



LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asia Fund

Quarterly Investment Report
30 June 2017

FOR PROFESSIONAL INVESTORS ONLY

PAF Quarterly June 2017

The second quarter saw the M2APJ index rise by 6.3%, whilst the Prusik Asia Fund rose by 11.4%, thus outperforming by 5.1%. Geographically, China, Vietnam and Taiwan were all positive contributors to performance. At the stock level Chinese gaming giant, **Tencent**, and Chinese AI face recognition leader, **Hangzhou Hikvision**, led the way. On the negative side, Pakistan and Indonesia were detractors. Below is a summary of the best and worst of this quarter's performance by theme.

Outperforming Themes in 2Q17

Internet: 9.7% average weighting in 2Q17

- Our internet theme returned 27.1%. All of our holdings saw very strong 1Q17 results with sales up 40-70% year on year. Performance was led by China social network/online games giant, **Tencent**.
- The shift towards mobile in China continues: c.80% of transactions by value for **Alibaba** are now on mobile, whilst **Tencent's** mobile gaming sales is growing at twice the rate of its PC gaming sales.
- WhatsApp is now banned in China. This is very positive for Tencent's WeChat, which now has 938 million subscribers.
- Cloud and online payment services are growing at 100-200% year on year.
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Vietnam: 16.2% average weighting in 2Q17

- The Vietnam theme returned 22.8% in 2Q17, led by local brokers and **Phu Nhuan Jewellery (PNJ)**.
- Brokers **VNDirect** saw 1Q17 EPS +741%, while **Saigon Securities** saw 1Q17 EPS +104% year on year.
- Business remains strong for **PNJ** with 1Q17 same store sales growth up by a staggering 25%.

Artificial Intelligence / Virtual Reality: 24.1% average weighting in 2Q17

- The artificial intelligence / virtual reality theme saw a 20.7% return in 2Q17.
- In absolute terms it was our strongest theme, contributing 438bps to NAV.
- China surveillance giant and A-share, **Hangzhou Hikvision**, re-rated as China A-shares were finally included in the MSCI Asia Index.
- **Samsung Electronics** rose strongly post excellent results driven by memory price hikes.
- **Hon Hai** rallied with management's plan for US\$10 billion investment in the US, possibly to help Tesla.

Underperforming / In-line Themes in 2Q17

Infrastructure: 18.4% average weighting in 2Q17

- The infrastructure theme returned just 0.5% in the quarter, less than the index.
- The theme comprises Malaysian construction companies, Thai and Pakistani cement companies and an Australian listed global infrastructure financing company.
- Returns for all holdings in the theme were muted in the quarter.
- Pakistan cement company, **Lucky Cement**, was sold due to its deteriorating quant scores.
- Indian property developer, which is a beneficiary of GST, **Godrej Properties**, was added.

Leisure & Tourism: 6.6% average weighting in 2Q17

- The leisure and tourism theme saw a return of 6.6% in 2Q17, roughly in-line with the index.
- **Beijing Capital International Airport** was strong on news its duty-free contracts were going to be renewed at much higher commission rates.
- Muted returns were seen in Korean mobile gaming company, **Com2Us**.

Portfolio Changes

There were just a few changes to the portfolio this quarter. We sold our positions in **Standard Chartered Bank** and Taiwanese virtual reality company **HTC** as both companies failed to deliver on the expected turnaround. We also sold Pakistan cement company, **Lucky Cement**, as the quant scores were deteriorating fast. In terms of purchases, we added to India after our trip there, buying **Godrej Property**, one of the country's blue-chip property developers and **ICICI Prudential**, which is set to capitalize on the boom in demand for financial services in India.

We also added some infrastructure exposure in Malaysia, which is benefitting from the "One Belt One Road" expansion by China. In addition, we also added **Scicom**, which is set to grow fast in all our most favoured demographic youth countries.

Scicom

Scicom is a business process outsourcing (BPO) company which services large local conglomerates, multi-national companies and governments via its operating centres in Kuala Lumpur, Colombo and Jakarta. Recently, the company has been moving up the e-Government services and e-Commerce value chain which, according to the company, are business which yield significantly higher margins. The company believes that this process will continue and that as a result, the BPO business will fall from 65% of sales to 35% of sales in the coming 3 years.

