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MTC Asset Management
Founders Fund

Commentary

June 2017

Written by Devan Linus Rajadurai, CEO & Chief Investment Officer

Objective

MTC 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 Kuala Lumpur Composite Index ("KLCI") and the Dow Jones Industrial Average ("DJIA"). The KLCI was chosen as a benchmark as MTC's investors predominantly originate from Malaysia, where the DJIA historically has been the best representative of the global market. Performance is reported in USD.

Performance

MTC delivered a since inception net return of 90.8% (13.8% p.a.), outperforming its benchmarks, the KLCI and the DJI, which returned -20.0% (-4.4% p.a.) and 69.2.0% (11.1% p.a.) respectively.

Market Insights

General

The global equity market has continued its surge from November since Trump won the election. The Malaysian market on the other hand has performed better as the USD against the MYR depreciated slightly. That being said, investors that have invested in Malaysia over the last five years would have suffered a negative 20% loss compared to if they had invested in the US market which did well at 69%.

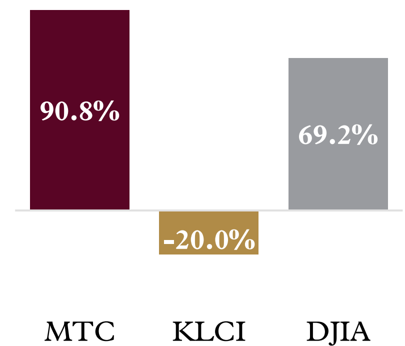
This is the reason MTC continues to promote global investing. We generally have a strong allocation to the US as the companies we invest in, are a good proxy to global growth and earnings. In the short to medium term, we do not expect the Malaysian nor Southeast Asian market to do well. This is because the market is skewed towards government listed corporations (that tend to lack the growth of private corporations), the overall dependencies on commodity prices which are likely to be in a slump, and the inability for Southeast Asian companies to become true global players unlike their Western counterparts.

NAV

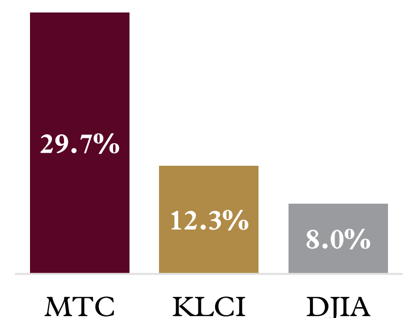
Class A:	190.78

Performance

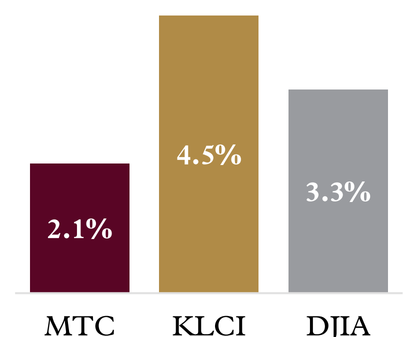
Since Inception (24 Jul 2012)



Year to Date (Jun 2017)



Quarter (Apr-Jun 2017)



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Devan Linus Rajadurai, CEO & Chief Investment Officer

Market Insights (continued)

General (continued)

Whilst we are still bullish on the US, we should tamper our expectation with the fact that the Dow is at its all-time high and the Shiller PE Ratio as of Jun 2017 is 3.4% p.a. compared with 4.8% p.a. at inception July 2012.

Portfolio

Taking Profit & Rebalancing for the Next 5 Years

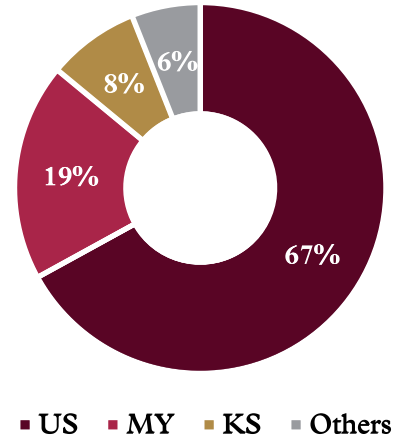
As mentioned in the previous page, with US companies on average earning just 3.4% p.a. and with interest rates increasing to 1.2% p.a., investing in both the US companies and global companies have become increasingly difficult. This is why we have strategically taken profit on many of our companies that we have now deemed fair value, which gives us liquidity to continue to invest in value alternatives (we currently only have 5% allocation to fair value companies).

One of the drivers of our returns over the last five years was our investments in the great tech companies otherwise known as the FANG or unicorns. Today, we have a much lower allocation to the likes of Facebook, Apple, Netflix and Google compared to when we first started off. We do however still have approximately 55% in technology stocks, albeit they are off a different breed. Mainly focused around our new theme for the next half decade which is internet of things (IoT). This is going to drive the continued doubling of our investors capital over the next five years.

