Pangolin Asia Fund September 2022 NAV

As at the 30th of September 2022 the NAV of the Class A shares of the Pangolin Asia Fund was US$543.35 net of all fees and expenses, down 7.62% from US$588.17 in August.

As of today, the fund is about 98% invested, with the split being approximately as follows:

Singapore	8%
Malaysia	22%
Indonesia	70%

We don't disclose our names but some details are always available to investors (and those wishing to become investors) on request.

Overview

To put things into some perspective, please see the tables below.

Return (in local currencies, except MSCI)									
Period	**DOW**	**S&P 500**	**NASDAQ**	**JSE**	**KLSE**	**STI**	**MSCI Asia ex JP**	**MSCI-ASEAN**	**PAF**
Sep-22	-8.84%	-9.34%	-10.50%	-1.92%	-7.77%	-2.84%	-12.94%	-6.56%	-7.62%
YTD 2022	-20.95%	-24.77%	-32.40%	6.98%	-11.03%	0.21%	-29.31%	-15.13%	-9.21%

Return (in USD)									
Period	**DOW**	**S&P 500**	**NASDAQ**	**JSE**	**KLSE**	**STI**	**MSCI Asia ex JP**	**MSCI-ASEAN**	**PAF**
Sep-22	-8.84%	-9.34%	-10.50%	-4.39%	-10.99%	-5.42%	-12.94%	-6.56%	-7.62%
YTD 2022	-20.95%	-24.77%	-32.40%	0.21%	-20.07%	-5.82%	-29.31%	-15.13%	-9.21%

% Change in Currency Vs USD			
Month	**MYR**	**SGD**	**IDR**
Sep-22	-3.49%	-2.66%	-2.52%
YTD 2022	-10.16%	-6.01%	-6.33%

The fund's YTD decline of 9% breaks down as -2% for our stocks and -7% against the US Dollar. And, unlike last year, we're actually up in unloved Malaysia.

If you think in Pounds or Euros, things look a little different.

PAF Return in Selected Currencies				
Month	**USD**	**GBP**	**EUR**	**CHF**
YTD 2022	-9.21%	9.99%	5.32%	-1.76%

Declining regional currencies have been a constant during the life of the fund. At launch in December 2004 one USD bought us 9,000 Rupiah - now it's 15,200. The Ringgit has fallen from 3.80 to 4.63. Ours is not a fund to buy to hedge your USD exposure. And we at Pangolin have to invest in companies that will more than counter relatively weak currencies.

The table below appeared in Malaysia's business paper, *The Edge*, last week. It highlights the chasm in growth between the Malaysian stock market and its closest competitors, from pre-Asian Financial Crisis to 26th September. Malaysia's financial authorities ought to be worried. It's now a negligible investment destination for big money. Its MSCI Asia ex-Japan weighting is now a mere 1.4% versus around 20% in the 1990s.

SOURCE: BLOOMBERG

Total market cap

	ASIAN FINANCIAL CRISIS (AFC) PEAK DATE	MARKET CAP DURING AFC PEAK (US$ BIL)	MARKET CAP NOW* (US$ BIL)	% CHANGE
Indonesia	July 8, 1997	93.6	622.6	565.2
Thailand	Feb 6, 1996	134.3	537.4	300.3
Singapore	Feb 5, 1996	170.0	475.1	179.4
Malaysia	Feb 25, 1997	323.4	348.9	7.9

*As at Sept 26, 2022

It's not worth the time and effort for most fund managers to visit this poorly researched market. It's far more important, for the big boys, to get their China & India calls right. Of course, if you're a Pangolin, little to no interest in a market with close to 1,000 listed companies creates almost ideal conditions. If only 4% of them are any good, that still leaves us 40 annual reports to pore over.

The investing world's obsession with what is liquid creates the opportunity for those whose sole obsession is the price you need to pay for a growing, well-managed company.

Our Investing Rules

It's time to repeat Pangolin's three rules of investing

1) Don't confuse politics with investing

2) Don't confuse economics with investing

3) Don't confuse markets with investing

I would guess that 99% of funds break all three of our rules. Their newsletters are about interest rates and the Fed and the war and where the index is headed. And if they mention stocks, it is often in a way that demonstrates just how "busy" they've been in the past month, eschewing Pangolin's *lazily investing in the hardworking* approach (which my co-directors tell me is such bad marketing it must never be quoted).

