PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asia Fund

Quarterly Investment Report
30 September 2015

FOR PROFESSIONAL INVESTORS ONLY

PAF Quarterly Sept 2015

Anniversaries and Performance

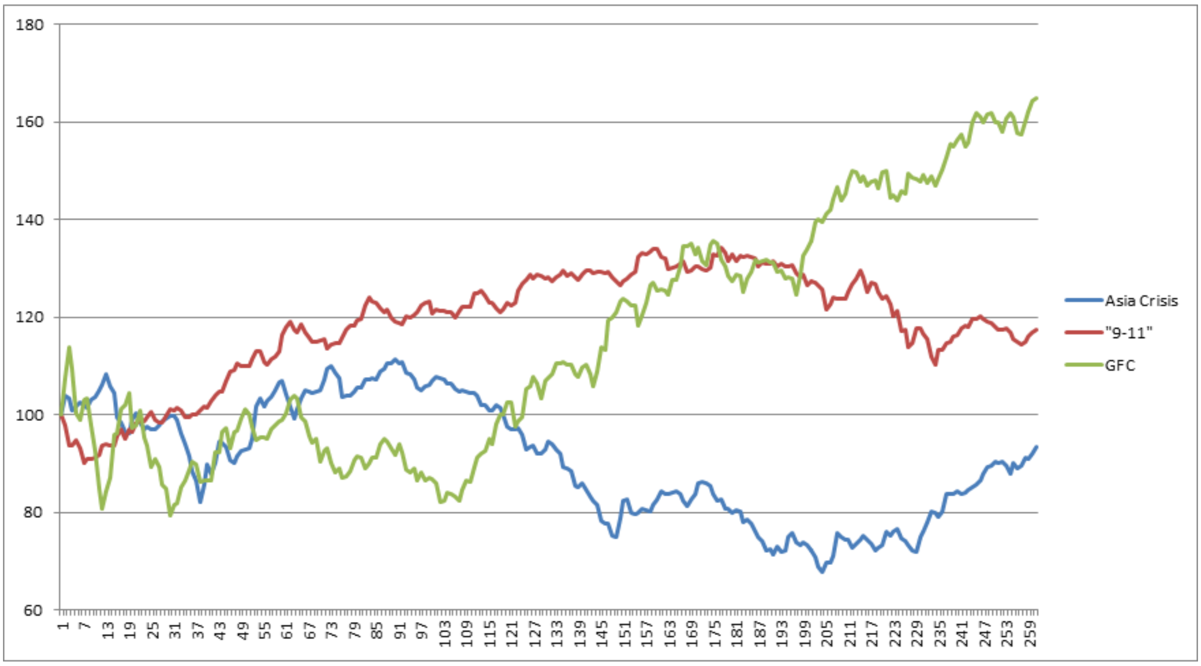
It's now 10 years since Prusik Investment Management was founded and the Prusik Asia Fund was launched. This is an exciting landmark for us all. Both the business and the fund have made some interesting and important transitions in this time. In the case of the fund, one of the key changes was to refocus the fund's mandate from an absolute return objective where the cash level in the fund was actively managed to a relative return objective where the fund is now consistently fully invested. We are very pleased to report that for the 3 year period for which the fund has operated under a relative return objective, the Prusik Asia Fund would rank in the top decile for performance in the IA Sector (Source – Morningstar - 3 years Sept 30 2015. Note – Not being a member of the IA these numbers have been superimposed on the sector constituents).

Looking at the fund's more recent history, the Prusik Asia Fund fell by 12.1% in the third quarter of this year, which was 4.4% less than the index fall of 16.5%. While relative performance for the fund was decent, it was clearly a disappointing quarter in terms of absolute returns. Shaken by the twin uncertainties of the Chinese authorities' changes to its exchange rate policy in mid-August and what impact this might have on exchange rates around the region, plus renewed fears concerning the prospect of slowing growth and an unmanageable debt pile in China, markets did what they often do when uncertainty reigns and fell. While the fund was clearly not immune to these gyrations, there were a number of themes which held up well during the quarter. In fact two thirds of the fund was invested in themes which generated an above index return.

The themes which held up particularly well were smart textiles, infrastructure and our exposure in Vietnam. Within our smart textiles theme, **Feng Tay Enterprise** and **Shenzhou International** stood out for generating positive relative and absolute returns, both buoyed by an excellent set of numbers from Nike and Nike's announcement that it is planning on achieving US$50 billion in global sales by 2020. We actually decided to sell **Feng Tay** during the quarter, which was a tough decision because we still believe it is a high quality company, but quite simply the stock had reached our internal price target and we no longer felt the valuation was justifiable. In Vietnam, the market leader in insurance, **Bao Viet Holdings**, local brokerage **Saigon Securities** and **Vinamilk**, the branded consumer giant which we will discuss in more detail later, also generated positive relative and absolute returns. The key detractor in the quarter was **Hermes Microvision** which we decided to exit on fresh evidence that the company's competitive position was deteriorating. Elsewhere, Chinese insurance companies which sit within our "financialisation" theme were weak, most likely owing to the misconception that these companies are little more than proxies for the A-Share market in China, which of course was amongst the poorest performing markets in the quarter. The long term structural growth opportunity for the Chinese insurance companies, however, remains unchanged and we continue to be enthusiastic holders of these stocks which have already recovered much of their lost ground in October.

