FSA Authorised
Recognised Schedule 5

Prusik Investment Management LLP

An Independent Asian specialist investment manager

NAV Updates

Series	*August '08*	*MTD*	*YTD*
Class A	146.14	-5.34%	-17.77%
Class B	146.19	-5.34%	-17.76%
Class C GBP	79.73	-4.09%	-16.69%

Fund Size $288m

Performance

2005 Q4	+8.86%
2006	+33.94%
2007	+21.88%
2008 (YTD)	-17.77%

In August the fund fell 5.3%. Asian equities are now exhibiting all the irrational price actions that suggest we are in the hands of some desperate sellers. In this phase of a stock market downturn, some of the soundest of stocks can become victims solely because of the fact that they appear in portfolios where a holder is forced to sell into a market where trading volumes are very low. We learnt, to our cost, in March how savage this can be when two of our investments were also held by a Bear Stearns prop book and were promptly sold down aggressively. At the time of writing, this pattern has emerged in full force across almost every asset class, and regardless of value, quality or industry. Even some of the stocks which have proved very defensive year to date are now under attack.

In August, in preparation for such a scenario, we further pared our exposure and 'saving money' became our paramount goal. In effect, our risk overlay was, and still is, in 'red' mode. During August, it became clear that whatever fundamental support a particular company had was becoming irrelevant. Share price declines were, in some cases, doubled by vicious currency falls in countries like Korea and Australia. This is hugely disappointing for us. Having been so vocally negative, even we underestimated the potential devastation we saw from currency moves alone. As a result, the Fund's performance in August was a bitter disappointment to us.

August may have felt like the finale. However, clearly September, month to date, has been even worse. Additional, aggressive moves to take up defensive investment positions and further to increase the Fund's cash holdings have still not stopped the Fund from losing money. However, positively, the scale of the decline has been reduced.

At the time of writing, we still have cash levels similar to those at the August month end. Over the last few days, we have gradually started to re-invest some of our cash position into falling markets. Nevertheless, it must be said that we do not believe that we are quite yet out of the woods. There is, undoubtedly, an argument to be made, in the shorter term, for a relief rally. However, we would not be surprised to see western markets take a further dive as the autumn progresses, a rationale for which we will outline later in the report.

Asian markets are unlikely to escape unscathed in such a scenario. However, some interesting valuation entry points and compelling thematic opportunities are starting to blink on our spreadsheets and watchlists. Later in this report, we will cover some of these opportunities in more detail. However, we would first like to make a few general observations on the likely change in conditions which, we feel, will significantly impact the longer term outlook for markets. Our views on those potential changes will carry considerable weight as we rebuild our portfolio both in the shorter term but also over the coming year or two.

Complexity

As the scientists among you will already know, the more complex a system is, the more it is inherently unstable. The rest of us are learning this lesson the hard way. The current precarious state of the global financial markets is taking our breath away, and, correctly, is bringing a surge of unwelcome comparisons with the Great Depression.

We feel that the actions taken by the US Federal Reserve are undoubtedly more prescient and effective than those taken in the 1930s. Back then, the Federal Reserve did not extend liquidity to the markets on a similar scale to that we are seeing today until early 1932. This time around, we are already more than six months past the initial diagnosis and action has already begun.

Prusik Asia Fund plc (the "Fund") is an open-ended investment company with variable capital incorporated with limited liability in Ireland under the Companies Acts 1963 to 2005 with registration number 407740 and established as an undertaking for collective investment in transferable securities pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003, as amended).
Prusik Investment Management LLP is authorized and regulated by the Financial Services Authority(FSA).

Crucially, as Russell Napier of CLSA has commented, there are a range of further actions which can be taken. These might include the Federal Reserve buying treasuries along the yield curve, thereby capping long term interest rates, as was the case during the Second World War, or, if necessary, reducing long term interest rates to zero. The Federal Reserve and US Treasury could lend at zero interest rates to the banks. We could see further tax cuts to stimulate demand. The US Treasury could buy private assets, a process which, arguably, has already begun with AIG. Moreover, such actions can be replicated by the European Central Bank, the Swiss National Bank, the Bank of Japan, the Bank of England, the Reserve Bank of Australia and the Bank of Canada in concert, if needed.

This is not to say that we will escape without a very nasty recession and a significant level of deleveraging. However, the latter process may not take place in a manner similar to that experienced in the 1930s when banks pulled back loans and precipitated an economic collapse, thus threatening the liberal capitalist system and even the preservation of democracy. It is possible that, instead, the process of deleveraging will play out in an environment of inflation and poor growth similar to that seen in the 1970s.

