invest@mtcasset.com
+60 3 2289 5055

MTC Asset Management
Founders Fund

Commentary (Founders Fund)

December 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 171.7% (8.3% p.a.), significantly outperforming the STI and closely matched the MSCI ACWI, which returned 16.8% (1.3% p.a.) and 177.0% (8.5% p.a.) respectively.

Benchmark Comparison

Founders, STI & MSCI ACWI

We delivered a strong performance in Q4 2024, ending the year with a 17.0% return, outperforming both the STI and MSCI ACWI by 4% and 1.3%, respectively. This outperformance was primarily driven by our new undervalued theme, *Apparel Retail*, which appreciated by double digits during the quarter, with one stock gaining over 50% in Q4 alone. In contrast, our China stocks, which had experienced a significant rally in Q3 2024, declined by low double digits as the initial optimism surrounding Chinese stimulus began to fade. However, the continued appreciation of our *US Big Tech* and *Studios & Streaming* themes helped offset the losses from China. Globally, several countries experienced negative returns in Q4, which contributed to our outperformance relative to the MSCI ACWI.

Portfolio

Updates on our Themes

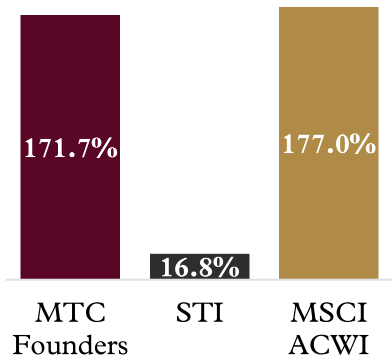
We've maintained four themes since 2022, adding *Apparel Retail* in Q3 2024. While not theme-based investors, we often notice that quality businesses with declining share prices tend to cluster within the same sector or industry.

NAV

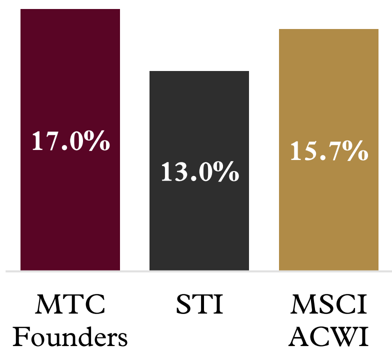
Class S: 271.69

Performance

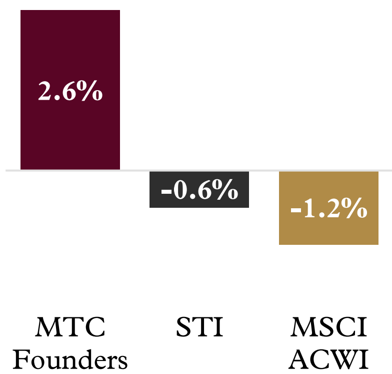
Since Inception (24 Jul 2012)



Year to Date (Dec 2024)



Quarter (Dec 2024)



Portfolio (continued)

Updates on our Themes (continued)

Going forward, given that we don't mention individual stock names, it would be more coherent to discuss our investments by grouping them into themes. Below are the current themes in our portfolio:

- <u>US Big Tech</u> – Our investments in this theme appreciated by high single digits during Q4. Although this segment is now fairly valued, we have no intention of selling or trimming our positions. We remain committed to holding these stocks for the long term, given the ongoing catalyst of AI driving growth and innovation.
- <u>Studios & Streaming</u> – After underperforming for much of the year, this segment rebounded strongly in Q4, appreciating more than 15% on average. We're seeing our investments meet cost-cutting targets and finally turning profits in their streaming divisions. While legacy contracts with cable providers are delaying full global expansion, we believe these companies will eventually catch up to Netflix, positioning themselves as strong second or third players in the market. We do not plan to reduce our exposure in this segment in the near term.
- <u>China Blue Chips</u> – As mentioned previously, our Chinese investments saw a reversal, declining by low double digits in Q4. Despite this, we chose not to take profits, as we remain confident in their long-term potential. Even with the Q4 decline, our Chinese holdings delivered over 15% returns for the year.
- <u>Semiconductors</u> – This theme was negatively impacted by one poor-performing stock, which dragged down the overall performance for the year. Nvidia has absorbed most of the IT capital spending from hyperscalers and data centres, leaving other players less able to benefit fully from the AI boom. Our original semiconductor investments were chosen to benefit from the broader digitisation trend, including IoT, traditional PCs, mobile phones, and cloud infrastructure. However, we missed the AI-driven surge led by Nvidia and similar players. We believe IT capital spending will eventually normalise across the industry. Notably, we sold certain semiconductor holdings mid-year after they peaked but repurchased them in December 2024 following a significant pullback.
- <u>Apparel Retail</u> – As highlighted in our September 2024 commentary, we increased our allocation to apparel retail, which now accounts for approximately 10% of our portfolio. This theme appreciated by double digits in Q4, and we took profits on one stock that gained over 50% during the quarter. This decision was based on our view that not all investments in this theme are suitable for long-term (5+ year) holding. Instead, this was an opportunistic investment in a deeply undervalued company. Despite the sale, we reinvested in another stock within this theme, maintaining this theme's allocation at approximately 10% of the portfolio, assuming the other themes do not appreciate significantly while this one stagnates.

