FSA Authorised
Recognised Schedule 5

Prusik Investment Management LLP

An Independent Asian specialist investment manager

NAV Updates

Series	*December '08*	*MTD*	*2008*
Class A	140.68	+9.75%	-20.84%
Class B	140.74	+9.75%	-20.83%
Class C GBP	78.76	+10.02%	-17.70%

Fund Size $236m

Performance

2005 Q4	+8.86%
2006	+33.94%
2007	+21.88%
2008	-20.84%

'…near Christmas, the dead season, when wolves live off the wind, and the poor peasants fear the icy firmament.'

Francois Villon c1456

Despite a buoyant end to 2008, the news, with Asia no exception, suggests a medieval winter dead ahead, and we are not just referring to the sympathetic -10 degrees temperature outside in the UK at the time of writing.
The stock markets rallied in true technical style during December, although perhaps more out of duty and exhaustion than exuberance. Volumes recovered somewhat, share price action became less volatile and the sellers receded, all of which has lead to a fairly broad but disappointingly indiscriminate recovery. Positively, the fund NAV rose 9.8% over December.

Although we had not taken the invested portion of fund much above 50%, most of our exposure was in Hong Kong and China related companies which, happily, led the way in December on positive expectations from Chinas forthcoming economic stimulus. January is already seeing the rally spreading to the less liquid, more volatile and lower quality areas of the region and we should be clear that we are more reluctant to invest in these situations at this time. The reasons are, firstly, stock markets and companies have enjoyed, on average, some 25% increase from the low on November 20th and so are less attractively valued. This is especially the case in the light of recent economic and corporate news, on which more below. Secondly, many of the more peripheral stock markets are demonstrably more expensive than Hong Kong, for example Taiwan and India. Thirdly, as is well illustrated by the extraordinary Satyam case, there will be more 'accidents' in the less well regulated markets as the tide goes out. And fourthly, we are less inclined to invest in smaller markets due to liquidity constrictions which we would rather not have to contend with in the current market conditions. For the past few months, Prusik has been in a position to liquidate the entire portfolio within 2 days, and indeed, currently, the majority of our positions are probably worth only 2 hours trading volume or so. We have handpicked our current investments from the lower volatility, highly liquid blue chips where our thematic preferences are best represented and which offered exceptional value at the time of buying. Simply put, fewer of these opportunities exist in the peripheral markets today.

That all being said, we do not rule out another leg upwards. Technical analysis demands that we complete the second half of the 50% retracement from the low that we are now due, but we feel this second part of the rally, coming as it might against a backdrop of extremely poor economic and company data, is much higher risk. It is even hard to see it completing, as we write, without a fresh giant injection of hope over reality. There are two possible obvious sources from which this might come, of course; the Obama inauguration and further economic stimulus in China ahead of their New Year.

The Prusik Asia Fund has started to realise some of the gains made during December and will likely continue to do so steadily throughout January and into February. We remain focussed on our more defensive theme including gold, brand names in consumer essentials, healthcare and diagnostics, power transmission and distribution and internet gaming.

Outlook

In Asia, we see another round of earnings downgrades as very likely as the year gets under way, with cuts in the order of 20% to 50%. We also suspect many companies will disappoint on their dividends. Although we are hearing that many blocks of less liquid stock are now being cleared as directors buy back shares, we are not yet convinced that the selling pressure has been totally satisfied. The speed and degree of economic slowdown, covered in more detail later in this report, we think, will take some time to digest and the painful consequences will be felt for some time.

Before the end of this year, however, we are sure that the Asian economic data will begin scrambling back to some semblance of stability. Whether this is a statistical effect, a successful domestic recovery and triumph of fiscal measures, a simple replacement cycle supporting demand, domestic demand growth, or a mild combination of the above, at some point, and possibly much sooner than you think, we see a better environment. In addition we expect to be left with stock markets where fundamentals and stock performance are more coherent. This is hugely exciting for our thematic approach which is designed to find those companies and industries with strong growth drivers which come from outside the normal economic cycle.

The key message here is that the next big fall is a major investment opportunity.

The hard part is what happens between then and now. We think it is very unlikely that market participants will be prepared to take ‘ on trust’ a future recovery at this stage. For example the

China stimulus package is very unlikely to show up in economic data before May, at best. The waiting time is likely to be filled with announcements of job losses, missed earnings and dividend cuts. We therefore feel it is possible that stock markets make new lows at some point in 2009, in both Asia and other world indices. We are exploring some modest opportunities to make money in falling markets from long only investments. Otherwise we remain totally focused on capital preservation and hope very much that we are too pessimistic. However, we believe patience will be rewarded.

