



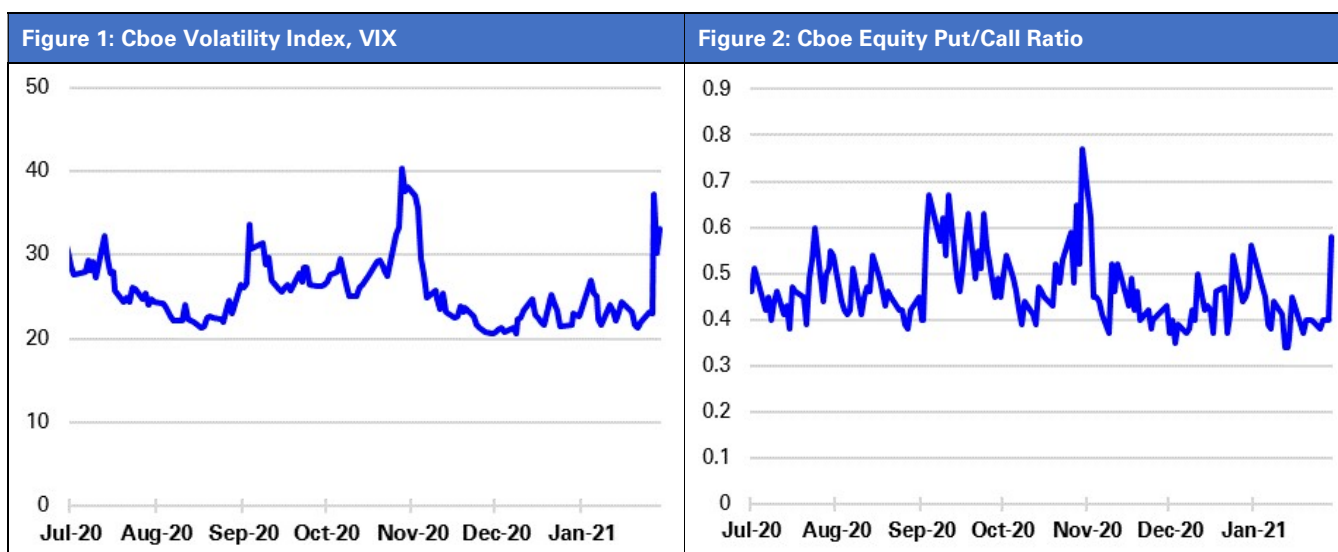
Pangolin Aviation Recovery Fund January 2021 NAV

	4 Jan '21	8 Jan '21	15 Jan '21	22 Jan '21	29 Jan '21	YTD
NAV (in USD)	100.0	98.657	98.143	95.874	93.376	93.376
Week on week change		(1.3%)	(0.5%)	(2.3%)	(2.6%)	(6.6%)

“V” for volatility

As of 29th January 2021, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was USD93.376 net of all fees and expenses. It is down by 6.6% since its launch on 4th January 2021.

January 2021 can best be described as extremely volatile. The Chicago Board Options Exchange (CBOE) Volatility Index¹, or VIX, spiked >60% last week to the highest level in the past four months. Similarly, the CBOE Equity Put/Call Ratio² surged by 45% last week. Such extreme spikes generally only happen once or twice in a normal year. So, we are seeing indications that early 2021 is anything but normal.



Source: CBOE

The market is factoring in the third wave of Covid-19 surge, which is virulent in parts of Europe and North America. Investors are also beginning to understand the complexities of vaccine administration and that this pandemic will not be in our rear-view mirror anytime soon. Additionally, the ongoing war between the belligerent army of retail investors and Wall Street’s Hedge Funds has unnerved many and forced them to unwind positions to reduce their overall risk exposure.

In the case of our fund, the portfolio value rose by 2-3% in the morning but ended up 2-3% lower at the end of the market close. A 5-6% daily swing in Net Asset Value (NAV) of a well-diversified portfolio is uncanny. But yet, it happened many times in the past fortnight. This week has been much more positive as the fund reversed its January 2021’s loss to NAV of 100.9 (as of 4th Feb 2021).