Themes from 2022 & Movement in 2024

2024 has been a relatively quiet year compared to 2022, when we re-established new themes following the stock market decline. Since then, only *US Big Tech* has consistently performed well. We are still waiting for the remaining three themes—*Studios & Streaming*, *China Blue Chips*, and *Semiconductors*—to drive the portfolio to new highs. Approximately 80% of the portfolio remained unchanged throughout the year. The remaining 20% involved selective adjustments: we trimmed positions, taking profits in *Euro Autos* and *China Financials*, used the proceeds to invest in *Apparel Retail*, and repurchased the semiconductor stock we sold earlier in the year during Q4.

Devan Linus, Chief Investment Officer

Market Insights & Outlook

Our Portfolio

Since the portfolio saw minimal changes this year and we've already provided extensive commentary in the past, following our major theme adjustments in 2022, this will likely be the shortest year-end commentary we've written in a while.

The key takeaway is that our numbers are back, with a since-inception net return of 8.3% p.a. over >10 years—at the lower end of our 8-12% p.a. target range. What matters now is our plan moving forward. In 2023, we trimmed *US Big Tech* after significant appreciation, which, in hindsight, may have been a mistake. Timing market tops is never easy—recall Masayoshi Son's famous decision to sell his 5% stake in Nvidia in 2019, missing out on the >10x rally when AI surged in late 2022.

Our current strategy is to remain patient and allow the three remaining themes from 2022—*Studios & Streaming*, *China Blue Chips*, and *Semiconductors*—to appreciate, hopefully in 2025, if not 2026. Meanwhile, we've pursued opportunistic investments, including *Apparel Retail*, and more recently, *US Healthcare* in Jan 2025. The healthcare sector presented a compelling opportunity after being significantly beaten down due to Robert F. Kennedy Jr.'s appointment as US Health Secretary, a known anti-pharma advocate, and the unrelated killing of United Healthcare's divisional CEO, framed around the narrative of high healthcare costs.

Together, with our 2022 holdout themes and these opportunistic investments, we aim for another strong year of performance.

