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Commentary (Founders Fund)

March 2021

Written by Devan Linus, Chief Investment Officer

Objective

MTC Founders Fund ("Founders", "MTC" or the "Fund") aims to achieve a net return of 8-12% 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 other developed countries and employs a value driven, bottom-up investment approach. MTC's benchmark is the Straits Times Index ("STI") and the MSCI All Country World Index ("MSCI ACWI"). The STI was chosen as a benchmark as MTC's investors are predominantly from Southeast Asia and benchmark themselves to Singapore. MSCI ACWI is the second benchmark as it was designed to best represent broad global equity-market performance. Performance is reported in USD.

Performance & Benchmark Comparison

Founders, STI & MSCI ACWI

MTC delivered a since inception net return of 159.4% (11.5% p.a.), outperforming the STI but underperforming the MSCI ACWI, which returned -0.9% (-0.1% p.a.) and 121.7% (9.5% p.a.) respectively.

Since inception, both MTC and the MSCI ACWI (representation of global) has outperformed the STI by a whopping 11.6% p.a. and 9.6% p.a. respectively. Both MTC and MSCI ACWI trail the US Dow performance slightly by low single digits, but that owes to the fact that US was the leading country for innovation in the last decade. On the opposite end of the spectrum a country like Singapore which had a favourable theme of becoming the Switzerland of the East, generated -0.1% p.a. for almost a decade. Hence, it is our continued believe to be globally diversified, as we cannot predict always which nations would prosper and also the black swan events that may occur in specific nations or regions. For example, in the 2008 Global Financial Crisis the US was hit more than some other developed nations.

Portfolio

Geography / Company Listing Breakdown

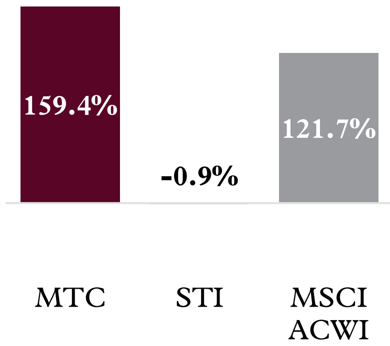
Having said the above points to be globally invested, we still favour US as the focus, hence 68% breakdown in US listed equities.

NAV

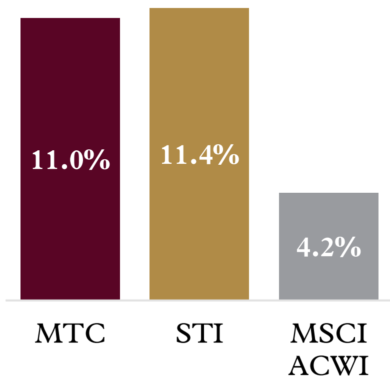
Class S: 259.35

Performance

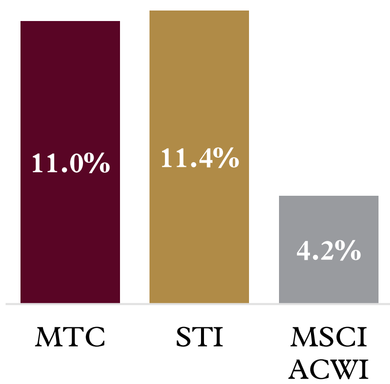
Since Inception (24 Jul 2012)



Year to Date (Mar 2021)



Quarter (Mar 2021)



Devan Linus, Chief Investment Officer

Portfolio (continued)

Geography / Company Listing Breakdown (continued)

Having commented many times prior why we favour the US, for this commentary we would like to give more context on our view of Australia. Australia is our second largest geographical allocation at 19%. It is often an overlooked nation in terms of breeding innovative global companies. Historically, investment write-ups tend to focus on companies in the developed North if not emerging economies close to the equator like Brazil and Indonesia. This alongside our experience of having studied, worked, and lived in Australia enables us to uncover more undervalued gems to pick besides our typical US counterparts.

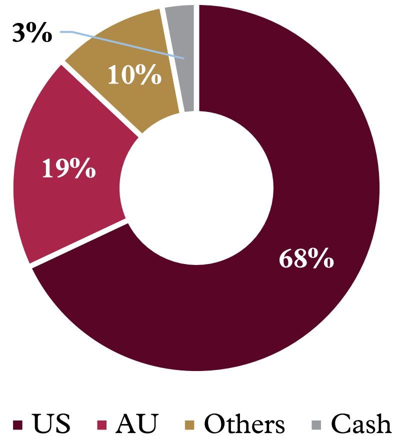
For example, Australia has produced many leading companies and industries that have started to expand into Asia, such as Harvey Norman for retail in Southeast Asia, companies in dairy and meat for China, and Blackmores for supplements in both China and Southeast Asia. Australia is also known for its mining companies. As such we have identified companies in some industries outside mining to invest in, that we feel can continue its growth regionally and hopefully one day globally.

