FSA Authorised
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Prusik Investment Management LLP

An Independent Asian specialist investment manager

NAV Updates

Series	*May '08*	*MTD*	*YTD*
Class A	166.89	0.67%	-6.09%
Class B	166.94	0.66%	-6.09%
Class C GBP	90.20	0.46%	-5.74%

Fund Size $328m

NAV Update	**May 2008**
Class A USD	
Non distributing	USD166.89
Class B USD	
Distributing*	USD166.94
Class C GBP	
Distributing*	GBP 90.20

The fund rose 1% in May. At the time of writing, late June, and we apologise profusely for the slightly later than normal arrival of this report, stock markets have maintained the poor trend established in May and shed, almost completely, the confidence exhibited in April. The regular headlines of Western economic malaise now have competition from Asia itself. Fuelled by price increases in a great many of the thematic areas about which we have been writing since launch, inflation across Asia is now a major headline fear. India, China, Malaysia and Indonesia, again, all raised petrol pump prices as subsidies became just too costly for Government to sustain. These one off price hikes have exacerbated local inflation trends which had already been driven higher by food price inflation. Rising coal costs, as we have discussed before, are placing intense pressure on electricity prices and food prices have resumed their upward trend after a short breather. Companies themselves, however, still seem confident, report little sign, so far, of a slowdown in orders and are still providing positive guidance. In some cases, companies are now gaining some pricing power as inflation becomes more widely accepted.

The fund is hunkered down in a skinny version of the themes we most like. These are characterized either by meeting 'needs' not 'wants' or are driven by necessary government spending. They include food, energy, in particular coal, coal bed methane and uranium, specific resources such as rare earths, power transmission and distribution capex, energy storage and energy saving technologies such as LED. In short, these are areas where we feel strongly that earnings growth will prevail in almost any economic downturn. Were we to see real economic trends follow those of the stock markets, we think that the defensive nature of these companies' businesses, their capacity to provide decent earnings growth and, in many cases, also to demonstrate rising profitability, even in such tough times, should really stand out. Stock markets, however, are a strange mixture of science, art and psychology; currently, psychology is, perhaps, the key factor. Asia, as a region, is still well owned by international investors. As a result, we fear that some international investors may be under pressure to divest their Asian holdings due to, in many cases, a set of criteria external to Asia. We have therefore added a further requirement to our already long list which our investments need to possess, namely that, wherever possible, they must not be too widely held by vulnerable institutions or too heavily covered by international brokers. We are still making heavy use of cash and make no apology. In the short term, stock markets look oversold and, in the absence of deteriorating company news or any further western catalyst may bounce in coming weeks.

However, we are still finding, overall, that valuations are too high given the vulnerability of earnings forecasts and the impact of rising inflation in order to become excited about a substantial range of investment opportunities. The one caveat to this view would be if we were to see irrefutable evidence that the impact of the deleveraging process in the West would be fully prevented by some means and, as a result, the evil moment delayed for a year or two.

Inflation

The inflation numbers we gave you last month are already looking a bit old hat and, Taiwan aside, the surprises during May have not been pleasant ones. The average inflation rate in the region, weighted by GDP, has now breached 7% for the first time since December 1998. In most cases, inflation is a direct result of rising energy and food prices.

In textbook terms, such inflation should already be contributing to a slowdown in demand and therefore not merit too precipitous an increase in interest rates. Where there is wage inflation or manufactured goods price inflation we should be more concerned that governments will feel the need to tighten.

In China, May headline CPI figures actually declined modestly. Core inflation year on year growth rates receded from 1.8% to 1.7% and, at the headline level, food prices rose 19% YoY in May against 22% YoY in April. Pork prices rose 48% YoY in May against 68% YoY in April. However, wages are rising fast and, anecdotally, we hear every week of product areas where manufactured goods prices are increasing. For example, the larger textile companies, notebook PCB makers and even chip makers have all managed to raise prices by 10% or more recently. Additionally, it is now common to hear companies tell us that they are managing, successfully, to pass on cost increases. This is especially the case in the infrastructure, agriculture and engineering areas.

First, increases in the price of manufactured goods will probably lead more to higher levels of inflation for us, the western consumer, than for the local Asian consumer. However, we cannot be too complacent here. As we have said before, the Chinese Authorities increasingly want us to pay a price for the Chinese manufactured consumer goods we purchase which makes fuller allowance for the environmental consequences of the manufacturing process. This will not come cheap given that, environmentally, China is a mess. Second, reasonably high wage inflation in China is a trend which the PRC authorities are likely keen to encourage. The PRC Government's policy objective to develop a more 'Harmonious Society' in China would likely benefit from workers experiencing better treatment, having a greater capacity to pay for the rising cost of living and to save and invest more as such a trend, ultimately, could stimulate the shift towards a more consumer driven economic growth model.

