FSA Authorised
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Prusik Investment Management LLP

An Independent Asian specialist investment manager

NAV Updates

Series	*April '09*	*MTD*	*YTD*
Class A	147.67	+4.46%	+4.97%
Class B	147.75	+4.47%	+4.98%
Class C GBP	81.59	+4.08%	+3.59%

Fund Size $315m

Performance

2005 Q4	+8.86%
2006	+33.94%
2007	+21.88%
2008	-20.84%
2009 (YTD)	+4.97%

The fund was up 4.5% in April, a hugely disappointing result given the ongoing powerful rise in markets. We feel particularly cross with ourselves as we are not in the business of underperforming strong markets as our double digit performance in March and, prior to that December, when the markets first sprang back to life, clearly demonstrates. The simple reason for the underperformance is that we made a number of mistakes, which were largely based on the poor execution of the right idea, and therefore, we very much hope, a one off. The fund as of writing has risen 8.3% in May.

Firstly, after very strong returns in March from some of our companies, and given our still cautious outlook for economic growth in general, several of our valuation targets were triggered. For example, our selection of Chinese stimulus beneficiaries returned an average of 65% in March! Naturally, with perfect hindsight, we wish we had been bolder in our expectations as the positive story has continued to improve, albeit taking valuations well back into 'normal cycle' territory and above, in some cases.

Secondly, having responded correctly to the extremely low valuations we saw in the first week of March and so benefited by making gains in the early stages of the rally, our mistake was to move back towards some of our more defensive and solid themes, such as medical equipment. For best performance, in hindsight, we should have pressed on to buy lower quality investments such as financials and deep cyclicals, both of which took up the running in April. In fact we couldn't, and still cannot, justify these either thematically or fundamentally although we accept that the financials sector globally, post the change in the mark to market rule, has now undergone the upward move from 'impossible to value' to 'having a value'. On both counts, though, we felt uneasy investing in companies which are hard to defend on more than a few weeks view, are not driven by any clear longer term drivers other than the economic cycle and which, in the possible event of any renewed disappointment in the economic outlook, would therefore be the first to crumble.

Thirdly, we ran in to some bad luck. During the fairly short time we had reduced our exposure to switch from the fully valued companies to our new selection, we missed a couple of very big up days.

We apologise profusely and feel very disappointed with ourselves. We have however stuck to our guns in terms of not branching out into poor quality ‘value and laggards’ and have steadfastly remained with the companies and industries we feel we know best and will deliver the earnings growth we are looking for. More recently we have started to see our patience rewarded, in particular, the Taiwan domestic theme has shone through as China Mobile announced it would take a stake in Taiwan mobile operator, Far EasTone. We wrote about this theme last month and are confident that the news flow will continue to add confidence to a still cautious local population as the year progresses.

Moreover, we would hate you to think that we are only invested in the most dull or stodgy areas of the market and therefore doomed to subdued returns. We have retained exposure to our favoured existing themes; Gold, Railways, Power T&D, Batteries, Nuclear rollout, China stimulus beneficiaries, China internet and Internet gaming. The latter few categories, in particular, have been anything but dull.

We are particularly excited about the next technology boom which will be forthcoming from the arrival of 3G and the subsequent content explosion, on which more below.

Other themes we believe will do particularly well in the second half of the year are oil and food, both of which we have written previously and where we have also been adding exposure. Companies in all three of these latter themes now occupy the dominant position in the fund and, we believe offer every bit as much upside as the average large index constituent but crucially are structural stories which exist despite the economy. In times like these, when memories once again shorten, there will come a point, possibly before long and almost certainly some time later this year, when a clear and solid reason for growth outside the economic cycle will once again become highly sought after, and that will not be a time to have thrown caution to the wind.

OUTLOOK

We have just returned from two weeks in Asia, where we saw a wide selection of our companies and possible investment candidates as well as having time to explore some new themes. Things are certainly better, there is clear evidence of the stimulus in China having gained significant traction and local consumption seems to remain robust. There is plenty of credit available in China and for that matter elsewhere in the region too - indeed a mortgage war exists in Hong Kong (again)! Manufacturers in the technology sector are reporting better orders although this is not generally accompanied by any visibility which remains in most cases an abnormally lean one month! It is also fair to say that things were not universally rosy – heavy cyclicals exposed to the shipbuilding sector, for example, seem to us one area most likely to see future bankruptcies. Elsewhere in the basic manufacturing chain for goods such as fridges, washing machines and clothes where western demand is paramount, the strain is still very apparent with sales still down 40% or more and not a whisper of recovery.

