



GROWTH INVESTING IN ASIA

Prusik Asia Fund

Quarterly Investment Report
30 March 2018

FOR PROFESSIONAL INVESTORS ONLY

Prusik Asia Fund Quarterly Report Q1 2018

In sterling terms, the M2APJ index fell 4.10%, whilst the Prusik Asia Fund NAV rose 1.03%, outperforming by 5.13%.

Over the quarter, our healthcare, Vietnam and local brands themes saw the highest returns and were notably strong on days when the markets were weaker, which we believe gave the fund the diversity needed to come through a tricky quarter, with relatively little performance given back. On stronger days, our leisure and tourism, artificial intelligence/virtual reality, financialisation and internet themes also delivered good returns, contributing to overall returns ahead of the index. We would add to this that our mid and smaller sized companies also gave us non-index returns this quarter, as they escaped some of the heavier selling from passive funds which we saw during the weaker days of the quarter.

On the negative side, our infrastructure and recently initiated energy/energy services theme saw some underperformance. In absolute terms, the energy/energy services theme was the biggest drag on performance in the quarter. It is worth noting, however, that this theme is relatively new to the portfolio and often some initial patience is needed for all the drivers we have identified to take hold. Indeed, in April, our Chinese energy/energy services holdings, **CNOOC** and **PetroChina**, were amongst the top positive contributors to performance.

At the stock level, the largest positive contributors to performance during the first quarter came from Vietnam in the form of jewellery brand, **Phu Nhuan Jewellery**, and leading property developer, **Vingroup**. Elsewhere, Chinese flu vaccine producer, **Yichang HEC Changjiang Pharmacy**, was a key contributor to performance. During the quarter all 3 stocks saw returns above or close to 50%. It is perhaps not surprising that at a time when bond yields, globally, are rising that these strong performers have a greater value quotient within the investment case, combined with robust sales and earnings growth. In terms of the detractors, **Semcorp Marine** in Singapore, plus **JD.com** and **Beijing Capital International Airport**, in China, were the greatest headwinds to performance at the stock level.

By country, we saw positive contributions from our Vietnam, China/Hong Kong and South Korea exposures. Vietnam and South Korea in particular were very strong, returning over 20% for the fund in the quarter. Singapore, Indonesia and Malaysia were weak, although these 3 countries combined accounted for just 10.1% of the portfolio during the quarter.

We have set out more details on the above in the tables and commentary below.

Q1 Return on Capital by Theme

Theme	Return on Capital (Weighted Average)
Healthcare	34.5%
Vietnam	27.8%
Local brands	16.7%
Leisure/Tourism	12.3%
Artificial Intelligence / Virtual Reality	2.3%
Financials	1.2%
Internet	0.7%
Infrastructure	-2.6%
Energy/Energy Services	-3.9%
5G	-13.3%

Source: Prusik/Bloomberg

Q1 Absolute Attribution by Theme

Theme	PAF Absolute Attribution 1Q18
Vietnam	3.8%
Healthcare	2.8%
Local brands	1.5%
Financials	0.5%
Leisure/Tourism	0.5%
Internet	-0.1%
Education	-0.2%
5G	-0.2%
Artificial Intelligence / Virtual Reality	-0.3%
Infrastructure/Logistics/Property	-0.4%
Energy/Energy Service	-0.16

Source: Prusik/Bloomberg

Outperforming Themes in Q1

Healthcare: 6.1% average weighting in 1Q18

- Our recently initiated healthcare theme returned 34.5% in 1Q18, led by the flu vaccine producer in China, **Yichang HEC**.
- During the quarter we added **Beijing Tong Ren Tang** and **Essex Bio-Tech**, both in China.

Vietnam: 12.7% average weighting in 1Q18

- The Vietnam theme returned 27.8% in 1Q18, led by gold jewellery company, **Phu Nhuan Jewelry**, and **Vingroup**.
- During the quarter we added the #7 bank in Vietnam focused on the consumer and SME sector, **HD Bank**.

Local Brands: 9.4% average weighting in 1Q18

- The local brands theme saw a 16.7% return in 1Q18, led by Chinese consumer electronics brand, **Haier**.
- During the quarter we added sports brand, **Fila Korea**, which has performed very well since purchase.

Leisure & Tourism: 4.5% average weighting in 1Q18

- The leisure and tourism theme saw a 12.3% return in 1Q18, led by Korean mobile gaming company, **Com2uS**.
- We recently spoke with **Com2uS** management and were impressed with their e-sports strategy and games pipeline.

Underperforming Themes in Q1

5G: 1.4% average weighting in 1Q18

- Our 5G theme returned -13.3% in 1Q18, less than the Asia index.
- This is a single stock theme comprising Chinese 5G equipment maker, **ZTE**.
- Our long term 5G thesis is yet to play out. Patience needed.

Energy/Energy Services: 10.1% average weighting in 1Q18

- Our energy/energy services theme returned -3.9% in 1Q18, less than the Asia index.
- During the quarter we added **CNOOC**, a leading integrated oil and gas company in China and **Sembcorp Marine**, an offshore and marine contractor in Singapore.
- **Sembcorp Marine** fell in response concerns relating to the company's operations in Brazil. We expect strong order wins for the company from here. This will help drive earnings growth.

