info@malayantraders.com
+60 3 2289 5055

Malayan Traders Capital
Founders Fund

Commentary

December 2013

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

2013 was an amazing year for equities. Despite economic fears throughout the year such as the verge of bankruptcy of Cyprus, Greece and certain European nations, the US Shutdown, and the end of the commodities boom, the Dow rose 27% for the year (the highest gain since 1997). Japan, Australia and Malaysia also performed well at 57%, 15% and 11% respectively. On the other hand, China, Singapore and Jakarta performed poorly at 3%, 0%, and -1% respectively. This emphasises the importance of global diversification, because even in a year where we had once in a decade rises like we experienced in the US and Japan, other nations which were expected to be good investment platforms like China and South East Asia did not perform. MTC does not spend any time researching which country will perform better but acknowledges that by investing globally, superior returns can be achieved compared to investing in a single country or region.

NAV

Period	Unit Price
Current Month 31 Dec 2013	126.49
Beginning of Year 1 Jan 2013	96.04
Inception 24 Jul 2012	100.00

Performance

Period	Portfolio %	KLCI %
Dec-13	1.87	1.37
Year-to-Date	31.71	3.19
Since Inception	26.49	10.98

Indices

Period	STI %	DJI %
Dec-13	-0.87	3.05
Year-to-Date	-3.25	26.50
Since Inception	5.60	31.38

Top Five Holdings

Company	Sector
Apple	Technology
IBM	Technology
Jardine	Diversified
Olam	Agriculture
Wilmar	Agriculture

Geographic Breakdown

	Weight %
Global	55.26
Asia	37.30
China	4.83
North America	2.62

Sector Breakdown

	Weight %
Technology	51.90
Agriculture	18.54
Resources	7.97
Others	21.59

Portfolio

MTC's Portfolio

For months MTC was in the negative as we have been buying companies which share prices were falling. Although we would have preferred our companies to rebound immediately after we bought them, it has always been MTC's strategy to buy great businesses that are out of the market's favour. Starting from October, our portfolio finally showed its merit, ending the year with a 32% return for 2013, beating the MY, SG and US indices. Despite the strong performance, MTC is still far from its true value as we still own companies that are near their 5 year lows. Wilmar, Olam, and Capitaland are among our other undervalued companies. Coming from a family of stockbrokers who has seen the ups and downs of the market you cannot go wrong if you have a portfolio of great companies at the cheap. As we venture into the 'information age' with news widely available almost instantaneously, people tend to overly focus on the short term fluctuations of the market and economy. They say the 'older you are the wiser you get', but in the quest to conform to the information age, history is sometimes forgotten. For the old who remember history, they know that with all the crises, be it the Asian Financial Crisis, the Tech Crisis, or even the Global Financial Crisis, if you had bought great companies in the late 90s such as OCBC or Guinness, which at the time share prices were reasonable, you will be sitting today in 2013 with a more than 500% return. That is what MTC aims to do. We like to learn from the successes and mistakes of the 'old wise' and stay out of the trading game of tips, robot traders or trendy and speculative bets such as Bitcoin, and stick to buying great companies like those we have mentioned at the cheap and hold them close to forever if they are still great businesses. That strategy has given us our inception return of 26% and we expect it to continue to deliver us greater returns in the future. Below is a summary of some of the stocks we held over 2013.

Facebook

Facebook is a perfect example of buying a company at the cheap. In May 2012 Facebook listed with an IPO price of $38. Over the months, its share price fell approx. 50% to $20 at Oct 2012. There is not much explanation needed to be given about Facebook but it is what we consider a great company. We bought Facebook with an average of around $24 at that time believing that it was cheap, mindful that it will be headed lower and that losses will be suffered. It took almost 6 months of patience and only after Jul 2013 did Facebook start rallying to a Dec price of around $58 (a 300% appreciation from its low). This is what we call investing with a 'good margin of safety', where its downside when we bought it was around 20% at most but its upside in our case was 100%. With Facebook, it took us 6 months and as mentioned in our June Bi-Annual Commentary, Google took us 3 years. As an investor we would love for our investments to shoot up immediately, and we continuously learn to improve our investment style, but you will not go wrong buying companies with a 'good margin of safety', such as Wilmar, Olam and Capitaland is now. Since we are talking about Facebook we should mention Twitter. Twitter could be a great company but it is currently not cheap and that is what we consider a 'bad margin of safety' and will not invest at this prices.

ICBC

Some companies are not clear cut having a 'good margin of safety' and ICBC was one of them. The Big 4 Chinese banks' stock price was hit among fears of a growing Chinese debt problem, stoking fears of the recent 2008 financial crisis where banks in the US failed. Without going into detail on the main reasons we invested into ICBC, one was that it was paying 6% p.a. dividend yield at around Jul 2013. We are not economists, especially on China but our investment strategy does not require us to be one. History can tell you that a country like China will only prosper going into the future. 7.5% GDP growth on trillions is still a huge sum of money for the second largest economy. People who study history know there were many recessions along the way as the US became the leading economic powerhouse. Even after the 2008 financial crisis, US banks like JP Morgan are still making huge sums of profits.

Portfolio (continued)

ICBC (continued)

Despite no clear differentiation among the other Chinese banks or any indication that it is a great or innovative company like Coca Cola or Google, we consider ICBC to be a good investment. This is an example of a not so clear 'good margin of safety' stock. After we bought it, it has already appreciated double digits and we are still going to receive a 6% p.a. dividend.

Baidu

A lot of portfolio managers like to talk about their successes, and while 2013 was a good year for MTC, there were mistakes that we want to share with our investors. One of them was Baidu and the mistake made was that we never bought it when it was hinting to have a 'good margin of safety'. One industry that MTC has a strong advantage in is technology. MTC's Managing Director grew up building computers, studying technology and being a major user of anything technology related. Malcolm Gladwell talked about spending 10,000 hours in an area to be an expert. For investing, MTC's Managing Director is close to reaching there but in technology he already has. Even with that knowledge, we saw a great company like Baidu trading at reasonable valuations in May 2013 and just because we did not allocate enough resources to research the stock fully, we did not invest. Since then, the stock has surged 80%. Why we consider it a missed opportunity is that we did all the research for Google, which is the closest company to Baidu, and if we had just spent the time researching, we would have known Baidu was a good investment. Our lesson for 2013 is that having a good strategy and good knowledge is one thing, but hard work is very important. Our goal for 2014 is to make sure we research more stocks even though we only expect to buy up to 20 companies.

Outlook

We have been talking about a pullback for months, which has not happened. We are honestly not sure when it will happen, but regardless, our strategy has always been to be fully invested. Our portfolio performance may go up and down but as mentioned before, we still own companies that we consider to have 'good margins of safety' that will contribute to strong returns for MTC.

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.