



Pangolin Aviation Recovery Fund June 2021 NAV

	4-Jan-2021	29-Jan-2021	26-Feb-2021	31-Mar-2021	30-Apr-2021	31-May-2021	30-June-2021	YTD
NAV (in USD)	100.0	93.38	112.20	116.87	116.30	119.97	113.86	113.86
Month on month change		(6.62%)	20.55%	4.16%	(0.49%)	3.16%	(5.09%)	13.86%

As of 30th June 2021, the NAV of Class A shares of the Pangolin Aviation Recovery Fund was USD113.86 net of all fees and expenses. This represents a 5.09% decrease over May 2021 and a 13.86% increase since its launch on 4th January 2021.

“B” for bumpy

It was a rough month. The surging number of Covid-19 variants has reignited public fear and apprehension, prompting governments to retract their border reopening plans and impose a new set of travel rules. There are more lockdowns and restrictions in place now than a month ago and the United Kingdom despite being the world leader in Covid-19 vaccination, is increasingly unwelcomed by more countries.

Aviation stocks were understandably hard hit as upward re-rating hinge on a return in international travel. Notable Indices that track airline and aviation stocks such as the Bloomberg World Airline Index and US Jets Index were down by 10% and 11% respectively in June. Our fund fared comparatively better, but there is nothing to be gained on that score.

28 June was particularly dreadful; the fund value plunged by 5%, making it the largest single-day drop since inception. Despite our best effort to craft a diversified portfolio (both sectorial and geographically) to precisely avoid this level of elevated volatility, it is inexorable and beyond our measure of control.

The fund has since reversed most of the decline in the past few days, affirming that last week’s reaction was indeed irrational.

Portfolio constituents



The fund is 89% invested, spread across three industry sectors and five continents (refer to Figures 2 and 3 overleaf). We have seven companies spread across six countries in the portfolio.



Figure 2: Portfolio by sector exposure

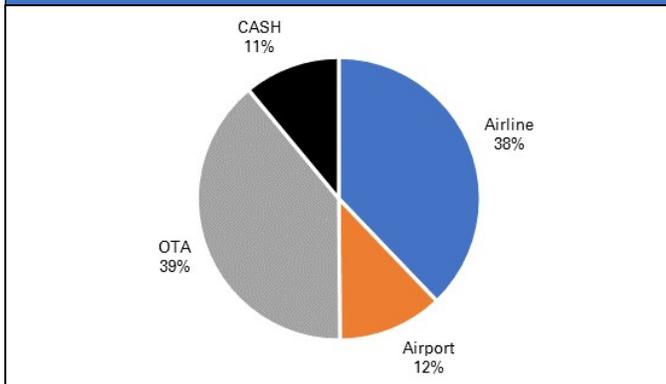
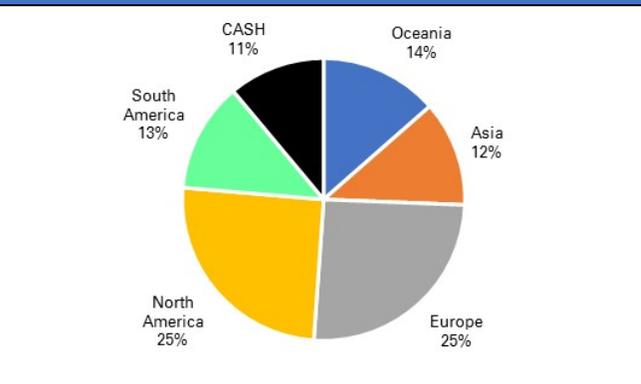


Figure 3: Portfolio geographical diversification



June 2021 was an active month due to a sizeable redemption and an inflow. We have sold our entire stakes in Embraer, Aéroports de Paris, Dufry A.G., and Spirit Aerosystems. In addition, we trimmed our stakes in Sabre Corporation, Shanghai Airport, GOL Aereas and Booking.com to rebalance our portfolio. We bought JET2 and Norwegian Air Shuttle, thus expanding airline exposure to 38% of the portfolio.

1H-2021 Review

This marks the sixth month for the fund. It is time for me to provide an update to our 2021 Outlook published earlier in the year. In that outlook, our base case anticipated an effective vaccine rollout that lowers both infection and death rates, which in turn will revive consumer confidence and the desire to travel. The richer nations will advance earlier due to uneven access to vaccines. The companies on the brink of bankruptcy will become quasi-government entities as capital raising efforts become exceedingly challenging.

