Into China Equity (while watching the US tail)

With a 19% rise over 2025, the MSCI World Index posted its third year in succession of double-digit gains following gains of 24% and 22% in 2023 and 2024, respectively. The strong performance saw this benchmark of global equities rise a total of 80% from the year-end of 2022. For most of these three years, US equities and in particular technology stocks were the main driver of the rally. But in 2025 other markets started to catch up, with a noteworthy performance by Korea's Kospi 200 index: up 90%. With a gain of 26%, Japan's Nikkei 225 index also outperformed the US last year. However, while all markets mentioned above clocked new all-time highs, China is still trading well below its 2007 peak as evidenced both in the mainland onshore Shanghai Composite index (peaked above 6000, currently only above 4000) as well as the H-share (HSCEI) index in Hong Kong (peaked above 20,000, currently still below 10,000).

In the seventies, climate scientists believed earth was heading for a new ice age. But prices were mostly hot, as it was a decade of high inflation with an overly loose monetary policy in the US. It culminated in the US going off the gold standard, which in turn led to very high interest rates and very high commodities prices, especially precious metals. The decade saw high equity volatility as well. As Mark Twain said, "History doesn't repeat itself but it often rhymes". Objectively there is a lot of similarity, but climate scientists now point to global warming instead. On a global stage in the seventies China was more isolated. Currently, with all the market frenzy, as we will argue below, US tail risks appear to be most concerning. Going ICE "Into China Equity" seems to be the most reasonable risk/reward alternative.

Adversarial US foreign policy starts to worry non-US investors

Ever since the brief period of market volatility following last April's Liberation Day, a new trade gained in popularity: invest in non-US assets. In an ebb and flow with the strong threats by the Trump administration and the inevitable subsequent softening¹, the tide appeared to shift away from the perennial overweight of US equities. One interesting marker would be to compare the State Street SPDR S&P 500 ETF Trust (commonly known as 'Spider' or its ticker SPY) with the VXUS exchange traded fund which tracks the FTSE Global All Cap ex US index. In other words, VXUS tracks

a benchmark that proxies all investable assets as long as they are non-US. While ETF's based on the S&P 500 remain among the world's largest ETF's by assets, the number of shares outstanding for SPY has slightly declined by -4% since the start of 2025. By contrast, the number of shares outstanding for VXUS has steadily risen by 32% over the same period, vaulting it towards the top of the ETF rankings.

As to the why, it is likely that foreign investors, especially those from countries targeted by the tariffs and other

1. The acronym TACO, for Trump Always Chickens Out, was coined in April 2025 and remains applicable to US economic policy

adversarial US foreign policies, are starting to wonder whether their investments in the US are safe or could maybe be targeted in the future. Moreover, arguably some countries also might start to wonder why they should keep financing the US government by buying US treasuries, as in return they get slapped with tariffs and various other threats. As an example, with the US eyeing Greenland, one relatively small Danish pension fund (Akademiker) publicly announced to have reduced its US treasury holdings. In what could well be a subtle political threat, it is not as much

