PRUSIK

GROWTH INVESTING IN ASIA

Prusik Asia Fund

Quarterly Investment Report
30 June 2018

FOR PROFESSIONAL INVESTORS ONLY

Prusik Asia Fund Quarterly Report Q2 2018

In 2Q18 the M2APJ index rose 2.6%, whilst the Prusik Asia Fund fell 1.1%. While the fund's relative return was disappointing, this was on account of a number of specific reasons.

At the country level, the quarter saw our holdings in India, Pakistan and Vietnam perform poorly. Pakistan and Vietnam are not index constituents and so their negative returns weighed heavily on our relative performance in the quarter. The details here merit further explanation.

Firstly, our exposure in Pakistan, whilst not big, was negatively affected by currency weakness of 4.9% over the month of June. Shares also fell in tandem with general Emerging Market weakness. We have since revisited the rationale for this exposure, including doing significant new work on the macro economic and political risks now building in Pakistan. As a result, we have since exited all our Pakistan holdings, preferring to wait until after the upcoming general election has passed to see how the all-important Belt and Road Initiative (BRI) relationship with China settles down under a new government.

Secondly, our long-held Vietnamese jewellery chain, **Phu Nhuan Jewelry**, which is growing profits at a 38% cagr and which we know well and have already visited this year, fell nearly 40% from mid-May for no reason other than local sentiment turning bearish. We would highlight that the weakness in the Vietnam market in the second quarter occurred against a backdrop of the economy growing by 7.1% in 1H18 (an 8-year high) and exports increasing by 16% over the same period, creating the highest trade surplus for seven years.

We think this is a good allegory for much of the recent weakness we are seeing in other markets too. We are nearing capitulation and many excellent companies are selling at just two thirds of the price that they were selling for only a matter of weeks ago. We remain very happy holders of **Phu Nhuan Jewelry**, a stock we have held for over 5 years and which remains one of the very few blue chip brands in Vietnam, which, in turn, is only in the foothills for penetration of modern retail. We would buy more if the foreign ownership limit for the stock was not full.

Thirdly, we had two stock specific events, both of which were slightly unpredictable and government related, but which contributed a combined 1.2% detraction from NAV in June. **ZTE**, the beleaguered 5G equipment maker that found itself at the centre of the unfolding trade row between US and China, saw its shares suspended and then finally relisted in June. We had a very small weighting here but the decline post the re-listing was severe. We have since exited this position.

Beijing Capital International Airport is a much bigger position and one which we continue to hold. In June the company was told by the Ministry of Finance that it will no longer receive its share of the Airport Construction Fee, despite a recent announcement that this fee would be paid to 2020. While this will impact cash flows in the near term, this fee was not factored into either our or the sell side's terminal value calculation for the stock. As such, the impact to the valuation is an estimated reduction of 10-15% and so we believe the resulting fall in the share price of over 25% is overdone and represents a buying opportunity.

On the positive side, we saw a strong double digit return on capital for our recently initiated education and healthcare themes and our long-standing local brands theme in the second quarter. Another newer theme for the portfolio, energy/energy services, which had had a mixed start post initiation towards the end of 2017 and beginning of 2018, started to perform in the way we had anticipated in the second quarter, delivering a return on capital comfortably above the index.

At the stock level, the largest positive contributor to performance by a wide margin was **Fila Korea**, followed by our Chinese orthopaedics company with 3D printing capabilities, **AK Medical**.

By country, we saw double digit positive returns from our exposures in South Korea and Australia and a low single digit positive return from our China/Hong Kong portfolio.

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

2Q18 Return on Capital by Theme

Theme	PAF Return on Capital 2Q18
Education	24..5%
Healthcare	15.6%
Local Brands	15.4%
Energy/ Energy Services	8.1%
Infrastructure	-1.9%
Financials	-3.3%
Internet	-4.9%
Artificial Intelligence / Virtual Reality	-11.2%
Leisure/Tourism	-16.3%
Vietnam	-19.5%
5G	-45.9%

Source: Prusik/Bloomberg

2Q18 Absolute Attribution by Theme

Theme	PAF Absolute Attribution 2Q18
Local Brands	1.5%
Energy/Energy Service	1.0%
Healthcare	1.0%
Education	0.6%
Internet	-0.5%
5G	-0.5%
Infrastructure	-0.6%
Financials	-0.7%
Artificial Intelligence / Virtual Reality	-1.2%
Leisure/Tourism	-1.2%
Vietnam	-1.9%

Source: Prusik/Bloomberg

Outperforming Themes in 2Q18

Education: 1.0% average weighting in 2Q18

- Our education theme returned 24.5% in 2Q18, driven by our single investment in **China Xinhua**.
- We bought **China Xinhua**, an emerging university franchise in China, at its IPO. The stock offered significant value relative to its listed peers, which continues to be supported by a clear strategy to expand margins.

