PRUSIK

GROWTH INVESTING IN ASIA

Prusik Asia Fund

Quarterly Investment Report 2018
31 December 2018

FOR PROFESSIONAL INVESTORS ONLY

Prusik Asia Fund Quarterly Report Q4 2018

Performance Commentary

In the final quarter of 2018, the Prusik Asia Fund fell 8.6%, whilst the M2APJ Asia ex-Japan index fell 6.6%. This brings to an end a very difficult year for Asia where a combination of headwinds and negative news brought down sentiment and expectations steadily throughout the last nine months of the year. Amongst the key negative factors for Asia were the stronger US dollar, increasing trade tensions between the US and China, a slowing economy and declining domestic sentiment in China and tighter global liquidity as a result of quantitative tightening. The latter, in particular, took its toll starting earlier in the year with peripheral assets, such as Bitcoin, before working its way through more vulnerable markets, such as Brazil and much of South East Asia, and then finally arriving to demolish the US bull market.

By geography, the fund suffered most in Hong Kong and China, which declined sharply in the teeth of the trade war, followed by India, where we saw evolution of the defaults in the NBFC sector (and which we wrote about last quarter) and, finally, Singapore. In contrast, Korea and the Philippines did well. At the stock level our Korean sportswear brand, **Fila Korea**, remained a star performer as did Chinese sportswear brand **Li Ning**. Newly acquired Macao casino operator, **Melco**, also did well. On the negative side, our oil stocks, **Petrochina** and **CNOOC**, did worse than the market. We have written more about these below as we believe there is possible upside to oil in 2019, as governments return to easing and fiscal stimulus once more.

Below is a more detailed analysis of how the fund performed thematically.

4Q18 Absolute Attribution by Theme

Theme	PAF Absolute Attribution 4Q18
Local Brands	0.25%
Leisure/Tourism	-0.19%
Education	-0.36%
Vietnam	-0.45%
Financials	-0.64%
Infrastructure/Logistics/Property	-1.08%
Healthcare	-1.82%
Artificial Intelligence / Virtual Reality	-2.10%
Energy/Energy Services	-2.15%

Source: Prusik/Bloomberg

4Q18 Return on Capital by Theme

Theme	Return on Capital (Weighted Average) 4Q18
Local Brands	4.6%
Infrastructure/Logistics/Property	-2.6%
Financials	-5.0%
Vietnam	-5.2%
Leisure/Tourism	-5.6%
Energy/Energy Services	-10.8%
Artificial Intelligence / Virtual Reality	-17.3%
Education	-19.1%
Healthcare	-19.5%

Source: Prusik/Bloomberg

Outperforming Themes in 4Q18

Local Brands: 12.3% weighting in 4Q18

- The local brands theme returned 4.6% in 4Q18, led by our fashionwear sports brand, **Fila Korea**.

Infrastructure/Logistics/Property: 21.8% weighting in 4Q18

- Our infrastructure/logistics/property theme saw a negative return in 4Q18 but outperformed on a relative basis.
- China infrastructure stock, **China Railway Construction**, performed strongly in the quarter.
- During the quarter, we added Korean shipbuilder, **Hyundai Heavy**, which we believe will benefit from a turn in the shipbuilding cycle.

Financials: 8.2% weighting in 4Q18

- Our financials theme saw a negative return in 4Q18 but outperformed on a relative basis.
- Our Chinese brokerage, **Citic Securities**, was steady in the quarter, which supported performance.
- During the quarter, we exited Indian mortgage finance company, **Indiabulls**, as tighter liquidity for NBFCs looked set to slow growth and lower ROEs from here.

Underperforming themes in 4Q18

Education: 1.8% weighting in 4Q18

- Our education theme saw a worse than index return in 4Q18.
- This is a single stock theme comprising Chinese higher education provider, **China Xinhua**.
- Punitive regulation in the sector led the stock to correct. We remain invested in the company due to its strong franchise.

Healthcare: 8.5% weighting in 4Q18

- Our healthcare holdings were weak across the board in the fourth quarter.
- We believe value in the sector is now beginning to emerge.

Artificial Intelligence / Virtual Reality: 9.9% weighting in 4Q18

- Our artificial intelligence / virtual reality theme saw a worse than index return in 4Q18.
- Two exposures in China, **Ping An Healthcare and Technology** and **Kingdee**, were the key headwinds.
- We remain a holder of **Ping An Healthcare and Technology** based on its innovative approach to the rapidly growing GP services market in China.

Full Year Overview

The past year began well with the fund outperforming in the first quarter by quite a considerable margin. As the year progressed, a number of factors came to the fore, which we believe are temporary, but which have created a more challenging environment and contributed to the more negative relative returns since the second quarter. Thus, in 2018, we saw the Asia ex-Japan index fall 8.3%, while the Prusik Asia Fund fell 9.6%. This is, prima facie, a little disappointing but it should be noted that most of the relative decline came in the third quarter on 2018, notably in July, where the main force of the US/China trade war was felt in Hong Kong and Chinese equities, giving the fund some considerable headwind.

A number of factors have contributed to the significant weakness in Asian markets this year. Firstly, the re-emergence of US dollar strength created huge weakness in emerging markets and our exposure to Vietnam, Pakistan and Indonesia suffered accordingly during the middle part of the year, despite particularly excellent domestic fundamentals in the case of Vietnam. Secondly, the US-China trade war has taken its toll on Chinese and Hong Kong equities and on top of this domestic sentiment in China deteriorated to near record levels, depressed further by declining domestic growth expectations and rising uncertainty around how the government will respond. Thirdly, the abrupt interruption of the oil rally sapped our relative return in this theme in the final quarter. In addition to this, during the mid-year we had two stocks, **ZTE** and **Beijing Capital Airport**, which were both driven down by events and thus contributed negatively to performance.

