Kuala Lumpur

Letter to Investors //2013

Malayan Traders Capital Limited

Malayan Traders Capital Limited
(BVI Company Number: 1711740)

Letter to Investors &
Management Discussion and Analysis

Financial period from 10 May 2012 (date of incorporation)
to 30 June 2013

Malayan Traders Capital Limited

(Established in the British Virgin Islands)

General Information

Directors	**:**	Devan Linus Rajadurai
Investment Manager	**:**	Devan Linus Rajadurai
Auditors	**:**	KPMG LLP 16 Raffles Quay #22-00 Hong Leong Building Singapore 048581
Principal Broker	**:**	Merrill Lynch International Bank Limited (Merchant Bank) 50 Collyer Quay #14-01, OUE Bayfront

Letter to Investors

August 2013

Formation of Malayan Traders Capital Limited ("MTC")

My journey as an investor began in 2007 after completing my undergraduate studies in Sydney and returning to Kuala Lumpur shortly after. At the time, my mom, Mrs. Kok Wai Leng, the former Managing Director of Malayan Traders & Co., a Kuala Lumpur stockbroking firm in the 1970s, needed assistance to invest and grow the family's overseas investments. It was then that I started learning from both my mom and my uncle, Mr. Kok Khee Wee, understanding their investment successes and failures. One of the greatest lessons learnt was to follow the investment strategy of my late grandfather, Mr. Kok Ah Too, commonly known today as "value investing". In the '60-80s, my late grandfather used this strategy and invested in companies that he knew; companies in mining, plantation and food & beverage sectors among others, and consistently generated double digit annual returns over decades.

2007 to 2012 was a period of learning, not just from my family but also from understanding the strategies of other successful investors such as Warren Buffett, Philip Fisher and Peter Lynch. After researching more than 20 investment strategies, the strategy that was second nature to me and made common sense was that of my grandfather's, or "value investing". Beginning in 2007 with little experience; going through the 2008 global financial crisis; and experiencing and learning from both losing and making money; I managed an un-audited return of 14% p.a. from 2007 to 2012. At this point, in early 2012, I decided that if I can help grow my family's wealth, why can't I do the same for others? Hence, the end of my career as a management consultant and the beginning of my stewardship as the Founder and Managing Director of Malayan Traders Capital (for which is named in honour of my late grandfather and the Kok family), to grow the wealth of its investors/shareholders.

The Mission: Managing Wealth For Generations

MTC's mission is to help families grow their wealth such that it can last multi-generations from children to grandchildren, similar to what is experienced by members of the Kok family. Initially, my life goal was to grow my immediate family's wealth and enjoy the lifestyle of living in Australia. However, after observing the children and grandchildren of wealthy families no longer being able to enjoy the same privileges that their parents once had because their wealth had diminished over time (by no fault of their own but rather the natural division of inheritance and the difficulty of growing wealth above inflation), it became my goal to preserve and grow the surplus capital of wealthy families and families that are on the road to acquiring such amounts of capital. MTC is the avenue of fulfilling this goal.

MTC aspires to make a difference for families such that they can afford to fly to any holiday destination of their choice, send their children to the best universities despite not obtaining a scholarship, and live in a dream home without worry of the maintenance cost of a landed property.

Letter to Investors (continued)

August 2013 (continued)

The Mission: Managing Wealth For Generations (continued)

Prima facie, it will appear that our mission is something that is already being served by other organisations such as the private banks and insurance companies. In reality however, though there are many that offer advice or manage wealth for others, most do so with unimpressive performance and an abundance of hidden risks. In fact, a lot have touted that the 5% p.a. return they have achieved over the last few years was low risk, only to be proven otherwise by the 2008 sub-prime mortgage collapse that "low returns is not always low risk", and that "low returns can be high risk". I note that I have observed cases where single digit returns were delivered from 2003 to 2007, only to end up losing more than 50% in 2008 and thereby resulting in an overall depletion in investor capital. MTC's mission is to maintain a performance of 10-15% p.a. consistently over decades (which is in the top decile of investment returns that has historically been achieved by individuals and institutions) and to educate people that we do so in a low risk way.

