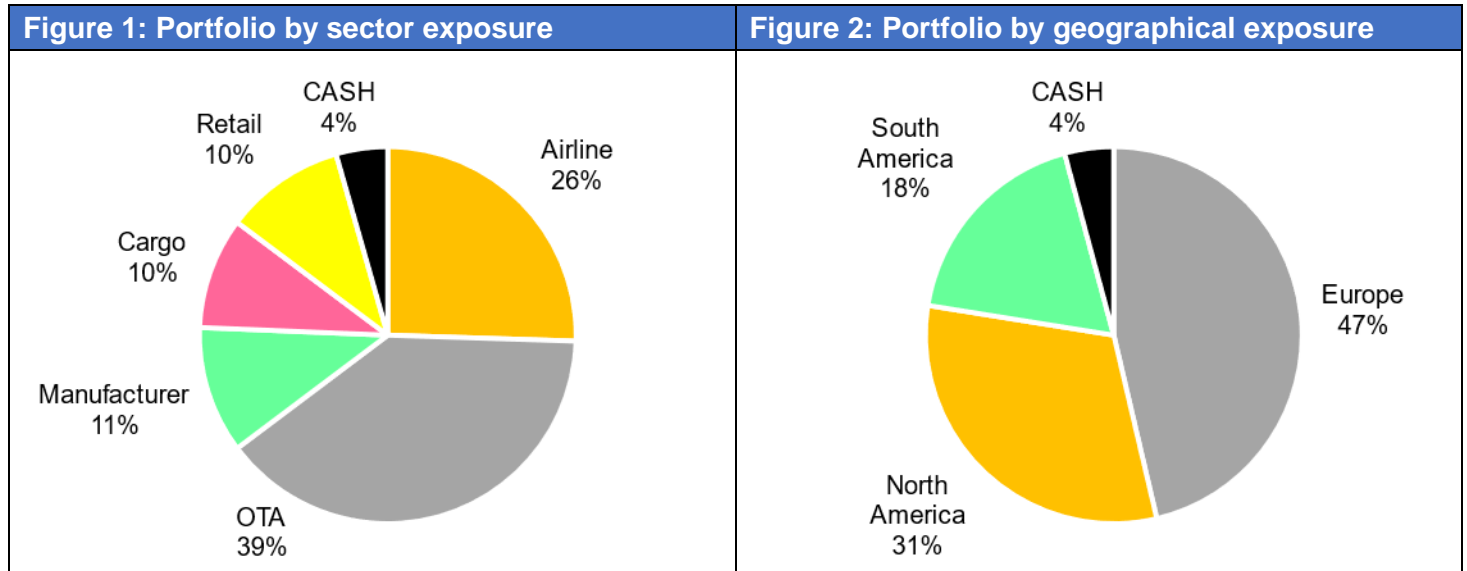




Pangolin Aviation Recovery Fund August 2022 NAV

As at 31st August 2022, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was US\$79.91 net of all fees and expenses, up by 0.31% from US\$79.66 in July 2022.

The fund is 96% invested, with the split being approximately as follows:



Second quarter 2022 summary

The second quarter result season is officially done and in summary, there are many things to like and a few things to be scratching our heads.

From a demand perspective, things are solid across the entire sector. Consumers are buying convincingly as validated by high airline load factors, high airline fares, sizeable new aircraft orders, and strong traffic growth at the airports and retail outlets. All the talk of inflation and recession stymying the sector's recovery is not true; people are buying, and they are paying top dollar for it.

After all the labour issues confronting the aviation industry, there is finally a light at the end of the tunnel. Employee participation is rising steadily driven by better wages, amicable employment terms, agreement with labour unions, and the general positivity in people seeking employment. Furthermore, many new licensed staff were waiting for regulatory clearance to obtain their mandatory airside IDs. The airside IDs have taken far longer than normal, but the backlog is being cleared at an acceptable pace now. We can expect to see a batch step up in active staff numbers soon.