It is important to note that since the final quarter we have deliberately not been positioned in the most defensive sectors as both our thematic work and stock valuations suggest that we are at or near cycle valuation lows and, as a result, there is likely considerable upside from here for Asia ex-Japan, most probably in relative terms globally, but also, very possibly, in absolute terms. Hence, we are positioned for what we believe is a better decade ahead for our region, most likely starting in 2019.

On the positive side, we did side-step some major pitfalls this year, most notably the extreme weakness in the internet stocks, which we sold early in the second quarter. In their place we bought Chinese consumer brand, **Li Ning**, and Australian LNG producer, **Woodside Petroleum.** These have proved to be strong relative performers to the internet sector since purchase but were not immune to the overall weakness in China sentiment that gathered pace in the final quarter. We also bought a number of leading China infrastructure stocks, which were very strong relative performers versus the internet names, with the strongest comparison between stocks bought and sold yielding a peak of over 50% relative performance.

From a thematic perspective our local brand stocks were amongst the best performers this year, especially Australian wine producer, **Treasury Wines** (since sold as it reached our full valuation potential) and Korean sports fashion brand, **Fila Korea**.

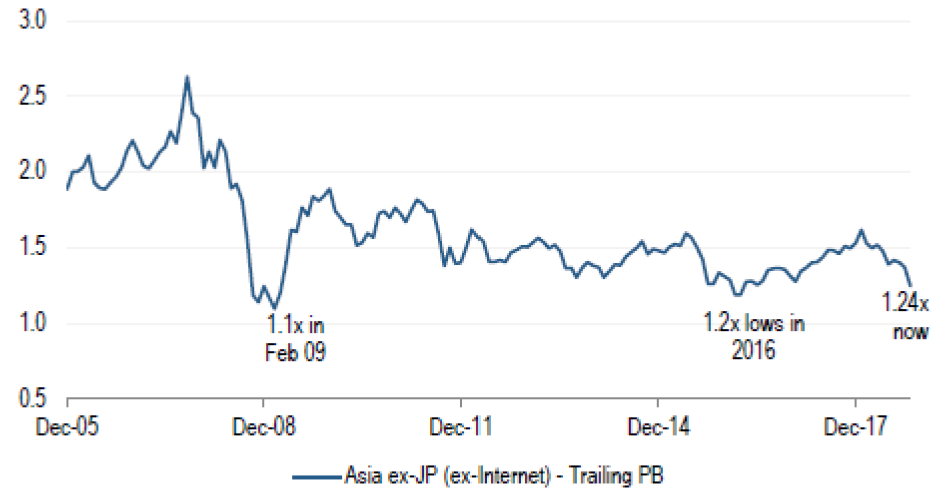
The most disappointing area was the clean energy theme, led by Chinese EV bus maker, **Yutong Bus**, which was subject to lower than expected orders and a shifting environment around government subsidiaries, which caused uncertainty and weakness.

Valuations and Outlook

In our 3Q18 report we wrote the following, which given that the M2APJ index finished the year 6.7% below the end of 3Q18 levels and is still below those levels, despite a rally during January, this observation remains equally apposite today:

The global risk-reward of being invested in Asia is now beginning to look very attractive. At the time of writing, after recent sharp falls, and as the chart below from Credit Suisse highlights, the Asia ex-Japan (ex-Internet) P/B has dropped to 1.24x which is just 3% from the lows of 2016. While no two episodes are ever exactly alike, there are current similarities with 2016 e.g. Fed tightening, US dollar strength, a falling Renminbi and a weak Chinese economy. With some analysts suggesting the current environment (largely because of the trade wars) could be worse than 2016, we would also point out that the current P/B of 1.24x is now just 13% from the Global Financial Crisis (GFC) lows of 1.1x P/B.

Figure 1: Asia ex. Japan ex. Internet P/B



Source: Company data, Credit Suisse estimates

It is important to also note that the Asia ex-Japan index (inclusive of internet) is trading on a P/B of 1.45x but over the last 30 years, has traded 96% of the time between 1.2x and 2.5x P/B, and has averaged 1.75x P/B. Given that ROE has averaged 12% over this time and there has never been a 3-year period where it has averaged under 5% then, even taking into account a worst-case scenario, the downside from here is not significant at around -2%. If the outcome is to return to averages then the total return upside is 17%.

MXAPJ Index	479.51		
BOOK_VAL_PER_SH	330.28		
Current P/B	**1.45**		
		3 year expected annual returns	ROE assumption
Bear case (1.2x P/B, 5% ROE)	**1.2**	**-2%**	5%
Base case (1.75x P/B, 12% ROE)	**1.75**	**17%**	12%
Best case (2.5x P/B, 18% ROE)	**2.5**	**37%**	18%

Source: Prusik/Bloomberg

We believe the key risk for the Asia ex-Japan P/B overshooting the 2016 lows on the downside comes from US equity valuations where the P/B is a lofty 3.27x

Investors still have time to make the most of the very unusual valuations we are seeing and buy Asia ex-Japan but it is important not to delay. If the Fed begins to ease and China's current easing is supplemented by further policy action, both of which are likely in our view, and we see some kind of resolution to the trade issues between China and the US, it is very possible that we will see Asia ex-Japan begin to outperform other world markets in 2019.

