Pangolin Asia Fund May 2024 NAV

As at the 31st May 2024, the NAV of the Class A shares of the Pangolin Asia Fund was US$558.96 net of all fees and expenses, down 0.23% from US$560.25 in April.

As of today, the fund is about 95% invested, with the split being approximately as follows:

Singapore	8%
Malaysia	36%
Indonesia	54%
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**
May-24	2.30%	4.80%	6.88%	-3.64%	1.31%	1.33%	1.29%	-0.77%	-0.23%
YTD 2024	2.64%	10.64%	11.48%	-4.15%	9.76%	2.97%	4.53%	-3.31%	-4.72%

Return (in USD)									
Period	**DOW**	**S&P 500**	**NASDAQ**	**JSE**	**KLSE**	**STI**	**MSCI Asia x JP**	**MSCI-ASEAN**	**PAF**
May-24	2.30%	4.80%	6.88%	-3.61%	2.73%	2.41%	1.29%	-0.77%	-0.23%
YTD 2024	2.64%	10.64%	11.48%	-9.19%	7.14%	0.62%	4.53%	-3.31%	-4.72%

% Change in Currency Vs USD			
Period	**MYR**	**SGD**	**IDR**
May-24	1.40%	1.06%	0.04%
YTD 2024	-2.39%	-2.29%	-5.25%

The star performer in ASEAN this year is Malaysia, driven by data centre optimism. YTL Power and its parent are up 93% & 90% respectively, on the back of contracts to build data centres. And Tenaga, Malaysia's power utility, is up 31% on the anticipated growth in electricity demand. Data centres are the new dotcoms, certainly in the minds of Malaysian investors. My guess is that there will be too many of them and the technology will change so rapidly that obsolescence will be rapid. But, given that I don't really understand what they are, I won't argue the point.

As the index has woken up, so has the market. Volumes are up significantly and funds are buying all the usual index heavyweights. Fund managers are stopping in KL again to visit companies. There are many cheap stocks here, so there's a chance this rally could continue. And it might even spread.

Annoyingly, we owned YTL Power warrants a few years ago. We felt the company was undervalued then and the warrants were an underpriced, geared way of playing this. Sadly, YTL Power remained undervalued while we owned them, so it wasn't the fund's greatest investment.

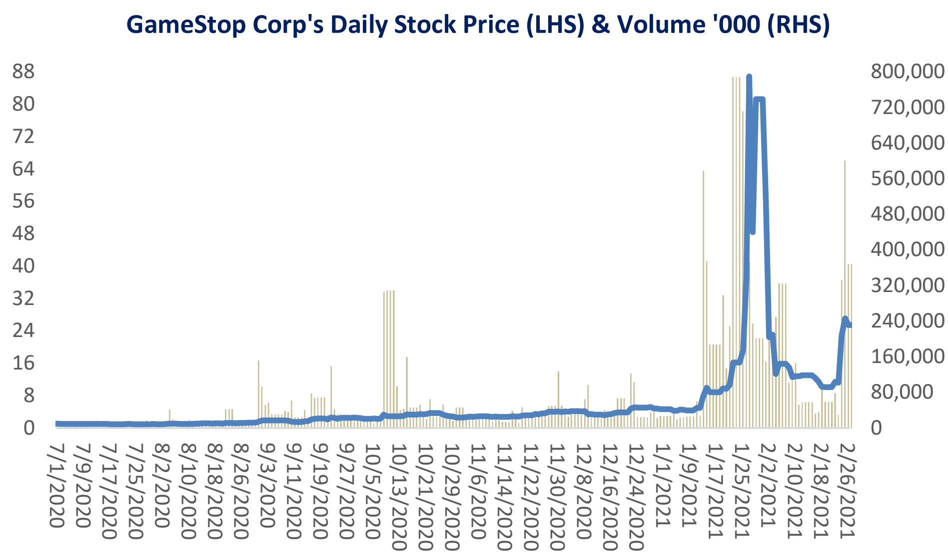
Continuing weakness in Indonesian consumer companies, on the back of inflation fears and sluggish consumer spending, are weighing on the fund's performance. Bear in mind that the number of middle-class Indonesians compounds at around 10% per annum, translating into an additional 12 million middle class consumers this year, by my estimates. This growth rate ebbs and flows, but of course the best time to buy into it is while it is ebbing. Consumer companies' share prices are ebbing even further.

