



Pangolin Asia Fund August 2018 NAV

As at the 31st of August 2018 the NAV of the Class A shares of the Pangolin Asia Fund was US\$455.31 net of all fees and expenses, down 2.56% from US\$467.29 in July.

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

As of today, the fund is about 84% invested, with the split being approximately as follows:

Singapore	11%
Malaysia	42%
Indonesia	30%
Thailand	17%

We don't disclose our names but some details are always available to investors on request.

Overview

To put things 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	MSCI-ASEAN	PAF
Aug 2018	2.16%	3.03%	1.38%	1.98%	-3.20%	1.16%	-1.25%	-0.02%	-2.56%
YTD 2018	5.04%	8.52%	-5.31%	1.27%	-5.57%	-1.83%	-6.64%	-7.50%	-6.27%

Return (in USD)									
Period	DOW	S&P 500	JSE	KLSE	STI	SET	MSCI ex JP	MSCI-ASEAN	PAF
Aug 2018	2.16%	3.03%	-0.66%	0.90%	-3.95%	2.51%	-1.25%	-0.02%	-2.56%
YTD 2018	5.04%	8.52%	-12.74%	-0.27%	-8.05%	-2.41%	-6.64%	-7.50%	-6.27%

% Change in Currency Vs USD				
Month	IDR	MYR	SGD	THB
Aug 2018	-2.01%	-1.07%	-0.77%	1.33%
YTD 2018	-7.85%	-1.52%	-2.63%	-0.59%

We're going through one of these periods when it seems better to follow the herd, and to keep buying what has already gone up a lot, than to buy value. Clearly this is an oxymoronic period.

You all know that EM markets and currencies are weak. Some of our stock prices are also quite soft, so we'll nibble. Some have remained unaffected. However, the strong USD hurts the final NAV. Overall, we're about 11% off our February peak – but remember we're playing a long game here.



Panasonic Malaysia

Is by far Malaysia's No. 1 consumer electronics company, which we've owned since 2015. Panasonic sits on a pile of cash which it doesn't need, thus depressing its ROE and returns to shareholders. As investors in net cash companies this is a problem we encounter only too often. But even worse, in this case Panasonic lends the money to other companies owned by its Japanese parent.

For this it receives interest of about 3.8% (in RM). Quite clearly, if a company has excess funds that it doesn't require, the money should be returned equally to all investors, not lent cheaply to one shareholder only. It is just wrong.

As the major shareholder is not allowed to vote on this, at the AGM minority shareholders had the chance to overturn this related party transaction (RPT). And this is where it gets even more depressing. It should have been a straightforward discussion with only one conclusion.

Earlier this year we produced a presentation for the other larger shareholders clearly stating the argument for voting against the RPT; in my opinion, if the excess cash were to be returned via dividends, the share price could well double.

We persuaded 2 large shareholders. One big asset manager, however, refused to even discuss the matter with us.

We also presented to two large Malaysian government pension funds. Either one of them could have swung the result. I'm pretty sure that they voted with the company. And I really don't know why.

The results of the AGM resolutions are below. Resolution 13 is the one I'm referring to above.

Outcome of Meeting		Vote FOR (No. of	%	Vote AGAINST	%
Resolution 1	Receipt of the Statutory Financial Statements	40,549,417	100.00	100	0.00
Resolution 2	Declaration of a final single tier dividend of 133 sen per ordinary share and a special single tier dividend of 100 sen per ordinary share	40,562,076	100.00	2,002	0.00
Resolution 3	Re-election of Tan Sri Hasmah binti Abdullah	40,545,906	99.96	17,856	0.04
Resolution 4	Re-election of Cheng Chee Chung	40,553,694	99.98	6,634	0.02
Resolution 5	Re-election of Toru Okano	40,552,760	99.98	7,502	0.02
Resolution 6	Re-election of Kwan Wai Yue	40,556,712	99.99	4,300	0.01
Resolution 7	Approval of the payment of Directors' fees	35,936,142	88.61	4,621,520	11.39
Resolution 8	Appointment of Auditors	40,559,090	99.99	4,472	0.01
Resolution 9	To approve the continuation in office of Tan Sri Datuk Asmat bin Kamaludin as Independent Non-Executive Director	30,038,904	74.06	10,523,624	25.94
Resolution 10	To approve the continuation in office of Datuk Supperamaniam a/l as Independent Non-Executive Director	35,714,896	88.05	4,847,066	11.95
Resolution 11	Approval of Recurrent Related Party Transactions ("RRPT") - Sales of products, sales of tools and equipment, purchase of parts, components, raw materials, purchase of equipment, promotion expenses, warranty claims and/or service expenses and purchase of ma	11,726,905	99.97	3,602	0.03
Resolution 12	Approval of RRPT - Payment and receipt of fees	11,726,169	99.96	4,972	0.04
Resolution 13	Approval of RRPT - Placement of cash deposits and other treasury services	7,814,443	66.74	3,894,402	33.26



