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MTC Asset Management
Founders Fund

Commentary (Founders Fund)

September 2020

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 108.6% (9.3% p.a.), outperforming the KLCI but underperforming the DJIA, which returned -29.5% (-4.2% p.a.) and 120.2% (10.0% p.a.) respectively.

Benchmark & Market Insights

Continuation of the "V-Shape"?

After the remarkable V-Shape recovery in global stock prices in Quarter 2 of 2020, the positive momentum continued with MTC slightly outperforming the DJIA at 8.1% compared to 7.6% for the quarter. We recognised that the continued stock market appreciation reflects the points we discussed in the prior commentary of June 2020, which are: (1) resurgence of retail investors, and (2) FOMO investment professionals. Our view is that even with the stock-market recovering to Feb levels and certain stocks achieving all time highs, the economy on the other hand is far from perfect and not out of the doldrums just yet. With Covid-19 cases flattening in a global context, there are however certain nations whose infectivity rates are increasing rapidly again. Because of this, the travel & leisure sector continues to be lock-downed with no movement inter-country and in many instances inter-state which severely affects local and global trade all around.

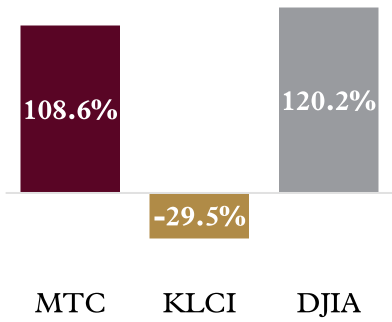
So, is this a "V-Shape", "U", "W", or "Nike Swoosh" recovery? The truth of the matter is, nobody really knows.

NAV

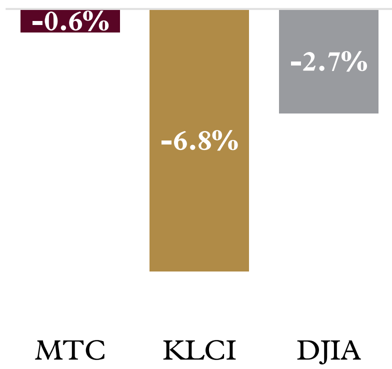
Class S:	208.62

Performance

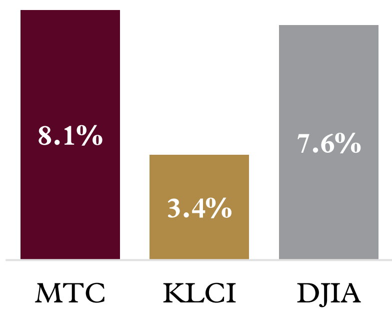
Since Inception (24 Jul 2012)



Year to Date (Sep 2020)



Quarter (Sep 2020)



Benchmark & Market Insights (continued)

Continuation of the "V-Shape"? (continued)

This has been the most talked about topic from an economic conversation in the last few months but we all know that this is such a subjective argument and all people can do is state their opinions and supporting arguments, which ultimately is still an opinion and not the eventual outcome. For us at MTC, what is ultimately more important is that our investors are able to recognise and understand that nobody knows what the true outcome will be, and so then the question is not what is the answer… but instead the question should be what are the actions when things are uncertain. For MTC, our action has been to trim the portfolio considerably keeping the companies that we are certain will thrive and holding some liquidity (cash) to enable us to take advantage when the value emerges.

Portfolio

Geography

Not much has changed in terms of breakdown here with listed companies in the US, AU, and Others still the largest in that order in the portfolio. US is however a smaller portion of the overall portfolio at 49% compared to Quarter 2 of 2020 at 60%. The reason for this is that in Quarter 2 of 2020, the majority of the returns came from US listed companies which increased its overall weightage. However in Quarter 3, AU and Others has finally started to appreciate.

