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MTC Asset Management
Founders Fund

Commentary (Founders Fund

September 2019

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 large cap 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 has historically been the best representation of global companies. Performance is reported in USD.

Performance

MTC delivered a since inception net return of 93.6% (9.5% p.a.), outperforming the KLCI but underperforming the DJIA, which returned -26.4% (-4.1% p.a.) and 113.3% (11.0% p.a.) respectively.

Benchmark Comparison

Quarter

Our stocks appreciated 4.0% for the quarter, whereas the DJIA remained stagnant at 1.2% and the KLCI retreated at -6.5%. Owing to our outperformance was the appreciation of our stocks in the tech hardware space. For context, and excerpt from our June Commentary "During the quarter, we experienced tremendous volatility, particularly in our Autos and Tech Hardware stocks… with the excess cash from our trimming, we repurchased stocks in these two sectors at these lower prices". As of Q3 2009, our stocks in the autos sector has yet to appreciate, leaving more upside for the future. Our autos sector dividend yield remains above 5%, which should both help create a floor in the share price and add single digit returns to the portfolio.

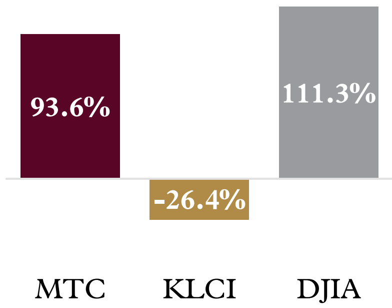
During the quarter we have continued to trim the portfolio and for the first time are in a net cash position. This is to position ourselves when the downturn happens in the future. We now have a 32% and 29% allocation to the tech hardware and autos sector respectively. We also successfully sold of our Malaysian holdings in Founders Fund this quarter. Also, more than half of the stocks in our portfolio are high dividend yielding counters, which will create stability in our returns while we patiently wait to get back into growth stocks again, in a big way.

NAV

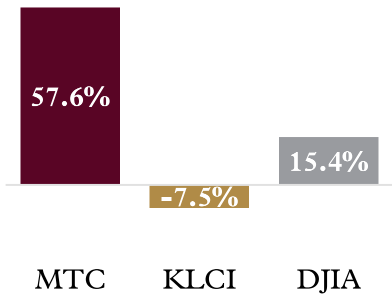
Class S: 193.58

Performance

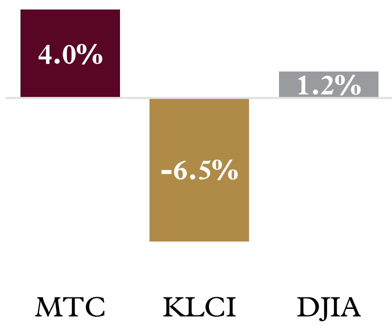
Since Inception (24 Jul 2012)



Year to Date (Sep 2019)



Quarter (Sep 2019)



Devan Linus, Chief Investment Officer

Market Insights

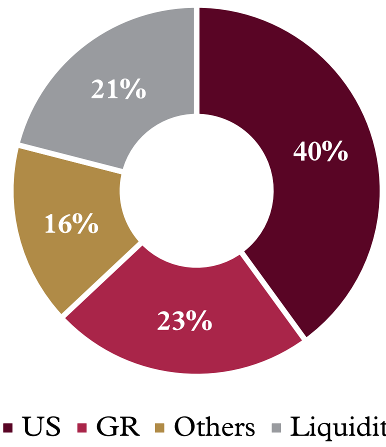
Unicorns Losing its Horns

Since 2018 we started commenting on the overvaluation of the tech sector, namely recently listed unicorns and especially the private unicorns. As such we stayed away from participating in the IPOs or post-investing in some of these unicorns, choosing to stick to the old legacy tech companies, such as Microsoft, Google, Intel, etc. (which unfortunately sacrificed our short-term returns compared to our peers). In our March Commentary we wrote an op-ed on Tech IPOs and summarised our conclusion in the following statement "now, are these two businesses great and innovative, and therefore worth something? The answer is Yes, but not the expected $100 billion valuation for Uber or the expected $45 billion valuation of WeWork." In May Uber successfully launched its IPO but was unable to convince, the market to give it the valuation and took a haircut of 20% with a IPO valuation of ~$80 billion. The stock has since crashed and now its valuation as of Oct 2019 is ~55 billion, and the company is still making significant losses with intense competition from Lyft in the US, and its inability to grow anymore overseas given the likes of Grab, Didi, GoJeck, Ola, etc. which has already won the ride hailing war against Uber in their respective regions.