Asian Valuations – A Wake Up Call!

On 24th August the MXAPJ index fell to 1.27x price to book. It is now at 1.39x price to book. History suggests that when the price to book ratio in Asia falls to these levels it is a golden opportunity for buyers. Why is this the case? Firstly, it is extremely rare to see the index in Asia at these valuation levels. Indeed, in the past 20 years the index has only ever fallen to 1.3x price to book or below on three occasions, namely 1997, 2001 and 2008. Historically, investors who have bought at these levels have always made money on a two year view with returns averaging 60%! The table below shows how on average what returns have been generated over different time periods from when the index has fallen below 1.3x price to book.



Source – Bloomberg/Prusik

Returns From Buying at 1.3x P/B or Below:

	1 month	3 months	1 year	2 years	3 years
Asia Crisis (1997)	-1.8%	+4.62%	-6.5%	+34.1%	+5.0%
'9-11' (2001)	-1.4%	+16.9%	+15.7%	+46.1%	+75.2%
GFC (2008)	+0.9%	-1.2%	+64.9%	+95.0%	+68.3%

Source – Bloomberg/Prusik

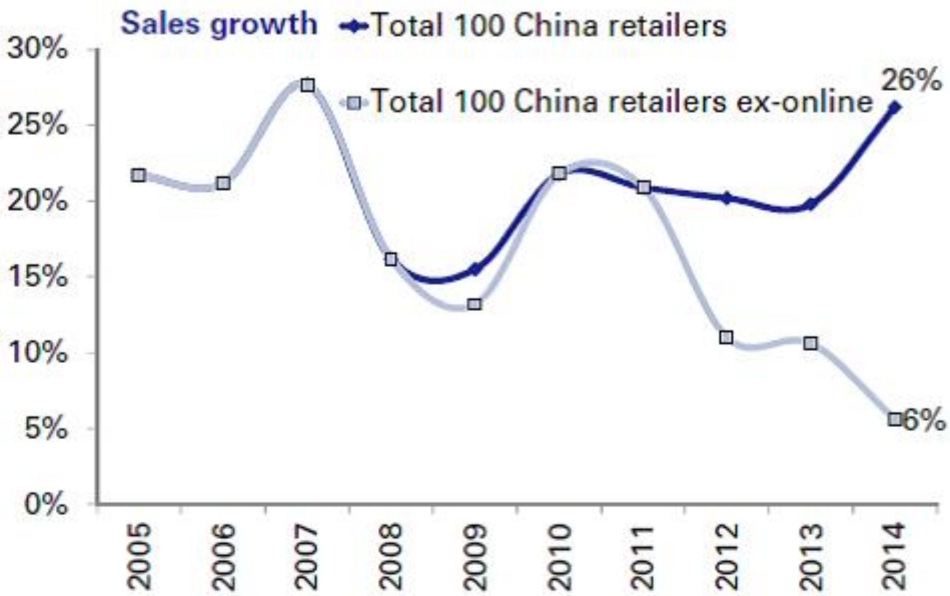
To our minds, despite some legitimate concerns over the debt mountain in China, we do not think that the risks for Asia overall are as high as they were prior to the Asian Financial Crisis in 1997. Moreover, it is exactly at these moments when the consensus view is most in agreement – as it appears to be at present regarding slowing economic growth in China and the expectation of better returns in Western markets or Japan – that the real opportunities are passing by elsewhere. We believe that Asia, at these historically low valuation levels, is offering one of those moments. Indeed, at the time of writing, the index is already up just over 11% from the lows of late August.

Growth

It is widely perceived that in Asia there is no growth or slower than expected growth. Much of this stems from worries about China. We would agree that the region contains large swathes of companies which may not grow much in absence of a full blown global economic recovery and that many of these companies comprise big chunks of the main indices in Asia. We believe this poses problems for ETFs, index oriented active funds and funds which are too large to be able to easily re-allocate assets towards areas of growth. However, we would also disagree with the notion of seeing Asia in its entirety as ex-growth and would also like to stress that it is possible to find growth in Asia which far surpasses that which can be found in many other markets globally. Here are three simple examples that have arisen just in the last week which illustrate not just growth is very much in force in Asia, but that in certain areas the rates of growth being generated are very impressive indeed:

1) 3Q GDP growth in Vietnam was 6.5%, ahead of the 6% GDP growth seen in the first 6 months of the year and with all the signs that 2016 will be even higher.
2) Ecommerce continues to show a clean pair of heels to bricks and mortar. No more so anywhere than in China:

Exhibit 28: E-commerce development in last few years is leading to a large gap between the topline growth of online vs. bricks and mortar companies



Source: China General Chamber of Commerce, National Retail Federation.

3) In the recent Golden Week holiday in China, restaurant, cinema and travel sales surged. Over 750 million trips were undertaken during the week's holiday with overseas trips up 37% year on year. Elsewhere, restaurant and retail sales rose around 11% from the previous year with major home appliance sales jumping 53% compared to 2014! At the cinema the week's box office takings were up 70% year with all three top grossing movies being home grown.