Scicom entered e-Government services, a niche which historically was the domain of local peer MyEG, in 2012 with a contract to provide the back-end engine for Education Malaysia Global Services (EMGS), a company wholly owned by the Ministry of Education (MOE). By integrating various government departments and databases, **Scicom** enables EMGS to provide a one-stop visa centre for foreign students (54,728 applications in 2014, according to the MOE). According to the company, this has reduced issuance time from months to just 14 days, whilst also allowing monitoring and reporting on the foreign student population in the country and their related institutions of learning. Via a revenue-sharing model **Scicom** benefits not just from increasing numbers of foreign students but also ancillary income streams, for example, it will be launching a student e-store in 2017.

Scicom has grown its sales and earnings over the past 5 years at an 11% and 32% cagr, respectively. The management believe the next 5 years will see faster growth than the past 5 years owing to the large foreign opportunities ahead and the company's focus on revenue sharing opportunities.

Scicom runs an asset-light balance sheet and has a net cash position. A strong balance sheet has helped support dividends with the average payout ratio in recent years in the region of 70%. ROE and ROA have been rising recently, reaching 48% and 41%, respectively, in FY16. It is currently trading on 17.2x June 2018 P/E which compares well with regional peer, MyEG, which is trading on 29.6x June 2018 P/E.

Outlook

Despite very strong stock market performance in Asia year to date, the price to earnings ratio for the index has barely changed as the attendant increase in earnings expectations has more than kept up. We are, therefore, now in what feels like a strong upcycle for demand growth in Asia and we are also seeing some anecdotal evidence that capex is beginning to pick up. There is also rising interest in equities appearing in some countries from domestic investors, notably Vietnam, India and, to an extent China, which is helping to propel share prices as well. However, with the price to earnings valuation of the market barely changed we remain a long way off having to evaluate whether or not we have reached peak valuations. We would also add that so far, no case can be made for rising inflation, tight employment, rising wages, shortages or bubble-like behavior. As such, in the absence of any shocks and surprises from the global and political stages, we believe we can afford to be optimistic about Asia for the remainder of 2017.

The fund is currently trading on 15.0x P/E, close to the index spot multiple of 14.4x P/E, whilst the fund's ROE at 20.4% is roughly double that of the index.

India – Making an Aquarium Out of Fish Soup - Part 2

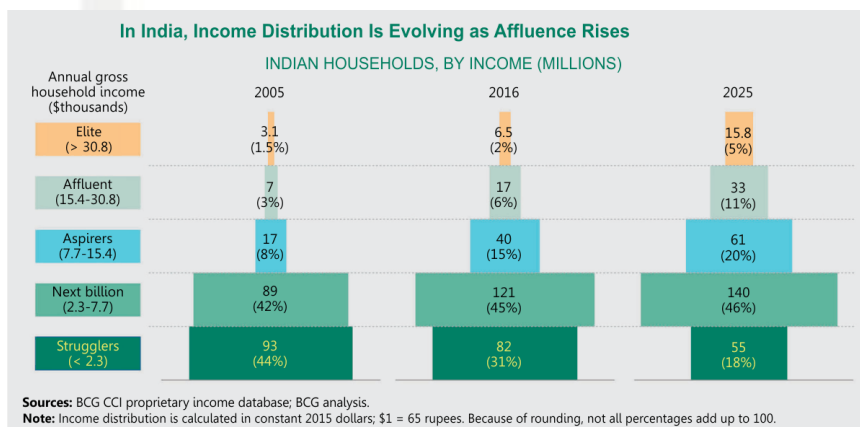
Last quarter we wrote about the cutting edge, new digital identity system in India, Aadhaar, which we believe could revolutionise the inefficiencies that have dogged India for decades and, in a short time, could help create an almost frictionless economy and certainly one which is able to reap the benefits of a globally cutting edge financial system. If you missed it, here's a synopsis.

The National Biometric Identity Card

The government has completed the enrollment of nearly every citizen – effectively 98% of the population - under the biometric identity card or Aadhaar program. This database is being used to develop a national digital infrastructure platform called the "India Stack". Last month, the government mandated the linking of bank accounts with Aadhaar as well as transactions over Rs 50,000. Biometric identity is now also mandated for income-tax-return filings. These steps will make it hard to carry out cash transactions and hide "black money." Spurred by the demonetisation last year and with these new rulings, in 6 months the country has gone from 60% of the population not having a bank account to 96% of the population having one. Yes, that is correct.

In early June, following up on this theme, we spent a week in India visiting 27 companies and learning more about how Modi's newest and boldest policies will shape India's future. What we found has made us seriously ask ourselves **could India be the world's best performing economy for the next 10 years?**

First of all, India will have the largest middle class globally by 2027. Currently, only 5% (27 million) of the 519 million strong workforce is classified as "urban middle," defined as earning more than \$11,000 per year. The chart below illustrates how India's expanding middle class is driving growth in disposable income.