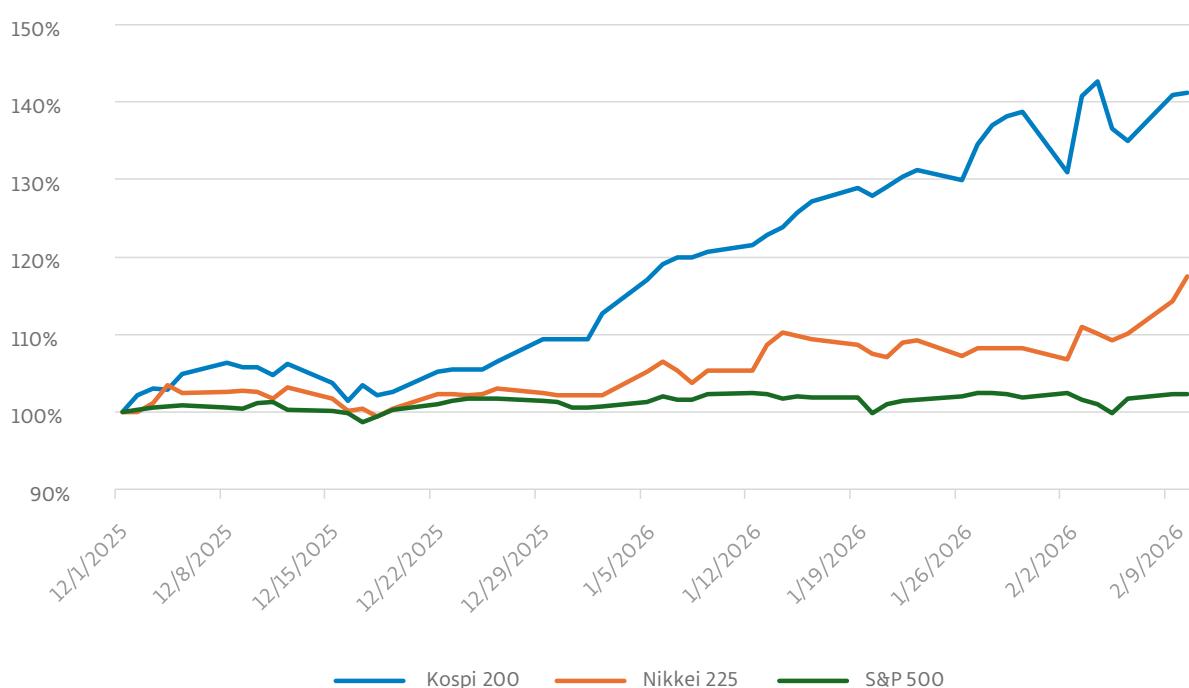
the size of the divestments that mattered, but the fact that hundreds of billions of dollars worth of treasuries, held by European pension plans could be at risk of divesture as well. Along the same lines, recently China has asked its banks to curb US treasury holdings as they are considered to be 'riskier'. While China's holdings have steadily declined since they peaked in 2013, an acceleration of sales would be a challenge for US dealers, especially if the larger European holders follow suit.

Market frenzy of late with increased volatility except for US and China equity

Since the start of 2026, two key Asian markets have stepped up the pace of their ascent, particularly Korea's Kospi which has been able to string a nearly 30% gain this year adding to its earlier jump. This market is now up nearly 150% since the start of 2025. The recent snap-election in Japan charged investors' animal spirits as quickly after breaking the 50,000 level, the Japanese benchmark is making a run for 60,000.

As the graph below shows, amid all Asian excitement the US markets appear somewhat static, although we have seen some volatility lately amidst investors' worries on the sustainability of artificial intelligence spending and the brief fracas surrounding Greenland. And of course, the US significantly outperformed these markets in 2023 and 2024.

