PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asia Fund

Quarterly Investment Report
30 December 2016

FOR PROFESSIONAL INVESTORS ONLY

PAF Quarterly December 2016

Over the final quarter of 2016 the Prusik Asia Fund fell 8.1% versus the index fall of 4.9%, underperforming by 3.2%.

In the final quarter Vietnam was very weak, led by **Vinamilk**, which is one of our larger holdings. Vietnam is a large off-index exposure comprising around 20% the fund and which contributed very strongly overall to fund performance in 2016. We remain very positive long term on both Vietnam and **Vinamilk** but the fourth quarter saw a huge spate of IPOs in Vietnam which created a high degree of indigestion in the stock market. We have written more on this below but we see the longer term impact of this as very positive.

Below is a summary of the positive and negative contributors to performance by theme.

4Q16 Positive Contributors

Infrastructure

The infrastructure theme saw a return on investment of 10.1% as expectations of rising interest rates and a possible return to growth post Trump's election saw cyclicals globally perform strongly. Thai construction company, **Sino Thai Engineering**, led the way. Pakistan cement company, **Lucky Cement**, and the infrastructure focused Australian bank, **Macquarie Group**, were both bought during the quarter.

Local Brands

The local brands theme saw a negative return on investment to the tune of -1.0% but this was nevertheless ahead of the index return in the quarter. Chinese sportswear brand, **Anta**, led the performance for local brands. **Haier Electronics** has made a good start to 2017 after being flat post purchase in 2016. **Alibaba** exercised its convertible bond in **Haier's** logistics business, increasing its stake to 34%.

Financialisation

The financialisation theme saw a negative return on investment to the tune of -3.3% but, again, this was nevertheless ahead of the index return in the quarter. Recent new buy, **Habib Bank** in Pakistan, saw very good returns and China insurance company, **China Taiping**, saw a modest recovery. Recent new buy, **Indiabulls**, performed poorly in reaction to the demonetisation policy in India, but has subsequently recovered strongly in 2017 to date.

4Q16 Negative Contributors

Internet

The internet theme saw a return on investment of -14.0% and detracted 192bps from NAV in the quarter. All the stocks in this theme were weak in the period, in particular **Tencent** in

China and **Naver** in South Korea. The internet theme has, however, been bouncing back with a strong start to 2017.

Clean Energy

The clean energy theme also saw a poor quarter, following on from a poor performance in general in the year. A number of stocks in this theme have been sold and so just auto component maker, **Nexteer**, remains as a holding.

Vietnam

Despite having a good year overall, the Vietnam theme saw a negative return on investment of 10.1% and detracted 234bps from NAV in the fourth quarter. Longstanding holdings were weak across the board led by dairy brand giant, **Vinamilk**. New purchase, **Hoa Phat**, a Vietnamese steel producer got off to a good start.

Full Year Review

Very broadly speaking, during 2016, the Prusik Asia Fund had about 50% of the fund invested in themes which saw very good returns and 50% of the fund invested in themes which saw poor returns. However, at the margin the poor performance of the weaker themes was greater than the good performance of the strong themes, leading to negative absolute returns for the fund of around 4%. That said, there was some strong currency help for unhedged USD/GBP share class investors on account of the weaker GBP, which boosted returns for sterling investors to circa 16%.

FY16 Positive Contributors

Vietnam
The clear stand out theme in terms of positive absolute returns and return on investment ahead of the index in 2016 was Vietnam. Vietnam generated 455bps of absolute positive returns and an overall return on invested assets of 21.3%, with 6 out of our 7 stocks generating a positive return. In particular, **Phu Nhuan Jewellery** delivered a stellar performance, contributing 210bps to NAV. Branded dairy company, **Vinamilk**, and insurance company, **Bao Viet**, were also strong. We sold **Bao Viet** having reached its valuation target and replaced it with steel company **Hoa Phat,** where there is a significant structural tailwind on infrastructure and the competitive environment and valuations are exceptionally attractive.

Gold

Newcrest Mining was the only holding in this theme. The stock's absolute positive contribution to NAV was 183bps. We have since sold this position as our valuation target for the stock was reached.

