FSA Authorised
Recognised Schedule 5

# Prusik Investment Management LLP

***An Independent Asian specialist investment manager***

**NAV Updates**

| *Series* | *May '09* | *MTD* | *YTD* |
|---|---|---|---|
| Class A | 163.43 | +10.67% | +16.17% |
| Class B | 163.52 | +10.67% | +16.19% |
| Class C GBP | 89.40 | +9.57% | +13.51% |

Fund Size $384m

**Performance**

| | |
|---|---|
| 2005 Q4 | +8.86% |
| 2006 | +33.94% |
| 2007 | +21.88% |
| 2008 | -20.84% |
| 2009 (YTD) | +16.17% |

The fund rose 10% in May. More international money flowed into Asia and the "bear market" rally continued apace for the third month in a row. In early May we expanded some of our holdings in the mobile internet and smart phone arena, the Chinese internet content sector, and in our food and oil themes. Importantly we also initiated a new theme in mobile telecom on which more below. As a result our invested portion rose briefly to over 80% although at the time of writing we have seen quite a few of our holdings reach our valuation targets so we expect the June invested portion to be on average a little lower. Overall, as well as valuations becoming less compelling we believe peer group weightings in Asia are higher now and many stock charts are taking on a parabolic shape ( this never ends well!) so we would expect some shorter term headwinds and some form of correction, at least for a few weeks. Nevertheless, we remain confident that there is significant further upside for Asia this year.

## Earnings upgrades

A large number of Asian share prices have now retraced the huge drops they incurred in Q3 last year. Valuations are still reasonable but one cannot expect markets to continue up in a straight line without some improvement in the underlying corporate earnings picture. Across our portfolio we find many of our own estimates to the high end or above where, if available, the "streets" estimates are. This is not surprising given that generally most analysts have barely started upgrading their forecasts compared to the huge cuts that were pushed through over the last 18 months. We suspect overall earnings have recently been raised by around 10% for 2009 /2010 having been halved, certainly for 2009, over the course of last year's chaos. This, we think, holds the key for Asia.

Take, for example, LG Electronics which we have been invested in due to our optimism on its high end handset business. The streets 2009 earnings per share expectations peaked early last year at W16000 and were since cut by a whopping 80% to W2500, bottoming earlier this year. Overdone pessimism towards its flat panel making subsidiary was partly to blame for these sharp forecast cuts . This year new handset releases have picked up, notably in the US where the new "Cookie" handset is selling like hotcakes. Prusik has a FY 09 EPS forecast of over W10,000 and after Q1 earnings surprised the market, 2009 forecasts have been pushed up to W7000. However, 2010 numbers still remain at half what they were a year ago.

This is instructive on a number of counts.

Firstly, it is comforting to see stock moves supported by quite significant earnings upgrades for the current year. Secondly, given our findings on analysing LG Electronics and the work we have done on the overall theme regarding the growth within the smart phone industry, we believe we are likely to see further upgrades to earning expectations in the forthcoming year. We believe that this is a pattern repeating in many companies in a number of our themes, which is also encouraging. Indeed we are quite excited about how many pockets of non cyclical growth we are seeing compared to the previous year or two. If there is continued cyclical/ general recovery as well, we believe we could still see quite an extended period of earnings upgrades still to come, which could be the support needed for the next leg up to the current rally. This is our general expectation at this time based on current evidence in Asia.

However, we feel we must sound a note of caution medium term. If we do not see the cyclical follow through precipitating wider general earnings upgrades then there could be a painful response a few months out. Many share prices have currently rallied far further than earnings estimates so this next step is very important. We expect there could be a short hiatus and some stock market retracement over the summer as we take stock of the China stimulus, domestic demand strength in Asia and garner some visibility into the third quarter but after this, as stated above, we do expect a further round of earnings upgrades and enough cyclical recovery to support a further move up for shares in Asia. However, there are other medium term risks to earnings such as the rising cost of energy and other commodity prices or bottlenecks and shortages in the component area (something we have already seen this year). These factors could cause disappointment later in the year. We would also warn that at this stage there is very little evidence of the recovery to date being sufficiently comfortable or credible to company management to precipitate a big round of capital expenditure increases. This may be the important missing link to this ‘earnings recovery’ that keeps this current upswing in stock markets closer to the definition of ‘rally’ than ‘new earnings cycle’.

