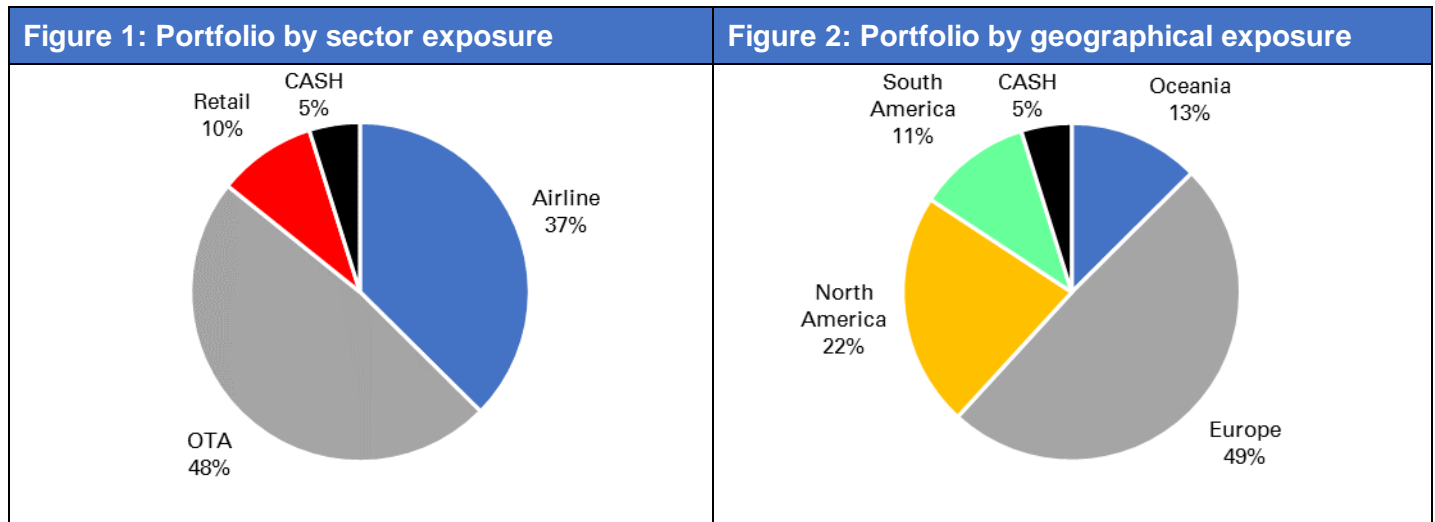




Pangolin Aviation Recovery Fund January 2022 NAV

As at 31st January 2022, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was US\$110.60 net of all fees and expenses, up 4.28% from US\$106.06 in December 2021.

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	PARF	Bloomberg World Airline Index	US JETS Index
Jan-22	4.28%	2.02%	0.62%
Since inception	10.60%	0.62%	-5.18%

Another year, another adventure

January, historically speaking, is when aviation companies unveil their grand plans and outlook for the year. The long-practiced adage is we must do better than last year. A long list of KPIs ensue followed by a lengthy PowerPoint presentation to showcase how exactly they will deliver and beat their competitors. Most of what they say will be obsolete by the end of first quarter, but it will not stop them from doing it.

In this pandemic world we live in, adaptability is far more important than ‘planning’ for the future. You can plan all you want, but the virus and the government will ultimately set the path.

To prove this point, I’d like to highlight Scott Kirby’s (CEO of United Airlines Holdings Inc.) recent statement that his managers have given up forecasting short-term demand “because we haven’t been very good at it.”

He got my vote as the aviation CEO of the year as he is both honest and a realist; attributes that are generally scarce for many airline CEOs.

