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MTC Asset Management
Founders Fund

Commentary (Founders Fund)

September 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 164.8% (8.3% p.a.), significantly outperforming the STI but underperformed the MSCI ACWI, which returned 17.5% (1.3% p.a.) and 180.5% (8.8% p.a.) respectively.

Benchmark Comparison

Founders, STI & MSCI ACWI

After a flat performance in the first half of the year, our patience was finally rewarded in Q3 2024, with a 15.9% appreciation, outpacing both the STI and MSCI ACWI for the quarter. Our gains mainly stemmed from the appreciation of our investments in China through listed companies in Hong Kong. Coincidentally, STI also appreciated this quarter, tracking improvements in broader Asian markets and China. While we are still trailing the MSCI ACWI on a YTD basis, with a performance of 14.1% vs 17.2%, if China and our other underperformers continue to rally, we may be able to catch up. Regardless, a cumulative return of 164.8% and an 8.3% p.a. since inception is still a respectable achievement. Patience in allowing our deep value stocks to appreciate further will help elevate our annualised returns.

Other Comments

Patience & Our Deep Value in China

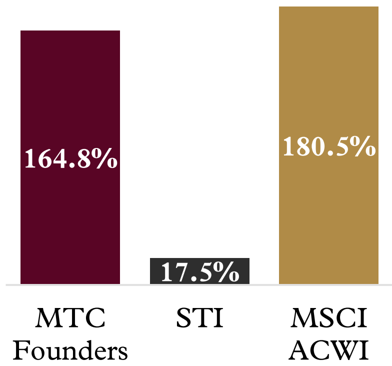
In our last commentary, we had a section titled 'Wonderful Businesses at Cheap Prices & Patience' which emphasised that not every deep value stock appreciates immediately after purchase. Some may take years, but when they do, the appreciation can be substantial. It is worth a re-read.

NAV

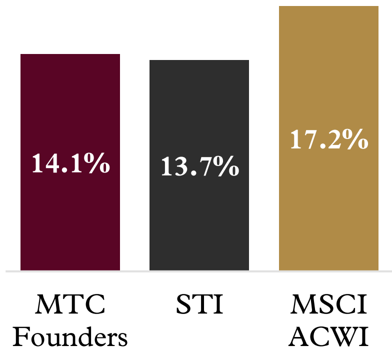
Class S:	264.78

Performance

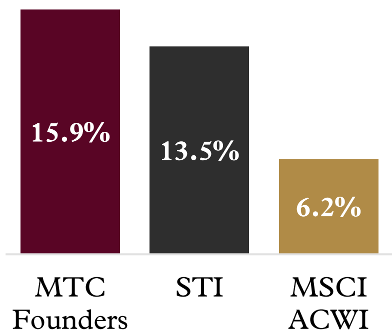
Since Inception (24 Jul 2012)



Year to Date (Sep 2024)



Quarter (Sep 2024)



Other Comments (continued)

Patience & Our Deep Value in China (continued)

In late 2021, we begin investing in China following President Xi Jinping's crackdown on the profitability of private tech companies, particularly Alibaba, to redistribute wealth toward the state. While Chinese tech stocks became increasingly attractive, the property sector faced a meltdown, with ghost towns and unsold developments leading to the collapse of major property firms, such as the Evergrande Group. The combination of declining property prices, US-China trade wars, and capital flight led to an economic slowdown. Foreign direct investments (FDIs) shifted to other nations, notably India, benefiting from mutual fund and ETF allocations at China's expense. Chinese securities listed in the US, Hong Kong, and China faced heavy selling. In 2022, we made substantial investments in selected Chinese companies but unfortunately, these stocks continued to decline by double digits after our initial purchase, contributing to our weak performance that year. We doubled down on these investments throughout 2023 and early 2024, lowering our average purchase price.

After 2.5 years of negative returns, our patience was rewarded in September, with these Chinese stocks appreciating nearly 50% on average, finally turning profitable on our purchase price. This outcome demonstrates the patience we advocated last quarter, and we are fortunate to now see this strategy paying off.

