NAV Updates

Series	*MARCH 2010*	*MTD*	*YTD*
Class A	162.41	3.66%	- 8.81%
Class B	162.47	3.66%	- 8.81%
Class C GBP	88.34	3.52%	- 8.96%
Class D SGD	226.03	3.62%	
Fund Size	$340m		

Performance

2005Q4	+8.86%
2006	+33.94%
2007	+21.88%
2008	-20.84%
2009	+26.59%
2010 (YTD)	-8.81%

In February the fund fell 2% and in March rose 3%. Low volumes and low volatility have been the hallmarks of the recent two months. March certainly saw a return of foreign cash inflows which the region enjoyed last year and it looks likely to beat September 09's record net inflow of $13.5 bn . Meanwhile, domestically created liquidity, not least from the January lending spree in China, also found its way energetically into assets across the region. It is perhaps a little surprising that asset prices didn't perform better still. The general environment is one of stated caution masking underlying risk asset accumulation. Optimism is thus in the wind.

This year to date we have already visited Asia four times in an effort to both understand the current environment, which is very complex, and also to quadruple check on our companies since disappointments are not treated lightly. Our findings, on a bottom up basis, are generally quite encouraging.

Company management seem increasingly positive and are reporting better visibility, order flow increases and crucially, pricing power. Indeed the latter point is marked across the board, whether in commodities, electrical components, textiles or shipping and airfreight. We also see wage increases and tight employment in China especially on the east coast while rising employment elsewhere and consumption remains good or is recovering. Recent company results have mostly matched or exceeded expectations with some industries, such as the technology sector, giving strong guidance. As we write, the bottom up factors have taken the upper hand and are driving equities higher. This is probably accentuated by frustration over cash deposits yielding such paltry interest. Valuations are neutral.

We wrote at length in our January report about the risks we saw gathering in China, namely worldwide liquidity factors turning less constructive, policy risk and policy error risk and the risk to valuations of sudden increases in interest rates. We see no reason to alter our concern, they are important and if anything, to us it underlines the risks to bonds and equities around the world, albeit mostly from non Asian sources. There is huge tension at the moment

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and anger is not far below the surface be it in politics, the Euro zone Greece bailout, tax issues, protectionist issues, Iran, soft commodities, water rights, environmental issues, cyber attacks, religion, currencies or corruption allegations.

Asia has yet to prove it can ignore a severe global news shock and since the timing of the impact, if any, of such risks seems almost impossible to predict, some caution must prevail. The tension in stock markets is no less marked than elsewhere with wider macroeconomic concerns pitched against a much more positive environment at company level. The risk is that, such as in earthquakes, the resolution of such tensions can be violent and we can't be sure that the January correction, which felt very painful at the time, was not what seismologists refer to as a 'foreshock'. In the meantime we expect stock markets to make some headway to the upside.

You will notice that we have undergone quite a transfusion on the portfolio and that we are now holding significantly less cash than at the end of January. In our last report we wrote that we were working hard to build a portfolio which had more 'all weather' properties and where total return was strongly underpinned by attractive value , especially yield, defensive growth drivers and where stocks had not been recent market 'darlings'. What we therefore now have is a sensible and admittedly quite conservative looking portfolio but one where we feel there are as yet hidden upside surprises. Crucially, some of these themes are also traditionally 'defensive' areas which also do well in declines, such as telecoms, healthcare and high yield. We have spread our exposure geographically further than we have for a while, adding some stocks in Thailand when literally there was 'blood on the street' thanks to the recent Red Shirt protests. We have reduced our direct exposure to China based on the assumption that if China continues to do well then the peripheral markets will benefit from the overspill. This includes markets such as Taiwan but also those further afield such as Thailand and Singapore, which will not only enjoy the benefit via liquidity, strong sentiment and growth but the underlying stocks in many cases are much cheaper and have other domestic drivers as well, which suggests possibly greater upside but with less risk. Finally, a fair amount of the portfolio also now resides in two areas which are more sensitive to upside surprises. One is export related. This is restricted to the areas in technology that we feel are growing very fast, such as touch screen, DRAM, IPAD, LED TVs and batteries. The other is property, on which more below. Other themes where we still have exposure are media/content, nuclear rollout, Taiwan domestic, Indian smart grid and infrastructure and telecom capex.

