Pangolin Asia Fund February 2024 NAV

As at the 29th of February 2024, the NAV of the Class A shares of the Pangolin Asia Fund was US$606.55 net of all fees and expenses, up 4.00% from US$583.20 in January.

As of today, the fund is about 97% invested, with the split being approximately as follows:

Singapore	6%
Malaysia	33%
Indonesia	61%

We don't like to disclose our names, but some details are always available to investors (and those wishing to become investors) on request.

Overview

To put things into some perspective, please see the tables below.

Return (in local currencies, except MSCI)									
Period	DOW	S&P 500	NASDAQ	JSE	KLSE	STI	MSCI Asia ex JP	MSCI-ASEAN	PAF
Feb-24	2.22%	5.17%	6.12%	1.50%	2.54%	-0.35%	5.52%	1.69%	4.00%
YTD 2024	3.47%	6.84%	7.20%	0.60%	6.65%	-3.04%	-0.27%	-1.99%	3.39%

Return (in USD)									
Period	DOW	S&P 500	NASDAQ	JSE	KLSE	STI	MSCI Asia ex JP	MSCI-ASEAN	PAF
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YTD 2024	3.47%	6.84%	7.20%	-1.45%	3.31%	-4.86%	-0.27%	-1.99%	3.39%

% Change in Currency Vs USD			
Period	MYR	SGD	IDR
Feb-24	-0.21%	-0.36%	0.41%
YTD 2024	-3.14%	-1.88%	-2.04%

Year to date the fund is up 3.39% while our currencies are down a weighted 2.4%. If the currency effect is removed, how much would the fund be up? The answer is:

3.39% + 2.44% = 10%

If the currencies weren't so weak we'd see less selling and more buying. Currently, all the big moves in Malaysia and Indonesia are up. As we get through the FY2023 results, we're seeing sharp re-ratings of companies that have exceeded expectations, as many have. 2023 was the first post-COVID year and results, on the whole and into the fourth quarter, have been excellent.

There are still Emerging Market investors capitulating, driven mad by the outperformance of NASDAQ and now Bitcoin. Meanwhile, we are seeing a renewed interest in our part of the world as investors alight upon the compelling macro story combined with cheap company valuations.

Malaysia has many large Government Linked Entities masquerading as businesses. Since there is often a large social aspect to what they do (i.e. Bumiputera empowerment), when they go wrong there is seldom any accountability, let alone prosecution of the responsible parties. In place, there's often a government bailout and all is quiet until the next scandal.

Malaysia's history is full of such scandals and bailouts. We've picked the Armed Forces Pension Fund (LTAT) as an example, largely because it is the one most currently in the news. Finding other examples of disastrous Government Linked Companies (GLCs) would not be a challenge (1MDB for starters). My colleague, Chiew Sia, expounds below:

