PRUSIK

GROWTH INVESTING IN ASIA

Prusik Asia Fund

Quarterly Investment Report
31 March 2019

FOR PROFESSIONAL INVESTORS ONLY

Prusik Asia Fund Quarterly Report Q1 2019

Performance Commentary

The first quarter of the 2019 saw the M2APJ Asia ex-Japan index rise 8.96% while the fund rose 9.18%, outperforming by 0.22%. All figures are in sterling.

The fund did especially well during the early part of the quarter but gave a little back, in relative terms, during March for two main reasons. The first was that our Vietnamese internet social media hosting company, **Yeah1**, announced that its relationship with YouTube had been terminated owing to issues over content. Although this only affects around 13% of the company profits, the shares fell sharply during March. We believe that management have been disappointingly naïve around the brewing issues globally surrounding content responsibility and we have since completely exited the position. However, the decline did contribute quite significantly to the underperformance in March.

The second contributing factor to recent underperformance was that, although China was the key driver behind the index rise in March, our Chinese construction companies took a back seat during the rise, thereby creating a drag. The recent 4Q18 results from these companies took in one-off losses and impairments, which investors took negatively. However, more positively, this also suggests that a more solid base is now formed. Excluding the one-off losses, core earnings grew by 17-22% year-on-year. Furthermore, the current backlog of orders shows that they should easily meet revenue targets this year and that 2019 earnings growth could reach the 15-20% range, currently three times higher than is forecast for the average MSCI Asia company. Given these companies are now trading more than one standard deviation below their historic valuations, we believe the potential upside from here remains very good. A little more on this below.

Elsewhere, the quarter saw some strong performances from our more significantly weighted themes, such as Local Brands, Energy and AI. Please see below a more detailed breakdown of how the fund performed by theme and company.

We have set out more details on the above in the tables and commentary below.

1Q19 Return on Capital by Theme

Theme	PAF Return on Capital 1Q19
Education	29.9%
Local Brands	25.0%
Artificial Intelligence / Virtual Reality	20.6%
Energy/Energy Services	14.3%
Financials	14.3%
Leisure/Tourism	10.8%
Infrastructure/Logistics/Property	6.8%
Vietnam	-2.5%
Healthcare	-6.7%
Miscellaneous	-11.4%

Source: Prusik/Bloomberg

1Q19 Absolute Attribution by Theme

Theme	PAF Absolute Attribution 1Q19
Local Brands	3.17%
Energy/Energy Services	2.63%
Financials	2.09%
Artificial Intelligence/Virtual Reality	1.39%
Infrastructure/Logistics/Property	1.26%
Education	0.48%
Leisure/Tourism	0.44%
Vietnam	-0.12%
Healthcare	-0.32%
Miscellaneous	-0.14%

Source: Prusik/Bloomberg

Outperforming Themes in 1Q19

Local Brands: 13.4% average weighting in 1Q19

- The local brands theme returned 25.0% in 1Q19, led by our China domestic sportswear brand, **Li Ning**. Korean fashionwear brand, **Fila Korea**, also contributed positively.

Energy/Energy Services: 17.6% average weighting in 1Q19

- The energy/energy services theme saw a 14.3% return in 1Q19, led by **Rio Tinto**. All the stocks in this theme posted positive returns over the quarter, supported by the rising oil price. We exited **Sembcorp Marine** on account of rising opportunity cost having found more attractive stocks elsewhere.

Artificial Intelligence/Virtual Reality: 8.3% average weighting in 1Q19

- The artificial intelligence/virtual reality theme returned 20.6% in 1Q19, led by **Ping An Healthcare & Technology**. During the quarter, we met with the CEO of **Ping An Healthcare & Technology** and were further impressed with the company's advanced use of AI to help solve China's challenge of greater demand versus supply in healthcare. Both the business model and the application of AI in healthcare which **Ping An Healthcare** uses is unparalleled, globally.

Underperforming Themes in 1Q19

Healthcare: 0.8% average weighting in 1Q19

- Our healthcare theme saw a negative return on capital in 1Q19. During 1Q19 we exited all of our healthcare stocks owing to rising risks relating to the central procurement process. Post exit, the fund had benefitted from a 133% return in AK Medical but has seen minor losses in **Beijing Tong Ren Tang** and **Essex Biotech**.

Vietnam: 7.4% average weighting in 1Q19

- Our Vietnam theme saw a negative return on capital in 1Q19. This was owing to online media company, **Yeah1**, which breached content publishing standards resulting in YouTube terminating their relationship with **Yeah1**. While YouTube represents less than 20% of sales for **Yeah1** the issue raised questions re operational practices. We have since sold the stock. During the quarter, the negative attribution was limited to 62 bps. **Vietnam Dairy** posted double-digit returns in the quarter.

The Portfolio

The portfolio is currently running thematic exposures which represent a barbell approach. On the one hand, we have some exposure to reflation sectors such as energy and resources, where we see significant under-investment will lead to supply/demand imbalances for a number of key products, such as copper, iron ore and oil. It is important to note the ongoing demand for infrastructure investment in Asia (see our China construction segment), as well as the oil demand numbers from China (about which we have written extensively in the recent past reports). These are continually surprising on the upside.

On the other side of the equation, we also continue to hold a significant weighting in attractively valued and upcoming consumer stocks and the macro rationalisation for this is detailed in the segment below entitled 'Reasons to be Cheerful'. We also retain some exposure to technology, especially the internet and AI side, where we see new business models emerging, such as in **AfterPay**, a new position, which we have written about below and also at **Ping An Healthcare**, where AI is successfully employed in a new business model.

So far, as we have seen last quarter, this has been a helpful position for the fund to take and we see positive data (and helpful anomalies) from all three distinct areas, as well as good enough valuation support to continue with this approach.

