ANGSANA
NATURAL RUBBER
OPPORTUNITIES FUND

Oundle, UK, 05 November 2021

Dear Investor,

In this letter I would like to cover our performance during the first operating quarter (Jul-Sep 2021), and also provide some commentary and guidance on our outlook for the remainder of 2021 and the years ahead.

Performance

ANRO's net asset value ("NAV") per share as at 30 September 2021 is **USD97.441**, after all fees and expenses.

As an open ended fund, we accept subscriptions (and redemptions, post the initial lock-up to 30 June 2022) on a monthly basis, which means that the performance figures differ from one series to the next. The financial performance of each series for the first quarter is as follows:

Series	**Size**	**NAV 30/9**	**+/-**	**Performance**
Lead (July)	USD4.9m	USD4.775m	-USD125k	-2.58%
August	USD1.35m	USD1.266m	-USD84k	-6.2%
September	USD1.6m	USD1.642m	+USD42k	+2.6%
Total 30/9/2021	**USD7.85m**	**USD7.683m**	**-USD167k**	**-2.1%**

I do not have the final net results for the month of October yet, but I can share that ANRO gained value and closed with an NAV in the region of **USD108 to USD110**, net of all fees and expenses.

Commentary

Micro

The natural rubber ("NR") market is dominated by China, the world's largest NR buyer, and the Shanghai Futures Exchange ("SHFE") is the pacesetting venue for NR price discovery. Here, Chinese investment funds, day-traders and arbitrageurs face-off to transact vast amounts of NR, on occasion as much - or even more than - than the annual crop *in a single day*. SHFE traders generally share a short investment horizon (days, not months) and also a degree of relative ignorance to the **physical NR business**. For most of them, NR is seen as a bearish commodity, and quite often serves as a hedge against investments in other commodities, FX and even equities.

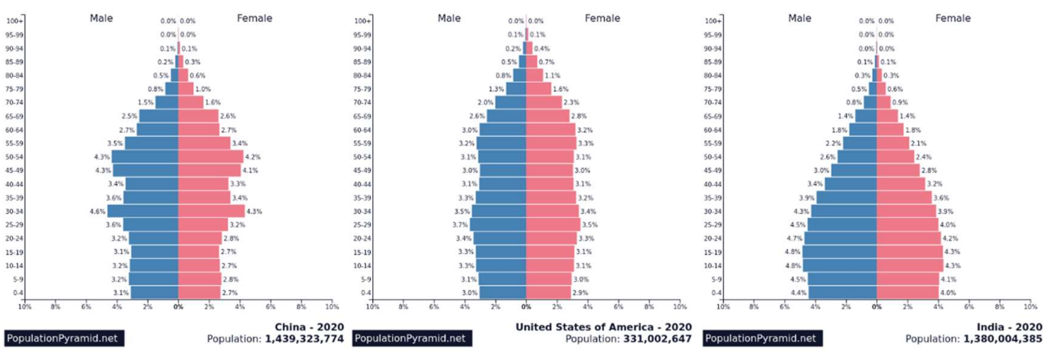
ANRO's investment thesis, most recently refreshed and updated in the September market deck, argues a fundamental change in the balance of NR supply and demand, and is therefore contrarian to the prevailing bear-market-beliefs in China. Based on a complex mathematical model that incorporates **agricultural** (updated annually when new data is available) and **trade data** (updated monthly from various subscriptions and official sources), our analysis shows that the world reached **peak-rubber-output in 2017/ 2018**. Thailand and Indonesia, the world's top 2 producers, have both surpassed the optimal maturity profile of their NR plantings, in the case of Indonesia quite some time ago. Indochina and West Africa, the key non-traditional origins that have emerged as major NR producers over the past 10 years, are now tapping the trees that were planted up to 2016, and will not be able to compensate the inevitable decline in Indonesian and Thai output.

Notwithstanding this fundamental insight, we can neither deny nor escape the volatility of the NR marketplace, and we often find that macro events interfere with our thoroughly researched price-view. This, for instance, happened in late August/ early September, when NR prices collapsed 12% within as many trading days – only to recover again by mid-October.

Macro

Two main themes seem to be hogging the newswires this year: monetary policy shifts by the world's leading central banks, especially the US FED, and the state of the Chinese economy. I don't have any particular insights on global monetary policy, but perhaps I can offer a few thoughts on some of the current concerns in China.

1. One of the biggest challenges to the China Communist Party's ("CCP") dream of building an enduringly prosperous, modern society, is its **demographics**. Chinas absolute population may be vast, but it is ageing faster than it should – at least measured against the progress of its economic growth. In order for China to take over the global leadership role from the USA, it needs to pivot from an investment-driven economy to become service-based, much like the USA is today.



- These charts, taken from www.populationpyramid.net illustrate some important issues:
- 52.2% of Chinese are below the age of 40, as compared with 52.1% in the US. India has 68.3% of its population below 40.
- GDP per capita in China is US10,000, whereas the comparative figure in the United States is US63,500 and in India USD2,000. China's demographics resemble the US more than they do India, while it's per capita GDP is much closer to India than the US.
- China's birth-rate is not picking up, even as the "one child policy" has been abandoned.
- Only 24.6% of Chinese citizens are female and below the age of 40.

