Prusik Asia Fund Plc

FSA Authorised
Recognised Schedule 5

Prusik Investment Management LLP

An Independent Asian specialist investment manager

NAV Updates

Series	*October '07*	*MTD*	*YTD*
Class A	186.15	2.61%	27.67%
Class B	186.20	2.62%	27.70%
Class C GBP	100.12	2.55%	27.31%

Fund Size $454m

NAV Update	**October 2007**
Class A USD	
Non distributing	USD186.15
Class B USD	
Distributing*	USD186.20
Class C GBP	
Distributing*	GBP 100.12

Over the month, the fund rose 2.61% against a backdrop of very strong markets. Performance wise, this was probably one of our most disappointing months to date. We maintained a high cash weighting throughout the month. As a result, the fund did not fully benefit from the strong rally in Asian markets. However, at the time of writing, November's stock-market index decline has all but matched October's surge. This has presented us with a possible buying opportunity. Will we take it?

The answer is yes, but very modestly so, and with our eyes wide open. Our fears, which lead us to maintain an overly liquid position in October, remain valid. We think that the weight of those concerns is rising, and, importantly, is becoming more widely accepted. Such acceptance, increasingly discounted, should provide a more solid base on which to make new investments. Our concerns are as follows:

First, valuations, in general, remain high versus precedents. In October, Asian indices came within a couple of percentage points of triggering a long standing 30% overvalued signal. This is a rare and, usually, a significant marker. Such a marker was last seen in early 2000 and, before that, in early 1994 and in 1990. The Morgan Stanley Asia Pacific Index has already retreated around 11% from its October high. Positively, it is conceivable that analysts are underestimating earnings growth for 2008E; On average, consensus predicts around 14% earnings growth only in 2008E, well behind the 30% plus earnings growth forecast for 2007E. However, we think that a slowdown in the external environment triggered by slower US growth and rising raw material and energy costs could prove to be two major headwinds. Given still rich share price valuations, should earnings expectations start to deteriorate, we think that stock-markets will not prove to be forgiving. Recently, even announcements of strong results have generated selling pressure. This, in our opinion, signals the arrival of a very different kind of investment environment to the benign circumstances to which we have become accustomed over the last four years.

Second, as a Taiwanese friend commented to us recently, Asian retail investors do not focus closely on trends out of the US but are keenly aware of events in China. While it is becoming increasingly clear that the US economy and market will likely suffer a tough 2008, the extent and impact of this may still come as a surprise to the average local investor in Asia. A weakening US economy will place further pressure on China's growth engine to sustain demand in Asia while, simultaneously, managing the impact of potentially slower external demand from the OECD. China's capacity to generate economic growth will take on an even greater importance just at a time when such growth will become more difficult to project. No allowance for such reduced visibility is discounted in Asian share prices.

Third, we believe that one of the major reasons behind the rise in stock-markets since August has been linked to the market attempting to discount the impact of higher potential inflationary trends rather than the possibility of improving fundamentals. We think that the potential for rising inflation would, most likely, be the basis for any sustained further rise in market indices near term. In Asia, the best indicator for such a trend to continue would be the resumption of further weakness in US Dollar exchange rates. Such weakness would be reflective of monetary easing and sizeable money creation in the OECD to prevent further dislocation in the structured debt markets. This would, in turn, require Asian Central Banks also to ease monetary conditions in order to maintain local currency exchange rates versus the US Dollar at current levels. Such a policy could therefore stoke domestic liquidity and raise local inflation expectations. We think that Asian Governments will, at least in the initial stages, prioritise currency competitiveness over price inflation.

A considerable level of uncertainty therefore remains. Share price valuations may be more attractive than they once were. However, the economic backdrop now seems less so.

The portfolio's share holdings continue to be centred on the key investment themes which we still favour. We continue to be positive on a number of specific resources such as coal, rare earths, molybdenum and gold. We have retained sizeable exposure to food growers. We also continue to invest in companies which are enjoying the benefits of having invested in upstream assets. As a result, such companies have not suffered from the impact of rising raw material cost and supply problems which are now facing so many manufacturers. Our recent investments have been mainly focused on companies which are set to benefit from falling interest rates and domestic government spending on infrastructure which we believe remains secure. We have divested holdings in companies which, we believe, are sensitive to OECD demand as either a primary or secondary source of growth.