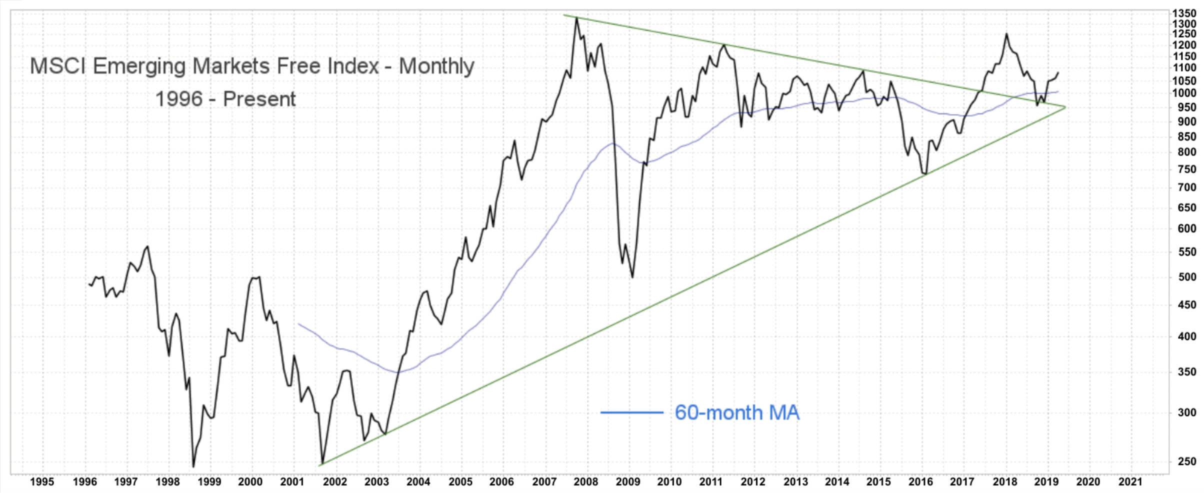
Reflation?

A growing number of cyclical risk-markets and related indicators have surged or are breaking-out of long consolidation patterns. Below is a chart of **Rio**, which we hold and which, in many ways, illustrates one of the more intriguing anomalies we have seen in recent years. The key question is: *why are we seeing such bullish action in reflation assets when the headlines are so pessimistic about global growth?*

Source: Bloomberg

The pattern shown by **Rio** is repeated across many assets. A picture sometimes speaks a thousand words, so here below we share a few with you. Technical analysis can be considered less fundamental than other analysis but, we think that used alongside other factors, it can be a very powerful 'wake-up' tool.

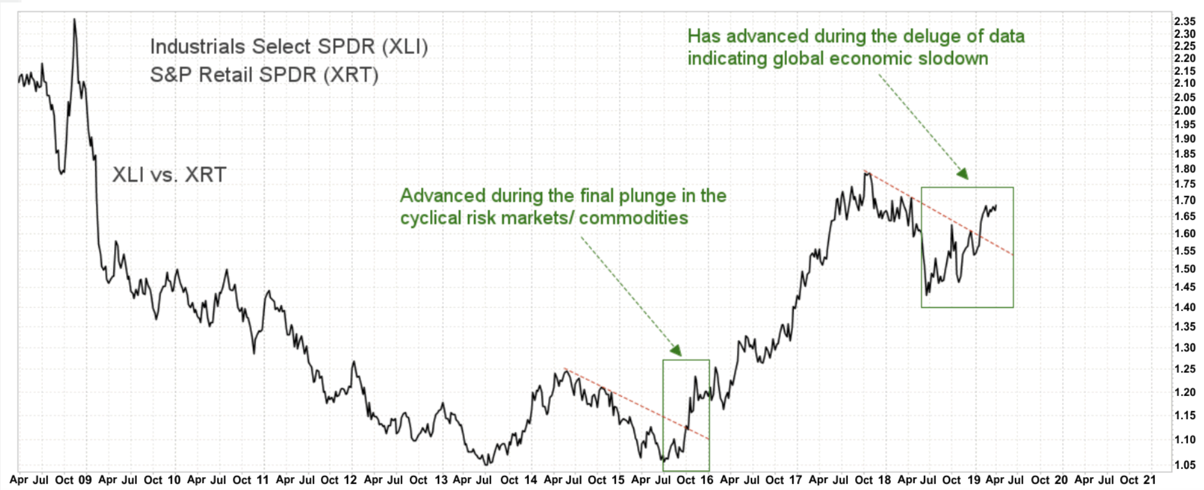
First of all, MSCI Emerging Markets actually broke out in 2017 (another frequent pattern we are seeing). The index then retested previous resistance level and now looks as though it could move higher.



Source: 13D

US Industrials Versus Consumption Stocks

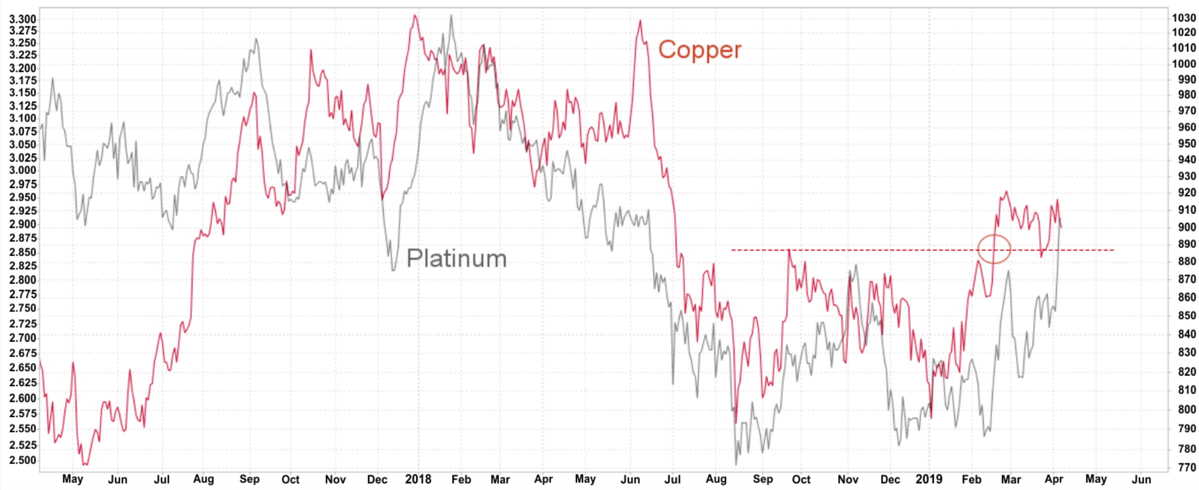
The rising line indicates US industrial stocks (production) are out-performing US retail stocks (consumption). New highs in the ratio would provide an important clue supporting further upward progress in the Emerging Markets.