Our Views on China Today & Particularly Our Chinese Investments

It's important to note that our strategy is not macro trading or speculative investing. Different strategies may have varying views depending on timelines and risk tolerance. For instance, a trader might buy Chinese stocks anticipating stimulus, but if the government fails to act after a key policy meeting, the trader should cut losses. Traders often hedge their views—being bullish on China while shorting European markets like Germany—to generate positive returns despite inevitable missteps.

In contrast, our investment thesis rests on the belief that over the next decade, despite trade tensions with the US, China will remain the world's second-largest economy. It is the most innovative country outside of the US, with companies such as BYD, TikTok, and Alipay leading the way. Additionally, China has a relatively young and industrious workforce, unlike Japan, which faces an aging population crisis. Even if China does not maintain its No. 2 position, it will likely remain among the top five economies globally, with the Eurozone stagnant and only India emerging as a significant competitor from the BRIC group.

We therefore selected profitable Chinese companies trading at low valuations (P/E ratios of 5-10x). Despite the recent appreciation in their share prices, these businesses remain attractively valued in the second-largest economy in the world. For context, the Magnificent Seven tech stocks in the US are trading at P/E multiples above 30x.

However, the recent rally in our Chinese stocks had little to do with fundamentals. Instead, it was driven by market sentiment regarding potential stimulus. If the Chinese government fails to meet market expectations, stock prices could correct, as we saw in early October. Despite this risk, we intend to hold these positions as long as their fundamentals remain intact. Our strategy focuses on acquiring wonderful businesses at cheap prices, not on short-term macro or event-driven trades.

Other Comments (continued)

The One-Day August Crash

On 5 Aug 2024, the Nikkei plummeted 12.4% in a single day, and several DJI component stocks also opened in pre-market 10% down. Following the crash, we reminded our investors and readers in an email, “We cannot predict what will happen in the next week or month, but we anticipate continued volatility…” but also “Don’t Panic”. As it turned out, volatility did follow, but on the upside as markets rebounded with many global indices appreciating at different points during the quarter. US tech giants, Singaporean blue chips, and broader Chinese markets all recovered. The lesson is simple; don’t panic. Those who sold during the crash missed out on the subsequent recovery. Even in the event of prolonged downturns, quality companies tend to recover over time - similar to travel stocks post-COVID or semiconductor stocks after the 2022 oversupply correction.

Portfolio

Updates and a New Theme

We continue to hold our core investments form the previous quarter, with some performance updates outlined below:

- Meta & Other US Big Tech – After the August crash, these stocks have reached new highs, though they delivered only single digit returns for us in Q3 2024. Fundamentals remain strong, with these companies growing their revenue and benefitting from the AI wave.
- Studios & Streaming – Although the sub-sector remains challenged by declining revenue, turnaround efforts are showing early signs of profitability in streaming. Returns were low single digits for the quarter.
- China Blue Chips – As mentioned above, our Chinese investments has delivered over ~50% returns this quarter. China now constitutes 25% of our portfolio, up from 19% last quarter.
- Semiconductors (Non-Nvidia AI Stocks) – Our stocks declined by double digits due to company specific challenges and concerns over whether significant capex spending on expensive GPUs will translate into broad AI adoption.

While the excitement around China and lower interest rates dominated headlines, the apparel retail sector faced headwinds. Companies like Nike, LVMH, Kering, and VF Corp all experienced significant share price declines. We had already invested in an apparel retail company last year, and this quarter, we added a few more companies from the sector. While this forms a more substantial grouping in our portfolio, it remains smaller than the other categories mentioned above. New categorisation:

- Apparel Retail – While it wasn’t our intention to create an apparel retail theme, we saw compelling value in individual companies within the industry, leading to this new grouping in our portfolio.

Market Insights & Outlook

The third quarter of 2024 brought a mix of volatility, sentiment-driven recoveries, and selective sector rallies. Our patience in holding deep-value Chinese investments finally paid off with a significant rebound, delivering nearly 50% gains across our selected holdings. However, this rally was fuelled more by market sentiment around potential Chinese stimulus than by fundamental shifts in the economy. While the recovery in China was encouraging, it highlighted the need to focus on business fundamentals rather than short-term market movements.

