Pangolin Asia Fund August 2020 NAV

As at the 31st of August 2020 the NAV of the Class A shares of the Pangolin Asia Fund was US$394.82 net of all fees and expenses, up 7.29% from US$367.99 in July.

As of today, the fund is about 83% invested, with the split being approximately as follows:

Singapore	13 %
Malaysia	25 %
Indonesia	57 %
Thailand	5 %

We don't 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 Asia Ex-Japan)										
Period	DOW	S&P 500	NASDAQ	JSE	KLSE	STI	SET	MSCI ex JP	MSCI-ASEAN	PAF
Aug 2020	7.57%	7.01%	9.59%	1.73%	-4.90%	0.11%	-1.35%	3.40%	-0.69%	7.29%
YTD 2020	-0.38 %	8.34%	31.24%	-16.84%	-4.00%	-21.42%	-17.04%	5.29%	-19.94%	-20.05%

Return (in USD)										
Period	DOW	S&P 500	NASDAQ	JSE	KLSE	STI	SET	MSCI ex JP	MSCI-ASEAN	PAF
Aug 2020	7.57%	7.01%	9.59%	1.98%	-3.18%	1.15%	-0.75%	3.40%	-0.69%	7.29%
YTD 2020	-0.38%	8.34%	31.24%	-20.82%	-5.68%	-22.25%	-20.70%	5.29%	-19.94%	-20.05%

% Change in Currency Vs USD				
Month	MYR	SGD	IDR	THB
Aug 2020	1.81%	1.04%	0.25%	0.60%
YTD 2020	-1.75%	-1.06%	-4.79%	-4.40%

There has been a change in our portfolio recently as the weighting is heavily tilted towards Indonesia, but in about a month's time, that should decline to about 40+%. Exposure to Thailand was reduced due to the exit of investments and new opportunities that our research team has uncovered in Malaysia and Indonesia. Interestingly, there are companies that thrive even in the face of economic devastation brought about by the pandemic. The ones we follow closely are those run by management with a corporate culture that is obsessed with zeal for efficiency, the very attribute we admire.

Premier Marketing

At Pangolin, corporate governance is one large issue we face when investing in Asian companies. It is an important qualitative factor we increasingly scrutinise when making investment decisions as reputation may well be the company's most valuable asset. We have done quite a lot of work on various non-operating issues with the companies that we own, with some degree of success. We examine one operationally-sound company with a strong brand presence in Thailand that has room to improve in the areas of capital allocation, corporate governance and treatment to minority shareholders.

As a background, Premier Marketing (PM) owns a successful, valuable, and dominant Thai fish snack brand "Taro" with a leading market share of over 80% and a phenomenal growth potential. In fact, it is the third largest snack brand in the country. Easily the preferred fish snack among the consumers, Taro is available and prominently displayed at both traditional and modern retail outlets such as 7-Eleven, Tesco Lotus, and Central Department Store. Taro itself is an operationally well-run business with an estimated ROIC in the region of 60%. However, its value is not properly realised because of diversion into commodity-like, loss-making non-core businesses that eat away the overall profitability of the company. Additionally, the company continues to make suboptimal capital allocation decisions. The following are some of the things the company does to disappoint shareholders.

1. Inadequate Disclosure

A company with four subsidiaries, PM is one of the least transparent companies in Thailand where the business split of each division is not sufficiently disclosed. It makes financial analysis difficult. About five years ago, the company added a new social enterprise subsidiary that handles marketing activities and distribution of 'Mivana' brand of high elevation shade-grown organic Arabica coffee. Mivana works with a group of coffee farmers in *Mae Lao* watershed forest in *Chiang Rai* to process organic coffee. Some of its social objectives include nature conservation, preservation of the environment, employment opportunity, and sustainability of the farming communities. As a business, it has suffered net losses for five consecutive years. It operates in a highly competitive market and continues to receive large amount of related-party loans from PM. This drains the company's overall cash, increases inventory, and lengthens cash conversion cycle. Performance disclosure of this business unit is nowhere to be found in the annual reports, let alone the justification for its retention. Such poor disclosure practice persists despite our continuous engagement with management to demand change.

PM defines success as creating value for society and employees, in addition to profit generation. One of its priorities is to balance the needs of different stakeholder groups and pursue their own interests at the expense of shareholders. Specifically, the company has a mandate to donate 5% of its earnings to a charitable foundation for public benefits. But the detailed information and financial impacts of such activity are not clearly communicated in the annual report. The absence of candid reporting causes shareholders to question whether management has a comprehensive grasp of the business and whether the Board is sufficiently exercising its fiduciary duty on behalf of owners. Corporate philanthropy is admirable, but it should be performed outside the company or at the major shareholder level without risking all shareholders' money.

2. Poor Corporate Governance

PM does not have both Nomination and Remuneration Committees. The Chairman of the Board is not even independent and the Independent Directors have been in the company for more than 10 years, which do not conform to the Corporate Governance Code of Best Practice. Choosing suitable Independent Directors is a must. They serve as an important check and balance in the company and play a special role in safeguarding the interests of minority shareholders. Generally, the recommended nine-year term limit is intended to protect against the loss of objectivity arising from cosy relationships between long-serving Directors and Management. Improvement in corporate governance also makes companies more accountable and transparent to investors. It is not a hard thing to do, but PM has little interest to follow these best practices, citing those are just guidelines and listed companies are not required to follow.