We are therefore extremely concerned that investors' ability to generalise about the growth prospects in Asia is going to cause them to miss these really very exciting pockets of growth in the region. **We think it is essential to look at things differently.**

Reported Earnings

The Prusik Asia Fund's explicit focus on identifying these exciting pockets of growth and the fund's ability to invest in them given its lack of index led constraints, translates into a fund which is seeing very high growth rates at the company level. For example, in the first half of 2015 the companies held in the Prusik Asia Fund reported average operating profit growth of 19%, over three times higher than the average operating profit growth for the index of just 6%. Moreover, for the China and Hong Kong portfolio within the fund, our companies reported average operating profit growth of 36%! Now who says there is no growth in China?

Prusik Asia Fund	1H15 OP YoY % Change
Portfolio Average	19%
China / Hong Kong Average	36%
Asia Average*	6%

Source – Bloomberg / Prusik / UBS
* refers to 86% of the companies in the MXAPJ and the MXASJ, excluding banks

Insurance

China's **Ping An Group** recently announced its data for premium growth for August. Growth in life premiums in particular stood out, increasing by 26% year on year. Interestingly, the continuing A-share market correction in August did not dent demand for life insurance premiums as perhaps we might have expected it to do. Indeed, the structural growth drivers for the life insurance market in China remain strong. In China insurance per capita is less than 2% whilst in the rest of Asia, insurance per capita is multiples higher at 6-7% and well over that in the West. One of the key reasons for this is that while wages in tier one cities are high, average income per capita in China is still below US$4,000. However, average income per capita is fast approaching the US$4,000 mark, the threshold which is typically considered to be the tipping point for when insurance is taken up far more widely. Life insurance is also a popular solution in China to the lack of other savings opportunities. Taking all of this into account, growth in life premiums is expected to remain solid for many years to come.

As we have written in previous quarterlies, we also see a tremendous long term opportunities for the insurance companies in their capacity as investment managers. As Chinese pension reform swings into action over the next couple of years, the requirement for a huge scale and institutional fund management capability will most likely lead the government to use the asset management skills of the three major insurance companies. As we have written in the past, owing to the fact that the World Bank is helping design the framework for China's pension system and the World Bank also designed the pension system which is currently in place in South Korea, we think it is reasonable to expect some similarities between the two. It is on this basis that we would expect China's pension system to include around a 30% allocation to equities as was the World Bank's recommendation for South Korea. We also think it is possible that China could see its stock markets bolstered by this allocation to equities. Indeed, after the implementation of the pension scheme introduced to South Korea in 1998, a decade long stock market boom ensued. This all bodes well for the savings industry as a whole in China, and the insurance companies stand to be amongst the obvious winners in the long term.

Finally, there is also a potential shorter term catalyst for the sector. The Chinese insurance companies use different accounting policies compared to most insurance companies globally, which see the Chinese companies recognize the bulk of the cost of selling a new premium in the year that it was sold rather than amortising the cost over part or all of the lifetime of the policy. The result of this accounting quirk is that profits, and in turn ROEs, for the Chinese insurance companies are lower than they would otherwise be under IFRS. It is currently being discussed in China whether the insurance companies should move to using the global accounting norms. Should this happen, it is possible that

ROEs in the sector increase from 13-14% on average to around 20%. In the event of this change we would subsequently expect the sector to see a significant re-rating.

Coming Major Disruptions

Every so often it is possible to see a new major disruption on the horizon, but more often than not we miss them. This is why we use anomalies in our research to help spot the new and unusual. Even once identified it is very easy to underestimate the impact of these disruptions, and the speed with which they materialise. Take for example these two photographs taken 13 years apart. In just over a decade the horse and buggy gave way to the car.

Source; US National Archives

In another example, in 1995 AT&T asked a research consultancy to estimate how many mobile phones there would be in 2000. Their answer compiled by a large number of highly educated, very intelligent employees who carried out thorough research was 800,000 mobile phones. However, when the year 2000 actually came around the reality was 109 million mobile phones! It was on the basis of this research that AT&T was late to invest in its mobile business and opted not to venture into the manufacture and large scale sale of mobile phones.

In today's world we see many technology led disruptions happening all around us, but arguably the most dramatic of these disruptions is what we are witnessing in the energy sector. We would like to stress that this is a technology disruption happening in a traditionally non-technologically driven area and the importance of this fact should not be underestimated. Why is this? Firstly, because technology led disruptions typically happen very quickly and often much more quickly than those who are not alert to the details of what is going on expect. Secondly, because technology disruptions are often dictated by Moore's Law which, perhaps counter-intuitively, can mean that there is some predictability for these changes based on future cost. From 1971 to the present day Moore's Law has been measured as a 41.4% improvement in the rate of efficiency or cost each year. Knowing the likely future price of certain components enables us to know when certain products or services become affordable for most of us and in turn, when mass adoption is likely to occur.

