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MTC Asset Management
Founders Fund

# Commentary

## September 2017

*Written by Devan Linus Rajadurai, 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 87.2% (12.7% p.a.), outperforming its benchmarks, the KLCI and the DJI, which returned -19.0% (-3.9% p.a.) and 77.6% (11.6% p.a.) respectively.

## Market Insights

### General

Our Fund's performance for the quarter dipped, with a slight decrease of -1.9%, as compared to the Dow which increased by almost 5%. Our quarterly underperformance is mainly due to our reduced allocation to US tech companies, as we rebalance our portfolio from tech to automobiles, retail, and food & beverages, which forms part of the transport and consumer sectors. We have also steadily increase our allocation to listed companies in Australia which unfortunately did not appreciate in the recent quarter. Furthermore, the Dow appreciated mainly due to the positive anticipation of the recent earnings season and partly driven by the appreciation of tech stocks which currently has a huge influence on the Dow.

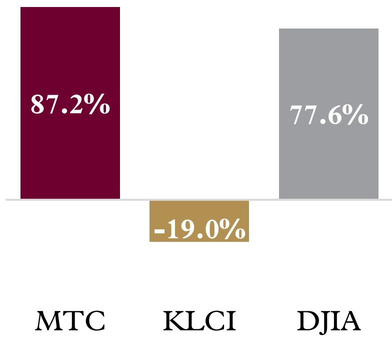
Other indices, such as the KLCI did not perform as well for the quarter (appreciation of only 0.7%) and its mainly due to the short-term sentiment favouring the US, which has shown positive signs of YoY GDP (~3%) growth and low unemployment (<5%). The STI representing Singapore declined 0.3% for the quarter which shows overall favourability to the US this quarter.

## NAV

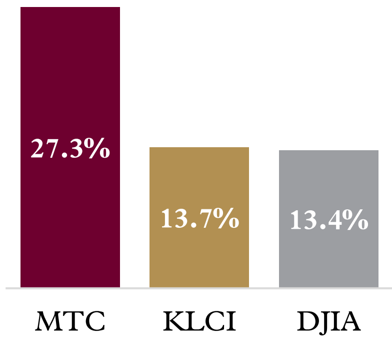
Class A: 187.17

## Performance

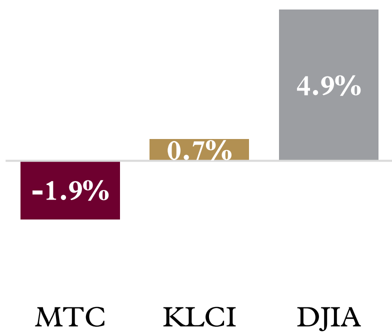
*Since Inception (24 Jul 2012)*




*Year to Date (Sep 2017)*




*Quarter (Sep 2017)*



*Devan Linus Rajadurai, Chief Investment Officer*

# Portfolio

## Listing, Sector, Value Breakdown

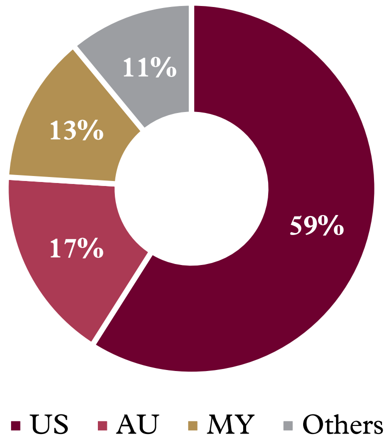
Reiterating our comment in the previous page, we have substantially reduced our exposure in the tech sector from over 50% in the previous quarter to 40%, as we realised profits generated from the companies we have held since inception. Our reduction in pure technology companies is not due to a change in our belief in the value of tech, but rather our observation that we can still have a tech component in traditional brick and mortar businesses that are utilising technology as an advantage to continually grow their revenues and optimise their profits. From a geographical standpoint and as the US becomes more expensive, we have found value in other markets around the world such as Australia which now makes up 17% of our fund's portfolio. We further expect our portfolio makeup to change in the upcoming quarter as we rebalance away from our fair value companies to new deep value plays. As it stands, our fair value companies have makes up about 12% of the portfolio, which is predominantly tech companies. As such, we can expect to forgo some short-term appreciation of these momentum stocks and the US stock market (as evidenced by our underperformance against the Dow in the recent quarter).