Local Brands

Local brands saw a 15.2% return in the year and contributed 146bps to NAV. **Treasury Wine Estates** led the way after delivering strong results on a consecutive basis. Philippine multi-format retailer, **Robinsons Retail**, also saw good returns and was sold in the year, owing to emerging concerns that it was too richly valued for its slightly disappointing earnings growth. **Haier Electronics**, which was flattish over the year, has made a good start to 2017 as **Alibaba** exercised its convertible bond in **Haier's** logistics business, increasing its stake to 34%.

FY16 Negative Contributors

Clean Energy

This theme comprised Chinese solar companies, Korean EV battery companies and Chinese EV bus and car companies. It was the single most negative contributor to the fund in 2016 with all stocks in the theme generating negative returns in the year. Amongst these losses, Korean EV battery maker, **LG Chem**, and China's leading EV car company held by Warren Buffet, **BYD**, were amongst the biggest negative contributors. **LG Chem** was affected by the Chinese not allowing Korean battery makers access to the Chinese EV market, whilst many of the companies were impacted by changes in solar and EV subsidy policies. Finally, **Samsung SDI** was impacted by the Samsung Galaxy Note 7 issue. The majority of these positions have now been sold. As mentioned above, only auto component maker **Nexteer** remains in the portfolio. Whilst we like this theme and can see huge upside in both EVs and solar over the coming decade, in both cases subsidies can be very influential and are subject to government policy which presents a risk. 2016 was a salutary example of that.

Smart Textiles

Following a good run in 2015 the smart textiles holdings were sold in Q1 2016, albeit not before some declines.

Financialisation

The financialisation theme saw a return on investment of -8.7% and detracted 193bps from the fund's NAV. Chinese insurer, **China Taiping**, was the biggest negative contributor, although so far in 2017 it has been recovering in light of increasing expectations of interest rates rising. **Indiabulls Housing Finance** also suffered after the demonetisation policy announcement in India. Following the subsequent sell-off we found the stock to be very attractively valued and so we took the opportunity to add more. **Habib Bank** in Pakistan has also been bought and has seen strong returns since purchase.

4Q16 Overview and Outlook

As the chart below shows, in the fourth quarter there was a steep drop off in the relative performance of growth versus value companies. This was partly triggered by a new expectation, post the Trump election victory, that growth would recover. Coupled with this, supply side reform in China has given commodities a big boost. As a result the cyclical sector, commodities, and companies showing extreme value all received a filip and this came at the expense of quality growth companies, especially those on richer valuations.

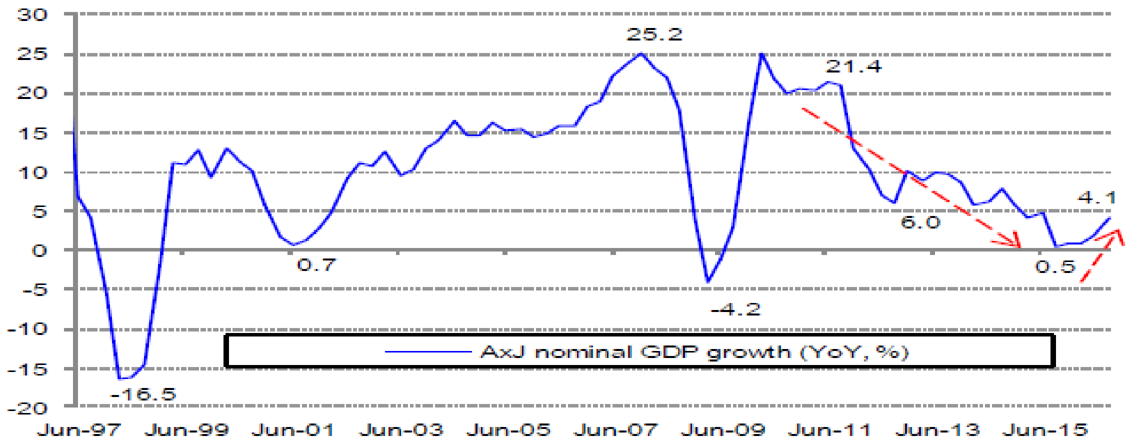
Source: Bloomberg

At this stage it is probably harder than ever to predict what is going to happen next. At the time of writing the US has just sworn in a new President, whom a good portion of the world is struggling to make sense of. Equally, what this means for policy is almost impossible to guess. For example, the much heralded USA border tax might seem beneficial for US domestic capex and employment opportunities as large companies repatriate wealth. And just as markets begin to settle with this idea we then are told it's too complicated, bringing forth instead the spectre of a much more protectionist (and old fashioned) import tariff structure instead.

