PRUSIK ASIA FUND PLC
PRUSIK INVESTMENT MANAGEMENT LLP

Authorised & Regulated by the Financial Services Authority: Schedule 5

An Independent, Asian Specialist, Investment Management Team

NAV Updates

Series	*Sept 09*	*MTD*	*YTD*
Class A	171.78	+6.42%	+22.11%
Class B	171.86	+6.42%	+22.11%
Class C GBP	93.86	+6.43%	+19.17%

Fund Size $399m

The fund was up 6.42% in September.

We have rarely seen the global stock markets so strong when so many participants are inherently unconvinced. In Asia we can feel comforted that the domestic picture is comparably a very favourable one, on which we expand below. Nonetheless, we are fully aware that any setback in the western recovery or general sentiment will probably yield, at best, an incremental move towards a decoupled response in Asia. Indeed, whilst we do see the investment case for Asia extremely favourably versus the west, we can also see high expectations and neutral valuations and, in the west, a residual deep-seated problem which could affect sentiment overseas. For example, many current anomalies suggest breakdowns of past signals, giving investors less reliable and unfamiliar information to navigate with. In such an environment a shift back to a fearful state could happen very suddenly. In short we see extraordinary opportunity for investors in Asia, but, possibly first, a period of rising risk.

Firstly, almost all of our readers will not need to be reminded why they are invested in Asia, but we have picked up two charts which we think exemplify our thinking that Asia will increasingly draw investors east.

Chart 1 shows that the combined economic environment in Asia has never been better in 40 years.

Performance

2005Q4	+8.86%
2006	+33.94%
2007	+21.88%
2008	- 20.84%
2009(YTD)	+22.11%

Chart 1: Total Emerging Market stress index

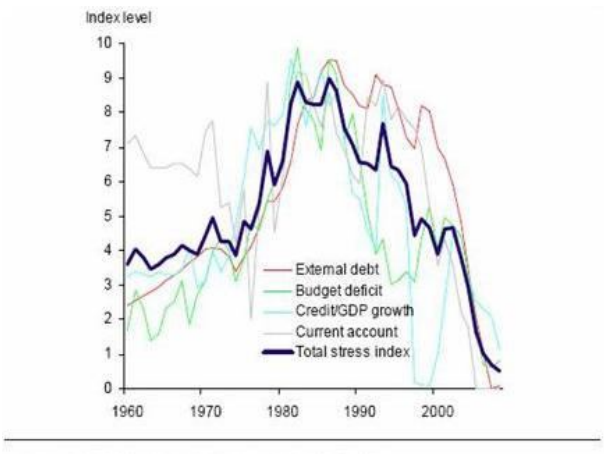


Chart 2: Emerging market growth vs. western growth differential and stress

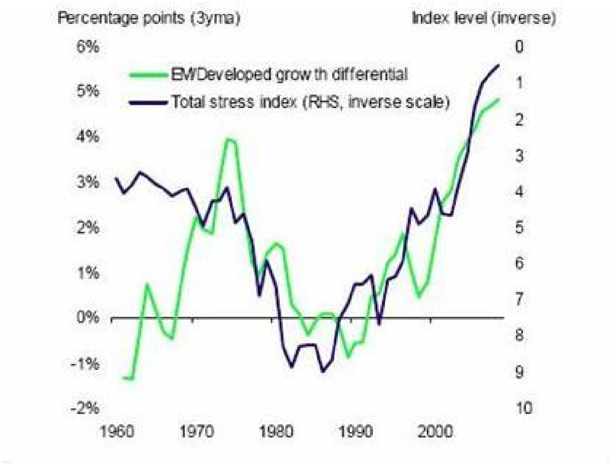
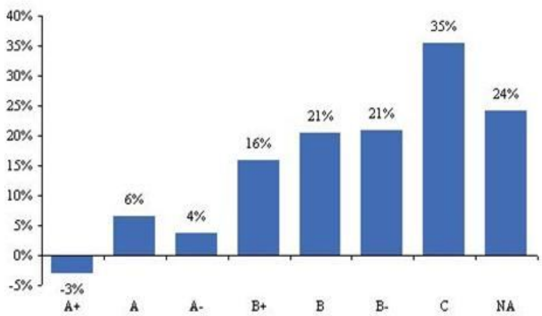


Chart 2 shows that relative growth is also at a 40 year high.

