Pangolin Asia Fund May 2023 NAV

As at the 31st of May 2023, the NAV of the Class A shares of the Pangolin Asia Fund was US$581.95 net of all fees and expenses, down 4.09% from US$606.77 in April. YTD we're up 7.13%.

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

Singapore	5%
Malaysia	29%
Indonesia	66%

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)									
Period	DOW	S&P 500	NASDAQ	JSE	KLSE	STI	MSCI Asia ex JP	MSCI-ASEAN	PAF
May-23	-3.10%	0.86%	6.47%	-4.08%	-2.04%	-3.42%	-0.94%	-4.44%	-4.09%
YTD 2023	-0.32%	9.53%	24.37%	-3.17%	-7.25%	-2.85%	0.85%	-3.07%	7.13%

Return (in USD)									
Period	DOW	S&P 500	NASDAQ	JSE	KLSE	STI	MSCI Asia ex JP	MSCI-ASEAN	PAF
May-23	-3.10%	0.86%	6.47%	-6.13%	-5.27%	-4.86%	-0.94%	-4.44%	-4.09%
YTD 2023	-0.32%	9.53%	24.37%	0.57%	-11.47%	-3.93%	0.85%	-3.07%	7.13%

% Change in Currency Vs USD			
Period	MYR	SGD	IDR
May-23	-3.30%	-1.49%	-2.13%
YTD 2023	-4.55%	-1.11%	3.86%

May was a weaker month for the fund, hit by two main factors – the weakness in the Ringgit and the fall in the share price of BFIN in Indonesia, the fund's largest position, a used vehicle finance company those familiar with the fund will know about.

The Ringgit is a perpetually weak currency. Govt debt to GDP is 60% but with other liabilities it's closer to 80%. Aware that the deficit needs reducing, various measures are talked about including increasing taxation. The obvious are subsidy reductions, GST and adding a tax on petrol. But Malaysia has to get past its upcoming state elections before the government can consider doing anything unpopular.

For more on Malaysia's subsidy problem, click on:

https://www.linkedin.com/posts/james-hay-a50ba4166_the-true-costs-of-subsidies-in-malaysia-activity-7047454060223868928-ektU?utm_source=share&utm_medium=member_desktop

Malaysia is an exporter. A weak Ringgit isn't the end of the world, but it hurts in the short term.

As for BFIN, after reporting excellent Q1 results which we assumed would send the share price higher, the opposite has occurred. This is largely due to an IT malfunction which has now been resolved and will do little to hamper the company's long-term prospects. May was a month in which investors were looking for excuses to sell.

This was partly on the back of earnings downgrades. The most affected being our Malaysian furniture manufacturer which exports nearly all its products to the US. Orders have almost stopped, although the company should tick along at just above breakeven. If you want to know the state of the US economy, bypass economists and just talk to a furniture exporter.

Downgrades notwithstanding, our fund remains crazy cheap still.

Malaysia's Islamisation

Malaysia has become more Islamic in recent years. The largest party in parliament is the Islamic Party, or PAS. In the last general election, the voting age was reduced to 18 and, to the surprise of many, it was these younger voters who were responsible for the Green Wave. State elections are due to be held soon, and the expectation is that PAS will increase its share of the vote and perhaps gain control of previously unassailable states. The non-Malay population wonders what the implications will be, given PAS's opposition to alcohol, gambling and mini-skirts.

I would expect PAS to remain pragmatic in power. A government needs revenue and taxing gambling and alcohol is probably better than allowing the black market to flourish. Of course, it's a wait and see game.

Will it affect FDI? Almost certainly not. Will it affect Domestic Investment? Perhaps, a bit. But again, probably not by much. If PAS misgoverns, it'll be voted out next time around.

What kind of Fund are we?

In a recent meeting, one of our largest investors said that with all his other funds, by the month's end, he would have some idea of how they would have performed. However, in our case he has no clue.

While taking this as a compliment, I had to give it some thought. The answer is that nearly everyone else invests by themes. What's the newest theme? Today it's Japan. Sometimes it's India and sometimes it's China. Once in 100 blue moons, it's ASEAN.

Those who ask the wrong questions look at our 66% "weighting" in Indonesia and assume that we're very bullish on that country. But we don't read all the economic reports, decide to "overweight" Indonesia and then look for some stocks to own. This is how most fund managers operate (actually most fund managers just follow the index). But economics and trend-following are a short-cut from proper company analysis.