Farming on the side of a live volcano

This is exactly how we feel about our investment environment today and thanks to BCA for the helpful analogy. If you look down the crops are growing well in newly deposited fertile soil, ‘normality’ seems to be returning and Asia looks like one of the more fertile areas on the hillside. All feels well except for the occasional rumble and belch of sulphur which acts as a reminder that below ground there is something bigger and potentially more threatening to the farms than we have seen for generations. Meanwhile, investors toil on because the cabbages and pak choi that they are growing look so healthy and delicious and they can get good prices for them at market, especially if they grow a little bigger. This activity pushes on day by day and with each week of sunshine the fear of the volcano recedes a little more. Some days the smoking crater looming above is almost completely obscured from view by the soft and nourishing rain. It now seems that investor’s only concerns are the weather patterns but above our heads they see blue sky and white clouds. Occasionally, in the distance there is the odd flash of lightening and clap of thunder but they are literally making hay while the sun shines. Deep inside they have a nagging feeling that we should be storing some seeds away in case there is another eruption, or possibly planting elsewhere, but their neighbours seems to be doing so well with their produce, they can’t bear to miss out, the yields on the plains are nothing compared to those on the volcano and they are greedy to enjoy the fruits of their labours as soon as they can. So they keep planting and every day they return to the hillside to tend to the crops whilst deep beneath their feet the pressure builds.

Of course we cannot say for sure the volcano will erupt again anytime soon, and if indeed it does, when that will happen. But we can say with certainly that the pressures inside the volcano are great and will be hugely influential to economic progress and growth. Indeed we see three main lakes of magma which are absolutely and without question huge trend shifts or unsustainable paths that we will have to deal with. The timing and thus interaction of these things will be as important as they themselves are. There will no doubt be some very positive investment themes to come out of these as well as more ‘interesting times’.

The three areas are:

Debt

More has been written on this subject than we could ever do justice, but this is the ultimate unsustainable path. We think these two charts sum up the situation chillingly well.