Third, sifting through the data, it is possible to argue that the big commodity price increases seen last year have now worked their way through the system. As a result, the year on year comparisons could start to look less dramatic. Assuming no further big increases in commodity prices from here, which, we think, is a big assumption at this stage, simple mathematics would suggest that the headline CPI in China might exit the year rising at around 5% YoY versus the current7% plus YoY increases. We may, therefore, actually, find ourselves enjoying a headline inflation hiatus in Asia in the second half of the year at which point, rates could peak.

However, the risk here is that it typically takes three to six months for rising prices to work their way into the headline numbers. We may therefore still see further striking rises in headline inflation numbers in the coming few announcements even if commodity prices actually start to soften. Nerves of steel will be required by the policy makers not to panic in the meantime and this requirement will be multiplied for fund managers. We suspect the next few months will likely remain challenging for all concerned.

Finally, it is possible to make the case that should inflation peak around these levels but not return to the prior era of disinflation, then a repeat of the early 1990s, perhaps starting next year, is not out of the question. During that period, Asian Governments and Central Banks pursued currency policies which kept interest rates below inflation. This led to a massive property boom and accompanying bull market.

Australia

We would like to ask you to guess which of the Anglo Saxon economies is currently sporting a worse set of economic numbers than the US. The answer, of course, is in the title. Australia's predicament is pretty straightforward: households are hugely indebted, house prices are significantly over valued, the private sector is dissaving to an unprecedented extent, the banking sector is very leveraged and reliant on wholesale funding and inflationary pressures are excessively high. Of course, it is tempting to assume that Australia's exposure to a continued commodities boom will offset all of this. However, it is unlikely to do so. Indeed, we think that Australia has, by now, spent most of the benefits of the commodity boom. Australia is currently already enjoying the best terms of trade (export prices relative to import prices) since 1951 and already has the biggest current account deficit since 1952. The extent of Australia's imbalances merits a closer look. At 6.4%, the current account deficit is the largest of its peers. The net lending deficit of the non financial private sector, which includes households, was 8.8% of GDP by end 2007, the savings rate, on broader cash-flow measures, is negative and household debt to income is currently 177% versus 138% in US. Aggregate national debt is also at all time record high as is the household debt burden. At the same time, worryingly, house values represent 58% of total household wealth versus 32% in the USA. Furthermore, Australian house prices are amongst the most expensive in the world. The house price to average income ratio comes in at 5.5 times versus 3 times in the US and gross rental yields stand at only 3% in comparison with the standard mortgage rate of 9%.

We think that these imbalances will likely work their way through the system in a fairly traditional way, namely rising unemployment, followed, potentially, by mortgage servicing problems and defaults. Only 1.3% of the workforce is employed in the mining sector. The majority of the workforce is therefore not benefiting directly from the commodity boom. There are, already, signs of retail sales weakness. Consumer confidence currently stands at a sixteen year low and business confidence is also in decline. In the banking sector, new corporate business loan approvals fell by 35% in the three months to May. Interestingly, the mortgage market differs from the US in that banks have full recourse. As a result, banks can seize all assets as collateral. The likely immediate corollary of all these trends will be deterioration in consumer spending. In a worst case scenario, were unemployment levels to rise, then Australia could face a prime mortgage problem as well.

This would be a nasty shock as the Australian financial sector appears, currently, to be pleased to have avoided the worst of the US sub prime fallout. Given the extent of the imbalances, it is tempting to assume that, over the next couple of years, Australia will just see slower growth and an adjustment, downwards, in house prices. However, this assumes a still positive outlook for commodities. Should commodities suffer a decline as well, the Australian Dollar, which, so far, has been very firm, could fall sharply as interest rates fall while banks could see a material increase in NPLs.

This possible scenario gives us two clear areas of concern over and above the obvious. First, the recent relative strength against the US Dollar of almost all Asia-Pacific currencies could well end. Currencies may become another area vulnerable to some sharp moves and, undoubtedly, the comfort of regionally homogenous trends will evaporate. Second, and it must be stressed that we have barely started to climb up the probability tree towards this conclusion so far, were the Australian banks to suffer a hard landing, there is an outlying risk of contagion spreading to other vulnerable banking sectors in the region.

Our exposure to Australia is currently fairly modest and centered entirely on energy and commodity stocks. We do have the ability to hedge currencies, one which we have not, to date, used. We have no plans to hedge immediately but we feel we should warn you that this recent period of inactivity could be coming to an end for all Asian managers.

