



Pangolin Asia Fund January 2022 NAV

As at the 31st of January 2022 the NAV of the Class A shares of the Pangolin Asia Fund was US\$593.29 net of all fees and expenses, down 0.86% from US\$598.45 in December.

As of today, the fund is about 99% invested, with the split being approximately as follows:

Singapore	9 %
Malaysia	19%
Indonesia	71%
Thailand	1 %

We don't disclose our names but some details are always available to investors (and those wishing to become investors) on request.

Overview

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

Return (in local currencies, except MSCI and PAF)										
Period	DOW	S&P 500	NASDAQ	JSE	KLSE	STI	SET	MSCI Asia ex JP	MSCI-ASEAN	PAF
Jan-22	-3.32%	-5.26%	-8.98%	0.75%	-3.53%	4.03%	-0.53%	-3.12%	-0.50%	-0.86%
FY 2021	18.73%	26.89%	21.39%	10.08%	-3.67%	9.84%	14.37%	-6.36%	-2.91%	31.44%

Return (in USD)										
Period	DOW	S&P 500	NASDAQ	JSE	KLSE	STI	SET	MSCI Asia ex JP	MSCI-ASEAN	PAF
Jan-22	-3.32%	-5.26%	-8.98%	0.02%	-3.96%	3.85%	-0.61%	-3.12%	-0.50%	-0.86%
FY 2021	18.73%	26.89%	21.39%	8.43%	-7.05%	7.65%	3.17%	-6.36%	-2.91%	31.44%

% Change in Currency Vs USD				
Month	MYR	SGD	IDR	THB
Jan-22	-0.45%	-0.17%	-0.73%	-0.08%
FY 2021	-3.51%	-1.99%	-1.49%	-9.79%

This is the first year for some time in which investment banks are not predicting Emerging Markets to outperform. Something to do with interest rates, apparently. So maybe we have a chance.

Outlook

I guess it's going to be interesting to see how businesses respond to inflation. Many companies we speak to are planning to increase their prices to protect (enhance) their margins. So, it looks like it's perhaps not the short-term blip that central banks are wishing for – in fact Governor J Powell has admitted that his use of the word “transitory” was in fact transitory... Is that good or bad for stocks? I can show you strategy pieces written by very clever people that argue both ways. The best approach is to pick managements with a proven track record of successfully managing their companies through changing and challenging environments. The trick is to be selling more than the other guy, come rain or shine.

Covid has hit a lot of businesses hard. We own retailers in Singapore and Malaysia. Our companies have plenty of cash on their balance sheets and should emerge stronger from this pandemic. Their geared competitors will be having to cut back on mall space, advertising, inventory etc. Their share prices haven't done us any favours in the past couple of years but, in time, our patience should be rewarded.



In one case, a PE fund now owns 15% of the equity. That they've been welcomed onto the board with open arms looks like good news for the rest of us. We estimate the company to be worth at least twice its stock market valuation and the PE boys (girls/others) presumably think likewise. The major shareholder, along with the same PE partner, previously made an offer to privatise the company, but it was rejected by the minorities (the offer was too low). There probably won't be another bid in the short term as we expect the partners to work to demonstrate the company's obvious value.

I'm often asked about the increasing role of PE in the region. As the chart below shows, most ASEAN equities have gone nowhere in the past decade. Given rising prosperity, that means that they've also become cheaper. And if traditional equity investors are too blinkered to take advantage of the area's ridiculously low valuations, then PE and management privatisations will do so.

Our second largest holding in the portfolio, Indonesia's BFIN, is now partly controlled by partners working alongside a PE fund. There is an outstanding offer for the shares they don't own (at Rp1,200 a share). We have no intention of selling, given that the present management will remain in place and we expect the majority shareholders to add value to the company. BFIN's share price is, today, around 6% above the offer price.

