PRUSIK ASIA FUND PLC
PRUSIK INVESTMENT MANAGEMENT LLP

Authorised & Regulated by the Financial Services Authority: Schedule 5

An Independent, Asian Specialist, Investment Management Team

NAV Updates

Series	*SEPT 2010*	*MTD*	*YTD*
Class A	170.90	7.80%	-4.04%
Class B	170.96	7.78%	-4.05%
Class C GBP	92.49	7.68%	-4.68%
Class D SGD	237.24	7.60%	

Fund Size $252m

Performance

2005Q4	+8.86%
2006	+33.94%
2007	+21.88%
2008	-20.84%
2009	+26.59%
2010 (YTD)	-4.04%

The fund rose 7.8% in September.

The highlights of September were the continued steady underlying performance of the telecom basket. This was lead by a good move in Bharti Airtel which is one of our larger holdings whilst PLDT also performed well. We also committed more money to the markets in early September, taking cash to around 17%. The cash was added mostly to Thailand (a selection of domestic finance companies including Bangkok Bank on 1.2x P/B), Korea and Malaysia, with a major focus on the domestic/consumer growth areas. Individual stock highlights in September from across the fund included President Chain Store, Genting Singapore, UEM Land, Sohu, HDFC and Celltrion.

Deja-Vu All Over, Again?

The stock markets are beginning to look and smell like 2007. Wide expectations of QE in November have sent assets and currencies soaring in Asia. The consensus view is that money printed in the West will make its way to Asia and other emerging countries, creating an obvious and exciting bubble. Indeed, the scale of capital inflows to emerging countries has already exceeded that of 2006/2007, with Asia inflows about 60% above that level.

We are viewing this headlong dash for inflation in the West as likely to succeed; indeed it is essential that it does, eventually. However, before the dangerous part of inflation where central banks raise rates there is usually a sweet spot and, perhaps, we are enjoying that right now. There is even a chance that there will be an extraordinary ‘aha’ moment where investors all round the world wake up and realise that cash deposits sitting in bank accounts earning non-existent interest would be better off spent or invested somewhere, indeed anywhere. In short, we could find ourselves in a wild world of high western unemployment and yet rising consumption, higher risk tolerance, rising inflation expectations and thus greater investment in equities and other assets such as property.

In the meantime, companies can raise money at 3 or 4% in the corporate bond market and then buy cash flow in the equity markets at 7%. Individuals can borrow for 30 years fixed in the USA at

4.3%, surely the deal of a lifetime. Thus, with a return of confidence, economic activity should pick up, indeed could pick up significantly, increasing the velocity of the money being created by the western central banks and whipping up a storm. Asian equities should do well in this environment but we also have to be aware of some risks.

Firstly, it is not inconceivable that foreign money inflows will put such upward pressure on the region's local currencies and assets, especially in areas causing social tensions such as house prices and food prices, that local central banks will have to take action. The problem is that simply raising interest rates to cool the domestic situation will exacerbate currency strength which is the very thing most central banks in Asia try to avoid. The risk is that a variety of capital control type measures to prevent inward investment might be introduced. If this does happen, it could happen very quickly and without much warning as once one country has acted, others will be forced to follow. History tells us very little about what to expect thereafter.

The second risk is that once money flows are under control the central banks in Asia may well be left with a residual inflation problem. If inflation does rise in western countries in a way that would ease the debt situation, then emerging country inflation could eventually find itself at uncomfortable levels.

The third risk is that both valuations and chart patterns are suggesting that Asia is not as well supported by value or underperformance as it might be. The chart below shows the Asia ex-Japan index ex companies over US$75billion market cap. These mega caps have lagged hugely in the recent rally but when viewed without their inclusion, the regions index is in fact trading near its past highs and at 1 standard deviation above trend.

Finally, in June 2007 we sent you a monthly report containing stock price charts showing parabolic rises. These never end well albeit, we concede, the timing is hard to predict and in 2007 the rally did, after a short hiatus, continue powerfully into the final quarter despite an extraordinary turn for the worse in the macroeconomic environment which was eventually realised in 2008. The chart overleaf which is typical of the recent rally, is of a share we have recently sold. Genting Singapore is a successful new entrant to the casino business in Singapore but now trades at a market capitalisation equivalent to two thirds of the entire gaming sector in Macau, which we think is unwarranted.

