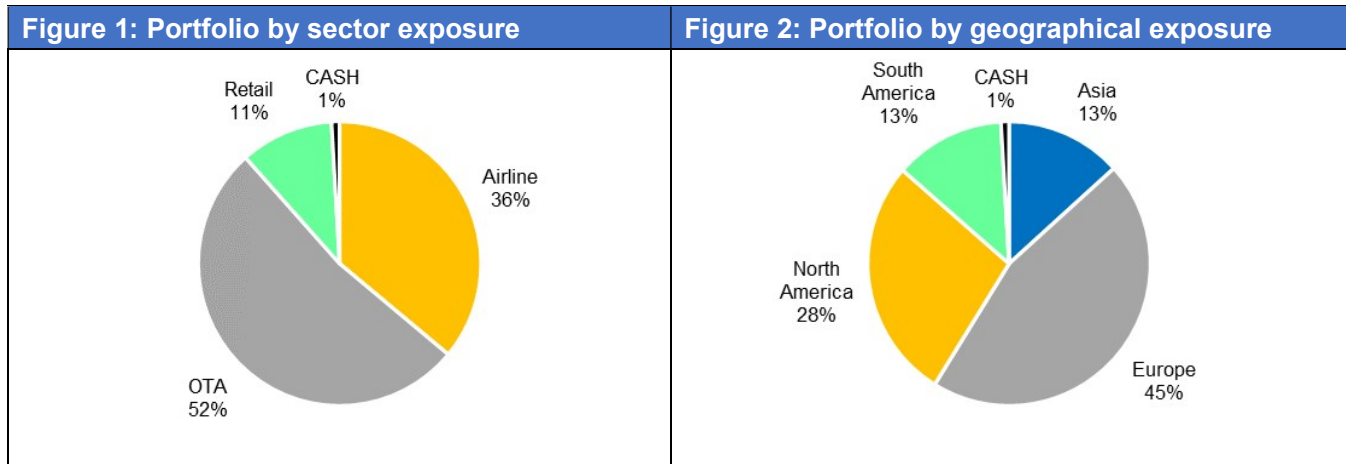




Pangolin Aviation Recovery Fund March 2022 NAV

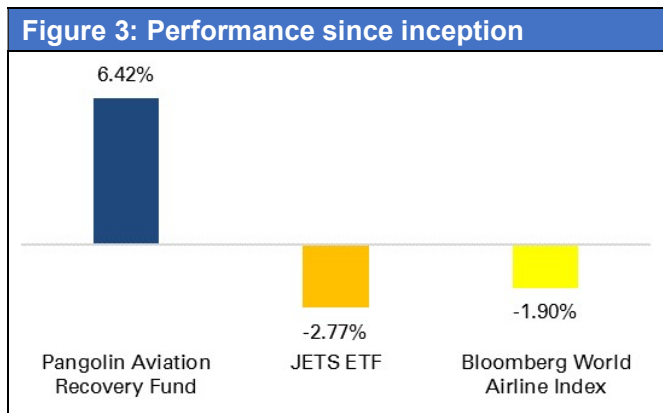
As at 31st March 2022, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was US\$106.42 net of all fees and expenses, down 2.11% from US\$108.72 in February 2022.

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



Overview

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



Source: Bloomberg

March 2022 presented us the opportunity to add a new position at a very attractive price. We purchased TravelSky Technology Limited, China’s sole global distribution system provider. It is the perfect proxy for China’s air traffic growth as it has a monopoly on domestic flights. The recent Covid-19 flareups across China have pushed down its share price to a level that is attractive for us.

The company is profitable, generates positive cash flow, and is comfortably in a net cash position. Analysts forecast its profits will progressively grow and exceeds pre-pandemic levels by 2024. Its share price back then was well double what it currently is.



Russia-Ukraine war, and its impact on our investment strategies

Let me begin by saying that any impact on aviation pales in comparison to the unfolding humanitarian crisis. This is a sensitive topic but its implications on the aviation sector need to be both assessed and addressed as it has a material impact on our fund performance.

The speed and unity of action by both Western and West-aligned governments are unprecedented. Russia is now the most sanctioned country in the world and is the closest living example of autarky¹. Any hope of rapprochement is distant at best. Under this backdrop, the baseline assumption is for energy prices and jet fuel to remain at high levels as there is no possible way the other world producers can fully offset Russia's supply.