Another important factor that should constantly be in our ammunition is the evolving role of patience in portfolio management. Patience remains at the core of our strategy. In recent years, we witnessed how sectors like travel and semiconductors initially underperformed during crises but eventually rebounded once market conditions normalised. The same logic applies to our Chinese investments. Despite two years of underperformance, they have started to recover, validating our belief that undervalued, fundamentally sound businesses will appreciate over time.

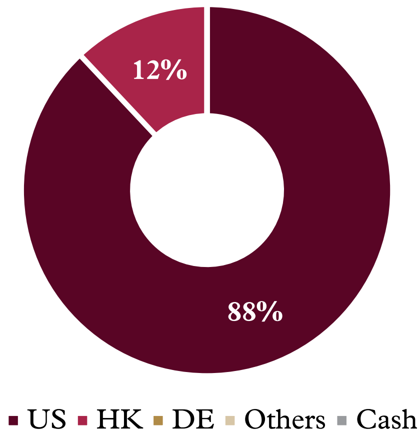
Looking ahead, we remain cautious but optimistic. Although we don't anticipate smooth sailing, the fundamental strength of our portfolio—particularly our deep-value holdings—positions us well to navigate potential volatility. China, now 25% of our portfolio, is a key area of focus. While short-term volatility may persist, we are confident that China will remain among the world's top economies and a hub of innovation in the years to come. We also recognise the risks that lie ahead—ranging from the sustainability of the AI-driven rally to the uncertain economic outlook for China. However, our approach remains grounded in discipline: identifying wonderful businesses at cheap prices and holding them as long as their fundamentals remain intact.

In an environment of heightened volatility, staying focused on fundamentals is crucial. Markets may gyrate, but as long as our investments are anchored in sound businesses, we are confident that time will work in our favour.

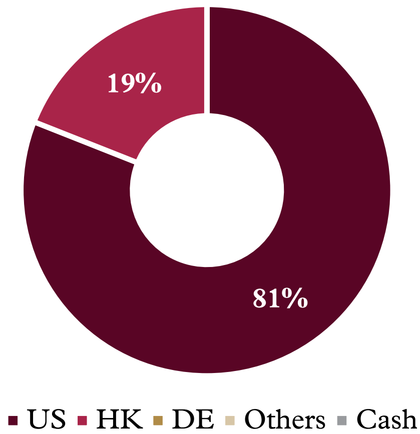
Charts 1: Company Listing and Sector Breakdown

Company Listing Breakdown

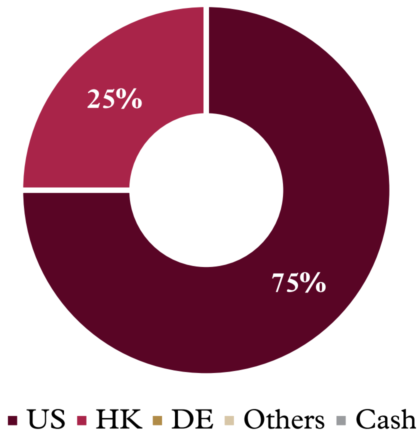
Prior Year (Sep 2023)



Prior Quarter (Jun 2024)



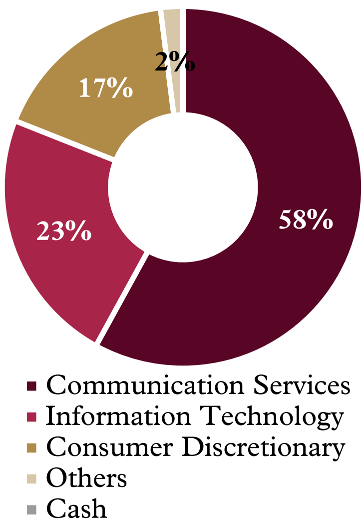
Current Quarter (Sep 2024)



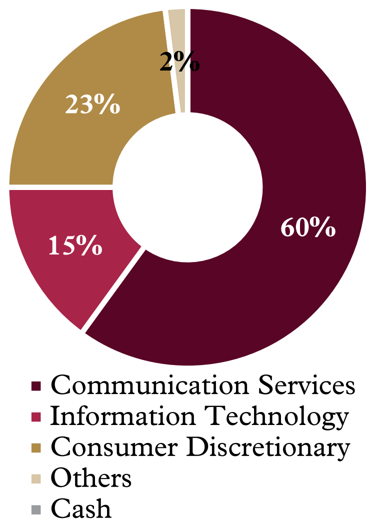
For Q3 2024, China allocation increased to 25%, as its substantial appreciation resulted in it becoming a larger share of the portfolio.