Source: The Boston Consulting Group

Nearly 120 new cities in India are expected to match the current household income level of its major metropolitan areas by 2025. Economic output for several Indian cities will be close to that of middle-income nations. Rapid urbanization and expansion of India's middle class is leading to higher disposable income. McKinsey estimates that India adds three times the population of Los Angeles to its urban populace every year. By 2025, 69 cities in India will each contain over 1 million people, while 49 large cities will account for over three quarters of India's economic growth.

India's estimated domestic consumption growth of 12% year on year through 2025 is forecast at more than double the global average of 5% and is poised to triple to \$4 trillion by 2025. Cisco, for example, estimates that 829 million Indian citizens will use the internet by 2021 - nearly doubling from 428 million at the end of last year. Internet penetration is rising faster in rural India than in urban centers and the internet economy of India is expected to reach \$250 billion by 2020 - double the current level.

Not Just a Big Country

The young population, rising middle class, urbanization and all the consumption changes that we know come with these demographic changes would be exciting enough by themselves. However, we feel that India's extraordinary Prime Minister Modi is setting up something far more intelligent and far reaching for the Indian economy. What is extraordinary about each of the policies we will discuss below is that in each case they have been announced, clarified or confirmed only in recent weeks or, at the most, recent months. They have not yet had any chance of really impacting the system.

While you read the following, please also bear in mind as you go that there is currently still plenty of unemployment (in fact everyone is still complaining about this), that interest rates are still falling towards 7%, that private sector capex has barely started/is still non-existent and that the infrastructure projects (e.g. the Bombay subway, the Bombay coast road, the Delhi-Mumbai corridor, another Mumbai airport etc) have only just started or are yet to start. Cement capacity utilization, which acts as a bell weather for this, is still only at 65%. In other words, the economy is *only just* twitching into life after over two years of modest expansion, as exemplified by stagnant property sales and retail sales and two false starts to the economic recovery, thanks to demonetization 316 and the rollout of GST in July 2017.

GST

All the final details for the implementation of nationwide uniform 'Goods and Services Tax' (GST) were announced during our visit to India and this new policy was formally rolled out on 1st July. It is likely that India's GDP growth numbers for the second quarter will be influenced by the heavy destocking that took place before this uncertainty was solved. However, as was the case with demonetization, we expect any impact to be short lived and that GDP growth in the third quarter should be stronger.

So, what exactly is GST? In its most simple form GST is a nationwide tax policy which will replace the previously very complex setup of different tax systems for every state, as well as at the national level, and a system whereby the tax was levied across the production chain. Previously, even the simplest of items could face 17 different taxes in the form of state, interstate and federal duties. Under GST there will be a hugely simplified system of just 6 national taxes and these taxes will be levied at the point of consumption rather than production. In addition, every transaction will be required to be reported online using the government's GST network, which will improve transparency and largely eliminate tax evasion.

So what impact is GST likely to have? At the most prosaic level, the rollout of GST will decrease paperwork and reduce compliance hurdles. From a bigger picture and longer-term perspective, it is likely that many companies which have restricted their businesses to just a handful of states on account of the tax complications which would ensue from expanding more aggressively will now look to build a pan India presence. Indeed, in the past, companies have treated different states in India almost as if they were different countries with each state having its own logistics and storage network. This also meant it was often not cost effective to expand aggressively as this approach would make it harder for a company to enjoy the scale benefits associated with expansion. This all now looks set to change and we are already seeing tangible effects on the ground. CCL Products, a coffee wholesaler which is held in the Prusik Asian Smaller Companies Fund, has been investing in its own brand of coffee in recent years but it is only post the implementation of GST that management have decided to try and sell this product across the whole of India rather than just a few states. Importantly, management are very explicit about the fact that it is the GST rollout which has been the catalyst for this change in strategy. For a wider scale impact and a possible boost to GDP we may still need to wait some years to see the full effects given that GST was only rolled out on 1st July; however, what matters most is that Indian companies are now able to turn this opportunity into a reality.

Property and Low Cost Housing

During our trip, we met with both **Godrej** and Oberoi, both high-end residential developers in Delhi and Bombay. Both companies say that the market is just starting to move after 4 years or so of static volumes and the recovery is being seen across the whole of market. One of the drivers for this is a new and very thorough piece of industry regulation termed 'RERA' (the Real Estate Regulation and Development Act), which was introduced in the government budget this February. RERA includes strict rules on completion, transparency in terms of cash management, the use of escrow accounts and more. Simply put, this makes it extremely challenging for many of the smaller property developers to stay in the business. As **Godrej** put it, in the past investors would have needed two days in Delhi to meet all the significant property developers there but nowadays it takes just two meetings!