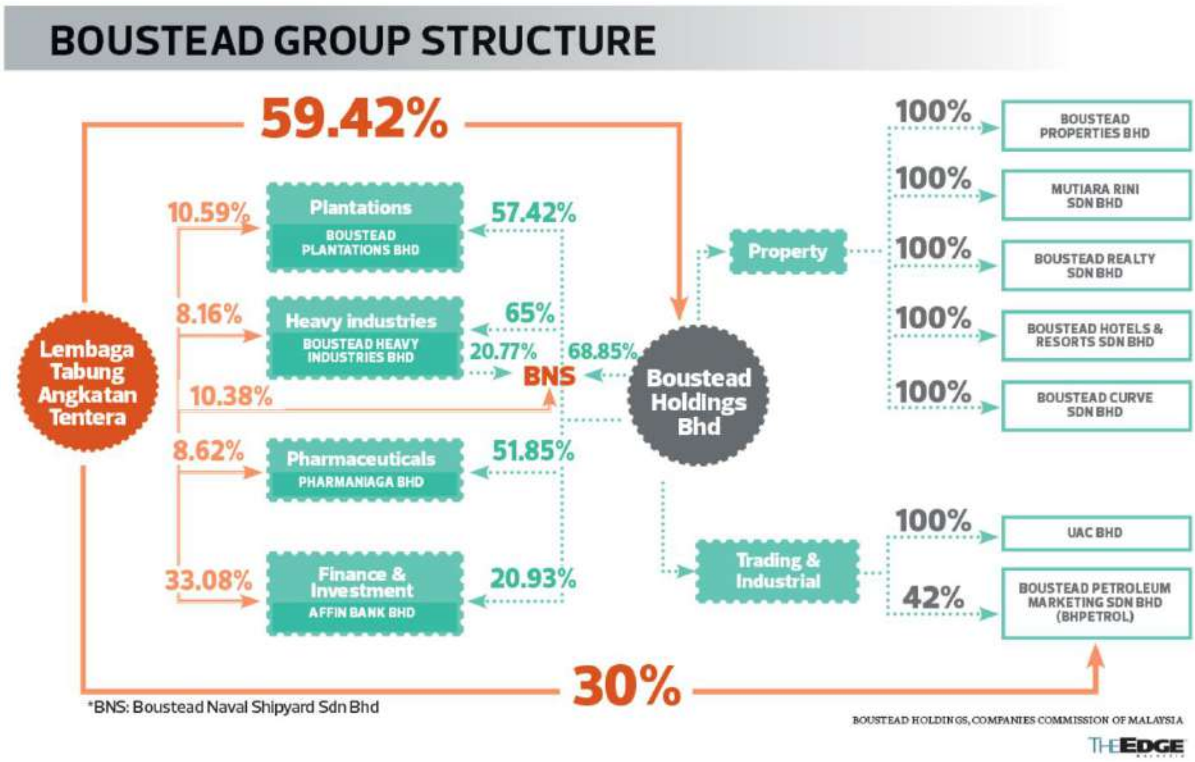
LTAT

In Malaysia, there is a government statutory body called Lembaga Tabung Angkatan Tentera (LTAT) that manages the pension scheme for more than 250,000 Malaysian Armed Forces members (both retired and in-service). Recently, LTAT has been in the limelight as three senior officers have resigned in less than a month. The CEO's departure came as the new Defence Minister halted LTAT's restructuring plan, citing concerns over the impact on the fund's financial stability and ability to meet minimum dividend target for 2023.

As of 31st December 2023, LTAT had assets under management (AUM) totalling RM11.5 billion. A large sum of money to manage, and an incredibly important job, especially to those Armed Forces members. Surely the brightest and best investment professionals Malaysia has to offer have been carefully selected to honour this great responsibility. Well… looking at LTAT's past operations, one would have to seriously question if this is the case.

Half of LTAT's investment portfolio, approximately RM5.75 billion, is comprised of companies within the Boustead Group. Previously, LTAT held a 59.42% stake in Boustead Holdings, but the latter was privatized in June 2023 as part of LTAT's major restructuring plan. Unfortunately, the Boustead group of companies have long been stalked by a dark cloud of controversy and confusion. Boustead Holdings is faced with RM6.2 billion of net debt and a net gearing ratio of 1.9x as of 31st March 2023. Its short-term debt amounted to RM4.0 billion, far surpassing its cash and cash equivalents of RM566 million. Two of its four listed entities were in dangerous positions, which we'll investigate further.

Boustead group structure before Boustead Holdings was privatised



Source: The Edge Malaysia

Boustead Naval Shipyard (BNS) Scandal – Before the government's intervention, BNS was co-owned by LTAT, Boustead Holdings and Boustead Heavy Industries (BHIC). In 2011, as part of the Royal Malaysian Navy's fleet renewal plan, The Ministry of Defence awarded a RM9 billion contract to BNS to build six Littoral Combat Ships (LCS), with staggered delivery of the vessels starting April 2019. However, not a single ship has been delivered despite RM6 billion already spent on the project.

In 2018, after such lengthy delays, the Public Accounts Committee (PAC) launched an investigation into the project, which found serious irregularities and mismanagement of funds. BNS had suffered a cost overrun of RM1.4 billion, of which RM400 million came from the settling of previous, totally unrelated debt. Double claims had been made for the same services, but with different terms, which came to RM537 million. Furthermore, "unnecessary" middleman companies were incorporated to purchase equipment, substantially bloating the purchase costs, leaving cynics, like us, to speculate whether this difference was pocketed.