Asia ex Japan ex mega companies - Price / Core Earnings (x)

Source: CLSA

Genting Singapore

Prusik Asia Fund

We believe it is important to remain largely invested as money flows continue to enter the region and may well take asset prices and currencies even higher. However, such ongoing strength in all assets increases the chance of policy risk and volatility, whether this comes in the form of the US FED deciding to delay QE or Asian central bankers acting against unmanageable capital inflows and currency strength. Therefore we have chosen to keep our exposure in a prudent mixture of high growth, under researched and still undervalued situations, such as Talwalkers (gym franchise) in India and larger, but more defensive, blue chips which have good dividend yield and/or value support but have not yet run, such as Bangkok Bank on 1.2X Price/Book. These latter stocks will still do very well if institutional money continues to buy Asia, but they will also be far more defensive if markets correct.

We would seriously council against large exposure to those areas of the region where liquidity can dry up very quickly and huge profits have been made. Both Indonesia in general and Chinese consumer retail companies spring to mind. At the time of writing over 90% of our investments could be sold within 2 days, assuming we are occupying one third of the volume.

Chinese Tourist Boom

Prusik recently met with someone who had just returned from a safari holiday in Africa and was staggered to have found a large group of mainland Chinese tourists in the middle of the Masai Mara. The local guides were equally surprised but were, rightly, warned that this was an event they should get used to. It can be instructive when shopping in any city, London included, to notice how many shops now display ‘Union Pay’ signs. Union Pay is the card system Chinese shoppers mainly use when overseas.

In the 1990s it was hard for mainland Chinese to get a passport but these days that is easy; the harder part is getting a visa. Japan and now Korea have understood this and have opened wide inward visa applications for Chinese visitors. In Korea this is paying huge dividends already as Chinese visitor arrivals this summer soared over 85% up on last year, and now comprise the second largest tourist group after the Japanese. Korea targets there to be over 3 million visitor arrivals in Korea by 2012 and 9 million by later in the decade, representing 2% of China's 400 million middle class. The good news is that the independent mainland travellers are large and spontaneous shoppers who spend 50% more than their Japanese counterparts do.

In Korea, as in the rest of the region, this is a trend which is beneficial not only to the major stores and brands but also airlines, hotels and casinos. In Korea, in particular, domestic cosmetics brands are very sought after in China. One company that is poised to benefit from the boom in tourist arrivals is therefore Amorepacific. From a cosmetics and beauty industry standpoint it is important to see Korea as the Brazil of Asia. Although Japanese cosmetics brands retain luxury status, the Korean brands are increasingly sought after by Asian customers as Korea has one of the highest per capita spending patterns on beauty products and a huge domestic culture of cosmetic surgery. Chinese tourists flock to Korea for this expertise and are able to purchase Amore's major cosmetic brands, Sulwhasoo and Laneige at 15-20% discounts to what they currently sell at in Hong Kong and China. Amorepacific is also well set to benefit from their current expansion into the mainland. The company is targeting 700bn in revenues, or an increase of one third, by 2015 from the Chinese market and aims to become one of the eight biggest cosmetics companies in China. More brand rollouts and sales channel diversification will follow. We expect Amorepacific's China sales to grow at a CAGR of 35% through 2015.

Cross Straits

Readers of the Prusik Asia Fund monthlies will be familiar with our cross straits theme relating to improved relations between China and Taiwan. We believe another similar theme is brewing between Singapore and Malaysia. In May this year we saw, what we believe to be the most significant event for Malaysia / Singapore relations since 1965. Leaders of both countries have principally agreed to resolve long standing legacy issue between the two countries. As a result, there will be direct investment into Iskandar by Temasek (the investment arm for the Government of Singapore). Iskandar is a designated economic corridor that the Malaysian government created in July 2006. It is located in Southern Johor, just next door to the northern border of Singapore and is an easy 30 - 40 minutes car journey from the Central Business District in downtown Singapore. The key stumbling block to development of Iskandar has been buy-in from Singapore. With Temasek now investing directly, it provides direction for the private sector to invest. Indeed it can be argued that the Singapore government actively needs Iskandar to remove some of the excess pressure on domestic property prices. The liberalized connectivity between Johor and Singapore should narrow the extraordinary differential in property values between Singapore and Iskandar which currently stands at 16:1! The huge gap in land values will be closed as Iskandar truly becomes linked with Singapore, a process which is only just starting.

UEM Land owns 8,379 acres of land in Nusajaya, within the Iskandar region. As the largest landowner in Iskandar, UEM Land is the best proxy for the upside in these improved Malaysia / Singapore bilateral relations. Previous concerns on UEM Land were its gearing. However post its rights issue earlier this year, the company's net gearing has fallen to 0% from nearly 50%. The injection of cash has helped pay down debt and accelerate the realization of its Nusajaya land bank. As a result of the UEM World Corporate restructuring in 2008, Khazanah (investment arm of the Government of Malaysia) effectively owns 77.1% of UEM Land. We believe that there are number of potential reason that could lead to Khazanah reducing their stake, an event which we believe would be positive for UEM Land. UEM Land is targeting to grow revenues five-fold to MYR 2bn in five years. The current share price is valuing the companies land bank at MYR 28/psf which is a fraction of the value across the border. We believe that as more clarity emerges on the cross-straits relationship, land values will move up and UEM land's NAV will rerate significantly.