However, our initial comment about complexity is important. This time around, we are dealing with derivative issuance on a scale and complexity well beyond our comprehension at Prusik. We therefore remain, at this stage, highly respectful of the worst case scenario. This was nicely illustrated by a new analyst report on HSBC which we recently received. HSBC's holdings of credit derivatives exceed its equity by fifteen times. It may be that not until the Federal Reserve also accepts derivatives at the discount window that we can say we have passed the worst. As a result, we reiterate our belief that we have not yet passed a point where we can say for sure that stock markets will not further deteriorate.

Future of credit and valuations

The senior debt holders of the fourth largest investment bank in the United States have been, to use the technical term, toasted. We think this could change everything for the future of credit. To put it simply, there will be less credit available and when there is a shortage of anything, we all know what happens to the price.

We think company valuations may well be beginning to reflect a future of lower near-term growth, a prospect which is already widely discussed, if not yet entirely reflected, in analyst forecasts. However, we do not, as yet, see the market making an intelligent, discriminatory response between those companies which have high fund raising requirements in the near future and those which do not. We also believe that many companies and analysts are still too sanguine about the future availability and, importantly, the future cost of credit.

As a result, we do not think that the implications of a future world in which credit is less widely available and more expensive has remotely been factored in by analysts or the wider investment community in terms of what it should do to general valuation expectations. Ultimately, the value of any asset is based on the discounted value of its future cash flows. Higher funding costs assuming that the other inputs, namely equity risk premiums and assumed long-term growth rates, remain the same, should, simplistically, lead to a compression of valuations.

The sensitivity of equity valuations to such a change can be easily illustrated by changing the assumptions within a simplified dividend discount model. If we were to assume that the cost of debt rose by 100 bps, our estimated fair value share price would decline by 13%. A 300 bps rise in funding costs would lead to a 32% decline in estimated fair value.

Inevitably, the market's response to such a change would likely be more complex and subtle. Higher funding costs would likely have ramifications for the market's view on what should be the 'correct' equity risk premium and terminal growth rate to be discounted by the market. Those of us who experienced the Asian Crisis, all of the team here at Prusik, can still remember vividly the violent fluctuations in debt costs and equity risk premiums which Asian asset markets tried to discount over that period and the resulting impact it had on asset and equity valuations.

As a result of this, we are thinking very hard about what is 'good value'. Measuring companies as 'cheap' in comparison with the valuation range seen over the last five years is an easy game, and currently brings up quite a few apparent 'bargains'. However, we are cautious as to the wisdom of accepting such a view beyond the very short term. We are therefore also working in a parallel world where we are also trying to look at value in a new context, and one in which we can only hazard a guess as to the cost of capital, but where the numbers are much higher than has recently been the case.

This is one of the many advantages of having so much cash and being able to rebuild the portfolio almost from scratch. At the moment, it may seem that we are being far too demanding in our valuation criteria. However, we feel that, first, if we cannot be rigorous on our valuation entry points at times such as this, then at what point can we be? Second, we hope that we can sidestep some of the risk of re entering companies at a falsely attractive level. Perhaps, most importantly, we are looking for the moment when our favourite companies look attractive on our new 'austerity' valuations. This is, in some cases, not so far away as you might imagine. Our Prusik Smaller Companies Fund, for example now trades, we estimate, on a forward weighted PE multiple of under 6x earnings.

'Local'

We have written in the past, in the context of expensive or scarce oil, about the concept of 'local' and how this will increasingly become the way we live, consume and manufacture. We think that this theme will become first, a huge challenge and then a major driving force and awesome investment opportunity within Asia. In short, Asia's phenomenal growth story over the last two decades needs to shift to another gear.

In the past, Asia's growth has, broadly, come down to a combination of three factors. These are first, hugely favourable demographic trends, second, over exploitation of the region's natural resources and, third, subsidies of food, fertilizer, energy and credit. We do not think there is much we can add on these points that you have not already read in the Economist et al. For example, demographic trends in China may look among the most positive in the world today but, in fifteen years time, will look vastly different and far less healthy. The water table in parts of India is now 500 metres below ground level, the result of over-exploitation. The textile industry in India is shutting down capacity due to a lack of electricity, the result of years of underinvestment generated by subsidised energy prices... and so on.

