PRUSIK ASIA FUND PLC
PRUSIK INVESTMENT MANAGEMENT LLP

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An Independent, Asian Specialist, Investment Management Team

NAV Updates

Series	*JUNE 2010*	*MTD*	*YTD*
Class A	152.49	–0.54%	-14.38%
Class B	152.57	–0.52%	-14.37%
Class C GBP	82.77	–0.66%	-14.70%
Class D SGD	212.03	-0.53%	

Fund Size $268m

Performance

2005Q4	+8.86%
2006	+33.94%
2007	+21.88%
2008	-20.84%
2009	+26.59%
2010 (YTD)	-14.38%

The fund fell 0.5% in June amidst mixed performance and ongoing quite extreme volatility. Opinion seems stuck in some kind of extraordinary 'hung parliament' as investors try to make sense of the apparent risks in the light of some otherwise very encouraging news flow from companies or indeed countries further away from trouble, such as those in Asia.

In the US, to which Asian markets remain frustratingly correlated, we have seen trading patterns which, to us, do not suggest a healthy stock market. Since April 26th approximately one trading day in three has seen a 90% bias towards upside or downside in terms of volume, number of advancing issues and points moved. Combining these signs with devilishly low trading volumes and wildly gyrating currencies, suggests to us that the investment environment is rife with confusion and indecision. The domestic signs in Asia vary from neutral to downright exciting (more on that later) but the global signs of economic health seem, frankly, poor to scary. For now world economic health seems to be more pressing, providing, as it does, the still crucial backdrop to the Asian economic business environment and global sentiment.

When we start to look at the list of things which worry us about the world it can become slightly overwhelming. In many ways it is impressive that global stock markets have remained so resilient given the enormity, novelty and complexity of the problems. However, perhaps it is not so bad that the list is so long and fairly well known, if not quite yet fully digested.

We are not global experts but here is a snap shot of some things which do concern us about the immediate future. All US measures of money supply growth are turning down but 'M3' looks particularly bad and clearly signals deflation. Secondly, any central banker who has contracting broad money growth and then sits back and watches credit spreads widen is asking for big trouble. The wider spreads in Europe suggest tightening credit conditions and further contractions in bank credit and thus money. It seems as though Trichet is playing a gigantic game of 'chicken' in waiting for European heads of government to sign up to deficit reduction measures and indeed the publication of an enforcement mechanism for fiscal rectitude might be closer than we think. It isn’t clear if this will shock stock markets but it certainly will if not accompanied by a swift move to quantitative easing, with possible further additional stimulus in the US, which is also clearly warranted given the money supply numbers. We are, thus, in the hands of governments and central bankers and this means unpredictable but possibly huge events await us – positive or negative. Thirdly, the second quarter earnings numbers are due out soon. This will either be the catalyst for a rally, as they were last year, or cause for concern. Analyst forecasts are very widely spread so there may be room for disappointment and there have been some big currency moves which may have caught out some. However, the key will be guidance for the second half. Our indications from meeting companies in Asia recently are that this will be a mixed bag. Finally, China faces some big challenges regarding labour and managing the property market (on which more later) and once again the resolution is in hands of government so predicting timing is hard.

In Asia, there are still healthy exports to Europe and growth feels strong. The implication of what's happening in Europe is that this might deteriorate going forward but there are not many signs of this yet. Regional central banks are keeping credit growth modest, in line with the new monetary targets, and indeed interest rates were raised fractionally in Korea and Malaysia as we write this and in Taiwan and India earlier in the month. The equity environment in Asia feels quite suppressed and the resolution may be violent either way. If we do get a new round of QE or stimulus in the west then Asia will do very well. If not then western markets are in for a poor time and Asia will struggle to resist the sentiment. If all other things were equal in Europe, then Asia would be offering some great investment opportunities now and indeed our bottom up research in our favoured themes is largely very encouraging.

