Pangolin Asia Fund December 2024 NAV

As at the 31st of December 2024, the NAV of the Class A & C shares of the Pangolin Asia Fund was US$564.67 net of all fees and expenses, down 3.47% from US$584.97 in November.

As of today, the fund is about 98% invested, with the split being approximately as follows:

Singapore	7%
Malaysia	32%
Indonesia	59%
Philippines	2%

We don't like to 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 x JP	MSCI-ASEAN	PAF
Dec-24	-5.27%	-2.50%	0.48%	-0.48%	3.01%	1.29%	0.08%	-1.12%	-3.47%
YTD 2024	12.88%	23.31%	28.64%	-2.65%	12.90%	16.89%	9.75%	7.67%	-3.75%

Return (in USD)									
Period	DOW	S&P 500	NASDAQ	JSE	KLSE	STI	MSCI Asia x JP	MSCI-ASEAN	PAF
Dec-24	-5.27%	-2.50%	0.48%	-2.23%	2.42%	-0.65%	0.08%	-1.12%	-3.47%
YTD 2024	12.88%	23.31%	28.64%	-7.08%	15.99%	13.01%	9.75%	7.67%	-3.75%

% Change in Currency Vs USD			
Period	MYR	SGD	IDR
Dec-24	-0.58%	-1.92%	-1.76%
YTD 2024	2.73%	-3.32%	-4.54%

In terms of returns, 2024 was a disappointing year for the fund as the share prices of two of our largest positions, BFI Finance in Indonesia and Bermaz Auto in Malaysia, fell. Disappointing, yes, but worrying, less so. The underlying businesses remain sound, although 2024 wasn't the best year for either company.

Bermaz has suffered from a slowdown in car sales as Mazda has been hit particularly hard by cheaper Chinese imports. In hindsight, I'd have sold it in the summer and be buying it back now. The company is picking up Chinese car franchises and is just getting started with Kia. It expects the recently launched Kia Sportage to do well. The Sportage is the UK's best-selling car, so there is reason for some optimism. In the meantime, we're receiving a dividend of around 10% on the shares.

BFI hasn't had the expected recovery following the malware attack in 2023. As a lender to buyers of second-hand vehicles in Indonesia, its customers are among the least affluent and the most affected by inflation. Despite a slowdown in demand, the company's focus on asset quality is such that its non-performing loan ratio of a mere 1.4%, when set against a lending spread of 13.5% (lending rate of 21% and cost of funds at 7.5%), is remarkable. As the last remaining independent finance company in Indonesia, it is only a matter of time before it attracts a buyer.

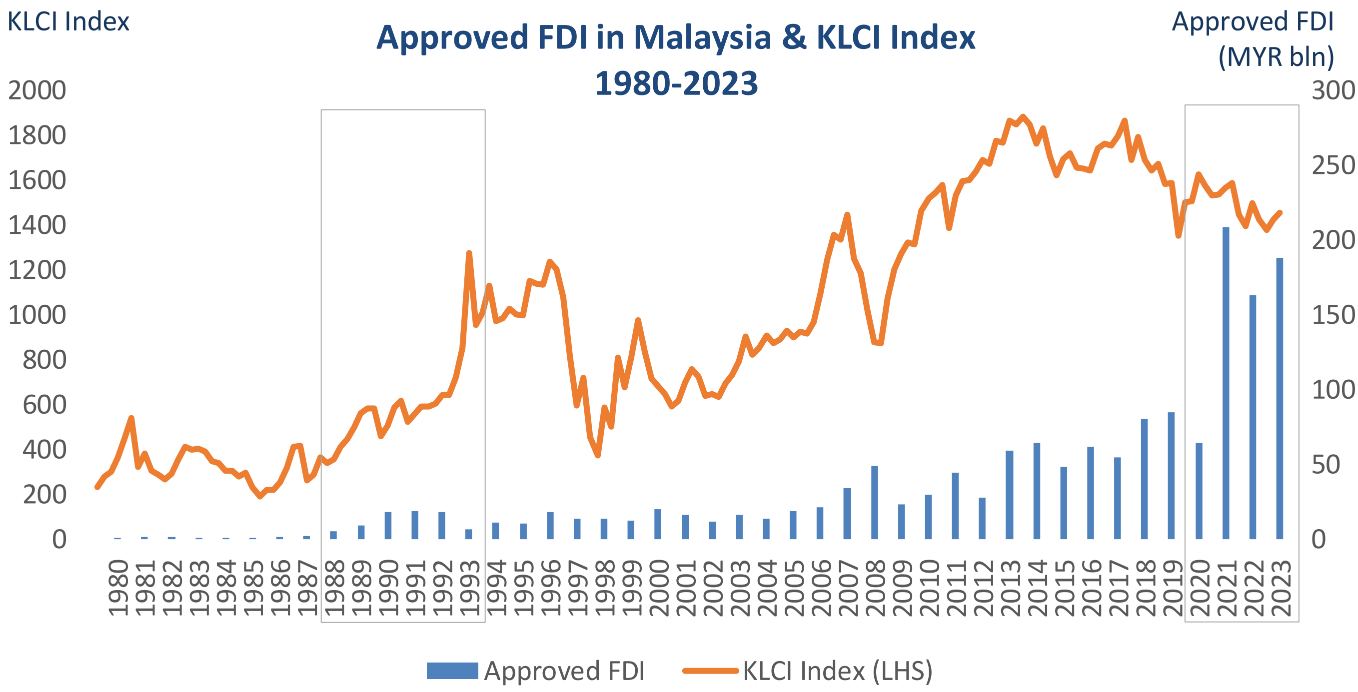
This year, with the exception of Malaysia's Ringgit, the currencies were also against us, particularly Indonesia's. Currency depreciation is just something we have to live with. Overall, we've managed good returns despite the currencies. What doesn't show up in economists' projections is an inbuilt mistrust of emerging markets governments. There is a desire amongst the regional wealthy to move wealth to safe havens, either to be managed by Swiss banks or in Singapore family offices. Of the latter, there has been a significant increase in assets in recent years, driven largely by wealthy Indian and Chinese families wanting to keep their money out of reach.

