Prusik Asia Fund Plc

FSA Authorised
Recognised Schedule 5

Prusik Investment Management LLP

An Independent Asian specialist investment manager

NAV Updates

Series	*June 09*	*MTD*	*YTD*
Class A	159.04	-2.69	+13.05%
Class B	159.12	-2.69	+13.06%
Class C GBP	86.75	-2.96	+10.14%

Fund Size $387m

Performance

2005Q4	+8.86%
2006	+33.94%
2007	+21.88%
2008	-20.84%
2009(YTD)	+13.05%

June was a very choppy month after three straight months of strong gains. In the end the markets finished the month up slightly whist the fund fell over 2% . This is disappointing, but in our opinion not sinister. Many of the best performing stocks in the region have, at the time of writing, corrected some 15-20% or more from their highs. This is harder to see in broad market terms but the pattern is very common at a bottom up level and is, we feel, healthy at this stage after such gains. We remain committed to this rally, which after the breather in June looks now set to continue on its way over the summer. During early July we have taken advantage of the weakness in our favourite areas and added to our existing holdings and also bought some new investments. As a result we are now, at the time of writing, over 80% invested.

Among the areas to which we have added is power transmission and distribution (BHEL and Crompton Greaves, see below, both of which saw 15-20% corrections) and also the internet and gaming related companies in China which have also undergone healthy consolidations. Elsewhere, railway company China Zhongwang, having fallen from $11 to $8 certainly triggered a buy on our valuation spreadsheet, whilst telecom equipment supplier ZTE gave us the opportunity we were looking for to start a new holding. We have also continued slowly to build our telecom operator holdings and our south east asian investments here are starting to show, not only some decent gains, but the news flow is surprising on the upside which provides a solid catalyst for further rises. Elsewhere, in the 3G/ smartphone theme we have added HTC in Taiwan.

We feel that Asia will continue to attract money relative to other global geographies, and rightly so as so many domestic stories, from India, Malaysia to Taiwan and China, currently look promising in addition to our chosen themes.

Growth will likely be more sprightly in the coming months. We feel certain that analysts will underestimate the statistical upswing that company earnings will enjoy as the year on year comparisons with the dark days of the second half of 2008 come through and we expect this to propel stock markets perhaps some 10-15% higher in the current quarter. Immediately beyond this period of relief it is harder to predict the fortunes of Asia. Whilst we feel sure that growth will once again become a scarce commodity and Asia will stand out relative to other parts of the world, we are not so sure what this means in absolute terms. It is possible to imagine another painful period where the combination of high correlation amongst most assets and shockingly bad policy responses in the West outweighs any actual fundamentals in Asia.

We therefore remain alert to this risk, but believe we have a period of further euphoria first. We will endeavour fully to partake in the upswing whilst not leaving ourselves vulnerable to illiquid stocks, indefensibly high multiples or low quality or cyclical business models. In short, we are fully engaged but cynical. Its the next buying opportunity, possibly in 2010, which is the one to get properly excited about.

China Update

Less than a week ago the Chinese stock market daily turnover reached a 2 year high of US$48.6bill. This is bigger than the rest of Asia and Japan combined and also bigger than the combined volume of the US markets at $30billion.

Beijing continues to flood the economy with ample liquidity. In June bank loans continued to grow at a stunning rate, indeed they achieved the third highest growth rate in history following the January and March expansions, reaching $220billion. Total loans issued in the first half therefore reached $1.08 trillion – equivalent to nearly 25% of last years total GDP and representing an annual growth rate of 32% YoY! The monthly loan rate is currently nearly triple last years rate and now exceeds the full years monthly target of $176billion by over 45%.

Hardly surprisingly, the economy has been showing us signs of life. China's PMI indicated its fourth consecutive rise in June, whilst asset prices seem to be gaining momentum. Urban property prices in 70 of China's large and medium sized cities rose 0.2% YoY in June, the first increase for six months, whilst in bigger cities like Shanghai and Beijing, property prices are now effectively at record highs. Likewise both stock markets are at 13 week highs with valuations beginning to look 'normal' whilst car sales indicate the strength of recovery at aconsumer level. June car sales rose 36% YoY prompting suggestions that we are seeing the beginning of a new car boom in China. In the corporate world we are hearing anecdotal evidence of a pick up in capital expenditure, especially amongst domestic orientated businesses.

As a result of this renewed activity commentators have raised their growth expectations once more with upgraded estimates of 2Q GDP growth of 7-7.5% rising to 8% and 9% in the final two quarters.