If you want to own this story, don't wait until consumer spending is resurgent.

Bear in mind that Indonesia's headline inflation decelerated in May to 2.8% YOY (April 3.0%), below estimates, as rice prices continued to ease.

Movies

Have you seen the movie **Dumb Money**? It explains the 2021 GameStop phenomenon, when predominantly retail investors piled into the stock. The effect was to push the share price higher and higher, eventually forcing the large number of short sellers to panic and cover their positions by buying back. The price rose from $1.00 in mid-2020 to $120 in early 2021.



The buying interest was led by Keith Gill, AKA Roaring Kitty, an ordinary investor with a YouTube channel and a presence on Reddit's r/WallStreetBets. He saw value in the company (I can't find any), broadcast his thoughts and the rest is history. Where he was right is that the hedge funds had bet so much against the shares, that once the price started to rise, and they shorted more into the rising price, eventually they had no other option than to cover their short positions.

GameStop probably wasn't fundamentally sound, and the hedge funds were probably fundamentally right. So, the hedge funds weren't wrong to short it, they just lost in a game of Chicken.

It's a fun film which educates and is way more entertaining than reading *The Intelligent Investor*, which makes me ponder why none of Ben Graham's works have been taken up by Hollywood.

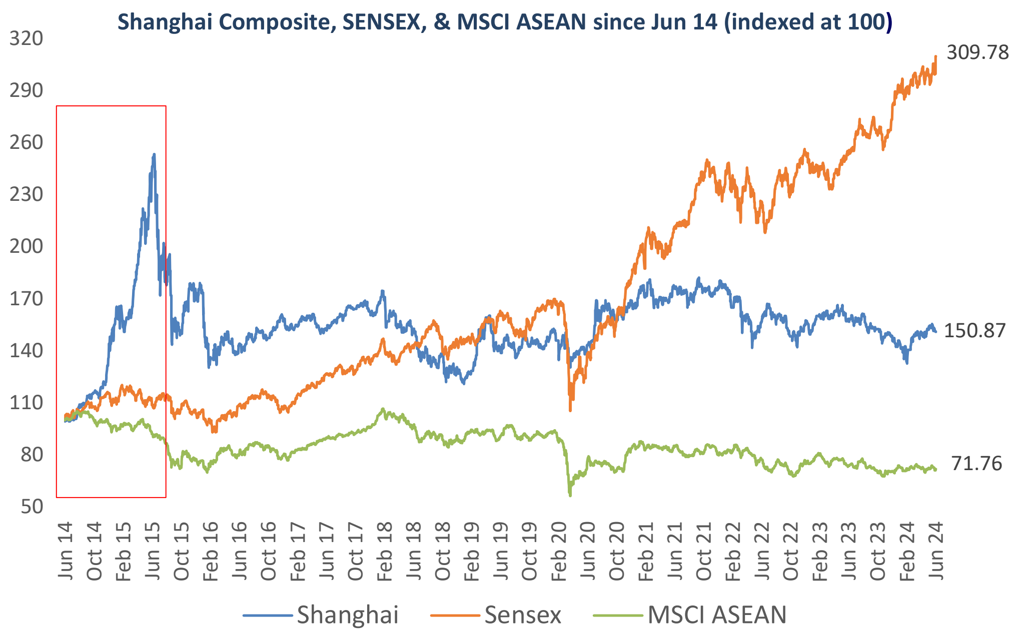
So how is this relevant to the Pangolin Asia Fund? Well, I would argue that a severe underweight of fundamentally sound economies and their undervalued businesses is at least the equivalent of being short GameStop. The severe institutional underweight hasn't been wrong, as the ASEAN index is down 28% over the past decade, while the S&P has risen 174%.

But this underweight will be wrong. The overconfidence that led hedge funds to over-short GameStop is being replicated by investors overweighting of NASDAQ & private equity.

There is currently a preference for India at the expense of China and Southeast Asia. Going back to the start of my career (1986) Asian investing was only about Japan, Hong Kong & then ASEAN. China and India weren't investible.

Recent conversations with US investors reveal that some are allocating to India even while conceding it's overvalued. But they can't risk being underweight. The investing world has become one big, global game of Chicken. A game in which underlying fundamentals are largely ignored.