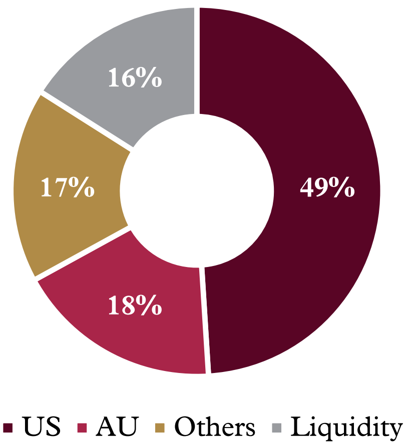
Sector

The sector breakdowns are also similar to Quarter 2 of 2020. Liquidity remains pretty much the same at 16% compared to 17% in the prior quarter. We have pretty much very minimal activity this quarter in that we just kept the exact same stocks in the portfolio. We only made about 10% of change to the portfolio by trimming out the companies we invested in 2019 because of the fact that they are businesses that have drastically changed given Covid-19. Specifically, in retail we have moved away from companies that relied on the pure old school model of having brick-and-mortar stores to companies that are mainly online or who have demonstrated that a hybrid model of half stores and half online will work.

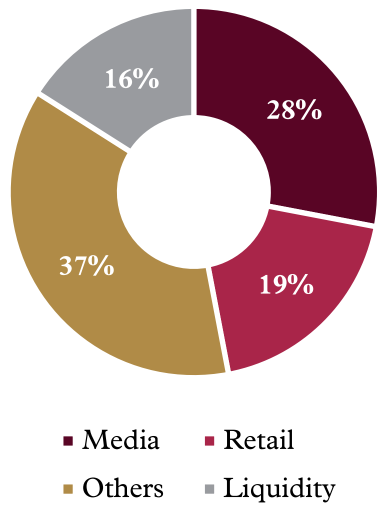
Value

From a Geography and Sector perspective, nothing much has changed in terms of composition but the real change to our portfolio is the valuations. Today our fair value companies consist of 51% of the portfolio which is the highest it has ever been since inception. For comparison purposes, our fair value companies was 34% in the Quarter 2 of 2020. That is the main reason why we are holding 16% liquidity whereas in the past, we were either fully invested or used lever to increase exposure.

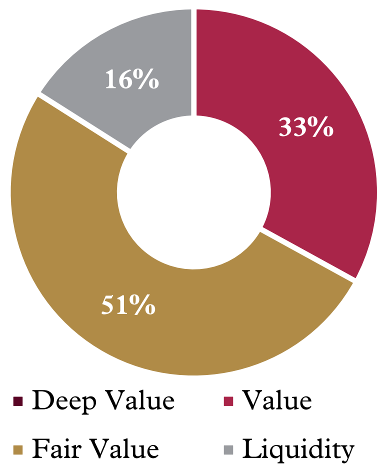
Company Listing Breakdown



Sector Breakdown



Value Breakdown



Portfolio (continued)

Value (continued)

Now despite us having a big portion of fair value companies in our portfolio compared to before where we would quickly trim this portion and move into deep value companies, the current Covid-19 crisis has reminded us of the great saying "It's better to buy/own a great company at a fair price than an average company at a low price". It's a learning we have taken to heart and minds when in 2018 we sold Apple too early, a great company because it was a fair price only for it to be a much higher price today. This is one of the reasons we trailed the DJIA in terms of performance the last two years, in addition to being too conservative by expecting a bubble too early. Our current fair value companies are great companies that will benefit from the continued growth in the next decade. Most of them are embedded in technology, where Covid-19 has exponentially shifted the transition more to an online and digital world. The other companies are domestic players that are growing regionally with the intention of growing globally in the future once it achieves its regional dominance.

Continued In-Action and some Action

Whilst we have always stayed true to our philosophy of being long-term investors, by holding companies for years and in some cases a decade, we did tweak or tinker portions of the portfolio constantly. That resulted in a lack of continued appreciation but also resulted in some losses as our newly added "deep value" companies did not turn out to be as great as we expected it to be. We talked about these learnings in our March 2019 Commentary, and as a result have been pursuing a strategy of more in-action and being extremely patient. Doing nothing in this environment can actually be one of the hardest things to do but can also result in the most profitable action if practiced correctly.

