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Malayan Traders Capital
Founders Fund

Commentary

September 2015

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 Singapore Straits Times Index ("STI") and the MSCI All Country World Index ("MSCI ACWI"). The STI was chosen as a benchmark as MTC's investors predominantly originate from Southeast Asia, where the STI is the most commonly followed index. Performance is reported in USD.

Performance

MTC delivered a since inception net return of 32.1% (8.9% p.a.), outperforming its benchmarks, the STI and the MSCI ACWI, which returned -17.4% (-5.7% p.a.) and 25.7% (7.3% p.a.) respectively.

Market Insights

General

September was a terrible month for global equities, with the STI and the MSCI ACWI falling -4.4% and -5.2% respectively. Though MTC's USD return declined -14.7% year-to-date, the negative performance was more moderate in SGD terms, declining -8.5% YTD. Further, we have actually appreciated 7.2% YTD in MYR terms. This is one of the most underappreciated advantages for investors that participate in a globally diversified fund, where investors benefit from currency diversification.

For a value orientated fund that buys into weakness and invests for the long term, the occasional months like September 2015, although not preferred, is expected. It is not uncommon for value-oriented investors to experience down months such as these. Indeed, successful billionaire investors such as David Einhorn and Bill Ackman, whose absolute return hedge funds have achieved outstanding, >15% p.a. returns over the last decade have suffered this year, with Einhorn's Greenlight Capital and Ackman's Pershing Square declining –17% and -13% YTD respectively. We note that September was particularly volatile due to a combination of several important macroeconomic factors, including overall price declines of both soft and hard commodities, China's continued slowdown and the uncertainty over the US Fed's decision on interest rates. The Fed ultimately decided against raising rates, further fuelling uncertainty

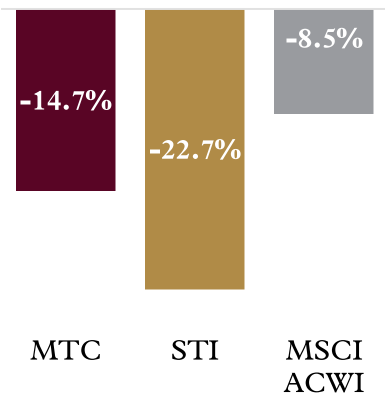
NAV

Class A: 132.09

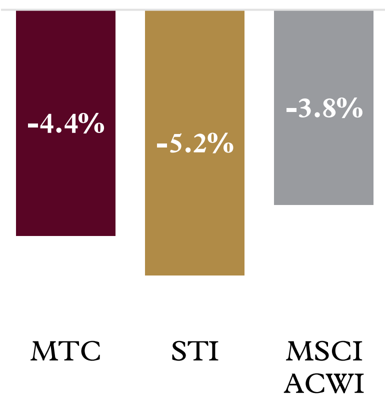
Performance

Since Inception (24 Jul 2012)

Year to Date (2015)



Month (Sep 2015)



Devan Linus Rajadurai, Chief Investment Officer

Portfolio

US and Emerging Asia

MTC has always maintained an investment bias towards global companies based in the US and in Emerging Asia. Whilst Emerging Asia stock prices have been depressed by the decline in commodity prices, it serves more as an opportunity for us to acquire companies on the cheap. During this bearish period, our near term performance is expected to be driven by our US companies' innovation from a product growth and cost cutting strategy perspective. On the overall US economy, the imminent increase in rates will have minimal effect on performance as the US economy continues to grow, as demonstrated by its Q2 GDP growth of 3.7% and its unemployment rate at below 5.2%.

Global Chip Manufacturer

Last month, we touched on one of our portfolio companies – a global chip manufacturer – and how it is trading at levels where its yield is >20% p.a. and where cash accounts for >20% of its market capitalisation. Our investment thesis behind this company is premised on the sustained increase in microchip demand due to the emergence of the smartphone and digital consumption in Emerging Asia, in particular China. Today, with the fear of a China slowdown and the so-called "death of the PC", the market has been pushing down chipmakers stock prices not too far from bankruptcy valuations. However, our research suggests that the industry, and our portfolio company particularly is far from dead – (1) demand of smartphones and PCs is still growing at ~5% p.a.; (2) big players with a lot of cash have a great opportunity to buy out smaller players on the cheap and control the market; and (3) with product innovation and customer loyalty, the innovative chipmaker that we own will be able to maintain its dominance much like Intel did in the 2000s when it killed off AMD.

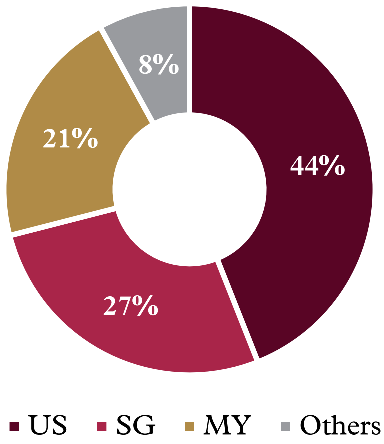
Outlook

We are now 42% invested in deep value companies. In September, we have been strategically rebalancing and repositioning our porfolio into new companies that are expected to deliver 20-25% p.a. (2-3x) for the next 3-5 years.

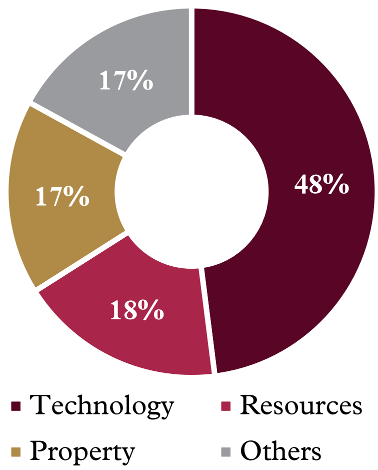
Disclaimer

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.

Company Listing Breakdown



Sector Breakdown



Value Breakdown