Pangolin Aviation Recovery Fund February 2021 NAV

	4-Jan-2021	29-Jan-2021	26-Feb-2021	YTD
NAV (in USD)	100.0	93.38	112.20	112.20
Month on month change		*(6.6%)*	*20.1%*	*12.2%*

As of 26th February 2021, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was USD112.20 net of all fees and expenses. This represents a 20.1% increase over January 2021 and a 12.20% increase since its launch on 4th January 2021. The fund is 89% invested, spread across five industry sectors and five continents (please refer to Figures 1 and 2).

Figure 1: Portfolio by sector exposure

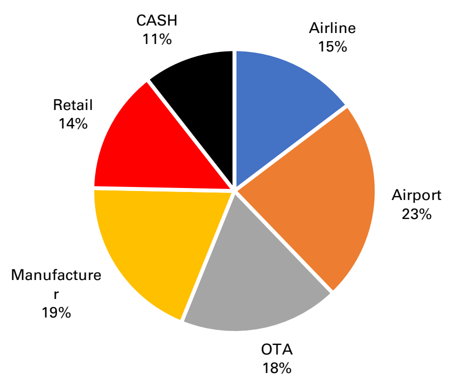
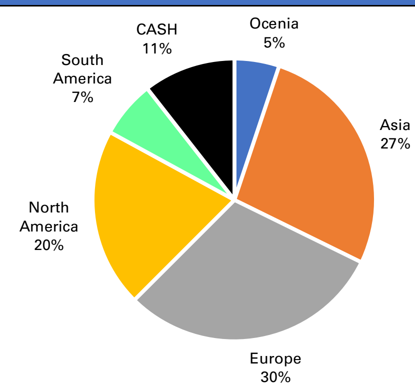


Figure 2: Portfolio geographical diversification

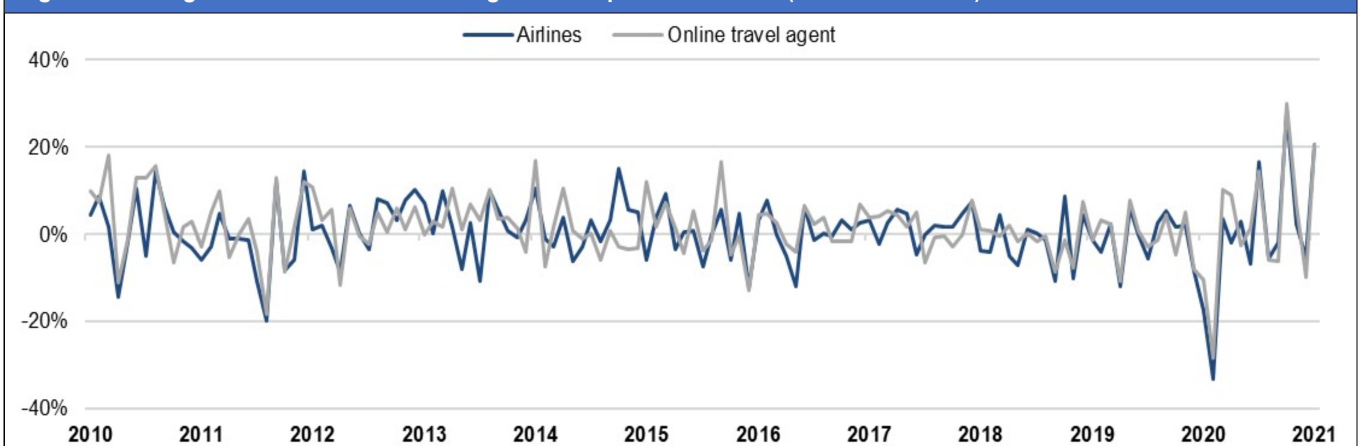


"E" for euphoria

If I were a peacock, I'd be spreading all my feathers about now. But truth to be told, I am more relieved than elated with February's performance. February, in all sense of the word, was weird. Let me explain.

Airlines and online travel agencies (OTA) have performed well in February 2021. The average month-on-month return for both airlines and OTA in February was 21%. This is the second-highest monthly returns for both sectors since 2010. The highest month-on-month return was achieved in November 2020 when news of the successful Covid-19 vaccines came out. We missed the November 2020 party, but we rocked this one.