Anomalies

The headline on a piece of company research that landed in our inbox this week sums it up nicely; 'We warned, but are still shocked'.

The P&L of the company in question, a notebook computer maker we do not own but which up until now has been considered amongst the bluer chip Taiwanese tech companies, has gone from a NT$5.4bn profit in 3Q to a NT$4.7bn loss in 4Q; ie a NT$10bn turnaround quarter on quarter. The company has a panoply of explanations. These include a significant deterioration in orders which fell over 20%, some currency mishaps, collapsing margins and, it is suspected, significant inventory problems. The fact that the full magnitude of the collapse cannot be immediately explained heightens the concern. The analyst concludes that the company is heading for a loss for the first time in its history and, unnecessarily perhaps, that it is likely to be de-rated in the near term.

The problem that analysts are suffering is not in determining the nature or direction of events but the magnitude, and this is a pattern we expect to be repeated both as the numbers for the 4Q 08 are announced and, possibly, again as 2009 unfolds.

In particular, those of you who know us well will remember we observe anomalies as strong indicators that we should take notice of a trend. Amongst the type of things we look out for are key pieces of data which merit descriptions such 'first', 'best' 'record' or 'worst'. Similarly, any growth number over 20% is considered anomalous and equally so when it has a minus sign in front. In this light, some of the recent economic data from the region which was announced over the Christmas break is very notable indeed, although it has garnered surprisingly little press.

First off, Taiwan is the only country which independently reports export orders on a monthly basis and the November data showed export orders down 27% YoY. Interestingly, although Japan and the US were unsurprisingly weak, Europe has now joined the fray and their November export orders to Taiwan plunged 13%. Perhaps most alarming, however, was the demand from China: the numbers were weak for a fifth month in a row but, in November, export orders here collapsed a staggering 44% YoY.

Secondly, Korea looks as bad as Taiwan. Korea's November industrial

output fell 14.1% YoY but, the annualised drop in November was a phenomenal 74%! This was, again, led by exports which fell 18% YoY. Exports to the US were down a relatively modest 6% compared with exports to China which fell nearly 28% YoY. Korea has had a consumer debt problem for many years but this year household debt has risen to a record high. As a result consumption in Korea is now falling, and, having been positive YoY as recently as August, we are now seeing accelerating monthly declines.
It is worth noting that the numbers are similar, if not in some cases already worse than those we saw during the Asian Crisis in 1997/8.

Thirdly, Japan's new export orders index reached a record low of 17 while in the USA the manufacturing index fell sharply with both new orders and prices paid hitting record lows. This is another notable trend – prices paid are falling in over two thirds of reported cases. Equally, in the service sector, prices paid have reached a new low.
Overall, these numbers send a brutal message. If both top line and prices paid are falling by record amounts then profits will do so likewise. Corporates will struggle to pay dividends and stock market PE ratios will rise, not fall.

Finally, Singapore has just released its 4Q GDP: the market expected -0.4% QoQ but the number released was -2.6% QoQ which is an annualised contraction of 12.5%, the worst number for Singapore on record!

China

Of course the country many are depending on to keep growing is China. However, the numbers above fit well with the recent power usage numbers from China which show a contraction in usage of 15% over the past three months. Certainly, all these numbers suggest that China must be in significant contraction, but you might be forgiven for thinking otherwise. September retail sales were reported by the government to have increased 23% YoY!. Leaving aside the worth of official government statistics and looking at the situation in China simply, the massive trade surplus at the end of the boom was probably a decent clue that exports were a large part of GDP. Similarly, countries with high domestic savings plus foreign savings probably have a big ratio of fixed investments to GDP. Thus, when aggregate demand falls away countries with high exports and fixed investment as a high percentage of GDP suffer badly. These two economic engines combined for China comprise about 80% of GDP, so is it very unlikely China is not currently suffering a devastating collapse in growth.