The Market & Trump

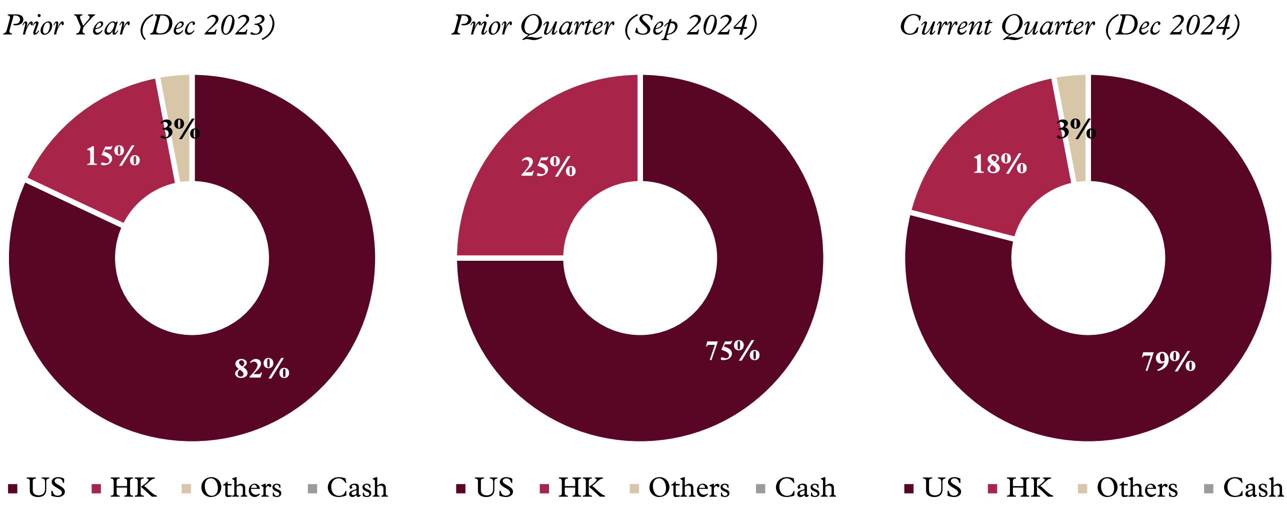
It's impossible to discuss the markets without mentioning Donald J. Trump, especially with his imminent return to office in 2025. While his re-election may have disappointed much of the global population, for investors like us at MTC—with 79% of our portfolio in the US—it's a highly favourable outcome. The US market began rallying after his victory, contributing to our strong Q4 2024 performance relative to the MSCI ACWI. Will this rally continue? Interestingly, many of the same analysts who criticized Trump's economic impact in 2016 have now reversed course, predicting positive outcomes under his leadership. However, relying on broad statements like "Trump is good for the economy" can be risky unless you have deep macroeconomic expertise and time to analyse specifics.

For instance, in 2016, the prevailing narrative was that Trump might escalate military tensions, leading to a "Trump Trade" focused on US defence stocks. Similarly, in 2024, the anticipation of his victory spurred rallies in defence stocks. Yet, during his first term, no major wars occurred—contrary to expectations. It was under Biden that the Ukraine-Russia and Israel-Palestine conflicts unfolded. Should Trump successfully negotiate a ceasefire in these conflicts, US defence stocks might underperform despite his pro-US stance. This highlights the danger of simplistic assumptions. Many misunderstood Trump, with the majority of economic and political pundits wrongly predicting a tight race in 2024. Instead, Trump decisively swept the swing states and defeated Kamala Harris with a clear margin.

At MTC, we understand that Trump isn't necessarily unpredictable—he's a predictable "troller," often making jokes like suggesting Canada will become part of the US or that the *Gulf of Mexico* will be renamed the *Gulf of America*. These remarks shouldn't prompt investors to blindly follow the herd or waste time debating whether to invest in Canada or short Mexico. Our guiding principle at MTC remains unchanged: invest in sound companies, regardless of who occupies the Oval Office. That said, given Trump's presidency, we recognise that our portfolio may benefit from a bit of extra luck.

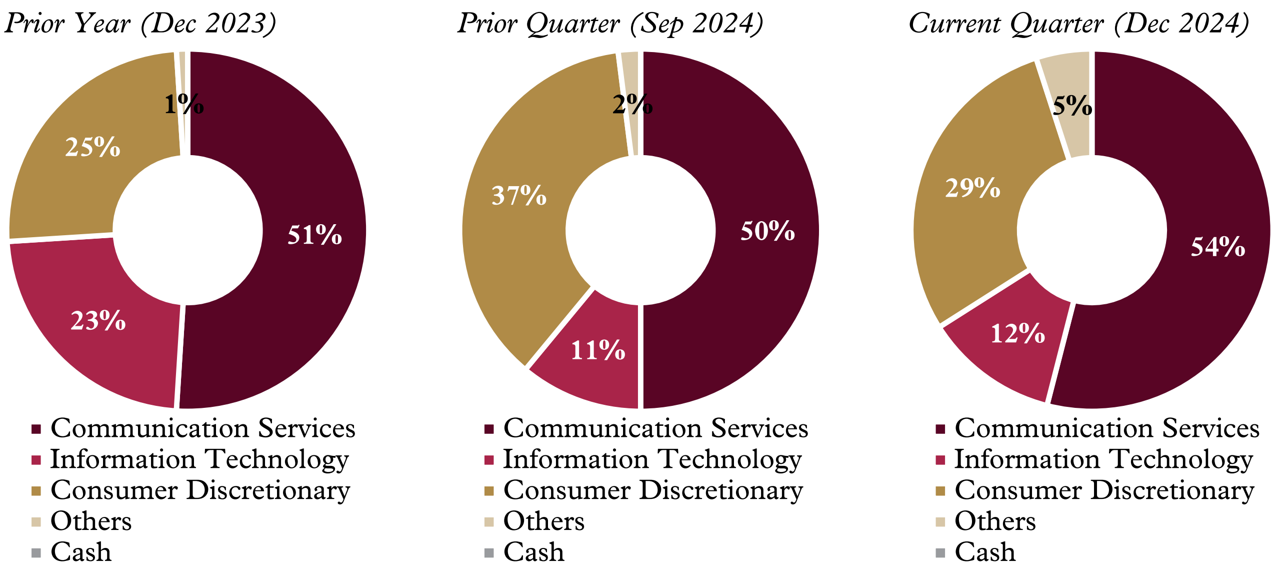
Charts 1: Company Listing and Sector Breakdown

