Pangolin Asia Fund September 2021 NAV

As at the 30th of September 2021 the NAV of the Class A shares of the Pangolin Asia Fund was US$544.24 net of all fees and expenses, up 0.25% from US$542.88 in August.

As of today, the fund is about 97% invested, with the split being approximately as follows:

Singapore	10 %
Malaysia	20 %
Indonesia	69 %
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
Sep-21	-4.29%	-4.76%	-5.31%	2.22%	-3.97%	1.04%	-2.02%	-4.36%	-2.27%	0.25%
YTD 2021	10.58%	14.68%	12.11%	5.15%	-5.49%	8.54%	10.79%	-4.96%	-3.78%	19.53%

Return (in USD)										
Period	DOW	S&P 500	NASDAQ	JSE	KLSE	STI	SET	MSCI Asia ex JP	MSCI-ASEAN	PAF
Sep-21	-4.29%	-4.76%	-5.31%	1.90%	-4.68%	0.08%	-6.29%	-4.36%	-2.27%	0.25%
YTD 2021	10.58%	14.68%	12.11%	3.22%	-9.24%	5.69%	-1.52%	-4.96%	-3.78%	19.53%

% Change in Currency Vs USD				
Month	MYR	SGD	IDR	THB
Sep-21	-0.74%	-0.94%	-0.31%	-4.36%
YTD 2021	-3.96%	-2.62%	-1.84%	-11.11%

Your Fund

Those of you familiar with my newsletters will know by now that, by the end of the month, I generally feel like writing about almost anything but investing. Many other managers' letters contain far more information than mine about the stocks owned, the outlook for the economy and the market, along with some relevant political commentary too. Reading them often gives the impression that other managers are both busier and more diligent than we are. It's not the case, but our focus is perhaps more on the longer term.

Anyway, this month I thought I'd write a bit about the fund. A short history, an outline of what the fund is hoping to achieve and how we go about it.

1) The Fund's Objective

The fund has only one objective. That is to make money over the long term. But not at any cost (more below). We don't try to beat any index or manage volatility. Our primary focus remains SE Asia and we have yet to invest outside of Singapore, Malaysia, Indonesia or Thailand.

We're market cap agnostic and prefer conservatively-run, established companies trading well below what we consider to be their fair value, rather than banking on tomorrow's possible stars.

When we buy something, we're intending to be holding it in five years' time. A business owner investing in his factory expansion is thinking at least ten years ahead, so why shouldn't the company's other owners?

Our objective is to make money over the long term. Forget about the next month, quarter or year. Five years is probably long enough to smooth over market crashes etc, which will happen from time to time. We can't control what the markets will do, but we can evaluate whether a company is undervalued and, if it continues to grow, what its likely market value will be. Something we need to get right more often than not.

The portfolio is concentrated in around 20 names. The top 5 currently account for about 55% of what is invested, a number that seldom falls below 40%. This concentration is considered risky by many and they won't invest with us, preferring greater diversification. But really, what is riskier? A portfolio of 20 names that the managers know intimately, or one with 100+ stocks where the depth of knowledge cannot possibly be the same.

2) Not at any Cost

We don't invest in timber, palm oil, politically connected crony companies or tobacco, for example. This is a personal choice. A company we've considered, Diamond Building Products in Thailand, is one of those rare Thai companies that manages its balance sheet properly. The company generates strong cash flow and pays out 80% of net profits in two dividends a year. The company has also bought back shares and cancelled them, something many owners are loath to do. From our perspective, financially there's nothing to dislike about this stock and, given that as Thais get richer, they'll spend more on building products, its future seems assured. But they sell asbestos roof tiles. The dangers associated with all types of asbestos are well known and it's not a product we Pangolins wish to profit from.

However, we realise that all businesses have some impact. It's a matter of personal judgement which ones we're happy to own. It is not based on ticking someone else's checklist.

