



Pangolin Asia Fund August 2017 NAV

As at the 31st of August 2017 the NAV of the Class A shares of the Pangolin Asia Fund was US\$457.12 net of all fees and expenses, up 0.30% from US\$455.76 in July.

Please see the table at the end of this letter for further detail.

As of today, the fund is about 84% invested, up from 76% last month, with the split being approximately as follows:

| | |
|-----------|-----|
| Singapore | 15% |
| Malaysia | 30% |
| Indonesia | 36% |
| Thailand | 19% |

We don't disclose our names but some details are always available to investors on request.

Overview

To put things into some perspective, please see the tables below.

| Return (in local currencies, except MSCI Asia Ex-Japan) | | | | | | | | | |
|---|--------|---------|--------|-------|--------|-------|------------|------------|--------|
| Period | DOW | S&P 500 | JSE | KLSE | STI | SET | MSCI ex JP | MSCI-ASEAN | PAF |
| Aug 2017 | 0.26% | 0.05% | 0.40% | 0.75% | -1.57% | 2.54% | 1.03% | -0.16% | 0.30% |
| YTD 2017 | 11.06% | 10.40% | 10.71% | 8.01% | 13.76% | 4.75% | 28.86% | 16.26% | 16.85% |

| Return (in USD) | | | | | | | | | |
|-----------------|--------|---------|--------|--------|--------|--------|------------|------------|--------|
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| % Change in Currency Vs USD | | | | |
|-----------------------------|-------|--------|--------|-------|
| Month | MYR | SGD | IDR | THB |
| Aug 2017 | 0.24% | -0.04% | -0.13% | 0.35% |
| YTD 2017 | 5.04% | 6.70% | 0.98% | 7.99% |

We've had an unusually busy August (even James was in Asia) screening & researching companies and intensifying our efforts to look for new investments. Even if they're not cheap enough now, identifying future prospects for when markets correct is all part of it.

Despite the markets being generally quite firm we managed to spend quite a bit of our cash when there was weakness in a couple of our stocks. We have also initiated two new positions in Indonesia; one a return to a former investment which we did well to sell a few years back but now looks like a bargain again and, the other, a property company trading at an approximate 70% discount to its NAV. The latter is a net cash business with an impressive track record of profitably developing its extensive landbank and a company we have followed for many years. We were able to get a decent position as the company decided to place out its treasury shares (at 8x the price it paid for them many years ago).

We've also spent a bit more time in the Philippines recently. In our close to 13 years of existence we have yet to invest anywhere other than Singapore, Malaysia, Thailand and Indonesia. That may change.



Modern Iran

You have heard it: 'Death to America.' You've seen in the media images of hardline religious group burning flags and homemade effigies of the Great Satan, seen news reports about protests, the crushing & imprisonment of dissidents and infidels and the disappearance of political dissents who criticised the Islamic Republic's policies. You know that this country has been at odds with the West since its 1979 Revolution when Islamic radicals overthrew the pro-US shah and established the theocratic regime. And you think this Islamic Republic is an isolated nation that has gone backward and that its bellicose grand ayatollah is obsessed with its nuclear ambition. The media is rife with tales that focus on natural resources like oil as their greatest asset or nuclear power as their greatest threat; or Iran's role in international terrorism. But the Iranians have their version of the tale deeply etched in the memory: the US support for a coup of their elected leadership (that had unwittingly sowed the seeds of revolution) and encouragement of Iraq's invasion that led to war and cost half a million Iranian lives. Politics, power, mistrust. That's how the media frames it. And it's probably real.

There is another tale, one that I learnt unintentionally in my recent visit with the main objective of summiting the Asia's tallest volcano, Mount Damavand. It touches on the new generation of the young Iranians that came of age after the Islamic Revolution, the product of Khomeini's revolutionary breeding programme in the early 1980s. People under the age of 35 represent nearly two-third of Iran's eighty million population and they are modern, westernised and technologically savvy. They are utterly wired - they see the world outside of Iran every day.