Energy Disruption

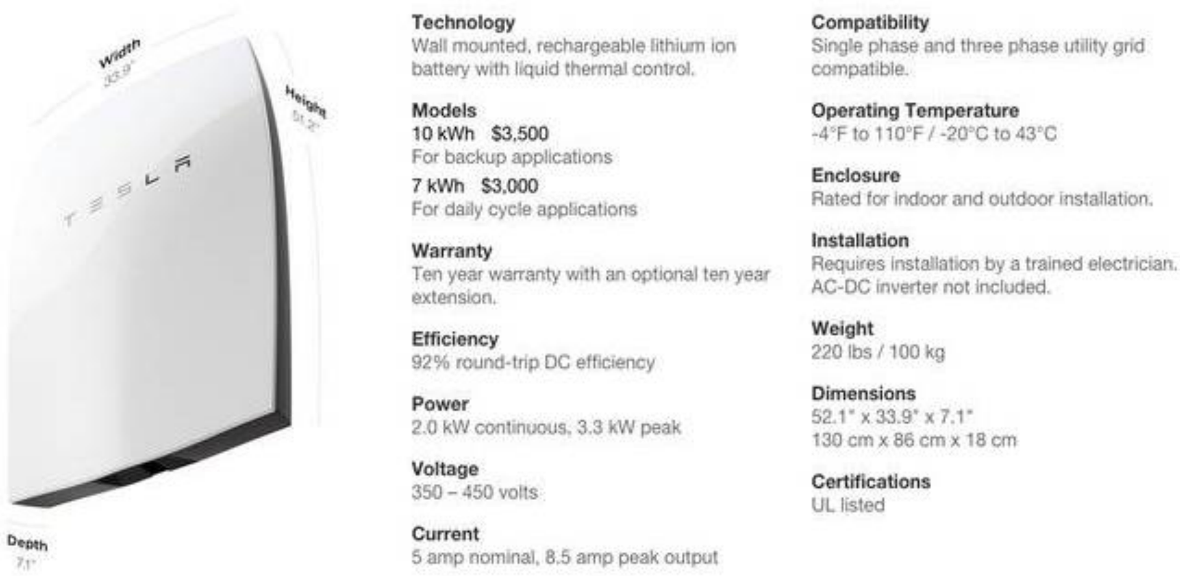
We were fortunate enough to attend a talk given by Tony Seba, a lecturer in entrepreneurship, disruption and clean energy at Stanford University, whilst attending a conference in Hong Kong in September. What he had to tell us was very simple and yet incredibly important. Seba believes that by 2030 we will not be building any more combustion engine cars and that all our power needs will be met by clean energies, primarily solar photovoltaic (PV) technology.

The reason he is so clear on the timing is the extrapolation of Moore's Law, which solar PV panels, being technology items, have been following since 1970. At the current rate of growth, installed global solar capacity is doubling every two years. If this pace of adoption continues then in theory 100% of the world's energy requirements could be met by solar PV by 2030.

The other key factor is the ongoing fall in costs of PV and this is reaching a critical moment. By the end of 2016 in the US, 47 states will see the cost of solar PV reach parity with the grid. By the end of 2017 Seba estimates that 80% of the world will have reached grid parity. However, the really important turning point will come in 2020 when 80% of the world will be at what Seba calls 'God parity', which is when the cost of generating power on your rooftop will be cheaper than transmission costs alone, never mind power generation costs! At this point he estimates power transmission costs in California will be around 7-14 cents per kwh whilst the cost of generating power from solar PV panels on Californian rooftops will be just 4 cents per kwh! He also expects that large scale solar PV plants will also be able to generate power at these prices for the industrial market.

Clearly, this is very exciting. However, we believe that the real game changer will be power storage. Similar to solar PV panels, the cost of batteries is falling fast. According to Seba, by 2020 the cost of energy storage for the average household will be just $1.20 per day. In residential homes we are likely to have our first experience of energy storage in the form of the Tesla Powerwall battery. The Tesla Powerwall battery is about the size of a radiator and is reported to be able to store enough power for a family of 5 in the US for up to 24 hours. At current prices, it has a two year payback period as users are able to buy power from the grid when prices are cheap and switch to stored power when energy becomes more expensive. In somewhere like Texas where electricity at peak times can be 10x the price of electricity when it is cheapest, Powerwall enables people to significantly reduce their electricity bills. When the Powerwall first went on sale it generated orders of $800 million in just one week before Tesla closed its books. Tesla is in the process of building out a tremendous amount of capacity which is expected to start coming online by next year and so those who have not been able to get their hands on one so far should not have to wait much longer.