Company Listing Breakdown



For Q4 2024, China allocation reduced from 25% to 18%, as it reversed from an appreciation to a depreciation in the current quarter.

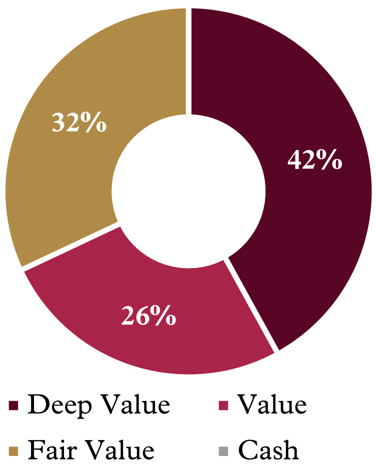
Sector Breakdown (GICS)

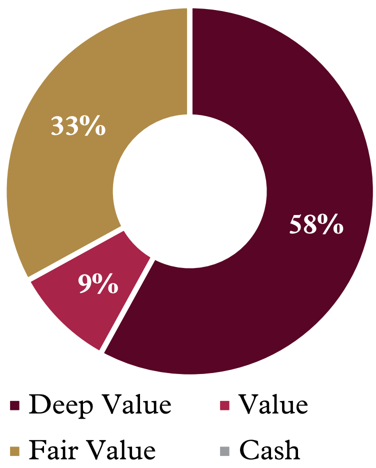


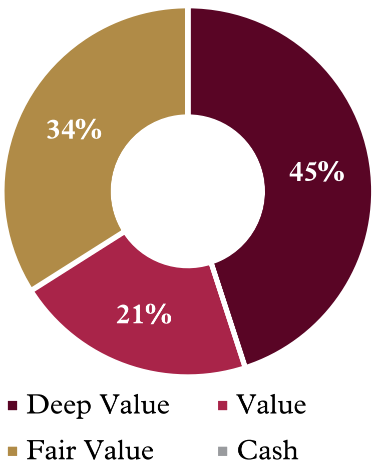
The decline in our Chinese investments, primarily within the Consumer Discretionary sector, along with the net selling of Apparel Retail, led to this sector's allocation decreasing from 37% in Q3 to 29% in Q4. Meanwhile, our Information Technology allocation fell from 23% in Q4 2023 to 12% in Q4 2024, driven by the underperformance of a semiconductor company relative to the appreciation of other sectors, as well as the net selling of other semiconductor holdings throughout the year.