Healthcare: 7.7% average weighting in 2Q18

- The healthcare theme saw a 15.6% return in 2Q18, led by **AK Medical**, our orthopaedics producer with 3D-printing IP.
- Chinese traditional medicine leader, **Beijing Tong Ren Tang**, also performed well owing to its MSCI reclassification.
- In June we bought generics manufacturer, **Sun Pharma**, in India. The generics industry in India is out of favour and little weight is being given to the companies' ambitions to move up the value chain. We believe this provides an opportunity. **Sun Pharma** has the strongest execution track record amongst its peers.

Local Brands: 13.1% average weighting in 2Q18

- The local brands theme saw a 15.9% return in 2Q18, led by **Fila Korea**, which we purchased in 1Q18 and which had already performed strongly in 1Q18. Expectations of 92% EPS growth in 2018 is helping drive the stock.
- During the quarter, we sold baijiu brand, **Kweichou Moutai**, on account of valuation concerns and bought **Li Ning** and **Wuxi Little Swan**, which are geared into rising consumer demand in lower-tier cities in China.

Underperforming Themes in 2Q18

5G: 1.0% average weighting in 2Q18

- Our 5G theme saw a negative return on capital in the quarter.
- **ZTE** has been used as a pawn in the US-China trade war. Although **ZTE** has resumed operations, management are obliged to pay a substantial fine.
- We exited the stock upon its re-listing.

Vietnam: 9.1% average weighting in 2Q18

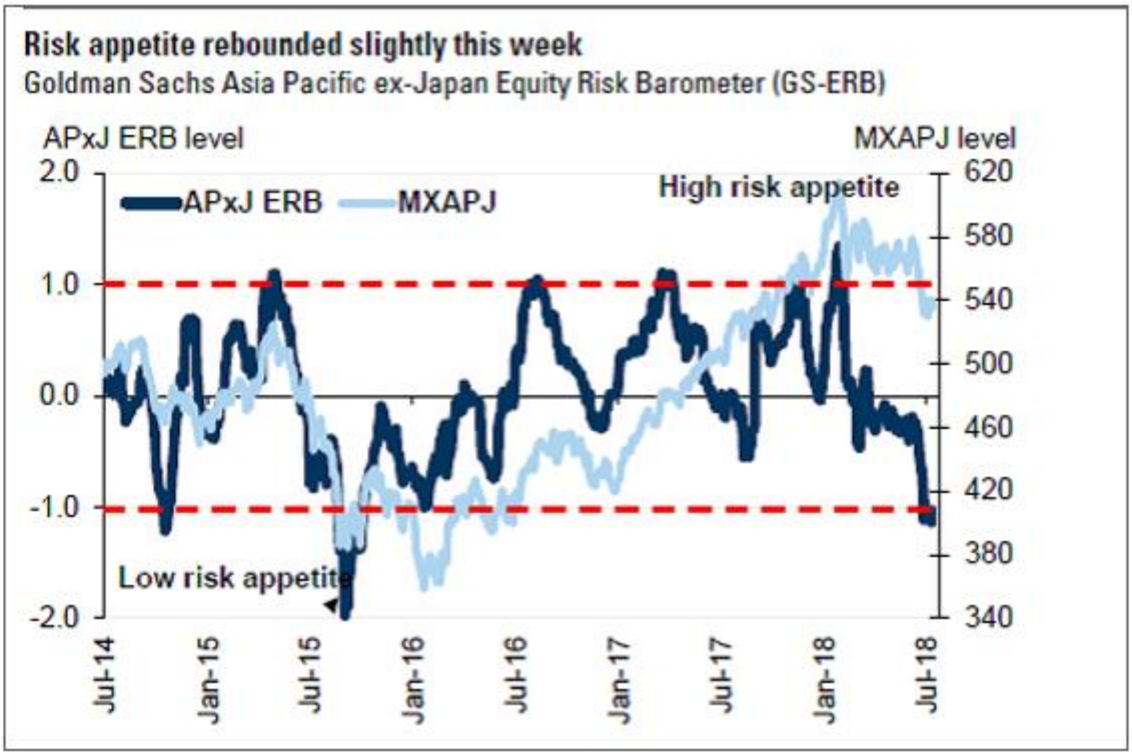
- Our Vietnam theme saw a negative return on capital in 2Q18, led by a correction in **Phu Nhuan Jewelry**
- **Phu Nhuan Jewelry** is growing its profits at a 38% cagr, is the market leader in its industry and continues to gain share.
- During the quarter we exited leading property developer, **Vingroup**, at a significant profit, as well as **HD Bank.**

Leisure & Tourism: 8.8% average weighting in 2Q18

- Our leisure & tourism theme saw a negative return on capital in 2Q18.
- All holdings in the leisure & tourism theme declined in the quarter. **Beijing Capital Airport** was impacted by the government decision to cancel the Airport Construction Fee the company was due to receive to 2020, while **Indigo Airlines** in India was hurt by the higher oil price. In each case we believe the share price correction is excessive.

