



Pangolin Asia Fund August 2013 NAV

As at the 31st of August 2013 the NAV of the Class A shares of the Pangolin Asia Fund was US\$361.54 net of all fees and expenses, down 5.53% from US\$382.69 in July. Please see the table at the end of this letter for further detail.

As of today, the fund is about 82% invested with the split being approximately as follows:

Indonesia	22%
Malaysia	36%
Singapore	25%
Thailand	17%

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

Overview

Our markets were weak again last month with declines in the both the regional currencies and many stock prices, particularly in Thailand and Indonesia. Please see the table of regional indices' performance below.

Return (in USD)											
Period	Dow	S&P 500	JSE	KLSE	STI	SET	PSE	Shanghai	Nikkei	MSCIexJP	PAF
Jan-13	5.80%	5.00%	2.10%	-5.20%	2.30%	8.60%	8.40%	5.30%	1.50%	1.60%	1.20%
Feb-13	1.40%	1.10%	8.50%	1.20%	-0.40%	4.80%	7.70%	-0.90%	2.70%	-0.20%	2.20%
Mar-13	3.70%	3.60%	2.50%	1.90%	0.90%	2.90%	1.50%	-5.30%	5.20%	-2.10%	3.80%
Apr-13	1.80%	1.80%	1.80%	4.60%	2.60%	2.10%	2.40%	-1.80%	7.90%	1.60%	2.80%
May-13	1.90%	2.10%	-0.10%	1.10%	-4.30%	-5.20%	-3.30%	6.20%	-4.10%	-1.70%	5.80%
Jun-13	-1.40%	-1.50%	-6.20%	-1.70%	-5.10%	-9.30%	-9.90%	-14.00%	0.90%	-6.30%	-5.00%
Jul-13	4.00%	4.90%	-7.60%	-2.70%	1.80%	-2.90%	2.10%	0.90%	0.90%	1.50%	1.80%
Aug-13	-4.40%	-3.10%	-14.40%	-3.70%	-6.20%	-11.60%	-10.90%	5.40%	-1.80%	-1.80%	-5.50%
YTD (2013)	13.00%	14.50%	-14.20%	-4.80%	-8.50%	-11.60%	-3.80%	-5.90%	13.50%	-7.30%	6.60%

The following table shows the fall from the peak of the regional indices in local currencies and US\$.

In Local Currencies				
	JSE	KLSE	STI	SET
Date of Index Peak	20-May-13	24-Jul-13	22-May-13	21-May-13
Peak Index Level	5215	1810	3454	1643
Index on 30 Aug 13	4195	1728	3029	1294
% fall from peak to 30 Aug 13	-19.6%	-4.6%	-12.3%	-21.2%
In USD				
% fall from peak to 30 Aug 13	-28.1%	-12.1%	-15.0%	-27.1%
FX effect	-8.6%	-7.6%	-2.7%	-5.9%

In the past month we have added to positions in Thailand and Indonesia. And we are likely to continue to do so as value reappears.



Doesn't sentiment change quickly? A few months ago emerging economies could do no wrong; and now they can do no right. Things have not changed significantly but as investors' money has been leaving the region focus has shifted to the what-is-not-so-good as opposed to ignoring it.

I often stress the importance of not overpaying for a good story, but this is exactly what many investors have done in South East Asia over the past few years. And it is as if they have all realised this at the same time and are running for the exit.

And of course countries with deficits to finance get hit doubly hard when short term funds leave quickly, so the situation looks even worse.

However, if one wants to look for silver linings, they are always there. Firstly, the current situation is forcing governments to address the issues. In **Malaysia** the (still heavily subsidised) fuel price has been increased; there is talk of delaying various construction projects and it looks likely that a GST will be introduced sooner rather than later.

Indonesia has already increased its fuel prices; interest rates have risen and the government has decided to scrap some of the measures that have been deterring foreign investors.

As good news has not been in the headlines recently, you may have missed the large increase in Malaysia's FDI, or Volkswagen's announcement that it will open a plant in Indonesia.

It is probably easier for Malaysia's new government to roll back some of its populist policies than Indonesia's, which will face elections next year. I read today that, helpfully, Jakarta's unions are demanding a 68% increase in the minimum wage.

Thailand seems to be having more problems, especially as its government was voted in on a raft of subsidies that now look even more stupid than ever. Attempts to reduce the guaranteed minimum price paid to the rice farmers were abandoned rather quickly in the face of opposition.

I know it all sounds a bit like France but there are crucial differences.

- 1) These export-driven economies are able to let their currencies depreciate.
- 2) Those workers who wish to can work more than 35 hours a week.
- 3) The governments may pay subsidies but these are easier to cut than social security payments, which don't exist in Asia.

Nevertheless, rising fuel prices, inflation and a reduction in government spending are not great news for the consumer. And there is no doubt that consumer spending is being hit.

Outlook

The Asian consumer story remains a good one. Forget the economists for a while and just ask yourselves the following:

Will Indonesians be eating more burgers in 5 years time than they are now?

Not only is the answer YES but, as markets overreact, current conditions are giving us the opportunity to buy this story at knock-down prices again. And with close to 20% cash I feel a bit like Arsene Wenger in the recently concluded transfer window: I won't be forced into spending but if something of quality becomes available at the right price, I will bid for it.



Pangolin Investment Management

Welcome

I am delighted to welcome Kok Chiew Sia to Pangolin. She is a Malaysian and, given that she has worked as a consumer analyst with DBS in Hong Kong and Kuala Lumpur, she should be a perfect fit.

James Hay.
6th September 2013.

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. Otherwise, just send money.

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2013	Nav	343.47	350.86	364.04	374.14	395.94	375.98	382.69	361.54					6.56%
	% chg	1.23%	2.15%	3.76%	2.77%	5.83%	-5.04%	1.78%	-5.53%					
2012	Nav	290.78	311.15	303.35	313.01	301.88	312.18	316.87	323.01	323.75	334.08	332.63	339.29	24.85%
	% chg	7.00%	7.01%	-2.51%	3.18%	-3.56%	3.41%	1.50%	2.02%	0.23%	3.19%	-0.43%	2.00%	
2011	Nav	261.86	258.03	271.83	283	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%	4.11%	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	182.6	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 70.48%
Annualised return 15.82%

By Sector

