Pangolin Investment Management

Pangolin Asia Fund announces month end NAV – March 2008

As of the 31st of March 2008, the NAV of the Class A shares of the **Pangolin Asia Fund** was US$150.63 net of all fees and expenses, down 3.78% from US$156.55 in February.

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

Indonesia	40%
Malaysia	41%
Singapore	19%

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

Review

To be down three months in a row is a bit disappointing but in the perspective of a month in which the Malaysian index fell nearly 10% in one day (post the election) then perhaps the performance is as understandable as it is undesirable.

Recently there has been much discussion as to whether Asian and other emerging economies can decouple from their Western counterparts, the hope being that a US recession won't have too severe an impact over here. In my opinion, for the long term, what is as important is convergence, and I refer to the convergence of political systems.

In the history of independence from colonialism there have been few success stories. The USA and Singapore are obvious examples but it is hard to find many others. The reason so many developing nations have not developed comes down to the politics; you will never see people working as hard as they do in the developing world where low pay, long hours, little holiday etc. are the norm, yet theses nations' economies, although growing, are still a long way behind.

During the bull-run emerging markets have recently enjoyed, many investors have neglected the political risks. Actually when all is going well the risks do seem less; it is at times of stress that the politics come into play. And we are seeing stress at the moment.

There is nothing like a dose of inflation, especially food inflation, to rouse the natives. It is no coincidence that we are seeing unrest in Tibet and a huge swing to the opposition in the Malaysian general election when the prices of rice, cooking oil and soya are all escalating.

The response of the Chinese government has been predictably immature, but not particularly surprising from a bunch who still publicly revere Mao. I read the other day that China is planning to "step up the drive to re-educate Tibetans". It won't work. Prior to visiting East Timor in 1999 I was in agreement with those who argued that Indonesia's presence and in particular its spending on infrastructure had benefited the then province. A few hours after landing my eyes had been completely opened to the depth of loathing felt by most East Timorese towards Indonesia, a situation comparable with Tibet and its occupier.

Indonesia has recently emerged as a beacon of democracy in Asia but the life sentence handed out to a man who waved a South Maluku independence flag in front of the president last year shows how far removed they are from free speech and the right to dissent. Of course repression and economic integration work if given enough time (e.g. Scotland & the UK or the South & the USA) but it does require the host to be both economically strong and to act like a country rather than an empire.

I have touched on inflation earlier. In Indonesia the recent jump in prices to over 8% yoy has caught the market by surprise and spooked bond investors. The market is anticipating a rise in interest rates but I suspect the central bank will resist this pressure. Even with subsidies in place the fiscal deficit is only forecast to be in the region of 2% this year, so while not running a surplus, the government has some room to manoeuvre. With an election due next year the free-speech-loving president will do all he can not to make life harder for the electorate.

In Malaysia the fallout from the democratic and peaceful election is leading to infighting within UMNO, the (still) dominant Malay party. The newspapers are actually quite interesting for a change and the rumours being spread by the locals are even better. There is a genuine fear of retribution from Anwar Ibrahim among some of the old guard. Remember, Anwar was imprisoned (wrongfully in his mind) for six years and his political star is in the ascendancy. Although he may turn out to be an all-forgiving Nelson Mandela type, he may not. And he may also be Malaysia's next prime minister, hence the fear.

It is always easy to criticise. The governments referred to above and others will argue that social stability has to come first. Nevertheless if the economies of developing nations weaken history shows us that political risk rises. Without the checks and balances of an open society the chance of extreme and reactionary measures is higher, and these are seldom good for markets.

Outlook

Although the politics matter, within Asia and the zone in which we invest there are many excellent businesses well adapted to local conditions. And a lot of them are trading cheaply by most reckonings. Asian nations' and companies' balance sheets are in reasonable shape so the risk of meltdown in the region is low. Our portfolio is ungeared and primarily invested in debt-free companies with reasonable prospects for growth. Excessive debt in companies (or funds) can bite hard in bad times, which is why we avoid it. There are many managers who run leveraged portfolios fantastically well but I've never been able to convince myself that it is a good idea for our long-term strategy. As I wouldn't borrow money to buy stocks personally, why would it be a good idea for the fund to do so?

We think much of the portfolio is oversold but our valuations are decided by the market and we have to live with them. It is good news for subscribers of course; you get more for less.

In Hong Kong recently my taxi driver told me how he had sold his apartment to put both his daughters through overseas universities. He now rents and will continue to do so for life unless there is a huge fall in the property market. Although not unique to Asia, this level of personal sacrifice for the next generation seems more commonly encountered than in the West and goes some way to explaining why this is probably Asia's century. Unless the politicians screw things up, that is.