The Fourth Turning

Winston Churchill once said 'the further backward you look, the furthe r forward you are likely to see'. A revival in a newsletter we received, of a review of one of our favourite books sent us back to the bookcase in a flurry of recognition. 'The Fourth Turning' by William Strauss and Neil Howe, two eminent American sociologists/ political philosophers was published in 1997 and in retrospect has been, for us, one of the most influential books of the last decade. Essentially it is a warning but it makes social and historical sense of where we are now, and we recommend it highly. Those of us involved in the stock markets are regularly forced into the humble acknowledgement that events unfold in cycles and mistakes are repeated. However, the concept of linear time has mostly dominated the intellectual thinking of historians for the past few hundred years. This book, however challenges that by arguing that the four main stages of a humans life, Childhood, Young adulthood, Midlife and Elder hood each have a distinct period of about 20 years and that the experiences of each generation at each stage shapes the collective experience which sculpts the social environment. As a result each saeculum consists of four distinct 20 year periods consisting of history's seasonal rhythm of growth, maturation, entropy and destruction. This pattern repeats itself every 80 to 100 years has been in place for centuries.

'The First Turning is a High, an upbeat era of strengthening institutions and weakening individualism, when new civic order implants and the old values regime decays
The Second Turning is an Awakening, a passionate era of spiritual upheaval, when civic order comes under attack from a new values regime.
The Third Turning is an Unravelling, a downcast era of strengthening individualism and weakening institutions, when the old civic order decays and a new values regime implants.
The Fourth Turning is a Crisis, a decisive era of secular upheaval, when the values regime propels the replacement of the old civic order with a new one.'

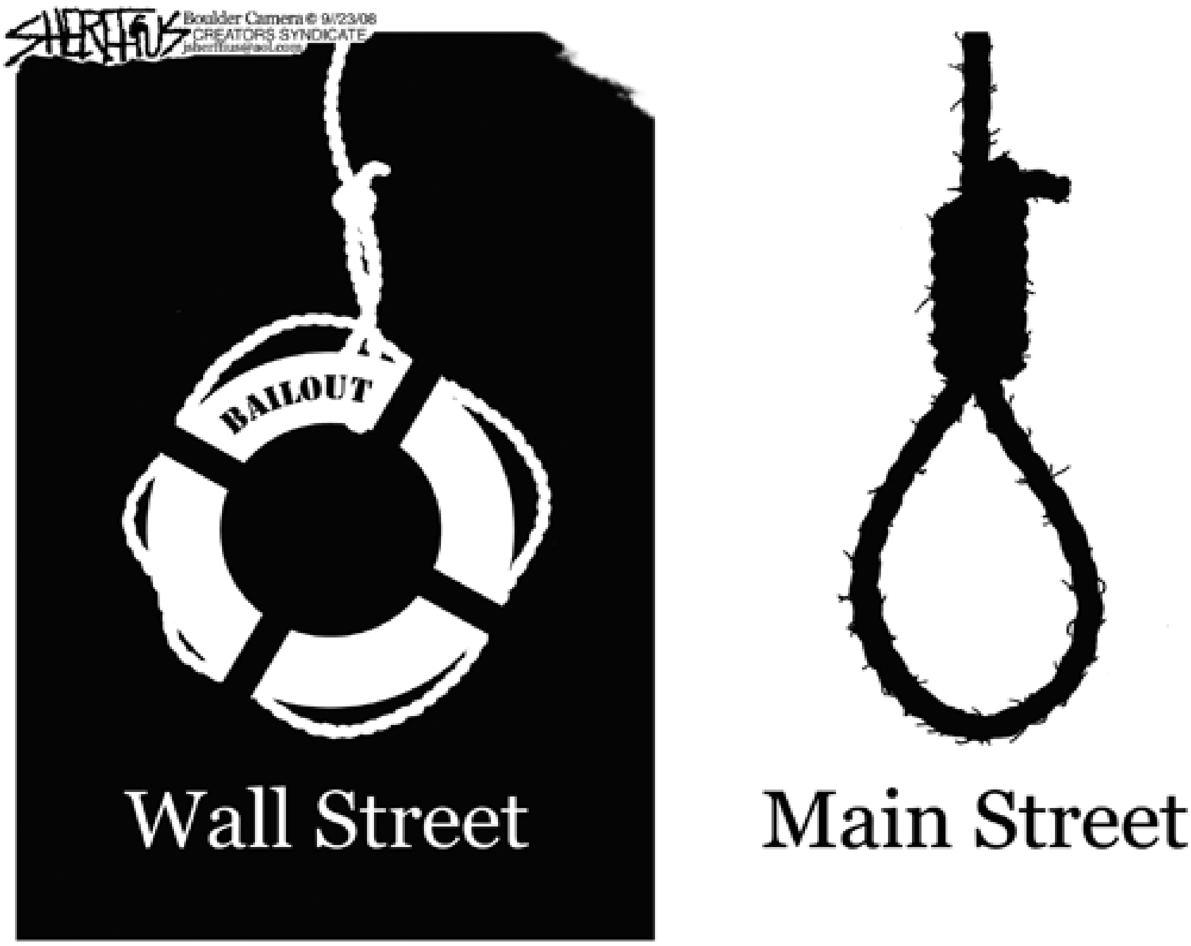
The book suggests that America should enter the Fourth Turning about 2005 although it is tempting now to assume it was, in fact, entered at 9/11. They warn '*around the year 2005 a sudden spark will catalyse a crisis mood. Remnants of the old social order will disintegrate. Political and economic trust will implode. Real hardship…severe distress that could involve questions of class, race, nation and empire….The very survival of the nation will feel at stake.'*. It is not all bad news however, the seeds of social rebirth are sown during the crisis, and '*Americans will share regret about recent mistakes and a resolute new consensus about what to do about it'*. However, '*sometime before the year 2025, America will pass through a great gate in history, commensurate with the American Revolution, Civil War, and twin emergencies of the Great Depression and World War II'*.