Batteries

Simplo, the largest of the Taiwanese based note book battery packagers, indicated to us recently that not merely had it suffered no ASP erosion YTD but had, in fact been able to raise its ASP in April. We believe that Simplo may be able to sustain a further ASP hike in the third quarter. This seems an unusual scenario for a PC component supplier and is likely reflective of the current tight supply outlook throughout much of the battery food chain.

First, growth in note-book demand, likely partially driven by the success of the new net-book, the low cost laptop has finally been given a name, appears to be holding up well in spite of the US-driven economic downturn. Simplo is not a supplier to Asustek, the first manufacturer of the net-book, but will supply battery packages for Acer's. HP's and Dell's low cost net-book products once they come to market this summer.

Second, the industry appears to be becoming reasonably consolidated with the four major players sharing around 70% of the market. As a result, Simplo, for example, is guiding to around a 24% growth in its volume of sales in FY12/08E due to a combination of overall demand growth and market share gains, principally, according to Simplo, from the less flexible, fully integrated Japanese suppliers.

The biggest beneficiaries within the battery food chain of the current favourable supply/demand outlook, we believe, are the cell makers. First, cells account for around 50% or more of the total cost of a battery package according to Simplo. Second, unlike battery packaging, developing cell manufacturing capacity is capital intensive. Third, Simplo indicated that cell supply was so tight that Dell, HP and Asustek were sourcing cells from China in spite of concerns on quality. As a result, the Prusik Asia Fund has exposure to the quality cell manufacturers via its holdings in Korean listed LG Chemical and Samsung SDI.

Coal

Against a backdrop of ever higher oil prices and persistently low inventories and other ongoing coal supply constraints at the Chinese power stations, thermal and coking coal prices have been driven upwards to still higher levels. After a jump of almost 40% in the Qinhuangdao spot price this year, the Chinese Authorities have tried, once more, to cap domestic coal prices by imposing price controls. It should be noted that the Qinhuangdao spot price still stands at a 20% discount to the seaborne spot price and that excludes the extra shipping cost incurred. As a result, another structural imbalance emerges in Ch ina just as the Government addresses the oil disparity by lifting downstream fuel prices.

We have reduced our exposure to the Chinese coal mining stocks this year leaving just the miners in Australia, where the playing field is more level and the valuations are more attractive. First, we think that any acquirer able, successfully, to take over the mining companies in which we have invested at current prices, could, conceivably, still earn a post tax margin of around 100%. Second, JORC compliant reserves in Australia, are, loosely, defined as those coal resources which are viable, economically, to mine at an assumed coal price which is significantly below the current coal price. We expect that the JORC definition of coal reserve levels will increase with recent price increases of coal, as more resources become economically viable to extract.

As a result, these will become classified as proved reserves. Coal companies, especially those in Australia, appear to be very reluctant to speculate on the potential to raise estimates of reserves because of the tight application of JORC rules and definitions. However, one CEO of a major mining company, whom we saw last week, felt that, at current prices, his company's reserves could triple in size. If this were to happen, let us say in the case of Felix Resources, such an upgrade would return us to EV/reserves based valuations comparable to those on which the company's share price traded at the time we first invested in the stock. This is in spite of the tripling of the share price since that first purchase. This is, perhaps, the logic behind the speculation that POSCO is interested in taking a stake in MacArthur even though Mittal and CITIC already each have stakes of around 14%. The scramble for coal assets independent of GRAB, Glencore, RTZ, Anglo and BHP, continues.

Coal Bed Methane

A number of recent bids in the Coal Bed Methane (CBM) sector have highlighted its undervalued status. This is in spite of the strong sector share price performances seen over the last three months. British Gas has now lodged a hostile bid valued at A$16bn for Origin Group having seen Origin reject its initial A$13 billion bid and raise the estimated value of its P3 reserves by 121%. Meanwhile, Origin's peers, Santos and Arrow, have recently accepted Petronas and Shell, respectively, as substantial shareholders. However, even after all this excitement, we still like the CBM sector longer term.