However, the rapid action in March 2020 was much needed given the first time ever global pandemic crisis in the modern era, and after having done the necessary we are now back to mainly in-action. To summarise what we have done:

- Mar 2020: Rapid buying with leverage as prices fell, some in tourism and leisure, a lot in the same companies we already own in the portfolio
- Apr-Jun 2020: Given the unexpected quick rise, taking profit and trimming the portfolio, de-levering, being cautious
- Jul-Sep 2020: Eliminating the riskier "turnaround" and "deep value" plays, adding some new great companies where prices are still low, out of tourism and leisure, maintaining the existing portfolio with a diversified balance, holding a lot more liquidity/cash compared to previous years

And our high-level plan of what we are going to do:

- Oct 2020 and beyond: Do close to nothing from a buying and selling standpoint if the market stays the same or goes up, if it crashes then buy the exact same great companies (around ~10 companies) at lower prices and wait, be disciplined by only adding in 1-2 new companies a year as we want to own these new addition plus the existing companies in the portfolio for 5 years++ and let the momentum run and push it to new heights

Outlook

It's always a challenge to give a general outlook to what is going to happen in the future. The trust of the matter is that no one really has a crystal ball, and now it's even more challenging to predict the future today because of the unprecedented situation we are in globally. This global pandemic and lockdown in this modern era of the stock market is surely something not even Nostradamus could have predicted. The science itself is telling us that Covid-19 is far from over, and the vaccine trials might take longer than what some politicians are saying. Perhaps mid to end of 2021 or later. Hence rather than give a prediction or outlook, we are just going to draw inference from history and apply logic, that the economy is likely going to be worse than 2019, given that half of the world is in lockdown (essentially close to more than half of 2020 output will have been frozen). Given that the market runs based on emotions, just like what we experienced in March with a huge crash where for Quarter 1 of 2020 the DJIA declined -23.2% and MTC correspondingly -32.7%, that it can likely happen again in the short term and near future. Hence, we have to be aware of the environment and embrace it as it comes. What is more important is to remember what happened after, in that the people started going out again, becoming more positive and correspondingly the markets recovered. Given that we have adjusted the portfolio, where we are now holding the best of the best of companies, the next decade we are going to see a great recovery despite some volatility for the next year. Comfort is studying the past crises of 2008, and even 2001, that correspondingly a bull run always follows.

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 2020

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

Meranti delivered a since inception net return of 20.1% (4.4% p.a.), underperforming Founders but outperforming the KLCI, which returned 54.0% (10.7% p.a.) and -9.9% (-2.4% p.a.) respectively.

Benchmark Comparison

Meranti and Founders

In MYR terms, Meranti performed negatively at -16.4% (-17.8% in USD) YTD, significantly worse than Founders which returned 1.1% (-0.6% in USD). However, for Quarter 3, 2020, Meranti performed similar to Founders at 4.8% and 4.9% respectively.

The YTD underperformance came mainly from Quarter 1, 2020 where our Malaysian specific investments in Financial and Travel & Leisure collapsed and have not necessarily recovered unlike our other Malaysian sectors. Our overall performance for Quarter 2 and 3, benefited from the global portion of the portfolio alongside our Malaysian investment in Retail which have somewhat recovered close to February prices.

Portfolio

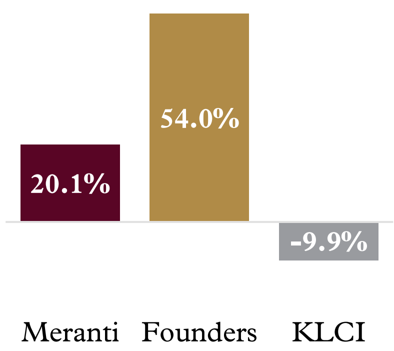
The Malaysian portfolio has changed significantly since June 2020, with the addition of more Malaysian blue-chip companies in other sectors that did not benefit from the post Covid-19 rally. Our learnings from the past is that its very challenging to find companies in Malaysia that have that similar value and growth characteristics compared to our global counterparts. Hence, there were more misses on the Malaysian side of the portfolio, with the most unfortunate being the financial and travel & leisure sector.

NAV

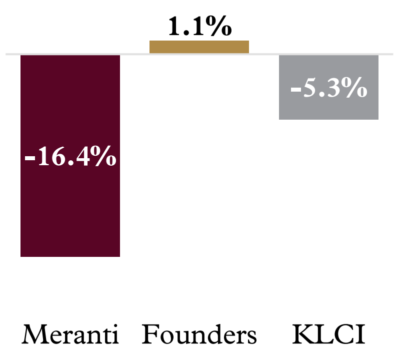
Class S: 120.13

Performance

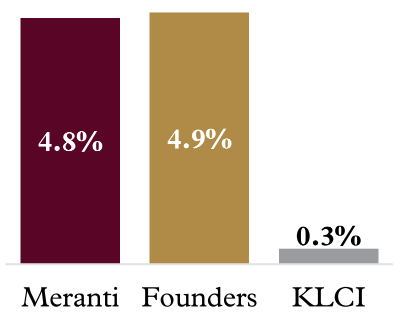
Since Inception (28 Jul 2016)



