PANGOLIN INVESTMENT MANAGEMENT

Pangolin Asia Fund January 2024 NAV

As at the 31st of January 2024, the NAV of the Class A shares of the Pangolin Asia Fund was US$583.20 net of all fees and expenses, down 0.59% from US$586.68 in December.

As of today, the fund is about 97% invested, with the split being approximately as follows:

Singapore	6%
Malaysia	35%
Indonesia	59%

We don't like to disclose our names, but some details are always available to investors (and those wishing to become investors) on request.

Overview

To put things into some perspective, please see the tables below.

Return (in local currencies, except MSCI)									
Period	DOW	S&P 500	NASDAQ	JSE	KLSE	STI	MSCI Asia ex JP	MSCI-ASEAN	PAF
Jan-24	1.22%	1.59%	1.02%	-0.89%	4.01%	-2.69%	-5.49%	-3.62%	-0.59%
FY 2023	13.70%	24.23%	43.42%	6.16%	-2.73%	-0.34%	3.60%	-3.13%	8.00%

Return (in USD)									
Period	DOW	S&P 500	NASDAQ	JSE	KLSE	STI	MSCI Asia ex JP	MSCI-ASEAN	PAF
Jan-24	1.22%	1.59%	1.02%	-3.30%	0.95%	-4.18%	-5.49%	-3.62%	-0.59%
FY 2023	13.70%	24.23%	43.42%	7.36%	-6.74%	1.11%	3.60%	-3.13%	8.00%

% Change in Currency Vs USD			
Period	MYR	SGD	IDR
Jan-24	-2.94%	-1.53%	-2.43%
FY 2023	-4.12%	1.45%	1.13%

The annual New Year's optimism surrounding emerging markets' currencies and markets has evaporated, and it looks like we're back to normal. Having said that, we are receiving more investor enquiries and meetings requests this year. For the most part, investors remain massively underweight ASEAN. Presumably, at some point, this must surely right itself.

God, I Hate Advisors

Over the years, I've often described Pangolin as a research house that occasionally makes an investment. Our process involves many meetings with companies' managements. In January I met up with a consumer company that Vinchel and I had a serious look at many years ago. Looking back, we were rather put off by an advisor to the management, whose role seemed to be to talk up the value of the shares and come up with various ways to increase the share price.

This company, run by its founder, has excellent management and a good business in what is a competitive environment. It's an interesting story and well worth a look. Well, it would be if they didn't still have this same advisor. The company is sitting on a pile of cash, and trades on a single-digit multiple. The advisor thinks this is too cheap and to remedy the situation, it is looking for a secondary listing in Hong Kong. Currently the business is listed in Southeast Asia. It's not just the advisor's idea, but of course the investment banks are also pushing this – because they'll earn a fee.

"We have to do something, because our shares are underrated by the market" is the argument. This cash rich company wants to raise more money in order to make acquisitions. *Diworsification* is the term Peter Lynch used.

Who'll benefit from this? Not the shareholders, just the bankers. If you run a company and have excess cash, pay it back as dividends. Research shows that the value, to the share price, of money returned by a company as dividends, is four times greater than that of money retained. It's so simple, but it's not advice any investment banker will ever give, because there's no fee to be earned from a dividend.

A successful retailer listed its shares in the Philippines a few years ago. Obviously the bigger the capital raising, the bigger the fees. So, they were encouraged to issue new shares to raise cash they didn't need. And the bankers advised them to use the proceeds to load up on inventory.

Bear in mind that, in many cases, the entrepreneurial founders of businesses are capital market virgins. They're out of their depth when the investment bankers come-a-calling. Why, if you're in the fast-moving fashion business, would loading up on inventory be a good idea? As fashions changed, this stupidity stuffed the company's cash flow for years, while enhancing that of their advisors.

Another successful retailer, this time in Malaysia, was talked into raising money the company didn't need. Regulators normally insist on a statement on the proposed use of funds in a listing prospectus. So, this company, which for years had judiciously opened stores only in the most likely areas, now came out with a plan to open many more shops in secondary areas. They basically told the markets that they would be less profitable post-listing.

In the two years since listing, the company's shares have lost more than 70% of their value. Was it the management that suddenly decide to change their successful strategy of many years, or were they sweet-talked into it?

A **warrant** gives the holder the right to convert, on payment of a certain amount, the warrant into shares. They often have a conversion period of five years. They are popular with companies in this part of the world and a warrants issue is normally offered to all shareholders *pari passu* (ranking equally & without preference). They make no sense from a business point of view. There is no certainty as to when (or even if) the company will receive the cash, which hardly equates with sensible cash-flow management.

In the case of highly leveraged companies, the share price is often below the conversion price, which means no conversion. In this instance the company won't receive much-needed funds.