In our case, we analyse companies within our geographic area of focus (essentially Singapore, Malaysia and Indonesia). We do look at companies elsewhere but currently we're finding enough on our doorstep. Then, if we decide to do anything at all, invest in the company that looks most undervalued and is likely to give us the most growth over the next 5-10 years or so. Our geographic allocation is accidental rather than intentional.

Our focus is on well-managed businesses, generating high & sustainable returns in economies that grow (most years at 4-6%). In order to sleep well, we like net cash businesses and prefer to underpay for them. This, as often as not, brings us to companies that serve the ASEAN consumer in countries where the migration to the cities is continuing and the numbers of consuming middle class are expanding in line.

Country	Population (mln) (2021)	Share of Middle Class (2000)		Share of Middle Class (2020)	2021 GDP (in USD bln)	Compounded GDP growth (1970-2021)
Indonesia	276	4%	→	29%	1,066	5.3%
Malaysia	34	23%	→	33%	355	5.9%
Philippines	116	12%	→	27%	379	4.0%
Singapore	5	50%	→	88%	361	6.5%
Thailand	72	24%	→	63%	438	5.1%
Vietnam*	98	1%	→	16%	332	6.3%
Total	**600**				**2,931**	**5.4%**

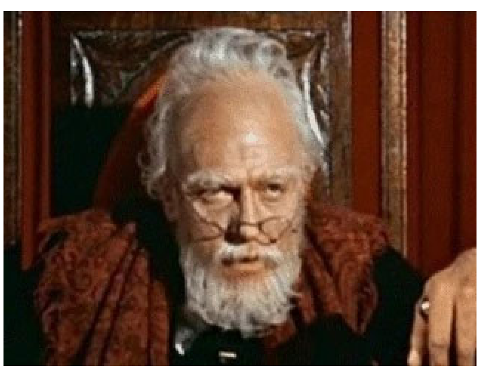
Source: World Bank, Asian Development Bank

*Vietnam data is available from 1984

As long as our countries remain stable, if we get our company analysis right, we don't really have to get much else correct. A well-managed, cash-rich business consistently generating a return on capital of 30% will increase in value. It's like an aeroplane taking off. Many of us don't really know why an aeroplane flies, but a physicist will tell you that as long as the flaps are in the right place, it's impossible for a plane not to take off once it's going fast enough. My experience tells me that if a company's flaps are in the right place for it to consistently generate superior internal returns, it's impossible for it not to create value. And this will, in time, be reflected in its share price.

The theme of the moment would appear to be Japan. The hope and expectation are that managements and corporate governance are about to change for the better and there will be a focus on Return on Equity and fair treatment of minorities. And Warren Buffett bought, so what can go wrong?

Those of us who have dealt with Japanese management (and we've owned Japanese listed subsidiaries in Singapore, Malaysia and Indonesia) will know that very often the decisions taken are mind-baffling to outsiders. The tortuous chain of command means that everything must go through every layer to the top, where in my imagination, the Japanese equivalent of Mr Dawes Senior from Mary Poppins, says NO. And then it filters all the way back down.



So, *if* Japan has really changed suddenly, those buying into this story should make good money. Presumably there'll be an increased allocation to the market and a bunch of stocks will be selected. The problem is that if things don't happen as hoped, then these investors will be left with a portfolio of low-returning stocks. I.e., things must go right. It's a top-down decision based on an expectation.

Similarly, a few months ago, I read another Asian manager's monthly commentary in which he argued that, as commodities were in short supply and their prices could only rise, he'd positioned his fund to take advantage of this. It was a well-written and well-argued newsletter. I couldn't pick any holes in it, particularly if we're all going to be driving EVs. He then listed the bunch of stocks he'd chosen, which all looked more than sensible. If he's right, his investors will do very well.

But what happens if he's wrong and commodity prices fall? He'll end up on the wrong side of a commodities bet.

Which is why I think the bottom-up approach works well. If a decade ago you had thematically-decided to allocate to ASEAN and bought an index basket, you'd now be down over 30%. Yet by focusing purely on company fundamentals, it's been possible to make money. We don't have to get the macro and the themes right (we seldom do). As long as our corner of the world keeps spinning, experience tells us that owning value-creating businesses (with their flaps open) is enough.