3. Non-core Business

Non-core business is an expensive distraction to management. The core operation is suffering because the company keeps allocating capital to the non-cores, taking up a lot of management’s time and leaving it with a shortage of resources. While PM managed to dispose off legacy non-core vehicle leasing business to its major shareholder three years ago, it continues to add more. Value-conscious companies with large amounts of excess cash and limited investment opportunities should return the money to shareholders through dividends.

Not only does this give shareholders the opportunity to earn better returns elsewhere, but it also reduces the risk that management will use excess cash to make misguided value-destroying investments.

4. Not Cutting Losses

Not cutting losses means the company allows consistent underperformance to persist over a prolonged period. In its defence, they may argue that it is a business that needs time to mature. Or business owners just simply do not want to lose face. They choose to do nothing, hoping it can turn around in the near future. In PM's case, cutting losses on the coffee business make a lot of sense because in just 4 years, total operating profit has declined by 34%. Cash level has shrunk considerably during the same period. Net cash to shareholder's equity fell from 0.36x to almost zero. Cutting losses is an affirmation that management does not gloss over mistakes and unlikely to repeat, hence building trust.

5. Share Buyback

We tend to think of buybacks as a sign of success, proof that the company has plenty of cash to spend. In reality, a company that buys back its stock is signalling to the market that it lacks profitable opportunities for investment. Compounding PM's problem of cash redirection to non-core is the recently approved share buyback program to buy up to a maximum of 7% of its outstanding shares. Although EPS and ROE may be boosted in the short term, such behaviour jeopardises future liquidity and investment opportunity When a company buys back shares, the management is becoming a fund manager. Time is wasted when they should be focusing on creating value from the core business.

