



Pangolin Investment Management

Pangolin Asia Fund February 2012 NAV

As at the 29th of February 2012 the NAV of the Class A shares of the Pangolin Asia Fund was US\$311.15 net of all fees and expenses, up 7.01% from US\$290.78 in January. Please see the table at the end of this letter for further detail.

As of today, the fund is just about 94% invested with the split being approximately as follows:

Indonesia	30%
Malaysia	39%
Singapore	19%
Thailand	12%

No names I'm afraid but details of the individual holdings are always available to investors on request.

Overview

We've had a whole year (2011) of economic growth and increased earnings which were not, for the most part, accompanied by rising share prices. Suddenly, for some reason, many investors have woken up to this and are realising that there are some very cheap stocks in places where the economies are still growing. This is probably why the fund is up.

A while ago my colleague Vinchel discovered a stock in Thailand that looked so cheap we had to buy it. For ages it was our worst investment; not because the company wasn't doing well but because the share price just wouldn't go up. In fact the over-reaction to the Thai floods meant that we were able to buy a bit more at a substantially lower price than we had initially paid as recently as last October. This stock has more than doubled since then - and it rose by 40% in February. I reckon it is still cheap and, as yet, I can't find any brokers' research on it. Consequently it is our now our largest holding.

Outlook

In **Malaysia** the expected imminent announcement of a general election is dominating the news. One slightly worrying turn is that some opposition gatherings are being disrupted by pro-Government thugs, while the police apparently stand idly by. I don't expect a change of government but there are some who are worried that should the opposition win, some of the current incumbents won't leave quietly.

Malaysians seem to be feeling pretty good about life at the moment. Malaysian-owned Cardiff City nearly toppled Liverpool in the League Cup final last week and in this football-obsessed nation, this kind of thing puts a spring in the step. And if Lee Chong Wei can win gold at the Olympics this year, the country really will be on air.

It's not just Cardiff City. QPR is also owned by Malaysians and Aston Villa's sponsors are Genting, the casino company. The forthcoming Formula One season will feature two Malaysian owned teams. Living in a country without capital gains tax means that the wealthy can get seriously wealthier. In the old days wealth was only for transfer to future generations but these days there seems to be a bit more of an inclination to enjoy it.

The state pension fund (EPF) has been buying UK property as have many ordinary Malaysians. It is considered quite normal to buy a flat for one's children wherever they attend University.



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For those interested, a bit more on how we Pangolins invest

We visited a company in Malaysia the other day. This business is a manufacturer that dominates its domestic market and has substantial exports to Europe. The management has a good track record of paying out excess cash. Recently it has been buying in Europe as it wishes to replicate its dominant domestic position overseas. Currently the company's valuations are not attractive enough for us but the management is planning another European acquisition that should boost earnings by 60%. These purchases are being funded by internally generated cash; and the company will still have money left over.

If all pans out as hoped, then the stock would undoubtedly be cheap enough for us to own. Net cash, high ROE and a PE of 6x or so. In my old broking days I'd be telling my clients to get in now. However, we probably won't buy it for the fund. Experience has taught me that I do better buying into a company whose existing business is significantly under-priced by the market rather than buying on the assumption that something in the future is going to change the company significantly.

We'll keep an eye on this (and probably watch it double and more). We might even change our minds. However our company visits continue to uncover companies whose **current** operations are undervalued – usually because they are too small for most – and despite the bullish start to the year, most of what we own remains very cheap by most definitions.

James Hay
7th March 2012

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.

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012	Nav	270.78	311.15											14.5%
	% chg	7.00%	7.01%											
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	182.6	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	157.9	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	94.9	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	0.37%
	% chg													

Best monthly return	35.77%	% of positive months	70.11%
Worst monthly return	-20.42%	Annualised return	16.95%
Maximum drawdown	-47.53%	5-year CAGR	17.19%