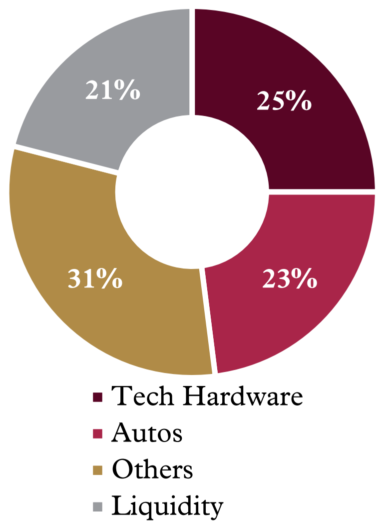
WeWork on the other hand suffered a worsened fate with investors not only questions its losses, but also its corporate governance of its founders/directors using company funds for personal use, but more importantly the rejection of the philosophy of 'growing at any cost'. The founder, Adam Neumann tried to push for an IPO at ~$20 billion a (56% loss on its previous valuation of $45 billion) and would have caused its other investors to suffer a huge loss on its books, particularly Softbank which outside the co-founder is the largest shareholder. Today, the CEO has been ousted, the valuation privately is pegged at ~$8 billion and unless it seeks more funding will run out of money in the next few months. JP Morgan is trying to inject more debt at this lower valuation, but that's 82% over its peak valuation, the other investors don't want this. Then we have the problem that the founders took multiple $100 million loans against his shares in Uber when the stock was valued at $45 billion, but depending on the current solution he might face a margin call and be personally bankrupt. Then without the creativeness or craziness of him, what does WeWork become then just any other office rental company. It should also be noted Softbank has already engaged bankruptcy lawyers/advisors to assist in finding a valuation and to them hopefully a solution. Sounds like 1999 all over again. (Update: Softbank recently bailed out Adam Neumann by acquiring his stake at a much lower valuation, but still making him a billionaire, but made all employees stock options become worthless).

Although, we don't invest in private companies it's important to understand the situation as ultimately, what we are seeing with these two, are also being seen in other related listed companies.

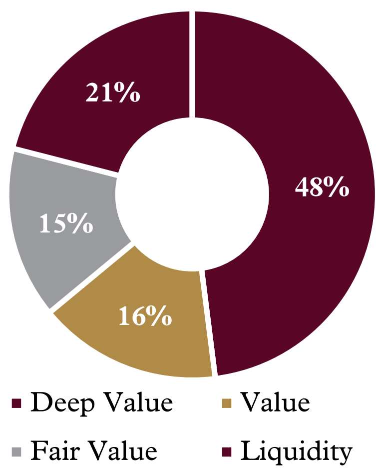
Company Listing Breakdown



Sector Breakdown



Value Breakdown



Market Insights (continued)

Unicorns Losing its Horns (continued)

We must not forget another unicorn Groupon which is now unheard of, has lost close to ~90% from its peak valuation since its listing in 2012. That's more than 5 years, since it was last a hot stock. So our job, is to be able to filter out the differences between these tech companies and have a strong view on which will ultimately turn into a sustainable business. We know for sure Microsoft, Facebook, Google, Amazon (Amazon although in our opinion still overvalued) will be here five years from now making growing profits, growing innovations, and prudent financial management. The question is whether Snap, Lyft, etc. will still be here. Today there is a new social media company called Tik Tok, so that could potentially kill Snap? Let's also not forget that Spotify and streaming music killed iTunes (one of the most revolutionary music mediums in the last two decades). As of this year Apple officially is shutting down iTunes replacing it with Apple Music.

Outlook

As iterated throughout the year, we are being even more disciplined to maintain our buy-and-hold strategy for our new high dividend yielding value stocks that we have purchased since 2018. Our outlook remains the same in that we should end the year around the current NAV price, barring any correction compared to last year. If there is a Q4 2019, retraction we would be impacted minimally as we have zero leverage compared to Q4 2018, when we doubled down on a few counters. Our strategy going forward is to be content with our current portfolio, keep our cash hoard ready, and be ready to strategically buy companies as it crashes. As far as a global downturn is concerned, more evidence is pointing to a delayed correction or crash, as interest rates remain low and unemployment around the world has been low and economic activity is still buoyant.

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 (M) Sdn. Bhd. licensed by Securities Commission Malaysia (CMSL: eCMSL/A0333/2015). 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 (Meranti Fund

September 2019

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

MTC delivered a since inception net return of 41.2% (11.2% p.a.), outperforming the KLCI but underperforming the DJIA, which returned -5.2% (-1.6% p.a.) and 52.9% (14.0% p.a.) respectively.

Benchmark Comparison

Meranti and Founders

In MYR terms, Meranti performed positively at 5.1% (3.7% in USD) for the quarter, similar to Founders which returned 4.0% in USD. Meranti continues to have a 1/3rd allocation to Malaysia, with a 2nd quarter performance of our Malaysian companies appreciating in line with our global companies.