Kospi 200, Nikkei 225 and S&P 500 from December 2025 through February 2026

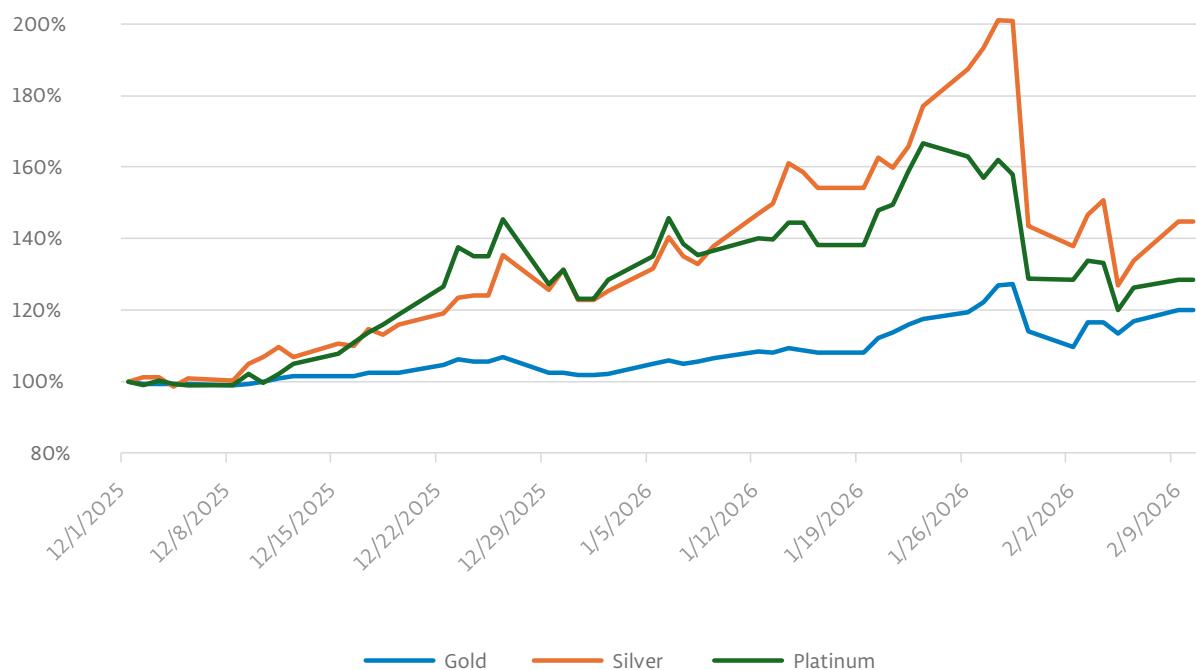


Source: True Partner data, Bloomberg – as per 10 February 2026

Profound shifts in investments were also occurring towards other asset classes, most notably precious metals. The steady climb of gold over the past years appeared to reflect a combination of safe-haven buying and inflation fears. But since the end of last year, those precious metals with industrial uses, such as silver and platinum, have experienced a melt-up. The immense investments in data

centers to support expected growth of artificial intelligence in the future provides one narrative here, as particularly silver will be in high demand as a conductor. But this AI-angle appeared to have reeled in speculators who had been amassing all-things AI at ever-increasing valuations (as well as crypto currencies).