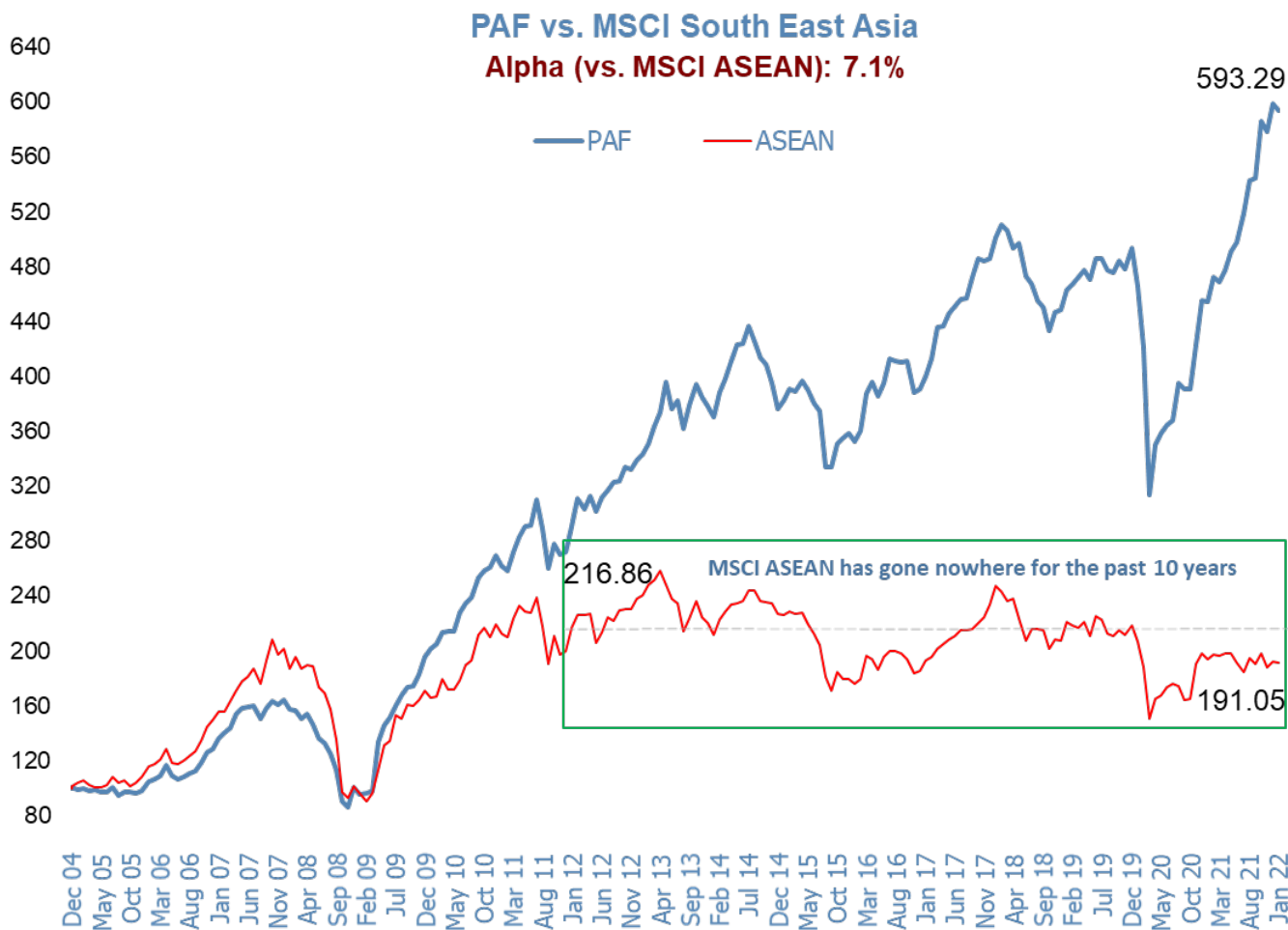
When I first bought BFIN (in 2002) its PE was 3x. In 2006 I swapped my shares for units in the fund. There's a lot been written about how the price you pay, over the long run, doesn't materially affect returns if you invest in good companies. And that's true. EXCEPT when you get to buy exceptionally cheaply, as we did with BFIN.

