Pangolin Asia Fund Year End 2008 Report & November NAV

As of the 30th of November 2008 (the fund's year end), the NAV of the Class A shares of the **Pangolin Asia Fund** was US$85.98 net of all fees and expenses, down 4.85% from US$90.36 in October.

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

Indonesia	45%
Malaysia	41%
Singapore	4%

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

Overview

November's performance was affected both by weakening Asian currencies and further price falls in some of our Indonesian holdings. Some of our Malaysian stocks actually did quite well as investors began to bottom fish in an oversold market.

There hasn't been much bottom-fishing in Indonesia as yet. The market has been stuffed by the farcical response of the authorities towards a sell-off of the Bakrie group of companies, including Bumi Resources. As the US and the West have destroyed all moral high ground with respect to the perils of market intervention, there isn't too much point in bleating on about how stupid it was of the Indonesian government to interfere with the markets in order to protect the interests of a cabinet minister, especially as the 25% fall in the Rupiah over the past few weeks tells the story pretty eloquently on its own.

Indonesia's currency is more exposed to the capital markets than most given its lower level of foreign trade and direct investment. It's a shame, therefore, that the authorities didn't think about the ramifications such incredibly dumb policy, but I suppose they thought they were being clever at the time. The risk Indonesia faces is that a weakening currency leads to higher imported inflation thus causing a further sell-off, and so on.

The good news is that the worst of the Bumi fiasco looks like it is over, interest rates are probably on the way down and the economy is still in reasonable shape (UBS's worst case GDP forecast is +2.5% for 2009 and most estimates range between 4 & 5.5%).

We have been catching a lot of knives in Indonesia as valuations have been obliterated by panic selling. Consequently that country's weighting in the fund has slipped below 50%; we are happy to keep on buying at what we see as giveaway prices.

The Region

In light of the collapse in share prices and expectations over the past few months I am often asked if now is a good time to be investing in Asia, South East Asia in particular, so let's have a look at the region.

The 10 ASEAN countries have a combined population of about 600 million with 2007 per capita GDP ranging from U$215 in basket-case Myanmar to over U$35,000 in well-managed Singapore. On the whole the region enjoys benign, business-friendly governments and enough political stability to allow trade to flourish. Singapore and Myanmar are the obvious book-ends. Thailand has been hitting the headlines for all the wrong reasons, but generally the region's rulers are not extreme, understand the benefits of stability and mutual trade and realise that if they allow their citizens to improve their living standards, they themselves will not come under too much pressure to explain how they got so rich on government salaries.

And this is a region with 2% annual population growth, virtually no social security headaches, a culture of hard work and self-reliance even in the countries with Socialist in their official names, and no unfunded pension nightmares. These conditions allow tens of millions of people to uplift their circumstances every year, to move from the padi fields to the cities and to enjoy the luxury of disposable income for the first time ever.

This change in lifestyle is occurring at a pace unmatched outside of Asia; the politics do not allow it in Africa, the pace is patchier in Latin America and in the developed world, forget it.

How will the crisis affect the region? Obviously growth will slow. Singapore, one of the World's most open economies, is already in recession and can expect a GDP contraction of about 3% next year. It will be a steep sided V as it will remain one of the best places anywhere to do business. Singapore's economy fell 6.6% in 2001, during which the economy was in recession for 9 months, but bounced back strongly afterwards as the world recovered. Any seller (forced or willing) of a Singapore apartment in 2001 must be kicking themselves, even now.

Domestic demand is an important driver in ASEAN economies. The rest of the region is not expected to fall into recession, although the Thais seem to be doing their utmost to destroy their economy. Sadly military rule seems inevitable but, unless they closely copy their neighbours in Myanmar, any government there is likely to remain investor friendly.

ASEAN has another advantage in this crisis; it has been through it before. And because the region has spent the past decade repairing corporate balance sheets (the private sector never really got into trouble in the first place), it has avoided investing in the worthless derivatives Western banks now find on their balance sheets - perhaps more by luck than by design. Unlike the property collateral ASEAN banks ended up with 1998-2001, this toxic stuff is worthless.