Outlook

There are cheap stocks everywhere. As Nasdaq, or just a portion of Nasdaq, continues to suck money away from all other markets. The FOMO means that huge swathes of markets remain ignored.

CLSA published a nice reminder of the excesses of Japan's bubble. In 1989 half the world's market cap was in Tokyo, the Imperial Palace was worth more than California and a PE below 100x was cheap. It makes me slightly nervous as I look (slightly enviously) at NASDAQ which is already up 24% this year, driven predominantly by the share prices of 5 companies. Bubbles burst at some point.

A current theme when talking to managements are large investments in Super-Apps. There is a fear amongst consumer companies that if they don't have the best app, then they'll lose out. These things don't come cheap. A large amount of corporate capital is being allocated to app design. There will be winners, but in some cases the lucky ones will be the shareholders of those companies whose managements can withstand the temptation to overinvest in tech.

Those of you who watched Saturday's FA Cup Final between United & City may well have noticed the significant South-East Asian advertising. Grab, our version of Uber, was prominent. As were Singapore's UOB & OCBC banks. The banks are appealing to Asians to use their regional branch networks. This time it wasn't China, but ASEAN champions strutting their stuff. It's no coincidence that the kick-off time has reverted to its traditional 3pm. A few years ago, kick-off was moved to 5pm to secure a larger British TV audience. But now, who cares about the Brits? The money and the growth are in Asia and 3pm in England is an audience-friendly 10pm here.

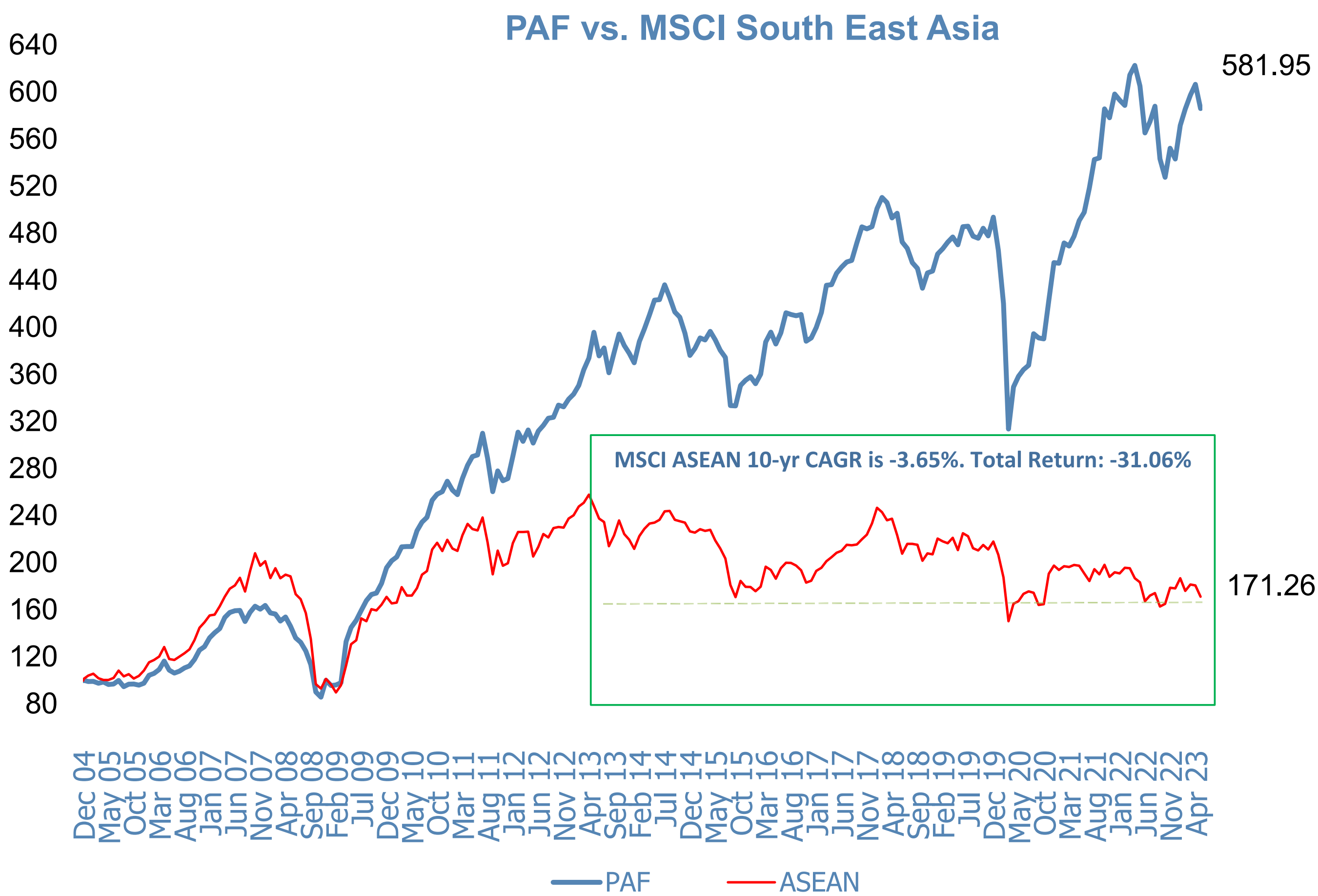
Our portfolio valuations are as below. Still crazy cheap. We've had some inflows last month which we're looking forward to spending.