Sector Breakdown (GICS)

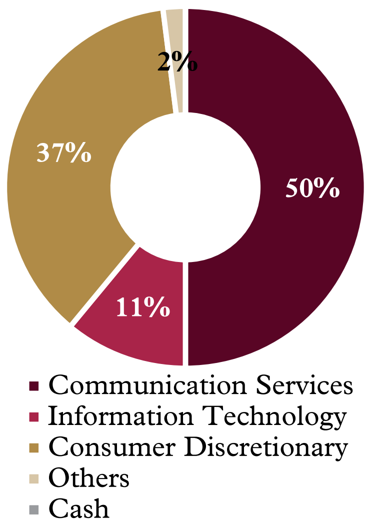
Prior Year (Sep 2023)



Prior Quarter (Jun 2024)



Current Quarter (Sep 2024)

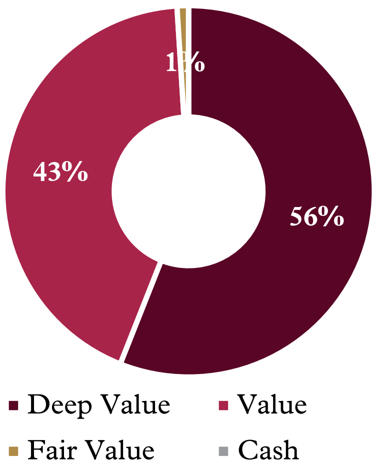


Our Chinese investments mainly sits in the Consumer Discretionary sector, and our addition of apparel retail led to this sector increasing from 23% in Q2 to 37% in Q3.

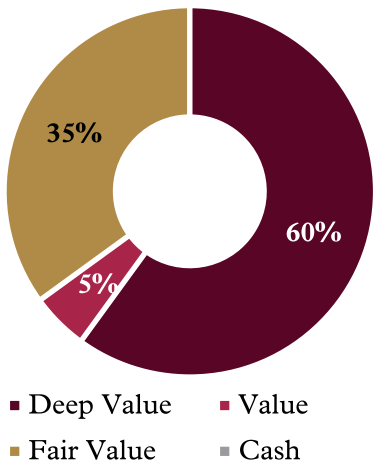
Charts 2: Value and Leverage Breakdown

Value Breakdown

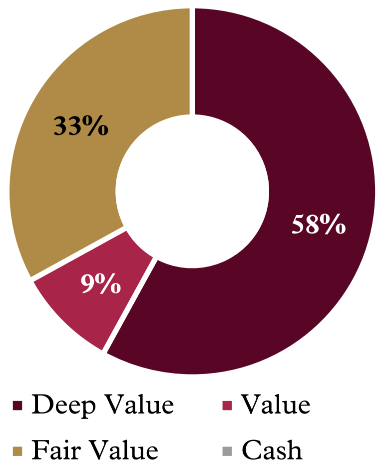
Prior Year (Sep 2023)



Prior Quarter (Jun 2024)



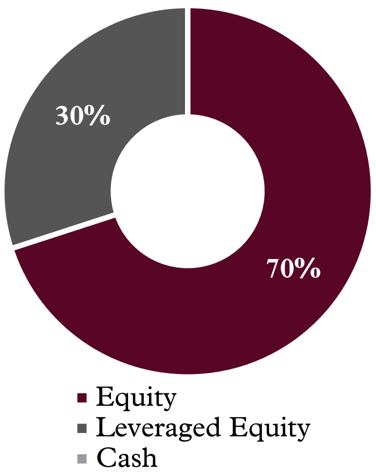
Current Quarter (Sep 2024)