Yet, conversely, warrants are often issued by companies that don't need the cash anyway. But hey, there's another deal here – "now you've got lots of cash, let us help you make an acquisition," said the big bad wolf.

I'm very much the poacher turned gamekeeper here. In my previous existence, my favourite was to persuade companies to issue 10% new shares to institutionalise the shareholding. *Institutionalise the shareholding* – a meaningless yet persuasive phrase.

Outlook

Despite the above, there remain enough excellent (unadvised) companies for us to choose from. That's why we've made some money despite declining markets. In fact the fund has outperformed the ASEAN Index by 7% annually since inception.

Our approach to investing is long term. When the major shareholder of a business expands his factory or starts a new product line, he's thinking ten years. We try to align our investment holding period with that of the majority shareholders of our businesses. Many other public shareholders buy or sell on the back of what they've just watched on CNBC. Maybe they're scared by the news of some previously unheard-of Portuguese or Californian bank going bust. Or a line on a chart crossing another line on a chart.

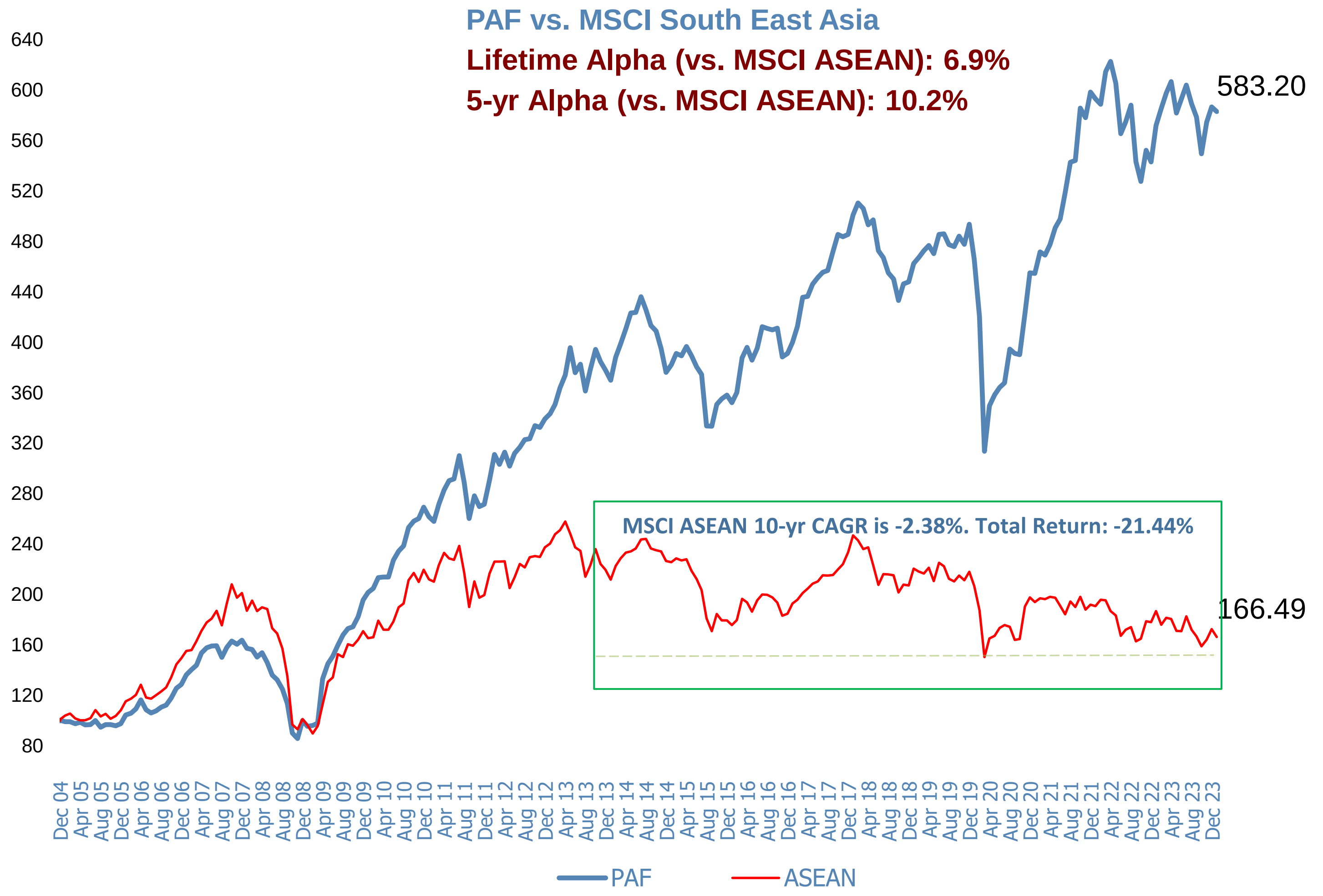
Our fund suits those investors who think similarly and agree that there presently exists the opportunity to acquire shares in this fast-growing part of the world, for far less than they're worth. This approach rules out many money managers, who are judged on the week, month, quarter or even the year. It's my belief that the investment industry's focus on the short-term is oxymoronic. And works to the advantage of those who define an investment as having at least a five-year time frame.