Portfolio Positioning

It is certainly the case that sentiment in Asia is at a low point, as illustrated by the chart below.



Source: Goldman Sachs

We can also see that valuations, whilst not cheap, are in-line with 10-year averages, which lends some solid support.

MXAPJ valuations are at their 10-year averages

Valuation vs. 10-Year History					
	Current		Z-score		
	P/E (NTM)	P/B (LTM)	P/E (NTM)	P/B (LTM)	Avg. Z-Score
Korea	8.0x	1.1x	-1.4	-0.5	-1.0
Philippines	16.1x	2.2x	-0.2	-1.5	-0.8
Singapore	12.3x	1.3x	-0.8	-0.8	-0.8
Indonesia	13.8x	2.6x	0.0	-1.4	-0.7
Hong Kong	14.7x	1.3x	-0.3	-0.2	-0.2
Malaysia	15.4x	1.7x	0.4	-0.9	-0.2
Taiwan	13.4x	1.8x	-0.2	0.0	-0.1
China	11.7x	1.9x	0.4	0.1	0.3
Thailand	14.0x	2.1x	0.9	0.0	0.4
India	17.8x	3.3x	1.0	0.7	0.9
Australia	15.6x	2.1x	0.9	0.9	0.9
MXAPJ	12.3x	1.7x	-0.1	0.0	-0.1

Source: Goldman Sachs

The current risks surrounding the US dollar, earnings growth in relation to cyclicality, poor momentum, the ongoing uncertainty around trade, and a possible decline in liquidity due to 'quantitative tightening' (QT), perhaps does not make Asia feel like the most compelling investment opportunity in the near-term. However, on a longer-term perspective, we believe that now is absolutely the time to be reviewing and incrementally adding to the Asian exposure you want for the coming decade.

At the time of writing, we have made very few changes to the portfolio, although our cash position is back to just below 5%. Over the quarter, we have sought to reduce our exposure to the widely held China internet sector and reinvest the proceeds in smaller companies, which we believe have higher growth opportunities in less well understood areas such as 'cloud services' and 'online healthcare' – more on this below. We also continue to see significant upside in the themes and stocks we already hold. The fund is currently trading on a weighted average P/E of 13.0x, with an ROE of 15.6% and consensus forecast EPS growth for the coming year of 32.7%.

We will expand on this in greater detail below but suffice for now to say we believe that, overall, it is unlikely that the US dollar remains this strong or, in extension, that Asia remains this depressed and as such we would expect markets in Asia to be higher by the year-end.

Overview and Outlook

Arguably, the most unexpected and, therefore, confounding outcome of the current stock market volatility could be that US equities are peaking. Despite the best first quarter profits in memory, expected 20%-plus year over year earnings growth for the second quarter, and record stock buybacks and M&A activity, U.S. equities have not been able to advance above the January 2018 peak. Indeed, as of late June, were it not for the performance of seven tech stocks, the S&P 500 would actually have been down on the year.

A majority of the equity sectors are down significantly more than the S&P 500 since the January 26th top. The weakness in the economy-sensitive materials and industrial sectors is especially noteworthy. There has also been a downturn in the financial sector, a move which, historically, has signalled broader weakness in the equity markets.

It is likely that if the US market is weak then other world markets will follow. However, what will be the relative performance of other equity regions? At some point, relative valuation will matter. Equity valuations in Europe and Emerging Markets are currently very compelling relative to US stocks. As such, European and Emerging Market stocks hold much lower valuation risk if global market volatility intensifies. The European Stoxx 600 index trades on a 2018 forward P/E of 13.5x and P/B of 1.7x, whilst the MSCI Emerging Market index trades on a forward P/E of 10.8x and P/B of 1.4 – all of which compare favourably to the S&P 500's respective multiples of 15.7x P/E and 2.9x P/B.

Clearly, the risks that potentially lie ahead for the US include political and geopolitical risks, with recent events in Helsinki uppermost in our mind of late. However, there is also a looming risk that, absent any serious resistance from his own party, that President Trump will also garner more control of the Federal Reserve. Currently, there are just three board members of the Federal Reserve, while there should be seven members, and two of these three are already Trump appointees. The implications of further Trump appointees are clear. How a less independent Federal Reserve would be received in the bond and currency markets remains to be seen.

US Dollar

Probably the single most important factor behind the relative outperformance or otherwise of Asia and Emerging Markets is the relative strength of the US dollar. Typically, when the dollar is strong Asia struggles to make relative headway.