South-East Asia's markets and economies were devastated in 1997/98. Indonesia's currency fell against the U$ from Rp2,500 to Rp16,000. Malaysia's KLCI fell from 1,271 in early 1997 to a low of 261 in September 1998, its GDP fell 7.4% in 1998 and the currency halved. Asia's crisis, like the present one, was brought on by an excess of debt, but lessons have been learned.

Many companies and businessmen went bust but the result is that, with some exceptions such as Mr Bakrie above, there remains an aversion to debt and "efficient" balance sheets within the region. Banks' loan deposit ratios remain, for the most part, at sensible levels and the proportion of banks' business which does not involve the basic deal of lending someone money and hoping to get repaid is miniscule compared to the West.

Governments have been looking over their shoulders for attacks on their currencies ever since. Reserves have been built up, current accounts have been in surplus and fiscal deficits are at levels that would be envy of most EU states. South East Asia has financial capability not only to weather this storm, but to emerge stronger.

Asia has another advantage. In this era of Keynesian infallibility, it can actually do more than just dig holes and fill them in to provide jobs and reboot the economy; it can spend constructively. I recently caught a debate on the radio in the UK about the proposed third runway for Heathrow. I think I had to listen to the same miserable woman, protesting that it would mean the flattening of her miserable council flat, that I heard 16 years ago when I still lived there. China has built 50,000 KM of roads in the last 10 years. It takes that long to get approval to do anything in Europe and even then the talk is of investment in green energy and suchlike, all very worthy of course but not likely to provide any form of economic return.

Okay I concede that often the local politicians' love of infrastructure spending is driven by rake-offs, but nevertheless investing in Asia in roads, airports and ports etc. has both immediate and lasting economic benefits. A sealed road across an Indonesian island has life changing effects on the population, an impact that cannot be replicated in the West.

Brand New Airport Terminal Makassar, Sulawesi

Road Building Lembata, Indonesia

Outlook

Bearing in mind that Singapore's GDP fell 6.6% in 2001 and Malaysia's 7.4% in 1998 it would seem apparent that economic performance is likely to spring negative surprises, with official forecasts in the US and Europe looking overly optimistic. But share prices, to my mind, are already discounting much more than a short recession. An awful lot of bad news is already in the market.

So is it a good time to invest? Having ignored the numerous warts in painting a rosy picture above one now has to consider the valuations.

The selling of equities everywhere has been indiscriminate and has gone beyond fundamentals. It is difficult to know when the panic, redemptions and volatility will leave the market but, rather like Singapore apartments in 2001, there are clearly bargains to be had. Selling driven by panic and redemption often provides opportunity for those who can be more discriminate.

We have a bias towards the Asian consumer. I have written many times of the virtually unstoppable growth of consumption in Asia but now valuations are at crazily low levels. Markets may or may not go lower, but already strong companies with fairly predictable futures are selling at prices that assume a return to the Stone Age.

If you don't think the answer to all of the following is Yes, then do not invest in Asia:

1) Will Asians be riding more motorbikes in 3 years time than now?