MTC's Investment Philosophy: Value Investing

Investing the low risk way has been the Kok family's mantra for decades. After all, we have all our hard earned money invested in equities, as opposed to most other organisations who manage money for others in the equity market but in reality have the bulk of their wealth in other assets such as property and fixed deposits. This is the reason why throughout the years, the Kok family and now myself with MTC, have implemented the strategy of value investing and perfected it in recent times. Most people have heard the term "value investing" and often call it unexciting. In our eyes however, it is very exciting and it is safe. MTC's value investing philosophy is premised on three tenets, as follows:

Investing in What We Know

Risk is minimised by investing in what you know well, not by complex mathematical formulae, and especially not because someone labelled an investment to be low risk. For example, running a burger chain franchise is usually labelled less risky than starting a tech company, but if you know next to nothing about burgers, food and beverages, supply chain management, or employee management, chances are you're probably going to lose a lot of money. That's what we call high risk, which is "doing something you know nothing about". In investing, we get our returns by investing in what we know, which currently tends to be technology, agriculture, and consumer orientated companies. For example, we invest in Apple because we know the differences between all the mobile operating systems from the iOS, to the Android, and even to the Symbian. We also know what consumers are buying and saying; we understand the interconnectivity between the internet, the desktop and mobile technology; and we have reasonable understanding of the computer programming that goes behind creating such devices. These are just few examples of how we convert our understanding of a business into deep insight that a particular company is going to maintain its growth and profitability well into the future.

Letter to Investors (continued)

August 2013 (continued)

MTC's Investment Philosophy: Value Investing (continued)

Investing only when it is a Bargain

Knowing that a company is going to be consistently profitable in the future is a good thing, but paying too much for it is certainly a bad thing. Most of the time, highly intelligent people tend to get the first tenet, *"investing in what we know"* right but end up overpaying for a company. The reasons are aplenty – from being overly optimistic on a company's prospects to following the investment herd that was consistently pushing a company's stock price higher each day. Momentum is a game we choose not to play, as while it can be exciting at times and potentially highly rewarding in the short term, it can be incredibly damaging in the long run if the stock price was to significantly revert to a more reasonable level given a particular company's business. A good example of this is Microsoft. In the late '90s, Microsoft was a great business but was no longer a company that could grow its revenue by 50% p.a. into the next decade. Nonetheless, this was what the stock market participants were expecting of it and its price proceeded to crash significantly after the tech bubble burst. Similarly, in the next decade (2000 to 2010), stock market participants once again forgot history, pricing Microsoft at unreasonably high valuations and was definitely not a bargain. As a result, Microsoft's stock price barely moved from 2000 to 2010, despite its revenue tripling and earnings doubling over the same period.

Investing with Patience and Ignoring Fear and Greed

Once we identify a company that we know very well and acquire it at a reasonable price, the most difficult thing to do is to stick to your decision when people tell you otherwise. It is especially difficult to stick to a decision when the people telling you to do otherwise are supposedly smarter than yourself and has the wisdom of age. However, the brightest people with vast academic qualifications or work experience from the most prestigious institutions are not necessarily the best investors. Statistics have shown that investing is generally a zero-sum game with the top 10% of people consistently making money, whereas the other 90% bounce from gains to losses regularly. Quite a number lose everything. This is why MTC's last tenet of *"investing with patience and ignoring fear and greed"* is the most important, and is what separates the top 10% of investors from the rest of the pack.

MTC's value investment philosophy sounds easy in theory, but it is very challenging in practice (which is why most individuals and institutions are unable to consistently generate returns in excess of 5% p.a.). Over the year, we have stuck to this philosophy and are confident that over the long term, our patience will be rewarded.

