P R U S I K

PRUSIK ASIA FUND PLC
PRUSIK INVESTMENT MANAGEMENT LLP

An Independent, Asian Specialist, Investment Management Team

NAV Updates

Series	*March 2011*	*MTD*	*YTD*
Class A	170.26	1.19	-1.79
Class B	170.33	1.19	-1.79
Class C GBP	92.52	1.33	-1.73
Class D SGD	236.40	1.10	-1.47

Fund Size $200m

Performance

2005Q4	+8.86%
2006	+33.94%
2007	+21.88%
2008	-20.84%
2009	+26.59%
2010	-2.66%
2011 (YTD)	-1.79%

The Prusik Asia Fund was up 1.2 % over the month.

What a difference a month makes! Markets found a bottom as February ended and have rallied hard ever since, supporting our view that all was well on the ground, stocks had become quite cheap and the four year economic cycle was probably alive and well (we believe we are early in year 3 of the cycle). This came despite the shocking tragedy in Japan, ongoing unrest in MENA countries and, in the last few days, a strong break out to the upside in oil and gold. This extraordinary counter intuitive move perhaps bodes well; however, we should not be too complacent. There remains much to be concerned about in the world and as the Feng Shui experts warned us when the Year of the Rabbit began a few weeks ago, Rabbit years can be jumpy and bouncy; this may be tongue in cheek but the point is a good one - it won't be an entirely comfortable ride.

In Asia the key this month has been the reversal of the daft headline panic to sell 'emerging markets' and buy developed countries. Outflows from Asian stock markets in February and most of March had been very strong, reaching nearly 0.3% of regional market capitalization. This is quite significant as, according to Credit Suisse, 0.4% is the record in a non-recessionary correction. However, in the last 6 days of March there was a huge reversal with strong buying returning to Asia, with around $3 billion reported to have entered one Asian ETF alone!

What are the key reasons that Asian markets have recovered so strongly?

Firstly, well known economist Russell Napier hosted a conference call mid March which was attended by over a thousand investors. In the call Russell reversed his call to hold US equities, citing the total lack of a new lending cycle in the US (the failure of QE) and warning that in coming months investors hopes of an economic recovery there would be dashed unless either they changed the focus of the QE activity towards helping main street not Wall Street or velocity of money picked up rapidly. He argued that the lack of growth in money supply together with disappointed expectations of recovery would trigger a new contraction in US equity PE ratios.

We find this call quite difficult to reconcile with views we are hearing from the companies on the ground which are simply that the US is going through a manufacturing renaissance. Either way, money is currently very plentiful and must invest somewhere. Before March, Asia was very oversold compared to the developed world and certainly perceived to be holding a steadier course of growth.

Secondly, and perhaps most significantly, the rapid snapback rally has been fuelled by another injection of central bank liquidity; the latest reading of the Fed's balance sheet shows that total assets have risen to $2.6trn, an annualized increase of 37% in the size of the central bank's balance sheet since QE2. The BoJ has pumped in the equivalent of 5.2% of GDP in liquidity into the local banking system (as well as aggressive currency intervention) since the country's devastating earthquake and this has leaked into global markets as much as helping to steady the Nikkei 225.

The scale of the support explains the slightly counter intuitive exuberance in equities in the face of a very serious crisis in a major country. Indeed the total affected area in Japan accounts for 17% of GDP and 20% of the population. Japan relies on nuclear power for about a quarter of its electricity needs. Deutsche Bank estimates that if the power cuts last more than three months, 1.4% of GDP could be lost. The near-term GDP impact is negative as much productive capacity is either damaged or cannot run at full utilization due to the power shortages and widespread supply chain disruption.

The huge degree of money creation also raises the question of whether these market gains will be sustained once the pace of balance-sheet expansion starts to slow, let alone reverse as it inevitably must. Fed policy in particular is suppressing the volatility of asset prices (and the historic drop in the VIX in the last weeks is notable in this regard) and is leading to potential sustained mispricing of asset markets and distortion of historical relationships between them. A number of FOMC voting members are now beginning to publicly discuss an exit strategy from the current extreme policy setting which must increase the risk of sentiment based volatility, at the very least.

