



Pangolin Aviation Recovery Fund September 2021 NAV

	4 Jan 2021	29 Jan 2021	26 Feb 2021	31 Mar 2021	30 Apr 2021	31 May 2021	30 Jun 2021	30 Jul 2021	31 Aug 2021	30 Sep 2021	YTD
Non-US NAV (in USD)	100.0	93.38	112.20	116.87	116.30	119.97	113.86	109.74	108.43	115.97	115.97
Month on month change		(6.62%)	20.15%	4.16%	(0.49%)	3.16%	(5.09%)	(3.62%)	(1.19%)	6.95%	15.97%

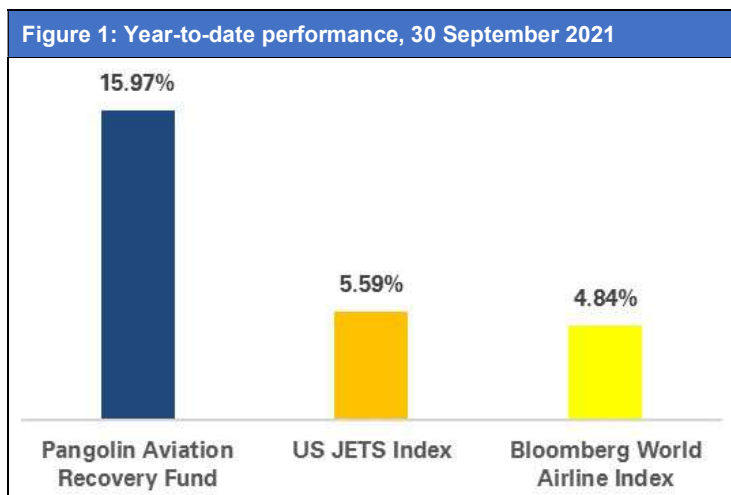
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As of 30th September 2021, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was USD115.97 net of all fees and expenses. This represents a 6.95% increase over August 2021 and 15.97% increase since its launch on 4th January 2021.

September was an upbeat month for the travel industry. Governments are taking the path of liberation and have eased many travel restrictions. The U.S. will allow fully vaccinated travellers from the U.K., most of Europe, China, and India to enter in early November. The U.K. has simplified its traffic light system, and many Asian countries have moved away from strict lockdowns. It is an unshackling feeling to see we are making solid steps to move away from this pandemic that has robbed our common lives for far too long.

Investors took comfort from this policy clarity and have returned to the capital markets convincingly. Share prices rose for almost all aviation sub-sectors. The only exception was air cargo, which is struggling with disruptions in the global supply chain and shortages in qualified manpower. One could say that the air cargo industry is a victim of its own success; the pandemic has quantum leaped the growth of e-commerce and the existing infrastructure can no longer cope as it has reached its breaking point.

Our fund benefitted from this improvement in investor sentiment towards the aviation sector. The fund also performed better relative to our notable benchmarks as shown in Figure 1 below.

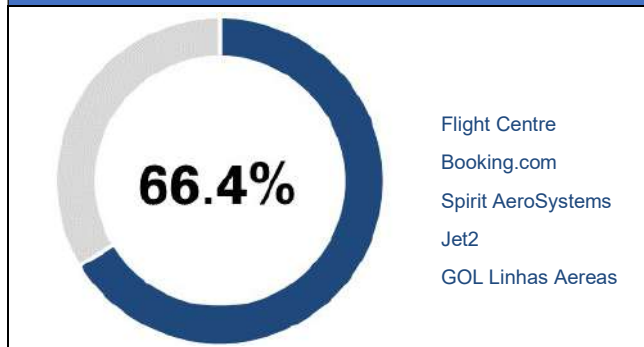


Source: Bloomberg



Portfolio constituents

Figure 2: Top-5 holdings (as of 30th September 2021)



The fund is 99% invested. It is spread across three industry sectors and four continents (refer to Figures 3 and 4). We have eight companies with a roughly equal split in the portfolio.