As significant funds have already been invested into the LCS project, the current Malaysia government has pledged to acquire 100% of BNS to ensure its completion. (This is despite their pledges, when in opposition, to fully investigate and resolve all the issues). The amended contract will incur an **additional cost** of RM2 billion, or 22% higher than the original project cost. Despite these efforts, still the Navy is yet to see any of these shiny new warships it was promised. And the number of ships has been reduced from six to five, for an increased cost of RM11 billion (original cost RM9 billion).

For LTAT to be so deeply embroiled in a scandal of such blatant corruption is undeniably wrong and would surely trouble those Armed Forces members entrusting the body to grow their vitally important pensions.

Pharmaniaga's distressed status – Another LTAT-owned company facing financial woes is the listed Pharmaniaga. After fulfilling a contract to produce 12 million COVID vaccines, Pharmaniaga decided it was wise to independently produce millions more. When the government demand was no longer there, the company suffered, writing down this unused inventory at a value of RM552 million. After a huge loss of RM607 million, the company slipped into PN17 status (or simply, financial distress). It had a negative equity of RM238 million at end-September 2023 and borrowings exceeding RM1.1 billion.

Thanks to its government ties, the Ministry of Health extended Pharmaniaga's concession agreement for a further seven years, until 2030. This was done without any open tender, just awarded to bail out the company. This means Pharmaniaga will continue to provide medical supplies to government hospitals and facilities. While the exact value of the contract is undisclosed, it is expected to generate hundreds of millions of revenue annually.

This is another blemish on an LTAT-linked company, with the government once again to the rescue. With such huge amounts of money being invested in companies littered with such failures, one wonders where actually making money for the pension holders lies on LTAT's agenda. Perhaps just below 'Cover Our Tracks'.

LTAT has issues internally too

Unfortunately, LTAT faces deep issues in-house also. In 2018, an Ernst & Young audit report found 7 irregularities:

1) Retained earnings was impacted due to over-payment of dividend
2) Overstatement of LTAT's assets between 2015 and 2017
3) Due diligence not properly undertaken prior to investing
4) Unsold property assets sitting idle for 3 years
5) Heightened risk of over-reliance and liquidity issues since 2014
6) Outstanding dividends from subsidiaries not received
7) Lack of control in unit trusts.

Political interference is far from rare. Boustead had agreed to sell a stake in its plantation business, to raise much needed funds, to Kuala Lumpur Kepong. The deal was scotched by the politicians who didn't want a Bumiputera-controlled asset falling into non-Malay control (KLK's major shareholders are an ethnic-Chinese Malaysian family). Instead, the government gave a debt guarantee to LTAT to borrow RM2 billion from the banks. A delayed bailout?

This also raises the question of how Government Linked Companies (GLCs) should be valuing their assets if they are only permitted to sell them to Bumiputera investors. It would be a brave auditor who starts shaving the valuations.

Government bailouts

The Malaysian government had "no choice" but to step in to save LTAT and its ailing investment units. Billions of Ringgit have been spent directly and indirectly: (1) the RM6 billion paid to Boustead Naval Shipyard with no ships delivered, (2) the government guarantee of RM2 billion loan to privatise Boustead Plantations, (3) the buying out of Boustead Naval Shipyard at an undisclosed price, and (4) the RM2 billion additional cost to the LCS project, which could well overrun further. Not to mention the additional funding needed for LTAT to meet their debt obligations at Boustead Holdings. And lastly, the rights issue requirement of Pharmaniaga to address its PN17 status.

A mess of debt and destruction, the burden of which lies of course at the unknowing taxpayers' doorstep. One cannot even begin to imagine the ways this money could have been spent to actually benefit Malaysia and its people. How can a pension scheme of LTAT's stature be quite so entangled in such a hot mess?

We don't invest in GLCs

At Pangolin, good corporate governance is of paramount importance. For this reason, we avoid Government Linked Companies (GLCs) like the plague. As we have seen from the examples in this letter, these GLC have easy access to government contracts and endless concession extensions without the need for open bidding. This breeds an environment of incompetence, carelessness, and simply lacklustre financial performance.