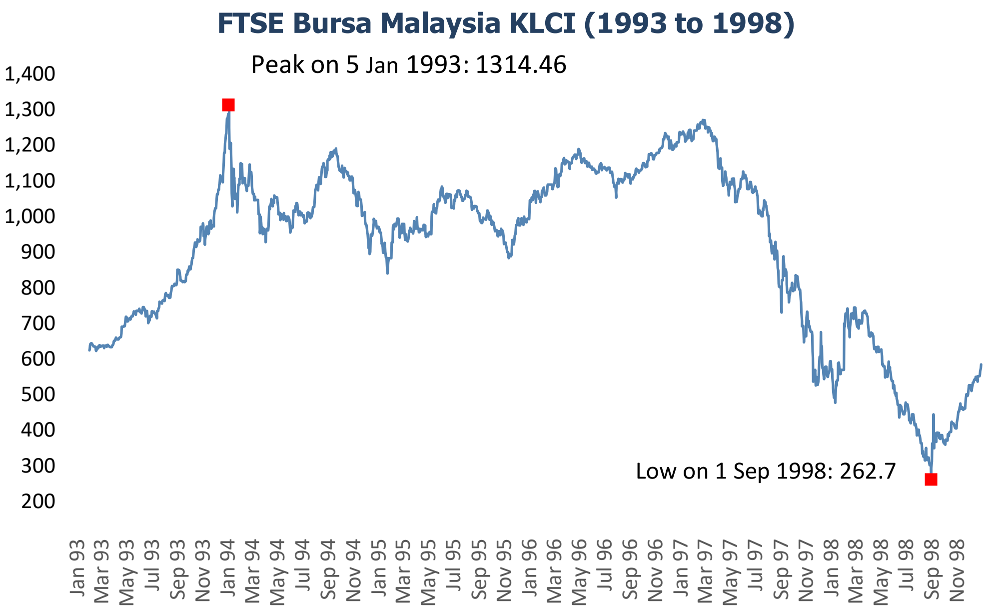
As the chart below shows, ASEAN has fallen 28% over the past decade while India and China are up 209% & 51% respectively.



How quickly can things change? Before Pangolin, I was a stockbroker. I arrived in Kuala Lumpur in March 1993, following seven years in London broking Asian stocks to UK institutions. In those days, the foreign-owned dealing operations were in Singapore or Hong Kong, so Malaysia wasn't the easiest option. I joined a Malaysian stockbroking company in which 99% of my colleagues hoped that the new Brit boy would fail. I could see value in the market and that's why I chose Malaysia. This was a huge opportunity, being just about the only person seeing Malaysian companies in the morning and then calling UK fund managers in the afternoon.

In my first 10 months the KLCI rose from 634 to 1275 and volumes exploded. The more stocks rose, the more bullish we all got. I recall a young fund manager, on his first trip to Asia, telling me what a great company Tenaga was (on 30x earnings). I couldn't do other than agree with him as I took his BUY order.

But I was a broker then. My job was to write tickets, not to be right. And the fund managers had inflows that they had to invest.



The KLCI peaked at 1314 on 5th January 1994 and hit a low of 262 in September 1998, when I had just been made redundant. I put virtually every penny I had into a few Malaysian stocks, while my friends were telling me, with concern, that I was nuts. Six years later, we started the Pangolin Asia fund.

The fear I have, as a money manager, is that demand for our fund will peak with stock prices. I'm an old man and I've seen it before. At some stage, when it inevitably happens, we will have to close the fund to new money to focus on what is best for our investors (and I'm one of them). We're a while off that yet but, as we saw in the 1990s, things can change rapidly.

While on the subject of movies, Michael Caine has just made his final film, **The Great Escaper**. Rather like Peter Sellers' **Being There**, he's maybe saved his best for last, and I recommend them both. Incidentally, The Great Escaper also turned out to be the late Glenda Jackson's last film.

What has Michael Caine got to do with anything? He's made over 160 films; a few have been great while most have been mediocre, as he himself admitted in an interview I read a few years ago. He went on to say that he always learnt something with every film he made. Which is analogous to company visits, particularly face to face meetings rather than Zooms. Most company visits we do (and we do hundreds every year) result in no action. But we always learn something.

