



Pangolin Asia Fund November 2017 NAV

As at the 30th of November 2017 the NAV of the Class A shares of the Pangolin Asia Fund was US\$483.86 net of all fees and expenses, down 0.36% from US\$485.61 in October.

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

As of today, the fund is about 83% invested, with the split being approximately as follows:

Singapore	12%
Malaysia	35%
Indonesia	34%
Thailand	19%

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

Overview

Our first down month of the year. The ETF-driven US & tech bull markets remain rampant, and now Japan is also catching up. Our companies remain reasonably valued, largely because we own virtually nothing that is in an index and our stocks are of no interest to ETFs.

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
Nov 2017	3.83%	2.81%	-0.89%	-1.72%	1.76%	-1.39%	0.58%	1.82%	-0.36%
YTD 2017	22.82%	18.26%	12.37%	4.64%	19.19%	10.01%	35.31%	21.13%	23.69%

Return (in USD)									
Period	DOW	S&P 500	JSE	KLSE	STI	SET	MSCI ex JP	MSCI-ASEAN	PAF
Nov 2017	3.83%	2.81%	-0.62%	1.67%	2.90%	0.35%	0.58%	1.82%	-0.36%
YTD 2017	22.82%	18.26%	11.93%	14.75%	27.95%	20.76%	35.31%	21.13%	23.69%

% Change in Currency Vs USD				
Month	MYR	SGD	IDR	THB
Nov 2017	3.45%	1.12%	0.27%	1.77%
YTD 2017	9.66%	7.35%	-0.39%	9.78%

Company Engagement

I've mentioned in previous newsletters that we have been advising the companies we own how to manage their balance sheets more efficiently. The good news is that those that have taken our advice on board have seen the market revaluing their share prices. And the more wholly they have followed our recommendations, the more has been the resultant share-price appreciation.

The first company we formally nagged did about 75% of what we wanted very quickly. We prepared a report for the board at the end of 2016 and they began implementation early in 2017. It is our largest Thai holding and its shares have risen 45% this year versus the index being up 10%. There is still quite a lot we would like them to do, but the low-hanging fruit, in terms of balance sheet restructuring, has been plucked.



The beauty is that this share-price gain is something-for-nothing. It doesn't affect the underlying growth of the company but is an extra. In fact, the disposal of unnecessary assets enhances core returns as it frees up management to focus on what they do best. Share prices are derived by actual and expected cash returns to shareholders. If a company is sitting on a pile of cash and has a history of investing in non-core assets, the market's expectation is that it will continue to do so, thus lowering its valuation.

The clearest way to signify a change of intent is via the dividend policy. In the 90s I remember a Malaysian manufacturer, when I asked about dividends, stating: *"we retain working capital requirements plus a RM100 million rainy day fund; all other cash is paid out quarterly."* Needless to say, this company's PE was about 20x or double the sector's.

Others have embraced our recommendations more slowly or are still pondering. I remain hopeful that our continued engagement with directors, coupled with our attendance and participation at AGMs will persuade them; if so, they will quickly see the results in how the market values their businesses.

So, what is it we say? Nothing spectacular. Remember that I frown on CFAs and MBAs, so any advice I give is going to be simplistic to say the least. The basic message is: *concentrate on the core business, get rid of any non-operating assets and pay all excess cash back to shareholders via dividends (not buybacks). Oh, and change your auditor every five years.*

Many traditional ethnic Chinese-owned companies (which comprise the bulk of the fund) have, for ever, been acquiring land and diversifying. Our role models are multinationals such as Nestle Malaysia and Unilever Indonesia, but we can now use a couple of locally-owned businesses as examples too. The owner of Tan Bros Plastic Spoons Ltd might think he cannot aspire to run his company like a Nestle. However, if he can see that his competitor, Wong & Co Plastic Forks Ltd, is paying quarterly dividends, has divested its old property portfolio (even if it meant booking a loss) and has told PWC that partner rotation isn't good enough, then so can Tan. After all, he's seen Wong's share price double.

I would like to emphasise that Pangolin does not buy bad companies in the hope of changing them. We like what we own, but there are always some areas that can be improved. We won't tell Tan to change the colour of his spoons. We would own Tan Bros because they really know the spoon business, are debt free and have a **good** history of capital allocation. What we try to do is to get them to change the **good** to the **excellent**.

Outlook

Apparently share prices don't go up in a straight line forever. There are many symptoms of excess valuations globally, which don't require restating here. I think the greatest risk is in the West, but the fallout is always contagious. When it happens, I think we will be well positioned to benefit. As mentioned above, much of what we own is not that expensive but we'd like it to be a bit cheaper before we buy more. Our policy is to invest at the *wrong price* and a number of our core holdings are within 10% of that.

2018 should be fun.

Merry Christmas and Happy New Year,

James

11th December 2017

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.



Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	NAV	400.08	412.81	435.93	436.54	446.18	451.43	455.76	457.12	472.10	485.61	483.86		23.69%
	% chg	2.27%	3.18%	5.60%	0.14%	2.21%	1.18%	0.96%	0.30%	3.28%	2.86%	-0.36%		
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 -20.42%
Maximum drawdown -47.53%
% of positive months 67.31%
Annualised return 12.89%

By Sector