Governments do not have the business experience or acumen to render any right to have a direct involvement in businesses. This should be left to business professionals, and the government should stick to policy-making conducive to a flourishing business environment.

The case of LTAT proves our argument. Would it not be prudent to entrust the management of Armed Forces members' pensions to competent, honest professional managers? Comparable, but professionally managed, pension schemes in Malaysia have fared much better than LTAT. The private sector Employee Provident Fund (EPF) has approximately RM1.1 trillion (USD231 billion) in assets and has consistently paid an average dividend of 5-6% per year. Kumpulan Wang Persaraan (Diperbadankan) (KWAP), Malaysia's largest public sector pension fund for civil servants, has assets under management (AUM) totalling RM185 billion (USD 39 billion) and a return of around 4-6% per annum. These returns are in Ringgit, recently enhanced by overseas investments.

IF LTAT's RM11 billion AUM had been placed under either one of these comparable pension schemes, I'd say we would be dealing with a more contented Armed Force. Or perhaps just one that has actually got their just return. With recent announcement of plans to reorganise the traditional pension system, changing how EPF and KWAP operate, now lies the perfect opportunity for LTAT to reorganise itself and put its turbulent past behind it.

Serving members of the armed forces contribute 10% of their salary to LTAT for their pension. These are young people when they start. Over 35-40 years, if not mismanaged, that should provide a decent pension. But the government subsidises LTAT further still, by topping up the pension with a contribution of 15% of salary on top of the employees' 10%.

Can we dream of a day when the pensions and savings of Malaysians are outsourced to professional fund management companies? In an open and transparent manner? Who would be worse off? Not the pensioners.

