Pangolin Investment Management

Pangolin Asia Fund announces month end NAV – October 2007

As of the 31st of October 2007, the NAV of the Class A shares of Pangolin Asia Fund was US$163.17 net of all fees and expenses, up 3.19% from US$158.13 in September.

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

Indonesia	40%
Malaysia	37%
Singapore	23%

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

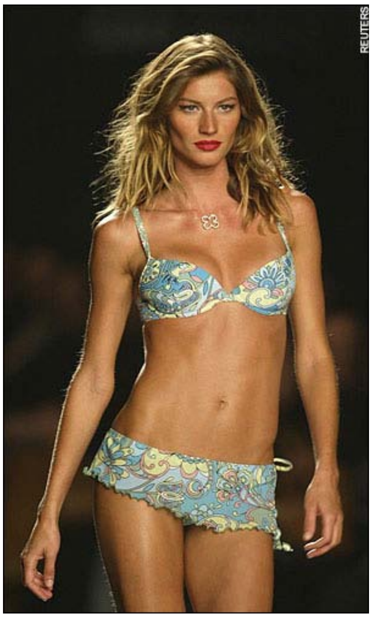
Review

In the midst of collapsing markets it is hard to concentrate on what has just passed. October's positive performance was derived from a combination of stock pricing and a weak dollar in comparison to most Asian currencies. Normally in times of stock market weakness we would expect to see weaker emerging market FX rates (as US investors panic) but with the U$ being so weak that is not currently the case.

We try not to worry too much about exchange rates. The evidence suggests that over the long-term (10 years) there isn't too much difference between hedging or not; in the short term strong Asian currencies flatter the fund when translated into dollars but at the same time make life tougher for exporters. In the long run the fund's performance will depend on how the managements of the fund's investments deal with currency movements which is why we place an emphasis on company management when selecting our investments (and hope they will make the correct decisions most of the time).

I confess I didn't pay much attention in the odd economics lecture I attended but it seems to me that the US economy must be looking rather more competitive than it was as a result of its currency devaluation. The UK economy has been continuously growing since the £'s wobble in 1992. Perhaps we'll have Asian leaders calling for the US to strengthen the dollar before too long.

It has been a pretty clear bet over the past few years that Asian currencies would appreciate against the dollar. This trend is likely to continue until regional governments behave stupidly enough to reverse it (a matter of time I suspect). In the near term, perhaps when supermodels such as the lovely Gisele Bünchen (gratuitous picture below) start to demand payment in Euros rather than dollars, the latter currency may be due a bounce. If she turns out to be correct I'll ask her to manage the Pangolin Currency Fund.



As mentioned earlier, emerging markets' currencies are normally the first to suffer in turbulent times and the unwinding of the Yen carry trade is bound to hit us at some point, so we can expect further market weakness when this happens. The fund is defensively positioned in that the majority of its holdings are in consumer companies with little or no debt. We haven't been chasing the high-fliers and as much of the consumer sector is trading well below their mid-year highs, we believe there is still plenty of value to be had here. Furthermore, we believe that their businesses are in good shape and the long-term demographic and economic trends favour such well run companies. The market has, in our opinion, overlooked the sector recently but strong balance sheets, cash flow and growth should come back into favour at some stage.

Politics

I have mentioned in previous newsletters how (in my view) many investors have been mispricing emerging markets. As share prices have run up there has been a lack of focus on the politics and thus the real risk involved. It might not surprise many to learn that at a recent rally calling for a fairer electoral system two unarmed protestors were shot (not fatally) by the police, who accused them of rioting. That this occurred in **Malaysia** might come as a bit more of a surprise. The opposition organised another large rally in Kuala Lumpur at the weekend which, despite being declared illegal, attracted a large crowd. An election is expected to be called fairly soon and the opposition hope to fare far better this time, but given that they only won 10% of the votes at the last election, a change of government (and there has never been one since independence) is highly improbable.

While the argument for investing in stable developing nations is clear, investors should be aware of how that stability is maintained. The Malaysian authorities would argue correctly that without stability there will be no investment and, that in a multiracial nation, sustaining good inter-communal relations is paramount. Therefore they will not be too upset by the country's fall in the Press Freedom Rankings from 92nd to 124th. The risk is that if markets continue to fall investors will start to concentrate on the negatives while overlooking the good stuff.

A recent visit to southern **Thailand** was interesting in that, despite being away from the troubled provinces, there is a clear difference in the demeanour of that country's Malay population when compared to Malaysia's; fewer smiles and a clear amount of tension at times which is hardly surprising given the insurgency and probably a reasonable justification for Malaysia's heavy hand.

Despite this I managed to return unscathed from possibly the best resort I have ever stayed in, details of which I will be happy to share with investors in the fund.

The biofuels industry continues to boom, as subsidies continue to make this industry attractive to investors. Martin Wolf in the FT wrote a good article summarising the stupidity of subsidising biofuels (http://www.ft.com/cms/s/0/40a71f96-8702-11dc-a3ff-0000779fd2ac.html?nclick_check=1) but given that in 2006 these subsidies amounted to U$11bn and we all know how difficult it is for governments to upset their farmers, it is unlikely we will see a change of policy.

To be subsidising alternative fuels when the oil price is nearly U$100/barrel emphasises just how expensive biofuels are as a way of reducing carbon emissions. The reduction is a mere 13-18% when using biodiesel apparently and 30x more expensive than purchasing CO2-equivalent offsets in Europe and 140x more than doing the same in Chicago.

