NAV Updates

Series	*Feb 2011*	*MTD*	*YTD*
Class A	168.25	-0.70%	-2.95%
Class B	168.33	-0.69%	-2.94%
Class C GBP	91.31	-0.63%	-3.02%
Class D SGD	233.83	-0.09%	-2.54%

Fund Size $197m

Performance

2005Q4	+8.86%
2006	+33.94%
2007	+21.88%
2008	-20.84%
2009	+26.59%
2010	-2.66%
2011 (YTD)	-2.95%

The fund was down 2.3% in January and down 0.7% in February.

The year started badly for Asia markets as investors and the press set up a massive call to sell emerging markets and buy developed ones. This became a very successful self-fulfilling prophesy. At one point in January the Indian stock market was down around 17% year to date and at that point the differential in performance between the US S&P 500 index and the best of Europe and the worst of the Asian markets was nearly 25%! We think that is enough.

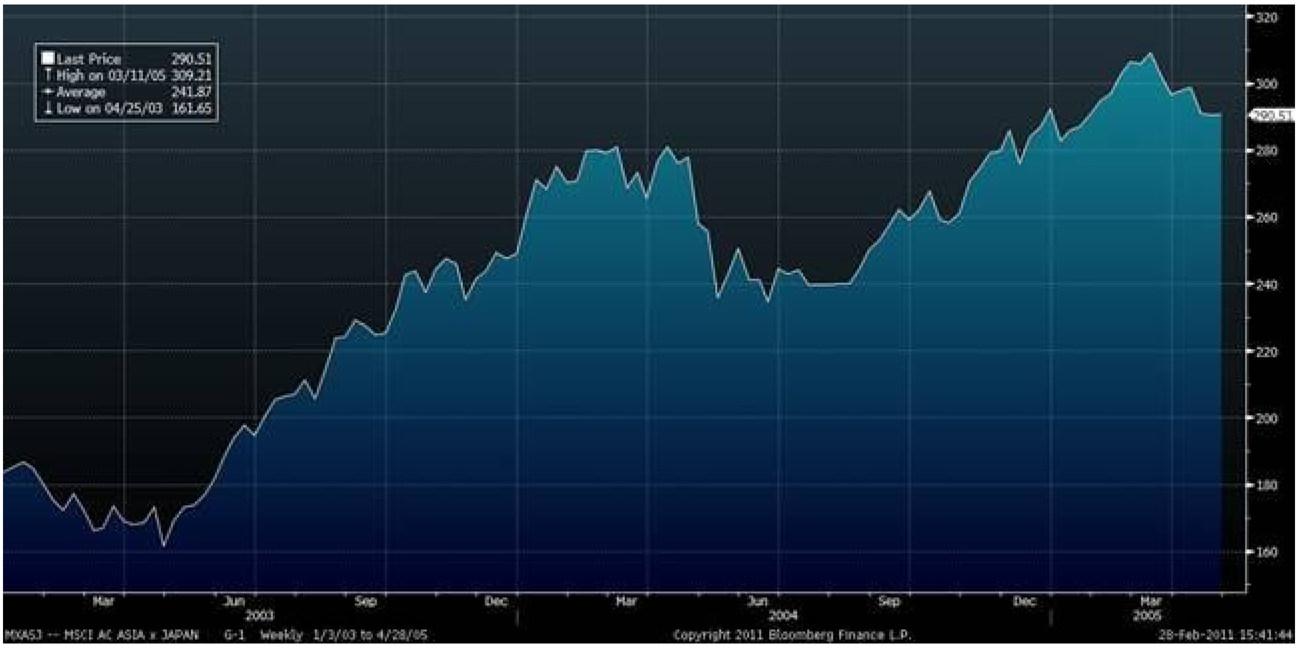
Sure enough, February saw declines spreading to western markets and small rebounds in the worst hit parts of Asia have since been seen.

Just two months into the year there is much to be concerned about: the surge in oil prices following unrest in the Middle East and North Africa (MENA), the ongoing stress in peripheral European sovereign bonds and economies, including Ireland despite the rescue package last year, and the ongoing weird weather patterns and calamitous events which are contributing to food price increases everywhere and giving rise to the spectre of inflation.