Figure 3: Average airline and online travel agent share price movement (month-on-month)



Source: Bloomberg

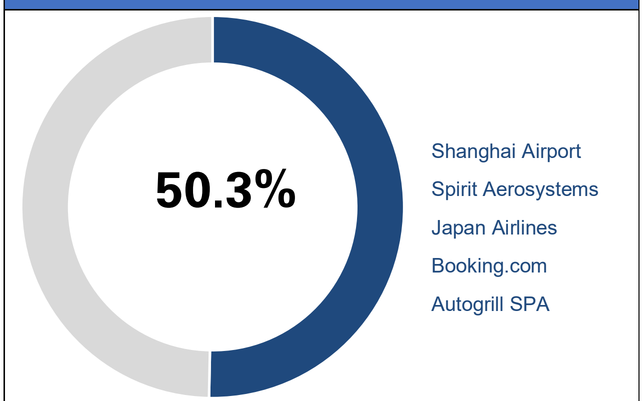
Herein is my quandary. I tuned in and read the transcripts of around 30 earnings calls for the December 2020 quarter. I can summarise the recurring key points narrated by all the management into the following three points: (i) things remain tough and we are still burning cash; (ii) latent demand is strong, but it is hampered by travel restrictions and regulatory uncertainty; and (iii) we are hopeful that vaccine rollout will open the floodgates of recovery. There is a fourth point that never gets put down in writing; a rather verbal grumble that the governments should get their act together and ratify a common standard and open the skies quickly. Things are not getting worse, but they are not getting much better in a hurry.

To hear all that, and then to see a meteoric rise in share prices makes me wonder if I am in a live scene of the Twilight Zone. It should not have happened. But it did.

Most precarious, companies with the worst fundamentals rose the most. Some have even exceeded their pre Covid-19 levels. High-quality companies' share price on the other hand rose modestly, trailing behind its lesser brethren. I understand that investors look to the future and not the present. Normally, the time horizon is 6-12 months forward. I cannot foresee that the industry is enjoying a walk in the park 6-12 months forward. Therefore, I am afraid there is already a lot of forward optimism priced-in, far more than what is warranted.

Portfolio constituents

Figure 4: Top-5 holdings (as of 4 March 2021)

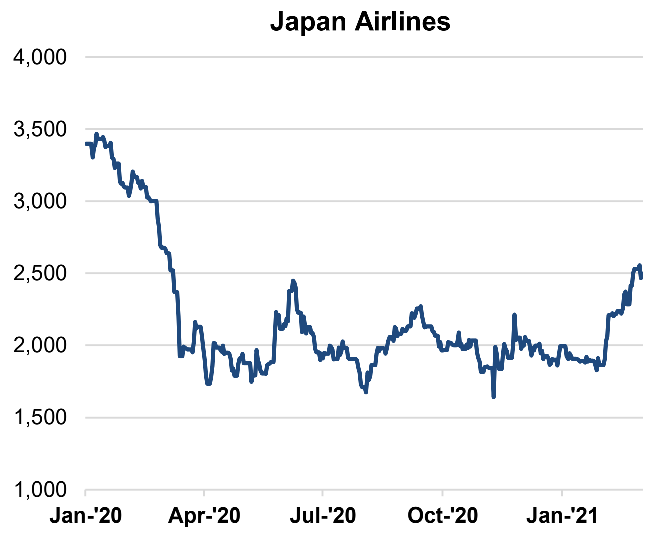


The portfolio consists of 12 companies as of 4 Mar 2021. The top-5 holdings represent 50.3% of the portfolio. We have increased our exposure to airports and OTA and trimmed exposure to airlines and terminal retail in February 2021. This is part of our active portfolio management to ensure balanced risk and to capture and optimise opportunities.

There are requests to disclose companies in the portfolio and our investment thesis. I consider myself an open book and have no problem in doing so. After all, the key to getting your audience to know who you are, like you, trust you, and eventually do business with you is transparency. I will do it in a couple of chapters as to not turn this newsletter into a novel and also to build your enthusiasm for the future upcoming newsletters.