In sum, Asia found itself at the nexus of sudden huge global liquidity creation and relative equity value. It remains to be seen whether the sharp rally we have seen as a result can be sustained through April without some kind of correction but given that the bottom up fundamentals actually remain very good, we think the likelihood is that the markets have at least another 10 - 15% upside for the year. But it will be bumpy.

Prusik Asia Fund

The fund began the month quite conservatively placed with cash and some futures cover, which helped over the initial wobble as the Japanese news emerged. Technology was amongst the worst hit areas thanks to the supply chain issues about which we wrote in our supplementary email mid month. Certain key components to the tech supply chain, in particular the chemical substrates segment, where Japan has massive market share, were facing unquantifiable disruptions and the whole sector, which had been performing very well since last year, has been hit hard. We had some tremendous profits in some of our Korean technology investments such as Melfas and Samsung Electronics, which we took quickly, reducing our exposure to Korea in the process. Some of these companies have now fallen to very attractive levels, for example handset component maker Partron fell nearly 30% below its recent high, and gradually we are repositioning here. Whilst other sectors, such as engineering, construction materials, petrochemicals have recovered quicker, we still think technology has one of the strongest and least cyclical demand stories this year and, at the time of writing, visibility through the supply chain is clearing and the news is positive, leading to a recovery in share prices.

We did take advantage of other opportunities thrown up by this short term weakness and have added considerably to China and India (more later). In China we have increased our exposure to Internet companies, adding Sina.com to our existing list as well as telecom capital expenditure beneficiaries and also domestic services (some financials), building materials (cement) and consumption. Our exposure to Hong Kong and China is now higher than it has been for a couple of years, reflecting our belief that it is going to perform well in coming months supported by a peak in inflation mid year, less frequent tightening episodes in China, a new focus on domestic services consumption, a push to low cost housing and attractive value combined with current general unpopularity. Indeed Credit Suisse estimate that when looking for cheapest values by Price/Book and ROEs combined across the whole region, of the top 100 largest companies 6 out of the cheapest 10 are in China!

In India we can claim less macro value but some excellent bottom up opportunities presented themselves in our preferred themes (consumption and services).

Overall we have ended the month with much more of the fund invested (as we promised to do on weakness) and with reduced futures exposure. Our key themes remain domestic consumption (luxury and services), ASEAN Linkage, smartphone and tablet demand, China internet, and now China domestic services. We also remain fans of gold, OLED, China's factory automation and telecom capex.

China

Economy

The key question for China is when inflation will peak. Structurally, this looks like it will be around June. CPI will likely stay around 5% for the coming few months, peaking in June at something above that, and thereafter the 2H base effect from 2010 will ensure that CPI comes to rest somewhere between 2% and 4% depending on other factors. Food prices are seeing weekly declines and the worst of this year's wage hikes are behind us. The wild card is oil.

In past cycles, most applicably 2004, the China market troughs around 3 months ahead of inflation, when the worst hit sectors, usually property, banks and steel, begin to outperform. In this cycle the average PE sits at 11.5x, well below its historical average of 13x, giving generous room for upside.

Additional support will come in the shape of less tightening in coming months. Maybe as few as one or two more tightening episodes are likely in the coming 8 months, compared to 4 in the past 6 months. The 1 year benchmark rate is therefore likely to come to rest still below the average rate of inflation, which is not stable, but the government will not want growth to dip below 8.5%. Instead they will continue to target specific problems. To this end 60 cities have been told to continue clamping down on property. This may sound draconian still but remember this is China and therefore the same decree could have been made to 600 cities! This is good news for the majority of property companies in China.

Long term inflation in China is likely to be governed by wage increases. The government intends to allow wages to rise annually by 15% meaning that farmers will demand income growth of 10% at least and so will need to see agricultural prices up by 8% per annum to keep pace with the country averages. Core CPI in China will therefore be 1.5% or so for the forseeable future and global food prices will be unlikely to get much respite.