Chart 1

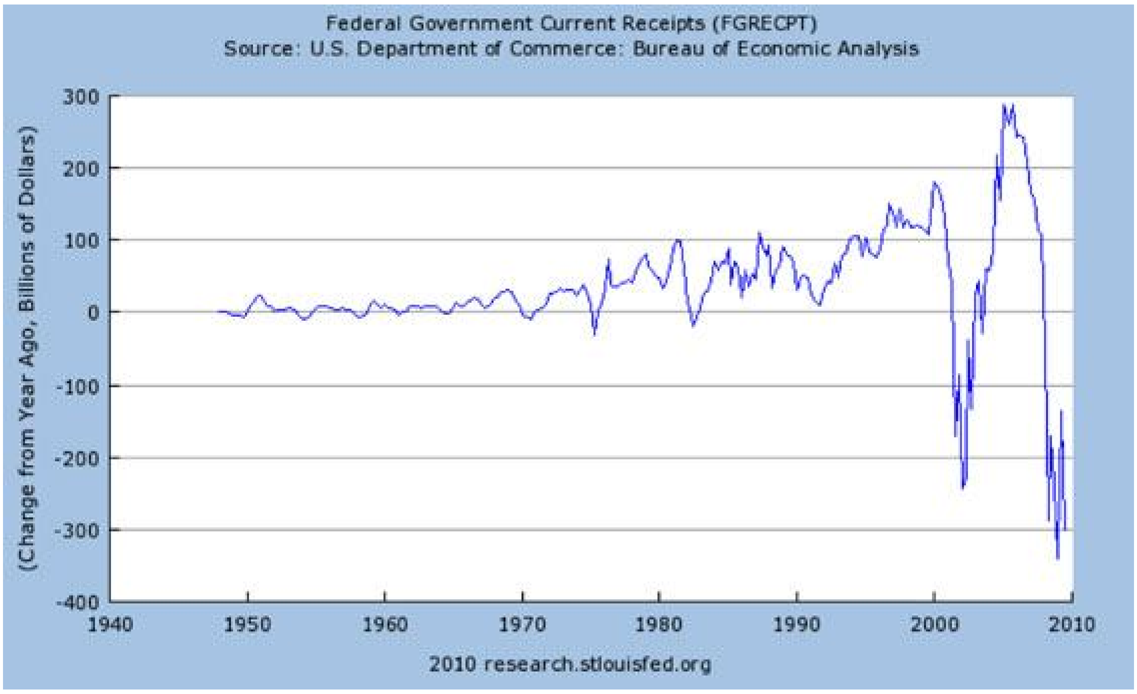
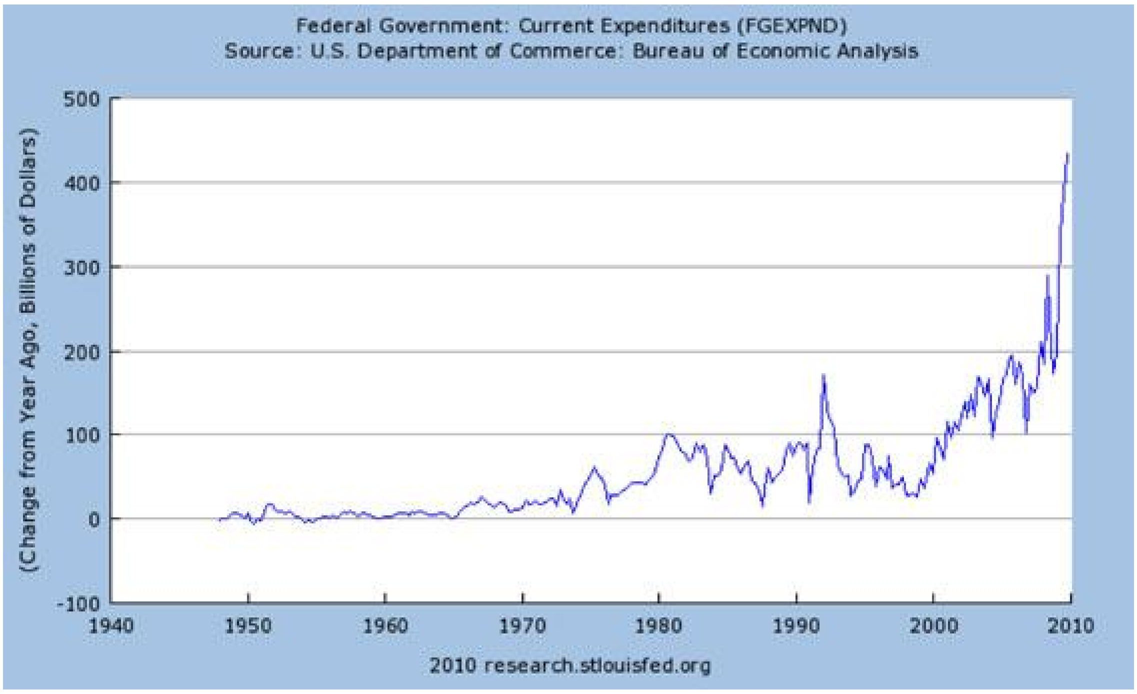


Chart 2



Source: Lenzner, Robert, "The general public may be numb about big debt, but investors are happy with the relentless run higher for stocks" www.forbes.com 26.03.2010

Demographics

In 2013 there will be more adult incontinence diapers sold in Japan than baby ones. Japan, as we know is two decades ahead of the US and a stark reminder of a demographic trend which will echo throughout the western world and indeed some of Asia, not least Korea and later China in the coming decade. Demographically, the US stands where Japan did in 1990 and the period of steepening of the dependency ratio is nigh. Indeed in 2002 the US had 10 work entrants for every retiree but in 2023 they will have 10 retirees per new work entrant! This pattern is repeated in many developed countries. For example Korea will see almost equal numbers of workers and retirees by 2050! China will also start to see its workforce decline in 2015.