There were a number of factors putting upward pressure on the dollar in the second quarter. These include the prospect of 4%-plus annualized GDP growth for the US in the second quarter, continued rate increases by the Fed and what some perceive as increased hawkishness by the central bank, and strains on dollar funding that may have been exacerbated, to some degree, by the repatriation of international profits by US multinationals.

These factors appear to be dissipating for the following reasons. Firstly, US GDP growth estimates are being scaled back as the threat of tariffs raises business uncertainty. For example, the Atlanta Fed has reduced its 2Q GDP growth estimate for the US from 4.7% to 4.1%. In addition, US growth is being driven partly by the temporary effect of tax cuts and $3 of new debt for each incremental dollar of GDP. Secondly, Trump is also likely to continue increasing pressure on the Fed to slow its rate hikes and, as mentioned, to fill the Fed with people likely to follow his wishes. Finally, the repatriation of international profits is likely to slow as time passes, alongside the effect being partly offset by sales of corporate holdings in US Treasuries as well.

While a weakening of the upward pressures on the dollar could lead to a softer dollar in the near to mid-term, there are other factors at play which may work to drive the dollar down.

Firstly, the ultimate way to win a trade war is through a weaker currency. President Trump tweeted that the dollar was too strong shortly after his election, which began the first leg down in the dollar. We can be sure he is not happy with the recent weakness in the euro, the yen and yuan. Nor is he happy in general with the strength in the US dollar. At any moment, he could unleash a torrent of tweets on the subject.

Secondly, capital has 'concentrated' in the US since 2009 to the tune of roughly $10 trillion. 'Capital concentration' and 'crowded trades' are amongst the great risks in markets today. For example, as we have written in previous quarterlies, risks are mounting for increased regulatory action against 'big tech'. If this were to occur, it could cause a significant capital outflow into other global markets.

Thirdly, foreign central banks stopped financing the US deficit in 2014. The US Treasury is now dependent on US commercial banks and America's very low rate of domestic savings, which risks a crowding out. The US will account for more than 75% of net new annual government borrowing among major advanced economies for the foreseeable future. In addition, the US federal deficit is likely to top 5.3% of GDP this year, compared to a mere 0.6% for the Eurozone.

Fourthly, the US economy is very unbalanced. According to a survey of financial well-being conducted by the Federal Consumer Financial Protection Bureau, nearly half of Americans have struggled to pay their bills and over one third have faced hardships such as running out of food, not being able to afford a place to live, or not having enough money to pay for medical treatment.

Finally, and not least, the 10 year/2 year US Treasury spread has fallen to another post-GFC low of 30 basis points, that is below the current likely increase in the Fed funds rate by the year end. A flatter yield curve implies that further rate hikes could tip the US economy into recession.

Taking all of the above into account, it may be reasonable to question whether the US's hegemony status is itself at risk. Either way, this is not a good time to be starting a trade war, or any war for that matter. China and Russia both have huge ambitions including, no doubt, becoming the world's reserve currency and its anchor.

Viewed through this prism, it is clear to see why now might not be the right time to panic regarding your exposure to Emerging Markets or Asia. In light of these points, the balance of probabilities points quite resolutely towards a weaker dollar, a shift which would strongly support Asia's relative performance.

China - US trade War?

The 'trade war' is most likely a distraction or a bargaining tactic and we expect some resolution before long for the following reasons.

China: Not That Vulnerable?

China's economy is far more domestically focused these days with net exports only accounting for 2% of China's GDP compared to 9% in 2007. Consumption and services have outweighed manufacturing and construction in China for the past 6 years in terms of GDP contribution, whilst only 19% of China's exports go to the US (and US allies are not that interested in joining this war). Moreover, of the top 25 exporting companies based in China, two thirds are foreign owned, whilst a third of the value added is accrued to foreign firms.

Why the 'War' May be Stopped Short From a US Perspective

US interests are much better served by reaching an agreement on market access or intellectual property. Moreover, China may well successfully retaliate with a list designed to hurt Trump in the mid-terms e.g. targeting soybeans. Of the industries on China's retaliation list, 2742 US counties would be affected and 82% of these voted for Trump in 2016. The US value content (via services etc.) of 'Made in China' is about 55%, so the proposed tariffs simply do not add up for US corporates. Finally, this trade war is not happening in a vacuum. For example, China could spoil the good progress being made in North Korea, which is a geopolitical outcome that Trump is looking to claim as his victory.

What China Might Do Instead

Equally, Xi may not respond solely in kind but may instead lower tariffs for all other trading partners with China. In recent weeks he has already started this, stepping up his global presence in countries where Trump and the US is receding. Meanwhile, this helps Xi's PR efforts, which are focused on promoting the idea that this is all part of China's market reforms and the move towards higher value-add manufacturing and domestic services. In practice, efforts on this front are already being stepped up, most readily witnessed in the semiconductor industry post the 5G debacle earlier this year.