The challenge to this more benign outlook might be that earnings forecasts for the region have most likely further to fall and we expect average earnings potentially to be as low as 5% in 2019, absent any significant policy changes. That being said, any sign that equities are rising in spite of lowering of earnings expectations means we should be taking this relative turnaround very seriously. We have seen some evidence of this in January.

In the longer term we believe that Emerging Markets, in general, are beginning what will turn out to be at least a 5-year period of outperformance versus US equities, and that Asia will be at the forefront of this. Cheaper valuations and radically lower corporate debt levels in Asia and a peak in the US dollar, providing better liquidity in the region, are all very good reasons for a global change in leadership. In addition, we suspect that we have also seen a peak in the relative performance of growth versus value. Loosely translated this means technology has peaked versus financials. This makes strong sense, especially where several countries in Asia will stand to benefit hugely from the stabilisation of interest rates in the West. Indonesia, Vietnam, the Philippines and India, for example, could all significantly ease monetary policy, driving up valuations in the financials sector. In China, it looks most likely a similar pattern will emerge and banks, insurance and brokers have all seen a strong start to 2019

Portfolio Construction

We have gradually increased our exposure to **financials** in recent weeks, on which more below, and over the past nine months we have reduced significantly (to under 5% of the portfolio) our exposure to technology, both in the internet and hardware segments.

Technology hardware is struggling in the new era of slower smartphone growth, the US-China trade tariff negotiations and the longer terms uncertainties brought about by what looks like the building of a technology 'cold war' between China and the US, starting with the 5G companies. We would be very wary in the near term until we see exactly how the US-China relations evolve on this.

The **internet companies** are also almost certainly going to struggle to make new highs, given the increasing regulation that is creeping in globally (e.g. gaming in China and GDPR in Europe), the risk of rising taxes and the medium-term threat of the new internet 3.0 which will use distributed ledger technology (like blockchain), AI and AR to overturn the current prevailing business models. In particular, we expect users to become savvier around the value of their own data, which companies in the future will have less free access to or will be asked to pay for. Both these things could threaten valuations and impede performance.

We see the **financialisation** theme as a good proxy for 'value' and as such likely to take over the leadership from tech, driven by the ending of quantitative tightening and resumption of lending cycles in the developing economies in Asia. As can be seen from the long-term charts below, we look to be ending a long period of outperformance of 'growth', or in effect technology, as the greatest proxy for this and the largest constituent of the market to fall under this heading. Like all major shifts in direction after a long period of time, it will take investors most likely a minimum of two years to realise and make adjustments for this.

Source: CLSA

Source: CLSA

We also remain very optimistic for sectors where supply is constrained and demand could be stronger than expected such as in **oil** and **LNG** and also **gold**. We also continue to be very positive about the longer-term opportunities in our **local brands** themes, and especially so in India, but both are more expensively priced than many other areas. The fund still has a significant weighting to infrastructure, mainly in China. We believe that this year will be a very strong year ahead for these companies.

We do acknowledge the risks still presented by China but equally expect there to be some kind of resolution to the trade negotiations. If so, and if this is coupled with more stimulatory measures by the Chinese government, then given the current extreme negative domestic sentiment and very low valuations, we could see a much stronger year ahead in equities overall here.

China, Oil and Cars

China's economy is probably not as bad as its car sales look (and neither are its car sales). It is possible that the recent spate of poor numbers on consumption and car sales are actually year-on-year comparison illusions, largely driven by tax incentive distortions in car sales in 4Q17.

Car sales in China have never had a 'normal' year as they have increased by around 640% between 2005 and 2018, with annual growth varying from 52% to -4%. First-time car buyers still dominate China's car market as the installed base is not yet old enough to need much replacing. The correct indicator for China should therefore be the installed base, which actually increased 11.4% in 2018, an addition of 21 million cars, and just shy of the 22 million cars added in 2017.

Without the tax incentive distortions in 2018, analysts believe retail car sales will be more or less flat year on year in 1Q19. This could result in a feed through recovery in the numbers for both retail sales and industrial production as well as GDP.

While new car sales did fall 4% in 2018, it is interesting to note that electricity production increased 6.8%, while net imports of crude oil increased 11% (surging 24% in 4Q18) and natural gas demand also increased 18%. To energy analysts, the 2018 China slowdown feels very different from the 2015 China slowdown when electricity production fell 0.2%. The divergence between falling new car sales and accelerating energy demand should further belie the usefulness of car sales as a macro indicator.

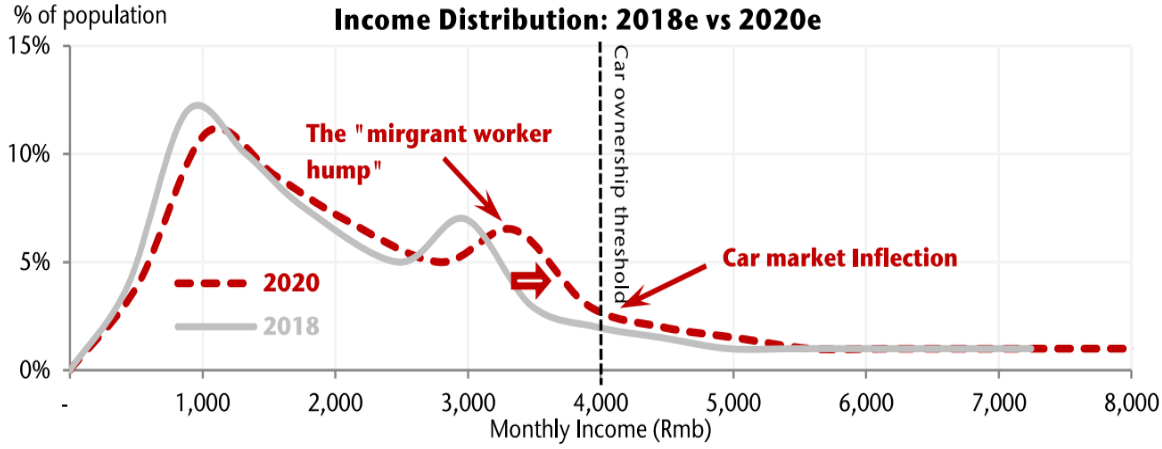
It is also worth noting the December data actually turned out to be better than we expected, largely cauterizing the apparent bloodletting in November. Car production was expectedly bad but industrial output recovered materially to 5.7% growth from November's record low of 5.4% and energy demand appears to have ended the year looking very strong, perhaps because of recovering infrastructure fixed asset investment in 2H18.

