Pangolin Asia Fund February 2020 NAV

As at the 29th of February 2020 the NAV of the Class A shares of the Pangolin Asia Fund was US$420.43 net of all fees and expenses, down 9.73% from US$465.73 in January.

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

As of today, the fund is about 86% invested, with the split being approximately as follows:

Singapore	22%
Malaysia	31%
Indonesia	37%
Thailand	10%

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	NASDAQ	JSE	KLSE	STI	SET	MSCI ex JP	MSCI-ASEAN	PAF
Feb 2020	-10.07%	-8.41%	-6.38%	-8.20%	-3.16%	-4.52%	-11.47%	-2.91%	-9.29%	-9.73%
YTD 2020	-10.96%	-8.56%	-4.52%	-13.44%	-6.68%	-6.57%	-15.15%	-7.25%	-13.97%	-14.87%

Return (in USD)										
Period	DOW	S&P 500	NASDAQ	JSE	KLSE	STI	SET	MSCI ex JP	MSCI-ASEAN	PAF
Feb 2020	-10.07%	-8.41%	-6.38%	-12.46%	-5.85%	-6.47%	-12.32%	-2.91%	-9.29%	-9.73%
YTD 2020	-10.96%	-8.56%	-4.52%	-16.18%	-9.42%	-9.74%	-20.04%	-7.25%	-13.97%	-14.87%

% Change in Currency Vs USD				
Month	MYR	SGD	IDR	THB
Feb 2020	-2.78%	-2.04%	-4.63%	-0.96%
YTD 2020	-2.94%	-3.40%	-3.16%	-5.76%

I think the fund's February performance requires no explanation. It was perhaps exacerbated by the collapse of Malaysia's ruling coalition – see below.

Outlook

Last month I warned how the coronavirus was having an economic effect in Asia. This has clearly now spread to the rest of the world and is knocking the stuffing out of markets. As we all know, the past 10 years have seen an explosion of debt and the decline in economic activity will surely cause a raft of business failures. What we're seeing in the markets is a reflection of this. We have been in a liquidity-driven asset bubble for a decade. We all knew that at some point this has to come to an end. Maybe this is it.

As businesses fail, we will see a contagion of debt. This is what markets are worrying about.

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I've been through a few crises in my time. The worst was the Asian financial crisis of 1998. The Global financial crisis ten years later didn't affect Asia so much. And I would still argue that, as a result, the finances in our part of the world are in better shape than those of the West.

As a bottom up investor, I have been able to take advantage of down markets. Before founding Pangolin, the Asian financial crisis gave me my first real opportunity to put my value investing theory into practice. And 2008/9 was when we were able to invest ultra-cheaply on behalf of the fund. We can be pretty sure that we'll be revising down our earnings forecasts for this year, but the long-term prospects remain intact. If markets continue to fall, we are likely to be able to invest at a significant discount to the value of future earnings over the coming months.

I would expect what are considered to be liquid investments turning out to be not so liquid after all, as happened in 2007/8 in the hedge fund industry. Pangolin has never pretended to offer much underlying liquidity – in fact investing in the less liquid is where the bargains are. I would expect forced selling to occur and babies to be thrown out with the bathwater.

In 2008, prices were so low that, as fundamental investors, we had no choice but to buy. We didn't have much cash and were forced to sell good companies in order to reinvest into what was really knocked down. And pretty much every time we bought, the markets and our new investment would be weaker the next day. Now for funds with a short-term outlook, this would have been a problem. But if you honestly believe that what you own is undervalued, then the market gyrations can be ignored. Generally, if the companies you own are genuinely cheap enough, you'll make money over the next three years. And if there isn't at least a three year view, it isn't investing.

The lesson I learnt from 1998 (as did many in Asia) was to avoid businesses with debt. While gearing looks great in good times, it can be fatal in downturns. We own Padini, a high street retailer in Malaysia. In 2015 retail was slow and the major shareholder was asked at the AGM if Padini would make more money in the next 12 months. "No" he replied, "sales are slow this year. But we have cash and most of our competitors don't. This is when we can get the best sites in the best malls at good rates. And we can increase our advertising when they are cutting back." That is what happened and profits subsequently grew. That is why we own cash-rich businesses.

Pangolin's track record has been pretty good in market downturns. Falling 38% in 2008 beat the region's -55% and the subsequent recovery in the next 3 years almost trebled the NAV from its lows, before a bout of bearishness in 2011. We were also able to take advantage of weak markets in 2011 and 2015. We are ***valuation timers***, not market timers.

Malaysian Politics

In May 2018, the ruling coalition lost power after uninterrupted rule since independence. The new government, led by the sprightly Dr Mahathir, was also a coalition but united in its commitments to reform, good governance, fairness, economic soundness – and anything else that sounded good to the electorate.

Nearly two years in and the coalition has collapsed. Like many coalitions, it was plagued by infighting. Dr M's promise to hand over the prime ministership to Anwar Ibrahim after two years was brushed under the carpet and was followed by a vague commitment to hand over in November after the APEC conference. Anwar's own party has been plagued by infighting and perhaps it is not surprising that, at 94 years of age, Mahathir was no longer able to keep firm control over his MPs. It is only natural that his powers should wane – I mean it's not like he's Keith Richards.