We also sensed that some of the recent numbers suggest the hint of a slowdown in recent weeks, especially in China. This could be a cause for concern as if there is indeed a slowdown there is quite a lot of room for disappointment in the region's equity markets. However this is possibly also a point for markets to pause for a moment. It is a widely held view amongst our most well connected contacts in Asia that the Chinese government has already typed out part 2 of its economic stimulus package which is now sitting in 'draft' waiting to become reality. We broadly concur with this view and the introduction of further stimulus would certainly add more fuel to the fire currently already burning very brightly in Asian equities.

Positive Outlook

Year to date Asia has already outperformed Western markets by a huge amount. Amazingly, as of last week Asia now boasts as many billion dollar companies as America! The key question must therefore be can this out performance continue?

'Keep the faith, pack the cheese sandwiches: my friends, we're going to the moon'

Apart from bringing a smile to our faces, and leaving aside the highly probable chance of short term over excitement, this headline from an email sent to us last week from a wise and amusing friend based in Hong Kong is worth noting because it illustrates something it is very hard to see from the West. The other side of the equation is best summed up by the title of a superb article in the May 18th New Yorker magazine by Nick Paumgarten.; "Annals of Finance: *' The Death of Kings'* Notes from a Financial Meltdown. People assess their own future first and then, gradually the implication for their friends, their town, the social fabric, and, in the darker hours, the fate of the American experiment". The key point here is that in Asia there is simply nowhere near the psychological damage that we face in the West. In Asia that lesson was learnt ten years ago and this time, they feel, they are better prepared and not to blame. Whilst there is unemployment and uncertainty across Asia there is no loss of faith in government, banks or the the integrity of professionals. There is also growing confidence that there exists the domestic muscle to get through to the other side. In the East we see more evidence of the adoption of practical new solutions, a more flexible approach, pragmatism and a higher chance of a recovery that is healthy both politically and economically, and, crucially, is sustainable. On the evidence so far it is impossible to argue this for the West.

Recently, we have been wondering if we are about to enter another period similar to that of the decade between 1974 and 1984 when the Dow and the S&P remained more or less flat for a decade but companies which could deliver growth performed very well. In particular during this period technology stocks out performed, as demonstrated by the Hambrecht and Quist Technology Index (a precursor to the Nasdaq) which over the same period outperformed the S&P by 4 times and the Dow by 5 times! Quite apart from the fact we believe we could be about to enter another technology boom which will be especially pronounced in Asia (see below) we think that 'growth' could , once again become priced at a big premium. We know this doesn't usually end well, but the process of build up is a multi year one and certainly favours the brave. It is very early to say for sure but we think parts of Asia may begin to stand out in particular as relative growth havens. Given a shortage of such opportunities globally, more international interest and money may be attracted than at other times.

There are other reasons to remain positive about Asia; India, Taiwan and China all offer clear domestic growth stories recently enhanced by political change or political will. This is a big chunk of the region. We would add Hong Kong to this list, yet, perhaps, to be fully reflected in the stock market. In Hong Kong the monetary base has been soaring following that of the US, setting the scene for a big shift in assets. Meanwhile, if you put HK$100,000 on deposit in the bank in Hong Kong today it would be 20 years before enough interest had accrued to buy you a Starbucks cappuccino! Meanwhile 4Q 2008 saw the lowest investment in construction and building in nearly 25 years! It is hardly surprising that house prices are in positive territory this year already but, as we have written before, in the near future of big taxes and big government in the West, the laissez faire low tax haven that Hong Kong offers should also stand it in good stead.

Notes of Caution

It is very exciting to once again write positively about a place we feel so passionately about but we also know it will not be plain sailing. We are still dealing with a very complex global situation which will result in hugely exaggerated swings in sentiment and markets. Below are some events we are watching out for.

Firstly, a short term local risk. Asia always has the capacity to get ahead of itself and the recent spectacular out performance, overbought chart patterns and, in some cases, now quite ritzy valuations all suggest a correction must be on the cards. It is possible this is short and leads to further upside, but it could feel nasty for while. One of the keys to this rally being sustained thereafter will be whether analysts start to upgrade their earnings forecasts. Quietly this is starting to happen but the trend needs to gather pace for shares to find further momentum. We are certainly finding reason to increase optimism on the themes we like but we are acutely aware that there are big swathes of the market which do not have a similarly positive trend.

