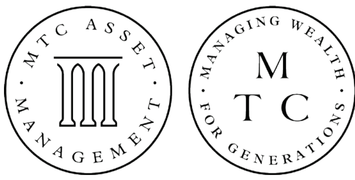

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Commentary

December 2017

Written by Devan Linus, 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 105.8% (14.0% p.a.), outperforming its benchmarks, the KLCI and the DJIA, which returned -13.5% (-2.6% p.a.) and 95.9% (13.0% p.a.) respectively.

We closed our Q4 performance at 10% which was in line with the DJIA, however we closed 2017 by significantly outperforming both the DJIA and KLCI. The outperformance was attributed to our Q1 returns. In our previous commentary, we mentioned "in 2018, a lot of people will come to the realisation that Donald Trump's economic policies… have somewhat pushed up the economy… and… Trump may be a hated President, but he is certainly a business President" and for the global markets, that realisation came early with a strong Q4 performance for MTC, DJIA as well as the KLCI.

Market Insights

General

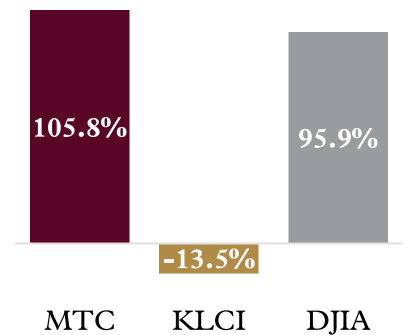
The global markets in 2017, experienced a bumper year with the DJIA, Nasdaq, KLCI etc. striving to new all-time highs. Much of the gains can be clearly attributed to Trump's policies of deregulation and tax cuts, moreover these gains have been organically generated due to strong global corporate earnings. Not only has the US experienced consecutive 3% YoY growth for the first time since 2014, but it also has an unemployment of less than 5%.

NAV

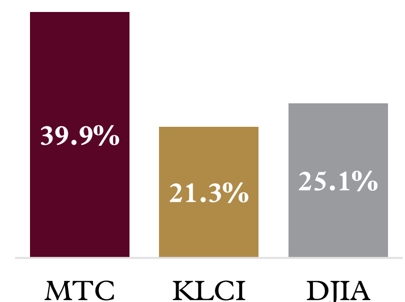
Class S: 205.81

Performance

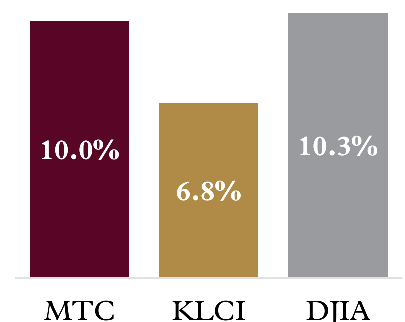
Since Inception (24 Jul 2012)



Year to Date (Dec 2017)



Quarter (Dec 2017)



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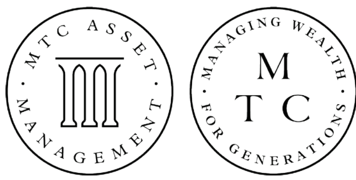


Devan Linus, Chief Investment Officer

Market Insights (continued)

General (continued)

The U.K on the other hand which was supposed to suffer after the election, closed the year with 3% YoY growth through to Nov and an unemployment of just under 4.3%, the lowest since 1975. This growth and the positivity of the markets can only be reemphasized by the Central Banks of the world tightening monetary policies. The US Fed has lifted rates for the third time in 2017, the U.K experienced their first-rate increase in a decade, Canada their first in six years, and even Korea experiencing it after seven years. Furthermore, Europe is considering unwinding its stimulus.