This is also reflected in the property market, with Singapore having increased the stamp duty for foreign purchases to an astounding 60%. When Malaysians send their kids to University in the UK, the US or Australia, they normally buy them a flat. This isn't necessarily sold when they graduate, but the central bank will give the approval for the funds transfer at the time. If you need central bank approval for overseas transfers, you want to be getting things done before any change of policy.

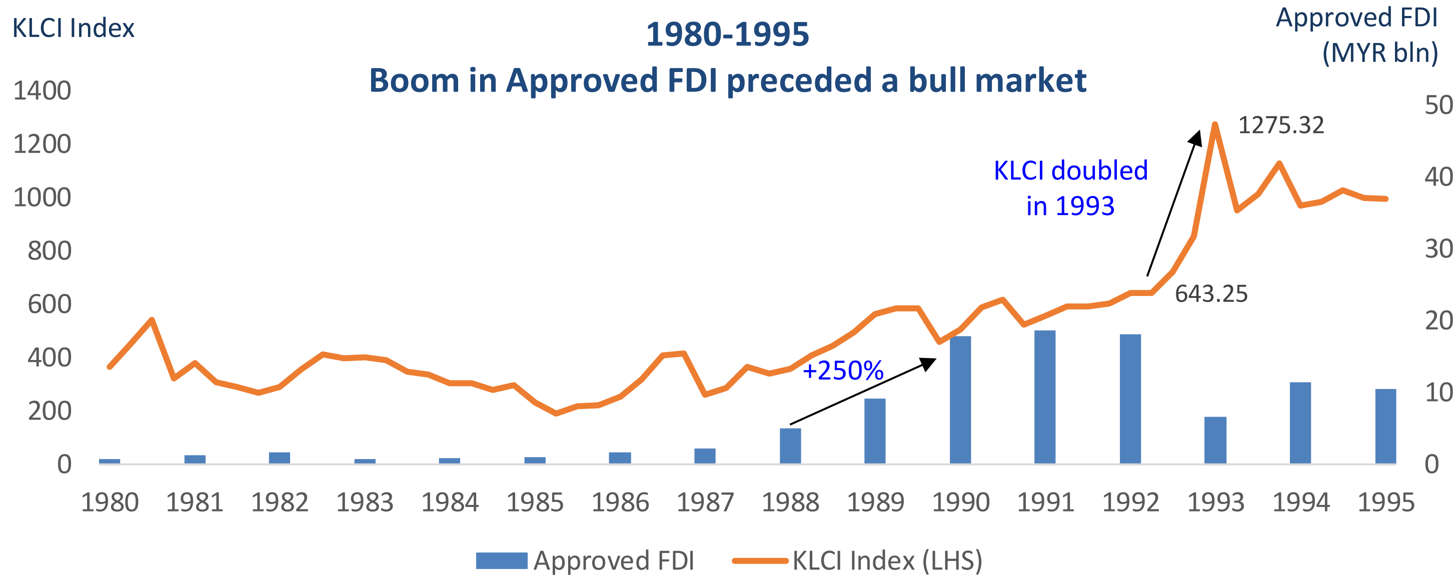
Foreign Direct Investment (FDI) Approvals and the KLCI