Source:13D

As seen in the first chart below, platinum has surged above the multi-month base. The second chart below shows copper, which broke-out several-weeks ago, and which continues to consolidate above the breakout area. New highs and further upward progress in copper above the $3.00 level could suggest the breakout in platinum is likely to be sustained.

Source:13D



Source:13D

The following two charts show the SPDR S&P Oil and Gas Exploration and Production ETF (XOP) and the VanEck Vectors Oil Services ETF (OIH). As noted in the charts, these markets appear to be in the process of rising above the multi-month consolidation pattern.

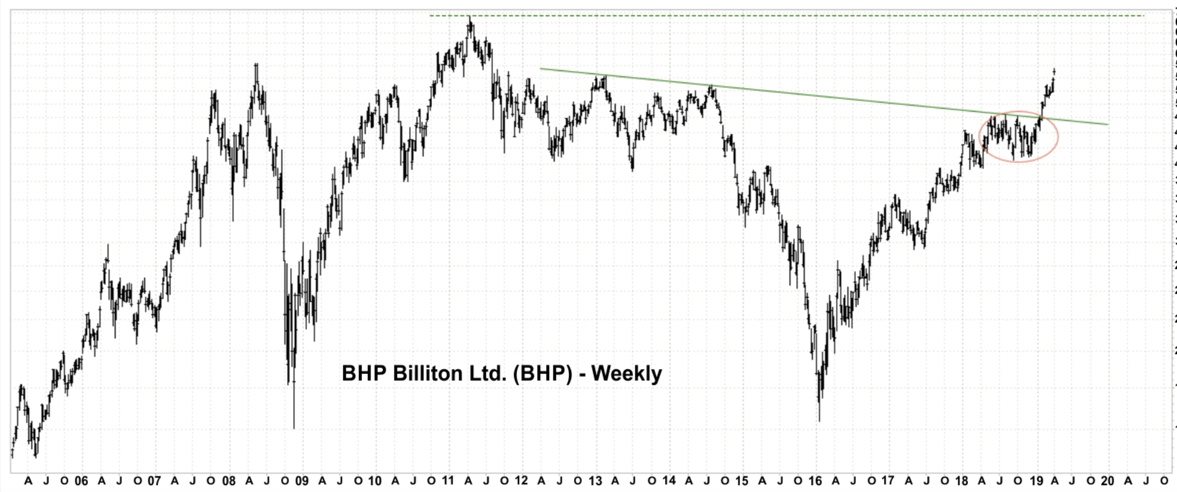
Source:13D

Source:13D

The early signal from these charts is that diversified global commodity stocks are breaking-out. Something big appears to be going on in the large-cap, diversified global mining sector. As shown in the following two charts, the shares of Anglo American PLC (NGLOY) and BHP Billiton Ltd. (BHP) have advanced rapidly following a breakout above a long-term resistance line.

Prior to the decisive breakout, each stock formed a multi-month basing pattern (red circles – see the two charts below). This action resulted in the requisite build-up of energy for the surging breakout. Notably, this bullish action occurred since mid-2018—a period that has featured a deluge of official reports and surveys indicating a rapid slowdown in the global economy—which is one of the most noteworthy *anomalies* in memory. Moreover, the huge advance in these commodity stocks has occurred while the US dollar has traded sideways for many months.

Source:13D



Source: 13D

Finally, we include a chart of the Nasdaq by way of comparison. The new recovery highs are not echoed by the momentum indicators and the old resistance thus looks, so far at least, as though will be hard to break.

Source: CLSA

China Construction

On 5th February, the SCMP announced that China has approved Rmb 1.1 trillion or $163 billion of infrastructure projects since the beginning of November 2018. To put this in context, this is more than three times the $56 billion worth of projects over the previous ten months to October 2018!

Consensus expectations, only recently, were that China's excavator sales would be down 10% in 1Q of this year. In fact, we have seen China's excavator sales for March increase 15.7% year-on-year and 136% month-on-month, whilst in the first quarter overall unit sales volumes rose 24.5%.

These are significant numbers under our definition of anomalies and merit further attention. That being said, we have endured a frustrating 1Q performance from our construction companies. China's three major EPCs missed earnings due to one-off losses in 4Q18. Excluding these one-offs, earnings for the top three companies, CCCC/CRCC/CRG, were expected to increase by 17%/20%/22% year-on-year respectively. Backlogs for the same three companies are much higher at 3.4x/3.7x/3.9x of FY18 revenue versus a FY15-17 average of 2.4x-3.1x. We, therefore, expect earnings to increase respectively by 24%/11%/17% year-on-year in the coming year on strong operating profit momentum and coming from a low base.

Resources

Australia's mining sector, (led by **Rio** and BHP), has endured successfully because of its extensive endowment of natural resources—especially iron ore, copper, oil, gas, coal and other precious and industrial metals—and its geographic proximity to emerging markets in South East Asia. With some 900 million emerging-market-Asians likely to join the middle-class over the next seven years, we have been building exposure to this burgeoning investment opportunity while valuations are still reasonable.

Developing Asia will need to spend an estimated $1.7 trillion annually on infrastructure through to 2030**,** according to a 2017 estimate from the Asian Development Bank (ADB)—*more than double the annual investment projected as recently as 2009***.** According to the ADB, of the cumulative $26.2 trillion of necessary spending, some $14.7 trillion will be devoted to power generation and transmission, $8.4 trillion for transportation, $2.3 trillion for telecommunications and $800 billion for water and sanitation costs, during the 2016 to 2030 period.

Broadly speaking, the Australian resource sector has transitioned from an aggressive capacity expansion phase toward a harvesting phase**,** as it has prepared to meet the expected infrastructure demand from emerging economies. This will allow for improved generation of free cash flow, higher ROIC, extinguishment of debt and return of capital to shareholders.