This is a new kind of leadership. It seems chaotic and how it plays out in Asia remains to be seen. Our approach is, therefore, currently one of modest caution on all fronts whilst being reasonably constructive about growth in 2017.

Growth and Value Combined

These charts below come from Credit Suisse and show clearly that there is currently a nice and visible pick-up in nominal GDP in Asia. This is accompanied by steady CPI, a recovery in PPI and, for the first time in 5 years, a sprightly earnings recovery projected of double digit improvement after flat or negative earnings in the past few years.



Source: Credit Suisse

In short we believe that our 'growth regardless of the economic cycle' approach will still do well in the current environment, given that there are bound to be fluctuations in sentiment as the year progresses.

Our focus, as has been a feature of the portfolio for many years, is on Asian domestic stories. This year, in addition to this, we are also focussing more than ever on valuation and value creation. We are also allowing some exposure into the portfolio of companies that will benefit from better growth and rising interest rates. We already have some exposure in this area via our financialisation theme to which we have added to recently. This could prove timely and positive after an admittedly difficult year for this theme in 2016.

To this end, we have also significantly reduced our exposure to any 'expensive growth' and have added only where significant value exists. Value, as was the case in the latter months of 2016, will continue to be a leitmotif of 2017 until or unless the expectation of a growth recovery is extinguished altogether. As a result, the current valuation of the portfolio stands at 13.9x with 8.0% earnings growth forecast and 19.4% ROE which we think stands us in good stead for 2017.

Themes

Our key themes remain Vietnam, Financialisation, Local Brands and China Internet. All will benefit from better growth in 2017. We have also started to recognise a new theme in the past quarter - the demographic story in Asia.

The Demographic Dividend

The demographic dividend is a well known phenomenon and is the boost that is given to an economy when the work force expands relative to the non-working population. This wealth is created by four mechanisms: increased labour supply generating value, increased savings as the number of dependents decreases, higher savings allowing for more concentrated investment in human capital, such as education, and finally, as a consequence of all this, rising domestic demand.

The demographic dividend should not be underestimated. Indeed, if one looks back at the best years for stock markets and GDP growth alike, one can see that demographics can be a very powerful driver of this. For example, between 1950 and 2008 Korea saw its GDP per capita grow 2,200 %, whilst in Thailand GDP grew 970%.

In the near future India will be the largest contributor to global demographic expansion. An IMF paper shows that the most substantial portion of India's growth since the 1980s has been attributable to demographic change. Moreover studies show that India is set to overtake China in population by 2025, with an increasingly large portion of the population in working age category. This alone could contribute 2% per annum to India's per capita GDP growth.

Below is a table which we think is possibly the most important way to look at Asia in the coming decade.

Demographic Growth Asia Versus Mature Growth Asia: A Statistical Comparison

Demographic Growth	Country	Population Size (m)	Median Age (yrs)	FY15 GDP Growth (%)	Nominal GDP Per Capita US$	Internet Penetration (%)
	India	1299	27	7.6	1715	26
	Philippines	101	24	5.9	2870	40
	Indonesia	258	29	4.8	3307	22
	Pakistan	189	23	5.5	1436	18
	Sri Lanka	21	33	4.8	3977	30
	Vietnam	92	31	6.7	2079	53
	Bangladesh	161	26	6.6	1212	14
	Cambodia	16	24	7.0	1157	19
	Laos	7	22	7.0	1813	18
		Total (m)	Average (yrs)	Average (%)	Average (US$)	Average (%)
		2142	26	6.1	2564	31

Mature Growth	Country	Population Size (m)	Median Age (yrs)	FY15 GDP Growth	Nominal GDP Per Capita US$	Internet Penetration (%)
	Taiwan	24	40	0.6	22402	n/a
	Korea	51	41	2.6	27222	90
	China	1375	37	6.9	7839	50
	Malaysia	31	29	5.0	9584	71
	Singapore	6	41	2.0	52888	82
	Hong Kong	7	44	2.4	42186	85
	Thailand	68	39	2.8	5813	39
		Total (m)	Average (yrs)	Average (%)	Average (US$)	Average (%)
		1561	40	3.2	23991	70

Demographic Versus Mature	37% Bigger population	34% Lower median age	92% Higher GDP growth	89% Lower GDP per capita	55% Lower internet penetration

Source: CLSA, Worldometer, World Bank

The demographic dividend countries with the younger populations comprise over 2 billion people (and this excludes China!). The median age is just 26 years old. Moreover, GDP per capita of the younger countries is one tenth that of the mature ones i.e. $2,500 versus $24,000! In 2015 the demographic dividend markets also grew nearly twice as fast, averaging at 6.1% versus their mature neighbours.

