PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asia Fund

Quarterly Investment Report
31 March 2017

FOR PROFESSIONAL INVESTORS ONLY

1Q17 PAF Quarterly

In the the first quarter of 2017 the Prusik Asia Fund saw a rise of 11.9% versus the index rise of 12.8%. Stock markets were strong across the board, led by India and China. During the quarter we saw increasing evidence of improving economies with macro-economic data widely picking up. This was mostly reflected in the strong outperformance of cyclicals versus growth or defensive stocks, especially in North Asia. This is partly being driven by the fact that ROEs for cyclicals have been rising whilst their price to book ratios remain low relative to growth and defensive stocks. In ASEAN this valuation gap combined with cyclical companies' ROE improvement, is still wide enough to drive another quarter, at least, of outperformance from this segment.

For the fund this meant a quarter of mild underperformance but we did see some very good moves from some of our themes, especially local brands and financialisation, which have more of a cyclical element and which are geographically more skewed to North Asia.

No element of the portfolio was a serious detractor in terms of performance during the quarter, although Vietnam, while it produced a very healthy return of 11.6% in 1Q17, nevertheless underperformed slightly, which caused a drag on overall performance owing to the fund's sizeable weighting in this market. As we wrote last quarter we remain very positive on Vietnam and expect that when the cyclical catch-up is complete that we will see the relative performance of Vietnam recover again.

Below is a theme by theme look at performance attribution for this quarter and some of the key changes in each theme.

<u>Outperforming Themes in 1Q17</u>

Local Brands: 9.3% Average Weighting in 1Q17

- Local brands was the stand-out best performing theme in 1Q17, generating a return of 21.5%.
- Performance was led by **Haier Electronics**, which was driven by a more buoyant Chinese consumer, strong ecommerce sales and **Alibaba** increasing its stake in its logistics business.
- China noodle and snack brand, **Uni-President**, was replaced with branded jewellery retainer, **Chow Sang Sang**, as the latter offered better growth for a more attractive valuation.

Financialisation: 22.4% Average Weighting in 1Q17

- The financialisation theme returned 17.6% in 1Q17.
- We saw an exceptional rebound in **Indiabulls** as results confirmed that there was no impact from demonetisation.
- Chinese insurers continued to deliver strong returns as bond yields in China ticked up again.
- **Bank Negara** in Indonesia was added to the fund and is off to a strong start.

Artificial Intelligence / Virtual Reality: 23.1% Average Weighting in 1Q17

- The artificial intelligence / virtual reality theme saw a 14.9% return in 1Q17.
- **Samsung Electronics** led the way post strong results and improved returns to shareholders.
- We added a voice recognition company, **Iflytek**, and the surveillance leader, **Hikision**, both of which are China A-shares.
- We exited **Silicon Motion** in Taiwan owing to growth concerns.

__Underperforming Themes in 1Q17__

Vietnam: 18.4% Average Weighting in 1Q17

- The Vietnam theme saw a healthy return of 11.6%, however, this was slightly below the index return.
- 4 out of 6 stocks performed well led by dairy brand, **Vinamilk**, and broker, **Saigon Securities**.

Clean Energy: 1.5% Average Weighting in 1Q17

- The clean energy theme saw a return of 2.4% in 1Q17.
- This theme has been gradually reduced since mid-2016. In 1Q17 the remaining stocks in this theme were sold (China EV car brand, **BYD**, auto parts maker, **Nexteer**, EV bus brand, **YutongBus**).
- We remain very positive on the long term structural opportunity for clean energy in Asia, but short term subsidy related concerns and unattractive valuations led us to take a breather.

Infrastructure: 7.3% Average Weighting in 1Q17

- The infrastructure theme saw a positive return of 2.9% in 1Q17.
- Returns were led by infrastructure focused bank, **Macquarie**, and **Siam Cement** in Thailand.
- Construction company, **Sino Thai Engineering**, was replaced by **Siam Cement** as the latter offered better growth prospects for a more attractive valuation.

Outlook

In April net foreign buying accelerated to a level not seen on more than 8 days in the past 3 years and, as highlighted by Credit Suisse, we are seeing the best ROE fundamentals for Asia ex-Japan that we have seen for 6 years. This buying has also been supported by clearly improving macro-economic data.

We can see a number of positive factors that could combine to make Asia remain a worthwhile destination for investors and propel share prices further. These include the rise in ROE, continuing reforms, a really quite considerable increase in earnings expectations across the region with guidance from companies during results season especially encouraging and a general underweight exposure for global funds in Asia.

