Pangolin Investment Management

Pangolin Asia Fund February 2015 NAV

As at the 28th of February 2015 the NAV of the Class A shares of the Pangolin Asia Fund was US$391.18 net of all fees and expenses, up 2.32% from US$382.31 in January.

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

As of today, the fund is about 87% invested with the split being approximately as follows:

Singapore	23%
Malaysia	27%
Indonesia	31%
Thailand	19%

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

Overview

To put the month 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	PAF
Feb 15	5.6%	5.5%	3.0%	2.2%	0.3%	0.4%	3.1%	2.3%

Return (in USD)

Period	DOW	S&P 500	JSE	KLSE	STI	SET	MSCI ex JP	PAF
Feb 15	5.6%	5.5%	1.0%	2.9%	-0.2%	1.6%	3.1%	2.3%

Month	USD / MYR	USD / SGD	USD / IDR	USD / THB
Feb 15	0.70%	-0.64%	-2.01%	1.25%

We're continuing to nibble away at cheap stocks in Indonesia, Thailand and Malaysia. There is an awful lot out there that is inexpensive relative to long-term prospects, but I have a slight reticence to chase given that US stocks are at all time highs.

Most of the companies we own have reported their December results. There haven't been too many surprises; we weren't expecting great things from our consumer companies given the state of retail spending and that is largely how things have turned out. As usual, the better-than-expected results came from our smaller holdings. I can't remember if that's Murphy's or Sod's Law.

Outlook

Recently the financial papers have been publishing of articles on the benefits of long-term investing. Music to Pangolin's ears of course, although there is always a tendency to suspect that the argument is being used to:

a) Explain bad short-term performance, or

b) Prepare investors for worse times ahead; e.g. when the US market cracks.

Now at Pangolin we would always argue that if it isn't long-term, it isn't investing.

The gist of these articles has been to say:

Evaluate a business based on its management, its plans and the ability to bring these to fruition. And on this basis, try to find the next Apple.

I have often been asked to name my favourite investor. It isn't Warren Buffet or one of those guys. Instead I like to think of the little old lady, widowed for thirty years, who knows nothing about the stock market. And when she put old Fred's paperwork in the attic she had no idea this included, amongst the Hustlers and car magazines, share certificates in Berkshire Hathaway and Public Bank.

Now old Violet has a daughter. Let's make her an angel – so she's an underpaid nurse who just wants to care for people. And when her mum dies and she starts going through the house, she finds Fred's old trunk and takes the papers to the kindly old family lawyer. He informs her she is worth tens of millions. Now SHE is my favourite investor, because she will probably enjoy spending her windfall.

Since Fred died in 1985 a lot has happened. There have been booms, busts, recessions, wars, oil crises. The two companies Fred invested in have thrived throughout. In some years they have done better than others but in both cases their excellent managements have enabled them to not only get through the bad times, but take advantage of them, to the great benefit of their shareholders, especially those who held on.

Now if old Violet had known she owned them, at some point, after seeing on the news that markets had crashed she'd have contacted a broker, who would have given her some gobbledegook about the Fed and interest rates and advised her to sell. A year or two later, after reading how well stocks were now doing, she might have called that same adviser who, after more financial astrology, would have told her to buy while things were still good in the market. You can see where this is going – there'd have been nothing left for our nurse.

A Pangolin Example

We have owned retailer X in Singapore for close to 5 years. It is the leader in its field. The returns it generates are quite staggering although in recent times its profits have been hit by a failed overseas expansion and the opening and subsequent closing of a new line of stores selling its own in-house brand. I'm not sure if any brokers cover the company, but if they did they'd have called a sell on the stock as 2014's numbers were hit by the triple-whammy of slow retail sales and the costs of closing the overseas and own-brand operations.

X hasn't achieved No. 1 status by accident. It is where it is because of good, focused managers. Like anyone, they have made mistakes along the way but these have always been of a manageable proportion; and I'd like to think that the company has learnt from them. As it turned out, its recent expansion plans failed. But I am happy for a company we own to "have a go" now and then. They weren't moving away from retail. They didn't suddenly decide that the cash generated in Singapore would be better invested in an Indonesian coal mine (it happens, believe me). No, the management said let's try this, this is what we'll spend and if it clearly isn't working after a given time, we'll close it.

As part owners we keep an eye on the core returns generated by this business. If they slip significantly then we should start to worry. Things can change in retail (i.e. internet shopping) and one would have to be quite brave to lock a retailer away in the attic for 30 years.

However, based on what we know about the company and how it is run, we think that over the next 5 years or so, there is no reason why, chastened by its recent ventures, the business cannot grow significantly. And this will be reflected in its market value, something we believe is not currently the case.

James Hay.
9th March 2015

Ps. the nurse does not exist. She is a figment of my imagination, so, no, you cannot have her phone number.

I 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 happy when markets falling.

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Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2015	*NAV*	382.31	391.18											3.96%
	% chg	1.60%	2.32%											
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	**68.29%**
Annualised return	**14.23%**

By Sector