We believe next year will be one in which investors will need to search much harder for positive surprises. We think that rising raw material costs will become a major negative factor as companies struggle further to engineer costs downwards. As a result, we are looking to invest in companies with secure and non cyclical growth drivers and with a capacity to improve margins and which, at current share price levels, possess attractive dividend yields. Our thematic process should give us an advantage.

Asia is not an island

During our recent trip to Hong Kong, in search of anecdotal evidence on the state of the US consumer, we met a number of small, barely covered and modestly valued Asian exporters. Such companies appear to be definitely experiencing a slowdown in demand for mass market consumer items, such as underwear and lighting fixtures. In some cases, orders have already declined over 10% YoY and demand continues to fall. We also heard that some US customers such as Home Depot are making unprecedented demands on Asian suppliers by accepting shipments but leaving the pricing open until take up over the holiday season is fully known. This is interesting from a number of angles. First, the visibility of earnings for such exporters is further diminished. Second, it is a further reminder of the powerful bargaining position held by the major American buyers. Third, such policies speak volumes for the US retail industry's current outlook on the holiday shopping season. Such trends, combined with the increasingly unfavourable currency movements, which are already heavily impacting the margins on the production of US oriented, US Dollar priced goods, means that the Asian export sector is already starting to experience very uncertain times.

We have also heard, from contacts in the international shipping industry, that one or two potential orders for new ship builds in Korea have been cancelled. This is due to the withdrawal of funding by certain German banks which are exposed to the structured credit crisis. This is the first piece of material evidence we have that Asian business has been affected by the structured credit crisis in the west. There is also the risk, later in the cycle, that existing orders are also cancelled as freight rates decline.

China

It has been reported that, during a closed meeting of the State Council's Standing Committee, Chinese premier, Wen Jiabao, said that the thought of the Chinese stock market falling sharply caused him to wake at night in a cold sweat. We think he is right to be concerned. We view the recent 'go slow' announcements on allowing Chinese investors to invest overseas via QDII as part of this desire not to withdraw support from the Mainland's stock-markets. In March, Forbes magazine published its annual list of billionaires. Twenty of those billionaires came from Mainland China. By November, the number of Mainland Chinese billionaires had risen to 106! Petrochina, listed on the Shanghai A share market this month, is now the world's largest company at its A share valuation. Around twenty-seven million new share trading accounts have been opened this year; this is a third of the total number of accounts currently open. The average PER on the Shanghai Exchange is now 64x. Reports have flooded in of small investors mortgaging everything to take part in the frenzy known as 'chao gu' or 'stir frying stocks'. Many commentators have fallen by the wayside trying to predict the moment when such bubbles burst. We do not wish to enjoy a similar fate. We shall therefore limit ourselves to noting that a significant decline in the Chinese stock markets would likely leave a reasonable dent in the finances of many Chinese middle class investors. This would be painful in a country which provides few social security safety nets, a pain which should not be underestimated by foreign investors.

Foreign investors, however, should not have been surprised by a small news item which emerged a couple of weeks ago. PetroChina announced that it was acquiring, for Rmb 2 billion, an 86% stake in Zhuhai City Bank. This is a state owned bank with a registered capital of only Rmb 320m and an asset portfolio of which 50% is non-performing. In the context of PetroChina, such an investment is miniscule. However, the implications are more significant. China may be walking the walk of capitalism but the State maintains an essentially corporatist perception of the role of publicly listed companies. The interests of minority shareholders will remain very much secondary to the perceived needs of the State.

Stock markets aside, we view the strength of the China economy as key to sustaining global demand and prices in many products from coal and grains to iron ore and shipping rates; the latter two are closely linked. Without question, the prospects have become less clear. China is facing a number of major challenges, cleaning up the domestic environment, climbing the value added chain, consolidating major industrial sectors, reducing the impact of a slowdown in exports, restraining a red hot bull market and boosting domestic consumption as a percentage of GDP. China also faces a number of other more short term issues, notably a slowdown in bank lending, as this year's loan growth targets are met early, and the introduction of more stringent property market tightening measures.

