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Malayan Traders Capital
Founders Fund

Commentary

June 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 38.3% (8.4% p.a.), outperforming its benchmarks, the STI and the MSCI ACWI, which returned -11.2% (-2.9% p.a.) and 31.5% (7.1% p.a.) respectively.

Market Insights

General

We are slightly down for the year due to our deliberate action of buying into companies that have crashed in value. Despite the STI and MSCI ACWI performing slightly better than us, indices are a basket of stocks that consists of the good, average, and bad, whereas in MTC's case, we have deliberately picked companies that are currently in the top 3 of their respective industry or going to be top 3, and therefore expect the appreciation to be significantly greater once the market recovers.

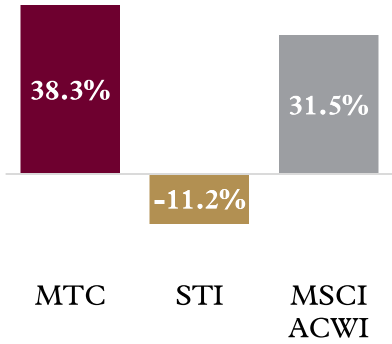
Other macro reasons why the value of global indices and our fund have barely moved, is due to the global uncertainties faced in the first quarter by oil, and other commodity price declines and most recently the immediate impact of Brexit on both the stock market and currencies. The day after Brexit occurred the FTSE 100 dropped 8%, and the Pound plunged almost 10%. In USD terms, that's a -18% decline in your investments in one day.

NAV

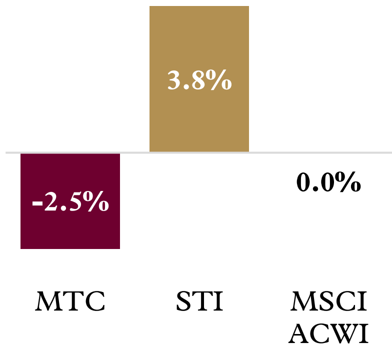
Class A: 138.27

Performance

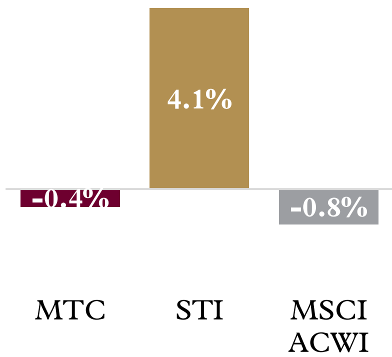
Since Inception (24 Jul 2012)



Year to Date (2016)



Month (Jun 2016)



Devan Linus Rajadurai, Chief Investment Officer

Market Insights (continued)

General (continued)

Hence why we never took the risk to speculate on whether Brexit would occur, but instead we took advantage straight after to buy a good European company whose stock price was unfairly punished due to this reason.

Brexit

MTC has always had a view to not invest in un-competitive companies and economies. Those who have followed us since our inception, know that we have never liked Europe. If we analyse automobiles, the Germans alone are competitive but the other European companies are losing traction to the Japanese, Koreans and Chinese. Similarly, there is also a lack of competiveness and innovation in other industries such as heavy machinery, consumer goods and others. Aside from the established behemoths such as Nestle, Mercedes, Shell, etc. nothing new or innovative has come out of Europe.

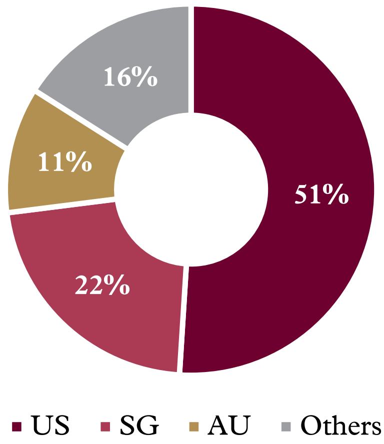
In the case of Brexit, the reality is Britain trades or has its economy interlinked very little with the rest of the world besides Europe. So without going into a lengthy macroeconomic discussion, only Europe will be severely affected if Brexit proves a disaster. So when we see stock prices coming down in other markets such as US, Asia, etc. one should not be worried, rather take advantage of this low prices. For MTC, we are doing one better and going to where the heat is and looking at established European behemoths that have crashed further because of this and our research has indicated that in reality, majority of sales of established companies still come outside Europe and significant growth remains in Asia and China. So for the first time since our inception, we invested in a European blue-chip company which we have admired and wanted to own for decades, and only now can we do so because the price is right.

