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Malayan Traders Capital
Founders Fund

Commentary

March 2016

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 44.4% (10.3% p.a.), outperforming its benchmarks, the STI and the MSCI ACWI, which returned -11.3% (-3.1% p.a.) and 31.1% (7.5% p.a.) respectively.

Market Insights

General

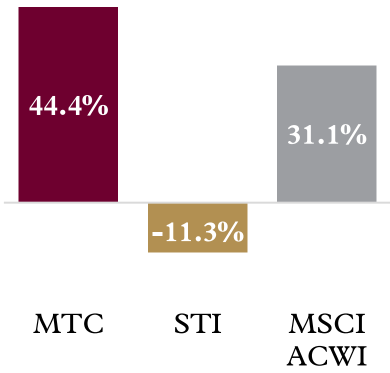
Things were not bright in the first quarter of 2016 with oil, mineral prices and palm oil prices continuing to plummet or stay at muted levels. Corresponding to the volatility in the aforementioned asset prices, stock markets globally also declined, and Malayan Traders' portfolio detracted along with it (a phenomenon that investors need to endure to generate strong returns over long periods of time). Delivering these types of returns does not come in a straight line – no one generates 20% p.a. each and every year. Rather, it comes with a bit of volatility along the way (e.g. we may return 15% in year 1, -5% in year 2, and 60% in year 3 to achieve an annualised return of about 20%). Fortunate for us, we are not managed by a large financial institution that has to always track a benchmark, rather we have the flexibility to invest the right way for a total return that always beats inflation while accepting that volatility will be present. Those who want 20% (or even 10% p.a.) with no volatility would be better off going to the casino to invest because he or she would at least have enjoyed some free drinks after the whole ordeal of losing money with zero volatility.

NAV

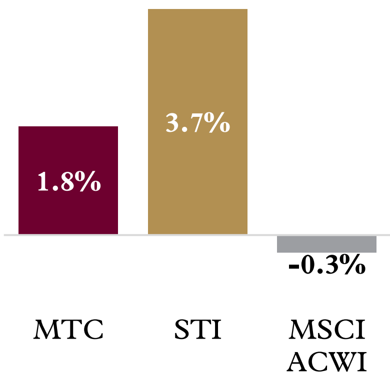
Class A:	144.35

Performance

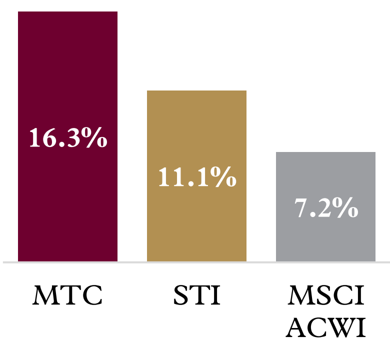
Since Inception (24 Jul 2012)



Year to Date (2016)



Month (Mar 2016)



Market Insights (continued)

General (continued)

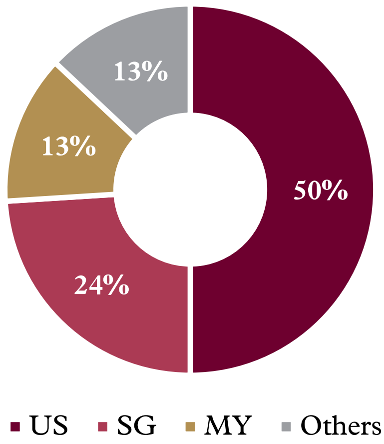
So far for 2016, we are up 2% which would be considered good if you compare us against the benchmark, but in reality it is not great. What is great, is that our portfolio is still significantly undervalued and it is only a matter of time before it skyrockets in a similar fashion like our March monthly performance.

Our Industries

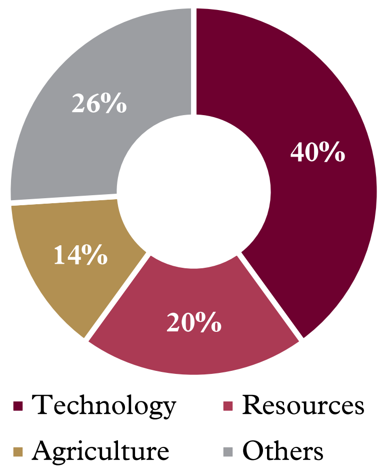
Unlike our prior commentaries, we are not going to speak about the economy, rather we are going to comment on the industries that we invest in that are everlasting and that always generate money. Today, we are invested in companies that operate in industries such as agriculture, tech manufacturing, hard commodities such as iron ore and oil & gas (more recently), and as always, consumer staples such as food & beverages. Now we are not invested in these companies merely because we think the respective industry beta is going up. Instead, we are interested in them because they are the top players and most undervalued companies in industries that always generate money. We don't have any speculative stocks like pets.com, sunset industries like brick-and-mortar bookstores, or newly IPOed one trick ponies on the second boards of many exchanges around the world.

For a long time, we have not favoured financials because there are too many financial time bombs and unpredictable government fines. However, going against our norm, we recently found a strong and undervalued conservative bank operating in Southeast Asia, whose stock price has declined due to negative sentiment around China going bankrupt. The US did not go bankrupt in 2008, we still do not understand why there are so many short sighted market players thinking China is going to go broke. Perhaps it is not short sightedness, but it's just a few, influential short sellers trying to make a killing from people's fear. I guess it is a good thing for value investors such as ourselves as it allows us to make a fortune over the long term by buying big during these periods. However, trust me when I say this: there are very few consistent short sellers other than George Soros or John Paulson (in fact some may argue John Paulson was a long term short seller in that he shorted subprime and held losses for years before he made the biggest trade ever). You need to have good market timing to be a short seller, and for the rest, a long term value hedge fund is where the fortune lies (and it is our firm's policy that >50% of the founder's wealth is invested in the fund alongside the general investors capital, so together we will be making a fortune).