3) History

I moved to Malaysia as a stockbroker in 1993. My job was to speak to institutional investors back in the UK and I was able to visit companies in the morning and get on the phone in the afternoon. I visited hundreds of companies in the five years leading up to the Asian Financial Crisis in 1998. Although, in those times, fundamental investing wasn't a huge part of my sales pitch. Up until the crash, the Malaysian market was "hot" and many fund managers found themselves sucked into the frenzy (not the worst of times for us brokers paid on commission).

After being made redundant in 1998, I invested almost every penny I had in 3 or 4 companies. I remember Nestle Malaysia being on a single-digit PE and yielding something like 15%. And in around 2002, I started visiting Indonesian companies trading on 2 or 3x earnings. So, jumping forward to 2004, I had made enough to start the Pangolin Asia Fund on my own terms. I didn't have a burn rate. There was no need to change my style of investing in order to attract funds. I was able to ignore the advice to "start a long/short hedge fund and you'll easily raise $200m".

The fund was launched with $1.5m and the strategy was to continue to invest in what was cheap, with a view that if we were correct, then at some point others would push the price up. There was no focus on monthly performance, which made us of no interest to most Fund of Funds, who wanted liquidity, performance and hedged volatility.

Vinchel was Pangolin's only other employee for quite a while and we shared an office with an engineering company. The low costs and a bit of money in the bank meant I was able to carry on investing as if it were a personal portfolio, as well as being selective about the investors we accepted. A meeting of mindsets was required; the number that have decided not to invest after a call with me vastly exceeds the number that have. But without the right investors, we couldn't have invested as we did.

When I state below that the fund is suitable for investors who are happiest when the market is falling, I'm not joking. That is when we get to buy at the wrong price.

4) How we do it

We're a research company that occasionally makes an investment. In total, over the past 17 years, we've owned around 65 names. There have been a few mistakes (and a couple of lucky winners) but compared to the 100+ stocks in many mutual funds, our additions have been highly selective.

We operate in SE Asia and this is where we look. In normal times I'd estimate we talk to companies, in person, 400 times a year. Our focus is on companies with:

Net cash as a result of cash generation, not corporate action

Historical track record of good corporate governance

History of sensible and fair capital allocation including returns to shareholders

A sustainable Return on Invested Capital (ROIC) of 20%+

A low share price relative to what we think the company may be worth

The above criteria result in our investable pool being not large, and we speak to some companies many times. We bought one last year after talking to them for 15 years, as finally we felt the available price matched its prospects. Although the intention is to own a slice of each business for a long time, we do of course continually monitor all closely.

Owning businesses with net cash means I can get my ten hours of sleep at night. In times like now, cash-rich companies are going to emerge stronger than those with debt. A retailer may be suffering in lockdowns, but the one with cash can still advertise and negotiate better mall spaces when reopening than an indebted competitor. This is when they can take market share.

I like to think of the managers of the businesses we own as being our fund managers. Their businesses generate cash and they have to decide how to deploy that cash. While we're forgiving of companies making mistakes in the course of what they do, we don't tolerate investments away from the company's core competency. I like to think of our portfolio as having "off balance sheet cash" - which beats off balance sheet debt any day.

We're gentle activist. Companies with cash attract the attention of dealmakers pitching new investments. We've already had some success in showing managements of some of our companies the value to be gained by returning unneeded cash to shareholders and focusing their attention on the main business. We expect to continue to be adding some value to the companies we own in this way, through friendly engagement.

How does a stock make it into the portfolio? Not easily. It's my belief that any new position should constitute an "overweight" because if we don't like it more than everything else we own, why are we buying it? For practical reasons, given our size and the illiquidity of many companies, these days the overweight might never happen.

And looking where others aren't is the key to finding value. The key factor to determine whether a stock is covered by analysts is its trading liquidity. If you're not bothered by that, then in our region there are plenty of uncovered stocks. When we started, we used to buy very small companies. Now, with the region's decade long underperformance, the rise of passive investing and slashing of commission rates, there are so few analysts around, many mid and large caps are not covered.

We cover them. We visit. We read. We talk to people. We discuss. We agree or disagree. And very occasionally we invest.