Pangolin Asia Fund Fundamentals (31 May 2023)

	2021A	2022A	2023F
P/E (x)	22.7	11.6	10.4
Profit Growth (%)	24	85	16
ROE (%)	18	19	20
ROIC (%)	33	28	46
Div Yield (%)	4.1	5.1	5.3

James
7th June 2023

Eighteen years track record and annualised return of 9.99%



Year	Details	Jan	Feb	Mar	Apr est	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2023	*NAV*	571.92	585.67	597.55	606.77	581.95								7.13%
	% chg	5.28%	2.40%	2.03%	1.54%	-4.09%								
2022	*NAV*	593.29	588.82	614.73	622.83	605.35	565.54	574.94	588.17	543.35	527.78	552.46	543.22	-9.23%
	% chg	-0.86%	-0.75%	4.40%	1.32%	-2.81%	-6.58%	1.66%	2.30%	-7.62%	-2.87%	4.68%	-1.67%	
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	**64.86%**
Annualised return	**9.99%**

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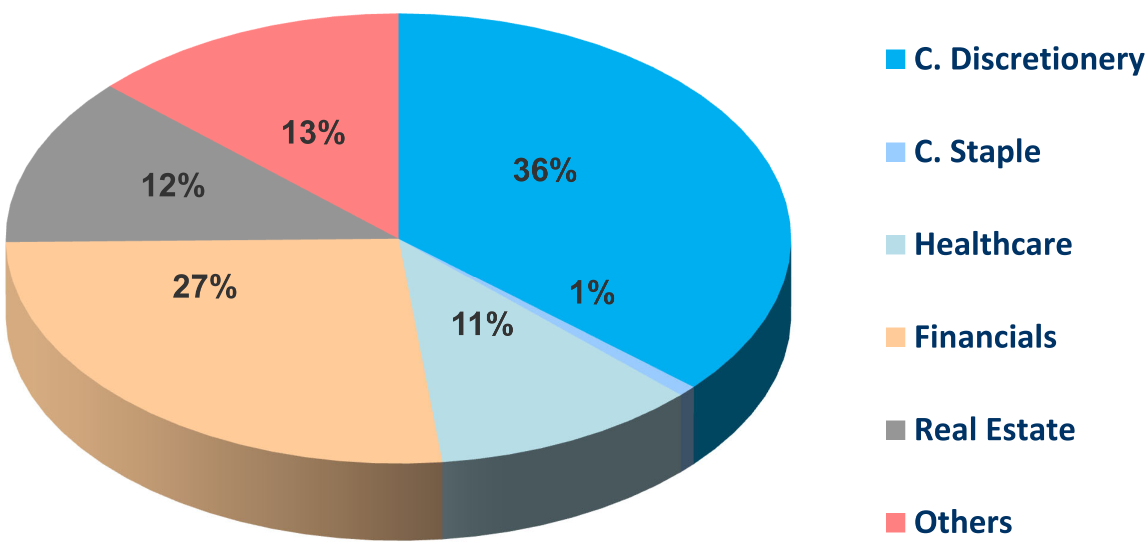
By Sector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36%
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C. Discretionery
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Healthcare
Financials
Real Estate
Others