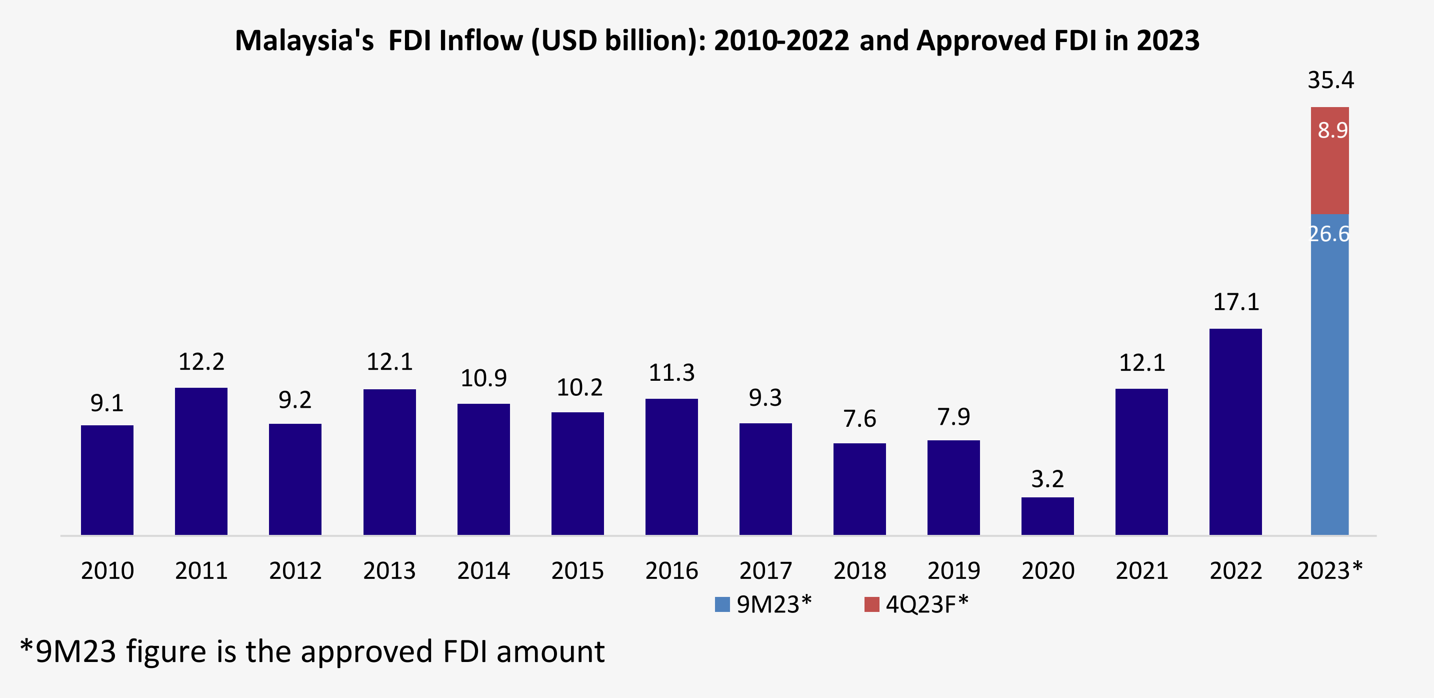
Outlook

I remain optimistic. The results season has been good. Don't be put off by the above. There is also plenty of excellent governance and Malaysia has a government that wishes to improve the big picture. Many of the problems, including at LTAT, are inherited. Malaysia's government realises it cannot maintain its sticking plaster solution to scandals. But a coalition government cannot, like Argentina's president Javier Milei, take a chainsaw to its problems.

In Malaysia this year, we will also see serious subsidy rationalisation; a brave move in a democracy. There appears to be cross-party agreement of what needs to be done in order to move Malaysia forward.

In the meantime, the private sector isn't waiting.