First, the prices paid by Shell and Petronas for their equity stakes are not, we think, yet fully reflected in share valuations. Second, as with coal, we suspect that the reserve figures could rise quite significantly as has already been the case in the United States. This trend will, we think, mainly be driven by certified valuers becoming more confident on the potential reserve numbers as gas begins to be extracted from the ground. Netherland, Seuell & Associates, one of the leading valuers proved this point last week. After an annual visit to Queensland Gas's prospects, they upped their probable reserve estimates by over 80%. This process will be ongoing. Arrow Energy, another of our holdings, is due to announce updated reserves next. Third, longer term, we are intrigued by the potential for CBM projects to generate significant revenue from selling carbon credits. Lastly, the International Energy Agency (IEA) has stated that the world's proved reserves of natural gas amount to around 6,400 Tcf. Estimates currently place global gas-in-place reserves of CBM at 2,200 Tcf. If 20% of these reserves are proved, then the world's proved reserves of CBM could be around 440 Tcf. At current wellhead, Henry Hub prices, these proved reserves would be valued at US$27 trillion. Assuming that the CBM companies are valued by the market in line with traditional gas and coal company valuations and trade at around three times proved reserves, this would suggest that the market value of the listed CBM sector could rise by between five and ten times over the longer term.

Energy Grand Finale?

In the short term, however, we are under no false illusions! Given the hyperbole in the numbers we have just reported in the previous two sections, we are wary. When things look almost too good to be true, they are usually not true, and the energy sector is white hot at present. Due to their attractive valuations and expected news flow we are confident that our chosen two energy sectors, and the companies we hold, are the safest way of capturing any further upside. However, please do not think for a moment we are complacent. We feel we have come a long way in a short time in oil price terms. We therefore reduced our exposure to the more widely held coal companies during June and we have our eyes skinned for a correction.

Water

For thousands of years, water has been readily available from rivers or wells. A combination of population growth and climate change coupled with uncontrolled use of 'fossil water', which has taken centuries to accumulate in underground aquifers, means such sources can no longer be relied upon. The world now faces an interesting simultaneous equation which needs solving urgently. We need energy to source water, we need water to grow soft commodities and we need soft commodities to provide food and alternative energy. To grow more soft commodities to provide more food and energy, we therefore need more water …which will require more energy …. It is a complex and delicate equilibrium.

In the meantime, only half the world's people have access to piped water whilst 10% of all diseases could be prevented with better water sanitation. In recent weeks, London has ordered a desalination plant whilst every major city in Australia either has or is planning one. Barcelona is shipping in water by the tanker load. Indonesia plans to spend Rph 84 billion connecting 10 million people to the water supply over the next three years. In China, over 90% of groundwater is polluted in many cities while four hundred out of China's six hundred and sixty cities suffer water shortages. Earlier this year, over twenty nuclear power plants in the US faced shutdowns or reduced operations due to a shortage of cooling water. We could fill a page with such anecdotal evidence. As a result, the speed and size of requirement for water related treatment, distribution and transmission facilities is escalating at a breath-taking pace.

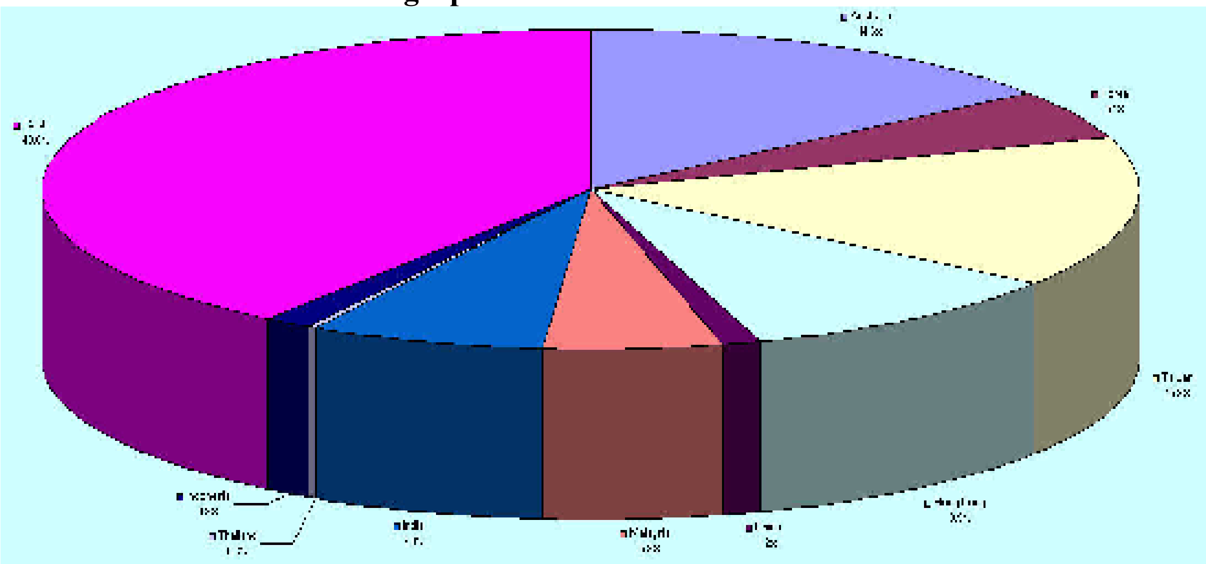
Last week, Prusik attended a conference on water followed by two days of visiting companies in the region operating within this sector. Water has long been a theme to which we would have liked to have greater exposure. However, many of the listed companies in Asia in the sector appeared to possess limited intellectual property and, as a result, have suffered cataclysmic declines in margins as competition has flooded in to the market (sorry). Sector share prices have therefore tended to perform poorly. The conference, intended for the industry and attended by virtually none of the investment community other than a couple of water funds, was a fantastic way to begin to understand the emerging technologies, meet all the major water companies from around the world, including several new operators in Asia and to get to grips with what we should be looking for from an investment perspective. We had a sense that this was a theme which was about to re-emerge with a vengeance. Judging by what we heard, this is undoubtedly another area where governments and industry alike are being urgently forced, by necessity, into huge spending. General Electric, for example, has pledged to cut its water usage worldwide by 50% by 2012. This is, positively, an area where we think that demand is unlikely to wane regardless of economic growth. We therefore feel it is also very defensive. At the same time the technology shifts in water treatment and management are huge and we believe that we will start to see the emergence of water as a globally priced commodity. The impact of free for all competition is also now revealing a few clear cut winners and we think that the potential investment opportunities are big and exciting. We will write in much greater detail on this in the next Monthly. However, in the meantime, if you are in Singapore or Australia, look out, you may be drinking NEWwater*. It is the latest thing in water recycling, drinking water recycled from raw sewage in 8 simple steps!