These false economics (unless you are a farmer or palm oil grower) have arisen from the premise that CO2 is the main cause of global warming, despite others arguing that it is sun activity that determines climate change. Otherwise how does one explain the Romans growing grapes in Yorkshire?

Even if the science is not false the environmentalism is, with a senior member of the UN describing biofuel production as a crime against humanity, given its effect of lowering the area of land under food production. The effect on tropical habitat is just as pronounced. We now have a contradictory situation in which the Greens are overseeing the eradication of endangered wildlife, for to do otherwise might be seen as an admission that George W was right on Kyoto after all.

James Hay

12th November 2007

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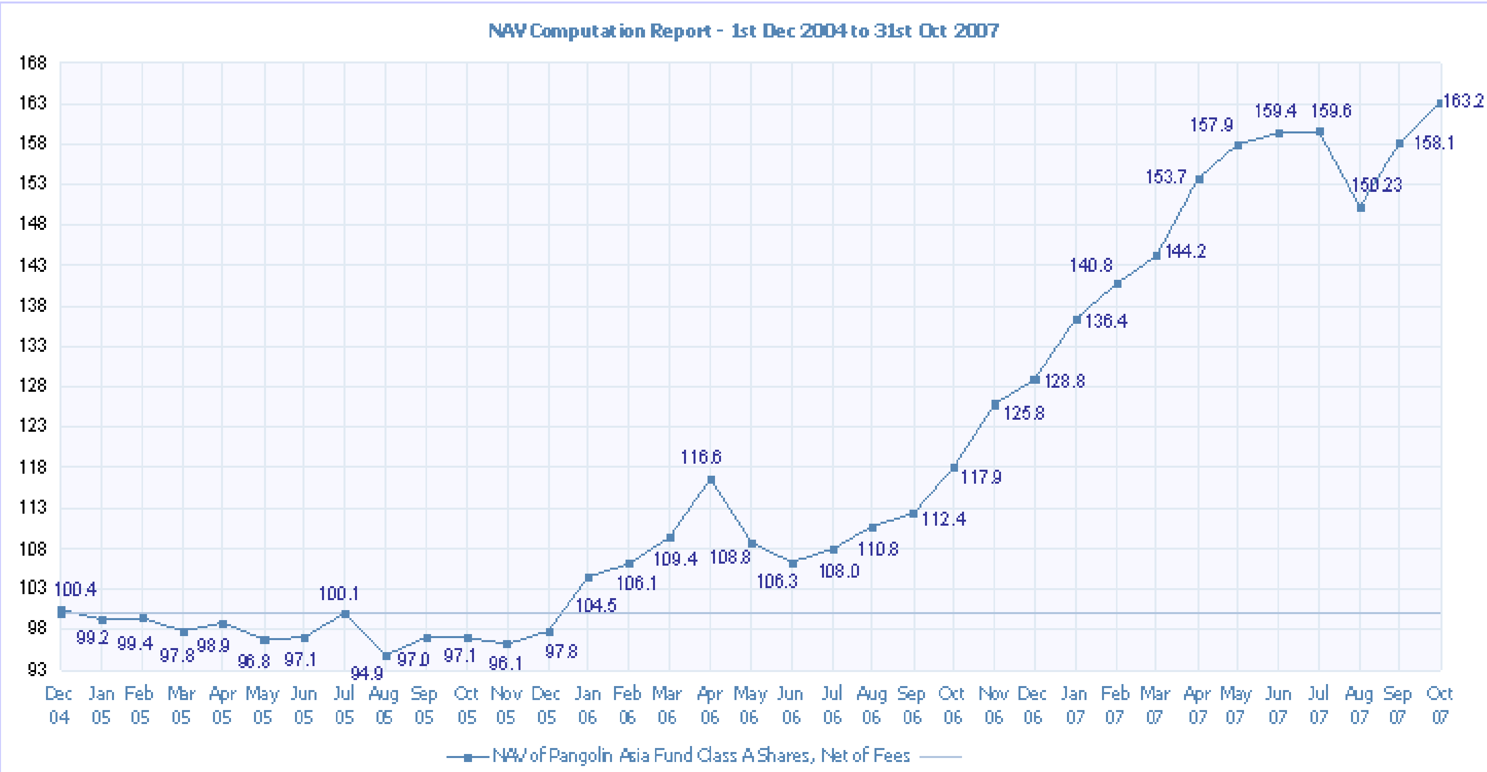
More details concerning the fund's investments are always available to shareholders in the fund on request.

Further information can be found at www.pangolinfund.com



Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2007	*Nav*	136.43	140.75	144.17	153.68	157.90	159.36	159.56	150.23	158.13	163.17			26.66%
	% chg	5.90%	3.17%	2.43%	6.60%	2.75%	0.92%	0.13%	-5.85%	5.26%	3.19%			
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%	**Return since inception**	63.17%
2006 return	31.74%	**Maximum drawdown**	-8.81%
2007 return	26.66%	**% of positive months**	77.14%
Average monthly return	1.46%	**Standard deviation**	3.40%
Average return (annualized)	17.58%	**Standard deviation (annualized)**	11.79%
Best monthly return	6.89%	**Semi deviation**	2.52%
Worst monthly return	-6.69%	**Semi deviation (annualized)**	8.73%
		Sharpe ratio	1.15