Infrastructure/Logistics/Property: 8.8% average weighting in 1Q18

- Our infrastructure/logistics/property theme returned -2.6% in 1Q18, less than the Asia index.
- During the quarter we sold infrastructure plays in Malaysia, **Sunway Construction** and **Econpile**, which were beneficiaries of China's 'One Belt, One Road' policy and which had performed very well in 2017 and reached fair value, in our opinion, for the sector. We sold post some short-term weakness although the stocks corrected further as the quarter progressed. We have added new, more attractively valued, stocks to this theme, on which more below.

Overview and Outlook

A whole host of anxieties and disquieting news emerged in the first quarter, ranging from trade wars to a (now reduced) nuclear threat from North Korea. However, despite these issues, the markets roughly kept on course, although not without a few wobbles and corrections, the first we have seen in a while.

In reality, despite the deluge of unsettling geopolitical and political news, the principal determinant of what happens next is likely to be global financial conditions and we would put liquidity at the top of that list. Since the US is now beginning the process of quantitative tightening, overall global liquidity is now, theoretically, diminishing but investors have been so far largely let-off the hook. This is because although bond yields were seen to be rising it was understood to be the result of growth-led inflation and broadly, at the same time, the US dollar was generally weaker. A weaker US dollar generally means more relaxed monetary conditions in Asia (and some imported inflation to the USA) so it also acts as a growth lever in Emerging Markets and, importantly, Emerging Markets now account for 60-70% of marginal GDP.

The key factor to watch out for these coming months, therefore, is for whether the recent dollar strength is sustained, which could herald risk aversion, and diminishing liquidity in Emerging Markets. In this context, rising bond yields and tighter credit markets would be felt more keenly.

What Does This Mean for Asia?

We believe that the case for Asia remains very good. Earnings are forecast to rise again by some 14% this year, whilst there are very clear signs that China remains on a good growth footing with rising consumption across the board. Meanwhile, valuations are on average not any more expensive than a year ago thanks to very robust EPS growth in 2018, and a flattish market so far in 2018. There are some expectations, however, where passive investors have pushed up some large index constituents beyond reasonable value. This year we have a few provisos: Such overly expensive valuations and inflated assets should be avoided, as should underfunded banking systems and any company overburdened with debt, and in particular US dollar debt.

However, China, and its influence, is a large part of Emerging Markets and in turn, A-shares are traditionally not very correlated to the US dollar. This is a big positive for Asia.

China

The commonly expressed concerns about China, namely debt, the property market and the unintended consequences of slowing credit formation are all valid. We cannot pretend that \$30+ trillion is not a lot of debt and that there is no risk. However, the recent earnings season has given investors a lot to be positive about. As of the end of the first quarter, about 45% of 3,600 China domiciled companies (or two thirds by market capitalisation) had reported and, according to a study by Bernstein, on average revenues and profits increased by 17% and 25%, respectively, in the period. In addition, capex was up 4% and asset growth, which rose by 11% outpaced debt growth, which rose by 6%. Materials, tech, energy and property led the way. What is most interesting for the bears is that capital intensity fell (revenue outgrew capital spending by 700 basis points), debt servicing capacity rose (by 900 basis points), operating leverage grew (by 800 basis points) and financial leverage fell (by 400 basis points).

Asia ex-Japan overall also reported numbers which were very similar. Revenue grew 13% and profits by 21%, while asset growth (up by 9%) outpaced debt formation (up by 4%).

The important implications of this might, firstly, be that today the most heavily indebted parts of the economy (materials, energy, industrials) are expanding earnings to address debt servicing concerns. Secondly, despite rising profitability the 'zombie' SOEs have kept capex and borrowing minimal and are really reaping the benefits of improved returns.

Finally, and perhaps most profoundly, investors now have to ask themselves if, after demonstrably two decades of rampant building out of the most incredible infrastructure with very little profit to show for it, and now nearly two years of capital constraint, whether this is the time that China finally grows into its infrastructure and generates rising returns for investors and better profits on a more consistent basis.

If this is the case then Asia, led by China, could now offer investors an extraordinary and sustained relative return opportunity to US equities.

Valuation

Credit Suisse quantitative analysis suggests that on a ROE (11.9%) and P/B (1.7x) basis the Asia index remains 8% undervalued, whilst 2018 earnings are forecast to grow 14.1% in 2018. Furthermore, foreign selling capitulation was seen in April, suggesting that the markets in aggregate look attractive at these levels.