The second key driver for a pick up in the Indian property market is the recently announced tax breaks for any developers building low cost housing. This means that even for high end condominium builders, such as **Godrej** and Oberoi, margins are now equally good if not better for low cost housing projects. In this way, our policy-savvy Modi gets his supply of low cost housing whilst keeping the developers and their shareholders happy. Moreover, project quality is better ensured.

There are also some very innovative solutions to some of the other key housing problems in India, such as the massive slums which sit on government land. For example, 'Public Private Projects' (PPPs) are being pioneered in Modi's former state, Gujarat. Our visit to Nila Construction gave us a clear illustration of how these PPPs might work in practice. Nila takes a slum area on government land and with the government creates a plan. In short, Nila rebuilds low cost housing in a high rise format for the slum dwellers on 50-60% of the land and then Nila gets the remaining 40-50% of land to sell or develop for its own book. In this way, the government satisfies its objective of getting slum areas redeveloped, although not on its balance sheet, whilst at the same time the slum dwellers receive better housing with proper sanitation. The housing offered to the slum dwellers is done so at a very subsidised mortgage rate for a total property value of roughly \$10,000 for 33 square metres. Nila is an interesting and innovative company to meet. Management are looking to grow the business aggressively and thus far have a good record of management and balance sheet management.

Mortgages

Mortgages still represent just 9% of GDP in India. For many of the niche players serving smaller sized loans like Repco, which lends to the self-employed or non-salaried borrowers, the current environment affords many years of strong growth ahead. Year to date mortgage loan growth in India is already in the region of 25%, or higher, and many of the housing loan companies we met with expect that volumes will grow at a cagr of 20% or more in the coming few years.

Entrepreneurship

We were struck on our visit by the repeated mention that failure is not a dirty word and how many young Indians aspire to starting a company. Crucially, this environment is being supported by the government with yet another recent and radical overhaul in regulations and law, this time in the bankruptcy area. In India, it is now possible to wind up a young company in just two days and under much clearer legal guidelines, which now protect lenders from willful defaulters.

India is rapidly emerging as a global innovation hub. More than one-third of the global top 1,000 companies by R&D expenditure have centers in India and over half of the Fortune 500 companies employ more than 10% of their global workforce in India. Additionally, nearly 28% of domiciled companies from Japan, European and the Asia Pacific region have research centers in India. "Global customers looking for IT solutions came to India for cost savings, stayed for quality, but will now continue the journey for innovation," according to R. Chandrasekaran, Chairman of The National Association of Software and Services Companies (NASSCOM).

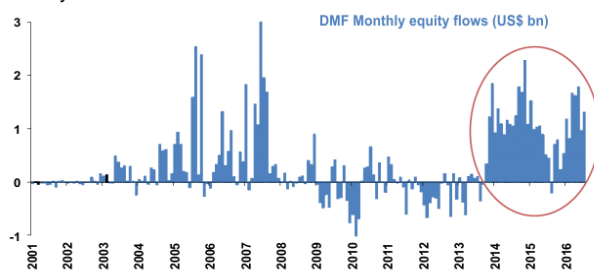
Interestingly, Indian nationals represent only 6% of Silicon Valley's population but have founded 15% or more of its new startups. Indians also outrank other immigrant groups in the number of companies founded. We could see a reverse brain drain, as Indian executives abroad realize superior opportunities at home. It is estimated that 80,000 Indians returned home for work in the past two years, including over 1,000 scientists of the 30 million total working offshore.

Savings

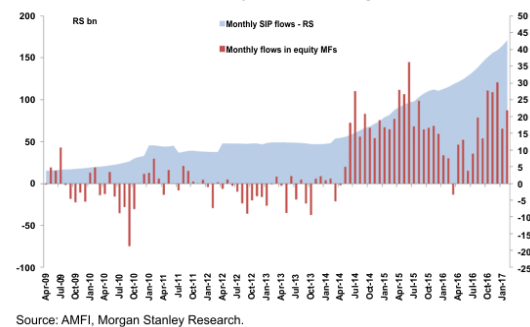
India has always been a nation of savers but, in past generations, this has manifested itself in the gold and jewelry market as well as property and cash. Thanks to the recent digitisation of the economy and the increasingly important influence of the millennial generation who thinks differently to their parents, a structural shift of household savings moving into equities is helping propel the Indian stock market.

