



# **Pangolin Investment Management**

## **Pangolin Asia Fund announces month end NAV – September 2006**

At 29th of September 2006, the NAV of the Class A shares of Pangolin Asia Fund was US\$112.41 net of all fees and expenses, up from US\$110.76 in August.

At the end of September the fund was approximately 89% invested, down from the previous month's 99% as we have liquidated our Thai position.

The fund is currently invested in Singapore (24%), Indonesia (36%) and Malaysia (29%) with the balance being in cash. I don't disclose the individual holdings in this newsletter but I am happy to discuss them openly on request.

### **Overview**

The value of the fund increased marginally in September as Asian markets performed in line with Wall Street, although the regional currencies were a bit weaker.

The stock markets are reflecting renewed economic optimism for 2007 although companies' managements don't seem quite so bullish, particularly those in the consumer sectors. This is probably because 2006 has been so tough and that as yet they are not seeing the pick up in demand that declining interest rates and oil prices would suggest; hardly surprising as oil is still pretty expensive and rates have not been falling (except in Indonesia) very much.

As China continues to grow at staggering rates and Japan starts a new investment cycle, there has been an increase in the demand for timber which unfortunately makes the logging of virgin rainforest even more lucrative than usual. There plenty of talk about "low impact" logging methods but the fact is that once a forest has been raped once it will never re-attain its virginity. To get the logs out tracks are built (which can be used by hunters, illegal loggers and 4WD safaris alike) and the nature of the ecosystem is irreparably changed. This was ludicrously denied by the chief minister of one of Malaysia's Borneo states recently when, in order to justify the awarding of a timber concession in one of the last uncut ecologically important areas, he actually stated that orang utangs prefer secondary jungle to their natural habitat.

Poor countries are always going to struggle to control deforestation. The incentives are too great and the governments' controls and enforcement are often too weak. Malaysia, however, is one of the few nations with remaining primary jungle which can afford not to destroy it. Its people are not so impoverished as to have to clear trees in order to eat and it has the necessary infrastructure to control the timber industry if it so wishes. Furthermore if Malaysia were to ban the cutting of trees for environmental reasons it would send a powerful message to other developing nations, many of whom admire Malaysia's achievements.

Of course the share prices of the timber companies have been performing well, in many cases driven by research reports from the larger international broking houses, some of whom at other times are keen to stress their green credentials, even producing research reports on recycled paper. If they really think that promoting companies associated with an industry that destroys the habitats of highly endangered species and displaces and impoverishes native peoples fits in with this new image, then I am seriously missing the point.

Currently the skies in Singapore and Malaysia are clouded by the haze, caused by the illegal burning of jungles and plantations in Indonesia. This has become an annual event, as has muted protest and inaction by the regional governments; unhappily the economics of clearing land cheaply and efficiently still takes precedence over people's health.



