PRUSIK

PRUSIK ASIA FUND PLC
PRUSIK INVESTMENT MANAGEMENT LLP

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An Independent, Asian Specialist, Investment Management Team

NAV Updates

Series	Nov 2010	*MTD*	*YTD*
Class A	171.51	-0.38%	-3.70%
Class B	171.59	-0.38%	-3.69%
Class C GBP	93.12	-0.12%	-4.03%
Class D SGD	237.84	-0.37%	

Fund Size $224.5m

Performance

2005Q4	+8.86%
2006	+33.94%
2007	+21.88%
2008	-20.84%
2009	+26.59%
2010 (YTD)	-3.70%

The fund was +0.7% in October and -0.4% in November. The stock markets idled through both months and the MXAPJ Index ended November within 2 points of the September month end level. November saw the return of volatility with both panic buying and selling days occurring, and at the time of writing the market needs to make up nearly 4% to regain new highs for the year. Thematically, strong momentum returned to the technology sector which was looking extraordinarily cheap on a regional comparison basis. This together with the relative underperformance of North Asia to date generated some good moves and the portfolio highlights in this area included Samsung Electronics (smartphones and tablets), Edison (LED lighting), E Ink (e-readers and tablet screens), Celltrion (biosimilars) and Sohu (China online retail).

Outlook – Double or quits?

In our last report we wrote that the liquidity environment felt like 4Q 2007, a period when assets rose sharply, despite deteriorating news flow, thanks to government intervention. Although we have not seen such wild rises across the board in the past two months, we do feel to some extent that markets in Asia have been very resilient in the face of some poor news. This includes some unexpectedly sharp rises in US treasury yields, a very real and significant implosion in Ireland and ongoing risk of further contagion in Europe, the extraordinary attack on South Korea from the North, corruption scandals in India, more tightening in China and some clear signs of inflation emerging in places like India. Despite all this a chance of a rally into the year end still remains.

In the light of the recent round of QE having the opposite effect on bond yields than intended, the important question now must be whether the Fed may be forced to abandon QE or redouble their efforts and increase it? The answer will have profound effects on our short term outlook and economic future down the line.

In the meantime, the turn of the year normally sees some turmoil. Many technical commentators see greater volatility ahead. We still see many potential investors into Asia who would like a better opportunity to invest and also note that in areas such as Taiwan the domestic buying of assets by the locals themselves is still only just beginning.

Prusik Asia Fund

We remain enthusiastic about our themes and see more upside next year in our chosen areas of growth. The portfolio is now largely made up of stocks in the following categories; Oil, Uranium, Gold, Telecoms, China Automation / China consumption / China online shopping and gaming/ services, Cross Straits themes in Taiwan, Singapore and Malaysia, Agriculture, LED, Education, Biosimilars and office property in Singapore. We also remain absolutely wedded to remaining in liquid stocks and although the portfolio has been more fully invested in the past few months we do not believe we have added significant additional risk.

North Korea

On 23rd November, North Korea fired artillery shells at the Yeonpyeong Island. This was the first time they fired on South Korean territory since the end of the Korean War and marking an escalation of the tension between the two Koreas. Although the equity market was relatively unaffected by this action, it does highlight how real this issue is for Korea and Prusik believes that the markets may be underestimating the risk of more volatility as the stakes continued to be raised. Kim Jong-Il has named his son, Kim Jong-Un, as his chosen successor who lacks the powerbase of his father and so questions have been raised as to how sustainable his leadership will be. Although there is no effective opposition in North Korea, the extremely low levels of food supply in the country could lead to more instability and calls for changes in regimes.

The difficulty in resolving these issues are due to the fact that any solution to the problem needs to be backed by not only South Korea but also China, US, Japan and Russia meaning the chance of everyone being in agreement is slim.

According to Wikileaks, Chinese officials are increasingly of the view that Korea should be reunified under Seoul's control which, if true, would pave the way for the only really sustainable way of resolving the issue. Given that China's "protection" of the North Korea is the one of the key factors propping up the current regime, a hardening in Beijing's attitude to Pyongyang could provide the catalyst for a more permanent solution to the Korean question.