On Monday night I met with the CEO of a listed Malaysian company. He complained to me about the ever-increasing mandatory reporting his company is required to do. Picking up the nearest annual report on my desk (DKSH Malaysia) the Sustainability & Corporate Governance reports (56 & 30 pages respectively) occupy 86 of the 182-page document. The sustainability part is worthless – a company that fells virgin rainforest will also have one – and the CG statement could be condensed to a few pages. Compulsory virtue signalling.

This might explain why in our markets which undervalue companies, we are seeing increasing numbers being taken private. The benefits of being listed are often outweighed by the regulatory grind. As we got further into this discussion, we also noted that some companies, once privatised, appear to suddenly perform a lot better. It may well be the lack of reporting. It may also be not having to seek shareholder approvals and having to explain decisions, with one eye worrying about what happens if the share price falls on the announcement. Or a lot of it might be purely financial; not having to share profits with minorities and a market that underprices earnings and cash flow. Once liberated, managements are often more driven.

Residents of Damansara Heights in Kuala Lumpur will be familiar with THE FIVE in Jalan Dungun (https://thefive.com.my). Before Selangor Properties was privatised by the major shareholders, this was an underoccupied, low rent, boring old office block. Now it's a high yield, trendy place, full of bright young Lululemon-clad things sipping avocado shakes after their Pilates classes.

Or we could look at Arsenal FC. The Kroenkes, who own it, didn't really invest in the club properly until they bought Alisher Usmanov's 30% stake to give them 100% ownership in 2018. And Arsenal was then transformed into a club with ambition, because on-pitch success translates into $$.

Outlook

Many Asians love collecting expensive watches. When they're in Asia, they're happy to wear them. The CEO I was talking to this week is off to Europe, but he'll only be taking his health-tracking smart watch. His Rolexes and Patek Philippes will stay at home. There are too many stories of Asians being mugged for their watches while overseas.

So, even if you choose to ignore ASEAN's strong GDP and earnings growth, low taxation, under-valued markets and its young, dynamic, hard-working and aspirational 700 million population, don't you think there's a case for investing in a region where you can safely wear the fruits of your labour on your wrist?

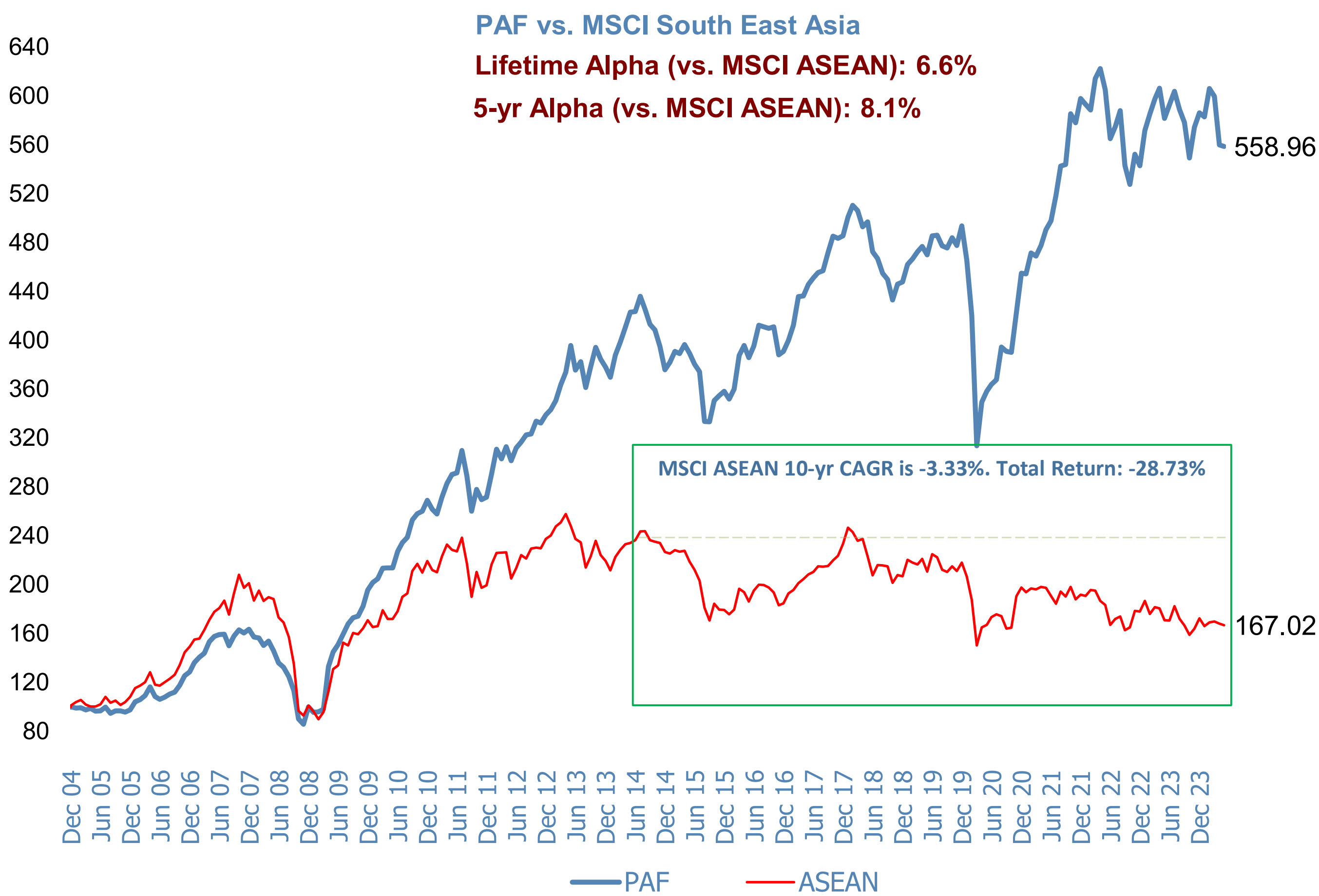
Pangolin Asia Fund weighted valuations (31st May 2024)