Tesla Powerwall Specs

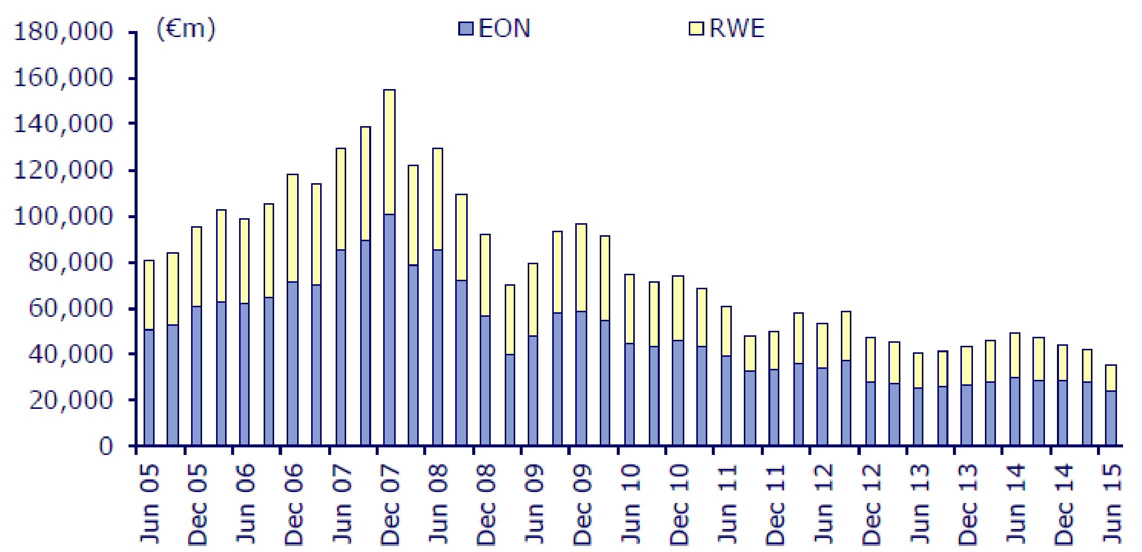


Source – Tesla

So the collision of pricing at grid parity and in the very long term pricing at a discount to transmission costs for solar PV, and developments in energy storage is approaching at bullet train speed. There will be casualties and confusion. Moreover, it is far from clear how governments will respond to these changes as well. Readers be warned. This is not something to be brushed under the carpet to be worried about at a future date. In Germany, where solar PV penetration has now reached 17%, this disruption has been sufficient enough to cause electricity prices to fall 8% per annum since 2011 and the two main electric utility companies to lose 60% of their market capitalisation.

Figure 9

Market cap of Germany's two leading utilities



Source: Bloomberg, CLSA

As well as utilities, the impact of these changes will be felt by coal miners, IPPs, the grid companies and in particular, nuclear power generation companies which generate power at a cost of 40 cents per kwh! Rather worryingly these companies comprise large parts of the index as well as people's pensions and ETFs globally.

In Asia we are seeing solar PV being adopted fast. For example, Cochin airport in India is the first airport in the world to be run entirely on solar power! When the designer of the airport asked why he chose solar PV to power the project his answer was simple – using solar was cheaper than what the utilities were going to charge. So there you have the entire story in a nutshell.

Investing in solar has its challenges. It is a highly cyclical industry because although the demand drivers are structural the industry is susceptible to periods of over capacity. In addition, large parts of the value chain are also "commoditized". Despite these pitfalls, we are taking a fresh look at the industry based on these new insights to see if we can indentify parts of the value chain, and in particular, companies, which may become less characterized by these factors over time. Companies with a strong competitive position in the energy storage market, however, are easier to find. To this end we have recently bought **LG Chemical** in South Korea for the Prusik Asia Fund. While **LG Chemical** is more geared into the electric vehicle market than the energy storage market at present (more on electric vehicles and **LG Chemical** below), the blue sky investment case for LG Chemical would be that the company wins a large contract with Tesla to supply its Powerwall battery.

Electric Vehicles

In parallel to the energy revolution, the global car industry also looks set for a revolutionary overhaul. As was the case with the energy sector, this is a technology led disruption; however, unlike the energy sector what we are witnessing here is technology combining with world class high-end engineering and so expect the changes in the car industry to be lightning fast.

If you have had even the briefest of encounters with a Tesla or have even been lucky enough to drive a Tesla, then we will very comfortably assume you already want one! In a survey this year Tesla's latest model was voted the best car out of all car brands, ratcheting up an amusingly impossible overall rating of 103 marks out of 100! This is the first thing to remember about EVs: you will want one. Why you want an EV and how you feel about an EV once you have one is likely to be akin to how you currently feel about your iPhone. You might have been perfectly happy and indeed impressed with the added efficiency and connectivity you had via your first Blackberry, but our guess is that all went out the window once your first sampled what Apple has to offer. To our minds, the main reasons for wanting an EV are firstly, speed and fun (0-60mph in 3 seconds anyone?); secondly, super intelligent features such as self-parking which will be receive remotely administered software upgrades; thirdly, minimal servicing costs with Tesla offering an unlimited warranty given that its models have just 18 moving parts compared to 2,000 for a combustion engine based car; fourthly, very cheap electric fuel bills, estimated to be around one tenth of those for a regular car. While we believe the above characteristics are reason enough to be signing up on a waiting list now the role of Moore's Law is likely to the true game changer in this revolution. Owing to Moore's Law and rapidly falling sensor, computing power and battery costs it is estimated that EVs will be cheaper than the average car, whilst offering better performance and lower running costs within the next decade. This could very easily wipe out the low end combustion car market as we know it today for good.

The Sharing Economy and Driverless Cars

Whether or not the traditional automakers can successfully transition their product portfolio, supply chains and manufacturing processes to meet the demand for EVs and do so in a way which compares well with Tesla is only one of the challenges facing the sector. The second is a question of utilization. How often do you think you use your car? Quite staggeringly, the answer is that on average people use their cars just 4% of the time. This becomes even more staggering when you add into the equation that on average cars cost their owners US$15,000 a year in petrol. These factors leave the concept of widespread private car ownership incredibly vulnerable to disruption. In fact, disruptions are already being seen. Zipcar allows people who sign up as members to use a Zipcar parked on their or a nearby street on a pay by the hour basis. Uber has already introduced Uberpool in California, a service whereby users sign up to a journey knowing that others who are doing a similar route will be collected along the way. While this might increase the journey time slightly it also reduces the price of the journey to the users by 30%. Zipcar claims that each of its shared vehicles removes the need for 15 other cars on the road. Uberpool has been born out of Uber investigating its traffic data and finding multiple cars going in the same direction or even doing exactly the same journey. As Millennials increasingly evaluate how best to spend their disposable income and culturally they are more at ease with the concept of sharing and being flexible, the momentum for car sharing will only increase with time. It goes without saying that in theory more car sharing equals fewer cars needing to be built and sold.