Our theses were in the ballpark and the portfolio benefited, at least up until May. We have our share of misses too. We did not expect many governments to credulously exalt total isolation from the outside world as their mainstay to resolve the pandemic. We were surprised by some countries' vehement pursuit of Covid-zero and some of our investments have backfired due to this.

Below are our three themes for the second half of 2021.

1. Vaccine rollout turned out to be faster than we hoped for

The global vaccination pace has exceeded our expectations with 3.2 billion jabs administered since the start of the campaign. In June 2021 alone, 1.1 billion doses have been administered. Our forecast was for 8.5 billion to be vaccinated in 2021, but this appears too modest based on the current daily run-rate.

My flawed projection is apparent to me now as a consequence of modelling entirely on Israel's campaign, blinded into thinking that only a state-driven effort overseen by medicinal professionals can do the job. Indeed, the state is largely responsible for the vaccine rollout, but the spirit of volunteerism has notched up the speed by one or two gears. It is remarkable that over 1 billion people are given protection against this dreadful virus in a month, thus evading an unimaginable number of suffering and deaths.

2. The worst is likely behind us

The virus has mutated repeatedly, hardly surprising given its nature. The media portrays it negatively and this has raised peoples' angst. We think this is a good thing because angst is a super motivator for people to register and show up for their appointment, thus ensuring an optimal vaccination campaign.



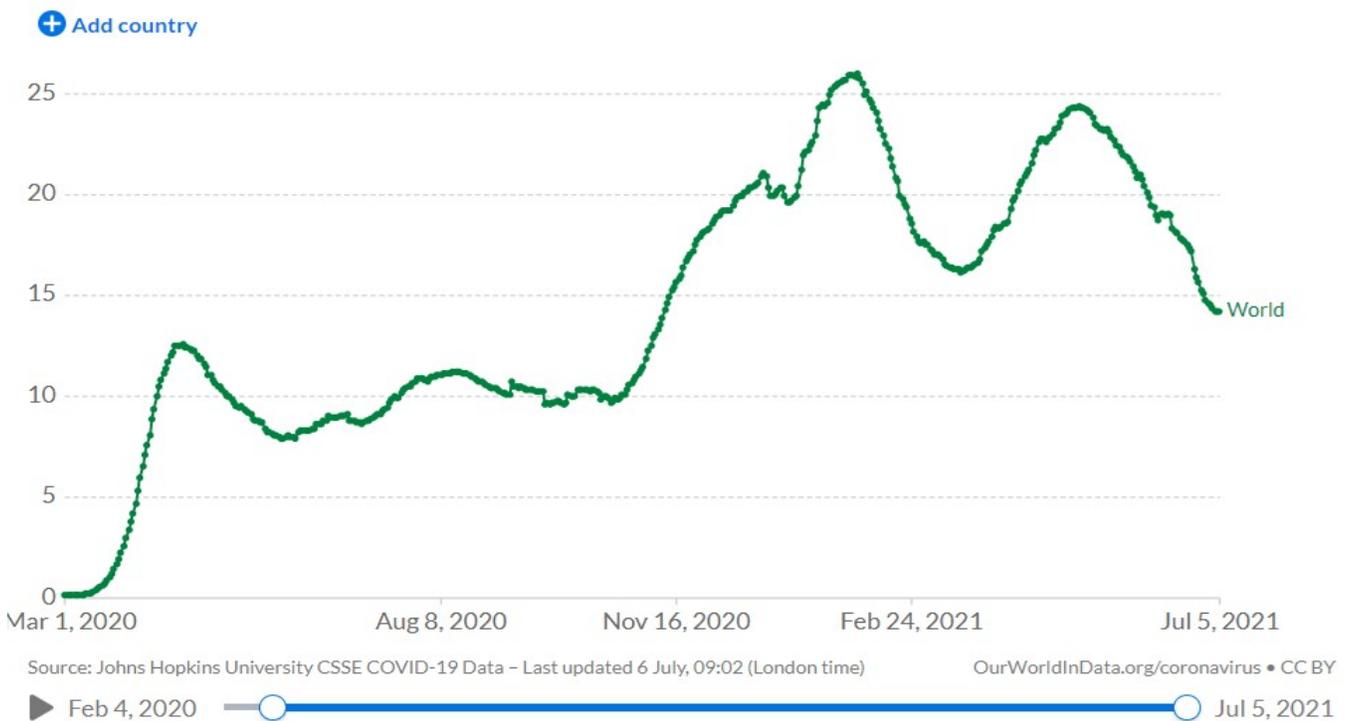
Ironically, countries that have successfully contained the pandemic such as New Zealand, Australia, South Korea, Japan, Taiwan, and Hong Kong are far behind in their vaccination drive. The people are apathetic because their lives are unaffected by the pandemic. They are also picky in the brand of vaccine, choosing to walk away from their appointment if their preferred brand of vaccine is not available.