Cars

Despite near-term weakness, we believe China's car market is nowhere near peaking. While car ownership is saturated among China's wealthy, analysts expect a massive population hump to start crossing the car ownership income threshold of Rmb 4,000/m in two years' time.

Despite a decade of rapid growth, only a small portion of China's consumers can yet afford cars (China had 13.6% private car penetration by end 2018). These urban professionals represent the top 17% of China's income distribution. We believe the pent-up demand that supported high car market growth in early years has largely been digested over the past decade and given the flat population distribution across China's urban professional income bracket, intrinsic car demand growth could be low in the near term. However, in about two years, continued income growth should start driving China's migrant workers across the car ownership threshold. The steep population hump of China's fortune-seeking migrants will result in a multi-year growth surge for China's car market.

In recent years, 1-2% of China's population has been crossing this threshold every year - this could accelerate to 3-6% in the medium term.



Source: *The General Theory of Income Distribution of Chinese Residents*, Jefferies

In the meantime, China's revised 2019 income tax regime will benefit workers with monthly salaries over Rmb 14,000 the most, with some enjoying over 10% increases in take-home pay. While car ownership for this segment should be saturated, it is possible that tax savings may motivate trade-up purchases of newer higher-end models (aside from increased spending on travel, healthcare, leisure, luxury, etc.)

Oil

Oil demand and China's car population are quite intertwined, especially if you add in a change of China's car usage and driving habits. We are already seeing this heralded in the rise in popularity of taking holidays whilst staying in China.

In fact, China ended 2018 with two massive months of crude imports. We thought November's 10.4 million barrels per day of net imports was an anomaly only for it to be repeated in December. According to Reuters' estimates, tanker imports into China will peak in January at over 10 million barrels per day. If rail/pipeline imports from Russia continue at recent rates, January crude imports could top 11 million barrels per day. If this is the case, year-end import strength was not an anomaly of teapot refiners rushing to use import quotas, but rather Chinese refiners taking advantage of low crude prices to seasonally replenish working inventory.

This recent data still looks like a bullish sign for the oil price to us. Remember it took a mere 2 million barrels of demand contraction to push the oil price down by over 50%. As we have written before, it looks as though the IEA's estimates for Chinese incremental demand growth are far too conservative (they have just 400K for 2019), whilst this data suggests it is tracking at roughly 1 million per day, up from 800K last year. Given everyone relies on the IEA figures for their estimates, when they eventually have to admit they were wrong, it could lead to a big lift in global oil price expectations on the basis that supply remains relatively constant.

If these signs are correct then the oil price is a possible risk factor that the markets are not paying much attention to for 2019. The inflationary effect of a more than 30% move would pressurize a number of country's current acccounts, and not just in Emerging Markets. Indeed, we could say that it was the decline in the oil price, not proactive central bank actions that prevented the stock market pull back of 4Q18 from gaining momentum.

We retain a significant weighting in oil and energy, at the time of writing this theme comprises 10.4% of the portfolio. Chinese giant, **CNOOC**, is our largest position. Impressively, the company has paid down all debts and as of the most recent financial report are net cash. Management's 2019 strategy meeting last week illustrated how far **CNOOC** has come. For the fourth year in a row **CNOOC's** capex spend came in below budget. Production guidance was raised to 4.4% for 2019 and it seems the company's overseas production pipeline is about to start bearing fruit - the Egina field in Nigeria commenced production in 2018 and Appomattox in the Gulf of Mexico will start producing in 2H19. There seems to be some growth here.

CNOOC is trades at a sizeable 30% discount to its US peers and at around a 50% discount to its closest comparative company, Occidental Petroleum, in the US. **CNOOC** is the most levered name to rising oil prices in Asia and should do well as we expect China's oil demand growth will accelerate in 2019 to well over 1 million barrels per day and will continue rising through to 2025 as Chinese disposable income (and leisure spending) accelerates.

Ping An Insurance

Market Opportunity

Despite being the second largest life insurance market globally after the US with $318 million in life premiums, China recorded near record industry growth of 21% year on year in 2017.

China's per capita GDP surpassed US$8,000 in 2017 and is approaching US$10,000. Global experience suggests this has been a significant take-off point for life insurance penetration, which currently stands at 2.7% in China (versus a world average of 3.3%). Chinese provinces and cities surpassing $10,000 per-capita GDP have accounted for c.50% of the national life market in recent years. Over time more provinces will join this middle-class league.

