



Pangolin Aviation Recovery Fund August 2021 NAV

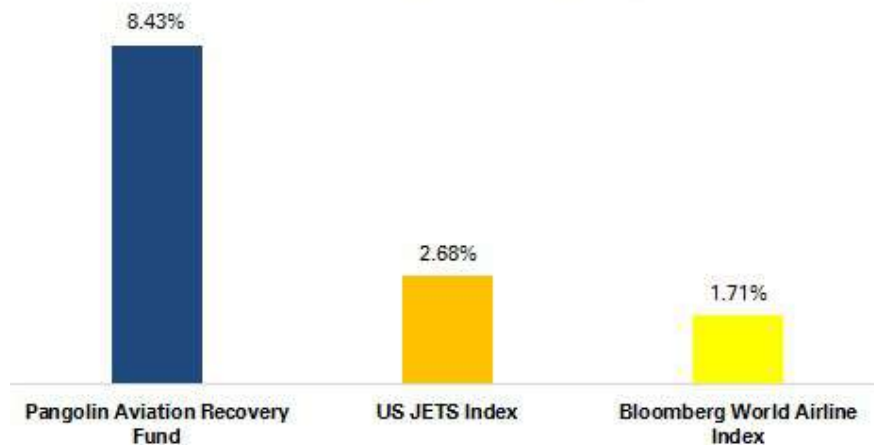
	4 Jan 2021	29 Jan 2021	26 Feb 2021	31 Mar 2021	30 Apr 2021	31 May 2021	30 Jun 2021	30 Jul 2021	31 Aug 2021	YTD
Non-US NAV (in USD)	100.0	93.38	112.20	116.87	116.30	119.97	113.86	109.74	108.43	108.43
Month on month change		(6.62%)	20.55%	4.16%	(0.49%)	3.16%	(5.09%)	(3.62%)	(1.19%)	8.43%

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As of 31st August 2021, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was USD108.43 net of all fees and expenses. This represents a 1.19% decrease over July 2021 and 8.43% increase since its launch on 4th January 2021.

August 2021 was another tumultuous period for the aviation sector. The impact of the delta variant was intensifying in the USA and parts of Asia. The share prices for aviation-related companies reacted brutally, akin to the peak of the pandemic back in March 2020. Year-to-date, the Pangolin Aviation Recovery Fund fared better relative to the aviation-related indexes, namely Bloomberg World Airline Index and the US Jets Index.

Figure 1: 2021 year-to-date performance

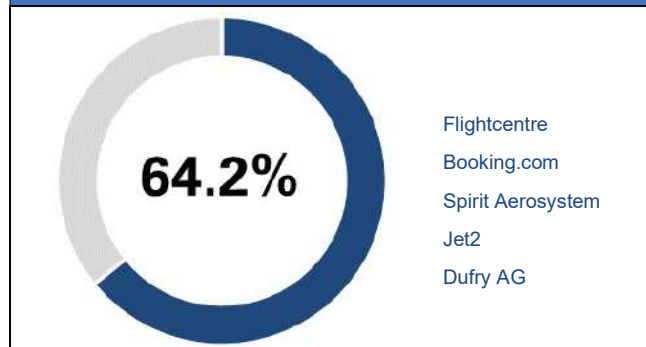


Thankfully, sense prevailed in the latter half of the month as investors take note of the 1.2 billion additional vaccine doses administered globally. Investors took a second wind on the bombed-out valuation of aviation companies. We now see better downside support, especially on the quality names, and many aviation companies' share prices are staging a recovery.



Portfolio constituents

Figure 2: Top-5 holdings (as of 8th September 2021)



The fund is 98% invested, effectively fully invested. It is spread across three industry sectors and four continents (refer to Figures 3 and 4). We have eight companies spread across six countries, with a roughly equal split in the portfolio.

Figure 3: Portfolio by sector exposure

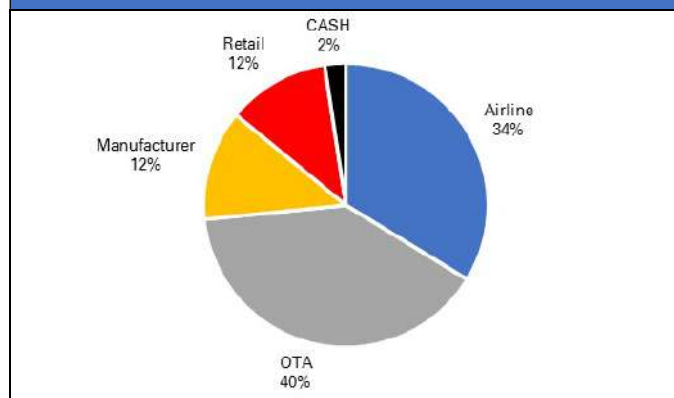
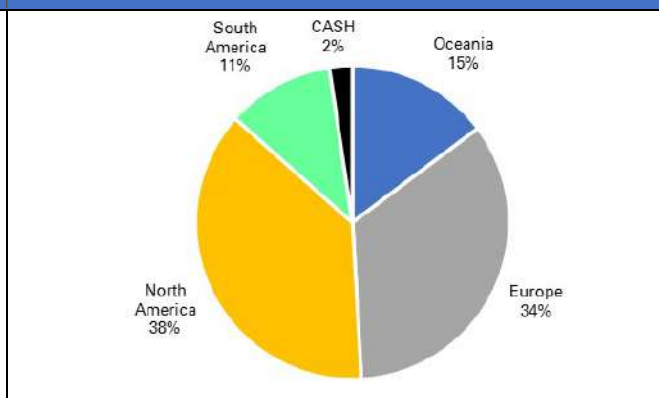


