



Pangolin Asia Fund October 2018 NAV

As at the 31st of October 2018 the NAV of the Class A shares of the Pangolin Asia Fund was US\$433.40 net of all fees and expenses, down 3.75% from US\$450.29 in September.

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

As of today, the fund is about 84% invested, with the split being approximately as follows:

Singapore	12%
Malaysia	42%
Indonesia	28%
Thailand	18%

We don't disclose our names but some details are always available to investors on request.

Overview

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

Return (in local currencies, except MSCI Asia Ex-Japan)									
Period	DOW	S&P 500	JSE	KLSE	STI	SET	MSCI ex JP	MSCI-ASEAN	PAF
Oct 2018	-5.07%	-6.94%	-2.42%	-4.68%	-7.31%	-4.97%	-10.89%	-6.34%	-3.75%
YTD 2018	1.60%	1.43%	-8.24%	-4.87%	-11.29%	-4.83%	-18.15%	-13.67%	-10.78%

Return (in USD)									
Period	DOW	S&P 500	JSE	KLSE	STI	SET	MSCI ex JP	MSCI-ASEAN	PAF
Oct 2018	-5.07%	-6.94%	-4.35%	-5.72%	-8.57%	-7.23%	-10.89%	-6.34%	-3.75%
YTD 2018	1.60%	1.43%	-18.19%	-8.00%	-14.47%	-6.36%	-18.15%	-13.67%	-10.78%

% Change in Currency Vs USD				
Month	IDR	MYR	SGD	THB
Oct 2018	-1.97%	-1.10%	-1.35%	-2.37%
YTD 2018	-10.84%	-3.29%	-3.59%	-1.62%

We've continued to add here and there. The 10.8% fall YTD is approximately 50% currency and 50% share prices, or 5.4% each. So actually, for the moment our investments are holding up fairly well.

In Malaysia I live in Damansara Heights, which I call the Beverly Hills of Kuala Lumpur. The largest landowner is Selangor Properties, in which the fund has a shareholding. Last month, Sel Props' owner announced a takeover for the remaining shares it doesn't own. We reckon they're bidding too low. We've owned the shares for four years and would be happy to own them for at least another four if we don't get a decent price now.

A few years ago, I never saw a For Sale sign in Damansara Heights. Old money had no intention of selling and demand was such that a seller had no need to advertise. In recent years, what with the 1MDB debacle and the weak Ringgit, my jogging route has taken me past many more houses that are on the market. However, just recently it looks like unsold stock is moving and *renovation is apace. Confidence is returning since the new government took over and there is less of a scramble to get all money out of Malaysia than was the case under Najib.



Talking of the new Government, Dr Mahathir, since assuming the post of PM in May, has made trips to Japan, China, Indonesia, Thailand, Brunei, the UK & the US as well as celebrating his 93rd birthday. I put his energy down to his liberal use of Tiger Balm.

*Renovation where I live means knocking down a lovely old 2 storey house with garden and building 5 storeys obliterating both the garden and the neighbour's sunshine. And to get 5 storeys in a 2-storey zone, you need 2 basements, a mezzanine and presumably a more than amenable planning officer with the local council.

Outlook

A recent trip to a mattress shop with one of my kids opened my eyes to a whole new world of possible expenditure. Do you know that some cost over \$2,000? As one gets richer, the amount that can be spent on the same thing increases many times. It reminds me of Nestlé. While we're quite happy with their Gold Blend at 10c a cup, we somehow end up paying a lot for a Nespresso machine and paying over \$1 for the same caffeine hit.

Which got me wondering as to how many households in ASEAN (pop. 650m) have a coffee machine. It's not many. Assume 5 per household = 130m households. Maybe 1m coffee machines.

There are other things ASEANs aspire to but as yet can only imagine – like a mattress for example. Ignoring the obvious like cars and motorbikes, I would expect to see a massive rise in ownership of the following essentials in the next two decades:

- 1) Printers – currently 4m households own a printer (in my house there are two that work and another two, that don't, in the garage). Any of you not have a printer?
- 2) Hairdryers – currently 26m ASEAN households have a hairdryer. That's 260m girls without a hairdryer.
- 3) Vacuum cleaners. 11m households own vacuum cleaners. The rest use a broom. And to make sweeping the house even harder, I'm guessing that if you can't afford a vacuum cleaner, you won't have a maid.
- 4) Smartphones – yes there are many that don't have. There are 330m internet users in ASEAN. Which means there are still 320m not connected.
- 5) Electric oven – 31m have electric ovens. 100m households don't.
- 6) Gas cookers – 65m. 34m still using wood, coal etc.
- 7) Hot water – OK it's warm most of the time but still. 70m households don't have hot water. In fact, stable electricity supplies are a long way off for most.
- 8) Furniture – At least half the population eat sitting cross-legged on the floor. And they don't suffer from Sciatica.



No tables or chairs but a telly





And then there are things like

- 9) Holidays – going overseas is still a distant dream for the majority of ASEAN's population. And for many, the one trip they do will be a Haj or Umrah to Mecca. (11% of Indonesians' overseas travel is to Mecca).