For the first time ever, India's domestic flows into the stock market outpaced foreign flows for the twelve-months-ending May 2017. The major reason for this is consistent investing through Systematic Investment Plans (SIPs), which is ensuring regular inflows. Currently, domestic Indian mutual funds are receiving US\$1 billion or more monthly through SIPs. Moreover, this fund flow has remained consistent during recent periods of increased market volatility and sell-offs. Analysis carried out by Morgan Stanley concludes that domestic equity savings are on track to rise by \$525 billion over the next decade. The government is also taking steps to increase public equity exposure.

Flows into domestic equity mutual funds remain steady over the past three years



SIP contribution to monthly flows is rising



Source: Morgan Stanley

Serious Government Innovation

We visited Ahmedabad and learned about the government's new innovation called GIFT City - because the GIFT stands for Information and Finance. This is a completely new 'Special Economic Zone' (SEZ) which sits 20 kilometres outside of Ahmedabad. Whereas there may be too many acronyms in India, this innovation is ambitious, allowing as it does total capital account convertibility plus a whole host of completely new and different regulations existing to be attractive to foreign technology and finance companies. They are inviting stock exchanges, banks and other financials from all over the world to consider setting up here.

Shopping Malls

International retailers are beginning to come to India and are looking for good shopping malls to open in. However, they cannot find enough good malls because they simply do not exist. Phoenix Mills, which owns the only two grade A malls in Bombay, is an obvious beneficiary and our meeting with management implied that rent reversions are currently running at 100% or more, driven by the fact that all the of major global retail brands, such as Zara and H&M, are opening here and competing with high-end local brands as well.

A Travel Boom is Coming

We met with and even flew with India's leading airline, IndiGo, which is a low-cost carrier with 41% market share, significantly ahead of the number two player, Jet Airways, with 20% market share. IndiGo, who has a large banner in its office reading "Late is a four-letter word" is impressive and while management's expansion plans for the coming years (135 planes in operation and 430 on order!) seem slightly overwhelming this is only until you view them in the context of the overall market. In China, there are 2,700 commercial aircraft serving a population of 1.4 billion people, whilst in India there are

just 450 commercial planes serving 1.2 billion people! Both markets are growing much faster than GDP. Inevitably, the government is getting involved by backing expansion to the smaller destinations and linking these with the larger hubs, thus providing IndiGo with another opportunity for expansion. In any event, Indians are all very keen to travel and hotels, airport management companies, booking agencies and time-share operators all seem set for a very positive future.

Summary

Crucially, Modi's recent key state-election victories following the currency ban highlight people's trust in his development agenda. Moreover, these victories suggest Modi is well placed for the next general election in 2019, along with rising political capital in the Upper House of Parliament, where he lacks a majority to carry out the politically-tough reforms.

As we see it, what is particularly extraordinary is that these key reforms which are finally initiating the start of cyclical uptrends in property, logistics and growth overall are in practice just a few weeks or months old. Moreover, the structural growth opportunities in areas such as insurance, savings, travel, leisure and infrastructure are still so underpenetrated that it is to see anything but multi-year growth trajectories ahead. In this context we find it hard to imagine that we could possibly be at the top of the cycle and would question that if growth, globally, remains scarce then what will people pay to be invested in India?

Technology and Disruption

The technology sector is responsible for 40% of M2APJ's returns this year so far, despite being only 25% of the index. It has rallied an impressive 39% year to date. Even more strikingly, just 4 stocks are responsible for 25% of the M2APJ's year to date return and these are **TSMC**, **Alibaba**, **Tencent** and **Samsung Electronics**, all of which we hold in the fund. Some might wonder if it might be prudent to sell these companies after such a strong run, but we strongly argue against this.

Firstly, one might "Ask are technology stocks in Asia 'expensive'?" On a P/E basis, the tech index in Asia is little changed from the start of the year despite rallying 39%, as earnings estimates have moved up by a similar amount. At the time of writing the MXAPJIT is trading on 14.8x P/E versus 14.4x P/E at the start of the year. That being said, the price to book ratio has risen to 2.8x, which is significantly ahead of the index's long-term average, thus increasing the risk of disappointment.



Source - Bloomberg

Secondly, we feel it is important to understand the world we are operating in for what it really is. The Head of Toyota Research Institute has famously referred to the current period in robotics, automation, AI and so on as the equivalent of the Cambrian Explosion, a period of change which occurred over 500 million years ago and which led to every single form of life on earth. This new explosion has already ripped through the music industry (sales down from \$20 billion to \$7 billion in 17 years), newspaper advertising (sales down from \$63 billion to \$19 billion) and we believe we are now at a serious tipping point for retail (department store sales down from \$230 billion in 1999 to \$156 billion), especially in the US where there is terrible oversupply and huge disruption from Amazon. Unwary brands have suffered (think the Dollar Shave Club versus Gillett) and construction and manufacturing are next thanks to 3D printing and automation.