Letter to Investors (continued)

August 2013 (continued)

Performance over the Year

Reiterating the most important tenet of MTC's investment philosophy, is that of patience. Ever since MTC was incepted in 2012, we have continued with the same composition of companies in my family's personal portfolio that I have been tasked to manage. Among the few companies that we have owned for years and continue to own with MTC is Apple, Wilmar, and Olam. During the 2012/13 fiscal year, these companies were among the worst performers in the market, which greatly contributed to MTC's single digit negative return this year (and since MTC's inception) of -7%. This is despite other companies in our portfolio appreciating. Although we would have loved to have achieved a 15% return this year, our experience has taught us that it takes patience to be rewarded and that stocks do not appreciate in a straight line. Sometimes it stays flat over a period, other times it goes down further only to recover with amazing double digit returns, but only if you had waited long enough (our experience tells us that three to five years is generally the required timeframe for returns to be made). In fact, we consider these three great companies to be priced at a significant bargain, and are taking their price decline as an opportunity to increase our stakes in these companies as the market sells off. We expect these companies to be significant contributors to excessive performance in the 2013/14 fiscal year.

At this point it is important to remember that when we think about investing, we choose to ignore the volatility in monthly share prices, and choose not to play the momentum game (which some may gloat to have garnered a 100% return in the short term, only to become silent when the stock prices reverses, resulting in a permanent and complete loss of capital). Any experienced and intelligent businessman would tell you that acquiring a company for $450 billion with $145 billion of cash on its balance sheet and adding $50 billion to that cash pile each year (and growing) is a great deal. That company is Apple, a company that we understand very well and produces products that our company knows in-and-out and uses every day. We rather invest in companies like this that are out-of-favour and as a result, are experiencing short term declines in their stock price than to chase momentum stocks.

For further information on our portfolio please refer to the 'Management Discussion and Analysis' section of this Annual Report.

Letter to Investors (continued)

August 2013 (continued)

Looking Ahead

If the 2012/13 fiscal year is a year of patience, the 2013/14 fiscal year will be a year of reward. We have observed some of our undervalued companies' valuations increase and it is only a matter of time before our core holdings such as Apple, Wilmar and Olam begin to appreciate significantly in value. We are confident that not only will our portfolio appreciate significantly, but it will also outperform the major indexes such as the Dow Jones Industrial Average ("Dow" or "DJIA") and the MSCI All Countries World Index ("MSCI ACWI") in both the medium and the long term.

In terms of the business, MTC has remained low key for the past year, with no increase in Assets Under Management ("AUM") from where we started at $500K. We expect the 2013/14 fiscal year to be a year where we grow our AUM and our staff headcount. When MTC was formed in 2012, I was in discussions with a number of people to run this private investment company together, one of whom is our other founding partner. We expect to have him re-join the company in the next couple of years, after he gains the necessary skills to help MTC not only meet its target investment return of 10-15% p.a., but also to exceed it.

Sincerely,

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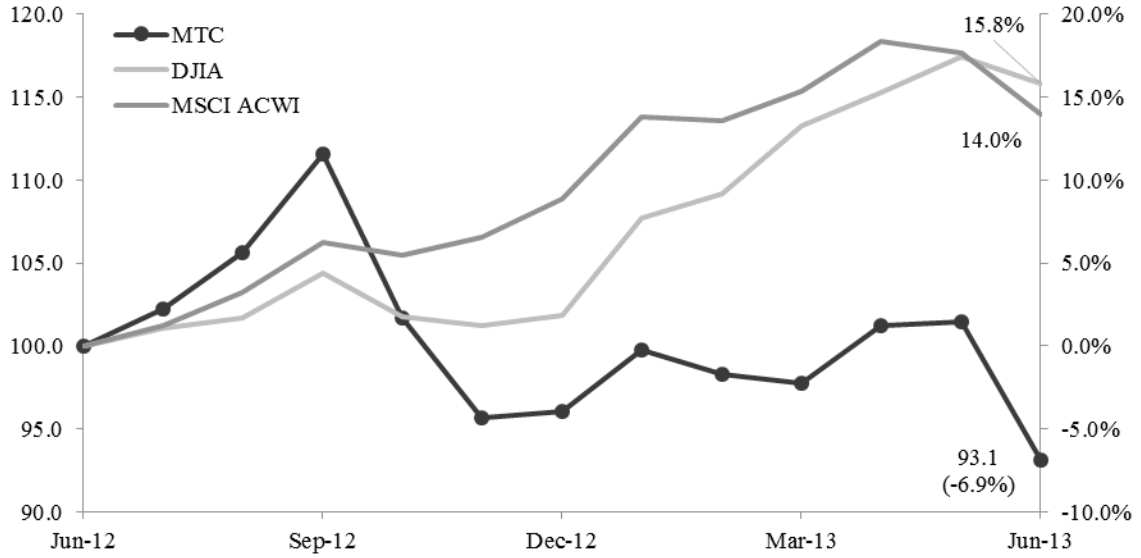
Devan Linus Rajadurai
Founder, Managing Director and Head of Investments