Index Changes

In May Pakistan will move from the MSCI Frontier Index into the Emerging Markets Index, leaving scope for Vietnam to become a larger part of Frontier portfolios and elevating Pakistan to a universe which has great potential for inflows. There is much optimism in Vietnam that this market will also be moved to the Emerging Markets Index before long. The practical process, however, takes two years from the time the MSCI announces a change, so the earliest that Vietnam could enter the Emerging Markets Index universe is 2019 if we assume an announcement is forthcoming this summer. The best gains, however, are often made during this lead-up period.

The key question is whether Vietnam is likely to be included immediately. Vietnam's determination to achieve Emerging Market status, in tandem with some fairly intensive ongoing lobbying of MSCI, could enable the first hurdle to be vaulted this June in spite of the fact that Vietnam's market is not currently sufficiently open for it to qualify for inclusion under MSCI rules. We expect there will be conditions attached requiring REAL improvements in foreign access to be made within a year to enable Vietnam to move to the next stage of the process. If MSCI's conditions are not met within a year we fully expect Vietnam to be removed from the watch list and sent to the back of the queue with a three to four year delay as the consequence. The large pools of international institutional cash currently looking for a way in-to the market are not going to wait forever, so it is time to line up the ducks if Vietnam is serious in its ambitions.

India and the Aadhaar Biometric System: Turning Fish Soup into an Aquarium.

As the saying goes it is easier to turn an aquarium into fish soup than to turn fish soup into an aquarium. In past quarterlies we have written about India and the challenges it faces creating order out of seeming chaos. Now it seems that India is on the cusp of something that truly has the potential to enable a transformation which could be momentous, making the economy a super efficient and technology-driven force. The remodelling could be as important to India as building the railways were to the UK or the benefits of the liberalisation of China’s economy in the 1980s.

“Aadhaar” is a Sanskrit word meaning support or basis and is the name given to system which has given a 12-digit unique identity number to all Indian residents based on their biometric and demographic data. The system was started in 2009 and the data is now collected by the Unique Identification Authority of India (UIDAI), a statutory authority established on 12 July 2016 by the Government of India. Today it is the world’s largest biometric ID system with now over 1.1 billion enrolled members or an amazing 99% of the Indian population (which, by the way, is 17% of the world’s population). It contains basic demographic data and biometric information including a photograph, 10 fingerprints and 2 iris scans, which are stored in a centralised database. Aadhaar has recently also been described as the most sophisticated ID programme in the world and indeed its technological capability puts India at the cutting edge.

The Benefits of Aadhaar

Firstly, India allowed the creation of eleven payment banks for those who registered in Aadhaar, which can hold money but which cannot lend. To motivate people to open accounts additional benefits were offered such as some social welfare offers and free life insurance. This has since generated 270 million new accounts holding over $10 billion of deposits. All you need to open an account is your Aadhaar number.

Secondly, we expect Aadhaar to catalyse a rapid rise in use of smartphones. Currently only 28% of the population in India have a smartphone but the growth of smartphones is around 70% per year. In July 2016 the UIDAI called for Google, Microsoft, Samsung and all key makers of Android devices to develop Aadhaar compliant devices. No wonder Tim Cook has said that India is a priority market for Apple from here.

Thirdly, in December last year India launched a digital payments platform, UPI (Unified Payments Interface), which is effectively an app that allows any bank account access to the payment system, so money can be transferred and instant payments made using QR codes. In fact, payments can now even be made without a mobile phone, all that's needed are fingerprints and an Aadhaar number! Already the system works, including on the 2G network, which brings the same efficiencies to rural areas where 60% of the workforce still reside and 17% of GDP is created.

Finally, there is another innovation called the India Stack which looks like a blockchain-type digital ledger and which will allow all digital records (medical, financial etc) to be stored using the Aadhaar biometric ID system. This effectively creates an electronic "know your customer" and will allow for instant registration for any transaction from buying a property to asking for a loan to registering at the doctors. The India Stack is already the largest open API in the world and will allow for all kinds of fintech opportunities and services to flourish.

Eventually the India Stack will work in real-time, allowing for almost instant approval for items such as loans. It also brings the country to a place where you can participate in any services, anywhere in the country, with a retina or finger scan and a number. The country can now finally give up its paper ledgers for a paperless world of digital records, documents can be more secure and, most fascinatingly, the economy can become cashless. It is also massively good news for tax collection (and hence infrastructure spending) and makes corruption far more difficult.

Indeed, this final point is likely reinforced by the cash ban last year. It brings everybody into the system, recapitalises the banking sector, creates more income for the government to spend and likely creates an almost frictionless world in which areas such as telecoms, financial services and online services can boom.