Currency internationalization

Over the next decade, starting today, we can expect to see China preparing the RMB to become "a" reserve currency. Maybe that should be "the" reserve currency as China's trade and GDP race to overtake that of the US. Last year trade settlement in RMB doubled every 3 months! This market was $300 billion at the end of 2010 and continues to balloon.
In the coming months we can expect further liberalisation to rules in outward investment from China. Foreign direct investment into China will also soon be able to borrow RMB in Hong Kong for remittance into China. We can also expect another QDII scheme (quota allowing Mainland individuals investing abroad) before the year is out which will benefit Hong Kong. In short, the outflow of RMB to Hong Kong via the trade channel will be huge and will quickly result in foreigners being able to access RMB deposits in Hong Kong. Indeed Deutsche Bank expects Hong Kong based RMB deposits to increase 7 fold in the coming 2- 3

years!

We can expect lending with FDI to take off and this will result in a massive RMB bond market which estimates suggest could be RMB 2 trillion in 5 years! This is big enough to accommodate global bond managers and the demand for RMB exposure will keep yields low. One anomaly which supports this trend is that this year two Russian corporates have raised RMB bonds in Hong Kong, saving in the process between 200 and 300 basis points on cost of funding! The currency was then swapped into Euros and US$ at marginal cost. Whilst those of us with memories going back to the mid 1990s Asian crisis will have paused for a sharp intake of breath at this news, the short term impact is clear: banks in Hong Kong will enjoy massive growth in business and margins but will also see ballooning costs. However, this volume growth could have an impact far wider than just bank turnover and profits which are, as yet, difficult to predict on this theme. Some estimate that a simple 10% increase in deposits calls for a 1.8% increase in manpower. Wages, property demand especially office space, consumption and the financial services sector in general in Hong Kong are all set to improve on this theme.

The next 5 year plan

Whilst the biggest news is the development of the offshore RMB market, other very important shifts have taken place in China's future direction. In particular China has pledged to focus more on domestic consumption but less on consumer goods and more on services and higher value added activities. Particular mention was made of healthcare, travel, entertainment and pensions. Services are currently only 45% of China's GDP.

Additionally, we are already seeing a massive shift towards spending on automation of factories. China's labour force will shrink by 250 million people in the coming 50 years – equivalent to twice the workforce of the USA and representing probably the biggest future demographic shock in human history. There has also been announced a massive public housing plan for 36 million units in 5 years which is driving a strong recovery in construction and building materials, which is likely to result in 20% per annum growth in the coming few years for certain segments of that industry.

Cement

West China Cement is the dominant cement company in the Shaanxi Province (home of the Terracotta Warriors) which is a key beneficiary of the Western Development plan which seeks to reduce China's dependence on the coastal regions by boosting the economies further inland. In addition, Shaanxi is benefiting from the relocation of manufacturing from the coastal regions as wages see further inflation. West China Cement has capacity of 12.5m tonnes which represents a market share of 20%. The provincial government has also been closing down less efficient plants which has led to a tight demand/supply dynamic. Southern Shaanxi, where the company is based, is difficult to transport cement to due to the mountainous topography and less developed transport links. This provides another barrier to entry. Due to all of these factors, West China Cement has operating margins which are at a substantial premium to the average for China (39% compared to 24%). ROE is likely to remain above 25% over the next 2-3 years. Despite these positive factors, West China Cement trades on 10x earnings. This is due in part to the lack of broker coverage as the company has only recently listed on the Hong Kong Stock Exchange having previously only traded on London's AIM market.

Indian consumer

Having been very cautious on India over the last 6 months for a number of reasons, but largely high valuations and hugely disruptive corruption scandals, we have seen subsequently a significant underperformance of the stock market and a sharp derating of stocks in some of our favourite themes. More interestingly, our recent trip found corporates much more conservative and realistic on their outlook and expectations on growth seemed much more reasonable and achievable than the extremely high levels of optimism that surrounded us when we visited India last October.