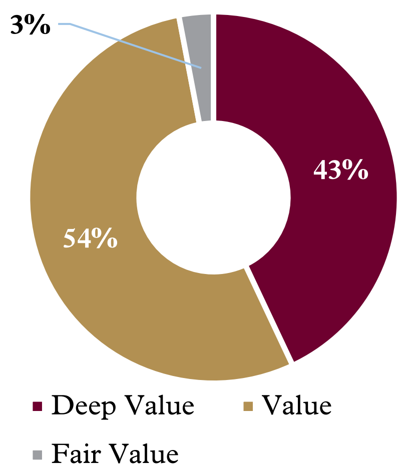
Company Listing Breakdown



Sector Breakdown



Value Breakdown



Market Insights (continued)

Quarter 1, 2016 – Deep Value and Dependable Sectors

I won't kid you, in the first quarter of 2016, all of us at Malayan Traders were perplexed and wondering why our companies were collapsing in value in January despite having great and sustainable businesses. After a day of panicking, followed by my late grandfather's wisdom replaying in my head that 50% of investing is market psychology, we decided to sit down, do nothing, but just research. We took a hard look at each and every stock in our portfolio, comparing them based on an array of factors and asking the most basic of questions: Is the valuation multiples (PE, PB, PEG, etc.) low? Is the company growing? Is it going to remain a monopoly? Is the portfolio diversified to at least 5 different sub-industries? Is the company's revenues coming from at least 5 different countries? We rigidly and methodically applied more than twenty different mental models that Malayan Traders has built over its existence (myself over a decade, and the Kok family over a half a century), and after ranking all of our stocks, we sold the bottom pile and increased our weightage to the deep value and value plays which include the industries I mentioned above and as observed in the pie charts in this commentary. Most of the stocks I had commented on in our commentaries from October to December 2015 still remain in our portfolio today. However, there is a new stock that I will comment about in this commentary, which operates in food & beverage.

Three Years of Patience

One of our main sources of investment ideas are derived from products or services that we come across in our daily lives, and a major occurrence in our lives as fund managers is setting a meal after a late night of research. The company that we recently invested in owns and operates restaurants globally, and is one that I personally have been dining at for a long time. The only reason why we had not invested in it was because it was expensive. With the declines in oil and other commodity prices and the slowdown in the global economy, for whatever reason the market now thinks that people are going to stop eating, which resulted in a number of consumer stocks crashing. In addition to that, this company suffered an operational scandal, causing its stock price to tank even further. So after three years of waiting, we re-evaluated our decision and reassessed the 20+ mental models that formerly nineteen-plus (19+) said was a buy, but one (1) said it was it was too expensive.

Hence, we analysed every single item on the menu, in every restaurant in every city, and in every country, comparing it to its peers and asking many questions, including: Are they still likely to open more restaurants? Are more people dining and spending more? Is the food quality consistent regardless of geography? We then checked peer reviews, conducted the same depth of analysis on its competitors, tested new brands and concepts that it was creating in different countries, and answered many more difficult questions before ultimately concluding that this is a once in a lifetime opportunity to own a great company cheaply. It is like the Apple in food & beverages. So as with the old saying by billionaires who have made it: "It's better to buy a great company at a fair price than a fair company at a great price"; we invested in the company at a great price. Now, after all the hard work has been done, we just have to wait 3-5 years to get that 3x multiple on our investment.

Portfolio

We are privileged that our current investors understand that Malayan Traders is a 3-year investment that makes ≥15% p.a. in a non-straight line way. So when we rebalanced our portfolio in January to hold more deep value stocks, we did so with the knowledge that not all of them will go up at the same time.

Portfolio (continued)

In the first quarter of 2016, we owe the bulk of our positive performance to two stocks. One in the agriculture space and the other in hard commodities, both of which have appreciated in excess of >30% since their lows in January. The hidden insight from this is that our other 10-15 stocks have barely appreciated and remain significantly undervalued.

It is only a matter of time before the market appreciates these stocks and bids up their prices to their true value just like the two companies that we owe our first quarter performance to. Hence, in summary, for those whom have been kicking themselves for not investing in Malayan Traders in January, during its lows, now is still a great time to invest given the continued undervaluation of our portfolio. Compared to anytime besides June 2012-2013, our portfolio on a wide number of metrics is the cheapest and safest it has ever been. Of the 10-15 companies in our portfolio, 6 are market leaders in the industries they operate in, 2 are at their decade lows, 3 are at their 5 year lows; and all of them are continuously generating sustainable profits.

Outlook

The market has shown plenty of volatility and irrationality throughout the first quarter of 2016. While we are experiencing some upward momentum, that volatility could return if the market turns bearish again, and we may experience some temporary negative beta as a result. However, our portfolio companies' profits are sustainable and ever-increasing, and as each of these companies get favoured by the market (it looks to be very soon, and most likely in the second half of the year), the alpha from our portfolio will more than offset any negative beta that the market may have. For the astute investors that invests with Malayan Traders and holds it for the next three years, that is when they get the positive beta and alpha, and the >50% growth in their wealth. For those who have temporaliry forgotten our history, our name, Malayan Traders Capital, is out of honor and reverance to my late grandfather, Mr. Kok Ah Too, the former Chairman of the Stock Exchange of Malaysia and Singapore and Managing Partner of Malayan Traders & Co. Malayan Traders Capital is a different business to Malayan Traders & Co. – we do not trade, we only invest. Perhaps after 10 years when we have delivered our >500% returns, can we then rebrand and call ourselves Malayan Investors Capital.

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.

