



# Pangolin Investment Management

## PANGOLIN ASIA FUND April 2009 NAV

As of the 30<sup>th</sup> of April 2009, the NAV of the Class A shares of the **Pangolin Asia Fund** was U\$133.22 net of all fees and expenses, up 35.77% from US\$98.12 in March.

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

Indonesia	54%
Malaysia	33%
Singapore	13%

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

### Overview

We were in the right places at the right time last month, what with strengthening regional currencies and rampant share prices. The realisation that the world is not ending, some companies (and countries) are actually doing OK, and a global underweighting in equities combined to give us our best ever month.

Our strategy is to identify companies we like, visit them and then decide if we would like to put them in the fund. Our focus remains on sound financials, good track records, and sensible use of cash over the long term. We then try and determine at what price we would like to own these companies. Much of April's performance is as a result of the markets having given us the opportunity to buy some of these names very cheaply. Unfortunately for much of last year they just got cheaper still. The markets do appear to have stabilised to the extent that fundamentals do have some relevance again, as opposed to the "if it moves sell it" mentality we experienced for a while.

There are still many cheap stocks in Asia and many opportunities. As bottom feeders we remain optimistic that we can perform over the long term. This cheerfulness is balanced somewhat by the view that Western economies still look totally screwed.

### Outlook

Asia's economies are, to a certain extent, family business driven. There is virtually no social security. If Fred Wong loses his job at the bank he has no choice but to work. The only safety net is his family and his and their savings. If they have a business he can help out there at a minimal (as opposed to minimum) wage, or he can start his own. And if things are slow he just has to work harder. Unemployment thus remains low because Fred and his ilk can't afford to be unemployed.

The level of savings and sacrifice for the next generation is much higher in Asia. It is common to meet taxi drivers paying for their children to attend overseas universities. That is a lot of driving.

Contrast that with Europe where the governments are forced to subsidise the non-productive before they can even think about fiscal stimuli. Of course I have generalised massively and both models are far from perfect, but which one would you rather bet on from here?

**Malaysia's** new Prime Minister, Najib Razak, continues to surprise and impress. He clearly understands the structural impediments facing Malaysia's economy and has made some moves to tackle them. In the past two weeks he has removed ethnic ownership restrictions that applied to 27 sectors and has taken a few steps in the direction of financial sector liberalisation.

I suspect he is just testing the water and if there is no serious opposition we will see more of the same; I hope so.

Malaysia is an under-owned market. A friend of mine who manages Asian funds for a large London firm tells me they own no Malaysian stocks, something not atypical I suspect. The problem is always the same, he says; what is liquid he doesn't want and he cannot afford to waste time looking at the other stuff (we can). There are, by the way, over 1,000 companies listed in Malaysia. Many are small but there are some decent businesses at attractive prices among them. We try and find the ones that won't always be small.

**Indonesia** has had its first round of elections. Apparently something like 45 million people were left off the electoral register which doesn't sound ideal until you realise that there were still something like 100 million on it. I assume the authorities just ran out of paper and time in the end.

It looks like a hung parliament again and we can now look forward to the forthcoming Presidential election. The incumbent is favoured to win but as he no longer has the backing of the influential Golkar party, victory is by no means assured. To be generous, he is probably the best of an unimpressive bunch but luckily the dilution of power democracy brings means that place should continue to tick along whoever wins. The fund's Indonesian exposure is in the consumer sector. We think these companies remain undervalued when set against a background of a large and youthful population enjoying increasing affluence (well, less poverty anyway).



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I suspect that stock and other asset markets will continue to be challenging in the face of continued bad news. Downside risk has not gone away. At Pangolin we consider ourselves to be cautious investors and as such we will continue to focus on companies with sound balance sheets and good businesses that we consider to be under priced. Despite the rally, at current levels we find it hard not to be fully invested. This will make some months more painful than others but as we're investing for with a longish outlook we're not too bothered.

Most investors remain absolutely focused on short term performance. At a recent hedge fund conference the message that speaker after speaker emphasised is that investors only crave liquidity just now. Well that suits us just fine. We like the illiquid; the less competition the better as far as we Pangolins are concerned.

I don't like to discuss stocks publicly. Please contact me if you wish to know more.

James Hay.

7<sup>th</sup> May 2009.

Ps. Our glamorous Pangolin Asia Fund director Fiona Somerville will shortly be running 7 marathons in 7 days in the Namibian heat in order to raise money for African children. If you are feeling generous, please click on the following link and give her some money.  
[www.justgiving.com/fionasomerville](http://www.justgiving.com/fionasomerville)

*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](http://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									32.86%
	% chg	-4.59%	0.74%	1.81%	35.77%									
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	0.37%
	% chg													

2005 return -2.57%  
 2006 return 31.74%  
 2007 return 27.19%  
 2008 return -38.81%  
 2009 return 32.86%.

Best monthly return 35.77%  
 Worst monthly return -20.42%  
 Maximum drawdown -47.53%  
 % of positive months 62.26%