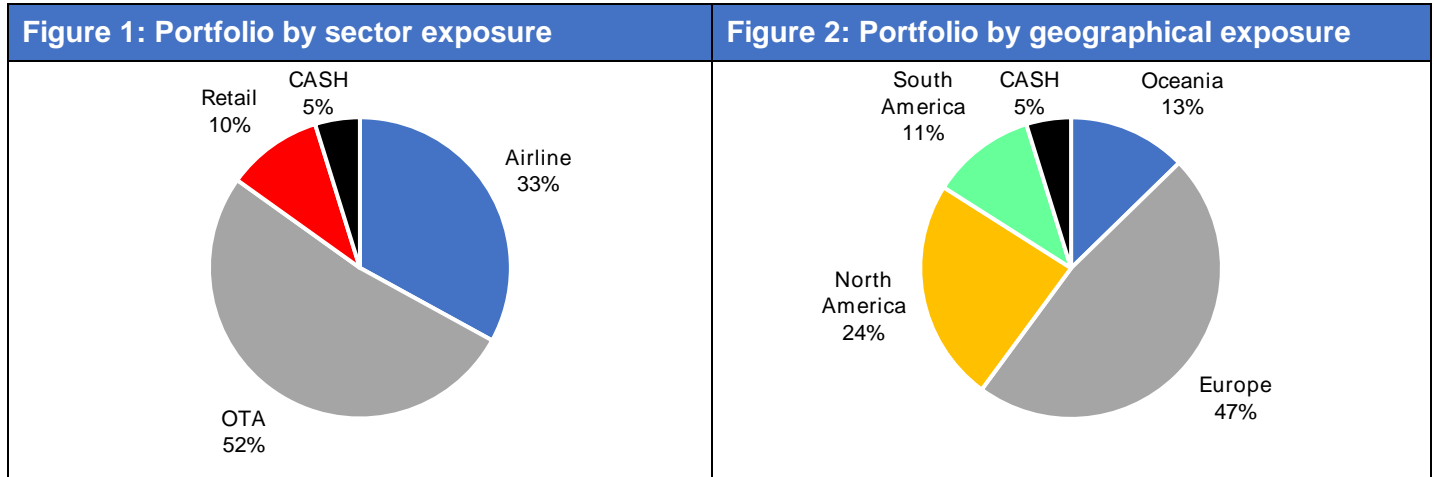




Pangolin Aviation Recovery Fund December 2021 NAV

As at 31st December 2021, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was USD 106.06 net of all fees and expenses. This represents a 12.98% increase over November 2021 and a 6.06% increase since its launch on 4th January 2021.

As of today, the fund is 95% invested, with the split being approximately as follows:



Overview

To put things into some perspective, please see the table below.

Return (in USD term)			
Period	US JETS Index	Bloomberg World Airline Index	PARF
Dec-21	9.6%	5.1%	12.98%
2021	(5.8%)	(1.4%)	6.06%

Topsy-turvy year

For full-year 2021, the fund delivered a net gain of 6.06%, somewhat commendable considering the year we had. It has also outperformed against its benchmarks convincingly.

Despite the outperformance, the fund's volatility turned out to be higher than expected with a beta of about 1 (unlike Pangolin Asia Fund's 0.7). I did an exhaustive post-mortem analysis on the areas that we could have done better. Apart from the usual fund manager's selection and timing errors, the root cause was my expectation for governments to do the right thing. There is nothing wrong with our investment thesis, which is premised on open and globally connected economies. For global recovery to really happen, we need three prerequisites that were ominously absent in 2021: progressive regulations, ease of trade, and mobility of manpower.

In the past, this was never an issue because all governments of the free world want to be part of the global economic pulse. The reality is that governments the world over are making the same mistakes over and over again. Lockdown is quickly reinstated whenever a new variant emerges. This is followed by immediate border closures to 'perceived' high-risk countries. Covid testing requirement escalates and social distancing curbs



intensify. The vaccine propaganda goes overdrive and the government criss-crosses between urging and coercing the people to take a booster shot, inferring that this will solve the crisis.