Figure 4: Portfolio geographical diversification



CEOs Doom Business-Travel Revival with Budgets Slashed Worldwide (Bloomberg article published on 31 August 2021)

Bloomberg surveyed 45 large companies in the U.S., Europe, and Asia, it shows that 84% plan to spend less on travel post-pandemic. The ease and efficiency of virtual software, cost savings, and lower carbon emissions were cited as some of the reasons for the cutbacks. The article went so far as to state that business travel has “forever changed”.

The article was insightful and interesting. However, it made a fundamental flaw inferring that business travel is dominated by jet-setting executives. The C-suite executives indeed crowd the business class seats, but the bulk of business travel resides in economy class, flown by people we typically refer to as ‘blue collar’ workers.

It will not surprise you to know that private jets enjoyed its best demand ever when the pandemic started. It might surprise you however that this has been driven by general labourers, engineers, sailors, healthcare workers, and other critical workers that have previously depended on international scheduled flights. The jet-setting executive has no noticeable impact on the brisk private jet business. This Bloomberg article fails to see the big picture and overstates business travel from the view of jet-setting executives only.



We think business travel will evolve and head back to the historical growth rates pre-pandemic but in a different form than the past. Fundamentally, people need to interact with others. For business travel, that means being present with clients, colleagues, and the rest of the business world.

We might see a catalyst acceleration at some point, as companies will face increased pressure to win business among key customers after peers begin traveling again. Travel for sales and client-related meetings is most likely to be among the first to return. As good as Zoom and WebEx are, they cannot substitute that feeling of contentment, see-it-all feeling that only a face-to-face could possibly render.

We in the fund management industry cherish face-to-face interaction. Simply put, I learn a whole lot more in a one-hour face-to-face meeting with the company's management than a conference call with the same management skimming over a presentation slide. The same is true when we are pitching to new clients to invest in our fund. We are a people business after all.

The pandemic has forced office dwellers to be accustomed to remote working. After 1.5 years of doing so, many have become good at it, and come to prefer it. This has accelerated the growth of digital nomads and this has the potential to permanently blur the lines between leisure and business travel.

We hear of colleagues in the financial sector returning to the office for only 2-3 days a week. This quasi office-remote working arrangement is increasingly becoming the new normal with fewer people being assigned fixed desks and all work is done via the cloud. Employees are embracing this warmly as it entails less soul-sucking commute and it lowers the overall cost of living with seemingly no loss in productivity.

Many professionals have moved or experimented with leaving behind expensive urban centres in favour of locations with lower costs or more outdoor recreation. I think we will see more people take a flight and stay in a transient abode for the 2-3 days in office stint, before jetting off to their permanent home. It has long been the dream of many for countryside living with big city salary; this is their chance to do so.

It's time for governments to make the big decision

Big countries such as Spain, Portugal, Chile, Denmark, and Belgium have already fully vaccinated >70% of their population. Canada, the European Union, and the United Kingdom will hit this milestone within the month based on the current daily vaccination rates. Many island states have surpassed this level and are pushing beyond 80% of their population. The vaccination campaign has been a great success: the government has delivered, and the people have responded.

What is next? Logic-based thinking means scrapping restrictions to the public and targeted restraint to those most vulnerable. A notable example is Denmark; the government has removed its remaining measures against the spread of COVID-19 — except for border controls — as the country's epidemic is "under control". Other countries are gradually opening their borders, in the hope to revive the economy and lift the well-being of the people.

We think a policy shift of accepting and living with Covid-19, perhaps forever, is the way forward. Covid-zero and herd immunity were the cornerstone of past policy of waiting out for the pandemic to be over via lockdown and vaccination. Unfortunately, Covid-zero is a pipe dream and herd immunity remains an unknown variable. The pandemic has its own schedule which we have no purview to, and we must adapt and learn to live with it.



Conclusion: the will of the people

Despite the noise in the capital markets, things on the common street are continually improving with over 5.5 billion¹ doses administered worldwide and this number increases by a whopping 40 million each day. It is looking likely that a third dose of vaccine will be necessary, and the vaccine mandate will be extended to teenagers. We think will proceed smoothly as the vaccine supply chain can support it and people are generally receptive to it. After all, what is one more dose after already having had two?

It is reassuring to see stadiums and motor racing events full of spectators across Europe, North America, and South America. Concerts are also recording capacity sell-out. This underpins the belief that people's risk acceptance of living with Covid-19 has surpassed the government's current risk mitigation policies.

For policymakers, this is the clearest sign that easing is the way forward.

Mohshin Aziz
8th September 2021

¹ Bloomberg Covid-19 tracker on 7th September 2021