LED

Lighting was probably invented 1,420,000 years ago when Australopithecus lit the first fire. Yale economist William Nordhaus believes the lighting we use today is 30,000 more efficient than that used by our prehistoric forbears.

LEDs are the latest thing in lighting. In terms of energy used to emit a unit of light they are about 15% efficient compared with 2% for an ordinary light bulb. So far the growth story of LEDs has largely been as use for backlights for notebook PCs and more recently TVs but in the coming 2 years we expect LEDs properly to enter the mainstream lighting industry which is worth some $30 billion. We would not be surprised to hear China announce a programme in the coming weeks, favouring LED public lighting. So far LED holds only 1% of the global general lighting market.

Furthermore we are hearing of new uses of LED's including one developed by Edinburgh University who have used LED's ability to switch on and off in milliseconds for signalling in high speed data networks. They believe that data transmission speeds of up to 1Gigabyte per second can be achieved with LEDs.

The LED makers have suffered this year due to an expected glut of new supply but a combination of poor yields in some of the new capacity plus cancellation of new production lines means over supply is not as bad as feared. In addition, prices have fallen to levels where some believe that over 50% of all TVs will be made with LED backlights this year, ahead of consensus imputed demand. Any increase in demand for general lighting LEDs will be very positive for the sector.

Edison is the leading power LED manufacturer for lighting based in Taiwan and is the known name amongst European and US lighting suppliers as the quality supplier although over 50% of sales go to Asia. Edison is growing at over 50% per annum and has net cash putting them in a strong position to expand. Unlike Epistar and Seoul Semiconductor it's officially covered by only one local analyst!

Food

In 2004, for the first time, China bought wheat on the global market. This anomaly, among others, took us to the food theme which we have explored, invested in and written about over the past five years. The global financial crisis had such a massive negative impact on all asset prices that the underlying story behind our conviction that food prices would rise over time was temporarily dismissed. With food prices back in the headlines as CPI rises uncomfortably in India and China, we think it is important to revisit the reason why. Putting huge global deflationary downturns aside, food prices are likely to continue to increase for a while to come. The most obvious driver is simply population growth: The UN estimates that by 2050 food production will need to rise by 50% to meet demand. It is also crucial not to underestimate the huge impact on grain prices that China can exert by even modest increases in import demand. However, as with all major trends and good themes, there are even more factors at work.

'Japan Syndrome'

Earlier this year China took the unusual step of importing corn from the USA. It is too early to say whether this is the start of a trend but looking at the examples of Japan, South Korea and Taiwan, there is every chance this is the beginning of a long rise in China's imports of key grains. China has all the ingredients for what agricultural expert Lester R. Brown calls 'Japan Syndrome'. Brown observed a three stage process which occurred when densely populated countries industrialise and urbanise very rapidly: grain consumption increases as incomes rise, grain land area shrinks and grain production falls. The outcome of this is that in a few decades countries move from being self sufficient in grain to importing 70% or more of their grain. This process took Japan 28 years from 1955 to 1983. In China the process has probably already started as grain production shrank 18% between 1998 and 2003, according to Brown, and in that time grain land shrank by 16%. In Japan's case increasing land productivity ceased to offset the decline in land area after about 6 years, so, by implication, China is possibly now at take off point in its demand for grain imports.

Weather

Recently a panel of scientific experts labelled 2010 as the 'year of dramatic climate change developments'. This may seem an unnecessary observation to those of us freezing through November in the UK in record minus temperatures of levels normally reserved for our January visit to South Korea. But for those of us who look at anomalies, the weather stats this year are providing rich pickings. The data this year includes the heaviest rainfall in history in Mexico, Florida this week in freezing temperatures not seen since 1937, much of the Balkans seeing far worst floods in 100 years, droughts in Nigeria and China (the worst in over a century) and the wettest September and November on record in Australia. The important point is that these weather anomalies are already having a big impact on production and prices. Thailand, for example, has experienced the worst floods in five decades and rough-rice production (70% of the total rice output) has fallen by 7%. Post floods, Australia's wheat exports may drop 13%. Vietnam, Pakistan and the Philippines are also struggling. With rice inventories now declining the Thai Rice Exporters Association estimate prices could rise three fold in the coming 18 months!