The India Sensex reached a new all time high in local currency terms in the past week. It's a struggle to justify the lofty valuations; however, we will be adding to our exposure here on any weakness and are visiting India in a few weeks' time.

Technology Hardware and AI

It is surely an anomaly that at a time where general investment in new capacity globally is below levels seen before the Global Financial Crisis that there is a boom in technology hardware. As we have written in the past, the key driver of this is the explosion in AI related demand, which is touching many areas from graphics processors, analog, passive components and MLCCs. What is more unusual is that it looks as though this boom will last far longer and be much bigger than anyone has currently anticipated. Indeed, even Amazon, the world's leading supplier of cloud capacity and owner of the world's most advanced IT systems and thus in the best position to forecast growth, has underestimated this demand. Micron's results also underlined this. Demand for its cloud customer business was up 30% quarter on quarter, which is a huge number. **Samsung's** recent results also showed a similar pattern with demand for semiconductors stronger than anticipated.

At the heart of this explosion is the focus on vision related technologies. This requires more memory and more computing power than any other activity, just as it requires bigger brains in the animal world. It is also the area of AI which is behind much of the technology in demand today, such as self-driving cars, drones, robots and many of the most popular applications in social networking. Although we tend to consider that rational logic is key to our development, the ability to 'see' increases the ability to solve complex problems (such as driving), and that is why it is at the forefront of tech spending today. Sony, for example, which controls 35% of the global sensor market, has just announced that it will be producing new CMOS sensors that will contain memory and machine learning algorithms.

Tong Hsing

We have recently added Taiwanese company, **Tong Hsing**, which is well positioned in the 3D sensor supply chain. Its revenues mainly come from CMOS imaging sensors and ceramic substrates for high power lasers. Its 3D imaging applications include iris recognition, facial recognition and proximity sensing as well as environmental scanning. For a full 3D imaging function a smartphone will need three or four 3D imaging modules costing $3-7 each. CLSA estimate that the 3D imaging market value will rise by a 103% cagr between now and 2020, going from $2.8 billion in sales to $13.8 billion. Apple are just one of **Tong Hsing's** customers but if Apple brings out a facial recognition capability in the iPhone 8 later this year (given our previous comments on India this seems very likely), then the company is set to benefit hugely. Currently, **Tong Hsing** is just a small company with a market capitalisation of just over $700 million. It is forecast to grow profits by 33% in the coming year and is on a dividend yield of 4.5%.

Hikvision

This quarter one of our stronger performers was the relatively new position, **Hikvision**, a China A-share. Whether or not you subscribe to the notion of an AI revolution or not, it is not hard to believe that the world will be ramping up investment in surveillance technologies. At the heart of this sits **Hikvision**, which is perhaps an early example of a global technology leader emerging in the A-share market. **Hikvision**, however, is not your typical A-share company, despite its SOE background, as there is an alignment of interest between minorities and employees and a cutting-edge product set. As such, margins and growth are supported by an R&D edge and a cost advantage in a reinforcing cycle – a rare mix in China. On top of this, **Hikvision** is a company specialising in vision technologies which can have numerous applications.

The company currently specialises in surveillance equipment but is moving into the automation of surveillance by providing surveillance services based on its own R&D in the world of automated vision. As well as moving up the value-added chain from equipment provision to surveillance services, the company is moving into machine vision and industrial automation. These markets are 4-5 times bigger than the global surveillance market and thus have potential to contribute a significant share of **Hikvision's** revenue in the coming years.

The company has an impressive 9,000 research engineers of which 500 are dedicated to video analytics algorithms (i.e. AI smart surveillance) and owns 100% of the intellectual property around the equipment and software. Last year **Hikvision** was granted 500 patents, which is five times more patents than the next surveillance player. **Hikvision** has 30% market share in China and 15% market share globally. In the developed markets its end markets include US prisons and department stores and UK banks. Rising demand is appearing from a number of new end markets such as government, property management and retail. The company generates a 35% ROE, which we believe is sustainable, whilst its sales are revenues are growing at 25%. **Hikvision** has a market capitalisation of US$35.8 billion and is trading on a 20.4x 2018 P/E.