Biosimilars

We still remain very positive on the Asian Healthcare Industry and one area which we expect to see explosive growth is biosimilars. We have been invested in one company, Celltrion that is transforming from a contract manufacturing company into an expert in this sector. We met with the management again recently in London and came back with renewed confidence that the company would be able to meet our expectations on earnings growth over the next few years. Just before our meeting, the company had reported its successful completion of "small size" independent phase 1 trial for its Herceptin (Breast cancer) biosimilar drug. Although these results were largely expected, they remain significant as the tests were requested separately by regulators in several countries to help their approval process. We also got more comfort on the company's expansion plans – they currently have capacity to produce 50,000 litres and they are currently building an additional 90,000 litres capacity which will be ready by 2012. This will be used to produce 2 new biosimiliar drugs. Our view is that, even though Celltrion will continue their contract manufacturing business, over time more and more of this capacity will get pushed to biosimilar production. This will enable Celltrion to post strong sales growth for the next 3 -5 years, but also to achieve significantly higher margins, which means that earnings growth will be materially higher than top line growth.

Gold

In the USA from next month it will be possible to withdraw gold from Gold ATM machines. There are already around 20 of these worldwide in places as diverse as Munich, Abu Dhabi and Madrid. These machines dispense small gold coins and bars weighing up to 8oz at prices updated every 10 minutes. Only time will tell if they herald the peak of the current gold bull market or will be just another milestone in an era where the consumers relationship with dollars and gold changes indelibly. In any event it is an interesting signpost in a world where powerful central banks are intent on creating inflation and also intent on buying back the gold they sold in the previous decade.

In recent weeks the gold price has continued to make new highs driven by a number of factors. The US dollar continues to depreciate against almost every currency, investors are switching out of cash accounts yielding zero into a currency that has a two thousand year history as a store of value and Chinese & Indian demand continues to be strong for the metal. Despite this, we are still able to buy shares in gold mining companies in Australia at attractive valuations. The Australian gold mining sector has shrunk in size since the acquisition of Lihir Gold and Andean which has forced investors to look at the smaller miners

Kingsgate Mining is an A$1.2bn Australian listed gold mining company operating in Thailand. It has a very low cost structure and strong production growth from its Chatree mine in central Thailand. Trading at a single digit P/E multiple with virtually no debt it presents a very attractive risk/reward profile. Analysts have yet to upgrade earnings on the recent gold price rise which provides some insulation from expected volatility in the underlying commodity over the coming months. In addition, investors are still not focusing on these names. At a recent CLSA conference at which the company presented there were very few investors present (although this might also have something to do with the timetabling of the presentation for the morning after conference party!)

Dividend Investing

"It's quite clear that stocks are cheaper than bonds....I can't imagine anyone having bonds in their portfolio when they can own equities."

Warren Buffett, 5 October 2010

Although long term returns from equities have caused many to wonder why they bother with this asset class, it is often interesting to examine from first principles the case for investment. When Prusik first investigated investing in Vietnam in 2001, we were surprised, and heartened, to hear that the Vietnamese equity market had a dividend yield higher than bonds as local investors did not see the point in investing in equities unless the dividend yield was higher than what they could get, risk free, from government bonds. This of course was how many investors in the UK and US viewed the equity market for most of its existence. In most equity markets, including Asia, it is now possible to buy many shares with dividend yields higher than the corresponding bond prices. With global bond yields of 2.5-3.0% and real yields of 1-1.5%, an equity dividend yield of 4-5% seems extremely appealing as long as we do not enter a deflationary bust. Even if we do enter a Japan like scenario, it is possible to buy shares with very little cyclical risk which still offer a substantial risk premium to bonds. Of course if inflation does surprise on the upside, or we enter a hyperinflationary environment, then dividends have the inflation protection that cash and bonds do not. This is perhaps what explains Warren Buffett's aversion to fixed income securities.

With regards to Asia we believe that the current undervaluation of high dividend paying shares is particularly dramatic as the growth outlook for real dividends is higher in this region compared to the West. Although long term, real dividend growth in the US and UK has been between 1-2% over the past century we would see this growth level as being a floor for Asia with the possibility over the next five to ten years of real dividend growth in the high single digits. And for many stocks of course it will be substantially more. This equity risk premium is extremely high at the moment and with careful stock selection we believe it is possible to buy a portfolio of stocks with high dividend yields, strong balance sheets and good ROE. If the market does not recognise this undervaluation then we will continue to collect a dividend stream which is far in excess of cash or bonds. However, we believe that the market is also likely to re-rate these stocks as cash rotates from other asset classes such as corporate bonds in order to generate an income stream with inflation protection.