Science to the rescue?

In early November Monsanto's much vaunted new corn seed, SmartStax, which boasts an unprecedented eight inserted genes, was shown to have yields no higher than the previous seeds, posing the question whether science indeed can deliver the solution to the world's food needs. Indeed, on closer inspection the truth is that, since 1998, yields of corn have barely risen at all. There is an interesting analogy with the medical world here. In the two decades after President Nixon's declaration of war against cancer in 1971, which triggered huge spending on the problem, the number of deaths from non age related cancers rose by 6%. Studies have since shown that there is on average a two decade lag between research spending and results. In addition to this however, spending on food production research in the US (which spends the most on this problem) has actually fallen (in 2008 dollars) from $400m a year in 1980's to $60m in 2006. The supposition was that private companies would take up the slack.

Water

A recent new study in *Nature* by Chinese scientists suggests that rising carbon levels in the air mean that plants and trees will transpire at an increased rate, causing them to need more water. China has 20% of the world's population but only 10% of per capita water and, according to the World Bank about 65% of that is directed towards the agriculture sector. What is quite extraordinary is that in the last 20 years, with all the development taking place and while, for example, the mileage of national expressways tripled the area of irrigated farmland only increased by just 8%! Much of this has to do with the very low returns on investment in farming but the upshot is that over half of China's agricultural land remains un-irrigated and subject only to the vagaries of the weather. Any droughts in China should not be underestimated in terms of stress to the countries agricultural output.

Waste and Fertilizers

In the recently published book, *The coming Famine* by Julian Cribb, it is suggested that America wastes 40-50% of its food. The typical US household throws away 14% of its food purchases, and a third of all fruit and vegetables grown never even makes it to the end user. In the UK it is estimated that if each household could save a fifth of the wastage then the saving would be $1,000 per annum. Changing our habits around food may be one part of the solution. In the meantime we expect the use of fertilizers to pick up dramatically. In 2007 China used 11m tonnes of potash which all but halved in the following year and has only just begun to pick up. Like vitamins, cropland cannot go unfertilised for long before yields fall sharply.

Palm Oil

Besides short-term weather patterns and strong demand, the market is braced for a structural shift that could be supportive to palm oil prices. Indonesia, which accounts for almost half the world's palm oil production, will implement a two-year ban on commercial development of forests and peat lands starting in January. We are expecting that palm oil production this year will be flat year on year and show only modest growth next year. With strong demand and supply constraints, we expect palm oil prices will remain stronger for longer than just their seasonal peaks and we may be entering a period where a new norm for prices is established. We believe the plantation companies are best placed to leverage of the higher prices. KLK has the highest profit per ton and one of the highest sensitivity to changes in CPO price. For every RM100 increase in CPO price, profits will increase by 4%. They have little leverage and generate a 19% ROE. Assuming that the current CPO price remains flat for the next 12 month, the stock is currently trading at a 14x FY11 PE – we believe, that the street earnings expectations are being extremely conservative for next year and expect that significant upward revisions to occur.

Oil

In 2007 we wrote the following :-
In developed countries like the US, fossil fuel use has increased 20 fold in four decades. Agriculture directly accounts for 17% of all energy used in the US and as of 1990 we were using about 1,000 litres of oil to produce food from 1 hectare of land. Apart from operating farm and food processing machinery, fossil fuels are the basic ingredients of fertilizer, natural gas is the feedstock for urea and pesticides as well as providing the energy used to drive irrigation. In 1994, Pimentel and Giampietro calculated that 10 kilocalories of exosomatic energy, i.e. not human, is now needed to produce 1 kilo calorie of food for the US consumer. If you remove fossil fuels from the equation, then the current daily diet would require 111 hours,. i.e. three weeks, of endosomatic or human labour to produce the amount of food eaten each day.

