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Malayan Traders Capital
Founders Fund

Commentary

December 2016

Written by Devan Linus Rajadurai, CEO & Chief Investment Officer

Objective

Malayan Traders Capital Founders Fund ("Founders", "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 47.1% (9.0% p.a.), outperforming its benchmarks, the STI and the MSCI ACWI, which returned -16.2% (-3.8% p.a.) and 38.9% (7.6% p.a.) respectively.

Market Insights

General

We ended 2016 at +3.7% (USD terms), underperforming the MSCI ACWI but outperforming the STI. We owe the underperformance to the fact that we were not in three industries that appreciated significantly after Trump won the US presidency. Namely, (1) construction, which is a very cyclical and unpredictable business that is not for the true long term value investor; (2) US banks, which have become too complicated with too many divisions (e.g. trading, investment banking, loans, etc); and (3) resources, which we recently took profits in Nov (who would have thought the rally would continue in Dec, in fact most thought the market was going to crash after Trump won!).

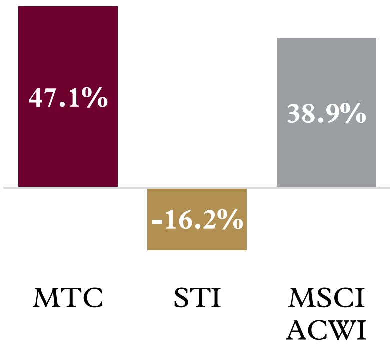
Despite the single digit return, our portfolio consists of a new breed of companies in the tech, consumer and retail space. All of these companies' share prices retreated significantly in 2016, enabling us to buy them at a bargain. Unfortunately, these industries did not benefit from the Trump or Santa rally, however following our investing style, once the market appreciates these stocks, our portfolio will rally significantly. Furthermore, we have minimal leverage in our portfolio, providing us with a huge cash line available to hunt for more bargains in 2017.

NAV

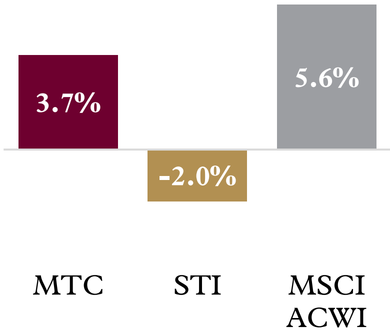
Class A: 147.07

Performance

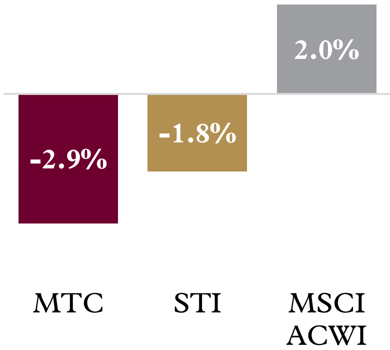
Since Inception (24 Jul 2012)



Year to Date (2016)



Month (Dec 2016)



Market Insights (continued)

Fallacy of Investing in One's Home Country

While most common folk will look at the Dow as the key indicator for equity markets, the typical Southeast Asian investor would not have bought the Dow in a big way, due to (1) the lack of availability in the region of the popular overseas index funds; (2) the mindset of investing in one's home country only; and (3) always looking at the short term relative performance rather than the long term. Since 2012, we have outperformed all global benchmarks with a 47% return in USD terms, and significantly more in SGD at 69% and MYR at 108%. Particularly for the Malaysian investor, by choosing to only invest in his home country (particularly property), not only did he lose out on a 100% MYR return, worse still is the negative returns experienced in (1) his property investments where secondary home prices have retreated to 2012 levels; (2) a stagnant KLCI market delivering a dismal 1% MYR return; and (3) the amount of start-up/business failures one experiences as the Malaysian economy sank with the oil price decline and the political crisis. For the Singaporean investor, an exact situation was experienced (though they did not experience a political crisis).