The portfolio trades on a CY08E PER of 17x and a CY09E PER of 13x and is forecasting to generate a CY09E ROE of 21%.

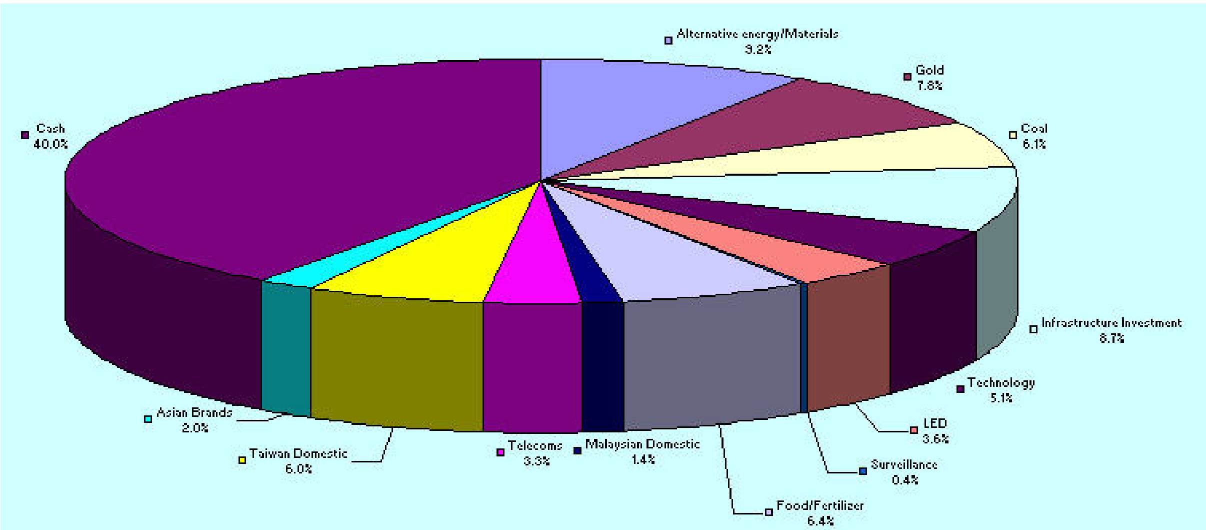
Top 5 Holdings	%
CHUNGHWA TELECOM CO LTD	3.3%
ICSA INDIA LTD	2.9%
SAMSUNG ELECTRONICS CO LTD	2.8%
ZIJIN MINING GROUP CO LTD-H	2.6%
ENERGY RESOURCES OF AUST	2.4%

Number of holdings	35
Percentage of Fund invested	60%

Geographical Distribution



Distribution by Theme



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2005										-1.90	5.64	5.08
2006	7.71	0.09	1.84	10.14	-1.95	-0.45	-1.72	0.02	1.23	3.90	7.64	1.97
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
2008	-6.78	6.91	-8.06	2.03	0.67							

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

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)

Manager Fees

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

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