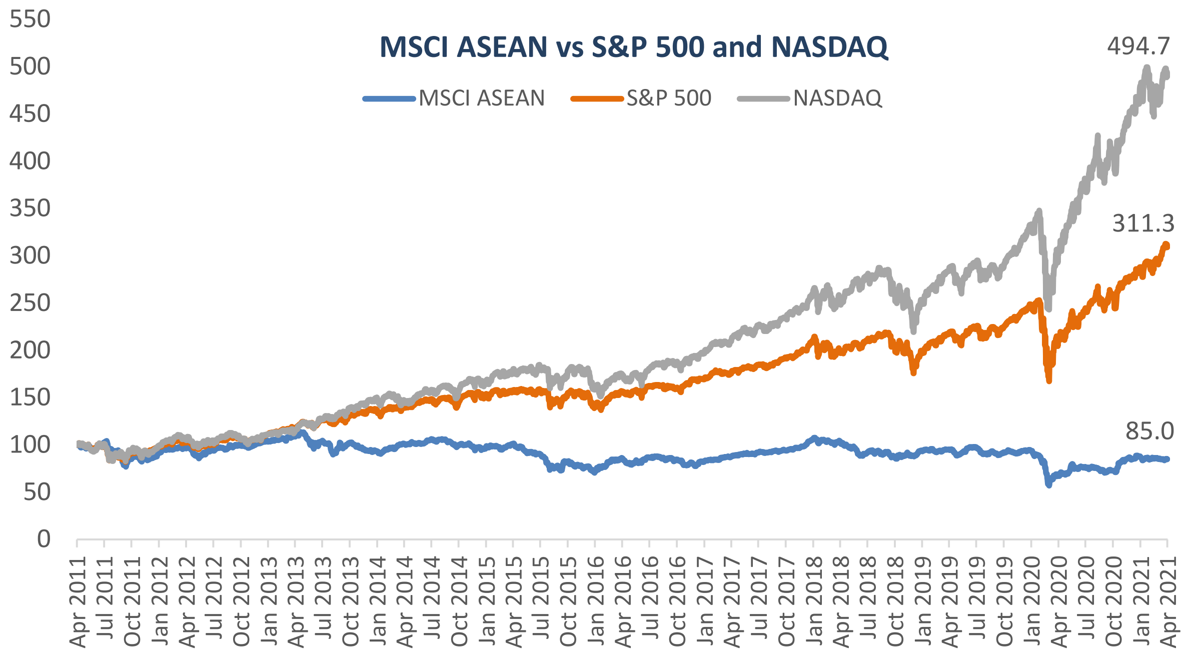
Dear Investors,

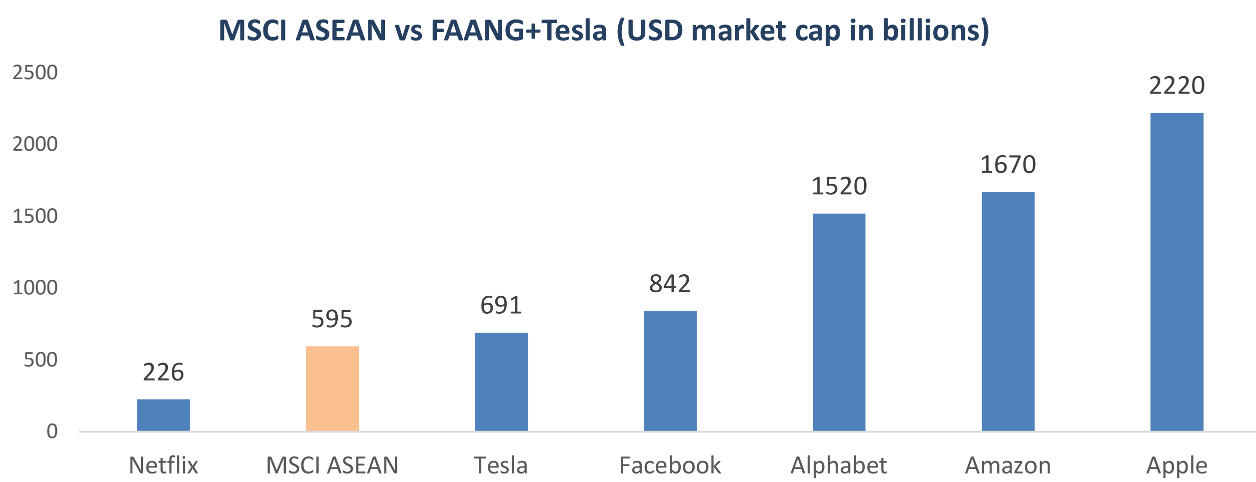
I'm writing because I believe that current valuations in Pangolin's markets present a chance to invest in companies at a significant discount to their true worth. SE Asia remains one of the world's most stable business environments, with economic growth expected to continue through the next decades. Yet, due to the flow of (self-fulfilling) passive money elsewhere (effectively a Ponzi), this region has underperformed for over a decade. It has got to the point where, for example, good Malaysian and Indonesian property companies trade at 20% of NAV - and these kinds of valuations are considered normal. They are not. And I believe that long-term investors will regret not taking advantage of this disconnect from reality.



Note that the ASEAN Index has fallen 15% over the past decade

Those buying Bitcoin, or TESLA trading on 1,000x earnings, are betting on the continuation of easy money.