P.S. In many instances, this letter uses the first person pronoun in plural form instead of in singular form (i.e. "we" instead of "I"). This is to give due credit to the people I have surrounded myself with. It is important to note that although I achieved a 14% p.a. return from 2007 to 2012, I have done so with the tutelage of my family members. Furthermore, since MTC was incepted in 2012, I had assistance from my pro-bono partners, whom are expected to officially come on-board in the next couple of years.

Management Discussion and Analysis

Performance and NAV

MTC Performance Since Inception
(USD, NAV, % Return)



MTC experienced a single digit decline of 7% as a result of holding a portfolio of undervalued companies that are temporarily out of favour with the market.

MTC NAV Since Inception
(USD)

Fiscal Year 2012/13

Month	*NAV*	*Month*	*NAV*
Jun-13	93.08	Dec-12	96.04
May-13	101.44	Nov-12	95.70
Apr-13	101.22	Oct-12	101.70
Mar-13	97.76	Sep-12	111.55
Feb-13	98.31	Aug-12	105.61
Jan-13	99.75	Jul-12	102.22
		Inception:	100.00

Net Asset Value per Unit ("NAV") is presented instead of Net Asset Value per Redeemable Share as share splits may occur during the course of operating as a going concern. To standardise the NAV at a base of USD100.00 at inception, a ratio of redeemable shares to units is created. As of reporting date, the ratio of ordinary shares to units is 1:100.

Management Discussion and Analysis (continued)

Performance and NAV (continued)

As at 30 June 2013, MTC's total Assets Under Management ("AUM") was $465,402, corresponding to a NAV of $93.08 and a net return of -6.9%. Over the same period, the Dow Jones Industrial Average ("DJIA" or the "Dow"), our principal benchmark as it has historically comprised most of our holdings, returned 15.8%. We also note that the MSCI All Countries World Index ("MSCI ACWI"), which many now consider to be the appropriate benchmark for global equities performance, returned 14.0%. While at first glance our performance may give reason to worry, we want to highlight our core investment belief and philosophy – to invest for the long term in companies with strong earnings and cash generation abilities, and to ignore the short term nature of the market. We are confident that our investments will deliver superior performance for the Company going forward, and that our shareholders will be richly rewarded for their patience.

Holdings

We are heavily invested in technology and agriculture companies, with Apple, Olam and Wilmar consistently being in our "Top Five Holdings" throughout the year.

Apple

Apple Price Chart
(USD, Jul 2012 to Jun 2013)

Apple has been a laggard in our portfolio this fiscal year as we have been buying as its stock price declines.

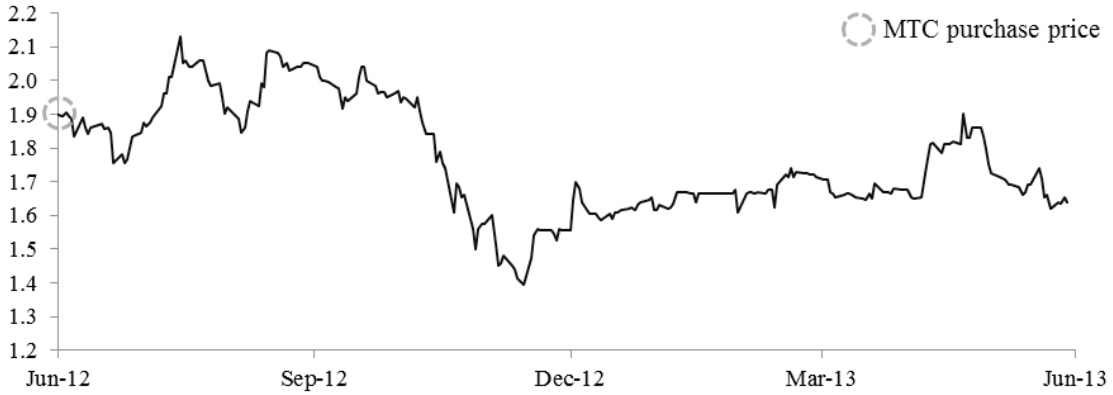
Contrary to the market, we are very bullish on Apple and are confident that it will deliver strong results over time. Negative investor sentiment towards Apple over the year has pushed its valuation to a 12-month low and trading at a 30% discount to its peak in September 2012, due mainly to the concerns that its largest revenue generators, the iPhone and iPad, face stiff competition from Android-based devices. This is despite Apple recording record sales and profits (underlying earnings grew approximately 60% from the 2012 to 2013 fiscal year), and despite the release of the iPhone 5, which we expect will help maintain the Company's strong earnings growth going forward. We consider Apple to be trading at one of the lowest valuations that it has ever been traded at on a Price-to-Earnings basis, and as a result have been acquiring more of its stock over the year. Unfortunately, due to the short term pessimism on the stock, it has also been one of the key drags on our performance this year. We are very optimistic on the company's growth prospects, and expect to be excellently rewarded once the market realises and appreciates Apple's position.

