# Pangolin Asia Fund First Quarter 2008 Report – February NAV

As of the 29th of February 2008, the NAV of the Class A shares of Pangolin Asia Fund was US$156.55, net of all fees and expenses, down 0.60% from US$157.49 in January.

At the end of August the fund was about 97% invested, with the split being approximately as follows:

| | |
|---|---|
| Indonesia | 38% |
| Malaysia | 41% |
| Singapore | 21% |

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

**Overview**

The fund has a November year end which is why February is the quarter end.

In February the fund's two largest holdings were heavily sold down while the rest of the portfolio performed reasonably well, aided by good full-year results announcements in most cases. We are still waiting for most of our Indonesian companies to announce (they have until the end of March and for a country that produces such excellent coffee they are remarkably sleepy) but most of that nation's consumer-related companies which have been a bit quicker off the mark have reported good 2007 numbers. In Indonesia as we currently only hold consumer plays, we are optimistic.

As for the two stocks which have been sold down, well one is our furniture exporter which is of course seeing a slackening of demand and therefore the fall in price is understandable, while the other is an Indonesian pharmaceuticals distributor which is being hit by reports of poor consumer sentiment (more on that in a minute). Both companies are in net cash positions, have ROEs above 20% and trade on single digit PE multiples. We also have high regard for the managements (we don't like to invest in companies if this is not the case) so we're not selling; in fact, if they weren't our largest holdings and we had some cash, we'd be buying.

The fund's downside has also been cushioned by a reasonable flow of dividends which will, in time, be reinvested. The compounding power of dividend reinvestment is even greater when we are able to buy more for less so we should be popping open the champagne every time Wall Street lurches downwards again, as has been the case this month.

We have seen continued appreciation in regional currencies against the US dollar, a trend which has benefited the fund since inception; the exception being the Indonesian Rupiah which is about where it was in December 2004. All trends come to an end and at some stage so will the Asian currency rally, especially as much of the capital flows are short-term.

Earnings downgrades are inevitable as economic activity slows (we hope we are already being cautious enough with our forecasts). However I suspect the prices of many blue chips will continue to slide as fund managers realise that to have been paying over 20x earnings for high growth was a bit foolhardy, especially as much of that growth looks like it will now be delayed at best.

If the blue chips come down, so will the second liners, which is where we are invested. So far we've largely been spared but if the selling is indiscriminate we won't be. Great! We'll get even more for even less.

Our company visits continue to uncover what we are hope are good investment opportunities, although company managements are reporting a slackening of demand from the West. The fund was named after the Pangolin as we like to think of ourselves as looking under leaves for things to buy, but we are now also seeing good value emerging in much larger companies as bigger babies are also thrown out with the bath water.

In **Indonesia** (and elsewhere) the escalation of food and other prices is eating into disposable income, hence the bearishness on consumer stocks. One must remember that Indonesia's outlying provinces are beneficiaries of the commodities boom; so while the Javanese may be struggling, we hope that the plantation workers and miners elsewhere will continue to spend their hard-earned lolly on hair gel, motorbikes and fast food, to the benefit of the fund's holdings.

Inflation is now above 7% and that is with quite a few subsidies still intact. With oil above U$100 a barrel and the budget deficit now approaching Southern European proportions, the government is removing some of the fuel subsidies. Only some though; there are elections next year.

Talking of elections, **Malaysia** went to the polls on Saturday in a contest the opposition will claim was so rigged against them that they never had any chance of winning. The lack of access to the media, an election commission that reports to the Prime Minister and talk of fraudulent voting were just some of their grouses. All their same, the opposition has won 5 states and has denied a two thirds majority to the ruling coalition. In most countries the result would still be seen as a resounding victory for the government (they won 140 out of 222 seats in parliament) but their level of dominance over the past 50 years has been so great this outcome is more of a punch in the face. In peninsular Malaysia the score is about 50:50 and it will be interesting to see the share of the vote figures when they are released.

The opposition will feel that with the same election machinery as the ruling coalition (BN) they would have done even better, especially as about 1/3 of those entitled to vote did not even register, mostly because they felt their votes wouldn't make a difference. The BN will be grateful for this apathy.

Investors love political stability and this election is not giving us that. The opposition coalition comprises the socialist, mainly Chinese DAP, the hard line Islamist PAS and the PKR led by the charismatic Anwar Ibrahim. United in a common goal to unseat the government, whether they can work together is questionable, especially as PAS's aim to create an Islamic state is vigorously opposed by so many. Malaysia's democratic weakness has been its lack of a credible opposition and this hasn't really changed; the hope is that Anwar can weld these disparate groups together into a multiracial party and blur the racial divisions.

This outcome will leave businessmen with links to those state governments that have fallen to the opposition feeling rather nervous. In Perak and Selangor the victorious opposition's supporters have been blockading state buildings in order to prevent documents being destroyed. So unexpected was their victory that the prior incumbents had not organised their shredding parties.