It is perhaps inevitable that the exhaustion of this happy combination of circumstances comes at a time when global demand for Asia's cheap products is also if not exhausted, then flagging. At first glance, such trends have significant consequences elsewhere impacting, for example, global growth trends, commodity consumption, investment flows into the US, global liquidity and corporate profitability.

However, the great challenge, of course, is to Asian growth rates and to the development of domestic Asian economies. Such development includes what many think will be the next big cycle, rising domestic consumption on the back of a consumer credit boom.

This may seem pie in the sky on days such as those we are currently experiencing. However, we would not be surprised to see in China, starting this autumn, a gradual emergence of a social security network in China, a big rise in fiscal spending and measures to reignite the local stock markets. For example, lost in yesterday's strident headlines, the PRC Authorities cut stamp duty on share purchases.

This measure, we think, will just be a small beginning in comparison to the stimuli which will come later. We are picking up news of quite an alarming recent decline in retail sales in both China and Hong Kong for example. The wait for such measures should not therefore be too long. Importantly, Asian governments' financial positions remain very strong. Governments in our region can therefore afford to pursue aggressive policies to stimulate economic activity. The investable good news may therefore seem thin on the ground at first, but necessity being the mother of invention, we expect the landscape will look much changed in two years time and that the domestic Asian consumption theme could be very powerful.

The golden age of banking

Please don't panic, we are not yet advocating a widespread campaign of investing in Asian banks. However, this is one area where we see a huge upcycle in coming years. A return to a nineteenth century style credit environment would mean that many companies would need to operate within their means.

In such a scenario, those banks in the world with low loan to deposit ratios and strong relationships with their corporate clients could have the world at their feet. Not only would they be able to charge significantly more than before for loans, so profitability would rise sharply, but also the quality of their loan book should improve too. Banks in Hong Kong and Singapore stand out as they operate in relatively stable, well regulated economies, have modest loan to deposit ratios and reasonable quality loan books to date. They are also falling towards book value in some cases, such as DBS which is on around 1.28x estimated y/e 2008E book-value.

Gold

The very recent jump in the price of gold, apparently a function of Governments ceasing to lend out gold for fear of counterparty risk, also reflects, in our view, that there is real distress among investors seeking a safe store of wealth.

An interesting anomaly appeared at the beginning of September with a growing number of reports that precious metal dealers were unable to guarantee delivery time. In addition, a big gap between the global spot price for gold and silver and the prices being paid on eBay in Germany emerged. For example, a lot of one hundred one ounce silver maple leaf coins was sold at a value 40% over the day's silver spot price at a time when there were few sizeable lots on offer. The gold market saw similar patterns with one hundred gramme gold bars exchanging hands at 17% above the then gold spot price or at around US$948 an ounce. This is still a 13% premium to the current spot price as we write, which continues to rise dramatically.

At the time of writing, we have about 20% of our invested portion in gold mining companies listed in Hong Kong and Australia, some of which had fallen as much as 79% from their recent share price peaks in May.

Power transmission and distribution

Positively, many of our themes still to be showing signs of health. For example, we continue to gather evidence that the demand for power transmission and distribution related equipment remains strong. Hyosung, South Korea's leading manufacturer of transformers and circuit breakers, enjoyed strong growth in 1H 2008 and management indicated to us during a conference call earlier this month that 2H 2008E could be even stronger.

In 1H 2008, Hyosung's sales of transformers, large motors and related equipment rose 38% and its earnings before interest and tax contribution from this division increased 96%. Much of the growth came from the export markets, notably the US, where sales in 1H 2008 were up 50%, and from Asia, up 40% according to management.

By end 1H 2008, Hyosung had received orders worth KW 960bn. This order book amounted to 77% of FY12/07's order intake and 1.7x the level of sales booked in 1H 2008. Given strong demand, Hyosung has been able to pass on rising raw material costs and management hopes that, now raw material prices have stabilized, it may even be able to expand margins in 2H 2008E and FY12/09E.

Hyosung's experience of strong demand, notably from the export markets, matches the comments made by management at Fortune Electric, one of the Prusik Asia Fund's principal investments in the Power Transmission & Distribution theme. Positively, Fortune, unlike Hyosung, offers pure play exposure and, currently, is more modestly valued by the market.