Management Discussion and Analysis (continued)

Holdings (continued)

Agriculture

Olam Price Chart
(SGD, Jul 2012 to Jun 2013)



Olam has been the target of short term selling pressure as operating margins reduce and as Muddy Waters shorted the stock.

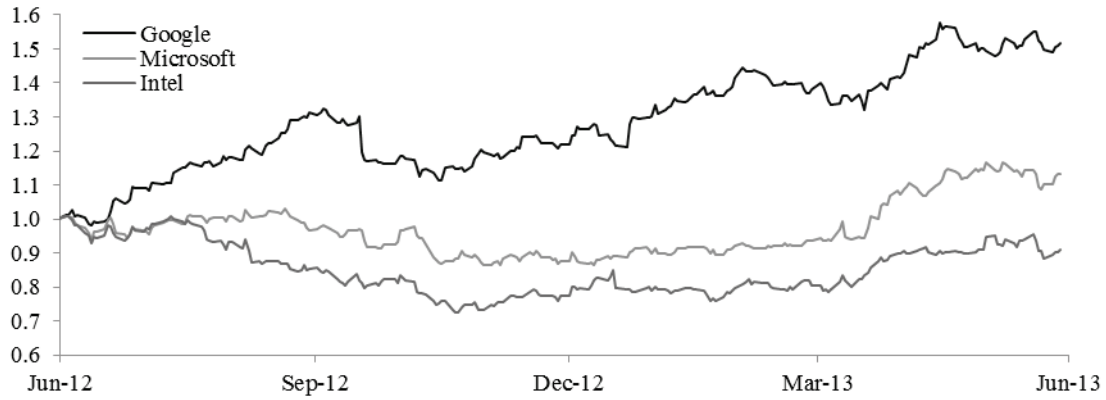
Our agriculture companies have faced some short term pressure over the year, with commodity prices rising and consequently increasing the cost of raw materials, resulting in reduced margins for companies such as Olam and Wilmar, who derive a significant amount of their earnings from their midstream operations. To add salt to the wound, during the year, Olam was a very public short sale target of hedge fund Muddy Waters, who accused the company of aggressively recording its profits, being overleveraged and destined to collapse. Olam's CEO denied such accusations, stating that its debt levels were not unreasonable given its expansion plans and that it had sufficient cash and access to credit to finance its operations. Olam's major shareholder, Temasek, also weighed in and supported the company, increasing its stake to close to 19% in December 2012. Nonetheless, Olam's stock price declined considerably, dragging our performance in the process. Rather than being overly concerned about the short term commodity price movements and the noise in the market, we remain confident in the long term sustainability of our agriculture companies. We highlight that our agriculture portfolio is trading at valuations that are close to book value, which we consider to be a bargain given the necessity for food. We emphasise that we do not time markets and cannot predict when the next commodity boom will begin. However, we believe that over time, these companies, when purchased at very low valuations, will reward us handsomely in the future.

