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Malayan Traders Capital
Founders Fund

Commentary

December 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 41.9% (10.5% p.a.), outperforming its benchmarks, the STI and the MSCI ACWI, which returned -14.4% (-4.4% p.a.) and 31.5% (8.1% p.a.) respectively.

Market Insights

General

2015 ended mainly in the red for equity markets, with most major indices producing flat or negative returns, including the STI which returned -14.3% for the year. The first half of 2015 started positively with China, as represented by the Shanghai Composite Index, appreciating 60% from the beginning of the year to mid-June. Subsequently, the Chinese stock market bubble burst (a market that we got out of in April), and as fear of a widespread economic decline quickly emerged, declines in asset prices around the world ensued. Exacerbating the issue were declining oil prices and other hard commodities such as iron ore and coal, as well as the uncertainty surrounding the raising of US interest rates, causing the market to be very volatile throughout the second half of the year.

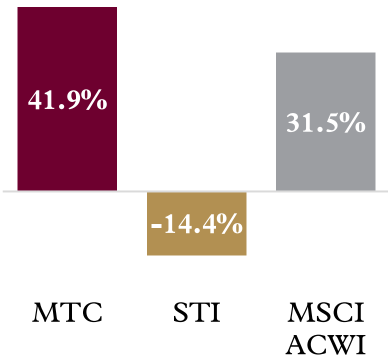
In October, the Dow declined nearly 11% for the year, and at this level we decided to increase our allocation to deep value blue chip companies that were trading at decade lows. As a result of buying into weakness, MTC ended the year at -8.4%. Whilst this is not a number we would have liked to end 2015 with, it is a natural consequence in the short term when buying into out-of-favour

NAV

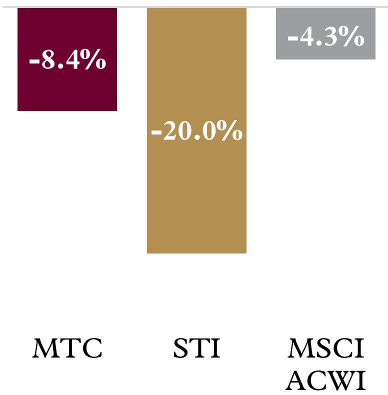
Class A:	141.85

Performance

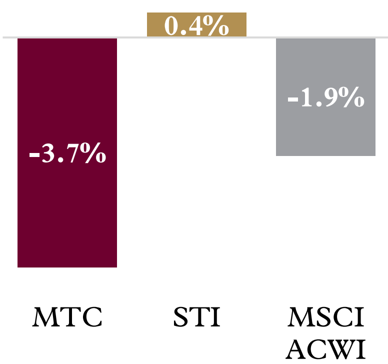
Since Inception (24 Jul 2012)



Year to Date (2015)



Month (Dec 2015)



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Devan Linus Rajadurai, Chief Investment Officer

Market Insights (continued)

General (continued)

companies. One must be prepared to brace for the short term volatility in share prices, knowing that these companies will grow and deliver a 100% (2x) returns over a 3-5 year holding period.

Portfolio

Deep Value and Dependable Sectors

Compared to the first half of 2015, we are now more invested into companies with deep value characteristics, with these companies either trading at price-to-book values at below 1, price-to-earnings values of below 10, and/or with huge cash balances on their books such that they account for >20% of their market capitalisations. These companies are not only cheap, but provide goods or services that are in high demand and are sustainable businesses in the medium and long term. Below we comment on two sectors of which some companies possess such traits, and of which we own.

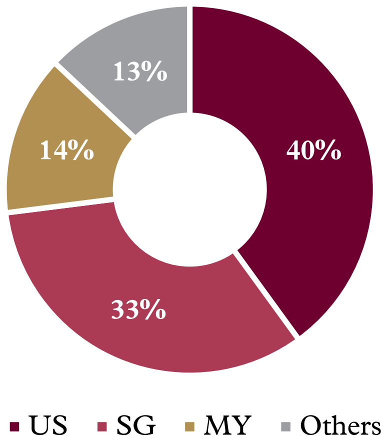
Agriculture

We currently have 16% of our portfolio invested in Agriculture, and though the crash in hard commodity prices have also impacted soft commodities, food is an essential resource for a world population that is expected to grow from 7.3B people today to 9.7B people in 2050. So, while people may be talking about a slowing China consumption, it definitely does not apply to food. Historically, the global food supply was controlled by four (Western) agriculture conglomerates known as 'ABCD'. Today, there are three more (Asian) conglomerates added to the mix – commonly known to industry practitioners as 'NOW'. The latter are often overlooked by the investment community compared to their western counterparts. While we cannot disclose which of the seven companies we are invested in (or the smaller players of the market), with thorough research of the businesses coupled with low valuations, we are looking at a continued high return investment with minimal downside risk over the medium term.