Despite the much discussed risk from inflation and its potential impact on corporate margins, the one segment that is holding up and actually still growing at a rapid space is the consumer discretionary sector. It is one sector that has pricing power and therefore is not suffering margin pressure from raw material price increases, nor is there any sign of slowing demand at the top line. Titan Industries is one company that is well positioned to benefit from the growth in the aspirational Indian. Titan is the pioneer in the specialty retail market in India with the leadership position in watches, jewellery and eyewear. They are the world's fifth largest integrated watch manufacturer with a market share of 65% domestically and 80 million customers. In jewellery they have 40% market share in the "organized" sector. This segment, which represents nearly 75% of revenues, is still expected to grow at a strong pace as the shift towards branded jewellery gains momentum.

The Indian jewellery market is the largest in the world with an estimated size of USD 19 bn. This is expected to double over the next 5 years. However 94% of this market is dominated by local jewellers. We believe as the transition to organized retail gathers pace this will benefit the first mover. We still expect this segment of the company's business to generate strong growth of 40%+ driven both by strong sales and better margins from product mix shifts. For example, eyewear sales for the company are still in early stages of growth but the market opportunity is huge. The eyewear market in India sells around 25-30 million units per annum – this compares with sales of only 1.5mn units for Titan in 2010. We expect Titan's return ratios to improve significantly over the next 3 years (from an already high level) driven by strong revenue growth and expansion in margins due to the rising share of high-margin premium products in the product mix, such as eyewear. The company should generate an ROE of 49% this year and the only reason this isn't higher is due to the low leverage employed by the company.

Thai Bank lending

Bangkok Bank's loans book grew 3.1% MoM in February, a record increase for the month since the 1997 Asian financial crisis! Corporate Thailand is borrowing term loans for the first time in 14 years and so loan growth is significantly exceeding expectations. Current typical company capacity utilization in Thailand is now higher than the 10 year average and indeed, in our opinion, is very close to peak level. This means that corporates will have to spend on new capacity to ensure constraints don't cause a bottleneck to their growth and this will drive loan growth for the whole sector. A recent survey of 52 listed Thai corporates implies a 40% YoY increase in 2011 capital expenditure, post a 4% decline in 2010. Accelerating loan growth, higher margins and fees, lower cost-income and provisions means profit growth for the banks as a sector is likely to accelerate from 22% in 2010 to over 30% in 2011. Consensus believes profit momentum stalls in 2011 with growth of 17% and so we expect significant positive earnings surprises and further upgrades from here.

During our recent visit to Asia, we met with Bangkok Bank, one of our largest holdings on the fund. They are the largest bank in Thailand with the greatest exposure to the corporate sector. Of their loan book, 44% is derived from corporates with another 16% from large SMEs. The corporate loan outlook is excellent. Bangkok Bank is in the right spot. It has the highest capital among major banks, the lowest loan to deposit ratio and the largest corporate customer base. Furthermore, valuations are extremely undemanding. The company still trades on a Price/Book of 1.2x but Price/Book values of double this have been reached in previous cycles. ROE is 12%, mainly driven by a very underleveraged balance sheet and this we expect will change for the better as corporate loan demand accelerates.

China Internet

Last month we wrote about Youku, China's equivalent to Netflix which listed in the US late last year. This together with Ctrip (online travel bookings), Netease (gaming) and Sina comprises our exposure to this theme which currently represents nearly 9% of the fund.