Gold, silver and platinum from December 2025 through February 2026



Source: True Partner data, Bloomberg – as per 10 February 2026

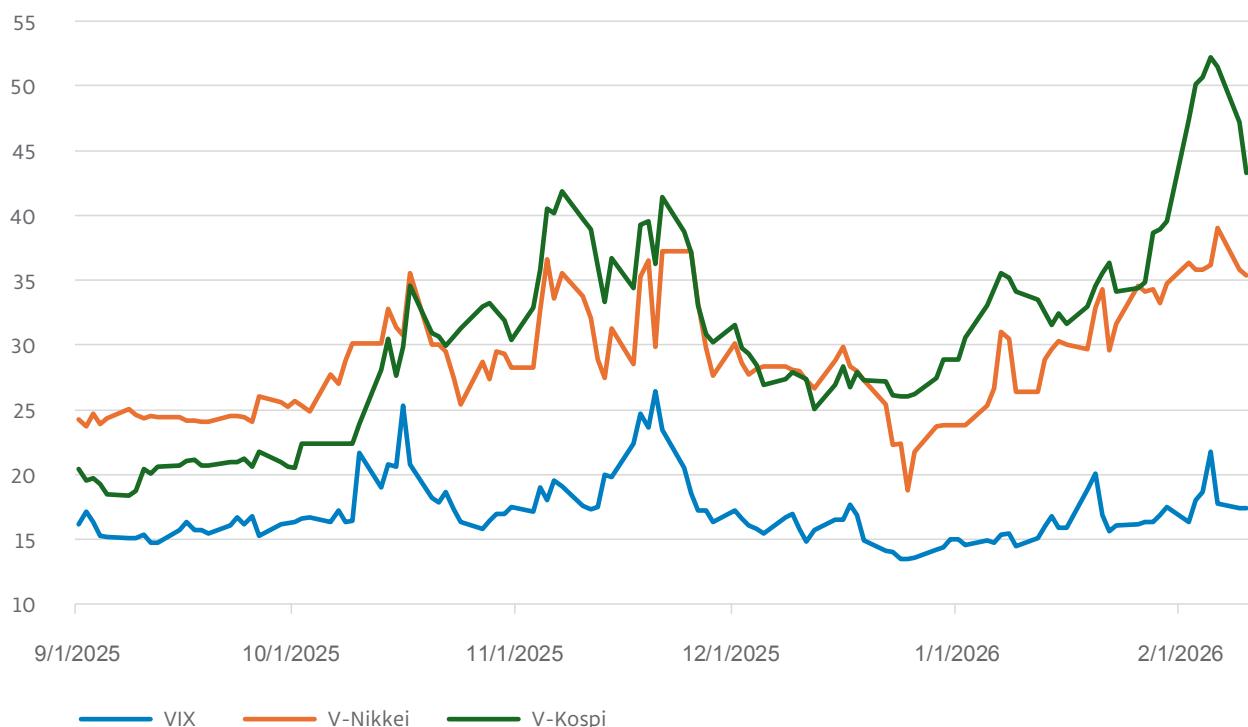
The last weeks have shown the flip-side of speculation of such magnitude as when doubts resurfaced on the sustainability of the AI-related capital expenditures, technology stocks took a beating as did precious metals and crypto currencies, the latter in quite a larger magnitude. All popular (and arguably crowded) investments were suddenly

highly correlated (and volatile). Despite the driving role that US technology shares had played in the past years' substantial rally, contagion into the broader market has remained limited for now. But when looking at pricing in volatility markets, the insulation of the US market appears to be the base-case scenario. The graph below shows that

while implied volatilities for both Kospi 200 and Nikkei 225 have significantly risen upon the increased movement, US implied volatilities have remained range bound. The two blips of the VIX in January and early February 2026 quickly

reverted back down and were of limited magnitude, despite the frantic reporting of market anxiety across financial media.

VIX, V-Nikkei and V-Kospi indices from September 2025 through February 2026



Source: True Partner data, Bloomberg – as per 10 February 2026

While US volatility remained low while markets are at high p/e levels, for Chinese equity markets volatility also has remained rangebound but at notably lower p/e though, probably mainly as many global managers remain strongly under invested in China and continue to express lackluster interest at best in the world's second largest economy.