We note that Beijing policy makers seem intent on remaining supportive of consumption and employment. Indeed eight of the nine Politburo members due to meet imminently have in recent weeks visited coastal and inland provinces raising anticipation of such policies. Data on employment suggests new graduates have only a 68% chance of finding a job vs 73% a year ago whilst government revenues are still rising healthily pointing to possible tax cuts as an additional way to increase consumer demand. Our short term conclusion on China is thus reasonably optimistic but we would like to temper this view with come caution medium term.

Firstly, reports circulated last week that two government bond auctions had failed to attract enough interest for all the paper being sold. Whilst the shortfall was not huge, it is an early signal that given all the money sloshing about in the system at present a 1% interest rate on the investment is not enough.

Secondly, there is a growing split between the PBOC who are responsible for monetary policy and the CBRC who are responsible for patrolling the banking system. While there are no visible inflation pressures the risk is that the PBOC will continue to lend aggressively, setting up a large Non Performing Loan problem later on. Recently the CBRC has imposed curbs on 'wealth management products', many or which are a back door route for provincial governments to raise leverage for infrastructure products. This suggests that the tension between the two bodies is starting to rise and the CBRC are, possibly rightly, already trying to head off the chances of their patch becoming littered with bad debts later on. Additionally, but crucially, these products also raise the spectre of future problems as most of these long term projects are thus being funded by short term, high yield debt.

Finally, Yu Yongding, a former advisor to the Chinese central bank has warned that China has the highest M2-to-GDP ratio in the world at present at 180% GDP. This he described as a 'very scary' prospect in terms of future inflation risk. Certainly, the runes suggest that if todays levels of debt expansion remain, China could face much higher inflation in a years time. History suggests that as we approach an inflation level of about 5% the tightening starts in earnest with all the attendant negatives for the stock market. History also suggests that inflation can erupt very suddenly in certain circumstances. We certainly feel the world has become very relaxed about inflation risk with China no exception and therefore remain very alert to this particular risk.

Smart Grid

Our smart grid theme has received a recent fillip from Russia. There the electricity grid is a state owned enterprise controlling 85% of the country's whole grid. Russia's distribution network is some 2 million km, longer than China's, and 80% of it needs updating. The Russians have pledged to spend over $100billion over the coming eight years and have explicitly stated they will be looking to China's specialist companies to fill contracts. Putting this crudely their additional spending is equal to about 20% of China's domestic market. Although it too early to see this translated into new orders for the Chinese grid specialists, this move highlights that spending on grids will be a continued feature in emerging countries for years to come.

Meanwhile, in China it has been observed that some 38% of the recent stimulus package spending was either directly or indirectly related to environmental protection. Indeed between January and May, spending on environmental protection rose 93.5% yoy according to the Ministry of Finance. Indeed, the central government has, in a new move, recently decided to evaluate local government officials not just on how fast they can reignite growth, but also by the environmental soundness of that growth. Some commentators believe that we could see China introducing carbon emission targets as early as the 12th Five Year Plan which starts in 2011. Certainly the focus is beginning in earnest to seek a green recovery path and we expect a government shift to view all future growth through the lens of carbon emission per unit of GDP increase.

Anecdotally, the impact of this shift is already there to see. Visitors to the regions report seeing wave after wave of lorries carrying wind turbines, whilst the headlines continue to contain new orders for solar and other alternative power solutions which dwarf anything we have seen already. The reason this is happening so fast is that local officials can find easy funding from state banks and little regulatory hinderance for alternative power. For example, six wind power projects are currently being built across China, each with the capacity of 16 large coal plants. As recently as last year the government targeted 5,000 megawatts installed wind capacity by the end of 2010 but this target was raised to 10,000 MW in March. At current progress some 30,000 MW will have been installed by the end of next year – which had been the target for 2020! Indeed; wind turbines are being installed faster than the national grid can install high voltage power lines to carry the electricity.

This brings us back to the original reasons we identified power transmission and distribution as one of our themes: alternative energy spending will force the upgrading of the grid. Currently the National Energy Administration is drafting a new energy development plan. The first phase will oversee this shift to nuclear, solar, wind and biomass power with investment opportunities which could total as much as Yuan 3 trillion. Phase two will be perhaps even more impressive and will last beyond 2020. Both stages together could add up to more than Yuan 40 trillion being spent by 2050 before China is truly green. Crucially, much of this money will be used to increase efficiency of end users, and in the transportation of goods and of energy itself. This points to a more efficient and smarter grid, as well as increased use of electricity as a main source of power. Therefore, we expect many more announcements in this theme before long. Prusik owns a plethora of investments in this space the largest being TBEA, an A share and in our opinion China's most profitable grid equipment supplier.