Recently, Malaysia has been a star performer in attracting FDI. The chart below shows the correlation between FDI approvals in Malaysia and the KLCI index and illustrates just how FDI approvals have rocketed since COVID. Whether it's Microsoft, Nvidia or Amazon Web Services (AWS), the world's largest companies are investing billions into long term projects in Malaysia.

It should be said that these FDI approvals can differ from reported annual FDI numbers, predominately because these approvals, although recognised in the year they are committed, may be multi-year projects that are realised over a long period of time. However, we now know that these approvals are a very accurate indicator, after the Ministry of Investment, Trade and Industry (MITI) stated how, between 2021 and March 2024, 98% of FDI approvals either have been or are currently being implemented.

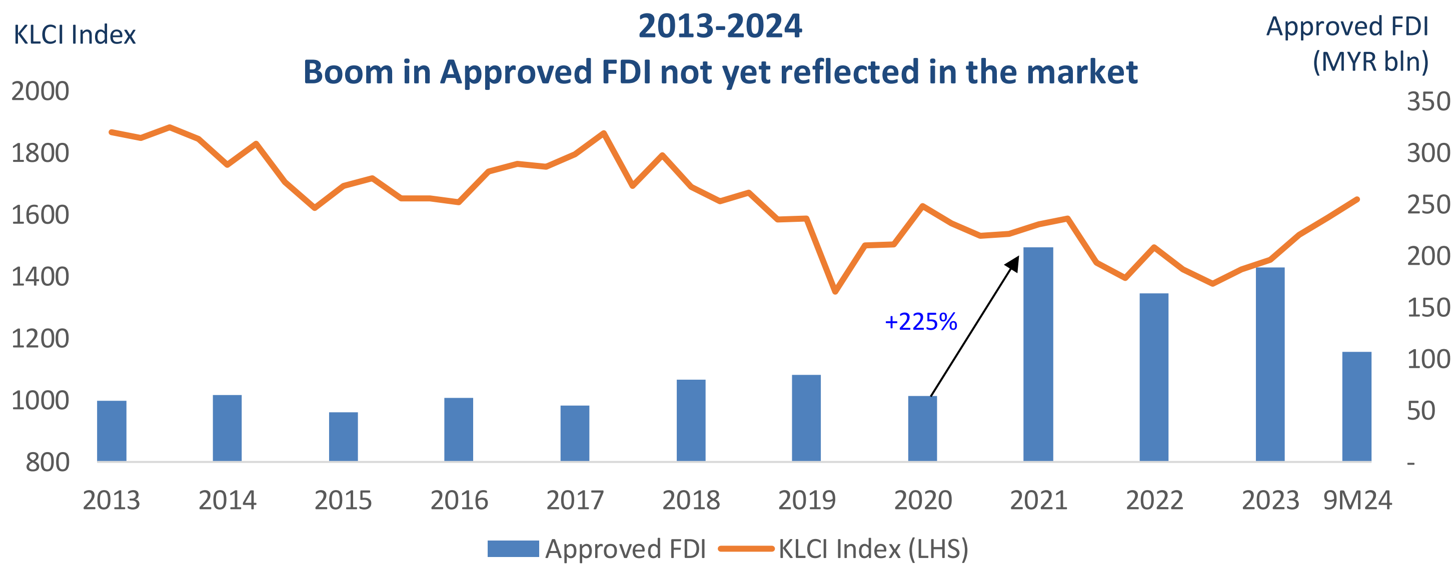


As shown above, Malaysia is enjoying a period of record-breaking FDI approvals, peaking in 2021 at RM208 billion. We see that this isn't the only period in history where Malaysia has experienced a significant increase in FDI. Between 1988 and 1990, approved FDI in Malaysia increased 250%. This unprecedented period of FDI inflows drove company profits across Malaysia and began to bring the KLCI to the attention of global investors. Yet the market didn't truly price this in during those years of roaring FDI. It was only in 1993, the year after four years of extraordinary FDI numbers, that the market finally reacted, producing the greatest bull run Malaysia has known. In 1993, the KLCI doubled, no-doubt off the back of the preceding FDI boom.