China's AI Advantage

One advantage for **Hikvision** is that the company has unique access to big data given its work with the government. It is increasingly clear that the government relies on big data companies from the private sector for maintaining order (e.g. Baidu's big data scientist recently talked about how Baidu helped manage crowds at Chinese New Year). This is actually quite an important point for investors in that China is beginning to lead the world in a couple of areas of technology. These areas are drones and AI. For AI it is clear why. In order for machine learning to take place the computer needs to 'learn' from huge data sets. In the case of China, data is not as protected as it is in the West so AI companies can access data much more easily. Perhaps the biggest example of this is our other new position in China, **iFlytek**, which has China Mobile as a major shareholder. **iFlytek** specialises in speech recognition and is the number one company in this field domestically and globally. Having access to over 800 million China Mobile's subscribers recorded calls for its machine learning will have given the company an extraordinary advantage over its Western counterparts. Interestingly, China's AI market is expected to grow at a 50% cagr until 2020.

iFlytek

Chatbots are rapidly becoming part of everyday life. Indeed, there are already 30,000 chatbots on Facebook and users report that they are happy to use chatbots as long as they know they are talking to a computer. Most of us will have used Siri or Alexa at some stage. On average, most chatbot interactions are less than 3 lines long. The exception to this is a Microsoft developed search chatbot in China called Xiao-Ice (or "Little-Ice"), which is so popular it is ranked as one of Weibo's top influencers and averages 60 interactions a month with users. Nonetheless, Xiao-Ice is still text based.

iFlytek has a 70% domestic market share in speech recognition in China compared with Baidu's 16% and invests a staggering 25% of sales in R&D every year. It is China's number one independent and pure AI company and holds a dominant position in most B2B industry verticals, including telecom operators, call centres and voice activated consumer electronics. The company is set to grow revenues at 35-40% for the coming few years driven by the more widespread adoption of voice based interactive services, whilst gross margins are around 67%.

Com2uS

We have had good performance this quarter from our Korean mid-cap, **Com2uS**, which is an internet games developer. The company is super cheap with a big new games line-up and a newly signed distribution agreement with US media giant, Activision. One upcoming development is that its key game, 'Summoners War', is to be created as MMORG (massively multiplayer online role playing game) in the US market. The company has 45% of its balance sheet in cash and trades on an ex-cash P/E of just 4.2x.

Pakistan Investment Trip, April 2017 – Anna Gallagher

A Road Less Travelled

Ten years ago when we were living in China we had the opportunity to travel to one of China's remotest provinces, Xinjiang. This trip led us to Kashgar and up along the Karakoram Highway, allegedly the world's highest paved road, to Tashkurgan, the last town in China before the border crossing into Pakistan. This route forms part of the old Silk Road. In Tashkurgan we sat on the edge of a crumbling fort and looked across a valley, supposedly into Pakistan itself. At that time, this was about as close to Pakistan that we felt comfortable getting.

Source: Prusik

Anti-clockwise from Above: Map showing Kashgar in China and the route to Tashkurgan on the border with Pakistan. 2007 view of the Karakoram Highway in Xinjiang, China. 2007 view of Pakistan from a fort in Tashkurgan, Xinjiang.

Source: Prusik

Fast forward ten years and this very same Karakoram Highway lies at the heart of Pakistan's gradual transformation. The Chinese-Pakistan Economic Corridor (CPEC), the reason for China's pledged c.$50 billion investment into Pakistan, comprises two main routes which pass from Xinjiang's Karakoram Highway down along the east side of Pakistan to Port Qasim and the west side of Pakistan to Gwadar Port, where the latter is able to reduce transport times for Chinese goods by a third versus the usual Malacca Straights route. This time there was no stopping at the border. We spent 6 days in Pakistan, travelling to the country's industrial heartland, Karachi, the more commercial, Lahore, and, finally, Pakistan's capital, Islamabad. We met with 12 companies as well as the International Monetary Fund, Asia Development Bank, the State Bank of Pakistan and the Pakistan Stock Exchange.

Statistics Versus Reality

Gather any basic statistics on Pakistan and they will clearly tell you that the opportunity there is huge. To see and experience this first hand though is really something else. We know that new car sales in Pakistan are just 250K units per year but to see donkey pulled carts sat alongside you at the traffic lights and swathes of relatively uncongested roads at rush hour drives that reality home harder; we know that the country suffers from a power deficit but experiencing brownouts in our hotel and getting stuck in a lift because of a power cut paint a more powerful picture; we know that cement consumption per capita is amongst the lowest globally but to see the damaged buildings built from mud bricks and read stories of families still living in caves in the local newspapers gives those numbers a very tangible context. While it was possible to see plenty of signs of wealth during our time there too - Malibu / Sandbank style homes in the luxury quarter of Karachi, lavish outfits at a wedding in our hotel and references to top class Western educations – overall, when we touched down in Jakarta to continue the next leg of our trip, we felt that we might as well have arrived in New York.




Source: Prusik

While some roads were very congested, it was not uncommon to see donkeys on the road in Karachi and Lahore and there were a number of the times when the roads in Karachi felt quite empty.