Management Discussion and Analysis (continued)

Holdings (continued)

Technology

Google, Intel, Microsoft Price Chart
(Rebased, Jul 2012 to Jun 2013)



Google, Microsoft and Intel were significant positive contributors to MTC's performance over the 2012/13 fiscal year.

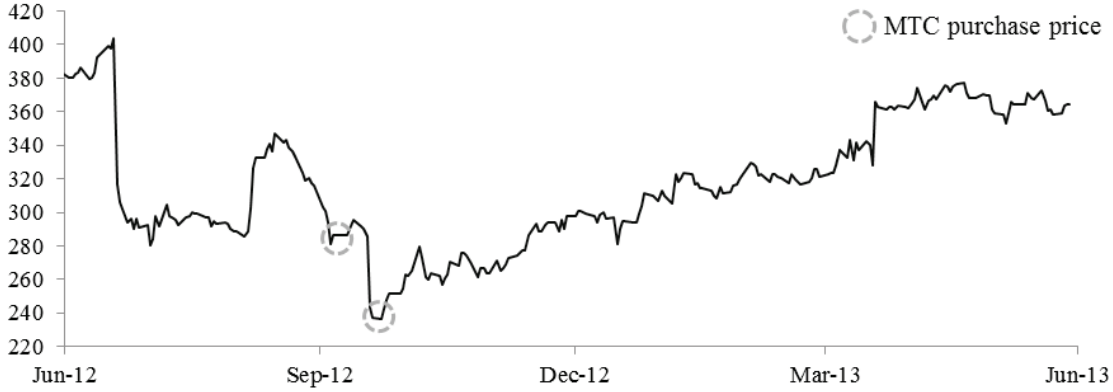
While some of our key holdings have experienced headwinds over the year, we are pleased that our patience and conviction in some of our other holdings have rewarded us well. Internet behemoth Google, having been out of favour since 2010, was finally acknowledged and appreciated by the market in mid-2012 after growing its revenue by more than 60% and its earnings by more than 25% over this period. Google is a perfect example of how a company with such strong fundamentals can be neglected by the market in favour of other "hotter" stocks. With our superior understanding of the technology industry and of the company, we held firm in our belief that Google will outperform given time and continued to hold on to its stock. Our conviction has resulted in us being well rewarded with a return of approximately 50% over this same period. We continue to hold on to Google even after its rally in the second half of 2012 as we believe the company will continue dominating the industry. A similar story can be told of our holdings in Intel and Microsoft, technology giants overseen by the market for other "in-the-now" stocks, which have returned approximately 28% and 35% for us respectively this year. What we saw in Google, Intel and Microsoft a few years ago is what we are seeing in Apple today.

Management Discussion and Analysis (continued)

Holdings (continued)

Chipotle

Chipotle Price Chart
(USD, Jul 2012 to Jun 2013)



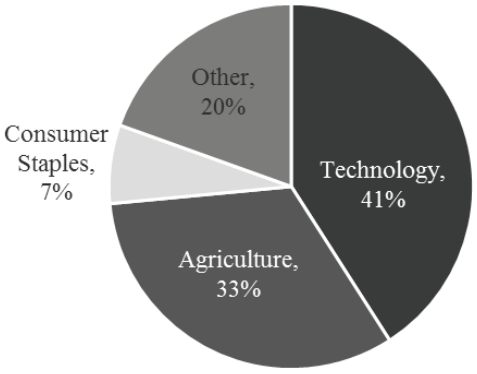
Chipotle delivered a 30% return for MTC over the fiscal year on the back of strong revenue and earnings growth of 25% and 15% respectively.

Another winner for us over the 2012/13 fiscal year was Chipotle Mexican Grill ("Chipotle"), a Mexican fast food chain promoting organic and fresh produce, specialising in burritos and tacos. After posting revenue and earnings growth of more than 25% and 15% respectively, the company experienced a 30% appreciation in its stock price. Having done the necessary ground work to determine the feasibility and sustainability of the company's business model, we were confident that Chipotle is a great business to own, and were proven correct this year. What made our investment in Chipotle even more pleasing was that we were proven correct even as famed hedge fund manager David Einhorn shorted the company, claiming that it would lose its leadership position to its main competitor, Taco Bell. We want to highlight that this is another example of MTC sticking to its views and thoroughly understanding its investments, despite well-respected investors opining otherwise. This isn't to suggest that we do not take other views into consideration, but rather to emphasise that we digest all available information and make informed conclusions before making decisions.

