FSA Authorised
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Prusik Investment Management LLP

An Independent Asian specialist investment manager

NAV Updates

Series	*February '09*	*MTD*	*YTD*
Class A	127.17	-2.90%	-9.60%
Class B	127.24	-2.90%	-9.60%
Class C GBP	70.53	-2.98%	-10.45%

Fund Size $236m

Performance

2005 Q4	+8.86%
2006	+33.94%
2007	+21.88%
2008	-20.84%
2009 (YTD)	-9.60%

The fund fell 7% in Jan and 2.9% in February. Having ended last year on a strong note, and with exposure in the right area (Hong Kong listed China stimulus beneficiaries), January dealt us a blow. China continued to perform well but our themes held via Hong Kong were sold hard on international news, which, as we previously expected, has deteriorated sharply. We feel we are guilty of our usual weakness, namely having seen something quite early we misjudge how late some are to react. For this we heartily apologise. In any event investors in Asia, with locals leading the way perhaps after finding the economic catastrophe of the fourth quarter a bit of a surprise, set off a fresh round of selling which was not helped by the guidance accompanying corporate results announced in the last few weeks. Currencies have also headed weaker again which has added to the pain. In early January we already saw some investments we made as recently as last November reach our targets and hence we sold but typically we should have sold more. Cash has thus risen from its end 2008 position. There is very little to add to the news other than to say guidance for the year 2009 continues deteriorate although it still seems company management in Asia have now fully woken up to how bad things are. We are writing this report from the region and certainly it is hard to find companies who believe they will grow in 2009. We have found some, but fear we are heading back into the same environment we saw in the October/ November period where selling (usually forced) over rides normal fundamentals. This time volumes are even lower which adds to the misery. Meanwhile analysts continue to forecast an average earnings decline of 7% in 2009 which we believe to be far too optimistic. A decline of 20% or more would be more in keeping with previous cycles. In line with this we expect to see more companies, raising money, not making their dividends and writing off poor businesses.

We feel that with prices now below the November low, we are possibly not so far from finding some value, perhaps not across the board, but in some of our themes. Certainly it is possible to find quite exceptional dividend yields, 12 % to 20% in some cases but the real value is still only in the smaller companies. Since pessimism is so high, we wouldn't be at all surprised to find ourselves in the midst of a vicious rally before long but cannot , at this point, find a suitable catalyst or justification, so this comment is merely conjecture that Mr Market will once again double cross his investors. Despite this possibility, the recent technical movement of main indices in the US now suggests the downside will conclude, at some point, some 30 to 40% lower than these levels. We cannot say whether this will take place over weeks or years but note that this year to date, while the DAX is down 30%, domestic China markets are up 14% at the time of writing. It is possible, therefore, that pockets of Asia can continue to outperform, or that the rout is over quickly, but we feel in the light of global economic news, continuing forced selling and a patchy response to the crisis from the US authorities that to be prudent we should assume a worst case across the board.

There have been some pockets of good news for us. Gold mining companies remain strong performers whilst the domestic China and Korean internet gaming companies were steady in February. We remain very tightly exposed to our current favourite themes; China infrastructure, medical equipment, power transmission and distribution, gold and have this month added a small exposure to oil, on which more below. We retain a very deliberate exposure to large and liquid companies only and can say we have been encouraged by the resilience of the underlying businesses of our companies, if not all the share prices. We believe that once rational investing returns we stand in very good stead. The next months may be traumatic, and we will endeavour to remain as prudent as we can in that time and conserve capital. However, we think when our aggressive downside targets are finally met, the opportunity will be immense.

Prusik Personnel

On a more positive note we are excited to announce that Amit Mehta joins Prusik this week as an analyst. Amit has worked as an Asian analyst for 5 years at Atlantis Investment Management and at Morley. Prior to that he worked for the consultants Mercer. Amit is aged 29, is a Jain and supports the Indian cricket team! We think both as a professional analyst and a person Amit will introduce a new set of skills to Prusik which will complement and enhance the investment team. We welcome him onboard and look forward to introducing him to you. Amit will be based in the London office.