We feel that the west is unlikely to regain a full strength cycle and so growth will increasingly become rare. This will benefit Asia hugely as the healthy domestic environment will serve to support growth above the global average. Money is likely to increasingly chase growth, raising the value of growth stocks and, by definition, Asia in general. Additionally, money tends to flow to where, for example, there is loan growth. Decent loan growth in itself is a challenge for western countries. We think we are entering an extraordinary era for Asia where both currencies and assets will deliver superior returns in a global context.

We are interested in Chart 3, below, which is taken from the S&P, but which reflects a clear pattern seen in Asia also. It shows that companies which are rated the most lowly by the rating agencies i.e. B, C and below, have been the best performers this year. Perhaps this shouldn't be too surprising in the initial wave of relief, but unless you are a total believer in the new up cycle and a recovery to the norm for the whole world, then one should by now be considering carefully one's investments in the right hand segments.

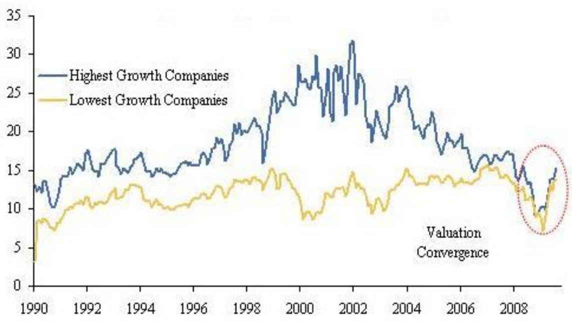
Chart 3: 2009 YTD performance of S&P rated companies.



Source: Morgan Stanley

We also think Chart 4 is very instructive.

Chart 4: S&P 500: Average FY2 P/E by long-term growth estimate quintile



Source: Morgan Stanley

Chart 4 shows that for the first time since 1990 both high growth and low growth stocks have performed in line with no positive discrimination for growth.

Both these charts are very important in understanding why Prusik Asia Fund has lagged the index this year as our process is designed to find high quality companies which are growing regardless of the economic cycle. From here we are sure that the markets will be forced back towards correct and clear differentiation between growth, quality and the rest. What is not clear is whether this reassessment will take place under duress, but, it seems likely to occur at the same point that markets also reconcile the anomaly in recent relative performance between gold, bonds and equities. The risk is that at least somebody, somewhere feels pain before long, but, given still high correlations between so many assets the chances are this will be more widespread than is possibly justified.

So what are the possible catalysts for a period of readjustment in Asia? Leaving aside exogenous shocks and events in the Middle East, neither of which is minor, we consider four possible alternatives, each of which is believed to be a negligible risk by a huge majority of investors which adds to our concern.

The first possible catalyst is that China has a growth wobble. We have written extensively on this below and conclude that China will continue aggressively to stimulate the economy well into next year and beyond. The risk that some areas of the economy disappoint is more likely to come next year if at all, and we cannot rule out speed bumps especially regarding trade issues. We should not underestimate the importance placed by general sentiment on China successfully re-stimulating its economy, but believe that everything is being done to succeed in the reflation, all of which is being supported anecdotally by the recent strong showing in retail sales.

The second is that the dollar strengthens significantly in a short space of time. This should, perhaps, not be a surprise outcome post the imminent IMF meeting given the vested interests at the table and is one which would, in the short term, cause a lot of pain to the overwhelming majority who are currently convinced the dollar is a 'one way bet' to the downside. One mechanism for dollar strength could be the huge number of dollars which might get taken out of the system by ongoing debt reductions, via write-offs and paybacks. In Asia the most benign scenario for equities is in fact a gently weakening dollar which boosts domestic liquidity as governments seek to keep domestic currencies weak in line with the dollar move.