The developed markets in the Americas (US, Canada) and Asia (Japan, Korea and Taiwan) share a common trend which is that once penetration takes off, the secular up-trend typically lasts for more than 10 years or even multiple decades. In addition to the opportunity resulting from rising penetration, there also tends to be an upgrading of products demanded over time. For example, as the middle-class expands, a growing protection awareness/gap leads to a shift from savings and simple life products to protection/health products. Further, as society reaches affluent levels and the population ages, the desire for investment begins to dominate, leading to a shift to annuity/linked products. We think China is transitioning from the initial stage to the protection stage, and coupled with government window guidance, this will propel an ongoing product mix upgrade and support margins of the insurance companies.

Structural Drivers

Demographic changes call for the stronger presence of the insurance industry. We have expanded on these demographic changes below.

Ageing Society

China has become an ageing society and the great retirement burden leaves huge room for life insurance companies to tap into the market. As of 2017, the Chinese population aged 60 or above reached 241 million, 17.3% of the total population. This means that China has become an ageing society according to the definition of the United Nations, and it is estimated that the senior population in China would reach 250 million by 2020. In 2017, the basic old-age insurance system incurred a deficit of Rmb 621 billion. China's government health expenditure has also seen an 18.9% CAGR throughout 2001-2017, totalling Rmb 1,521 billion in 2017 as compared to Rmb 80 billion in 2001.

More importantly, despite the huge burden on society, many have not started to plan for their own retirement. According to the 2018 survey from the Center on Ageing Society at Tsinghua University, only 9% of the respondents have a retirement plan outlined. A concerning 69% of the respondents have not started financial preparation for their retirement. This illustrates starkly that there is a big retirement planning gap.

Urbanization

Another structural driver for demand for insurance products is urbanization. China's urban population reached 58% of the total in 2017 and is still rising sharply. Income levels generally improve as people join the cities, leading to more economic activities and the need for insurance. In terms of personal insurance products, P&C sales would go up as more people purchase property and vehicles, while upgrades in living standards would drive up life insurance sales for protection and savings products.

Other than economic growth, social changes and phenomenon also prompt insurance demand. Not only does the aforementioned ageing population urge needs for pension and retirement insurance, the larger mix of financially literate individuals mean that more are able to purchase more complicated products. Their health consciousness and more frequent check-ups might mean that they are more likely to purchase health-related insurance.

Family Structure Changes

The changes in family structures in China might also urge more people to turn to insurance products. Ever since China implemented its one-child policy in 1979, fertility rates have been going down. Coupled with urbanization and economic development, fertility rates have stayed low at 1.6 births per woman as of 2016. This suggests a larger family burden for the younger generation of today. The "4-2-1" structure is a commonly seen family structure in China, meaning that each couple would need to support four parents and one child. Accordingly, the age dependency ratio (the ratio of population aged above 65 to the labor force) in China has risen from 10.0% to 15.0% through 2000 to 2016.

Regulatory Environment Supportive

China's insurance industry resumed in 1979 and has in the past 40 years developed into an Rmb 17.8 trillion market in total assets, the second-largest financial segment in China by scale. Looking back, the industry development has been very much policy and macro driven, where changes and insurers' profitability are mostly influenced by regulations and financial market fluctuations.

Recent regulatory tightening measures in the life sector (such as Document 134, issued by the regulator, which raised the minimum maturity to 5 years) and loosening measures in the P&C sector (mainly auto insurance liberalization) have been no exceptions in changing China's insurance industry's landscape. Looking ahead, we expect the regulatory environment to largely stay benign considering the very large number of industry practitioners involved. The newly released tax reduction reform on insurance agent commission income is an example.

Overall, we are positive on the life sector, as we expect a gradual and sustainable recovery after a painful 2018. Our confidence is based on, firstly, incrementally improving operating trends (premium mix upgrade, rising agent productivity and retention rate, rapid growth of protection products) and, secondly, favourable structural drivers from the society, including a widening protection gap, rising awareness of insurance and demographic shifts.

Headwinds

The near-term headwinds for the life sector are falling interest rates and 'jump-start' pressure. 'Jump Start' sales are low margin products launched at the start of the year but here we believe the impact is more on the sentiment side rather than the profit side. Hence, we see great value in life insurers after the notable stock price declines of 20-40% during 2018.

We like life insurers that develop their proprietary distribution networks and cultivate agents to sell relatively complicated protection products, pursue quality and maintain healthy risk management over short-term scale expansion. We also like those that have forward-looking mindsets and explore new opportunities to tap into the potential in lower-tier cities and high-end retirement businesses.

Ping An is a core holding in this regard for its sector. The company makes a high teens return on equity, has consistently generated robust profit growth and, finally, has scope for future tech-powered profitability. **Ping An** trades on 0.9x price to embedded value and on a 2019 P/E of just 8x. The company's ROE is forecast to reach 18% in 2019.

In addition, we like **Ping An-A** because it has consistently delivered best-in-class operating results, it could be the biggest beneficiary of agent income tax reform, it will likely be least affected by the falling interest rate among life insurers, there is a potential share repurchase, more likely in the A-share, which would limit downside, and its CO-CEO arrangement alleviates a Chairman succession overhang.

We prefer **Ping An-A share** to Ping An H in that the former provides a unique A-share discount (-3.8% versus 33-112% premium of other dual listed insurers!) and the potential share buyback is more likely to take place in A-shares. Most investors view the potential share buy-back as the least important driver, suggesting market expectation on this front is low. As the buy-back plan was approved already at the EGM in December and **Ping An** has a solid solvency ratio of 228%, execution of a buy-back could boost sentiment further.

CRRC

We recently purchased rolling stock maker, **CRRC,** with the core rationale for owning the company being that orders for railway capex will pick up dramatically in the March budget and that the consensus assumptions will be too conservative.