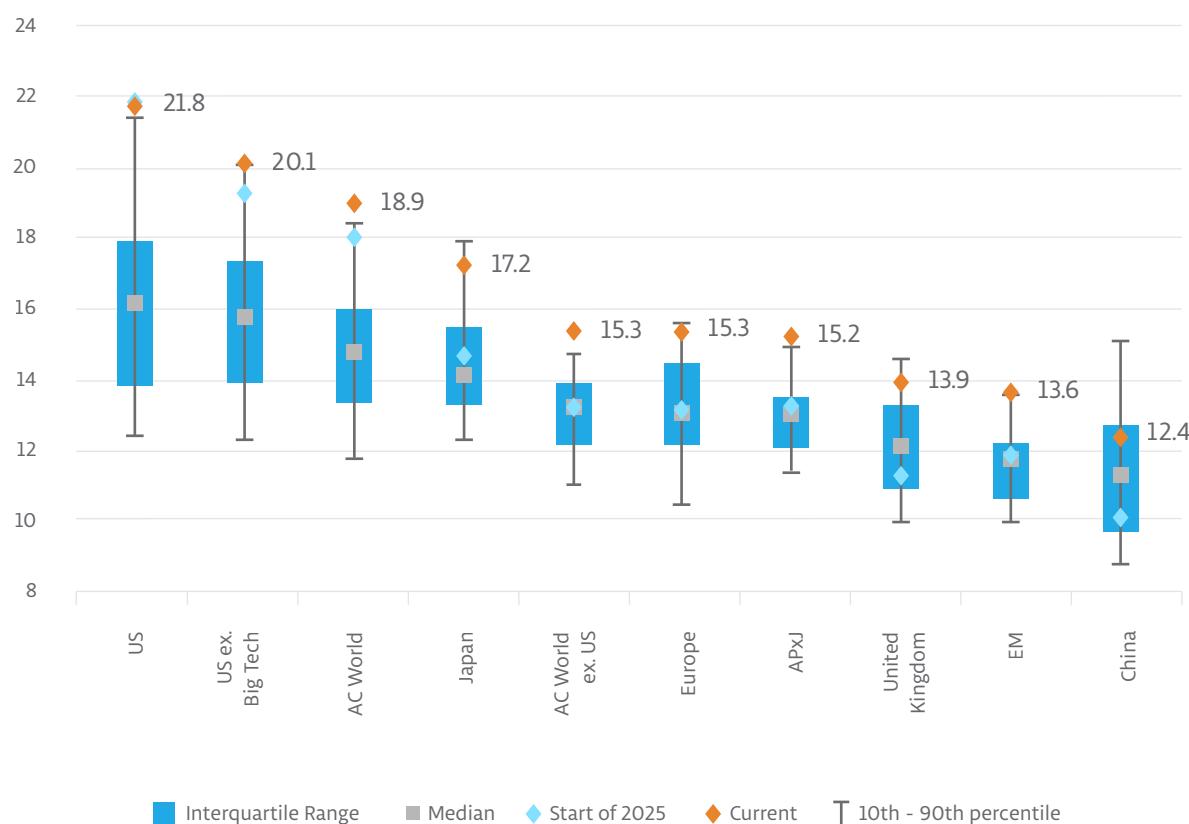
This valuation differential between the world's two largest economies infers the economic headwinds in China will continue while the United States' economy remains insulated from negative impacts of its recent adversarial stance vis-à-vis the rest of the world.

High valuation gap between US and other markets

Overall, while Asian markets have outperformed the US as of late, from a valuation perspective notable differences remain. US markets still did post solid gains last year and this in turn has resulted in continually demanding valuations, which remain trading at a premium to the rest of the world. As per the graph below, US price/earnings ratios remain in

their upper most percentiles while other markets saw only a solid increase in price/earnings multiples. To some extent, the valuation difference between the US and the rest of the world narrowed, but only because markets in the rest of the world attained a more challenging valuation, leaving US markets as expensive as ever.