Oil

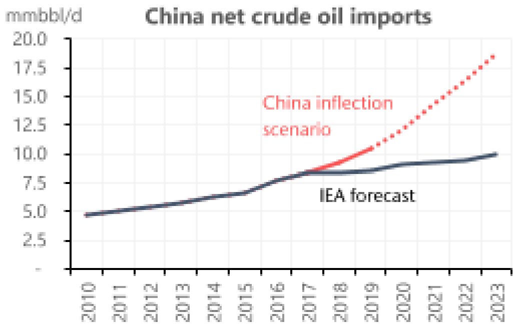
China's April oil imports just hit another record month. Net crude oil imports into China have now exceeded 10 million barrels a day for 6 months in a row to April, with a slight breather in March and with product exports largely unchanged. On a six-month rolling basis, net crude imports are up by around 1.25 million barrels a day, a level the IEA didn't expect until 2023! Analysts had attributed some of the increase to modest storage increases and working inventory for new refiners (which we believe is still recurring demand) but continued import strength suggests that underlying demand is likely to be strong as well.

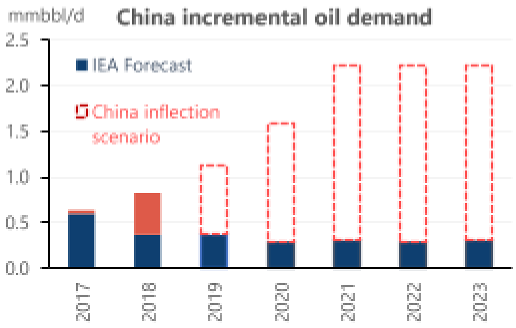
Anecdotal evidence suggests that the population hump of migrant workers is now crossing the "personal mobility" income threshold of Rmb3,500/month, where they are 1-2 years away from car ownership but are already spending on taxis/ride-sharing, going on weekend trips and taking the occasional flight. We believe this consumption driven oil demand will decouple from GDP growth as personal mobility in the leisure context, (driven by Airbnb and a new explosion of new and cool out of town boutique hotels), becomes the "next" consumer experience as incomes rise.

Jefferies calculate that China added approximately 850,000 barrels a day of incremental crude demand in 2018 versus the approximate 500,000 barrel a day estimate from the energy agencies (IEA, EIA, OPEC). We believe incremental demand will be even higher in 2019, even with a slowing economy, as personal mobility driven consumption decouples oil demand from GDP growth. Indeed, China could add over 1 million barrels a day of incremental demand in 2019, far above the 400,000 barrel a day estimates from the agencies.

The differential between demand expectations and reality is potentially significant enough to throw oil prices into an even higher band. Coupled with the apparent difficulty of the Permian Basin to increase output further medium-term, the scene is still set for oil prices to remain firm.

The charts below from Jefferies attempt to estimate China's oil usage, assuming it reverts to a typical level for other countries with the same GDP/capita. These illustrate well the extent of the current mismatch between expectations based on extrapolation of China's current oil usage and realistic future potential demand given the rising wealth of the country.





Reasons to be Cheerful (about Asia)

"By 2030, the middle class is expected to reach 5.6 billion people. This means an additional 2 billion people with increased purchasing power….and most of this growth will be in Asia. By 2030, China and India together will represent 66% of the global middle-class population and 59% of middle-class consumption."

Source: European Commission.

1) *Emerging markets contain the majority of the world's millennials—a huge demographic dividend.* Millennials now number 1.8 billion globally, about a quarter of the world's population. And 90% of them live in emerging economies. Chinese millennials alone (351 million) outnumber the entire population of the U.S.

2) *Asia dwarfs the rest of the world in terms of population.* Here from The Future is Asian: Commerce, Conflict and Culture in the 21st Century by Parag Khanna:

"Asia accounts for 60 percent of the world's population. It has ten times as many people as Europe and twelve times as many people as North America. As the world population climbs toward a plateau of around 10 billion people, Asia will forever be home to more people than the rest of the world combined…"

3) The Asian economic zone—from the Arabian Peninsula and Turkey in the west to Japan and New Zealand in the east, and from Russia in the north to Australia in the south—now represents 50 percent of the global GDP and two-thirds of global economic growth**.** Of the estimated $30 trillion in middle-class consumption growth estimated between 2015 and 2030, only $1 trillion is expected to come from today's Western economies. Most of the rest will come from Asia.

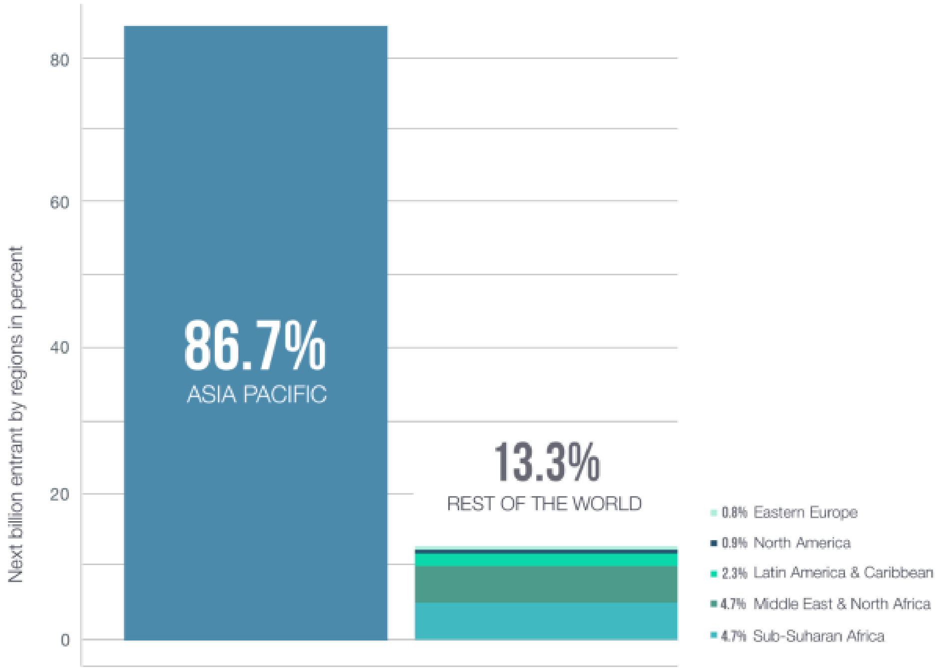
4) Progressively more emerging countries are enjoying functional instead of dysfunctional governance.