The bottom line is that we wait with some cash in hand and are amassing a list of stocks we would like to buy if we do get a deflationary scare. We don’t think we will be waiting much longer and the resolution will be this quarter. It is too late to sell unless you think there will be no stimulus.

Prusik Asia Fund

The major risks remain in the cyclical, exporter and commodity sectors, whilst banks are still showing little growth. Hence our domestic oriented themes (telecoms, domestic consumption, power T&D, healthcare & property REITS) still look very attractive from a growth perspective and a defensive one. We are still finding very high dividend yields and reasonable valuations. We have about 30% of the fund in cash awaiting a buying opportunity and have plenty of ideas in hand. Very little has changed in our views or themes compared to last month.

High Yield and High ROE/ ROIC

Given the high state of flux in the world it is more important than ever to re-examine regularly both the investment world we are operating in and our own set of assumptions within that world. It could be very easy to stick doggedly to a routine and not to spot a crucial change which might have vital bearing on our investment process or way of thinking. For example, there is the sickening, albeit in our view unlikely, chance that the investment future holds nothing but trading opportunities and the investment world will be dominated by computer generated decisions. In particular we have been interested to read about recent screening projects in Asia which look at some very prescriptive methods of choosing stocks. One method focuses on the long term outperformance of companies with high dividend yields, we wrote about a few months ago. Another, based on the work of Joel Greenblatt, picks companies with high return on capital employed and low valuations. Both these studies show that in Asia, even if you discount heavily for survivor bias in the back testing, cost of execution and trading volumes etc, 10-year returns well above the index have been achieved. The same process has been proven in the US market over 17 years with similar effect, although, intriguingly, the relative performance benefits in Asia appeared greater.

We hope that most of you who know us well will be thinking these screening factors are rather familiar. Indeed investing in companies with high or rising returns to shareholders and buying them on attractive valuations is absolutely central to our investment process. Our exploration has only helped to confirm that our method of picking companies is not only intellectually clear and sensible but seems to be supported by some pretty impressive statistics on the longer term benefits of this method.

However, here's the rub: even the longest standing and most impressive compound return, tested over 17 years in the USA, which focused entirely and simply on holding investments chosen on the highest ROIC and lowest EBIT/EV for 12 month periods or more, had long periods of underperformance. In fact although this method returned a 17 year CAGR of some 30% (about double the index, on paper, but not including trading costs / liquidity and other practical issues etc) it underperformed, on average, for 5 months out of 12, 1 year in 4 and every 6/7 years it underperformed for two years in a row!

Thus an investment process, whatever your preference is like a religion. You will be tested. Occasionally, for uncomfortably long periods of time. We remain faithful to our thinking and we are absolutely sure the rewards will come.

China

There seems to be a tiny thaw in the austerity measures in China. So far this comes in the form of a restatement of existing large infrastructure projects in the western provinces, which clearly is intended as a reminder that it isn't all bad, and a speech from one official stating there will be no new property cooling measures in the third quarter. We have also seen the beginning of new domestic mutual fund launches, not seen for a while, suggesting that the stock markets, at least, are due a little support from somewhere. At the time of writing some banks in the western provinces have been allowed to slacken lending measures on mortgages. None of this is surprising. The west and central provinces of China remain the lynchpin of the domestic growth push; The Agricultural Bank of China listing is looming whilst other banks also wish to raise equity later this year and the property market has seen transaction volumes drop by a whopping 30 – 80%, depending on location, with some local give on pricing but little follow through, as yet, on prices countrywide. Meanwhile, GDP growth expectations seem to be settling on the 9% level, miraculously in line with government targets.

The question is, are we about to see a turnaround in China sentiment, led by government policy? Whilst the sighting of one swallow does not a summer make, it's probably not December either, so we are encouraged by what we have seen this month from the perspective of likely better policy news flow. However, we do not expect fireworks at this stage either. The key question is whether the government becomes a little more constructive, given the very poor performance of China year to date. Is there really clear (blue?) sky above for domestic equities or does China, like its western counterparts, have too many other problems to make significant headway at this stage?