In conclusion, we expect some tariff hikes and some retaliation, and that further negotiations are likely to continue into September with some likely 'victory' breakthrough before the US mid-terms, accompanied by news of some progress on North Korea.

Vietnam

We have been investing in Vietnam for over 6 years and throughout this time we have steadfastly endured a fair amount of volatility, preferring instead to focus on the fundamentals and the excellent long-term opportunity that Vietnam represents. This patience has paid off handsomely. The second quarter was another one of those more difficult periods and has been particularly testing as one of our core holdings, jewellery retailer Phu Nhuan Jewellery (PNJ), tumbled over 40% from mid-May on no material news. The foreign premium for PNJ accordingly fell from 40% to just 7% but, tellingly, no foreign stock was available to buy during this time. Herein lies the flaw for Vietnam, which is that whilst locals and retail investors from Thailand and Korea have flooded in and then out of the market in the past 12 months via ETFs, the bargains left in the wake of their departure cannot be bought by foreign institutions as the foreign registers are full. As a result, local retail investors, who are really only likely to take a lead on buying from foreign buyers, are remaining on the sidelines. Patience is indeed required!

However, there is plenty to consider while one is waiting for the volatility to abate. One could start by considering the strong 1H18 macro results which Vietnam recently posted, which ae as follows:

- GDP growth of 7.1%.
- Export growth of 16%.
- A trade surplus of $2.7 billion versus a $2.1 billion deficit in 1H17.
- The June Production Manufacturing Index at a record 55.7.
- FX reserves hitting $65 billion, equal to four months of imports.
- Currency depreciation of only 2.0% year to date.

These data points are not only attractive in their own right, but greatly outshine those of most Vietnam's regional peers. So, what might be the risks ahead? Potential risks for Vietnam may lie in the country's scope to be impacted by the US-China trade war, a slowdown in FDI, foreign currency denominated debt, hot money flows and market fundamentals. Each of these potential risks is examined in more detail below.

We believe any impact from the US-China trade wars on Vietnam is likely to be negligible. Firstly, Vietnam is not itself a target in the trade wars. Secondly, its $38 billion trade surplus with the US is small compared to the US's other trading partners. Vietnam's main exports are mobile phones (20%), textiles, garments and footwear (19%), agri-fishery (18%), electronic components and devices (12%), basic machinery (7%) and wooden furniture (4%). As a low-end manufacturer, it simply does not make the sort of big-ticket industrial or tech goods at which the US is taking aim. Nor does Vietnam figure significantly in the supply chain of such goods in China or in Europe. Even if the US decided to tariff all Chinese products, China is just 18% of Vietnam's exports. Amongst Vietnam's exports to China, 25% are agricultural and material commodities and another 25% is only for domestic use. Only half of Vietnam's exports to China, therefore, has a connection with tariffed trade and even in a worst-case scenario we would not expect that component to be suddenly be wiped out.

FDI is a major driver of Vietnam's economy. It is possible that Vietnam's FDI flows may actually benefit from further trade wars. The 'China-plus-one' strategy that international manufacturers have been following, and which has been broadening, may head more in the direction of a 'no-China' strategy, led by China itself. In such an event, Vietnam remains the logical destination for more FDI. The mix of factors that makes Vietnam's labour force so competitive – youthful demographics, social-political stability, gender equality, good primary education and a strong work ethic combined with great infrastructure – is found nowhere else. Manufacturers have few other places to go.

Despite Vietnam's manufacturing growth, consumption is 70% of GDP and this has been growing at a real rate of 6-9% in recent years, with retail sales growing at 9-10%. Consumption is being fuelled by expansion of the middle-class, which consulting groups such as PWC project to reach one third of the population by the early 2020's. Exports are not exactly secondary in Vietnam, and they seed much of what goes on in the economy, but the fact is that FDI industries, accounting for 68% of exports, only employ 2.3 million people out of a total population in Vietnam of 93 million people. With the impact of exports being indirect, and subject to a rather uncertain threat anyway, one may surmise that it would take a couple years of very sustained trade wars to derail the domestic locomotive. We can also see a very rapid growth period coming from Vietnam's tourism sector, which could easily rival that of manufacturing as an employer in just a few years.

A key concern for investors in Emerging Markets is the level of foreign debt which numerous countries hold, especially in light of rising US interest rates. This is putting pressure on many Emerging Market currencies and creating unhelpful feed-back loops. A number of Vietnam's peers in ASEAN have been hit hard on this score. Vietnam's foreign debt of $118 billion equates to 53% of GDP. Half of this debt is government debt, all of which is on a long-term maturity basis and three-quarters of which is concessional. The other half of this debt is private, most of which is long term corporate borrowings for industrial and commercial projects. According to the World Bank, the debt service ratio or principal and interest payments versus exports for Vietnam was 4.2% in 2017, the lowest in the region.

