London

Letter to Investors //2016

MTC
Founders Fund

MTC ASSET MANAGEMENT

MTC Founders Fund
(formerly known as Malayan Traders Capital Absolute Return Fund)
(Company Number: CT-291890)

Letter to Investors & Management Discussion and Analysis

Financial year ended 30 June 2016

MTC Founders Fund
(formerly known as Malayan Traders Capital Absolute Return Fund)

(Established by way of continuance in the Cayman Islands)

General Information

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Letter to Investors

December 2016

MTC Founders Fund

This is the 4th year since the inception of MTC Founders Fund ("MTCFF", "Founders Fund", or "the Fund", and formerly known as Malayan Traders Capital Absolute Return Fund) and 9th year since running my family office. A lot has changed in one year, one being the creation of a group structure. We now have a presence in both Malaysia and Singapore, with MTC Asset Management's sister entity in Malaysia, MTC Asset Management (M) Sdn. Bhd. (formerly known as MTC Advisors Sdn. Bhd.) obtaining a fund management license on 19 November 2015. We have since moved our headquarters back to Malaysia, and as of 30 June 2016, have a headcount of 8 people with separate management lines where my Co-Founder Aaron Yew, is now the Deputy Chief Investment Officer and recently joined Co-Founder, Donovan Ng, as the Deputy Chief Executive Officer. Furthermore, as of the date of this letter, we have launched a separate fund called MTC Meranti Fund, which is a replica of the Founders Fund and priced in Malaysian Ringgit and hence, accepts client monies in Malaysian Ringgit. So all in all, the 2015/16 fiscal year was really a transformation year in some regards, as we push our organisation forward from merely a family office to that of institutional investment house with the same investment, operational, and management best practices of that of American investment houses.

Unfortunately, with the organisational and management positivity came some investment negativity, where we suffered double digit losses for the 30 June 2016 fiscal year. While the obvious answer would be that we lost focus on our investment performance as we concentrated on building the firm, the reality is that occasionally when you expect a market bull, it ends up being a bear instead as explained in the Management Discussion and Analysis section of this report. One must realise and appreciate however, that in order to maintain consistent double digit performance over years is to keep on investing in research, and you do that by investing in talented people, robust processes, and continuous, lifelong learning. If you take these steps, and the market takes a temporarily dive like it did in this fiscal year as the Chinese stock market, commodity prices, and individual companies stock prices crashed, you will bounce back faster and larger.

Letter to Investors (continued)

December 2016 (continued)

Performance and MTC's Investment Philosophy: Investing with Patience and Ignoring Fear and Greed

Our three investing tenets are *"Investing in What We Know"*, *"Investing only when it is a Bargain"* and *"Investing with Patience and Ignoring Fear and Greed"*. Unfortunately, our portfolio was down 16.3% for the fiscal year, and at times like these, having that third tenet is extremely important. After analysing why our portfolio declined, through *"Investing in What We Know"*, we know that the portfolio of companies we have are extremely exceptional, to the likes of the most profitable phone producer in the world, a behemoth mining company which has the highest quality mineral deposits in the world, a fast-growing food and beverage player who is a global leader in its respective cuisine segment, and many more.

Unfortunately, this whole diversification game is not necessarily bullet proof in the short term, as sometimes there are "black swan" years where all the industries or geographies that you invest in crash at the same time. This year was one of those occurrences, where the tech manufacturing, agriculture, commodities, emerging market currencies and companies all crashed simultaneously. Furthermore, the Brexit referendum, which happened on 23 June 2016 and just 7 days before this annual report close, created an artificially low performance for us. However, despite all these one-offs, I reemphasize that our negative return for the fiscal year is only -16.3%, a return that a long-term value investor should expect in certain years over time and not fall into the trap of fear. To illustrate further, recall that when the stock market burst in 2000 following the dotcom boom (and bust), McDonald's, a company in a completely unrelated industry, crashed from $50 in 1999 to $29 in 2000 (a 42% drop). Today, as of 30 June 2016, McDonalds is trading at $120. Hence, if you had bought the stock at $29 then, you are now looking at more than a 400% return. Using this analogy, considering that our portfolio only dropped 16.3% (partly because we sold off our winners and entered cheaply into these new companies during the start of the fiscal year), when the market recovers, we should expect a similar +400% return over a decade, just like McDonald's.