Fund Positioning

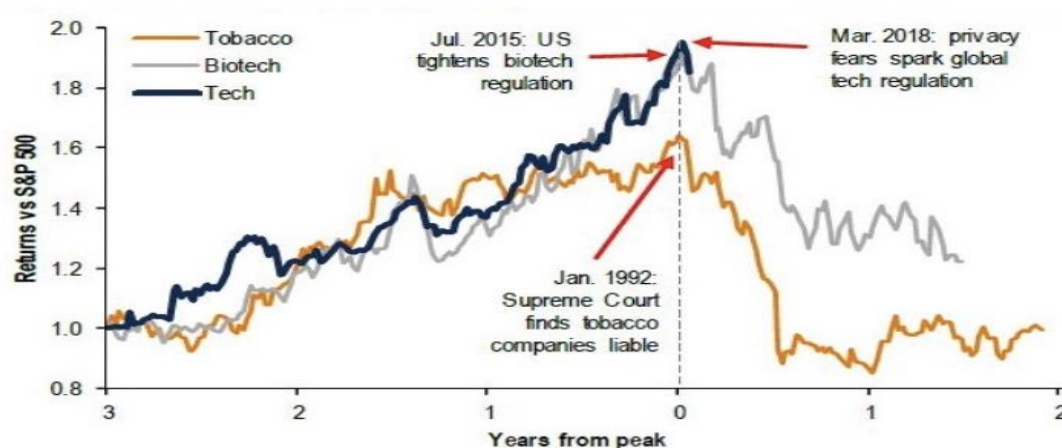
We have, in recent weeks, taken steps to remove from the portfolio some of the more expensive and widely held growth companies, including the internet names (see below) and some highly-valued consumer stock. In their place, we have looked for companies where there is growth but also much more clear and exceptional value, including some situations that are downright 'value', albeit in themes we like with some growth upside, rising free cash-flow and even upside surprise on dividends. This includes adding to our infrastructure theme (see the 'One belt One Road' section below) as well as consumer brands exposed to lower tier cities in China. The purpose of this approach is to try to maximise possible upside but to further insulate the fund from volatility and downside risk as global markets navigate this year's less benign liquidity environment. As a result, the current P/E average for the fund has fallen to 12.9x 2018, whilst ROE remains at 17.8% (versus the index ROE of 11.9%).

GDPR, Regulation and the Internet

As readers living in Europe already know, in May, we will experience the introduction of another set of onerous government regulations. This time it is GDPR, or General Data Protection Regulation. In our view, these new regulations are intelligent and, as it turns out, post the Facebook / Cambridge Analytica scandal, very timely. They are deeply reaching and hugely protective of the individual; however, they also most likely spell a short-term top for any internet companies operating in Europe, and very possibly those operating far further afield.

The chart below is probably worth a thousand words on the subject:

Equity bubbles popped by regulation



Source: BofAML Global Investment Strategy

GDPR is most threatening to the big internet companies who are highly valued for their data collection, use of data, and AI and algorithms. Firstly, GDPR allows the individual to take back their data and forbid the company from collecting data in future. It also gives the individual rights if the company even holds fragments of data which, if combined, could lead to any individual's specific identity. It also only allows companies to send ads or content to an individual for which it can give a human reasoned and logical explanation as to why it did so! This is also an important distinction in a world where intelligence services and other interested customers are being sold research which correlates odd patterns. For example, people who liked a post saying 'I hate Israel' on Facebook also correlate highly with liking Kit Kats. Failure to comply carries huge fines - up to 4% of revenue.

The Facebook revelations may also not be over. But in any event, how these companies target and use, for their own purpose, users' data is up for extreme scrutiny. The chances are that over time users will withdraw data and the hitherto freely available huge data banks at the big companies will begin to look like Swiss cheese. The holes in the data bank will not be good for valuations. In Europe the tools required for this process to start are available in a matter of days. In the US, consumers and / or lawmakers may have to fight the surprisingly hard-line libertarian attitudes of the new younger generation of tech behemoth bosses but the likely outcome will eventually be more regulation, not less, and appropriately so.

In Asia, prima facie, this does not have much impact. China's internet companies operate broadly in a walled garden, although the larger internet companies such as **Alibaba** and **Tencent** are spreading outside of China into the region and also into the Western markets where they can. However, as we have seen in the wake of MiFID, best practice tends to get adopted, regardless of whether it is law or not in a specific country, by companies operating in a global marketplace. In addition to which, if western valuations for internet companies decline then Asia's giants will likely follow suit.

As a result, we have taken steps to reduce our exposure to this sector. We had huge accumulated profits from our investments here and do not rule out re-entry when we feel that the process of discovery, the arrival of GDPR and subsequent valuation risk is passed.

One Belt One Road

State owned construction companies in China, such as **China Communications Construction** (CCCC) and **China Railway Construction** (CRCC), have rarely ever been on anyone's list of favourite investments, including this past year when fears of slowing fixed asset investment and confusion over stricter financing rules introduced by the government to reduce the debt burden on local governments, have driven shares down again to long-term support levels and trough style valuations. This time we think the market is underestimating the story. This is, in fact, now quite a familiar one in China: supply side reform. As a result, we believe it is also one of one of falling debt, rising new business growth, rising margins and industry consolidation.

The tale starts with the introduction of the PPP (Public-Private Partnership) financing regulation in November 2014. This has taken some time to gain traction but is essentially a system to replace the old school build - operate - transfer (BOT schemes which usually required projects to be funded by the construction companies themselves and by local governments, which is how the big debt problems built up. PPP, by contrast, requires that projects have more participants (including a separate financing element that is neither of the above participants, but a bank appointed as PPP bank to serve this purpose), and is signed off by the central government MOF (precluding any more bad debts or badly planned projects from getting started). To begin with this has held up many projects as they were 'scrubbed' through the system but now the process is ready to yield some very interesting results.

Investors need to know that the ongoing scrubbing of the approved PPP projects within the MOF-PPP banks is an effort to get rid of zombie or non-approved projects that would have added to local governments' rising debt issues. Despite PPP leading to more restrictions on local government investment and direct participations by overleveraged SOEs and generating tougher scrutiny into the subsidies/rebates/grants of newly-submitted public-private-partnership (PPP) projects, and all to be approved by Ministry of Finance (MOF), the worst seems to have now passed. In 2017, the amount of PPP new orders (MOF-PPP bank projects moving into implementation phase) actually doubled (+106% year on year) to Rmb 4.6trillion, accounting for 10.5% of China's new construction orders! This is a big jump as compared to just 6.0% and 2.4% in 2016 and 2015, respectively.