We think that rising costs, in particular, are likely becoming a concern, notably wage inflation, food inflation, up 17.6% YoY in October, and raw material price inflation. Such inflation pressures are emerging in spite of the fact that vegetable oil prices have been frozen since September and the domestic fuel oil price has been held at US$55 a barrel. The impact on consumers of such inflationary trends is well illustrated by two anecdotes. In Shanghai last week, Tesco's announcement that it would put three thousand bottles of vegetable oil on sale at half price led to a stampede in which nineteen people were injured. In Chongqing, Carrefour suffered a similar vegetable oil related scrum in which three people were trampled to death. Significantly, inflation expectations are clearly shifting; Consumers are now expecting price increases. In addition, new labour laws enter the statute book in January. These give workers more rights. This is probably positive for consumption but, via wage inflation, could well generate more pressure on manufacturer's margins.

Liebig's Law of Minimum states that an organism's growth is limited to the supply of the least available essential nutrient. Last week, NapaCorp, a Philippine power company, was unable to procure thermal coal in the spot market even after offering US$95 per tonne, a considerable premium to the US$83 spot price. Whether food or energy, the rising cost of nutrients needed for China's continued growth suggests that, at the very least, further growth will come at a higher price and that it is unlikely that China's pace of growth can accelerate further as more and more bottlenecks emerge.

Backward integration

Moving upstream or 'backward integration' is one of our ongoing themes. Nowhere is this theme more visible than in India. We spent almost an entire meeting with Tata Steel discussing its plans to 'buy' Mozambique in an effort to take control of resource capacity to meet all its upstream requirements, a control it lost as a result of acquiring Corus. A mention of sister company Tata Power's acquisition of a 33.3% stake in Bumi Indonesia's two key coal mine assets provoked painful winces amongst management. The desire to acquire upstream assets is nothing new. However, the trend is accelerating. We asked Tata Steel why the company utilized such a high proportion of its manpower resources trying to compete with the mining companies and suggested that it should, instead, acquire mining interests. Tata management did not react. However, we are of the firm belief that BHP's initial offer to RTZ is just that. The other main protagonists, likely to be Indian or Chinese, are yet to enter the fray.

Fascinatingly, moving upstream in India is occurring in conjunction with a major resource asset sale programme by the Indian Government. The Indian Government is keen to see the country's ore beds and coal seams developed and utilized in an attempt to supply enough power and raw materials to fuel the country's boom. The Indian Government is therefore donating the upstream assets which the rest of the world is desperate to own.

The Government's concern to avoid the embarrassment of rising brown outs is leading to private power companies being allotted resources at what we think are interesting valuations. This trend is also occurring in other industries. Hindalco, India's largest aluminum producer, is being gifted cheap energy and bauxite. At the same time, Hindalco is also further extending its tentacles downstream into forging, one of our favoured industry sectors. Tata Power, similarly, is still picking up domestic coal blocks to sit alongside its recently acquired Indonesian supply. Both stocks feature in our portfolio and we continue to search for more opportunities in this area.