Source: Prusik

Probably the best wire 'boggle' we have ever seen to the left. On the right is the generator which kicked in outside the Pakistan Stock Exchange when we got stuck in the lift due to a power cut.

Pakistan, the Story So Far

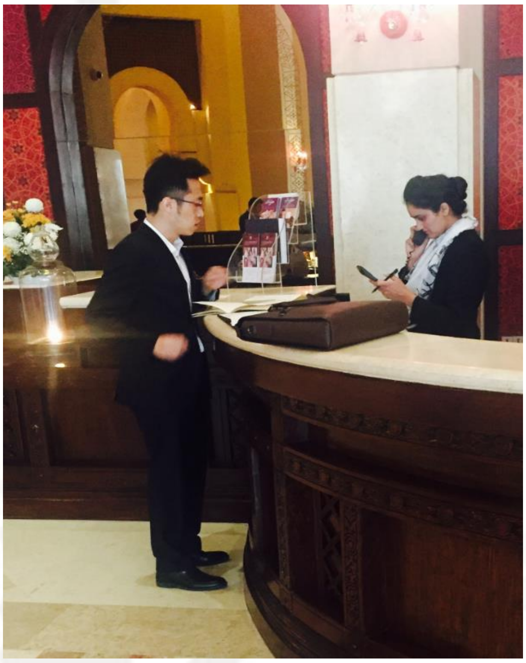
Pakistan's momentous rise, both economically and in stock market terms, in recent years is well documented. In 2013 when Pakistan found itself in crisis territory once again with a budget deficit of 7.5%, dwindling reserves, high single-digit inflation, GDP growth well below the level needed to absorb the millions entering the work force each year and record power outages, Pakistan entered a three-year IMF programme and received a loan of $6.7 billion. By the end of 2016, after 3 years' continual assessment relative to 47 structural benchmarks and the enactment of 18 laws by Parliament under the IMF programme, Pakistan reached a far more stable footing. GDP growth recovered to 4.7%, inflation fell to 2.8%, the budget deficit fell by 3.9 percentage points of GDP to 4.6% and gross international reserves grew threefold. Power shortages were reduced and political stability and national security saw marked improvements. While it is worth noting that some of this success stems from factors outside the IMF's control such as falling oil prices and rapid growth in remittances, the IMF's involvement nevertheless lent valuable creditability to the process. None of this has gone unobserved by the investment community: from the end of 2013 to the end of 2016 the Pakistan stock market returned 101.7% in local currency terms.

CPEC and the Future of Pakistan

So how should we view Pakistan's prospects now? In short, we believe Pakistan stands at a very critical juncture. While great progress has been made, political stability and the success of CPEC, in particular the investments in Pakistan's power industry, which should see the power deficit eradicated, are crucial to this progress continuing. While there has been significant progress in making Pakistan's economy more robust, public debt to GDP is still high at 66% and exports as a percentage of GDP are low at around 10% versus Asia's average of 40%. Both these characteristics mean Pakistan remains vulnerable as its levers for self-help at times of crisis are relatively weak.

Crucially, our trip findings indicate that the CPEC programme is progressing well. We touched on CPEC in our last quarterly but, as a brief reminder, the programme should see 10K MW of power capacity added, over 1,000km of new roads and 2,000km of new railways built, 820km of fibre optic cables rolled out, new airports added, multiple industrial zones created and more. While we were anticipating some signs of CPEC in action on our trip, we were not prepared for quite how frequently we would encounter those signs or the gravitas which often characterised their context.

During our first evening in Karachi we turned on the TV to find an hour-long documentary heralding the benefits of CPEC. In our hotels we saw Chinese businessmen and women on a daily basis, walking through the lobbies and eating at breakfast. We also encountered them at the airports and on our flights. We saw signs for desks dedicated to providing security assistance for the Chinese and an investor on our trip who is Pakistani reported that her friends at local universities have seen Chinese people signing up for Arabic courses. Perhaps the most powerful symbol of all though came when driving through the government quarter in Islamabad: the fences surrounding Parliament were lined with flags – each Pakistani flag alternating with a Chinese one.



Source: Prusik

Chinese businessmen were a common sight on our flights and in our hotels.

Source: Prusik

Pakistani and Chinese flags lined the fences around the government buildings in Islamabad.

In practical terms, there are also clear signs of progress. In the power sector two 660 MW coal fired power plants have been built in Sahiwal, Punjab, and are due to start commercial operation in July, 200 MW of wind power projects are already operating, work has started on two 660 MW coal-fired power plants at Port Qasim and a further four 330 MW power plants, which are part of the Engro Thar project, have also commenced. This is just the beginning. As touched on above, over 10K MW of new power is due to come online under CPEC in the next 1-2 years. Elsewhere, the construction of the Peshwar to Karachi motorway has started and of the 820km of fibre optic cable, which is due to be rolled out in the north to boost 3G and 4G connectivity, 220km has already been completed.