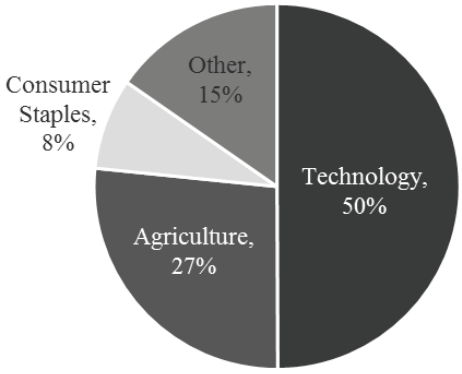
Management Discussion and Analysis (continued)

Industry and Geographical Allocation

MTC Industry Breakdown
(June 2012)

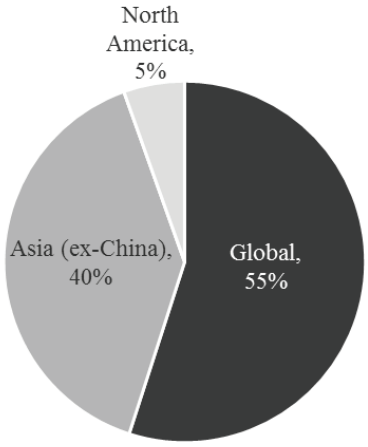


MTC Industry Breakdown
(July 2013)

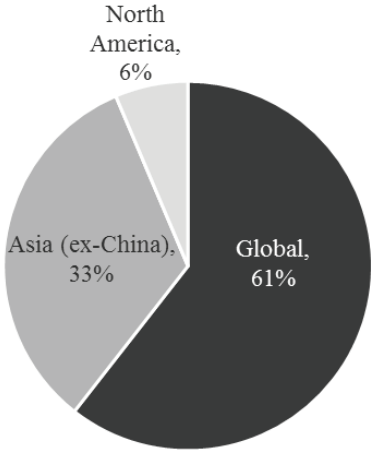


MTC continues to remain focused on investing in industries we know, which are Technology and Agriculture.

MTC Geographical Breakdown
(June 2012)



MTC Geographical Breakdown
(July 2013)



MTC continues to maintain a geographic allocation of companies which operate globally or in in Asia.

True to our investment approach, our industry and geographical portfolio allocation has remained more or less the same over the year. As we invest for the long term and typically hold on to our companies, we do not expect the portfolio's composition to fluctuate dramatically from year to year. As mentioned above, we have very meaningful exposures to the Technology and Agriculture industries, and do not expect this to deviate much going forward into the next year. It is worth mentioning that we have increased our exposure to Technology over the year, predominantly due to our continued purchasing of Apple stock over the year and a corresponding decline in values of our agriculture holdings, notably Olam and Wilmar.

Management Discussion and Analysis (continued)

Industry and Geographical Allocation (continued)

As for our geographical exposures, we highlight that most of our investee companies, while listed on the Dow, are global companies with operations around the world. We have intentionally categorised our investments based on where they derive their revenue and earnings, rather than where they are listed. Again, our geographical allocations have not changed much over the year, nor do we expect it to going forward.

MTC's Geographic Classification Methodology: Instead of classifying a company based on its listing domicile, we classify our companies based on its revenue and income source. If a company's revenue and income source comes from multiple continents with no dominant region or country, we will classify that particular company as global. If a company has some global revenue and income source but predominantly derives most of its revenue from one region or country, we will classify that particular company as its region or country. This classification is not mutually exclusive, however we can assume that MTC's geographic breakdown approximates the revenue and income sources of our total portfolio company reasonably well. We prefer 'MTC's Geographic Classification Methodology' as opposed to 'classification by listing' as it allows us to monitor and make decision on our geographic diversification more intelligently as a company's performance is dictated by regional economic changes that directly impact a company's revenues and earnings. For a long term investor the variations between regional market sentiments has minimal impact on the performance of a company

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