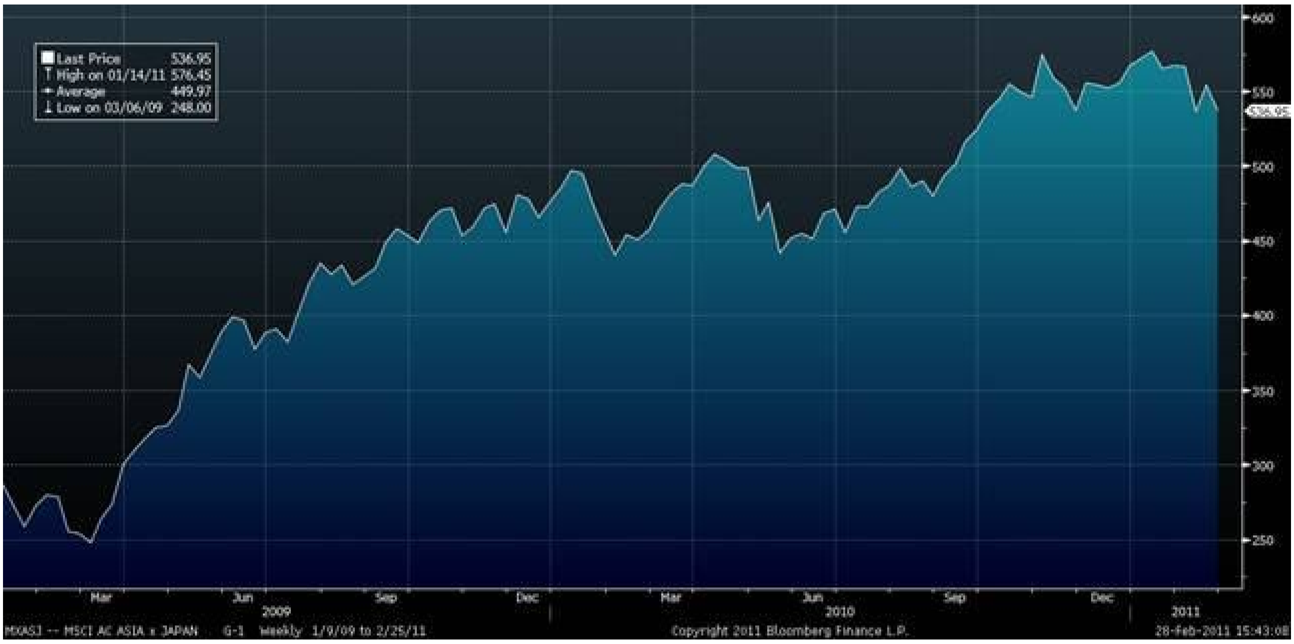
Our view at the beginning of the year was that, barring disasters and the re-emergence of the Global Financial Crisis, 2011 was likely to be a typical third year in a typical four year economic cycle. The first two years of the cycle are typified by low interest rates, recovery stimulus, fear of no recovery or a double dip and, simplistically, stock markets do well driven by the easy liquidity and cheap equity valuations. The final two years of the cycle come alongside a very visible economic recovery including a new lending cycle and strong demand. These factors lead eventually to higher inflation and higher interest rates. Stock markets usually do well here too largely because until the very end of the cycle governments remain behind the curve in tackling inflation whilst growth, demand and corporate earnings explode to the upside.

The transfer between the two mindsets usually causes a mid-cycle correction as interest rate increases and inflation are seen as negative. The charts below of the MSCI Asia ex Japan Index (MXASJ) illustrate this well and show how the first two years of the last cycle (2003-2004) and the two years just finished are almost mirror images of each other. This final chart shows how the full year cycle looks.

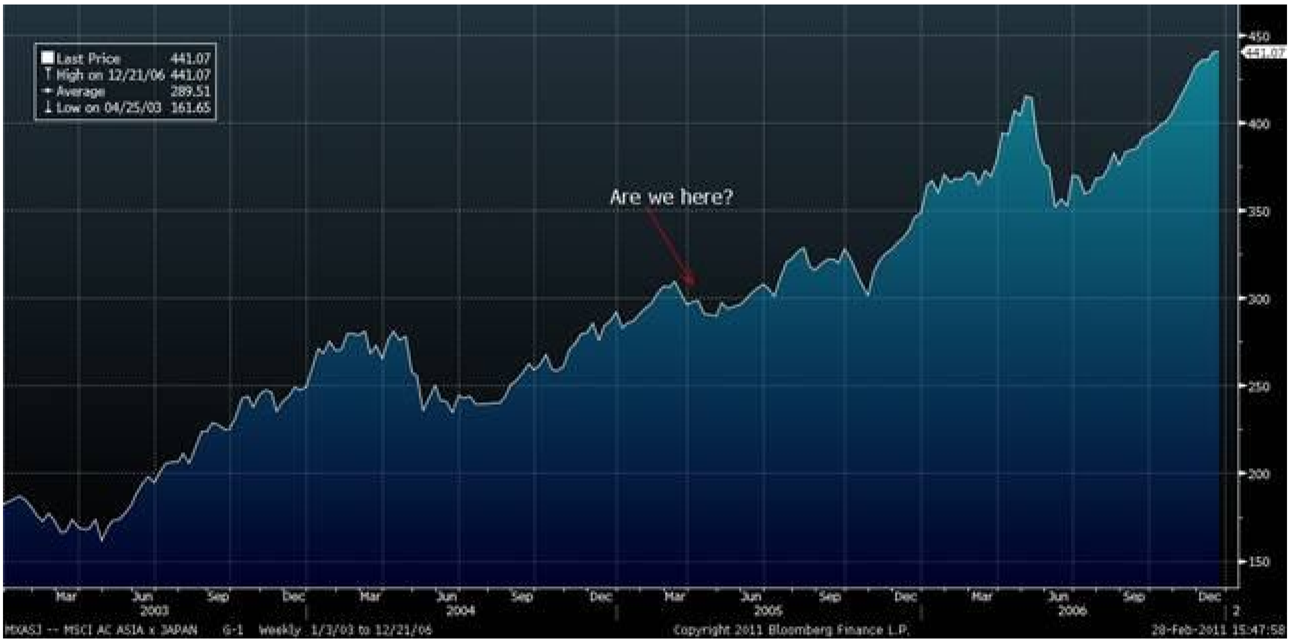
MXASJ 2003-2004



MXASJ 2009-2010



MXASJ 2003-2004



The key question, therefore, is do we have nothing to fear but fear itself? Or has this very well worn pattern already been knocked off course by recent events? The Prusik team has already spent a combined 9 weeks in Asia during 2011 and have visited companies in Hong Kong, China, Taiwan, Singapore, Thailand and India. Our conclusion at this stage is that the mid cycle correction, which we are now in, may be deeper and longer than in past cycles thanks to current events in the Middle East and the extreme nature of last cycles economic stimulus. However, although volatility may increase we believe we have not YET lost the chance of another two years of growth and positive stock market performance.