	2024F
P/E (x)	9.5
Profit Growth (%)	10
ROE (%)	19
ROIC (%)	27
Div Yield (%)	5.8%

GDP Forecasts	**2024F**
Malaysia	4.9%
Singapore	2.8%
Indonesia	5.1%
Philippines	5.8%
Thailand	4.0%

James
6th June 2024

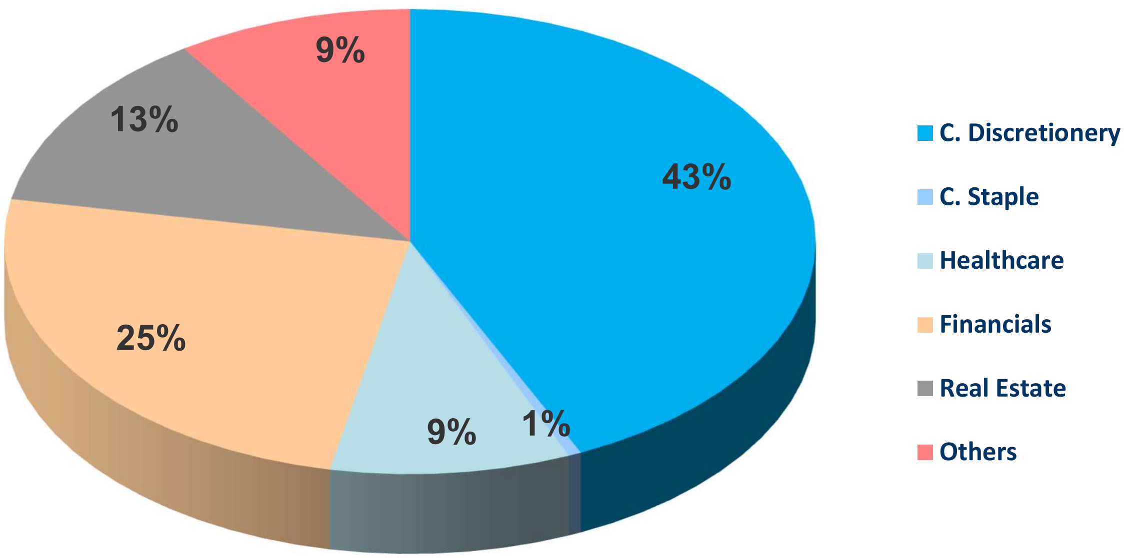
Nineteen years track record and annualised return of 9.23%



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								-4.72%
	% chg	-0.59%	4.00%	-1.09%	-6.62%	-0.23%								
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	**63.68%**
Annualised return	**9.23%**

By Sector


9%
13%
43%
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1%
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Healthcare
Financials
Real Estate
Others