Other old favourites

We feel that our thematic style of investing continues to pay strong dividends. While the absolute performance has been disappointing, we know that we have avoided much more trouble as a result of our rigorous adherence to both our bottom up and thematic processes. In the light of the report we have written above, we clearly all still face hugely challenging times. However, we remain even more heavily focussed on company quality, value and liquidity and resolutely happy to hold cash until our investment criteria are met.

There are some new themes on which we are currently working and in which, in the future, we believe we can look forward to investing, Asian consumption and banking for example. Many of our existing themes also remain solid in the face of the current economic turmoil. Share prices of many of the companies which best represent those themes are starting to look very attractively valued.

We remain very excited about the longer term themes of energy saving and energy storage, food and energy biotech, fast moving and essentially small ticket consumer goods such as branded foods, part suppliers to the alternative energy sector and beneficiaries of infrastructure spending, notably investment in railway and power transmission and distribution capacity expansion.

We are also revisiting some of our older themes in the light of big falls in share valuations. These include surveillance and security and light materials such as carbon fibre.

Thank you

We feel that our shareholder base has been extremely honest with us and as at the time of writing we know of no plans to exit the fund. We are hugely grateful for your support, encouragement, views and interesting snippets of information. .The partners here at Prusik are weighing up increasing their allocation to both products, school fees and taxman aside, and, for the first time for over 12 months, see the possibility of some real light emerging in the foreseeable future.

The invested portion of the PAF currently trades on 10.6x CY09E only excluding our asset-based valued investments. Heather visits Hong Kong and Taiwan next week.

Currency hedging

In various due diligence questionnaires investors have sent us over time, Prusik has stated that we do not hedge the currencies of the countries in which we invest. However, first, the volatility we have seen in virtually every asset class recently has impacted terms of trade in Asia hitting some countries' currencies quite hard. We hope these gyrations have now peaked but think it is sensible to be prepared if they rise again. Second, in the longer term, we expect that Asia will continue to reduce its dependency on its favoured export engine. This will lead eventually, we think, to many Asian central banks altering their currency management policies.

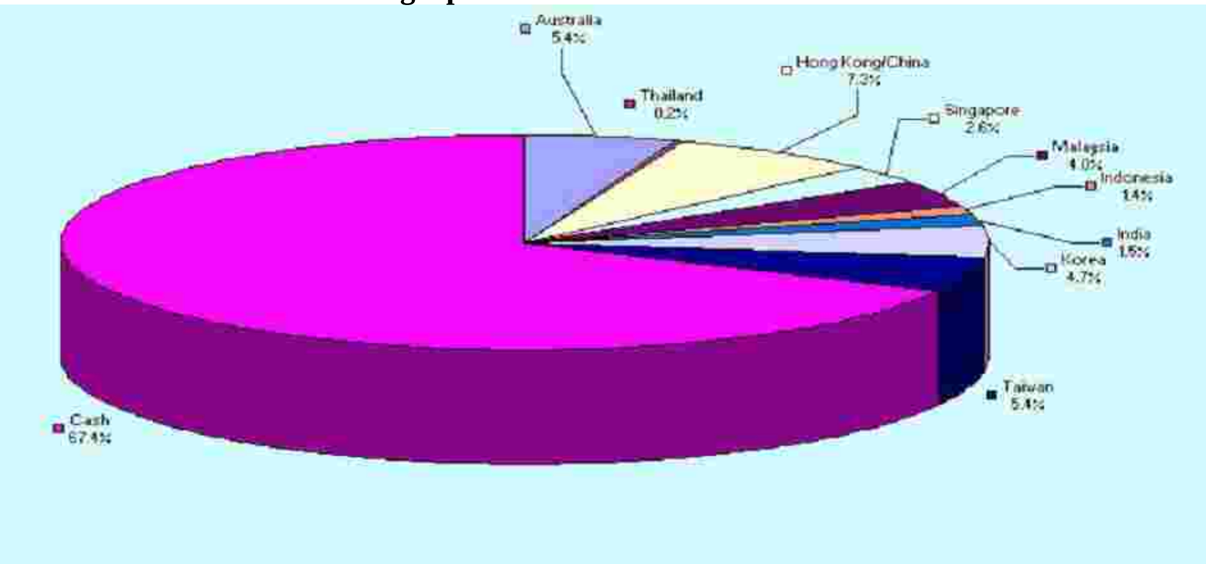
Given therefore both the short term picture and also the likelihood of longer term change, Prusik would like to introduce the ability to protect the portfolio from any adverse consequences of currency volatility. Our nature is not to speculate merely to protect US Dollar returns.