Sina is an internet portal but its twitter-like micro blogging service (called Weibo in Chinese) is attracting increasing eyeballs from users and investors. Sina's Weibo was launched in 2009 but has garnered over 100mn registered users to date, up from just 13 million a year ago! It is the most influential microblog in China as it gathers a lot of white collars, celebrities and professional leaders. It is hard for its major competitor, Tencent, to take the lead from Sina Weibo given Sina's unparalleled media influence. Sina has not yet started large-scale monetization on its Weibo, but some monetization trials have been carried out on a small scale. In addition Sina is the largest brand-advertising operator in China with a 38% market share among the big-four portals (Sina, Tencent, Sohu and Netease) in 2010. It has been the top choice and must-have platform for online brand advertising and is ranked the third most visited site in China by ChinaRank. We believe China's advertising market is likely to continue growing strongly in 2011 given rising domestic consumption and increasing competition amongst retailers and brand builders. We expect China's total adspend to grow 15% YoY in 2011. Non-search online adspend should grow even faster at 30% YoY. E-commerce and the consumer industry will be the two major growth drivers of this demand. We remain positive on the long term prospect of Sina given the strong growth potential of its Weibo. We see Sina at the beginning of a strong transformational change, similar to one Tencent made a 5 years back. Sina is changing from a low profit, low ROE company to one with expanding margins which will drive a strong rerating in its ROE. As this transition happens, we see no reason why Sina cannot trade up to multiples similar to Baidu or even Tencent at its peak.

The 'Teflon' Economy

Australia managed to avoid the worst of the Global Financial Crisis and earned itself a smug moniker of the non-stick variety in the process. Recently, however, visiting Australia has become almost prohibitively expensive to Brits and dollar earners alike, the travellers' anecdotes are illustrative: should a normal business book at the airport cost US$32? Or should a modest stationary purchase made in downtown Sydney of a file and a few dividers cost UD$38? These prices feel both frightening or like madness but have somehow been explained away by the super bull market in resources which has also lifted the currency into the stratosphere. Here are some recent headlines from Bloomberg of the tone that you might expect:-

'Australian retail sales rose in February and lending to businesses climbed for the first time in nine months, according to government reports that sent the nation's currency to a record against the U.S. dollar.

Sales advanced 0.5 percent from a month earlier, when they gained 0.4 percent, the Bureau of Statistics said in Sydney today. That was the biggest increase since July and was higher than the median forecast in a Bloomberg News survey of 24 economists for a 0.4 percent increase.

A separate report from the Reserve Bank of Australia showed total credit extended by Australian lenders last month jumped by the most since May, led by business loans. The signs of stronger consumer spending and a lending revival boosted the local dollar as confidence grew that natural disasters didn't derail the economy's expansion.'

So, prima facie, it all still sounds rather good.

However, there are some worrying anomalies appearing.

Firstly, unemployment may be below 5% but growth in employment is only in a tiny handful of industries. The resources sector is the most overheated and we are hearing reports of 24 year olds with no college degree are now getting wages in excess of US$230,000 per annum to work as riggers in the mining services industry. This is more than Ben Bernanke is paid! (we resist further comment).

Secondly, the Australian Chamber of Commerce and Industry's latest survey of business confidence found that 34.5 per cent of businesses say trading conditions are poor, while the number expecting conditions to deteriorate over the next three months has almost doubled since the beginning of the year to 18.7 per cent. This is the other 90% of the economy that is not resources finding that higher interest rates, wages, the oil price and the strong dollar are all catching up with them. For example, many small retailers, especially those away from the centre of big cities, have reportedly reduced their workforce and are hanging on to skeleton staff in a difficult environment. Similarly, hotel occupancies in regional towns have fallen to well below 50%.

Thirdly, and this is the glaring anomaly, buyers are deserting the housing market at a pace that threatens a slump in housing prices and a risk to the whole economic outlook. The number of new housing loans approved by the banks dropped 5.6 per cent - importantly, this is to a 10-year low - in February, after a similarly sharp drop in January. The buyer retreat also comes as the stock of unsold houses mounts. Figures compiled by property analysts SQM Research show there are now 356,600 properties on the market, which is almost 50 per cent more than a year ago. The number of loans for new homes slumped 12 per cent in February and has dropped almost 36 per cent in the past three months. Anecdotally, some new luxury housing is selling at 30% discounts to the expected prices.