It is important not to ignore these trends as they will cause eddies and currents in the strong tide of debt reduction and impede return to sustainable prior growth levels in some areas of the world. The MY ratio (Middle/Young population ratio) is shown to match well to PE valuations in stock markets. If this relationship persists then in markets such as the USA a declining valuation norm will persist for a while to come.

Of course these trends can be ameliorated somewhat by business cycles and other factors such as immigration. We would contend that countries like USA are quite likely to offset this trend by allowing ongoing immigration whilst in China the education levels of the new workforce far exceeds that of the retirees, reducing the headwind to some extent.

The great 'Polar' shift

Since the Prusik team started their careers in the mid 1980's and throughout several periods of serious crisis a clear pattern or world order has existed, based on three virtual 'absolutes'. These are, or have been, firstly that the US$ is the dominant reserve currency, secondly that the US consumer has led global consumption and thirdly that the emerging economies, led by China, have provided the manufacturing base for the global supply chain.

Rather like a magnet changing polarity, these 'absolutes', thanks to the two factors above in our 'volcano' analogy now will be challenged and will change. This is likely to cause all manner of disruption, not all bad, but at the very least for quite a period of time we can expect significant movements in currencies, debt pricing, expected long term growth rates, valuations and savings habits.

It is extremely likely that the debt reduction needed will not at some point come into direct confrontation with the other forces of demographic or 'polar shift' change. It will surely present good opportunities probably not least in Asia. However, we will need to be alert and think in at least three dimensions! Above all we will all now need to be open to change in the basic assumptions upon which we have based our thinking on for a long time.

Property

It is very hard, as a UK citizen, to visit Hong Kong or Singapore at present without feeling both envious and poor. The poor is easy to explain via currency but it's certainly not cheap to eat out in Hong Kong now, assuming you can get a table. Furthermore we are frequently now seeing Asian company management in the UK for investor road shows laden with shopping bags or heading out to Bond Street after work with bargains signs flashing in their eyes.

The envy is harder to explain. The easy part is ridiculously low tax rates (17%? What's not to like?) A massive gap with the West that is likely to remain for a while to come. Harder to explain but no less compelling is the sense, when you are there, of what's still to come. If you take a laissez-faire or at least business oriented and well organised economy with low taxes, a rule of law, high levels of education, first world banking and in Singapore's case Swiss level privacy laws, open arms to financial services businesses from around the world, warm weather, efficient airports, great food, casinos, theme parks and luxury hotels and housing to name but a few things, in today's world you are likely to attract a lot of bright and successful people from many other countries. If you add to that an intention to raise the population by another 20-30% in coming years you will, before long, be pouring gasoline onto the fire.

The property sectors in both these cities are already showing such strong signs of life that in both cases governments have recently vociferously stated intentions not to allow property prices to rise to levels where locals cannot afford to live in their own cities. We fear they are starting a losing battle, not least because the relative attraction of working there is so great but also because there is an additional flood of investment money coming out of China seeking property in the region.

By way of illustration here are a few headlines from the Property section of the South China Morning Post about 10 days ago. First up is 'The high end returns to Hong Kong rentals'. Rentals for top end luxury homes have shot up 17% from December levels as 'expatriate businessmen return to Hong Kong following their withdrawal at the height of the financial crisis'. The overall market has seen rents up 3% in the first two months of the year and agents concede that their January forecasts of 10% for the full year may need to be upgraded.

Meanwhile, over the border in China and despite the government's recent attempts to slow things down, steam is pouring off the market: 'Dongguan hotel worker Annie Qing is desperate. Over the past few months she has watched in despair as flats in a popular project in the city came up for sale and all were taken before she got one herself... The next batch will be sold in May but will be priced 10% higher'.