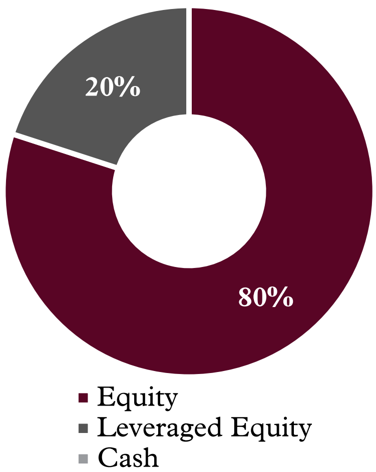
The value groupings are relatively unchanged from Q2 to Q3 given we have not re-rated our China investments that sits in Deep Value despite its recent appreciation.

Portfolio Leverage Breakdown

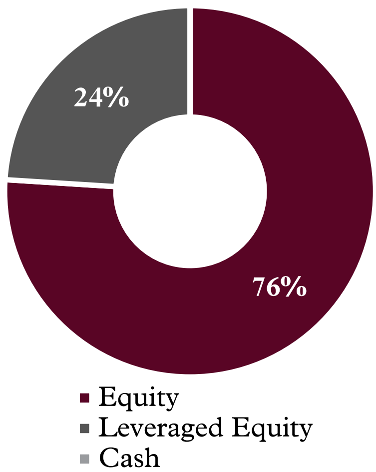
Prior Year (Sep 2023)



Prior Quarter (Jun 2024)



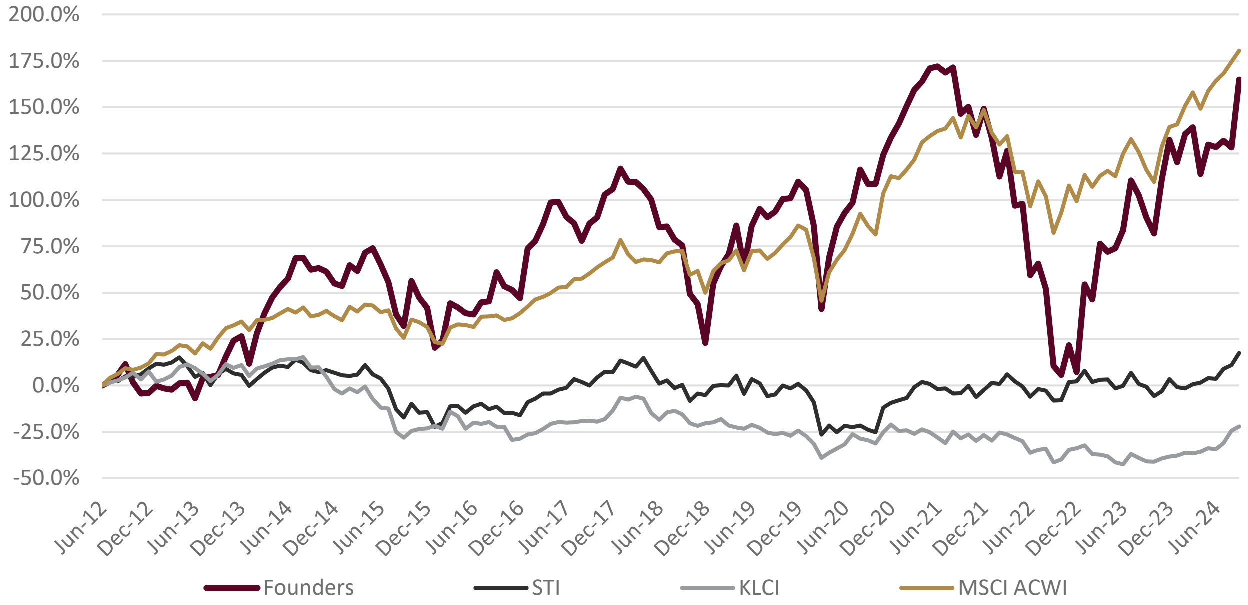
Current Quarter (Sep 2024)



The addition of new investments in apparel retail without trimming other stocks resulted in our leverage increasing from 20% in Q2 to 24% in Q3.

Charts 3: Performance

Since Inception (Jul 2012 – Sep 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.

