Pangolin Investment Management

Pangolin Asia Fund First Half 2008 Report – May NAV

As of the 31st of May 2008, the NAV of the Class A shares of Pangolin Asia Fund was US$146.18, net of all fees and expenses, down 5.10% from US$154.03 in April.

At the end of May the fund was about 97% invested, with the split being approximately as follows:

Indonesia	41%
Malaysia	40%
Singapore	19%

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

Overview

The fund has a November year end explaining the half year report at end May.

In May, the fund's NAV was affected by continued poor sentiment towards consumer and exporting stocks in the face of rising oil prices and economic deceleration in the West. Widely anticipated fuel price hikes in Indonesia and perhaps more surprising ones in Malaysia are obviously having a negative effect on disposable income, hence the negative sentiment in the markets.

Some commentators are becoming increasingly negative on Asia as worries over fiscal deficits in the face of oil price increases take centre stage in addition to concerns of a severe slowdown in Vietnam.

Morgan Stanley published a note arguing that the Indonesian Rupiah would follow the Vietnamese Dong downwards whilst Goldman Sachs published a report recommending a sell on Malaysia, Thailand and Indonesia.

And if that wasn't gloomy enough, we were rather trapped in a downward pricing spiral as we switched from to a much longer term warrant in one of our companies at a time retailers were aggressively selling the underlying equity. Nevertheless, despite this horrible trading situation, we believe we have exploited an outstanding opportunity. We have been able to increase significantly the number of warrants held in the company, with better conversion terms, as falling prices increased the percentage price differential between the two warrants in our favour.

This is a trade I am incredibly excited about and we are happy to take the short term pain. I have talked to some of you about it already and I am convinced the market has given us a fantastic deal here. I am very happy to talk further on this with individual investors on request.

The Good News

While stocks are still getting cheaper we are seeing some maturity from the Indonesian and Malaysian governments as they deal with the problems of the oil price. Both countries have been subsiding fuel and both have recently reduced those subsidies by increasing fuel prices; Indonesia by 28% and Malaysia by 40%. Of course this maturity has not necessarily been voluntary and the markets have reacted negatively to what is really rather good news.

The Malaysian government promised an imminent end to all fuel subsidies (though is now backtracking after last Friday's leap in the oil price) and Indonesia clearly understands the need to follow suit, although it has made no such similar promises. If these and other governments can continue to make these painful adjustments then their futures are much brighter; look out everywhere else and buy more Asia is surely the correct reaction.

Even with the remaining subsidies, Indonesia's fiscal deficit would still be the pride of much of the Eurozone. Indonesians are used to high inflation (6% was as low as anyone has any recent memory of) so the fuel induced leap to 10% is not going to kill off the economy, especially when so much of the growth is being driven by high commodity prices.

The fund is heavily exposed to the Indonesian consumer. High commodity prices are continuing to drive strong retail sales growth in the provinces and results from retailers such as Ramayana continue to exceed expectations. Of course the fuel increase and its knock-on effect will eat into spending but prices of retail consumer plays in Indonesia seem to be assuming a gloomier outcome than appears likely.

Indonesia will post about 6% GDP growth this year. This is well below its potential growth rate and what is likely to occur should the government ever stop just talking about reforms and actually pass them into law. One of the frustrations with investing there is that deadlines are missed by years, but progress, albeit sluggish, is being made.

Indonesia has a population of 240 million of whom half are now urban dwellers. 10% of the population have an income equal to Malaysia's average (and Malaysia's population is 24 million). Indonesians are getting richer although this process slows and accelerates. Currently they are getting richer a bit more slowly than they were last year.

In the meantime, one is able to buy consumer companies with strong brands and balance sheets at give-away prices relative to their long term prospects, and at huge discounts to their equivalents in developed markets. The numbers are fine but as we all know sentiment is not. This is the time to be acquiring these businesses, when nobody else wants to know. We can't predict when the sentiment will change but I am convinced that the market's preoccupation with the immediate is presenting a golden opportunity to those of us with a longer outlook. I will be more than happy to discuss this in more detail with interested parties.

As regular readers of Pangolin's newsletters will know we concentrate on individual companies' valuations rather than sectors or countries, although I will concede we tend to spend more time looking within ASEAN than elsewhere. We stay in regular contact not only with the companies in which the fund has an interest but also with many others. As long as the businesses themselves are performing, and remain attractively priced, we are able to take a relatively relaxed view. As a value investor my job is much harder than when markets are running and share prices are full of optimism. It is in these gloomy times (and June is looking rather gloomy) when I get most excited; if one concentrates purely on fundamentals there is plenty to be getting excited about.