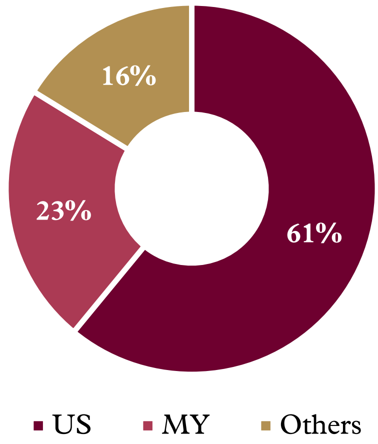
I make my comments above despite knowing that the amateur investor will disagree with my three reasons above, for the following arguments: (1) with property, they can hold it out until the price recovers…and somehow with abundance of land people are going to pay RM3M for a 2,000 sqft terrace house in Kota Damansara 10 years from now (but even doubling your money in 10 years is only a 7% return in (depreciating) Ringgit terms); (2) people tend to remember only their good calls and somehow are amazing stock pickers, having never owned any oil & gas, property stocks, or small cap stocks in the past 3 years; and/or (3) after 9 failures, they are holding out and punting on their 10th start up investment to be the next Grab Taxi or Facebook.

I write this commentary with the hope that people gain perspective and look at one's wealth through a different lens. By comparing how a true global equity portfolio behaves over time, even though short term performance is mediocre at best (in MTC's case, a single digit return), over the long term as the companies invested in show their worth, money invested is not only protected, but grown at a strong rate as well.

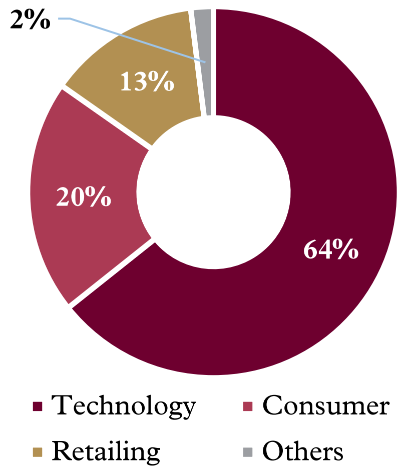
Roller Coast of 2016

While we argued our case on the comparison of the Southeast Asian returns to that of a global portfolio such as ours, for the US or global investor that did invest globally, it really was a roller coaster ride. With the decline in oil prices, Brexit, Trump vs Clinton, it was a tough year for active managers. In fact, >50% of hedge funds underperformed the Dow this year, and about a fifth suffered negative returns. Even prominent hedge funds like Carl

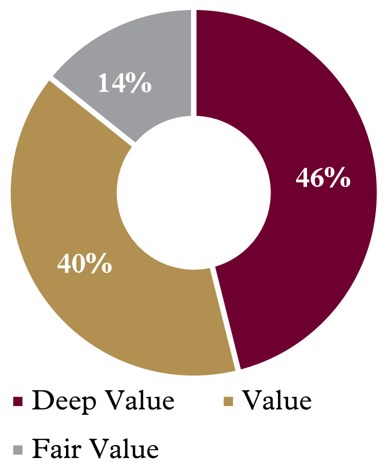
Company Listing Breakdown



Sector Breakdown



Value Breakdown



Market Insights (continued)

Roller Coaster of 2016 (continued)

Icahn's Icahn Enterprise and Bill Ackman's Pershing Square returned -20% and -14% respectively in 2016, while Ray Dalio's Bridgewater returned 0%. I point this out not to say that hedge funds are bad, but just as there are good stocks and bad ones, there are good hedge funds and bad ones. The key is being able to identify the good ones that, although delivering meagre returns in times like 2016, have the x-factor to deliver incredible returns over the long term. Now I am not suggesting our readers to simply forgive the funds that performed poorly in 2016 and start dumping money into them, but rather to understand what their investment philosophy is (and whether they stuck to it), and what they are investing in to deliver the outsized returns in the future.

Portfolio

Fashion Retailer

Our Portfolio now contains a 13% allocation to Retailing one company of which we will discuss here. During the second half of 2016, we found an established fashion retailer that is a dominant household name in the country that it is operating in. Its stock price crashed >50% from its peak to the extent that it was paying a dividend of close to 4% more than its country's fixed deposit rate. A key reason for this plunge in stock price was the market's perception that the emergence of fast fashion, the threat from overseas fashion retailers, and the move from physical stores to online stores would hurt local retailers.

