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Commentary (Founders Fund)

March 2024

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

MTC delivered a since inception net return of 139.1% (7.7% p.a.), significantly outperforming the STI but underperformed the MSCI ACWI, which returned 0.6% (0.1% p.a.) and 158.0% (8.4% p.a.) respectively.

Benchmark Comparison

Founders, STI & MSCI ACWI

We performed positively for the quarter but have underperformed the MSCI ACWI. The primary reason for the underperformance is our heavy focus on China and Studios & Streaming, both of which experienced declines during the quarter. However, Meta and our semiconductor stocks have appreciated benefitting from the AI wave. Its appreciation, though notable, did not surpass the decline of China, and Studios & Streaming by a significant margin, resulting in us ending the quarter with just 3% growth.

Portfolio

Changes to the Portfolio

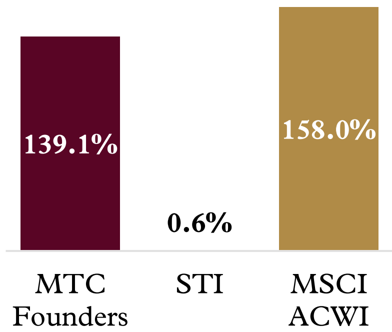
For the quarter, we made slight adjustments to our portfolio allocation, primarily increasing our investments in existing China and Studios & Streaming stocks listed in the US. Our confidence in China has also led us to add some Chinese financials, offering dividend yields approximating 8% p.a. based on historical DPS. Additionally, we trimmed some value stocks that had already appreciated, reallocating those funds back to China and Studios & Streaming. As a result of these actions, our leverage decreased to 23%, down from 28% last quarter and 34% in Q1 of last year.

NAV

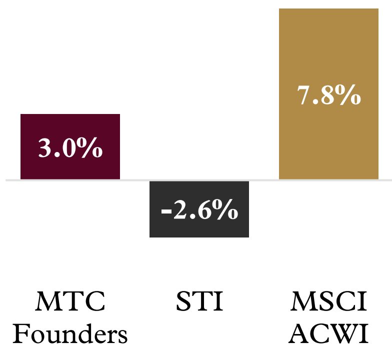
Class S:	239.09

Performance

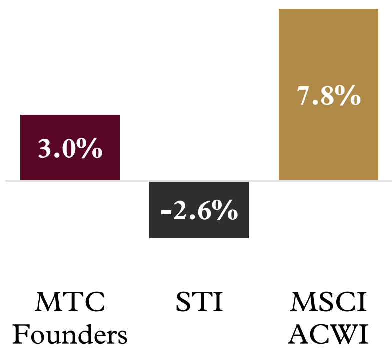
Since Inception (24 Jul 2012)



Year to Date (Dec 2023)



Quarter (Mar 2024)



Other Comments

Wonderful Businesses at Cheap Prices vs Wonderful Businesses at High Prices

Our strategy has consistently focused on buying what we call Wonderful Businesses at Cheap Prices (“WBCP"). However, we acknowledge that we haven’t excelled or mastered the art of buying Wonderful Businesses at High Prices (“WBHP") or trading at higher valuations, which is why we missed opportunities such as Tesla and the current market favourite, Nvidia. Over the past five years, the market has favoured companies that fit into the latter category — exceptional businesses trading at high prices. Take Nvidia, for example. In 2020, it was already highly regarded, trading at over 40x earnings, thanks to its leading position in crypto mining and gaming chips. Back then, Nvidia could be considered a "wonderful business at high prices" or WBHP. However, as Nvidia's chips became crucial for AI applications, its status shifted to that of a "more wonderful" business. This transition propelled its stock price even higher, with Nvidia now trading at over 70x earnings in the past year, resulting in extraordinary returns exceeding 200%.

An alternative to the above is executing our strategy of buying companies like Meta, WBCP during periods of negative news, when the stock price reflected a “wonderful” business trading at approximately 12x earnings in 2022. As the negative sentiment dissipated and Meta's earnings rebounded, its valuation increased, and it is currently trading at over 20x earnings in the past year. This represents another avenue to achieve returns exceeding 200% within a year.

However, both strategies entail their own set of risks and challenges. The process of determining whether an asset is cheap, fair, or expensive is largely an objective assessment, which is why the financial industry has developed various tools such as ratios, accounting methods, models, etc. Nevertheless, there remains some subjectivity in assessing value. For instance, in the case of Meta, our subjective adjusted PE was approximately 8x in 2022, as opposed to the simple historical PE of 12x. Additionally, identifying what constitutes a "wonderful" business is primarily a subjective judgment. Factors such as the potential for market expansion, the longevity of a product or service, and governmental support contribute to this assessment. Different individuals, depending on their research capabilities, time spent, level of intelligence, or experience, may arrive at different conclusions regarding what qualifies as wonderful. This inherent subjectivity underscores the challenge of investing and highlights why it's considered a zero-sum game profession, where one investor's loss may translate into another's gain.