5) Emerging markets have the potential to leapfrog bricks and mortar with online market-places.

6) Given all of the above, valuations are compelling**.** And yet the Emerging Markets Free Index is selling at the same level as 12 years ago. From the chart in the section above on 'Reflation' it appears to have formed a huge base that looks to be in the process of breaking out. Students of market history know that the bigger and longer the base, the bigger the ultimate bull market.

7) The MXEF also trades at only 7.7x consensus FY2020 EV/EBITDA, a 26% discount to the S&P 500 index comparable multiple of 10.5x. Yet, the underlying components of the MXEF have a higher expected long-term growth rate (12.6% versus 9.5%). The MXEF is also only marginally above its absolute September 2015 historical low of 7.1x, and below its median of 8.6x.

See the chart below for the next billion entrants to the middle class by geographic breakdown. 87% of them will be Asian, mostly from India and China.



Source: Brookings Institute

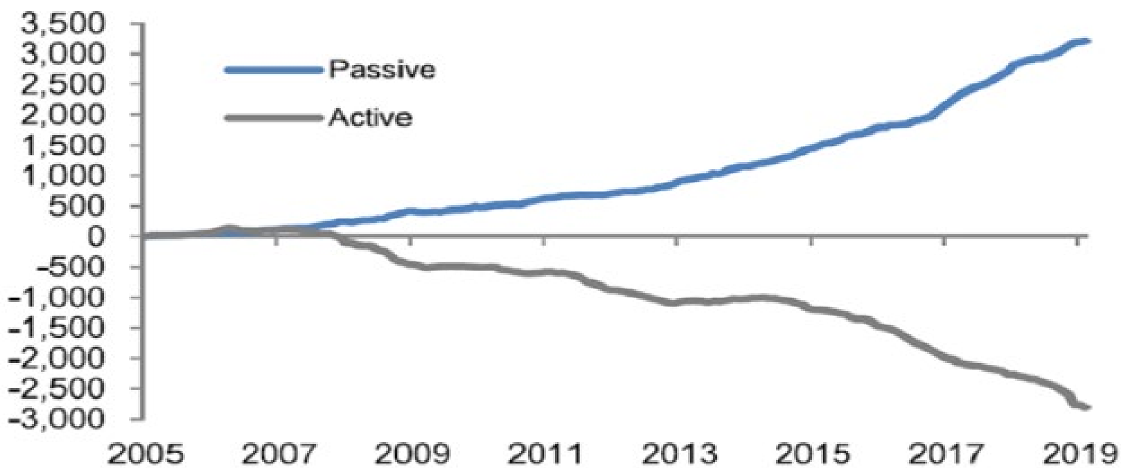
Passive Investing and US Equity Valuations

JPMorgan Chase & Co. estimates that US equity liquidity in December was one-third of that in previous sell-offs during this recent 10-year cycle. The bank blames, in large part, the shift away from human to electronic market makers. Computers are a favorite scapegoat when risk assets are falling and volatility edges higher, but the paranoia makes sense in these rising markets given last year's sudden maelstrom and the ensuing melt-up.

JPMorgan note that rotation into passive investments has significantly depleted the pool of investors ready to buy cheap and backstop a market disruption. We would add that should a disruption cause investor to sell, the impact will be disproportionately felt by the small number of stocks that feature repeatedly in portfolios and make up larger portions of the index.

Figure 6: Strong inflows into passive equity funds, while active funds have experienced outflows

Cumulative net flows into passive and active equity funds since 2005; $bn



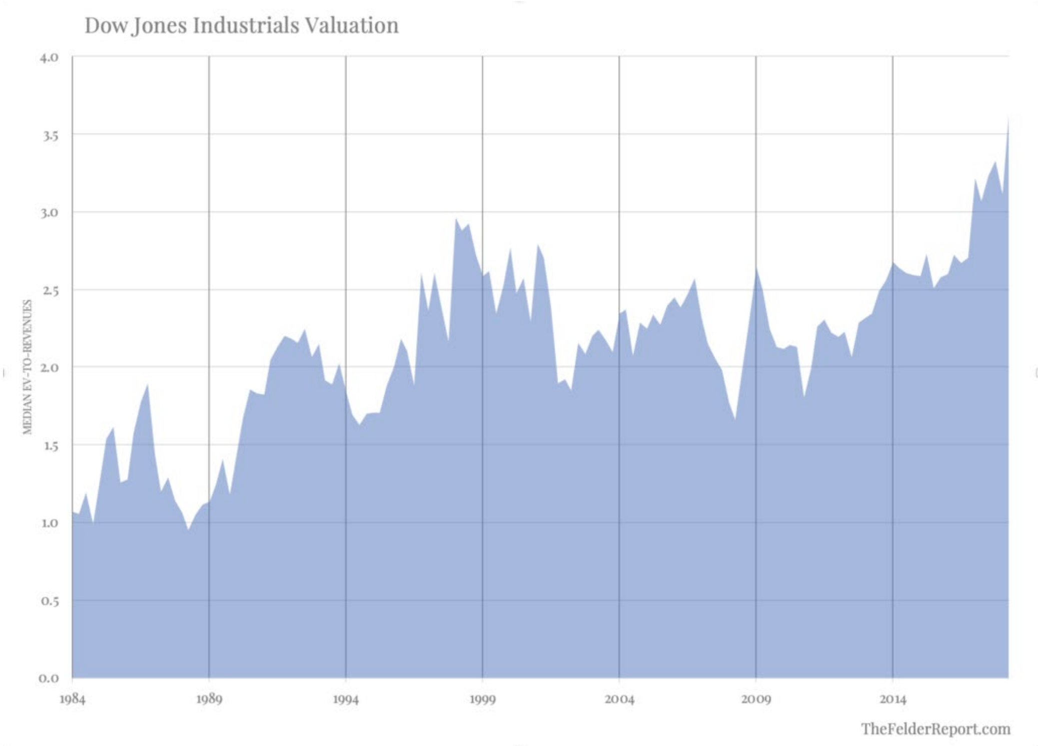
Source: J.P. Morgan Quantitative and Derivatives Strategy, EPFR

A year ago, we noted that a handful of stocks in the US, namely MacDonald's, Caterpillar, Boeing and 3M (MCBM) had dramatically outperformed even some of the most popular internet names in the market and had soared to their highest valuations in history in the process. This clearly suggested that the euphoria towards owning stocks was not confined to a select group of tech stars. It was far broader than that. At that point, looking at the valuation history of these companies over the past twenty years, it was clear that as a group they traded within a range of 1.5-to-2.5x EV/Sales. This period includes both the dotcom mania and the housing bubble. Then, in 2016 they broke out of this range and a year ago they traded at more than twice their average valuation of the past two decades. As illustrated below, this spectacular performance was while revenue growth was falling.