Even leaving aside the basic assumptions below, which ascribe a likely earnings growth picture for **CRRC** which is already well above the average 5% for the region in 2019, there is upside risk from better orders/increased government spending, rising margins and a higher dividend payout.

Rising Rail Equipment Capex

The government's spending on rolling stock procurement is still in the upcycle. Although **CRRC's** detailed 2019 budget has yet to be released, **CRRC** expects total rail fixed asset investment in 2019 to be no less than the 2018 level of Rmb 803 billion, indicating growing scale on rolling stock spending with rising demand for most product categories. A detailed rail budget is likely to be released in early March, alongside the publishing of a government work report. We expect this to be higher than forecasts.

Solid Tender Guidance for 2019

For 2019, **CRRC** expects at least 25% year on year growth in locomotive orders (to more than 1,000 units from 801 in 2018) with a further product mix upgrade. Besides solid EMU tenders (similar to the 2018 level of 350 standard sets), demand for push-pull EMU models may more than double from the 46 units in 2018 to over 100 in 2019, beating consensus estimate of 80. **CRRC's** procurement of freight wagons would be maintained at the high level of 60,000 (versus over 57,000 in 2018). In 2018, the metro car tenders of more than 6,000 units missed **CRRC's** expectation due to slower progress of some projects, but management believes this should improve to 8,000 in 2019 on better local financing.

Visible Catalysts into 2020

Looking into 2020, several earnings drivers are highly visible, including continued freight fleet expansion thanks to **CRRC's** plan of freight traffic increase (likely beyond 2020) as well as solid revenue growth from level 3-5 maintenance for EMU (maintenance is 15% of sales). Additionally, the company will enjoy the start of high-grade maintenance for HX series locomotives and concentrated metro car delivery of its existing backlog.

Additionally, the downtrend in capex and a better cashflow outlook, **CRRC** is also considering raising its dividend payout ratio. As a newly assigned pilot company for SOE reforms, **CRRC's** detailed plan is still under discussion. However, at 11.6x 2019 P/E and 16.6% ROE and current dividend yield of 3.3%, we believe there is a significant upside for the company in any event and any boost to the dividend would be taken very positively.

Gold

We added Australian gold mining company, **Newcrest Mining** to the portfolio later in the year and it has been one of our best performers since purchase.

Slowing global economic growth is forcing central banks to shift policy. We have been writing for months about this shift at the PBOC, and in the last few days the Fed capitulated. Mario Draghi, President of the European Central Bank, has repeatedly warned how the eurozone economy is performing worse than expected and global uncertainty is weighing on economic sentiment.

Over the past three decades, the price of gold has been the best barometer of deflation and reflation**.** Once again gold anticipated last year's central bank shift, rallying from a low of $1,200 on November 12, 2018 to its current price of $1,328. Before that, gold fell sharply from its 26th March 2018 high of $1,353 to $1,174 on 16 August 16 2018, correctly anticipating once again the global economic slowdown and the big drop in the U.S. stock market last fall that shocked market participants.

Gold has now broken above its 2011 downtrend line and only needs to decisively break above $1,400 to confirm the new secular bull market. As we have argued for over a year, the dollar is weakening on the news of Fed capitulation, which may be the most important economic event of this year and the years to come.

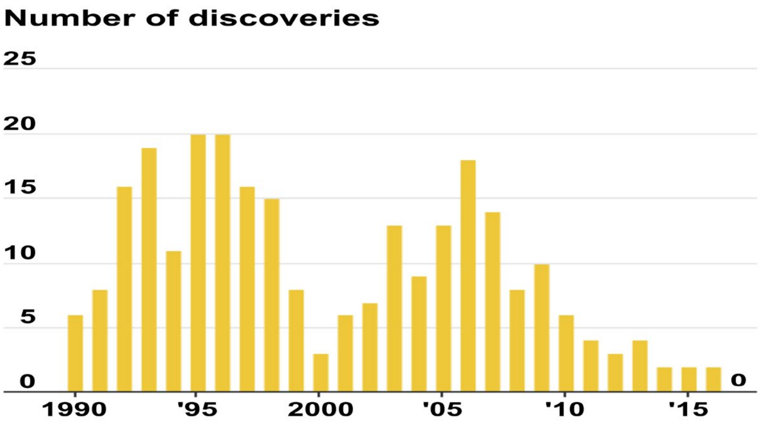
We have studied gold and its movements our entire business career. Few market participants, especially in the US, really understand gold, believing it is only a safe haven. Due to the bear market in gold from 2011-2015, and the many deep tests since then, gold and gold shares are as under-owned and as hated as they have ever been. These deep tests remind us of 1978-1982 in US equities, before the massive bull market began in the summer of 1982.

Gold correctly saw the deflation of the mid 1970s when US real estate prices crashed as well as the intense deflationary period of 2011-2015. Gold correctly foresaw the stagflation that consumed the US economy in the late 1970s when the bond market crashed on the heels of double-digit inflation.

Recall that when the Fed eased policy in 2001 in the wake of the 9/11 attacks and economic recession, gold began a seven-year bull market that resulted in a gain of nearly 300%. When the Fed eased policy aggressively in the fourth quarter of 2008, gold began a three-year bull run that resulted in a gain of more than 170%.