Price / earnings ratios across major global markets



Source: Factset data

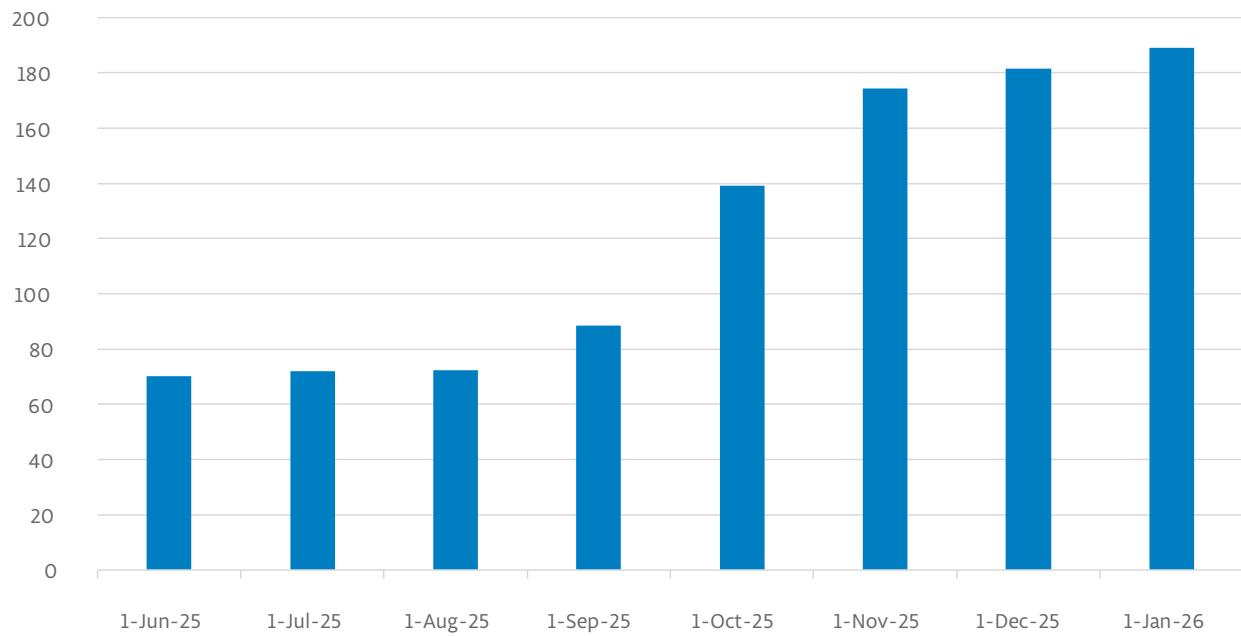
Current risk environment: Geopolitics, AI and the Yen

While for now the volatility in Asia (and precious metals and crypto currencies) has been contained, it may well take the US markets along for a ride in the near future. We could see various avenues of contagion.

As mentioned, the massive roll-out of data centers to support expected growth of artificial intelligence use has impacted the market for (industrial) precious metals. While the hundreds of billions in annual capital spending are being incurred, it remains a question as to whether these investments will be recouped, and if so when. In particular, Oracle is in the crosshairs of investors as the

brief enthusiasm following the announcement of massive investments last September gave way to skepticism. The company looks highly exposed if the AI bonanza does not materialize, as even private credit is hesitant to take on exposure to Oracle's data center projects. The toll these expenditures (and the committed debt to finance them) are taking on the company's creditworthiness is reflected in a sharp rise of credit-default swaps. The graph below shows how CDS more than doubled after the September announcement, while Oracle shares are far below the September (sugar) highs.

Oracle – CDS (5-year, Senior) between June 2025 and January 2026



Source: True Partner data, Bloomberg – as per 10 February 2026

In regard to inflation, markets may well have prematurely declared victory following the latest Federal Reserve rate cut last December (and since, the Federal Reserve has ceased further cuts, with only two additional cuts of 25 basis points through year-end 2027 priced in²). The persistent

threat of US tariffs (reiterated in the recent fracas over Greenland) may well permanently alter trading patterns, as reflected in Canadian PM Carney's speech in Davos. The end of globalization appears likely and with it the favorable suppression of inflation would cease as well. At the same

2. Plurality expectation as per the CME "Fedwatch Tool" which tallies the distribution of market expectation of FOMC rate cuts based on the CME-listed Fed Funds futures contract.