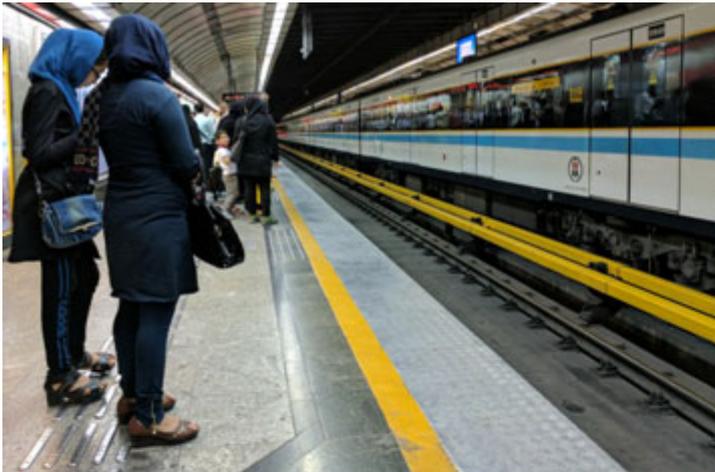
Most people carry smartphones. While Apple is not formally represented in Iran because of trade sanctions, it is said to hold 11% of the mobile phone market in Iran. Samsung has a large flagship store with service centre opened in Charsou Shopping Mall in central Tehran earlier this year. There are apps created by Iranian developers such as 'Snapp', Iran's version of Uber. The US sanctions expressly allow the sending of VPN software, the very thing which the Iranian regulations try to forbid. Through VPN, you can access the banned Facebook and YouTube, and other channels that only serve as the *Westoxification* of the regime. Taxi drivers and practically everyone you bump into will want to add you to their Instagram accounts. I didn't even know there is Telegram app until I was in Iran. If LINE is the most popular messenger app in Thailand, Telegram must be the most widely used app in Iran. At one point, it was the app where Iranian talked politics until the government's crackdown to limit free speech, to engage in political censorship, and to target individuals for online dissent. While technically illegal, about 70% of people have access to satellite TV. I was told that one only need to pay about \$100 for the setup of the box and one can view hundreds of international programs that are broadcast from abroad until there is seasonal home raid by the security police.

In Iran, women seem very fun-loving, vocal, confident and opinionated, but not aggressive, the very antithesis of the downtrodden oppressed female that one can imagine. There's a compulsory dress code for women to wear the Islamic headscarf or '*hijab*' and to only show their face, hand and feet in public, but the modern Iranian woman will push it to the limit as they rebelliously find fashionable interpretations around the state's strict dress code. Of course, the consensus among the young educated women is that they hate to wear this silly covering. They are quick to bemoan the ugly sartorial dictates of the ayatollahs. What's great about them is that they have the natural aptitude to make the best of a bad situation.

While it's true that the Shiite Muslim clerics have codified into law hundreds of lifestyle regulations, meant to keep their flock on the right path, there's one thing that defines Iran: change. The new generation of Iranians are pushing for adjustment and transformation, strict enforcement can no longer police everything, and the current President, Hassan Rouhani, seems to be paving the way for better lines of communication with the Supreme Leader and for a more moderate society. This chasm between the Iranian people and the government is quite interesting. One example is the first ever Tehran International Marathon on 7th Apr 2017, an event that allowed women to officially participate in the race. Just a year earlier, two female Iranian runners decided to participate in the men-only Shiraz marathon in protest and appeared to have avoided arrest. Of course, they wore headscarf or sports bandana that covered their hair and long-sleeve t-shirts that covered their hips. Since the revolution, women are typically not allowed to participate in sporting events outside of enclosed facilities, ensuring they are not seen by men.



At one point during my trip, my hosts were walking hand-in-hand through the city's parks without fear of arrest or harassment by *Gashte Ershad*, the dreaded 'morality police'. Public display of affection between men and women has somewhat been tolerated, a show of relaxation of certain rules. While at Shirpala mountain shelter, our hiking group were accommodated in a room of mixed adults, raising quite a few eyebrows among the guests. 'We are in the mountain.' my hiking guide quickly pointed out. Low-level subversion is involved in everyday life in Iran. Generally, almost no place is segregated. One of the few "places" where men and women are kept apart is the public transport, where women have a separate entrance and compartment on city buses and the Tehran Metro. Occasionally, there are women who end up in men's section.



If there is one truly remarkable feature (or perhaps the defining legacy) of Iranian is their unmatched hospitality. You can feel the energy; this irrepressible appetite for life and connection, to take part and engage. They are not conservative nor serious people. Not traditional, completely religious, backward, and angry people that the world thinks of. It is quick to feel safe and welcomed there. They have this warmth and kindness, and desire and innate ability to connect on a meaningful level and to find humour and fun in all situations. And this tradition of hospitality certainly runs deep in every strata of society. It's a national trait, so terribly un-Indonesian, un-Malaysian, un-Singaporean, and un-British.