Back to today, from 2020 to 2021 approved FDI in Malaysia increased by 225%, with the most recently published numbers indicating no sign of this slowing down. Most of this investment has been in electronics, Data Centres and Semiconductors. With the Malaysia and Singapore governments finally signing the agreement for the Johor-Singapore Special Economic Zone this week, Malaysia's attractiveness as an FDI destination is only increasing.

We've now seen four years of spectacular approved FDI numbers. As in the early nineties, the seemingly non-stop FDI announcements can only be positive for investor sentiment, and the investments being realised will generate improved corporate earnings for years to come. But unlike in 1993, the years of FDI inflow and the benefits associated with it have yet to be properly reflected in the stock market. Although the KLCI did have a strong 2024, up 12.9%, it is hardly a true reflection of the unparalleled FDI that Malaysia has seen.



James has mentioned in prior letters how, as a young stockbroker in London, he became a Malaysian specialist. In those days, he sat by the only Reuters Screen on the desk and was intrigued by news items showing new investments in Malaysia. The situation is similar to today, and Malaysia is likely to post GDP growth in excess of 5% for both 2024 and 2025.

James was fortunate to move to Malaysia in early 1993, just as the market was taking off. At the time, no international broker would give him a job in Kuala Lumpur, feeling that the Malaysian market was not attractive enough to justify employing a dedicated equity salesman there. James happily benefited from a lack of competition after being employed by Malaysia's Arab Malaysian Securities (now AMSEC).

There are so many parallels. Currently, to our knowledge, there is not one Malaysia-based foreign equity salesperson in Kuala Lumpur.

Patience Is a Virtue

In an investment world chasing quick returns, the genuinely long-term investor would appear to be a dying breed. Whether it be Bitcoin or the Magnificent Seven, there's more temptation than ever to lure the patient investor into rear-view mirror investing. Pangolins don't take much notice of short-term swings or hot money flows. In the long run, being patient owners of well-run businesses that can steadily grow their earnings generally leads to reasonable returns. The trick is to not get distracted by the incessant financial news of today, to trust your conviction even if your holdings may be underperforming your neighbour's Bitcoin.

I'm very grateful to Tim Price of Price Value Partners for highlighting Berkshire Hathaway's share price underperformance between 1971 and 1976. As we all know now, the underlying value of its holdings were increasing, but you wouldn't have guessed so from the share price performance.

Year	Value of $10,000 invested into Berkshire Hathaway stock	Value of $10,000 invested into the S&P 500 index
1971	$10,000	$10,000
1974	$5,407	$7,456
1975	$5,542	$10,229
1976	$12,708	$12,644
1990	$901,535	$71,218
2000	$9,588,512	$356,190
2010	$16,242,509	$410,155
2023	$73,139,735	$2,004,400

I wonder how many early investors in Berkshire Hathaway lost conviction in the early seventies. If you'd invested $10,000 into Berkshire Hathaway stock in 1971, by 1975 your money would have almost halved. However, that same $10,000 invested into the S&P 500, with dividends included, would have generated positive, albeit modest, returns. Seeing their money halve in four years would surely have been enough for some Berkshire investors to look elsewhere. But for those who held a genuinely long-term outlook, as the table indicates, their patience has more than been vindicated.

After a tough 2024, the above table restores some confidence both in our methodology and belief that the underlying value of the fund's investments will, in the future, be fairly priced by the market.

Reasons to be Cheerful

i) Emerging markets are even more out of favour than ever

January is usually a time of optimism, with strategists recommending emerging markets for the new year. This call often assumes that the overvalued US currency will weaken. As we saw in Q3 of 2024, a softer US dollar resulted in strong inflows into our region's markets. The markets reversed when the dollar's weakness didn't persist.

This year there is a dearth of optimism surrounding our markets. How many strategists are recommending ASEAN on the back of a weakening US dollar? The consensus is against us, which would be a worry if the consensus tended to get it right.

ii) Previous strong FDI flows into the region have proven to be a markets' catalyst

Despite what I said about capital flight above, if their businesses are booming, local entrepreneurs will reinvest more domestically. This will be reflected in earnings growth, both in listed and the unlisted companies. The current boom in the overvalued (and the possibly worthless) is distracting most from one of the world's great investment stories.

Bill has highlighted the precedent, the late 1980's investment surge in Malaysia which was followed by a doubling of the stock market.

