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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

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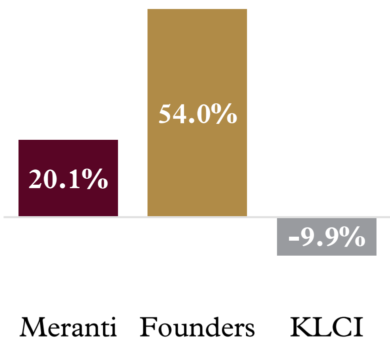
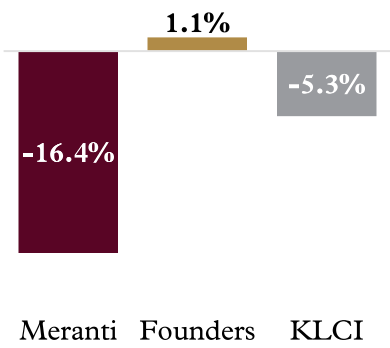
Performance

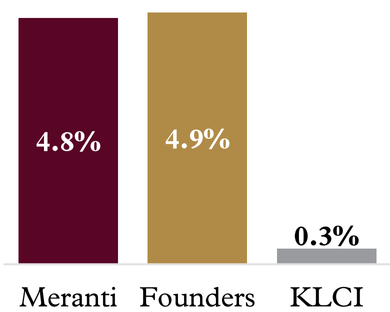
Since Inception (28 Jul 2016)



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.

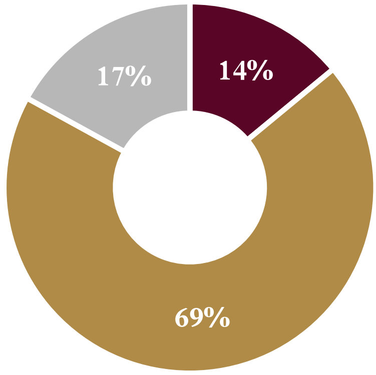
Market Insights

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.

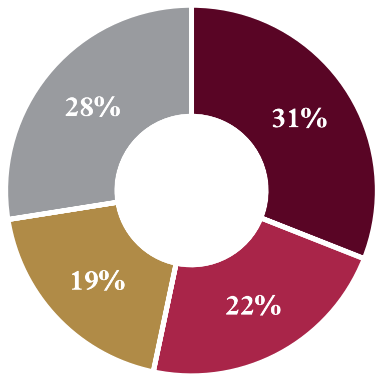
Outlook

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.

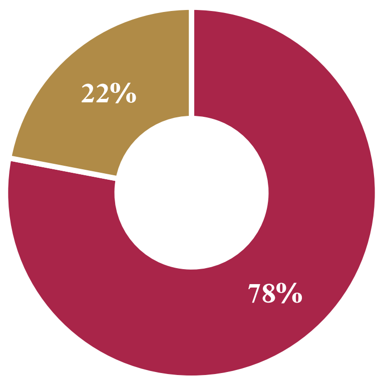
Listing Breakdown



MY Sector Breakdown



MY Value Breakdown



Disclaimer

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