What we see different about this company was a strong brand that people could identify with (much like Coca-Cola), and in the world of fashion, trends come and go but people will always buy the basics like jeans, t-shirts and dresses, which this company is really known for. Part of being a value investor is to ignore short term trends, and in the case of fashion, think as how a business owner of a fashion retailer should grow his business if the goal is to build a sustainable long term company. Furthermore, the company is also investing heavily in online sales, creating their own online store which has shown strong signs of adoption and growth. One must, however keep an attentive eye because going online is a unique skill that companies like Amazon have mastered, and most companies have unfortunately failed. In this case, this company is succeeding because it has found a balanced way of providing simplicity in its online store while emphasizing a strong brand presence throughout the customer's online experience. Some companies have a tendency of overemphasizing the brand too much such that the online experience becomes unnecessarily complicated, while others try to emphasize the online experience but to the detriment of losing their brand value. For the former (i.e. concentrating on customers' online experience alone), it affects the company more negatively, as Amazon and other retail aggregators just do a better job mastering the online experience. For the latter, if your company's brand loses its appeal and is not first on people's minds when wanting to purchase a particular type of clothing e.g. basic t-shirts, people will automatically go to Amazon to buy their clothes instead of going to your online store first.

Lastly, it is absolutely critical and worth reemphasizing again and again that buying a stock at a price where it has fallen to the point where the margin of safety is >20% is the safest way to invest. This is because even if we get the business thesis wrong, the natural consequence of buying cheap (and in this case, we get a bonus 4% dividend) will ensure that we don't lose any money in three years' time. If we get our business thesis right, we are looking at a doubling of the stock price.

Legacy Technology

For those who have been following MTC since inception, you would realise that we are experts in technology and are very confident of technology driving both value creation and growth in the future. As a result, we typically have >50% of our portfolio invested in tech companies (as of Dec 2016, we have

64%). At one time, we owned some social tech companies like Google and Facebook, and at other times we owned device makers like Apple and Samsung and software and component providers like Western Digital and Microsoft. All of these have been key contributors to our performance outweighing the declines in some of our commodity and agriculture investments in recent times. We have recently completely sold off some of our winners in this sector and trimmed down positions of some of the companies mentioned above. In turn, we have used the proceeds to either increase or enter into new tech related companies.

The world economy and stock markets have benefited greatly from decade-long revolutions such as the agriculture revolution, industrial revolution, internet revolution, etc. While we are well into the digital revolution, it is far from over and the growth from tech will continue going forward. The only difficulty is navigating and picking the right companies to back through the thick and thin – the reality is that unicorns do not exist and there will be wave of start-ups failing, and that some ideas are just terrible and don't need to be digitised (e.g. a frying pan). We are sticking with what works and what will always be required in the digital era, investing in tech such as the cloud for businesses, digital storage for media, and devices for consumers, among other things.

Outlook

We are Trump supporters and believe that the wave of economic benefits he will bring to the US economy will greatly benefit MTC given that we are heavily invested in US global companies. For the left wing economic believers, all I can say is while the US economy somewhat recovered during President Obama's tenure, bear in mind that he took office in 2008, just after the 2008 financial crisis when global stock prices crashed by nearly 50%, and that US unemployment exceeded 10%. If you look at the US economy today, most of recovery is a natural result after a crisis rather than driven entirely on Obama's policies. Now, we all know that Obama was somewhat handicapped as the Republicans controlled the Senate and blocked almost all of his initiatives so one cannot fairly criticize Obama alone. However, rather than reviewing Obama's performance as the US President, these are arguments to why Trump will do well, one because his party controls both the House and Senate, second because he is the first businessman President in this era, so one should expect some positivity for the economy regardless of one's personal view on the person, and finally, we should not be overly judgemental and claim that he doesn't deserve to be President given that the US citizens ultimately chose him to be the next President of the USA.