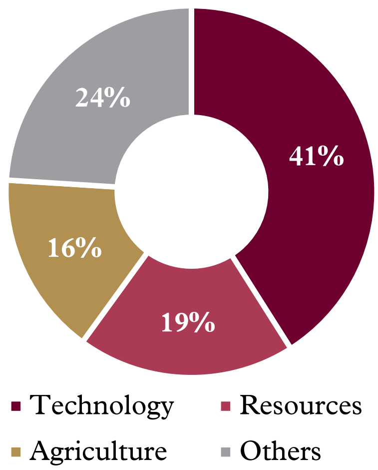
Resources

Our definition of Resources includes both energy and other hard commodities such as iron ore and coal. We mentioned above that the slowdown in China does not affect food consumption, but when it relates to hard commodities, the negative impact is obvious. While the simple investment answer may be just to *"sell and go away"*, the philosophy at MTC is to never follow the herd, as *"the time to buy is when there's blood in the streets"*. So how do we invest in a negatively perceived sector whilst providing for downside protection (i.e. mitigating bankruptcy risk and ensuring that after 3-5 years, even if we get it completely wrong, we won't lose any money)? MTC adopts two time-tested approaches:

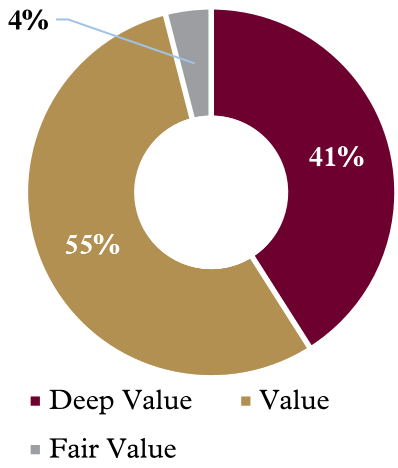
Company Listing Breakdown



Sector Breakdown



Value Breakdown



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Portfolio (continued)

The first approach is to buy companies that are market leaders in their industry/country (typically one of the top 3 players), where the notion of 'too big to fail' very much exists, as a lack of support by governments would cause tremendous unemployment, lower tax revenues and a contagion effect on banks and the financial system. These companies should also have strong management in place, with demonstrated ability to be financially prudent, have one of the lowest operating costs in the industry to weather the storm, and own assets that produce the highest quality grade of the respective commodity.

The second approach is to pick second tier players in the sector whose stock prices have declined significantly and are trading below their actual net tangible value (by intensely deciphering a company's accounts and scrutinising its operations, we adjust its financial statements to more accurately reflect the true value of its assets' selling prices and assess the likelihood of the company going into liquidation). Furthermore, such companies should demonstrate long term track records of sustainable revenue, have cash balances close to 50% of their respective market capitalisation (a higher hurdle versus the typical 20% given that these companies are not market leaders), and conservative management to provide us with comfort that strong downside protection exist.

Despite the fact that the Resources sector is entering 2016 clouded with negativity that may ultimately result in some bankruptcies, the companies we are invested in are not only well protected on the downside, but are also well positioned to buy the other players on the cheap when poorly run companies face liquidation. When the sector picks up, we expect a 'V-shaped recovery' and returns in excess of 100%, a return that we normally aim for. The Resources sector today is akin to the Financials sector back in 2008; where there were the 'good banks' and the 'troubled banks' then, there are the good commodity players and the troubled ones today. The Resources companies that we are buying today is analogous to buying a JP Morgan or Wells Fargo in 2008, as opposed to a Lehmann Brothers, Bear Stearns or even Citibank (while Citibank is still alive today, it had too many uncertainties during the crisis). We expect our Resources companies to experience short term share price declines, but as nobody can ever predict the absolute bottom, one should invest when the metrics say 'strong downside protection'.

Outlook

The second half of 2015 was a very volatile period, which we expect to continue going into 2016. Despite our continued optimism on the US economy, the continued fear of a China slowdown and the decline in commodity prices (crude oil in particular) is expected to prolong the volatility throughout 2016. While we can opine on whether the Shanghai stock market or crude prices is cheap, we should not be making investment decisions based on opinions. What we see in the universe of listed companies today is a plethora of well run businesses trading at bargain prices that are relatively unaffected by the current economic climate. McDonald's is a good example to illustrate this point: though oil prices are plummeting and China is experiencing a slowdown, people are still going to consume their regular intake of McDonald's burgers – the fall in McDonald's stock price is unwarranted. However, if people are becoming more health conscious and it can be concluded that a structural change in consumer behaviour is occurring, then that would be an argument for not investing in McDonald's. However, one should not get mixed up between the two. We note that while 19% of our portfolio is allocated to Resources, the remainder of the portfolio is invested in consumer-oriented, dependable companies such as McDonald's.

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Outlook (continued)

The Fund is likely to experience volatile performance throughout 2016, but for those who have a long term mentality, 2016 is the best time to start investing. 2016 really reminds us of 2008. Not everyone was lucky enough to catch the bottom in March 2009, but those who invested in 2008 and waited till December 2009 sat on some enormous gains. Those who remained invested after that made even more.

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.

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