The authors are, admittedly, woolly on financial advice but have plenty to say in general terms about what we can expect. We will not repeat any of it as much would sound too 'new age' for these pages. But that is precisely why it is important to read the book.

Trust

There is a saying in China that ‘the emperor is far away and behind the hills’. Thus, everything from the smallest local corruption to the terrible nationwide poisoned milk scandal seems possible to the potential criminal. Maybe that’s what Madoff and the CEO of Satyam were thinking too. After all, according to The New Yorker magazine, in 2008 bank robberies in Manhattan rose by 50%! So they weren’t alone.
Meanwhile, in America a new TV program teaching viewers how to spot liars by analysing their body language is eagerly anticipated on CNBC whilst at Amazon one of the best books on the same subject is sold out. Coming soon in the UK’ s FT we believe is a big survey showing a huge breakdown of faith in corporates (and, interestingly, a big swing in favour of faith in government!). Before our eyes, trust is quietly starting to break down.

Main Street



Symbolism is one of the more powerful indicators of trend. A picture tells a thousand words and we have already a store of several on this subject, some rather more nasty, visceral and offensive than this. However, they tell the same story. The groundswell of hatred and blame aimed at the City is growing rapidly. We are finding it more powerful and pervasive than we had ever imagined. We also believe it will shape our immediate political, social and, consequently, economic futures. So we ignore it at our peril.

The Weather

Those of you who were lucky enough this winter to enjoy the best snow conditions in the Alps for 60 years have already benefited from a weather pattern which is now being confirmed by meteorologists – a second La Nina event in as many years. La Nina is the cold weather variant of the frequent but irregular El Nino, and is caused by lower than normal surface water temperatures in the Pacific. The effects of La Nina tend to be more rain in Australia, less in South America and colder conditions all round. Because this years La Nina follows one last year, the weather patterns of 2008 will likely be repeated but with larger amplitude. Last time there were two La Ninas in a row, which was in 2001, 5% less corn was planted in the US due to cold planting conditions, whilst Soya and Cocoa production also suffered, as did cattle feed. This bodes better for some soft commodity producers in Asia, especially palm oil, which has been struggling lately.

Perhaps more interesting is that there is a broader cycle developing caused by a 20 to 30 year pattern called the Pacific Decadal Oscillation (PDO). This was discovered in 1997 by two groups of scientists simultaneously and it is not yet fully understood how the trend remains in place for so many decades. Suffice to say it looks as though the recent warm PDO is ending and that we are moving back to a cold cycle. What is interesting is that the global warming charts showing temperatures rising over the past 150 years also show by far the largest rises during the warm PDOs ; for example, between 1910-1940 and 1980-2006. The periods in between show very little advance in average temperature meaning that for a while, at least, the global warming protagonists are going to have a harder time getting governments to support their solutions. Moreover, governments may well welcome the chance to shelve certain subsidies in favour of more pressing needs such as healthcare and social security benefits, both of which we highlighted as favoured themes last month.