One peculiar special manner that separates the Iranians from other nations is *Taarof*. *Taarof* is a Persian tradition, a custom for politeness, like a great art. The people (especially the young) on the streets are quick to greet you warmly and ask for a selfie together or invite you for tea. A usual invitation for a cup of tea can be extended to stay the night. Asking for directions may result in a new friend who, instead of simply pointing, will take you there. Or he/she will just buy you things for your family without hesitation, thinking that you deserve something special. You will insist on paying for all these multiple times, but it's an impossible task to succeed. This genuine courteous gesture is *Taarof*. It is indeed, intriguing. I even bought a Persian carpet with €50 note and wired the remaining



balance to an account in Dubai only when back home. The Iranian people I encountered in my two weeks of travel epitomised all that was fascinating about this complicated and contradictory country; religious yet hedonistic, practical yet poetic, modern yet rooted in tradition. It is so charming.

Consumerism

Oil-dependent Iran is the second largest Middle Eastern economy. With 80 million population, the country boasts a young demographic with over 60% of population below the age of 35. Iran is the world's largest producer of pistachio, ranked 2nd for dates and 3rd for cherry. It has the second largest natural gas reserves and fourth largest crude oil reserve in the world. Its gasoline price is the 6th cheapest in the world. CNG is about 60% the price of petrol. Is Iran a theocracy, or a high-tech consumer society? Both. The young in Iran are well-tuned to Western trends, primarily due to extensive travelling, high internet usage and interest in social media. What about the scale of consumerism and the obsession with Western brands?

Strolling through the maze-like bazaars in Tehran revealed the bustle of contemporary commerce. Everything you need can be found; daily needs (from soaps to spices to nuts to tea to socks and underwear), gold & jewellery, rugs, knockoff Louis Vuitton handbags, DVDs, Chinese-made souvenirs, shoes, stationery, etc. Looking beyond these traditional markets, the modern shopping malls would have fake Gap stores, some trendy local apparel brands, and legitimate 'Hyperstar' hypermart which is co-owned by UAE's Majid Al Futtaim and France's Carrefour. The presence of multinationals are visible. Nestlé has been cited for doing business in Iran as far as back as 2000. Many others have long made it into the country either through sanction-busting channels, directly, or black market. In the end, people will find a way to smuggle in what the consumers want. Interestingly, export sales of Indonesia's instant coffee brand 'Tora Bika' was reported to have skyrocketed post sanctions. This is backed by my general observation that penetration of Tora Bika seems to be quite deep in the traditional market. Apart from Nestle, Singapore-based Food Empire (Klassno) is also quite dominant, slightly trailing behind the multinational giant.





Other knockoffs of American food culture are also increasingly dominating the streets of major Iranian cities, symbols of the increasing disruption to the official revolutionary anti-American narrative. It's not hard not to see fake American fast-food brands like KFC, Burger King, McDonald's, Subway, Domino's Pizza, Pizza Hut, and Starbucks. These fake franchises were exact replicas, while others have slight modifications including the names. McDonald's became Mash Donald's, Pizza Hut became Hut Village, Subway became Freshway. Other versions of KFC also have popped up such as Kabooky Fried Chicken. These bootleg brands and hokey attempts to cash in on them only served to prove a point: that Iran's global isolation hadn't turned the Iranian people against the products of 'The Great Satan' - it had just made them more alluring.





I was intrigued by the spectacle, and the suggestion of great wealth in a country that was supposedly on its economic knees even after the lifting the sanctions in January 2016. Western-style consumerism is a common sighting. One will find or even be amazed to know that shopping has become a near-obsessive ritual for young people. Western-style fast food is much more common in Iran than I had anticipated. Burgers, fried chicken, pizza - whatever you want it, you can find it. Iran's affluent middle class has largely rejected ideology and is hungry for foreign brands, while fast-food has spread like wildfire even in remote villages. Real Coca-Cola and Pepsi dominate restaurants and shops, something I assumed would have been banned, along with all other American products. Coca-Cola is made under license via Koshgovar Mashhad Co. There is no beer but 0.0% carbonated malt beverage in multi-flavours is the closest you get and is widely available.