Figure 3: Portfolio by sector exposure

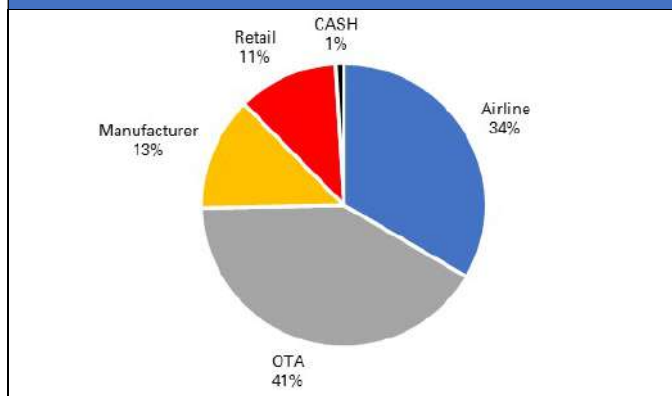
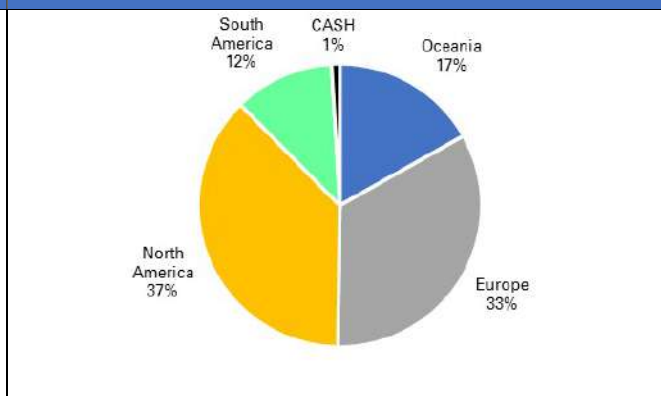


Figure 4: Portfolio geographical diversification



Spirit AeroSystems

This month I share with you our investment thesis of our third largest holding in the fund, Spirit AeroSystems (SPR).

Based in Wichita, U.S.A., SPR is the largest independent manufacturer of aircraft components. They produce parts that are vital for an aircraft to function such as fuselage, pylon, nacelle, and various wing systems namely slats, flaps, ailerons, and stabilisers. Appendix I provides some pictures and a brief explanation of their respective functions.

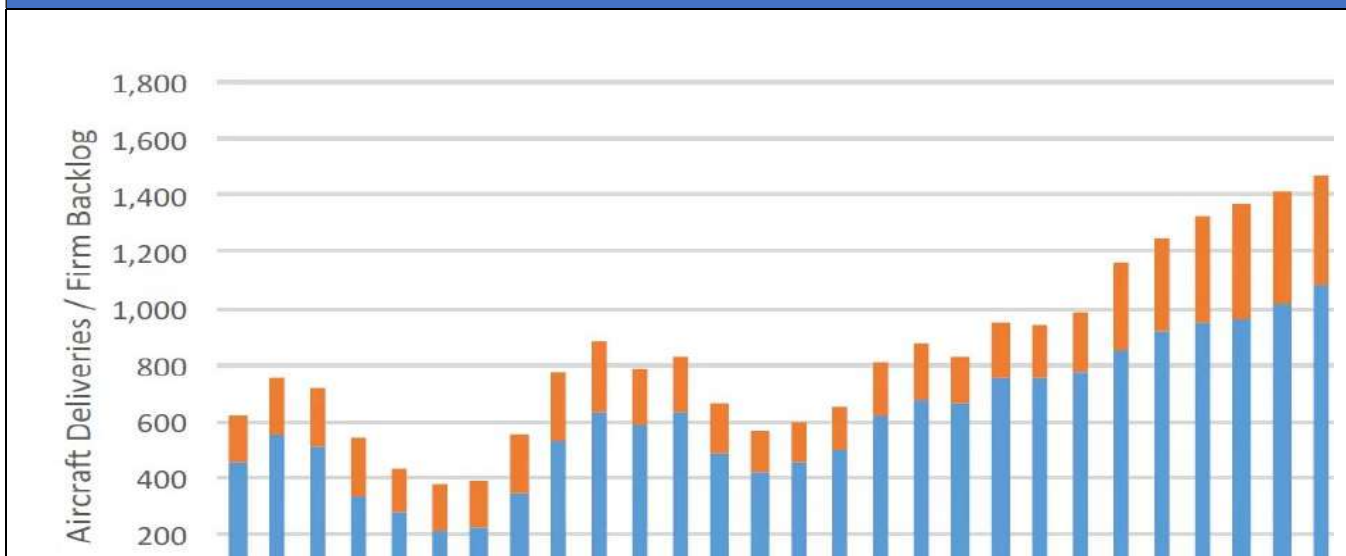
Why we like SPR:

