PANGOLIN INVESTMENT MANAGEMENT

Pangolin Aviation Recovery Fund March 2021 NAV

	4-Jan-2021	29-Jan-2021	26-Feb-2021	31-Mar-2021	YTD
NAV (in USD)	**100.0**	**93.38**	**112.20**	**116.87**	**116.87**
Month on month change		***(6.62%)***	***20.55%***	***4.16%***	***16.87%***

As of 31st March 2021, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was USD116.87 net of all fees and expenses. This represents a 4.16% increase over February 2021 and a 16.87% increase since its launch on 4th January 2021. The fund is 84% invested, spread across five industry sectors and five continents (please refer to Figures 1 and 2).

Figure 1: Portfolio by sector exposure

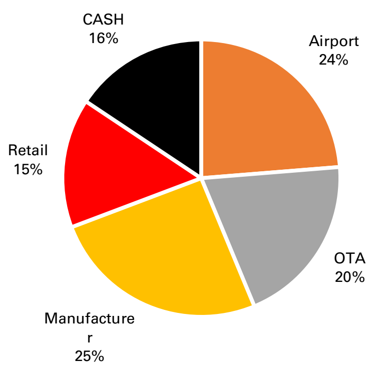
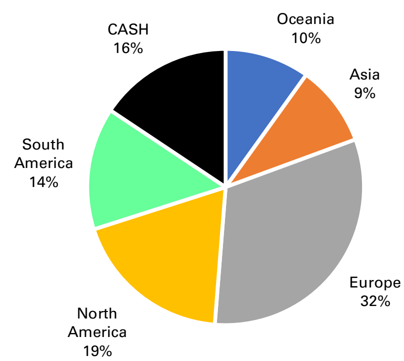


Figure 2: Portfolio geographical diversification



"C" for consolidation

March 2021 has portrayed both the good and bad connotations of the word 'consolidation'. Earlier in the month, AerCap stunned the world with its USD30b acquisition of General Electric's aircraft and engine leasing arm GECAS. This deal is the biggest in aviation history. GECAS and AerCap are the world's first and second-largest aircraft lessor in that order, and it is rather uncanny that the smaller company gulping the larger rival. The combined entity will own or manage more than 2,000 aircraft and 900 engines, thus controlling around 18% of the global leasing market.

The market took this news favourably, and so did we. We were counting on industry consolidation to be a recurring feature in this recovery cycle. Industry consolidation will help to remove excess and duplicate capacity, eradicate mindless competition, reduce the peak to lean period swing, and boost overall efficiency. Equity values will be worth considerably more in a consolidated market than in a fragmented market.

We do not own any aircraft leasing company in the portfolio. Nonetheless, we benefitted all the same because the market has re-rated the entire aviation industry on this development and share prices have soared to stratospheric dizzying levels. At the peak of this frenzy in mid-March, the fund's month-on-month NAV growth was at double-digit levels.

Alas, this was not to last. The rising number of new Covid-19 cases sparked the fear of a third wave in many European countries and volatile fuel prices has led to the consolidation of aviation companies' share prices across the globe.

Thankfully, at the end of this bipolar month, the NAV settled with a decent month-on-month gain. We are reminded that our fundamental thesis remains intact and it is a long-term recovery game.

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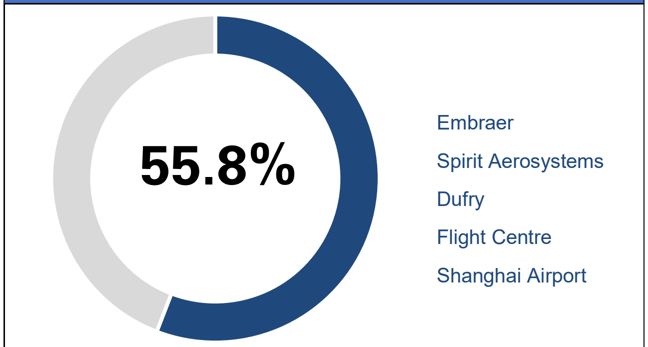
Portfolio constituents

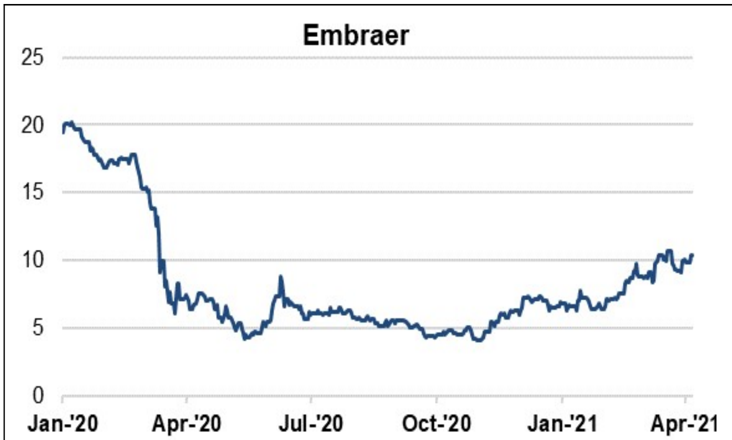
Figure 3: Top-5 holdings (as of 31 March 2021)



The portfolio consists of 11 companies spread across nine countries as of 31 Mar 2021.