The third key challenge which we believe traditional car companies face today is the driverless car. We would like to stress that the driverless car is not a futuristic concept from a sci-fi film but a fully functioning reality. Driverless trucks are already licensed on the roads in Nevada as well as four other states in the US. What made this possible is arguably the most spectacular example of Moore's Law at work to date. The key component in a driverless car is the 'lydar' or 'laser-radar'. The 'lydar' is the 'electronic eye' of the car which scans the car's surroundings on a 360 degree basis for a 200 meter radius. In 2012 the 'lydar' was large and box shaped and cost around US$70,000 to produce. The latest 'lydar' has been reduced to the size of a postage stamp and now costs US$59 to make. What makes this latest development problematic for the incumbent car manufacturers is that the competitive edge of producing such a car could much more easily sit with a company like Apple than it does with BMW. Other technology companies venturing into this space include BYD, Google and Foxconn. We foresee there being numerous potential side effects of EVs and driverless cars including property on busy roads could increasing in value, car parks could becoming increasingly redundant, potentially freeing up huge amounts of space in the world's most crowded cities and cycling as a means of transport could become even more popular than it already is!

From an investment perspective we are very negative on the traditional car chain. The Volkswagen scandal has broken at an extraordinary point in time which could, in future years, turn out to have been a major turning point for the industry. However, unsurprisingly, we are very positive on the companies which are supplying the EV car related components. Amongst these companies, as touched on above, is **LG Chemical**.

LG Chemical produces a number of products and services, of which one is batteries for electric vehicles. The company has already signed a deal with General Motors to supply its 'EV Bolt' model where the pricing is on par with Panasonic of Japan, one of the leaders in EV battery supply. More recently it was announced that **LG Chemical** is going to supply the upgrade battery pack for the original Tesla vehicle, the Roadster. While we would not expect the latter to be a high volume contract, it is significant that the company is making inroads at Tesla, the company which is likely to by far and away the lead the EV market as it develops. Should **LG Chemical** win a contract to supply Tesla's Powerwall then this would be particularly game changing.

Vietnam

Privatisation and Lifting Foreign Ownership Limits

Close on the heels of the announcement earlier this year that foreign ownership limits will be raised for non-strategic companies from 49% to 100% and after many years of stop-and-go efforts at privatizing its state-owned enterprises, Vietnam is finally poised to off-load some shares and boost its stock market.

In recent weeks, the government ordered its wealth fund, State Capital and Investment Corp (SCIC), to sell stakes in 10 companies, including **Vinamilk**, the country's largest listed company by market capitalisation. It is expected that the sales will take place next year and could raise more than $3 billion. This would be excellent news for stock market liquidity which has been one of the two major factors holding foreign investors back from the Vietnam stock exchange.

For **Vinamilk**, one of our holdings in the Prusik Asia Fund, the government is planning to sell its 45% stake in the company and scrap the foreign-ownership limit on the stock. **Vinamilk's** longstanding 49% foreign-ownership limit means foreign investors can pay a premium of up to 17 percent over what local investors pay to own the shares. As a result the shares trade at a valuation discount to many of its regional peer group of domestic food brands.

The Prusik Asia Fund has 15.2% invested in Vietnam with most of the stocks having been held in the fund for well over 3 years now. We were fortunate enough to have invested at a time when foreign investor limits were far from full. Importantly, this means our Vietnam portfolio in the fund cannot be replicated by most of our competitors. We believe that the opening of share registers and additional free float will bring many investors who have not yet been able to access Vietnam. This in turn should drive share valuations closer to regional averages, reflecting the strong growth environment in Vietnam and unrecognised brand value in many companies.

TPP Trade Agreement

In addition, the Trans Pacific Partnership trade agreement (TPP), which is the largest trade pact to be proposed in the past two decades, will also drive interest in Vietnam. This will come not only from stock market participants, but also from Foreign Direct Investment (FDI) from manufacturers keen to benefit from TPP. After a week of final talks in Atlanta, the twelve TPP members – Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the US and Vietnam – reached an agreement on this historic pact that cuts trade barriers among TPP members. Between them, these members produce 40% of global economic output.

While the final agreement will now put an end to almost 10 years of discussions, it still needs to be ratified by the national parliaments of the member countries and Congress in the US and so further political challenges are possible. In practice this means that the actual implementation of the pact could still be months, or possibly more, away.

In Vietnam there is a high probability that TPP will be passed without much difficulty as the pact is widely perceived to be very beneficial for Vietnam. Vietnam mostly has a net export relationship with the other eleven TPP members, especially with the US, which accounts for around 20% of the country's exports. In addition, successful passing of the TPP would help Vietnam reduce its imports from China and in turn reduce its trade deficit burden. In the first nine months of 2015 Vietnam imported US$36.8 billion from China but only exported US$12.5 billion to China. Vietnam's national trade deficit stands at US$3.8 billion.

The sectors and companies which are mostly likely to benefit more from the pact include Vietnam's exporters, including companies in the textile, footwear and seafood industries. It also includes industrial developers, which will be able to enjoy significantly lower import tariffs and accelerate their land leases as more factories are built either by local investors or factories being moved to Vietnam from other non-TPP countries.

We therefore are of the view that the successful implementation of TPP will be positive for Vietnam in both the mid and long term and view the recent market consolidation as a rare opportunity to increase exposure in the equities market for those that are able to.