Charts 2: Value and Leverage Breakdown

Value Breakdown



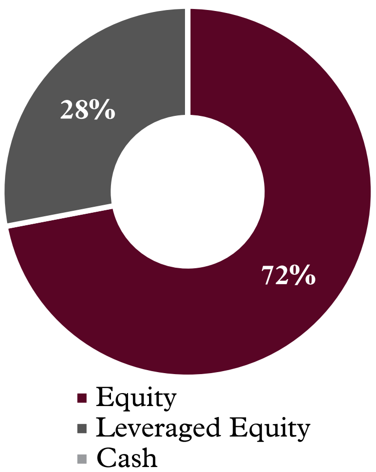




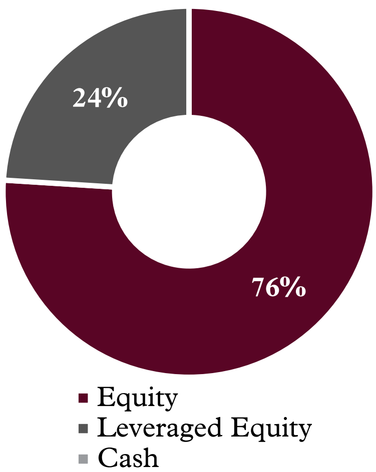
Our Deep Value allocation declined from 58% in Q3 to 45% in Q4 due to the trimming of a Deep Value retail apparel company, while simultaneously investing in another retail apparel company and repurchasing a semiconductor company, both classified as Value.

Portfolio Leverage Breakdown

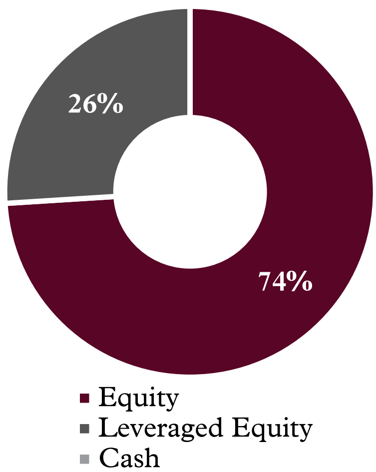
Prior Year (Dec 2023)



Prior Quarter (Sep 2024)



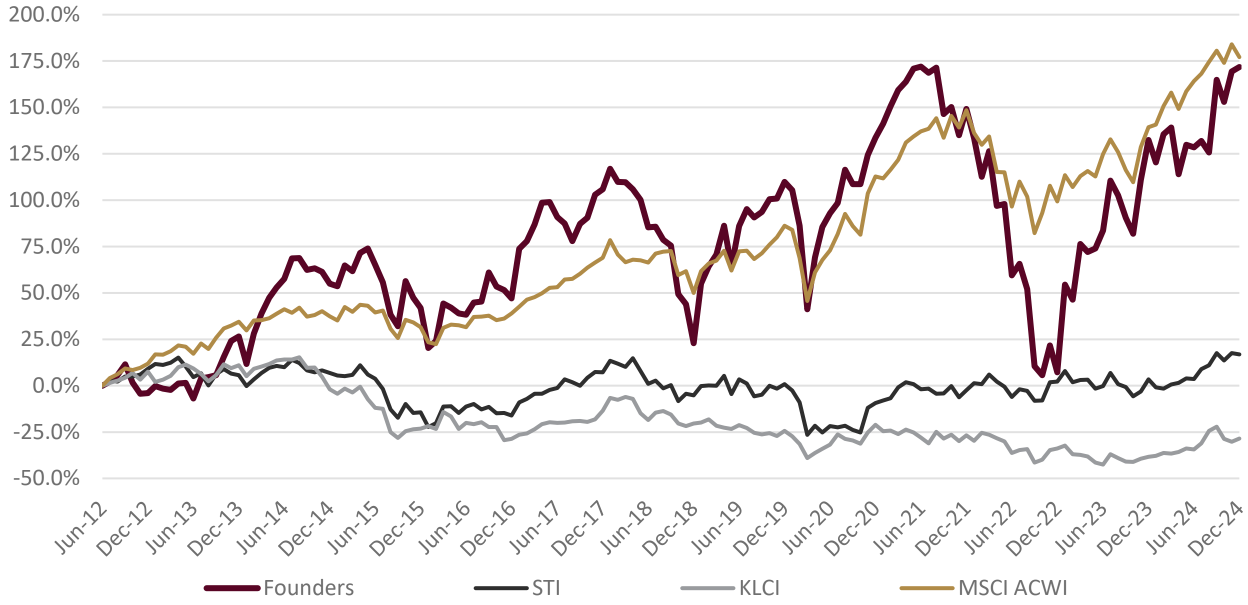
Current Quarter (Dec 2024)



The repurchase of a semiconductor company increased our leverage from 24% in Q3 to 26% in Q4. Despite trading activity throughout the year, our leverage has remained relatively stable, deviating only slightly from the 28% level at the start of the year.

Charts 3: Performance

Since Inception (Jul 2012 – Dec 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.