In short, we propose that in the coming 10 years there will be a disproportionate opportunity for bold investors in these younger countries – Vietnam, India, Indonesia, Philippines, Pakistan and Sri Lanka. Some of these are small markets, not hugely liquid and not well represented in many funds. We have been investing in most of them for a number of years and since we have limited size funds, obtaining a good weighting to the best companies in these markets is easier for us than for many of our peers and as such, presents an unusual opportunity. We currently have one third of the fund in the 'demographic story' markets, which includes investments in Vietnam, India and more recently Indonesia and Pakistan. We currently do not hold any stocks in the Philippines and have limited exposure to Indonesia on account of the very rich valuations in these markets. Our Vietnam portfolio is on a P/E of just 12.2x and our Pakistan portfolio is on a P/E of just 10.9x.

Vietnam

Vietnam is our largest off-index exposure at 20% of the fund. As we stand at the cusp of 2017 the index there stands on a P/E of 12.5X 2017 earnings with 19.2% forecast earnings growth.

The Vietnam economy is growing around 6% per annum driven by foreign direct investment mainly in manufacturing. Companies such as LG Electronics, **Samsung Electronics**, Intel and Nike are all making a significant portion of their higher value-added items in Vietnam. Mobile phones are Vietnam's single biggest export item and **Samsung** is a disproportionate percentage of this. Wages are about 35% of those in China, whilst higher education levels are better than those in the UK! Despite the impressive and technically high level of manufacturing that Vietnam hosts, it is worth noting some other basic stats which suggest Vietnam should remain a high growth country for a while longer. For example, only one third of the 92 million citizens have a bank account, only a third live in cities and per capita credit card penetration is just 25% of that in neighbouring Thailand.

2016 was a good year for the Vietnam stock market in terms of performance. In addition, there were many changes and developments which are serving to increase the attractiveness and gravitas of Vietnam as a portfolio investment destination for foreigners. To begin with, last year we saw the law change to allow the removal of foreign ownership limits. This has moved forward slowly but we believe 2017 should see more companies action this new allowance.

In addition, we saw some very significant and hugely successful IPOs in 2016, including two domestic beer companies (the largest and most successful being Habeco) and Airports of Vietnam, which rose 60% on listing. This starts the beginning of quite a pipeline of IPOs, which could be as much as $7.5 billion or 9% of the combined stock market capitalisation of all three exchanges in the coming year. We expect it to contain new listings equally as attractive as the ones we saw launched in 2016.

The government has laid out its plans for the coming 5 years and, encouragingly, these include more private sector development, more restructuring of SOEs, more capital market restructuring. In Vietnam there has been an ongoing reform of SOEs but, that having been said, there remains a significant value in state run entities, estimated in the order of $220 billion. We believe the government is still committed to reducing the burden on government and selling assets in order to reinvest in infrastructure.

Vietnam, as a country, is export led. However, our holdings here are all exposed to local demand, a rising middle-class, proper consumer credit cycles, emerging and rising infrastructure spending and property. Life insurance and smartphones, for example are growing at 30% per annum.

The risks to Vietnam in 2017 are coming from any protectionist policies that might be introduced by the US, although Trump seems to have a difficult relationship with China so Vietnam may, oddly, benefit here. The Trans-Pacific Partnership, which was mainly benefitting the textile sector, looks likely never to see the light of day under the Trump administration but it should not mean too much of a setback for foreign direct investment into Vietnam. This, in any event, is almost certainly now in the price.

We continue to hold our Vietnam investments in expectation of a good year again and are visiting the country again in February.

