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Malayan Traders Capital
Founders Fund

Commentary

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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 first half of 2013 was a good half for global equities, apart from China. The Dow surpassed its 2007 highs for the first time and continued making new highs, with major blue-chip companies such as Google trading at their highest market capitalisation since their listing on the exchange. The US showed positive growth and recovery since the crisis with the US Federal Government now thinking of tapering its quantitative easing program (where the US has implemented a sustained easing monetary policy to induce growth). As a result, the Dow rose 14% for the first half of 2013, its highest rise in the past five years. Japan has followed the US in this regard – since Abe became Japan's Prime Minister in Dec 2012, he implemented a similar program titled 'Abenomics' to encourage growth in Japan (where for decades Japan faced deflation).

NAV

Period	Unit Price
Current Month 30 Jun 2013	93.08
Beginning of Year 1 Jan 2013	96.04
Inception 24 Jul 2012	100.00

Performance

Period	Portfolio %	KLCI %
Jun-13	-8.24	-1.88
Year-to-Date	-3.08	1.55
Since Inception	-6.92	9.21

Indices

Period	STI %	DJI %
Jun-13	-5.13	-1.36
Year-to-Date	-4.14	13.78
Since Inception	4.63	18.17

Top Five Holdings

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

Geographic Breakdown

	Weight %
Global	60.56
Asia	33.04
China	6.40

Sector Breakdown

	Weight %
Technology	49.94
Agriculture	26.66
Consumer Staples	8.07
Property	6.38
Industrial	5.47
Energy	3.48

Market Insights (continued)

General (continued)

Abenomics focused on a three pillar strategy where the two main strategies were (1) depreciating the Yen to encourage exports and (2) increase public spending. The financial markets as whole reacted extremely positive to the news, resulting in the Nikkei stock market rising 35% for the first half of 2013, the highest rise over the last decade. As a result, the world financial markets also reacted positively to the positive news of US & Japan resulting in a worldwide gain in the equity markets.

Portfolio

MTC's Portfolio

Both our YTD return and inception return has trailed the Dow and other world equity markets, and ended in negative territory in the first half of 2013. MTC acknowledges the underperformance relative to equity indexes, however we reiterate MTC's investment strategy is absolute return focused, and is not designed to be compared to any equity index as a benchmark. As our strategy focuses on buying cheap and underappreciated companies focusing on long term capital appreciation while collecting regular dividends, it is not uncommon during periods of extreme positivity for the market to continue ignoring these companies in favour of 'hotter' stocks. In MTC's case, three of our largest portfolio companies – Apple, Olam and Wilmar – did not perform for the first half of 2013, despite the rally of the global equity markets and the successful performance of our other portfolio companies such as Google, Microsoft, Intel, and Chipotle. It should be noted that despite this underperformance we would still own and have not sold Apple, Olam and Wilmar. A good analogy is that of owning a home – "If one bought a property 10 years ago, there will be periods where the price of his home was less than the price a year ago (especially 2008). However, if he had waited till 2013 and ignored the noise, the price of his home would have been worth more than double the value". That is what we see in our stocks in our portfolio. We are not looking to buy stocks and sell them when they rise every month, or even every year. We are looking to buy into amazing businesses at a fair price and hold it for 5+ years. Below is a brief commentary of some of the stocks in our portfolio:

Apple, Olam, Wilmar

In our Dec 2012 Bi-Annual Commentary, we commented on Apple, Olam and Wilmar. We commented why it underperformed and was aware that it will take time for our investment thesis to crystalize. Hence, in this commentary, instead of commenting on stocks that underperformed again, we would share a light on the stocks that have performed. Our summary for these three stocks is that the story remains the same as in Dec 2012, however we do expect a quicker recovery for Apple compared to the agriculture sector. Something worth noting – sometimes even though a company's revenue and profits continue to grow, the market still may attach overly negative views on a stock. For example, Samsung has achieved record revenue and profits for the year, but its stock price has declined 12% YTD (we still prefer Apple over Samsung).

Google

Google is one of these amazing businesses where before July 2012, for the past two and a half years since 2010, the stock had been hovering around the $500-600 price range. If one had bought the stock in 2010, for two and a half years his returns would have been zero or negative, depending on the range he bought it at. It is the continued belief in the company that if one had held the stock at his purchase price of $600 in July 2010 and held it for 3 years till today, one will be rewarded with a current stock price of $900 and a return of approximately 50% (or 14% p.a.).

Portfolio (continued)

Google (continued)

Personally, the managing director has owned Google since those times and MTC has owned it since inception despite the negative outlook such as continued rivalry from Facebook, resignation of Eric Schmidt, its unsuccessful attempts in creating an office suit to rival Microsoft Office, or the inability to generate significant revenue through YouTube. From our understanding of technology and the business, we continue to believe that over time, revenue and earnings will follow. As such, over a 2.5 year period, Google grew their revenue by more than 60%; and its profit by more than 25%, resulting in the market acknowledging and finally appreciating the stock since the 2nd half of 2012.

Chipotle

Chipotle is a fast food chain that was formerly a subsidiary of McDonalds that sold Mexican food, mainly burritos and tacos in the US. It is known for using only fresh and environmentally friendly ingredients. In October 2012, famed hedge fund manager David Einhorn shorted Chipotle, claiming that the previous US Mexican fast food leader, Taco Bell, will reclaim its top spot with its new and refreshed burrito menu. Having visited the United States in 2011 and seeing the queues in the stores and the word of mouth of US residents as it being the McDonalds of Mexican food, we believed that it was a good long term investment. As such, we held on to our position in the company and since June 2012, earnings revenue and profit has increased by more than 25% and 15% respectively with a corresponding stock price increase of more than 30%.

Outlook

We continue to expect a general pullback in the overall market as we believe some countries to be relatively overpriced given the level of the underlying economy. Japan for example, which stock market has risen but its underlying electronic companies are losing out to the South Koreans such as Samsung and LG; and its automobile industry is facing tremendous competition from Hyundai, Volkswagen and the resurgence of Ford. In May, we mentioned "a decline in the Nikkei", and similarly we expect a choppy market globally for the 2H of 2013. Despite this negative outlook, we are very comfortable that our portfolio companies will be able to ride the trend and expect the market to appreciate Apple by the end of the year, which will contribute to a good return for MTC. Agriculture may not recover this year but our strategy has shown that patience will finally be rewarded.

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