ANGSANA
NATURAL RUBBER
OPPORTUNITIES FUND

Oundle, UK, 25 January 2021

Dear fellow Shareholder,

I trust you had an encouraging start to 2022. In this letter, I would like to present our performance up to 31 Dec 2021 and share a couple of thoughts on what we can expect from the Natural Rubber ("NR") market in 2022.

Performance

Please find below a summary view of our profit & loss account for the period covering 1 July 2021 – 31 December 2021, during which time ANRO generated a return - net of all fees and expenses - of 11.46%.

ANRO USD	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	YTD
Subscriptions A1 & A2	$ 1,100,000						
Subscriptions B	$ 3,800,000	$ 1,350,000	$ 1,600,000	$ -	$ -	$ 250,000	$ 8,100,000
Opening NAV	$ -	$ 6,454,261	$ 7,476,448	$ 7,661,165	$ 8,785,017	$ 9,336,359	
Net PnL	**$ 204,261**	**-$ 577,812**	**$ 184,716**	**$ 1,123,852**	**$ 301,342**	**-$ 308,163**	**$ 928,195**
Closing NAV	$ 5,104,260.55	$ 5,876,448	$ 7,661,165	$ 8,785,017	$ 9,086,359	$ 9,201,441	
Net Return	**4.17%**	**-8.95%**	**2.47%**	**14.67%**	**3.43%**	**-3.30%**	**11.46%**

Commentary

The Rubber Market

The NR market in q4 2021 was caught in a climate of crosswinds, where increasingly benign NR fundamentals had to contend with a flurry of unfriendly macro noise. The resulting price action on the SICOM NR futures market is best described as "range-bound with a strengthening bias", from a low of USD1,600/mt early in the quarter to close the year at 1,750/mt. The average price for 2021 was USD1,686/mt, up 25% from 2020's average of USD1,344/mt, with most of the reflation having taken place in the period of H2 2020 to q1 2021.

ANRO's fundamental investment approach has us focussed on industry statistics, trade data and physical NR markets for positioning cues. I would like to share some key takeaways in bullet-form, but please also refer to the attached presentation material for greater detail:

1. In 2021, the world consumed 300k mt more NR than it produced. This is the **largest NR deficit** since 2010.
2. This deficit is due to **record global NR demand** of 13.9m mt, versus a substantially recovered supply of 13.6m mt.
3. The recovery to beyond 2019 levels is a **global development**, with China, the US, Europe and RoW statistics pointing in the same direction.
4. Arguably the most bearish factor overhanging the NR market since 2015 was the Chinese onshore inventory which peaked at 1.38m mt in q1 2020. By the end of 2021, this figure had dropped to 736k mt. Based on her current monthly NR consumption run-rate of 480k mt, **China now holds no more than 6 weeks' worth of inventory**.

The supply and demand dynamics in 2021 have played out more pronouncedly than I thought, and the global deficit of 300k mt is ahead of ANRO's bottom-up forecast. In trying to incorporate the implications into our capital allocation model, we need to understand the drivers behind both demand and supply.

First off, why has NR consumption rebounded so strongly?

My best estimate is that we are dealing with a confluence of factors, many of which are behavioural, some even structural. I have tried to list the most prevalent ones, in no particular order:

1. 2021 saw the US consumer purchase **21% of all retail goods online**, versus 15% in 2019. This is an increase of almost 50% in two years, and implies a commensurate increase in delivery miles (freight haulage *plus* last mile delivery) in North America.
2. Fear of contagion may have led to a **partial substitution of ride sharing** and mass rapid transportation with vehicle-driven miles. In 2021 this will have been offset by an overall reduction in commuter-miles due to work-from-home and lockdown restrictions, but I believe the underlying change in behaviour will be difficult to reverse.
3. Public policy and clever campaigning, probably more so than the actual carbon profile of the global energy grid, are driving the **transition to "EV's"** (electric cars). In 2021, China alone registered more than 3.3m million EV's, or more than 15% of all new passenger car sales. Incidentally, 2021 saw total **China vehicle registrations** rise again for the first time in 4 years to almost 26.3m units. Electric motors, by definition have **maximum torque at zero rpm** (motor speed), which implies both excellent acceleration and enhanced tire wear versus internal combustion engines, where maximum torque is produced much further along the rev band.
4. Regardless of "pandemic" or "endemic", C19 has changed hygiene standards in most aspects of public life. Manufacturers of **Personal Protective Equipment** ("PPE"), comprising masks, hand sanitisers and latex gloves have seen a structural shift in the demand for their products. While gloves can be made of either nitrile or natural latex feedstock, the net result of C19 is that the demand curves *for both* materials has moved up, and are unlikely to recede to pre-C19 levels. It worth keeping in mind that the production of Natural Rubber Latex ("NRL") requires close proximity to a latex factory as well as more diligent farming and harvesting protocols. At present, the vast majority of NRL comes from Thailand and Vietnam and can only be produced at the expense of tire grade rubber.

Secondly, what about supply?