The key disruptor in all of this has been termed 'DANCE' an acronym for **D**ata, **A**lgorithms **N**etworks, **C**loud and **E**xponential improvement in digital hardware. This has its roots as far back as the 80s but, in some combination, is driving everything from drones to ecommerce, sharing services to 3D printing. What makes 'DANCE' so deadly is that new businesses simply create platforms offering the same services for a fraction or zero cost and on an unlimited scale. Existing businesses cannot compete, much in the same way that iTunes destroyed CDs and now Spotify is disrupting iTunes.

Our strong and clear approach to this is to own thematics and disruptors and to avoid, where relevant, very established brand value and high-volume businesses in commoditized products. Only this week we saw the launch of 'brandless' \$3 toothpaste (and many other household products at \$3) in the US. The model is aimed at the less brand conscious younger generation who are happy to buy online an unbranded but quality product that offers value.

Our technology holdings are all at the epicenter of the 'DANCE' disruption and offer exposure to all the major new areas of growth. Here are just a few which we think remain undervalued in our portfolio.

E-Sports

We have written extensively about this in previous quarterlies but we are about to hear a lot more about this little known but fast-growing phenomenon due to an upcoming IPO in Hong Kong, Razer, which is an e-sports company. Razer has a team of 160 e-sports players from 22 different countries who compete in a range of competitions. In addition, Razer has the leading brand in gaming peripheral hardware in China and has sold over \$1 billion worth of gear.

The global e-sports audience is currently over 300 million people with some estimating that there will be 200 million e-sports viewers in China by the end of this year. The rest of Asia has 48 million and this is expected to double in the next 4 years. In 2016 the global e-sports industry generated \$500 million in sales from sponsorship, fees, advertising and merchandising and this is expected to grow at a 21% cagr over the next 5 years. It may not be a surprise that the number one most watched Youtuber in the world is an e-gamer called Feix Pew DieDie Kjellberg with 15.6 billion views!

Tencent has an 80% market share in the Chinese mobile e-sports market and its top game, Honour of Kings, which is just launching globally, was announced as the top grossing worldwide game in May 2017. **Tencent** believes that the Chinese gaming market alone will be worth US\$15 billion by the end of 2022 and has unveiled a 5-year plan to launch new leagues, tournaments, associations and e-sports theme parks, which should keep it firmly as one of the best ways to keep exposure to this heavily underestimated opportunity.

Online Literature in China

While the market may well be missing the value of e-sports at **Tencent**, it is most likely also missing the value of online literature. In fact, it seems that no sell side analysts even have a forecast for this in their models, even though **Tencent** is planning to spin off a small share in this business, called China Literature, at a market capitalisation of US\$5.3 billion.

China Literature can be thought of as the 'Kindle of China' but with big differences. It grew from an acquisition of Cloudary and now resides on the qidian.com website or is used on the QQ Reading app, the number one online reading app in China. Unlike Kindle, which mainly focusses on eBooks which could also be bought in physical form, the qidian.com platform focusses on literature that has no physical form alternative. What is more, it uses a very social and mobile approach where readers and writers can speak and readers are encouraged to adapt or extend the IP by creating new entertainment formats, for example, making a movie out of a book.

China Literature has 5.3 million writers and 8.4 million literary works of which 8 million are original and which span 200 genres. It currently has 175 million monthly active users who are mainly millennials and read on average an hour a day. They pay via monthly subscriptions, purchasing content per number of Chinese characters read or via bundled packages.

Online literature is interesting because it allows for all kinds of formats, including the series, which is, of course, how readers first encountered Sherlock Holmes. The difference in this generation is the recommendation engines, the feedback to the writers, and the resulting value that emerges, with similarities to how Netflix creates specific programs with the audience in mind. As a result, in 2016 the China Literature content library produced 13 of the top 20 box office moves and 15 of the top 20 most watched TV series, amongst other mediums.

Mobile Payments

In any restaurant, in any major city in China, you will be asked which smartphone payment you would like to use, namely WeChat (**Tencent**) or Alipay (**Alibaba**), long before the remote, third option of cash is raised. In 2016 mobile payments in China totaled a staggering \$5.5 trillion, 50 times larger than the US smartphone payments industry, according to consulting firm, iResearch.