Islamic Finance

With some interest we note that among the best performing funds in 2008 were a number of Islamic or Sharia compliant funds. Perhaps this is hardly surprising as Sharia law forbids them to invest in the two main areas it was essential to avoid last year – banking and excessively geared companies. However we see an interesting new trend emerging here. Firstly, Sharia finance is growing rapidly. In the past decade the Islamic financial services industry globally has grown threefold to over $500billion and this is not just at the hands of the increasingly wealthy Muslim population around the world.   As Sharia law also forbids investments or deals with businesses with involvement in alcohol, tobacco, gambling and pornography, it also appeals to the rising number of investors looking for socially responsible investments. Perhaps more crucially, Sharia law also does not permit ‘ excessive uncertainty’, known as ‘gharar’, meaning deals are not allowed if the object dealt with is not certain and transparent. Interest payments in any form are also forbidden. Where risks are taken in Islamic law they are shared. Hence an Islamic bank and its customer share the risk of any investment on agreed terms, with profits also shared equally.
This means that Islamic banks current risk profiles with respect to bad loans, derivatives and excessive leverage are completely different to those of western banks. This is potentially very attractive to non Muslim depositors looking for a secure place to put their money. Islamic banks also already embrace a number of basic principles that western banks are going to have to re-learn before this crisis is over, namely the need for a closer and more personal assessment of the customers risk profile, an alignment of interest with customers and the need for transparency and simplicity. As a result Islamic banks are poised to potentially gain significant market share. Finally and not least the absence of interest , and therefore interest rates, as part of the Islamic mortgage package means that the Islamic mortgage holder knows the terms of his repayments for the life of the mortgage from day one. In a world where virtually non existent interest rates sit next to rising concern over sovereign risk this might be heaven sent.

Farm equipment

We have written extensively in recent months about the Chinese governments aim to boost rural wealth, support consumption and to improve land usage and farming yields via land reform. In Asia this week we met the management of China Farm

Equipment, a small China based company listed in Singapore who we know well, and their candid comments have given us a real shot of excitement that this might be starting to gain some momentum. The company's management was in town to announce a set of somewhat desultory results on a Friday night, which didn't bode well. However, on enquiry, the trucking division, exposed to the collapse in Chinese manufacturing was all to blame and was at the centre of a rather nasty write down. Farm machinery sales on the other hand are growing at an annual rate of some 40 – 50%! Company management confirmed that the increase in land lease periods from 10 years to 40 has indeed given farmers cause for increased confidence to spend to improve their longer term yields. They also mentioned specifically that the recent increase in healthcare social security for rural patients was another reason for renewed spending and confidence. We are very aware that "one swallow does not make a summer" but certainly feel encouraged that our theme here is gaining strength and momentum.

Tragedy of the 'Anticommons'.

China's increase in lease periods on rural land may have, at a stroke, handed a huge opportunity to our Chinese vegetable growers China Green and Chaoda. These companies are already good at tackling something companies around the world are finding increasingly hard to overcome, namely that if too many people own a small part of something , it becomes worthless. This is a concept which has been dubbed the 'tragedy of the anticommons' and is eloquently discussed by American professor Michael Heller in his book 'Gridlock Economy'. His contention is that potentially huge growth and valuable development are simply stopped in their tracks by the fact that too many small owners become an insurmountable problem. Hence the US has built only one new airport runway since 1975 (Denver), new and potentially blockbusting drugs for treating chronic diseases never see the light of day because there are 50 or more patent holders pertaining to small parts of the drug who cannot be reconciled or many films and songs stay stuck on the lawyer's desk as too many potential claimants on design IP or music copyright overwhelm the creative process as a whole. The analogy is that whilst it might be easy to turn an aquarium into fish soup it is very hard to turn fish soup it is very hard to turn fish soup into an aquarium.

The listed Chinese vegetable growers are already successful aggregators of small parcels of land and the many individual vested interests that go with them and the new lease periods will help them, and others, create much new value. Asia meanwhile, as a whole, suffers less from the suffocating litigation and IP ownership hang-ups we have in the West and has more command economy characteristics which can overcome some of the worst 'fish soup' problems. Hence progress is easier and business can benefit as a result.

Protectionism

There is a subtle creep developing towards protecting those closest to home. Perhaps it started with Tim Geitner's clear intention to continue the previous administrations policy of harsh remonstration of China for keeping its currency too low. In a recent speech, Barack Obama mentioned how important it was to preserve American jobs, echoed in the last few days by Barney Frank who made a call to buy American goods. Recently the Wall Street Journal ran a headline 'Nations rush to establish new trade barriers to trade', listing a series of measures which have been introduced literally in the last few weeks. These include Russia raising import tariffs on 28 products including cars and farm equipment, the EU putting anti-dumping duties on Chinese screws, the US increasing tariffs on French cheese and Italian water, Egypt imposing tariffs on sugar imports and numerous other small measures in India, Brazil and so on. Tellingly anti-dumping cases overall are up 40% on a year ago.