I'm an old Malaysia hand. Old Thai hands will recount how the Thai market tripled between December 1988 and September 1990 (when it crashed). This was also driven by investors "discovering" undervalued stocks in an economy that was booming on the back of strong FDI flows.

It's not just Malaysia. FDI has been flooding into the wider region. ASEAN's share of global FDI inflows has tripled since 2015, accounting for 17% of global FDI inflows in 2023; notably China's share was only 12%.

iii) Valuations matter

The Berkshire Hathaway numbers from the early 1970s are comforting and reassuring. What matters is the underlying value of the portfolio, not their share prices. And the greater the underperformance of the latter, the greater the potential for outperformance.

Pangolin Asia Fund weighted valuation (31st December 2024)

	2024F	**2025F**
P/E (x)	10.4	9.3
ROE (%)	16	17
ROIC (%)	21	22
Div Yield (%)	5.6	5.7

GDP Forecasts (%)	**2024F**	**2025F**
Malaysia	5.2	5.3
Singapore	2.6	3.2
Indonesia	5.2	5.3
Philippines	6.0	6.5

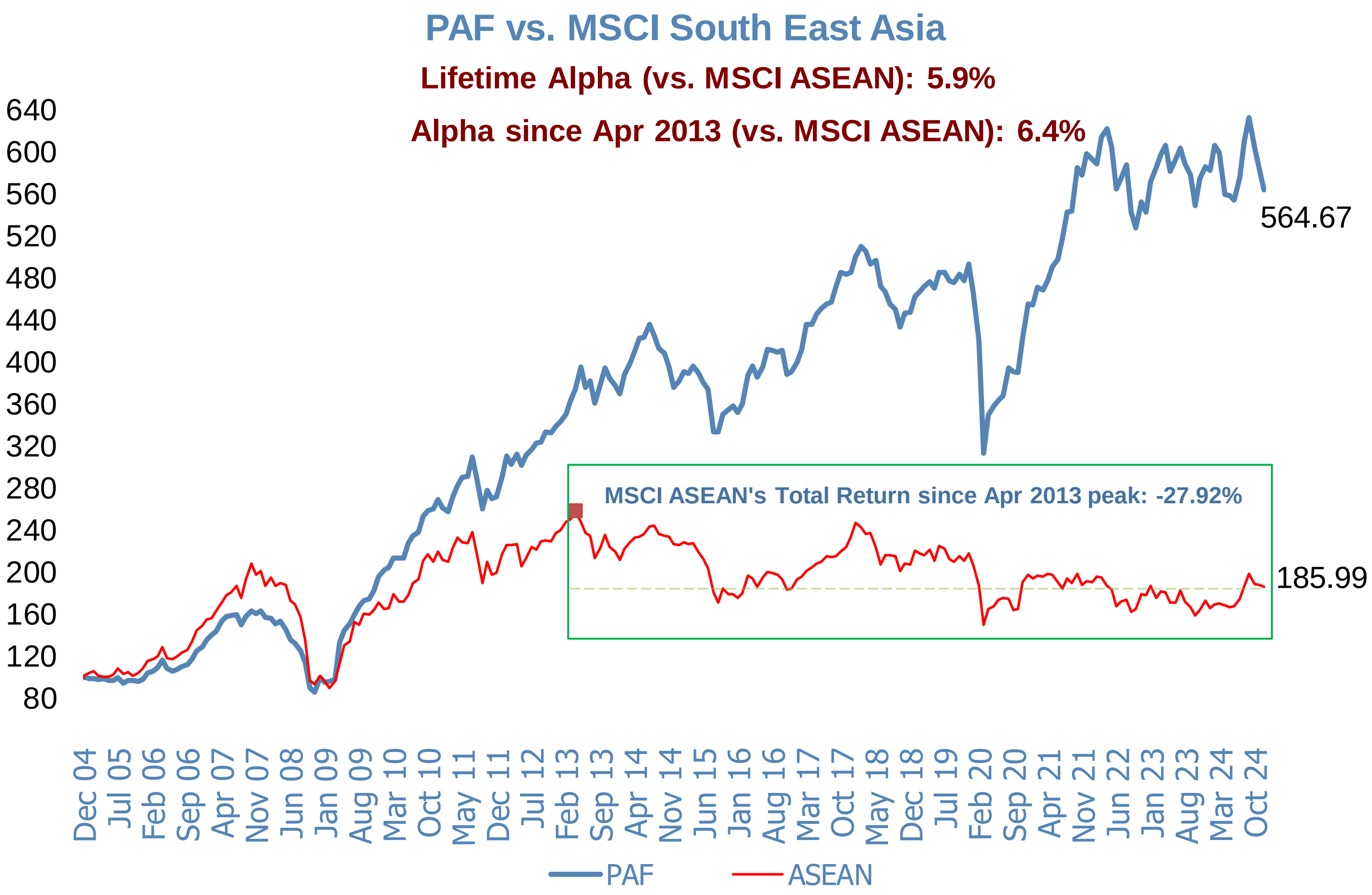
I've been in the industry for 39 years now and I'm often asked when I'll retire. While valuations remain this compelling, I'd rather keep on working.