- 1) It is no exaggeration to say SPR is an inseparable arm of the world's aircraft manufacturing industry. It is the sole supplier for various Boeing, Airbus, Learjet, and Mitsubishi aircraft models. We estimate at least 75% of all newbuild commercial aircraft uses one or more of SPR's products. Barriers to entry are very high in this industry as suppliers need a long track record and multiple certifications from regulators.



- 2) More demand for single-aisle, smaller aircraft going forward as airline executives focus on cost per flight and schedule integrity. The pandemic marks the end of gas-guzzling jumbo jets such as A380s due to extreme difficulty in filling up the aircraft in a consistent manner across the year. This is excellent news for SPR as most of its products are for narrowbody aircraft. Figure 5 shows expected strong recovery for aircraft deliveries that will benefit our company.
- 3) We are impressed by the management's discipline and dexterity. They have rejigged, streamlined, and modularised their production facilities during the height of the pandemic, taking advantage of the once-in-a-lifetime glacial production rate. Operating costs have been slashed, and efficiency enhanced. Another attribute that we like is that SPR has been paying dividends and conducting share buybacks consistently since 2015.

Figure 5: Total commercial aircraft deliveries



Source: Cirium

Figure 6: Total shareholder returns

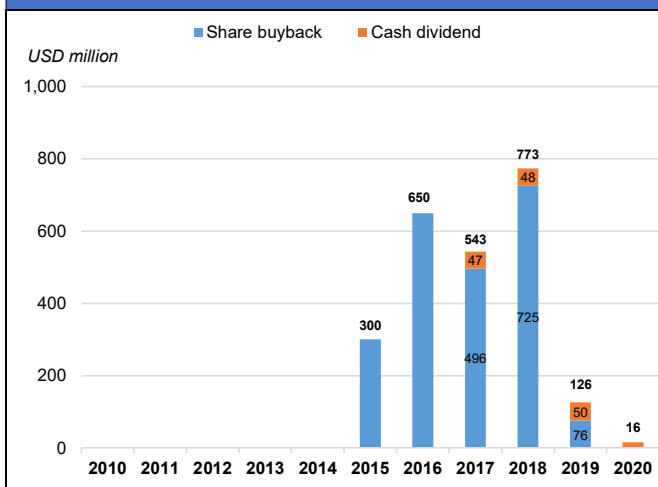
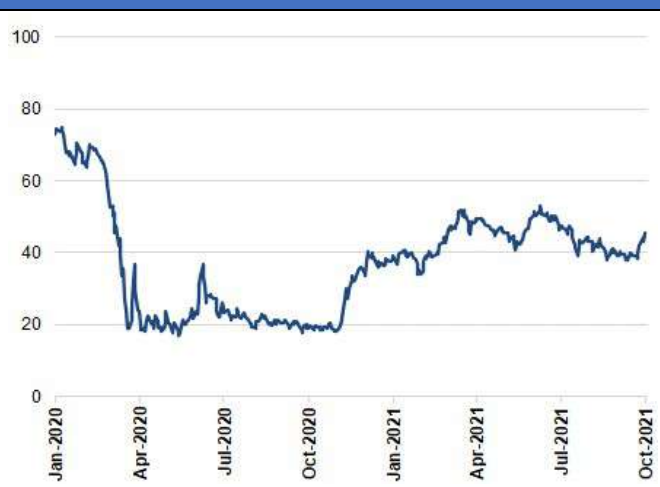


Figure 7: SPR historical share price in 2020-21



Sources: Company, Bloomberg



We acquired SPR at just under USD40/share. We believe this is good value given that it was hovering around USD80-100 before the pandemic. We are heading to the inflection point for global travel and things should get better going forward.