James Hay.

8th March 2008.

Ps. Comparables:

Return

Period	JSE	KLSE	STI	MSCIexJP	PAF
Jan 2008	-4.3%	-3.6%	-14.4%	-14.0%	-3.9%
Feb 2008	3.6%	-2.6%	1.5%	5.7%	-0.6%
Mar 2008	-10.1%	-8.1%	-0.6%	-6.2%	-3.8%
YTD	**-10.9%**	**-13.7%**	**-13.6%**	**-14.7%**	**-8.1%**

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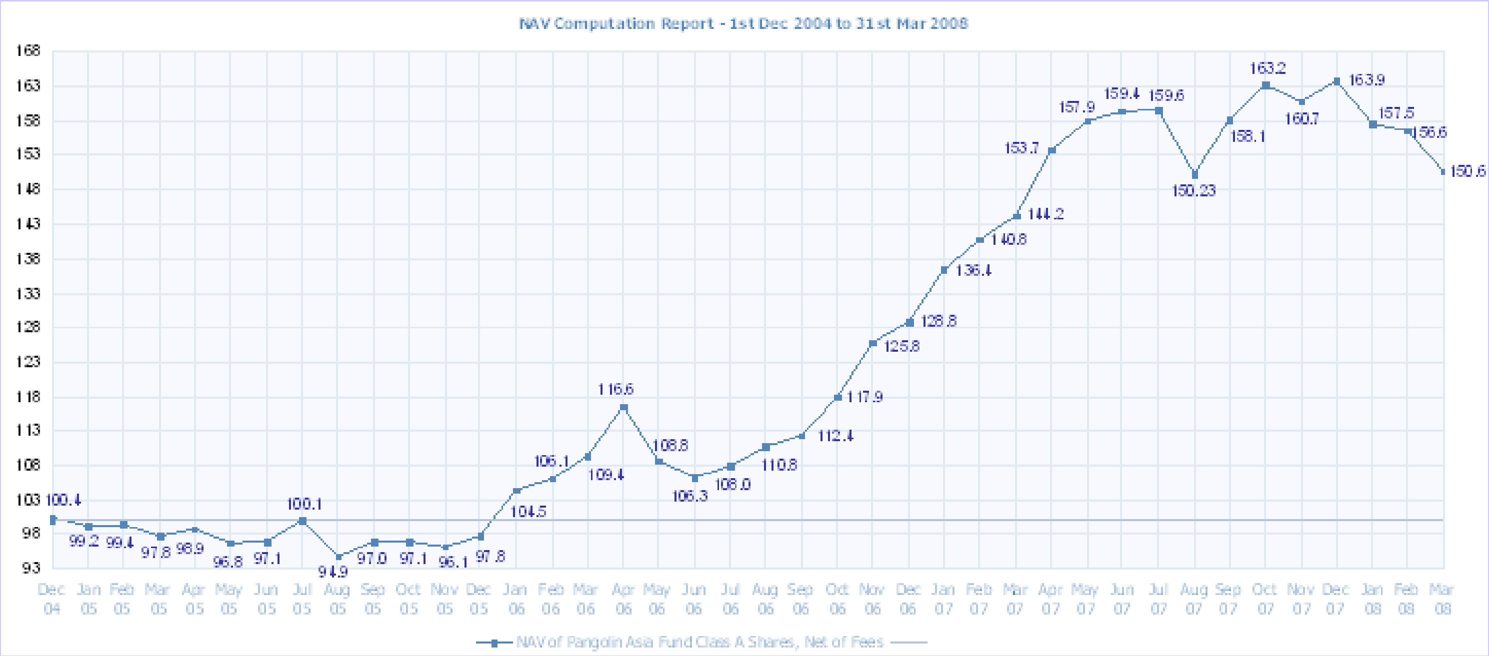
More details concerning the fund's investments are always available on request.

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										-8.07%
	% chg	-3.89%	-0.60%	-3.78%										
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%	**Return since inception**	50.63%
2006 return	31.74%	**Maximum drawdown**	-8.81%
2007 return	27.19%	**% of positive months**	70.00%
2008 return	-8.07%	**Standard deviation**	3.43%
Average monthly return	1.09%	**Standard deviation (annualized)**	11.87%
Average return (annualized)	13.04%	**Semi deviation**	2.49%
Best monthly return	6.89%	**Semi deviation (annualized)**	8.63%
Worst monthly return	-6.69%	**Sharpe ratio**	0.76