Rule 4, which I've just thought of, is

4) Don't confuse liquidity with investing

For example, most fund management companies want to be big. Therefore, they tailor their product to suit their investors. A so-called small-cap fund might offer daily dealing and, in order to facilitate this, might have USD1 million average daily turnover and minimum market cap of USD100 million limit on any company they might own.

I spoke to the manager of an Asian fund yesterday who runs many multiples of our AUM. For a stock to be considered for his portfolio, it must have a minimum average daily traded turnover of USD10 million. So pretty much everything he considers will have multiple analyst coverage. Whereas pretty much everything we look at has none.

We've been invested in a Malaysian furniture manufacturer since 2013. If I recall correctly, when Vinchel first highlighted it to me, its market cap was USD17 million or so. But it was so cheap that we simply had to own some, even if we couldn't get much. At one point, as the Ringgit declined and its orders surged, it became 7% of the fund. We still own it today and its market cap is now around USD80 million. This cash rich company trades on 5x earnings and yields 6%. Granted, the average daily market turnover of its shares is low, but in simplistic terms (i.e. the ones even I can fathom) we're getting an earnings yield of 20%.

If we hold it for another 9 years, maybe it will become liquid and large enough for others to join in. To be fair, not only fund management companies are at fault here; much of the blame must go to the authorities, those that think UCITS strictures lead to better outcomes etc.

I will now swerve this rant towards listed companies, many of whom are no better. It has been conclusively and repeatedly proven that share valuations are driven by cash returns to shareholders. That's it. It's that simple.

This brings us to **Rule 5**

5) What you want to own is a highly profitable, cash-generating growing business, the honest management of which sticks to its core competency and pays out every unneeded cent as dividends. And which doesn't care about manipulating its share price.

Yet, just as many asset managers compromise in order to attract investors, we also see the boards of listed businesses doing likewise. <u>It is not the job of a company's management to choose their investors.</u> However, in order to "protect" their share prices, we are seeing an increase in greenwashing and suchlike from companies terrified that large institutions won't want to own them.

Pangolin's approach to ESG is G first. It's the most important of the three. If a company consistently hits the G spot, then the S & E will likely follow. The share price should not matter to a company's management, nor should the composition of its shareholders. Yet too often it does and the reason, as often as not, relates to share options.

If you've followed me on LinkedIn recently, you'll know my opinion on Employee Share Option Schemes (ESOS). They don't work as advertised (staff retention & motivation) and are more about enriching managements at the expense of diluting other shareholders. Performance should be rewarded in pay, thus diluting all owners equally. Ask any employee whether they'd prefer $1,000 in options or cash and they will always choose the latter.

We can stomach a reasonable ESOS, say 3-4%, although we tend to find that the better companies incentivise employees financially and in other ways (holidays, health, a workplace gym etc.). In Malaysia companies are allowed to issue 15% ESOS every 5 years, including to the major shareholders. How does a guy who already owns 50% of a company get more motivation via share options? It is enrichment at the expense of others.

And it's self-defeating (like all bad Corporate Governance). Having diluted minorities once by 15%, investors will assume they'll do it again and therefore the shares will attract a lower rating. The only real beneficiary is the investment bank that gets paid for arranging the scheme.

In any event, most employees just sell them when they can. And if the share price falls, then the senior management have a problem in a demotivated workforce. So, they then need to start worrying about their share price. Then they start taking other measures in order to make their shares seemingly more valuable. This can include non-core things such as becoming Shariah compliant in order to attract Islamic funds, appointing board members based on their religion, skin colour, ethnicity, gender etc. to meet ESG requirements, rather than hiring the best person for the job.

And the ultimate folly is to make an acquisition in the hopeful pursuit of adding value – and we all know that acquisitions largely only add value to investment bankers. Our experience has taught us that once a management starts caring about its share price, this becomes the thin end of a bad wedge, as the time and focus that should be spent on the long-term growth of the core business is diverted into short-term, market-friendly nonsense.

