



Pangolin Investment Management

Pangolin Asia Fund June 2009 NAV

As of the 30th of June 2009, the NAV of the Class A shares of the **Pangolin Asia Fund** was US\$151.32 net of all fees and expenses, up 4.18% from US\$145.25 in May.

At the end of June the fund was just about 90% invested, with the split being approximately as follows:

Indonesia	59%
Malaysia	26%
Singapore	15%

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

Overview

We took a profit in one of our exporters last month which is why we have a bit of cash – regular followers of the fund will know that we tend to be close to fully invested at most times. Generally when we buy something it is for the long term, but in this case the company not only recently reported disappointing numbers, but also has yet to see anything that can be described as encouraging in its order book.

There is still plenty to buy in Asia where many stocks are cheap when measured against their long term growth potential. We remain stock rather than country or sector specific when making our allocations and I would caution investors from getting too carried away by the **Indonesia** story in particular. It remains our view that some companies there look great but an awful lot has to change (and it probably won't) to justify the current hyperbole. Every dog has its day and Indonesia is having its. See the chart (lifted from CLSA) below:

Figure 5
CLSA Indonesia universe forward PE



Source: CLSA Asia-Pacific Markets

When I'm feeling generous I describe Indonesia as a country that takes six steps backward for every seven forward. Currently the government is doing its best to ensure that no foreign company ever invests in mining again, as it continues to tinker with its long-awaited new mining laws.

The latest bright idea is to force all foreign owners of mines to divest 20% after five years to local parties. This is on top of legislation that is already so convoluted that the minister couldn't explain it at a conference he called to do just that.

The market has been getting rather excited (again) about Indonesian coal stocks. Investors in this story may be right, but the view is not shared by Australia's BHP Billiton which is selling its Indonesian coal assets after a 25 year association with the country. BHP reckons it can do better elsewhere.

Policy is becoming increasingly nationalistic and protectionist and the government is reviewing, with a view to reducing, foreign ownership in many sectors. It is always pretty easy to work out why the countries that fail to attract much FDI fail to attract much FDI. Unfortunately these protectionist policies mainly serve to protect mass poverty and all the ills that go with it.

The first round of the Presidential election takes place tomorrow, July the 8th, and it is expected that the current president, SBY, will win at the first attempt. Let's hope so. Even though he is massively overrated his opponents are much worse.

There has been a fair amount of sabre rattling and a decline in relations again between Indonesia and **Malaysia**. First it was accusations by both sides of incursions into the disputed and oil rich Ambalat Waters off Borneo. Then an Indonesian model alleged she had been abused and tortured by her Malaysian Prince of a husband. And now there is a dispute over the employment conditions for Indonesian maids in Malaysia, again in the light of many of these girls being abused by their employers.

One hopes this Indonesian jingoism will subside after the election, but in the meantime Indonesia has responded by stopping sending workers to Malaysia, thereby (cleverly) keeping even more of its people below the rice line. Malaysia's response has been to consider importing maids from China but this has been fiercely opposed by the female half of the country's Chinese population, who are convinced that the real motive for these girls to come would be to seduce and steal their husbands. Sadly I haven't encountered this problem with my Indonesian maids.

Malaysia's new Prime Minister, Najib Razak, has been announcing further reforms of the country's restrictive ownership policies that have favoured the ethnic Malays over other races. By doing so he has clearly shown that he understands the need for Malaysia to adapt to a much changed world while boosting his pragmatist reputation.



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He has had to tread carefully given the vested interests involved, but as the son of the founder of many of these policies he has the credentials to force change. Malaysia is a multiracial society (some would say multiracist) and the priority must always be to ensure that the largely peaceful cohabitation between the various races is not disturbed. Najib is aware that 45% of government finances come from depleting oil reserves and the youthful population requires jobs that only foreign investment can bring.

This is good news for investors. The further liberalisation of the financial sector announced last week will benefit what is an under-owned market, as long as fund managers are able to set up operations in Kuala Lumpur as easily as has been promised.

Najib is not so popular with the electorate and recent by-elections have shown no downturn in support for the Anwar Ibrahim led opposition. With no election due for nearly four years Najib is clearly hopeful that if he can fix the economy, then the people will warm to him.

Forest clearing in Kalimantan



Outlook

At Pangolin we believe that, in the long run, share prices reflect the performance of the underlying business. That is the criteria we use to evaluate investments, rather than trying to predict what the market will do. Thankfully we continue to find no shortage of reasonably priced companies without having to resort to those that destroy the rainforest.

James Hay.
7th July 2009.

Ps. I was on the telly again last month. If you can bear it the CNBC interview can be seen at <http://pangolinfund.com/cnbc-interview/>

July the 8th is also an important date in Malaysia as Anwar will be reappearing in court to face sodomy charges again. The opposition are fearful that he will be denied bail before being found guilty and going back to prison on what is, in their view, a trumped up charge. Will Najib be seen to be an economic liberal who rules with an iron fist? Probably not, but keep an eye on this potentially destabilising trial.

The haze is back. This is the smoke that drifts over the Malaysian Peninsula from Sumatera every dry season as the farmers and planters clear land by burning. The governments like to blame the dry weather on La Nina or El Nino or something, but actually if anyone cared enough the fires wouldn't happen. Unfortunately there is too much money in palm oil and other crops for the government to clamp down on this illegal burning.

Despite all the talk from well meaning EU commissioners, European buyers are reported as being unwilling to pay extra for certified sustainably produced palm oil. Therefore we can expect more haze and fewer orang utans (and pangolins).

Haze in Kuala Lumpur 14th June 2009



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



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Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2009	Nav	95.67	96.38	98.12	133.22	145.25	151.32							50.91%
	% chg	-4.59%	0.74%	1.81%	35.77%	9.03%	4.18%							
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%	

2005 return	-2.57%	Best monthly return	35.77%
2006 return	31.74%	Worst monthly return	-20.42%
2007 return	27.19%	Maximum drawdown	-47.53%
2008 return	-38.81%	% of positive months	63.64%
2009 return	50.91%		