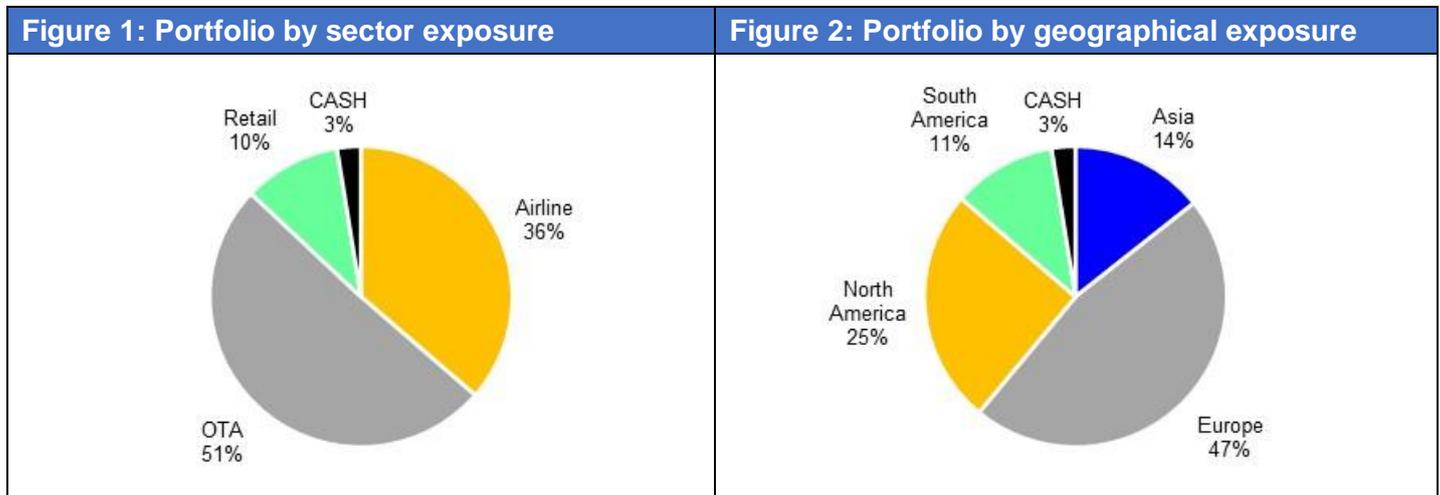




Pangolin Aviation Recovery Fund April 2022 NAV

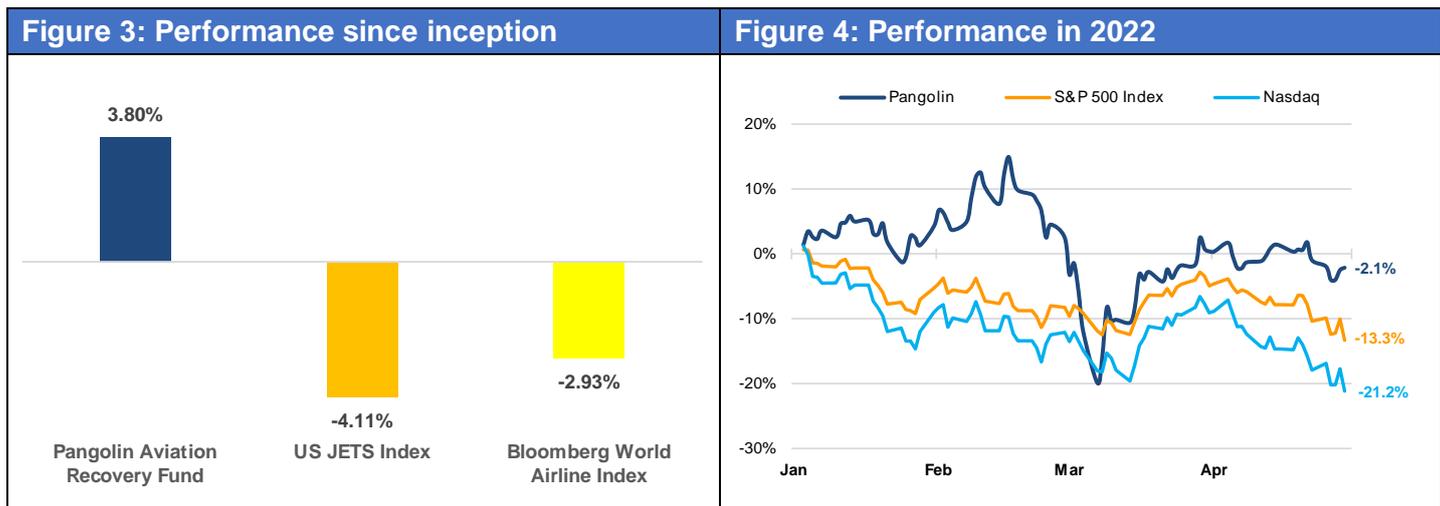
As at 29th April 2022, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was US\$103.80 net of all fees and expenses, down 2.46% from US\$106.42 in March 2022.