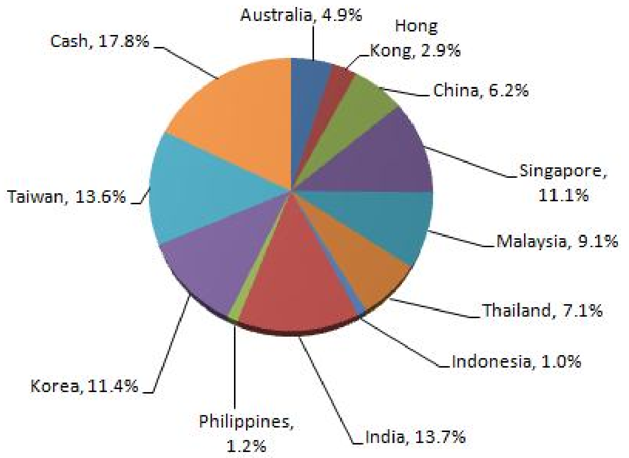
There is another reason to favour high dividend yield stocks in Asia. In the ten years from 1999 to 2009, dividends accounted for more than 40% of total returns from Pacific ex-Japan equities. In addition, the top decile yield stocks produced an annualised USD return of 24.5% compared to market return of just 5.0%. One of the slightly counterintuitive rules about investing in Asia is that high dividend stocks outperform high growth stocks even though investors often view Asia as a "growth" market. There are many reasons for this (value outperforms growth over time, high dividend stocks are sometimes "riskier" and so on) but another reason is perhaps more simple. In Asia where accounting can be murky and minority investors are often not well looked after, dividends are something that companies cannot fake (unlike Gucci handbags!). Additionally, when families own a large percentage of the company and pay a healthy dividend then it aligns the interests of both majority and minority investors.

Telecom companies are a significant portion of the Prusik Asia Fund for many of the reasons above. They have very high dividend yields, have been ignored by the market for a decade yet are generating good returns on equity and are benefiting from the increasing data spend. We believe that they will produce very stable returns if market turbulence returns and have the potential to generate very high returns if the market decides to rerate income producing stocks.

At the end of September, the combined investments of the Prusik Asia Fund, were trading on a weighted average CY11E PER of 18.5x with 24% EPS growth forecast for 2010 generating an ROE of 22% for that year.

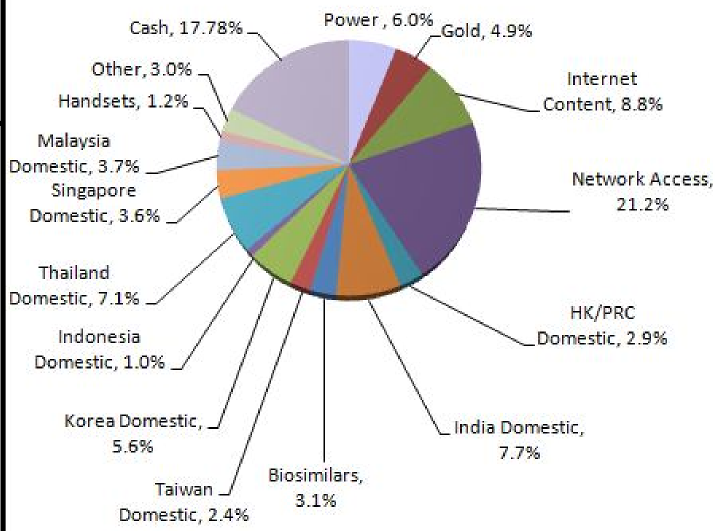
PRUSIK ASIA FUND
TOP LINE FIGURES — SEPTEMBER 2010

Prusik Asia Fund by Country



Number of holdings	34
Percentage of Fund invested	82.22%

Prusik Asia Fund by Theme



	Top 5 Holdings	%
1	E INK HOLDINGS INC	3.8%
2	UEM LAND HOLDINGS BHD	3.8%
3	CAPITACOMMERCIAL TRUST	3.6%
4	BHARTI AIRTEL LTD	3.5%
5	SOHU.COM INC	3.2%

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	0.96	2.98	7.80				-4.04

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 & N	$ Non distributing
Class B & O	$ Distributing
Class C & P	£ Hedged Distributing
Class D & Q	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.