Pangolin Investment Management

Pangolin Asia Fund April 2010 NAV

As at the 30th of April 2010 the NAV of the Class A shares of the Pangolin Asia Fund was US$227.44 net of all fees and expenses, up 6.44% from US$213.68 in March. Please see the table at the end of this letter for further detail.

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

Indonesia	52%
Malaysia	31%
Singapore	17%

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

Overview

The fund has continued to benefit from decisions taken early last year when we were able to buy well run consumer companies at beautifully cheap prices, particularly in Indonesia. Furthermore, the fund's currencies were stronger last month, which also helped a bit. However, even as I write this much of last month's gain has gone as a sense of reality seems to have returned to the markets.

Outlook

There is too much money chasing too few stocks in Indonesia. As good a company as can be found anywhere is Unilever Indonesia, but what are those people paying 34x 2010 earnings thinking? This has to be index weighting gone bonkers. Unfortunately it is not the region's only overvalued company as large funds continue to seemingly pick stocks based on their liquidity above all else.

To justify higher ratings analysts are coming out with all the normal dubious arguments that signal overvaluation: they include:

1) It is cheap on 15x because the sector average is 18x

2) Using DCF analysis for everything whether a company has any kind of predictable earnings stream or not. DCF for banks is called the Gordon Growth Model. Once analysts move away from back of envelope valuations in order to justify investing, be very careful.

3) In order for DCF to work when markets have already risen so much one has to use a low interest rate. Analysts will now tell you that they are *lowering* the equity risk premium as stocks are much less risky than they were a year ago. Nonsense. Equities are riskier after they have gone up than after they have fallen.

4) Buy Asian companies because the currencies are going to appreciate. That may or may not turn out to be true but Asian economies and thus most businesses' earnings are driven by exports, predominantly to the West. The impact of this year's currency appreciation is already being felt by exporters that we have talked to. There is no free lunch here.

5) Generally extrapolating optimism.

This may all be historic as the markets realise that Europe has a big problem and our advisers start giving us reasons to sell stocks rather than to buy them. One can say a lot about the Germans, but they are not stupid. As the world's second largest exporter, do you think they are really worried by the fall in the Euro?

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Last month I argued that what has been described as a financial crisis in Developed Nations was far from that experienced in Asia in the late '90s, in particular as it has not elicited behavioural change. Greece (and much of Europe) is looking especially wobbly. Just as there are those betting that Greece will default, there are others betting that it will not be allowed to and that there is money to be made by riding the bailouts.

I shall add to my definition of a financial crisis (based on the Asian experience). In a real financial crisis bailouts, which have worked up to this point, fail. This is what happened in Asia. In Malaysia the prevailing wisdom was that THEY would not permit the index to fall below 800 or, that darling of the market, Renong would not be allowed to fall below RM3.00. Well the index fell to about 260, Renong went bust and took quite a few with it. The lesson from Asia is that nothing is too big to fail.

Despite these sell signals the fund has continued to nibble away at a couple of stocks. One is a new addition which we are buying very slowly and the other is an existing holding. These two companies are on PE multiples of 6x and 4x respectively. I believe in the long-term Asian story but consider the money is to made in buying ultra-cheaply rather than piling in when all looks set fair.

Things can change quickly everywhere but a small change in sentiment in the West can have a magnified impact on short-term capital flows and mood in emerging economies. The best protection is either to be a fantastic market timer (not me) or to buy undervalued assets and be very patient. As usual we have been busy visiting and analysing lots of companies. We know what we'd like to own and suspect the summer months may well give us the opportunity at the kind of prices we like.

James Hay.
7th May 2010.

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
2010	Nav	201.91	205.09	213.68	227.44									16.12%
	% chg	3.08%	1.57%	4.19%	6.44%									
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	
	% chg												0.37%	

Best monthly return	35.77%
Worst monthly return	-20.42%
Maximum drawdown	-47.53%
% of positive months	69.23%

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