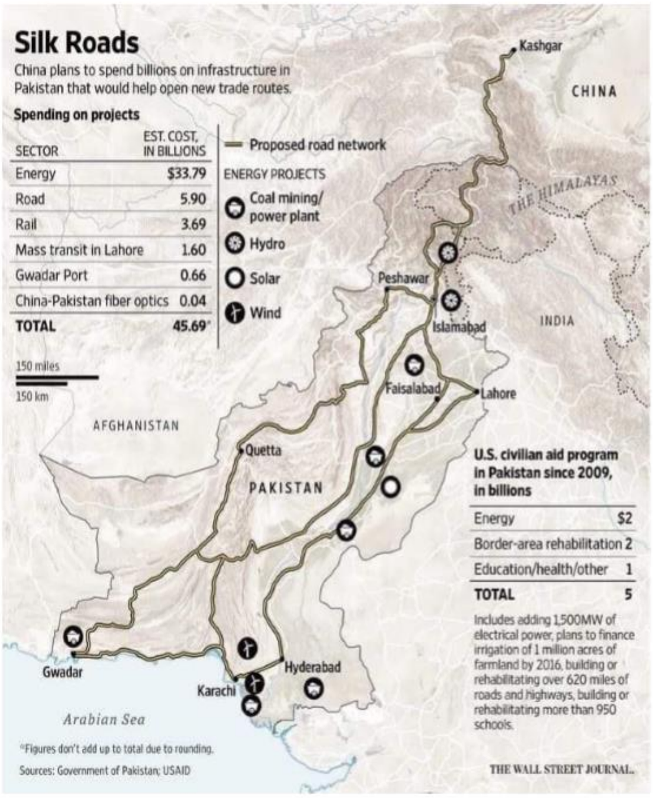
Pakistan

The Pakistan index gained 33.3% in 2016 but still stands at a 30% discount to the regional average P/E ratio at 9.2x. This has been partly driven by the announcement of Pakistan's formal inclusion in the MSCI Emerging Markets index, effective from this May, as well as improving macro and political stability and visible improvement in law and order. Indeed, Prusik visited Pakistan in September and returned safe and extremely positive.

We believe that the market can continue to make very strong headway in 2017, crucially by making progress in a global upturn or regardless of one. The economy is on a cyclical uptick and estimates suggest Pakistan GDP grew just under 5% in 2016, whilst inflation was low at 3.8%.

Pakistan has matured as a democracy and has recently found political stability. This has allowed the country to come together on constitutional and national agendas and to combat extremism and terrorism. Additionally, recently enhanced ties with China and the launch of the China Pakistan Economic Corridor (CPEC) mean that some $46 billion of signed agreements in investment from China will spur medium term growth and result in projects such as a 3000km rail road, development of special economic zones, 14 energy projects, as well as more airports and motorways. The energy projects especially are very important as they lay the foundations for the future industrial growth of Pakistan. Overall, the whole project massively underpins Pakistan's growth in the coming few years and sets the stage for ongoing economic development and more effective employment for the country's 200 million people.

The table below says it all. Since 2009 a paltry $5 billion had been invested by foreign programs. China's current plans will dwarf this by multiples.



Source: Wall Street Journal

The stock market capitalisation of Pakistan is $85 billion which represents 561 listed companies and sees average daily turnover of $100 million. The average dividend yield in Pakistan is just under 6%.

We currently have 8% of the fund in Pakistan across three holdings. We own two banks and **Lucky Cement**. The latter is a clear beneficiary of the huge infrastructure programs afoot, whilst the banks are both likely to enjoy above average growth as credit expands in the coming years, with an additional benefit this year of a slight rise in interest rates.

Financialisation

Last year was an "annus horribilis" for the Chinese insurance companies from a share price perspective and this theme was amongst the more disappointing aspects of the fund's 2016 performance. However, we continue to like and hold this sector, believing it now to offer extreme value and therefore significant upside.

Ping An, one of our companies here, hosted an investor day in early December and analysts agreed that the company's level of disclosure had improved, as had the message. The existing book of business is higher quality and more profitable than had previously been thought and should deliver over 20% core annual profits growth. Investment performance has been above the company's stated objective. Finally, new business in longer term protection is driving forward at a fast pace in a very under-penetrated market. There is now a high margin, protection focused, insurance market in China which is currently mostly healthcare related. This marks a shift from customers in China mostly using insurance as a savings and investment type product. **Ping An** runs an agency model, and this, coupled with its very successful internet platform, means that the company has a good chance of becoming the largest P&C insurer in mainland China by 2020. We feel that very little of this upside is in the current share price. Some sell-side analysts appear to agree, pegging their estimated upside for the stock as high as 90% from here.