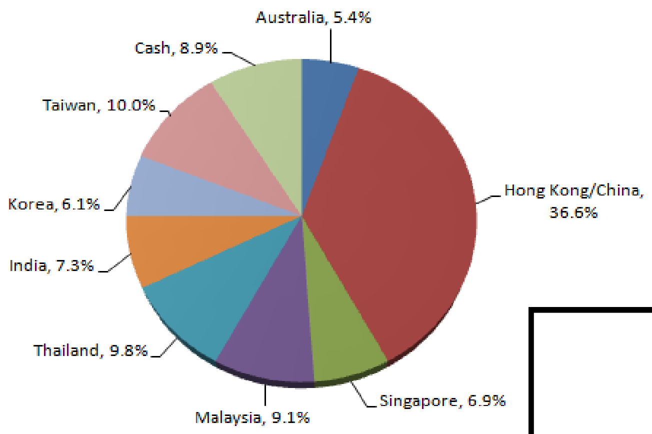
Home building is a key economic sector influencing both the health of manufacturing and consumption. It has been assumed up until now that the slowdown was due to the floods but in fact it seems as though another catalyst is also at work. The economy is starting to look potentially very vulnerable. If, or perhaps when, the resources sector should lose steam, investors might need all the Teflon they can find.

Amit has just returned from a week's conference in Hong Kong and Tom and Heather are separately visiting a number of countries in South East Asia for a combined three weeks in May.

Portfolio Valuation

At the end of March 2011 the combined investments of the Prusik Asia Fund were trading on a weighted average CY11E PER of 15.9x, with 43% EPS growth forecast for 2011 generating an ROE of 24.5% for that year.

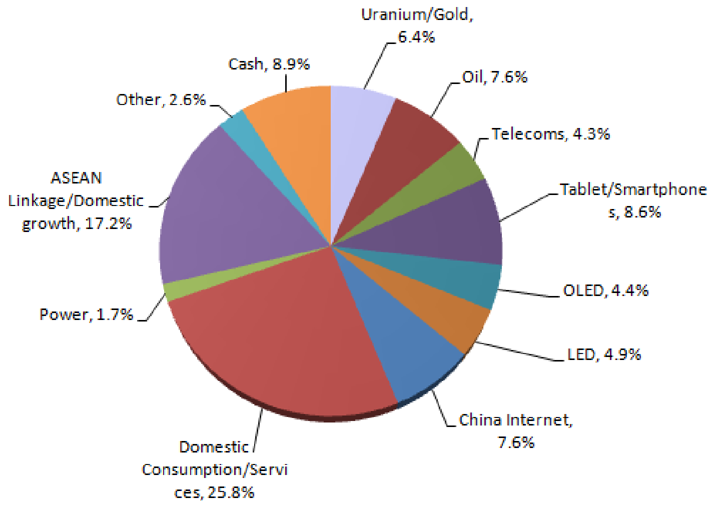
PRUSIK ASIA FUND
TOP LINE FIGURES — MARCH 2011



Number of holdings	**42**
Percentage of Fund invested	**91.1%**

	Top 5 Holdings	%
1	BANGKOK BANK PUBLIC CO LTD	4.0%
2	UEM LAND HOLDINGS BHD	3.7%
3	OVERSEA-CHINESE BANKING CORP	3.6%
4	NEWCREST MINING LTD	3.5%
5	IND & COMM BK OF CHINA-H	3.4%

	Futures	%
1	HANG SENG IDX FUT Apr11	-5.3%
2	MSCI SING IX ETS Apr11	-2.3%
3	KOSPI2 INX FUT Jun11	-3.2%
4	MSCI TAIWAN INDEX Apr11	-5.0%



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	1.19										-1.79

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)

Prusik Investment Management LLP
First Floor, 46 Hays Mews, London, W1J 5QD.
Tel: (+44) 20 7493 1331
Email: emma.bonham@prusikim.com
Web : www.prusikim.co.uk Fax : (+44) 20 7493 1770

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.