



Commentary

December 2012

Written by Devan Linus Rajadurai, Chief Investment Officer

Objective

Malayan Traders Capital Founders Fund (“Malayan Traders”, “MTC” or the “Fund”) aims to achieve a net return of 10-15% p.a. over a 3-5 year period by investing in a portfolio of global listed equities. MTC invests predominantly in blue chip companies listed in the US and Emerging Asia and employs a value driven, bottom-up investment approach. MTC’s benchmark is the Kuala Lumpur Composite Index (“KLCI”), Singapore Straits Times Index (“STI”) and the Dow Jones Industrial Average Index (“DJI”). Performance is reported in USD.

Market Insights

General

The second half of 2012 proved to be a rocky six months for equities globally. A lot of optimism was being experienced in the market leading up to the November US Presidential elections. Given the concerns over President Obama’s recent election win and his ability to work with the Republicans to avoid the fiscal cliff, the market declined in November. Markets rebounded in December, with the Dow Jones Industrial Average up 1.81% for the six month period to December 2012. MTC’s overall portfolio ended the year in negative territory as three of its Top 5 Holdings (Apple, Olam, Wilmar) suffered major declines in the fourth quarter of 2012.

Top Five Holdings

Company	Sector
Apple	Technology
Google	Technology
Intel	Technology
Olam	Agriculture
Wilmar	Agriculture

Geographic Breakdown

	Weight %
Global	58.32
Asia	33.90
North America	7.78

NAV

Period	Unit Price
Current Month 31 Dec 2012	96.04
Inception 24 Jul 2012	100.00

Performance

Period	Portfolio %	KLCI %
Dec-12	0.35	4.21
Since Inception	-3.96	7.54

Indices

Period	STI %	DJI %
Dec-12	3.03	0.60
Since Inception	9.15	3.86

Sector Breakdown

	Weight %
Technology	45.29
Agriculture	25.71
Consumer Staples	9.68
Property	8.19
Industrial	6.64
Energy	4.49



Portfolio

Apple

Ever since Apple reached a peak of US\$700 a share in September, its stock has been in decline, despite record sales and profits and the release of its new iPhone 5 and iPad Mini. The reason for the decline can be pinpointed to the growing competition from Android devices, in particular Samsung's Galaxy offerings for both mobile phones and tablets, and the iPhone 5 supply chain issue which resulted in sales below estimates.

Wilmar and Olam

Wilmar and Olam shares on the other hand have been in decline since the beginning of 2012, before the inception of MTC. The rise in prices for edible commodities such as soybean and corn has put a dent on margins of agriculture companies.

Wilmar

Wilmar in particular is facing pressure on its cost and revenue side as the Chinese government has advised companies operating in China not to raise food prices, in particular cooking oil where Wilmar and its next biggest competitor (Cofco), control 70% of China's retail cooking oil market. Furthermore, in the second half of 2012, palm oil prices have experienced double digit declines as stockpiles in Malaysia and Indonesia (who collectively produce 80% of global palm oil production) have reached record levels. As a result, Wilmar suffered a more than 50% drop in Group profits in the month of August as a result of lower earnings from its plantations, and oilseeds and grains business.

Olam

Olam, which is also experiencing lower margins, experienced a further setback in November when hedge fund Muddy Waters shorted the stock accusing the company of aggressively booking profits and being destined for failure in 2013 due to its high debt. Olam's CEO denied the accusation, stating that its debt levels were not unreasonable given the company's aggressive growth plans and that it had sufficient cash and access to credit to fund its operational needs. Temasek showed support for the company, increasing its stake to approximately 19% in December. Olam also proposed a bond-warrants rights issue that will be issued in January 2013. Olam is expecting to raise US\$1.2B from this exercise. Temasek and Kewalram Chenrai, Olam's two largest shareholders, are taking up the rights. Jim Rogers, a famed commodities investor and former partner to George Soros is also taking up the rights.



Outlook

Despite the competition from Android devices, Apple is still expected to achieve records sales in 2013. Apple, having released the iPad Mini and with rumours of a more affordable iPhone, will be able to create new revenue streams and maintain its growth. As mentioned in MTC's November commentary, "MTC's agriculture portfolio is trading at valuations close to book which we consider a bargain buy given the necessity for food". We still believe the case to be true, although margins are not expected to improve immediately. It is difficult to time when the next agriculture commodities boom will start, hence holding on to our agriculture portfolio which we purchased at low valuations is the best option for the time being. We are expecting a small rally in the market for the first quarter of 2013 based on the optimism generated from the deal between the Republicans and Democrats made on New Year's Day to raise taxes in the US as a measure to avoid the fiscal cliff.

Disclaimer

The views expressed in this report are those of Devan Linus Rajadurai, MTC's Founder & Chief Investment Officer. MTC's investment strategy is implemented by the Fund's Investment Manager, MTC Asset Management, with the support of its sister entity, MTC Asset Management (M) Sdn. Bhd. licensed by Securities Commission Malaysia (CMSL: eCMSL/A0333/2015), which provides research and operational support to MTC Asset Management. The Fund is a regulated mutual fund under the Mutual Funds Law of the Cayman Islands and is registered with the Cayman Islands Monetary Authority. This report is up-to-date as of 1 August 2016.