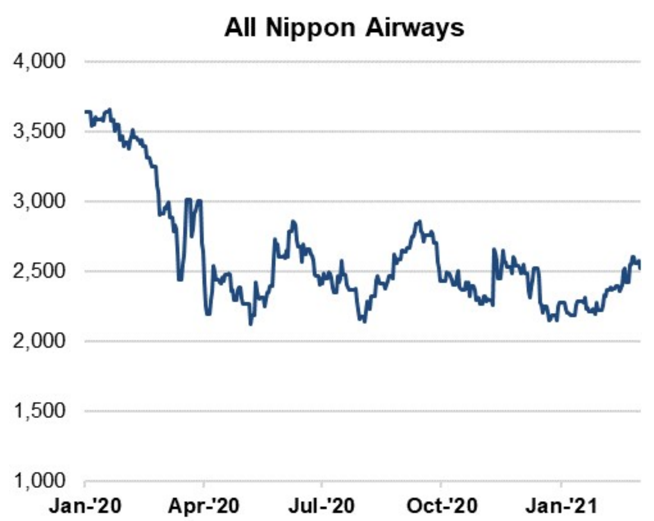
I will talk about airlines first. I see it as befitting as airline is the first thing that most people associate with when referring to the aviation industry. We bought three airlines in the fund and they are Japan Airlines, All Nippon Airways, and Spirit Airlines. The combined airline exposure in the portfolio during the fund launch was around 21%.

There are 61 publicly listed airlines globally to choose from. Our selection criteria are exhaustive. Our foremost question: does the company have a fundamental reason to exist? Is the management doing the right things? Conceptualise and ponder all aspects of risks. Analyse the finances and monitor the country's progress in combating the Covid-19 virus. We summarise the findings on the following page.



Japan Airlines (JAL) is Japan's second-largest carrier with a 40% market share of the domestic Japanese market. It has a comprehensive domestic operation coupled with international and cargo operations.

We are confident that JAL will survive the crisis thanks to the strong government support, sizeable cash balance, and management's cost reduction efforts. Furthermore, Japanese people tend to believe in their own especially during a crisis. Therefore, when air travel resumes, we believe the Japanese people will prefer to fly with their national carriers first (JAL or ANA) ahead of flying with other foreign carriers.



All Nippon Airways (ANA) is Japan's largest carrier with approximately 45% market share of the domestic Japanese market. ANA's business structure is more diverse; it has both domestic and international operations, cargo operations, a low-cost carrier subsidiary, and it also owns hotels and tourism retail businesses.

We are confident that ANA will survive the crisis thanks to strong government support, sizeable cash balance, and its strong global network. Furthermore, ANA can rely on its loyal and staunch Japanese customers.

Spirit Airlines is an ultra-low-cost carrier based in the USA. It is a domestic-centric airline with 82% of capacity. Spirit Airline has the lowest unit operating cost of all the US-based carriers as it has a single type aircraft with the highest seat density configuration and it operates its assets diligently. It unbundles all ancillary services, which can be attained for a fee.

We have exited our stake in Spirit Airlines because the share price ascended to our target price. We initially thought it would have taken 1-2 years to achieve. A nice gift which we unduly obliged.

Great time to invest

February 2021 was a great month for the fund. It is not often that you can sit back and see all your investment thesis materialise in an instant. But let's be real, these things don't happen often. We are lucky to have captured this 'gift'. At some point, the market will revert to its customary slow incremental growth, with bouts of volatility from time to time.

We are encouraged by the rate of vaccinations globally. Israel, UK, and the USA have surpassed our expectations. As with most new things, the beginning is rough and appears directionless. But once you get your bearings set right, it gets easier and easier. I believe an increasing number of governments are at a vantage point battling this pandemic.

From an investment point of view, we see several laggard opportunities. Good companies with strong balance sheets and focused management that have yet to re-rate, trailing behind some of their peers. We are always attracted to quality companies with cheap valuations; excuse me while I go hunting for these attractive investment opportunities.

Mohshin Aziz
5th March 2021