The third possible catalyst is a sharp pull back in commodities. Our wise independent advisors have long been pointing out that actual demand and prices of items such as copper do not tally, the remainder being accounted for by huge amounts of investment speculation. Whether it is the weak demand cycle or weak nerve of investors which breaks first, commodities could cause a hiatus in all markets, not least because of the huge amount of private investor's wealth in commodity ETFs which, if unwound, would cause significant downdraft in equities as well.

The fourth is faltering earnings expectations. Today in Asia there are more earnings upgrades taking place than even after the Asian crisis when earnings fell 70% as opposed to the 30% we have seen in 2008. The good news is that for the next quarter it will almost be impossible to see disappointing comparisons as the year on year data reflect the terrible period in 4Q 08 but 1Q 10 and beyond will be important to watch. Asian valuations, in general, are currently at 'neutral' compared with the past averages and stand at 2xP/B and 16x mid cycle earnings. Historically, until actually becoming quite overvalued, Asian markets remain oriented to the upside. However, it is hard to see where further upgrades can come from in the immediate future and we are now at the riskier stage of needing to fulfil higher expectations and stave off any disappointment until next year gets going. Current forecasts suggest the top line could grow at 14% in 2010, driven by better pricing and better volume. For 2010 forecasts also include the twin prospects of lower capital expenditure *and* better margins, a combination we have not regularly encountered in the past. Nonetheless, Asian growth will probably exceed that elsewhere and so we do expect some valuation premium for this.

Prusik Asia Fund

Thus, whilst keeping in prospect everything positive we believe of Asia we have to acknowledge that the next few months hold some potential challenges. We are acutely aware that the average PE on our fund has never been higher since launch, but would also point out that neither has our blended earnings

growth. This presents a conundrum which we can justify by our view that, in the absence of a strong cyclical recovery in the west, growth will become increasingly scarce and, therefore, increasingly expensive. However, we also know that any hint of risk to the growth forecast is very serious at such elevated valuation levels. In September we spent a combined month in Asia visiting our companies and feel very confident that they are achieving in line with our expectations. Nonetheless, any further rises from these levels, in light of the risks outlined above, means our top end valuations targets are likely to be reached.
At the present we are fully invested, but have our exposure whittled down to a shorter list of stocks than normal (33), and have fewer themes represented. We focus on those where we see unassailable growth; mobile internet, internet content, network equipment suppliers, internet access, LED, power transmission and distribution, sugar, domestic Taiwan and China railways. The trading liquidity of our underlying holdings leaves us ample flexibility.

China Stimulus update

Given the tremendous stimulus we have seen, exemplified by the extraordinary bank lending increases, the key from here on is whether the private sector has shown any signs of improvement and whether areas which are not so easily “ramped” by the Government have been revitalised. Capital expenditure is probably the most important barometer of confidence within small and medium sized businesses. Over the summer surveys show 29% of companies now expecting an increase in capital expenditure this year versus 18% in January. This is a recovery, but, nowhere near the boom time figures of nearly 70% in 2007, or 40% in 2008. Likewise, top line or order growth has stabilized from within China and is now growing year on year, but remains in sharp comparison with overseas orders which are still declining, albeit at a slower pace.

Our conclusion is that there is some recovery, but nothing like the rebound we would expect to see to necessitate major policy changes.

The news from the consumer is a little more buoyant. Flash reports from last week’s “Golden Week” holiday in China suggest that shoppers have been busy. Top selling items are HD TVs, Fridges and 3G handsets. Suning Store reported that its Beijing shop saw sales leap 91.7% yoy on 2nd October and 25.8% for the first three days of the holiday. Meanwhile, the city’s top gold jewellery store reported daily sales increases of over 90% yoy which were exceeded in Shanghai Department Store where gold jewellery sales rose 150% yoy! Tourism has also been strong. Initial surveys of 119 sightseeing destinations show tourist visits up 26.8% yoy whilst between 1st and 8th October 45,000 international holiday trips were taken, an increase of 107.4% yoy.

