Pangolin Asia Fund July 2010 NAV

As at the 31st of July 2010 the NAV of the Class A shares of the Pangolin Asia Fund was US$234.62 net of all fees and expenses, up 3.15% from US$227.45 in May. The fund is up 19.78% YTD. Please see the table at the end of this letter for further detail.

At the end of July the fund was about 75% invested, with the split being approximately as follows:

Indonesia	55%
Malaysia	28%
Singapore	17%

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

Overview

Yet again our largest positions continue to perform which both vindicates the decision to be overweight them and of course increases the fund's potential volatility. As those of you familiar with the fund will know, volatility is not something that bothers us much anyway. If anything we like it.

The Rupiah has at last broken the 9,000 level which has been a psychological resistance point for a while now. Actually, at close to 9,000, this currency is at about the same level as it was when we started the fund over 5 years ago.

We'd have done a bit better with a bit less cash. A bit more on that later.

Why we don't own plantation or timber stocks

I've just spent a week in Sarawak's Kelabit Highlands. This is an untouched area of Borneo straddling the Malaysian / Indonesian border. The loggers are on the way to this corner of paradise so I highly recommend a visit before they get there. Many of the best trekking routes have already been destroyed by the timber barons, which is of a concern to tourists like me. It is of course of much greater concern to the locals who have been living with the forests for generations.

The Kelabit are not some primitive fire-worshipping, mud hut-dwelling tribe who routinely offer their unmarried daughters to visitors (sadly) but a well educated, self-sufficient English speaking tribal minority of Borneo. They are also, for the main part, fiercely Christian. Unfortunately there are not many of them and they, like most of Borneo's natives, are powerless in the face of the logging companies who tend to be backed by the machinery of the state.

When the loggers arrive they destroy the forest. Even if they practise selective logging their machinery carves huge holes in the canopy, which is where much of the wildlife lives. Despite what they say, you cannot sustainably log virgin rain forest. No-one knows how long it takes for the forest to recover because it has never happened.

At the same time, forestry activity destroys the habitat of many endangered species of wildlife. Although Malaysia has recently increased its penalties for the killing and poaching of endangered species, it is next to pointless to go after poachers while simultaneously allowing timber companies to destroy thousands of hectares of habitat.

To get to the Kelabit Highlands one flies from Miri to Bario. From the plane's window one gets a pretty clear picture of the destruction being wreaked on one of the world's last remaining primary jungles. What is so depressing is that Malaysia is a rich enough country not to need to destroy its jungles. This is being driven purely by greed.

Soon after leaving Miri the plane is flying over palm oil plantations, followed by land being cleared of forest for plantations, followed by logged land and finally, right at the end of the trip, there is a bit of virgin rainforest just before landing at Bario. Below are a few shaky pictures taken from the plane. There are plenty more on the website. Just click on the photos tab if you wish to view. As usual, I apologise for my useless snapping ability.