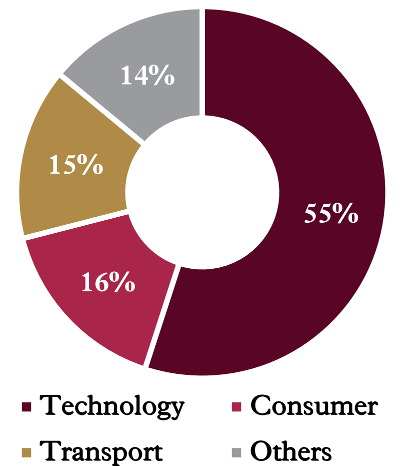
Incumbent Automobile Manufacturers Taking on IT

One of our sub-themes within the IoT is that of transport and specifically automobiles. We now have 16% of our portfolio in this sector. To give you all some context over the last five years, the hottest topics of the market was for the impact of the likes of electric cars (through Tesla), and autonomous cars (through Uber). As such, investors projecting the decade hype has given these companies namely, Tesla and Uber a crazy market valuation of approximately $60 billion each which is more than Ford and General Motors market capitalisation of $45 and $50 billion respectively. Both Tesla and Uber are making losses on the back of their revenues of just $7 billion each. Now if you were to compare that to General Motors which makes $13 billion in profits and has a revenue of $170 billion, you will come to an interesting observation. Two things from this observation, (1) the market thinks the likes of Tesla, Uber, etc. are somehow going to make these other incumbents bankrupt, and (2) perhaps the market is wrong and a bubble is forming in these supposedly tech unicorns.

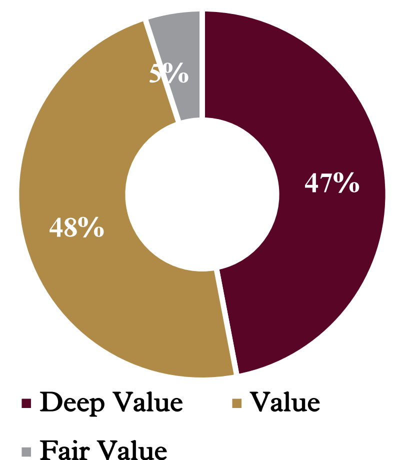
Company Listing Breakdown



Sector Breakdown



Value Breakdown



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Portfolio (continued)

Incumbent Automobile Manufacturers Taking on IT (continued)

What our research has indicated is that quite knowingly (although the market seems to think it's a secret) the old incumbents are realising the impact of technology and the potential disruption of the start-ups. Unlike the 1999 tech crisis, these incumbents are collaborating with other incumbent tech behemoths like Intel, Microsoft, Panasonic, etc. to create their own future proof cars. So today, we see most car manufacturers also having their own electric vehicle offering, with BMW having their I-Series and Toyota with their Prius. In fact, the sales of the incumbent electric cars are way higher than that of Tesla. Secondly, when it comes to autonomous vehicles, Uber and Grab are still way behind with Daimler Trucks already successful with its full testing of its autonomous vehicles and the fact that many of its trucks are already semi-autonomous. Finally, a big growth driver for automobiles is the fact that today, every car is being effected by a chip. The real competitive advantage is the automobile manufacturer that spends the right research and development to make their cars superior to the likes of Tesla, and their existing competition. Given the complexity of this type of vehicles, manufacturers are going to benefit from the continued maintenance contracts to service this tech complex vehicles which would basically kill the small local mechanics.

However, there might still be some arguments that Uber is going to hurt the sales of automobiles. But let's not forget the current Uber drivers (which for decades were known as Taxi drivers), whom must still buy and maintain their car from an automobile manufacturer to allow for Uber to work. Secondly when we talk about investing in transport and automobiles, it is not just cars that we are interested about, it is also the trucks that are used for business logistics. With Amazon coming into the picture, and while people drive out less, trucks will potentially have to deliver more. Hence, one of our big investments that will more than double in the next five years is in transport and automobiles sector.

IoT in Brick and Mortar

The Internet is a big thing, but most social services companies mainly get their money from advertising as opposed to the charging their consumers for it. So, whilst we have benefited tremendously from the past by investing in the likes of Google and Facebook, the great long-term investing is that of a company where the consumers are always paying for its service. In the recent five years as capital has drifted to internet companies, traditional brick and mortar company's valuations has shrunk despite recording record earnings. As such, we have switched our investments and focus from the low earnings yield internet companies to that of traditional brick and mortar companies like retail, food and beverage, other consumer products, etc.

Similar to our investment in the automobile company, the right brick and mortar type company is one that knows how to integrate technology to ensure growth. This is where the arduous investment and business research comes in, so we don't pick the likes of Borders or RadioShack that are now bankrupt. Rather, we focus our research and efforts on identifying a company that has a unique offering and product, is trading at low valuations (as the market is now giving tech start-ups the ridiculous valuations), and is digitising themselves. We already have a few in our portfolio that again will maintain our doubling of performance over the next five years.