Inflation in Asia

Inflation is the poster child of the current anti emerging markets movement and China is at the epicenter. According to Deutche Bank, a 10% permanent rise in crude oil will add another 0.4% to China's CPI which currently hovers at 5% yoy, whilst food inflation is nearer 10% yoy. The upshot will mean rate hikes will become more unpredictable and there is a rising risk of price controls in food, energy, animal feeds and so on. There are comparable increases in food prices elsewhere in the region with similar risk of impact on monetary policy if not price controls. However, it must be noted that on the ground there does not seems to be a huge concern about price increases, even amongst junior employees. Taiwan, Singapore, Hong Kong and even Thailand (where the north is agricultural and so benefits from food price hikes) seem well able to cope currently at consumer level and domestic consumer sentiment and consumption remains very buoyant. By contrast a recent short visit to Dublin revealed a shocking amount of financial suffering even amongst the baby boomer generation and middle classes.

Companies are seeing some raw material rises and not all can pass these on but this is a stock picking issue. Some, such as airlines and certain segments of technology can pass on these increases, have no risk of regulatory price freezes and, in fact, could see margins increase this year.

It seem likely that governments will stay behind the curve on tightening monetary policy for fear of further currency strength, preferring instead to tackle specific areas such as property. As a result, there remain negative real interest rates in several places (Hong Kong, Thailand) which is naturally very supportive to equities. Only in China, where wage inflation of some 30% is a massive issue for manufacturers, would we say that this current bout of inflation concern might not evaporate rapidly should we see a correction in the oil price.

Oil

We have written much in the past about how we believe there is a structural shortage of *cheap* oil. The 2007/2008 recession just masked this effect which was already under way in 2006. Horrific and worrying though events in Libya and elsewhere may be, we have only one piece of wisdom to offer at this impossible-to-predict stage. A very senior oil geologist who is related to the Prusik team has, much to everyone annoyance, for the past 20 years batted away friendly enquiries at family gatherings as to the future of the oil price by saying that the oil price really only relates to one thing ; the cost of a chauffeur in Saudi Arabia.

This may be a glib sound bite for a very grave subject, but this is the key and the immediate near term risk. How Saudi Arabia manages this crisis will be the difference between a traditional mid-cycle correction and something much more damaging.

Notes from our travels

Prusik has spent a combined nine weeks in Asia so far this year. We visited a significant number of our companies and huge number more of potential investments. Some of these have already made their way into the portfolios but we also have a good list of targets at lower prices. Our simple conclusion is as follows:

Asia continues to boom and this is underlined by the current results season. It is difficult to convey the difference in energy in Asia to that in Europe but there is a marked air of purpose, a determination of youth and a depth of existing wealth which feels very solid. Companies, in the main, have a lot of cash and many are starting to spend it or pay bigger dividends. Banks are seeing real loan demand especially from consumers. We do think that a combination of currency strength and raw material cost hikes means that some analyst's expectations for 2011 profits are too high, perhaps by as much as 10%, and the manufacturing sector is especially vulnerable. As the market corrects in coming weeks we think it is therefore likely that analysts will throw some earnings downgrades into the mix. This will be uncomfortable but will probably be a good sign that most of the worst domestic news is now known! This set up (oil price providing) could provide a superb buying opportunity some time in 2Q. In the second half of the year growth will likely be dominated by ongoing domestic consumption aided by a real recovery in lending, both corporate and consumer led, and some corporate spending. Technology, the internet, banking, high dividend stocks and infrastructure in Indochina will be at the forefront of the stock market recovery. We are especially excited about opportunities we found in Thailand, Taiwan, Malaysia and deep value in Singapore. India remains too expensive and China is too unpredictable, but there are a few exceptions at company level.

Prusik Asia Fund

Having read this far you will have gathered that we expect all markets to correct further from here, setting up a good buying opportunity in 2Q which will be marked by some earnings downgrades due to margin squeeze.

Geographically, we remain with no exposure in the over held and expensive Indonesia and the Philippines and with minimal exposure to India. We don't expect to change this much in the immediate future but we have started to add to Thailand (more below). We also have a relatively low weighting towards China which remains the market with the most unclear path due to regulatory risk and unpredictability of government actions in the face of inflation and possible unrest.

However, we have identified a number of themes which we believe will offer very strong growth this year but are also investable via attractively valued companies which have very strong balance sheets and are paying big dividends. Indeed it is fair to say that during January and February there have been some very distinct areas of outperformance where stocks have risen as much as their counterparts in other areas have fallen. The standout companies in the fund so far this year have generally been in the technology sector including the China internet companies, Melfas, our touch screen company, and our basket of OLED stocks in Korea.

Our key themes are the China internet, food, technology (focus on smartphone/EReader/LED/tablets/the cloud and software), OLED, Oil services, ASEAN Linkage (more below), the automation of China's factories, Uranium and Gold, domestic consumption (focus on healthcare, financial services including selected banks, entertainment and education) and Taiwan cross straits/domestic.

The fund is currently making use of index futures to protect the portfolio and has some cash. We are fully aware of the near term imperative to preserve capital but remain ready to make the most of a buying opportunity as markets correct and, in the meantime, to exploit any ongoing counter performance by small groups of companies in selected themes.

