



# Pangolin Investment Management

## Pangolin Asia Fund May 2010 NAV

As at the 31<sup>st</sup> of May 2010 the NAV of the Class A shares of the Pangolin Asia Fund was US\$213.93 net of all fees and expenses, down 5.94% from US\$227.44 in April. Please see the table at the end of this letter for further detail.

At the end of May the fund was just about 80% invested, with the split being approximately as follows:

Indonesia	52%
Malaysia	32%
Singapore	18%

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

### Overview

It had to happen. After 15 months of consecutive gains we were bound to get walloped some day. In May our currencies were weaker as the world suddenly seemed to think of the dollar as safe. Pretty much all of our stocks were also down, especially our larger positions. We have taken advantage of softer markets by adding to some of our cheaper holdings as they have come into range.

We have had first quarter results from most companies in the fund. Generally they have been pretty encouraging with only one disappointment. The disappointment was in Malaysia where the company has been hit by sluggish consumer spending. A bad quarter or two is acceptable as long as the company remains cheap - and we think this particular business is very cheap (7x PE, 5% net dividend yield and 20% ROE) - but obviously we'll have to keep an eye on it.

### Politics

The fund doesn't currently own anything in Thailand. It's not because we're too scared to go there (I happily send my brave colleagues) but because we can find enough to buy elsewhere. What I find disturbing is that the unelected government there has been able to gun down its own people with a minimum of outcry from the international community and absolutely no condemnation at all from its Asian neighbours. I suspect this is because other ASEAN governments reserve the right to act similarly, which is a bit depressing really.

### Outlook

The best value company we can find anywhere is now on only 4x earnings. Unfortunately it is also our second largest position so adding to it meaningfully is hard to do. Our largest holding is on about 6x this year and our newest investment is on about 7x, although we do not have anything like a full position in it yet.

As a rule we like to hang on to our investments for a long time, for as long as the underlying businesses are performing well that is. At times some of them might look a bit overvalued but we are happy to hold as long as the overvaluation is not ludicrous; and we will look to add when their prices return to sensible levels again. Market weakness gives us a chance not only to invest cheaply but also to bring down the overall valuation metrics for the fund.

Many managers spend their time not only attempting to pick excellent long-term investments, but also trying to anticipate what the market is going to do in the coming months. We don't practise the latter because getting it wrong (as I invariably would) can undo all the performance gained as a result of good stock-picking.

There is clearly a lot to be nervous about just now. Despite that, when companies we like fall to a level we think is cheap we tend to buy them. In bull markets this looks rather clever and in bear markets rather stupid. The fund's protection is in being fussy about the prices being paid, being diligent in its research and the manager keeping his fingers crossed.



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I am often asked by people what I think about the market, something I find hard to answer. However, at present, there is an abundance of very cheap companies in South East Asia. How do I define cheap? A combination of: good management, single digit PEs, +20% ROEs, +5% dividend yields and net cash balance sheets. These companies tend to be rather small which suits us fine. As ever, value is scarce among the larger caps.

If a company meets these criteria, looks like it can show some growth and doesn't make its money cutting down trees, then we can start doing a bit of research.

So while I cannot give a market view, I am fairly confident that at present levels there are plenty of decent investment opportunities that will provide respectable returns over a sensible time frame. Investing in the better ideas is slightly frustrating at present given that most of them are attractively, but not ultra-cheaply, priced and (unlike in 2008) the market is not throwing stock at us. Nevertheless it is better to sit on one's hands and wait for the prices to be in range rather than chase just now, especially given the market's run since early 2009.

Some fund managers like to highlight their investments in their newsletters, presumably in the hope that publicising their better ideas will drive their prices higher. Then they can take profit and move on to the next one. As long term investors, at Pangolin we prefer it when our stocks are getting even cheaper; it means we can put our feet up and keep investing in the same company rather than having to scout around for new ideas. I know some of you find this a bit frustrating, but I hope it is understandable. Of course full portfolio disclosure is always available to the fund's investors.

James Hay.  
8<sup>th</sup> June 2010.

Ps. Someone asked me the difference between a stock and a share the other day. Can anyone enlighten me?

*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.*

Further information can be found at [www.pangolinfund.com](http://www.pangolinfund.com)

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	Nav	201.91	205.09	213.68	227.44	213.93								9.22%
	% chg	3.08%	1.57%	4.19%	6.44%	-5.94%								
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	157.9	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	68.18%