Pangolin Asia Fund February 2013 NAV

As at the 28th of February 2013 the NAV of the Class A shares of the Pangolin Asia Fund was US$350.86 net of all fees and expenses, up 2.15% from US$343.47 in January. Please see the table at the end of this letter for further detail.

As of today, the fund is about 90% invested with the split being approximately as follows:

Indonesia	22%
Malaysia	39%
Singapore	24%
Thailand	15%

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

Overview

There is a lot of money sloshing around stock markets, both in Asia and everywhere else. The one market still out of favour is Malaysia's as political fears dominate. More on that in a moment, but so far this year the KLCI is down 4.1% in US$ which must make it the worst market in the world.

By comparison, Thailand, Vietnam and the Philippines are up 13.9%, 14.1% and 16.8% respectively.

A broker wrote the following in his morning news the other day:

- ***The Philippine equity market is now going through a period of maximum bullishness. It is up 15.6% up YTD, despite outstanding performance two years in a row. As of 22 February, the trailing index PER was 20.6.***
- ***Optimism is supported by 6.6% GDP growth last year, the highest among Asean 6, and the expectation growth will be above 6% this year. By our estimates, this will translate to about 12% earnings growth.***
- ***We have adjusted our risk-free rate down 100bps as 10-year Treasury yields dropped to 3.4%, bringing most target prices higher for our coverage universe***
- ***With so much liquidity in the system, our upgraded 2013 end-index target of 7000 is at a forward PER of 19.8, or 2.3 SD away from the seven-year average This is 20% higher than end-2012 but only 4% away from yesterday's close. Because of the current extreme valuation, unless there are substantial earnings upgrades, the downside risks are becoming greater than ever.***

It sounds like a good story but one that investors are over-paying for.

Just for reference, our fund's weighted PE is about 9x for 2013 with an expected dividend yield of 4.5%. The ROE is 23% and most of our holdings are in net cash positions, so that is understated.

Much of our exposure is to the Asian consumer; a great long term story but I wish they were spending a bit more right now. The chill wind from the West and China and has dampened sales regionally, and of course there is always a bit more competition for the same buck. In light of the slightly less than booming circumstances faced by our companies, overall their results have been OK.

Malaysia

We've had a rather strange couple of weeks, what with the invasion of Sabah by a bunch of Sulu-Sultan loyalists. They were left alone for a few weeks in the hope that they'd go away. However the killing of some Malaysian policemen has led to military action.

The "mopping-up" is still continuing though the fear is that it will never end, especially given the large number of Filippinos living in Sabah. Let's hope this is the end of it. Malaysia is a peaceful place to live, despite the fact that there are experienced terrorists/rebels/freedom-fighters adjacent to its borders - who some allege have received support from within Malaysia.

As of today, the 5th anniversary of the last General Election, Malaysia's government has become a caretaker government. Presuming the Sabah situation does not give cause to cancel the election (not impossible) then the last date it can be held (I am told) is June the 28th. As elections are normally called well before the 5 year term is up, we can assume that the government's confidence is not so high. So the speculation and possibly the market's underperformance can continue.

Of course depressed markets are the long-term investor's friend.

Singapore

For the first time in decades there has also been an outbreak of politics in Singapore. They even had a demonstration a couple of weekends ago! This may explain why the STI is only up 1.9% in US$ this year.

As a foreign businessman it is hard to see what on earth anyone could be unhappy with, but there is clearly resentment from the native Singaporeans (and I have no idea how that would be defined) against the policies which have led to their prosperity. In the end I suppose it comes down to the dollar in the pocket and feeling marginalised by the boom in the city centre.

For as long as I can remember, whenever I tried to discuss politics with taxi drivers they would ignore me and turn up the Easy Listening Channel to 5 or even 6, but now there is more inclination amongst the natives to make their grievances known: the casinos are not that popular; the Grand Prix is for foreigners; the jobs in the City Centre are for foreigners etc. OK, I concede that any native taxi driver in the world will say the same thing, but the difference is that now they are saying it in Singapore.

And the government is listening and responding. It is already so much harder to secure work permits that the construction and retail guys are complaining about the lack of labour. Given that so much of Singapore's success has been driven by its government, we foreign investors are clearly not in favour of much change. The good news is that Singapore is such a great place to do business that its government still has plenty of room to move without losing its No.1 status.

Palm Oil

I'm often asked why I won't invest in this environmentally destructive but profitable crop. The Jakarta Globe recently ran an article that did little to change my mind.

To partially quote:

Major palm oil producers accused of destroying Indonesia's forests and driving its iconic wildlife to the verge of extinction are now taking their practices to the relatively pristine forests of the Congo Basin, an environmental group has warned.

In its report "Seeds of Destruction" released this month, the Rainforest Foundation UK said there was "a real and growing risk that some of the serious, negative environmental and social impacts resulting from the rapid expansion of palm oil production in Indonesia and Malaysia, such as widespread deforestation, social conflict and dispossession, could be repeated in the Congo Basin."

The full article can be found at:

http://www.thejakartaglobe.com/home/indonesias-palm-oil-blues-spreading-to-africa-report/573476

Pangolin Investment Management

Outlook

We're working hard identifying new investments and can still find companies that look cheap against their long term prospects. Given that the market is currently so well bid, actually buying a decent amount of a small company at the right price is not so easy just now.

We just have to be patient….

James Hay
8th March 2013.

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
2013	***Nav***	**343.47**	**350.86**											**3.41%**
	% chg	**1.23%**	**2.15%**											
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**	**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%
Worst monthly return	20.42%
Maximum drawdown	-47.53%
% of positive months	70.71%
Annualised return	16.43%

By Sector