However, what is also interesting are the results of Resolutions 7, 9 & 10.

Resolutions 9, & 10 refer to the re-election of two of the company's four independent directors. They are up for re-election because they have been serving as directors in excess of the nine years recommended by the Malaysian Code on Corporate Governance (MCCG).

I think Panasonic has a pretty good board. However, the Code's recommendations pertaining to independent directors are there for a reason. If the independents don't have the support of the minority shareholders, who is it they are representing?

For some reason Panasonic Corp of Japan, with 28 million shares (47.45%), is allowed to vote* on the re-election of independent directors. And I am assuming Panasonic voted in favour of the Resolutions 7, 9 & 10.

But, if we deduct their 28m shares from:

- i) **Resolution 9** – Tan Sri Asmat is the Independent Chairman. 2m minorities voted for him – 10m didn't. He has served the board well since his appointment 17 years ago in 2001, but the message from minorities is clear.
- ii) **Resolution 10** – if we take away Panasonic's votes Datuk Supperamaniam had minorities' support – 6.9m for, 4.8m against. That's still a lot against. With that many shareholders against his continuation, what is his and Panasonic's intention?
- iii) **Resolution 7** - Approval of the Payment of Directors' fees. They're not excessive - we see a lot worse. Yet *4m minorities' votes were against* Vs 7m for. Clearly the minority shareholders were voicing their displeasure over the board's composition.

*Actually, as far as I understand the MCCG, Panasonic should have conducted 2-tier voting for the re-election of the chairman; i.e. Panasonic's votes would not have counted and he'd be out. Sadly, the code is not law.

For reference the code can be found at: www.sc.com.my/wp-content/uploads/eng/html/cg/mccg2017.pdf.

The relevant part starts at about page 29.

Also note that, when questioned by my colleague at the recent AGM, none of the independents thought there was anything wrong with Panasonic Malaysia lending money to companies owned by Panasonic of Japan.

- iv) **Resolution 13** – Panasonic were not allowed to vote on this issue. It passed with a 2/3 majority. As far as I can make out, two or three large institutions voted to keep this going. Let's hope they reconsider before next year's shareholders' meeting.

Panasonic Malaysia is a good company with a strong brand and dominant market share. We're happy to own it. As Malaysians get richer they buy more quality electronics. Corporate governance is an issue we face every day of our investing lives. We have done quite a lot of work on various non-operating issues with the companies we own, with some successes – and failures. What we are finding is that the better companies, like this one, generally are keen to put their houses in order. We'll keep an eye on them and maintain our dialogue with the board, other investors and bodies such as Malaysia's excellent Minority Shareholders' Watch Group.



Outlook

Unless (until?) US tariffs are imposed on ASEAN, weak currencies will boost our exports.

Growth in our part of the world is likely to remain stronger than in most of the rest for years to come. We'll wait and see what opportunities the current market wobbles throw up.

James Hay.
10th September 2018

We 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 happiest when markets are falling (like now).



Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2018	NAV	501.11	510.62	506.32	493.22	497.19	472.82	467.29	455.31					-6.27%
	% chg	3.15%	1.90%	-0.84%	-2.59%	0.80%	-4.90%	-1.17%	-2.56%					
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	0.37%
	% chg	-	-	-	-	-	-	-	-	-	-	-	-	

Best monthly return 35.77%
Worst monthly return -20.42%
Maximum drawdown -47.53%
% of positive months 66.06%
Annualised return 11.65%

By Sector

