Pangolin Investment Management

Pangolin Asia Fund January 2009 NAV

As of the 31st of January 2009, the NAV of the Class A shares of the **Pangolin Asia Fund** was U$95.67 net of all fees and expenses, down 4.59% from US$100.27 in December.

At the end of January the fund was about 93% invested, with the split being approximately as follows:

Indonesia	50%
Malaysia	36%
Singapore	14%

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

Overview

January was an OK month for the fund's stocks but the NAV was affected by weakening regional currencies compared to the US dollar, in particular the Indonesian Rupiah. We have also raised a bit of cash with the sale of one of our Malaysian holdings because (a) it has the potential to be negatively affected by ongoing political developments in that country and (b) there are plenty of less risky opportunities out there.

I am reluctant to discuss individual stocks in detail in this newsletter but if you want more information, let me know.

Markets and Politics

In **Malaysia** the government (BN) and opposition (PR) are fighting like wild cats and just when you think one side is winning, another low blow upsets the balance. A recent by-election in the state of Terengganu was won by the opposition amidst all the usual allegations of vote-buying, phantom voters and just plain cheating. The opposition alleges that the scales are heavily weighted against them. One of my favourite comments was from a government politician after the election who stated that allegations that his side had offered cash to journalists were groundless and need not be investigated as if they were true his party would have won.

The state of Perak has just reverted to BN control after a number of PR representatives were persuaded to change party by the soon to be prime minister Najib Tun Razak. All sorts of dirty tricks are alleged by the opposition as usual but they started the party-hopping game and are now losing it. Najib will take over the premiership in March and the investment community is looking forward to a more pragmatic approach to solving the nation's problems than has so far been the case.

One should keep an eye on the politics in Malaysia. It has the potential to get messy but probably not to exceed what most democracies are used to when you have two parties and leaders who despise each other. It certainly makes things more interesting, but business is unlikely to be affected by it.

A few company visits have reinforced what we all know; that exporters are having a tough time. For the past few years Malaysia has been losing out to China as an investment destination. However many Malaysian manufacturers who have opened plants in the PRC report how hard it is to operate there, citing onerous labour laws, rising and hidden costs, poor infrastructure and high corruption etc. Most of the ones I have spoken to would, if given their time again, have rather opened another factory in Malaysia instead.

These guys are ethnically Chinese, speak the language, think they understand the customs and should be better placed than most to succeed there. If they are struggling, how are the rest getting on? Malaysia in this light seems rather competitive. Perhaps when things pick up again (and they will) Malaysia's share of the pudding will be larger.

Investing in **Indonesia** is a matter of sorting the good from the dangerous and then weighing up the political and economic risks. The politics, in terms of the country being a stable democracy, seem OK. There are parliamentary and presidential elections this year in which the current president and his party are currently expected to do rather well. There aren't many world leaders, Robert Mugabe apart, in such an enviable position.

The problem is that once the politicians get down to business they consistently make a complete hash of things. Not much gets made in Indonesia. If you think it's hard to operate a factory in China, just try Jakarta. However it is a country which abounds in natural resources and could be oh-so-wealthy. However the government seems to be doing all it can to scare away foreign investment and the new, recently announced, mining regulations will do just that, being heavily weighted in favour of national interests. Not only do they seem unfair to foreign investors, but they are so badly drafted that a recent presentation by the minister to explain them left everyone, including the minister, even more confused. Unfortunately if a corporation cannot even calculate how much they are going to be ripped off, they are unlikely to commit to investing.

And this is why the Rupiah is weak. After all the speculators and others have added to the volatility, in the end a currency rises and falls according to demand. And at the moment with low commodity prices and a dodgy investment climate there is little incentive to be buying Rupiah.

We think the selling is overdone. The Rupiah is a bargain and so are many Indonesian companies. The government is targeting a budget deficit in the region of 2.5% and financing that and existing debt should not be a problem, but for the moment with the Rouble and some other emerging market currencies being under pressure plus Indonesia's currency history, sentiment (as opposed to fundamentals) is holding sway.

It might help if corruption wasn't quite so endemic. A recent Transparency International survey revealed that businessmen consider the police to be the most corrupt institution in the country, followed closely by the judiciary. In fact becoming a policeman in Indonesia is considered so lucrative that one has to pay a bribe to get accepted to the training school. To afford this, most families have to go to a moneylender and there is no way the loan can be paid off on a basic copper's salary. And so it goes on.

Outlook

If you are planning to live more than three years you should be buying stocks. If not you can boost the economy by having a good time. I pointed this out to a friend of mine the other day and she replied that with Wall Street touching new lows I must be mad. She, like many, is clearly waiting for markets to be at their highs before getting back in.

I know the global situation looks bad but that is always the case when stocks are at their cheapest. The seemingly more simple problems of Asia's financial crisis a decade ago seemed just as insoluble at the time. Behind all this debt there are some assets, most of which have some worth. At some stage the cleverer bankers will unravel this great big knotted ball of string and sort out what has some value from what is worthless. And some of them will make a great deal of money out of doing so.

Hedge fund and other redemptions are forcing prices lower. This is great news. It's bit like buying a newspaper with a fiver and getting nineteen quid back in change, but without the moral dilemma. Asia will win from all this because it has far less debt (and in many instances cash) and more responsive economies than the West.

In the meantime you can buy companies which won't go bust at ludicrously cheap valuations coupled with decent yields. History tells us that investing carefully at times like now is the right thing to do, especially when only a few barking maniacs like myself will agree with you.

James Hay.

6th February 2009.

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**												**-4.59%**
	% chg	**-4.59%**												
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**	16.62%
2006 return	31.74%	**Worst monthly return**	-20.42%
2007 return	27.19%	**Maximum drawdown**	-47.53%
2008 return	-38.81%	**% of positive months**	60.00%
2009 return	-4.59%		