



Pangolin Investment Management

Pangolin Asia Fund announces month end NAV – June 2008

As of the 30th of June 2008, the NAV of the Class A shares of the **Pangolin Asia Fund** was US\$136.23 net of all fees and expenses, down 6.81% from US\$146.18 in May.

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

Indonesia	41%
Malaysia	40%
Singapore	19%

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

Review

June was the fund's worst month as a tidal wave of pessimism engulfed markets everywhere. Some of the fund's holdings continued to hold up reasonably well but the majority were hit as investors continued to look for excuses to sell. I have written before that developing nations' governments have a history of making the wrong moves when pressure is on and this time around is proving to be no exception, thus further terrifying already jittery investors.

The government in **Malaysia**, in order to try and assuage the opposition, announced a windfall tax on palm oil companies and independent power producers (IPPs). Whatever one might think of the former, the second is a cursory tax on agreements between the private sector and the government, thus sending a very odd message to anyone contemplating doing business with the government in the future; dictum isn't meum pactum. The sad thing is that the government may well have raised its future cost of doing business by more any revenue this levy will generate.

We own an IPP (actually we own warrants in YTL Power). The warrants are in the money and have nearly ten years till expiry. As less than 20% of the company's revenues are from Malaysia and this well managed firm is sitting on cash at a time when utility assets are getting cheaper, I am relaxed about this position, although it did have a marked effect on June's performance numbers.

This comes at a time of political uncertainty, speculation and, in some cases, trepidation in the country as the leader of the opposition, Anwar Ibrahim, and the deputy prime minister, Najib Tun Razak, wage war via proxies. It would appear they are both dragging each other down. As far as I can see there is only one winner from all this (and it isn't the market) and that is the under-pressure prime minister Abdullah Badawi, as his most-likely-successors reputations are tarnished.

In **Indonesia** we have a situation in which the market regulator, Bapepam, is altering the takeover rules at a time of much M&A activity. These curious changes will worsen minorities' interests and are rumoured to be at the behest of political figures wishing to acquire certain listed assets. If the region didn't have such strict sedition laws, I'd be tempted say that these countries would be much better off without their politicians, but I'd better not.

Outlook

Students of the Asterix books will recall that all of Gaul was occupied by the Roman Empire except for one small corner holding out, Asterix's village. ASEAN and Asia is similarly occupied, by the curse of high oil and commodity prices, but there is one small corner (big corner really) which is thriving and that is Indonesia.



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There's not much happening in Java, but Indonesia's outer regions are booming on the back of the commodities boom. The farmers are getting richer, as are the miners and the loggers. Outside of the Middle East where else can boast of construction spending being up 43% for the year to May, or motorcycle and car sales being up 45% & 48% respectively for the first six months? Granted, things will slow down in the second half but bear in mind wages are also rising. Meanwhile the market is pricing consumer plays as if the impact of this year's 28% rise in fuel prices will be the same as 2005's 125% increase, which of course it won't. And the fiscal boost of the general election, which is less than a year away, will also boost consumer spending power.

We own a finance company with a forecast net dividend yield of over 10%, trading at less than 4x 2008 earnings. In many cases Indonesian consumer companies have net cash on their balance sheets (the financial crisis of 1997 is still fresh in the memory). The market has tarred all consumer plays with the same brush thereby presenting investors with the best opportunity to make money since 2003. And the beauty is that if commodity prices fall, then the deflationary effect on 140 million Javanese should pick up the slack.

And having been excessively rude about the government I must concede that the move to reduce dividend withholding tax from 20% to 10% is most welcome (and strange in a country struggling with a fiscal deficit but we'll ignore that); if one applies the dividend discount model this measure immediately raises the value of our holdings by 12.5% (theoretically of course).

The current period is one of excessive pessimism. There is no good news anywhere (other than Germany not winning the footie). The newspapers are terrifying: Iran and Israel are making Malaysian politics look genteel; oil is going to U\$200; inflation is rising as are interest rates; we haven't seen the half of sub-prime; house prices will continue their cascade etc. etc.

This outlook ignores the fact that there are some winners from all of this. The oil-rich Gulf States and their inhabitants are spending as if oil really is going to U\$200. Kuala Lumpur's airport resembles Dubai's at times and the smarter malls are full of the lucky-ones exchanging their petro-dollars for Rolexes. Furthermore the Gulf governments and their agencies are buying up land and investing in industrial projects to secure their future, just in case oil doesn't hit U\$200.

When the markets are high we are fed a surfeit of optimism. At times like this the gloom seems excessive and the prices of many companies are not reflective of their excellent longer-term prospects.

Two books for the summer: I highly recommend *When a Crocodile Eats the Sun* by Peter Godwin and *The Islamist* by Ed Husain. The former is a true family chronicle set in Mugabe's crumbling Zimbabwe while the latter is requisite reading for anyone wishing to understand the agenda and thinking behind radical Islam. Neither will cheer you up but they are both thought provoking and excellent reads.

James Hay.

9th July 2008.

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

Further information can be found at www.pangolinfund.com



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NAV Computation Report - 1st Dec 2004 to 30th Jun 2008



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							-16.86%
	% chg	-3.89%	-0.60%	-3.78%	2.26%	-5.10%	-6.81%							
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	0.37%
	% chg													

2005 return	-2.57%	Return since inception	36.23%
2006 return	31.74%	Maximum drawdown	-16.86%
2007 return	27.19%	% of positive months	67.44%
2008 return	-16.86%	Standard deviation	3.64%
Average monthly return	0.79%	Standard deviation (annualized)	12.60%
Average return (annualized)	9.44%	Semi deviation	2.69%
Best monthly return	6.89%	Semi deviation (annualized)	9.30%
Worst monthly return	-6.81%	Sharpe ratio	0.43