Indiabulls

We bought **Indiabulls** during the final quarter and our timing was unfortunate, as shortly after, we faced the announcement and implementation of the 'demonetisation' program in India, which caused the stock to correct sharply. We doubled our position into that weakness and so now hold a 4% weighting in the stock. We believe it sits well in the category of growth as well as being exposed to India's demographic story of rising home ownership.

The total housing shortage in India is huge at 24.7 million units and hence there is a strong structural story for the growth of housing finance, as India develops and housing becomes affordable for the masses. Mortgage or housing finance is the cheapest source of credit for an ordinary citizen and it is bound to expand as the economy matures, as can be seen from the evolution of other economies. Mortgage credit in India is likely to grow at high rates given the good GDP growth, as well as the likelihood of further interest rate cuts there.

Indians are conservative but it seems that housing finance, as a financial product, has been well accepted and it is probably the only financial product which has the potential to reach penetration levels which are equal to the global averages. In a growing economy like India, real estate prices have a high probability of increasing over a 10-15 year period and hence people are therefore inclined to take on leverage on an appreciating asset.

Indiabulls has been one of the fastest growing companies in the lucrative mortgage space. The company has transformed remarkably from an immature, hectic, overly complex, over-stretched non-bank finance company with a questionable corporate governance record, into India's second most profitable housing finance company in the recent few years. We believe this company has enormous potential and can create huge shareholder value going forward.

The management has built a lot of credibility (after a fairly rocky start) by consistently achieving all its stated objectives over the last 4 years, quarter on quarter. Both the direction and the speed of the transformation gives us more comfort about the management's ability to deliver shareholder value going forward. The company has also put in a lot of effort to improve transparency and to become more minority shareholder friendly.

Indiabulls' gearing is relatively low at around 5x and its capital position is strong with a capital adequacy ratio of 17%. This points to management's conservatism and their preference to build a safe, robust business rather than one just to chase growth for the sake of growth alone. While management has issued warrants to the major shareholder and diluted previously, we believe that the equity dilutions should be more measured going forward considering the business's strength. Finally, the company's growth has been accompanied by productivity improvements across many parameters leading to high and rising return ratios.

Interestingly, the market has still not priced in the transformation of **Indiabulls** from a diversified non-bank finance company to a stable and focused housing finance company. As a result, we still find a company generating 27-31% ROE priced at around 2.4x book value and on 9.0x March 2018 P/E. Management expect earnings per share to grow at a 20% cagr or higher over the next 2 to 3 years and the company also pays a healthy dividend yield.

China Internet

China's internet sector rose 8% in 2016, contributing the majority of MSCI China's positive performance. **Weibo**, **Tencent**, NetEase and Alibaba were the best performers. Generally however, it was a consolidation year, with Beijing catching up on the regulatory front, and companies focusing on post-deal integration and product enhancement. The industry leaders grew more dominant and profitable with consolidation, which we expect to continue in 2017.

The 11% correction from the peak at the start of the fourth quarter provides a buying opportunity in China internet stocks. Revenue and profits are likely to continue to grow by about 30% year on year in 2017.

The key growth drivers will include an advertising turnaround as the economy strengthens, ongoing huge growth in travel, ecommerce reaching rural areas and the advent of online grocery shopping. In addition, video live streaming, mobile gaming, and efinance will all play a part.

According to CLSA, the sector's average P/E multiple has fallen to a valuation of 25x, whilst consensus earnings expectations for the sector are for earnings per share to increase at a 27% cagr over the next 3 years. We hold **Sina/Weibo**, **Baidu** and **Tencent**, all of which we would define as having attractive 'platform' based models where the companies have large and sticky user bases which create a deep competitive moat and enable the companies to launch new products and services quickly and at high rates of return.

China

Commodity Supply Side Reform

Two key objectives for the Chinese government in 2017 are to cut capacity in coal and steel, whilst at the same time avoiding undue price hikes, which would contribute to uncomfortable levels of inflation. This balancing act also needs to take into account that steel demand is picking up, driven by better consumption of cars, fridges and general infrastructure machinery. As commodity prices have already responded to supply cutbacks and demand pickups we are already seeing a small recovery in wages which, in turn, bodes well for consumption in 2017.

Infrastructure Growth

Last year Premier Li stated that China would take decisive action if economic growth looked like it was slipping out of a reasonable range. As investment growth is still under pressure, real estate growth is likely to be moderately negative, and manufacturing investment continues to decline thanks to weaker exports and high inventories, it looks as though infrastructure investment will once again play a crucial role in ensuring China's steady growth.