There are minimal hot-money flows into or out of Vietnam. Foreign capital, as in FDI, is sticky, or generally small, as in equities and real estate, or non-existent, as in bonds. The 2007 economic bubble showed that domestic sentiment and avoidance of internal capital flight are the key factors for currency management. In addition, the locals are happy. All in all, the macro underpinning for the Vietnam dong is strong and, above all, likely full-year inflation of 4% is seen as acceptable. This gives the Government plenty of elbow room for dong control, via FX reserves and tactical hikes in rates, although interest is already 7% on term deposits, and so not low in the first place. The State Bank can, therefore, confine itself to depreciations of 2-3% per annum, which it has long sought to do anyway in order to boost export competitiveness.

The stock market contains hardly any listed exporters, keeping the focus on the domestic economy. Earnings growth was 19% in 2016 and 2017 and double-digit growth is expected again in 2018, led by banks, retailing, property and materials. The market's P/E is 17.3x on a 12-month forward basis. While these headline valuations and growth forecasts compare well regionally, we would note that, in fact, many excellent companies in Vietnam are on P/Es of just 8-9x. Although Vietnam has historically been considered a relatively immature market on a number of measures, Vietnam now surpasses some Emerging Markets in terms of the size and liquidity of its equity market (for example, the Philippines), as well as privatization and futures trading. The likely progress on foreign ownership limits and a possible MSCI upgrade in 2019 remain key factors to watch. All in all, we remain very optimistic that Vietnam can regain its prior poise.

New Positions

Sun Pharma

Indian pharma returns to growth

Sun Pharmaceuticals is a generic pharmaceuticals manufacturer based in India with sales coming from the US, Europe, India and other Emerging Markets. The shares have been heavily de-rated since 2015 and, more recently, the company has faced US FDA issues at its Halol plant. Importantly, we believe the company is now well positioned to undergo a marked turnaround. **Sun** is about to see the benefit of several new speciality products, which are expected to drive a recovery not only its sales but also in margins on account of speciality products boasting superior margins. Management are also expanding capacity. Sell side analysts expect **Sun** to nearly double its adjusted profit between 2017 and 2020.

Kingdee International Software

Cloud services in China

Kingdee is the only significant cloud software services provider in China and we believe cloud is now at an inflection point in this market. In the US, an estimated 20% of work is done on the cloud, while in China around just 2% of work is done on the cloud. However, this is changing rapidly as small and medium enterprises and other businesses are now demanding ERP systems. The company derives around 30% of revenues from cloud services and we expect this could double in the next two years. **Kingdee** is currently in 'customer acquisition mode' and so profitability for the cloud business is low. Importantly though, the migration to cloud takes customers away from a one-time software sales model and towards a recurring revenue model. As such, we would expect that this, plus the underlying operating leverage in cloud services, will lead to this being a very profitable business for **Kingdee** over time. **Kingdee's** ROE is currently low at 8% but should rise in the coming years.

Ping An Healthcare

A leading internet healthcare player in China

Supported by technological advances and favourable regulations, **Ping An Healthcare and Technology**, commonly referred to as **Ping An Good Doctor** or **PAGD**, operates China's largest internet healthcare platform. The platform provides 300,000 to 400,000 new online consultations everyday with accumulated consultation records of 211 million. Accelerated user acquisitions and business expansion at **PAGD** has been made possible by its one-stop portal, connecting users with comprehensive online and offline healthcare resources, such as medical health check-ups, pharmaceutical ecommerce services and health management plans. **PAGD** is positioned to benefit from rapid industry growth. Its value offering is that it is capable of addressing the majority of common and chronic illnesses online, thereby alleviating pressure on the healthcare system.

The company charges a fixed service fee and a subscription-based fee, alongside free consultations. In contrast, many of **PAGD's** competitors focus on online pharmacies and offline prescription drug distribution. **PAGD** believes the future of internet healthcare lies in an aggressive family doctor pricing model that encourages consumer adoption and user stickiness. Given that internet healthcare is still a nascent market, successful internet healthcare companies will be those best able to drive utilization, with monetization a secondary consideration. **PAGD** offers AI-empowered consultation services with minimal waiting time around the clock, primarily through an in-house medical team of 1,000 personnel, supplemented by a strong network of external doctors. The company has established co-operations with a large network of hospitals and other healthcare providers, covering approximately 3,100 hospitals, approximately 1,100 health check-up centres, and approximately 500 dental clinics.

Compared with the services offered by competitors, **PAGD's** in-house capabilities offer a value proposition unique within the industry. Its platform is highly scalable, which is crucial as the efficacy of the machine learning process of the company's AI assistant, depends on the size of the user base. Based on a recent user survey, the company's online medical consultation has a satisfaction rate of 97%.

