



Pangolin Investment Management

Pangolin Asia Fund August 2012 NAV

As at the 31st of August 2012 the NAV of the Class A shares of the Pangolin Asia Fund was US\$323.01 net of all fees and expenses, up 1.94% from US\$316.87 in July. 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:

| | |
|-----------|-----|
| Indonesia | 29% |
| Malaysia | 41% |
| Singapore | 19% |
| Thailand | 11% |

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

Overview

It was a combination of slight currency appreciation and a couple of our Malaysian stocks continuing to do well that led to the fund's appreciation last month.

Those of you who regularly manage to struggle through these newsletters will be aware I have been saying that the Malaysian market has been cheap for a while. Well, the market has done pretty well this year with the KLCI hitting an all-time high last month.

Nevertheless this is still an under-owned and under-researched financial backwater and I am still surprised at just how inexpensive some companies are. Obviously after such a run some stocks are pushing towards their peak valuations, but there remain many companies that look attractive from a Pangolin's standpoint.

It has really been Malaysia and our one Thai stock that have carried the fund this year. Our weighting in Indonesia has fallen over the past couple of years as we have not been finding the bargains we once did. Pessimism over China's demand for commodities is leading to profit taking and I expect to be spending a bit more time seeing companies in Indonesia again as valuations fall back into our range.

What can go wrong?

The Asian consumer story has decades to run. Nevertheless (emerging) markets have a habit of kneeing the overconfident where it hurts now and then, so we need to be aware of potential risk factors. Such as:

- Malaysia's budget deficit is leading to some agencies to warn of downgrades.
- Malaysia's politics could get messy with an election due by March 2013.
- Rising religious intolerance in Indonesia (lately Sunni against Shia) to deter investment.
- Indonesia's politicians are increasingly passing nationalistic and protectionist regulations that continue to discourage both foreign and local investment. With elections due in 2014 this nonsense is unlikely to go away.
- In Singapore and elsewhere, increasingly comfortable middle classes are demanding the same kind of welfare benefits prevalent in the West.
- The risk in Thailand remains the messy politics with the yellow shirt / red shirt divide not diminishing.
- Consumer credit being increasingly extended to those who may struggle to repay across the region.

And that is before factoring in the external pressures which I suspect we all know about.



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Outlook

Although the fund is now up 18% YTD not everything has been moving higher. One of our larger holdings is off 45% from its high (yes, I know I should have sold it and we did sell a little) and is now looking cheap again. China worries may well cause commodity prices to fall further but this is not necessarily a bad thing for most consumers.

So how do we mitigate the risks alluded to above? We don't hedge, nor do we have a lot of cash, so when markets wobble we tend to wobble with them. However at certain levels the dangers are priced in. At Pangolin we hope that by being cognisant of the hazards and by not overpaying, we can continue to make money out of what is an exciting long-term investment story; even if there is the occasional wobble along the way.

Finally, a couple of friends of mine, Hugh and Anna Maxwell, gave it all up to make wine in Tuscany a few years ago. After spending August quaffing as much red as the system (and the missus) would allow, I reckon I know a good Chianti when I taste one. I'm happy to say that the Maxwells' Val Di Toro is a winner and, should you be after a new red for daily consumption, I cannot recommend it highly enough.

Drop Anna a line at amcruciata@yahoo.it and she'll tell you who, in your part of the world, can send round a case.

Cheers,

James Hay
11th September 2012

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 |
|------|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|--------|--------|---------|
| 2012 | Nav | 290.78 | 311.15 | 303.35 | 313.01 | 301.88 | 312.18 | 316.87 | 323.01 | | | | | 18.86% |
| | % chg | 7.00% | 7.01% | -2.51% | 3.18% | -3.56% | 3.41% | 1.50% | 1.94% | | | | | |
| 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 69.89%
Annualised return 16.33%