Malaysia's Estimated 2023 FDI

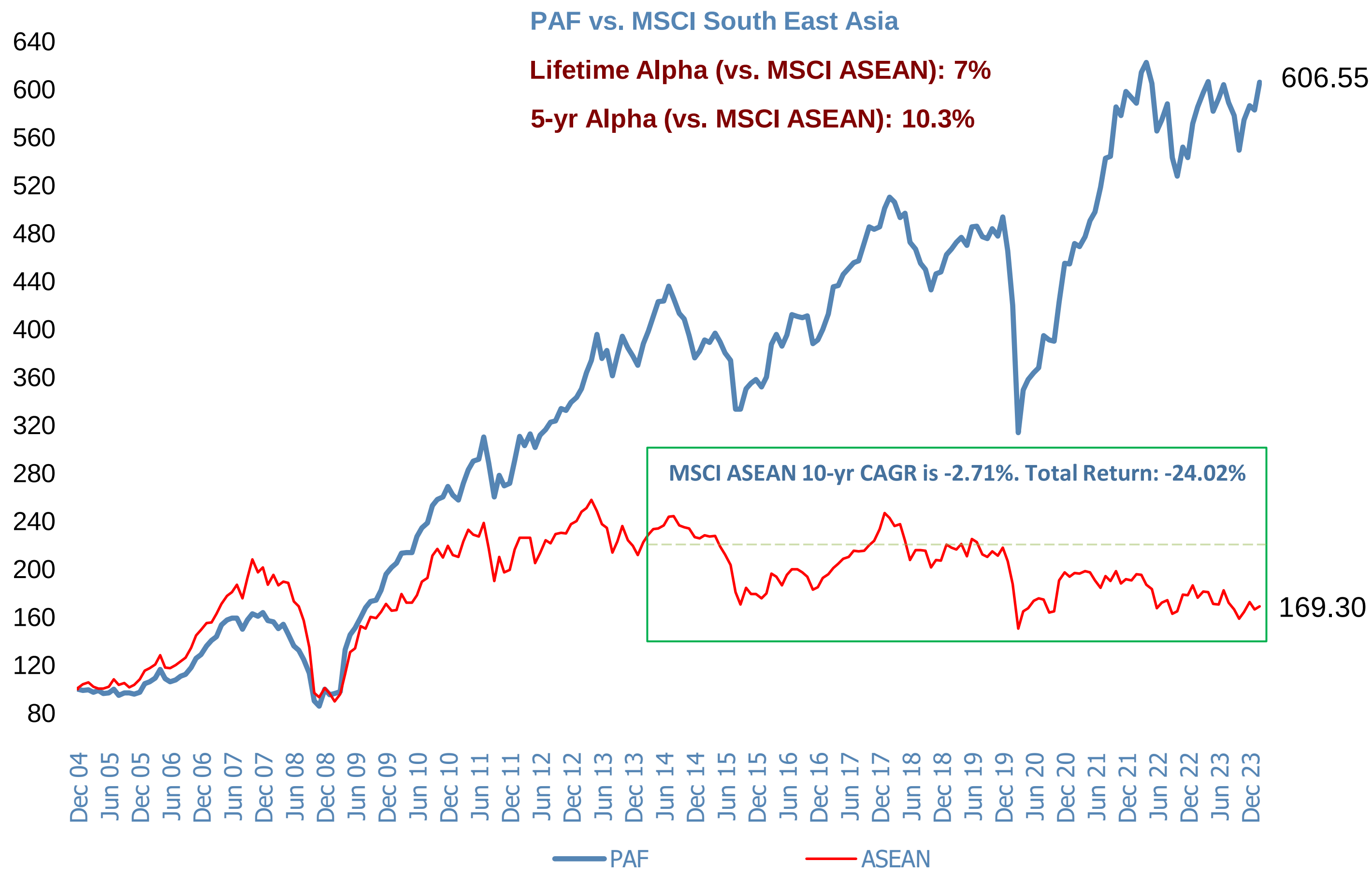


Pangolin Asia Fund weighted valuations (29 Feb 2024)

	2024F
P/E (x)	10.6
Profit Growth (%)	12
ROE (%)	20
ROIC (%)	28
Div Yield (%)	5.5

James & Chiew Sia
6th March 2024

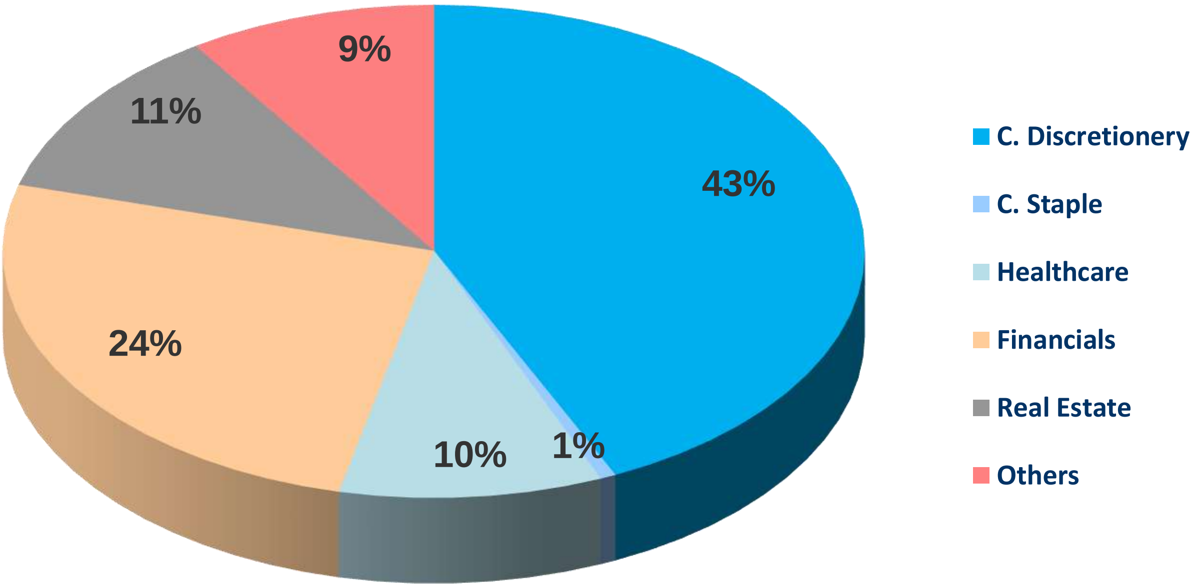
Nineteen years track record and annualised return of 9.82%



Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2024	*NAV*	583.20	606.55											3.39%
	% chg	-0.59%	4.00%											
2023	*NAV*	571.92	585.67	597.55	606.77	581.95	593.00	604.19	589.30	578.62	549.65	574.87	586.68	8.00%
	% chg	5.28%	2.40%	2.03%	1.54%	-4.09%	1.90%	1.89%	-2.46%	-1.81%	-5.01%	4.59%	2.05%	
2022	*NAV*	593.29	588.82	614.73	622.83	605.35	565.54	574.94	588.17	543.35	527.78	552.46	543.22	-9.23%
	% chg	-0.86%	-0.75%	4.40%	1.32%	-2.81%	-6.58%	1.66%	2.30%	-7.62%	-2.87%	4.68%	-1.67%	
2021	*NAV*	454.64	471.89	469.26	477.70	491.07	497.99	518.78	542.88	544.24	585.87	578.32	598.45	31.44%
	% chg	-0.15%	3.79%	-0.56%	1.80%	2.80%	1.41%	4.17%	4.65%	0.25%	7.65%	-1.29%	3.48%	
2020	*NAV*	465.73	420.43	313.82	349.63	358.55	364.26	367.99	394.82	391.21	390.47	422.87	455.32	-7.80%
	% chg	-5.69%	-9.73%	-25.36%	11.41%	2.55%	1.59%	1.02%	7.29%	-0.91%	-0.19%	8.30%	7.67%	
2019	*NAV*	462.51	467.10	472.67	477.00	470.36	485.78	486.12	477.67	475.87	484.37	477.85	493.85	10.21%
	% chg	3.21%	0.99%	1.19%	0.92%	-1.39%	3.28%	0.07%	-1.74%	-0.38%	1.79%	-1.35%	3.35%	
2018	*NAV*	501.11	510.62	506.32	493.22	497.19	472.82	467.29	455.31	450.29	433.40	446.46	448.11	-7.76%
	% chg	3.15%	1.90%	-0.84%	-2.59%	0.80%	-4.90%	-1.17%	-2.56%	-1.10%	-3.75%	3.01%	0.37%	
2017	*NAV*	400.08	412.81	435.93	436.54	446.18	451.43	455.76	457.12	472.10	485.61	483.86	485.79	24.18%
	% chg	2.27%	3.18%	5.60%	0.14%	2.21%	1.18%	0.96%	0.30%	3.28%	2.86%	-0.36%	0.40%	
2016	*NAV*	352.31	360.43	387.79	396.17	386.04	395.41	412.53	411.2	410.02	411.25	388.48	391.19	9.16%
	% chg	-1.69%	2.30%	7.59%	2.16%	-2.56%	2.43%	4.33%	-0.32%	-0.29%	0.30%	-5.54%	0.70%	
2015	*NAV*	382.31	391.18	389.48	396.82	389.67	380.77	374.61	333.73	333.52	350.84	355.19	358.38	-4.76%
	% chg	1.60%	2.32%	-0.43%	1.88%	-1.80%	-2.28%	-1.62%	-10.91%	-0.06%	5.19%	1.24%	0.90%	
2014	*NAV*	370.08	388.25	398.79	410.89	423.38	423.84	436.37	425.85	413.36	408.97	395.23	376.28	-0.52%
	% chg	-2.16%	4.91%	2.71%	3.03%	3.04%	0.11%	2.96%	-2.41%	-2.93%	-1.06%	-3.36%	-4.79%	
2013	*NAV*	343.47	350.86	364.04	374.14	395.94	375.98	382.69	361.54	378.56	394.53	384.87	378.24	11.48%
	% chg	1.23%	2.15%	3.76%	2.77%	5.83%	-5.04%	1.78%	-5.53%	4.71%	4.22%	-2.45%	-1.72%	
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%	1.94%	0.23%	3.19%	-0.43%	2.00%	
2011	*NAV*	261.86	258.03	271.83	283.00	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%	2.65%	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	182.60	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	157.90	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%	

Best monthly return	**35.77%**
Worst monthly return	**-25.36%**
Maximum drawdown	**-47.53%**
% of positive months	**64.50%**
Annualised return	**9.82%**

By Sector


9%
11%
43%
24%
10%
1%
C. Discretionery
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Healthcare
Financials
Real Estate
Others