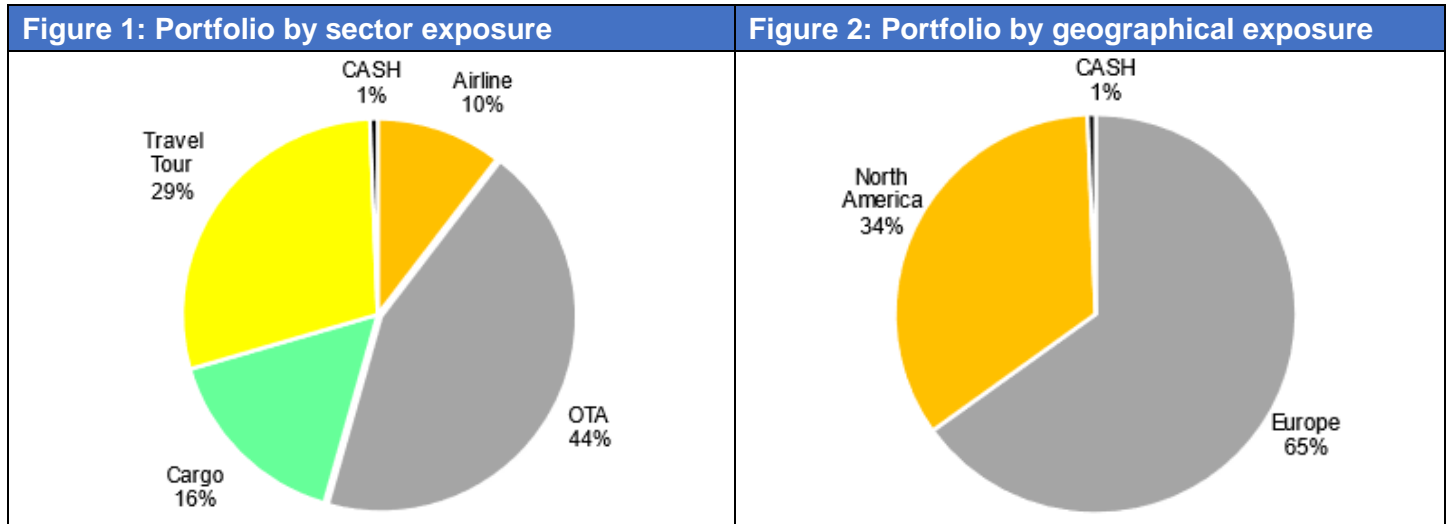




Pangolin Aviation Recovery Fund June 2023 NAV

As at 30th June 2023, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was US\$89.39 net of all fees and expenses, up by 4.09% compared to US\$85.88 in May 2023. Year to date, the fund is up by 8.81%.

The fund is fully invested, with the split approximately as follows:



Overview

There was a minor tweak in the portfolio; we sold some Expedia shares for rebalancing purposes. The winners for the month were Trivago and Expedia, while the underperformers were Norwegian Air and On-the-Beach.

The Wonders of Artificial Intelligence (AI)

The latest AI products and services have sparked an investor frenzy as they believe AI will lead the next productivity-enhancing growth narrative. Nasdaq enjoyed its best first-half rally in the past 40 years¹ and is trading at earning multiple that surpasses the pre-global financial crisis levels. To say the market is optimistic on AI is an understatement.

The aviation sector has been using AI long before it has become a buzzword. AI is the centrepiece for online-travel agents (OTA), whereby it applies deep-level machine learning and statistical algorithms to connect customers with a vast range of products and services. Airlines harness AI's predictive clairvoyance to optimise their revenues and enhance customer service delivery. Cargo logistics players rely on AI to piece together the maze of the global supply chain into seamless delivery.

70% of the companies in our portfolio are AI-driven. Our non-AI-aligned investments are travel tours, whereby irreplaceable personal touches, and service delivery command greater importance. In the recent first quarter result analyst call, management was gloating about how AI-ready they are. Unfortunately, the market doesn't see it that way; the 4% rise in NAV pales in comparison to our benchmark JETS ETF (+17% MoM) and the widely referenced MSCI World Index (+6% MoM). I don't understand why our portfolio missed this surge, AI is a bittersweet word for me now.

¹ <https://www.cnbc.com/2023/06/30/nasdaq-best-first-half-in-40-years-powered-by-apple-nvidia-and-meta.html>



Goldilocks scenario, but for how long?

The first half ended on a high note for the aviation sector. Global passenger traffic is close to where it was prior to the pandemic. North America, the Middle East, and Latin America led the recovery, and its traffic has surpassed 2019's levels. Air tickets and accommodation rates are holding firm, defying concerns that high inflation will curb the recovery. Operating costs are easing as fuel price stabilises, and employee unions bury the hatchet on pay rise and get back to work. A high-interest rate is an irritant, but credit availability is ample.

The initial operating indicators suggest that the third quarter will be another extraordinary period. Traffic is robust, load factors are high, yields have eased off from their peak but are still at high levels. El Niño conditions will likely bring warm conditions, which is supportive for the industry as people tend to go out and travel more. Historical El Niño events have been strong growth years for the aviation sector.

We are encouraged by the highly rational commercial behaviour currently seen. There is no price war nor any indication of one coming. The industry is in the perfect subset of strong yields, stable demand, and high profits. The market might be aloft with AI, but I am content with the Real Intelligence exhibited by the aviation industry captains. But let's not get ahead of ourselves, a timely reminder by the industry's best talent.

"This is the airline industry, and when things are going well, it means the next crisis is probably about four days away."

Michael O'Leary, CEO of Ryanair

Outlook

I remain positive about our portfolio composition. We invest in industry leaders with solid management and robust balance sheet. It might not twirl with the current AI thematic, however strange that is, but the portfolio provides real shareholder value with ROEs of 60% and free cash flow yields of 14%. We are not one to invest or speculate based on narratives; we **ONLY** invest in value.

Mohshin Aziz

5 July 2023



Pangolin Aviation Recovery Fund Fundamentals (30 June 2023)

	2022A	2023F	2024F
PE ratio (x)	21.8	13.9	11.0
PAT growth (%)	n.a	58.7	22.9
ROE (%)	28.8	60.7*	63.5*
Free cash flow yield (%)	14.4	13.5	11.3
Net cash/(debt) (x)	0.04	0.16	0.24

* We assume share buybacks will be cancelled and reduce the equity base

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2023	NAV	96.44	95.71	94.23	91.47	85.88	89.39							8.81%
	MoM %Δ	17.40%	-0.75%	-1.55%	-2.93%	-6.11%	4.09%							
2022	NAV	110.60	108.72	106.42	103.80	97.14	76.62	79.66	79.91	65.91	75.13	82.18	82.15	-22.54%
	MoM %Δ	4.28%	-1.70%	-2.11%	-2.46%	-6.42%	-21.12%	3.97%	0.31%	-17.51%	13.99%	9.38%	-0.04%	
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%	-0.49%	3.16%	-5.09%	-3.62%	-1.19%	6.95%	-5.77%	-14.1%	12.98%	

Figure 3: Pangolin Aviation Recovery Fund NAV (USD/share)

