Pangolin Asia Fund June 2019 NAV

As at the 30th of June 2019 the NAV of the Class A shares of the Pangolin Asia Fund was US$485.78 net of all fees and expenses, up 3.28% from US$470.36 in May.

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

As of today, the fund is about 88% invested, with the split being approximately as follows:

Singapore	20%
Malaysia	32%
Indonesia	33%
Thailand	15%

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
Jun 2019	7.19%	6.89%	2.41%	1.29%	6.54%	6.80%	6.06%	6.85%	3.28%
YTD 2019	14.03%	17.35%	2.65%	-1.09%	8.24%	10.64%	9.39%	8.69%	8.41%

Return (in USD)									
Period	DOW	S&P 500	JSE	KLSE	STI	SET	MSCI ex JP	MSCI-ASEAN	PAF
Jun 2019	7.19%	6.89%	3.44%	2.72%	8.25%	9.75%	6.06%	6.85%	3.28%
YTD 2019	14.03%	17.35%	4.57%	-1.06%	9.03%	16.58%	9.39%	8.69%	8.41%

% Change in Currency Vs USD				
Month	MYR	SGD	IDR	THB
Jun 2019	1.40%	1.61%	1.01%	2.76%
YTD 2019	0.04%	0.73%	1.87%	5.37%

Is Malaysia the world's worst performing market this year? It feels like it.

Challenger Technologies' major shareholder failed in his bid to take the company private at a price which we and other minorities deemed to be less than 50% of the true value. We've spent the past few months rallying minorities to the cause and the effort paid off. Why the offeror persisted with the EGM when we had persistently told them we had the numbers to block the bid, I'm not sure.

It was a team effort but special mention must go to Chiew Sia who had to deal with the enquiries of numerous minority shareholders – from 200 shares up!

They can't make another offer for at least 12 months. Whether they come back or not isn't that important. Challenger is a profitable, cash-generating business which we've owned for 9 years. If we still own it in 2028 it probably won't be a bad thing.

The "Independent" Financial Adviser to the deal was Deloitte. The advice was, as is nearly always the case, in favour of what the bill-payer wanted i.e. to accept the bid. Deloitte's representative at the meeting didn't stand a chance and at one point said something along the lines of not being there to explain the methodology! I didn't even get a chance to grill her; other minorities were getting so stuck in I almost began to feel a bit sorry for her.

There are some instances of financial fraud that regulators choose to ignore but are totally damning to the value of investments held by retailer investors. An independent valuation by a big name carries some weight and normally would have persuaded retail investors, many of whom are pensioners, to accept the measly offer for their shares. This time the IFA's advice was so clearly ridiculous and (combined with Chiew Sia's efforts to rally the minorities) was ignored.

Regulators everywhere should monitor Independent Advisers' circulars and judge their independence. Every deal. Every time. Every bit of advice should be monitored. Currently, the system has no credibility.

While on the subject of slack enforcement, "Window Dressing" is my other bugbear. At every year end, often at months' ends, we hear brokers explaining why the market did this or that being as a result of window dressing. This is the practice by fund managers to push the prices of certain stocks in their portfolios to make their funds' performance look better, thus earning a higher fee at the expense of their investors. Surely every time those in charge hear the expression, they should investigate?

Share Buybacks

The general consensus is that share buybacks are a good thing. I beg to differ. Especially in this part of the world where there is no tax advantage. I hate them – if a company has excess cash it should be returned as dividends – it belongs to all shareholders equally – and not be used by the directors to artificially lift profits if they manage to sell the bought-back shares for a gain.

There is often a huge conflict of interest that regulators choose to ignore. Directors have a choice of either cancelling the shares (to boost EPS) or reselling them (often placed to a chosen party) to boost profit. Often the reason given when asking for the mandate is to support the price. I would prefer managers to get on with running the business and let the markets decide the proper price for the shares.

Yet corporate governance guidelines barely touch on the subject.

Things I hate about share buybacks include:

1) Managements become distracted from running the business by keeping one eye on the share price. In effect, they become fund managers, even if it is only in one company. If they buy and the share price rises, they pat themselves on the back and are encouraged to buy more. If it falls and they look stupid, they spend even more time monitoring the share price and less time on the business.

2) Conflicts of interest. In Asia, very often the majority shareholder of a company owns between 30-70% of the listed company. Can anyone else spot the obvious conflict of interest when the money belonging to all shareholders is used to support the bulk of the chairman's net worth?

   How do we know the major shareholder doesn't have gambling or other debts and his shares aren't pledged as collateral, callable if the share price falls below a certain level?

3) If the owners wish to take the company private, using shareholders' money to buy and cancel shares means they have to fork out less of their own cash when they come to make a bid.

4) When a share price falls it is often a reflection of the market's view of the management. The management should not be propping it up.

5) Pangolins like to buy shares when prices fall. No way should we and other investors be competing in the market with a company for its shares.

6) I really hate the practice of directors approving share options to themselves in any instance, but surely having both options and a share buyback programme in place is so blatantly wrong that it should be outlawed.

7) Sometimes we see a company buying back shares on the same day that another family member (with over 5%, so he has to announce) has been selling. That is perfectly legal. Bonkers.

If the authorities were to outlaw all the conflicts of interests mentioned above, would directors still imagine that their buying back their companies' shares is still a better use of shareholders' cash than returning it to the shareholders and letting them decide what to do with it?