Globalisation of food has not reduced our reliance on fossil fuels. The distance travelled by food has increased by 50% over the last two decades. A Swedish study of food miles involved in the typical Swedish breakfast: Apple, bread, cheese, coffee, cream, orange juice and sugar, found that the combined mileage for the whole meal was equivalent to the circumference of the Earth!

Like food prices, oil has been rising in late 2010, but with less fanfare. Also, like food prices we identified an underlying trend in 2006/7 which centred on the likely increase in demand (OPEC estimates that 75% of demand until 2030 will come from developing Asia) coupled with the fact that over half of oil producing countries are in production decline. So far this year the oil price has exceeded the average of every other year except 2008 which averaged just over $99, perhaps not an unreasonable target. Peak Oil consultant Chris Skrebowski estimates that an oil price of at least $100 is needed to give the incentive to develop existing deposits in oil sands and deepwater, as well as alternatives.

There are very few ways to play the oil theme in the exploration and production area in Asia. CNOOC is the largest offshore oil company in China purely focused on offshore upstream operations. The majority of the production is from domestic China, but they also have significant interests in Nigeria, Australia, Argentina and Indonesia and, post their recent acquisition, also Latin America. CNOOC has one of the highest leverage to increasing oil prices with every $10 increase in oil translating to a 15% increase in net profit. CNOOC has shown strong historic production growth and we believe this will continue to be driven by its recent Bridas JV, current large producing fields and development assets which have strong potential. On valuation, the current stock price implies a long term oil price of $66 which we believe is too conservative. On traditional measures the stock is trading on 11x 2011 PE and we expect it generate an ROE of 26% (higher than its 10 year average).

Moving one step down the value chain, we believe the offshore contractors look also very attractive. Swiber, listed in Singapore, is an offshore marine support company providing services that include engineering, procurement and construction. This year has been a tough year for the contractors, in what we believe should have actually been an extremely strong year. The Macondo spill in the Gulf of Mexico was the main culprit. With exploration and production activities on hold, contractors' order books became very stale for a number of months. With activities once again normal in the Gulf of Mexico, there is clearly pent up demand from this year and we expect 2011 will again be a very strong year for orders. Swiber has already seen a big pick up. Their current order book stands at 800mn USD vs sales in 2009 of 390mn USD. Q4 tends to be the seasonal peak for South East Asian demand and we expect this to continue to drive further orders, indeed they have indicated that their tender book is greater than 1bn USD. Utilisation rates have thus started to pick up again and the recent quarters have shown margins expanding from 9% to 14% most recently. We expect both trends to continue to improve as demand accelerates. Swiber remains inexpensive on 7.5x FY11 PE.

Near Field Communications

Next year sees the launch of the iPhone 5 and with it the inclusion of a chip that allows Near Field Communications. This means that in distances of under a meter we can operate a personal area network or PAN . This takes Steve Jobs and Mark Zuckerberg a step closer to their big idea in common: that the smartphone should be a single point of signing in and authentification to any service or application *whether in the real world or not.* This means that your smartphone will authenticate who you are, whether you are using it as a wallet, to gain access to your own data in the cloud or to gain access to buildings.

Taiwan Domestic Recovery

You know when an economy is getting good when the locals start complaining about traffic jams and busy airports and that tables in restaurants actually need to be booked in advance. These are all recent developments in Taipei. Furthermore Michelin 3 star chef Jean-Michel Lorain is cooking a 6 course menu in town later this month for a 'reasonable' US$400 per head. It is his first visit in 10 years. We think Jean-Michel is right on the money and suspect he will be back again next year with an even bigger and better menu.

In recent city elections the KMT retained the upper hand, albeit with a smaller margin, but the ties between China and Taiwan continue to tighten and later this month a 6th round of high level cross-straits negotiations are likely to spawn further developments. We think one of these will be allowing Chinese to travel as individuals to Taiwan rather than in a group. This has been the catalyst for take-off in tourism in other countries, which are now reaping the benefit of the mainland Chinese current passion for shopping and travel.