Although the term CPEC suggests that the relationship developing between China and Pakistan is purely an economical one, our trip led us to believe that this relationship is also very important to both sides from a strategic and political point of view as well. The survival of the Chinese Communist Party depends largely on its ability to continue to deliver economic growth for the country. Opening up new markets for China in the Middle East and Central Asia will help China secure GDP growth over the long term and in turn perpetuate the status quo for China's ruling elite. Equally, should CPEC deliver its promised economic benefits for Pakistan, then rising incomes and more employment opportunities could provide Pakistan with a very real answer to terrorism and its wider security concerns. We believe that the importance of CPEC to both parties from a strategic and political perspective, as well as an economic one, increases the probability of CPEC's success.

At the corporate level, the senior management teams we met with were also very positive on CPEC. While they acknowledged that some of the easy to imagine benefits of CPEC are unlikely to bear fruit – for example, for some CPEC projects Chinese workers and heavy duty equipment are being brought to Pakistan rather than being sourced locally, and key materials such as steel are being allowed to circumvent import tariffs in specified CPEC zones – there was one clear, key potential positive which everyone agreed on. Out of the c.$50 billion to be invested by the Chinese, c.$35 billion will be invested in the power sector. If Pakistan is able to address its severe power shortages this is likely to be truly transformational for the country. Not only would this reduce Pakistan's reliance on oil imports, which recently cost the country as much as $14.8 billion in FY14, equivalent to 6.1% of GDP, but more importantly this would open up the opportunity for wide scale industrialisation, in turn driving productivity growth, job creation, the export industry and more.

Pakistan's current power requirements are in the region of 22K MW per annum, while supply currently hovers around 16-18K MW. As mentioned, CPEC's key objective is to increase the capacity of the power industry by at least 10K MW. With projects already underway, the Pakistan government has announced that the power deficit in Pakistan will be narrowed significantly, or even eradicated altogether, as soon as 2018 or 2019. While power outages have seen marked reductions in the last 3 years to just one hour a day for industry and 5 hours per day for urban areas, power shortages remain one of Pakistan's greatest weaknesses. In the words of the CFO of Habib Bank "half of our industry is shut down because of no power, no one is willing to invest". While there may be some exaggeration here, it certainly makes no sense that Pakistan has the sixth largest coal reserves globally but derives none of its power from coal fired power plants. In contrast, China is the largest consumer of coal fired power globally, both in absolute and percentage terms. As such, the Chinese are very well positioned to have a radical impact on Pakistan's power industry and in turn Pakistan's economic development and growth.

While the potential benefits of CPEC for both sides are clear, what about the potential costs? Indeed, we have seen China conduct large scale infrastructure investment programmes in recent years in parts of Africa, Sri Lanka and Indonesia with little benefit and arguably much sacrifice for the host countries, so what is the risk that Pakistan suffers a similar fate?

We believe that the key risk for the CPEC programme is the burden the repayments could place on Pakistan's balance of payments. Repayments are due to start in 2021 with the annual bill totalling $1-1.5 billion for the most part with peak payments reaching c.$4 billion. However, addressing Pakistan's power deficit in the interim and in turn raising GDP due to the kick start to industry and exports, plus the lower energy import bill, should make these repayments affordable. Equally, the potential challenge of repayments is an element of the CPEC programme which so far we have found less widely acknowledged and which we believe would be prudent to bear in mind.

As we have endeavoured to set out above we believe that the probability of a successful outcome for Pakistan from CPEC is high. There is a plethora of symbols as well as verifiable construction which indicate that CPEC is already progressing well and, while the direct benefits of CPEC such as employment opportunities and increased demand for materials such as steel might at times be diluted, the key benefit of CPEC to Pakistan will be solving the country's power deficit. Moreover, China's strategic and political objectives under CPEC of opening up the Middle East and Central Asia as new markets to help support GDP growth and in turn secure the continuation of the Communist Party are very long term in nature, thus decreasing the chance that this is a 'smash and grab' style policy. Perhaps the most tangible evidence for China's long term commitment to Pakistan is the recent purchase by a consortium of Chinese investors, including the Shenzhen and Shanghai stock exchanges, of a 30% stake in the Pakistan Stock Exchange, alongside 4 out of 16 seats on the Board as well as the COO and other key IT positions for the Chinese. Finally, the CPEC programme also has the potential to be widened with Iran's interest in joining already having been mooted.