Secondly, we are wondering whether this powerful rally in most assets is more about being in the early, hidden, days of global **inflation** as opposed to being deep seated in anything more fundamental, like actual economic growth. This sounds exactly like what governments would like to achieve although the consensus remain generally seated in the deflation camp. However, we feel the extent of hoarding money in cash that took place over the past 18 months could unleash a very wild swing towards buying assets once inflation takes hold.

There are other factors at work which also suggest to us that inflation could be much more virulent than is currently expected. Supply chains have become too tight and post the credit crunch are still broken. Now the worst of the inventory adjustment is over we can expect to see some price increases. We have already alluded to this within our reports on food, oil, and LED themes where capacity increases are simply not likely to keep pace with past experience or future demand. In addition, countries like China are no longer subsidising cheap exports, manufacturers are asking for better payment terms in exchange for uncertainty, the single price model is giving way to varied prices reflecting order lead time and availability, trade credit costs more and currency risk is increasingly taken into account. Indeed the renowned economist Peter Warburton has gone so far as to suggest that the credit crunch will eventually be seen to have had a much bigger impact on supply than on consumers themselves.

Finally, we expect more bankruptcies, leaving more pricing power to survivors and more protectionism (under a different name). As a result of all of this and the removal of any institutional bias against inflation, the resulting inflation could eventually be violent and its cure painful. Until then, it is better to travel than arrive.

UPDATES LED

One of our first themes ever in the Prusik Asia Fund. Having delivered several rounds of good returns, it is now at the point of maximum excitement. Everything we were looking for and have written about in the past is now in full swing. Firstly, the price differential with the traditional CCL backlight units for notebook computer screens has virtually been eroded, depending on screen size. LEDs use up to 20% less power and are lighter, making them an obvious choice for both the low end and smaller netbooks as well as any top end device. As a result Seoul Semiconductor who we visited in Korea, reckon over 30% of all notebook computers made this year will use LED and this percentage will rise exponentially in the coming 2 years to include almost all. Similarly, LED penetration in the TV market, which stands at just 2% today will rise to 6-7% by next year, and general lighting, which was up until last year a nice idea without much actual sales revenue, is now starting to make an impact on companies profits. General lighting will last quarter have contributed over 30% of Seoul Semiconductor's sales and is also forecast to grow at a rate of 30% next year. In total therefore Seoul Semiconductor quietly reckons their sales could more than double over the coming 12 months with ongoing strong demand thereafter.

What is really interesting is that unlike previous hardware cycles where it is usual to see mad capital expenditure leading to over expansion at existing suppliers and a huge number of new entrants, this cycle feels different so far. Given the credit crisis, the attendant gruesome tales and credit fears coupled with a near total stagnation in demand until literally just weeks ago, there is little expansion. Seoul Semiconductor is spending cautiously and within the means of their own balance sheet, despite being unable to fill all the orders they received in March. This time, therefore, it looks like the hardware companies may see a longer time in the sun before the next inevitable debt fuelled capex phase.

Energy Storage

One of the biggest impediments to the massive growth we are expecting in smart phone use is battery life. If we are using the same device for calls, email, internet searches, game playing and so on then most current batteries will not last long. In the immediate future the likely solution is to carry more than one device or indeed more than one battery. Neither of these solutions is bad for battery makers. Other solutions will come from the growth in adopting low energy use components, such as OLED displays. Elsewhere, whilst the car companies in the west flounder, Asian battery makers are focused on the replacement market and have turned their expertise to supplying back up batteries for the ongoing build out of the telephone and 3G networks. Medium term, energy storage remains a key technology and we watch carefully for any signs of breakthrough, either in battery technology or methods to reduce energy use.

Power T and D

The roll out of the Chinese grid continues unabated, stimulus or not. This is comforting as there exists still considerable confusion in China over what large scale infrastructure projects have been given the green light and what are still on hold. The upgrade of both the Northern & Southern grids continues as does the roll out in Xinjiang. In India, now Congress has been given a proper mandate by the Indian electorate, there is a renewed pledge to hold ministers accountable if promises on upgrading India's power supply are not fulfilled. This is a big step and will probably mean quicker payment terms from the State Electricity Boards which would ease the cash flow crunch that paralysed the sector last year (which was part of the reason we sold). We are revisiting several of our 2007 investments in India in this sector which still look interesting despite the upside crash in the equity market that followed Congress's victory.

