

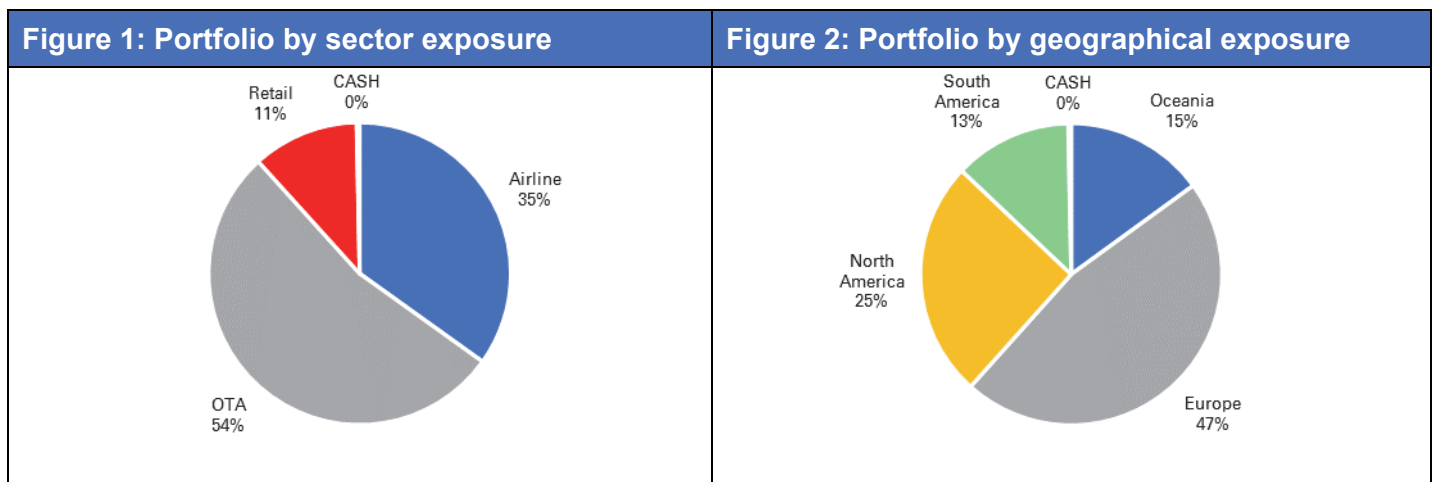


Pangolin Aviation Recovery Fund November 2021 NAV

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	NAV	93.38	112.20	116.87	116.30	119.97	113.86	109.74	108.43	115.97	109.28	93.86		
	% chg	-6.62%	20.15%	4.16%	-0.49%	3.16%	-5.09%	-3.62%	-1.19%	6.95%	-5.77%	-14.11%		-6.14%

As at 30th November 2021, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was USD93.86 net of all fees and expenses. This represents a 14.11% decrease over October 2021 and a 6.14% decrease since its launch on 4th January 2021.

As of today, the fund is fully invested, with the split being approximately as follows:



Overview

There were two transactions in the month. First, we sold our stake in Spirit Aerosystems. We tuned in to their 3rd quarter 2021 analyst call and noticed there was a great mystery about the actual number of available aircraft globally. Many aircraft are ready and in the possession of the aircraft manufacturers, waiting for handover to the final customers. Historically, these transitory numbers are benign. But now, it appears that Boeing has 100 fully-ready Boeing 787 Dreamliners in its possession and it is unclear how many inventories all the other aircraft manufacturers have. We were busy trying to find out these numbers; somehow nobody really knows. We may revisit Spirit Aerosystems as an investment potential when clarity is attained.

Second, we bought On-the-Beach, a specialty holiday consolidator based out of the United Kingdom. We were intrigued by their unique business model, whereby they craft holidays from the endless flight options, hotels/resorts, and activities into simple packages. Unlike online travel agents, they do not need to hold inventories or own any aircraft assets. Think of them as a super-computer programme that scans the market continuously and crafts the best value packages possible for its customers. If you are thinking of having a beach holiday, I seriously recommend you to check out their website www.onthebeach.co.uk