For many observers, the recent huge infrastructure spending suggests that China must really have limited upside from here in this sector. A recent report from Citic, however, presents some useful facts and makes it clear that there is yet significant upside.

China's infrastructure capital stock has grown at an average rate of 10% in the past 20 years. Despite this China's capital stock/GDP ratio is still only 0.68. To put this into context, the UK's ratio was 2.0 in the 1980s. In fact, at current infrastructure growth rates, China will take another 33 years to reach the same level that the US enjoyed in 2014.

There is an abundance of statistics to help support this point further. For example, China's average railway length per capita is just 15% of the G7 average; China's roads total 69% of the total in the US and less than the total in India; in airports, with just 200 civil airports in 2014, China is behind Brazil; in water China's pipelines equate to 13% of the pipelines in the US and only two thirds of China's sewage output current sewerage output is treated; even mobile phones a third of the population are still only on 3G networks.

This data suggests that we should not doubt China's ability to add infrastructure for many years to come and that infrastructure investments are likely to reinvigorate productivity in the country, something which has been falling in recent years. We would expect growth in infrastructure spending in China could average around 15% cagr for the coming few years.

Focus on Australia

We have no specific macroeconomic view on Australia but our less than 6% weighting in this market makes for a sizeable underweight position. The key reason for the underweight position is that we believe that the major growth opportunities in the region lie in the developing countries. Our two holdings in Australia are interesting for their regional and global reach, brand strength, good positioning for growth and margin expansion in the coming few years. There is more colour on these two holdings below.

Macquarie Group

Macquarie Group is a bank, listed in Australia and is one of the best proxies to the unfolding global infrastructure spending boom, having developed a world leading, end-to-end infrastructure business whose growth pipeline looks assured.

Management have a strong track record, the businesses have structural growth opportunities and the remuneration structure is perfectly aligned with shareholders' interests to deliver excess ROE and earnings per share growth on a 3 to 4 year basis.

Macquarie Group has been a slightly disappointing relative performer in recent weeks compared to the strength of other banks, although this is arguably understandable given management's more modest guidance relative to our more optimistic expectations. We believe greater patience will be rewarded though and that **Macquarie Group** is soon likely to enter a prolonged period of positive earnings revisions.

Treasury Wine Estates

Morgan Stanley just came out this week with an upgrade on **Treasury Wine Estates**, citing the significant market opportunity for wine consumption in China, a market where consumers have previously favoured beer and Baijiu.

Treasury Wine Estates is a global agglomeration of wine brands and vineyards, now managed by ex-Coca Cola management. The opportunity to enhance margins by maximizing grape quality and wine blending, as well as improving the brand positioning to a premium spot and in turn increase prices, remains huge.

This is what the company said not long ago:

***Treasury Wine** is on a journey to deliver a group margin that is towards our Asia region EBIT margin of 30% plus {versus} our current margin of 15% ".*
Treasury Wine MD, Michael Clarke

We believe that **Treasury Wine Estates** has the right management team in place to rationalise the US business, revamp the supply chain and lift the brand power of 'masstige' (mass prestige) wine. The acquisition of Diageo left them with two brands in particular they are reviving – Truvee (which will be targeted at women 25 – 40) and Beaulieu Vineyard (which supplies no less than the US White House!). With competitor Constellation at 26-28% margins versus **Treasury Wine Estates** around 15% now in the US, there is plenty of upside and their execution to date shows us they can get there.

Meanwhile, Australian sales sound like they are trending better into year-end whilst Management remains confident on the positive trends they are seeing in their Asian business. The turn in the cycle, cost reductions, revenue synergies, unique China platform, increasing focus on premium wine and potential bolt on acquisitions all bode well for margin and earnings going forward.

While **Treasury Wine Estates** trades on a relatively rich spot P/E multiple, the company is generating a very high return on incremental investment, plus is expected to see in the region of 25% earnings cagr in the next 3-5 years. Cash flows are also set to improve with the stock expected to reach a near 4% free cash flow yield in a couple of years. As such, we think the seemingly high spot P/E is more than justified. We would also highlight that this is a global company, operating with iconic brands in a secular growth industry, where management are clearly guiding for margin improvement well beyond what the market is assuming.