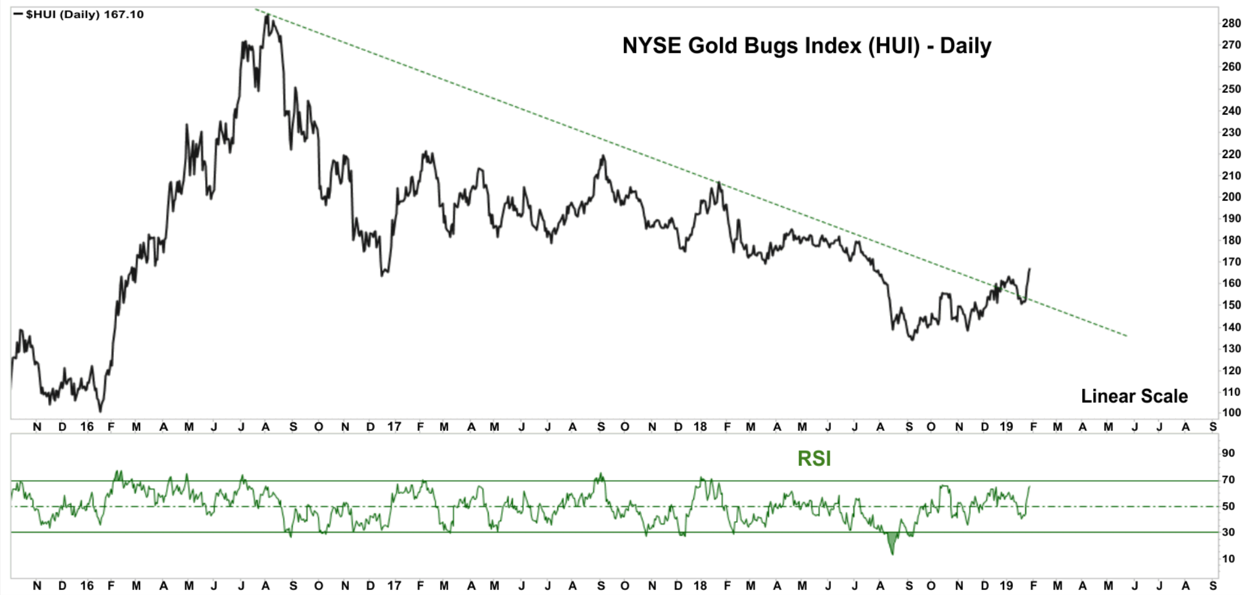
Just 216 million troy ounces of gold has been found in 41 discoveries in the 10 years to 2017, compared with 1,726 million troy ounces in 222 discoveries in the preceding 18 years, according to S&P Global Market Intelligence. There were no discoveries made in 2017 according to S&P.

In addition, global exploration spending is down roughly two-thirds since 2012, which implies this trend is not going to reverse anytime soon. South Africa, which is one of the world's largest gold producers, experienced declining year-over-year gold output for 14 consecutive months through last November, when output fell 14% year-over-year.



Source: S&P Global Market Intelligence via The Wall Street Journal

While supply growth has languished, investment demand for the yellow metal, which averaged 254.6 metric tons per quarter during the first three quarters of 2018, is running at only half of the level when the gold price peaked in 3Q11. When central banks reflate, investment demand will accelerate once again – indeed, The Financial Times has recently written that central bank gold-buying has reached a half-century high, the highest since America moved off the gold standard in 1971. This was fuelled by shifting reserves away from the US dollar. Given that America's battle over trade and other issues with many countries will continue, this shift away from dollars by central banks has probably only just begun. This may be the great wildcard in the gold demand-supply outlook and yet another example of the unintended consequences of American foreign policy.



Source 13D

Source 13D

Compelling valuations have emerged in gold mining stocks after a long period of underperformance. **Newcrest Mining** caught our attention for two key reasons. Firstly, on a technical basis, its R/S chart versus the S&P 500 fell as much as 90% since the gold-price peak in 2011. Intriguingly, **Newcrest's** broke above its 2016 downtrend line, and its 50 and 200-day moving averages formed a golden cross, during the fourth quarter of 2018 when most equity markets went into a tailspin. **Newcrest** is a stock worth owning when central banks reflate, and after a decade of underperformance, is a low-risk way to participate in a rising gold price.

Secondly, **Newcrest's** 2P reserve life has been estimated at 26 years, which is bigger than the industry's heavyweights, such as Newmont Mining and Barrick Gold. **Newcrest** has an estimated 62 million ounces of gold ore reserves, with nearly 2.5 million ounces of annual output now generated in Australia, Indonesia and Papua New Guinea.

In addition to its long reserve life, **Newcrest** has done an admirable job of keeping costs under control during a period in which ore-grades have generally been eroding. Between FY14 and FY18 (June year-end), the company's all-in sustaining cost declined by 7% to $835 per ounce, while EBITDA grew 13% to $1.6 billion. Furthermore, the company has accomplished this while lowering its net debt to EBITDA ratio from 2.7x in FY14 to 0.7x in FY18**.** Capex and exploration expense is generally kept to less than depreciation and amortisation, which has enabled the company to generate free cash flow of nearly US$3.4 billion over the last 4.5 years up from $601 million in FY18. Net debt to capital approximated 12% at the end of FY18.

In addition to exposure to an improving outlook for gold bullion, **Newcrest** stands to benefit from reallocation of capital away from the prior decade's winners to its losers, especially those that are likely to benefit from a weakening of the US dollar.

Source13D

Financialisation Versus Technology

We reduced technology exposure throughout 2018, starting with selling the internet companies in the first half. We are now slowly building back up our exposure to financials, and have recently bought two Indonesian banks, **Bank Mandiri** and **Bank Rakyat**, on expectations that interest rates can now fall significantly in Indonesia as the US abandons quantitative tightening. We have also bought back Chinese insurer, **Ping An**, after a tough year in 2018.