None of this is good news for the world and probably one of the places these subtle power struggles will play out most viciously is in currency markets where the volatility will continue. Speaking to companies in Asia as the results season continues it is clear that last year's currency moves have materially reduced profits in many companies. The risk for some of the less stable countries in the world must be that continuing outflows become wholesale capital flight. Violent currency swings will elicit strong government response. The free flow of capital across currencies will be tested severely this year.

Nuclear

Even the media is beginning to ask why we should continue to spend taxpayers precious funds on evidently bust banks. It seems the authorities cannot tear themselves away from the idea of having full control of where the money is spent. By giving the money to the place it is most needed – back to the man on the street - debts could be paid down and money left over would instantly rejuvenate the economy as the multiplier starts again in earnest. It would also help mollify an electorate which is increasingly and rightly outraged at all the help pouring into the financial sector with seemingly so little benefit. But control it is, so we are looking at other potential beneficiaries of government spending around the world.

Noises from the US suggest the new administration may fast track the countries nuclear expansion. The approval process is 5 years and 35 plants have been put forward although none approved. Loan guarantees have been passed to skirt financing concerns at the utility companies. We think any Obama strategy on carbon emissions will make nuclear look a very attractive option cost wise also and could kick start the nuclear roll out.

Currently 16% of world electricity generation is nuclear, 39% coal, 15% gas , 10% oil and 19% hydro. In 2005 there were 374 nuclear reactors - of which 114 were in North America, 133 in Europe and 64 in Asia. Russia had 23, China 7 and India 3.

By 2020 the number is expected to rise to over 500 however, the mix is changing. Europe is reducing the number whilst the US is adding. Meanwhile, China, India and Russia are getting serious adding 28, 11 and 10 reactors respectively with a further 111 planned. Hence, whilst the number of reactors is expected to rise significantly the portion in non OECD countries will have risen from 18% to over 30%. Moreover, this is a potentially huge opportunity, one which the US Department of Energy have estimated to be worth over $500billion.

However, there are bottlenecks. Japan Steel is the only maker in the world of single piece pressure vessels to contain the nuclear reactor and it can only produce 8 a year. We need more like 15 a year! JSW is putting more of its forging capacity into this area but will only increase capacity by 2 or 3. The other key components are normal pumps, valves, shafts etc.(After all a nuclear plant is just a steam driven power plant.) This is all bread and butter work for those approved forgers and for Taewoong, our favoured Korean forger, this will be a new source of business. We spoke to the company last week and it looks likely that the dampening effect of the shipbuilding cycle medium term could be more than offset by demand from the power industry and crowding out of competitor capacity. We are also attracted to the engineering firms capable of performing in the nuclear industry such as Worley Parsons and China Automation.

Oil

In recent days oil has crept up in price after threatening to go below

$30 in a flood of popular opinion which has decided that demand is so poor that the price should fall further. We beg to differ albeit not on demand weakness, although we feel there is a natural floor somewhere, but on supply. However, we must add that at this stage our evidence is scant. This is not for lack of trying but conversations with oil experts in Europe to oil and coal companies in Asia all suggest that, at the moment, nobody has a fix on how much capacity in the energy sector has been removed or halted by the credit crisis and accompanying collapse in demand. What everyone does agree is that, anecdotally, a lot of future supply is now looking less likely, especially at these prices.

This is very interesting as 18 months ago everyone knew exactly what global supply looked like (not enough apparently!). We all know of course that speculation took energy prices up way past the point that was reflected by true demand, but the recent slew of announcements by companies either closing or mothballing capacity or cancelling future capex and exploration plans is intriguing to us. One of the reasons this could be quite important is that even prior to the fall in the oil price and the disappearance of easy financing and reduction in appetite for the risky business of exploration , there was already an aging and rusty infrastructure of rigs, pipes and vessels which would cost some $100trillion to replace over time. That is over 70 years of oil revenues at today's prices which raises the question of whether it will ever be replaced or substituted.