Sanction-busting business deals are easily facilitated through intermediaries in Dubai, China or Turkey. Because of the country's opaque political system, the untouchable Revolutionary Guards probably organise all the smuggling of many goods in face of long period of economic sanctions - alcohol, satellite TV, consumer electronics and others, profiteering from decidedly un-Islamic activities. With the Iraqi border running along Iran's their western edge, I wouldn't be surprised the Zagros Mountains serves as a smugglers' paradise. As fuel is cheaper in Iran (price that is half that of Iraq's), oil drums are transported in the back of trucks to Iraq one way, and then the loaded with whisky and vodka on the way back. According to a friend, alcohol is plenty, easily found in some secret chambers of private homes. You are always welcome to party with them. All these things are quite interesting as the level of consumerism seems to be quite high.



Conclusion

Iran is not a land of American-hating extremist terrorists and burqa-clad women. It's not a country of gun-toting, nuclear arms waving fanatical warmongers. You'll soon have your pre-conceptions shattered when you arrive, as locals welcome you to their country in eagerness to show you that its image is not how the Western media portrays. The daily life in Iran contradicts the way it is typically depicted. It is indeed one of the safest countries in the Middle East, with no recent hostage taking, no suicide bombers, no random knife attacks.

It's not fair to judge Iran solely on the negative things we hear. This is a country of vast landscape and tales of empire; a non-Arab Islamic country that still retains a national language; a country that preserves old arts, national treasures and royal heritage. Iran is intriguing, confusing and most beguiling of countries. The people are undeniably good looking and warm. The landscape is undoubtedly beautiful.

I think we would be hard pressed to find a single woman or man of this generation across Iran — in fact of any age — who cared about the nuclear discussions beyond their desire to engage in the world and build futures for themselves and their families. There is hope that Iranians will one day break through the dark cloak of a repressive regime and be even more alive than they already are.

Vinchel Budihardjo
8th Sep 2017

We don't like to discuss stocks publicly but I am always happy to talk to existing investors and those interested in investing. The Pangolin Asia Fund is most suitable for investors who are happiest when markets are falling.



View of Tehran Skyline from Tabiat Bridge



Poppy field on the foothill of Mount Damavand



The leaders



Skyline



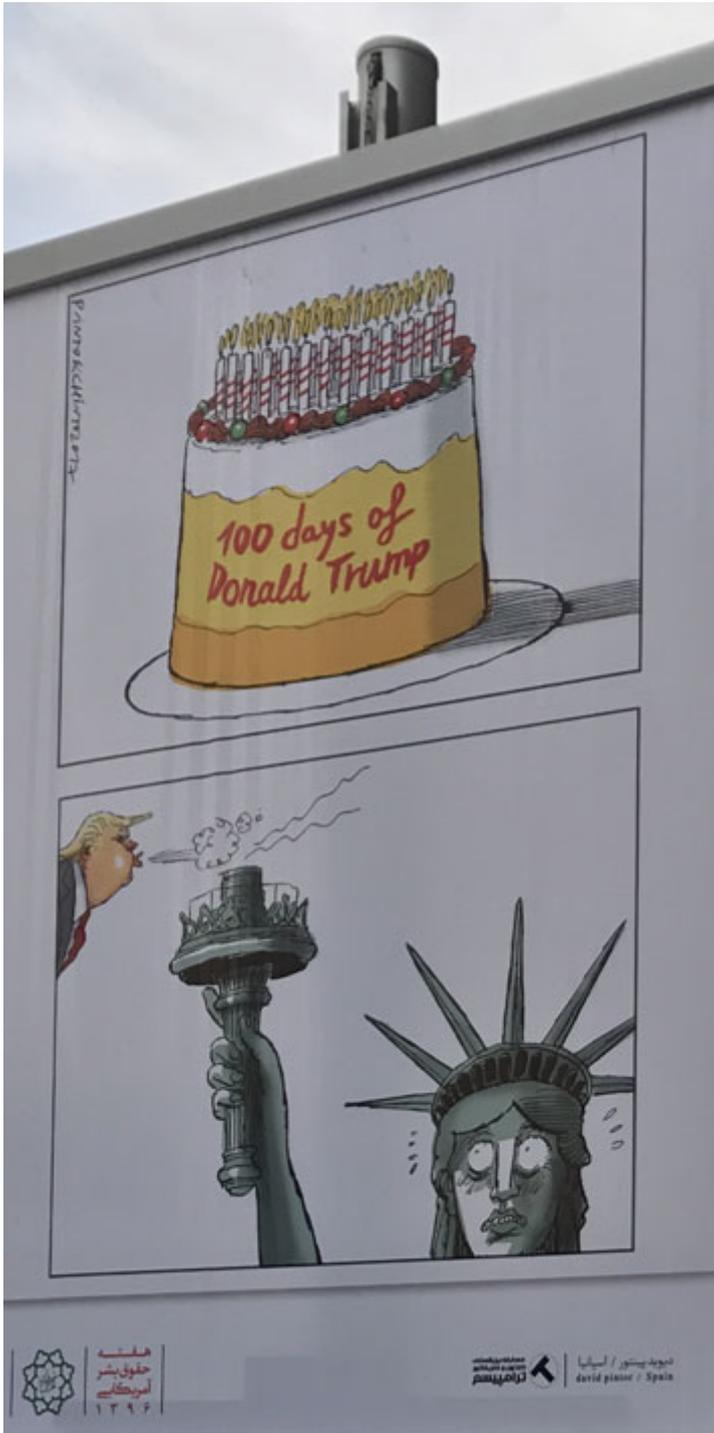
I couldn't find a shop like this in Jakarta