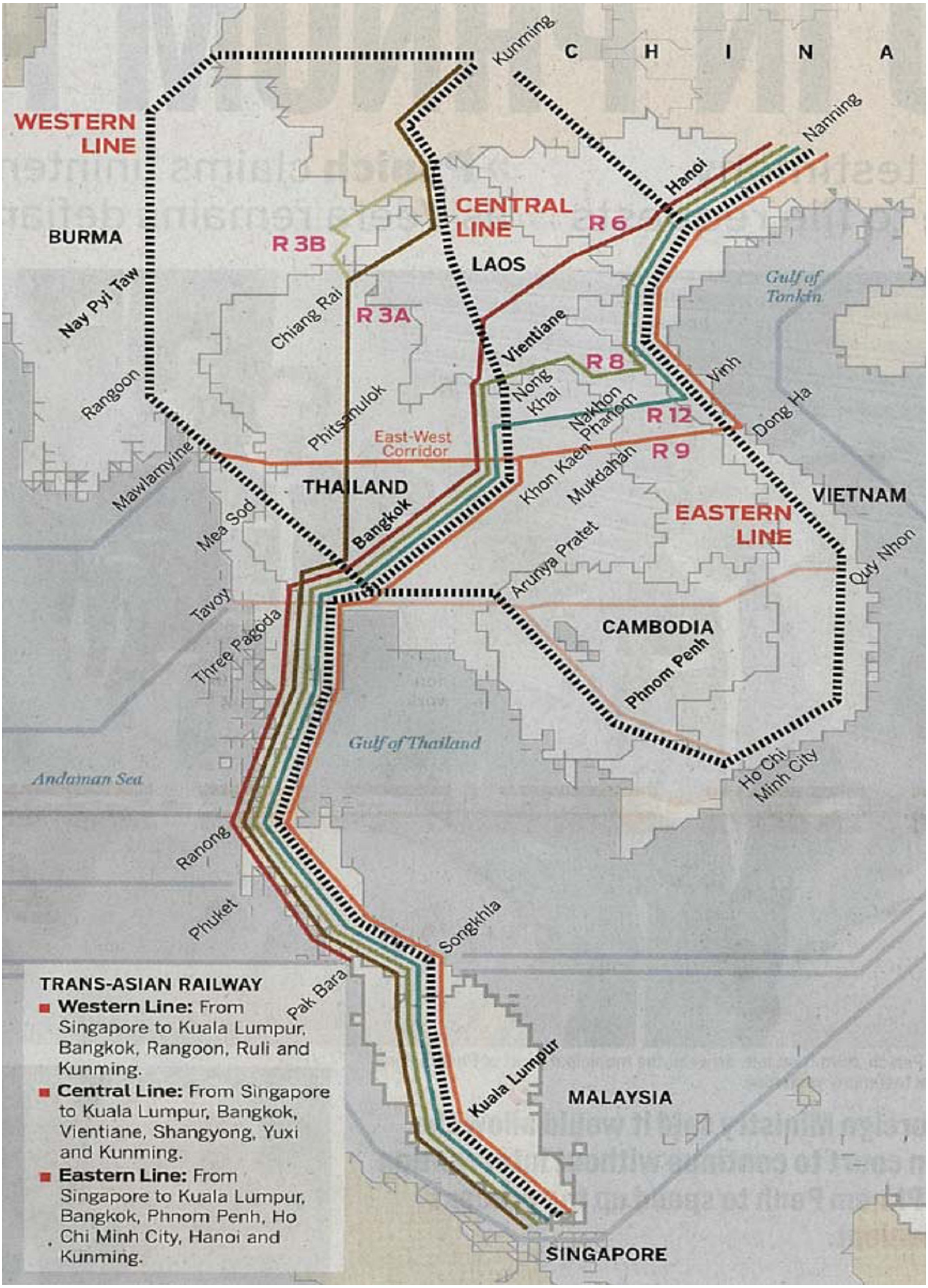
ASEAN Linkage – the emergence of Indochina

We think we have uncovered the next new ‘megatrend’ in Asia. In a few years it will be as important as the growth of Asia’s middle class or the emergence of China. It will also turn on its head the current thinking that China cannibalizes regional growth and force us all to refresh some geography!

In short, by 2015 the 10 ASEAN (Association of South East Asian Nations) countries will form a single economic community which will allow free trade of goods, services, capital and skilled labor. This does not just include the traditional ASEAN countries such as Singapore, Malaysia, Thailand, Indonesia, the Philippines and Brunei but will also change the fortunes of Vietnam, Cambodia, Laos and Burma. This latter block of countries are notably poorer than the better known ASEAN 6 but their average growth rate is significantly higher than their wealthier neighbors and has been so every year since 2002, even averaging over 5% during the worst of the global financial crisis. Of the 10 ASEAN members, 5 have populations of over 60 million people! Together the 10 nations have a population of over 600 million people and a combined GDP of over $1.5 trillion. The region also offers some of the best demographics in the world, a very open trade/GDP ratio of over 100% and some of the most underpenetrated consumer markets in the world from cars to electricity usage.

Amazingly half of ASEANS export and tourism inflows are from other ASEAN countries, not Europe or China as you might expect. But the anomaly here is that whilst it is unsurprising that global auto makers are looking to set up factories away from the wage inflation nightmare in China, there are also Chinese auto makers, and other Chinese manufacturers, also looking to head out of China and set up elsewhere in the region. We heard this several times in Thailand when visiting companies running industrial parks up-country.