At some stage, the value of an underlying investment will become relevant again. When it does, one would expect substantial flows into what can be considered cheap. When this happens, and given ASEAN's relatively small market capitalisation, we can expect share price rises to happen fairly quickly. Although the region's story will remain a good one for many years, it would seem a pity to be missing the initial leg up.



PANGOLIN INVESTMENT MANAGEMENT

Since the markets' recovery last year, we have seen a pullback in the share prices of many of the companies we follow and would like to own. Covid hasn't gone away and the region's slow procurement and roll-out of vaccinations (with the exception of Singapore) has led to a realisation that the recovery may be delayed (note delayed, not cancelled). *We have also seen selling from speculators who bought earlier in 2021 on the back of the strong-dollar-being-a-thing-of-the-past story.*

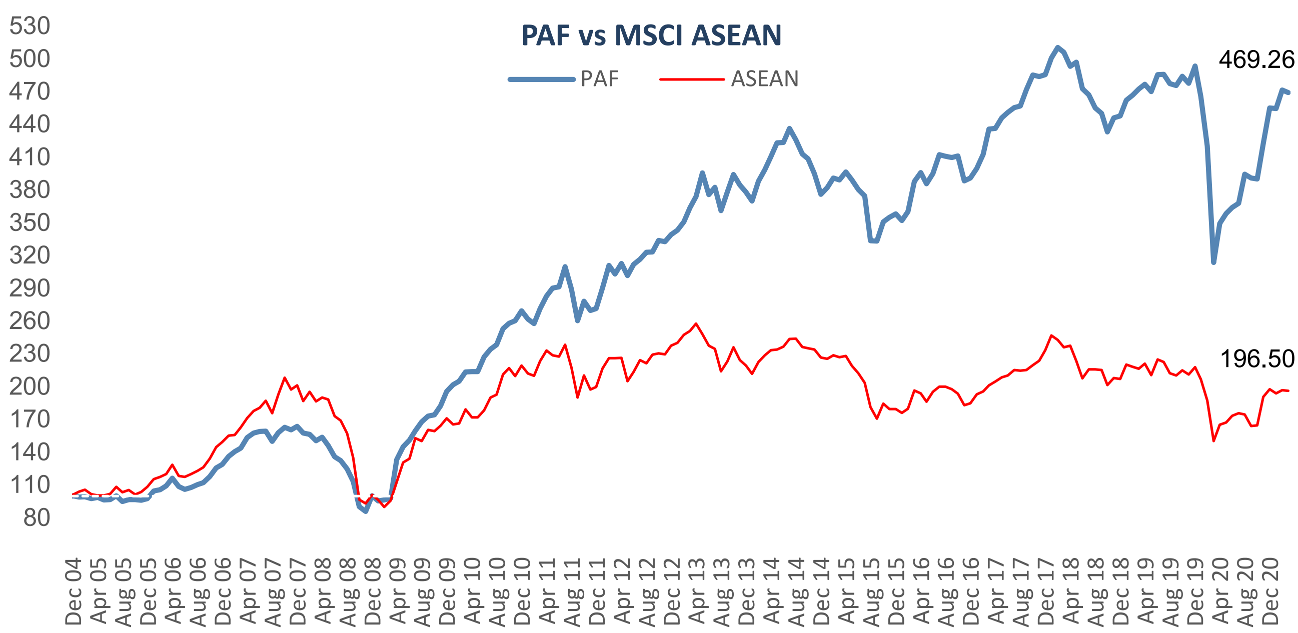
Market inefficiency is greatest when interest is lowest. For the past decade, because EM Value has been of little interest to many, we now find many more companies with scant or zero analyst coverage. This has been driven by: portfolio flows being diverted to the US & Tech, passive ETF investing (which requires no analysts), lower commission rates to pay for research, MiFID II, etc.

In recent years we have seen capitulation by some longer-term funds, as the underperformance caused by not holding Tech has cost some older, value-driven managers their jobs. In ASEAN, we are at a time of extreme market inefficiency. Or, as I like to think, a time of great investment opportunity.

At some point, the spec (SPAC) bubble will burst. This may also lead to a drop in share prices in ASEAN if liquidity is scarce. So, prices now may not be at the absolute low. But on a five-to-ten-year time frame, current prices will, I believe, be seen as having been bargains. And those who missed it will be kicking themselves.

At Pangolin we like to be able to take at least a five-year view. Preferably longer. If we find, at the right price, a well-managed, conservatively financed business with high sustainable returns on invested capital, along with a history of sensible capital allocation, we would ideally still be holding it in a decade. That doesn't mean we switch off, but if the factors that initially got us excited remain in place, we're likely to stick with it.

Currently, a lack of liquidity is an issue. However, as liquidity tends to rise exponentially with share prices, those who can take a long-term view should be accumulating now. At Pangolin we have in the past built positions in smaller, less liquid companies and, over time, sat back and watched as analysts finally discover what we like. Often the first analyst coverage is a non-rated report by a smaller house (not always in English) and then others follow.



PAF vs MSCI ASEAN performance since inception (1 Dec 2004 to 31 March 2021). PAF 16 years annualised return is 9.93%.

As usual, we're not advocating a *buy the market* approach. Owning better than average companies has resulted in better than average returns.

James Hay
23rd April 2021