Eleon Capital Management Ltd.

- MARKET OUTLOOK -

EDITION 2/2025

NET ASSESMENT

JULY 2025

Economic Outlook Commentary

Navigating the Investment Landscape: Strategy, Cycles, and Accessibility

At the 2007 Berkshire Hathaway Annual Shareholders Meeting, Warren Buffett was asked how he would manage an endowment fund's capital. He responded that with a 20-year time horizon, as endowments typically have, he would invest 100% in either equities, bonds, or cash, depending on the opportunity. This reflects Buffett's deep-rooted belief in investing based on opportunity cost. As Charlie Munger famously puts it, opportunity cost is the value of the best alternative forgone: ' the benefit you miss by choosing one option over another' (Google Charlie Munger, 2025).

This approach supports a concentrated, low-turnover portfolio strategy and a willingness to hold cash if the margin of safety or return spread between options is insufficient. Buffett's style highlights discipline and the power of patience, allowing capital to wait for superior opportunities.

Howard Marks, in his book Mastering the Market Cycle, argues for cyclical sensitivity in capital allocation. He proposes an adaptive mindset: be aggressive when risk aversion is high and valuations are low, and defensive when optimism and valuations are elevated (Novel Investor Notes, 2025). In environments characterised by loose underwriting, excessive liquidity, and complacent risk assessment, prudence should take precedence over the pursuit of returns.

A former CIO I worked with echoed this philosophy, stating: "We should have an absolute return mindset. This doesn't mean becoming a hedge fund; it means understanding that protecting investor capital can at times be more important than chasing returns. Sensible, long-term value growth must include awareness of downside risk."

That strategy resulted in a bold reallocation in Q2 of 2008: around 30% of our portfolios were shifted into cash, which we later redeployed into high-quality corporate bonds and equities in Q4 of the same year. Since then, the investment climate has been less extreme, making such sweeping allocation changes more challenging.

A case in point: a respected fund manager I admire recently sold the majority of his portfolio, taking a long position in a single stock that had fallen over 80% in the last five years and a short position in a stock that had surged tenfold. Both companies arguably retain competitive advantages, though the longevity and robustness of those moats differ. One faces temporary operational setbacks, while the other's valuation implies prolonged, outsized growth.

Volatility, trade tensions, inflation risks, political uncertainty, and fragile national balance sheets plague today's markets. These macroeconomic variables are challenging to predict and even more difficult to model in terms of their second and third order effects. What matters most is how these externalities affect the intrinsic value and competitive positioning of the businesses we hold or wish to own.

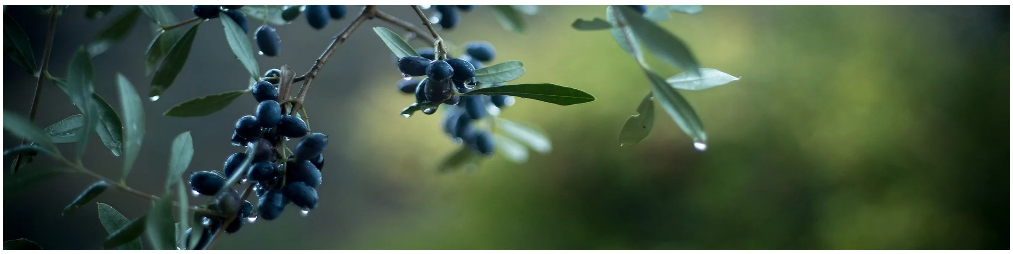
Key Investment Principles in the Current Climate:

- **The probability of unexpected shocks to GDP, inflation, and geopolitics is higher now than in past cycles.**
- **Risk aversion appears to be low despite late-cycle indicators. Some sectors carry unjustifiable valuations. A defensive posture is warranted.**
- **Emphasis should be on quality: businesses with sustainable returns on capital, strong balance sheets, reliable cash flows, and durable competitive advantages.**
- **Long time horizons, patient capital, selective concentration, and a willingness to hold cash are essential. Macro fears should not drive decisions, but neither should they be ignored.**

The Evolution of Access to Alternatives (Commentary)

While these investment principles apply to traditional assets, the modern investment landscape is evolving rapidly. Continue reading this article on our LinkedIn page:

https://www.linkedin.com/pulse/navigating-investment-landscape-strategy-j2mue



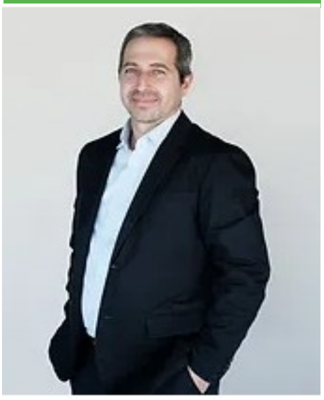
Legal Disclaimer: The information contained within this publication is issued by Eleon Capital Management Limited (ECM), which is an Alternative Investment Fund Manager (AIFM), authorised and regulated by the Cyprus Securities and Exchange Commission, license number AIFM 45/56/2013 and offers specialised investment management services to qualified investors. The state of the origin of the AIFM is Cyprus. This document may only be distributed in or from Cyprus.

Performance warning: The information contained herein (including any expression of opinion or forecast) has been obtained from, or is based on, sources believed by ECM to be reliable, but it is not guaranteed as to its accuracy or completeness. Such information is provided without obligation on the part of ECM on the understanding that any person who acts upon it or changes his investment position in reliance on it does so entirely at his own risk. The information contained herein does not constitute an offer to buy or sell or an invitation to make any offer to buy or sell futures or interests in any investments referred to herein. All information contained herein may be changed or amended without prior notice.

Strong Roots, Sustainable Growth

Eleon Capital Management Ltd.

1 Arch. Makarios III Avenue
Office 801, Lakatameia, 2324,
Nicosia, Cyprus



Panagiotis Ververis,
Portfolio Manager,
Eleon Capital Management

Phone: +357 22 021 634
Fax: +357 22 021 635
Email: info@eleoncapital.com
Website: www.eleoncapital.com

ELEON
CAPITAL MANAGEMENT