Of course, the managements of highly indebted companies that need to issue more shares would need to care about their share price. But if they hadn't borrowed and then presumably underperformed, they wouldn't be facing that predicament. Another reason why Pangolins prefer cash rich companies.

Outlook

Bear markets, recessions and other calamities are part of life. The thing is to remember **Rule 3** and not to invest in markets, but into individual companies that behave as those in **Rule 5**.

For example, the Indonesian market might crash. Alternatively, it might soar. No-one knows, despite what they may say. But we can be reasonably confident that, in 5 years' time, Indonesian girls will be spending more on lipstick than they are now. Why? Because there'll be more of them and they'll be richer. Therefore, if you can find an Indonesian lipstick company trading below a price that reflects this growth and discounts any possible shorter term recessionary slowdown, then it might well be a profitable investment. Further research is of course required. This is Pangolin's approach.

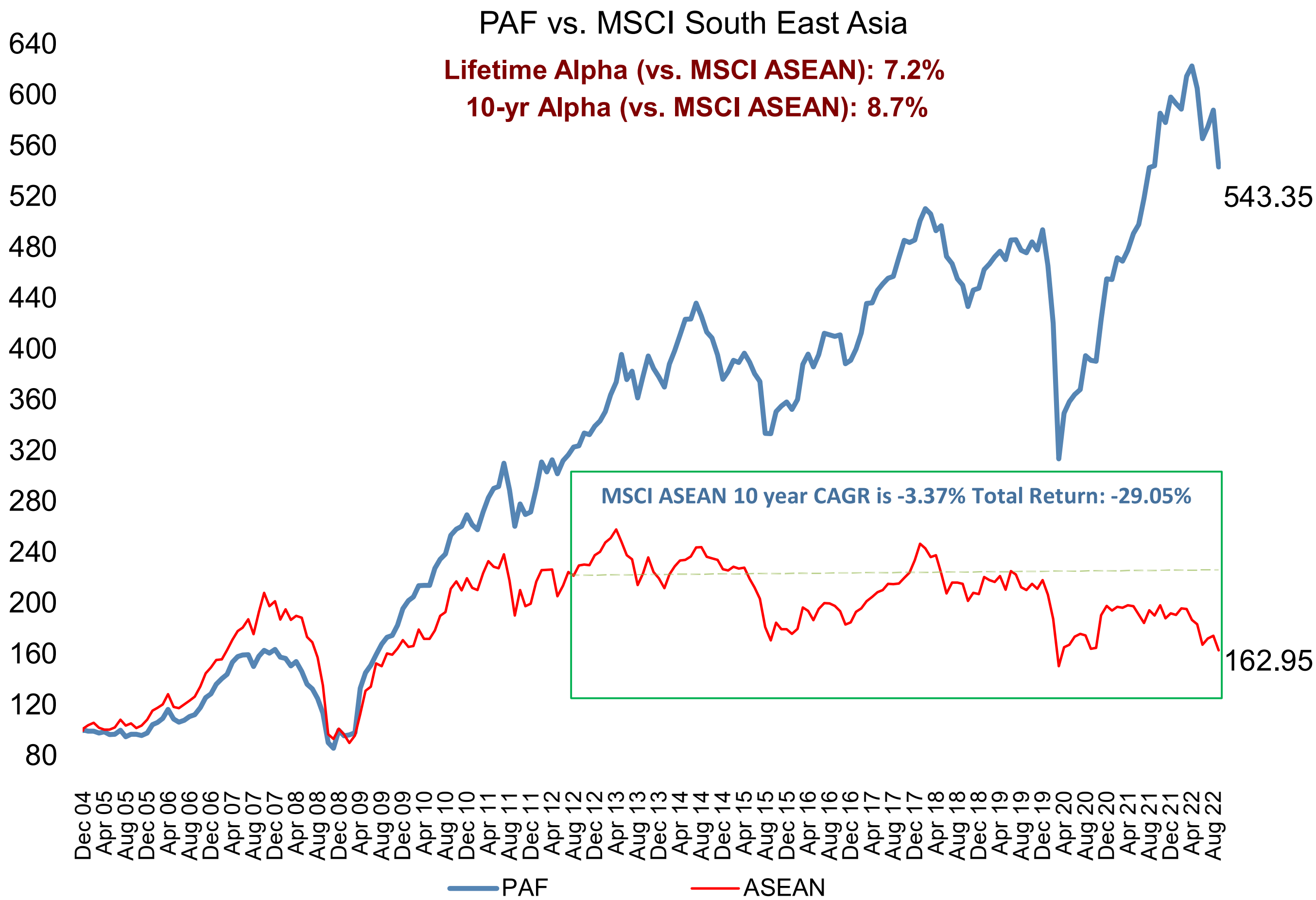
We view stock markets as a collection of potential individual investments. Not as some CNBC commentator's entity that is "trying to rally" or whatever garbage they're spouting. How can an index try to rally?