Power Generation, transmission & distribution in India.

We took the opportunity to re-invest in two of our favoured power and transmission & distribution companies in India during the recent period of price weakness. BHEL looks likely to win the lion's share of 16 500MW+ power stations due to be awarded by NTPC and the State Power utilities over the summer. The company is expanding its capacity and headcount by 50% into the end of this year and we suspect that the slew of contracts due to be offered and BHEL's success in winning the lion's share of them will lead to significant earnings forecast upgrades. Competition from L&T Mitsibushi, BGR Dongfeng and Bharat Forge Alstom we think will be limited and BHEL, with earnings prospects increasing will regain its huge historic premium to the Indian market.

The best managed Indian companies tackling India's generation & transmission deficits have also proved themselves nimble in taking advantage of lower raw material costs. Over the past 12 months, partly due to the economic slowdown and partly because of a pre election freeze, order book and revenue growth has stalled. The companies that have managed to show good profit growth despite this are those that have managed, through contract structuring, the down cycle in raw material prices. Thus the huge tail of smaller transformer suppliers, transmission tower constructors, cable hangers and switch gear manufacturers have seen profits decline sharply. Whereas the larger, more experienced operators such as Crompton Greaves, Areva and BHEL have managed to offset a lull in revenue with higher margins.

India recently tendered for 50 times 750KW transformers, Crompton won 17, the rest going to two overseas companies (we are investigating them). In some respects the Indian transmission & distribution industry will show better growth than the generation side with less room for execution errors. India is still short of grid to carry the existing new generation capacity countrywide and this is a priority area for the Government. Secondly whereas the generation sector relies on foreign technology for the critical parts (bar BHEL), some parts of the T&D chain can be supplied domestically. All Crompton's design is in house and they are the only large scale T&D equipment manufacturer who can compete with the locally listed subsidiaries of Siemens, Alstom and Areva, yet still trade at half the multiple. Towards the end of the year we are inevitably going to hear of huge problems connecting imported Chinese equipment to the Indian network or just supporting it which will reflect well on the those local companies that can execute without foreign help such as BHEL and Crompton.

3G / Mobile operator update

After the last two monthlies where we wrote extensively on this subject we want to add a short update. Last week one of our teenagers was given an upgrade by her mobile phone operator which also meant she was out of contract and free to move to any option she liked. After considerable negotiations she returned from Carphone Warehouse triumphant with a Blackberry and a new package which included the same minutes and texts as before plus unlimited 'Blackberry services' and internet usage. The cost was 20% higher per month. Given that she is rising 16, very persuasive and paying for this herself we think this is nearer the minimum increase in ARPU that the mobile operators might manage as users migrate to smart phones and pay for more data usage. Getting onto Facebook and email at any opportunity was just too attractive to stay with the old phone or package. We have been warned!

We therefore maintain that the mobile companies are only just starting to see the uplift potential that data usage can bring them.

Cars

Ford held a 60 day supply of vehicles at the end of June, down 38% from a year ago while GM held a 90 day supply, down from 27% a year ago. It seems that the degree of relief that the markets have rallied and the end of the world was averted is, well, car sized. Our neighbour was so relieved he bought a Z4 and clearly he has not been alone! In China car sales continue to add positive surprises, driven by both underlying long term demand and the recent economic stimulus plan. In June sales rose 36% YoY but the interesting factor is that car sales are now strongest in third tier cities and amongst low end consumers. A study carried out by Credit Suisse suggests that only 2.9% of the Chinese population own a car whilst 40% of urban households could afford a medium priced vehicle if financing was available, this despite the fact that almost all purchases in China, outside property, are still made for cash. Furthermore some 90% of rural households can afford the cheapest cars on the market.

It is possible that we are on the cusp of another surge in car sales in China. The car makers, parts suppliers and toll road companies will all benefit. We are looking for the first financial services companies who are financing car purchases and also selling insurance. Experience in other countries suggests this will be a massive area of growth in future. Currently the fund invests in Dongfeng Motors which manufactures several joint venture Chinese auto brands.