We would add 'unless the government

gets there first' China is probably the one place that might succeed in curbing the property market and our wiser and better connected advisors warn that this could result in further tightening later this year, possibly as soon as the next month. There is an interesting anecdote which comes with this belief. A recent TV drama has gripped the nation in a way which few others have. Everyone says it is very true to life. The program is called, literally translated, 'Tiny Apartment' and charts the lives of a young married couple living in a major city in, unsurprisingly perhaps, a tiny apartment. This apartment costs them literally everything they earn and gradually the financial pressure starts to cause them to 'reduce their moral standards'. So the wife starts moonlighting and gets caught by her company and loses her job. The husband steals from his company and get caught and put in jail. Somebody's sister starts an affair with a high ranking property official...and so on. The Premier was shown this program and was allegedly so taken by it that he vowed to stop this rot. It will actually be very hard to carry this out as Chinese savers have so few instruments in which to put their savings compared with us in the West. But we have been warned.

However, the flow of mainland money into less threatened overseas property markets is likely to continue. Returning to the inner pages of the SCMP Property section we see this is already in full swing. 'Boom times back in Canada as prices soar', ' Live like a millionaire in the Philippines' (for only US$1000 per month) and office property recoveries in Hong Kong and Australia are now under way. Not documented in this one edition was the recent record price paid for land in Taipei by local developer, Huaku, nor the steady upward progression in Thailand and Indonesia. However, there were two articles which did stand out. One noted the 36 year low in Japanese commercial land prices and the other a shortage of development land in prime areas of California and Florida.
No doubt money creation, lending booms, inflation hedging and some market mania is driving property in the region. We think some exodus from the West could exacerbate this. We think we need to be on the look out for step function price increases which speak more of inflation than confidence in coming months.

We have added some exposure to regional property, favouring Singapore, Taiwan, Hong Kong and Thailand. REITs are in particular attractive with several of the Singapore listed ones below fair value and yielding between 7% and 9% whilst Land and House in Thailand has a 6% dividend yield.

Dram

The DRAM industry is currently providing about 60% of market demand, according to Hynix. This is a good illustration of what 2008/2009 underinvestment has done to many industries and thus it is no surprise that this has resulted in 90%+ increase in DRAM prices since last May. Industry sources also say equipment orders are up 75% on last year, but will it be enough? This weekend Apple sold 300,000 iPads in one day and the reviews are very good. This product could then be easily on track to sell somewhere between 6 -10 million units in year 1, which up until very recently was in nobody's forecasts. We have written in the past about how this product could be a game changer for content delivery and its monetisation and it does look as though this could become another device which slips from luxury to essential in our daily lives. Communication chips are turning up everywhere from cars and medical devices to smart grid, meters and the exponential growth of this 'connectedness' is estimated to take us towards some 50 bn connected devices which will drive the demand for chips.

Research we have seen suggests that Samsung Electronics semiconductor division is heading towards making its full year profits forecast in the first 6 months of the year while TSMC report not being able to satisfy demand and better than usual pricing power. TSMC is enjoying a particular technology advantage over almost all of its peers as its 'gate last' process has much higher yields than competitors using 'gate first' and the end product is recognised to be more stable and therefore commands a higher price and more secure order flow. Furthermore they are streets ahead of peers on 40nm technology which will become more important in graphics chips and cloud computing. We also particularly like that it is trading on only 14x free cash flow and has a 6% dividend yield.

Led TV

There is also a growing shortage of LEDs as demand hovers dangerously close to supply, with little relief in sight before the end of the year. A typical netbook uses 50 LEDS while PC monitors use about 100 LEDs and LED TVs use anything from 300 to 500 per TV. In addition LED general lighting will become mainstream in the coming two years leading to a double digit increase in demand per annum for the coming few years. China is one of the big demand factors behind LED TVs supported by government rural subsidy which was raised this quarter to RMB 7000 from RMB 3,500. Skyworth Digital, a TV maker with leading market share and a top brand name in China estimate that over the past two years some 60 million TVs have been sold in China with 42 million expected to be sold this year. However, they estimate there are still some 400 million old CRT TVs which are over 6 or 7 years old which need to be replaced, and most of those will be LED TVs as prices are coming attractively close to TFT screen TVs. Richtek, which has leading market share in LED TV IC drivers continues to benefit from these trends.