Pangolin Investment Management

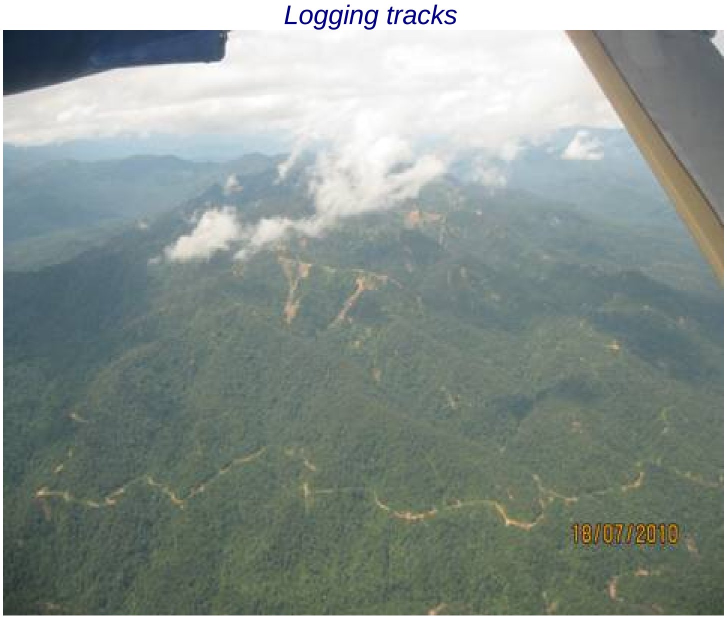
Newly planted palm oil, Sarawak

Rainforest being cleared for palm plantations

Logging tracks

Logging tracks

Logging tracks

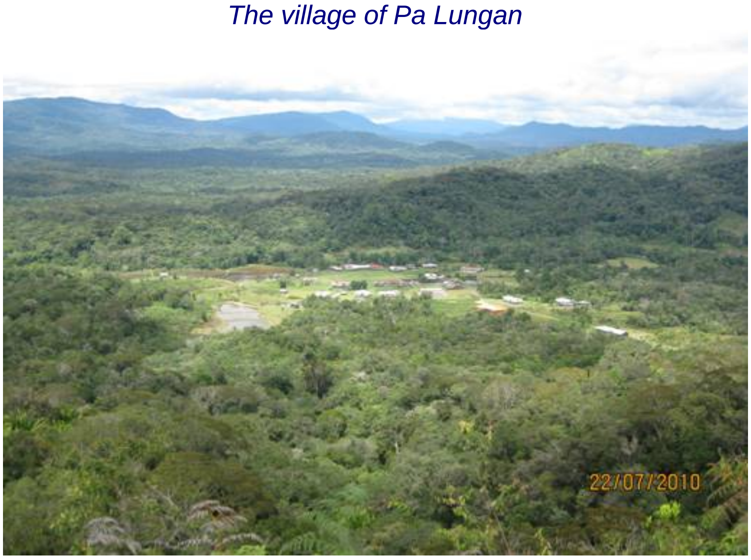


Logging tracks

Kelabit House, Pa Lungan

Kelabit padi field surrounded by jungle

The village of Pa Lungan



My Kelabit guide with his Man Utd cap

River in the jungle where we camped

Jungle path

The palm oil industry provides a major inducement for the clearing of rainforests. In effect it means that the government can sell the land twice; first to the loggers and then to the planters. Without palm oil the incentive to clear the land, as opposed to just removing the valuable timber, would be less.

Malaysia is the world's largest exporter of tropical timber, according to the International Tropical Timber Organisation. Please beware of information put out by the ITTO. This is the body that represents the loggers and its definition of stakeholders is……loggers.

Palm oil and timber are together destroying irreplaceable habitat at an alarming rate. It is morally wrong to be profiting from these industries. Not morally wrong but fun like drinking or gambling or fancying Angelina Jolie, but just wrong.

It is not just in Malaysia; the situation in much of Indonesia is not much better.

In an ideal world all the money managers in Geneva reading this would immediately don orang utan suits, rush down to Nestlé's Vevey HQ, chain themselves to the front doors and demand that the company stops using palm oil. Assuming that this doesn't happen, investors should require that their money managers are not invested in these industries. Furthermore we should all pressure our brokers not to promote palm oil or timber companies.

For further reading have a look at some of the following:

http://www.bmf.ch/en/?lang=en Bruno Manser was a Swiss activist who lived with Penan in Sarawak

http://www.greenpeace.org/international/en/news/features/Nestle-needs-to-give-rainfores The hairies at Greenpeace have plenty to say on the matter

www.ebario.com for information about the Kelabit Highlands

Outlook

A recent piece of research I saw recommended buying Unilever Indonesia despite it being on 38x earnings. The justification for buying at such a steep valuation was to value the company as a bond rather than as a share. There are many ways of skinning a cat but you won't make much money this way.

The macro story in **Indonesia** remains strong and it looks as if FDI is really beginning to pick up in a sustainable way. Nevertheless valuations in many cases are looking stretched and we are finding it hard to commit new money there. Having said that, we have bought a bit more of one of Indonesian stocks that is trading on about 4x 2010 earnings.

One needs to be aware of higher inflation (currently about 6.2%) and therefore the risk of rising interest rates in Indonesia. That inflation is higher than expected, despite the deflationary effect of a stronger Rupiah, is worrying.

In **Malaysia** there has been an alarming drop in reported FDI. The good news is that the government is acting increasingly sensibly to try and reverse this. The bad news is that this good sense is attracting plenty of opposition. All the same, Malaysia remains, in my view, a market with plenty of cheap companies within a lacklustre macro story.

Tanjong, one of our Malaysian holdings, is about to be privatised by its major shareholder. Of course he is getting it cheaply but we'll no doubt meekly accept the cash.

I'm a bit short term bearish at the moment. The problem with bull markets is that everything you do makes you money and therefore it easy to drop your guard. I mentioned earlier that we have quite a bit of cash. We've invested a bit of it in a short-term arbitrage which I suppose is as close to hedging as we've ever come. In the meantime we'll continue to nibble at what we like when what we like is available at decent prices, which means on down days.

James Hay
6th August 2010

Ps. I am currently in cold, wet Austria and will soon be seeking the sun in one of the few places where I can still wear my England football shirt with pride. The time zone in France and Italy might suit some of you better should you wish to have a chat with me about the fund. Let me know if you'd like a call.

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.

Further information can be found at www.pangolinfund.com

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						19.78%
	% chg	3.08%	1.57%	4.19%	6.44%	-5.94%	6.32%	3.15%						
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	69.12%