



Pangolin Investment Management

Pangolin Asia Fund July 2011 NAV

As at the 31st of July 2011 the NAV of the Class A shares of the Pangolin Asia Fund was US\$310.23 net of all fees and expenses, up 6.33% from US\$291.75 in June. Please see the table at the end of this letter for further detail.

As of today, the fund is just about 88% invested, with the split being approximately as follows:

Indonesia	40%
Malaysia	31%
Singapore	22%
Thailand	7%

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

Overview

Our relative cash level has fallen both as a result of the value of our stocks going up and because we are continuing to spend it on new ideas.

Politics

Keep an eye on **Malaysia**. Following last month's banned opposition rally calling for free and fair elections, allegations of impropriety by the Elections Commission abound. The government's clampdown has probably cost them support and its opponents argue that it will cheat to stay in power. This is not a Middle East situation but it is far from ideal either.

In **Indonesia** it is expected that Aburizal Bakrie will run for President on behalf of Golkar and that he will be facing the former central bank governor, Sri Mulyani. Most foreign investors would probably favour a win by the latter, although the former will have the resources to mount a stronger campaign.

Outlook

As it's bad luck to work in August, instead of writing about the markets I'll recommend a book for the holidays. Whenever I mention a book it always turns out that I am the last person to have read it and in this case, and as it was published back in 1994, this will almost certainly be so. It is *Investment Biker* by Jim Rogers.

Due to deep mistrust of anyone other than a waiter in a bow tie, I have always tuned off whenever Mr Rogers has been on the telly. However having read this book which describes his motorcycle journey around the world and his thoughts on investing at the time, I realise that this bias was (in his case) ridiculous. It is like reading a prophecy.

Remember, this was written in the early nineties! Of the US\$ he wrote:

In this vein, I urge all my American friends to open a foreign bank account, if only as an insurance policy. Second best is to buy foreign currencies in a brokerage or bank account here. People have life-insurance and automobile-insurance policies and never expect to need them. If you have to use them, however, you're glad you have them. On that basis, every American should put some money out of the country. I don't know what's going to happen to the U.S. dollar over the next twenty-five years, but I know what's happened in the past twenty-five ----it's lost a lot of value, over a third compared with other major currencies.

The fiscal situation in the United States is so bad that ultimately----during this decade----I'm sure we're going to have exchange controls. The dollar will have become so worthless that U.S. citizens will be as desperate for foreign currencies as the Italians are today. Our government will limit how much money we can take out of our country. You won't be able to go to England for a vacation unless you can do it on, say, twenty-five hundred dollars.



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As of now, it's patriotic to send your money abroad. The government wants the dollar to go down, to be worth less. It is American government policy for the dollar to sink, because the government thinks then American goods will be more competitive on the world market. American steelworkers will have more jobs. American farmers will sell their wheat and corn more readily. Our government is encouraging its citizens to sell dollars, and I'm right in there with them. But unfortunately the dollar will continue to go down until its fall becomes so out of control that the government will snarl and blame our problems on "evil financiers." Once controls are put on, the currency will fall farther because everybody will try to smuggle it out.

A year or two after this, my mother in Alabama will call me and say, "I gotta get some money out of the country."

I'll know then we're near the bottom. Many of us will be on planes, two suitcases full of money, flying to London or roaring across the Great Lakes. Once again exchange controls won't have worked. Particularly today, with telecommunications and mobility, they can't work. But of course, being a government, ours won't acknowledge it's a root cause of the problem.

And on Africa:

Here's my bullish case for Africa: In the sixties, seventies and eighties, the Soviets and the Americans had financed dozens of African regimes through the CIA and KGB. Today there are no more struggles with Communists or socialists, nor any money to finance them. The movement has died. Neither the Americans nor the Soviets are propping up guerrilla movements now.

As a result of their leaders dying or simply stepping aside, African governments are collapsing, their people rising. The continent's status quo and its borders are ripe for change, which will bring some strife. Any wars that might follow will be short, however, since there are few armaments to speak of on the continent and little will to fight. In the political reformation to come, the Africans will adopt either the Western model or the Chinese model, that is, one mouthing social and political platitudes but allowing every kind of vigorous free-market activity.

The borders in Africa are even now becoming rational. After years of war, Ethiopia and Eritrea have peacefully agreed on how to split into two countries. The border problems in the Sudan are working themselves out. Until we intervened, a similar process was happening in Somalia.

As African problems get cleaned up, the entrepreneurs who already exist throughout Africa will be freed to develop real economies. Africa has huge natural resources. The commodities markets are depressed now, but someday the world will be desperate for Africa's recourses, especially as production in the former USSR falls apart. Zaire, for instance, is wonderfully fertile. Let a seed fall from your hand and it grows. Zaire used to export food, and it could again. Even Angola will bounce back. As for the future of South Africa, it all depends on how the political struggle plays out.

What I know for certain is that big fortunes will be made on the African continent in the next twenty-five years.

Without doubt I'll be back in a few years to make more extensive investments.

What a clever chap. One theme is his view that countries' borders, as they have done throughout history, will continue to alter. He got it right on Sudan and South Sudan. In Asia one should perhaps look at the possibility of West Papua following East Timor in seceding from Indonesia.

If you've already read it, reread it and kick yourself for not having done pretty much everything he said almost twenty years ago.

James Hay
5th August 2011

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.



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Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	Nav	261.86	258.03	271.83	283.00	290.51	291.75	310.23						15.13%
	% chg	-2.82%	-1.46%	5.35%	4.11%	2.65%	0.43%	6.23%						
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	0.37%
	% chg													

Best monthly return 35.77%
 Worst monthly return -20.42%
 Maximum drawdown -47.53%
 % of positive months 71.25%
 Annualised return 18.70%
 5-yr CAGR 23.50%