Imagine what Venice will be like once 1bn Indians, 1bn Chinese, and 650m ASEANs all go on holiday twice a year like we do.

- 10) Attending a Premier League game – ask any taxi driver anywhere in ASEAN. It's his (and, increasingly, her) dream.

You get my drift. We can add a lot to the list of things that we cannot live without but most ASEANs don't have yet – but in time they will

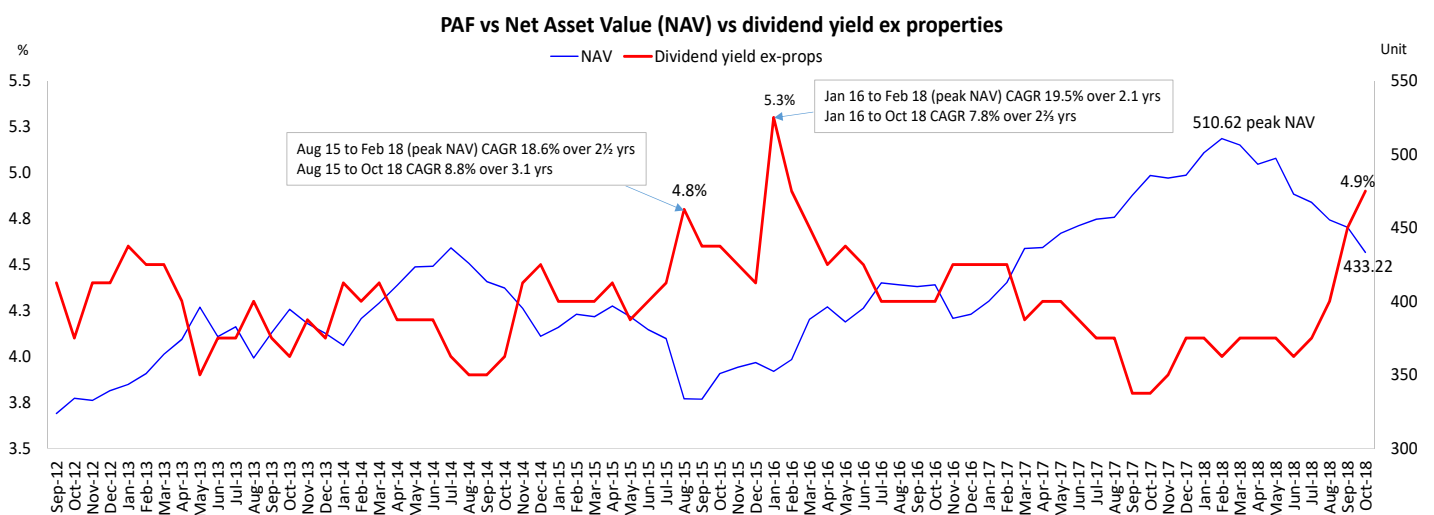
This is why we invest in Asia. Interest rates go up and down and there are coups and all sorts of nonsense, but this march to what the West thinks of as average prosperity is just getting started. And the people here work hard and productively enough to achieve it.

Valuations

Most of you know that I don't really like to talk shop too much in these newsletters, but my colleague Irvan has done a bit of follow-up on last month's letter about the fund's dividend yield.

The below chart shows the relationship between Pangolin's Net Asset Value (NAV) and weighted dividend yield of the fund ex-properties. Dividend yield is a good measure of the cheapness of the portfolio and has an inverse relationship with NAV of the fund. It is more relevant to look at the portfolio excluding properties as we consider property companies to be an asset play; and their yield is low. Properties are currently 20% of the portfolio.

In Jan 2016 the fund's dividend yield was very high at 5.3%. Had one invested during this period and held until Feb 18, the compounded annual growth rate (CAGR) return would be 19.5% over 2.1 years. Had one invested during this period and held until now, the CAGR would be 7.8% over 2 2/3 years. Generally, if one invests when the dividend yield is 4.8% or above, the result has been satisfactory. Currently, the dividend yield is 4.9%, which is an attractive entry point.





Irvan's conclusion is backed up by our research and company visits. We are currently finding plenty to invest in at attractive valuations again. Is it a good time to buy? The risk is the state of the US market but, that aside, the statistics would imply that it's not a bad time.

1MDB

For those of you who find the whole scandal confusing (and for those of you who don't) the recent BFM interview with whistleblower Xavier Justo is excellent. You can get it on

<https://www.bfm.my/bg-xavier-andre-justo-justo-i-believe-i-did-the-right-thing>

James Hay.
9th November 2018

We don't like to discuss stocks publicly but I am always happy to talk to existing investors and those interested in investing. The Pangolin Asia Fund is most suitable for investors who are happiest when markets are falling.

I made up the household statistics above. It just seemed more fun than Googling everything. I don't think I'm too far out.



Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2018	NAV	501.11	510.62	506.32	493.22	497.19	472.82	467.29	455.31	450.29	433.4			-10.78%
	% chg	3.15%	1.90%	-0.84%	-2.59%	0.80%	-4.90%	-1.17%	-2.56%	-1.10%	-3.75%			
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 -20.42%
Maximum drawdown -47.53%
% of positive months 65.27%
Annualised return 11.11%

By Sector