Our conclusion is that if any stock market can move against the grain from here, then it's China. Valuations are much more compelling and Price/Book ratios and PEs are now down to 2005 and 2008 lows. The risk in the immediate future is international demand for exports, which we think will remain sluggish, if not deteriorate in the second half on 2010.

Additionally, there are two really difficult issues with which we think China will continue to wrestle and which could continue to unsettle the stock market.

China Property

The first is property, where there has been selective success from the governments cooling policies so far. Volumes have collapsed but with very little follow through on prices yet. Normal markets would probably see nasty falls following such a precipitous decline in volumes and, indeed, fear of this may be what is behind the recent indication that no more cooling measures will be forthcoming this quarter. Of course this is China and many new property owners are currently only part way through their first property 'cycle' so the concept of actual falling prices is not a familiar one. Thus, most property owners generally remain blithely of a mind that this is more of a pause than a correction. As a result, we must therefore assume, that should a proper correction take hold, the results could either be quite shocking or long running, or both. The conventional thinking is that if prices were to fall much the government would once more step in with supporting measures.

Perhaps not so obvious is the slightly more complex relationship that is emerging, between rising property prices and a 'wealth effect' which leads to correlated retail spending.

Certainly in rural areas the 'wealth effect' felt from rising property values is alive and well. However, in the major cities it is likely that the opposite is now occurring. After a certain point rising property prices become too high for average incomes and act as a tax on urban dwellers, curbing consumption and creating social tensions. This ever rising cost of living in the city undermines the security of city residents and they feel less wealthy.

In China these two factors at work are creating an environment where the average city dweller is probably seeing their foothold in the city looking less secure, whilst at the same time they are feeling more wealthy as a result of the value of their retained land rights at home in the more rural areas. Therefore it is no surprise that the recent labour unrest has happened at the peak of the property boom and has been met with unprecedented wage increases. China's migrant labour force has been, as a result of the rise in property prices, at once impoverished and enfranchised and the effects are not only hugely destabilising socially but will profoundly impact industrial China, as we are already starting to see.

Our belief is that falling property prices are not as negative for China or its urban dwellers as it first appears and indeed falling property prices would probably not undermine the consumer as much as might be expected. This is good news for the very strong underlying consumer story in China. The short term risk, however, is that the government may not be as supportive to a falling property market in urban areas as might be expected, causing more fear in equities than is warranted. On the positive side, we can expect property in the rural, western and central provinces to be supported and the wealth effect there is alive and well.

Workers and Wages

It took our recent trip to SE Asia to understand fully the already massive impact of the recent worker unrest and wage hikes on business throughout the region. Not only are many manufacturers reportedly busy looking for capacity away from China, the anecdotes were quite shocking, even for somebody who was in China the week the Tianmen Square demonstrations started. For example, Mazda are on the hunt for car assembly capacity in Malaysia after a worker went crazy and drove a car (presumably a Mazda!) onto the factory floor, and wrecked an entire line of machinery and hurt 11 people.

Michael Taylor of Coldwater Economics sums up the situation brilliantly in his recent review of the book *'Against the Law: Labour Protests in China's Rustbelt and Sunbelt'* by Ching Kwan Lee. This is what he has to say about how Chinese labour politics works. Three points are particularly important:

"First, the political economy of Chinese reform is characterized by persistent contradictory imperatives and conflicts of interest between the central government and local states. Worker politics derives from these tensions, not from system logics.

Second, there is no singular political economy in China. Institutions embedding and enabling the commoditisation of labour, especially the labour rule of law, are unevenly established in different regional economies, giving rise to diverse local labour regimes and labour politics.

Third, worker subjectivity cannot be reduced to material interests. Equally important are workers' sense of dignity, justice, and their need for recognition. Post socialist transition in China spawns labour unrest because enormous normative violence has been inflicted on workers."