The good news is that airlines don't have much choice in deferring fleet upgrades. With oil prices high and mounting environmental pressure, fuel efficiency is a must. And no, you can't just bolt on a more efficient engine to an old aircraft. You need a new one. And if you want to compete on fares, you need the right sized aircraft for the route. Spirit AeroSystems' share price, does not, as yet, reflect this.

Conclusion: Summer is over, but I feel the sunshine is finally upon us

As the global aviation industry gets its grip together, we just sit back and wait. The portfolio is well positioned for this. Airlines are increasingly more bullish on their outlook citing strong latent demand from passengers. We can relate to this and can't wait to see it unfold.

Mohshin Aziz
1st October 2021



Appendix I: Spirit AeroSystems' key products

Fuselage Systems



Boeing 737 fuselage in Wichita plant

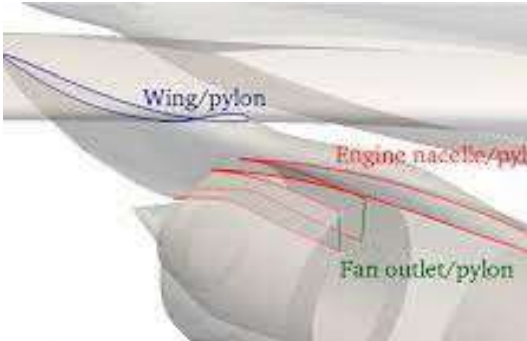


Boeing 787 Dreamliner fuselage in Wichita plant

The fuselage is an aircraft's main body section. It holds cockpit crew, passengers, cargo, or the combination of passengers and cargo. It is a highly engineered component able to withstand repeated stresses of compression and decompression.

SPR produces fuselages for the following Boeing aircraft: 737, 747, 767, 777, and 787 models. It also produces fuselages for Airbus A220, Airbus A350-XWB, Learjet 75, Global 5000, Global 6000, Challenger 350, and Challenger 650.

Propulsion systems



Pylon and nacelle are components that affix between the engine and the wing of the aircraft



Reverse thrusters are components that divert aircraft aerodynamics to aid braking during landing

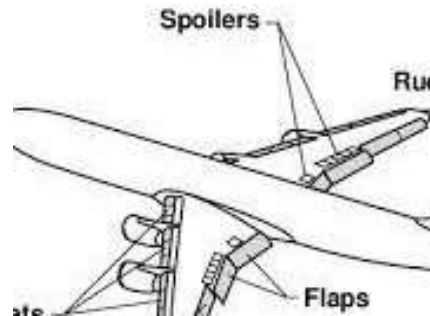
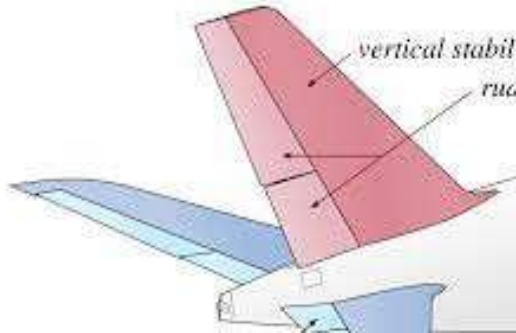
The pylon is the link that connects the engine and wing. Each pylon features a forward and aft engine mount. These mounts must withstand enormous stresses – especially during an aircraft's take-off and landing.

Thrust reverser systems are featured on many large-sized aircraft to help slow down just after touch-down, reducing wear on the brakes and enabling shorter landing distances. Such devices affect the aircraft significantly and are considered important for safe operations by airlines.

SPR produces propulsion systems for Boeing 737, 747, 767, 777, and 787. Other systems include Rolls-Royce BR725 and BR710, IAE V2500, Challenger 650, Irkut MC-21 and other engines for Mitsubishi regional jets and Airbus A220.



Wing systems



There are multiple wing surface control systems that enable the pilot to control the flight path.

SPR produces wing systems for the following Boeing aircraft models: 737, 747, 767, 777, and 787. It also produces wing systems for Airbus A320 family, A220, A330, A350-XWB, Learjet 75, Global 5000, Global 6000, and Global 7500.