PAGD's penetration rate of online consultations relative to the addressable market of around 8 billion outpatient visits in China is still very low. We estimate the total addressable market for online consultations to be roughly Rmb 320 billion, taking into account total outpatient volume in 2017 and average cost per session of Rmb 40. This implies penetration of 1.8% and represents significant potential for converting offline visits to online. In terms of indications, the majority of **PAGD's** medical consultations are for common and chronic illnesses, such as hypertension, diabetes, allergies and gastroenteritis. According to Frost & Sullivan, approximately 1,000 diseases can potentially be treated by way of internet healthcare. Amongst **PAGD's** many ambitious goals is to be in a position to address most common illnesses by 2050.

PAGD's online consultation services follow a five-step process: registration, request, connection, enquiry and recommendation. **PAGD** claims to have built up a library of over 29,000 illnesses, the most in the industry. Based on symptoms and medical history, a smart routing system generates a list of doctors for the user to choose from.

Each medical consultation lasts up to 15 minutes and can be extended at the user's discretion. According to management, in 2017, roughly 50% of consultations were resolved by in-house doctors via medical recommendations, 35% of consultations were referred to nearby hospitals and 15% of consultations led to intensive treatment.

As the clear-cut leader of China's rapidly evolving internet healthcare industry, **PAGD** has enjoyed a 150% cagr in registered users since 2015. During this time management have focused on user engagement and so free consultations have formed a large part of overall consultation services. As user stickiness grows, monetization of **PAGD's** increasingly diversified user base will become a better reflection of the firm's earnings potential. Customers include individual users, insurance companies and corporates.

Sell-side analysts forecast **PAGD** will grow its revenues at a 93% cagr between 2017 and 2020. In terms of profits, we expect the company to turn profitable in 2020 as spending on user acquisition is offset by efficiency gains in medical and wellness services.

Yeah1 Group

One of the fastest growing 'multi-channels network' companies, or Youtube channel aggregator, in Asia

Yeah1 Group (YEG) is the leading player in Vietnam's online and traditional advertising markets and one of the fastest growing new media companies in Asia. **YEG** operates a unique business model which spans 4 domestic TV channels, a move studio, a vast content library, a media agency and, perhaps most interestingly, a leading online video broadcasting business, or 'multi-channel network', both in Asia and globally.

YEG's 'multi-channel network' or MCN business comprises a partnership between Google's Youtube and a large number of online content providers. **YEG's** employees are trained by Youtube on how to maximise the attractiveness of online video content, a skillset which **YEG** then uses to attract and educate local content providers which it then signs up to its online platform. **YEG** is one of only five full-service Google certified MCNs in Asia and Google has no plans to issue any more licenses, putting **YEG** in a very strong competitive position. **YEG** already ranks #1 in Asia and #6 globally with 149 million subscribers and 4.4 billion average monthly views.

Vietnam's online advertising market is expected to grow at a 31.5% cagr over the next 3 years, driven by rising advertising spend overall as well as the shift from traditional to online advertising. Online advertising penetration in Vietnam is still modest, accounting for just 2.3% of total advertising spend in 2017, but it is expected to reach 5% penetration by 2020. This rapid growth will likely be fuelled by the fact that Vietnam has a very youthful population with over one-third of the population aged between 25 and 35 and where penetration of the internet, smart phones and other devices continues to increase.

We also expect a move towards omni-channel advertising to better meet customer needs. Omni-channel is a multi-channel approach that seeks to provide advertisers with access to consumers whether they are shopping online or offline. This requires a much higher level of cross-channel integration. **YEG's** unique business model spanning online and traditional media, plus excellent working relationships with Google and Facebook, leaves the company well placed to capitalise on the opportunity in omni-channel advertising.

YEG will benefit not only from the growth in online advertising in Vietnam and Asia, but also from the rise of MCNs as an increasingly popular way to consume online video content globally. **YEG** already counts US and European content providers amongst its customer base and the cost per impression which such customers receive is multiples higher than that in Asia. US and European based customers are attracted to **YEG's** low cost operating model, which helps transform their own profitability.

We expect that **YEG's** growth over the next 2-3 years will primarily be driven by two key factors. Firstly, **YEG** should benefit from rapid growth in overall advertising spend in Vietnam and, in addition, even faster growth in online advertising. Secondly, we expect **YEG** to execute a number of acquisitions to further develop and build its ecosystem, as well as to execute its vision to become Southeast Asia's leading digital media platform. Sell side analysts are forecasting **YEG's** revenue to grow in excess of a 50% cagr over the next three years and for profit growth to be in excess of a 70% cagr over the same period.