There are many examples of directors getting buybacks so wrong that you would imagine that the practice would by now be as endangered as a pangolin. In the US last year, companies bought back a record US$1 trillion of stock, with that amount likely to be surpassed this year.

One of my favourite charts of all time is Citigroup's. In 2006 the company bought back US$7bn of stock. That year the share price rose from US$466 to US$550. Ten years later the shares are still only $70. Have any lessons been learnt?

Outlook

On account of failing all my economics exams at university, all the macro stuff on CNBC leaves me wholly baffled. So instead, whenever I want to know what's going on, I speak to a director of a Malaysian furniture business which exports to the US. And he said:

Our factory in Malaysia is booming but our Vietnam plant is facing problems as there are so many Chinese companies relocating there; stealing all the staff, pushing up wages and raw material prices, etc.

James Hay.
8th July 2019

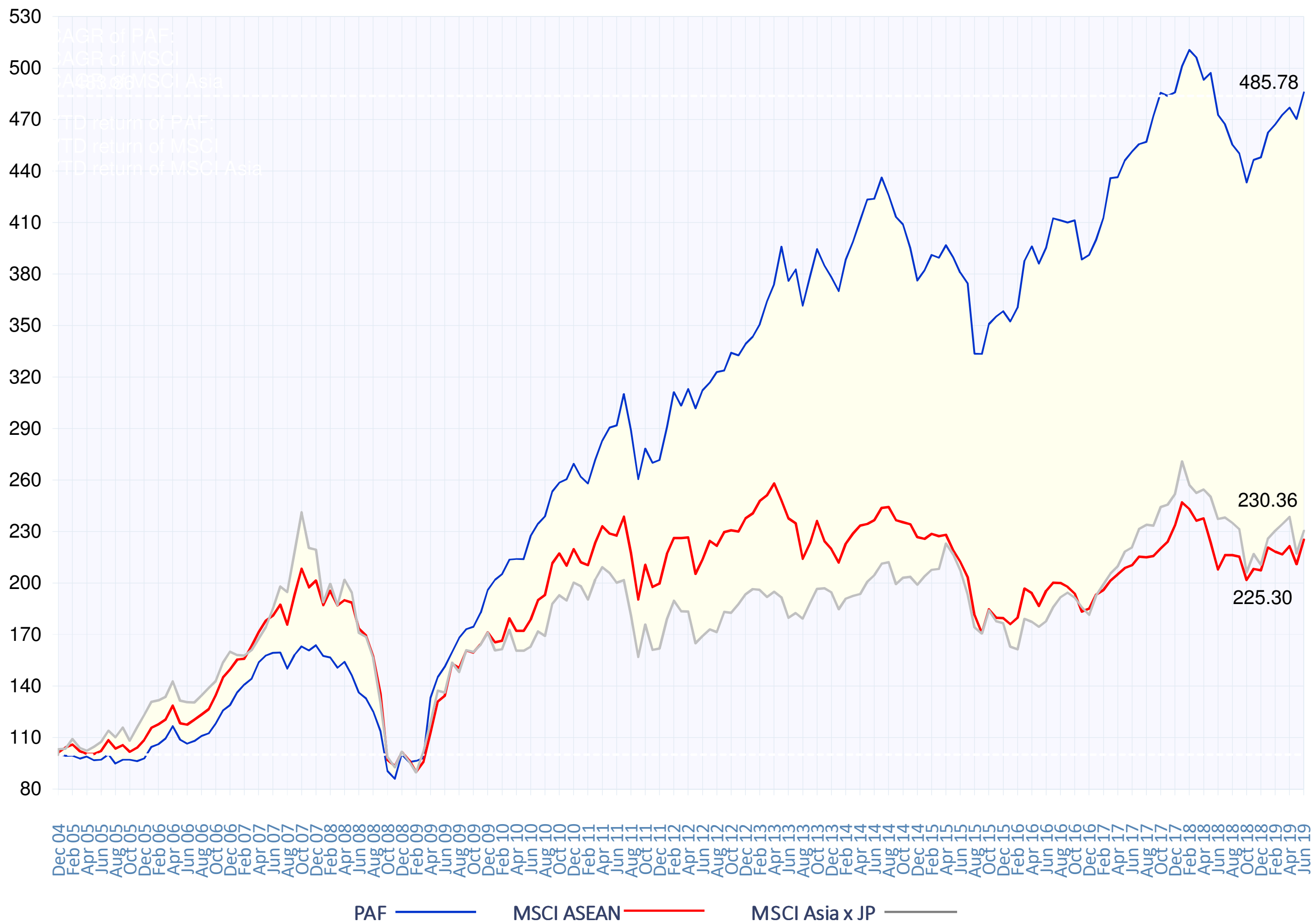
We don't like to discuss stocks publicly but I am always happy to talk to existing investors and those interested in investing. The Pangolin Asia Fund is most suitable for investors who are happiest when markets are falling.

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	*NAV*	462.51	467.10	472.67	477.00	470.36	485.78							8.41%
	% chg	3.21%	0.99%	1.19%	0.92%	-1.39%	3.28%							
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%	
2004	*NAV*	-	-	-	-	-	-	-	-	-	-	-	100.37	
	% chg	-	-	-	-	-	-	-	-	-	-	-	0.37%	

Best monthly return	**35.77%**
Worst monthly return	**-20.42%**
Maximum drawdown	**-47.53%**
% of positive months	**66.29%**
Annualised return	**11.45%**

Fourteen years track record and annualised return of 11.45%

PAF vs. MSCI South East Asia



By Sector