Pangolin Asia Fund announces month end NAV – October 2008

As of the 31st of October 2008, the NAV of the Class A shares of the **Pangolin Asia Fund** was US$90.36 net of all fees and expenses, down 20.42% from US$113.55 in September.

At the end of October the fund was almost fully invested, with the split being approximately as follows:

Indonesia	50%
Malaysia	36%
Singapore	14%

Details of the individual holdings are available to investors on request.

Overview

The news has been dominated by the financial crisis so unless you have been meditating in a Himalayan grotto for the past few weeks, October's numbers are unlikely to come as that much of a surprise. As well as the decline in stock prices the fund was hit by a decline in the value of the Indonesian Rupiah in the last few days of the month, a fall that has continued into November.

There has been talk of a contagion in emerging markets' currencies as the liquidity crunch makes the financing of deficits difficult. If any country anywhere in the world runs into trouble (currently Ukraine, Iceland, Pakistan etc.) then Indonesia is always assumed to be next. As regular readers will be aware, I am no fan of the Indonesian government's policies but the nation's finances today are in far better shape than they were in the Asian Financial Crisis or compared to the current bunch of basket cases mentioned above. The budget deficit is less than 3% of GDP, the current account is positive (for now) and reserves cover 8 months of imports. All the same, if the speculators really get to work, then anything can happen of course, but normally the fundamentals have to be bad enough which they don't appear to be.

We have been making a few changes to the portfolio to take advantage of better opportunities as they arise. Generally we don't like to sell our holdings very often, but relative valuations are often so far apart that we feel we have to take advantage of these situations as they arise. Of course in this kind of market everything we touch promptly falls 10% the next day, but if we weren't ***in this kind of market***, these opportunities would not abound.

Outlook

As I see it:

The Asian Financial Crisis is being replicated on a global scale.

The economic downturn is nowhere near the end of the beginning, let alone the beginning of the end.

The CDO and mortgage debacle is a symptom, not a cause. As long as borrowing to acquire assets is considered desirable (and it always will be by most people and politicians) there will never be a cure for boom-bust.

As memories of Asia's crisis are still relatively fresh, balance sheets, both at country and corporate level, are generally in better shape in South East Asia than they are in the West.

Those who expect markets to bounce strongly in the next couple of years, or talk of "5 baggers" for 2009 are irrationally optimistic.

The phrase "stocks are cheap" is a meaningless generalisation. Many "cheap" companies will go bust over the next few years. These will include blue chip names.

Those forced sellers, whether as a result of indebtedness, redemptions or just plain panic are, in some cases, presenting those who can afford to be long-term with outstanding investment opportunities.

Unless you have debt, falling share (and other asset) prices are a good thing; to be welcomed.

Pangolin's Approach

In the long run stock prices will be determined by value and a focus on value is the safest way to invest.

There are many well capitalised companies trading at prices far below even the most cautious of valuations.

We see outstanding value, particularly in Indonesia's consumer sector, but also elsewhere in the region.

Many of the companies in the fund are in nett cash positions, which not only increases their odds of surviving but also of emerging stronger, possibly after acquiring rivals from other forced sellers.

When we see opportunities to make money, as we do now, we will continue to invest available cash.

Finally

This is not the time to be nervous. The markets are offering gift horses amongst packs of Trojan ones. I recommend reading some of the following if you have the time. I assure you they are all easy reads (or I certainly wouldn't have got through them). They are:

The Warren Buffet Way (Hagstrom), Valuegrowth Investing (Arnold) and The Little Book of Value Investing (Browne).

James Hay.

12th November 2008.

I am always happy to talk to existing investors and those interested in the fund. If you have any questions, concerns, ideas, or just fancy an argument, please get in touch.

Further information can be found at www.pangolinfund.com

Pangolin Investment Management

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2008	*Nav*	157.49	156.55	150.63	154.03	146.18	136.23	132.58	125.09	113.55	90.36			-44.86%
	% chg	-3.89%	-0.60%	-3.78%	2.26%	-5.10%	-6.81%	-2.68%	-5.65%	-9.23%	-20.42%			
2007	*Nav*	136.43	140.75	144.17	153.68	157.90	159.36	159.56	150.23	158.13	163.17	160.72	163.86	27.19%
	% chg	5.90%	3.17%	2.43%	6.60%	2.75%	0.92%	0.13%	-5.85%	5.26%	3.19%	-1.50%	1.95%	
2006	*Nav*	104.53	106.09	109.42	116.62	108.82	106.34	107.96	110.76	112.41	117.94	125.81	128.83	31.74%
	% chg	6.89%	1.49%	3.14%	6.58%	-6.69%	-2.28%	1.52%	2.59%	1.49%	4.92%	6.67%	2.40%	
2005	*Nav*	99.24	99.37	97.77	98.86	96.77	97.05	100.14	94.90	96.99	97.05	96.14	97.79	-2.57%
	% chg	-1.13%	0.13%	-1.61%	1.11%	-2.11%	0.29%	3.18%	-5.23%	2.20%	0.06%	-0.94%	1.72%	
2004	*Nav*												100.37	
	% chg												0.37%	

2005 return	-2.57%	**Best monthly return**	6.89%
2006 return	31.74%	**Worst monthly return**	-20.42%
2007 return	27.19%	**Maximum drawdown**	-44.86%
2008 return	-44.86%	**% of positive months**	61.70%