Companies

We met with companies in the auto, consumer, media, oil and gas, cement, healthcare, financial, steel and chemical sectors, giving us a very broad view of the economy from a true bottom up perspective. The majority of companies we met with were reporting strong growth, if not record growth, and ambitious long term expansion plans; the only exceptions were those being hampered by competition or a lack of spare capacity. With regard to the Prusik Asia Fund's holdings in Pakistan, we picked up a number of fascinating and valuable insights.

Firstly, we learned from the Pakistan Stock Exchange that **Habib Bank**, the leading bank in Pakistan which benefits from a strong deposit franchise and in turn the lowest cost of funds in the industry, has invested a 5% stake in the Pakistan Stock Exchange. The Pakistan Stock Exchange also told us that it is planning to list sometime in the coming months. As such, we think that **Habib's** stake in the Exchange could prove to be quite valuable over time.

Secondly, we had a very productive meeting with **ICI Pakistan**, which **Lucky Cement**, another one of the Prusik Asia Fund's Pakistan holdings, has a 74.8% stake in. **Lucky's** core business is cement, a sector which we will discuss further shortly. However, conversely, one of the key attractions of **Lucky** is its investments in its non-core businesses, one of which is **ICI Pakistan**.

ICI Pakistan's operations span soda ash, life sciences (which includes pharma, animal health and an agricultural chemicals and seed business) and other chemicals. Soda ash may be a commodity but the business fundamentals do not stack up as such. **ICI Pakistan** has a 70% market share of the soda ash market, a market which is seeing 7-8% growth on the back of property and packaging related demand for glass, and its EBITDA margins are as high as 35%. In the pharma business management have been making acquisitions and are aspiring to be a number five to six player in the market by 2020. With around 25% of GDP coming from the agricultural sector, the animal health and agricultural chemicals and seeds businesses have a significant growth opportunity ahead. Indeed, management expect the agricultural products business to go from Rs 350 million in sales this year to Rs 1 billion in sales in just 4 years' time. Finally, **ICI Pakistan** has recently entered into a JV with Moringa of Japan to produce high-end infant milk formula. Management plan to expand the consumer facing part of the company's portfolio further in the future. Combining all of this with **ICI Pakistan's** MNC background and now more entrepreneurial culture post the spin off some years ago, we are very excited about **ICI Pakistan's** prospects.

Thirdly, and finally, we met with DG Khan Cement, a holding in the Prusik Asian Smaller Companies Fund, and a peer of **Lucky Cement**, with some interesting read through for **Lucky**. The cement sector in Pakistan has seen a pickup in demand in recent years as the broader economy has improved. The focus now is whether or not CPEC will create an additional boost for the sector. DG Khan’s management believes it will with the positive impact being both direct and indirect. Directly, management expect CPEC projects to increase volume demand for cement in Pakistan by 2-3% in 2017 and by 3-5% in the years after that. Indirectly, management believe the build out of infrastructure under CPEC will lead to an increase in demand for new houses, a segment which currently accounts for around two thirds of cement demand in Pakistan. In addition to direct and indirect CPEC benefits, management also highlighted that there are a number of large hydro projects and dams taking place in the north, which are not part of CPEC, which should also have a significant impact on cement demand. Finally, we were pleased to learn that Bestway Cement has had its bid accepted for Dewan Cement, thus blocking Anhui Conch of China’s bid. It was Anhui Conch’s purchase of a small cement player in Indonesia some years ago that turned the then highly profitable cement industry in Indonesia into a blood bath. We are monitoring the industry closely to watch for whether history is going to repeat itself in Pakistan.

PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 31.03.2017

	A-USD	C-GBP	D-SGD
1 Month	5.81	5.63	5.69
3 Months	11.91	11.40	11.53
YTD	11.91	11.40	11.53
2016	-3.98	-3.87	-3.83
2015	-2.95	-2.10	-1.81
2014	1.08	1.59	1.29
2013	16.63	16.76	16.50
Since Launch+	110.23	67.23	17.29
Annualised 5 years	6.42	6.59	6.58
Annualised 3 years	2.03	2.39	2.42
Annualised Since Inception	6.69	4.92	2.24

Source: Morningstar
+ Launch date: A: 07.10.05, C: 14.07.06, D: 15.01.10

Fund Performance - Class A USD (%)

Source: Morningstar. Total return net of fees.

