



Pangolin Investment Management

Pangolin Asia Fund December 2010 NAV

As at the 31st of December 2010 the NAV of the Class A shares of the Pangolin Asia Fund was US\$269.47 net of all fees and expenses, up 3.43% from US\$260.53 in November. For 2010 the fund was up 37.58%.

Please see the table at the end of this letter for further detail.

As of today, the fund is just about 74% invested, with the split being approximately as follows:

Indonesia	49%
Malaysia	24%
Singapore	19%
Thailand	8%

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

Overview

The fund's NAV continued to be enhanced both by flows into the region and the practice of some fund managers to "window dress" their funds by pushing up some share prices on the last days of the year. For as long as this widespread and corrupt practice is not treated as fraud by the authorities, markets will continue to behave strangely each December. The saving grace is, I suppose, that as it happens every December YOY comparisons remain meaningful(ish). We still have plenty of cash although we are continuing to nibble away at a couple of stocks here and there.

Politics

In **Malaysia** there is intense speculation that 2011 will be an election year. The UMNO-dominated ruling coalition will probably win, as it has done ever since independence. The pro-government media has managed to show the opposition amalgam to be in some disarray, as well as casting all sorts of aspersions over its leader's proclivities as he defends himself in a seemingly endless sodomy trial.

Perhaps part of the reason that the Government always wins is because the urban seats the opposition is more likely to win have a lot more voters than the rural ones. Rural, peninsular Malaysia is religiously conservative and religion is therefore part of the political battlefield. Thus in these areas the opposition's Islamic party, PAS, tends to fare quite well and, in order to counter this, the Government has to field similarly religious sounding candidates.

Advertisers in Malaysia tell us the Malay youth is split down the middle between the conservatively religious and the more modern. Opportunities for the ambitious in the rural areas are scant and those who wish to get on move to KL, Penang, Johore or overseas.

The Government's gerrymandering thus leads to the more conservative religious elements being over-represented. More liberal policies such as free needles for drug addicts, condoms for sex workers or sex education get shot down fairly quickly. Malaysia is a pretty religious place (across all the religions represented) and it is not fair to assume that urbanites are any less pious than their country cousins, although some of their views are probably more progressive.

Nevertheless, there is a divergence between town and country which is not necessarily represented fairly in parliament. This is a social trend which, though not as problematic as in Thailand (where rural red shirts outnumber urban yellows), is something investors should be aware of; it explains some of the apparent contradictions between actions and words here.

In **Indonesia** a major human rights group has accused the police force of being the state institution responsible for the highest number of acts of violence against the public in 2010. The police's response was predictably of the "but we get results" variety.



Pangolin Investment Management

Outlook

Most of the clever-sounding bods on the telly seem to be bullish for 2011. After two pretty good years with very low interest rates it would be quite surprising if we had yet another one. Rising interest rates, if they happen, tend not to be great for equities, whilst perpetually low rates are symptomatic of other problems which also cause shares to be bad news (think Japan).

If that sounds pretty gloomy, sorry.

I had some very kind messages of support as a result of my stating that I was planning to both give up alcohol and take up ballroom dancing this year. The more perceptive of you pointed out that dancing without Dutch Courage would be quite a feat. Thus I am amending my resolutions for 2011 to: not giving up drinking and maybe doing ballroom dancing.

I'll add one more. That is to keep on reminding myself and others that value investing is a long-term game and not to worry about monthly performance. Or to put it another way, at Pangolin we'll continue with our policy of lazily investing in the hard-working.

Lastly, I am sad to say I lost two good friends over the past 12 months. Choong Khuat Hock was the person who taught me that laughter and making money are compatible. And one of the better analysts I have known, David Loomis, died the other day. His ideas were always good (we've invested in some of them) and I'll miss chatting to him.

James Hay.
10th January 2011.

I don't like to discuss stocks publicly but 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.

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
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	182.6	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	157.9	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	94.9	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	-20.42%
Maximum drawdown	-47.53%
% of positive months	71.23%