KLCI

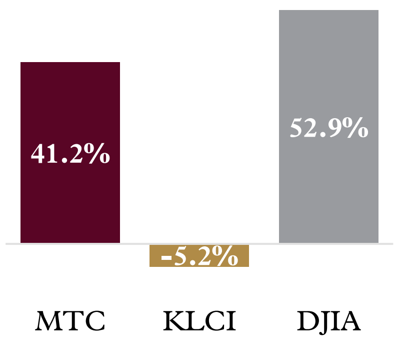
KLCI on the other hand retreated -5.3%, given the uncertainty of the economy since the change in government in 2018. Hopefully, with the newly released 2020 Budget in October, it will create more certainty for the KLCI, though we believe it will take a while. On a positive note since the crash of the stock market post-election 2018, certain companies have appreciated significantly, namely the toll road concession companies, which has appreciated >50% since the government started making fair offers to acquire these told roads. Other sectors that have performed well in Malaysia are the tech hardware sector that is growing given the upcoming 5G and the Internet of Things. The situation of the appointment of the new Prime Minister, Anwar Ibrahim seems certain despite the tabloids and rumour-mills proposing otherwise. Our research indicates that the palm oil sector and property sector both big areas of the economy will continue a prolonged downturn. This should affect the banks, and the market has already reflected this with declines in banking stocks. With high dividend yield in the

NAV

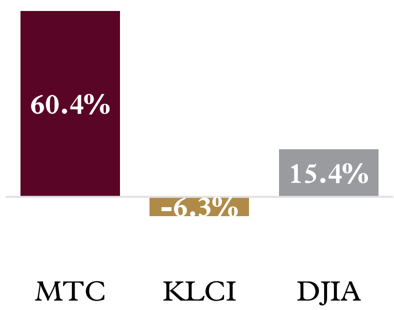
Class S:	141.17

Performance

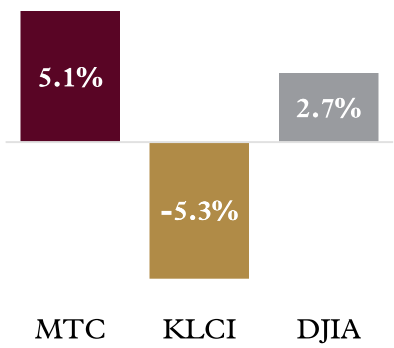
Since Inception (28 Jul 2016)



Year to Date (Sep 2019)



Quarter (Sep 2019)



banking sector it may present an opportunity, particularly in picking the Malaysian bank that is too big to fail, and least exposed to potential loan write-downs.

Portfolio

Over the quarter we have sold of our investment in the construction sector given the huge appreciation in the sector. After the rationalisation on the toll road concessions, and government postponement or cost reduction in the new highway, MRT, KL-Singapore high-speed rail, we feel there is no further upside for construction going forward. Also given the oversupply of residential properties, it is not worth it in our opinion to invest in the property or construction sector. We also are trimming our stake in the Malaysian media sector as prices have appreciated. Despite the tech hardware sector being a positive sector for the economy we feel after the appreciation during the year, it is trading at extremely high multiples compared to similar electronic manufacturers globally. As such we look to aggressively trim our portfolio further in the tech hardware sector depending on the share price in the upcoming quarter.

Outlook

Given the recent run-up in our Malaysian investments we are finding it challenging to find opportunities in Malaysia. As such we may have an increased exposure to Ringgit cash if we can't find and alternative. We are similarly applying, our dividend yield strategy that we have applied for Founders to the Malaysian stocks with meranti if an opportunity presents itself. Re-iterating our outlook from our last commentary, we might potentially see a better return in Founders compared to Meranti in the coming quarters. However, do note Malaysia counters tend to be more volatile compared to our global peers, so with just pure luck our deep value investments in media and tech hardware may shoot up ahead of time landing Meranti with a better return.

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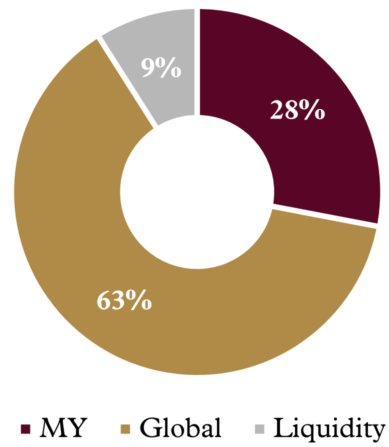
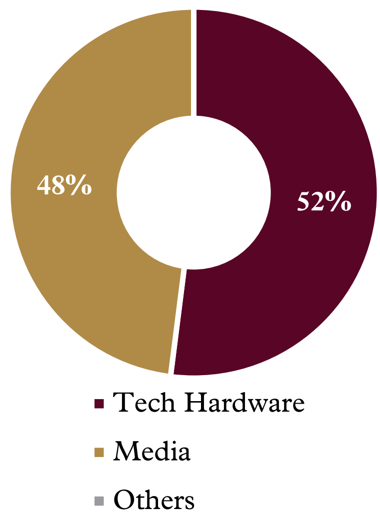
Listing Breakdown



MY Sector Breakdown



MY Value Breakdown