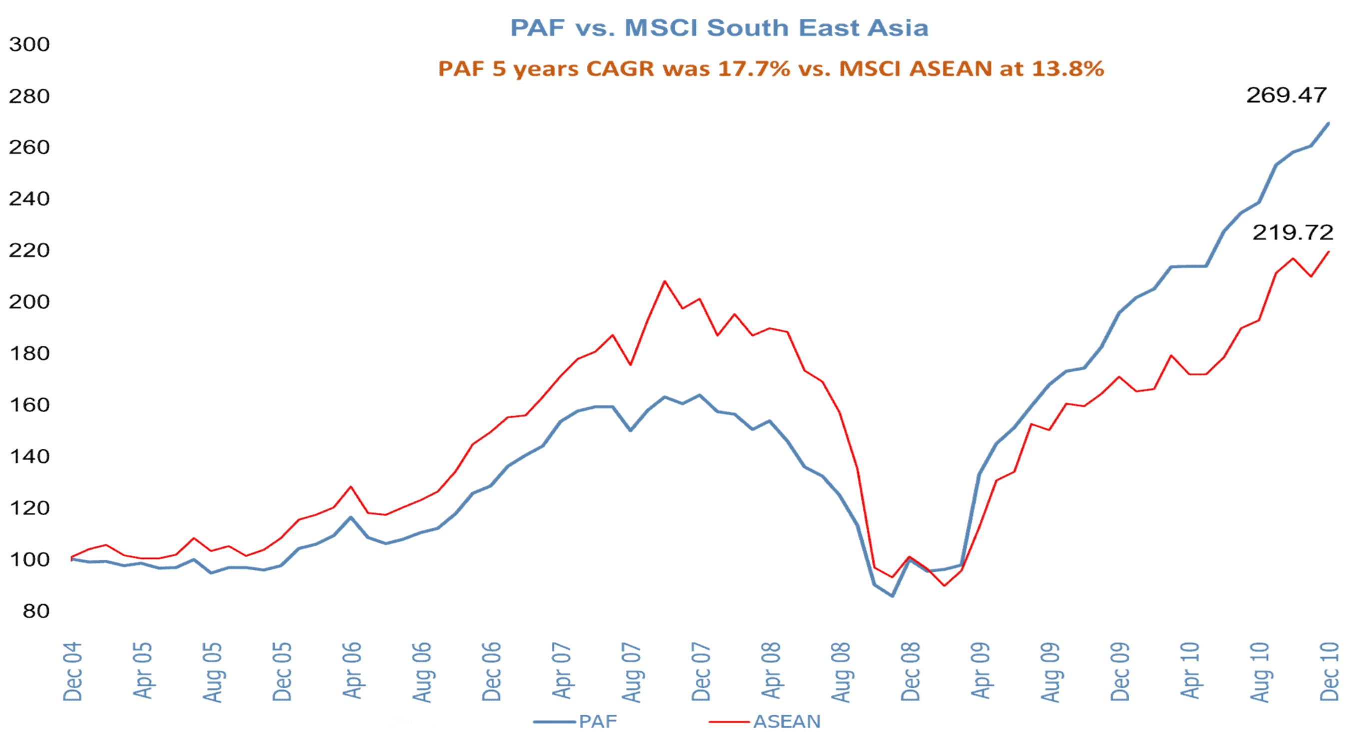
But when we invest, we are making a company-specific investment. We don't buy a sector, or look for oil plays when the price is high. Nor do we decide to overweight or underweight a country. Investment decisions are made on how we think a particular company will *in some probability* fare over the next few years, and whether that is reflected in its current share price. We don't worry about the market being high or low, we focus purely on that company and its business, assuming it has made it through our checklist. Of course, when markets are low, we are more likely to find investments at attractive prices than when they are high.

5) Performance

Our performance is stated net of fees and expenses and everyone pays the same. There are no managed accounts and we offer slightly less than 100% transparency as to what we own. (We don't want others pushing up our names if we're still looking to accumulate). Over the years we've turned away significant sums by not offering deals or managed accounts to large investors.

When we initially launched the fund, we were in a bull market (2004-2007). We underperformed as our rather steady collection of well-run, conservatively financed companies couldn't match the bull hype. But, since 2008, and valuations have mattered again, we've outperformed the MSCI ASEAN Index. Annualised, we've returned 10.6% vs MSCI ASEAN's 3.9%.