Despite such a healthy snapshot of the Chinese consumer, we believe at present the biggest threat to the equity rebound remains a withdrawal of any stimulus whether in the East or West. China’s leadership knows how fragile the recovery still is and how dominated by Fixed Asset Investment (by the Government) it is. Additionally the leadership remains paranoid about unemployment. Without any inflation to worry about we expect continued stimulus and easy monetary policy as China faces the challenges of still weak export markets and high unemployment. We therefore expect, over time, more infrastructure launches, new tax policies, new incentives to boost private investment and consumer spending, and an acceleration of the urbanization program.

History tells us that China has always stimulated its economy until inflation forces a change of tack. Looking at past cycles we would probably need to see 4% inflation before we see a change in policy and we remain some way off this at present. The likely explanation of the disconnection between PPI (recovering) and CPI (declining) in China is overcapacity. Higher input prices usually manifest themselves in lower corporate profits, rather than higher prices and inflation, especially when demand is weak. This profitless growth is being addressed by the Government via its “empty the cage, change the birds” policy, whereby higher value added industry is being strongly encouraged at the expense of the traditional low cost manufacturer. Recently in Dongguan we came across old style toy makers actually short of staff with local Government unwilling to help as the industry was deemed “sunset” or too low value added. This is an interesting anomaly set against unemployment of over 30m people!

Looking at the bank lending numbers again, CBRC & PBOC have indicated that they would expect loans to expand by 15% in 2010 vs. 33% in 2009. In absolute terms that would mean lending an incremental RMB6trn as against the RMB10trn targeted for this year. We estimate the lion’s share of credit growth in 2009 was directed at infrastructure and ailing state entities. Perhaps by Easter next year the infrastructure roll out (which is 75% debt financed) will have drawn down the bulk of necessary funds and it will be then that we can really see whether the private sector has any material appetite for credit. Without a pickup in private sector loan demand the Government would be forced to “restimulate” to achieve that loan growth figure for 2010. At some point the market will have to start to differentiate between the two types of credit growth, and we hope come next Summer to report that the Chinese economy is being weaned off the State sponsored drip by a resurgent private sector.

However, at this stage, it is too early to say for sure that the Chinese will be completely successful in their reflation of the economy or, perhaps more importantly given the high level of expectations, that they will manage to execute the reflation without speed bumps. The immediate risk remains that the consumer’s strong early showing wanes before the corporate/private sector regains any genuine strength. This reality, or even a fear of it, could cause a not inconsiderable wobble in the near future, not least because the current capacity for rose tinted thinking about China is currently quite astonishing and that rarely ends well. Nonetheless, China does have a couple more aces up its sleeve for enabling domestic growth into the next cycle, as we discuss below.

Land reform in China.

We have written in the past about a pilot scheme in Tianjin which enabled farmers to borrow against or in fact trade their land. We were excited, therefore, to spend some time in Hong Kong with Roy Prosterman of the Rural Development Institute (RDI) to update ourselves about land tenure in China.

The RDI have surveyed a wide sample of Chinese farmers to estimate the impact of the 1998 ruling which granted farmers a 30 year lease on their land. They found that 32% of farmers have both the key land-rights documents and 60% have at least one. 24% of farmers have made one or more long term investments in their land using their own savings and that farms comprising over 10% of China's arable land have assigned or transferred their land rights for economic benefit. Interestingly, in 2008 the average income per hectare was USD 538 which prices a hectare at US$10,000 (£2653 an acre). This values China's 120million agricultural hectares at 1.2 trillion dollars!