University students



Hospitable locals





| Year | Details | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|------|---------|--------|--------|--------|--------|--------|--------|--------|---------|--------|---------|--------|--------|---------|
| 2017 | NAV | 400.08 | 412.81 | 435.93 | 436.54 | 446.18 | 451.43 | 455.76 | 457.12 | | | | | 16.85% |
| | % chg | 2.27% | 3.18% | 5.60% | 0.14% | 2.21% | 1.18% | 0.96% | 0.30% | | | | | |
| 2016 | NAV | 352.31 | 360.43 | 387.79 | 396.17 | 386.04 | 395.41 | 412.53 | 411.2 | 410.02 | 411.25 | 388.48 | 391.19 | 9.16% |
| | % chg | -1.69% | 2.30% | 7.59% | 2.16% | -2.56% | 2.43% | 4.33% | -0.32% | -0.29% | 0.30% | -5.54% | 0.70% | |
| 2015 | NAV | 382.31 | 391.18 | 389.48 | 396.82 | 389.67 | 380.77 | 374.61 | 333.73 | 333.52 | 350.84 | 355.19 | 358.38 | -4.76% |
| | % chg | 1.60% | 2.32% | -0.43% | 1.88% | -1.80% | -2.28% | -1.62% | -10.91% | -0.06% | 5.19% | 1.24% | 0.90% | |
| 2014 | NAV | 370.08 | 388.25 | 398.79 | 410.89 | 423.38 | 423.84 | 436.37 | 425.85 | 413.36 | 408.97 | 395.23 | 376.28 | -0.52% |
| | % chg | -2.16% | 4.91% | 2.71% | 3.03% | 3.04% | 0.11% | 2.96% | -2.41% | -2.93% | -1.06% | -3.36% | -4.79% | |
| 2013 | NAV | 343.47 | 350.86 | 364.04 | 374.14 | 395.94 | 375.98 | 382.69 | 361.54 | 378.56 | 394.53 | 384.87 | 378.24 | 11.48% |
| | % chg | 1.23% | 2.15% | 3.76% | 2.77% | 5.83% | -5.04% | 1.78% | -5.53% | 4.71% | 4.22% | -2.45% | -1.72% | |
| 2012 | NAV | 290.78 | 311.15 | 303.35 | 313.01 | 301.88 | 312.18 | 316.87 | 323.01 | 323.75 | 334.08 | 332.63 | 339.29 | 24.85% |
| | % chg | 7.00% | 7.01% | -2.51% | 3.18% | -3.56% | 3.41% | 1.50% | 1.94% | 0.23% | 3.19% | -0.43% | 2.00% | |
| 2011 | NAV | 261.86 | 258.03 | 271.83 | 283.00 | 290.51 | 291.75 | 310.23 | 289.05 | 260.46 | 278.31 | 269.95 | 271.75 | 0.85% |
| | % chg | -2.82% | -1.46% | 5.35% | 4.11% | 2.65% | 0.43% | 6.33% | -6.83% | -9.89% | 6.85% | -3.00% | 0.67% | |
| 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 | 182.60 | 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 | 157.90 | 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% | |

Best monthly return 35.77%
Worst monthly return -20.42%
Maximum drawdown -47.53%
% of positive months 67.32%
Annualised return 12.66%

By Sector

