FSA Authorised
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Prusik Investment Management LLP

An Independent Asian specialist investment manager

NAV Updates

Series	*March '09*	*MTD*	*YTD*
Class A	141.36	11.16%	0.48%
Class B	141.43	11.16%	0.49%
Class C GBP	78.39	11.14%	-0.46%

Fund Size $300m

Performance

2005 Q4	+8.86%
2006	+33.94%
2007	+21.88%
2008	-20.84%
2009 (YTD)	+0.48%

The fund rose 11% in March. Finally the groundswell of data showing a better, or at least less awful, corporate operating environment broke through into public consciousness. The glass was suddenly half full and so, with local investors shrugging off lingering global concerns, we saw sustained buying in the region's equity markets, with foreign investors not far behind.

Since the end of November 2008, when we first increased our exposure to equities again, we have been populating a file we called "Happy Snippets". Many of you who have met with us in the past quarter will have witnessed the growing size of this stack of paper, and even in the most bearish days of February it was amazing to see what good news one could find if one had a mind to look. These news snippets consist of data from all areas of business, from Q1 manufacturing utilisation rates and rising margins to volumes picking up in underlying industries and markets. Importantly, these were impressively varied ranging from Thai hotel occupancy to Taiwanese DRAM orders, from Chinese property transactions to Indian car sales. Moreover, new 'snippets' have continued to feed through thick and fast as the rally gathers pace.

Much of the better news leads back to the various branches of the huge stimulus the Chinese government is deploying, and to a lesser extent, to the easier monetary policies now prevalent across the region in response to plunging inflation and final demand numbers. However, we also see a degree of 'normalisation', or reversion to basic demand reflected in orders and some glimpses of pricing power as weaker companies have been forced out of business. In addition, there are quite a few areas where there are new or rekindled changes afoot which offer genuinely interesting and traditionally attractive investment opportunities. We would include amongst these themes, the growth in usage of touch screens, China's new love affair with the internet and 3G (internet gaming and net books), the ongoing improvement of Cross Straits relations between China and Taiwan (Taiwan domestic) and the quest for efficient and fast charging energy storage (batteries). A shorter term but nonetheless powerful new theme has also arisen in a number of the regions property sectors, especially China and Hong Kong. Medium term, Taiwan property, once again, also offers the potential of multi year upside from very depressed levels. We have written more on these themes below.

After a difficult start to the year, in the first week of March the markets gave us another great buying opportunity at levels only a couple of percentage points above the November lows. Thereafter the portfolio, which was approximately 60% invested for most of the month, rebounded sharply. Our newer investments in the oil sector performed well as oil rose approximately 25% over March whilst our existing exposure to Chinas domestic economy and rural stimulus rebounded also. Gold took a back seat but our Korean internet gaming stocks and Taiwan domestic and netbook companies made impressive moves.

In retrospect, as the stock markets were in very early stages of recovery after a huge decline, the rising tide lifted all boats so such careful discrimination between companies with strong earning prospects and those with virtually none (eg shipping) seems unnecessary, as does cash. However, sitting, as we now do, only weeks after the bottom but with most shares very significantly above February levels this is once again very important. At the time of writing, the rally has continued into April, taking several of our larger holdings more than 25% above our target valuations. We feel very strongly that now is not the time to throw caution to the winds. This means both remaining disciplined on our valuation targets and also not getting seduced by fundamentally weak but ‘cheap’ investment ideas. Hence, not all our cash has been at work but moreover, more recently, our portfolio has lightened a little. We are currently working hard assessing whether there is scope to revise up our forecasts much. Recent conversations with companies suggest there is room for some optimism on recent numbers but, so far, medium term visibility remains poor. We therefore expect a period of review and consolidation or perhaps even a minor correction before long. Thereafter, we do feel there is potential room for further upside. The risk is that this happens very quickly, since many investors to date have been left out of the full force of the current rally, but that eventually shares are thereafter left stranded at higher levels as poor visibility into 2010 hampers further progress.