Source: The Felder Report

The explanation is simple. A combination of share buybacks and investors making 'single decision' investments to buy yield via passive funds has driven these stocks. Now, a year on, the trend is even longer in the tooth.

Finally, this observation comes hand in hand with another note that the median valuation of all the stocks currently among the Dow Industrials has recently soared to a record high. In fact, it's now more than 20% higher than it was a peak of the dotcom mania. Thus it's not only these four stocks, in addition to a h andful of tech stars, that are the object of investor euphoria today. It's the entire index.



Source: The Felder Report

Share Buy Backs in China

The Wall Street Journal recently published an article claiming that net stock buybacks, not economic performance, explains 80% of the difference in countries stock market returns between 1997 and 2017.

To date, this has really been the domain of Western markets, with the US demonstrably leading the way. However, buying back shares is now something the government in China is keen to encourage. The authorities sought to relax the rules in November to allow companies to use bank loans and bond sale proceeds when repurchasing shares.

According to Bloomberg calculations, nearly 700 Chinese firms bought back shares in December and January alone compared with just 609 companies from January to October 2018. For some companies, the goal is to reward employees through stock ownership programs, whilst others are copying what their Wall Street counterparts did: buying back shares to have them cancelled, thereby lifting earnings per share and stock prices. We believe this is a trend which could gather pace.

Sportswear

Li Ning

In China, the Government is committed to addressing the health of its nation. Mindful of the financial burden to the State of an increasingly obese and unhealthy society, the Chinese Government has decided to act.

The result is that China has set an official Government target for 700 million of its citizens to exercise at least once a week, and for 435 million to work out regularly by 2020. Indeed, market research provider, Euro Monitor International, forecast that China's sportswear market is set to rise from its current size of around $33 billion to almost $50 billion by 2022.

This growth in China, as elsewhere, is also being driven by a broader trend of athleisure and streetwear among millennials and also by the rapid uptake of sports and fitness activities among young Chinese consumers. This trend in China has barely begun.

Of course, the challenge for Chinese brands is how to compete with the global sportswear brand leaders Nike, Adidas and Under Armour. Our domestic sportswear brand**, Li Ning** appears to be winning over Chinese hearts and minds. Founded by the Olympic winning gymnast, **Li Ning**, is a Chinese sportswear brand which shares its founders' name. **Li Ning** rose to prominence quickly, as its founder became a national hero at the 1984 Olympic Games in Los Angeles after winning 6 medals.

The **Li Ning** logo, a stylised version of an L and N, is reminiscent of the Chinese character "ren" which means person. The success of **Li Ning** at the Olympics represents a symbol of China's early rise. As a brand, **Li Ning** is attempting to appeal to a proud and patriotic youth who have grown up witnessing the strength and success of China.

Of course, **Li Ning** also recognises the requirement for a sports fashion brand to compete with the likes of Nike. **Li Ning** has embarked upon a brand turnaround and so far the consumer response has been extremely encouraging. Earlier this year, **Li Ning** presented its third fashion show at New York Fashion Week. Most importantly, recent surveys indicate that **Li Ning** is a sportswear brand that appears to be gaining traction with the Chinese consumer.

Indeed, our latest survey results indicate that **Li Ning** has overtaken Adidas to be the no 2 brand in lower-tier cities! In terms of hard numbers, the share of respondents in tier 3-5 cities who would like to buy **Li Ning's** apparel, has grown from 6% in 2012 to 18% in 2019, while in footwear this figure has gone from 4% to 11%.

When examining why the brands are attractive to consumers, our data reveals that unlike other domestic brands which rely heavily on pricing, **Li Ning** is winning customers because of its brand image. This is hugely significant. Most importantly, this brand recognition is clearly translating into company sales and profits. **Li Ning's** most recent results were impressive, beating consensus expectations and delivering on all the important metrics - cash flow, working capital, sales and dividend.

Li Ning's future path to success includes sales growth, GPM expansion and operating leverage drivers but the key challenge for **Li Ning** is to lift its profitability, a process it has already embarked upon.

In the meantime, the company trades on a 19x forward P/E – which we believe is cheap for a successful brand - and one which is set to generate 40% EPS CAGR in the coming years.

Fila

Meanwhile, our global *fashion* sportswear brand, **Fila**, also saw its retail sales in China grow 70% year-on-year on a high base, better than our and market forecasts of 50-60%. **Fila** classic offline was up over 50% year-on-year, the fusion line was up 6x's on a low base, kid's clothes were up over 70% and e-commerce over 100%. What is even more encouraging is that the discount level improved by 2-3% during 1Q19, suggesting **Fila's** brand image is getting stronger among consumers.

PNJ: Strong Jewellery Demand in Vietnam

PNJ, our leading retail jewellery brand in Vietnam, delivered a stellar quarter in Q1 2019 with net profits jumping 28% year-on-year on a reported basis and 30% year-on-year on an underlying basis, largely driven by the high-margin jewellery retail segment.

Underlying jewel**lery** retail sales jumped 27% **year-on-year** in Q1 2019 driven by double-digit same store sales growth, four new **g**old stores and full contribution from stores opened in 2018**. PNJ's** total jewellery store count increased by just **3** to a total of 327 as at end Q1 2019.

PNJ has a new growth segment, namely watches, and watch retail sales surged 58% off a low base. **PNJ** added four new watch point-of-sales (POS) to reach a total POS count of 18 as of end-Q1 2019, which includes a flagship store, a standalone store, a kiosk-in-mall and 15 'shop-in-shops'.