As we observe specific industries, such as the big listed tech companies that were supposedly being disrupted by new start-ups but instead ended up proving the naysayers wrong, achieving record year profits with significant share price appreciation. Alibaba, Apple and Microsoft share prices appreciated 96%, 46% and 37% respectively. In contrast, Uber's valuation fell from $68B to $48B at their last funding round when Softbank recently decided to buy a 15% stake. A depreciation of 30% was evident that start-ups and private investing is not the only way to make money.

Let us not forget that WTI Crude Oil ended up at $60.42, a 15% appreciation for the year. BP had another bumper year with profits of close to $10B and for the first time since 2014, it has re-initiated its share buyback program. Needless to say, all the cost and expenses from the oil spill is now a forgotten act. Similarly, is the case with commodity prices, and the respective companies' share price increase such as Glencore, BHP and the likes. The beauty of value investing presents itself especially when stock prices dropped like it did in 2016; go in big, be patient and wait for the returns. This was MTC's strategy with commodity linked companies even though we sold it off early in 2017, and continued this approach with tech.

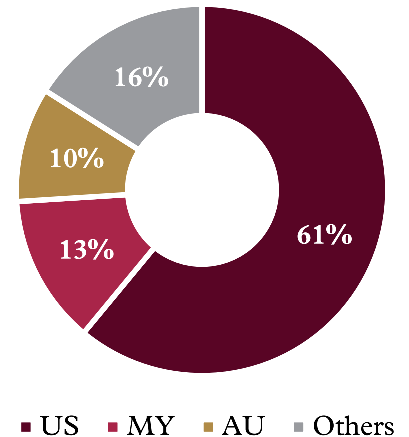
Portfolio

Listing, Sector, and Value breakdown

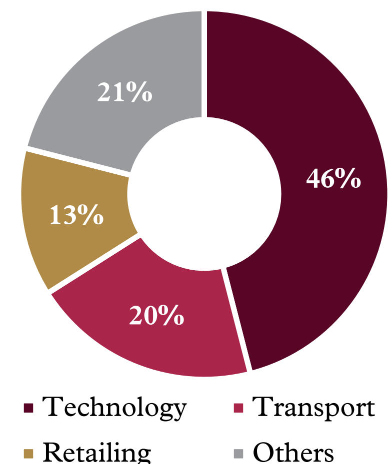
Our company listing continues to be predominantly in the US, given that US remains the hub of companies with global operations. Our "Others" listing is also substantially larger than what it used to be as we have taken investments in Europe to maintain that diversification.

The major change however can be observed in our sector breakdown. We now have only 46% (2016: 64%) in tech.

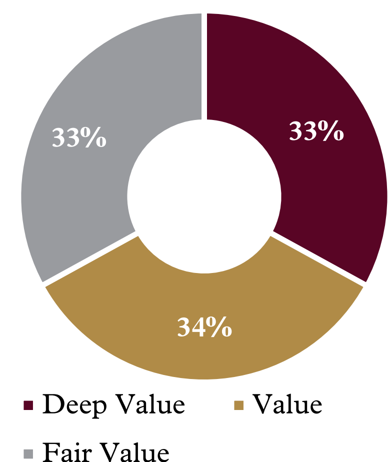
Company Listing Breakdown



Sector Breakdown



Value Breakdown



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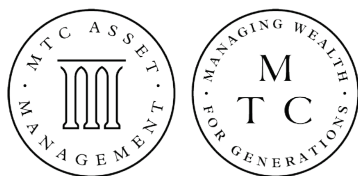

Portfolio (continued)

Listing, Sector, and Value breakdown (continued)

A big reason for this is due to our constant profit taking throughout the years as our companies move from value to fair value. As such we have shifted our investments into other overlooked consumer brick and mortar sectors that will also benefit from this digitisation revolution. Furthermore, with the bumper year we achieved in 2017, a lot of our companies have become fair value, commanding 33% of the portfolio. We will be looking to take further profits from our investments in Q1 2018.