That is why the tenet of *"Investing with Patience and Ignoring Fear and Greed"* is incredibly important. One is to sell off our companies when greed comes into the picture, just like how we sold off our China holdings in early 2015 and thereby avoiding the China crash of more than 40% (as of the date of this letter, we are still not getting back into China). The other is to also remember that just because something crashes 40% doesn't make it cheap – it may be because it was extremely expensive in the past, and even after a 40% drop it is still expensive, just less expensive, which is still the case for a lot of companies listed in China. Our portfolio on the other hand, is diversified across various regions and sectors that are cheap and are continuing to grow.

For further information on our portfolio, please refer to the 'Management Discussion and Analysis' section of this Annual Report. For more recent updates on our investment strategy and information on our portfolio companies, please refer to our Commentaries on our website at www.malayantraders.com.

Letter to Investors (continued)

December 2016 (continued)

Four Years Strong and Having Set the Building Blocks for the Future

We now have the foundation in place, and with the continuous focus on company and market research, we are going to be an investment house to be reckoned with for years to come. Whilst the 2015/16 fiscal year was not our best year in terms of performance, we still generated a 38.3% (8.4% pa.) net return since inception. Just like we did in the 2013/14 fiscal year, where we delivered 69.3% return that year, those who start investing at the bottom of the market cycle are going to experience significant returns going forward. For the rest who came in at inception, our aggregate return over the years will still be close to our 15% p.a. target based on the companies we are invested in now and how cheap they are.

Sincerely,

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Devan Linus Rajadurai
Co-Founder, CEO and Chief Investment Officer

P.S. As usual, to give context on how far we have progressed over the years, I have attached our 2012/13 fiscal year letter to investors. This is our inaugural letter to investors. I hope it gives further appreciation on how far we have come since June 2012.

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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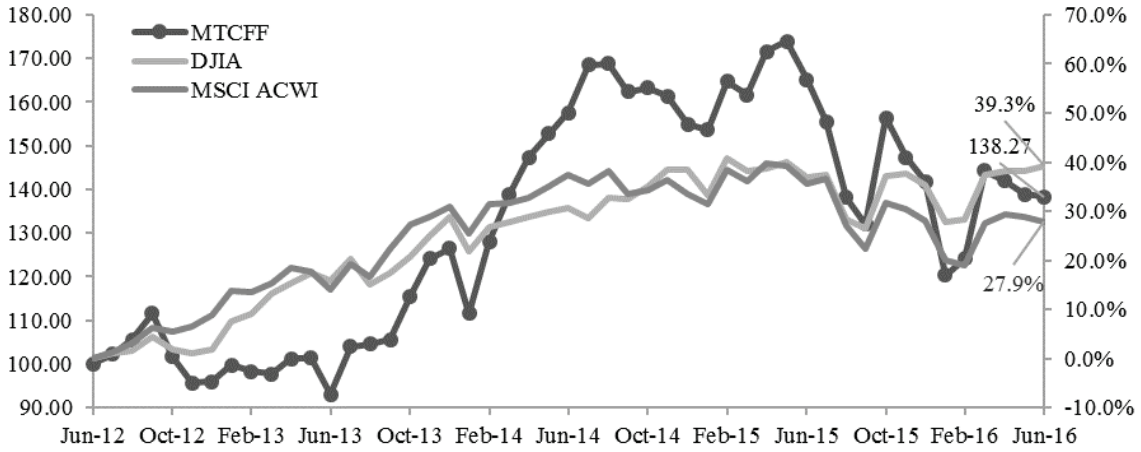
Devan Linus Rajadurai
Founder, Managing Director and Head of Investments

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

MTCFF Performance Since Inception
(USD, NAV, %)



MTCFF outperformed the MSCI ACWI, the representative performance benchmark for global equities, by 1.3% since inception. However, MTCFF lagged the DJIA by 1.1%.