We are reluctant to get into the peak oil discussion, although we have some sympathy with the view and in particular note that outside of new oil substitutes such as biofuels, liquid natural gas and ethanol, basic crude oil volumes have been flat for four years at around 75million barrels a day. Simply, we suspect that the current destruction of potential future oil production, especially from those processes which require oil above $75 a barrel (the current marginal cost of oil) such as oil sands, means that the oil price risk actually stands to the upside. In addition, oil geopolitics looks unlikely to remain quiet. 'MEND' in Nigeria are becoming a more violent and forceful risk to oil exports whilst we feel the Russia-Ukraine gas tiff is just the beginning of international energy disputes to come. Possibly, eventually, oil even goes much higher than the recent peak of $147, without even a full recovery in demand. Whether this happens this year or in three years remains to be seen but we wager that sooner rather than later, weak demand notwithstanding, supply matters will push the price up again. The upside to the marginal cost of oil is nearly 100% from here.

Food

If you believe that oil prices should rise then it follows, as night follows day, that food prices will rise. Via fertilizers, irrigation, pesticides and the mechanization of farming we literally eat fossil fuels. However, even leaving aside the impact of the oil price the scene is being set for a sharp rise in food prices in the second half of the year. There are a number of reasons.

Firstly, the global credit crunch is slowing the agricultural sector at a time when more food is needed, not less. The recent steep drop in crop prices, rising costs of farm supplies combined with tighter credit mean less crops are being planted. In Brazil this is especially severe as, unlike in the US where finance for farming typically comes from private banks and the government, Brazilian farmers typically get 40% of finance from the agricultural companies themselves. In 2009 however, this could fall to 25%. Bunge, for example, one of the world's largest soya bean processors has cut advance cash payments to Brazilian farmers by 70% in a year.

Secondly, after last year's falling crop prices many farmers are now in debt which is making it hard for them to take out new loans. It is estimated that to produce the three main crops in Brazil's Mato Grosso region, soya beans, corn and cotton, the total cost has risen 42% since last year. Now many farmers are rationing fertilizer and other supplies to save money. Farm equipment maker, Deere says farm equipment sales in South America will fall as much as 20% next year, whilst repossessions of farm equipment are rising steeply. All this will lead to lower crop yields going forward.

Thirdly, this above , whilst describing Brazils situation is broadly the same problem as faced elsewhere in the world. For example, FC Stone estimate that in the US farmers will plant only 8.3million tones of cotton in 2009, the second lowest figure in a century and a fall of 21%! Meanwhile Chinese dairy output fell 20% in December YoY whilst the total number of cattle on feed in the US on January 1st was 7% less than one year ago.

Fourthly, the weather is not helping. China has declared an emergency in eight northern and central provinces where drought has affected nearly half the countries winter wheat crop. Meanwhile in Argentina the wheat harvest is threatened by the worst drought in history. As discussed in our previous report the world faces a second La Nina event on a row this year.

Fifthly, global grain inventories remain critically low. According to Bloomberg reports, global inventories of wheat, soya beans and corn are the second lowest they have been since 1974.

Lastly, we are starting to see more measures being introduced by countries looking to protect themselves. Amongst the most extreme measures was China's move to impose export taxes on fertilizers and grains. These taxes are very high, some in the order of 150-185%, and basically mean exporting is no longer profitable. In the past China was the biggest exporter of certain types of fertilizer but this will be no longer available.

Already we are seeing signs of food price rises in certain areas. Cocoa for example jumped over $2000 a ton in January for the first time in 24 years whilst the sugar price has also started to rise.

So for the short term, we feel strongly that food, which has the least elastic demand amongst all the commodities, will be firm as we move into the second half of the year. The medium term and longer term remain the same. The World Bank projects that by 2030 worldwide demand for food will increase by 50% and for meat an 85% increase. This demand increase will come against a backdrop of increasingly tense water and energy availability and climate change.

In the latter part of this year therefore we believe investments in industrial food producers, such as our vegetable growers, palm oil or wheat and sugar growers will perform well. Fertilizer and farm support and equipment companies may recover as food prices rise and financial pressure is taken off farmers but investing now is possibly too soon. Food production will start to look like a strategic asset, much as oil fields or coal mines have done, and we expect to hear more on this. For example Madagascar is believed to have leased a sizable proportion of its arable land to an unlisted South Korean company (Daewoo Logistics) for 99 years with no compensation other than jobs created for farmers. Companies with the biotechnology to improve food crop yields in the face of drought the environment or weather will also do very well.

