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MTC Asset Management
Founders Fund

Commentary

March 2018

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 109.7% (13.7% p.a.), outperforming its benchmarks, the KLCI and the DJIA, which returned -6.1% (-1.1% p.a.) and 91.0% (11.9% p.a.) respectively.

The period of Q1 of 2018 kicked off with continued momentum from the end of 2017, only to fall in February and recover in March with significant volatility for both MTC and DJIA. KLCI on the other hand appreciated in USD terms, mainly due to the appreciation of the Ringgit. However, in local currency terms (MYR), KLCI only appreciated 3.7% for the quarter. It should be noted that although the KLCI performed well in comparison for the quarter, this is only due to the fact that KLCI has made a loss in the last five years.

Market Insights

General

The US market showed continued growth in January due to the appreciation of the tech sector primarily in the FAANG stocks (Facebook, Apple, Amazon, Netflix and Google). The end of February showed a market correction, as it brought down other non-tech sectors with it. The reason for MTC's outperformance of the DJIA was primarily due to MTC's Q1 aggressive trimming of its tech holdings that we now consider to be overvalued. MTC continues to hold on to specific tech sector companies, but predominantly in other traditional brick and mortar players.

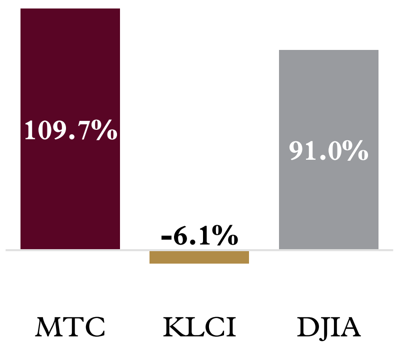
As far as the KLCI is concerned, we are still bearish on Malaysia, with almost non-existent deep value investing companies to consider, evident from KLCI's continued loss in the last five years.

NAV

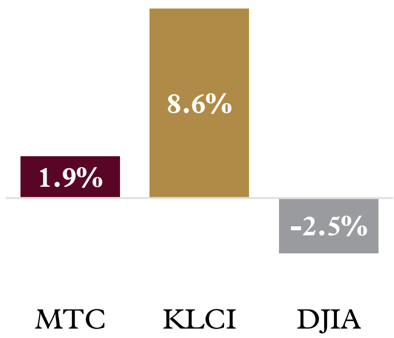
Class S: 209.69

Performance

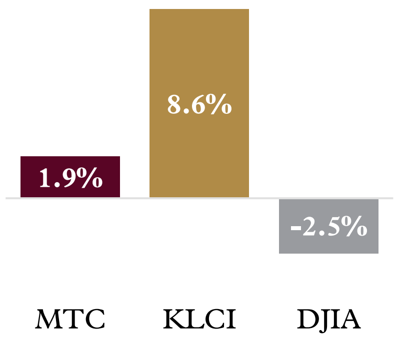
Since Inception (24 Jul 2012)



Year to Date (Mar 2018)



Quarter (Mar 2018)



Devan Linus, Chief Investment Officer

Portfolio

Listing Breakdown & Australia the land of the Cheap

Since inception, MTC has maintained a favouritism to the US market and this remains to this day for two key reasons - (1) we strongly believe in the US economy, especially the North American-centric companies, and (2) the US still has the most listed companies that operate globally. In recent times however, we have slowly begun to take up positions in Australia, after observing undervaluation in the Australian market attributed to the shift of funds by big index fund manager in the US. Five years ago, the investment excitement centred on BRIC – Brazil, Russia, India, China, and the emerging countries. While the Chinese stock market may have appreciated 45% in USD terms from July 2012 to Mar 2018, it pales in comparison to the US. The ASX200 on the other hand has only appreciated 3% in USD terms for the same period. Hence, the shift of funds towards the US as they chase more returns in Q1 2018.