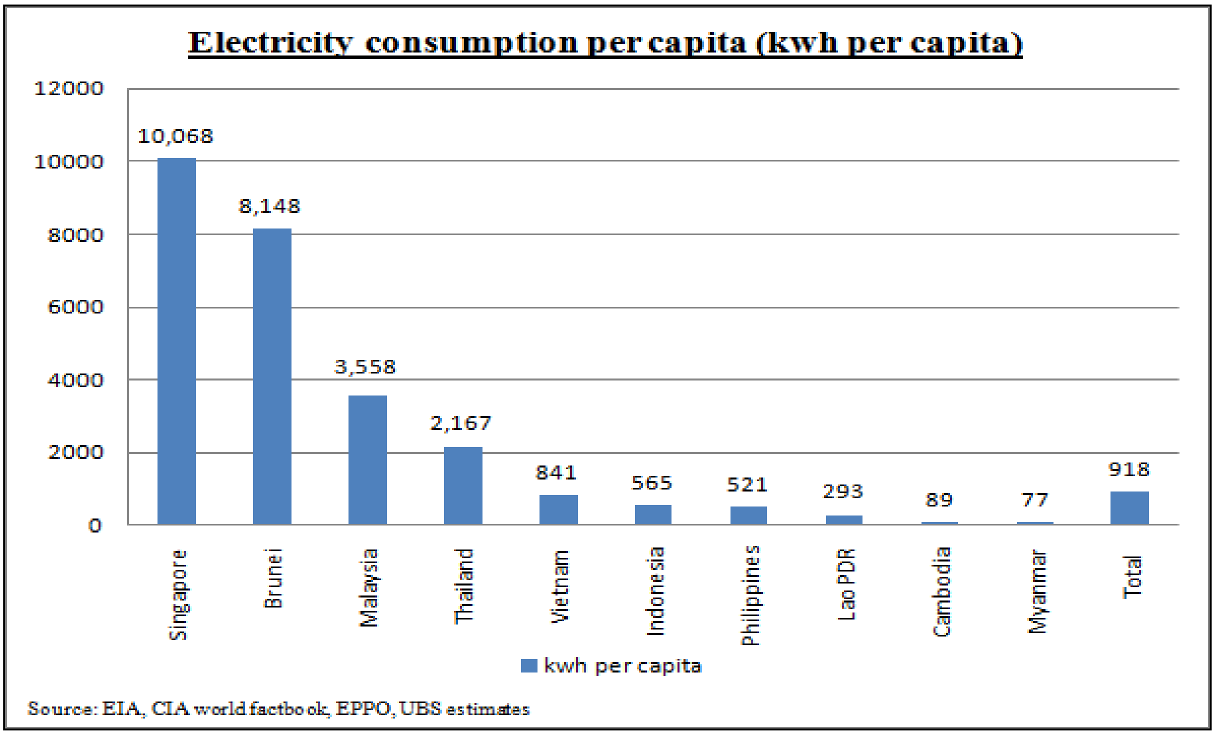
However, the really extraordinary development is the imminent building of a high speed trans-ASEAN railway which will be able to transport you (and goods) from China to Singapore. There are to be three branches to this railway – a western line through Burma, an Eastern line down through Laos, Vietnam and Cambodia and a central line through the centre of Thailand. All three lines will meet in Bangkok, the regional hub, and will continue down through Malaysia to Singapore. The whole project will be carried out in JV with China and the high speed technology will come from China (hat tip to Japan, ahem!) as will some of the financing. Thailand’s ‘Nation’ newspaper helpfully printed a map of the proposed routes, which you can see over the page.


CHINA
Kunming
Nanning
WESTERN LINE
CENTRAL LINE
EASTERN LINE
BURMA
LAOS
THAILAND
VIETNAM
CAMBODIA
MALAYSIA
SINGAPORE
R 3B
R 3A
R 6
R 8
R 12
R 9
Hanoi
Gulf of Tonkin
Nay Pyi Taw
Chiang Rai
Vientiane
Nong Khai
Nakhon Phanom
Vinh
Dong Ha
Rangoon
Phitsanulok
East-West Corridor
Mawlamyine
Khon Kaen
Mukdahan
Mea Sod
Bangkok
Arunya Pratet
Quy Nhon
Tavoy
Three Pagoda
Phnom Penh
Gulf of Thailand
Ho Chi Minh City
Andaman Sea
Ranong
Phuket
Songkhla
Pak Bara
Kuala Lumpur
TRANS-ASIAN RAILWAY
Western Line: From Singapore to Kuala Lumpur, Bangkok, Rangoon, Ruli and Kunming.
Central Line: From Singapore to Kuala Lumpur, Bangkok, Vientiane, Shangyong, Yuxi and Kunming.
Eastern Line: From Singapore to Kuala Lumpur, Bangkok, Phnom Penh, Ho Chi Minh City, Hanoi and Kunming.

This is not just a pipe dream for some vague time in the future. In Thailand there was talk that the MOU with China would be signed in 2Q and building would begin before year end whilst Laos are said to be breaking ground in April. Media reports everywhere say China is also starting to build in early 2011 and the target is for it all to be completed by 2015.

The potential benefits of this extraordinary development could be likened to those felt by the US during the building of the railroads in the 1860s. The story will be one of urbanization and trade taking people with currently very low standards of living towards those of their richer neighbours. Thailand, with the three railways hubbing in Bangkok and connecting its larger northern conurbations stands to benefit the most.