MTCFF NAV Fiscal Year 2014-2016
(USD)

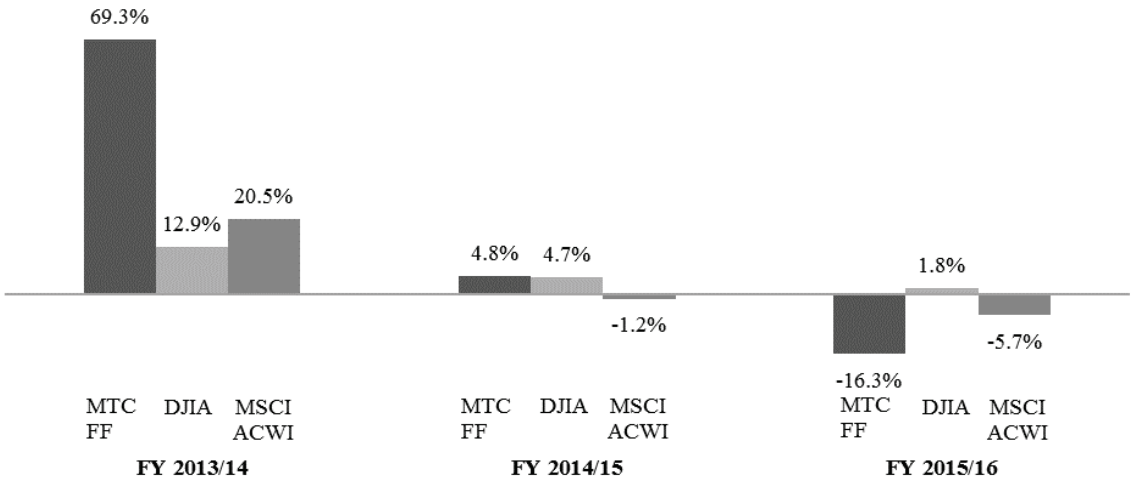
Fiscal Year 2015/16				*Fiscal Year 2014/15*			
Month	*NAV*	*Month*	*NAV*	*Month*	*NAV*	*Month*	*NAV*
Jun-16	138.27	Dec-15	141.85	Jun-15	165.21	Dec-14	154.91
May-16	138.88	Nov-15	147.34	May-15	173.91	Nov-14	161.40
Apr-16	142.02	Oct-15	156.35	Apr-15	171.57	Oct-14	163.23
Mar-16	144.35	Sep-15	132.09	Mar-15	161.69	Sep-14	162.44
Feb-16	124.17	Aug-15	138.16	Feb-15	164.80	Aug-14	168.79
Jan-16	120.38	Jul-15	155.59	Jan-15	153.67	Jul-14	168.60
						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 100:1.

Management Discussion and Analysis (continued)

Fiscal and Calendar Year Returns

MTCFF Fiscal Year Return Comparison
(FY 2014-2016, %)