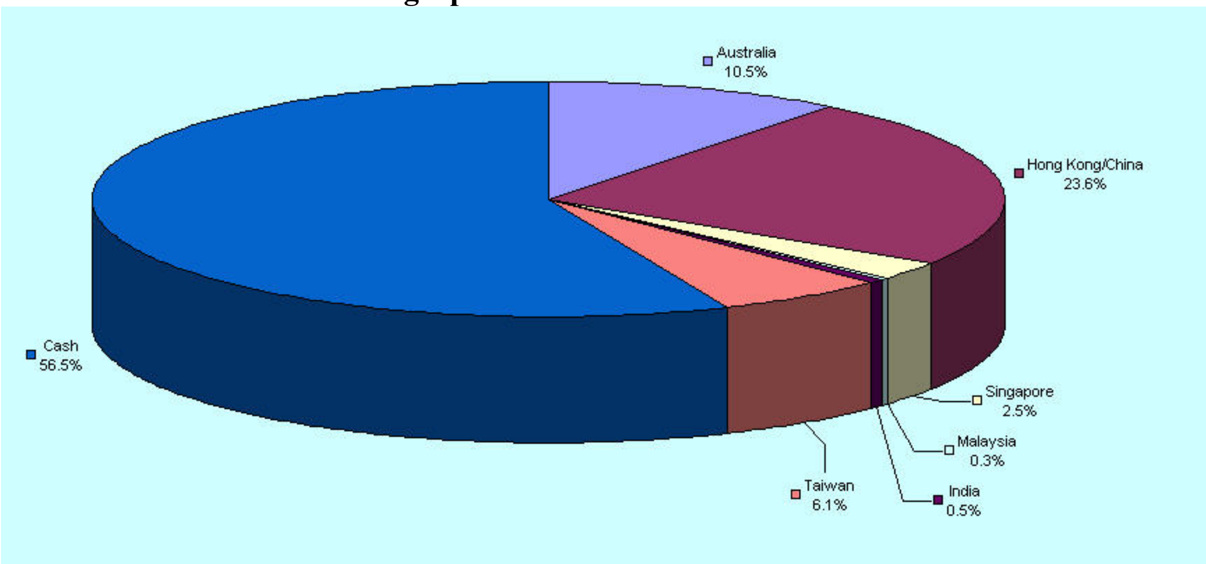
The invested portion of the portfolio trades on 9.1x 2009 earnings with growth of 11% (again excluding the gold miners), a price to book of 1.1x and generates an ROE of 13%.

Top 5 Holdings	%
LIHIR GOLD LTD	3.67%
NEWCREST MINING LIMITED	3.67%
WORLEYPARSONS LTD	3.14%
SWIRE PACIFIC LTD 'A'	2.60%
CAPITALAND LTD	2.53%

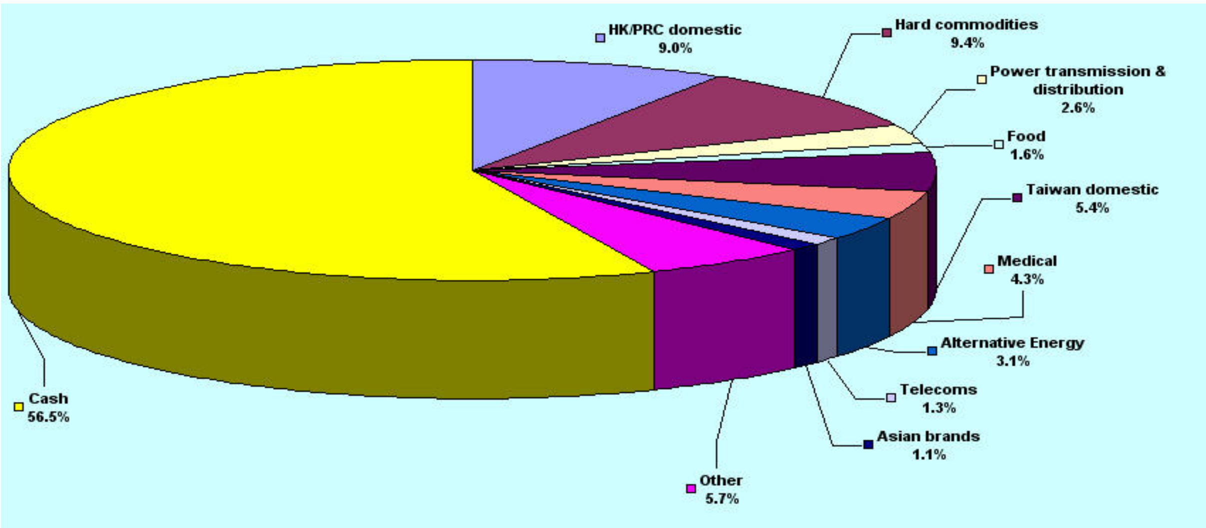
November 2008

Number of holdings	24
Percentage of Fund invested	43.5%

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	-5.33	-7.37	0.02	9.75	-20.84

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

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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.