



## Commentary

June 2014

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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 2014 was a mediocre year for the Dow, returning just 1.5% compared to the first half of 2013 where the Dow returned 13.8%. Geopolitical issues continue to be a concern with the annexation of Crimea and the continued tensions in Iraq. Additionally, economic concerns continue to weigh in investors’ minds such as 1) one of the largest Bitcoin exchange, Mt. Gox losing hundreds of millions of dollars’ worth of digital currency, 2) the lingering European economic crisis, and 3) the fear that China’s shadow banking system will collapse. With all of these macroeconomic concerns emerging, the majority of private bankers and financial advisors have advised their clients to trade on these events or to continue investing in the winners of 2013 in hope that the momentum would continue. Unfortunately for those who followed these “advice”, the momentum did not continue.

### NAV

Period	Unit Price
Current Month 30 Jun 2014	157.60
Beginning of Year 1 Jan 2014	126.49
Inception 24 Jul 2012	100.00

### Performance

Period	Portfolio %	KLCI %
Jun-14	3.13	0.56
Year-to-Date	24.59	2.88
Since Inception	57.60	14.17

### Indices

Period	STI %	DJI %
Jun-14	-0.62	0.55
Year-to-Date	4.14	1.51
Since Inception	9.97	33.36

### Top Five Holdings

Company	Sector	Weight %
Apple	Technology	54.41
BHP	Resources	34.20
Google	Technology	11.38
ICBC	Financials	
Wilmar	Agriculture	

### Geographic Breakdown

Geography	Weight %
Global	54.41
Asia	34.20
China	11.38

### Sector Breakdown

Sector	Weight %
Technology	48.78
Agriculture	18.12
Financials	17.02
Others	16.08



## Market Insights (continued)

### General (continued)

Now, talk of a bubble emerging is being communicated, leading to people now being advised by the same private bankers and financial advisors to buy financial products such as options and structured products to protect themselves, all for the purpose of generating commissions. Indeed, with all the negative macroeconomic events, we should be concerned about 2014.

## Portfolio

### MTC's Portfolio

Despite all the negativity above, two things that proved itself time and again for the past half century, is 1) the US economy and 2) MTC's philosophy of buying great companies and holding on to them throughout all the negative sentiment. So far, we have generated an outstanding return of 58% since inception, outperforming the Dow by 27%. Year to date, MTC has returned 25%, outperforming the Dow by 23%. For the month of June, we have returned 3% from our continued efforts of adding new undervalued companies to the portfolio. Despite the tremendous rally in our portfolio since Sep 2013, our portfolio continues to comprise of companies that are undervalued as we have sold some of our winners like Olam and Facebook and replaced them with new companies such as Aberdeen. We have also increased our stakes in Wilmar and ICBC, both great companies that in our view, have been overlooked by investors over the past 2 years. We often get questions about what MTC's value is if all we do is buy-and-hold – the answer is that we spend a lot of time and effort searching for and analysing companies to find long term winners. Most importantly, we have the experience and strong discipline to stick to our investments through thick and thin and not to speculate by trading on the volatility in hope of getting extra returns. Trading on volatility is very difficult to execute and only a handful have succeeded, such as George Soros and John Paulson. We respect these individuals and their strategy, however we view the strategy as risky and although it may generate high returns, it may also result in a permanent loss of capital. MTC's value is in its strong research, focus on capital preservation and company fundamentals. We continue to work hard to find the best companies in the world. Below are specific comments on some of the companies that have contributed to our success to date:

### Apple

One of the most beloved companies among consumers was also one of the most disliked companies among investors in 2013. From its split-adjusted peak of \$100 in Sep 2012, Apple's share price fell to around \$55 in May 2012. Throughout this time, the investment professionals were talking about Android's 70% market share, the death of Steve Jobs causing the lack of innovation, the rise of Samsung and Xiaomi, and Apple's high retail price tag. At our inception, Apple was trading at \$80, and we continued to increase our ownership as it dropped to \$55. This is what separates MTC from its peers, in that despite our portfolio languishing during that time with negative returns, we continue to invest in unfavourable companies despite market calls to "trade and get out of the red". It is the hard work of spending hundreds of hours understanding the company and its competitors by watching every developer conference, reading publications from various sources about new products and strategy, and making it a point to visit all the stores whenever we go for trips around the world to understand the customers' enthusiasm. Finally, it is the discipline of sticking to the mantra of holding on to what you know than to invest in something that you don't. Apple is now trading around \$92 and we are still holding on to our position. We will trim our position when our analysis indicates that it is overvalued.



## Portfolio (continued)

### Olam

At inception, Olam was a Top 5 holding at a share price of \$1.80. We purchased the stock due to its supply chain management leadership in the agriculture sector. Notwithstanding the western agriculture giants like ADM and Cargill, the two big players in Asia are Olam and Wilmar. Compared to Wilmar which is predominantly focused on palm oil, sugar and cooking oil, Olam has a diversified portfolio of farm products from edible nuts to cocoa (Olam has 18 products in total). Since its inception in 1989, Olam has grown to become the leading midstream player in the sector, and is now moving upstream by owning plantations in Africa, among others. This new growth plan unfortunately was not well received by the investment public, resulting in the stock experiencing a selloff as they were not confident in Olam's execution ability. From past experiences in supply chain management, MTC understands that it is common for leading supply chain players to incur high initial investment costs when venturing upstream. One had to be patient over many years before abnormal profits are generated (as common sense dictates that trees need time to grow). Unfortunately, in Nov 2012, hedge fund Muddy Waters shorted Olam and announced it to the public with the intention of profiting from the fear of the matter. MTC and Temasek, a significant investor in Olam, stuck to our guns and held on to Olam, even buying more as its share price crashed to around \$1.50 in Oct 2013. Confident in our understanding of the business and having the discipline to buy and hold for the long term, the stock started rising in 2014. In March 2014, Temasek made an offer to buyout Olam at \$2.23 (50% above its low and 24% above the price at which MTC purchased Olam). While we would have kept Olam even at these levels, MTC sold its stake in Olam in favour of a more undervalued investment in the agriculture space.

### Intel

2013 was a great year for many tech stocks with LinkedIn, Amazon, and ARM rallying 90%, 50%, and 40% respectively. Intel on the other hand only managed 22%. Just like the negative sentiments surrounding Apple, other successful incumbents like Intel were also receiving a lot of negativity, such as the cloud expected to replace PCs; mobile phones and tablets taking over desktop computers; and mobile chipmakers like ARM taking over Intel's leadership position in the server market. While Intel was being overlooked in favour of hotter tech stocks, we remained patient, holding on to tried-and-tested Intel. We were rewarded this year, with Intel returning about 20% year to date, outperforming the likes of LinkedIn (-13%), Amazon (-18%), and ARM (-8%).

## Outlook

As mentioned throughout this commentary, regardless of the macroeconomic environment or the fears of the broader market, we continue to hunt for great companies. The market could retreat from its current all-time highs but over the long term our investments will always prove their value. We expect to end this year with a strong performance.

## 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.*