Jewel**lery** retail **gross profit margins** reached new heights thanks to a ballooning contribution from gemstone jewel**lery**. **PNJ** is riding on a rising consumer preference for premium products and contributions from high-value gemstone jewellery broadened in Q1 2019. This helped underlying jewellery retail gross profit margins widen by 2.6% in Q1 2019 versus Q1 2018.

Foreign ownership in **PNJ** is full and so the shares have not performed as well in 2019 as might be expected given these results. This is because local investors are slower to grasp such opportunities and typically have shorter holding periods. The PEG ratio for **PNJ**, however, is now just 0.6x which makes the shares extremely attractive at this point.

AfterPay: The New Verb

Emerging Markets have a late-mover advantage in adoption of Fintech. In 2016, China's mobile payments market hit $5.5 trillion, roughly 50 times the size of America's $112 billion market, according to iResearch. By 2017, almost half the world's digital payments were made in China, with values topping the worldwide totals of both Visa and Mastercard. Since then, the pace of mobile payments has accelerated further. According to research by Analyses, China's two dominant players, Alibaba and Tencent, handled more payments in one month in 2018 than PayPal's $451 billion for the entirety of 2017.

Nearly 90% of people under 30 years of age live within the emerging economies. According to PWC, this is also the age segment that accounts for 75% of online transactions.

AfterPay Touch (APT) is an Australian-based payment services company, offering a platform for the payment of apparel, shoes and other products. The company currently operates in Australia, New Zealand and the US, and plans to launch in the UK in 2Q19 and in the rest of Asia in due course.

The group was formed after the merger of **AfterPay** and **Touchcorp** in June 2017. Its growth since inception has been explosive with more than 2.3 million unique users registered in Australia alone. Since the merger, **APT** has emerged as a leader in the 'buy now pay later' industry and continues to gain popularity amongst the ANZ population. It was listed on the ASX in May 2018.

Being a first-mover, **APT** has placed its focus on retail innovation and has successfully transformed the way people shop both online and offline. Indeed, the online retail sector is worth $25 billion in Australia and APT already has a 15% domestic market share in how people pay. Moreover, its name has already become a verb in Australia! Analysts expect the company's market share in online payments to reach 30% by 2023.

APT operates a relatively simple business model. Its revenue sources derive from two segments: 'Pay Now' and 'Pay Later', the latter part offering the greatest innovation and point of difference to competitors.

Pay Later: 78% of Sales

Consumers have the option to choose **APT** as a payment option at checkout. Upon selection, **APT** makes the full payment upfront (minus a 4% transaction fee charged to the retailer), assuming all customer non-payment risks. **APT** then allows the customer to pay in four equal instalments spread over 56 days.

The two components of income for the Pay Later business are the 4% merchant fee and late payment fees (see section below). For FY18, the split was 75%/24%, although there have been significant efforts from the company to reduce late fees as a percentage of total income, and as of 1H19, this was just under 20%.

The service is a free one as long as the consumer makes on-time payments.

Pay Now: 22% of Sales

Revenue from the Pay Now business is generated from other fees and analysts expect this business segment to reduce in size in the near future. The core system is not only used by the Pay Later business, but also adopted by external service providers in other sectors such as mobility, health and e-services.

Non-millenials who are scratching their heads as to why this might be so popular need to understand that the 'pay later' aspect is very attractive to the younger generations. Not only does it allow for budgeting of purchases otherwise out of financial reach, but additionally and crucially, studies have shown that the concept of paying later *reduces the feeling of guilt at the moment of purchase*. This psychological attribute makes it a very powerful option.

As of December 2018, **APT** had over 3.1 million unique registered users in Australia, which is approximately 13% of the Australian 18+ population. The customer base grew from 1.4 million to the current numbers in just one year. Since **APT's** launch in the U.S. last year, the number of registered users reached 1 million by February 2019, growing in the process at four times the pace of the Australian market. The company has observed customer stickiness since inception with highly engaged customers choosing **APT** as the preferred payment option upon order completion. Indeed, in 2H19, 95% of the company's Australian customers were repeat purchasers, whilst this figure was 61% in the US.

The UK launch this year is an exciting part of **APT's** expansion plan and **Urban Outfitters** will act as the launch partner. Expansion of product lines into health, beauty, entertainment and travel are all on the cards. **Urban Outfitters**, **Forever 21** and **Revolve** have become a part of **APT's** network in the US recently.

Unusually for such young companies in this space, **AfterPay** is already profitable. By next year we expect that users may be able to pay-off their outstanding payments via a direct link with a bank account as opposed to a credit card. This will additionally give **AfterPay's** net transaction margin -which currently sits at about 2.5% out of the 4% retail fee - a significant uplift.

Recent half-year results showed total purchases up 147% but the company has many more potential revenue streams yet to tap, as well as the substantial pay later market, such as sales and marketing of retail offers to its users and data collection.

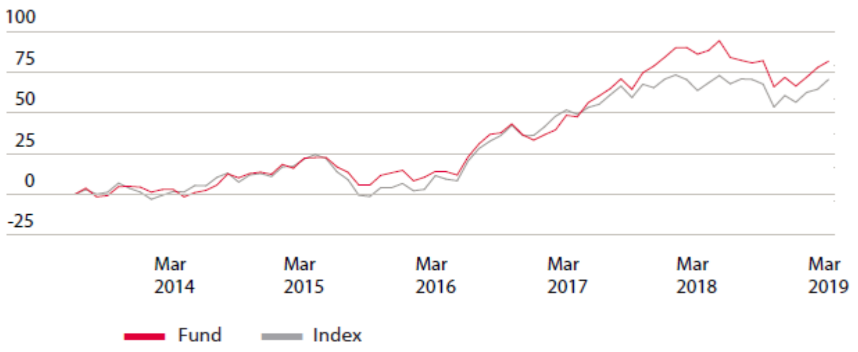
PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 31.03.2019