The fund holds TBEA the Shanghai listed manufacturer of transformers and cables. Its Q1 2009 results beat all estimates this time through excellent raw material price handling. Going forward the company is switching its product mix towards Ultra High Voltage DC equipment. (a long running theme of ours). We think this will be the most interesting part of its progress as it will increasingly leave behind the many small AC manufacturers and dominate the less competitive DC part of the grid which is where Chinese Government is most keen to spend.

We have spent considerable time sorting out the "wheat from the chaff" in this industry. Fortune Electric whose transformer business is more in tune with domestic Taiwanese and global industry upgrades is suffering. This is particularly interesting as many assume that broad 'infrastructure' is the place to be invested, assuming government spending is continuing apace in the face of weak economies. A recent meeting with Fortune suggests that, despite the biggest pledge on government spending in domestic Taiwan for over a decade, this is certainly not the case. The local government remains slow to act while governments elsewhere are as much 'on hold' as the private sector in terms of future spending. The uncertainty threatens to leave a reasonably large gap in the 2010/2011 earnings of some companies, Fortune being no exception, so we have sold our shares for now.

Oil and oil services

We have been happily invested in Worley Parsons this year, an energy services company which saw only a 15% cut in consensus earnings last year but whose shares fell over 80%!

Rather like a law firm, Worley bills its engineers out on an hourly or daily basis so would be quick to reflect any material slow down in oil exploration and production capital expenditure. We have seen no fall in billing rates yet. Oil sands in Canada seem to be the only large scale project to be on "permanent" hold. Otherwise the "new" insatiable demand for LNG (a clean energy) is keeping the Australian projects running at full tilt whilst India's exploration of the Arabian Sea will only accelerate.

Looking at oil itself, there are stories are already circulating of fuel shortages in China. Jet fuel prices have been hiked by 10% and the normal hoarding is now starting across fuel types as traders expect further price hikes. Sinopec has reportedly stopped supplying some retailers because they were stockpiling fuel. Also PetroChina has cut sales to buyers other than its key contract customers because of tight supplies.

We would not be surprised if China decides to raise gasoline and diesel prices by as much as 10% quite soon, especially with global oil prices rallying ahead of the OPEC cartel meeting on 28th May and the start of the US summer driving season. Oil is a theme we continue to like. We do not think demand is that elastic while supply and inventories remain tight and the price still does not yet facilitate widespread exploration and future capacity expansion in today's risk averse climate. We hold CNOOC, Petrochina and Woodside. As for Worley we expect the next revision to analysts earnings expectations will be up and the 09 PE should fall from 12x to 9x.

Food

Very quietly food prices are rising once more, driven by a mixture of weather problems, the previous years lack of credit reducing farmers ability to buy seeds, fertilizers and pesticides and the recent rise in the price of oil. International food stocks remain at a dangerous and record low and follow a three year period from 2005 when wheat and corn prices tripled and rice prices climbed fivefold spurring food riots in two dozen countries. In any other corner of the economy such price moves would have been met with a massive increase in supply, and yet agricultural productivity growth is stuck between 1% and 2% per year thanks to a lack of water, appropriate land and adequate topsoil as well as a lack of action by governments in tackling these issues or encouraging small scale food production. In short, food production cannot keep up with the growth in world population. Furthermore, we have no excess in the system to cope with sudden crises , such as the loss of the bee population which is responsible for fertilizing 30% of Americas food crops. This is a theme which is as grave as it is compelling but food producers across the region have been notably laggard performers in recent weeks. We think this will change as we move into the second half and have been adding to our palm oil plantations, sugar producers, agri supplies companies and fertilizer producers.