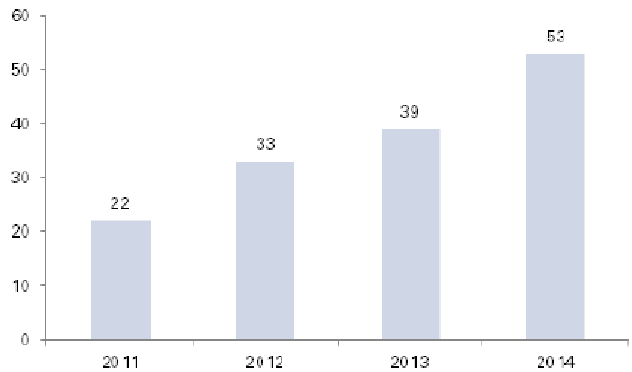
China

In early October the Chinese Communist Party met for the Twelfth National Congress. Press releases circulating around the time of the meeting indicated that the authorities in China continue to put macro stability as the key priority ahead of all other matters. And as a country and a culture which favours numbers and targets, the report which was read at the Twelfth National Congress was certainly not short of these. We would like to share some of the statistics released to the Chinese public in this report. Firstly, the authorities in China are targeting GDP growth of 6.5-7% from 2016-2020 compared to the 5.8% GDP growth which was achieved from 2010-2015. It is worth noting that GDP growth in China has been accelerating in 2015, rising from 6.2% in 1Q15 to 6.8% in 3Q15 and so arguably there is good reason for the authorities to be targeting an improvement in growth. Drilling down into some of the components of GDP, the Chinese authorities are planning for the industrials and service sector to contribute 85% of GDP, up from 82-83%, and social investment to be maintained at 32-34% of GDP. Finally, it is expected that the urbanisation rate for China over the next 5 years will be 38-40%.

As well as paying attention to which direction the Chinese Communist Party wants to steer the country towards and the numerical goals which are released, it is also vital to pay attention to some of the more subtle changes developing on the ground in China. One example of this is the emergence of Chinese Millennials as a sizeable part of the consuming population. We need to investigate what they are doing, plus how and why this is different to the generations which have come before them. A key area to be alert to is their consumption habits. The first point to make is that while Chinese Millennials are trading up, they are ruthless in deciding how to maximize the utility from their disposable income. The second is that Chinese Millennials are particularly focused on having fun and compared to previous generations they are very willing to spend money on having a good time. From a practical perspective this translates into more spending on sports, travel, media and online gaming. China is notably under-indexed in its leisure spending with 9% of people's disposable income being spent on such activities compared to 17% in the US. As well as trying to identify which companies will benefit from this phenomenon, it is also valuable to consider which companies have a higher probability of losing when faced with this changing consumer environment. We believe that the companies which face the greatest disadvantages in a Millennial dominated age include those which have done well from products which appealed to prior generations, companies which gained a competitive advantage via traditional distribution channels and companies which resist adjusting their pricing models to reflect what is going on in their product market in China and also globally. Those which are facing structural disadvantages may fare better if they have the option of consolidation open to them.

The subject of Millennials in China and having fun leads us to, perhaps slightly unpredictably, football! We would guess that you are well acquainted with the idea that the Chinese love watching football and the international leagues are favoured. Perhaps what is less obvious is that recently there has been an explosion in demand for TV content packages in China, meaning that viewers can now watch international sports much more easily. It might also have gone unnoticed that, historically, this passion for viewing has not managed to translate into a passion for participation in national sports in China (over and above the more stereotypical ones of badminton, table tennis and basketball). We believe this is all about to change. Demand for sportswear globally has been accelerating as it has become more acceptable to wear active wear at a broader number of social events. The Chinese have proved to be no exception to this trend. In China, like elsewhere, this is partly being driven by fashion and comfort, but it is also being driven by rising incomes, a desire to show one's status and a growing appreciation of the importance of wellness. Despite the air quality, running in particular has become hugely popular in China and the recent Beijing marathon sold out in a matter of hours, having been many times oversubscribed.

Exhibit 51: In 2014, 40% increase in running competitions
Number of major running competitions* in China



*As defined by General Administration of Sport in China

Source: General Administration of Sport in China, Goldman Sachs Global Investment Research

Continuing this trend, the Chinese government has recently announced that football will become mandatory for all school children under the age of 16. This makes sense to us. China is in the process of repositioning its economy to have a greater domestic consumption, service orientated and higher 'value add' focus. These developments have not gone unnoticed by the private sector. **ANTA Sports Products**, a recent new purchase for the Prusik Asia Fund, has been particularly adept at trying to take advantage of these trends. ANTA has announced a campaign called 'Play is All' to try and tap into and grow its football related business. **ANTA** plans to partner with school and clubs to help with coaching and matches as well as offering value for money football boots and clothing. The overall aim is to make the experience of playing football in China more enjoyable and more accessible. How long will it be before China is in the final of the World Cup?

