



Pangolin Investment Management

Pangolin Asia Fund October 2012 NAV

As at the 31st of October 2012 the NAV of the Class A shares of the Pangolin Asia Fund was US\$334.08 net of all fees and expenses, up 3.19% from US\$323.75 in September. Please see the table at the end of this letter for further detail.

As of today, the fund is about 87% invested with the split being approximately as follows:

Indonesia	26%
Malaysia	42%
Singapore	22%
Thailand	10%

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

Overview

We have been buying stocks in the past month, both new and old. Much of our portfolio looks cheap to me and our Indonesian companies have made us no money this year. In addition we have found some new names and have been nibbling away at them when we can.

Indonesia

Developing nations are still developing because of appalling economic management. One thing Indonesia has is an abundance of cheap labour but the government is siding with the unions (who represent approximately 8 million out of 250 million people) and making life a nightmare for employers. The labour laws are massively in favour of the employees - to the extent that you even have to extend redundancy payments to someone caught stealing from your factory.

In order to mitigate this employee risk many companies have been relying on contract workers. The government has made this illegal but given businesses a certain time (a couple of years or so) to take on these guys permanently. This is not good enough for the unions (who want the change done immediately) and some businesses have had their plants blockaded by protesters.

This includes PT Sepatu Bata, which we have owned since the fund started. Bata has ceased production until at least November the 16th and currently their shares have (for some reason) been suspended. It is believed that they are reviewing whether to continue manufacturing in Indonesia at all; as too are Samsung and others.

If you sell in Indonesia it is quite handy to manufacture in Indonesia; but as we are only 2 years away from the ASEAN Economic Community coming into being, the need to be local is clearly lessening. Developing nations have a long history of scaring away foreign investment and Indonesia is doing all it can to keep its people impoverished.

We have to hope for a change of policy otherwise Indonesia's manufacturers will shift to Malaysia, Thailand, Cambodia or Vietnam; all of which are cheaper places to do business.



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Protestors confront company security personnel and new employees, right, at the Panarub Dwikarya factory, outside the main gate in Tangerang, Banten in October. More than 1,300 people clashed with security guards at the Indonesian shoe factory, which supplies sportswear giants Adidas and Mizuno, months after they were sacked for striking over better pay. (AFP Photo/Bima Sakti)

MILF

The good news in this part of the world is that the Moro Islamic Liberation Front, which has been fighting for independence in the southern Philippines for decades, has now decided to negotiate and accept autonomy. There's a long way to go before one can definitely say the violence is over but with luck all sides will embrace the benefits of peace.

The region's other long running insurgency is the one in southern Thailand, in which, on average, two people are killed every day. One can only hope that they will learn from their Philippine neighbours and also plump for negotiation.

Outlook

Our best guess puts our portfolio on a weighted PE of 8.5x next year based on 17% earnings growth. The fund's ROE is above 20% and has a dividend yield of 4.6%. Of the companies we are looking to buy just now, all have net cash, 3 have PE's below 8 and another has an expected net dividend yield of just under 10%.

Despite the strong markets we have experienced this year, I remain excited that we can still invest so cheaply. I just wish the fund had more cash.

James Hay
8th November 2012

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.



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Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012	Nav	290.78	311.15	303.35	313.01	301.88	312.18	316.87	323.01	323.75	334.08			22.94%
	% chg	7.00%	7.01%	-2.51%	3.18%	-3.56%	3.41%	1.50%	1.94%	0.23%	3.19%			
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	196.87	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%
 Worst monthly return -20.42%
 Maximum drawdown -47.53%

% of positive months 70.53%
 Annualised return 16.46%