But I'm not sure many saw what has happened coming; that a faction of a government that was voted in to bring about change would team up with UMNO and its Islamic ally PAS in order to seize power. UMNO was the enemy. ABU or *Anyone but UMNO* was a campaign slogan.

The new prime minister, Muhyiddin Yassin, claims to have a majority of MPs, a matter disputed by Dr M. He has been appointed PM by the king and parliament's next sitting has been put back from Monday 9th March to May 18th, so Muhyiddin's claim to have a majority won't be tested before then. And, so say the cynics, as this gives his new government time to induce others to join it, he may well have a majority by then.

Those who voted for the Mahathir–Anwar axis feel cheated. The largest constituent party in Muhyiddin's government is UMNO. Yet the three most senior members of that party (Najib Razak, Zahid & Tengku Adnan) are all in the midst of corruption trials. The opposition now worries that these trials will fizzle out under the new government, although Muhyiddin has stated that this will not be the case.

So, if we assume that Muhyiddin's government is able to muster a parliamentary majority, Malaysia will have a government with the leader coming from one of the parties with the smallest number of MPs in the coalition. Given that Muhyiddin is also in remission following treatment for pancreatic cancer, how stable is this in reality?

And, if he can't show a majority, can Dr M continue to lead the opposition? Unlikely. Apart from Anwar, there are plenty of other ambitious younger members who can now see no real reason to support him going forward. They could live with him in power, but in opposition? Interesting times ahead. Let's hope the press remains free so we can follow it all.

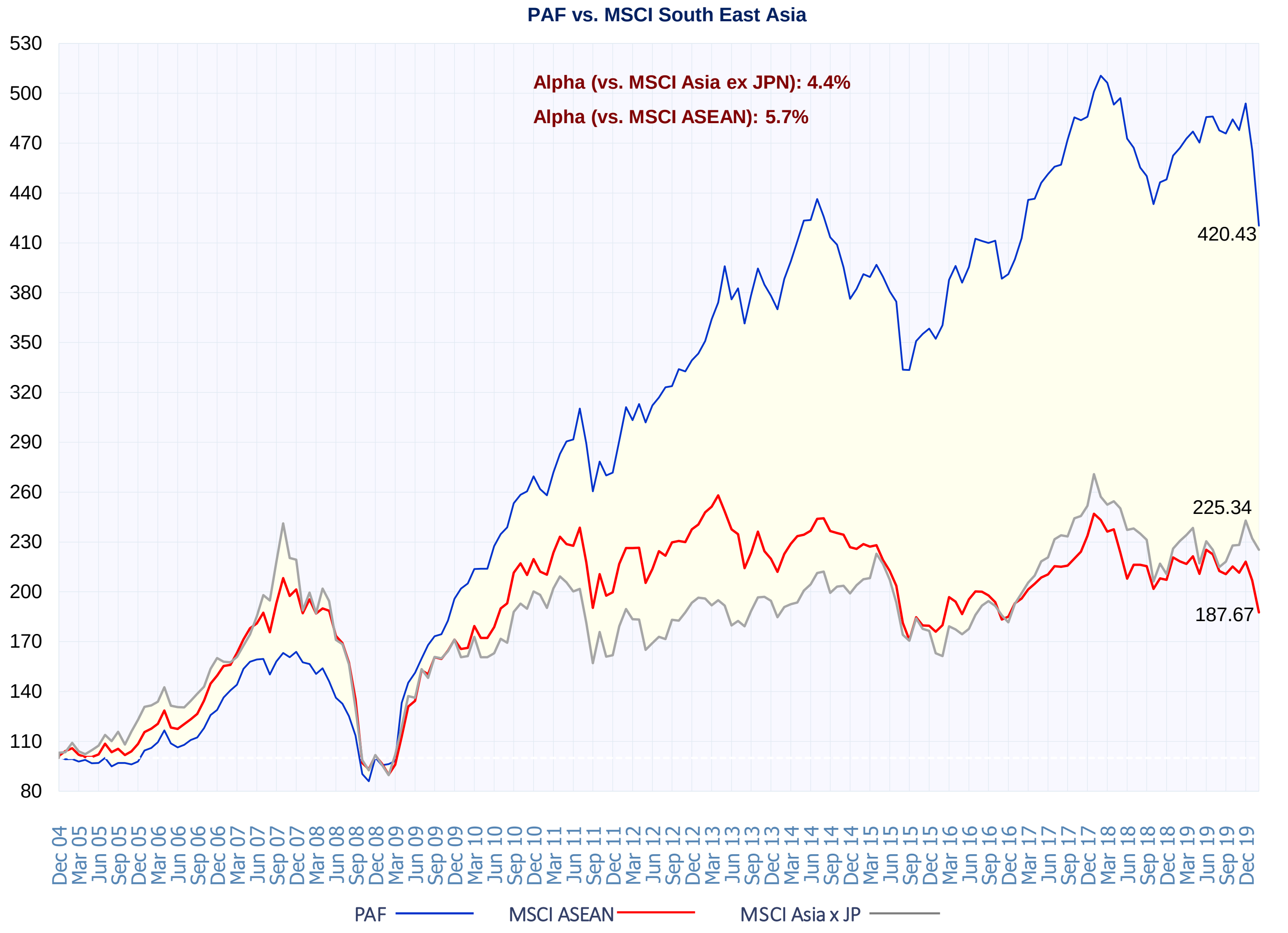
What will be the impact on Malaysia? In the past two years many wealthy Malaysians had begun to feel more optimistic about the country. The default position for many used to be to buy properties abroad and to tell their overseas-graduating kids to find jobs where they were, not back in Malaysia. This had eased somewhat, but unless the new government exceeds expectations (and it may), there may well be a drop in domestic confidence.