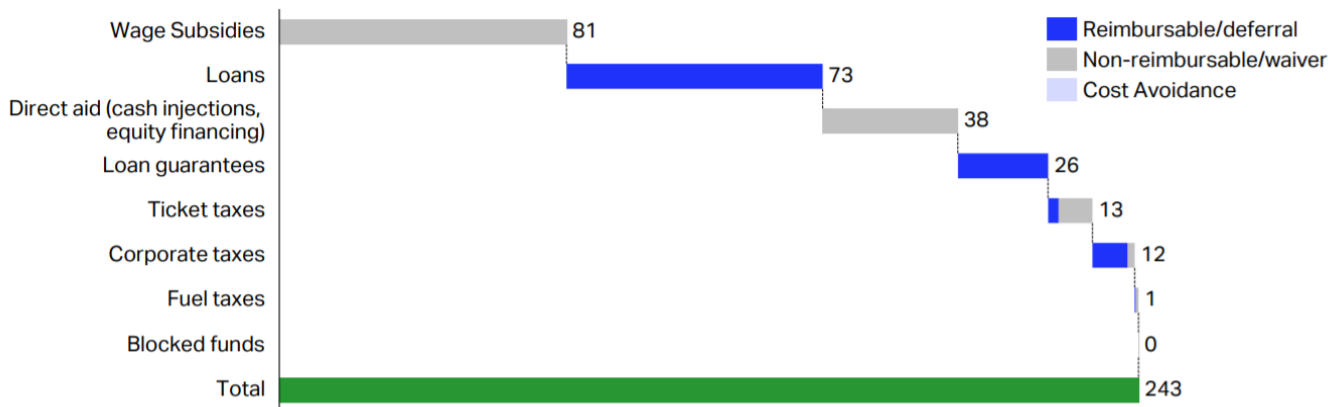


The laws of the jungle will apply

According to the International Air Transport Association (IATA), the airline industry has received close to a quarter trillion USD dollars of financial aid as shown in the graph below. Of that amount, USD 197 billion was provided in 2020 and the remaining USD 46 billion in 2021. This is the key reason why the industry is still afloat, and the number of bankruptcies and mergers are uncannily low despite the severity of the crisis.

Financial aid has kept airline industry on life support Airlines received \$243bn of financial aid worldwide so far & much must be reimbursed

Financial aid made available to airlines due to COVID-19, by type (USD bn)



Source: IATA Economics as at September 2021

Looking into 2022, the amount of financial assistance is forecasted to be less than USD 1 billion as most governments' financial assistance programs have ended. Without this lifeline, the number of casualties will inevitably surge as marginal airlines run out of liquidity. We will also likely see more mergers and acquisitions (M&A) activities such as the Frontier-Spirit Airlines announcement earlier this week.

We look forward to this as industry consolidation has historically proven to be a strong catalyst for equity re-rating. It is also what the industry truly needs as the pandemic has fundamentally altered the dynamics and some products and services are no longer relevant. This is part of industry evolution, whereby those with the best ability to adapt will survive and thrive.

We should expect to hear negative headlines on aviation related bankruptcies as we progress along the year. For us, this is actually a good thing, as it affirms the industry consolidation that we long yearn for. Sometimes, bad news means quite the opposite.

“Future ready” is more than a punchline

“You’re only as good as your last flight”
Famous airline quote used by many, but of unknown origin



Aviation companies have survived by the skin of their teeth and cut costs via reducing headcount, increasing digitalisation, and passing on price increases to customers. Very little has been done in terms of efficiency, enhancement of capital expenditure, and customer service delivery.

This lack of investment will surely bite back, especially when companies are in a rapid expansion mode. I am genuinely concerned that the world will struggle to spool up once we move away from this pandemic as many companies have solely focused on surviving 'today' and not put much thought on the 'future'.

This has been my top question when talking to companies: "how ready is the business if we get back to normal next week?" The spontaneous answer is we are ready and can't wait for life to be back to normal. However, I noticed that some companies take this more seriously than others. They have slides and tangible investments to show to back up that narrative.

It goes without saying that we all are firm believers that the aviation industry will recover. When the recovery wave arrives, everyone will have a free ride on the crest. The future-ready companies will catch the tube ride, comfortably skirting the impending trough. Those who are not ready will likely suffer a nasty shore dump.

As the recovery takes hold, we will be taking advantage of current depressed valuations to position the fund into truly future-ready companies. Identifying them is easier said than done and it involves a lot of data sifting.

Wish me luck.

Mohshin Aziz

9 February 2022



Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022	NAV	110.60												4.28%
	MoM %Δ	4.28%												
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%
	MoM %Δ	-6.62%	20.15%	3.68%	-0.03%	3.16%	-5.09%	-3.62%	-1.19%	6.95%	-5.77%	-14.1%	12.98%	