Extending these comments further, in the realm of WBCP, for every success story like Meta, there's a potential dud exemplified by Intel. Once regarded as a "wonderful" business, Intel now faces formidable challenges as competitors like AMD produce chips of similar quality, eroding its market share. Moreover, the emergence of competitors such as TSMC, ARM, and Nvidia adds further pressure. Similarly, in the WBHP category, for every company like Nvidia, there's a counterpart like General Electric (GE). Once a market leader across diverse sectors including jet engines, TV networks, and power generation, GE has experienced a decline in its market dominance and subsequent stock price depreciation over the years. Another contemporary example within the WBHP category could be Tesla. Initially hailed as a "wonderful” business due to its technological leadership and brand value in electric vehicle (EV) automobiles, Tesla now contends with strong competition from companies like BYD. Moreover, recent revelations regarding the actual demand for EVs have contributed to Tesla's decline of 30% year-to-date.

Other Comments (continued)

Wonderful Businesses at Cheap Prices vs Wonderful Businesses at High Prices (continued)

In summary, we will continue to operate and excel in the WBCP category, as we believe that by exercising prudent judgment and paying a low price for stocks or businesses, we can mitigate potential losses if our subjective assessments proves to be incorrect, as some inevitably be the case. Over the years, we've dedicated ourselves to learning from our mistakes and refining our research skills to accurately identify businesses that are sustainably "wonderful." With increased confidence in our assessments, we're prepared to maintain investments in these businesses for extended periods, even as their prices appreciate to fair prices.

Market Insights & Outlook

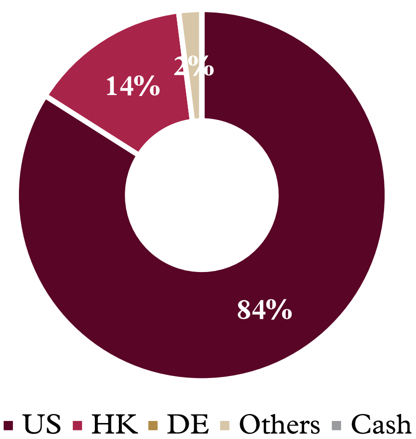
Our portfolio remains largely unchanged since December 2023, with significant investments concentrated in key themes such as Internet Services, Semiconductors, Studios & Streaming and China Tech. For a refresher or further detailed overview of our insights, we encourage you to re-read the 'December 2023 Commentary' or previous commentaries.

We remain optimistic about the potential for explosive upside in our portfolio, particularly as two of our existing themes, namely (1) China Tech and (2) Studios & Streaming have actually declined in 2024 (i.e. become cheaper), and share prices are at five year lows with <10x cash flows multiples. Despite their current challenges, we believe these stocks represent WBCP a.k.a. "wonderful" businesses at cheap prices" and anticipate that the market will eventually recognise their value, potentially leading to triple-digit percentage returns. In the meantime, we continue to benefit from investments in Meta, other Internet Services companies, and semiconductors, which are poised to capitalize on the AI wave. Additionally, for our 35% fair value companies highlighted earlier, we emphasize the importance of holding onto them for the long term if they prove to be truly exceptional.

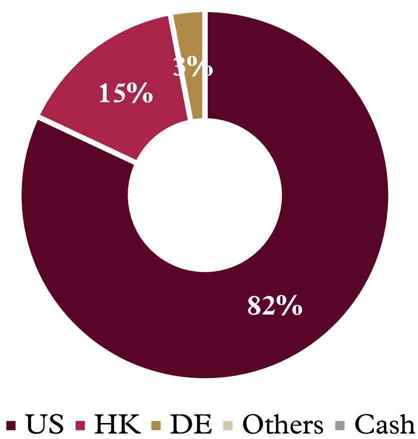
Charts 1: Company Listing and Sector Breakdown

Company Listing Breakdown

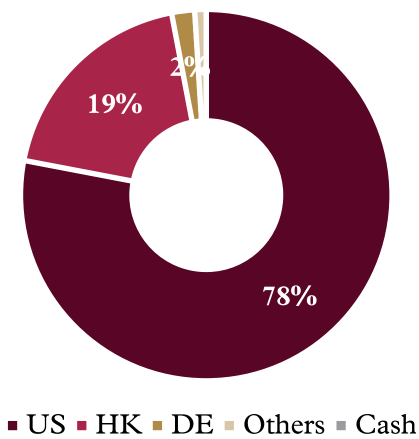
Prior Year (Mar 2023)