Perhaps unsurprisingly, when ASEAN was performing most strongly, our outperformance was less. Everything was going up together. Below is the chart of the first 5 years of the fund's life



6) Luck

I've been incredibly lucky with my team, led by Vinchel who's been with me from the start. When looking at companies, we're all looking for the same thing; there's no need to explain or direct. And Zu and Jalene keep all ticking along so that Vinchel, Irvan, Chiew Sia and I can function efficiently.

7) The Pangolin Creed

Don't confuse politics with investing

Don't confuse economics with investing

Don't confuse markets with investing

They're not irrelevant, but they're unimportant. What counts is the price we pay for a business.

Outlook

It's no secret that, in the bubble economy, many assets are significantly overvalued. However, the US bubble has not dragged ASEAN along with it. ASEAN as a stock market investor destination is almost an irrelevance, as shown by the flatlining of the index. If ASEAN were one country (670 million people, GDP growing at +/-5%) then it would almost certainly attract more attention. But it's not, which has to be to the value investor's advantage.

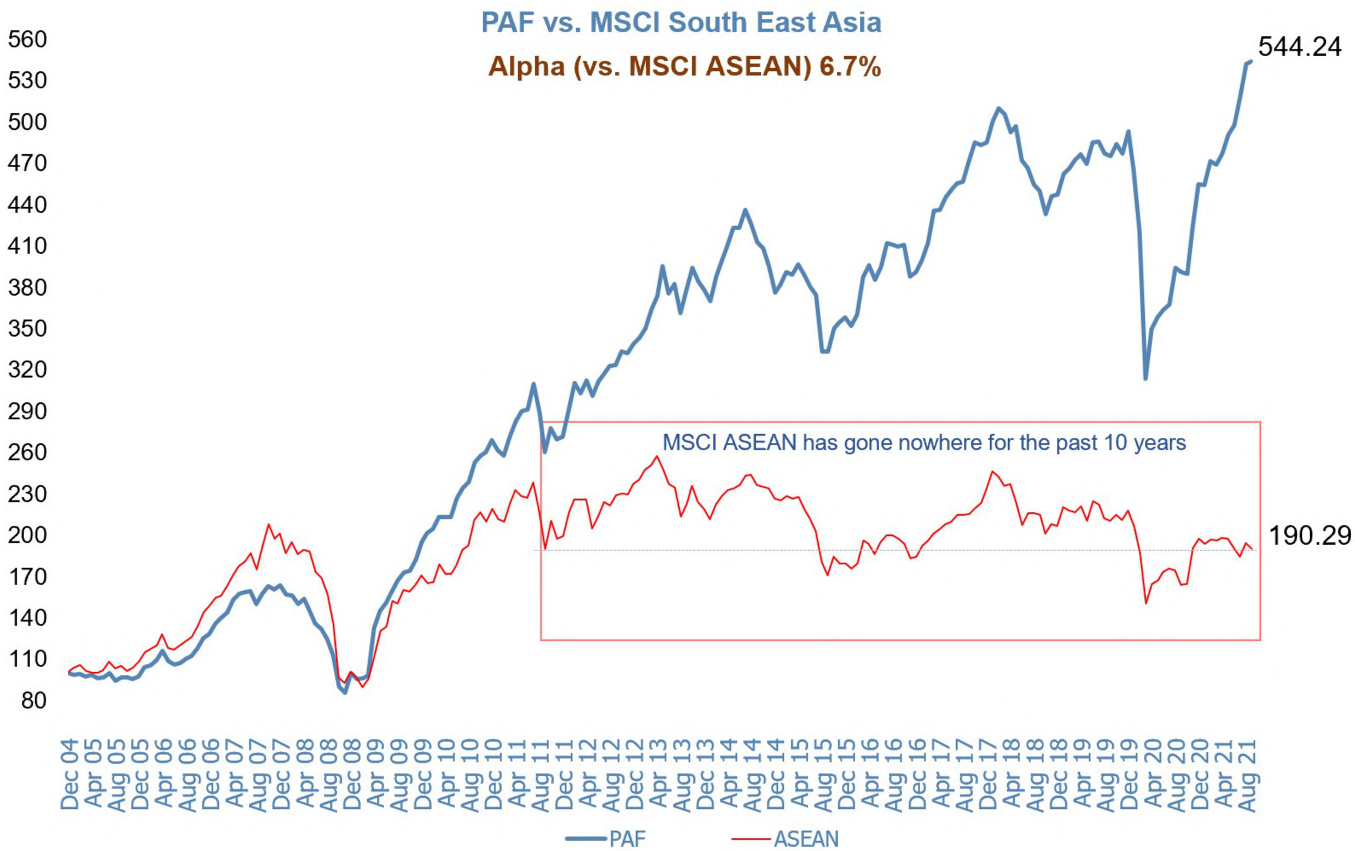
And it may sound perverse, but the growth of passive investing is also to the advantage of those who invest fundamentally. OK, so we've lagged the Ponzi index bubble, but meanwhile we're able to invest in companies at prices below their estimatable value, as opposed to what one hopes the next buyer will pay for them.