Portfolio

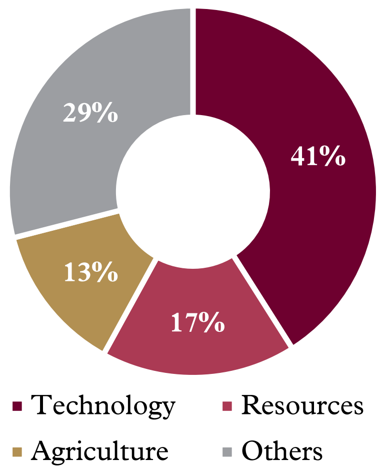
Global Chip Manufacturing

In September 2015, we mentioned how we got into global chip manufacturing. As prices continue to sink to an all-time low in January, we doubled down on a few key companies, which from its bottom has appreciated close to 30%. These few companies are still trading at low multiples (i.e. earnings yield of >10% p.a.), despite the continued growth in the Cloud and Internet of Things (IoT). If the emergence of smartphones and social media is any indicator, the world is going to be consuming more gadgets and apps than ever before.

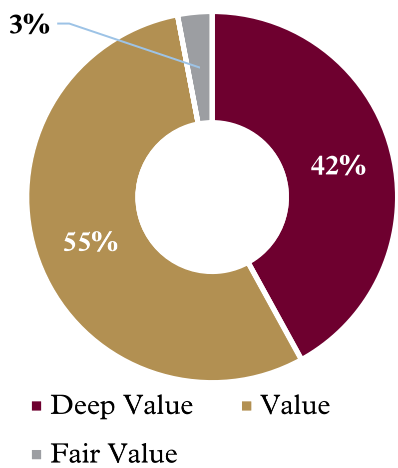
Company Listing Breakdown



Sector Breakdown



Value Breakdown



Portfolio (continued)

Global Chip Manufacturing (continued)

The only way to benefit from this is to buy the right blue chip company that has the cash flow to finance such an enormous R&D and capex expenditures, in addition to having the right management, culture and track record of innovation. It's not a case of throwing a dart at the industry as most companies could potentially go bankrupt with such huge cash flow commitments which is one reason why we stick to blue chips and buy them at the cheap during crises such as Brexit, or the commodity rout earlier this year.

The Average usually becomes Bad

We have always stuck to the mantra of blue chips, but not any blue chip, rather buying one of the top 3 that is extremely cheap. Over the course of the year we have seen great companies like Google and Apple hold its market value, despite threats from newcomers: For Google, Facebook; For Apple, Android. We don't disclose our stock positions except for one which has from the start been Apple and still is. Despite unit sales declines of 16% in the first quarter this year, the company has still managed to produce a cash profit of $10B for the quarter. We won't go into much detail why we think Apple will continue to grow but rather we wanted to illustrate a point that a great company will always make tons of cash. Meanwhile, the average investor who doesn't conduct enough research, and is also swayed by the media that enjoys mocking great companies, tend to invest in a company such as Yahoo and Blackberry just because the stock priced crashed more than 50% of its peak. In the case of Yahoo, it is an average company that has lost its luster and good people. Despite being cheap, it has continuously made losses so much so that their latest third CEO on five years has called it quits and has put the business up for auction. Not much returns for the long term investor.

Our portfolio continues to consist of leaders or leading companies of their industries. Among the sub-industries are: Global Chip Manufacturing, Software Conglomerates, Mining, Plantations, Food and Beverages, etc. Because we have 97% of our portfolio in value and deep value companies, even if we do get the growth thesis wrong, three years from now we won't lose any money. If our thesis is expected, we double our returns.

Outlook

All this negative news are behind us for the first half of 2016 and we should only expect upside going forward. At the date of this report, and in the month of July the Dow just reached an all-time high again and we expect the market to continue this rally till the end of the year. Most importantly, we are coming into this market with a new rebalanced portfolio with a new set of undervalued stocks to take advantage of this wave. One of the key industries we invested in was 'global chip manufacturing' which on 18 July showed major signs of positivity when Softbank made an M&A offer of one of the key players, ARM at 43% premium, cementing its believe in the growth. Brent oil prices have also recovered from a low of $28 this year and touched $50 just a month ago and is stabilising. This should bode well for our companies in resources which is still significantly undervalued.

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.

