



Pangolin Investment Management

Pangolin Asia Fund March 2012 NAV

As at the 31st of March 2012 the NAV of the Class A shares of the Pangolin Asia Fund was US\$303.35 net of all fees and expenses, down 2.51% from US\$311.15 in February. Please see the table at the end of this letter for further detail.

As of today, the fund is just about 94% invested with the split being approximately as follows:

Indonesia	29%
Malaysia	40%
Singapore	21%
Thailand	10%

No names I'm afraid but details of the individual holdings are always available to investors on request.

Overview

Some of the fund's holdings were subject to a bit of profit-taking and two of our finance companies in **Indonesia** were particularly affected. The reasons being that (a) the authorities have (sensibly) increased the minimum down-payments for the industry and (b) the government was proposing a 33% fuel price increase which could impact consumer spending.

So should we have panicked out of these companies? Maybe but both of them have low non-performing loan ratios compared to most and their down-payment requirements were already not too far from the new rules; thus they ought to be able to pick up business from those companies that were attracting custom by offering easy terms and now will be unable to.

As for the fuel price increase, the Indonesian government was unable to pass it on due to protests and early populist electioneering by its coalition partners. As a result the budget deficit will be close to 3% this year which is the legal limit (as I believe it is in Greece etc).

Vehicle ownership has hardly started in Indonesia. OK, so vehicle sales may or may not be a bit slower than hoped for this year, but the longer term prospects for the better industry participants remain excellent. On 7x earnings, high ROEs and the possibility of funding costs declining, we may well still be owning these companies for a while yet (we might even buy a few more shares).

Investors in emerging markets are being reminded by government actions that developing nations remain developing because of poor government. Just when everyone was seeing blue sky, the Indians announce they are likely to introduce a retrospective tax on foreign acquisitions in that country; and Indonesia is proposing yet further amendments to its mining laws.

Take away mineral exploitation investment from Indonesia and there isn't a lot left. The latest proposals would force foreign miners to sell down their stakes from the sixth year, ultimately owning no more than 49% after ten years, to Indonesian interests – thus losing control. This is coupled with forthcoming export taxes on coal and base metals in order to try and boost onshore processing. But who in their right minds will now want to invest in a huge steel plant when it too might get hit with foreign ownership restrictions or taxes?

Bank Danamon is being acquired by DBS from a Singapore Government entity. This too is running into opposition from some lawmakers. Always keep one open for signs of populist nationalism or just politicians trying to acquire assets for themselves on the cheap (in the name of nationalism).



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Environment

As you know Pangolin does not invest in palm oil companies as it is our belief that they contribute to the destruction of the rainforest as well as the displacement of indigenous people. The Jakarta Globe tells us that Aceh's last orangutans are likely to be wiped out in a few months. See <http://www.thejakartaglobe.com/news/aceh-forests-last-orangutans-could-vanish-within-months/507864> for the full story.

There are of course forest reserves and parks in which wildlife can theoretically survive but these too are constantly under threat from human activity. Tourism, 4WD expeditions, poaching and illegal logging all have an impact. Accounts of early colonial exploits in Malaya and Indonesia are quite telling in just how dangerous the wildlife used to be. In the days of the early tea planters, the surrounding jungle was full of panthers, tigers and leopards, all of which could and would seek to attack humans. In fact, if these Europeans had one redeeming aspect in the eyes of the locals, it was their guns with which they could hunt and kill these animals.

Outlook

Our company visits continue to uncover businesses with excellent prospects trading cheaply, largely because the market is concerned about something on the other side of the world. There are always things to worry about but good managements ought to be able to steer their businesses through crises. If a company produces something that people want and is located in a growing part of the world, it should thrive. And if we, as fund managers, are able to invest in a businesses at a price clearly below what it is worth, then we also should thrive.

Currently we estimate the portfolio to be on about 9x and expect a dividend yield of about 4.5% for this year.

I spend quite a lot of my time trying to explain our long term focus to people. While doing so the other day the response I got was: *"we too are long term investors, just not yet!"*

I will counter with another of Pangolin's pithy slogans. *'Don't confuse the markets with investing.'*

Travel Plans

I shall be meeting investors in California in early May. Should you want a meeting and haven't heard from me, please drop me a line.

Happy Easter,

James Hay
6th April 2012

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.



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Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012	Nav	290.78	311.15	303.35										11.63%
	% chg	7.00%	7.01%	-2.51%										
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	196.87	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%	% of positive months	69.32%
Worst monthly return	-20.42%	Annualised return	16.34%
Maximum drawdown	-47.53%	5-year CAGR	16.04%