Pangolin Asia Fund March 2019 NAV

As at the 31st of March 2019 the NAV of the Class A shares of the Pangolin Asia Fund was US$472.67 net of all fees and expenses, up 1.19% from US$467.10 in February.

Please see the table at the end of this letter for further detail.

As of today, the fund is about 91% invested, with the split being approximately as follows:

Singapore	16%
Malaysia	35%
Indonesia	34%
Thailand	15%

We don't disclose our names but some details are always available to investors on request.

Overview

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

Return (in local currencies, except MSCI Asia Ex-Japan)									
Period	DOW	S&P 500	JSE	KLSE	STI	SET	MSCI ex JP	MSCI-ASEAN	PAF
Mar 2019	0.05%	1.79%	0.39%	-3.75%	0.01%	-0.90%	1.58%	-0.71%	1.19%
YTD 2019	11.15%	13.07%	4.43%	-2.78%	4.70%	4.78%	11.21%	4.58%	5.48%

Return (in USD)									
Period	DOW	S&P 500	JSE	KLSE	STI	SET	MSCI ex JP	MSCI-ASEAN	PAF
Mar 2019	0.05%	1.79%	-0.83%	-4.14%	-0.26%	-1.38%	1.58%	-0.71%	1.19%
YTD 2019	11.15%	13.07%	5.51%	-1.55%	5.25%	6.73%	11.21%	4.58%	5.48%

% Change in Currency Vs USD				
Month	MYR	SGD	IDR	THB
Mar 2019	-0.40%	-0.27%	-1.22%	-0.49%
YTD 2019	1.26%	0.53%	1.03%	1.86%

Eagle-eyed readers will have spotted that our cash has declined from about 14% to just 9% in the past month. This is largely because we have found a new company to add to the portfolio. We won’t tell you what it is. Like every new investment, we have high hopes for it. Fingers crossed our sums are not too far out.

That would take the number of companies we own to 24 although the meaningful number is close to 20. We own a couple of things which are in there so we don’t forget them, are able to attend AGMs or just cannot get any more stock. This is a concentrated portfolio – over the life of the fund we have owned a total of fewer than 60 names.

We have two special situations from which we are expecting the cash back fairly soon. The first is the privatisation of Selangor Properties in Malaysia and the second is a partial offer for Bank Danamon in Indonesia. Together they account for about 6.7% of the fund and can be (sort-of counted) as IOUs. We should get the money fairly soon. And once we do, the number of companies we own will be reduced by 2.

Challenging Challenger

We have owned shares in Challenger Technologies in Singapore for over 9 years. Challenger is the island's leading retailer of electronic goods, principally computers and peripherals. Apart from knowing how to sell, the extra value in this company, particularly in a market where the shift to online shopping has been intense, comes from its membership scheme. Approximately 500,000 Singaporeans pay a fee in order to be able to collect points to put towards future purchases. 10% of the population being signed up to one store card may be a world record.

The company generates a lot of cash but doesn't always deploy it in the most efficient manner. Last year we prepared a presentation for the board advising them on how to better use the excess cash and pointing out that the true value of the company was much higher than the share price. Rather than do what we asked, Challenger reduced the dividend while at the same time the major shareholder (Mr Loo) has teamed up with private equity bunch to make a much-undervalued bid for the shares they don't own. The offending JV is called Digileap, although *Digicheap* is more apt. By not paying out the shareholders' cash, Digicheap is retaining the value within the business.

Obviously, we don't want to sell at a low price. Other shareholders would appear to feel the same way and we only need 10% of the company to block it. It's quite fun trying to rally opposition and every day we receive emails from people with small numbers of shares who agree with us. We up to 8% (against the offer). Please see our website for more detail (if you want more detail, that is).

It would appear that, when we point out the hidden value in our companies to their managements (and the managements and major shareholders are generally one and the same), rather than extract the full value for the benefit of all shareholders, some of them would rather keep the value for themselves. In the short term, this makes complete sense – Selangor Properties' owners got the company for less than half price – but actually, a well-run company that treats all shareholders equally is arguably worth much more in the long-run. And remaining open to investors' scrutiny, criticism and correction is probably a good thing.

Next, we will be receiving advice on the offer from the "independent" advisor – Deloitte. I can't recall when an independent advisor has contradicted their client's wishes (but I've only been doing this for 33 years) and I don't expect Deloitte to surprise me this time, despite the true value of the company being 108% higher than the offer. I expect that they will fudge it somehow.

We should also be hearing the opinion of the independent directors. More fudge is my guess. Let's hope I'm wrong.

Regulators everywhere should really scrutinise the independence of independent advice.

Inefficient Market

I reckon the markets we look at are becoming less rather than more efficient. And for those of us prepared to do our own research, that is a good thing. What is the cause? Primarily less analyst coverage. MIFID will be partly responsible for this, but also the fall in commission rates paid to brokers means that they can no longer afford big teams of well-paid analysts. And also, the rise in popularity of ETFs eliminates the necessity for fund managers to actually know what they are owning.

In the good old days when I was a broker, we charged 1% commission. These days you can screw the brokers down to about 0.06% if you're big enough. Of course, to get to speak to me every day (and throw in the long, boozy lunches) 1% was pretty good value.

In January we invested in Bank Danamon in Indonesia to take advantage of a tender from Bank Mitsui of Japan. Danamon's market cap is over US$6bn and is ~~well~~ covered by 20 analysts, according to Bloomberg. That we were able to buy and make a virtually guaranteed net return in excess of 6.5% in just 3 months tells us something.