Bizarrely, investors based in Hong Kong and Singapore seem quite agnostic about this opportunity which is usually an excellent sign of a good theme. The analogy is perhaps like telling a bunch of hardened Londoners that Wales is the next big thing. We are sure this will change as the chart below shows almost simplistically how big this investment opportunity could be.



Finally, to the skeptics who cite border issues, geopolitics and general lack of anything like this happening before as a reason the railway project may not complete, we would point out the following: while this railway will hugely benefit ASEAN, be under no illusion that the real beneficiary here, and the driver of the project, is China. China, having moved much of its manufacturing and economic prosperity to the western and central areas now needs another conduit that is not on the eastern seaboard. There is therefore, unsurprisingly, also a massive new port and industrial estate being built in Vietnam. Furthermore, and perhaps more importantly for China, the space and agriculture opportunities in ASEAN mean that China can source and bring in much needed food direct from where it is produced (more later).

Burma – the dog that didn't bark

Aung San Suu Kyi was released from over 15 years of house arrest on 13th November 2010 and the world waited for an uprising which didn't come. It may be too soon to say this given news of protests in the Middle East has even spilled over to protests in China, but so far, Burma is distinctly quiet. The reason for this, given to us in Thailand, is that Burma is growing very fast thanks to the already huge involvement of China, which has fewer political qualms than the West where rich resources are concerned. In short, the Burmese are doing quite well. In fact, Thai observers are amazed that the West has not yet ended sanctions and joined the fray given the abundant and rich array of metals, gems, precious metals, oil, food and so on that Burma can offer and to which China, currently, has almost exclusive access.

Thailand

We think that in the first instance the place where it is most easy to invest in the development of the railway and all that it encompasses is Thailand. This is because whilst the railway will be hugely important, is not the only game in town. 2011 is also an election year and the people we met in Thailand were extraordinarily calm and generally agreed that the incumbent government will be elected – most likely in the mid-year period. There have been sporadic protests since the chaos of last year but politics in Thailand had a huge moment of catharsis which in the light of a possible GDP growth rate of 8% this year, seems unlikely to be repeated. Furthermore, the current Thai government has agreed a general infrastructure programme for 2010 to 2012 worth some 21% of current GDP. While some of these projects have been agreed very little money has been disbursed so far. The railway project alone is estimated to cost US$10 billion, a significant portion of which, to begin with, will be spent on land purchases. In any event it is unlikely we shall see any pernicious tightening in Thailand until well after the election is over, if at all this year.

We have also seen a significant increase in M&A in Thailand in the past year as companies are taking advantage of strong balance sheets, negative real interest rates, the strong Baht and cross border opportunities. It is likely that Singapore and Malaysia will join in in looking to 'scale up' ahead of coming developments in the region.

Companies in Thailand which serve the consumer in the northern cities of Thailand, such as Homepro (like Home Depot or Homebase) and Robinsons Department Store, industrial estate operators (Hemaraj and Amata), construction related businesses (Sino Thai Engineering and Siam Cement) and banks (Bangkok Bank and Kasikorn Bank) will be amongst those who prosper. Some of these companies are not cheap and so are due the current correction they are having, but this will be a tremendous buying opportunity. We visited almost all the main protagonists, and quite a number of smaller companies too, in this unfolding story and are well placed to do full justice to the theme.

Food

Mid February brought some news which put into sharp focus the unfolding rise in food prices. Whilst it is tempting, and to a large degree true, to say that oil and food are inextricably linked and so if oil (and perhaps the weather) stabilize then so will food prices, there is one more element which must not be overlooked.

East China, specifically Shandong, is facing the worst drought in 200 years which has affected 35% of its wheat crops. The full eight wheat growing provinces affected account for more than 80% of China's wheat production.

Meanwhile, the corn market was shocked by the US Grain Council announcing they had received information which suggests that China's corn import requirement in 2011/12 could be as high as 9 million tonnes – up from 1.3 million tonnes in 2010/11. To date the council has estimated just 1 million tonnes would be needed by China in the coming year. To put this into context the most China has ever imported to date was 4.3million tonnes in 1993/4 and before that 3 million tonnes in 1978/9. Indeed for most of the past 50 years China has been all but absent from the international corn market. According to reports China's stocks have fallen to just 5% from the normal level of 30%.

We wrote very recently about the 'Japan effect'. Urbanization causes countries to flip from self sufficient in food to net importers of up to 70% of requirements in a matter of two decades, a pattern also seen more recently in Korea. China may well be starting out on this path as the numbers above suggest. The pressure on grain markets will fluctuate with weather and seasons but there will remain an increasing import requirement from China. Moreover, this underlines how crucial, and indeed how urgent, the ASEAN rail project is for China with respect to its sourcing of food and other resources.

High yielding technology stocks

You may have needed a double take on reading this heading. Technology analysts will tell you that any self respecting technology company would never dream of paying a dividend. That leaves only the ex-growth companies (such as the PC makers in Taiwan, Microsoft, Nokia etc, you probably get the picture!) making up for this with high dividends. In Taiwan we saw companies which had genuinely high growth and niche positions in expanding segments of the sector, and were struck by how many were also paying very attractive dividends. We have since conducted a project which has revealed about 15 well managed companies listed in Taiwan in growing areas of technology which specifically fit into our thematic preferred areas. Their average dividend yield is 6.3%, their average growth rate is 30% and their average PE is 9.7x.