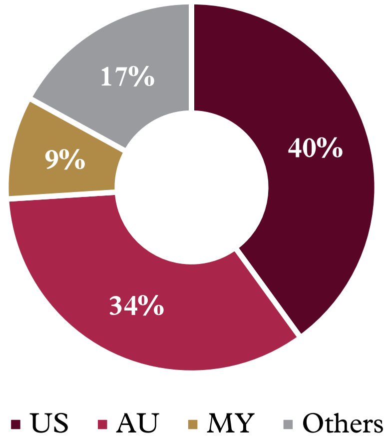
We have used Q1 2018 to sell our winners from the US (many of which we have owned since inception). While the Australian economy is not as robust as the US economy, we are taking advantage of its current undervaluation. Australia is a strategic hotspot for education and migration for people in Asia. In addition, Australia has a strong agriculture sector, and a country in abundance of mining resources. It is for these reasons mentioned that we see a potential upside to a good trickle-down effect on the economy, specifically companies we have invested in. However, more than the macroeconomic reasons, it's Australia's stock market that we have identified as relatively cheap compared to its global peers, and in this we have discovered several deep value players for investment.

Sector Breakdown & Tech Bubble 2.0

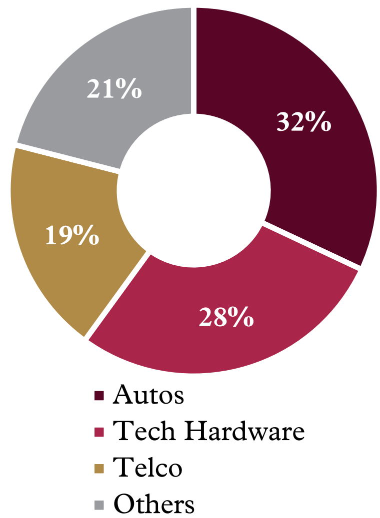
In our past commentaries, we have mentioned our stock movement out of the tech sector in favour of other sectors. Even within the technology sphere, we have chosen to only be invested in certain companies operating in the tech hardware sphere and semiconductors.

Our reasoning – following the tech Bubble Burst in 2001, the market has continued to under appreciate the technology stocks in favour of old conglomerates like General Electric, Siemens etc. Hence, you have a period of 10 years where a company like Microsoft's share price remained at around ~$20 from 2002 to 2012 despite earnings tripling (3x) around the period from $8 billion to $23 billion in that same period. The main reason was that Microsoft earnings multiple was shrinking from ~30x to ~10x during that same period.

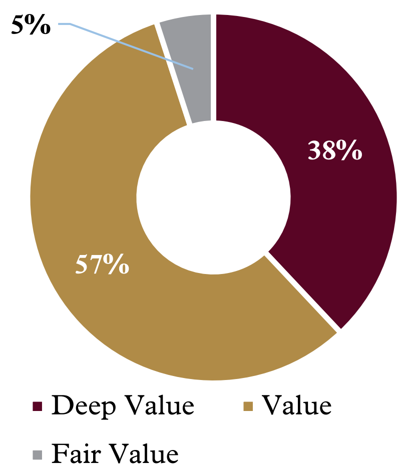
Company Listing Breakdown



Sector Breakdown



Value Breakdown



Portfolio (continued)

Sector Breakdown & Tech Bubble 2.0

It was also during this period at the Fund's inception when we heavily invested in tech stocks, and also when the market started to pick up. In the last five years not only has Microsoft more than tripled its valuation, but the same applied overall to the FAANG stocks. At the end of March 2018, Microsoft is trading at $90, a key reason why MTC has also appreciated more than 100% over the same period.

We are out of Apple!!!

Many who have been reading our commentaries since inception may have heard the name Apple countless times. This is a stock that we had bought when we first invested in 2008 (before we were an open-ended fund). In Q1 2018 we sold all of our Apple holdings. In retrospect, we held on to Apple through the ups and downs when (1) people said the iPhone could not compete with the Blackberry Keyboard and Messaging, (2) when Android entered the scene with Samsung leading the charge as the main premium player, (3) when Steve Jobs passed away, (4) when people thought their phones were too expensive for the Chinese market, and (5) when in the last three years their phones did not shrink in shape. From a split adjusted price of ~$20, we sold Apple after all these years with our final selling price coming at around ~$180 (800% return). It all goes back to MTC's philosophy of the long game strategy, 10 years of holding Apple's shares and reaping the benefits of long term investments.