But before we get too gloomy, Malaysia did pretty well in the 60 odd years of UMNO led rule. It's an easy place for foreigners to invest. It's a moderate and tolerate Muslim society with a young and aspirational population. Yes, of course it would have been preferable if UMNO had regained power through the ballot box, but UMNO's ambitious younger generation have learnt lessons from the last election; and are aware that they will face an emboldened electorate which, having removed them from power once, will happily do so again if the excesses of the past are repeated.

James Hay.
10th March 2020

We don't like to discuss our 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.

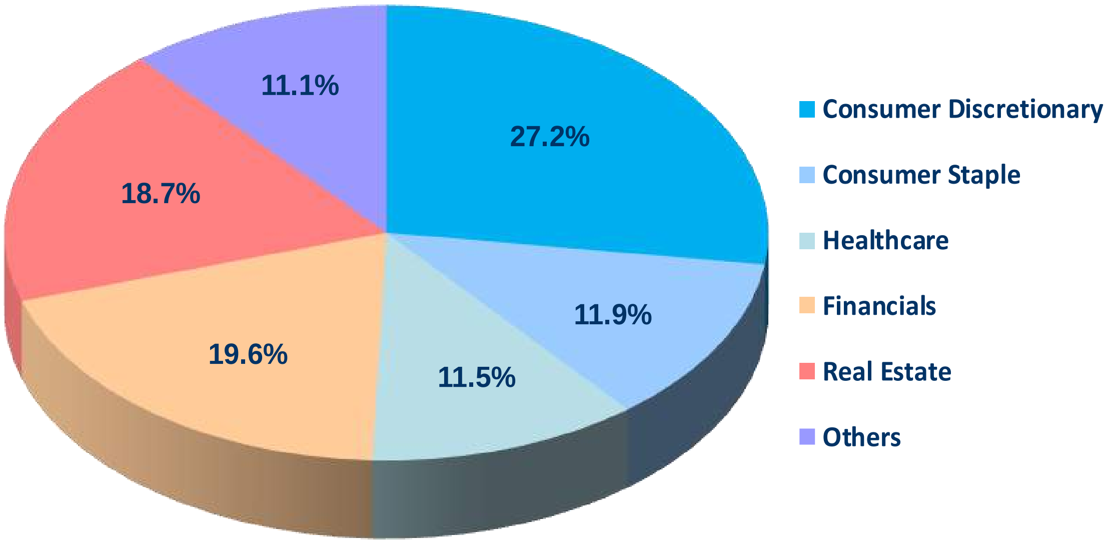
Fourteen years track record and annualised return of 9.87%



Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	*NAV*	465.73	420.43											-14.87%
	% chg	-5.69%	-9.73%											
2019	*NAV*	462.51	467.10	472.67	477.00	470.36	485.78	486.12	477.67	475.87	484.37	477.85	493.85	10.21%
	% chg	3.21%	0.99%	1.19%	0.92%	-1.39%	3.28%	0.07%	-1.74%	-0.38%	1.79%	-1.35%	3.35%	
2018	*NAV*	501.11	510.62	506.32	493.22	497.19	472.82	467.29	455.31	450.29	433.40	446.46	448.11	-7.76%
	% chg	3.15%	1.90%	-0.84%	-2.59%	0.80%	-4.90%	-1.17%	-2.56%	-1.10%	-3.75%	3.01%	0.37%	
2017	*NAV*	400.08	412.81	435.93	436.54	446.18	451.43	455.76	457.12	472.10	485.61	483.86	485.79	24.18%
	% chg	2.27%	3.18%	5.60%	0.14%	2.21%	1.18%	0.96%	0.30%	3.28%	2.86%	-0.36%	0.40%	
2016	*NAV*	352.31	360.43	387.79	396.17	386.04	395.41	412.53	411.2	410.02	411.25	388.48	391.19	9.16%
	% chg	-1.69%	2.30%	7.59%	2.16%	-2.56%	2.43%	4.33%	-0.32%	-0.29%	0.30%	-5.54%	0.70%	
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	**65.03%**
Annualised return	**9.87%**

By Sector


11.1%
27.2%
18.7%
11.9%
19.6%
11.5%
Consumer Discretionary
Consumer Staple
Healthcare
Financials
Real Estate
Others