In view of these risks our thematic approach should keep us invested in those areas least vulnerable to any cyclical disappointment and also where there are most likely to be solid and significant earnings upgrades and surprises. In view of the recent general strong performance most stocks are vulnerable shorter term but we feel confident that as the year progresses and secular growth becomes more distinct from shorter term recovery, a premium will emerge for this which will benefit our themes and stocks.

**Mobile Telecom**

We spoke to a trader in Hong Kong this morning who was thrilled because for an extra HK$38 per month he can now watch CNBC on his way in to work on his Blackberry 3G. Leaving aside the value of watching CNBC at any time, this small anecdote illustrates beautifully our new theme, of which an important part is the mobile telephone operators.

Wireless telephony is the key to driving economic growth in developing countries, indeed research from MIT shows that every 10% increase in teledensity results in roughly a 3% rise in GDP. Whilst simple mobile phone penetration growth in Asia is past its peak, an even larger and potentially more exciting growth phase is now with us, as we wrote last month, in the form of mobile internet. What impact this might have on the economies in general is still too early to estimate but we can now begin to glimpse what benefits might be felt by the mobile telecom industry itself.

At this stage we must start by saying that we have spoken to many telecom analysts in the region in the past weeks and very few currently understand what we are asking about, which we hope is good news. In general analyst expectations for the mobile telecom sector are pretty low with most estimating a general and ongoing fall in ARPU ( average revenue per user/ subscriber) owing to ongoing falls in voice charges, not much growth in new subscribers and a decline in ARPU per new subscriber. Most do admit, however, that the worst of the capital expenditure onus is behind us. As a result of this rather desultory prognosis the mobile companies have in general fallen back to their lows as markets have risen and the growth recovery has been perceived to be elsewhere. Almost all of the mobile companies in the region now trade at or very close to single digit PE multiples whilst the simple average dividend yield of our favourite 8 companies in this sector is over 8%!

(for example SK Telecom has a 2009 PE of 8x, falling to 5x in 2010, and yields over 5% ). This is the first but least exciting reason to be interested in these companies. They have been sold down and are now cheap, expectations are very low but they are perceived as defensive. Hence, by default, if the stock markets do correct they should do better than many other sectors, even without a new growth story to support them. At worst, they are supported at these levels by genuinely interesting valuations.

However, we think the coming explosion in data traffic will increase ARPU, probably well beyond any current expectations, and the scope for monetising an additional multitude of tangential data services ( streaming TV being just one example, but more below) which will grow around 3G is huge.

Given that in Asia the use of smart phones and 3G is behind that in the West, the statistics to illustrate why we are positive about what happens next are best taken from the US. The main reason this is the case is because of the massive growth in use of IPhones in the US. Apple are the thought leader for both smart phones and in the understanding of how content will drive demand and their hugely successful Apps Store is the prototype for estimating the type of data growth that smart phone usage could generate. Indeed already overall data volumes are growing at over 130% pa. Last quarter AT&T, the carrier for IPhone, announced some astonishing numbers. Wireless data revenue was up 67% yoy, wireless data ARPU rose 51% and reached 16% of total ARPU – a level where these growth numbers will start to make a visible impact to earnings overall. Moreover, these numbers are starting to occur when only 2.5million out of their 67 million subscribers are using 3G! Most of this data growth is via 2G phones taking up more data services! In the US market IPhones only occupy 8% of the mobile market but 43% of mobile web searches and 65% of all mobile web usage are attributable to IPhones. This illustrates very powerfully what a marriage between the right hardware and attractive content can do. It is difficult to get the actual numbers but industry sources say that the average ARPU for an IPhone user is around 30-50% higher than an ordinary mobile subscriber!