Taiwan may therefore be ahead of the trend. How investors will react remains to be seen but we are very keen on certain areas of technology and we certainly like high dividend companies. Therefore, combining the two, which may seem a bit eccentric, might also be very productive. Included in our list is MPI a maker of LED manufacturing equipment which is growing 30% and yielding around 8% and HTC, the leading smartphone brand along with Samsung and Apple which has a yield of 4.6%.

Netflix in China

The company in China which has the closest business model to Netflix was listed at the end of last year and has a market cap of US$4billion. Youku.com has the third largest market share of time spent on the internet in China after Baidu (search) and Tencent (games and blogs) and already boasts 260 million customers who watch streamed movies and TV. The health warning is that it is unlikely to turn profitable until 2012 although estimates as to when this will happen are being brought forward. The model is built around gaining a greater market share of China's US$30 billion TV advertising annual spend which seems very likely.

The pattern which repeats itself over and over again in the technology sector and nowhere more so than in China, is just how big the market leaders in each segment become in relation to their nearest competition. Assuming that Youku.com can maintain its leadership status then the shares have a bright future. At a US$4 billion market cap Youku.com is a third of the market cap of Netflix (US$12 billion) and a tenth of the market caps of both Baidu and Tencent (both around US$40 billion).

Portfolio Valuation

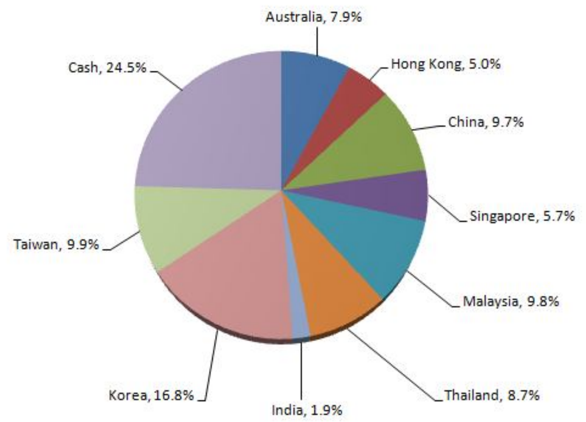
At the end of February 2011 the combined investments of the Prusik Asia Fund were trading on a weighted average CY11E PER of 14.9x, with 30% EPS growth forecast for 2011 generating an ROE of 18.5% for that year.

Prusik Reports

From the end of March we are hoping to write long quarterly reports and bring out shorter (but timelier) monthly reviews in between. We are also aiming to improve the content and analysis on the fact sheets. We are hoping to supplement this with short and instant commentary on things which we find interesting, trips etc which we will post on the website or send out, including updates on any major changes on the fund. We hope this will result in more immediate and user friendly communications but not lose the more thoughtful elements which many of you have been kind enough to compliment. We would welcome any feedback on this at any time.

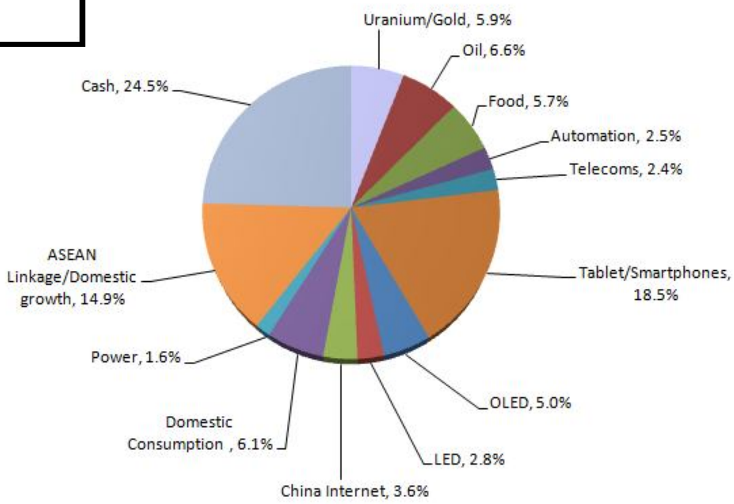
PRUSIK ASIA FUND
TOP LINE FIGURES — FEBRUARY 2011

Prusik Asia Fund by Country



Number of holdings	37
Percentage of Fund invested	75.5%

Prusik Asia Fund by Theme



	Top 5 Holdings	%
1	SIAM CEMENT PUBLIC CO LTD	3.5%
2	OVERSEA-CHINESE BANKING CORP	3.4%
3	LG ELECTRONICS INC	3.3%
4	MELFAS INC	2.9%
5	UEM LAND HOLDINGS BHD	2.8%

Futures	%
HANG SENG IDX FUT Mar11	-11.3%
MSCI SING IX ETS Mar11	-2.5%
MSCI TAIWAN INDEX Feb11	-10.5%

PAF Monthly Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2005										-1.9	5.64	5.08	8.86
2006	7.71	0.09	1.84	10.1	-1.95	-0.45	-1.72	0.02	1.23	3.9	7.64	1.97	33.94
2007	-0.01	1.28	3.05	4.08	3.58	4.79	3.77	-3.75	5.67	2.61	-6.33	1.93	21.88
2008	-6.78	6.91	-8.06	1.81	0.67	-7.69	0.21	-5.34	-5.33	-7.37	0.02	9.75	-20.84
2009	-6.9	-2.9	11.2	4.46	10.7	-2.69	6.77	-4.94	6.42	-2.45	4.08	2.12	26.59
2010	-9.67	-2.62	3.66	1.67	-7.15	-0.54	0.96	2.98	7.80	0.74	-0.38	1.08	-2.66
2011	-2.27	-0.70											-2.95

