



Pangolin Investment Management

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As I write all is gloom and doom in financial markets following last weeks falls on Wall Street and elsewhere. If, as some expect, we do see a sustained decline in US equities the question is, what will be the effect on Asian stock markets? Well, in the short term it is unlikely to be positive given the rather strange close correlation between the regions' markets. However, given Asian companies' low relative valuations one would expect to see the indices decoupling with Asia outperforming over the longer term.

While a contraction in US consumer spending is not immediately positive for Asian exporters, lower purchasing power is likely to hit those companies operating in the higher-cost West harder than those in the East.

The past month has been a busily spent visiting companies in Malaysia and Thailand. In Malaysia the stock exchange organised a conference to showcase the country but unfortunately it was not particularly well attended by foreign investors as it clashed with Easter. Malaysian companies seem to be taking a sanguine view to business and managements seem to have reined in their previous high expectations, which is encouraging.

In Thailand the picture painted was most optimistic with most companies looking to expand capacity in order to meet current and projected demand. I think that some caution is required given that *100% net debt:equity* ratios are considered conservative financing by many businesses there, especially as the country has one of the few central banks in the region prepared to raise interest rates in order to head off inflation.

On that subject, many businesses tell me they are raising their prices by more than the corresponding rise in the price of their raw materials, thus creating margin expansion, which of course sounds like great news; except that if everyone does it either the consumer stops buying or he asks for a pay rise. Or both.

Over the weekend the row between the China and Japan intensified. The worrying thing is that it doesn't seem to be orchestrated, although maybe the government is getting better at disguising these things. All the same, a lot of Japanese (and others) will be reassessing their investment plans for that country, with the beneficiaries likely to be the ASEAN nations.

Congratulations

War hero and Pangolin Asia Fund director Gerry Ambrose has resigned from Kim Eng Securities and will shortly be joining Aberdeen Asset Management to head up their new Malaysian office.

Job Vacancy

Pangolin Investment Management is looking to recruit a senior analyst to help with regional company research. If any of you reading this know of a suitable candidate, please let me know.

I am always happy to discuss the fund's investments with investors and delighted to discuss ideas and receive suggestions.

James Hay

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