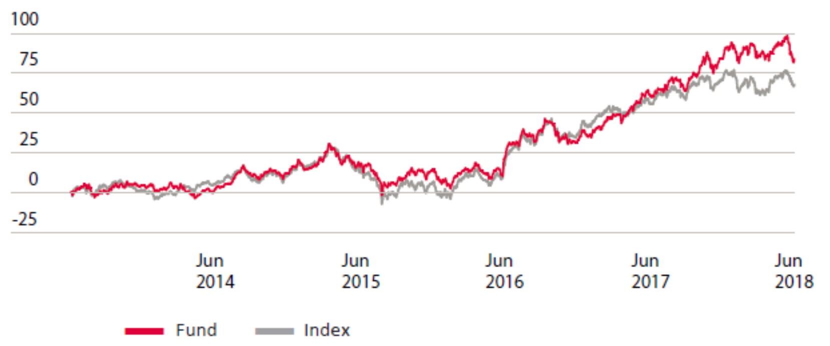
PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 30.06.2018

	U (GBP)	Benchmark **
1 Month	-5.30	-2.93
3 Months	-1.11	2.51
YTD	-0.09	-1.69
2017	38.25	25.43
2016	16.21	27.70
2015	2.14	-3.85
2014	7.59	9.51
Since Launch+	84.21	68.00
Annualised 3 years	16.37	13.84
Annualised Since Inception	13.01	10.94

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

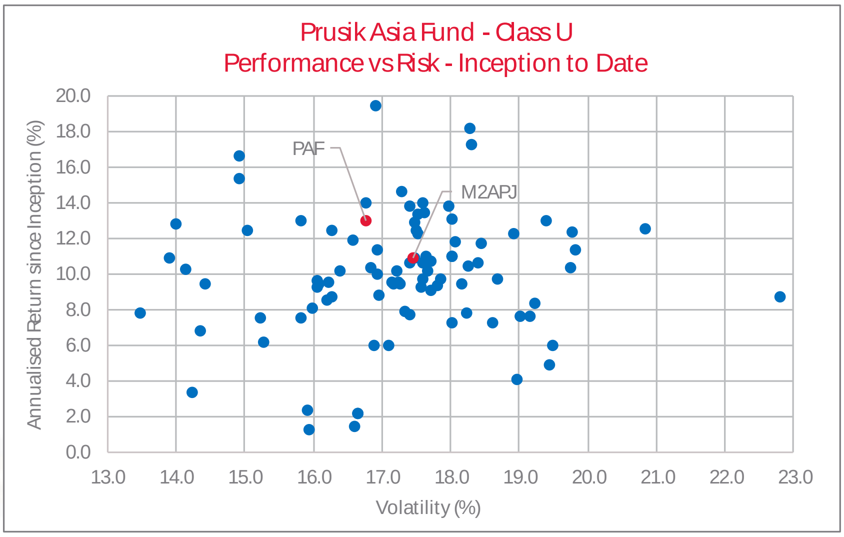
Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2018	3.14	0.11	-2.14	1.19	3.2	-5.3							-0.09
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	0.83
Alpha (%)	2.18
Sharpe Ratio	0.80
Volatility (%)	16.76
% 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 (%)

Haier Electronics	3.8
PetroChina	3.1
Fila Korea	3.1
China Communications Construction	3.0
Wuxi Little Swan	2.9
Total Number of Holdings	41

Portfolio Financial Ratios

Predicted Price/Earnings Ratio	13.0x
Predicted Return on Equity (%)	15.6

* Fiscal year periods

Thematic Breakdown (%)

Infrastructure/Logistics/Property	17.3
Financialisation	14.4
Energy/Resources	13.8
Local Brands	13.2
Healthcare	10.0
Cash	7.7
Artificial Intelligence/Internet	7.2
Vietnam	7.2
Leisure/Tourism	6.3
Education	2.8

Geographical Breakdown (%)

Hong Kong/China	49.5
India	9.3
Australia	9.2
Cash	7.7
Vietnam	7.2
Singapore	6.2
Korea	5.9
Indonesia	2.1
Philippines	1.7
Taiwan	1.1

All data as at 29.06.2018. Source Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size (US)	131.4m
Launch Date	07.10.05
Fund Structure	UCITS III
Domicile	Dublin
Currencies	USD (base), GDP, SGD

Management Fees

Annual Management Fee

Class U: 1% p.a. paid monthly in arrears

Other Classes: 1.5% p.a paid monthly in arrears

Performance Fee

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

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.

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	267.82
B USD	Unhedged	Distributing	B0M9LL2	IE00B0M9LL22	267.99
C GBP	Hedged	Distributing	B18RM25	IE00B18RM256	143.66
D SGD	Hedged	Distributing	B3LYLK8	IE00B3LYLK86	367.84

Performance fee based on individual investors' holding.

Class U			SEDOL	ISIN	Month end NAV
U GBP	Unhedged	Distributing	BBQ3756	IE00BBQ37560	184.21

Performance fee based on fund performance as a whole.

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