¹ Investors use the VIX to measure the level of risk, fear, or stress in the market

² A higher put-call ratio suggests that bearish sentiment is building in the market



First phase of portfolio deployment complete

We mobilized the funds on 4th Jan and bought companies on the back of exhaustive research and due diligence. The fund is 96% invested, spread across five industry sectors and five continents (please see Figures 3 and 4).

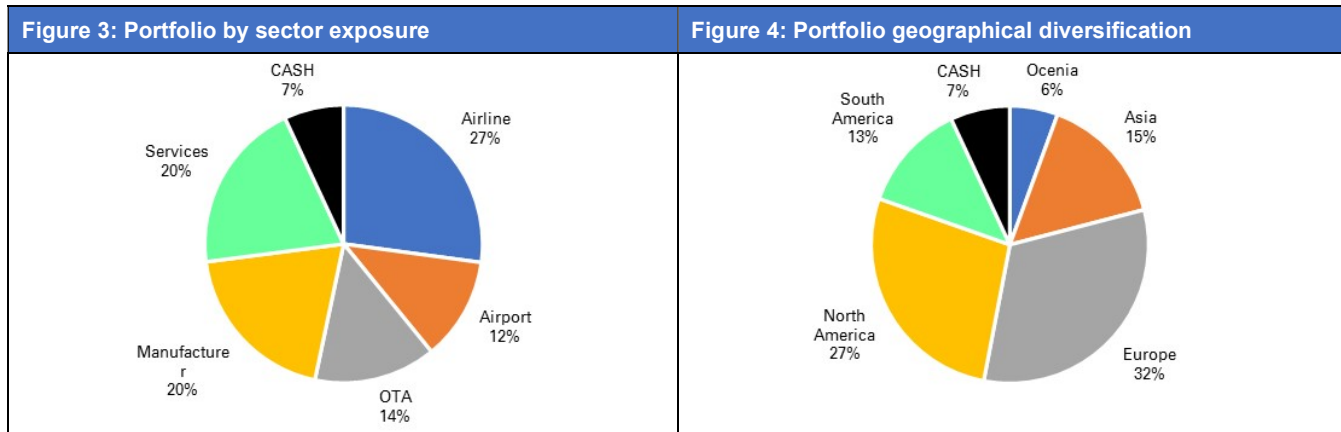


Figure 4 is slightly misleading because it is based on the company's incorporation. In terms of business exposure, all the companies based outside of Asia have 33-50% exposure to Asia. Therefore, the portfolio's combined direct and indirect exposure to Asia is approximately 45%.

We believe Asia Pacific countries will emerge from the pandemic faster relative to other global regions due to better overall management and a high level of compliance by the public. South Korean aviation-related equity was the top performer in January 2021 with an average month-on-month share price gain of 14%³. This is on the news of lower number of new daily cases and plunging number of active cases, giving confidence that the third wave is at its tail-end. We believe it is just a matter of time before other neighbouring countries see similar results and replicate the equity re-rating.