If, and this is the key, if the mobile operators can start to monetise this increase in data usage effectively then their revenues and profits should start to rise, not, as currently forecasted, fall. For example, our CNBC watching friend in Hong Kong has already just increased his monthly payments by 4% for one new service! But if the uplift in ARPU for smart phone usage comes anywhere close to the IPhone experience, as AT&T is showing, then this will be a very powerful turn-around, followed by a multiyear growth story in a very big sector.

**More Data – 3G cards and "Dongles"**

This is not to say there aren't big growth numbers already emerging in Asia in this theme already as well. For example wireless broad-band subscribers tripled in Singa-pore in 2008. Currently wireless broadband comprises only 0.7% of total cellular service revenue in Asia ex Japan but this could rise exponentially in coming years, hopefully driving a big recovery in ARPU in the process.
Additionally there is one other growth factor which Asia enjoys over and above the west. Fixed line broadband penetration re-mains quite low in many coun-tries, even such as Australia, so increased ownership of notebooks and netbooks and the consequent increased usage of 3G cards and dongles ( this is a USB add for your laptop which allows access to the internet via a mobile ser-vice) will rise sharply. Laptop penetration in Asia ex Japan is currently 12% of households and the datacards cost around $150 ( the price of a mid range hand-set). Don't underestimate the  increase in data traffic com-ing from this corner of the market in Asia also.

**Even more data –"Kindle"**

Finally, we are fascinated by how many other devices appear to be converging on the public which also point to more data usage in future. Again, not yet even available in Europe but made in Asia, the Ama-zon Kindle and other e-book/tablet form factors are taking off rapidly in the US and will be coming to a household near you soon. They also have their own mobile internet con-nectivity, allowing constant downloading ( adding to data traffic). We hear that of the books at Ama-zon which are available in e form, 38% of customer purchases are now made in this format! We think this is extraordinary take up but only adds fuel to our view that when hardware and content are both aligned the ex-plosion in usage ( and hence data traffic) will be dramatic.

**MicroPayments**

In a recent article out of Korea a nice anomaly caught our eye:

" If I leave my wallet at home, I may not notice for a whole day", said Miss Kim, 21, " But if I lose my cell-phone, my life will start crumbling right there in the subway".

To paraphrase the article, a typical Korean student in a typical day will use her phone for the following func-tions; alarm clock, check weather, listen to music, pay for subway fare ( like an oyster card system inside the handset), check a book is in the library, play games, surf the net, watch TV, speak to friends, text, calculator, dictionary, stopwatch, TV remote control, satellite navigator, read the newspaper, measure biorhythms, camera, upload blogs, raise a virtual pet, buy snacks in the school canteen or corner shop, check grades, pay for dormitory washing machines and so on – and this list is by no means exhaustive.

The part of this list which really interests us, however, and has done for a while, is the idea of the mobile phone replacing the wallet. What is new is this is now an idea not lost on SK Telecom in Korea either. Quoted in the same article a company spokesman said "We want to bring complex bits of daily life such as cash, credit card, membership cards, student ID cards and so on into the mobile phone. We want to make the mobile phone the centre of life… thus making South Korea a cashless, walletless society".

In Korea parents can already give children 'cash' on their mobile phone T account which they can use in daily life for small payments. One of our favourite new ideas coming out of this is mobile gift giving. It is possible to log onto your mobile carriers online shop (nb. a new source of revenue for mobile carriers) and buy an icon depicting , say, a "Starbucks Frappuccino" which you can then send to a friend, via text, who can get the drink. Each day some 70,000 mobile gifts from "Dunkin' Donuts" to underwear and cosmetics are delivered through SK Telecom's networks!