The fund is 97% invested, with the split being approximately as follows:



Overview

To put things into some perspective, please see the graphs below.



Source: Bloomberg

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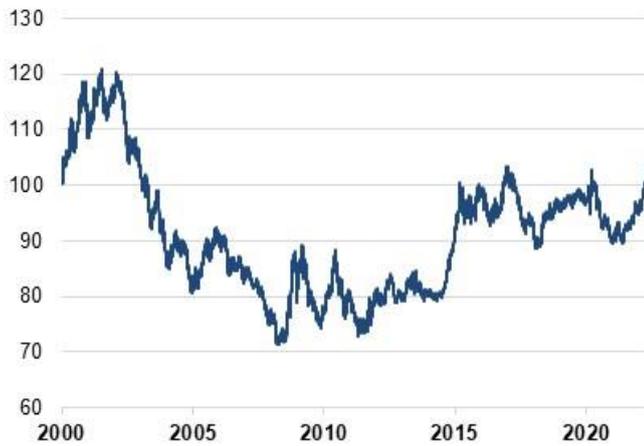
Our fund's decline in April is relatively modest compared to the major global indices. The aviation sector is showing its resilience underpinned by an improving outlook. Global borders and travel restrictions are increasingly being eased, and people take to the skies with fervour.

There were some inflows to the fund in April, but the investment composition of our portfolio is largely unchanged.

The US Dollar is on a strengthening trend, as seen by the Dollar Index hitting a 19-year high, signifying its safe-haven status whenever a global crisis hits. This is negative news for our European investments as GBP, EUR, CHF, and NOK depreciated by 4.3%, 4.7%, 5.2% and 6.3% respectively in a month.



Figure 5: Dollar Index



Source: Bloomberg

Figure 6: European FX versus USD in 2022



Source: Bloomberg

Hitting the road

I visited six countries and flew on eight flights for a combination of family vacation and work in April. It gave me a good glimpse of the European aviation markets which were all uncannily similar: (1) flights were full — 95% to 100% of seats filled; (2) flights were on-time (maybe I was lucky); (3) tickets were cheap — all my flights were loss-making propositions to the airline; and (4) nobody asked to see my vaccination certificate or my mandatory PCR entry test — which I always knew few actually took seriously.

Where was the evidence pointing to inflation and war denting consumer demand to travel? Everywhere was buzzing and super busy. Airport retail got its mojo back. I had to wait for a long time to get my overpriced lousy coffee. I could see that people were flocking to buy duty-free goods too.

Seeing is believing. Go and visit your nearby airport and feel the electricity in the air. P.S, if you live in China or Hong Kong, this does not apply to you.

Meeting with the companies

Company managements are starting to meet investors again and I am so happy to be able to do-good old-fashioned research leg work. The best way to get a conviction is to try the products yourself, meet and talk with the management. Zoom and MS Teams calls are good for a specific time, but they can only go so far. I visited some of the companies we own. Here are the synopses of the visits.

On-the-beach (OTB)

I went to Manchester to meet up with OTB's management. The weather at Manchester was rather chilly, but once I entered OTB's office, I automatically warmed up as the beach vibe hit me. I met with Simon Cook (CEO and founder), Shaun Morten (CFO), and Richard Hansen (Business Development).

I got a comprehensive understanding of the company's history and work culture. It is a very friendly, technology-driven, and service-oriented company with a niche market in beach holiday packages. Other online travel agency (OTA) couldn't possibly outdo in terms of breadth of offerings, flexibility of payments, support, and quality of services.

According to management, customer demand is strong, people want to go on holidays, and beach destinations are increasingly popular. The pandemic has made more people use a specialised tour operator because they do not want to deal with the headache of ever-changing rules or the hassles when something goes wrong. This is the strength of OTB where it should enjoy a steady stream of repeat customers and new ones in the future.



Office area



Top floor of the office



Left to right: me, Simon, Richard, Shaun

Norwegian Air Shuttle (NAS)

I headed to Oslo onboard a NAS flight departing from London Gatwick. It was a pleasant flight; the aircraft was high-spec, and the inflight service was great. I struggled to fathom that NAS is an LCC, as they could easily outrank many European full-service carriers in terms of customer service and onboard experience.

I visited NAS headquarters to meet with the line managers for cabin crew, operations, regulatory affairs, and revenue management. As a former airline employee, it was a joy to hear them talk about the intricacies of the industry as well as the new challenges they are facing. It was reassuring to hear they are very focused on their business turnaround plan.

We think NAS is in a sweet spot. Passenger demand is very strong, and their main competitors (SAS and Finnair) are undergoing a major restructuring, thus inhibiting their ability to compete in the short term. NAS' load factor has soared above 80% since Feb-2022 and some peak summer flights are already sold out. The company will exploit this strong demand and push for higher fares. We hope they succeed in sufficient quantum to offset fuel price spike and return to profitability as soon as possible.