Sticking to Theme – Automobiles, IoT and Other Brick and Mortar

In our December 2016 Commentary, we talked about our investments in apparel, and in March 2017 we talked about our investments in Automobiles and IoT. Come 2018, we will be sticking to the same theme. To truly understand what we invest in and to get greater insights to why we invest in these companies, reading our past commentaries is imperative considering we typically buy and hold great companies for three to five years.

Whilst we have reduced our overall Tech holdings, what remains within this Tech sphere is skewed towards IoT. As Tech flourished in 2017, our Automobiles and other brick and mortar companies have yet to fully appreciate to fair value and being the patient long term investor that we are, we will wait and look for other interesting opportunities and rebalance when time is right. It is imperative that we remain patient moving into the new quarter.

Staying Away – Over-bloated Conglomerates vs Focused Behemoths

As important as it is for our clients to ask what we invest in, equally as important is to also ask what we don't invest in. Staying away from bad investments is another way to grow wealth over time. We find logic in this approach as we are minimising losses, so any slight gains we generate from the investments, offsets fluctuations of returns. As such, this ensures we are over and above our initial capital investments.

We at MTC generally like to invest in companies that are focused on a single product or service with minimal ancillary side businesses, think Apple, Microsoft or McDonalds. The reason for this is its less complex for us to research and identify the drivers for business success. Secondly, the time to learn and understand the business is also drastically reduced, so when shocks in the market happened, we can buy in and generate investment (great companies usually only stay down for a few months, think of Samsung after their phone exploded).

Hence, one of the businesses we like to stay away from are conglomerates, and to make a knock on an obvious darling is that of General Electric. For years when MTC spoke about blue chip investing, people always countered it with GE, a safe 10% p.a. stock. Well in 2017, GE sank 45% and the CEO of more than 15 years, Jeff Immelt, who was forced into retirement with an expectation of a big shake up; and now, a sad dividend cut. While we must give Immelt some credit, he unfortunately inherited a company that his predecessor Jack Welch grew to such a behemoth, that it was almost impossible for him to outperform.

However, the point is that the typical blue chips are not always a good investment, the real problem is when a company gets too big. It is a challenge for these companies to get those same 20% returns that they used to experience when they were much smaller in size. Adding more pressure is when shareholders continue to expect similar returns, which forces management to react hastily in desperation and take reckless growth decisions, incurring large cost to the company.

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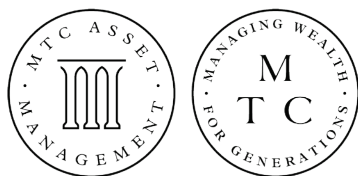

Portfolio (continued)

Staying Away – Over-bloated Conglomerates vs Focused Behemoths (continued)

In the last two decades, GE has operated in almost a dozen or so industries and have been vying for the top 2 spots in each industry. This goal was virtually impossible in this near era of disruption and competition. Therefore, extensive research and analysis into a company is hugely paramount. Ultimately, as an outside investor that has no control with management, you ideally want to invest in a company that is razor sharp in focus so that they are easily monitored. Such is the case of Microsoft, a big blue chip company that ended up being a focused behemoth rather than an over-bloated conglomerate. This year alone Microsoft returned 37%, a stark contrast to GE. Today, Microsoft is also facing the same criticism that GE faced years ago. The market is stereotyping it as a big dinosaur and will face constant disruption from the likes of Google, Facebook and Amazon. Unlike GE, Microsoft decided to analyse their business in the office products suite and re-focused on it; building cloud systems for enterprises which is now its second largest business outside Windows and Office. It also bought out LinkedIn which some might argue was at a ridiculous valuation. However, the synergy if achieved, will serve Microsoft very well as it will link its entire value chain from data, employees to B2B or enterprise sales.

To re-emphasize, blue chips can still offer a 20% p.a. return investment if you stay away from the over-bloated conglomerates. That said, in the case with GE, perhaps there is some light at the end of the tunnel specially with the new management team emerging. If GE refocuses itself, it could end up being a good value buying opportunity. For now, this remains to be seen.