I still believe that at Pangolin we can continue to find companies trading at significant discounts to their true worth, despite (because of) the region being off the radar. And, as we've shown, even in a decade of rigor mortis, we've managed to make some money. If the region were ever to attract the attention it deserves, then we'd possibly make a bit more.

James Hay
6th October 2021

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.

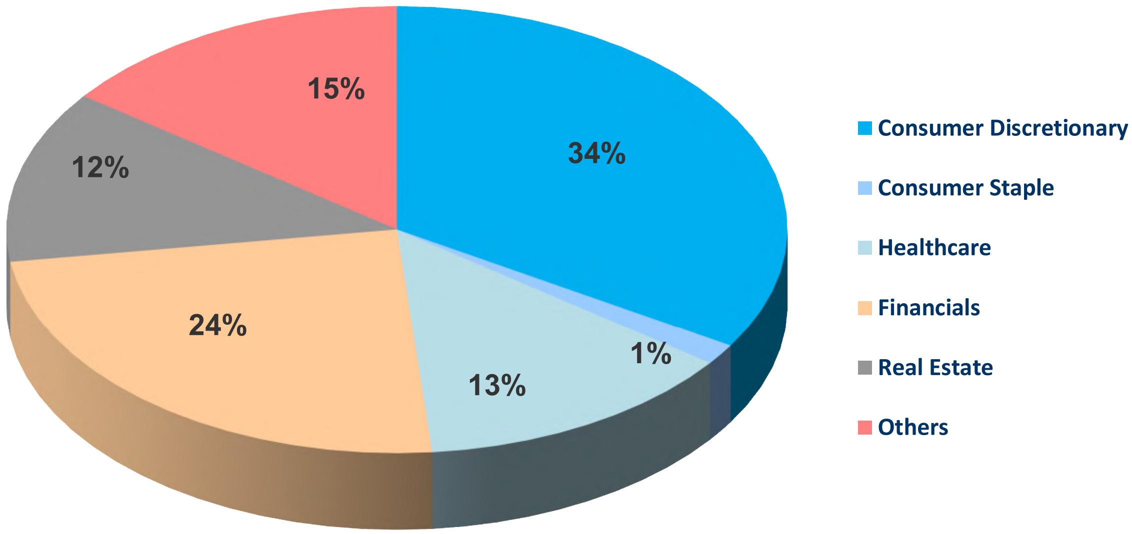
Sixteen years track record and annualised return of 10.59%



Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	NAV	454.64	471.89	469.26	477.70	491.07	497.99	518.78	542.88	544.24				19.53%
	% chg	-0.15%	3.79%	-0.56%	1.80%	2.80%	1.41%	4.17%	4.65%	0.25%				
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	**65.84%**
Annualised return	**10.59%**

By Sector


15%
34%
12%
24%
13%
1%
Consumer Discretionary
Consumer Staple
Healthcare
Financials
Real Estate
Others