Our overriding feeling is that China has reached some kind of turning point in its development. It's not bad, but it's different. Perhaps one of the important distinguishing features of the next era will be that we stop regarding China as homogeneous and a bit like Europe, we will increasingly see that central politics will not work well everywhere at once.

Finally, a highly respected sage from the Nobel prize winning world of economics made this point to us: if over the coming years you assume, roughly, that Asian currencies double and wages triple, that means that, to the Asian consumer, a room at Claridges (please interchange here any western asset or luxury of your choice) will be around 16% of the cost it is today. This is an exaggerated picture but the message is clear: The Asia consumer story won't just stay in Asia.

SE Asia

Meanwhile, as China battles on, the immaculately managed Singapore is quietly getting into its stride. Residential property prices, despite the government's best efforts to keep a lid on things, hit a new all time high there last week and now rival Central London! Meanwhile, despite over 2,000 newly opened hotel rooms, some 900,000 new visitor arrivals in May quietly sent hotel room rates up to Hong Kong levels (USD 400 a night in the top end). Recently completed are not one but two huge new casinos, an underwater nightclub, 'duelling' rollercoasters (no thank you – we have enough excitement in our day jobs), a 150 metre infinity pool set in a 'skypark' 200 metres above the city (ditto!), a huge new convention centre, open air amphitheatre, new theatres including the 'Lion King' and, coming soon, a dancing crane show! Impressively, there are still no queues at immigration. We don't think this will last. While residential property prices have soared, office rents are only just starting to edge back up towards the SGD18 peak, but are still well under double digit levels. Keppel Land announced this week the 63% pre-letting of their vast 800,000 sq foot development in Raffles Place which is surely a sign that demand is recovering well.

Over the causeway in Malaysia things are also improving, albeit at a slower pace. However, it looks as though the massive Iskandar development just over the border in Jahor could take off just as demand for industrial space spills over from China. Meanwhile, throughout the peninsula, electronics makers, car assemblers and property developers all reported strong new demand and there are some genuinely interesting and extremely well managed new businesses in very early stages of regional penetration, such as low cost airlines (our favourite is Singapore listed Tiger Airways).

We have a range of companies benefitting from growth in Singapore. Recently we added Capital Commercial Trust which is an office REIT in Singapore. They are a prime beneficiary of the recovering office sector as 72% of their value is generated from this segment. Coupled with a Dividend Yield close to 5% and trading at a discount to its Net Asset Value we believe there is significant upside here. Another addition was Genting Singapore, which is a developer of integrated resorts and casinos. They are a prime beneficiary of the tourist arrival data we mentioned above and we believe that analysts are overestimating the competition risk in this sector with the opening of Marina Bay Sands. Though undoubtedly Marina Bay will add to the competitive landscape, we believe that the surprise will come from the larger-than-expected gaming market size and Genting's ability to maintain their market share which is currently greater than 50%. We estimate that their ROE for 2011 will nearly double from this year, going from 5.8% to 11.7% in 2011. This will be driven by significant margin improvements as the company benefits from strong operating leverage – we estimated that for every 1% change in revenues the company's EBIT will grow 1.6x. We believe as the market starts to see this, coupled together with the growth we expect to materialise, then the stock will get rerated.

Maxis

We wrote at length last month about our largest theme, telecoms, and this month we saw the first research note from a broker echoing some of our views.

We already hold shares in mobile telecom operator Maxis which is listed in Malaysia. We visited them again this month and very much liked what we heard. Maxis has the premier market share and brand in Malaysia where spending power is rising sharply with some 51% of the population now categorised as middle class. Maxis' plan is to capitalise on this and we believe that they have the most knowing and ambitious plans to monetise their customer base of any of the telecoms companies we have spoken to since we launched this theme. They totally understand the value of ‘data’ and how the new data plans, which have different charging structures, can offset the ongoing decline in voice revenues. They also recognise that we are currently travelling through an inflection point as people start to use mobile internet. Indeed their mobile internet subscriber base rose over 10% in the last three months alone! Much of this is coming via smartphones and Maxis plans to become a content provider to lock in customers and generate more revenue. They have an open source apps store for Malaysian apps, online retailing and are creating tie ups with major brands such as BMW and Malaysian Airlines. They also plan to offer online on-demand TV, advertising and eventually they want to be able to offer their customers a ‘bill to mobile’ service.