Finally, in the medium term it is not impossible that food scarcity becomes harsh reality for some. Eddie Cantor, entertainer, author and comedian during the Great Depression was famous for making people laugh in the most terrible of times. Interestingly, a great many of his jokes were about food. So far this crisis has instigated no such hardship but perhaps quips such as ' A millionaire is one who eats a square meal three times a day' and ' things are so bad the pigeons are now feeding the people' are a taste of the humour to come.

Non linear

Worth noting is the fallacy behind the clear association, that all market agents seem to consider a law, between economic rules and market movements, between a market and the information generated by the components which comprise said market. Most of us interact with the market without any real challenge to the ebullient rule that information moves markets and markets incorporate all this information in an efficient and timely manner leading to effective ‘equilibriums’. However, just under twenty years ago a classic economic study concluded that the 50 largest price movements since WW II occurred on days when there was no significant news and that news in general only seemed to account for one third of the variance of overall stock returns.

At this point the possibility that markets actually have their own internal dynamics should be investigated further and one way of doing so is to design models populated with agents which compete with one another much the same way as people do. An “agent based” model designed by Yale economist John Geanakoplos and two physicists, Stephan Thurner and Doyne Farmer looks at how the level of credit in a market influences its overall stability. In the model participants do what they would do in real life, hedge funds seek to enhance performance and increase profits by taking on leverage and as a consequence tie themselves into ever more financial interdependence. The simulation shows that this can eventually push the market to instability but remarkably it shows that the market does not go gradually into instability but rather that it tips over into instability in a sudden turn. There seems to be a critical tipping point beyond which financial ‘meltdown’ is inevitable just as there is a point at which ice turns to water. It is relationships such as the one observed above that simply cannot be capture by traditional equilibrium thinking. Many models such as the one mentioned above have demonstrated that there is something more to understand than just the generally accepted economic laws which guide our markets. The chasm between traditional thinking and modelled hypotheses helps explain why we continue to ineffectively comprehend the cause of previous economic crises in linear progressive fashion without looking for that specific element which could help avoid the same mistakes in the future. The market is not just a mechanism which clearly and efficiently understands information but rather it has its own internal dynamic, its own moods and swings, its own gossip and information flow and its own organic character.

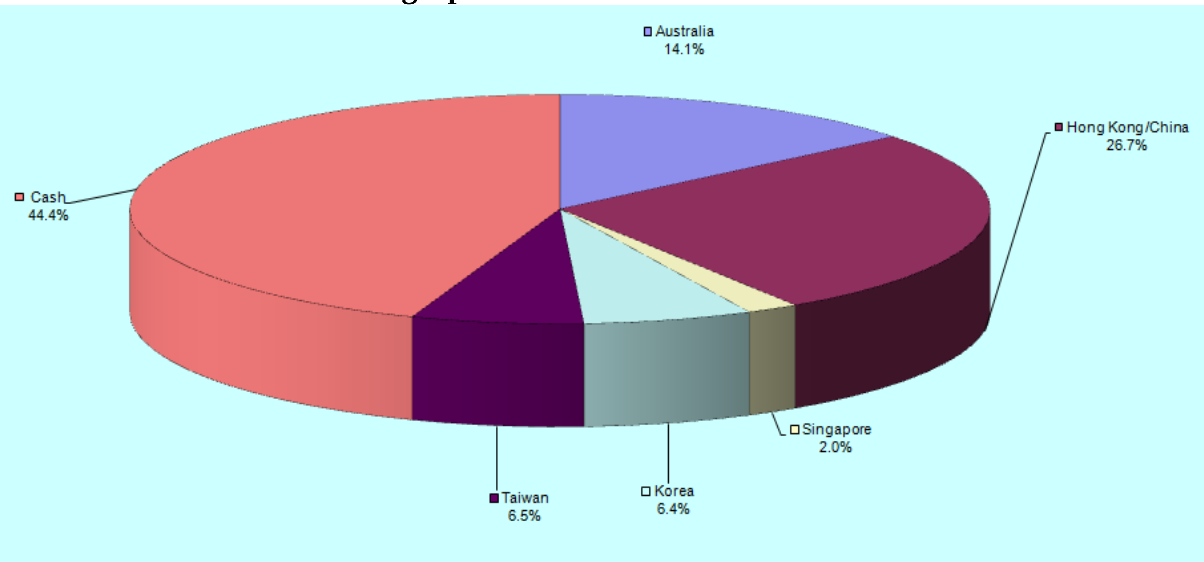
The portfolio trades on 8.9x 2009 estimates, with 11% earnings growth forecast for that year and just under 1x book value. It is forecast to generate an ROE of 13% in 2009.