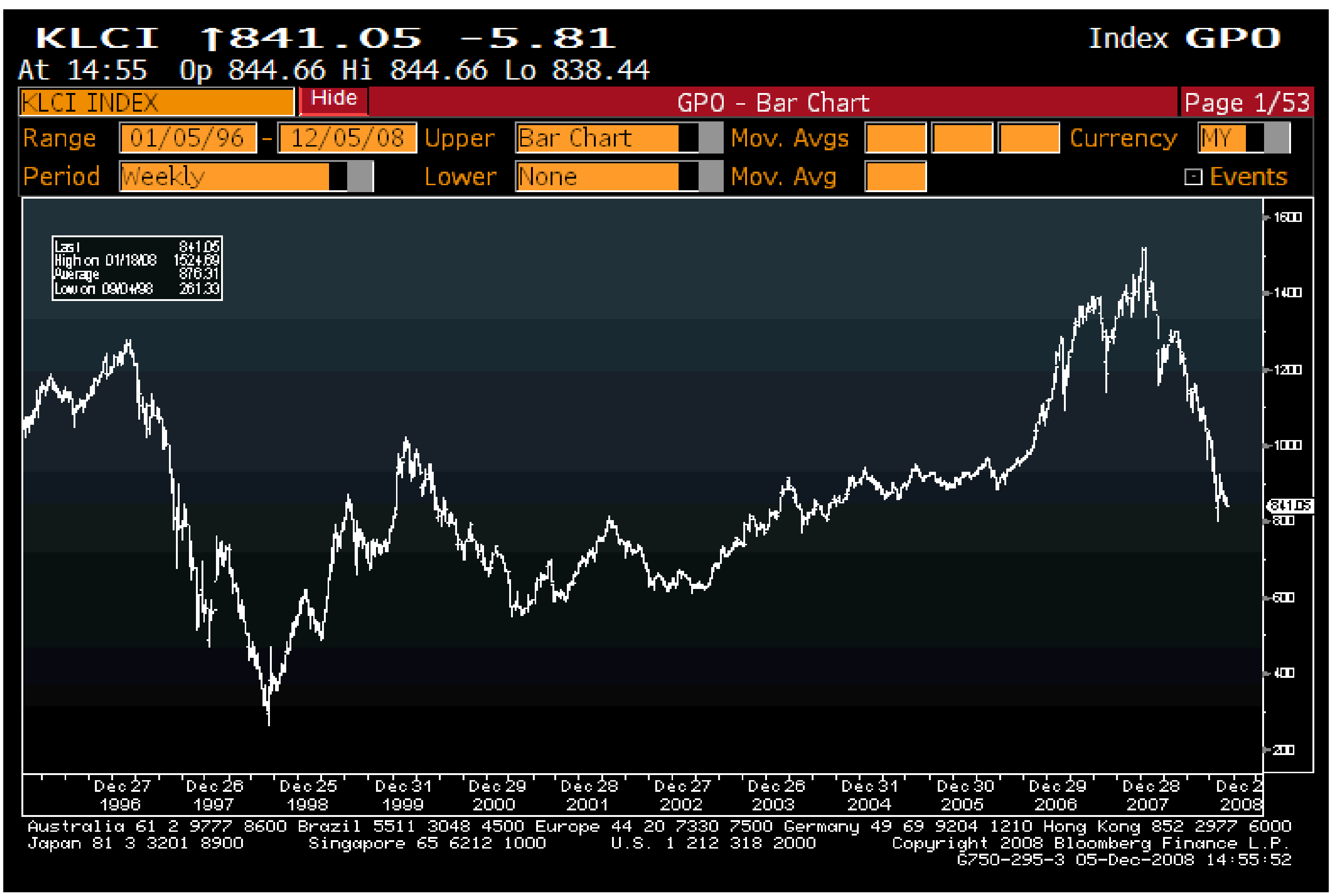
2) Will more of them be living in cities, living urban lifestyles?

3) Will they be eating more junk food and popping more medicines?

4) Will they be richer?

Clearly this has to come with a health warning. We have been buying in Indonesia for a while and it hasn't done us any favours yet. Markets everywhere might fall a lot further as Malaysia did in 1998 – see below – and the world's financial system might take years to recover. Nevertheless, history tells us that when PEs are low and yields are high, it is normally better to be a buyer than a seller.

And talking of buyers, the majority of the fund's companies are in strong cash positions and able to make acquisitions as opportunities arise. One of them, YTL Power, bought a power company in Singapore this week. We expect similar announcements from some of our other holdings over the coming months.



Lastly I would like to thank the directors of the fund and the management company, my colleague Vinchel Budihardjo and my secretary Zubaidah for all their hard work over the past 12 months.

Merry Christmas a Happy New Year to those that celebrate them,

James Hay.

5th December 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

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	85.98		-47.53%
	% chg	-3.89%	-0.60%	-3.78%	2.26%	-5.10%	-6.81%	-2.68%	-5.65%	-9.23%	-20.42%	-4.85%		
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**	-47.53%
2008 return	-47.53%	**% of positive months**	60.42%