The recent announcement of the fourth batch of approved PPP projects in the first week of February this year is also indicative of the ongoing and intended role of PPP to stabilise the economy. Rmb 800 billion of projects were announced to start before the end of 2018 but, more importantly, the initiated base of PPP projects worth Rmb 15t trillion will be sufficient to cushion any economic slowdown in times of other supply-side reform, rising tension from Sino-US trade conflicts, and broad-based financial deleveraging.

PPP, therefore, has several positive consequences for the larger SOE construction companies. Firstly, it is driving consolidation in the industry. The top four construction SOEs took only 11.5% of China's construction revenue in 2017 but 14.1% of new orders, indicating their growth potential. By 2020, CLSA estimates that PPP should take up 20% of total construction orders which should mainly benefit the major SOEs whose revenue/new orders will continue to enjoy double-digit annual growth until then. In short, the larger companies will see structurally higher growth in the coming years due to consolidation away from smaller companies.

Secondly, since the introduction of PPP, construction company capex peaked out in 2015, as the multi-shareholder PPP model requires less upfront capital intensity than the traditional BT/BOT model did. In FY17, **CCCC** actually reported 43% more operating cash flow and a Rmb 2 billion of free cash inflow, its first since 2011. We believe the positive free cash flow trend will continue into 2020, especially for **CCCC** whose operational highway assets benefit from China's growing car population, which roughly doubles every 7 years.

Thirdly, in line with the general backdrop of deleveraging in China, all the major construction companies have been decreasing their gearing ratios, which enables them to be more competitive in winning high-quality PPP projects, and keep improving earnings. **CCCC's** gearing ratio (net debt/total equity), for example, decreased to 64% in 2017 from 88% in 2016. The decrease in debt also leads to a declining trend in the financial expenses/revenue ratio. In 2017, **CCCC's** finance cost/revenue ratios decreased to 2.3% from 2.4%. Declining debt is usually a strong underpinning for valuation re-ratings.

There is also a fourth driver for better profits from these companies, which comes in the form of future business mix between domestic and overseas projects. The 'One Belt One Road' overseas projects offer several percentage points higher margin than domestic projects. This, in particular, benefits **CCCC**, which currently derives around 25% of revenue from overseas and this is expected to rise to 30% of revenue next year and reach 40% of profits in the coming years.

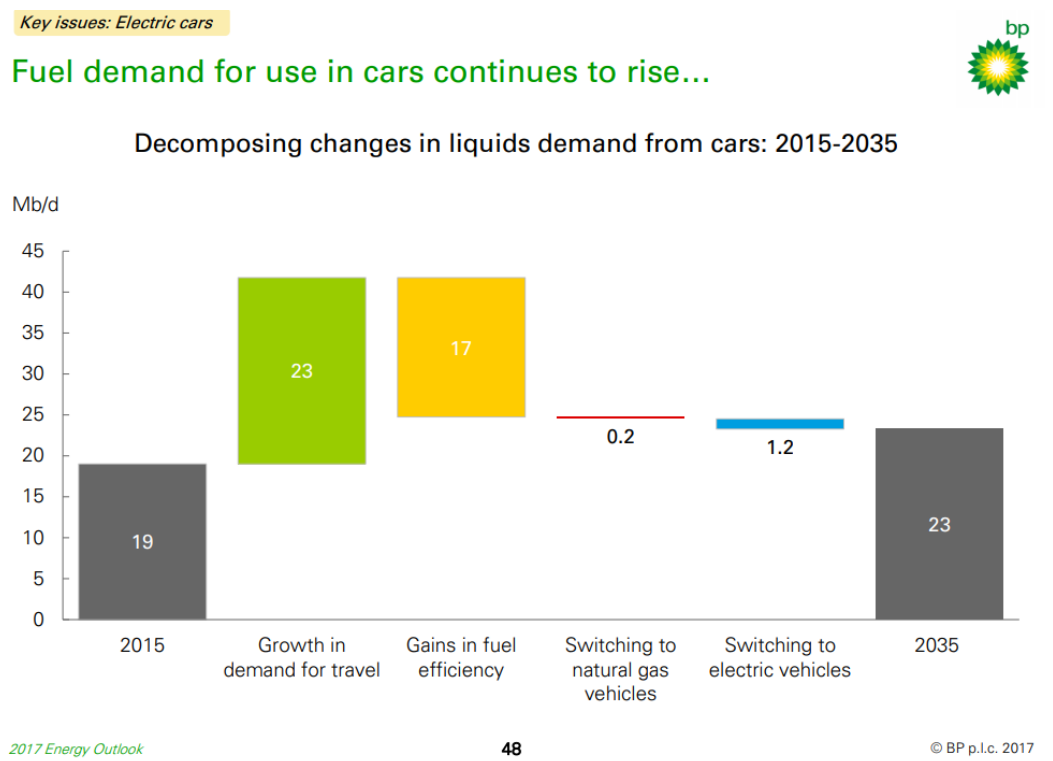
What might be the catalyst to bring investors' attention back to these companies? At the time of writing **CCCC** has just announced its 1Q18 operating data. New orders in infrastructure construction were up +23.3% year on year. New contracts awarded for 1Q18 overall amounted to Rmb 179.3 billion, +20.5% year on year. Overseas new orders increased by 70.2% year on year to Rmb 52.3 billion, representing nearly 30% of total new orders and beating expectations by a wide margin. If the combination of deleveraging and improving margins continues as expected, then these companies could be announcing earnings growth of over 20% cagr for the coming 3 years.