It so happens that the number of investible companies is greater when and where fewer people are looking. The *where* is our region and (often) in the smaller, lesser-traded names. The *when* is when markets are weak. You'll see in the chart below that the ASEAN index has already fallen by 29% over the past decade. We're already surrounded by bargains.

James Hay

6th October 2022

Seventeen years track record and annualised return of 9.96%

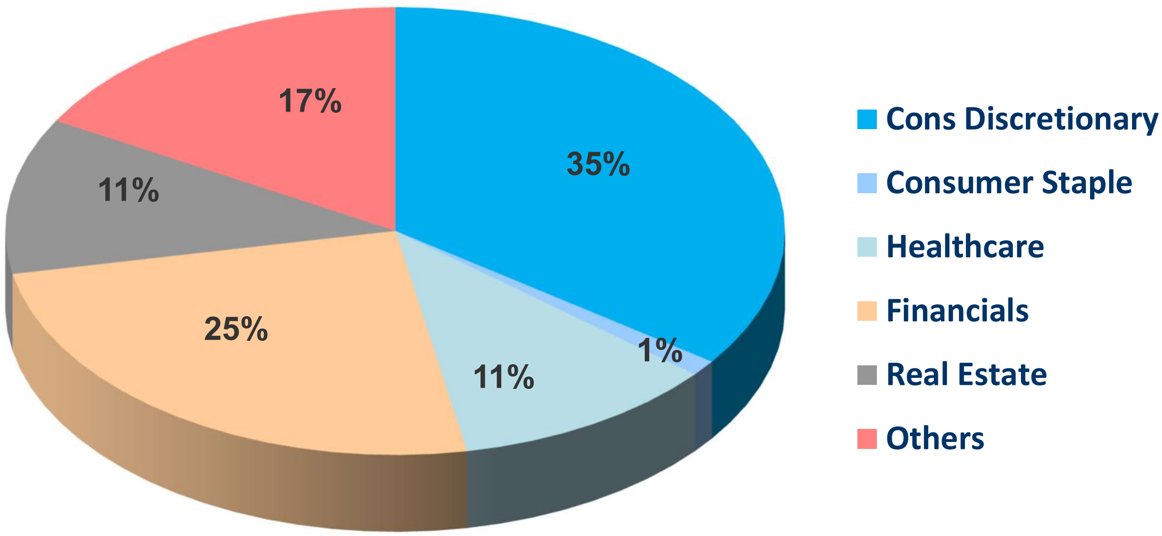


PANGOLIN INVESTMENT MANAGEMENT

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022	NAV	593.29	588.82	614.73	622.83	605.35	565.54	574.94	588.17	543.35				-9.21%
	% chg	-0.86%	-0.75%	4.40%	1.32%	-2.81%	-6.58%	1.66%	2.30%	-7.62%				
2021	NAV	454.64	471.89	469.26	477.70	491.07	497.99	518.78	542.88	544.24	585.87	578.32	598.45	31.44%
	% chg	-0.15%	3.79%	-0.56%	1.80%	2.80%	1.41%	4.17%	4.65%	0.25%	7.65%	-1.29%	3.48%	
2020	NAV	465.73	420.43	313.82	349.63	358.55	364.26	367.99	394.82	391.21	390.47	422.87	455.32	-7.80%
	% chg	-5.69%	-9.73%	-25.36%	11.41%	2.55%	1.59%	1.02%	7.29%	-0.91%	-0.19%	8.30%	7.67%	
2019	NAV	462.51	467.10	472.67	477.00	470.36	485.78	486.12	477.67	475.87	484.37	477.85	493.85	10.21%
	% chg	3.21%	0.99%	1.19%	0.92%	-1.39%	3.28%	0.07%	-1.74%	-0.38%	1.79%	-1.35%	3.35%	
2018	NAV	501.11	510.62	506.32	493.22	497.19	472.82	467.29	455.31	450.29	433.40	446.46	448.11	-7.76%
	% chg	3.15%	1.90%	-0.84%	-2.59%	0.80%	-4.90%	-1.17%	-2.56%	-1.10%	-3.75%	3.01%	0.37%	
2017	NAV	400.08	412.81	435.93	436.54	446.18	451.43	455.76	457.12	472.10	485.61	483.86	485.79	24.18%
	% chg	2.27%	3.18%	5.60%	0.14%	2.21%	1.18%	0.96%	0.30%	3.28%	2.86%	-0.36%	0.40%	
2016	NAV	352.31	360.43	387.79	396.17	386.04	395.41	412.53	411.2	410.02	411.25	388.48	391.19	9.16%
	% chg	-1.69%	2.30%	7.59%	2.16%	-2.56%	2.43%	4.33%	-0.32%	-0.29%	0.30%	-5.54%	0.70%	