## Bullish on Automobiles

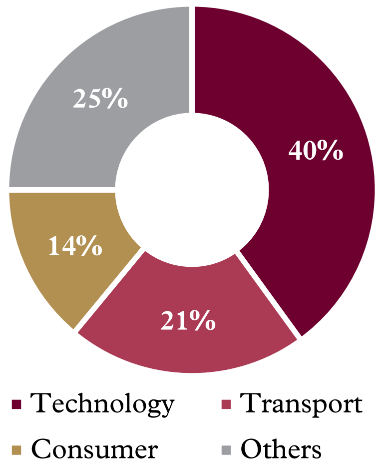
In our last commentary in June, we shared our thesis and the value we see in the automobile space. It is a thesis that we continue to be confident and bullish on, with the traditional automakers. Over the last year or so, the hype in Tesla continued with record share price of $380 on Sep 18, 2017 (versus $205: Sep 2016). This is because we see a lot capital moving out from traditional automakers such as BMW and General Motors which are at its five-year lows to players such as Tesla and Uber. Despite the demand and interest in Tesla, Tesla as a business of generating cash has continued to fail as evidenced by its $600M loss for 2017 Q3. In addition to its huge losses, the company has also failed to meet its goal of producing 1,500 Model 3 cars for 2017 Q3, instead only managing 260 (talk about sustainability). As for autonomous driving, companies such as Waymo and Uber continue to run at a major loss, and have yet to produce a profit, as they continue to use venture capital money to buy customers and growth.

We feel its only a matter of time before the market dynamics change, and we see the bubble popping (in the electric and autonomous hype) and the value returning to traditional automakers. It should also be noted that these big auto manufacturers are still producing profits and cash flows, and more importantly have the capability and capacity of producing electric cars. In fact, some of them are leaders in the driverless vehicles.

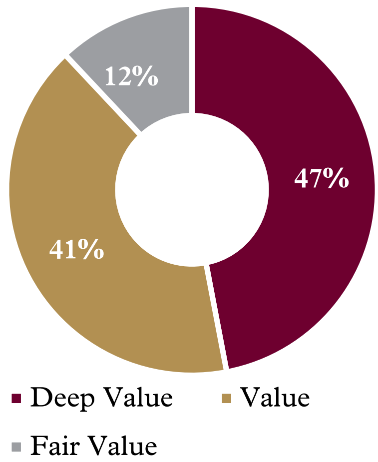
# Company Listing Breakdown




# Sector Breakdown




# Value Breakdown



# Portfolio (continued)

## Pure Technology Stocks

As we slowly trimmed down our allocation from pure technology companies, such as Google, Microsoft, etc., we missed out on the continued appreciation of these stocks in the last few months. And even though we still hold a big portion of technology stocks, we are still very careful and selective on the types of pure technological companies we choose to invest in. Why? Well simply because the situation has gotten out of hand, where anything and everything that is remotely linked to the internet or a mobile device can somewhat creatively command IPOs at record prices, but only to crash later. An example of this would be Groupon, a service that nobody uses these days, where its share price has slumped more than 70% since its first day of trading in 2011. Fast forward 2017, we have Snapchat that IPOed in June with a first day price of $24.00 to end Sep at $14.50, as the general market realised with the lunch of Instagram stories, all that the app stood for leading up to the IPO basically died overnight.

When we decide to keep stocks in our portfolio, and especially tech stocks, we look at the services and products that are very much entrenched with the daily consumers and business enterprises. For example, a company such as Apple that we owned since the beginning, has appreciated more than 50% alone in 2017. But as these companies become more expensive and have limited growth, we intend to reduce our allocation of them in our portfolio. Increasingly, tech companies are becoming more expensive and we are being very cautious in only sticking to companies in the IoT space, and companies that can't be easily disrupted in a day or a year. This recent trend reminds me of 1999 all over again, and as a hedge fund manager, we are cautious. We can only hope that the everyday investors are even more cautious, and are willing to give up some short terms returns to avoid a huge 50% crash one day.

## Bullish on the US

Whilst we are slightly more cautious on the tech sector, we are however still fairly bullish on the US. The rise of the Dow or S&P 500 to all times high should be treated as a positive, because as an investor you want all time highs. If you want the market to never reach all-time highs, then why bother investing?!?!

Exactly a decade ago in 2007, the Dow reached 14,000 only to drop to 7,000 in 2009 due to one of the worst financial crisis in recent years. At that point in time, the US unemployment rate was more than 10% and the country was in a recession. The world of smartphones and apps didn't exist, there was no Alibaba or WhatsApp, and we still bought DVDs. It took a remarkable five years and finally in 2012 did the Dow finally get back from 7,000 to 14,000. Today, the Dow has breached 22,000, but that comes with GDP growth of 3%, unemployment rate below 5%, and a newer more digitised world with the US still leading the pack with new innovations.