Currently, **CCCC** trades at 0.6x P/B and 5.0x P/E with a dividend yield of 3.5%. The company's peak P/B ratio was 2.2x but a P/B ratio of 0.7-0.9x seems a reasonable initial target as debts fall, ROE rises and earnings grow at over 20%. **CRCC** has a similar outlook and trades on a 2018 P/E of just 4.7x.

Oil

One of the stranger anomalies facing economic forecasters today is the ongoing backwardation in the oil price. That is to say that, according to the market, the future price of oil will fall from today's levels. This should either put the fear of God into anyone hoping for a sustained economic recovery or a very big spring in the step of every bull on alternative energy sources, or maybe both. In reality and according to a presentation by BP, oil demand will actually continue to rise until 2035.

Here is BP's chart:



It is particularly interesting to note in BP's estimate that despite the number of EVs increasing from 1.2 million in 2015 to 100 million by 2035, the negative impact on oil demand actually will be significantly lower than the negative impact from gains in fuel efficiencies in normal cars! This is a nice challenge to the conventional thinking that EVs will negate the need for oil in the coming decades.

We have been reading a number of our preferred independent research advisors on the subject of oil and we can report that the outlook for oil seems a great deal more bullish than the current oil futures market would suggest. The rationale for this comes from both the supply and the demand side. If this is the case then Asia, led by China, could now offer investors an extraordinary and sustained relative opportunity to US equities.

Firstly, looking at the supply side of the equation, oil companies discovered less than 7 billion barrels of oil and gas in 2017 – the lowest number on record. In the last decade, since shale became a big industry, there have been approximately 110 billion barrels of oil discovered and around 360 billion barrels consumed meaning, roughly, a deficit of 250 billion barrels.

US shale is heralded by many as the solution to oil supply issues but this looks more vulnerable on a closer look. The majority of the growth is concentrated in the Permian Basin, whilst the two other major producing areas, Bakken and Eagle Ford, are roughly 15% below their peak of three years ago. Moreover, there are shortages of manpower, pipelines and materials in the Permian Basin and the monthly rate of legacy production declines has doubled since mid-2016

Even now, US shale accounts for only 5% of global supply but is 20% of global E&P spending. E&P costs in the US have risen sharply, roughly by 9% since January 2017, during which time the cost of borrowing has also risen. Companies have not raised much money for new projects, preferring to buy back shares instead, and although free cash flow has improved, it is still negative. This leaves potential funding of new projects looking less easy, unless the oil price is much higher.

Global upstream capex has declined by \$300 billion since 2014. Meanwhile, global inventories are also shrinking as the stock builds of 2014-2016 have turned into stock draws. OECD excess petroleum stocks versus the 5-year average have fallen from 400 million barrels to just 30 million barrels in February. The IEA forecasts an ongoing global stock draw of 0.6 million barrels per day between 2Q18 and 4Q18.

Moreover, spare capacity has fallen from 6 million barrels per day in the 2000s and 4 million barrels per day after the Global Financial Crisis, to just 2 million barrels per day. This is considered a tight market and the OPEC over-production strategy from 2014 to 2016 drew down spare capacity to just 1 million barrels per day. OPEC meanwhile, now has Russia, who joined as part of the 2016 reduction accord, for a member for the first time. Russia accounts for a daunting 55% of global oil output and 70% of global exports. Russia's presence suggests that OPEC is getting stronger, which again, is against the conventional thinking that it was losing power.

Finally, a number of oil producing countries are at risk. Nigeria and Venezuela have lost between them some 1.2 billion barrels of output due to civil unrest, corruption and lack of investments. Potentially, these areas are at risk to lower oil production by a further 1.4 billion barrels per day due possibly to sanctions from an increasingly hawkish Washington, or simply a lack of maintenance and money to keep producing. Saudi Arabia clearly presents a risk to global supply as well. Whilst Saudi oil output has only risen some 2 million barrels per day in the past 15 years (and which all went into local consumption) it is by no means risk free. The new Saudi Prince is attempting to change the regime very fast and risks creating domestic unrest, as well as disruptions from conflicts in the region.