In tandem with this new vigour and local confidence in Taiwan, as we have expected, domestically owned money held offshore in savings for the last decade is now starting to return to boost the domestic market. Nowhere is this more obvious than in property which has boomed this year. In recent days, at auction, a residential apartment fetched a record price of NT$2m/ping or US$1,800 per square foot which is not far off the value in some areas of central London. However, we think this trend is only just beginning and Taiwan is just waking up to a new domestic cycle. We have almost 10% of the fund in this theme and our holdings include exposure to property, hotels, consumption and air travel.

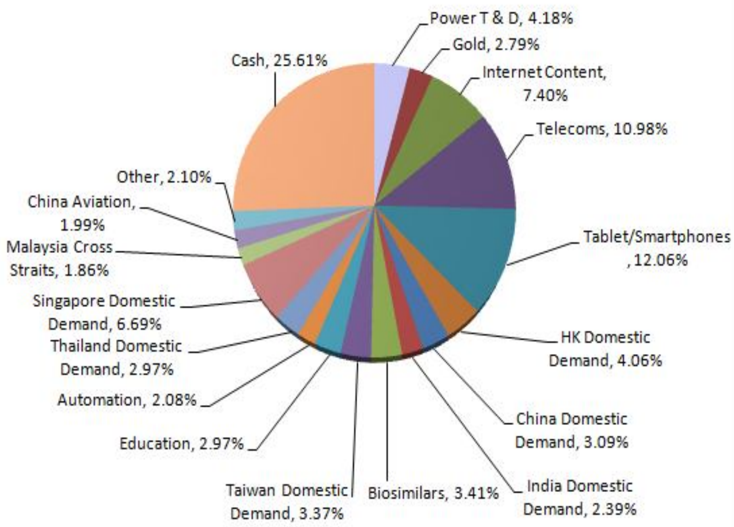
Portfolio Valuation

The current combined investments of the Prusik Asia Fund, are trading on a weighted average CY11E PER of 14.5x with 28% EPS growth forecast for 2011 generating an ROE of 18% for that year.

In January Tom and Heather will be spending several weeks in Hong Kong, China, Taiwan, Singapore and Thailand.

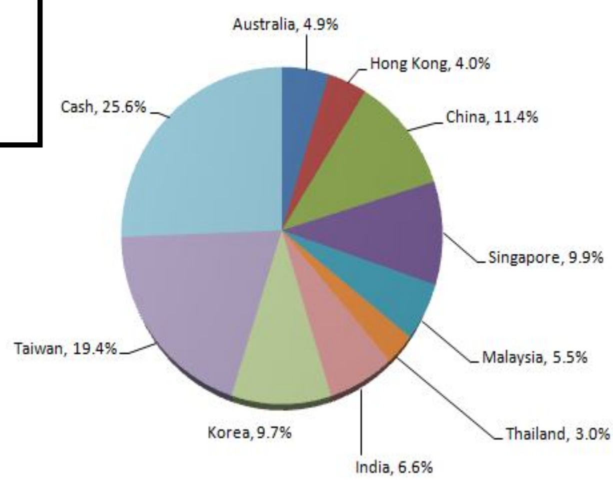
PRUSIK ASIA FUND
TOP LINE FIGURES — NOVEMBER 2010

Prusik Asia Fund by Theme



Number of holdings	31
Percentage of Fund invested	74.39%

Prusik Asia Fund by Country



	Top 5 Holdings	%
1	E INK HOLDINGS INC	4.0%
2	OVERSEA-CHINESE BANKING CORP	3.7%
3	EDISON OPTO CORP	3.5%
4	CELLTRION INC	3.4%
5	TAIWAN FERTILIZER CO LTD	3.4%