In summary, from a long-term point of view, the Trump Administration will be great for our US-listed global companies and potentially bad for other nations (unless these countries work fairly with Trump towards a mutually beneficial goal). In the near term, given the huge market rally after Trump won, where there was a 20% rally in Financials, Construction, and Resources companies, expect a pull-back and some volatility in the first half of 2017 as the market becomes more critical of every move he makes. Nonetheless, regardless of our outlook, I reemphasize that our investment philosophy and discipline is to ignore macro views, and rather to invest based on price rather than speculation. So, even if the market goes up but one company that we really like is deemed cheap in relation to its own earnings, we will still buy it rather than waiting for a pull-back in the general market.

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Malayan Traders Capital
Meranti Fund

Commentary

December 2016

Written by Devan Linus Rajadurai, CEO & Chief Investment Officer

Objective

This commentary should be read in conjunction with the Malayan Traders Capital Founders Fund Commentary. Malayan Traders Capital Meranti Fund ("Meranti", "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 with an approximate 30% exposure to Malaysian listed entities. Its overseas exposure is close to an exact replica of our sister fund, Malayan Traders Capital Founders Fund ("Founders"). Besides its continuous Malaysian exposure, Meranti's investment approach is the same as Founders. Performance is reported in MYR.

Performance

Meranti delivered a since inception net return of 6.8%, outperforming its benchmark, the KLCI which returned -1.7% but underperforming the MSCI ACWI, which returned 15.4% respectively.

Portfolio & Outlook

As mentioned in the Commentary of Founders Fund, while we underperformed the MSCI ACWI benchmark we should still be mindful that, on an absolute return basis, we did much better than anything a Malaysian investor would have access to, be it unit trusts, property, and the KLCI Index itself.

The Meranti portfolio is similar to Founders, as the Founders coincidently happens to be invested in a few Malaysian companies at this point in time. The slight variance from Founders is that we have more exposure to retail and property sectors in Malaysia. While we are overall bearish on property, we found a company that has been existence for 50 years surviving the Pan-El Crisis, 1997 Asian Financial Crisis, 2001 Tech Crisis, 2008 Financial Crisis and is trading significantly below Net Tangible Assets while paying a decent dividend. We might be wrong on the overall growth thesis, but the downside is quite protected in this case compared to buying new properties at record prices off-the-plan.

Disclaimer

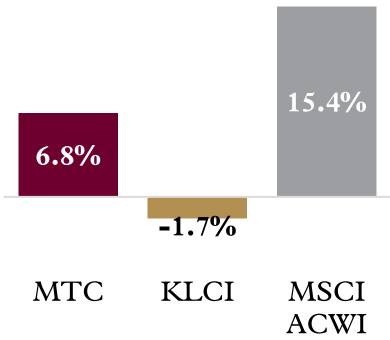
The views expressed in this report are those of Devan Linus Rajadurai, MTC's Founder & Chief Investment Officer. MTC's investment strategy is implemented by the Fund's Investment Manager, MTC Asset Management (M) Sdn. Bhd. licensed by Securities Commission Malaysia (CMSL: eCMSL/A0333/2015). The Fund is a regulated wholesale fund under the Capital Markets and Services Act 2007 (CMSA) of Malaysia.

NAV

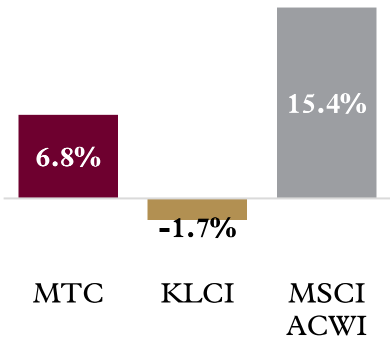
Class A:	106.79

Performance

Since Inception (28 Jul 2016)



Inception to Date (2016)



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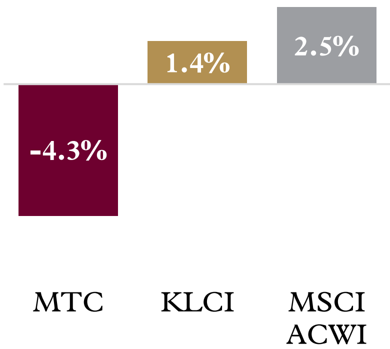

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