NEW THEMES

OLED

Organic LED display makers in Taiwan and elsewhere fell over themselves to close loss making capacity in the past few years, leaving Samsung SDI with a 50% global market share and other Korean makers such as LG Electronics close behind. Up until now OLED use has been restricted to those very small displays on the front of a clam shell style handset together with other specialist uses. This is because they are still very difficult to produce in larger sizes at sensible prices. For example, Sony currently has an OLED television on the market. It may use a fraction of the power of an ordinary television, weigh very little, have just a 3mm thick screen, give colour and picture clarity like you have never seen but it is still only an 11” screen and it retails at a whopping $2,500 !! However, the industry rumour mill suggests this is about to change. Samsung last week launched an Android phone called Tocco, whose key marketing point is its OLED screen. Apple are reportedly about to use OLED in their next major product. Given the enormous power saving benefits of OLED (about 40% more efficient than LED) and its lightness and "thinness" it seems very likely it will now be adopted quickly on many top end hand held devices . If Samsung's predictions are right, the rest of the industry will move in this direction in the coming years so by 2014 over half of all phones will be using OLED displays.

Mobile Internet

The time has finally arrived when we have mobile internet. 3G will be rolled out in more than 234 cities in China by the year end – most likely reaching far more than the 20% of the population now on fixed line broadband, and driving the already exponential dash to get on line. All you need is a smartphone.
This is exciting for China's internet service providers but the story doesn't end there. The whole world is about to get mobile internet. To put this in context the world currently has about 1.5 billion fixed line internet users but over 3.5 billion mobile phone users. If all these mobile phone users become internet users, and all new internet users jump straight to 3G and China continues its current internet take up rate then the internet will see a threefold expansion in usage in a very short time. The dominant method of using the internet will suddenly be via mobile. This has huge implications for the technology sector.

Firstly, the hardware; Smart phone makers are seeing a multi year outlook of huge growth. Indeed smart phone sales are already up 8.5x in the past 5 years. More exciting are many of the components, especially the new ones which are being rapidly adopted as standard, such as touch screens, about which we wrote last month. Elsewhere, companies selling equipment to the network are also seeing very strong growth in demand, right down to the back up battery makers as we mentioned above. Netbooks and notebooks with 3G cards as standard will be a big part of this trend.

Secondly, data traffic will explode. YouTube already sees more downloads every day than the entire internet did in 2000 when the last technology boom occurred – and YouTube alone has seen the uploads to their site increase by 30% per hour since the beginning of this year!. With the arrival of cloud computing you no longer need to have a device in front of you that holds the information or processes it – that is all done somewhere else on the net. As a result you can access more, from anywhere, and you will. This potentially bodes very well for the service providers although the capex burden will remain heavy for a while to come.

Thirdly, with the arrival of Google's Android phone - an open source developed free platform – and looking at the recent explosive demand and supply coming off the new Apple Apps store (25,000 apps, over a billion downloads, 60million users, all revenues shared between 800,000 open source developers and Apple) it is clear there will be spectacular growth in applications and software for all standards of smartphone.

What these applications will look like in a few years time we can still only guess but suffice to say they will themselves become a major driver in demand for smartphones and mobile internet in future.

Fourthly, the business opportunities surrounding the mobile internet will be huge. At the very beginning there will be advertising. Google reckons that advertisements placed on a mobile service can be charged at 4 times the rate of normal internet ads, as they are more likely to lead to a sale, so advertising revenues will increasingly grow in this segment. Moreover, it will become cleverly targeted as the systems become increasingly intelligent, noting your whereabouts, habits, friends and interests. If this sounds quite big brotherish, it is, but it will also be big business.

In short this is a multi year theme which will evolve into areas we can only currently guess about. For example, imagine what games can be played when you can know the other players whereabouts and speak real time from within the application to your fellow game players? The immediate beneficiaries will be the hardware makers and later this year or next we shall start to know which of the leviathan smartphone offerings from the likes of Apple, Nokia, GoogleAndroid will win out in which countries. In Asia there is added spice on top. We are still adding new internet users at a massive rate, so the growth numbers within this theme will be extraordinarily large. On top of that Asia is home to much of the hardware manufacturing and innovation, from touch screens to casings, from batteries to OLED displays. For Asia, this is a growth story within a growth story.