Yuan Trade Settlement

The Chinese central bank has published rules governing trials for settling trade in China's local currently, the yuan. Certain banks in Hong Kong will be involved and needless to say the authorities are at pains to point out this is in preliminary stages to test demand and see how the scheme works in practice. To begin with it will link 5 mainland cities – Shanghai, Shenzhen, Zhuhai, Guangzhou and Dongguan to Macau and Hong Kong.

We think this move is likely to bring gains to the Hong Kong banking system only over time but undoubtedly paves the way for more Yuan denominated products and the opportunity for Hong Kong to become an off-shore centre for China's financial products and services. We also note that it is a step in setting the scene for a reduction in importance of the US$ in the Asian currency bloc.

Pricing power

In China CPI in June fell 1.7% whilst retail sales rose 15%. In real terms therefore consumption is much stronger than published numbers suggest. Margins for many companies are increasing as input prices have fallen and in many cases competition has decreased, reducing the downward pressure on selling prices. This adds up to a period of strong profitability and increasing pricing power which we are currently entering and will be a significant driver in the current rally. We think it is very important to identify those companies enjoying genuine pricing power versus those who are still in deflation. However, it will be critical to identify the point where this benign trend becomes more negative as inflation takes hold and protection of capital becomes paramount. A 2010 phenomenon most likely.

Portfolio Valuation

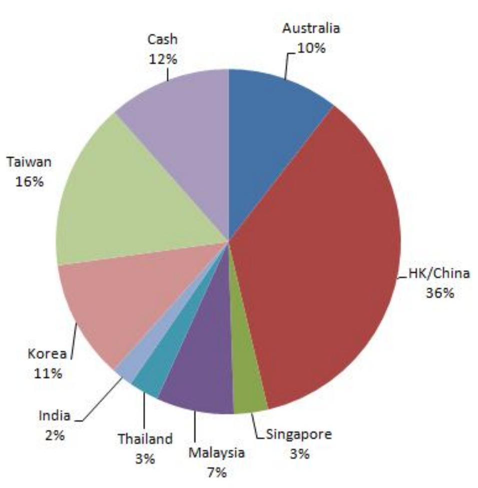
The portfolio trades on 21x 2009 earnings and 16.5x 2010 earnings with earnings growth of 25% for 2010 and generates an ROE of 18% for that year.

The July monthly review will be merged with the August review and will be with you at the start of September. We will send out the fund breakdown pages as normal at the end of July and will be available to speak at any time should you require a further update in the meantime.

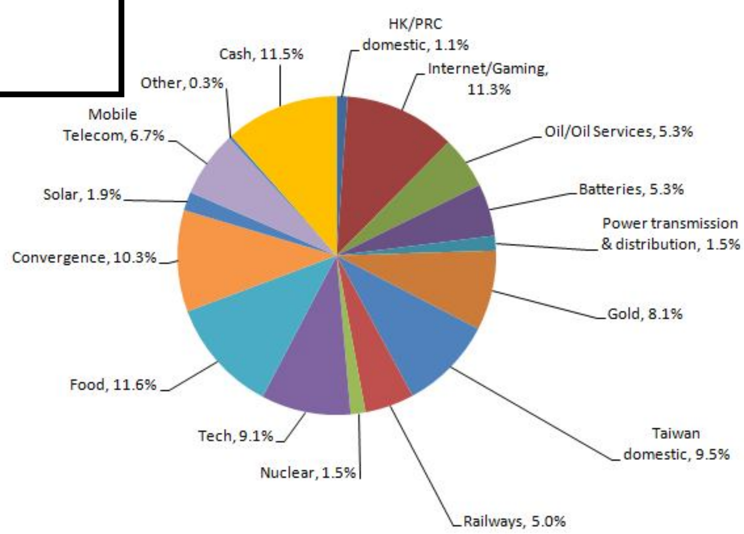
Swine Flu

Having experienced first hand the reaction to the SARS outbreak in Asia 7 years ago we think it is possible that the UK experiences something similar over the coming months. We hope not. Should this be the case we wanted to reassure investors that all critical positions at Prusik are backed up by other partners or staff and all staff have the ability to work either in London or the Singapore office or from a remote location, or from home. The server is also backed up, something we stress test regularly.

Prusik Asia Fund
Top Line Figures — June 2009



Number of holdings	39
Percentage of Fund invested	88.5%



Top 5 Holdings	%
Tencent	3.6
LG Electronics	3.4
Taiwan Fertiliser	3.4
Lihir	3.3
Simplo	3.3

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							13.05

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	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.