In short therefore, we expect to

increase exposure to most of our favourite themes on any pullback. These include oil, food/ agriculture, power transmission and distribution, energy storage, internet gaming, nuclear rollout, china rural and domestic stimulus, diagnostic healthcare and net-books. Our exposure to gold has been reduced for now but we expect to revisit this later in the year. New and recently reinvigorated old themes include touchscreens, Taiwan domestic and Hong Kong and China property.

China Stimulus Update

The size of the stimulus in China, which we wrote about in our November and December reports as a prime reason for Prusik to recommit to equities, has surprised even us. Nearly spectacular levels of bank lending and better trade financing (through alternative routes) has re-liquified the Chinese economy. Perhaps most encouraging of all has been the degree of reform amongst the packages. These are crucial as a key driver of the stimulus beyond its initial impact and are currently being accelerated in social welfare, education, farming and employment. Rural consumption is still a major focus which gives us cause for optimism in the longer term as China turns to its domestic economy for future growth.

The Chinese Government has recently stated that it regards the health of its property markets as one of the main barometers in assessing the overall economy. As a result the restrictions it introduced in 2007 to cool the overheated property market were recently lifted. This, together with the recent drop in mortgage rates, additional availability of credit, and the increase in affordability following some swinging price cuts, means the property market has all the hallmarks of a market due a good recovery. Additionally, because Beijing has always been irritated by Chinese property developers grabbing land at low cost we thought it unlikely we would see any conciliatory efforts made to this sector. If anything we expected a slew of Government approved bankruptcies to come. However, in late February, Guangdong waived interest payments on land premiums promised during the boom years thus setting the scene for a strong recovery for the developers. Discounts to depressed NAVs for the large blue chip developers like Shimao, China Overseas Land, Agile and China Resources Land had fallen to over 60% in some cases. We invested 9% of the fund in this sector and as volumes have been rekindled in the mainland property markets so share prices have raced back up. We have sold one of our companies which rose above our target but remain invested in two others which we believe still have upside.

A Note of Caution

We believe the Chinese government has plenty of cards up its sleeve with which to stimulate growth and will be forced into playing more before long. The recent quarterly GDP number of 6.1% hides the fact that nominal GDP (ex adding back deflation) was only 3.7% which is a pretty low number for China. The risk is that the attempts to stimulate the economy cannot offset the massive downdraft coming from overseas demand and that the current situation, such as year on year bank lending growth of several hundred percent, is unsustainable much beyond the final part of this year. This could result in possible wild swings of optimism near term followed by fear as we enter the latter part of the year.

Hong Kong

Watching the news flow out of G20 its impossible not to feel the dead weight of increasing regulations and higher taxes pressing down on the future of the western world. However, Hong Kong's entrenched laissez faire brand of capitalism and modest taxes suddenly burns a little brighter. A natural beneficiary of both the China stimulus package (via proximity) and the US monetary easing measures (via the currency peg) it may be less of a surprise that residential property prices are up between 5 and 10% so far this year. What is more there is a mortgage war between banks and mortgage rates have collapsed. Hong Kong property stocks Henderson Land and SHK Properties are now part of our portfolio and buying interest in new developments is reportedly brisk.

Taiwan Domestic

Following the Mayoral elections in Taipei at the end of 2005 we first embarked on our 'Taiwan Domestic' theme. This was based on the expectation of a change in government in 2008 followed by the introduction of direct travel and trade, or 'Direct Links' with China and an opening of a two way relationship which could see the inward investment of mainland money into Taiwan as well the legalization of money leaving Taiwan for China. Equally interesting is the potential for significant repatriation of domestic money left or sent overseas, due to political uncertainty, over the past decade.

It is hard to put this into perspective for readers who do not know Taipei but by comparison to most other cities in Asia it has undergone the slowest transformation in the past 10-20 years and has a decidedly down at heel aura which is quite at odds with the 'on paper' wealth of Taiwan as a nation. Decades of political tension and uncertainty with China, with plenty of exciting 'sabre rattling' moments en route, have taken their toll and whilst Taiwanese companies and individuals have quietly gone out to China and made their fortunes there serving the international manufactured goods boom, much of this money has since stayed away from Taiwan.