At Pangolin our aversion to investing in politically linked stocks, which has probably cost us a bit of short term performance, doesn't look quite so dumb now. We have one infrastructure company which is minority owned by one of the states that has just fallen to the opposition, but its business shouldn't be too affected. It rather depends whether the government decide to work with the opposition or adopt the scorched-earth policy of the past. My guess is that, given the huge vote against them, the BN will have to mollify and change if they are to reverse the trend, although it might take a while for this to sink in.

The market will go down on this news. Investors everywhere are looking for excuses to sell and now they have one. In the long run the emergence of parliamentary checks and balances to a government that has held (and still holds) power for over 50 years has to be a good thing. Malaysia is growing up.

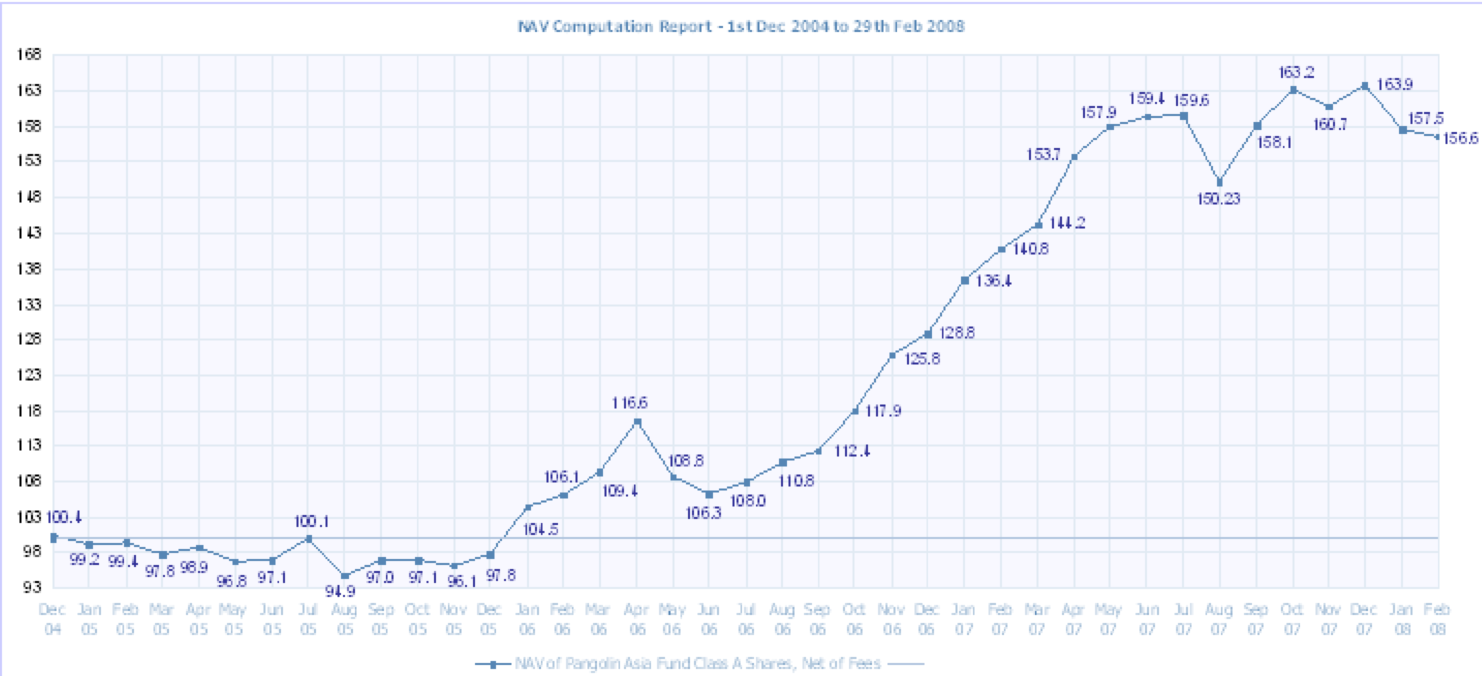
Meanwhile we'll keep plodding on, looking under leaves and elsewhere for cheap companies to invest in, reminding ourselves that emerging market investing carries its own set of risks, and reinvesting our dividends. As long as Asians continue to work more productively than everyone else on the planet, we shouldn't go too far wrong.

James Hay

9th March 2008.

*More details concerning the fund's investments are always available to shareholders in the fund on request.*

*Further information can be found at [www.pangolinfund.com](http://www.pangolinfund.com)*




| Year | Details | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *2008* | ***Nav*** | 157.49 | 156.55 | | | | | | | | | | | -4.46% |
| | ***% chg*** | -3.89% | -0.60% | | | | | | | | | | | |
| *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** | 56.55% |
| **2006 return** | 31.74% | **Maximum drawdown** | -8.81% |
| **2007 return** | 27.19% | **% of positive months** | 71.79% |
| **2008 return** | -4.46% | **Standard deviation** | 3.38% |
| **Average monthly return** | 1.21% | **Standard deviation (annualized)** | 11.70% |
| **Average return (annualized)** | 14.54% | **Semi deviation** | 2.47% |
| **Best monthly return** | 6.89% | **Semi deviation (annualized)** | 8.54% |
| **Worst monthly return** | -6.69% | **Sharpe ratio** | 0.90 |