As for today, we just don't see Apple as a >20% stock anymore, and even as great a long-term loyal investor we have been over the years, we have come to terms and accepted that the great Apple story is over, for now. When we first invested in Apple, the iPhone had not picked up, the iPad was not released, and Apple was not sold in China or the emerging markets. Fast forward to today, Apple is almost in every country, and has also shown that it typically only competes in the premium segment, with its failure in the launch of the iPhone SE. While we still believe Apple is a great company with continued profits, we just do not see it as a 20% return stock anymore, hence the reason we have sold its stock. Moving forward, we are excited in exploring a new horizon of new companies as we continue our diligent research and analysis. We are confident that with our continued hard work, patience and perseverance the next Apple, Facebook, Chipotle will be waiting just around the corner.

Outlook

While our current portfolio has significantly changed from last year due to our allocation out of the tech sector and recent entry into Australia, we remain bullish. We continue our positive outlook on the US economy and have identified specific players likely to benefit from the US consumer confidence. The last few years have seen the US, Europe, and Australia markets experience consistent GDP growth, all pointing to signs of investor confidence. Australia notably also escaped unscathed from the decline of commodity prices in 2016.

It is imperative to remind ourselves that post market recovery, bubbles do not form immediately, as this takes several years to occur. Five years since our inception and we continue to practice what we preach in our investment approach and philosophy. We have never been economic timers, and with no signs of major inflation, and continued profits, 2018 looks set to be a good year. We are now out of the more known bubble cases like tech companies, so if the market declines, we at MTC will be well protected.

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

March 2018

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 the Founders Fund. Performance is reported in MYR.

Performance

The Meranti Fund delivered a since inception net return of 35.0% (18.7% p.a.), outperforming its benchmark, the KLCI and DJIA which returned 11.5% (6.43% p.a.) and 26.3% (16.2% p.a.) respectively.

Portfolio & Outlook

Both MTC and DJIA suffered significant negative performance in Q1 2018 in Ringgit terms, as the Ringgit strengthened against the USD by 4.7% for the quarter. Furthermore, MTC also underperformed the DJIA compared to our Founders Fund, as the Meranti Fund portfolio has approximately 30% exposure to Malaysian listed companies, which both tanked in Q1 2018. One of the Malaysian companies that had suffered declines in share prices, is a company operating in the tech hardware sector. Currently, the Founders Fund has much lower allocation in Malaysia's stocks compared to the Meranti Fund, hence the difference in performance.

As mentioned in previous commentaries, we remain bearish on Malaysia and are still holding Ringgit cash. Once the election is over, we hope our undervalued companies will appreciate as the market uncertainty fades. As post-election investment increases, we would expect greater volatility in the market and would be able to re-deploy our cash to new undervalued companies.

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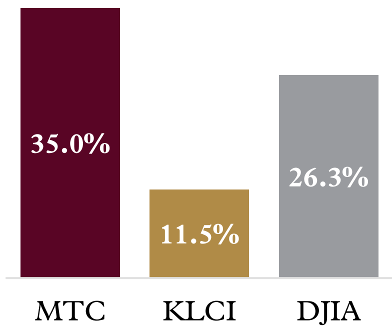
NAV

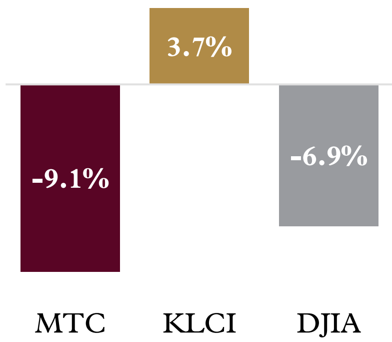
Class S: 134.95

Performance

Since Inception (28 Jul 2016)



Year to Date (Mar 2018)



Quarter (Mar 2018)