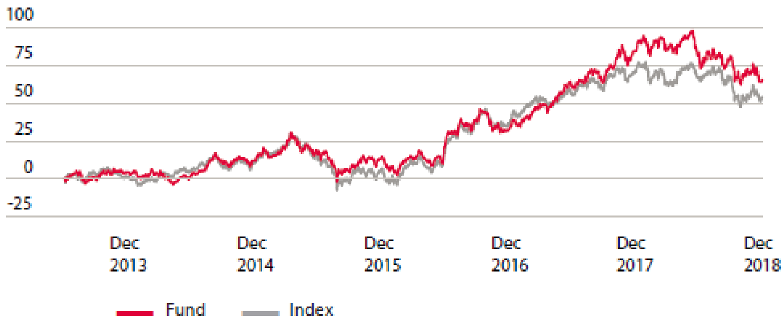
PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 31.12.2018

	U (GBP)	Benchmark **
1 Month	-3.10	-2.57
3 Months	-8.56	-6.64
2018	-9.63	-8.32
2017	38.25	25.43
2016	16.21	27.70
2015	2.14	-3.85
2014	7.59	9.51
Since Launch+	66.62	56.68
Annualised 3 years	13.23	13.66
Annualised Since Inception	9.73	8.51

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

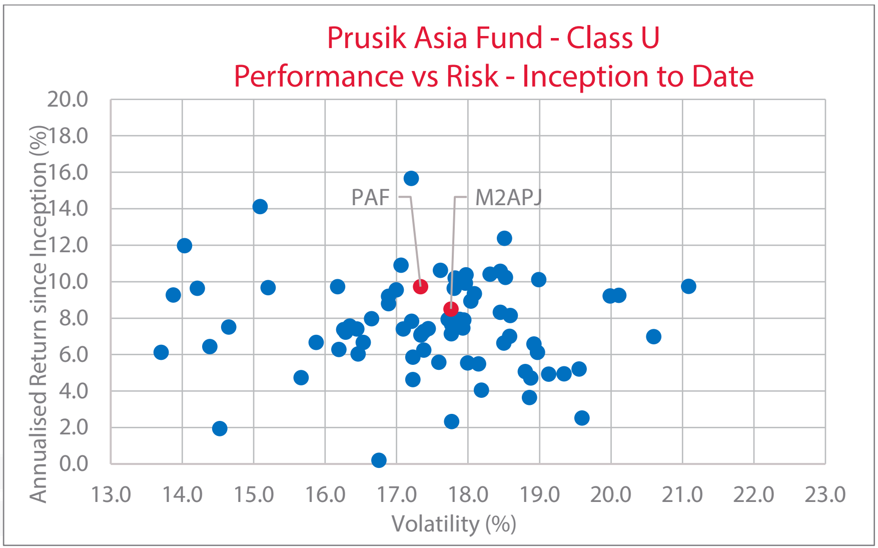
Monthly Performance Summary (%)

	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	-0.96	-0.86	0.74	-8.81	3.48	-3.10	-9.63
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	0.85
Alpha (%)	0.95
Sharpe Ratio	0.49
Volatility (%)	17.33

Source: Morningstar
Since Inception: U: 01.07.13



Source: Morningstar

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

China Railway Construction	4.0
Hyundai Heavy Industries	3.9
Melco International Development	3.8
Infosys Ltd	3.2
China Communications Construction	3.2
Total Number of Holdings	37

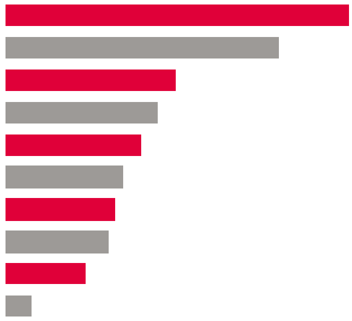
Portfolio Financial Ratios

Predicted Price/Earnings Ratio	12.0x
Predicted Return on Equity (%)	14.4

* Fiscal year periods

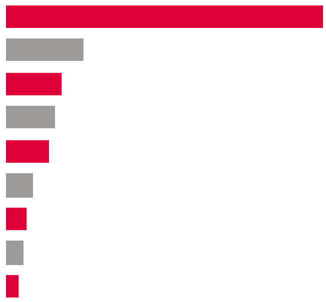
Thematic Breakdown (%)

Infrastructure/Logistics/Property	22.9
Energy/Energy Services/Resources	18.1
Leisure/Tourism	11.3
Local Brands	10.1
Financialisation	8.9
Vietnam	7.8
Artificial Intelligence/Internet	7.2
Cash	6.8
Healthcare	5.2
Education	1.6



Geographical Breakdown (%)

Hong Kong/China	51.9
Australia	12.5
Korea	8.9
Vietnam	7.8
Cash	6.8
Singapore	4.2
India	3.2
Taiwan	2.7
Philippines	1.9



All data as at 31.12.2018. Source Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size (US)	121.51m
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	234.12
B USD	Unhedged	Distributing	B0M9LL2	IE00B0M9LL22	234.27
C GBP	Hedged	Distributing	B18RM25	IE00B18RM256	124.30
D SGD	Hedged	Distributing	B3LYLK8	IE00B3LYLK86	319.74

Performance fee based on individual investors' holding.

Class U			SEDOL	ISIN	Month end NAV
U GBP	Unhedged	Distributing	BBQ3756	IE00BBQ37560	166.62

Performance fee based on fund performance as a whole.

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