# Pangolin Aviation Recovery Fund July 2021 NAV

| | 4-Jan-2021 | 29-Jan-2021 | 26-Feb-2021 | 31-Mar-2021 | 30-Apr-2021 | 31-May-2021 | 30-June-2021 | 30-July 2021 | YTD |
|---|---|---|---|---|---|---|---|---|---|
| NAV (in USD) | 100.0 | 93.38 | 112.20 | 116.87 | 116.30 | 119.97 | 113.86 | 109.74 | 109.74 |
| *Month on month change* | | *(6.62%)* | *20.55%* | *4.16%* | *(0.49%)* | *3.16%* | *(5.09%)* | *(3.62%)* | *9.74%* |

As of 30th July 2021, the NAV of Class A shares of the Pangolin Aviation Recovery Fund (both US & non-US Feeders) was USD109.74 net of all fees and expenses. This represents a 3.62% decrease over June 2021 and 9.74% increase since its launch on 4th January 2021.

## The big ugly bear comes for a sneak peek

The aviation sector continued to face headwinds in July. Much of it is related to the Covid-19 delta strain, which is rampaging through and more countries across the globe, with its virulence and ability to infect fully vaccinated people — though symptoms tend to be mild and non-life-threatening. Right now, any aviation-related news reverberates with the word delta strain.

Constant media bombardment affected aviation sector’s investors sentiment and share prices have retreated sharply. Many companies’ share prices are back to where they were on the first trading day of the year. Some of them have fallen even below the levels seen before the first Covid-19 vaccines were announced in early November 2020. In fact, the sector is already in bear market territory, with the 178 global companies that we track fell by an average of 24% since their recent peaks in April-May.

In many ways, we are back to where we were when we launched the fund in late 2020: market sentiment being extremely negative, feelings of despondency, and attractive valuations.

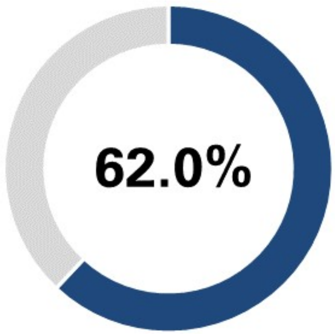
The industry’s fundamentals, however, are significantly better. There are six Covid-19 vaccines approved for emergency use by the World Health Organisation, with more possibly underway. Vaccine supply is ample and increasingly available to all countries. The distribution of vaccines is at break-neck speed; four billion people have already been vaccinated and that number is rising by one billion each coming month. And most telling, the number of deaths and seriously ill due to Covid-19 is on a declining trend. These facts should dispel any doubt that we are indeed progressing in the right direction.

Companies that have released their June quarter results generally showed encouraging performances. Many have squarely beaten market expectations and managements are increasingly sounding more positive in their business outlook, as they have reached cash break-even point and some are already profitable. Companies are rehiring people and are finding it difficult to source qualified staff, because competitors are rushing for the same talent pool. The more I tune in to analyst calls, the more bullish I am on the industry.

We are happy with the constituents of the portfolio and we will not try to time the market by selling now and buying later at lower prices. I think we will do a bad job trading unnecessarily. The decline in value is likely to prove to be temporary, premised on the fundamental view we take. Taking our European investments as an example, share price tumbled when the delta variant caused a spike in new cases and deaths. But in the past week, share prices have recovered in tandem with the lower number of new cases of Covid-19 in the United Kingdom. We are probably going to see a bit of this for our North and South American names as well.

## Portfolio constituents

**Figure 1: Top-5 holdings (as of 6 August 2021)**




Jet2 Airways
Flightcentre
Booking.com
Norwegian AS
Dufry AG

The fund is 85% invested, spread across three industry sectors and four continents (refer to Figures 2 and 3). We have seven companies spread across six countries in the portfolio.

