



Pangolin Asia August 2014 NAV

As at the 31st of August 2014 the NAV of the Class A shares of the Pangolin Asia Fund was US\$425.85 net of all fees and expenses, down 2.41% from US\$436.67 in July. Please see the table at the end of this letter for further detail.

As of today, the fund is about 79% invested with the split being approximately as follows:

Indonesia	29%
Malaysia	24%
Singapore	26%
Thailand	21%

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

Overview

To put our performance into perspective, please refer to the tables below.

Return (in local currencies, except MSCI Asia Ex-Japan)

Period	Dow	S&P 500	JSE	KLSE	STI	SET	MSCI ex JP	PAF
Jul 14	-1.6%	-1.5%	4.3%	-0.6%	3.6%	1.1%	3.3%	3.0%
Aug 14	3.2%	3.8%	0.9%	-0.3%	-1.4%	3.9%	-1.3%	-2.4%
YTD (2014)	3.1%	8.4%	20.2%	0.0%	5.0%	20.2%	9.0%	12.6%

Return (in USD)

Period	Dow	S&P 500	JSE	KLSE	STI	SET	MSCI ex JP	PAF
Jul 14	-1.6%	-1.5%	6.8%	0.9%	3.4%	5.9%	3.3%	3.0%
Aug 14	3.2%	3.8%	-0.1%	1.1%	-1.4%	4.5%	0.4%	-2.4%
YTD (2014)	3.1%	8.4%	25.0%	3.9%	6.3%	23.7%	9.0%	12.6%

Malaysian Politics

Malaysia's opposition alleges that the government is using the courts to stifle it. There would appear to be a rash of sedition prosecutions of opposition supporters (and others) at present. The government would counter that if people break the law then the police and the courts will go after them – although it does appear that if a Malaysian questions the impartiality of these institutions or prosecutions, then he or she is possibly committing a seditious act!

The following letter was published in a Malaysian newspaper last week. It was written by the human rights NGO, SUARAM, and gives some useful background to the law.



LETTERS

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Why ape colonial rule?

THE irony seems to be lost on the government that on the day we celebrated 57 years of independence, it was using laws concocted by the old colonial power to defeat the anti-colonial struggle. These laws include the Societies Ordinance that is being used against the PPS in Penang, and the Sedition Act used against elected members of Parliament and even a "moderate" senior academic.

The Societies Ordinance goes as far back as 1889 when the British colonial power enacted the law to deal with a radical working class as well as an anti-colonial nationalist movement. The ordinance was used to register and deregister unions during the turn of the century when the Malayan working class was being unionised. An example was the Pineapple Cutters Association which was registered in 1908 but was deregistered in 1913.

During the strikes by estate workers after WWII, the United Planting Association of Malaya urged the colonial government to enforce the Societies Ordinance to control the unions.

Then as the struggle by the workers and anti-colonial forces gathered strength against the Federation of Malaya proposals in 1948, the colonial authorities enforced the registration of all unions under the restrictive 1940 Societies Ordinance. Among the clauses of the Act, government employees were not allowed to join unions of non-government employees, an obvious attempt to divide the workers' movement.

The ordinance was again used by the colonial power to deal with the Pan-Malayan Federation of Trade Unions which was leading the unions in the 1940s.

Through its recent actions against NGOs and community groups, the government has violated the right to freedom of association by regulations requiring that any society comprising seven or more people be registered by the Registrar of Societies. As in colonial times, the home affairs minister has absolute discretion to declare a society unlawful if he believes it would prejudice the "security of Malaysia" or "public order or morality".

The Registrar of Societies may refuse or cancel the registration of a society on similar grounds.

In 2012, at least six government agencies were ordered to

investigate Suaram to see if we had illegally circumvented registration. We were accused of being "foreign agents" and even suspected of money laundering.

However, after six months of exhaustive investigation by those agencies, such accusations were proven groundless.

Today, while the country is feeling increasingly insecure with the failure of the security forces to maintain law and order, the home minister and the ROS have misplaced their priorities by deciding to use colonial methods on the PPS in Penang and threatened to do the same with PAS's Unit Amal.

Likewise, the most recent charging of MPs and even a "moderate" academic under the colonial "Sedition Act" is an affront to the Merdeka spirit.

Starting from the sentencing of Hindraf leader P. Uthayakumar to 30 months jail for allegedly publishing seditious material in 2007, this shows bad faith by the government when the prime minister had pledged to repeal the Sedition Act just before the 13th general election.

The prime minister had been quoted as saying that the Sedition Act represented a "bygone era" and would be replaced with a new law to prevent incitement of religious or racial hatred in an effort to protect civil liberties:

The prime minister said: "We mark another step forward in Malaysia's development. The new National Harmony Act will balance the right of freedom of expression as enshrined in the constitution, while ensuring that all races and religions are protected."

Sedition laws in most Commonwealth countries have been repealed because they have been seen as an infringement on freedom of speech and a tool of colonial political persecution. A truly independent post-colonial nation tries its best to discard all the repressive apparatus of the shameful colonial era.

The recent arrests of politicians and an academic puts us back at least 50 years into the dark colonial period. And just when I was about to join the Movement of Moderates, they go and charge one of my favourite moderate heroes for sedition.

Kua Kia Soong
Suaram Adviser



Outlook

I was forwarded some interesting Goldman's research which shows that (in the US) share prices of "strong balance sheet companies" have underperformed "weak balance sheet companies" by 49% over the past two years. Doubtless our preference for as close to debt-free businesses as we can get is slowing us down a bit.

Other than the above, there are plenty of reminders to be cautious, including:

- Many are making pots of money trading in companies they can hardly spell.
- There has been a penny stock frenzy in Malaysia.
- Businesses that one wouldn't normally touch with a bargepole are being recommended, despite poor corporate governance concerns (to put it mildly)
- PEs are too high so CAPM, EV/EBITDA, DDM and other weird methods are being used to justify lofty share-price targets
- Etc.

Just about the best performing sector in the region this year has been healthcare. A good story but is it really worth paying PEs of 30x for?

We have a reasonable amount of cash. Investing it cheaply when markets are strong takes some perseverance, but we'll get some dark days when it will be easy again. I remain hopeful that our research efforts will uncover new gems. Tomorrow we're seeing a company that looks ultra-cheap but doesn't produce an annual report in English, which may be why the market has so far overlooked it. (Or the chairman may be a mad crook; something all the locals know but we don't).

Over a leisurely summer I read a book called Gottland which recounts various tales from Iron-Curtain Czechoslovakia. We have owned the Indonesian subsidiary of the shoe company Bata for over 9 years. The first chapter of Gottland deals with that company's formation. It includes the story of how Bata first started to explore the developing world (back in 1932) by sending two salesmen to North Africa. Very quickly two telegrams were received back at HQ:

- i) "No-one wears shoes here. No market opportunity. Am returning home."
- &
- ii) "Everyone here is barefoot. Vast market opportunity. Send shoes as quickly as possible."

James Hay.
8th September 2014

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. Otherwise, just send money.



Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2014	NAV	370.08	388.25	398.79	410.89	423.38	423.84	436.37	425.85					12.59%
	% chg	-2.16%	4.91%	2.71%	3.03%	3.04%	0.11%	2.96%	-2.41%					
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 70.09%
Annualised return 16.02%

By Sector