Malaysia's unofficial workers

Dotted around the outskirts of KL there are makeshift kampungs populated almost exclusively by undocumented workers. It is a common theme around the world that immigrants do the work that the natives are too lazy to do themselves – whether that is true or not.

On a recent hash run, I came across a settlement of mainly Indonesian migrants. This particular kampung was populated mainly by Catholics from Flores. Some have permits, but most don't and live in fear of police raids. Malaysia's monthly minimum wage is Rm1,100 yet some of the guys are taking home Rm2,600 working on construction sites. And yet you almost never see a Malaysian worker doing heavy manual work.

If you are illegal you cannot go home. I spoke to one couple who have a 12 year old daughter who has never been to school (although she receives some education from one of the churches). The guys making Rm2,600 tended to be legal, but there were many of the usual migrant tales of arriving in Malaysia, permits not being issued and salaries withheld. In the case of one couple, she was legally working as a cleaner and he was an illegal construction worker.

The guy who lives here hasn't been home for 20 years

When they think the police might raid the occupants sleep in satellite shelters for a quicker getaway

The owner of this house has been here 13 years – he now has a permit

On the way to the communal bath station after work. She's legal and speaks good English. Her husband isn't and speaks Bahasa

Malaysia's new government is gradually getting stricter and enforcement is improving, but these migrants remain hidden in plain sight. They are able to work, save and send money home, unlike in rural Indonesia where there is no money left over.

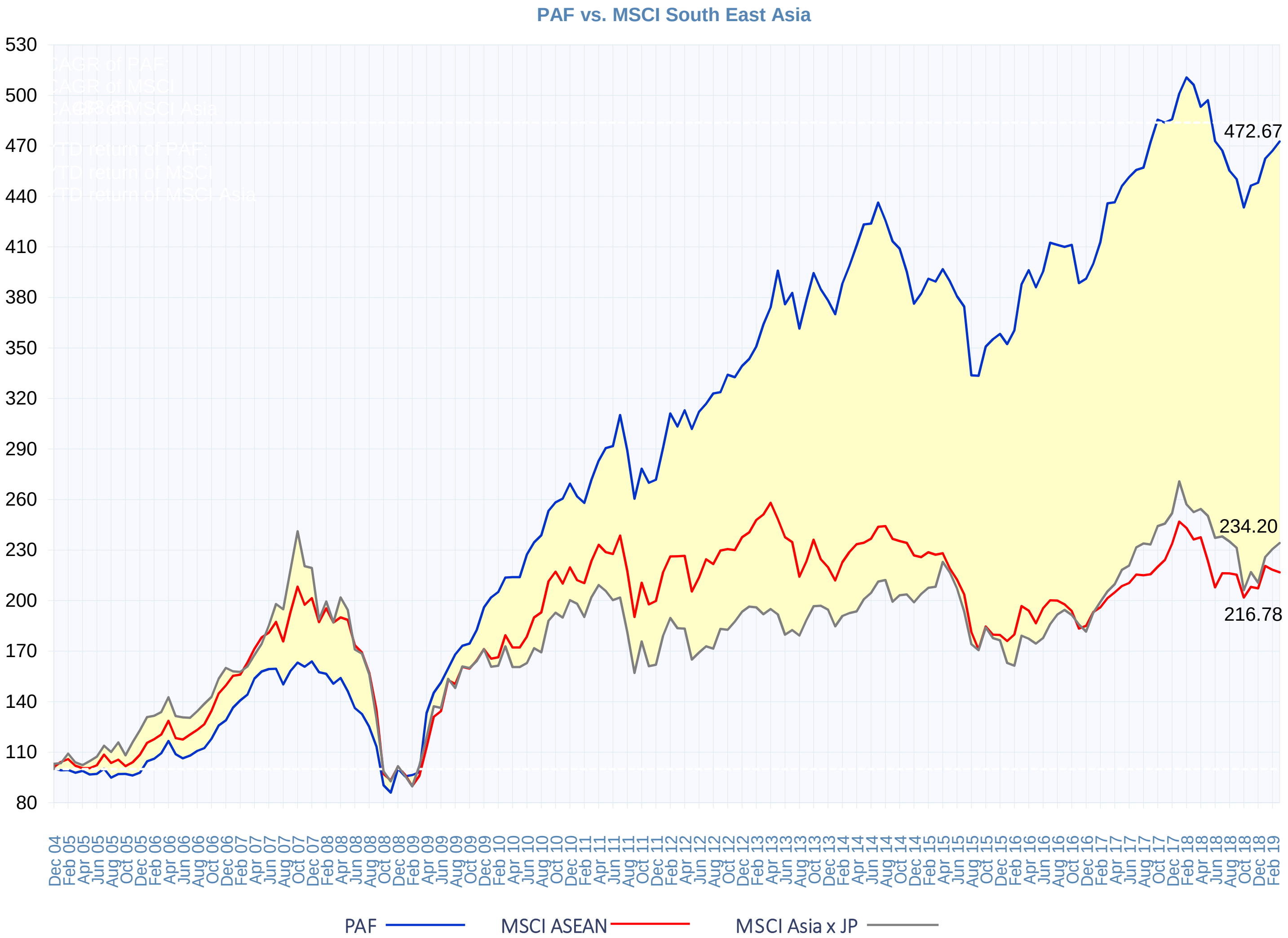
James Hay.
9th April 2019

We don't like to discuss 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 happiest when markets are falling.

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	*NAV*	462.51	467.10	472.67										5.48%
	% chg	3.21%	0.99%	1.19%										
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	**-20.42%**
Maximum drawdown	**-47.53%**
% of positive months	**66.08%**
Annualised return	**11.45%**

Fourteen years track record and annualised return of 11.45%



By Sector