Prior Quarter (Dec 2023)



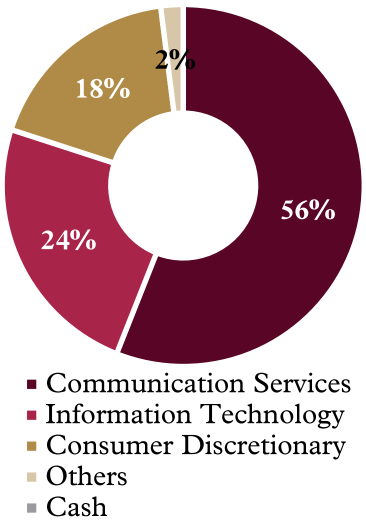
Current Quarter (Mar 2024)



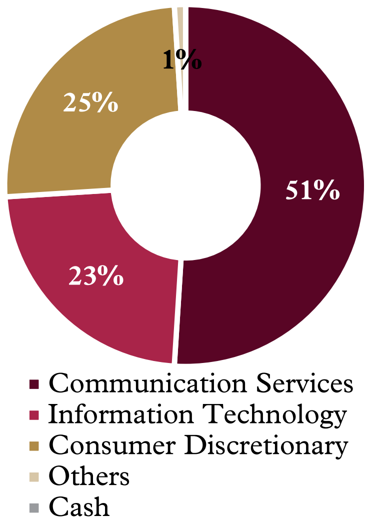
For Q1 2024, US allocation reduced to 78%, as we trimmed stocks across the industry. China allocation increased to 19% as we added to our existing investments as its share prices dipped in the quarter.

Sector Breakdown (GICS)

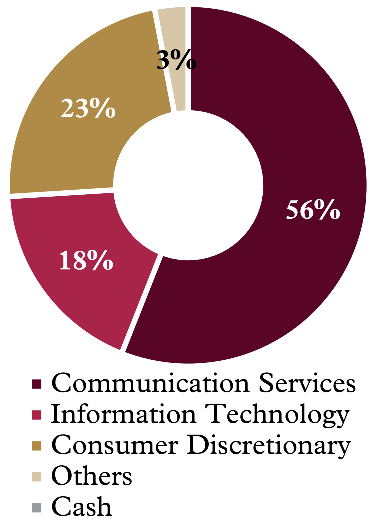
Prior Year (Mar 2023)



Prior Quarter (Dec 2023)



Current Quarter (Mar 2024)

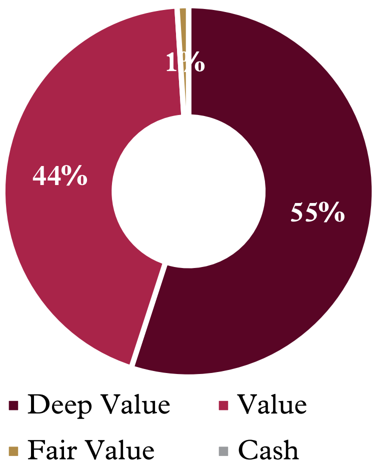


Communication Services increased to 56% from 51% in the prior quarter, as we trimmed value stocks across all other sectors in the quarter, accompanied by appreciation of certain Communication stocks.

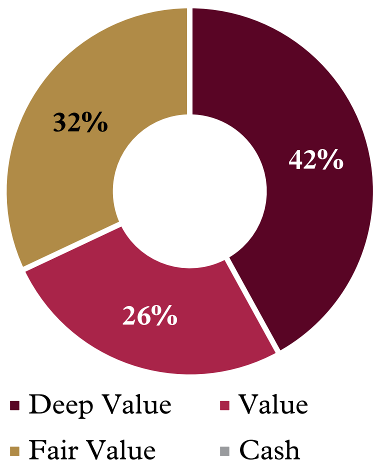
Charts 2: Value and Leverage Breakdown

Value Breakdown

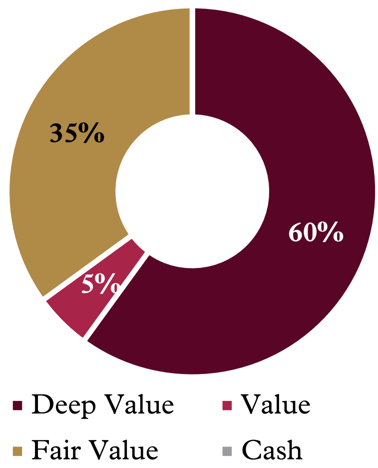
Prior Year (Mar 2023)



Prior Quarter (Dec 2023)