Warren Buffet has famously been quoted as saying that he wouldn't mind if the markets were closed for five years. After the buffeting we've encountered recently I wouldn't be too unhappy either except it would prevent us from taking advantage of what juicy morsels the markets will throw our way. It is the times of greatest pessimism that are best for buying. We may or may not be near the bottom but buying now will not look dumb in three years or so, whatever may happen in the next few months.

James Hay

12th June 2008.

More details concerning the fund's investments are always available to shareholders in the fund on request.

Further information can be found at www.pangolinfund.com

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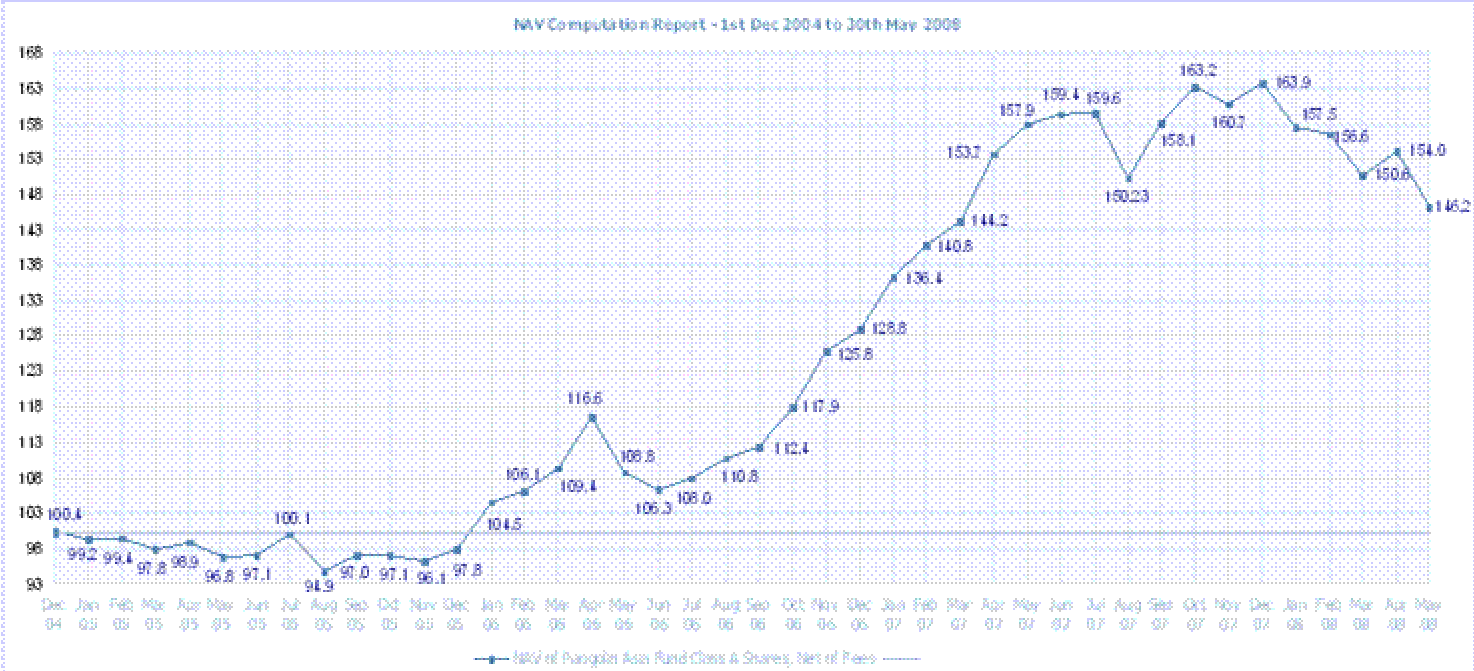

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2008	***Nav***	**157.49**	**156.55**	**150.63**	**154.03**	**146.18**								**-10.79%**
	% chg	**-3.89%**	**-0.60%**	**-3.78%**	**2.26%**	**-5.10%**								
2007	***Nav***	**136.43**	**140.75**	**144.17**	**153.68**	**157.90**	**159.36**	**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%**	
2004	***Nav***												**100.37**	
	% chg												**0.37%**	

2005 return	-2.57%	**Return since inception**	54.03%
2006 return	31.74%	**Maximum drawdown**	-8.81%
2007 return	27.19%	**% of positive months**	70.73%
2008 return	-10.79%	**Standard deviation**	3.48%
Average monthly return	0.97%	**Standard deviation (annualized)**	12.06%
Average return (annualized)	11.61%	**Semi deviation**	2.55%
Best monthly return	6.89%	**Semi deviation (annualized)**	8.83%
Worst monthly return	-6.69%	**Sharpe ratio**	0.63