Pangolin Asia Fund November 2016 NAV

As at the 30th of November 2016 the NAV of the Class A shares of the Pangolin Asia Fund was US$388.48 net of all fees and expenses, down 5.54% from US$411.25 in October.

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

As of today, the fund is about 90% invested with the split being approximately as follows:

Singapore	13%
Malaysia	35%
Indonesia	32%
Thailand	20%

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

Overview

To put 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**
Nov 2016	5.4%	3.4%	-5.0%	-3.2%	3.2%	1.0%	-2.9%	-5.4%	-5.5%
YTD 2016	**9.7%**	**7.6%**	**12.1%**	**-4.3%**	**0.8%**	**17.3%**	**5.3%**	**2.1%**	**8.4%**

Return (in USD)									
Period	**DOW**	**S&P 500**	**JSE**	**KLSE**	**STI**	**SET**	**MSCI ex JP**	**MSCI-ASEAN**	**PAF**
Nov 2016	5.4%	3.4%	-8.6%	-9.1%	0.2%	-0.9%	-2.9%	-5.4%	-5.5%
YTD 2016	**9.7%**	**7.6%**	**14.0%**	**-8.0%**	**-0.3%**	**18.3%**	**5.3%**	**2.1%**	**8.4%**

% Change in Currency Vs USD				
Month	**MYR**	**SGD**	**IDR**	**THB**
Nov 2016	-6.1%	-3.0%	-3.7%	-1.9%
YTD 2016	**-3.8%**	**-1.0%**	**1.7%**	**0.9%**

Last month I lamented that there wasn't much to write about when a fund moves a mere 0.3%; I should be more careful what I wish for…

Weakness in regional currencies or strength in the dollar, depending on your perspective, was the big story last month. The currencies were weak across the board (I'll write a bit more on the Ringgit below) and we had a couple of underwhelming results from our two largest Malaysian holdings, just to compound things.

Sentiment remains weak and has been hit harder by the currencies' weaknesses, but actually some economic indicators are improving; across the region money supply numbers, bank lending and other factors are all ticking up, albeit from anaemic levels.

Tourist arrivals remain buoyant, largely driven by the PRC market. Unfortunately, fear of execution means that the Mainlanders no longer go home with 3 Rolexes, but they still buy a minimum of a dozen I Love Bali/KL/Singapore T-shirts, 400 cigarettes, 2 bottles of XO and a year's supply of Tiger Balm, so their impact remains positive.

In 2015 120 million Chinese went overseas, of which 1.7 million visited Malaysia. By the end of 2016 this number is expected to reach 2 million and Malaysia is targeting 8 million by 2020.

Malaysia

The **Malaysian** central bank (Bank Negara or BN) keeps reassuring the public that it will not impose capital controls, but the reality is that capital controls are already in place. Firstly the Ringgit (RM) remains non-convertible offshore which means that RM FX transactions must happen in Malaysia.

Unfortunately, the day after Trump was elected, US$ were not actually available at the rate quoted onshore, implying that the price is not real. Of course, this led to even greater panic amongst Malaysians. Offshore one can trade/speculate/hedge in the RM through non-deliverable forwards (NDFs). Below is a snapshot of today's RM pricing:

MYR=	Malaysia Ringgit	4.4470	-0.31 %	-0.0140	4.4610	MYR
MYRNDFOR=	MYR NDF OUTRIGHT					
MYRSWNDFOR=	<MYRNDFOR=>	4.4398	-0.22 %	-0.0100	4.4498	MYR
MYR1MNDFOR=	<MYRNDFOR=>	4.4495	-0.64 %	-0.0285	4.4780	MYR
MYR2MNDFOR=	<MYRNDFOR=>	4.4599	-0.44 %	-0.0196	4.4795	MYR
MYR3MNDFOR=	<MYRNDFOR=>	4.4678	-0.49 %	-0.0222	4.4900	MYR
MYR6MNDFOR=	<MYRNDFOR=>	4.4907	-0.46 %	-0.0208	4.5115	MYR
MYR9MNDFOR=	<MYRNDFOR=>	4.5156	-0.76 %	-0.0344	4.5500	MYR
MYR1YNDFOR=	<MYRNDFOR=>	4.5408	-0.4 %	-0.0182	4.5590	MYR
MYR2YNDFOR=	<MYRNDFOR=>	4.5300	-2.39 %	-0.1110	4.6410	MYR

The top price is the onshore price and the rest are the NDFs, which are settled in USD. I'm writing this on a stronger RM day (after the OPEC members agreed to cut production) and today's table actually shows the NDF spot rate to be firmer than the onshore rate. I suspect offshore there is an awful lot of short-covering going on as Malaysia's economy is a higher-oil-price beneficiary. For the past month, the NDFs have been much weaker than the offshore rate – today is an anomaly – but you can see that the futures point to a weakening currency.