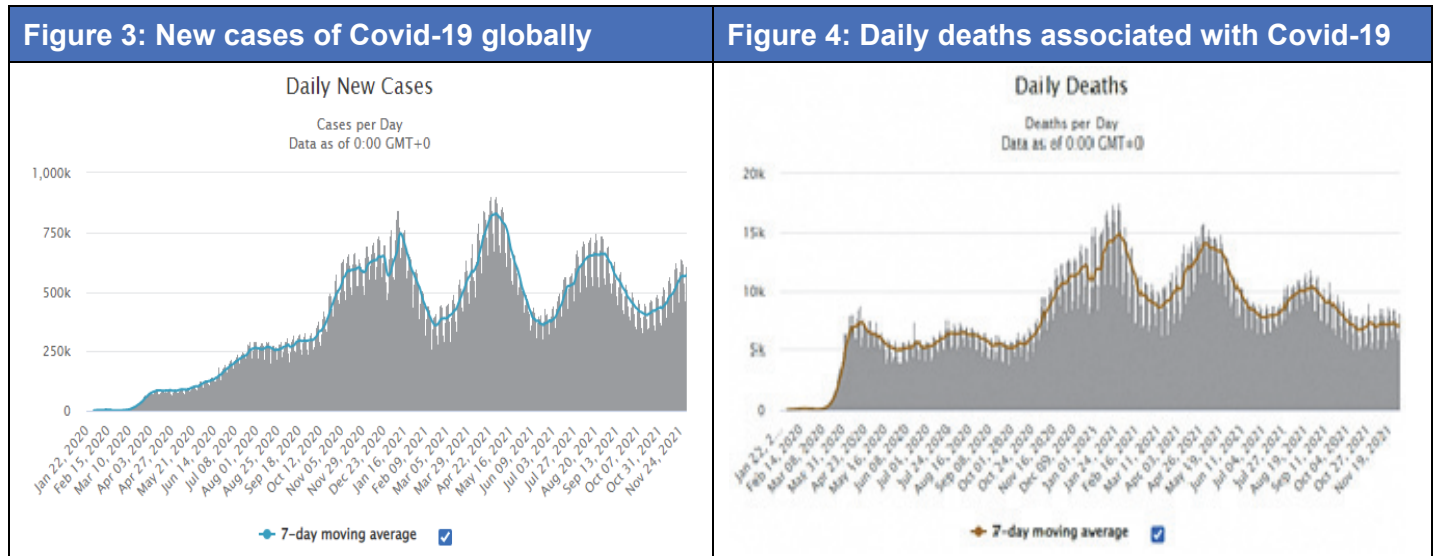
Here we go again

The threat of winter lockdown has become real in parts of Europe. This is bad news for our portfolio as European companies make up most of our portfolio exposure. Only two months ago, Europe was the poster child for the world to emulate its successful vaccination campaign, streamlined and simple border-crossing procedures, and swiftness in the opening after the lockdown.



The Omicron variant has raised concerns all over the world, except in the country that it supposedly originates from, South Africa. South Africa states that the symptoms of this new variant have been very mild and not particularly as vicious as the Delta variant. I was surprised that it has caused such a strong reaction from mainstream news outlets around the world. It is important to note that South Africa is handling the pandemic very well.

Governments need to change their game plan



Source: Worldometer

Twenty months into this pandemic, we can tangibly say that lockdowns have been effective in reducing transmission levels for a brief period. We are currently in the sixth wave of the pandemic and the peak-to-trough cycle is about three months as shown in Figure 3. From numerical observation, one can say that lockdowns merely defer the inevitable, it is a game of hide and seek for the virus.

We can also tangibly say that the vaccines have been effective in reducing the potency of the virus. Death rates and severe illness have markedly declined as seen in Figure 4. From a numerical observation, vaccine is the way to go.

Unfortunately, the vaccines' effectiveness wane over time. Previously, we were told two doses was all that you need. Now, we're increasingly told we need boosters. The status of 'fully vaccinated' is becoming vague.

To me, the government is facing its biggest conundrum ever. It must convince pro-vaccinators that two doses of vaccine are not good enough and that they need to administer more jabs. The government also must convince anti-vaccinators that the vaccine works, and they should get one as soon as possible.

I am confident that these lockdowns across Europe will swiftly tame down the number of daily cases. Thereafter, the government will lift the restrictions, normal life will resume, and the cycle repeats. This is not sustainable. To expect a different outcome from lockdowns after experiencing six waves of consistent outcome is a fool's game.

There is an immense cost in enacting lockdowns. With the economic gear effectively stuck, tax revenues will dwindle, and costs will surge due to social supports. Printing money and raising debt will undoubtedly give fan to the already elevated levels of inflation. The global supply chain disruption will linger. Manpower shortages will continue. In short, whatever problems we face today, will become worse if governments continue to resort to lockdowns.



The negatives have been more than priced in

The aviation recovery play will take longer, but the investment thesis remains valid as ever. The companies we have invested in have the highest chance of survival, based on their demand relevancy by customers, superb cost management, and comparative balance sheet and cash flows.

The survivors of the pandemic will inherit a more consolidated landscape and prosper over the long term. We are single-minded about this and make no provision for relapse or flare-ups as we see this as speed bumps to our destination. Therefore, whenever the market panics, we will have to take it on the chin.

Furthermore, if this Omicron really is as bad as they make it out to be, companies that are on their last legs will perish. Thus far, the numbers have been modest due to government assistance and creditor providing concessions. But this cannot go on forever.

I can't deny that November has been disappointing. Every time the portfolio climbs up the value slope, it is met with a precipice. We just have to endure these short-term pains as the long-term potential is still superbly great.

Figure 5: Pangolin Aviation Recovery Fund NAV (weekly)



Mohshin Aziz

2nd December 2021