In fact, so prevalent are smartphone payment systems that everyday life is considerably hampered if you only have cash. According to recent data, Ant Financial (**Alibaba**) and **Tencent** were set to surpass credit card companies like Visa and Mastercard in total global transactions per day in the coming year. The key is that both companies are able to provide payments at very low costs. This is partly owing to allowing smaller vendors to make use of a simple printout of a QR code and their phone instead of an expensive card reader and partly owing to a back-end system that stores a record of user accounts instead of having to communicate with a bank.

The specific numbers for **Tencent's** and **Alibaba's** mobile payments businesses are not yet provided to investors. However, in **Tencent's** 4Q16 results 'other services', which includes mobile payments, generated just short of \$1 billion in earnings, up 3-fold year on year. On top of this, the potential for data gathering, advertising and other forms of monetization are huge.

A New Era in Hardware?

There have been 3 tectonic shifts in computing. Every 15 years, an accumulation of technical innovations translates to tectonic shifts in the computing model. In the 60s the industry shifted from main frames to mini-computers, in the early 80s it shifted to PCs, and in the late 90s it shifted to a cell phone / datacenter model. Each computing model shift brought a shift in the beneficiaries: IBM in mainframes to DEC in mini-computers, to Intel and Microsoft in PCs, to Apple, **Samsung**, Intel and Microsoft in the cell phone / datacenter model.

We believe we are possibly at the start of the 4th tectonic shift now, to a parallel processing / IoT model, driven by lower memory costs, free data storage, improvements in parallel processing hardware and software, and improvements in AI technologies like neural networking, that make it easy to monetize all the data that is being stored. The companies most likely to succeed in this new era are those who have positioned hardware and software for parallel processing.

TSMC

One question one regularly hears currently is: "Is this technology cycle nearly over?" **TSMC** is an interesting case in point because if you look at the past 10 years of **TSMC's** operating history it has steadily gained footprint in almost all electronic devices through the years and has become increasingly less cyclical. It is now making the most important parts of smartphones, datacenter servers, AI machines and is now also steadily moving into autos. Therefore, we expect **TSMC's** sales growth to re-accelerate in 2018 onwards. For 2018, the re-accelerating sales growth will be driven by a smartphone launch pushout, AMD's CPU moving from Global Foundries' 14nm to TSMC's 7nm, and part of Qualcomm's Snapdragon 84X AP using TSMC's 7nm. By the time we reach 2019 and 2020, high-performance computing, AI processors, automotive, and the Internet of Things is likely to grow to a much larger percentage of **TSMC's** sales. Apart from the re-acceleration of sales growth, we also expect earnings growth to re-accelerate thanks to continued margin driven by two factors: i) strengthening technological position at 7nm and beyond and ii) more favorable product mix from high performance computing and automotive increasing as a percentage of sales and which currently boast

higher margins. As such, we estimate **TSMC's** gross profit margin to improve from 50-51% at present to 54% by 2019.

TSMC is trading at around a 50% discount to its US semiconductor peers on a price to book basis but with an ROE which is around double that of the index and the prospect of growing its earnings per share at 16% per annum between now and 2020. We believe the stock remains undervalued relative to its long-term ability to compound earnings.

Samsung Electronics

We continue to hold a very large weighting (7.6%) in **Samsung** and at the moment we see no reason to sell owing to its attractive valuation. The stock is trading on just 6.9x earnings and a 9% free cash-flow yield and is generating a 25% return on equity on an ex-cash basis.

Samsung is geared into most of the big tech trends, the most obvious of which is memory, as demand soars thanks to the AI, cloud computing and IoT boom. In other areas **Samsung** is also outstanding. For example, OLED, and future incarnations of this such as foldable OLED, are one of **Samsung's** strongest competitive advantages where the company has a multi-year lead over its competitors.



PORTFOLIO PERFORMANCE

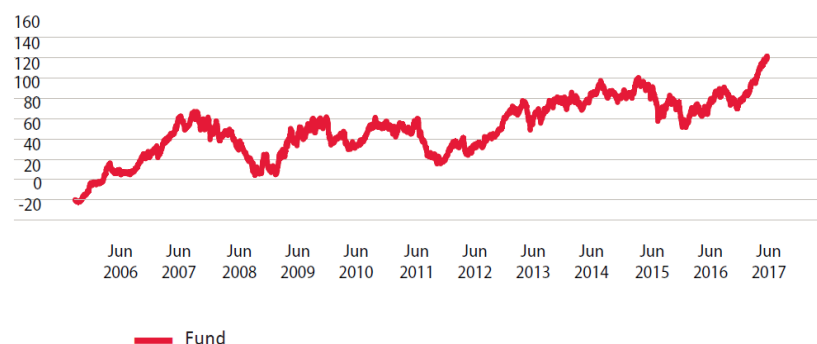
Performance Summary (%)
Period ending 30.06.2017