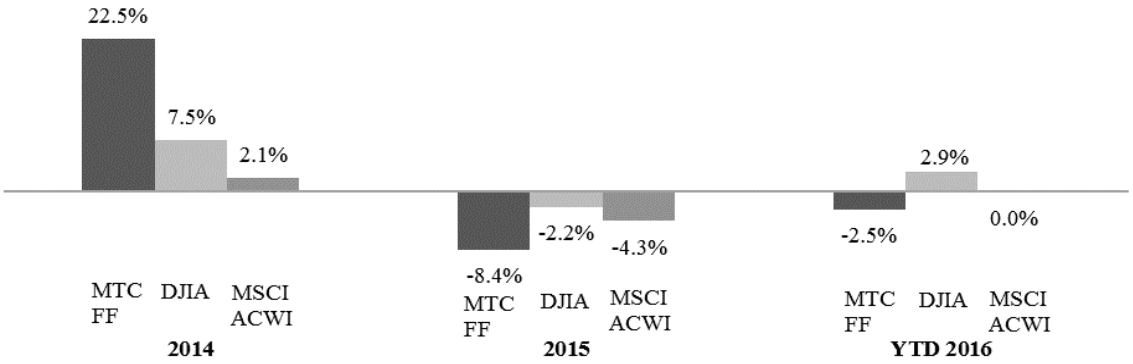
Following a strong performance in fiscal year 2013/14, MTCFF delivered modest returns in the 2014/15 fiscal year as it began buying as markets became bearish; MTCFF continued to acquire deeply discounted companies in the 2015/16 fiscal year, resulting in a material drag on the fund's performance for the year.

After reaping the rewards in the 2013/14 fiscal year, MTCFF began selling its richly valued companies for deep value companies. Further, the decline in commodities and tech manufacturing resulted in significant stock price collapses for our companies in Q1 of 2016. This recycling of the portfolio, which began this fiscal year, together with the decline in stock prices in Q1 of 2016 resulted in the Fund posting a -16.3% return. The negative return is partly due to some of our new, deep value companies' stock prices falling further after we had acquired a stake in those companies, and due to the Fund's leverage, which compounded the effect of the price declines. We note that the Fund's leverage was kept at moderate levels at all times to ensure forced selling was never an issue, and took into account the positive effect that leverage provides when the markets turn for the better (as demonstrated in our 2013/14 fiscal year result).

Management Discussion and Analysis (continued)

Fiscal and Calendar Year Returns (continued)

MTCFF Calendar Year Return Comparison
(2014 to YTD 2016, %)



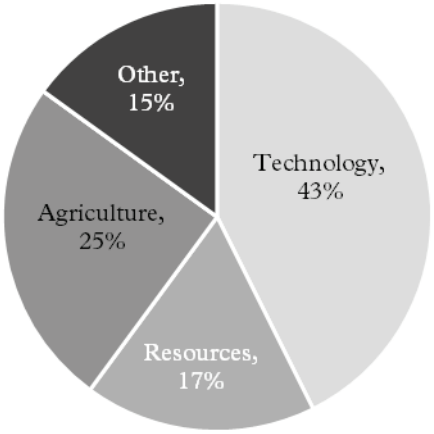
MTCFF significantly outperformed the DJIA and MSCI ACWI in 2014, but has lagged both indices in 2015 and in the first six months of 2016 as a result of buying into weakness.

From a calendar year point of view, MTCFF delivered a -2.5% return for the first six months of 2016, after delivering a -8.4% return in 2015, and a +22.5% return in 2014. As explained above, the Fund underperformed the Dow and the MSCI ACWI as a result of refreshing the portfolio with deep value companies while the market was continuing its decline, and from the effects of leverage employed.

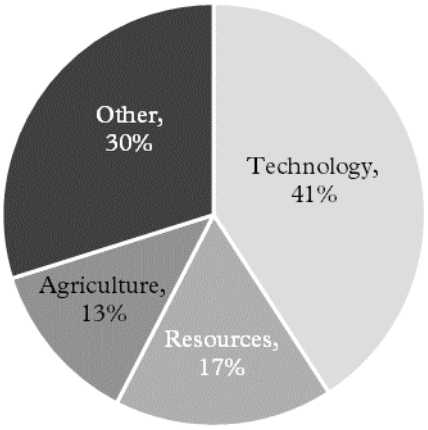
Management Discussion and Analysis (continued)

Industry and Geographical Allocation

MTCFF Industry Breakdown
(30 June 2015)