Demand

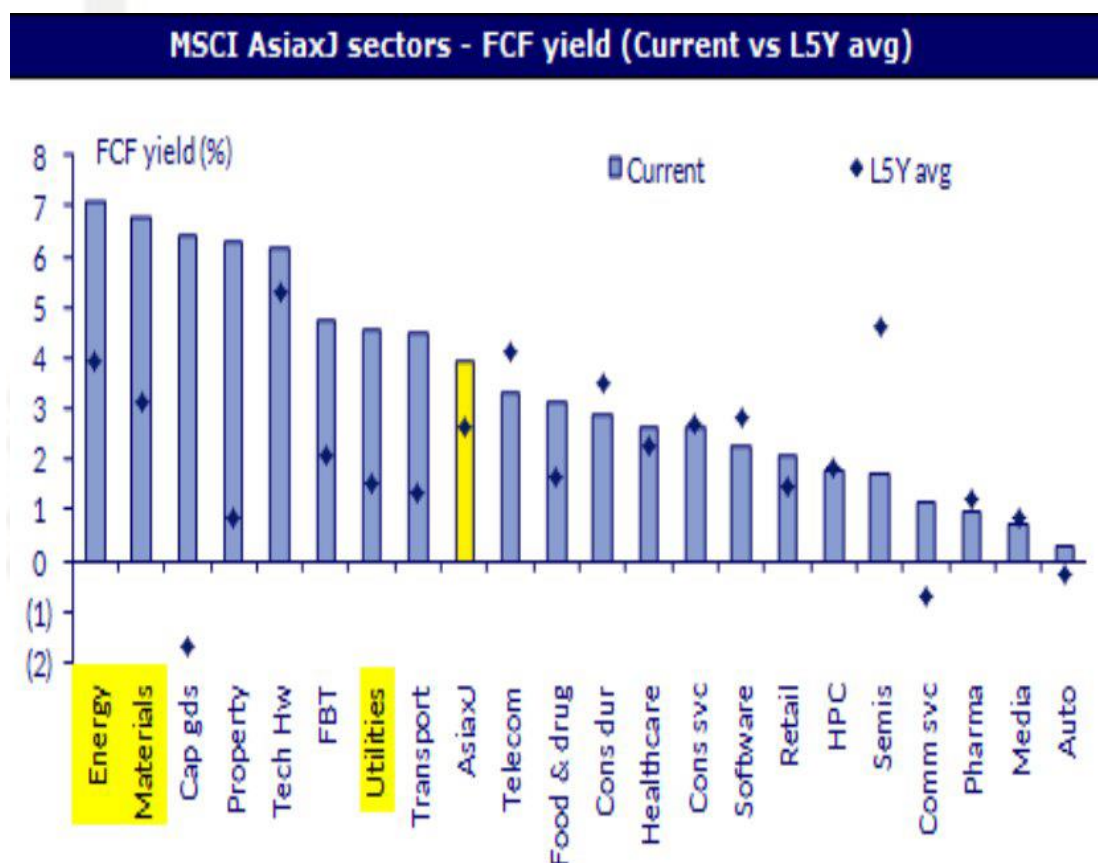
Oil demand is also an area where the unexpected could happen. We have written in the past about China's under-usage of oil in respect of its GDP per capita and we can see demand from China rising at a much faster rate than is currently expected. In 2017 China's demand for oil rose by nearly 1 million barrels per day, roughly three times what the IEA forecasted at the start of the year. Non-OECD demand is now more than half of global oil consumption and has accounted for roughly two thirds of incremental demand since 2014. Emerging Markets do well in weaker US dollar environments and in the period 2002 to 2008 non-OECD demand grew by a cumulative total of 8 million barrels per day. We believe that this time around the hockey stick demand curve in Asia could be a lot stronger than is currently expected.

Finally, we can see that overall the pendulum swing away from commodity stocks in general has likely swung far enough. The energy sector has fallen from 16.2% of the S&P index to comprise just 5.5% today and looks poised to reverse some of this swing.



Source CLSA / Bloomberg

In Asia, the energy and commodity sector has the most attractive free cash-flow turnaround story in the index. See graph.



Source CLSA

Liquefied Natural Gas - LNG

LNG megaprojects in Australia and the US brought unprecedented new supply of LNG to the industry in the past few years and due, to falling gas prices and fears of oversupply, the majors have since reined in new project spending. This could lead to a considerable shortage of LNG a few years out and there are increasingly strong signs that we are at the turning point.

As a result of the oversupply, and in line with oil prices, LNG prices have fallen in recent years. In the past 2 years, some 50 million tonnes of new LNG capacity came on stream as a result of previous spending, although it is worth noting that only 7 million tonnes were approved for development in the same period.

Meanwhile, huge demand from China for cleaner energy as well as from other countries in Asia now suggests that Asian demand is growing at a rate 50% faster than global demand. Indeed, in China, gas demand grew 15% last year and imports rose 46%, with this year's import growth rate running at 53%. Tellingly, the huge demand from China for LNG has left Australia's East coast so short of gas that a Japanese consortium has formed to ship supply from Japan to Australia! Shell estimates that by 2030, some additional 200 million tonnes of LNG will be needed to meet overall world demand. In the meantime, we expect a recovery in exploration and investment in new supply and a much more favourable environment for pricing and demand for existing suppliers.

Woodside Petroleum operates the North West Shelf Venture, which includes five LNG trains with a combined capacity of 16.3 million metric tonnes per annum. **Woodside** also operates the 4.3 million metric tonnes per annum Pluto LNG project in Western Australia, which commenced production in 2012. In recent years, acquisitions have started to form a greater quotient of **Woodside's** growth opportunity. For example, **Woodside** acquired a 13% stake in the Wheatstone LNG project in late 2014 from Apache Corp which began production last year, and has recently finalized the purchase of the Scarborough project, which is deemed to be transformational in terms of securing **Woodside's** medium and longer-term outlook. As a result, **Woodside** is well-placed to benefit as LNG prices rise and demand remains firm. The company's 1Q18 sales beat analyst expectations (up 18% quarter on quarter) and, as with other companies in the energy sector, the lag in share price performance is likely to recover when LNG shortages are fully understood. Meanwhile, as well as a 4.2% dividend yield and potential upside surprises on pricing and demand, the company is one of only a handful of pure LNG plays in Australia.