We have no hedges currently in place. However, we wanted to clear up an anomaly between the prospectus, which allows currency hedging, and the various individual communications we have made in the past.

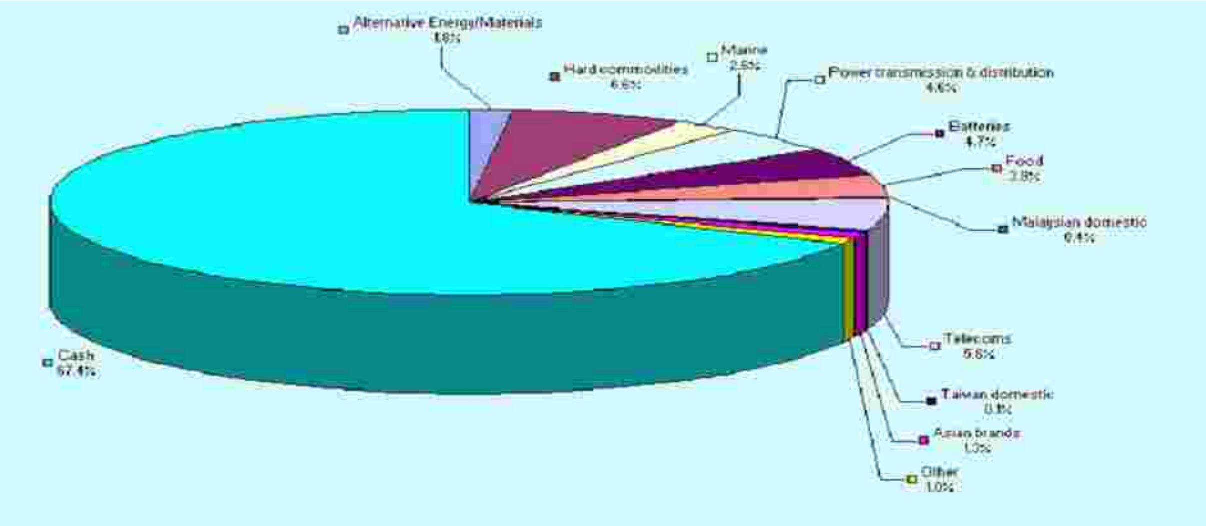
Top 5 Holdings	%
CHUNGHWA TELECOM CO LTD	3.72%
KEPPEL CORP LTD	2.61%
SAMSUNG SDI CO LTD	2.39%
LG CHEM LTD	2.33%
LIHIR GOLD LTD	2.09%

July 2008	
Number of holdings	23
Percentage of Fund invested	32.58%

Geographical Distribution



Distribution by Theme



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2005										-1.90	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	3.90	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					

Key Parties to Fund

Investment Manager	Prusik Investment Management LLP
Administrator	Bisys Fund Services (Dublin)
Custodian	Brown Brothers Harriman (Dublin)
Auditor	Ernst & Young
Legal Advisors	Dillon Eustace (Dublin)
	Simmons & Simmons (London)

Key Terms

Denomination	USD
Dealing Day	Weekly (Friday)
Minimum Subscription	USD100,000
Min Subsequent Subscription	USD10,000
Subscription Notice Period	2 business days
Redemption Notice Period	2 business days
Dividends	
Class A	None
Class B	Annual
Class C	Annual

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

Manager Fees

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

This document is being issued Prusik Investment Management LLP and is for private circulation only. Prusik Investment Management LLP is authorised and regulated by the Financial Services Authority in the United Kingdom. The information contained in this document is strictly confidential. The information contained herein does not constitute an offer to sell or the solicitation of any offer to buy any securities and or derivatives and may not be reproduced, distributed or published by any recipient for any purpose without the prior written consent of Prusik Investment Management LLP.

The value of investments and any income generated may go down as well as up and is not guaranteed. You may not get back the amount originally invested. Past performance is not necessarily a guide to future performance. Changes in exchange rates may have an adverse effect on the value, price or income of investments.

The information and opinions contained in this document are for background purposes only, and do not purport to be full or complete. Nor does this document constitute investment advice. No representation, warranty, or undertaking, express or limited, is given as to the accuracy or completeness of the information or opinions contained in this document by any of Prusik Investment Management LLP, its partners or employees and no liability is accepted by such persons for the accuracy or completeness of any such information or opinions. As such, no reliance may be placed for any purpose on the information and opinions contained in this document.”