**Figure 2: Portfolio by sector exposure**

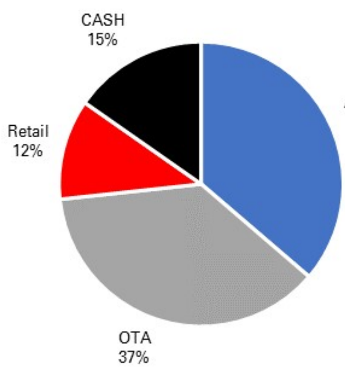
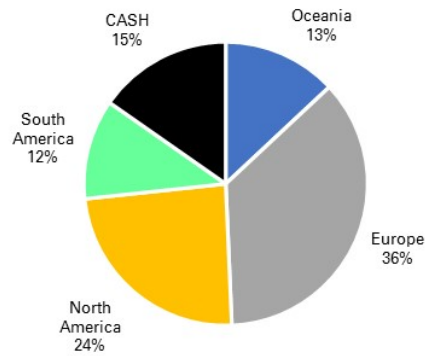



**Figure 3: Portfolio geographical diversification**




We cut our losses in Shanghai Airport due to regulatory uncertainties. Just recently, the Chinese government surprised the markets by cracking down on education and banning tutoring firms from making profits, upending the sector worth billions of dollars. This triggered a broad-based sell-off of Chinese equities, wiping out **USD1 trillion** of equity value in a period of only two weeks. The Chinese aviation sector, specifically, was down by an average of 14% month-on-month.

Chinese aviation fundamentals are attractive, given the high vaccination rate (around 60%) and a flourishing domestic market. We like Shanghai Airport and believe it is an undervalued asset. However, there are too many uncertainties on this state-owned enterprise, especially on the potential earnings dilution from the equity issuance related to a recent asset purchase from its parent company.

We bought back Dufry as its share price plunged 30% following our exit in the middle of June. This is a perfect example of fear, uncertainty, and doubt conferring an excellent investment opportunity. We believe the sell-down was excessive and we bought it even more cheaply than our initial purchase in January.

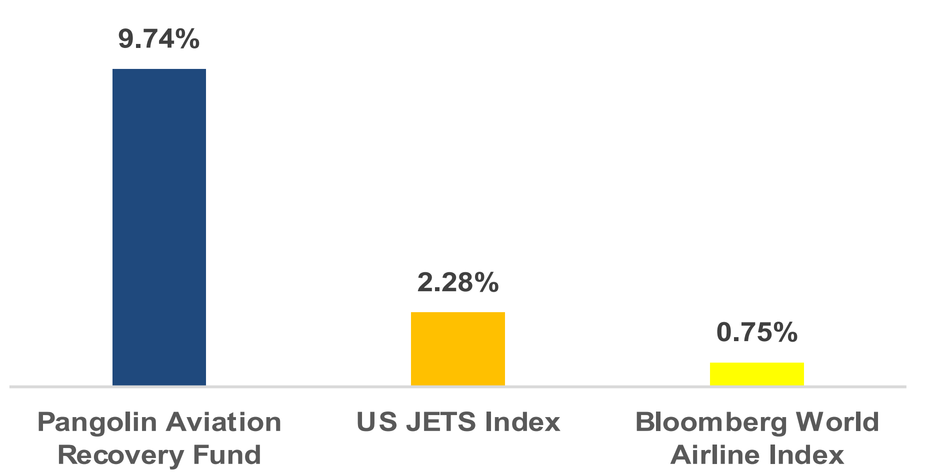
## Concluding remarks: it might take a little longer, but we will get there

The performance in July is disappointing. The fact that 1.1 billion people got vaccinated including half the population of the European Union and the USA made no headlines at all frustrates us. The good news is that the daily vaccination rate is consistently high at approximately 40 million doses and is not showing any signs of waning. We think all the publicity on the delta variant has motivated people to get themselves vaccinated as soon as possible. If this rate continues, many countries will reach the 70% milestone as early as September.

This is how the markets behave sometimes, unfortunately. Improving fundamentals and outlook does not necessarily move the valuation immediately. Other factors can override investors' sentiment. We believe that fundamentals will ultimately prevail, but we just have to wait a little longer for the storm to blow over and for level-headedness to dictate equity valuation.

Unnecessarily negative sentiment is giving investors a second bite at what is a very juicy cherry!

**Figure 4: Year to date performances of aviation related funds (as of 30 July 2021)**




Mohshin Aziz
6th August 2021