This unpleasant déjà vu has forced many people to cancel or defer their existing travel plans. Those who are on the road make haste to return for fear of border closures. At a time when we need brevity the most, constant updates and rule changes only confuse people. Nobody dares to make plans and take things one day at a time. This pretty much sums up 2021, and 2020 too.

Perhaps I was too naïve to expect the political masters to do the right thing and try to get back to the ways of the old pronto. Perhaps I was too green to expect that after nearly two years into this pandemic, governments have learned the lessons of going through multiple waves and multiple variants of the Covid virus. Perhaps I gave too much credit to expect the government to have a Plan B.

The fund performance would have been better if I had seen them for who they really are; impenitent elitists.

2022 won't be the same as 2020-21, it can't be...

Many of us are guilty of making the hypocritical wish of "Happy New Year" days ago. I'm sure we all meant well but can't help to think how familiar the scenes are today relative to the same period last year. I firmly believe 2022 will not be a repeat of the previous two years and indeed be more joyous for the following reasons:

- (i) **Governments don't have the money.** Debt levels have soared, and tax revenues have dwindled. Governments can no longer borrow their way out of this crisis. Without furlough and other social support, the governments lost the right to tell people what to do as they need to find a way to eat. The silent obedient consent of the people in 2020-21 is unlikely to be repeated in 2022. Therefore, the governments will be inclined to open the economy as much as possible and resort to lockdowns as a final stop gap measure.
- (ii) **Inflation is here to stay.** The burden of inflation is painfully felt by everyone, and there seems to be no respite on the horizon. Inflation has gone berserk due to loose fiscal policy and all-encompassing inefficiency. The U.S. Federal Reserve Bank has now admitted that the inflationary pressures are more than "transitory" and signalled a new tightening cycle. Many other countries will likely follow suit. The global inefficiency stems from the restrictions and policies meant to curb the pandemic. The only way to get efficiency back is to annul all the prohibitions and get all the cylinders firing on again.
- (iii) **There is no perfect vaccine and people know it.** When the COVID-19 vaccines were first deployed, they were billed as near-perfect shots that will bring the pandemic to a screeching halt. We acknowledge that the vaccines are a miracle of science that has saved the lives of countless millions if not billions. But it is not by any measure perfect, and people have since renounced this belief. The reality is more R&D and testing are needed to fine-tune the efficacy of vaccines. Most vaccines take upwards of a decade or more of testing before they go mainstream. I believe it is a judgement error on the part of the regulators to allow pharmaceutical companies to publicise their preliminary findings, which often sound like an advertisement. And this creates a false superhero persona.
- (iv) **People are tired of being confused.** Chances are, either we, our families, or people we know have been victims of Covid. People have become more aware of their mortality and accepted the fact. Many people expect to contract the virus at some point in time in the future and are mentally prepared for it.



But volatility is unlikely to go away

The fund's volatility in 2021 was mind boggling and it will likely carry over as 2022 begins with record number of Covid cases. We have had four peak-to-trough cycles in 2021 alone and I never expected this. I have developed a chrophobia whenever the fund's performance is having a good run.

We are long-term investors, and these bouts of volatility shouldn't concern us. The best time to buy is whenever there is a steep fall in NAV value and now. This is a volatile fund, but bear in mind that compound annual passenger growth in the last 20 years is +5.1%. And we expect it to rebound strongly once governments get their acts together.

Happy New Year and wishing you a great year ahead, and I'm not being hypocritical.

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	NAV	93.38	112.20	116.33	116.30	119.97	113.86	109.74	108.43	115.97	109.28	93.87	106.06	6.06%
	% chg	-6.62%	20.15%	3.68%	-0.49%	3.16%	-5.09%	-3.62%	-1.19%	6.95%	-5.77%	-14.10%	12.98%	

Mohshin Aziz

7 January 2022