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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

Volatile 2014

2014 proved to be a very volatile year for the Dow and equity markets globally. To put things in perspective, the Dow began the year on January 2 at 16,576 following a strong run in 2013, only to crash in February to 15,400 (-7%). It took about 4 months to recover, reaching 16,500 in May and eventually peaking in July, reaching 17,100. The Dow subsequently experienced a significant drop in August (16,400), although it recouped its losses in September (17,200), before dropping yet again in mid-October to 16,100. From then on, the Dow experienced a 2 month rally to reach a new all-time high in early December (18,000) before retreating in mid-December (17,000) and finally ending 2014 close to its all-time high at 17,823. The Dow ended the year with a 7.5% return, however a lot of investors and fund managers underperformed as they were not able to manage the volatility. Those who did not invest in the US fared worse as indices in Malaysia and Germany (a proxy for Europe) ended the year with a return of -5.7% and -8.2% respectively.

NAV

Period	Unit Price
Current Month 31 Dec 2014	154.91
Beginning of Year 1 Jan 2014	126.49
Inception 24 Jul 2012	100.00

Performance

Period	Portfolio %	KLCI %
Dec-14	-4.02	-6.43
Year-to-Date	22.47	-11.64
Since Inception	54.91	-1.94

Indices

Period	STI %	DJI %
Dec-14	-1.16	-0.03
Year-to-Date	1.23	7.52
Since Inception	6.90	41.26

Top Three Holdings

Company	Sector
Apple	Technology
ICBC	Financials
Wilmar	Agriculture

Geographic Breakdown

	Weight %
Global	48.57
Asia	40.18
China	11.25

Sector Breakdown

	Weight %
Technology	48.57
Agriculture	21.08
Financials	11.25
Others	19.10

Market Insights (continued)

Geopolitical Tension and Commodity Price Declines

The major causes of market volatility in the US and equity market declines in Europe and South East Asia were largely due to the various geopolitical issues faced during the year that impacted the economy. The invasion of Ukraine by Russia for instance, caused a temporary concern on the prospects of lower oil supply, pushing oil prices to levels of around $100 per barrel. Furthermore, the US and its allied nations imposed sanctions on Russia that had damaging effects to its economy (and even further negative implications when oil prices sank to $55 per barrel). Separately, Argentina yet again defaulted on its bond payments, similar to what occurred in 2001. Brazil entered into a recession, the Eurozone continues to be stuck in the doldrums, and Japan Prime Minister Abe's strategy of significantly depreciating the Yen to grow the Japanese economy has so far failed to bear fruit.

Portfolio

MTC's Portfolio

In general, 2014 was a dismal year for most except for those who invested in Apple or MTC. Although MTC ended the month of December down 4%, we nonetheless generated a 22% return for the year, an amazing feat given the negativity surrounding the world in 2014. As mentioned in June 2014, we recognised the negative sentiment weighing on the markets and rebalanced our portfolio away from companies we felt were no longer significantly undervalued. In doing so, we recognise that we may experience some significant drops in the portfolio such as that experienced in December, but they are necessary drops when one buys into companies that are out of favour. It is not possible to consistently buy at the market bottom, and most times you simply have to withstand a slight decline in your portfolio for a major gain in the future. Let's look back at a few companies that did well in 2014 as a result of our patience and temporary losses in 2013:

Apple

We have spoken about Apple at length in three of the last four bi-annual commentaries. While some may find it boring to hear about Apple again, we feel that this is what value investing is all about. It isn't about trying to be exciting by claiming you have invested in 100 stocks, or that you are trying new, sexy strategies such as complex quantitative algorithms that buy stocks from scanning major news headlines or trading on the market volatility. In reality, sticking to a strategy that is tried and tested, and buying great companies at bargain prices after doing your homework is what gets you the >25% p.a. returns. When we started our portfolio with Apple in July 2012 at a split-adjusted price of $80, Apple was by no means expensive and was most likely going to continue its explosive growth. As it appreciated to $100 in September 2012, the financial analysts were even more bullish, supporting the unwarranted calls for it to shoot to $140 by the end of 2012 (for those interested, we still have the article of one of the analysts who made that claim…a typical act of sell-side analysts stirring up news to create excitement and make commissions off you). When Apple crashed to $55 in June 2013, those same analysts claimed that Apple would fall with Samsung taking over. This is when we acquired more Apple stock. To us, it is not about buying a stock because of the excitement of it flying to $140, or trading on a stock by selling it when it peaks at $100 and trying to time the market and re-purchase it at $55 (which in reality most people have not been able to do i.e. time the market). Rather, to us it is about conducting extensive research to know that Apple was a good buy at $80 and to remind ourselves that when Apple fell to $55, that it is still a great company and that nothing has changed except for its stock price. Hence, we acquired more…a lot more. Apple ended 2014 at a price of $110 and we regard Apple to still be a good investment, not because of an analyst's claim that it will fly to $140, but because it is still a great company producing innovative products and trading at reasonable valuations.

Portfolio (continued)

Other Tech Companies

While Apple may be trading at reasonable valuations, others are not. We can split the tech sector into two categories: (1) Social Tech, which characteristics include companies that have recently been hyped up by social media, operating mainly through the internet, and incorporated post the 1999 tech bubble e.g. Twitter, LinkedIn, Facebook, which we feel are now trading at very elevated and unreasonable valuations; and (2) Legacy Tech, which characteristics include companies that provide IT services or hardware for the IT functions of an organisation, consumer products such as the PC and tablets, typically incorporated prior to the 1999 tech bubble and understand that a successful business is not about user hype but cash growth e.g. Microsoft, Intel, Lenovo, which are trading at reasonable valuations. We continue to remain invested in companies that we consider to be legacy tech, some of which are not necessarily dirt cheap, but will provide decent returns as we continue to search the globe for quality companies in other sectors that have the potential to provide the outsized, >25% p.a. returns going forward.

Investments for 2015

Our tech and consumer focused companies have been strong performers due to of our diligent research, patience and discipline to invest only in companies that we know. In 2015, we will be expanding our knowledge in other areas. For the first time, we plan to look for hidden gems in Malaysia (which we have ignored for the longest time because of the elevated valuations and a market dominated by speculation), and dig deep into oil & gas related companies (no pun intended) that are beginning to appear undervalued. We will also further investigate companies in agriculture and property development, both of which are essential industries. Most financial institutions would probably tell you that these are the worst industries to be right now (ironic given that everybody was bullish on Malaysian oil & gas companies in Q2 2014), but finding diamonds in the rough and having patience is how you generate >25% p.a. over the long term.

Outlook

We are bullish on global companies but are generally negative on companies operating in single countries outside of the US. We may potentially face a 'currency crisis' as observed by the sharp appreciation of the US dollar and the depreciation of the Malaysian Ringgit and Indonesian Rupiah. This, together with negative signs for economies in Europe, South America, South East Asia and Japan, will create shocks not only in the equity markets but also in the fixed income and commodity markets. We also expect MTC's performance to be volatile over the year, however this should not be a deterrent to future investors as we have a >20% p.a. track record for the past 2.5 years and >15% p.a. over the last 7 years. If you're a passenger in a ship entering a storm, you would be better off having a capable captain handling the ship, rather than commissioning a good looking but un-experienced sailor or trying to steer the ship yourself.

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