Pangolin Asia Fund September 2011 NAV

As at the 30th of September 2011 the NAV of the Class A shares of the Pangolin Asia Fund was US$260.46 net of all fees and expenses, down 9.89% from US$289.05 in August. 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	35%
Malaysia	36%
Singapore	23%
Thailand	6%

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

Overview

I guess you all know that the markets went down and took the Asian currencies with them. There seem to be plenty of people expecting another 2008 to happen, but I suppose that whenever markets fall sellers have to be expecting the worst, or why on earth would they be selling?

Our best guestimates put the fund on a prospective PE of 9x with a yield of 5% which doesn't sound too expensive, especially if our holdings can continue to grow their profits.

Outlook

We seem to be in a permanent financial crisis. Either that or the financial media have worked out that catastrophe sells better than "it should all be OK". I've always felt that the majority's obsession with the near term should allow plenty of space for those with a bit more patience. Just as I have always believed that the market's love of liquidity gives an advantage to Pangolins prepared to own lesser traded investments; and this kind of sell-off is giving us the opportunity to acquire stocks inexpensively again.

The overall cash level hasn't changed much and although the fund was down 9.89% some of our holdings have plunged more than that, so we have been buying when prices have fallen into the range of what we would consider to be ultra-cheap.

As I mentioned last month, I believe the easy money has been made in Indonesia. We are happy with what we own there but new money is going elsewhere, especially into long-neglected Malaysia. This is a relatively developed market which you probably hear little about other than from me. It has a young, fast-growing population and GDP growth tends to plod along at about 5-7% most years. There are something like a thousand listed companies, so even if only 4% of them are any good, that gives us 40 or so to look at.

Furthermore the valuations are low. What this market's re-rating catalyst will be I don't know, but increasingly business owners are becoming frustrated by low valuations (and meetings with awkward investors like me) and are buying back their companies.

I saw a few investors in Switzerland last week. Unsurprisingly given that Switzerland is surrounded by all the Euro rubbish, some are more currently concerned with the macro than the micro. As I was banging on about Malaysia being cheap in one meeting, an exasperated would-be Nobel Prize winning economist finally asked me if I didn't have any macro views at all – a bit of a tricky one for someone yet to finish his university economics course but here goes.

The West

Governments everywhere are completely dumb (with the exception of Singapore's).

Governments in Europe and to a lesser extent the US have grown so large as to constrain business and wealth creation.

The West pays people not to work.

The current crisis has not yet dissuaded Westerners from living beyond their means.

Asia

Governments are yet to grow large enough to crowd out wealth creators – Myanmar's being one obvious exception.

Regulation has not yet become overbearing and the conditions for entrepreneurs to get on with it are favourable.

Having got on with it, tax rates are low enough to allow wealth creators to amass and reinvest their wealth.

Asia had a big enough crisis, without bailouts, in 1998 to scare a generation off debt. In those days the IMF talked and acted tough, as opposed to just talking in French.

If you don't work, you don't eat. The state won't look after your mother, you will, just as she looked after you.

Conclusion – if you invest in the East cheaply enough you'll probably do OK.

That's enough economics. I'm writing this in a full business class cabin as I head back home from Zurich. The Swissies are clearly getting the Asian message. If this month's letter doesn't read well, please blame it on the Singapore Slings they keep giving me.

There is no direct flight from Switzerland to Malaysia, yet Singapore Airlines can fill a double-decker. When Malaysia Airlines is full of Swiss businessmen toing and froing, it may be time to sell Malaysia. For the moment perhaps the difficulty in actually getting to the place is part of the reason for its discount.

I'm always trying to think of a company motto for Pangolin. Someone wrote the following in the Spectator magazine last month:

What matters is how cheaply you buy, not whether the market is going up or down.

Not bad and worthy of consideration but for the moment we'll stick with

Pangolin, lazily investing in the hardworking

As lazy investors we prefer companies with cash rather than debts. It means we can be slightly more relaxed if and when credit dries up. You're probably all familiar with the term off balance sheet debt. I like to think that the Pangolin Asia Fund has off balance sheet cash, given that many of our companies are cash rich. In bad times this should help them not only avoiding bankruptcy but give them an advantage over their geared competitors.

We saw this in 2009 as, following the credit crunch, customers preferred to give orders to companies that were obviously still going concerns; there is little point in ordering a thousand computers from a company that won't be around to produce them, let alone return your deposit.

The current sell-off is leading to some interesting opportunities. We're now 15% or so away from our high and would welcome new investment, as much of what is on our wish list is now also within our budget.

I am receiving quite a few meeting requests as investors plan their pre-Christmas shopping trips to Asia. Our business and my colleagues are based in Singapore but as I spend most of my time in Kuala Lumpur, if you really want to see me, why not spend a day in KL and see a bit of the real Asia, as opposed to the West with shorts on (Singapore).

Pangolin Investment Management

Finally my colleague Vinchel is becoming rather handy with his camera and has managed to photograph a pangolin in the wild. Here it is and there are a couple more on the website under the photos tab.

James Hay
10th October 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.

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	289.05	260.46				-3.34%
	% chg	-2.82%	-1.46%	5.35%	4.11%	2.65%	0.43%	6.33%	-6.83%	-9.89%				
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%	% of positive months	69.51%
Worst monthly return	-20.42%	Annualised return	15.04%
Maximum drawdown	-47.53%	5-year CAGR	18.30%