Recent Portfolio Changes

With more uncertainty in the macro economic outlook, the leitmotif of our new purchases is limited downside with reasonable upside in any event. In each case, we see the very real likelihood of a 20% return in the coming year, coming from combined factors including a reliable earnings outlook that is likely to be higher than consensus expectations and which is not factored in, strong free cash flow, a high and possibly rising dividend and considerable undervaluation.

Wuxi Little Swan

We are looking to add exposure to attractively valued China consumer names which were not already very well held and expensive. In particular, we are looking for exposure to second and third tier cities and the theme of "premiumisation" as consumers in lower tiers buy better products. **Wuxi Little Swan** is an A-share with key exposure to the washing machine segment in China and is complementary to our holding in **Haier**, which has exposure to other consumer electronics segments. Both shares offer good relative value in the consumer brands sector.

In a relative sense, a washing machine offers stronger demand visibility compared to other appliance categories. In an absolute sense, the washing machine market has seen among the strongest "premiumisation" trend since 2015 with consumers clearly upgrading towards units over Rmb 4,500. Washing machines enjoy low volume volatility and a high ASP Cagr. As such, the sector offers demand visibility, clear "premiumisation" and favourable competition dynamics.

Little Swan has exhibited well-above industry sales growth since 2013. We believe the sustainability of **Little Swan's** sales growth, which is underpinned by its clear competitive advantages in both its domestic and export markets is well understood by the market. What is possibly less well understood is management's increasing focus on profitability. This will entail greater emphasis on mix across domestic, export and ecommerce channels as well as greater investment in the premium sub-brand, Beverly. Recently announced numbers support forecasts of 22% EPS growth in 2018 and likely similar growth in 2019. Targeting a 21x ex-cash 2018 P/E suggests 38% upside from here. The company's ROE is attractive at 24%.

Zhejiang Expressway

We expect the Chinese economy to continue to show strength with car usage, driven by tourism and commerce, a likely area set for upside surprise. Car usage per capita in China is lower than in Thailand and is not in line with China's GDP and middle-class wealth per capita. Although the car population overall has been doubling every 7 years, usage per car and distance travelled are still behind regional and global comparisons.

This Chinese toll road company is trading at a 2018 P/E of 9.7x, 14% FCF yield and has a dividend yield of 5.3%. 2017 toll revenues for the company grew by 13%, well above expectations, and benefitted from the new truck overloading rules and increased car traffic (better economy and more tourism). The company guides for 6% traffic growth in 2018, which is likely conservative. Although there are some concerns around nearby competing roads, these have been more than reflected in recent share price action, thus rendering the company exceptionally cheap at a 46% discount to the sum of its parts. Earnings and dividends should combine to ensure a return of between 10-15% and an additional valuation uplift might come from a higher dividend pay-out, better than expected traffic growth in 2018 and efficiencies gained from electrification and automation of tolls.



PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 29.12.2017

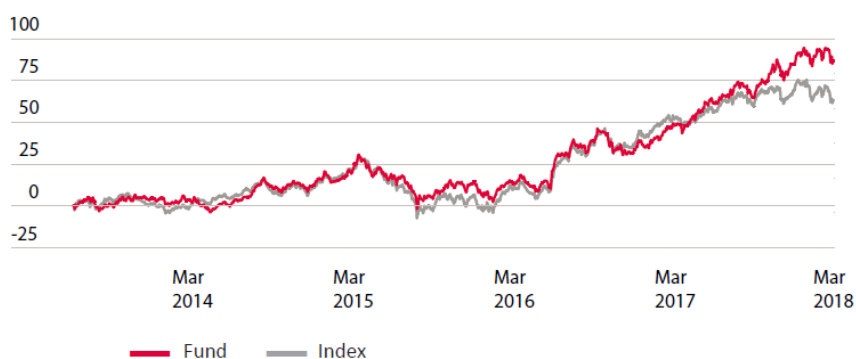
	U (GBP)	Benchmark **
1 Month	-2.14	-3.95
3 Months	1.03	-4.10
YTD	1.03	-4.10
2017	38.25	25.43
2016	16.21	27.70
2015	2.14	-3.85
2014	7.59	9.51
Since Launch†	86.27	63.88
Annualised 3 years	15.07	10.40
Annualised Since Inception	14.00	10.97

Source: Morningstar

**MSCI Asia Pacific ex Japan

†Launch Date: U: 01.07.13

Fund Performance – Class U (GBP) (%)



Source: Morningstar. Total return net of fees.

Performance since launch of Class U GBP share class - 01.07.13

Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2018	3.14	0.11	-2.14										1.03
2017	2.50	2.15	6.46	-0.63	5.92	2.63	2.73	3.70	-3.76	6.20	2.33	3.05	38.25
2016	-5.66	2.09	3.24	-0.15	-1.79	9.96	6.53	4.45	0.68	3.99	-4.65	-2.42	16.21
2015	5.39	-2.00	5.34	0.30	0.03	-4.71	-2.81	-6.95	-0.05	5.68	1.42	1.33	2.14
2014	-2.94	1.59	0.06	-4.43	2.68	1.31	3.19	6.53	-2.15	2.37	0.74	-1.12	7.59