Telecoms and Telecom Equipment

We couldn't help but notice that everywhere we went in Asia iPhones were being flashed as the new must have accessory. M1, a mobile operator in Singapore confirmed to us that over 70% of all the handsets they are selling are now Smartphone's and of those 'the overwhelming majority' (we guess 70%) are iPhones. This is a relatively new trend in Asia which was late to the iPhone craze but, as we have seen in the US it cannot do the operators any harm as the typical iPhone owner pays 20 – 40% more for data services and is the biggest user of other value added services and applications.

To really understand the trends to come in this sector for Asia we have to look at what is unfolding in the USA. AT&T only expected to sell a few million iPhones but has already sold 12-14 million, causing data traffic to grow 5,000% in 3 years. Indeed the average iPhone user consumes 273MB of data per month; double any other Smartphone user whilst about 12% of iPhone users consume over 500MB per month. Coming next we expect to see a new explosion in 3G data package subscribers as iPad launches. This will have two impacts. Firstly, the data package offered on iPad in the US is $15 higher than smart phone packages so ARPU will rise further. Secondly, the networks will struggle hugely to keep up with the eye watering increases in data traffic. In the US and Europe some quite interesting solutions are evolving.

Skype now has 520 million users and is adding over 300,000 per day. In 2009 they carried 12% of all international calls. We know this is growing rapidly because we were amazed to discover recently that both of the Prusik teenagers and most of their Facebook friends now have Skype addresses which they use constantly, much to their parents delight. What is interesting here is that the telecom companies are now embracing creative destruction and abandoning their old 'walled garden' business model in favour of accommodating VOIP and solving some of the trickier network bottleneck problems. For example, Verizon customers, from late March, will be able to use Skype from their 3G handsets. But first they will have to upgrade to a data package and buy a Smartphone! At Verizon the cheapest voice package is $40 per month and data starts at $30 per month thereby adding $70 for the use of Skype. This compares nicely with Verizon's current average revenue per user of $51 per month! It is also likely to be a good draw for new subscribers.

In Asia we believe the opportunities for alert and flexible telecoms companies are even better than for their US counterparts. There is no 'net neutrality' or obligation to carry unlimited data in Asia so in theory companies in moderately competitive countries can charge appropriately for data traffic and manage blockages more effectively and profitably. Moreover, the explosion into Smartphone's and data heavy applications is only just happening. Users will move to the companies who offer the most fun, easy and productive applications and internet enabled mobile devices globally will overtake the PC in number by 2013. In that time data traffic will double annually in the west but probably more in Asia as brand new subscribers are still growing strongly in many countries.

Many of the providers across the region who are best placed to benefit from these trends are yielding between 5% and 9%. Moreover we still see significant growth in the handset manufacturing area, especially touch screen specialists such as Wintek in Taiwan and Elk in Korea. The former is seeing large order increases from Apple for the iPad in particular.

Inflation Inflection

Recently we have seen out of the information chaos one very clear trend which we feel is about the reach an inflection point soon. That is, Asia is building inflation which is about to be exported to the rest of the world.

China is the obvious place to start looking for evidence of this. After Chinese New Year many workers didn't return to the eastern seaboard, leaving some companies to report a 20% or so shortage of labour. Not surprisingly wages have risen, with some provinces seeing wage packages up between 15% and 20%. Of course the western and central parts of China are reaping the benefits as they grow faster and take a larger share of the workers but in doing so they create an extra demand for labour and competition with the rest of the world for cheap labour.