In the early days of marketing the fund, trying to convince investors that I was a conservative investor, when the fund's largest position was a small Indonesian company financing the purchase of second-hand motorbikes, was a struggle. We still own BFIN and expect to do so for a while yet. And this applies to most of our portfolio. As I've said before, good managements act as our portfolio managers, reinvesting the cash their businesses generate at attractive rates of return, and dividending what they can't use back to shareholders.

I've heard through the grapevine that yet another large US endowment is giving up on SE Asia and reallocating to PE. We hear more and more of this. I have no idea of the scale of the PE industry, but allocations, in many cases are at record highs. These funds can't be redeemed at will and may well be at the heart of the next crisis, particularly if the underlying investments are highly geared and interest rates rise significantly. (What PE advocates often call the "illiquidity premium" can quickly become an "illiquidity discount" in different conditions).

Our fund's annualised return is 10.93% and our Alpha (outperformance), for those that follow such things, is 7%. Over the past ten years, when the ASEAN index has actually fallen, our Alpha is higher at 8.6%. We underperformed the bull market preceding the GFC, which is not so surprising when you think about it. The good news is that conservatively capitalised, well managed businesses, have outperformed over the long run. We're stock-pickers, intending to own our investments for many years. The fund's outperformance, over seventeen years, has been driven by identifying companies with superior managements and letting them get on with it. There have been (and will be) periods of underperformance (and we've made some mistakes along the way), but our strategy will remain in place; it's not so much buy-low, sell-high, but more buy low and hold.

The BFIN paragraph is deliberately allegorical. It's there to show the benefits of sticking with superior management in a growing economy. Within ASEAN, there continues to be the opportunity to invest in exceptional companies cheaply. Some strategists will point out there is little correlation between GDP growth and stock performance. But they are talking about the short-term. In a region where GDP is compounding annually at +/- 5%, a company able to take advantage of a growing marketplace (and with an ROIC in excess of 20%) bought cheaply, should provide more than satisfactory investment returns over any proper investment horizon.



James Hay
 8th February 2022

I don't like to discuss our 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 happy when markets falling.



Seventeen years track record and annualised return of 10.93%

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022	NAV	593.29												-0.86%
	% chg	-0.86%												
2021	NAV	454.64	471.89	469.26	477.70	491.07	497.99	518.78	542.88	544.24	585.87	578.32	598.45	31.44%
	% chg	-0.15%	3.79%	-0.56%	1.80%	2.80%	1.41%	4.17%	4.65%	0.25%	7.65%	-1.29%	3.48%	
2020	NAV	465.73	420.43	313.82	349.63	358.55	364.26	367.99	394.82	391.21	390.47	422.87	455.32	-7.80%
	% chg	-5.69%	-9.73%	-25.36%	11.41%	2.55%	1.59%	1.02%	7.29%	-0.91%	-0.19%	8.30%	7.67%	
2019	NAV	462.51	467.10	472.67	477.00	470.36	485.78	486.12	477.67	475.87	484.37	477.85	493.85	10.21%
	% chg	3.21%	0.99%	1.19%	0.92%	-1.39%	3.28%	0.07%	-1.74%	-0.38%	1.79%	-1.35%	3.35%	
2018	NAV	501.11	510.62	506.32	493.22	497.19	472.82	467.29	455.31	450.29	433.40	446.46	448.11	-7.76%
	% chg	3.15%	1.90%	-0.84%	-2.59%	0.80%	-4.90%	-1.17%	-2.56%	-1.10%	-3.75%	3.01%	0.37%	
2017	NAV	400.08	412.81	435.93	436.54	446.18	451.43	455.76	457.12	472.10	485.61	483.86	485.79	24.18%
	% chg	2.27%	3.18%	5.60%	0.14%	2.21%	1.18%	0.96%	0.30%	3.28%	2.86%	-0.36%	0.40%	
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 -25.36%
Maximum drawdown -47.53%
% of positive months 65.53%
Annualised return 10.93%



By Sector

