PANGOLIN INVESTMENT MANAGEMENT

Pangolin Asia Fund August 2016 NAV

As at the 31st of August 2016 the NAV of the Class A shares of the Pangolin Asia Fund was US$411.20 net of all fees and expenses, down 0.32% from US$412.53 in July.

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

As of today, the fund is about 89% invested with the split being approximately as follows:

Singapore	14%
Malaysia	36%
Indonesia	31%
Thailand	19%

We don't disclose our names but some details are always available to investors on request.

Overview

To put the 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
Aug 2016	-0.2%	-0.1%	3.3%	1.5%	-1.7%	1.6%	3.1%	-0.1%	-0.3%
YTD 2016	5.6%	6.2%	17.3%	-0.9%	-2.2%	20.2%	8.7%	11.4%	14.7%

Return (in USD)									
Period	DOW	S&P 500	JSE	KLSE	STI	SET	MSCI ex JP	MSCI-ASEAN	PAF
Aug 2016	-0.2%	-0.1%	2.0%	1.5%	-3.3%	2.0%	3.1%	-0.1%	-0.3%
YTD 2016	5.6%	6.2%	21.8%	4.7%	1.9%	25.1%	8.7%	11.4%	14.7%

% Change in Currency Vs USD				
Month	MYR	SGD	IDR	THB
Aug 2016	-0.04%	-1.7%	-1.2%	0.4%
YTD 2016	5.6%	4.1%	3.9%	4.1%

Our largest position in Thailand reported underwhelming results. It happens.

The politics need to grow up

After a most refreshing British & European break it's good to return to KL and the dynamism of Asia, where 4% GDP growth is treated as a recessionary crisis.

However, there is no doubt that 4% does feel slow. And although there are signs of life, it is not boom-time in Thailand either. Singapore is a mature economy, but it's exceptional political management will ensure that its growth rates remain superior to most. And Indonesia has the most potential but is still being constrained by low commodity prices.

It remains a frustration that much of ASEAN is let down by its politicians. The potential for economic growth is so much greater than what is achieved. Corruption and cronyism play a large part, resulting in the economic cost of losing power being so much greater than elsewhere; and Asia's retired politicians don't do the US lecture circuit.

Absolutism is propped up by populism and protection. In Malaysia, where the same government has ruled for 59 years, the voting system is skewed towards the rural population. Not because there are more people, but because the constituency seat sizes are significantly smaller. There is a big urban-rural wealth dichotomy which is also replicated in thinking. For example, the (generally) religiously conservative kampong folk are largely the reason that education is in Malay rather than English (as it used to be). Thus Malaysia is one of the few countries where the older population speak better English than the young. Educationally Malaysia is slipping behind its competitors, where a lack of critical thinking and poor English skills not only constrain economic development, but also contribute to the problem of youth unemployment.

The rural areas have greater reliance on state-controlled mainstream media ensuring they remain more in tune with the government line. This over-representation of the countryside maintains the UMNO-led government's power and therefore any significant change in constituency sizes is unlikely, especially as the ruling coalition fares so badly in urban areas.

In Thailand's case, the rural population is under-represented despite them being the majority. They have been punished by the ruling elite for voting in their own interest i.e. for Thaksin and his representatives. Thaksin's party is the only party to have won an outright majority in Thailand, a feat he repeated when re-elected. A coup, of course, has put paid to Thaksin and equal weighting of votes. And, as tends to be the case, deadlines for a return to democracy have been missed.

Indonesia has a rapidly improving economic leadership. The government is making real strides to tear down the barriers to economic growth. Whether these changes will last or really even filter down to the areas that really need the changes most remains to be seen – decentralisation of power to regionally elected governments has thrown up all sorts of local-level issues – but for now we can say that things are getting better.

Indonesia is a beneficiary of a system that enforces two-term limits (although this same system has produced a choice of Hillary or Donald) and gives the electorate the opportunity to remove poorly performing politicians, something I wish we would see more of elsewhere.

And Singapore continues to be the exception that proves the rule.

And so do the businessmen

We don't count our company visits, but if the four of us who regularly meet managements do so three times a week, the number is 600 or so per annum. We get to know an awful lot of business managers and owners.

Despite this, we still find it hard to find companies we can own, the result being that over the past 11 years we have only ever invested in 54 names. Our focus on businesses that are both significantly undervalued and well-managed tends to lead us to family owned firms. In many cases the company is controlled by a patriarch major shareholder, who probably has his sons (and increasingly his daughters) involved in the business.

Whether he owns 30% or 70% he effectively controls the business, making it difficult for minorities to have influence, let alone exact change. The company policy will be decided by him. The non-executive directors will be chosen by him. A few years ago, at a stormy AGM (the storm largely caused by me) one of our companies introduced the new independent non-exec whose only qualification for the role was that she was a friend of the chairman. Lovely lady and no longer on that board.

So when Pangolin chooses to invest in a family-controlled business we have to be as sure as we can be that we are not going be surprised (stuffed) by management decisions, because the owner (and very often he considers himself as that despite perhaps owning 30%) can do what he wants. This can range from selling personal assets to the company, vanity projects, growing eco-friendly coffee, donating significant shares of profits to charities or political parties, investing in an Indonesian coal mine despite being a widgets manufacturer, paying his wife a huge bonus, all sorts of related party transactions, running a share portfolio, speculating in foreign currency and the list goes on.

When we buy into a business, we intend to own it for a long time. If the management starts to unexpectedly do some of the above, and we own 3% of what is a fairly illiquid company, then we have a problem. We hope that our DD prevents us from getting into these situations and, with 1 notable exception back in 2005, our record has been pretty good. I'm not sure what the ratio of ***luck : judgement*** is but our fingers remain permanently crossed. Who knows what might happen tomorrow?

There are many operationally efficient companies that are let down by poor capital allocation. Poor practice shrinks our investible universe massively. What the owners of these companies fail to get is that, by improving corporate practice and putting the minorities first, they would increase their personal wealth via the enhanced valuations of the stakes they own in their businesses. This would leave them free to use their own money (as opposed to others') to build a condominium named after their mistress, invest in a non-related business or decide that starting a coffee brand is the way forward (you'd be amazed by how often we come across businesses convinced that they can be the next Nescafe).

I reckon things are changing, but not quickly enough. Preservation of face in Asia means that corporate activism practised by starting a public shouting match with the board at an AGM results in poorer rather than better investor relations. In the West you can perhaps shake hands and go for a beer after; in Asia, forget it.

Jobs

This newsletter goes to over 700 people. Occasionally some of them tell me they would rather eat glass than continue in their existing job. Currently, I know of both senior and less-senior investment managers to whom this applies. If you are looking to hire, let me know and we'll see what we can do.

James Hay
6th September 2016

Ps. I don't want to sound too negative. Democracies aren't perfect either. And as I sit here watching a monitor lizard enjoying the tropical sunshine on my lawn, I realise that there are many of you who would swap the West for Asia's dodgy politicians, 4% economic growth, yearlong sunshine and low taxes.

I 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
2016	NAV	352.31	360.43	387.79	396.17	386.04	395.41	412.53	411.2					14.74%
	% chg	-1.69%	2.30%	7.59%	2.16%	-2.56%	2.43%	4.33%	-0.32%					
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	**65.96%**
Annualised return	**12.79%**

By Sector