Education is possibly the most precious gift a Chinese parent wishes to bestow upon their children, and Chinese people have historically viewed **real estate** is the most important family investment. As both the cost of education (driven by online tuition platforms) and the cost of property in the population-dense coastal regions soared, young families could not afford to have more than one child – even as the "one-child-policy" was abandoned.

It is therefore no coincidence that the central government has intervened to ban profits from education, whilst stepping aside to allow large residential real-estate developers to go bust –

these actions effectively remove the profit margin from both sectors and reset retail price points for tuition and flats – all in the hope of encouraging young families to have more children.

2. China is also very conscious of its **global image**. It does not yet attract meaningful immigration, and successful Chinese families tend to leave China (and bring much of their wealth with them). Many people who have left Shenzhen, Shanghai or Beijing, cite intense **pollution** as an important reason.

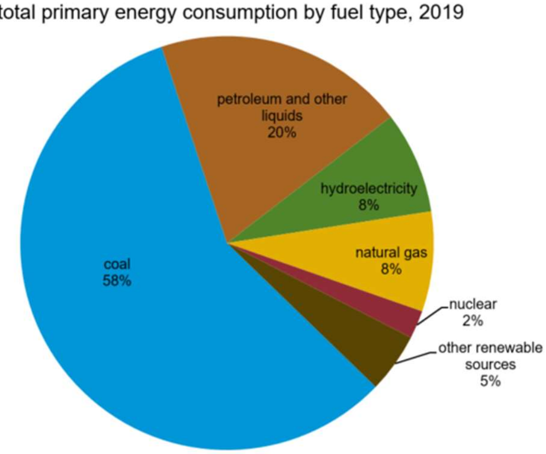
   The desire to be seen as a forward-thinking and progressive nation with clean air and a beautiful environment is, in my opinion, at the heart of the **CCP's policy** to legislate electric cars ("EV's") more aggressively than most other nations.

   This policy effectively nationalises drivetrain **energy generation**, seeing that an internal combustion engine generates its own power, whereas an EV merely stores the energy it draws from the national grid.

   In 2021 alone, China has recorded new car sales of over 2m EV's. This significant increase strains China's inadequate energy grid, and constitutes one of the reasons why energy markets are currently in disarray. China now finds itself having to **ration electricity to industrial users**, in order to ensure that households have sufficient energy for their heating needs and that EV's can be charged.

   China generates more renewable energy that any other country on earth – but owing to its sheer size this is but a fraction of its requirement. Most of its power (>50%) comes from coal-fired power plants, and >80% comes from fossil energy (coal, oil, gas).

Figure 1. China total primary energy consumption by fuel type, 2019



Source: BP Statistical Review of World Energy 2020
Note: Total may not equal 100% because of independent rounding. Includes only commercial fuel sources and does not account for biomass used outside of power generation.

As the world gathers in Glasgow to debate climate change (**COP26**), China's President decided not to attend. The widely-broadcast instruction to China's coal mines to increase production during the winter at all costs has completely drowned-out any positive messaging around EV's, and would have been an impossible position to defend in the context of curbing carbon emissions globally.

Guidance

Chinese and global investors alike don't value the most recent CCP policy measures to curb profits in education, nor do they like the Evergrande/ Fantasia defaults or the mandated output cuts, as such interventions imply a below-trend growth outlook whilst undermining trust and confidence. For the CCP, however, they are **necessary regulatory adjustments** in support of the **long-term economic trajectory** of China. Interestingly, education and housing have always remained comparatively affordable in the USA, especially when taking the per-capita GDP values into account.

In the short term, the above factors, and of course the recurring threat of Covid19, will continue to cause Chinese investors to be cautious, even bearish. One of the easiest ways they can financially express this view, is by selling SHFE-traded proxies for economic output, such as iron ore, copper, steel and NR.

The NR fundamentals though, tell a different story. **China has exported more tires in 2021 than ever before**, and has set 3 monthly all-time export records this year. Chinas NR inventory has dropped by 50%, we covered this is our September market update. The ANRPC (Association of Natural Rubber Producing Counties) is steadily revising its global supply & demand forecast. 2021 NR production is now said to come in at 13.8 million tonnes, versus total global demand of 14.1 million tonnes. That's a deficit of 300k tonnes, in a year that was initially forecast to generate 150k tonnes of NR surplus.

It is, in my opinion, unavoidable that markets, including NR, will experience heightened volatility over the next 12 months. ANRO will have to deal with unwanted marked-to-market swings, but we can also extract certain benefits, in particular when it comes to rolling our position out across the forward curve at low or no cost. We must, however, stay cautious: position sizing and leverage ratio (currently 2.9x) must remain defensive and our sense of fear must continue to outvote our sense of greed.

ANRO's 3-year price call is that **NR prices reach USD3000/ mt**, and this is irrespective of the current volatility. If this is correct, our current position size and structure - all else remaining equal – will deliver gross gains of USD250 per share (pre fees and costs), which translates to a gross IRR in excess of 50%.

Finally, a quick item of housekeeping. We will not pay a dividend in respect of the quarter under review, but remain committed to distributing 30% of our profits along the way – which can always be reinvested into ANRO at prevailing NAV should you wish to do so.

Thanks for your ongoing trust and support, I wish you and your families a wonderful festive season and a fantastic start to 2022.

Robert Meyer
Chairman