PANGOLIN INVESTMENT MANAGEMENT

Pangolin Aviation Recovery Fund May 2021 NAV

	4-Jan-2021	29-Jan-2021	26-Feb-2021	31-Mar-2021	30-Apr-2021	31-May-2021	YTD
NAV (in USD)	100.0	93.38	112.20	116.87	116.30	119.97	119.97
Month on month change		*(6.62%)*	*20.55%*	*4.16%*	*(0.49%)*	*3.16%*	*19.97%*

As of 31st May 2021, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was USD119.97 net of all fees and expenses. This represents a 3.16% increase over April 2021 and a 19.97% increase since its launch on 4th January 2021.

Sell in May and go away to learn!

May turned out to be turbulent as expected. There were multiple Covid-19 flare-ups and the fast charging and virulent Indian variants are wreaking havoc across the world. Even countries that previously evaded the wrath of the pandemic have suddenly seen these concerning variants sneaking in undetected.

It is a deadly reminder that we do not hold the cards in deciding when this pandemic is over.

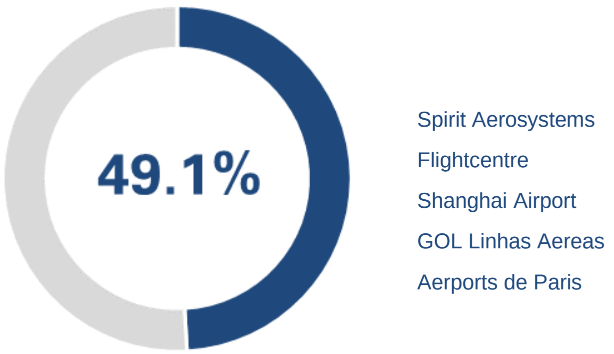
These flare-ups have caused significant share price dips in Turkey, Taiwan, and Singapore. However, they recovered swiftly in as little as 2-3 weeks and thus, the ‘opportunity’ to buy on dips slipped by us. It takes time to conduct comprehensive research as many of these companies are unfamiliar to us, and we never buy things we do not know.

But not all is lost. Our knowledge base was enrichened by talking to these companies and we gained invaluable insights into the industry and the country they operate in. We find that management tends to be more extrovert when their share price is under pressure. I am already buddy-buddy on WhatsApp with a few of them after our first call.

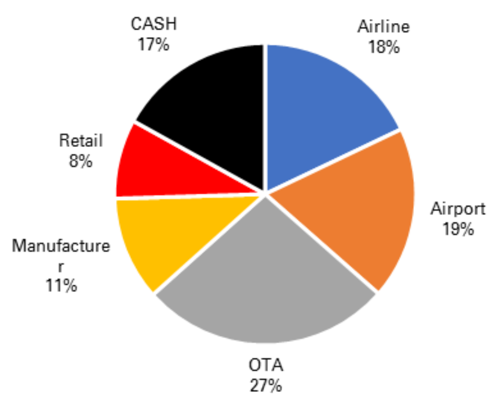
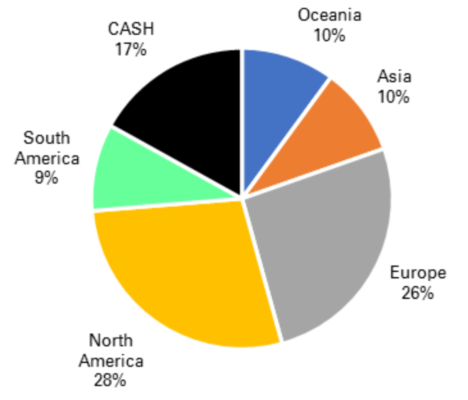
The point is the best time to learn about a company is when things go against them. We certainly had plenty of that in May. Should another massive share price dip recur, I know exactly what to do! A beneficial reminder to myself (and yourself too) to never let a crisis go to waste.

Portfolio constituents

Top-5 holdings (as of 4 June 2021)

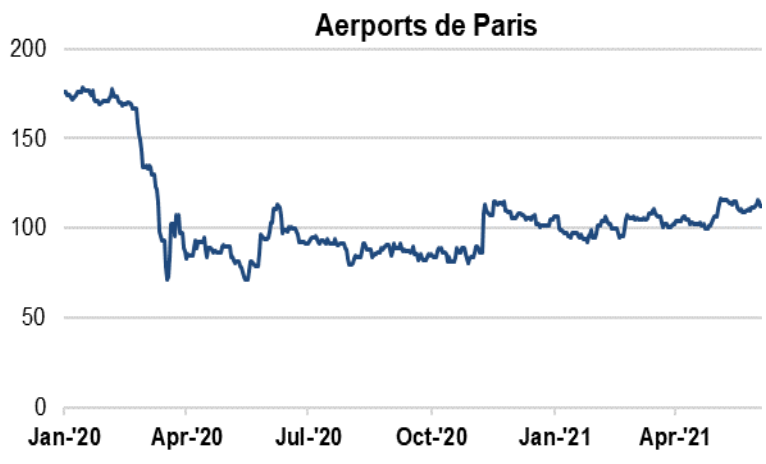


The fund is 83% invested, spread across five industry sectors and seven continents (please refer to Figures 1 and 2 overleaf). We have ten companies spread across seven countries in the portfolio.