Manufacturing in many areas is reporting that it cannot keep up with demand. This is totally at odds with what the economists tell us is going to keep inflation low forever, i.e. excess capacity. This is especially the case in technology but we are hearing from many areas that a combination of retired capacity and a reluctance to build new capacity means that there are bottlenecks and supply shortages. Indeed we heard on our recent trip that many consumer electronics companies were double ordering components to ensure adequate supply, that textile and garment makers are managing to raise prices (offsetting cotton price increases and no mention of too much competition), that shipping and airfreight are very tight and increasingly expensive, that there are feedstock shortages in building materials and that mining equipment demand is back on the rise with an accompanying shortage of skilled workers. Please also note that our reviews above also carry messages of strong demand and inadequate supply, be it in DRAM, LED or property.

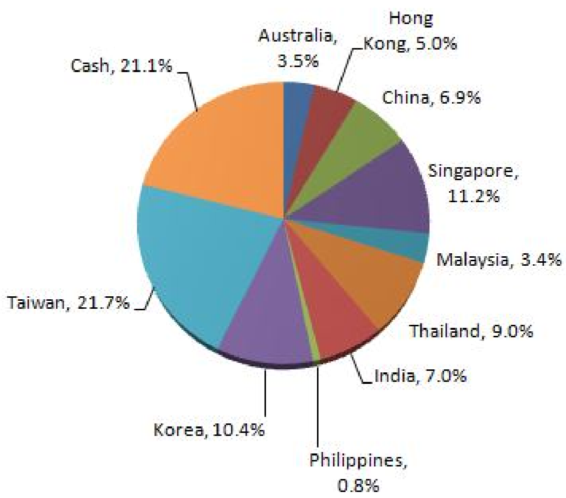
We have much sympathy with contacts who work in manufacturing and say that excess capacity in itself is not enough to stop price increases. Indeed if raw material, energy and labour costs are rising then margins are tight regardless of whether you are working at half or full capacity.

One final anecdote: A Singaporean couple recently bought a 1000 square foot apartment in the same block as Prusik and subsequently called in builders for an expensive renovation. The price they paid was 40% higher than the top rate per square foot for the area. Was this a one off? It seems so wide of the mark that of course we should discount it as irrelevant or silly. Or is this how prices are going to move more generally in future? A pattern which is starting to become more frequent but which has still to come properly into focus?

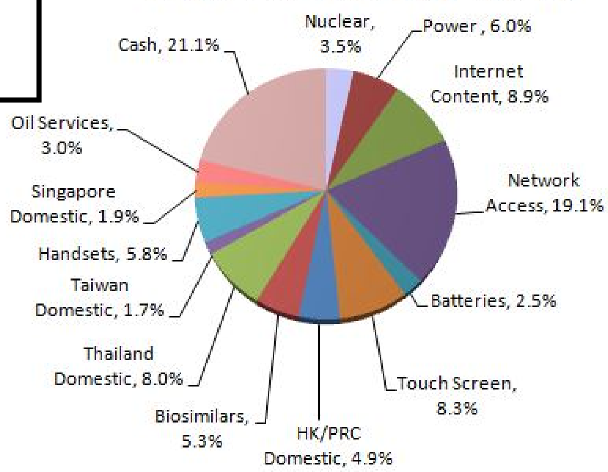
Portfolio Valuation

At the end of March, the invested portion of the Prusik Asia Fund, was trading on a weighted average CY10E PER of 17.9x and CY11E PER of 13.6x with 27% EPS growth forecast for 2010 generating an ROE of 27.6% for that year.

PRUSIK ASIA FUND
TOP LINE FIGURES — MARCH 2010



Number of holdings 27
Percentage of Fund invested 78.95%



	Top 5 Holdings	%
1	CELLTRION INC	4.4%
2	WINTEK CORP	3.8%
3	RURAL ELECTRIFICATION CORP	3.7%
4	NEWS CORP-CDI CLASS B	3.5%
5	DOOSAN HEAVY INDUSTRIES	3.5%

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										-8.81

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

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