In reality though, there is some way to go before making SK Telecom's world dominating dream a reality. Since 2001 Koreans have been able to use their mobile subscription to pay for items like ring tones and games, and last year some $1.4bill was spent in this way. Moreover, since 2000 Koreans have also been able to use their mobile phones for internet banking for a fixed rate per month. This is still in early stages for example in 2008 W22.8trillion changed hands via internet banking but less than 1% of transactions were made from mobile devices.

The future, however, might start to look very different. A combination of more sophisticated security and payment software embedded in handsets, better bandwidth due to 3G, and an avalanche of new content and applications will all draw in customers and will present the mobile companies with the opportunity of a lifetime – to become the new banks. We think this is more likely to be achieved quickly in developing countries where banking, the internet and mobile telephony are arriving at the customers door simultaneously and in one, powerful, device.

We are invested in some of the mobile distribution platforms and eyeing up some opportunities amongst the aggregators of walletless banking, especially in South East Asia.

**Biosimilar Drugs**

" If you think health care is expensive now, wait until you see what it costs when its free" P J O'Rourke on the Obama healthcare plans.

In 2006 we wrote at length about how we doubted the US was going to be able to afford healthcare for its aging population over the coming 30 years without some radical reforms. Our focus then was on early diagnosis and screening. Since the credit crisis this outstanding liability of epic proportions is all the more unmanageable and is now, understandably, moving more centre stage in government debate. In particular, battle is ensuing over the extraordinarily powerful and lucrative biogenetic drugs market which is dominated by the likes of Amgen and Biogen. Biogenetic drugs are hugely complex protein based drugs, created from live cells in a complicated and expensive process. One of the better known biogenetic drugs is Herceptin, which is used for treating breast cancer but many of these biogenetic drugs are the best treatments in many serious illnesses such as other cancers, diabetes and some key autoimmune illnesses. The drawback is that they can often cost several thousand pounds a month to receive, thereby financially crippling patients, employers and insurance companies and governments en route. More importantly, given their cost they are only available to a tiny portion ( mainly in the West) of the whole addressable market.

The main reason these drugs are so expensive is that they are protected for 12 to 14 years before 'generics' are allowed, which in the bulk of cases means 2015 and beyond. The developers argue this is needed to recoup the $1.5billion it can take to develop one of these drugs. It is now however looking increasingly likely that the patent period may be softened.

This is good news for a handful of companies in Asia which are gearing up to take advantage of the fact that many of these drugs come off patent in the east as early as 2011.

One such company is Celltrion in Korea which has one of the largest facilities and lowest cost bases in the region. They reckon they can manufacture biosimilars ( these drugs are not generic as a perfect copy is not achievable given the unstable nature of the manufacturing process) and sell them for around half the price they are available in the US. The plan is to make these treatments available in Asia where the market is huge but price sensitive, but there could also be a huge additional boost to demand if the US allowed in biosimilars ahead of schedule. Currently Celltrion makes vaccination products and is preparing to go through two years of rigorous drug trials for its new biosimilars. On their forecasts however, if all goes to plan their revenue should increase between 4 and 5 times on the next 5 years, and profits more so.