Land reform thus has begun and is likely to accelerate from here. What is the significance of this? In Taiwan during the decade following land reform, average rice yields rose 60%, farm incomes rose by 160% and diversification ruled with fruit and vegetables replacing the dominant crop of rice. Crucially, annual purchases of consumer goods soared. The RDI advise the Chinese government to extend land rights beyond 30 years and step up the publicity. This could be an extraordinary next move should the current economic stimulus falter. Indeed ultimately the pace of rural income growth in China may, therefore, exceed that of coastal urban areas for a period.

As an aside on the subject, India lags far behind; with half the rural population having no land tenure at all. This is an issue India is trying to address by handing out micro plots. Nevertheless, as it stands grain yields in China are 5433kg per hectare, India 2595kg per hectare, whilst the US reaps 7000kg per hectare. There is, therefore, plenty of future upside to farm yields in India too as land reform takes hold.

China's Inland Provinces

Of the many concerns we hear aired about China, one of the more frequent is that the excess capacity across many industries can never be absorbed either by poor export markets or domestic consumers. Whilst we do not rule this out as a valid concern we are increasingly interested in the potential that is represented by China's inhabitants of the Western and Central provinces. These areas combined have a population of 700 million – 40% more people than the East so the combined consumer power, once unleashed could be considerable. Here GDP per capita is less than half of that in the East whilst average annual disposable income sits at around RMB11,500, compared with nearly RMB17,000 on the East coast. This is an opportunity for China to exploit and as the gap closes, the potential for growth could be extremely compelling. For example, at year end 2007 urban ownership of cars was 10.7 per 100 households compared with 2.2 in Central China and 3.8 in the West. Similar patterns are true for most other consumer durables.

The government is already focussed on industrialisation of the Central and Western areas and in 1H 09 urban fixed asset investment spending in the Central regions rose 38.1%, and in the West 42.1%, compared with just 26.7% in the East. Crucially, their efforts may be starting to become visible. First half 09 retail sales rose 19.2% yoy in Western China and 18.8% in Central provinces compared with 16.2% yoy growth in the East. Higher GDP growth in the Central and Western provinces has also been recorded which bodes well for the future demand story from these areas as part of the solution to China's current problems.

LED

LED has been a theme for Prusik since inception in 2005. It is, therefore, exciting to see it finally coming of age. In 2009 the use of LED as a backlight in notebooks surged to over 70% penetration from just 17% in the previous year. In the TV sector the premium between LED and TFT-LCD has finally shrunk to the point where the share of

LED TVs will leap to around 45% of all TVs in 2 years, which means a possible fivefold increase in LED backlit units in 2010! TVs panels alone could, therefore, account for over 40% of LED demand in the next 2 years and these are conservative estimates compared with the actual jump in usage we saw in notebooks.

Given the additional demand for LEDs also coming from general lighting, the overall increases in LED demand for the coming years will be massive and with gross margins rising to 30% one would be forgiven for expecting a massive glut of supply before long. However, there are only two major equipment makers for MOVCD equipment in the world, both of who are running at 6 month lead times, and with the slowish ramp up after that at the LED makers, it looks as though demand will outstrip supply for the coming two years.
For Epistar, one of our Taiwan listed LED makers, who is just expanding capacity, this means profits should more than triple between 2009 and 2011.

Analogue

We are aware, as you can see from the LED section above, that whilst LED demand will remain extraordinary for years to come the period of maximum profitability for the LED makers is probably happening this and next year. We are, therefore, already looking at companies who will benefit from the volume expansion, but not the margin contraction that LED makers will experience as supply comes into balance with demand.

One example is the very unfashionable analogue chip systems which are suddenly coming into demand again. Richtek, which is the largest analogue power management systems maker for chipsets and motherboards in Asia, is suddenly finding itself also producing LED drivers for LEDs as this is an analogue process. A recent call to the company confirmed what we suspected, that demand for LED drivers is exploding from both the TV and general lighting segments and from under 10% of revenues this year LED related products could become the largest part of the business before long! Moreover, this area is significantly more profitable than Richtek's basic business which already has a gross profit margin of 39%! Currently forecasts suggest a modest 25% yoy growth rate for Richtek, but we think this could be significantly beaten. Moreover, the company trades at a PE rating of less than half that of Epistar.