	A-USD	C-GBP	D-SGD
1 Month	3.56	3.38	3.47
3 Months	11.35	10.98	11.15
YTD	24.62	23.64	23.97
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+	134.09	85.59	30.38
Annualised 5 years	9.49	9.61	9.63
Annualised 3 years	5.23	5.49	5.59
Annualised Since Inception	7.52	5.80	3.62

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 (%)

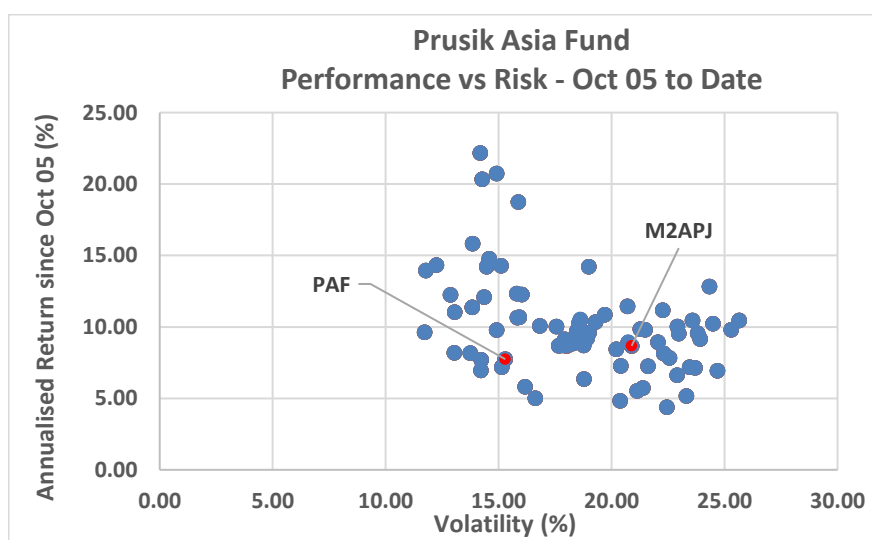
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2017	3.50	2.19	5.81	3.02	4.38	3.56							24.62
2016	-8.91	-1.24	7.08	1.44	-1.78	1.16	4.32	3.70	-0.54	-2.41	-2.42	-3.47	-3.98
2015	1.57	0.07	1.23	4.06	-0.96	-1.83	-3.40	-7.67	-1.41	6.77	-0.60	-0.11	-2.95
2014	-3.15	3.04	-0.56	-3.44	2.15	2.91	2.08	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 (%)	2.15
Sharpe Ratio	0.63
Volatility (%)	16.16
% of the portfolio –which could be sold in 2 business days	95.74

Source: Morningstar

Since Inception: A: 07.10.05



THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Samsung Electronics Co Ltd	7.1
Tencent Holdings Ltd	4.8
Indiabulls Housing Finance Ltd	4.6
Hangzhou Hikvision Digital - A	4.0
Vietnam Diary Products	3.9
Total Number of Holdings	34

Portfolio Financial Ratios*

Predicted Price/Earnings Ratio	15.0x
Predicted Return on Equity (%)	20.4

* Fiscal year periods

Thematic Breakdown (%)

Financialisation	24.4	
Artificial Intelligence/Virtual Reality	19.5	
Vietnam	16.5	
Infrastructure/Logistics/Property	11.0	
Internet	9.7	
Local Brands	7.6	
Leisure/Tourism	6.1	
Cash	5.3	

Geographical Breakdown (%)

Hong Kong/China	33.8	
Vietnam	16.5	
India	9.5	
Korea	9.3	
Taiwan	8.5	
Cash	5.3	
Pakistan	4.3	
Australia	4.2	
Indonesia	2.1	
Thailand	1.8	

FUND PARTICULARS

Fund Facts

Fund Size (US)	80.31m
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	234.09
B USD	Unhedged	Distributing	B0M9LL2	IE00B0M9LL22	234.24
C GBP	Hedged	Distributing	B18RM25	IE00B18RM256	128.15
D SGD	Hedged	Distributing	B3LYLK8	IE00B3LYLK86	324.76

Performance fee based on individual investors' holding.

U GBP	Unhedged	Distributing	BBQ3756	IE00BBQ37560	160.58
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Performance fee based on fund performance as a whole.

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