Key Parties to Fund

Investment Manager	Prusik Investment Management LLP
Administrator	Citi Hedge Fund Services (Dublin)
Custodian	Brown Brothers Harriman (Dublin)
Auditor	Ernst & Young
Legal Advisors	Dillon Eustace (Dublin) Simmons & Simmons (London)

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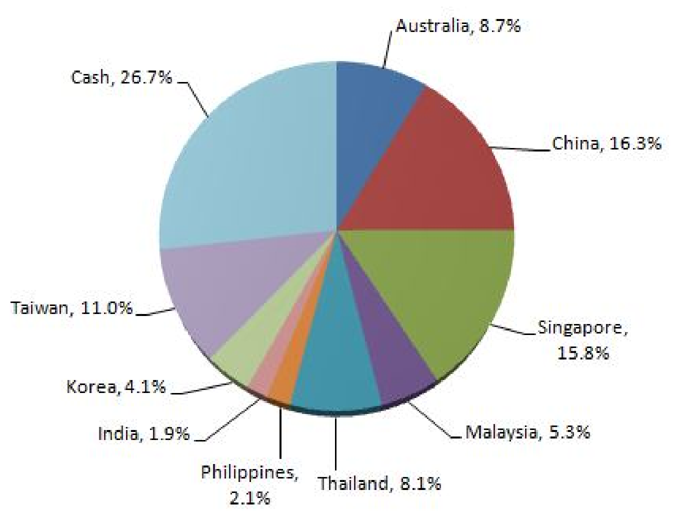
Key Terms

Denomination	USD
Dealing Day	Weekly (Friday)
Minimum Subscription	USD100,000
Min Subsequent Subscription	USD10,000
Subscription Notice Period	2 business days
Redemption Notice Period	2 business days
Dividends	
Class A & N	$ Non distributing
Class B & O	$ Distributing
Class C & P	£ Hedged Distributing
Class D & Q	SGD Hedged Distributing

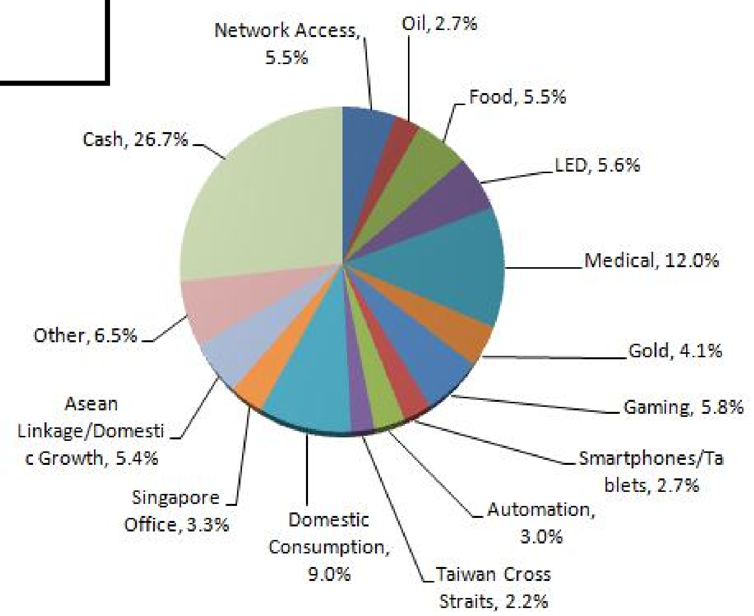
Manager Fees

Management Fee	1.5% p.a. paid monthly in arrears.
Performance Fee	10% of NAV appreciation. With a 6% hurdle.

PRUSIK ASIA SMALLER COMPANIES FUND
TOP LINE FIGURES — FEBRUARY 2011



Number of holdings	37
Percentage of Fund invested	73.3%



	Top 5 Holdings	%
1	ARA ASSET MANAGEMENT LTD	3.3%
2	GENTING PLANTATIONS BHD	3.0%
3	REXLOT HOLDINGS LTD	3.0%
4	LPN DEVELOPMENT PCL	2.8%
5	BANGKOK DUSIT MED SERVICE	2.7%

Futures	%
HANG SENG IDX FUT Mar11	-14.0%
MSCI SING IX ETS Mar11	-6.9%
MSCI TAIWAN INDEX Feb11	-6.8%

PASCF Monthly Performance

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2008	-	-	-2.44	0.52	0.26	-6.71	-3.49	-5.53	-8.52	-5.94	0.05	6.87	-21.6
2009	-3.6	-2.1	5.6	16.7	17.7	-3.7	8.9	-2.01	5.48	-2.16	4.42	4.81	59.7
2010	-0.7	-1.52	3.68	3.23	-4.23	1.20	0.83	2.74	7.45	3.62	-2.11	1.67	16.43
2011	-2.15	0.43											-1.72

Key Parties to Fund

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Custodian	Brown Brothers Harriman (Dublin)
Auditor	Ernst & Young
Legal Advisors	Dillon Eustace (Dublin) Simmons & Simmons (London)

Key Terms

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Min Subsequent Subscription	USD10,000
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Redemption Notice Period	2 business days
Dividends	
Class A	$ Non distributing
Class B	$ Distributing
Class C	£ Hedged Distributing
Class D	SGD Hedged Distributing

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Email: emma.bonham@prusikim.com
Web : www.prusikim.co.uk Fax : (+44) 20 7493 1770

Manager Fees

Management Fee	1.5% p.a. paid monthly in arrears.
Performance Fee	10% of NAV appreciation. With a 6% hurdle.