Covid-19 will be with us for long just like many other deadly viruses that cohabit with us like tetanus, polio, tuberculosis, hepatitis, measles, influenza, HIV just to name a few. Humanity has prevailed; the keyword is risk management and risk acceptance. Vaccination and targeted care for the vulnerable greatly reduce risk.

As for risk acceptance, we believe the graph below will increasingly become an important metric for the government decision-making process. It shows the Covid-19 related deaths per million population. The latest figure is 14.2 and has been on a downtrend since May 2021. The milestone number is 2, which is the level for recurring contagious diseases such as malaria, Aedes, and tuberculosis; these are equally lethal diseases but we have since learned to live and managed with. The gap is large, but if the current trend continues, we could get there by middle of September 2021.

Biweekly confirmed COVID-19 deaths per million people

Biweekly confirmed deaths refer to the cumulative number of confirmed deaths over the previous two weeks.



3. Vaccination progress is divided among nations

The vaccine deployment has been skewed towards the richer and powerful nations, namely China and countries in North America and Europe. These countries benefited from a copious supply of vaccines, have an efficient healthcare infrastructure, and ample manpower to mobilise. Furthermore, the pharmaceutical companies are locally based, and thus they also benefit from real-time research and development progress.

We observe trends relating to daily Covid-19 cases and vaccination tally. Whenever $\geq 30\%$ of the population have been vaccinated, the number of new infections and deaths recedes. At 40-50% of the population, the number reduces further but there are pockets of spikes from time to time. There are a handful of countries where $>50\%$ of the population have been fully vaccinated and the results are puzzlingly mixed; the death rate and serious illness has fallen to a trickle but some countries still suffer from an elevated level of infections.



70% of the population vaccinated is when things become interesting. This is an important milestone because just about everyone aged 18 years and above has been vaccinated and is within the realm of herd immunity. The table below shows the projected time of selected countries when they will vaccinate 70% of their population, based on their current daily vaccination rates.

Country	Doses administered as % of population	Doses administered		Estimated date reaches 70% of the population
		daily	% population	
U.S.A	51.6	974,798	0.15%	5 Dec 2021
European Union	43.3	4,126,636	0.30%	11 Sep 2021
United Kingdom	59.2	291,403	0.22%	4 Sep 2021
Norway	40.9	54,045	0.44%	10 Sep 2021
China	46.6	17,101,714	0.61%	20 Aug 2021
Australia	16.2	125,830	0.25%	28 Feb 2022
Brazil	25.3	1,230,229	0.30%	20 Dec 2021

Source: Bloomberg Covid-19 tracker, data as of 5 July 2021

Risks: delta variant will dominate the headlines, but inflation is the one-eyed ogre

No review will be complete without touching on the Covid-19 delta variant. This is what we know about it thus far: (1) it is far more contagious; (2) risk of hospitalisation is much higher; (3) it appears to be more responsive to young patients (<50 years); and (4) the first dose of vaccine offers little protection (30-40% efficacy), but full vaccination does (>90% efficacy).

We will hear more of this delta variant as it seems certain to be the dominant strain wherever it roams. This has been the case in the United Kingdom and it is creeping fast in parts of Europe and the USA. I take the view that the more we hear about it, the more motivated people are to get vaccinated, ensuring a consistent high daily vaccination rate, which ironically aids to a speedier end of this pandemic. In the meantime, we have to contend with possible deterioration of sentiment that may hamper equity valuation in the short term.

Our primary concern is inflation. There has been wanton inflationary pressure in just about everything. Domestic holiday prices have soared; we saw a listing of a family cottage in Lake District England commanding rates equal to the Grand Suite at the Hilton, and car rentals are commanding peak rates every day. I am sure you have your own experience as well. Do share your story as I would like to hear them.

Conclusion: see the forest for the trees

Many indicators are suggesting North America and Europe have an upper hand in handling the pandemic by September 2021, which means the travel sector stands the highest chance to open up sooner than other parts of the world. By the end of 2021, many more Asia Pacific countries will follow suit. The keyword is vaccination and the fact that as >1 billion more people gets vaccinated each coming month, there are legitimate reasons to be optimistic.

Mohshin Aziz
6th July 2021