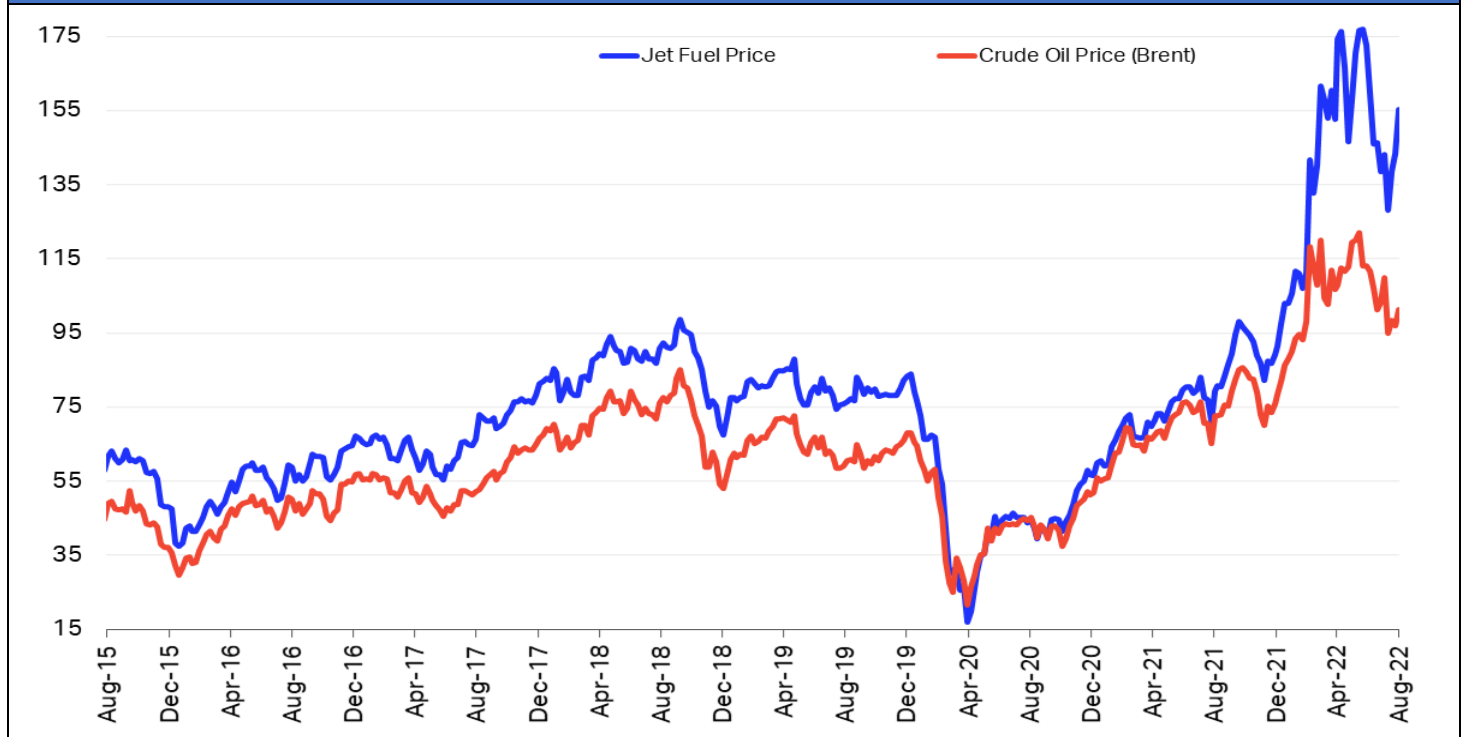
Aircraft orders and deliveries are picking up. The Federal Aviation Authority has given the green light for the delivery of the much-awaited Boeing 787, the first since May 2021. Airbus A380 aircraft are increasingly being taken out of storage and put into service. By end of July 2022, approximately 70% of the global A380 was on active duty¹. These wide-bodied aircraft are a key cog for aviation recovery, accelerating supply-demand equilibrium, promoting stability in airfare, stimulating long-haul traffic growth, and boosting airline and airport staff productivity.

¹ Cirium



Due to the wild fluctuation of fuel prices and currencies, many company management we spoke to lament that cost budgeting is near impossible to forecast. It is too late to hedge now due to high implied volatility. The Russia-Ukraine war and the subsequent sanctions imposed by the West and West-allied governments have pushed jet fuel price to a new record. The crack² margin is hovering between USD50-60/bbl, which is well above its historical range of USD8-14/bbl (refer to Figure 3). I doubt anyone saw this coming.

Figure 3: Jet fuel and crude oil price (USD/bbl)



Sources: S&P Global, Refinitiv Eikon

We believe the crack margin will recede by the end of the year as global supply is sufficient. Furthermore, Russia's jet fuel exports are not on the sanction list. Therefore, it is freely tradable globally. Prices of other commodities have receded substantially in the past two months and are forecasted to continue to trend downward. It is only a matter of time for jet fuel crack margin to rebalance.

Outlook

We are approaching the end of the Northern hemisphere summer and many investors have returned to work after their vacations. I'd imagine they are thinking hard and contemplating what to do for the rest of the year.

The headlines are mostly negative and will probably be dominated by talks of inflation, recession, inverted yields, and poor consumer sentiment. Discerning investors know there are whispers of optimism as evidenced by high load factor, record yields, lower raw material cost (referring to aircraft manufacturers), easing of travel restrictions, and the return of corporate travellers. Economic fundamentals will eventually be re-established.

The storm might not be over, but there is a rainbow waiting on the other side.

² Crack spread is the overall pricing difference between a barrel of crude oil and the jet fuel products refined from it



Mohshin Aziz

5 September 2022

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022	NAV	110.60	108.72	106.42	103.80	97.14	76.62	79.66	79.91					-24.66%
	MoM %Δ	4.28%	-1.70%	-2.11%	-2.46%	-6.42%	-21.12%	3.97%	0.31%					
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 4: Pangolin Aviation Recovery Fund NAV (USD/share)

