Pangolin Asia Fund May 2012 NAV

As at the 31st of May 2012 the NAV of the Class A shares of the Pangolin Asia Fund was US$301.88 net of all fees and expenses, down 3.56% from US$313.01 in April. Please see the table at the end of this letter for further detail.

As of today, the fund is close to fully invested with the split being approximately as follows:

Indonesia	30%
Malaysia	40%
Singapore	19%
Thailand	11%

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

Overview

Last month the fund's currencies did this against the U$:

IDR	-2.84%
MYR	-3.62%
SGD	-3.63%
THB	-4.72%

The flight from quality that occurs when the herd panics led to a weakening of our currencies; something that, should it be sustained, Asia's exporters will welcome.

I suppose some can make an argument now and then for preferring the U$ against some Asian currencies, but those selling Singapore dollars for American ones in the name of risk reduction baffle me.

Had the currencies not moved, the fund might have been up a little.

Does Europe Matter to Asia?

The world is dominated by western media so we all get the European news whether is of any importance or not.

Our company visits would suggest that Europe is of little importance as a client to most of the businesses we talk to. This has been the case pretty much since 2009. This anecdotal evidence is also borne out by the export statistics of our countries (see below). They also show how the US's relevance as an export destination has also shown a significant decline.

Malaysia, Indonesia, Thailand and Singapore % of total exports

	Malaysia		Indonesia		Thailand		Singapore	
	2007	**2011**	**2007**	**2011**	**2007**	**2011**	**2007**	**2011**
ASEAN	25.5	24.3	19.6	15.8	21.7	23.8	21.1	21.4
China	8.8	13.1	8.5	10.6	9.8	12.0	8.5	10.1
Japan	9.1	11.5	20.7	9.0	12	10.6	5.3	4.4
EU	**12.9**	**10.4**	**11.7**	**10.0**	**14.4**	**10.6**	**14.1**	**12.1**
US	15.6	8.3	10.2	7.7	12.8	9.6	11.4	6.2
HK	4.6	4.5	1.5	1.6	5.7	7.2	9.1	9.4
South Korea	3.8	3.7	6.6	3.7	2.0	2.0	2.7	3.2
Taiwan	2.7	3.3	2.3	2.1	2.2	1.7	3.1	3.6
Others	17.0	20.9	18.9	39.5	19.4	22.5	24.7	29.6

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While clearly it is not a good thing if European demand drops further when the Euro collapses, the numbers would suggest that demand has already fallen to such a low level that it won't make too much difference in Asia. And given how well flagged this train wreck is, will the collapse of the Euro actually lead to a further slowing of the economies?

I hope I'm not being too blasé but after talking to business owners in the region, it would appear that they have moved on, even if the media hasn't.

Outlook

The **Indonesian** market fell over 10% in U$ terms last month as some of the over-bullish money has been fleeing that market.

The Rupiah has weakened and CDS spreads have widened showing just how vulnerable the place is to short term flows. Nevertheless, as usual the government's spending is well below its targets. As at the 23rd of May the budget remained in surplus and any deficit is unlikely to exceed 2% of GDP. Other than for the repatriation of stock market profits, there isn't much reason to be selling the Rupiah.

Much of the recent bull market in Indonesia has been driven by coal stocks. As regular readers will be aware, we don't own any. The main reason being that I have no idea how to judge commodity prices. Visits, however, have shown that Indonesian coal is not particularly cheap to extract and therefore we might see quite a shakeout should the price really fall.

Clearly, many Indonesians have benefited greatly from the rise in the coal and other commodity prices. However, probably just as many have been squeezed by them and the overall effect on the consumer is possibly close to neutral.

The Indonesian market, having been such a strong performer, is susceptible to a significant sell-off should Chinese demand for commodities not pick up again. Should this occur we may well get the chance to snap up consumer companies there at bargain prices again.

Let's hope so; the statistics below would suggest that Indonesian consumption has barely started:

Passenger cars 45 cars per 1000 people.

- 21 motor vehicles per 100 people.
- 26% of the population is below the age of 15. The median age 28.
- Only 16% of population have bank accounts. This compares to Malaysia, which has 3,300 deposit accounts per 1,000 adults and 1,100 loan accounts per 1,000 adults respectively.
- 50% of Indonesian people live in cities.
- Mobile phone penetration in Indonesia is only 66%.
- Only 12% of Indonesians use the Internet and only 5% use personal computers.
- Current market penetration of qualified credit card holders in Indonesia is only 4.5%.

The place clearly has pots of potential but we'll tread carefully. Fortunes have been lost by those confusing potential with what is actually likely to happen.

In **Malaysia** the forthcoming election is dominating the news. The opposition is accusing the authorities of all sorts of dirty tactics and the government is slinging plenty of mud back in their direction. This is apparently making some investors nervous, although anyone investing in developing nations and not expecting various election shenanigans, probably shouldn't be investing in emerging markets in the first place.

What is happening in Malaysia is that companies are being privatised by their major shareholders as the market continues to under-price listed businesses. The latest company to be bought back on the cheap is Yeo Hiap Seng (Malaysia); we expect others to follow.

I'm currently in Bangkok, visiting companies. The fund only owns one **Thai** stock at the moment, which is a shame, given that it has been just about the best performing market in the region this year. Why don't we own more? It is simply because we struggle to find companies that are as undervalued as they are in, say, Malaysia.

And we don't like companies with a lot of debt. Un-geared companies are a rarity in Thailand and we can find similar companies elsewhere with cash. And given my propensity to dismiss the Euro-crisis as being of little relevance, it is probably better to hedge our bets by sticking with cash-rich companies. Just in case everyone else is right and I'm wrong.

James Hay
8th June 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.

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								11.09%
	% chg	7.00%	7.01%	-2.51%	3.18%	-3.56%								
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%	% of positive months	68.89%
Worst monthly return	-20.42%	Annualised return	15.87%
Maximum drawdown	-47.53%		