Summary & Outlook

As we are seeing an expensive US market now, this only re-emphasizes the importance of stock picking and value investing. With value investing, if the market tanks, we are still going to be well protected as we have bought our companies at liquidation prices, unlike all the hot money going into the venture capital world globally, and into Southeast Asia properties, and into the stupid and lazy money index funds.

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Summary & Outlook (continued)

Southeast Asia properties and index funds would have been a good investment if one invested ten years ago, but at current levels with money continuing to flow into the index funds and property sector, it is only a matter of time before we hit bubble like levels. Specifically, to the property sector, in the capital cities of Malaysia and Indonesia where land is abundance, average rental payments are already more than half of a person's salary. People are moving too tiny apartments (below 1,000 sqf.), leaving landed properties and other apartments inhabited which makes this is a scary predicament. Hence, why stock picking and value investing in the asset class of equity has become increasingly important. Whilst, this sounds bearish in tone, it's exciting for us because in stock picking, we have a lot of opportunities popping up in the months ahead. Like the automobile example above, while the market is bearish on the valuations of it, we are jumping in joy at 'the once in a decade' opportunity to buy a thing we drive every day at the cheap. In fact, I feel bearish for the Uber and Grab drivers, that will become unemployed once the venture capital funded promotions dry up and these tech companies no longer have the cash to burn.

It may be sinful for me to be joyful, but I would say the other tech start-up founders like Travis (Uber) and Elon (Tesla) are also probably joyful on the inflated valuation their companies currently have. The market is an unfortunate world where zero-sum game is the name of the day, and whilst the 10% make, the other 90% lose. We at MTC are just fortunate that we are on the 10% side of the coin and we have these great investments in automobiles, brick and mortars, and of course the IoT tech companies that are still appreciating and going to give us another doubling of our capital in the next five years.

Disclaimer

The views expressed in this report are those of Devan Linus Rajadurai, MTC's Co-Founder, CEO & 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.

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MTC Asset Management
Meranti Fund

Commentary

June 2017

Written by Devan Linus Rajadurai, CEO & Chief Investment Officer

Objective

This commentary should be read in conjunction with the MTC Founders Fund Commentary. MTC 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, MTC 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 40.8%, outperforming its benchmark, the KLCI and DJIA which returned 5.6% and 24.3% respectively.

Portfolio & Outlook

Meranti 2017 YTD performance is similar to Founders at >30%. Meranti performed slightly better on a quarterly basis as the Ringgit appreciated against the USD which is the reporting currency of Founders.

Meranti's overseas stocks are a proportionate replicate to Founders, and for its 30% allocation to Malaysia, approximately half is being invested in a Malaysia global tech manufacturer supplier, whereas the other half is sitting in Ringgit currency to be deployed when another Malaysian opportunity presents itself.

Disclaimer

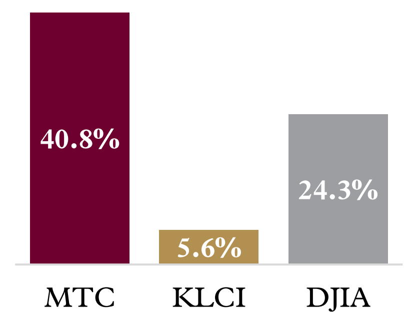
The views expressed in this report are those of Devan Linus Rajadurai, MTC's Founder, CEO & Chief Investment Officer. MTC's investment strategy is implemented by the Fund's Investment Manager, MTC Asset Management (M) Sdn. Bhd. licensed by Securities Commission Malaysia (CMSL: eCMSL/A0333/2015). The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

NAV

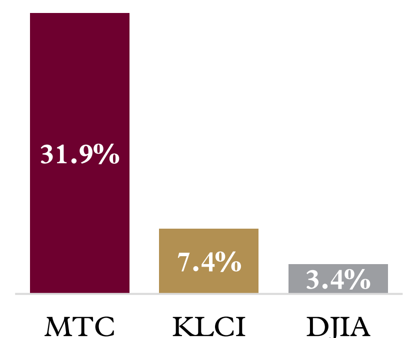
Class A:	140.83

Performance

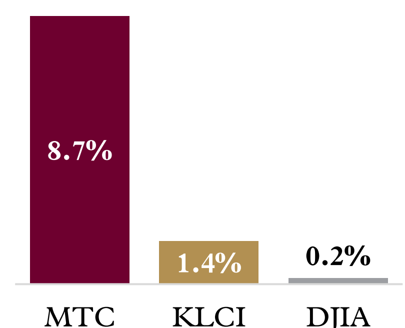
Since Inception (28 Jul 2016)



Year to Date (Jun 2017)



Quarter (Jun 2017)



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