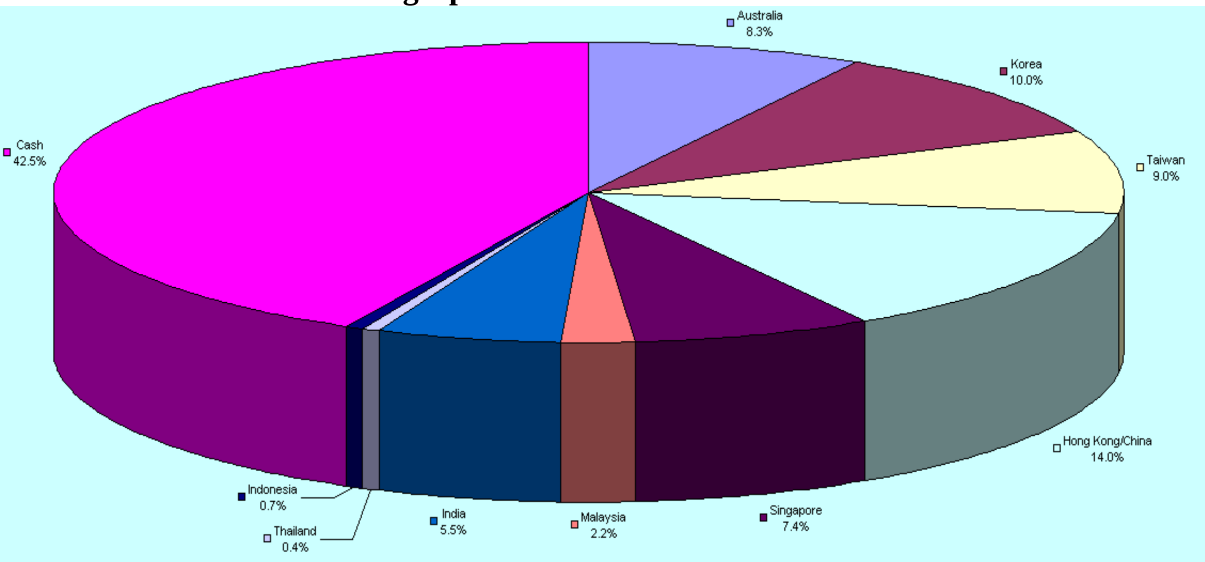
We think that our shareholding in Welspun Gujurat is about to start to reap the benefits of its own backward integration programme. Welspun is one of the top three pipeline makers in the world alongside Sumitomo and Europipe. By bringing the forging of steel slab into plate and coil in house, products where supply is currently failing to meet demand, we think that Welspun's margins could double. Welspun will undoubtedly benefit from the current strong Indian domestic demand. We expect 30% plus per annum top-line domestic sales growth, typical of Indian companies currently operating in this sector. However, Welspun is a more diversified company than some of its peers, with the Middle East and US combined currently making up over 50% of revenue. Excitingly, demand overseas for pipes is as strong as it is in Asia. For example, over the next two years, over US$90 billion worth of pipe projects are expected to be constructed in the US alone with 1.5 million miles of pipe scheduled to be built. One million miles of this is replacement demand. Positively, barriers to entry appear to have been raised further as Government regulations require higher standards of safety from the suppliers post the BP Alaska incident.

The portfolio trades on a PE of 18x 08 earnings estimates with 28% earnings growth for that year.

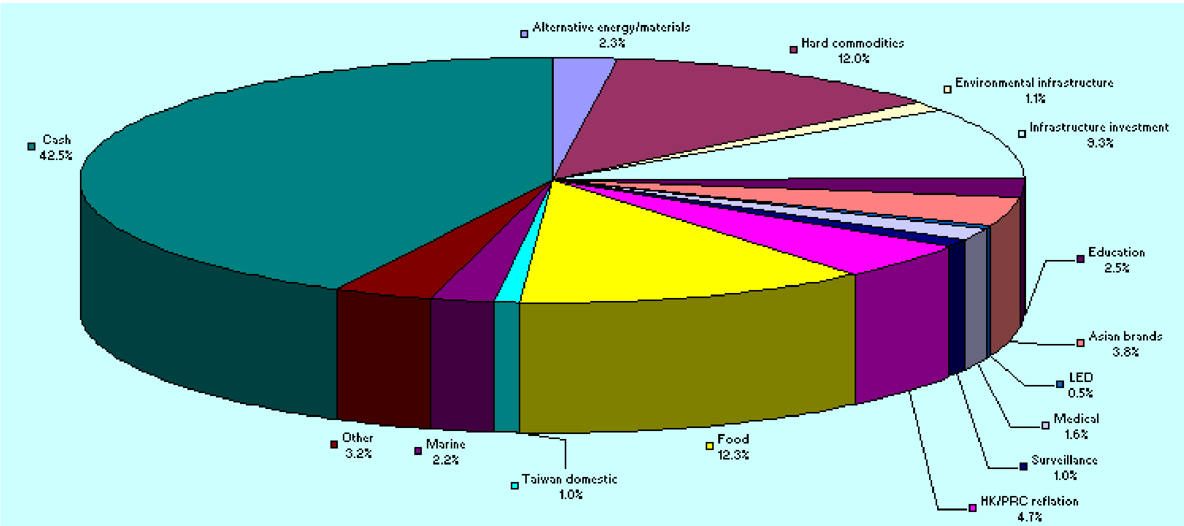
Top 5 Holdings	%
NEWCREST MINING LIMITED	3.1%
INDOFOOD AGRI RESOURCES LTD	2.8%
ICSA INDIA LTD	2.3%
STX ENGINE CO LTD	2.2%
IOI CORPORATION BHD	2.2%

Number of holdings	48
Percentage of Fund invested	67.5%

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		

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)

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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.