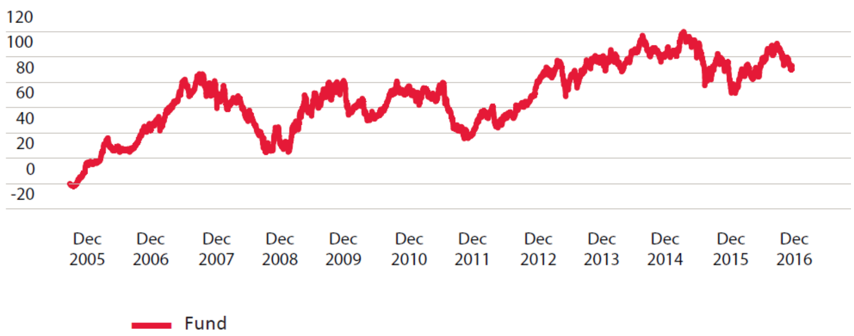
PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 30.12.2016

	USD	GBP	SGD
1 Month	-3.47	-3.60	-3.46
3 Months	-8.08	-7.90	-7.84
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
2012	24.68	24.36	23.95
Since Launch+	87.85	50.11	5.17
Annualised 5 years	6.49	6.78	6.67
Annualised 3 years	-1.97	-1.49	-1.47
Annualised Since Inception	5.77	3.96	0.73

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.

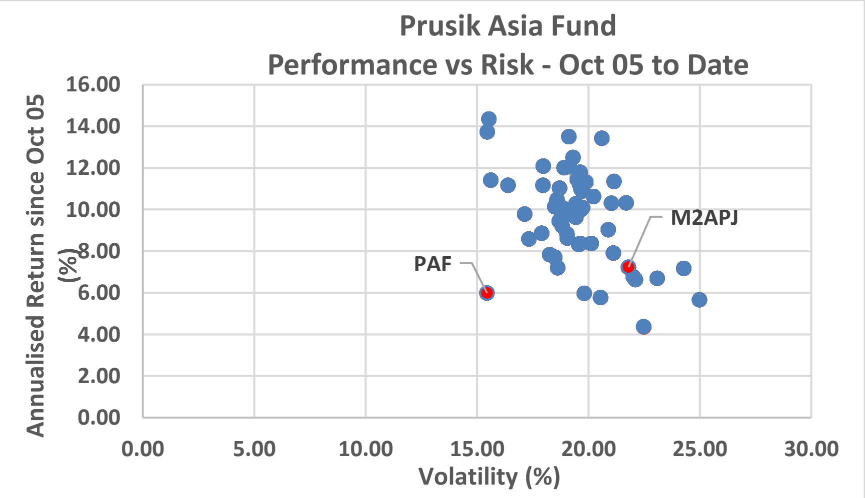
Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
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 (%)	1.25
Sharpe Ratio	0.48
Volatility (%)	16.39
% of the portfolio –which could be sold in 2 business days	99.00

Source: Morningstar
Since Inception: A: 07.10.05



THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Samsung Electronics Co Ltd	7.3
Vietnam Dairy Products	5.4
Tencent Holdings Limited	4.7
Sino-Thai Engineering & Construction	4.3
Ping An Insurance Group	3.7
Total Number of Holdings	32

Portfolio Financial Ratios*

Predicted Price/Earnings Ratio	13.8x
Predicted Return on Equity (%)	19.4

* Fiscal year periods

Thematic Breakdown (%)

Financialisation	19.3
Vietnam	18.2
Artificial Intelligence/Virtual Reality	16.0
Internet	12.6
Infrastructure/Logistics/Property	11.5
Local Brands	7.9
Clean Energy	7.2
Cash	4.4
Leisure/Tourism	2.9

Geographical Breakdown (%)

Hong Kong/China	39.7
Vietnam	20.3
Korea	10.2
Taiwan	8.2
Pakistan	5.5
Australia	5.1
Cash	4.4
Thailand	4.3
India	2.3

All data as at 30.12.16. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size (US)	56.0m
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	187.85
B USD	Unhedged	Distributing	B0M9LL2	IE00B0M9LL22	187.97
C GBP	Hedged	Distributing	B18RM25	IE00B18RM256	103.65
D SGD	Hedged	Distributing	B3LYLK8	IE00B3LYLK86	261.97

Performance fee based on individual investors' holding.

U GBP	Unhedged	Distributing	BBQ3756	IE00BBQ37560	133.36

Performance fee based on fund performance as a whole.

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