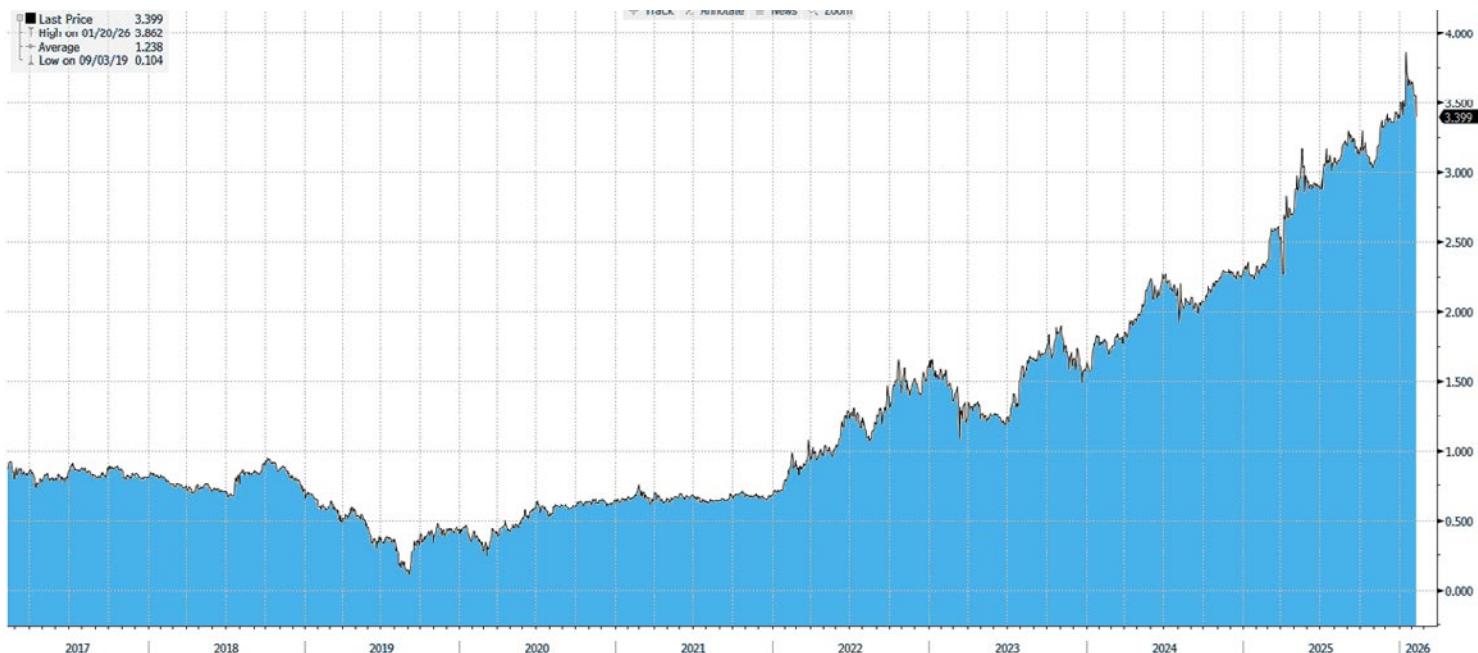
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time, logistics remain challenged amidst continuing instability in the Horn of Africa and persistent draughts causing weight restrictions on the Panama Canal (as well as the legal and geo-political battle on port control of the latter).

In light of potentially inflationary policies on the horizon, particularly those implemented by the Trump administration such as unfunded tax cuts for the rich and

deportation of migrant workers, a higher interest rate environment appears a real possibility. Globally, over the past months bond yields have ticked up from earlier lower levels. Nowhere is this more telling than in Japan, where the strong rise in 10-year and 30-year rates linked to a renewed loosening of fiscal policy, marks the end of an era of low Japanese interest rates. No longer is shorting JGB's the 'widowmaker' trade it has been for decades, as visible in the below graph.

Japan, 30 year yield since 2017



Source: Bloomberg

Opportunities: The Tail of the Dragon and the new ICE age

Amidst the various threats and risks, we see opportunities as well. Even in the more demandingly priced US equity markets could continue to move higher should the current optimism on AI be warranted after all. But this potential upside comes paired with potentially significant downside should valuations compress from the current upper percentiles towards longer term averages. This is where the current lower implied volatility levels in the US (and to

a certain extent European) markets compared to those in Asia could provide more favorable hedges. Should market volatility do spill over from Asian markets into the US in a correlated event, it is the US markets that arguably have the most downside in light of their extreme valuations built up over the last few years. However, the pricing of S&P 500 options for example reflects a high degree of 'immunity' for US equities: should other markets choke up, they are

implying very limited to no contagion thereof in the US. The old adage *"when the US coughs, the rest of the world falls sick"* appears to have no inverse. But in a highly connected world, the risks that are not fully priced in tend to have the ability to lurch out of the woodworks at inopportune times. Thus, we would argue that it actually is an opportune time for adding US downside protection to investment portfolios.