The picture is a lot better than it has been. The second capital control in place is that for any RM FX transaction one has to fill in a form telling the central bank what it is for. For example, if we sell a Malaysian company and want to change the RM for US$, then we have to effectively get BN's approval. This is always given, but the risk is that at some point, despite assurances, it won't always be.

So, a Malaysian wishing to buy a property in London, send money to their student offspring in Canada or even bung a million into the Pangolin Asia Fund has to get permission (always granted so far) to do so. The rate given will be the onshore rate ie 4.4470 today. This is the rate we get (minus a very generous spread we give to our custodian) so this is the rate we use to value the fund.

There is a saying about generals always being ready to fight the last war. Bank Negara is still terrified of offshore speculators betting against the Ringgit, personified by George Soros who did so successfully back in 1998. Currently if you fill in an onshore form saying that you are selling Ringgit because you wish to bet against it, I suspect that BN would take a dim view. Thus, the speculators are left with the much more active NDF market.

The real reason for the Ringgit's weakness is not so much foreign selling as domestic. Basically, many richer Malaysians have lost faith in their country's currency and are not convinced as to whether BN will, at some stage, close the door on their offshore transfers. For this reason, offshore money remains offshore, and transfers out of the country remain more common than transfers in.

Coincidentally, on the day of Trump's victory, it was announced that Malaysia's IOI Properties had won a bid for a piece of land in Singapore for S$2.57 billion. This price was 16% higher than the second highest bidder and cynics point it to be being yet another case of Malaysians moving their wealth to another jurisdiction.

It is also noteworthy that Malaysia's banking system deposits growth post-GFC has dropped from a peak of 19.5% YoY in March 2008 to just 1.3% YoY in Sep 2016. Quite anaemic and partly caused by the capital outflows.

So how should BN be fighting this war? Well, if the country's economic management was perceived to be better, that would be a start. But the real issue is the fear among Malaysians that they are living in a big financial fish trap, albeit one that hasn't been closed yet. Over the past year or two, overseas transfers have become more cumbersome, with requests for supporting documents even when sending money to my maid's mother (and it wasn't a lot). This may not fit BN's definition of capital controls, but as far as the public are concerned, it is not a free transfer either.

So what BN needs to do, to assuage the fears of Malaysians, is to remove all these requirements and allow offshore trading of the Ringgit. OK it would allow the speculators a free run, but what is wrong with that anyway? Most countries live with them; and currently they are able to speculate in the NDF market anyhow. But as speculators are not the problem, making the currency freely convertible would encourage both repatriation and domestic investment. This should be accompanied by a strong statement that free-convertibility will remain a fixture.

I live in a fairly posh part of KL and there have never been so many **For Sale** signs. Many of my neighbours own multiple properties in Malaysia and in the past bought a new one or two every year. Anecdotally, recent purchases have all been overseas. In the past, they'd have snapped up the next-door property – actually houses in my part of town weren't advertised, they just quietly changed hands.

I suspect that only when Malaysians are reassured of the ease of moving money in AND out of their country, and when the onshore and offshore exchange rates are the same, will we see Ringgit stability.

Will it happen? Unlikely. Over the weekend BN came up with a bunch of new measures to try to stabilise the Ringgit. They won't work because the exchange rate is a market price and restricting trading won't alter that. BN is attacking the symptoms not the cause. Sometimes I wonder if the reason investment banks make so much money is because, very often, the other side of large liquid bet is a government.

In this case Malaysia's government could make an abrupt policy U-turn without losing face. The wriggle-room is provided by the once-revered Dr Mahathir, who imposed capital controls back in 1998. As he is now considered an enemy of the current government, the whole fiasco could be blamed on him and liberalisation, as prescribed above, could happen. But don't hold your breath.

Pangolin Investment Management Pte. Ltd., 50 Raffles Place, #22-02 Singapore Land Tower, Singapore 048623.
Tel : +(65) 6334 4475 / Fax : +(65) 6438 8082, Email : info@pangolinfund.com Website : www.pangolinfund.com

Merry Christmas

November is the fund's year end. I'd like to thank my colleagues Vinchel, Irvan, Chiew Sia, Jalene and Zu for their continued hard work and support. And to wish you all a Merry Christmas and a Happy New Year.

James Hay
7th December 2016

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.

Pangolin Investment Management Pte. Ltd., 50 Raffles Place, #22-02 Singapore Land Tower, Singapore 048623.
Tel : +(65) 6334 4475 / Fax : +(65) 6438 8082, Email : info@pangolinfund.com Website : www.pangolinfund.com

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	410.02	411.25	388.48		8.40%
	% chg	-1.69%	2.30%	7.59%	2.16%	-2.56%	2.43%	4.33%	-0.32%	-0.29%	0.30%	-5.54%		
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	**65.28%**
Annualised return	**11.97%**

By Sector