Boeing 737-800NG, a total of 61 aircraft in NAS fleet



View of the atrium at NAS main building



Jesper Hatleveit (IR)

easyJet

I was reacquainted with an old friend. Peter Bellew (COO) is a gentleman I know well from his days as the CEO of Malaysia Airlines. His public image is less gregarious. Employee unions abhor him but acknowledge that he is a tough cookie. Michael O'Leary (Ryanair's CEO) tried to sue him in court and lost. That is about as best credential as one can have in the airline industry.

The big challenge for the industry, and easyJet as well, is manpower. Currently, easyJet has ample number of trained staff. However, the new staff are not certified yet due to severe operational delays from the regulators. 300 cabin crews are still waiting for security clearance from the civil aviation authorities. What used to clear in 2-3 weeks pre-pandemic has prolonged to 16 weeks.



Security clearance delays will negatively impact other critical aspects of the industry such as air traffic control, airport security, immigration, baggage handling, and other operational areas of airport staff. The recent series of flight delays and cancellations over Easter weekend in the UK was well documented, but less so about the root cause behind it. Now you know why.

JET2

Next stop was Leeds where I met up with Gary Brown, the CFO of JET2. I have to say, there were lots of 'magic moments' in this meeting. The first occurred even before I could finish my first question. Mr. Brown gave me a lengthy lecture explaining that JET2 is **NOT** an airline in any shape or form.

JET2 is a service provider in the travel tour industry. It is obsessed with providing customers with the perfect holiday. Being minutiae is a virtue. No critical function is outsourced due to certainty of quality control. This is the reason they own aircraft assets: to be in control of flight schedules, have seat inventory, and furnish the aircraft to their clients' requirements.

What's encouraging is that around 30% of JET2's customers are new. Some are crossovers from Thompsons and TUI, but the majority are first-time users of travel tours. I believe this is an outcome of the pandemic as people do not want to handle the stress of planning for holidays. They would rather let experts like JET2 handle it.

The average UK household has one holiday abroad per year. High inflation will not deter them from having important vacation. They might trade down for a shorter trip or opt for a less expensive room. The reality is a holiday in the UK is often more expensive than JET2's fancy international offerings.



JET2's HQ, Holiday House



The wall of fame – awards and insignias



Back to office work for staff

Rolls Royce

I met with Ms. Isabel Green (Head of IR). We have never invested in Rolls Royce. However, the visit provided an important insight into the state of health of global long-haul flights and widebody aircraft due to their Trent¹ engines which power roughly one third of all wide-bodied aircraft globally.

The trend is improving, many airlines have restarted their long-haul operations and the Trent engine usage is on the way up. We can expect a higher number of shop visits in 2023 as these aircraft hit their milestone and are due for maintenance work. More interestingly, inquiries on new aircraft and engines are actively discussed by airlines, hinting that growth is in the pipeline.

¹ The Trent series is a generic name given to engines made by Rolls-Royce for wide-body civil aircraft.



Booking.com

I did not meet with Booking.com’s management but I used their services a lot on this trip. Their platform is intelligible, comprehensive, and offers the best value. Sometimes I wonder why anyone would bother looking up other OTAs. Their hotel offerings are remarkable, and so is their new business venture of selling airline tickets. I scored great value in all my stays and my flight back to Singapore. I am just a whisker away from being promoted to Genius Level 3, and I look forward to further loyalty discounts. It is no mistake that Booking.com has been our core position since inception.

Ryanair

I didn’t meet with Ryanair’s management, but I took four of their flights. My experience was generally positive. The check-in process was smooth, the on-time performance was flawless, and all my baggage arrived on time.

However, they were slacking in their ancillary income department. They only offered mineral water for inflight sales — I found out later there was a strike by their suppliers. Second, people were bringing a countless number of unpaid baggage onboard and got away with it.

In the past, Ryanair would put the meanest-looking bouncer at the aircraft entry counter to verify that only paid cabin baggage went through. Any freeloader that was caught would be forced to pay £69.99 on the spot. No amount of pleading, crying, name dropping would do any good. Ryanair staff were hardwired to be avaricious because their livelihood revolved around it. Their total remuneration package was substantially supplemented by productivity KPIs and commission from all these on-the-spot ancillary income opportunities. If they performed, they would be having premium fish & chips for lunch. Otherwise, baked beans.

It is a well-known fact that Ryanair relies on ancillary income to be profitable. The flight ticket is grotesquely insufficient to pay the bills. Take my tickets as an example; I paid an average of £51.5, of which £19.6 were taxes and airport charges. Ryanair only got £31.9 for a 1,732km flight, which equates to 1.8 pence per kilometer. To put things into perspective, Ryanair’s 2019 average yield per kilometer was 3.9 pence.

Ryanair seemed to have lost its DNA and had gone soft in all my four flights. Way too soft to justify their hard valuations.

Outlook

There is a great dichotomy between what the industry is doing and how the share price is performing. Share prices are lagging fundamental performance, but we believe they shall catch up eventually.

Mohshin Aziz

6 May 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									-2.13%
	MoM %Δ	4.28%	-1.70%	-2.11%	-2.46%									
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%	