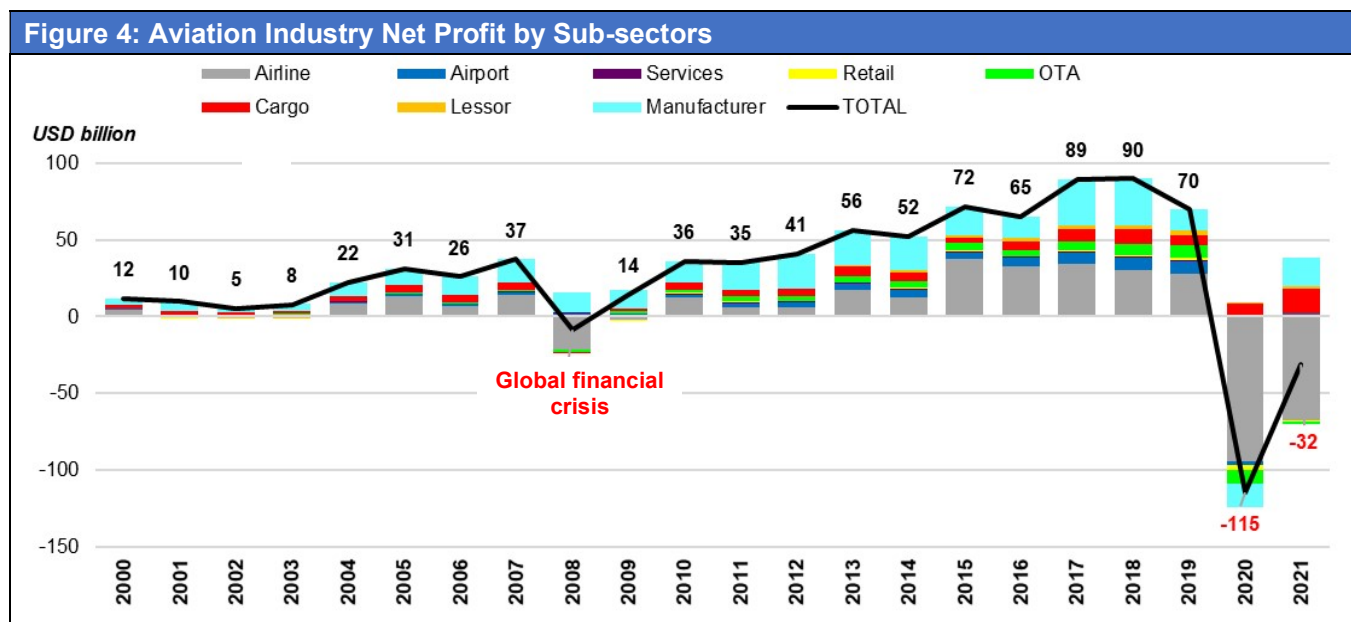
Airlines can prosper in a high fuel price environment; it is the volatility that really hurts them. Ticket prices are routinely tabulated, using clever algorithms and clairvoyance that safeguard profits. But when fuel prices are extremely volatile, as is the case now, the revenue management system seizes up and can't possibly cope.

In such an environment, the airline management is inclined to curtail their growth plans to artificially suppress supply and keep ticket prices high. They won't launch experimental flights such as new routes or new connectivity as the start-up losses will be too painful to absorb. There will still be traffic growth; just at a lesser rate than previously planned, and with less vibrancy.

At this moment, we are avoiding additional exposure to airlines and the European region. Online travel agents, airports, and air cargo are better investment themes as they are not directly affected by high fuel prices. Our latest acquisition of TravelSky is consistent with this stance.

The aviation sector will return to profitability in 2022

The chart below shows the aviation industry's net profit by respective sub-sectors and in aggregate since 2000. As you can see, the aviation sector is remarkably profitable and delivers a respectable 18-year CAGR of 12% (we use 2018 because Asia Pacific was negatively impacted by Covid-19 in 2019). More impressive, traffic CAGR for the same period was 5.3% p.a., implying a net profit to traffic multiplier of 2.3x.



Sources: Respective companies

¹ A situation in which a country cannot trade with other countries



The consensus for 2022 is for the global aviation industry to generate cumulative profit of USD50b, which roughly equals to the profit of 2014. It is reassuring to know that the industry is nursing itself back to health. I won't be surprised if the profits in 2023 exceed the previous record.

The share prices have not responded to the improving outlooks, side-tracked by the war and inflation concerns. We are long-term investors, so we will just have to wait patiently for valuations to catch up with the fundamentals. Exciting times ahead.

Mohshin Aziz

1st April 2022

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022	NAV	110.60	108.72	106.42										0.34%
	MoM %Δ	4.28%	-1.70%	-2.11%										
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%	