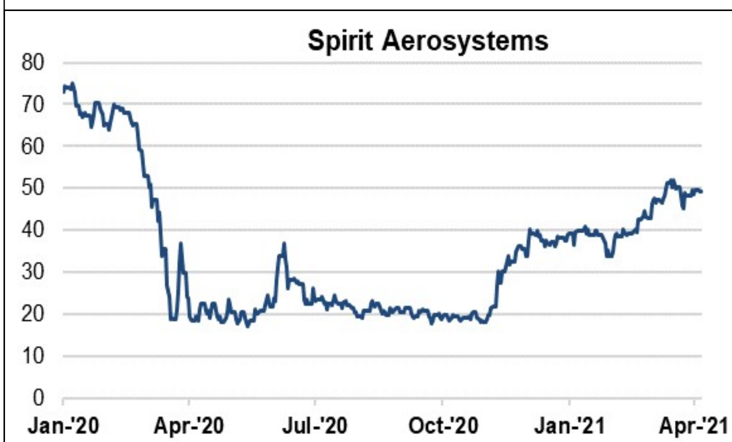
March 2021 was an active period for the fund. There were inflows, prompting us to acquire new opportunities and to add in existing companies in the portfolio. We have increased our exposure to OTA and cut our entire exposure to airlines. We believe that both Japan Airlines and All Nippon Airways have reached their fair values and that all the positives have been priced in. It may seem ironic that an aviation fund has zero exposure to airlines, but we remain steadfast to our principles of buying cheap and selling at fair value.

In this week's disclosure of the portfolio, we will talk about aircraft component manufacturers as we have the largest exposure to this aviation sub-sector, at 25% of the fund. We bought two companies in the sector and they are Embraer and Spirit Aerosystems. The summary of our investment calls is shown below:



Embraer S.A. is a Brazilian aerospace company that produces commercial, military, and executive jets. It is the third-largest producer of civil aircraft and it specialises in small jets with 70-150 seats, a niche segment in which Embraer is a clear market leader.

We believe Embraer product line-up is the most suited for the current crisis because airline CEOs are using cost per trip as the gauge to deploy flights. A telling fact of this attribute is Embraer had no cancellation of orders.



Spirit Aerosystems is an original equipment manufacturer for all the major civil aircraft manufacturers. Business drivers are new aircraft orders and secondary replacement parts.

Its factories are now running at low rates but the management has reconfigured and rejigged the factories to be more efficient. When the demand for components recover, Spirit Aerosystems will be able to produce them at lower cost and greater speed.

Vaccination progress is encouraging

More than 673 million doses have been administered across 155 countries, according to data collected by Bloomberg (updated as of 6 April 2021). The latest rate was roughly 16.2 million doses a day.

The USA's vaccination drive is admirable. So far, 167 million doses have been given and 26% of the population has been fully vaccinated. The current run rate is 3 million doses per day and assuming this continues, the USA could reach herd immunity level (60-80% of the population) by this summer.

The United Kingdom is another success story. More than half of its adult population has received their first dose. Yours truly is one of them. I arrived in London in mid-March. Post my mandatory 10-day quarantine, I decided to visit a nearby hospital and asked if they have any surplus vaccines. Ten minutes later I walked out of the hospital with a sore arm and a gleaming smile from ear to ear. I never thought a visit to the hospital could bring such joy. Well done and God bless everyone in the National Health Service.

At some point in the (near) future (hopefully), this vaccination success story will ease restriction and liberate consumer mobility. Mobility will be the catalyst for many recreational economic activities such as retail, food & beverage, sporting activities, movies, and especially leisure and tourism. Light is at the end of the tunnel.

but there will be speed bumps

There has been some setback in Continental Europe in terms of the slowness of the vaccine rollout. This is due to the European Union's complex political structure with its all-for-one and one-for-all approach to procure coronavirus vaccines.

The intention was good: central negotiation can help to reduce cost, avoid unnecessary competition and ensure equality among member states. What transpired, however, was incessant bureaucracy causing delays to authorise vaccines and slow to sign procurement contracts with pharmaceutical companies that are already beset with enormous supply backlogs.

It does not help that this stalemate coincides with a spike in Covid-19 numbers in Germany, France, Austria, Switzerland, and to a lesser extent in the other European countries. Therefore, it is not a surprise that there is a bit of a pullback on aviation companies' share prices, especially those in Europe.

Aviation stocks are not alone. Other cyclical trade faces the same fate as well. We think this is nothing more than profit-taking as the end of the quarter approaches to lock in large price gains. We see this pullback as a buying opportunity.

Mohshin Aziz
8th April 2021

P/S: I am in London and will be free to meet up. Please email mohshin@pangolinfund.com and we take it from there.