



Pangolin Investment Management

Pangolin Asia Fund October 2009 NAV

As of the 31st at October 2009, the NAV of the Class A shares of the Pangolin Asia Fund was US\$174.49 net of all fees and expenses, up a rip-roaring 0.74% from US\$173.21 in September.

At the end of October the fund was just about 83% invested, with the split being approximately as follows:

Indonesia	51%
Malaysia	32%
Singapore	17%

Details of the individual holdings are always available to investors on request.

Overview

The overall portfolio was pretty flat in terms of share price movements in October with no huge moves in any of the holdings. Asian currencies were a bit stronger against the US\$ which helped us marginally. We have exited one position in Singapore (which will doubtless double this month) and we have been adding to our holdings of what we consider to be ultra-cheap consumer stocks in Malaysia and Indonesia.

We have had Q3 results from just about all of our investments and on the whole they have been at the upper end of expectations, with just one a bit below. Asian consumers may not be in as much trouble as their Western counterparts but nevertheless their spending is not what it was. All the same, the fact that these companies are doing well even in tough times is encouraging for the future.

Bad times are all part of the cycle. We try to pick managements who are able not only to steer their businesses through a recession but who are also in a position to take advantage of the situation. Our portfolio, with the exception of the finance companies, comprises companies with net cash on their balance sheets which (we hope) should make achieving survival and growth a probability.

In **Indonesia** the new cabinet has been announced with mixed reviews. Those hoping for more technocrats than politicians have been disappointed, although those technocrats that have made it seem to have had a favourable reception. The consensus is that one needs the political appointees to steer policy through what is a hung parliament. Anyway the proof of the pudding is still to come. Effecting change is not easy. The president didn't get much done in his first four years although the absence of catastrophic policy decisions is a plus in itself in developing nations.

In **Malaysia** PM Najib seems to be pushing the country in the right direction, although the recently announced and rather odd National Auto Policy is a reminder that he has to listen to his party members, many of whom are involved in the car business.

Nevertheless and much to everyone's surprise, Najib is proving to be a pretty effective and intelligent leader. In fact the hyperbole surrounding "change" in Indonesia is really focusing on the wrong country.

Outlook

Markets have gone up so much it would be rather strange if they didn't come down a bit or a lot. We all know it will happen at some point despite the fact that policy makers are doing everything possible to keep asset prices rising. As value investors we try to ignore the markets and hope that by buying companies cheaply, and by adding to the positions at lower levels if the markets give us the opportunity to so do, we can make decent long-term returns.

So, despite being a bit worried by the strength of the rally we have encountered, when we find stocks we think are good value we are rather committed (as value investors) to buying them. That is why we have been increasing our exposure to consumer companies trading on between 4-6x earnings. We think those earnings are reasonably secure and these companies are too cheap to ignore. This is balanced by having more cash than normal although there is a good chance we will spend some of it on another company I visited last month.

For me, South East Asia's consumption story is unstoppable. Lifestyles are changing dramatically for millions of people as they leave the fields and enter the cities and formal employment. This trend is not abating in the current global slowdown, although the pace may have slowed a bit. The demography in Indonesia and Malaysia also support increased consumerism.

Last month I travelled to Pulau Pantar, an Indonesian island East of Flores. I stayed in a village with no mains water or electricity and a handphone signal that could be only be accessed by climbing a tree. The men still hunt with bows and arrows and meat is a luxury reserved for holidays. A generation ago one could have said the same for much of more developed parts of the country or even Malaysia. This island and the lifestyles of its inhabitants will change rapidly, with better transport links (roads and rusting old ferries banned in Europe but good for another 50 years over here), communications and infrastructure. The children or grandchildren of today's hunter will be in tomorrow's supermarket queues.



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Below are a few pictures which I hope give a rough idea of what the place is like. I'll try and get a few more photos onto the website.

Going hunting



The weekly market



On the phone



At the well



The Dover-Calais Ferry





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This is a rapidly changing region. Bali's traffic jams were unimaginable ten years ago yet the roads in Eastern Flores are little more than country lanes with hardly a car on them. At Pangolin we continue to get excited about investing in this change, especially when we can buy it so cheaply.

I shall be in Switzerland meeting investors for the next two weeks (9th-20th November). If you would like a meeting please let me know.

James Hay.

5th November 2009.

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.

Further information can be found at www.pangolinfund.com

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2009	Nav	95.67	96.38	98.12	133.22	145.25	151.32	159.71	167.99	173.21	174.49			74.02%
	% chg	-4.59%	0.74%	1.81%	35.77%	9.03%	4.18%	5.54%	5.18%	3.11%	0.74%			
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%	

2005 return	-2.57%	Best monthly return	35.77%
2006 return	31.74%	Worst monthly return	-20.42%
2007 return	27.19%	Maximum drawdown	-47.53%
2008 return	-38.81%	% of positive months	66.10%
2009 return	74.02%		