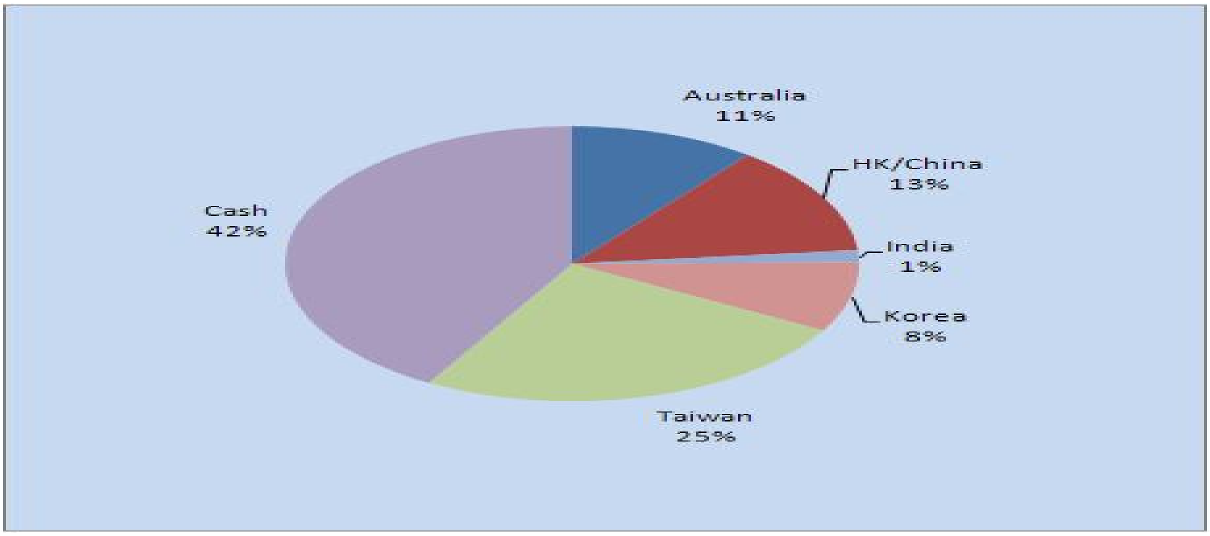
Portfolio valuation

The portfolio trades on 16 times 2009 forecast earnings and 13 times 2010 with earnings growth of 15% into 2010, generating an ROE of 16% that year.

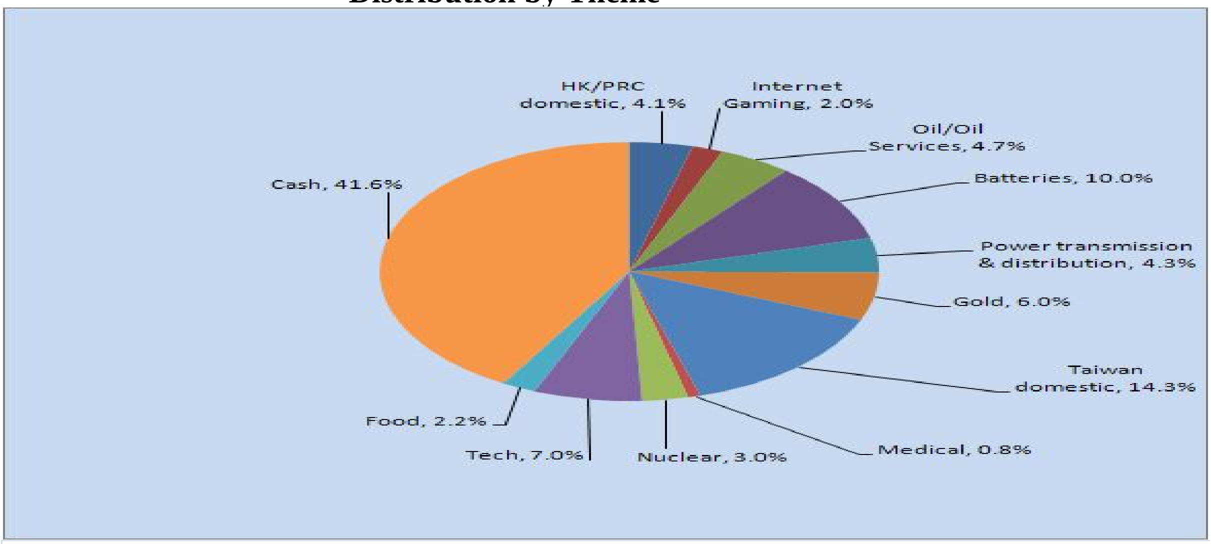
Top 5 Holdings	%
Acer	3.3
Taiwan Fertiliser	2.9
First Financial Holdings	2.9
LG Chem	2.8
Dynapack	2.6

April 2009	
Number of holdings	31
Percentage of Fund invested	58%

Geographical Distribution



Distribution by Theme



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2005										-1.9	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	3.9	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	11.16	4.46									4.97

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.