Heather is visiting companies in ASEAN for a fortnight.

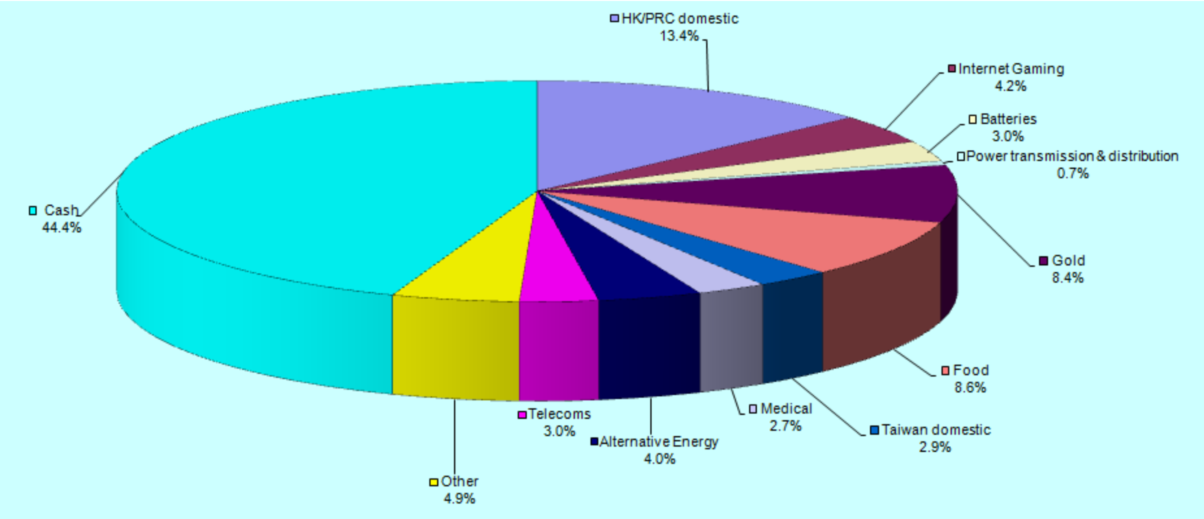
Top 5 Holdings	%
LIHIR GOLD LTD	3.3%
ISHARES A50 CHINA TRACKER	3.3%
CHEUNG KONG HOLDINGS LTD	3.2%
WORLEYPARSONS LTD	3.1%
IND & COMM BK OF CHINA - H	3.0%

January 2009	
Number of holdings	23
Percentage of Fund invested	55%

Geographical Distribution



Distribution by Theme



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2005										-1.90	5.64	5.08	8.86
2006	7.71	0.09	1.84	10.14	-1.95	-0.45	-1.72	0.02	1.23	3.90	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
2008	-6.90												- 6.90

Key Parties to Fund

Investment Manager	Prusik Investment Management LLP
Administrator	Bisys 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	None
Class B	Annual
Class C	Annual

Prusik Investment Management LLP
Third Floor, 45 Charles Street, London, W1J 5EH.
Tel: (+44) 20 7493 0929 Email tony.morris@prusikim.co.uk
Web : www.prusikim.co.uk Fax : (+44) 20 7493 1770