Happy New Year & Gong Xi Fa Cai,

James & Bill.

8th January 2025

Twenty years track record and annualised return of 9.00%

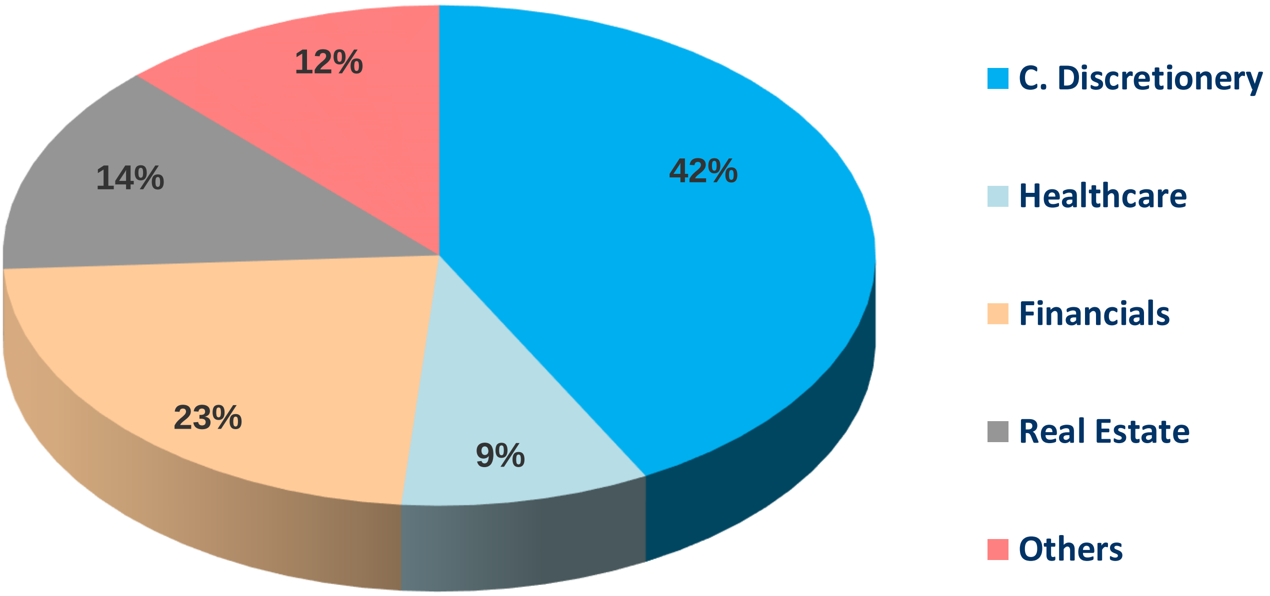


PANGOLIN INVESTMENT MANAGEMENT

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2024	*NAV*	583.20	606.55	599.94	560.25	558.96	554.34	576.15	611.53	633.08	605.10	584.97	564.67	-3.75%
	% chg	-0.59%	4.00%	-1.09%	-6.62%	-0.23%	-0.83%	3.93%	6.14%	3.52%	-4.42%	-3.33%	-3.47%	
2023	*NAV*	571.92	585.67	597.55	606.77	581.95	593.00	604.19	589.30	578.62	549.65	574.87	586.68	8.00%
	% chg	5.28%	2.40%	2.03%	1.54%	-4.09%	1.90%	1.89%	-2.46%	-1.81%	-5.01%	4.59%	2.05%	
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%	

Best monthly return	**35.77%**
Worst monthly return	**-25.36%**
Maximum drawdown	**-47.53%**
% of positive months	**63.07%**
Annualised return	**9.00%**

By Sector


12%
42%
14%
23%
9%
C. Discretionery
Healthcare
Financials
Real Estate
Others