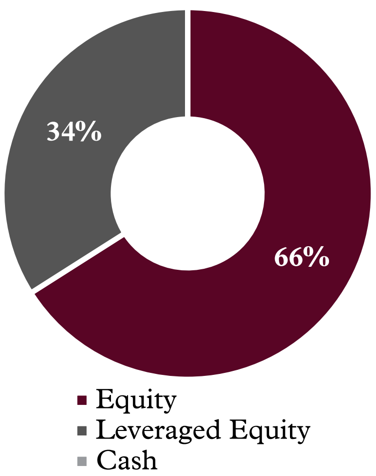
Current Quarter (Mar 2024)



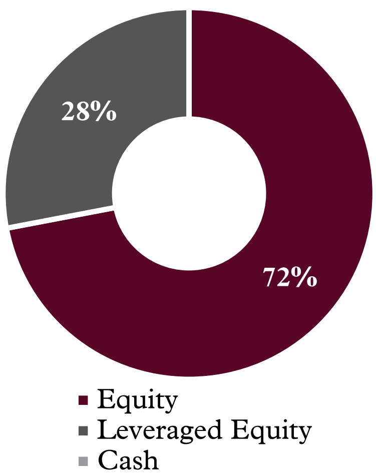
For Q1 2024, Value stocks reduced significantly from 26% to 5%, as we trimmed Value stocks across the sectors, in favour of buying deep value stocks in China geography and Communication Services in US.

Portfolio Leverage Breakdown

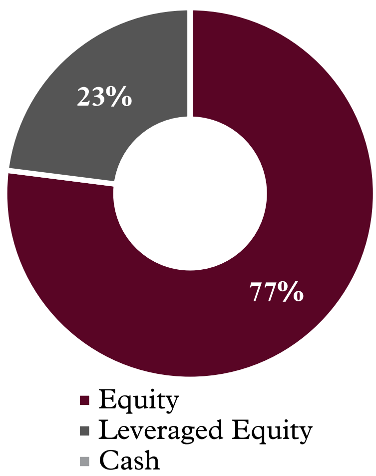
Prior Year (Mar 2023)



Prior Quarter (Dec 2023)



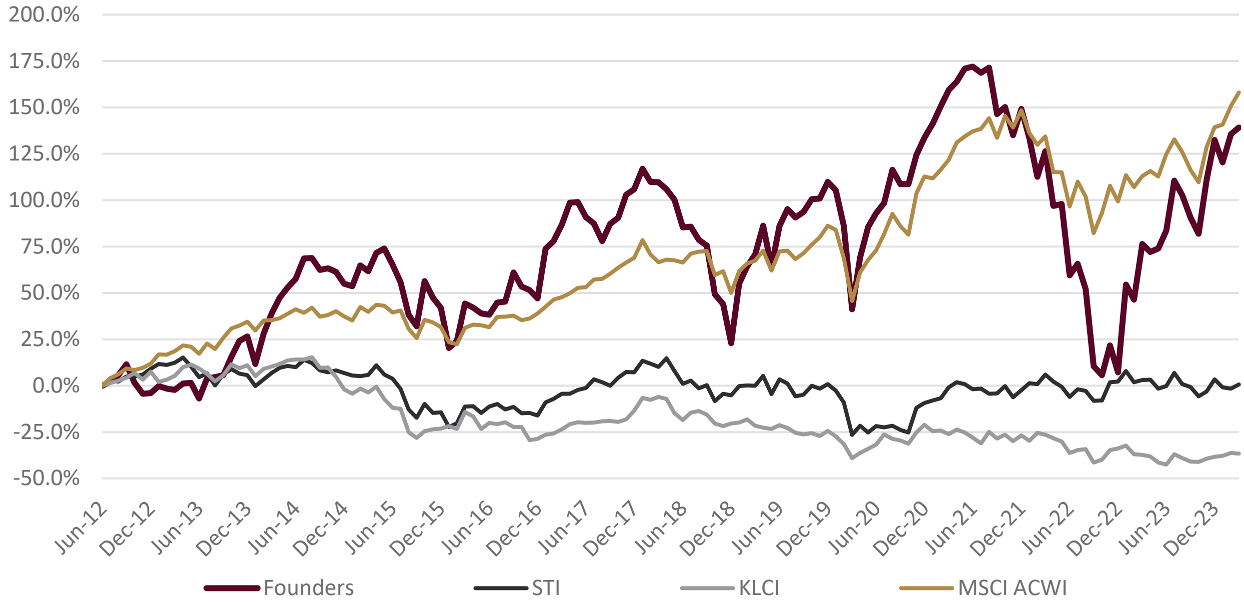
Current Quarter (Mar 2024)



Leverage, continued to decline to 23% as we trimmed more than we bought for the quarter.

Charts 3: Performance

Since Inception (Jul 2012 – Mar 2024), net of fees, USD



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.