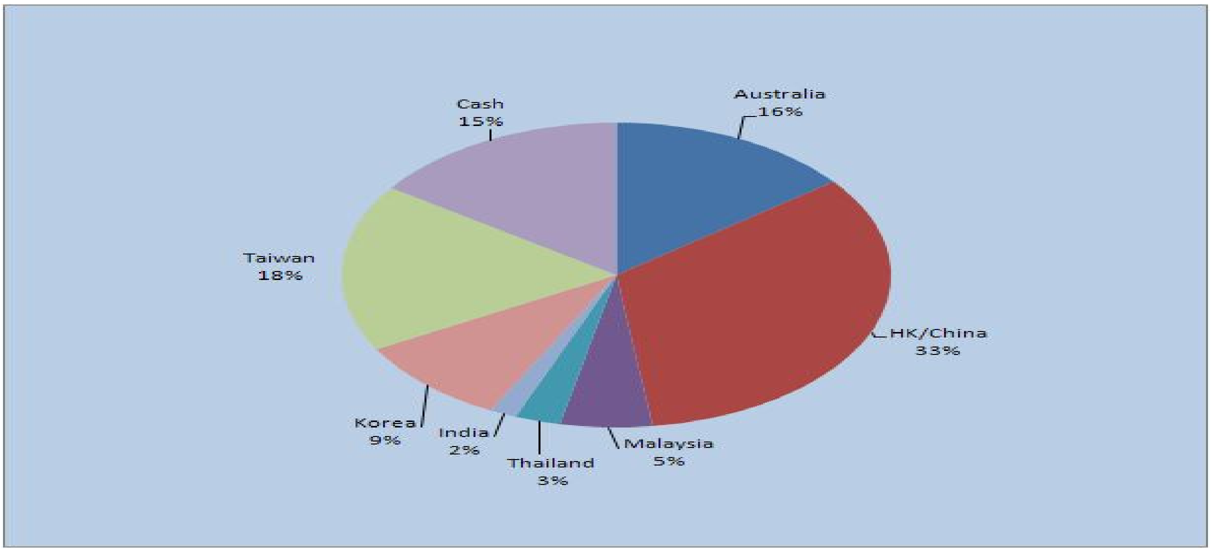
**Portfolio**

The portfolio trades on  18x 2009 earnings and 15x 2010 earnings with earnings growth of 20% for 2010 and generates an ROE of 14% for that year.

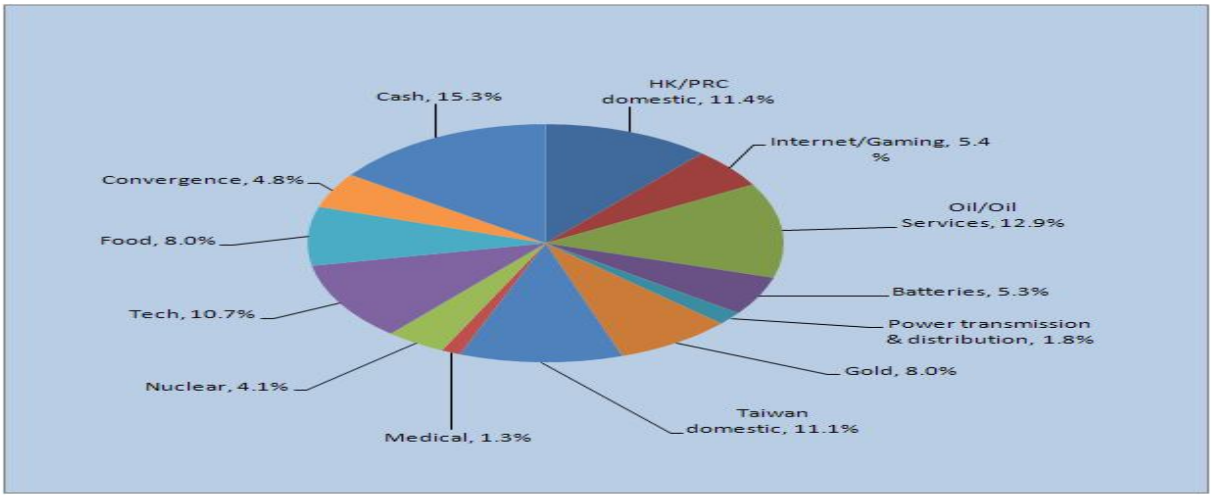
| Top 5 Holdings | % |
|---|---|
| Henderson Land | 3.2 |
| Sun Hung Kai Props | 3.2 |
| Lihir | 3.1 |
| Woodside | 3.0 |
| Petrochina | 2.9 |

| May 2009 | |
|---|---|
| Number of holdings | 38 |
| Percentage of Fund invested | 85% |

## 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 | 10.67 | | | | | | | | 16.17 |

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)<br>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 |

Manager Fees

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

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