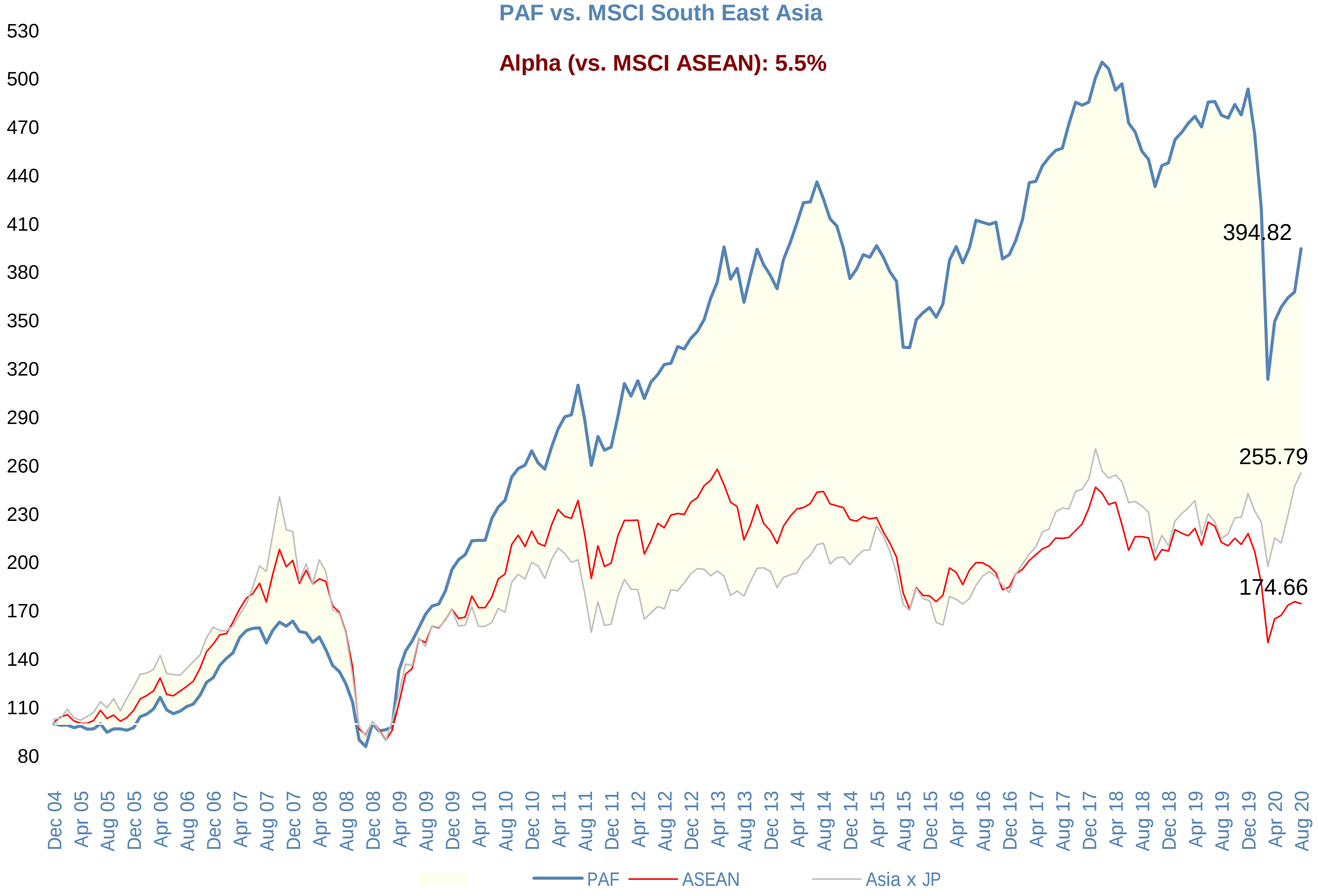
Conclusion

PM has a great consumer business that can be unbundled from the non-cores to unlock shareholder value. Some of the options available include a separate listing of Taro shares (the valuable snack business) via restructuring in the form of share distribution in specie or an outright sale of other non-core businesses. If our advice is followed and executed, the benefits to shareholders will be immense. It will enhance the public image, create investment flexibility, and ultimately result in upward re-rating of the company. We have been working with PM for years to persuade management to implement changes. Unfortunately, our friendly activism did not work out in our favour. We first invested in PM at a P/E of 6x and exited at 19x. We made about 19% annualised return on this investment, but it could have been better. At Pangolin, we believe the downside is protected by not overpaying and the upside will take care of itself.

Vinchel Budihardjo
7th September 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.

Fifteen years track record and annualised return of 9.11%



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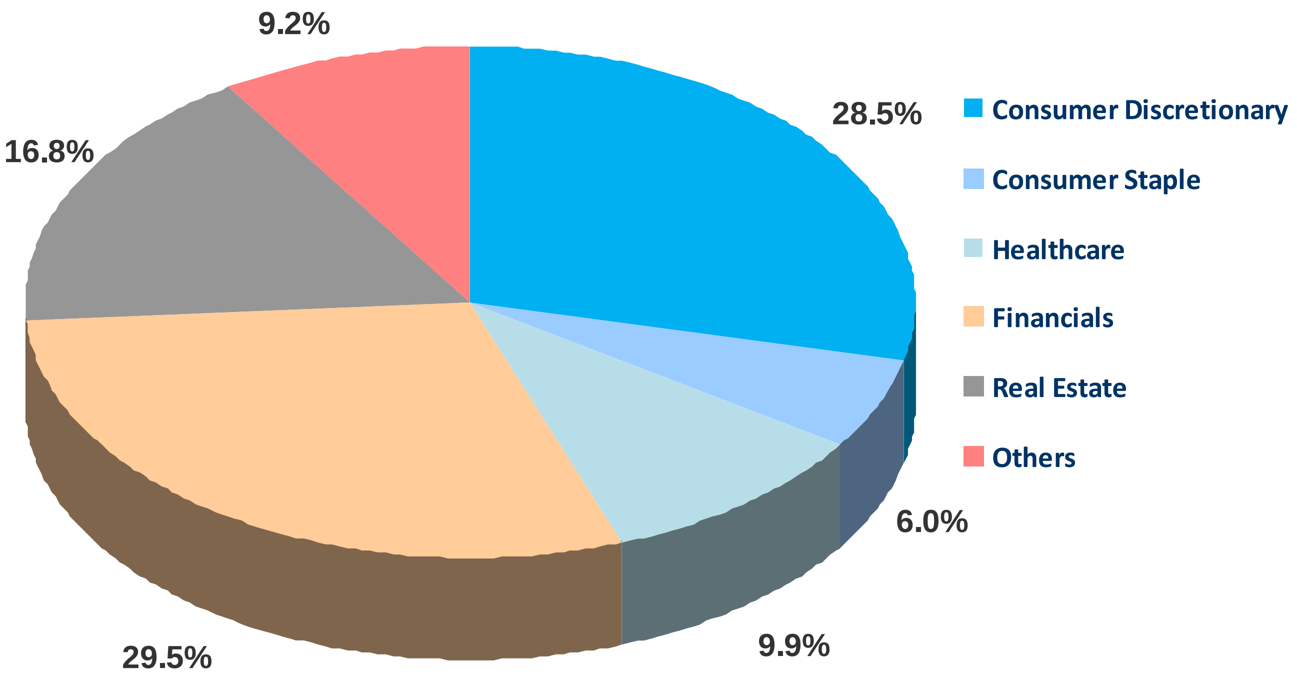
Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	*NAV*	465.73	420.43	313.82	349.63	358.55	364.26	367.99	394.82					-20.05%
	% chg	-5.69%	-9.73%	-25.36%	11.41%	2.55%	1.59%	1.02%	7.29%					
2019	*NAV*	462.51	467.10	472.67	477.00	470.36	485.78	486.12	477.67	475.87	484.37	477.85	493.85	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	**-25.36%**
Maximum drawdown	**-47.53%**
% of positive months	**65.61%**
Annualised return	**9.11%**

By Sector


9.2%
28.5%
16.8%
6.0%
9.9%
29.5%
Consumer Discretionary
Consumer Staple
Healthcare
Financials
Real Estate
Others