Outlook

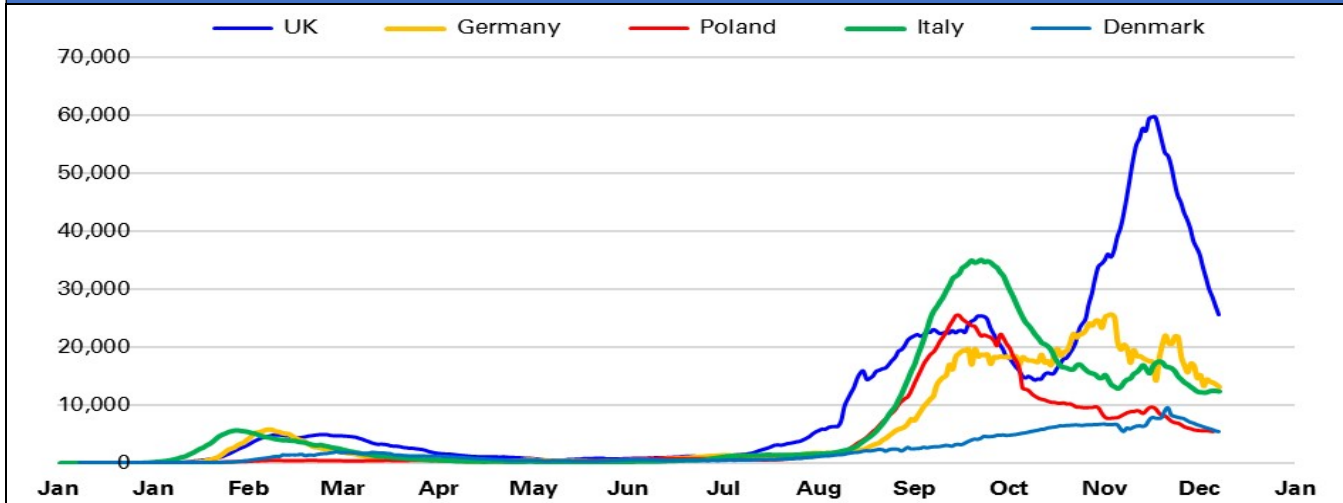
In our 2021 Outlook Report, we painted a negative outlook over the near-term. One month on, I am feeling a whole lot more positive because many governments have finally switched to top gear in handling the pandemic. The UK, Germany, Poland, and Italy have gone into a super-strict lockdown, with social curbs at peak Christmas holidays and extended school closures. These are things that were previously unimaginable for fear of peoples' revolt and waning popularity. Some countries have gone as far as imposing a state of emergency and curfews.

These harsh measures have already yielded tangible results, as seen in Figure 5. The daily transmission rate has dwindled, and R values are firmly below 1. This is despite a low percentage of the population who has received a vaccination. Healthcare officials have long stated that proper personal protective equipment, good hygiene, and social distancing will save more lives than the vaccine ever could. It is time we listen to them more diligently.

³ Average share price gain of South Korean airlines, online travel agents and terminal retailers



Figure 5: Daily new cases of Covid-19 (7-day average)



Source: www.worldmeters.com updated on 1 Feb 2021

Whilst nobody is ready to celebrate, I believe things should improve significantly in two months as the lag effect works its way out and assuming current discipline is maintained. One could say that Europe has replicated the 'Asia Pacific' standard procedure of curbing the pandemic. Hence, we should not be surprised to see similar positive results.

At the end of the day, humanity will beat Covid-19 with discipline, proper social distancing, and effective evasive tactics. Much like how the Russians did to the invading Napoleon army and later to the Nazis. The vaccine serves as armour and fortifies our defences; it was never meant as a weapon of aggression.

Concluding remarks

January 2021 was a tough month. We do not short stocks and we do not indulge in day-trading or short-term trading. Whatever we buy is with the intention to hold and wait for the share price to appreciate to its true value. Based on this, our fund will likely underperform during bursts of market volatility.

But as things settle down, fundamentals will reign as the primary valuation pivot. That is when the fund will shine. We believe many of the world government's harsh measures will yield positive outcomes. The vaccine rollout, despite its many challenges, will eventually render positive incremental benefits. It will take time for all this to crystallise, and we remain confident and optimistic that our investment thesis remains intact.

I will end by extending my deepest gratitude and thanks to our pioneer investors. I resisted sending a simple 'Thank You' email as I feel it is too spurious for the faith and confidence that you have extended to us as we embark on our investment adventure. I wish to do it personally one day when the opportunity presents itself. Please feel free to reach out if you have questions or just want to have a general chat.

Mohshin Aziz
5th February 2021