This is where True Partner's nearly two decades of asset management experience comes to the fore. With our extensive framework of quantitative tools, we can provide investors with tailored solutions for tail hedges, including favorably priced dynamic tail hedges which adjust hedges based on among other things volatility changes. The dynamic characteristics intends to couple reduced premium spend compared to always-on hedges with protection that kicks in when volatility markets exhibit early signs of market stress.

Stress events are notoriously difficult to predict, but it is better to be prepared like above. The more consistent higher conviction opportunity we see would be to go into that unloved second largest economy in the world, China, in short ICE ("Into China Equity"). Our presence in Asia has allowed us a front-row seat for the breakneck developments that are currently shaping China's strengths in fields such as EV's, green technology and also artificial intelligence. Driving on the Huaxia Elevated Road on the way from Shanghai Pudong airport towards downtown, flanked by the 240 mph Maglev tracks, the plethora of sleek and cheap domestic EV's drive home the current difficulties of the German automotive industry.

In January last year, China's DeepSeek briefly shocked the world by presenting an AI framework that would require a fraction of the resources required by the American platforms which drain energy, water and notably capital

expenditure. At the same time, China's long-term vision with regards to procuring critical resources may also provide it an upper hand while the US's overtly mercantilist approach to global trade opens avenues to trade previously seemed unimaginable, something also underscored in Canadian PM Mark Carney's speech in Davos last month.

But there are certainly still headwinds facing China as well. As has been amply published in Western media, the real-estate crisis will likely continue to be a drag on the Chinese economy with the high indebtedness at the local government level providing additional layers of risk. But there are signs of stabilization and the Chinese government has taken many active measures to shore up the real-estate market that are starting to bear some fruit.

In current markets long equity positions in China equity look attractive but a downside shock, whether started domestically or through contagion from other markets, could still cause significant drawdowns. Therefore, in our view the optimal way to reap China's potential would be to combine China long equity with an active option overlay strategy that still captures significant part of the upside but limits the downside drawdowns. This is the exact premise of True Partner's China Dragon Tail strategy. This strategy has been successfully deployed in managed account format in 2025 and we look forward to providing a commingled version later this year.

All in all, as experienced traders we foresee 2026 to be an interesting year that could be as adrenaline-fueled as riding the Tail of the Dragon (the famous stretch of road in the Smokey Mountains in Tennessee, US) and the start of the new ICE age. As always, we are happy to assist investors with tailored solutions to optimally navigate market turmoil, specifically tail solutions and China opportunities.

About the authors



Mr. Govert Heijboer, Co-CIO of True Partner, has been active as a market maker trading in the European and Asian derivatives markets as well as positional trading since 2003. Govert started as a trader/researcher at Saen Options in Amsterdam and rose to become the director of derivatives trading and a member of the executive team in 2007. In 2008 he moved to Hong Kong to set up and assume responsibility for all trading activities in the new Saen Options Hong Kong branch office. Govert holds a PhD in Management Science and an MSc in Applied Physics from the University of Twente, Netherlands. He is a founding partner of the Firm.



Mr. Tobias Hekster, Co-CIO of True Partner, has been actively trading for the past 29 years in various different roles in several markets across the globe. Starting at IMC in 1998 as a pit trader in Amsterdam, Tobias has established the off-floor arbitrage desk, headed the Chicago office in the transition from floor trading to electronic trading and set up the Asian volatility arbitrage desk in Hong Kong. Tobias holds an MSc in Economics from University of Groningen, Netherlands. Next to his role as Senior Strategist, he taught as an Adjunct Associate Professor at the Chinese University of Hong Kong and as an Adjunct Professor of Financial Practice at National Taiwan University.

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