Manager Fees

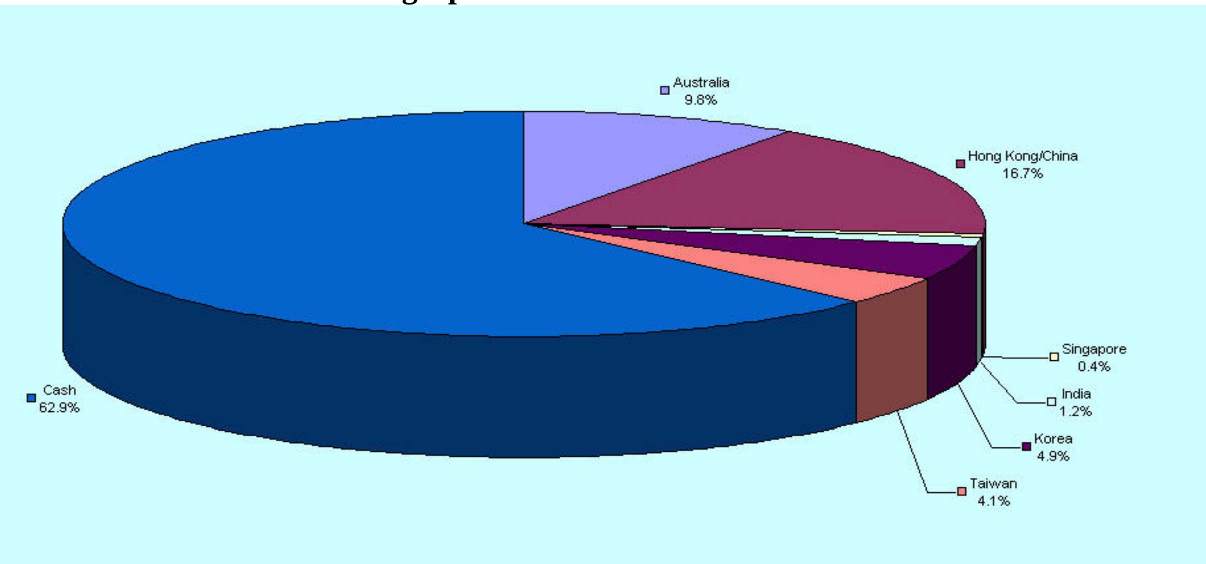
Management Fee	1.5% p.a. paid monthly in arrears.
Performance Fee	10% of NAV appreciation. With a 6% hurdle.

Top 5 Holdings	%
WORLEYPARSONS LTD	3.0%
CHINA MOBILE LTD	2.8%
CNOOC LTD	2.8%
MINDRAY MEDICAL INTL LTD-ADR	2.3%
WOODSIDE PETROLEUM LTD	2.2%

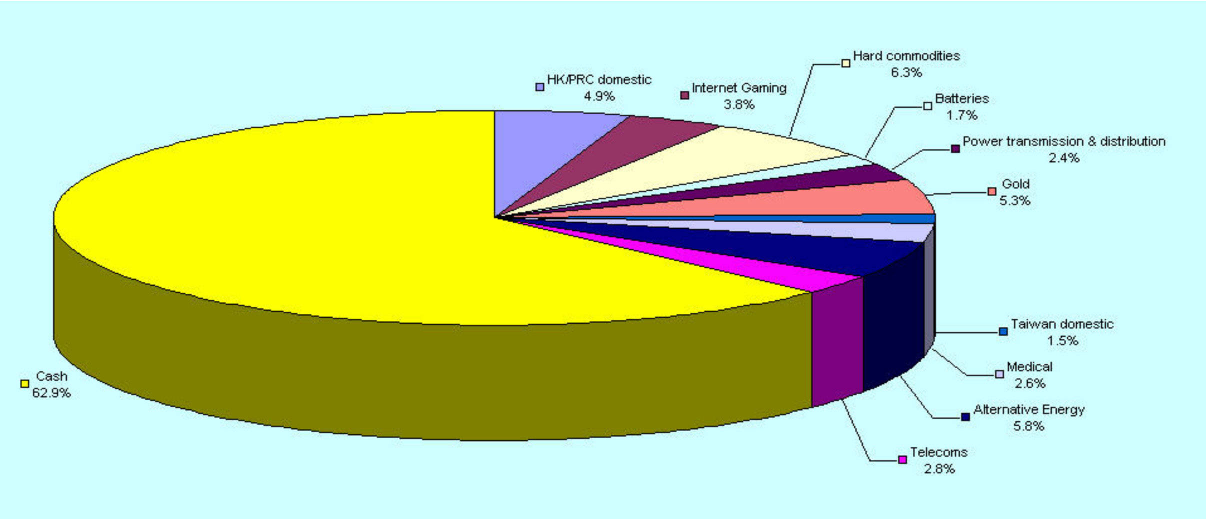
February 2009

Number of holdings	22
Percentage of Fund invested	27%

Geographical Distribution



Distribution by Theme



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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	-6.90	-2.90											- 9.60

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Prusik Investment Management LLP
Third Floor, 45 Charles Street, London, W1J 5EH.
Tel: (+44) 20 7493 0929 Email tony.morris@prusikim.co.uk
Web : www.prusikim.co.uk Fax : (+44) 20 7493 1770

Manager Fees

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