Taiwan Domestic

We remain optimistic that the MOU agreeing equal banking rights between China and Taiwan will be signed before the end of the year. Meanwhile, anecdotal research suggests there is a steady trickle of repatriated domestic savings and mainland Chinese investment money coming into the property market where teaser rates are down to 1% for local mortgages and one year time deposits yield 0.7%.

The commercial property market could also see a lift in the coming year. So far there are just nine mainland companies with offices in Taiwan and seven of those are airlines. However in 2008, 722 mainland companies opened offices in Hong Kong. If just 100 of those opened the same average square footage in Taipei then office vacancy levels would fall to just 2%! We expect the real activity to pick up next year, and will be using any weakness as an opportunity to add to our existing positions here.

Big Mac Index

The Economist's 'Big Mac Index' is a

light hearted barometer which some dismiss, but which attempts to highlight which currencies are over or undervalued compared to the dollar using the concept of purchasing power parity. The good news for Macdonald's fans flying east is that Asia is a very cheap place to buy a burger and fries! In the recent survey the Hong Kong dollar came out as 52% undervalued, the Chinese RMB was undervalued by 49%, the Malaysian Ringgit and Thai Baht by 47%, the Indonesian Rupiah by 43% and the Korean Won by 28%.

Perhaps the important current message to come from these figures is that the Asian banks are still buying US dollars, and weaker currencies still matter to Asian exporters who have not yet weaned themselves off the US consumer. The future very likely holds a dramatic shift towards more domestic oriented growth and with it a long and significant rise in Asian currency values.

Speed of Change

It is extraordinary to reflect that whilst it took 38 years for radio to reach 50 million users, 13 years for there to be 50million TV users, 4 years to reach 50million internet users and 3 years to reach 50 million Ipod users, it has taken a mere 9 months for Facebook to add 100million subscribers, indeed they now have over 300million users and this is still rising fast. Twitter is the new must have application and membership is rising exponentially. We are writing about this subject every month because it is so important and its impact so far reaching and we make no apology. Needless to say the opportunities are huge.

Here are a few observations following our trip to Asia and meetings with some experts and companies exposed to this theme.

The first observation is that, whilst we are all apt to put down to our advancing age the fact that things these days seem to be 'moving awfully fast', this is indeed an extraordinary and unprecedented time. Technology adoption and communication over mobile internet and other networks is exploding. Therefore, the speed and magnitude of change it is forcing on all of us, businesses included, is unprecedented. As investors we must be so very alert, because if one can gain 100million customers in 9 months, one can also lose business at warp speed in this new world.

The second observation is that Ericsson says it is preparing for a world of 50 billion connected devices! That's *50 billion*. This includes machines that will communicate between themselves over the web, and the use of sensors will explode. For example, we met with a professor from MIT who says they are working on adding an additional sensor to LEDs in car head lights and tail lights which would enable them to 'see' and communicate with each other and then communicate with the car to prevent crashes! He was also working on light sensors which pick up light waves in a way that allows cameras to see around corners!!

The third observation is that this explosion in connectivity which creates the 'cloud' and 'mist' of users will work to a totally different business model than the one we are used to. The younger generation who are 'native' to the new technology are the civic or Y generation and what we once paid for we will get for free, whilst new methods of monetising services will be created. One example of this is the Apple Apps Store where applications are created by users and the profits are shared with Apple. All businesses will in future need to offer an 'apps store' of some sort. (This reminds us of the 1990s when creating a website was a business must do!). A great example of this is Amazon who sells stores as well as books i.e. you can set up your own virtual store using Amazon's systems.

The fourth is that we ignore social networking at our peril. The fastest growing segment of Facebook is the 55 -65 year olds, 1 in 8 US couples meet now on social networking sites and 96% of the Y generation use social networking, whilst 80% of Twitter users do so from their mobile phone.