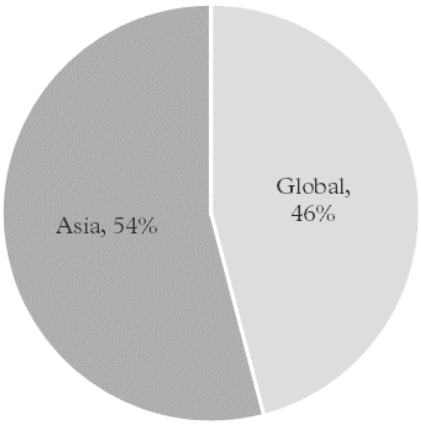


MTCFF Industry Breakdown
(30 June 2016)

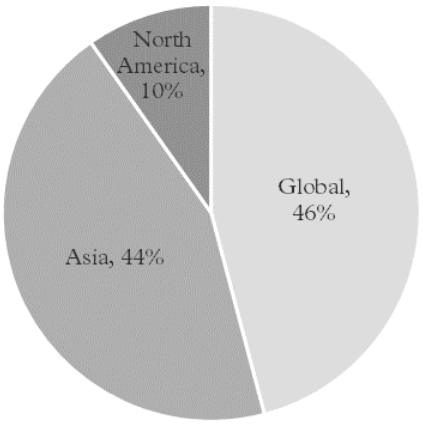


MTCFF continues to remain heavily invested in Technology and Resources, but has reduced its exposure to Agriculture over the 2015/16 fiscal year.

MTCFF Geographical Breakdown
(30 June 2015)



MTCFF Geographical Breakdown
(30 June 2016)



MTCFF continues to maintain a geographic allocation of companies that operate globally or in Asia. It has taken a position in a North American company during the 2015/16 fiscal year, which resulted in the Fund having a 10% allocation to North America.

Management Discussion and Analysis (continued)

Industry and Geographical Allocation (continued)

Technology continues to be a mainstay in MTCFF's portfolio, with Resources also representing a considerable part of our holdings as depressed commodity prices drive valuations of Resources companies exceedingly low (and well below the intrinsic values of a couple of the commodity behemoths of the world – one of which we now own). We expect our Technology companies to continue being strong contributors to the Fund's outperformance over years to come as we live in a world where digital consumption continues to rise, and where technology is the bedrock of any new form of meaningful innovation and disruption. We have trimmed our position in Agriculture to make room for more fundamentally and better priced companies in the Consumer and Financials space, resulting in Agriculture forming a more modest 13% of the portfolio as at 30 June 2016. From a geographical standpoint, we now have a 10% allocation to North America as a result of our acquisition of a food and beverage operator; aside from that, our geographical exposure remains largely similar to the previous fiscal year.

While there have been some minor changes to the portfolio's industry and geographical composition, it should be emphasised that it is our bottom-up investing approach and our ability to find attractively-priced assets across the industries and globe that result in our portfolio's make up. MTCFF's portfolio is constructed to consist of fundamentally strong companies that are trading at attractive valuations, regardless of industry or country – we need only to be convinced that the company that we invest in is fundamentally sound (which nonetheless requires a thorough understanding of the industry), and that it is being acquired at a reasonable or cheap price. While we ensure that we are appropriately diversified by industry and geography for risk management purposes, we do not expect to make money from short-term macro, industry or country bets.

MTCFF's Geographic Classification Methodology: Instead of classifying a company based on the country in which it is listed, we classify our companies based on its source of revenue and income. If a company's source of revenue and income comes from multiple continents with no dominant region or country, we will classify that company as a global company. If a company has some source of revenue and income from global operations but derives most of its revenue and income from one region or country, we will classify that company based on that particular region or country. While this classification is not mutually exclusive, we can safely assume that MTCFF's geographic breakdown approximates the revenue and income sources of our total portfolio reasonably well. We prefer 'MTCFF's Geographic Classification Methodology' as opposed to 'classification by listing' as it allows us to monitor and make decisions 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 the long term investor, the variations between regional market sentiments has minimal impact on the performance of a company.

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