Hevea trees are generally quite hardy, and can provide its cultivators with up to 50 years of income from tapping its sap, field latex. This must be processed and ultimately becomes either NRL or NR, of which there are various grades. The commercial life of a tree is not strictly determined by its morphological age, but by its bark reserves. Only virgin bark can be tapped ("cut"), and once it heals the ensuing scar tissue is unsuitable for repeated tapping. Tapping, by the way, is a task that requires both skill and tenacity. It must be done early in the morning, generally around 4-5 am, when peak Turgor pressure (the force exerted by stored fluid, aka latex, against a cell wall) provides maximum latex flow.

In essence, keeping in mind that Hevea trees take a minimum of 5 years to first tapping and another 2 years from then to reach a commercial yield, the available NR supply is determined by two main factors: global bark reserves of existing trees and the available pool of tappers.

Humans have to deal with C19 and its transition from a pandemic shock to an endemic disease. The *Hevea Brasiliensis* tree has its own deadly pathogen to deal with, commonly referred to as South American Leaf Blight ("SALB" or *Neofusicoccum ribis*). Previously confined to South America, SALB recently has been identified in Indonesia, Malaysia and Thailand. In aggregate, almost a million hectares in South East Asia have contracted this disease, which presents a great challenge to its farmers. A tree befallen with SALB sheds its leaves thus slowing its metabolism to almost a grinding halt. A tree without leaves does not produce latex and cannot be tapped. Instead, it requires treatment which costs money.

Bringing it all together, we have a brewing supply problem that is multifaceted:

1. Low prices have long put paid to any form of CapEx at the level of farmers and their trees: **new planting and replanting activities essentially stopped in 2015**.
2. Low prices have forced farmers to tap their trees more aggressively than they should have. Their income is price x volume, and they needed **volume to subsidize price** in order to survive.
3. Overtapping has weakened the trees and **used up more bark reserves** than their age would suggest.
4. **SALB found its way to Asia** just in time, and is spreading rapidly, in part due to the lowered immunity of the overtapped trees.
5. The hardship of NR farmers in the past 7-8 years has **discouraged their children**, which is reflected in the virtual halt to replanting activities. No hope, why plant?
6. **Food price inflation**, especially for exotic tropical fruits such as the Durian and Jack Fruit destined for China, have provided an **alternative to old rubber** smallholdings.

Outlook

Given the secular factors outlined above, why then is NR not trading at record price levels seen in other commodities, such as the energy complex or even palm oil?

This is the 64,000 question that is not easy to answer.

Again, I think there are various factors at play, and the ultimate financial success of ANRO will depend on getting this one right.

1. **NR is not getting enough attention on the global financial media stage**. NR farmers, of which there are more than 6 million, have never had much of a voice outside of their immediate electoral constituencies, and are easily placated by short term subsidies and cash handouts.
2. China is the biggest buyer of NR because it is the world's leading manufacturer of tires, most of which are exported. Contrary to recent press reports, China exported almost 600 million tires last year (global production 2021 was 1.8billion units). Chinese tires tend to be low-value, low-quality and Chinese tire-makers do not enjoy the same economic value add as Michelin or Bridgestone. **They are highly sensitive to rising input costs and thus motivated to keep raw material prices as low as possible**. It is no coincidence that he world's NR casino is in Shanghai (SHFE) and that this is the source of most of the negative macro sentiment that affected NR prices in 2021.

3. **Western investors have forgotten about NR**. Very few, if any US/ UK/ EU hedge funds even trade this commodity, most of them aren't even aware the issues surrounding NR. The technology rally from 2016 to 2021 (and its questionable offshoots such as cryptocurrencies and NFT's) has kept the speculative tranche of global investable capital very busy indeed.

I think the missing ingredient for our thesis to really play out is time, which means we need to be patient. China had sufficient inventory to buffer the supply shortfall in 2021, which in turn has masqueraded the fact that **not enough NR was produced last year to meet demand**. Why did the farmers not produce more? Prices are up 25%, and in many producing countries, Indonesia especially, field material prices are up even more than that (which means processors have sacrificed their PnL to procure the raw material volumes that they need to fulfil their order book).

For 2022, the key question is this: will NR demand remain strong, and what will it take to get more field latex out of the existing trees? In other words, can NR farmers step up to the plate and if so, what price will they require to do so?

My forecast is that we will see the average NR price move to beyond USD 2000/mt this year, which implies a sustained increase of 20% over 2021's average price.

Guidance

In speaking with various shareholders over the last month, it was suggested to me that it might be too early to declare a dividend. As such we have decided to forego our stated 30% profit distribution for the period under review. Please contact me should this decision not reflect your preference, and we will take that into account when we look at the current quarter's performance in April.

Thank you for your ongoing trust and support, I hope to be able to speak to all of you in person at your convenience sometime over the next few weeks.

We are about to start the Year of the Water Tiger in the Chinese zodiac calendar. What more auspicious guardian could there be for the NR market, than the most beautiful and audacious King of the tropical Jungle.

Robert Meyer
Chairman