Fifthly, the cloud will eventually affect absolutely every little thing we do and it will be very quick and efficient. A good example might be on that dark winter evening when the commuter train in front of yours hits a car and everyone is turfed out into the night 3 stations early. Today we still rely on having seen our neighbour further up the carriage earlier on and hoping to find them again and share a cab. The future? We will be able to see exactly who is on the train heading to where we are going via the mobile devices we carry, and we can arrange to fill that taxi to everyone's maximum benefit. Also prepare for 'Place shifting' i.e. watching little Sam's school football match live via webcam from your desk, JustinTV where you can have your own TV show online and On Demand TV that calls you when your favourite programs are on!

Finally, as the 'cloud' builds and the mobile internet rapidly connects us all be prepared, like it or not, for an explosion of 'collective conscious' type commentary: recycled Nostradamus, Mayan prophecies, 2012, polar shifts, planet X, pseudo spiritual, spiritual and other noise! You may want to buy a nice book, play some classical music and ignore the hype!

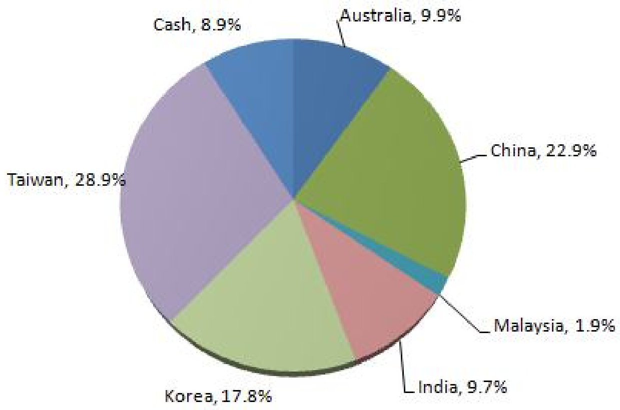
Portfolio Valuation

The portfolio trades at 17.7 times 2010 earnings with earnings growth of 37% forecast for that year, generating an ROE of 20%.

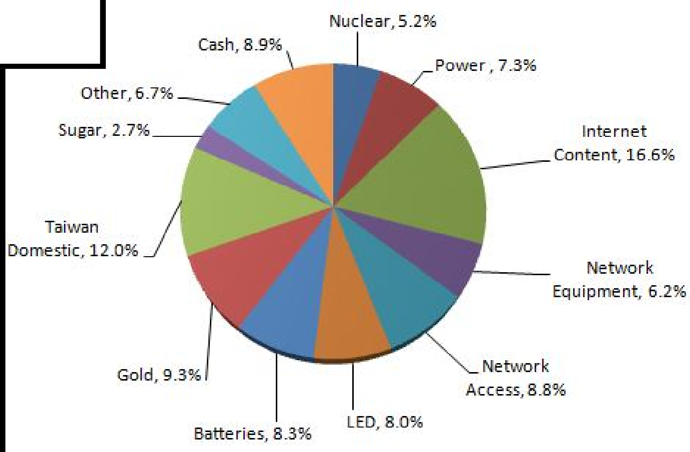
Prusik.

We are delighted to announce that Richard Atkinson has joined Prusik as non-executive Chairman, to help us with our business development plans. Richard has 30 years experience in the investment world both as an investment banker, fund manager and fund of funds manager. We are confident that Richard's extensive experience will prove invaluable in the years to come.

PRUSIK ASIA FUND
TOP LINE FIGURES — SEPT 2009



Number of holdings	**33**
Percentage of Fund invested	**91.1%**



Top 5 Holdings	%
Taiwan Fertiliser	4.5%
Lihir	3.9%
Samsung Electronics	3.8%
Ctrip	3.7%
ZTE	3.6%

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	6.77	-4.94	6.42				22.11

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	$ Non distributing
Class B	$ Distributing
Class C	£ Hedged Distributing

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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.