2015	NAV	382.31	391.18	389.48	396.82	389.67	380.77	374.61	333.73	333.52	350.84	355.19	358.38	-4.76%
	% chg	1.60%	2.32%	-0.43%	1.88%	-1.80%	-2.28%	-1.62%	-10.91%	-0.06%	5.19%	1.24%	0.90%	
2014	NAV	370.08	388.25	398.79	410.89	423.38	423.84	436.37	425.85	413.36	408.97	395.23	376.28	-0.52%
	% chg	-2.16%	4.91%	2.71%	3.03%	3.04%	0.11%	2.96%	-2.41%	-2.93%	-1.06%	-3.36%	-4.79%	
2013	NAV	343.47	350.86	364.04	374.14	395.94	375.98	382.69	361.54	378.56	394.53	384.87	378.24	11.48%
	% chg	1.23%	2.15%	3.76%	2.77%	5.83%	-5.04%	1.78%	-5.53%	4.71%	4.22%	-2.45%	-1.72%	
2012	NAV	290.78	311.15	303.35	313.01	301.88	312.18	316.87	323.01	323.75	334.08	332.63	339.29	24.85%
	% chg	7.00%	7.01%	-2.51%	3.18%	-3.56%	3.41%	1.50%	1.94%	0.23%	3.19%	-0.43%	2.00%	
2011	NAV	261.86	258.03	271.83	283.00	290.51	291.75	310.23	289.05	260.46	278.31	269.95	271.75	0.85%
	% chg	-2.82%	-1.46%	5.35%	4.11%	2.65%	0.43%	6.33%	-6.83%	-9.89%	6.85%	-3.00%	0.67%	
2010	NAV	201.91	205.09	213.68	227.44	213.93	227.45	234.62	238.78	253.28	258.37	260.53	269.47	37.58%
	% chg	3.08%	1.57%	4.19%	6.44%	-5.94%	6.32%	3.15%	1.77%	6.07%	2.01%	0.84%	3.43%	
2009	NAV	95.67	96.38	98.12	133.22	145.25	151.32	159.71	167.99	173.21	174.49	182.60	195.87	95.34%
	% chg	-4.59%	0.74%	1.81%	35.77%	9.03%	4.18%	5.54%	5.18%	3.11%	0.74%	4.65%	7.27%	
2008	NAV	157.49	156.55	150.63	154.03	146.18	136.23	132.58	125.09	113.55	90.36	85.98	100.27	-38.81%
	% chg	-3.89%	-0.60%	-3.78%	2.26%	-5.10%	-6.81%	-2.68%	-5.65%	-9.23%	-20.42%	-4.85%	16.62%	
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%	

Best monthly return	**35.77%**
Worst monthly return	**-25.36%**
Maximum drawdown	**-47.53%**
% of positive months	**64.95%**
Annualised return	**9.96%**

By Sector


17%
35%
11%
1%
25%
11%
Cons Discretionary
Consumer Staple
Healthcare
Financials
Real Estate
Others