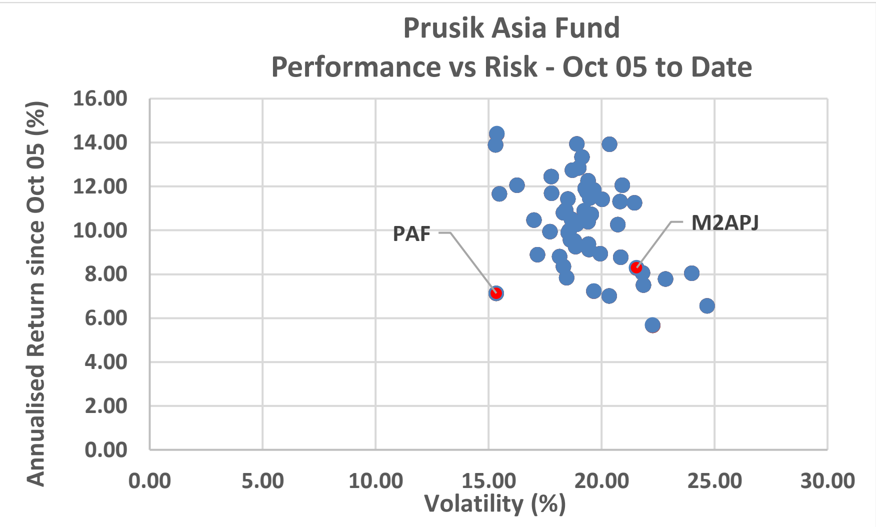
Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2017	3.50	2.19	5.81										11.91
2016	-8.91	-1.24	7.08	1.44	-1.78	1.16	4.32	3.70	-0.54	-2.41	-2.42	-3.47	-3.98
2015	1.57	0.07	1.23	4.06	-0.96	-1.83	-3.40	-7.67	-1.41	6.77	-0.60	-0.11	-2.95
2014	-3.15	3.04	-0.56	-3.44	2.15	2.91	2.08	4.20	-4.06	0.95	-1.12	-1.48	1.08
2013	6.68	3.52	-0.45	1.73	0.09	-7.21	3.75	-3.21	4.60	4.19	1.92	0.66	16.63
2012	5.81	6.55	-0.38	3.08	-6.93	0.67	4.33	-2.54	6.47	0.24	2.45	3.39	24.68
2011	-2.27	-0.70	1.19	1.23	-0.86	0.30	4.32	-11.95	-8.24	-0.55	-4.02	-0.52	-20.89
2010	-9.67	-2.62	3.66	1.67	-7.15	-0.54	0.96	2.98	7.80	0.74	-0.38	1.08	-2.66
2009	-6.90	-2.90	11.16	4.46	10.67	-2.69	6.77	-4.94	6.42	-2.45	4.08	2.12	26.59
2008	-6.78	6.91	-8.06	1.81	0.67	-7.69	0.21	-5.34	-5.33	-7.37	0.02	9.75	-20.84

RISK ANALYSIS

Risk Metrics	**Fund (%)**
Beta	0.59
Alpha (%)	1.58
Sharpe Ratio	0.56
Volatility (%)	16.27
% of the portfolio –which could be sold in 2 business days	95.10

Source: Morningstar
Since Inception: A: 07.10.05



THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Samsung Electronics Co Ltd	7.5
Indiabulls Housing Finance Ltd	5.0
Tencent Holdings Ltd	4.5
Vietnam Diary Products	4.2
Haier Electronics	3.6
Total Number of Holdings	32

Portfolio Financial Ratios*

Predicted Price/Earnings Ratio	14.2x
Predicted Return on Equity (%)	18.2

* Fiscal year periods

Thematic Breakdown (%)

Financialisation	25.7
Artificial Intelligence/Virtual Reality	20.9
Vietnam	16.1
Internet	9.1
Local Brands	8.3
Cash	7.4
Infrastructure/Logistics/Property	6.9
Leisure/Tourism	5.6

Geographical Breakdown (%)

Hong Kong/China	34.9
Vietnam	16.1
Korea	10.2
Taiwan	10.1
Cash	7.4
Pakistan	6.7
India	5.0
Australia	4.8
Indonesia	2.4
Thailand	2.3

All data as at 31.03.17. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size (US)	70.5m
Launch Date	7 October 2005
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

Codes

Class 1			SEDOL	ISIN	Month end NAV
A USD	Unhedged	Non Distributing	B0MDR72	IE00B0M9LK15	210.23
B USD	Unhedged	Distributing	B0M9LL2	IE00B0M9LL22	210.37
C GBP	Hedged	Distributing	B18RM25	IE00B18RM256	115.47
D SGD	Hedged	Distributing	B3LYLK8	IE00B3LYLK86	292.17

Performance fee based on individual investors' holding.

U GBP	Unhedged	Distributing	BBQ3756	IE00BBQ37560	148.65

Performance fee based on fund performance as a whole.

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