Pangolin Asia Fund August 2009 NAV

As of the 31st of August 2009, the NAV of the Class A shares of the Pangolin Asia Fund was US$167.99 net of all fees and expenses, up 5.18% from US$159.71 in July.

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

Indonesia	48%
Malaysia	30%
Singapore	22%

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

Overview

Many potential investors are often put off by the concentration of our positions within the portfolio. Fair enough; it doesn't suit all and is likely to increase the fund's volatility. Last month I am happy to report that our two largest positions were our best performers while most of the holdings stood still.

Our largest exposure is still to the Asian consumer (approximately 70% of the fund) with two Indonesian finance companies comprising about 23% of what is invested. Perhaps a bit worrying when Indonesia has had such a good run but as both these companies will report better profits this year and are both on 4x 2009 earnings I am happy with the concentration.

Elsewhere we've increased our holdings in consumer stocks in Malaysia and Singapore but on the whole our buying has been frustrated by hot share prices as everybody seems to discover the same thing at once. Our unwritten but generally adhered to rule of not buying until we have met the company has cost us a bit in short term performance in August – we just can't set up the meetings quickly enough – but as, over the years, we have found that many of the best looking ideas crumble after 30 minutes with the owners we are likely to stick with this policy for the foreseeable.

Outlook

There's nothing like a stock market rally to make the world seem right again. Unfortunately there now appears to be the realisation that actually very little has changed over the past 12 months, with the injection of liquidity being compared to topping up one's alcohol level with a large Bloody Mary the morning after the night before (which doesn't make it seem so bad but apparently it isn't recommended by those fun people who know what's best for us).

History tells us that market rallies, after a big drop, are often (but not always) accompanied by another big drop, which is what is scaring a lot of us at the moment. However, as fundamental investors, we tend to ignore the what-might-happen and act according to individual company valuations. We expect this approach to work pretty well over the long run and ***hope*** it will work over the short term too, but the latter, for non-market timers, is of course pure guesswork.

Six months ago the opportunity to buy ultra-cheaply was fantastic. Given that we can still pick up well-run, debt-free companies with good franchises for under 8x earnings we are still pretty relaxed about buying, despite the recent run up. If the markets crash again we'll look pretty silly (again) but as long as the underlying businesses themselves are OK, we always welcome lower prices and will continue to buy through it.

I think many investors are rather wishing it was March again. That was, I suspect and hope, the type of opportunity we don't see very often

I should add that we have just made an initial, small investment in a retailing company trading at over 20x earnings. Much as we love low PEs in the end it is all about cash flow. Time will tell if we are doing the right thing or not.

Indonesia is a country attracting a lot of investor attention at the moment. In my opinion it is still close to being a basket case but it does have a few undervalued companies. I would caution that many of the blue chips have run too far in the recent rally and some are overpaying in order to get market weighting. Thus, unless things change dramatically in a way that hasn't been the case since independence, it is a market we would expect to underperform.

Don't get me wrong; there is plenty we like about the place and it is improving (sort of) but in the recently published IMF's Ease of Business Survey, Indonesia dropped two places to 129th which probably reflects reality better than the Jakarta Composite Index's performance.

By comparison, Malaysia was 25th and Singapore was boringly 1st again.

Another recent report pointed out that 4.1 million Indonesian children suffered from malnutrition in 2007, with 180,000 dying from it. This is the actuality of corruption, cronyism, protection of the "national interest" and general bad governance. Indonesia is still very much in the Third World and should be risk-weighted accordingly.

The following, lifted from a broker's morning newsletter, caught my eye as it mentioned my favourite chocolate manufacturer:

Co/Sector	News	Impact	Recom
Plantations	Cadbury in New Zealand has bowed to consumer pressure and agreed to stop using palm oil in its chocolate. The move came after the firm received hundreds of letters and emails of complaint after it revealed a new recipe substituting cocoa butter with vegetable fat, including palm oil. It said palm oil had been linked with the clearing of native habitat in countries such as Indonesia and Malaysia. *(Bernama)*	Neutral. As this is only affecting Cadbury in New Zealand and not globally, we do not expect this to make much of an impact. This kind of pressure is not new, and we believe the Malaysian and Indonesian governments will have to continue to educate the public that palm oil land is generally logged over land and not virgin forest land that is cleared for planting.	

Can someone try and explain to an orang utan, a pangolin or to me what the difference is between virgin rainforest that is logged and then planted with palm oil and virgin forest that is cleared for planting? What happens to the trees in the latter case?

It looks as if **Malaysia** is beginning to attract a bit more interest as the world begins to discover that the new prime minister is not as bad as the old one. If we were macro investors we'd be going overweight that market. As it is we've bought a bit more but there remains plenty of value amongst the smaller companies.

This is also true in **Singapore** where we recently nibbled at a tech. stock before the price flew away from us on miniscule volume.

My newspaper reports that terrorists have killed ten people in southern Thailand over the past two days. Although this conflict gets far less attention than Jakarta's bombs, it is far deadlier and worryingly close to multi-ethnic Malaysia. For that reason alone it should not be ignored.

I was on Bloomberg TV again this morning. I'll try to put the interview onto the website shortly but in the interim it can be found at www.bloomberg.com and then search for James Hay Pangolin.

Finally, to all my Muslim friends, good luck with the fasting and Selamat Hari Raya Idul Fitri (as we say in Malaysia).

James Hay

7th September 2009.

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

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2009	***Nav***	95.67	96.38	98.12	133.22	145.25	151.32	159.71	167.99					67.54%
	% chg	-4.59%	0.74%	1.81%	35.77%	9.03%	4.18%	5.54%	5.18%					
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%	
2004	***Nav***												100.37	
	% chg												0.37%	

2005 return	-2.57%	**Best monthly return**	35.77%
2006 return	31.74%	**Worst monthly return**	-20.42%
2007 return	27.19%	**Maximum drawdown**	-47.53%
2008 return	-38.81%	**% of positive months**	64.91%
2009 return	67.54%		