

MONTHLY LETTER

TriLake China Inflection Strategy

May 2026

FOR ACCREDITED INVESTORS ONLY | CONFIDENTIAL | TRILAKE PARTNERS | 02 JUNE 2026

May 2026 Performance	Since Inception (9 Feb)	Index Value (29 May)
+4.08%	+5.27%	105.27

Dear all,

May reinforces the framework we set out in April of China's domestic policy being the dominant return driver. The Trump-Xi summit, Huawei's Tau Scaling Law announcement, and Beijing's coordinated tightening of capital outflows have each underlined that thesis.

The strategy performed +4.08%, standing at an index value of 105.27 as of 29 May 2026. The portfolio reached a new high of 109.46 on 13 May before consolidating into month-end, with the AI Infrastructure and semiconductor cohorts continuing to extend while petrochemicals and selected upstream materials pushed back part of the April recovery.

The Trump-Xi summit on 13-14 May delivered what we characterise as a stabilisation rather than a structural breakthrough. The principal outcomes were a bilateral Board of Trade to oversee tariff de-escalation, a Washington ceiling on future tariff hikes anchored to the October 2025 Busan truce, and preliminary discussion of H200 chip access for select Chinese firms. The US pause on a \$14 billion Taiwan arms package has been read by markets as a constructive geopolitical concession. What the summit does not provide is a roadmap for full tariff reduction, resolution on advanced semiconductor export controls, or an institutional framework that survives a change in personal rapport. The summit removes near-term downside tail risk without altering the central investment case we have asserted since February.

The European Union Chamber of Commerce in China is an independent body representing over 1,700 European companies operating across China. Its annual survey is one of the most closely watched barometers of foreign corporate sentiment on the ground. It reflects the views of operators with factories, procurement contracts and customers in China. This year's survey found 35% of respondents optimistic about growth in China over the next two years, up from a record low of 29% in 2025. This improvement confirms our domestic view.

On 19 May, UBS China Equity Strategy published an extensive 'slow bull market' framework which aligns with our positioning since inception. With property no longer functioning as China's wealth reservoir and 10Y sovereign yields below 1.8%, the A-share market is being deliberately developed as the new domestic store of value. UBS identifies four indicators that signal buy-the-dip opportunities

in a slow bull market: implied volatility on the CSI 300-1000, daily A-share market turnover, the balance of margin financing as a percentage of free-float market capitalisation, and ETF turnover as a share of overall market activity. We monitor these signals as part of our ongoing risk assessment. The fund's March drawdown to 89.43, and the subsequent recovery to 105.27, is an example of this dynamic playing out. The portfolio's construction around the greater tech complex, with AI supply chain names as the core growth allocation, reflects the same framework UBS China Strategists are now articulating systematically.

Beijing's coordinated tightening of capital outflows moved from policy signalling to direct enforcement in May. On 22–23 May, the China Securities Regulator and seven other regulatory agencies launched an unprecedented crackdown on illegal cross-border stock trading, penalising several large domestic brokers in response to an estimated \$1 trillion in capital outflows recorded in 2025. Non-compliant mainland accounts must be liquidated over a two-year transition window, effectively winding down the mainland businesses of the targeted firms. Citic Securities estimates up to HK\$250 billion in affected assets. The structural implication is constructive: as illicit offshore channels close, domestic capital is being redirected into approved onshore instruments.

The biggest catalyst this month was Huawei's Tau Scaling Law announcement on 25 May at the International Symposium on Circuits and Systems in Shanghai. The event brings together top minds to unveil cutting-edge breakthroughs in semiconductor design and artificial intelligence. Huawei formally introduced 'New Semiconductor Path in Practice', a domestically originated framework that would structurally reduce China's dependence on foreign lithography. This chip-printing technology, produced by ASML, has been blocked from export to China by the United States. If validated, the law resolves the most acute chokepoint in the Tech Self-Sufficiency theme. Huawei expects the architecture to deliver chips with transistor density equivalent to 1.4-nanometer processes by 2031, with SMIC as manufacturing partner, and will launch the first commercial Kirin chips using 'LogicFolding' in autumn 2026.

The market reaction was concentrated on our holdings. SMIC's and Hua Hong Semiconductor's shares rose around 15% on 26 May. However, the strategic implications are far more important than the price action. If the 'LogicFolding' technology becomes the dominant design paradigm, the entire domestic semiconductor and design ecosystem moves into a structurally advantageous position. The Tau approach is designed to bypass foreign dependency, further supporting our top holdings (NAURA, AMEC, Cambricon, Hygon, etc).

The portfolio's chemical and petrochemical cluster (Wanhua Chemical, Hengli Petrochemical, Rongsheng Petrochemical) currently shows unrealised losses from cost of -15%, -31%, and -25% respectively. We acknowledge the near-term cyclical headwind from elevated oil-derivative input

costs in the wake of the US-Iran episode. UBS-S carries Wanhua at an RMB 126 price target, implying 58% upside, with 45% EPS growth expected in 2026E.

China's Producer Price Index turned positive YoY for the first time in over two years, printing at +0.50% in March 2026. Combined with the 15.5% YoY acceleration in industrial profit confirmed in late April, the earnings recovery is now visible.

We remain fully invested. The Q2 2026 fundamental setup we described in April has strengthened: the weak comparison base is now confirmed, formal fiscal allocation behind the intelligent economy mandate continues to flow, anti-involution margin recovery is beginning to print, and the geopolitical overhang has stabilised through the May summit. The view has not changed and the evidence supporting it has accumulated.

[TLP China Inflection Strategy Index](#) Access this link for further details regarding the China Inflection Strategy. This includes live index performance, constituent holdings, allocation breakdown by currency and asset class, and portfolio metrics.

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