Figure 1: Portfolio by sector exposure	Figure 2: Portfolio geographical diversification
	

We have sold our entire stakes in Fraport, Amadeus, and Embraer in May. These stocks have reached our implied fair values and we executed our strategy accordingly. We bought Gol Linhas Aereas, a Brazilian-based airline with services across South America. We also bought JET2, the third largest airline in the United Kingdom that specialises in leisure travel. Apart from that, we bought shares on existing names in the portfolio to rebalance the portfolio exposure.

In this week's disclosure of the portfolio, we will talk about airports. Our airport exposure is the second largest in the fund at 18%. There are 26 listed airports globally. We bought two companies in the sector and they are Aerports De Paris and Shanghai Airport. The summary of our investment calls is shown below:



Aerports de Paris (ADP) is a French based airport operator. Its primary assets are the five airports across Paris, and it also has minority stakes in 26 airports across the world. It also owns 45% of the listed Turkish airport operator Tav Havalimanlari Holdings A.S.

ADP is a pure play on global traffic recovery at airports as it has exposure to major hubs across Europe, Central Asia, the Middle East, India, China, North Africa and North America. The French government is the principal shareholder.

Shanghai Airport is the owner and operator of the three airports in Shanghai and the adjacent business parks.

Its share price has come under pressure due to regulatory changes negating its duty-free retail business. We take comfort in the fact that it has strong balance sheets (net cash), strategic asset, and little need for Capex to capture future growth.

We forecast 8.5 billion vaccines will be administered in 2021

More than 2 billion doses have been administered across 176 countries, according to data collected by Bloomberg (updated as of 3rd June 2021).

In May 2021 alone, a total of 820 million doses of various Covid-19 vaccines were administered globally. This equates to 41% of the total vaccine administered since the launch of the first vaccination campaign. The current run rate is 35.8 million doses per day (and still growing), which means slightly over 1 billion people will be vaccinated each coming month. We forecast a total of 8.5 billion doses will be administered in 2021, meaning more than half of the world population (estimate of 7.7 billion) would have received their first jab. This is beyond impressive; the human spirit is at its best when united and fighting against a common enemy.

Another good news is that regulators are increasingly on the same page in terms of vaccine recognition and approvals. The World Health Organisation (WHO) has recently approved Covid-19 vaccines made by Sinovac and Sinopharm for emergency use listing. This is wonderful on three levels. First, it invalidates the perception that one vaccine is superior to the other. Second, it paves the way for bountiful supply, especially to less developed countries. Third, it greatly aids the ‘vaccine passport’ effort by air transport regulators, bringing us closer to seamless international travel.

I believe the vaccine supply issue is largely behind us. The wealthy countries in North America, Europe, and China will run out of fresh arms to vaccinate in the next 2-3 months based on their current run rate. Their supply will be re-routed to developing countries that are swarming with eager beavers wanting to have a taste of the good vaccine.

Both the media and the government are not making things sound positive despite these developments. They are right to do so in my view. Projection is after all just that. Any premature celebration can cause a false sense of comfort and drastically reduce the rate of vaccination as people put their guards down and no longer see the urgency to get the jab. A little panic and apprehension are good in this backdrop.

From an investor’s point of view, we need to see beyond the successful vaccination campaign. China and the USA are the best leading examples of where the economy could head in the coming months. The USA is keen to open, accepting Covid-19 threat will linger and that the vaccine’s main contribution is to prevent serious illness. In China, life is normal, but borders remain shut, strict quarantine for foreign arrivals is in force, and aggressive lockdown transpires whenever a flare-up occurs.

Our base case assumption is that the world will successfully subside the Covid-19 threat by the end of 2021 and things move towards normal. Any Covid-19 flare-up causing a dip in share price is viewed as a wonderful investment opportunity. I apologise if I sound cruel and inhumane. The truth is, I have utmost faith in our medical science practitioners in their ability to neuter each coming variant as their understanding of the virus is advancing, given more data and research studies. We are in a better position today than at the beginning of the year. Heck, we are in a better position today than a month ago.

Conclusion

Our assessment is that a high rate of vaccination will lift restrictions and step up the gear of economic activity. Vaccine supply is now ample and vaccine politics has been resolved. The only thing left is getting the vaccine into the arms of people around the world, and that is progressing at breakneck speed. China, North America, and Europe in that manner, will see an improving economic outlook first and followed by other regions by the latter half of 2021. Aviation stocks re-rating is dependent on successful vaccination campaigns and lifting of government curbs. The risks to our thesis are inflation, in particular jet fuel, and interest rate spike that could potentially ravage the entire global equity market.

I believe the winter of despair is behind us, and the spring of hope is upon us, hopefully in time to give some summer of joy. This is the time for aviation stocks to shine.

Mohshin Aziz
4th June 2021