	U (GBP)	Benchmark **
1 Month	2.17	3.66
3 Months	9.18	8.96
YTD	9.18	8.96
2018	-9.63	-8.32
2017	38.25	25.43
2016	16.21	27.70
2015	2.14	-3.85
2014	7.59	9.51
Since Launch+	81.92	70.72
Annualised 3 years	16.83	15.26
Annualised Since Inception	10.97	9.75

Source: Morningstar
**MSCI Asia Pacific ex Japan
+Launch Date: U: 01.07.13

Fund Performance – Class U (GBP) (%)



Source: Morningstar. Total return net of fees.
Performance since launch of Class U GBP share class - 01.07.13

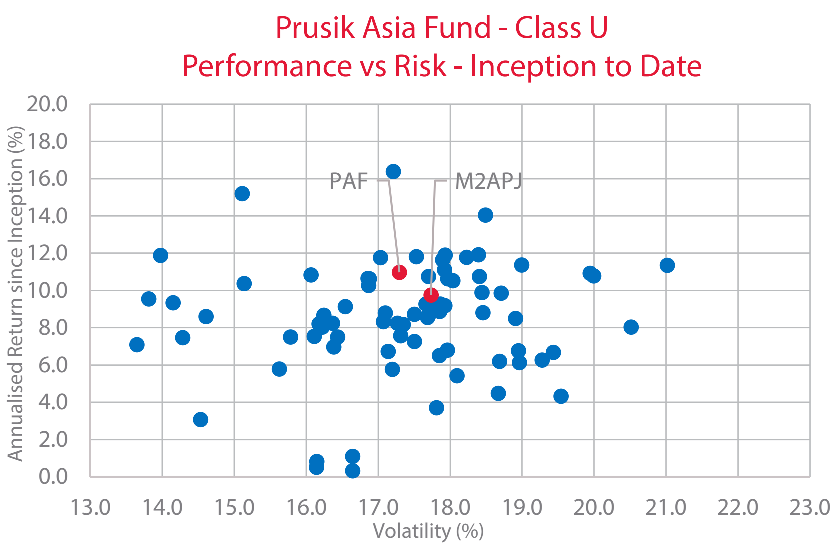
Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2019	3.31	3.43	2.17										
2018	3.14	0.11	-2.14	1.19	3.2	-5.3	-0.96	-0.86	0.74	-8.81	3.48	-3.10	-9.63
2017	2.50	2.15	6.46	-0.63	5.92	2.63	2.73	3.70	-3.76	6.20	2.33	3.05	38.25
2016	-5.66	2.09	3.24	-0.15	-1.79	9.96	6.53	4.45	0.68	3.99	-4.65	-2.42	16.21
2015	5.39	-2.00	5.34	0.30	0.03	-4.71	-2.81	-6.95	-0.05	5.68	1.42	1.33	2.14
2014	-2.94	1.59	0.06	-4.43	2.68	1.31	3.19	6.53	-2.15	2.37	0.74	-1.12	7.59

RISK ANALYSIS

Risk Metrics	Fund (%)
Beta	0.85
Alpha (%)	1.20
Sharpe Ratio	0.62
Volatility (%)	17.30

Source: Morningstar
Since Inception: U: 01.07.13



Source: Morningstar

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Li Ning Co Ltd	4.0
Melco International Development	3.9
Ping An Insurance Group	3.6
Swire Pacific Ltd	3.4
Fila Korea Ltd	3.4
Total Number of Holdings	37

Portfolio Financial Ratios

Predicted Price/Earnings Ratio	13.1x
Predicted Return on Equity (%)	15.2

* Fiscal year periods

Thematic Breakdown (%)

Infrastructure/Logistics/Property	19.1
Financialisation	17.9
Energy/Energy Services/Resources	15.9
Local Brands	15.3
Leisure/Tourism	9.0
Artificial Intelligence/Internet	8.3
Vietnam	7.9
Misc	3.1
Education	1.9
Cash	1.7

Geographical Breakdown (%)

Hong Kong/China	51.6
Australia	9.9
Vietnam	7.9
Indonesia	6.6
Korea	6.5
Philippines	5.3
Singapore	5.0
India	3.2
Thailand	2.3
Cash	1.7

All data as at 31.03.2019. Source Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size (US)	138.66m
Launch Date	07.10.05
Fund Structure	UCITS III
Domicile	Dublin
Currencies	USD (base), GDP, SGD

Management Fees

Annual Management Fee

Class U: 1% p.a. paid monthly in arrears

Other Classes:1.5% p.a paid monthly in arrears

Performance Fee

Class U: 10% of the net out-performance of the MSCI Asia Pacific ex Japan Index with a high-water mark paid quarterly.

All classes except Class U: Provided the fund achieves an overall increase of 6% a yearly performance fee of 10% of total returns will be applied.

Dealing

Dealing Line	+353 1 603 6490
Administrator	Brown Brothers Harriman (Dublin)
Dealing Frequency	Daily
Min. Initial Subscription	USD 10,000
Subscription Notice	1 business day
Redemption Notice	1 business day

Share Class Details

Class 1			SEDOL	ISIN	Month end NAV
A USD	Unhedged	Non Distributing	B0MDR72	IE00B0M9LK15	262.36
B USD	Unhedged	Distributing	B0M9LL2	IE00B0M9LL22	262.53
C GBP	Hedged	Distributing	B18RM25	IE00B18RM256	138.40
D SGD	Hedged	Distributing	B3LYLK8	IE00B3LYLK86	357.44

Performance fee based on individual investors' holding.

Class U			SEDOL	ISIN	Month end NAV
U GBP	Unhedged	Distributing	BBQ3756	IE00BBQ37560	181.92

Performance fee based on fund performance as a whole.

Fund Manager

Heather Manners
Tel: +44 (0)20 7493 1331
Email: heather.manners@prusikim.com

Sales & Marketing

Mark Dwerryhouse
Tel: +44 (0)20 7297 6854
Mob: +44 (0)7891 767 386
Email: mark.dwerryhouse@prusikim.com

Lizzy Irvine
Tel: +44 (0)20 7493 1331
Fax: +44 (0)20 7493 1770
Email: lizzy.irvine@prusikim.com

Prusik Investment Management LLP
6th Floor Moss House
15–16 Brook's Mews London W1K 4DS

Web: www.prusikim.co.uk
Email: enquiries@prusikim.com