Pangolin Asia Fund weighted valuations (31 Jan 2024)

	2024F
P/E (x)	10.3
Profit Growth (%)	11
ROE (%)	19
ROIC (%)	26
ROIC ex-props (%)	29
Div Yield (%)	5.7

James
9th February 2024

Nineteen years track record and annualised return of 9.64%

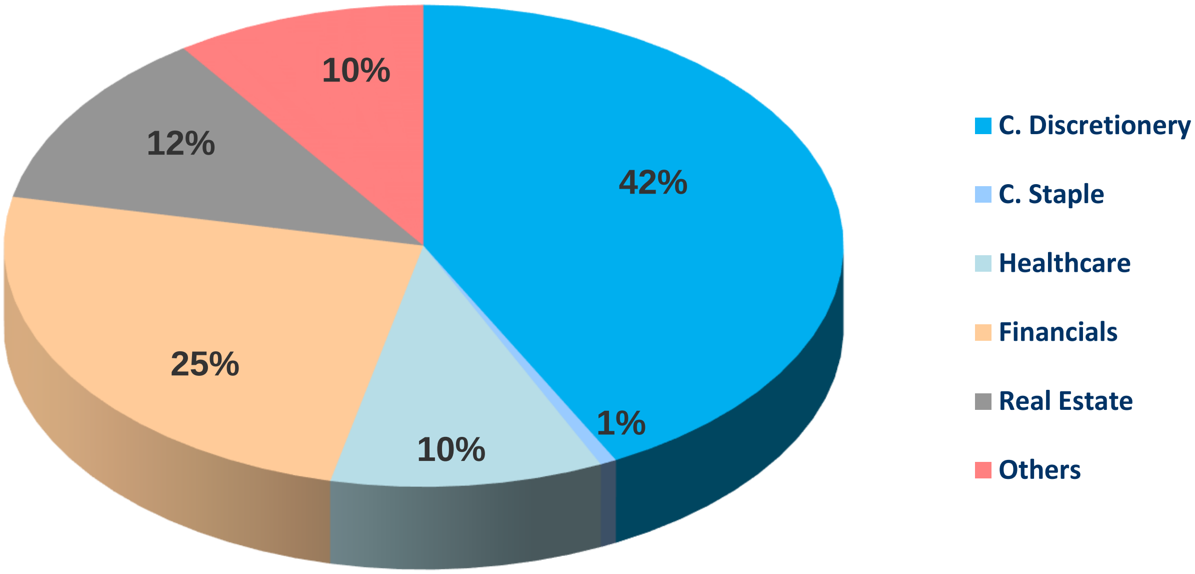


PANGOLIN INVESTMENT MANAGEMENT

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2024	*NAV*	583.20												-0.59%
	% chg	-0.59%												
2023	*NAV*	571.92	585.67	597.55	606.77	581.95	593.00	604.19	589.30	578.62	549.65	574.87	586.68	8.00%
	% chg	5.28%	2.40%	2.03%	1.54%	-4.09%	1.90%	1.89%	-2.46%	-1.81%	-5.01%	4.59%	2.05%	
2022	*NAV*	593.29	588.82	614.73	622.83	605.35	565.54	574.94	588.17	543.35	527.78	552.46	543.22	-9.23%
	% chg	-0.86%	-0.75%	4.40%	1.32%	-2.81%	-6.58%	1.66%	2.30%	-7.62%	-2.87%	4.68%	-1.67%	
2021	*NAV*	454.64	471.89	469.26	477.70	491.07	497.99	518.78	542.88	544.24	585.87	578.32	598.45	31.44%
	% chg	-0.15%	3.79%	-0.56%	1.80%	2.80%	1.41%	4.17%	4.65%	0.25%	7.65%	-1.29%	3.48%	
2020	*NAV*	465.73	420.43	313.82	349.63	358.55	364.26	367.99	394.82	391.21	390.47	422.87	455.32	-7.80%
	% chg	-5.69%	-9.73%	-25.36%	11.41%	2.55%	1.59%	1.02%	7.29%	-0.91%	-0.19%	8.30%	7.67%	
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%	

Best monthly return	**35.77%**
Worst monthly return	**-25.36%**
Maximum drawdown	**-47.53%**
% of positive months	**64.35%**
Annualised return	**9.64%**

By Sector


10%
12%
42%
25%
1%
10%
C. Discretionery
C. Staple
Healthcare
Financials
Real Estate
Others