Events however are now finally unfolding as planned, with Cross Straits meetings looming in early May and both sides reportedly keen on the imminent and practical realization of something that has been a dream for years.

In the life of Prusik there have been three opportunities to make money from this theme; once in early 2006 as the penny dropped that there could be a change in government and secondly, in the run up to the elections themselves on March 22nd 2008. In both cases companies with assets in Taipei or with businesses set to benefit from travel, investment, growth and rejuvenation in Taiwan have performed well. These range from property and construction companies to banks and retail but the emphasis and performance has always been from the theme itself acting as a catalyst to unlock deeply undervalued assets.

Today the domestic investors in Taiwan have, perhaps poetically, taken the first bite of the cherry and domestic shares are unsurprisingly up in the past few months. However, almost all the companies typically bought on this theme are at or below the levels they were before the election at the end of 2007. This generally translates to levels which are half or a third of the highs reached in 2008's election euphoria. Perhaps more excitingly we are seeing this renewed optimism entering the physical market. This week a Taipei land auction was won at a 40% premium to the expected price which was a whopping 57% over the floor price, setting the bar considerably higher for investors in assets valued at deep discounts.

The upside from here is dependent on this momentum taking hold and drawing in money from overseas. Leaving aside foreign money bound for Taiwan, the potential for repatriation of Taiwanese money alone is huge. Looking at corporate expatriation of money, the Taiwanese Government approved about $75billion for China bound investments between 1991 and 2008, but this was probably not the whole story. Assuming the profits made over this 17 year period were a conservative $85billion, this equates to 21% of Taiwan GDP or 20% of Taiwan's stock market capitalization! If this seems like a big assumption then bear in mind that over the same period individuals invested overseas a total of $250billion! So in total the money which went overseas was about $350billion versus Taiwan's GDP of $400billion! Once this money starts to return to Taiwan there is a multi year domestic boom on the way.

China Internet

We think the internet in China is one of the fastest growing sectors in the country and with user penetration reaching the sweet spot at 20% of the population, we are reminded of the moment that mobile phone ownership took off producing a multiyear boom for the companies involved. It is probable that the online population in China will grow 30% this year, and stay around 20-30% growth in the coming few years whilst increases in Average Revenue Per Subscriber (ARPU) are expected for the next decade or more. In China 70% of the 300 million current internet users are below 30 years of age and 60% are single. Most are from the spoilt “only child” generation, with two parents and four grandparents to boost their spending power, hence they are unlikely to be too price sensitive. What is more there are plenty of them! In China there are approximately 260million 15 to 30 year olds and another 300million under 15’s all dying to get onto the internet!

The comparison with the US is a fascinating one. Here, 70% of users are over 30 years old. There is a stark contrast therefore in which internet companies will do well. In the US most users are after information whereas the younger generation in Asia are using it for entertainment. We most like the internet gaming companies such as Shanda, which is just about to launch a new game, Aion, which has been a huge success in Korea. This is a very good sign as Korean internet media, TV and movies dominate the region for popularity. We also like CTrip which has 60% market share for online travel in China but online travel services are currently only used by 2% of the population. Last quarter they beat the economic slump and Ctrips air ticket sales grew by 40% ! None of these companies are especially cheap these days however, but certainly they have the potential to surprise on the upside and deliver growth and profits long after other flash in the pan cyclicals run out of steam.

Touch Screens

Where Apple leads everyone follows and this time we are about to get an extra boost from Microsofts new operating system, Windows 7, which can also be used via touch screen. Therefore there are two distinct segments of the technology sector driving this theme.

Firstly, there are handsets. In 2008 only about 10% of handsets had touch screen but this is expected to rise to 13% in 09 and to 17% in 2010. For example, Samsung has said it is targeting 20% of its handsets to be touch screen in 2009. As a result shipments of handset touch screen panels are expected to grow with a CAGR of over 30% from 2008 to 2010.