RISK ANALYSIS

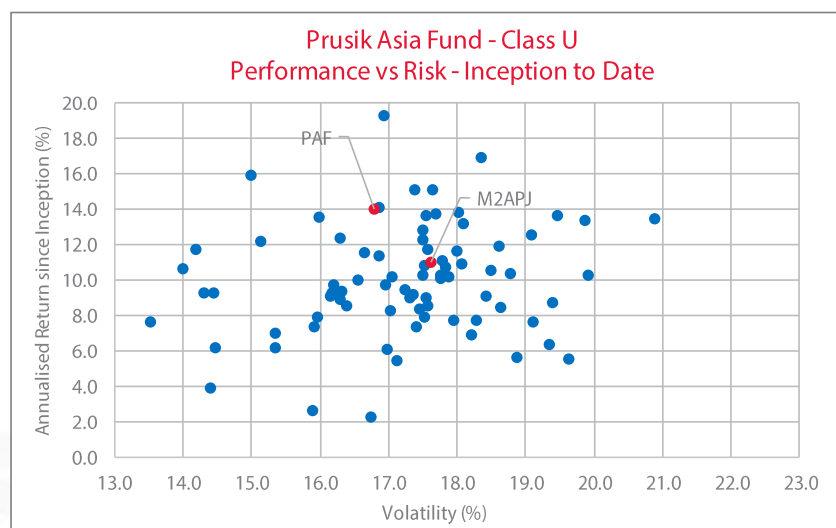
Risk Metrics Fund (%)

Beta	0.82
Alpha (%)	3.00
Sharpe Ratio	0.97
Volatility (%)	16.79

% of the portfolio – which could be sold in 2 business days

Source: Morningstar

Since Inception: U: 01.07.13



Source: Morningstar

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Phu Nhuan Jewelry Jsc	4.4
Haier Electronics Group Co	4.1
Vingroup Jsc	4.1
Vietnam Dairy Products Jsc	3.3
Taiwan Semiconductor	3.1
Total Number of Holdings	45

Portfolio Financial Ratios

Predicted Price/Earnings Ratio	16.6
Predicted Return on Equity (%)	19.0

* Fiscal year periods

Thematic Breakdown (%)

Financialisation	23.8	
Vietnam	14.8	
Local Brands	10.8	
Internet	10.0	
Artificial Intelligence/ New Technologies	8.2	
Energy/Energy Services	8.2	
Infrastructure/Logistics/ Property	8.0	
Healthcare	7.3	
Leisure/ Tourism	4.9	
Education	2.5	
5G	1.2	
Cash	0.2	

Geographical Breakdown (%)

Hong Kong/China	51.6	
Vietnam	14.8	
Singapore	7.7	
India	5.8	
Korea	5.5	
Indonesia	4.5	
Australia	3.4	
Taiwan	3.1	
Pakistan	2.2	
Thailand	1.3	
Cash	0.2	

All data as at 30.03.2018. Source Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size (US)	123.52m
Launch Date	07.10.05
Fund Structure	UCITS III
Domicile	Dublin
Currencies	USD (base), GDP, SGD

Management Fees

Annual Management Fee

1.5% p.a paid monthly in arrears
 Class U – 1% p.a. paid monthly in arrears

Performance Fee

All classes except Class U: Provided the fund achieves an overall increase of 6% a yearly performance fee of 10% of total returns will be applied.

Class U: 10% of the net out-performance of the MSCI Asia Pacific ex Japan Index with a high-water mark paid quarterly.

Dealing

Dealing Line	+353 1 603 6490
Administrator	Brown Brothers Harriman (Dublin)
Dealing Frequency	Daily
Min. Initial Subscription	USD 10,000
Subscription Notice	1 business day
Redemption Notice	1 business day

Share Class Details

Class 1			SEDOL	ISIN	Month end NAV
A USD	Unhedged	Non Distributing	B0MDR72	IE00B0M9LK15	288.29
B USD	Unhedged	Distributing	B0M9LL2	IE00B0M9LL22	288.47
C GBP	Hedged	Distributing	B18RM25	IE00B18RM256	155.70
D SGD	Hedged	Distributing	B3LYLK8	IE00B3LYLK86	397.40

Performance fee based on individual investors' holding.

Class U			SEDOL	ISIN	Month end NAV
U GBP	Unhedged	Distributing	BBQ3756	IE00BBQ37560	186.27

Performance fee based on fund performance as a whole.

Fund Manager

Heather Manners

Tel: +44 (0)20 7493 1331

Email: heather.manners@prusikim.com

Sales & Marketing

Mark Dwerryhouse

Tel: +44 (0)20 7297 6854

Mob: +44 (0)7891 767 386

Email: mark.dwerryhouse@prusikim.com

Elaine Dennison

Tel: +44 (0)20 7297 6858

Fax: +44 (0)20 7493 1770

Email: Elaine.Dennison@prusikim.com

Prusik Investment Management LLP

6th Floor

15–16 Brook's Mews London W1K 4DS

Web: www.prusikim.co.uk

Email: enquiries@prusikim.com

This document is issued by Prusik Investment Management LLP and is for private circulation and information purposes only. Prusik Investment Management LLP is authorised and regulated by the Financial Conduct Authority in the United Kingdom and in the United States of America by the Securities and Exchange Commission as an Exempt Reporting Adviser. The information contained in this document is strictly confidential and does not constitute investment advice, nor an offer or solicitation to buy or sell any securities and or derivatives or to make any investment decision 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 a guide to, or indicative of, future results. 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. Please refer to the fund prospectus for more detail. The information given is not exhaustive and does not constitute legal or tax advice. Prospective investors and investors alike should consult their own professional advisers as to the implications of their subscribing for, purchasing, holding, switching or disposing of shares under the laws of the jurisdictions in which they may be subject to tax. 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.