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	0.74	-0.38		-3.70

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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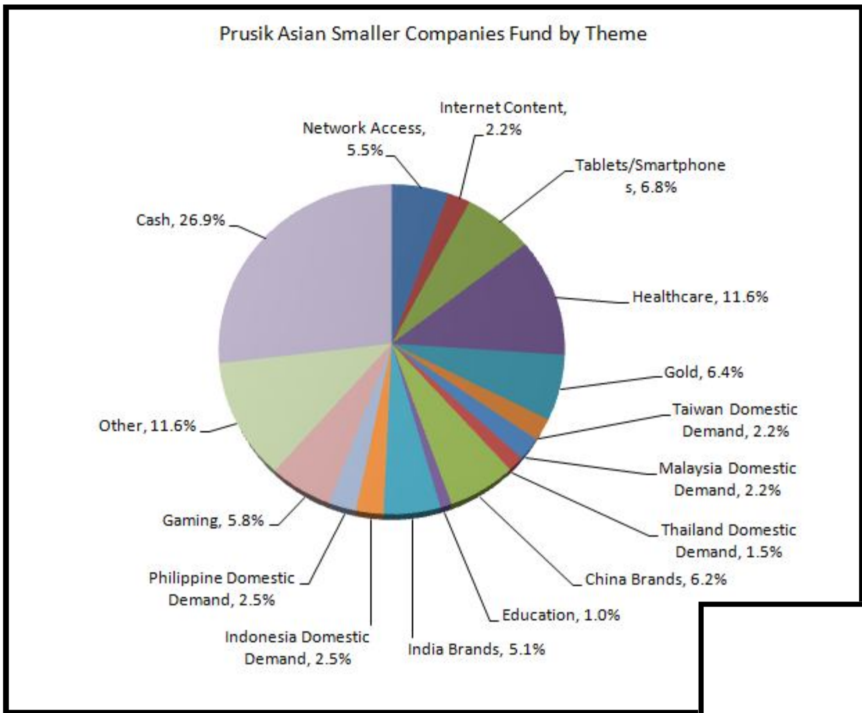
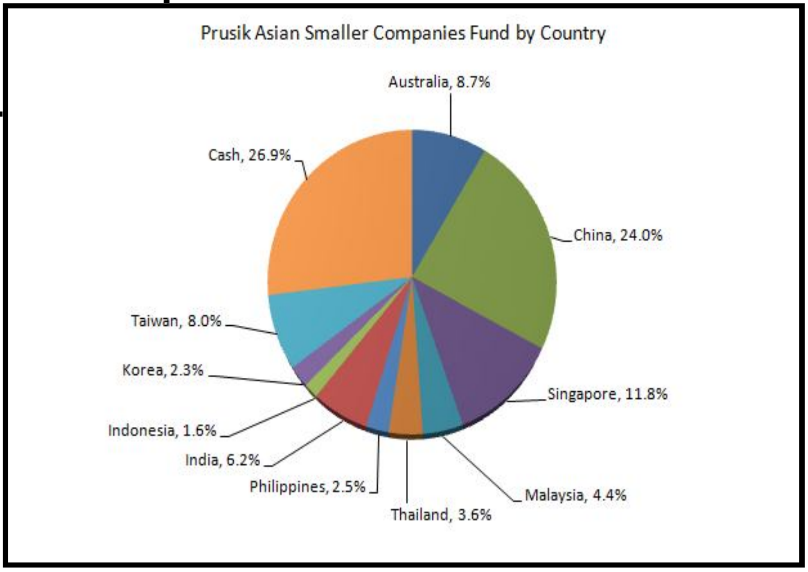
Manager Fees

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

PRUSIK ASIA SMALLER COMPANIES FUND
TOP LINE FIGURES — NOVEMBER 2010



Number of holdings	35
Percentage of Fund invested	73.10%



	Top 5 Holdings	%
1	TPK HOLDING CO LTD	3.7%
2	MEDUSA MINING LTD	3.3%
3	AVOCA RESOURCES LTD	3.1%
4	K-REIT ASIA	3.0%
5	ARA ASSET MANAGEMENT LTD	2.6%

PASCF Monthly Performance

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2008	-	-	-2.44	0.52	0.26	-6.71	-3.49	-5.53	-8.52	-5.94	0.05	6.87	-21.6
2009	-3.6	-2.1	5.6	16.7	17.7	-3.7	8.9	-2.01	5.48	-2.16	4.42	4.81	59.7
2010	-0.7	-1.52	3.68	3.23	-4.23	1.20	0.83	2.74	7.45	3.62	-2.11		14.52

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Manager Fees

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Performance Fee	10% of NAV appreciation. With a 6% hurdle.