As for the other geographies we try to stick to developed nations, as there is less political risk with changing governments and regulation. Also developed nations tend to be a bigger market in terms of dollars and have better support in terms of bilateral nations in maintaining their company's presence globally.

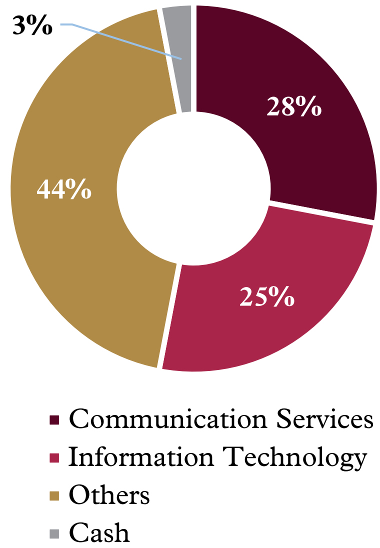
Sector Breakdown

We have stuck to our investments in Communication Services (formerly known as Media, 28% of the portfolio) since late 2018. We have also stuck to our investments in Information Technology (25% of the portfolio) since 2016, which mainly consist of semiconductor companies and hardware manufacturing. Covid-19 has sped up digitisation which would benefit the above sectors immensely. However, sticking to these companies does become a challenge, as recent appreciation in stock prices tends to lead to arguments of overvaluation. This is where we need to be very discerning on its growth prospects, where if it is likely to continue growing at a double-digit rates there is argument to hold the stock. However, being value investors, we would never invest in any companies at whatever price, as the purpose of our portfolio is that of 'capital protection', and not just pure return maximisation. The downside risks assumed is substantial, especially if we were dead wrong on a company. It is easy to be dead wrong with tech because these are all new companies that nobody has enough years to evaluate its sustainability. As for the other industries we are quite diversified between retail, food & beverages and more traditional sectors. We believe traditional companies can also benefit from digitisation and it is proven with the success of auto manufacturers and retailers during the pandemic in 2020.

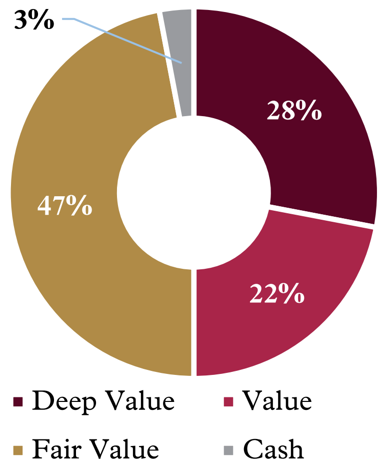
Company Listing Breakdown



Sector Breakdown



Value Breakdown



Market Insights & Outlook

2020 was an interesting year especially on the investment front, as it proved once again that economist and stock market speculators can never get it right and it is a fool's game to time the market. Most investment professionals thought Covid-19 and the ensuing lockdowns would create a recession like the US Great Depression in the 1930s, or the Asian Financial Crisis in 1997. Hence, the crash in March 2020 of almost 30% in almost all markets globally. What nobody predicted and even us, is that the governments globally decided to pump money into the economy at a speed like never before, either increasing their debt, or taking it out from their nation's sovereign funds. The ramifications for the future could be extremely negative if the specific countries can't grow its economy to replenish the pot, but again nobody truly knows which country would end up badly. Hence, why the concept of being globally invested works as it minimises the country specific risk. Secondly, our strategy of also picking companies that have thriving operations globally and regionally creates further risk minimisation. Lastly, we must always be invested and not time the market, and this owes to our success since inception and specifically last year in 2020 where we did not miss out on the rally.

However, going forward we have to be extremely cautious as the stock market rally is not solely because of the continued production of industry and businesses, but also the rampant speculation from people working at home and having excess cash to gamble. Just in the first quarter alone we saw how internet bloggers rallied individual investors to buy up the shares of a profit losing company called GameStop. Despite the stock rallying 1,600% in Jan 2021, it also subsequently crashed 65% from its peak in 27 Jan 2021 to calculation date 31 Mar 2021. One must always remember that only the initial promoters get to make the big bucks during these stock rallies. Another important point, if you had substantial monies to invest, you would not be able to buy much shares prior to the run-up due to liquidity issues of the said stock. So, you end up getting into this psychological trap of fear-of-missing out (FOMO) and end up buying when the liquidity is there (but always this only occurs after it has rallied and the share price is inflated). Hence you might be one of the unlucky ones suffering the 65% crash.

Anyway, we ramble on the above to give context on our Outlook. The reality is, it honestly is very hard to predict the future, just like the points in the first para on this chapter. Our summary is that the outlook for us is positive given our strategy and the comfort we have in the industries that we are in and have described. Covid-19 despite being something that we dislike and hate, has helped us screen out companies and industries that can thrive and cannot. For us MTC, we are even more confidant now then last year in terms of maintaining that 8-12% p.a. return into the decade. Not only are we at the start of the next recovery cycle, but we have also narrowed down our company selection to those that would highly likely benefit from this digitisation future.

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.