Year to Date (Sep 2020)



Quarter (Sep 2020)



Portfolio (continued)

Our revised portfolio strategy for Malaysia, is to be more diversified (~4-6 companies). This in addition to our global portion which is a mimic of Founders with ~10 companies which makes Meranti more diversified with ~14-16 companies. As long as our Malaysian portfolio beats the index benchmark KLCI and fixed deposit returns, we should be satisfied and trust that the global portion will drive the performance going forward. We should not hope like we did in the past that we could necessarily find companies that had good risk return profiles and returns for Malaysia as we normally find in other developed nations.

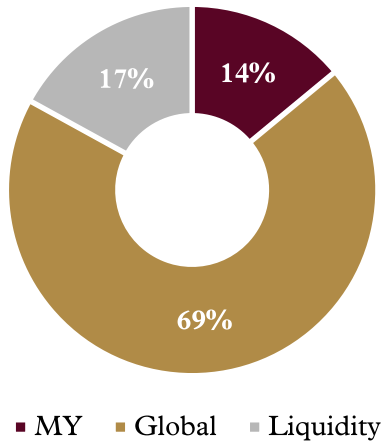
Market Insights

Given Meranti has a strong allocation to Malaysia, we should comment on the best performing sub-sector, gloves. In the past we had invested in gloves but did not benefit from the appreciation of 10-20x this year, as our view is that the sector is overvalued. Whilst many first-time investor have become rich investing ONLY in gloves, others who were more diversified and invested in different sectors would have seen their portfolios dropped quite badly. For context, the representative of the Malaysia market, KLCI still performed -5.3% for the year, despite the huge glove rally, and with Top Glove being a component stock. To emphasize this point, favoured blue chips CIMB, Genting and Air Asia are down -39%, -47% and -67% respectively for the year. So therefore on a lighter note, do not get too excited when you hear your friends or fund managers tell you that they made 100%++ on gloves, they are just not telling you about their losses elsewhere.

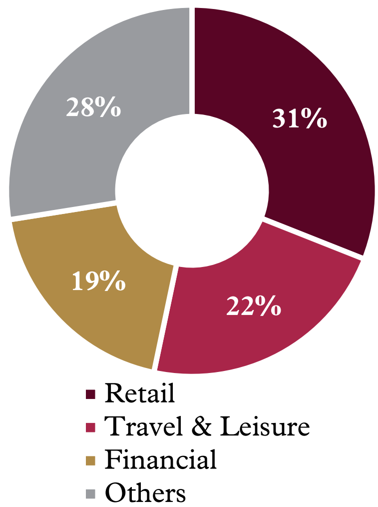
Outlook

Similar to Founders, we have to be prepared for another market setback. Whilst the Bursa KLCI does not look too bad having done -5.3% for the year, much of the performance can be attributed to glove companies that basically supported the index, otherwise the general KLCI performance would have been much lower. And now with companies such as MahSing, a property developer and many others becoming new entrants into the glove industry, average selling prices will come down with newly injected supply. This will eventually mean that most established glove makers or the Big 4 makers can no longer obtain the exact same economic profits as before, which could result in correction of their valuations. Whilst we are not in gloves, we must congratulate those who did make the returns from being convicted to the glove sector. We at MTC however are sticking to our portfolio without it. Our long-term outlook should be buoyed based on our global investments, and we just have to wait a little longer for our Malaysian Travel & Leisure and Financial sector to recover.

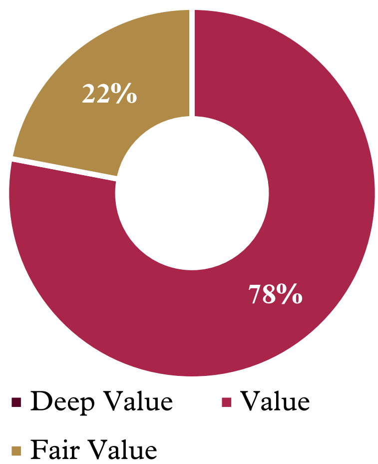
Listing Breakdown



MY Sector Breakdown



MY Value Breakdown



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