China has certainly become a dominant force, especially with its internet companies and mobile banking system but outside of China, everyone still depends on the US for great products and services. The handphone, led by a Finnish company Nokia got replaced by Apple's iPhone from the US. The DVD, sold by pirated sellers around Asia got replaced by a streaming service provider called Netflix from the US. Finally, the mass market burger led by McDonalds is slowly facing competition from the no frills burger chain, Shake Shack also from the US.

The point I am trying to make here is that the Dow has certainly justified its 22,000 level. China may be a threat, but it does not mean US companies can't continue to do well and flourish. In fact, whilst China is slowing dominating the world, the US is still holding its guard at first place, while other nations suffer such as Venezuela (who recently defaulted) and sadly Malaysia (which is becoming very reliant on China). We should all be more worried about investing in emerging markets than investing in the US.

# Outlook

I guess if I could summarise the above, we at MTC continue to remain bullish on the US, automobiles, other brick and mortar companies, and our experience in picking the right technology companies. Given the rebalancing of our portfolio in the current quarter and the next, we expect our performance for the end of the year to be relatively flat (barring any unforeseen appreciation), gearing up for 2018 where we should see another huge appreciation as the market dynamics for our stocks change. We are already up 27% for the year and as we are not traders trying to do 10% per quarter, we let the profits, earnings and cash flows of our invested companies decide our 15% p.a. returns.

Furthermore, even if the US continues to appreciate, we don't expect to see ourselves tracking to the Dow or S&P 500 as we currently hold many of the unfavoured companies listed in the US that have minimal impact on US indices. We do however expect the US market to continue its current trajectory till the end of the year. We also expect that in 2018, a lot of people will come to a realisation that would eventually sink in that of Donald Trump's economic policies which have somewhat pushed up the economy. This year, many of the socialist movements questioned Trump's every move, but the capitalist movements have taken full advantage of this and pushed the market up with good results. Some questions might remain for next year, but then again, we are not invested in the stocks that are affected by politics. Trump may be a hated President, but he is certainly a business President.

# Disclaimer

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MTC Asset Management
Meranti Fund

# Commentary

## September 2017

*Written by Devan Linus Rajadurai, 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

On a YTD basis we have significantly outperformed the Dow in Ringgit terms due our higher exposure to Malaysian listed stocks, and the appreciation of the Ringgit. Furthermore, our good stock selection has resulted in outperformance on all periods except for the recent quarter where we lost out on returns compared to the Dow, due to our taking profit of our tech holdings listed in the US.

Our portfolio mimics Founders except for holdings in Ringgit, and our investments in two additional Malaysian listed companies. One in the manufacturing industry and another in the TMT (Tech, Media, Telco) space. We continue to scour the market for undervalued Malaysian plays but find it extremely difficult to find anything of value right now. Patience continues to be a theme for Malaysia, and in the meantime our overseas exposure should continue to drive our returns.

## Disclaimer

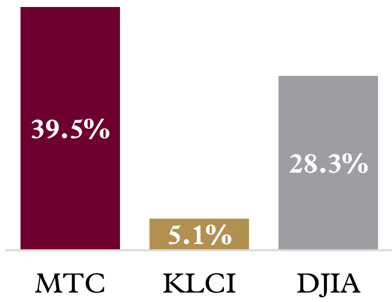
*The views expressed in this report are those of Devan Linus Rajadurai, MTC’s Founder, CEO & Chief Investment Officer. MTC’s investment strategy is implemented by the Fund’s Investment Manager, MTC Asset Management (M) Sdn. Bhd. licensed by Securities Commission Malaysia (CMSL: eCMSL/A0333/2015). The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

## NAV

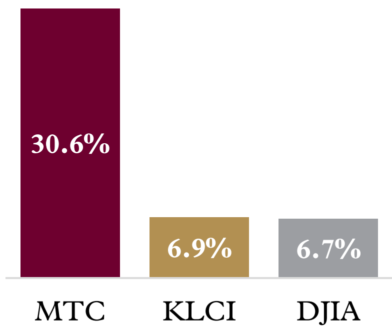
| | |
|---|---|
| Class A: | 139.48 |

## Performance

*Since Inception (28 Jul 2016)*




*Year to Date (Sep 2017)*




*Quarter (Sep 2017)*