Secondly, there are PCs and Netbooks. It seems unlikely that there will be a huge revolution towards touchscreens on desktop PCs although the new Windows 7 model supports this. Currently less than 2% of PCs can support touch screen so there is certainly room to grow! More likely we think it will become a much more regular feature on laptops and, crucially, netbooks. We have written in the past about the huge growth in demand for netbooks (low cost notebook computers) and recent fuel to this fire has been added by AT&T and Vodafone both announcing they will be giving away netbooks to broadband subscribers. Netbook demand is also coming from developing markets as broadband penetration soars. As a result netbook demand itself is expected to rise by 20-30% per annum for the next 4 years. Within this, touch screens are expected to become more standard with possibly as many as 10% of the whole notebook market offering touch panels next year. Cost is a significant part of the attraction of a netbook, but to add touch screen to a 10" screen only adds about $30 to the cost.

In Taiwan, touch screen panel designer and manufacturer Young Fast has number 1 global market share by volume and exposure to two of the key technologies behind touch screen panels. It is enjoying growth of over 30% per annum, has the best margins amongst its peers and will produce a ROIC of over 70% from 2009 to 2011.

Gold

We have reduced our exposure to gold in recent months but expect to revisit it later this year. Gold remains a vexed topic amongst investors who are as passionate as they are divided in their views. Here are some brief thoughts on why we believe gold should not be ignored in this environment.

Gold ticks the boxes for what money should really be, it is homogeneous and so can act as a medium for exchange and it's supply is very difficult to increase so it is a good store of value (in the history of man only 160,000 tonnes have ever been produced). Finally, gold is divisible and so can be used as a unit of account. So, gold makes good money.

Gold is proven as an ultra long-term store of value. For example, the same weight of gold which bought you roughly 100 loaves of bread in Ancient Rome would buy you 100 loaves of bread today! Clearly there have been periods where holding gold would have been a catastrophic move but over ultra-long-term periods gold holds its value. However, in a failing economy natural rarity does well as there is an increasing demand for assured rarity and in these situations gold tends to go up significantly. This can be demonstrated

by the fact that the investment purchasing power of Gold increased by 1700% during the deflation of the 1930s, by 1500% during the inflation of the 1970s and dropped by 87% in the growth of 1980-2000. To stress the obvious, if one believes we have an imminent growth period looming just around the corner then one should steer well clear of gold.
In assessing gold in today's world three key issues should be considered; the potential for hyperinflation, government debt and potential downside scenarios for gold.

Firstly, hyperinflation. This terrifying currency killer is typically non a linear extension to inflation and it is characterised by repulsive money which has some distinct markers. These are negative real interest rates, irreversible budget deficits, printing money and political denial. Although the risks of hyperinflation do not appear to be substantial they do seem to be less negligible than they were 6 months ago.

Secondly, government debt. The 2009 US budget deficit implies that every second the US government borrow a pile of $10 bills which is 1 foot high, each day that pile grows to 86,000 feet which is 3 Mt. Everests! If targets are hit this will repeat in 2010 and 2011 while demand in the economy is likely to decline. By 2012, according to some analysts, US government debt could be as much as $150,000 per US household (in Argentina's meltdown the government debt per household was $12,000 per household). Worryingly, the only solution on offer is more credit, for a problem caused by too much credit.

Finally, downside scenarios for gold. A return to a booming economy is the obvious passion killer for gold although at the time of writing, and renewed vigour in equities aside, this seems remote. The other scenario is a Japanese-style fiscal stimulus with strong monetary expansion, low to zero inflation, 10 years stagnation, a good bond market and a drifting gold market. There are reasons why the Japan scenario seems less than likely. Firstly, the US is not culturally thrifty enough to mimic Japan. Secondly, Japan's unemployment rate only reached 4% because the jobs market was saved by exports. This time around it seems that there is no obvious export market to save US jobs and even if there were, it would likely happen at some cost to the US Dollar. Finally, unemployment will likely make a thrifty USA or Europe unstable which would lead quickly back to inflationary policies.