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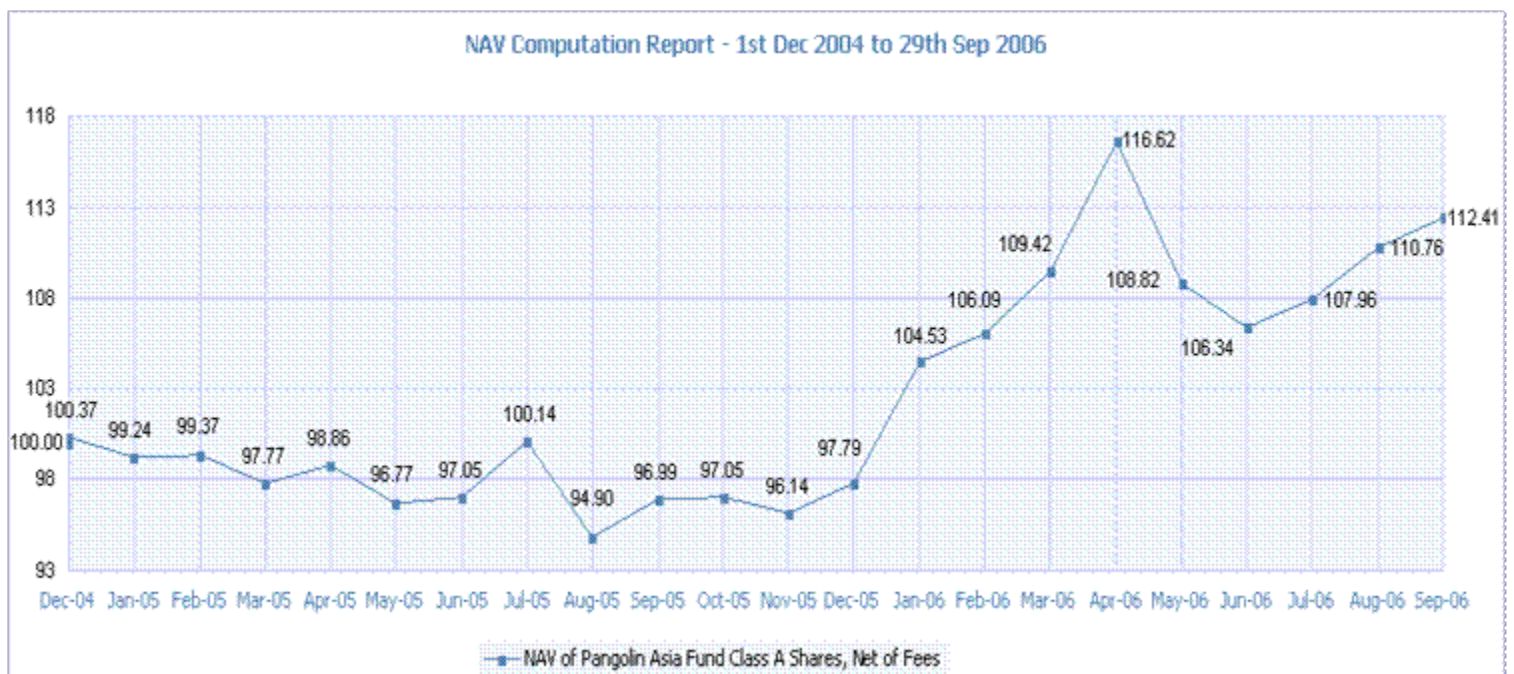
As democracy develops in Indonesia so does the business of opinion polling, something that would have been unthinkable in the Suharto era and still is in some neighbouring countries, although I'm not sure if the Thai generals have banned it yet. A poll published in Monday's Jakarta post reassuringly stated that only 9% of Indonesians would vote for Islamic parties in an election, with most favouring secular alternatives. More worryingly the survey also reported that 9% (presumably the same bunch) of Indonesians supported the Bali bombings and considered them to be a justifiable form of jihad. Support and action are not of course the same thing (e.g. I support Arsenal but am unlikely ever to play for them) but 9% of over 200 million people is quite a fan base. As I am in Jakarta and going to Bali at the weekend, I'd better keep my head down – if the loggers don't get me first.

Salaam aleikum

James Hay

*More details concerning the fund's investments are always available to shareholders in the fund on request.*

*Further information can be found at [www.pangolinfund.com](http://www.pangolinfund.com)*





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| <b>Month</b> | <b>NAV</b> | <b>% chg</b> |
|--------------|------------|--------------|
| 1 Dec 2004   | 100.00     |              |
| 31 Dec 2004  | 100.37     | 0.37%        |
| 31 Jan 2005  | 99.24      | -1.13%       |
| 28 Feb 2005  | 99.37      | 0.13%        |
| 31 Mar 2005  | 97.77      | -1.61%       |
| 29 Apr 2005  | 98.86      | 1.11%        |
| 31 May 2005  | 96.77      | -2.11%       |
| 30 Jun 2005  | 97.05      | 0.29%        |
| 29 Jul 2005  | 100.14     | 3.18%        |
| 31 Aug 2005  | 94.90      | -5.23%       |
| 30 Sep 2005  | 96.99      | 2.20%        |
| 31 Oct 2005  | 97.05      | 0.06%        |
| 30 Nov 2005  | 96.14      | -0.94%       |
| 30 Dec 2005  | 97.79      | 1.72%        |
| 27 Jan 2006  | 104.53     | 6.89%        |
| 28 Feb 2006  | 106.09     | 1.49%        |
| 31 Mar 2006  | 109.42     | 3.14%        |
| 28 Apr 2006  | 116.62     | 6.58%        |
| 31 May 2006  | 108.82     | -6.69%       |
| 30 Jun 2006  | 106.34     | -2.28%       |
| 31 Jul 2006  | 107.96     | 1.52%        |
| 31 Aug 2006  | 110.76     | 2.59%        |
| 29 Sep 2006  | 112.41     | 1.49%        |

**2005 return -2.57%**  
**2006 return 14.95%**