Outlook

We are extremely positive for 2018, despite the recent calls by market bears for a correction. Our reasoning is simple, the evidence is in what we wrote in the Market Insights section of this commentary. For the first time since the global financial crisis in 2008, are people finally realising that (1) US is actually a growth story, (2) Things are actually not as bad as they appeared - oil and other commodity prices have recovered, Singapore's property market is positive once again, Brexit did not kill the U.K, and Trump is doing well on the economic front, and (3) Companies are appreciating because their earnings are on the upside and growing.

And with that, we however do note that the market is more expensive than it was a decade ago, even five years ago, especially when we are comparing against a very low base after the financial crisis. If you strip out the tech stocks from the indices, the global markets valuations are still quite reasonable. These are indicators that suggest there is no immediate recessions, rather it's a guide for us to rebalance the portfolio to the non-obvious cheap companies. At MTC, we have already long invested in the brick and mortar or traditional players like automobiles, chipmakers, retail, etc. In 2018 there will no doubt be market corrections, but it should be short lived, and we remain extremely positive moving forward.

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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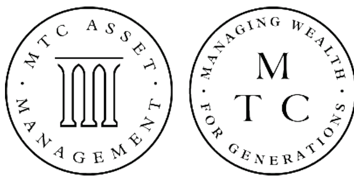

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MTC Asset Management
Meranti Fund

Commentary

December 2017

Written by Devan Linus, 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 48.4%, outperforming its benchmark, the KLCI and DJIA which returned 7.5% and 35.7% respectively.

Portfolio & Outlook

In Ringgit terms, we have significantly outperformed the DJIA in 2017, but not just from our investments appreciation standpoint, to some degree it was due to the strong ringgit appreciation. It should also be noted that the performance trend is similar to the Founders Fund in that the Q1 of 2017 was where the bulk of our outperformance was recorded.

The reason behind the similarity in performance is that the Founders Fund currently holds the same Malaysian stocks of the Meranti Fund. A key difference between both funds is that the Meranti Fund is holding a substantial portion of Ringgit cash as we look for new investments. Nevertheless, this has not deterred our over performance. The Malaysian market has always been a challenging market to find value investments, but as proven from our track record, we have at times found new Malaysian investments, though a few have appreciated more than 100% during our holding period. Notable mentions of our investments included the glove makers, banks, and OEM tech suppliers.

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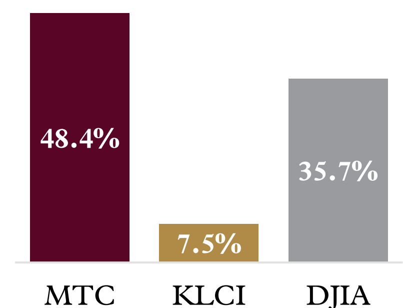
NAV

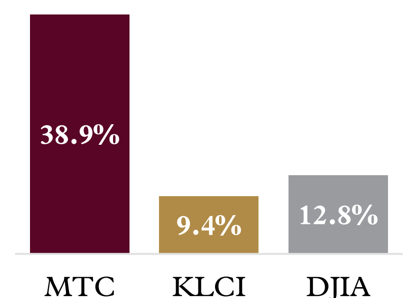
Class S: 148.38

Performance

Since Inception (28 Jul 2016)



Year to Date (Dec 2017)



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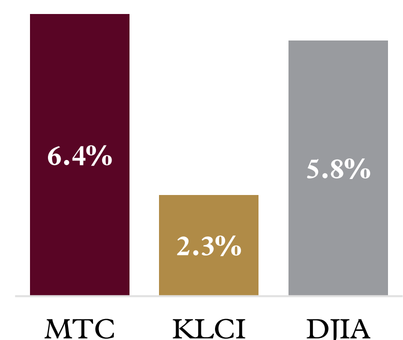

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