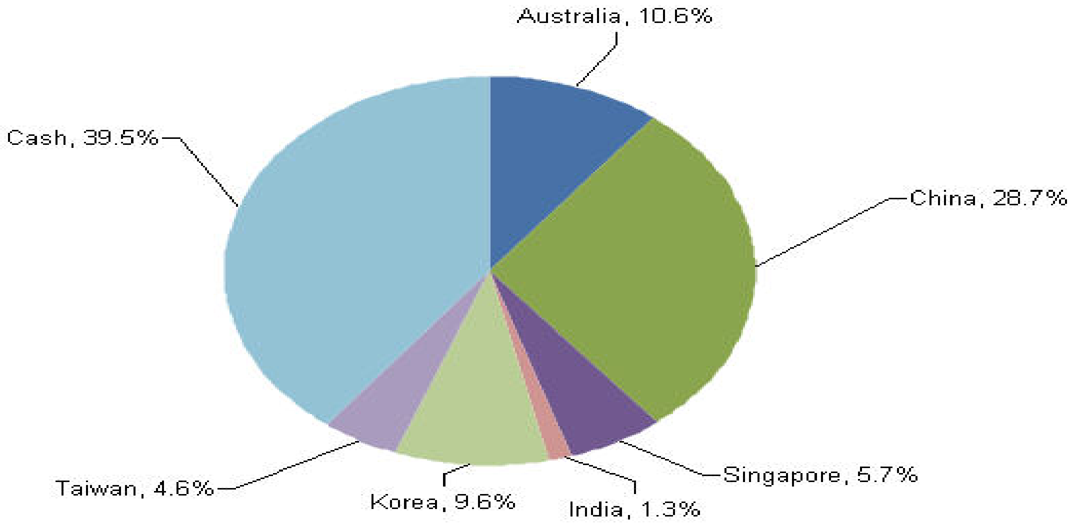
The portfolio trades 14 times 2009 estimated earnings and 11 times 2010, with 20% growth forecast for 2010 and returns an ROE of 15% for 2009.

Heather visits Hong Kong, Taiwan and Korea in early May. Amit visits Singapore and Indonesia later in May.

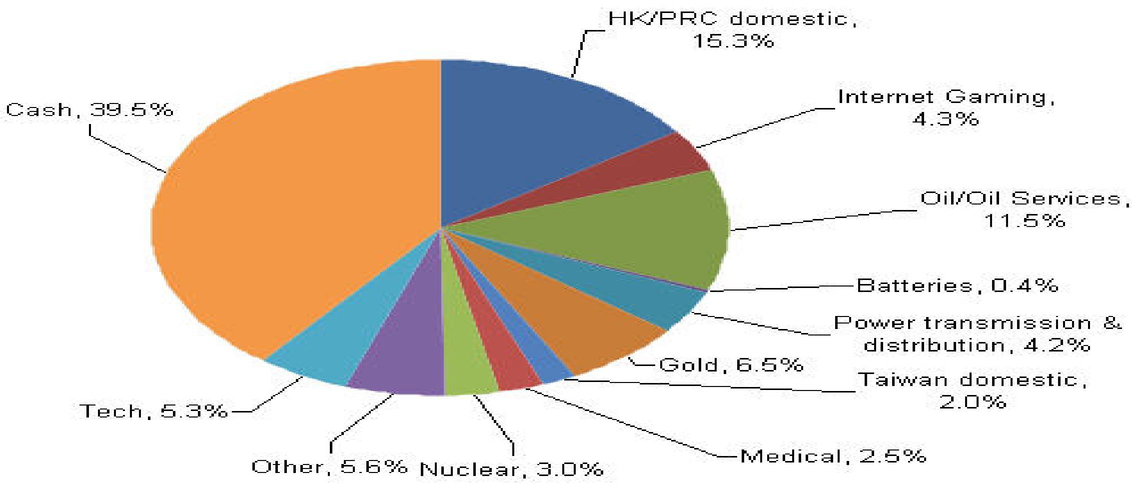
Top 5 Holdings	%
LG ELECTRONICS INC	3.3%
CHINA RESOURCES LAND LTD	3.3%
PING AN INSURANCE GROUP CO-H	3.1%
PETROCHINA CO LTD-H	3.0%
CNOOC LTD	3.0%

March 2009	
Number of holdings	29
Percentage of Fund invested	60.5%

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
2009	-6.90	-2.90	11.16										0.48

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

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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.