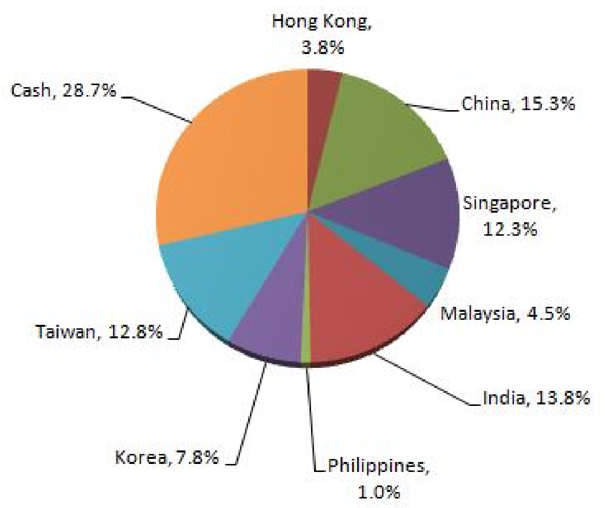
In the meantime, and this is a crucial point for all mobile telecom companies, the new iPhone 4 ‘Facetime’ function means ‘voice’ now becomes ‘data’ via the video function. Indeed Maxis reckon that within 18 months non-voice revenues will rise to over 50% of the total from 30% now – and that’s before factoring in premium services, such as content. Maxis is currently trading on 11.8x forward PE and yields 8.5%.

Portfolio Valuation

At the end of June, the combined investments of the Prusik Asia Fund, were trading on a weighted average CY10E PER of 18.5x and CY11E PER of 15.5x with 25% EPS growth forecast for 2010 generating an ROE of 27.4% for that year.

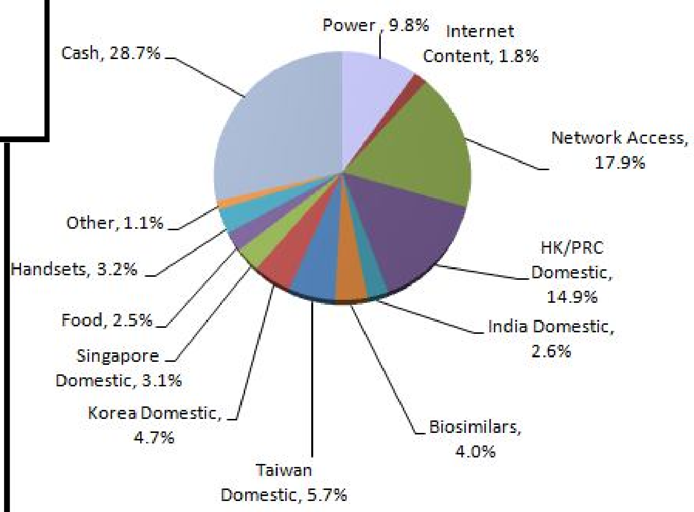
PRUSIK ASIA FUND
TOP LINE FIGURES — JUNE 2010

Prusik Asia Fund by Country



Number of holdings	25
Percentage of Fund invested	71.3%

Prusik Asia Fund by Theme



	Top 5 Holdings	%
1	HONGKONG ELECTRIC HOLDINGS	3.8%
2	RURAL ELECTRIFICATION CORP	3.7%
3	PRESIDENT CHAIN STORE CORP	3.4%
4	CHINA MOBILE LTD	3.4%
5	LANCO INFRATECH LTD	3.3%

PAF Monthly Performance

Year	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							-14.38

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)

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	$ Non distributing
Class B	$ Distributing
Class C	£ Hedged Distributing
Class D	SGD Hedged Distributing

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Manager Fees

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