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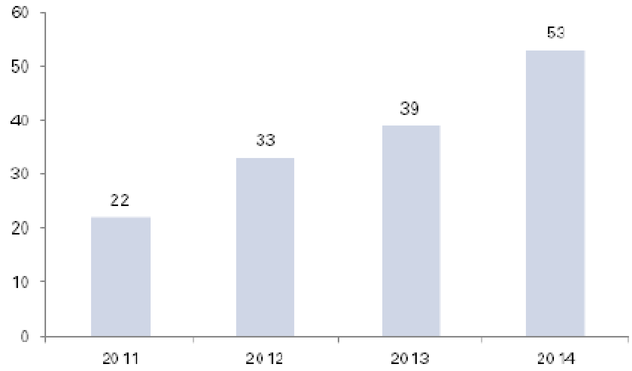


*As defined by General Administration of Sport in China

Source: General Administration of Sport in China, Goldman Sachs Global Investment Research

Continuing this trend, the Chinese government has recently announced that football will become mandatory for all school children under the age of 16. This makes sense to us. China is in the process of repositioning its economy to have a greater domestic consumption, service orientated and higher 'value add' focus. These developments have not gone unnoticed by the private sector. **ANTA Sports Products**, a recent new purchase for the Prusik Asia Fund, has been particularly adept at trying to take advantage of these trends. ANTA has announced a campaign called 'Play is All' to try and tap into and grow its football related business. **ANTA** plans to partner with school and clubs to help with coaching and matches as well as offering value for money football boots and clothing. The overall aim is to make the experience of playing football in China more enjoyable and more accessible. How long will it be before China is in the final of the World Cup?

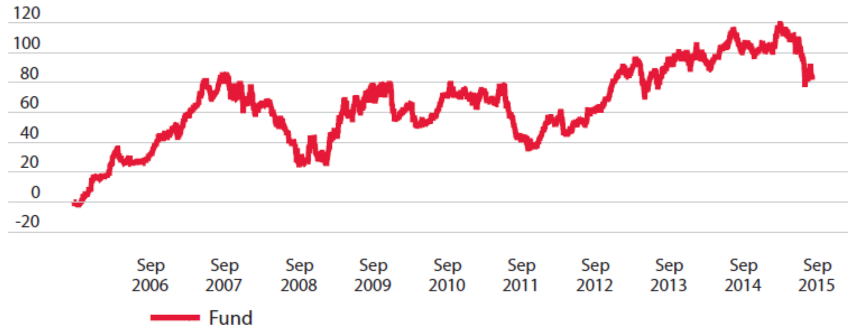
PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 30.09.2015

	USD	GBP	SGD
1 Month	-1.41	-1.37	-1.28
3 Months	-12.06	-11.82	-11.42
Year to Date	-8.45	-7.84	-7.58
Since Launch+	84.55	46.99	2.93
2014	1.08	1.59	1.29
2013	16.63	16.76	16.50
2012	24.68	24.36	23.95
Annualised 5 years	1.55	1.88	1.56
Annualised 3 years	4.64	5.06	5.00
Annualised Since Inception	6.33	4.27	0.51

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

Fund Performance - Class A USD (%)



Source: Bloomberg. Total return net of fees.

Monthly Performance Summary (%)

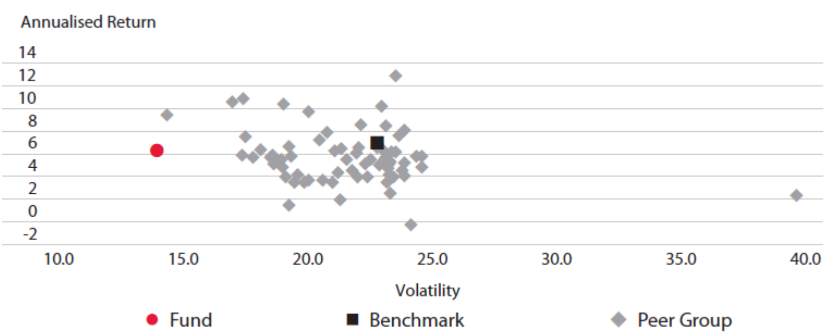
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2015	1.57	0.07	1.23	4.06	-0.96	-1.83	-3.40	-7.67	-1.41				
2014	-3.15	3.04	-0.56	-3.44	2.15	2.91	2.08	4.20	-4.06	0.95	-1.12	-1.48	1.08
2013	6.68	3.52	-0.45	1.73	0.09	-7.21	3.75	-3.21	4.60	4.19	1.92	0.66	16.63
2012	5.81	6.55	-0.38	3.08	-6.93	0.67	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	0.57
Alpha (%)	2.33
Sharpe Ratio	0.45
Volatility (%)	13.99
% of the portfolio –which could be sold in 2 business days	82.27

Source: Bloomberg
Since Inception: A: 07.10.05

Risk Adjusted Performance - Class A USD (%)



Source: Bloomberg. Annualised return and 1 year volatility versus the peer group (open ended offshore Asia Pacific ex Japan Equity Fund Index), 7.10.05 to 30.09.15

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Shenzhou International	5.4
AIA Group	4.0
Beijing Capital International Airport	3.8
Pacific Textiles Holdings Ltd	3.6
China Taiping Insurance Holdings Ltd	3.5
Total Number of Holdings	33

Portfolio Financial Ratios*

Predicted Price/Earnings Ratio	14.6x
Predicted Return on Equity (%)	16.6

* Fiscal year periods

Thematic Breakdown (%)

Smart Textiles	20.2
Vietnam	17.5
Infrastructure/Logistics/Property	10.9
Telecoms	10.8
Financials	10.6
Internet	7.6
Cash	7.1
Leisure/Tourism	6.9
Local Brands	3.9
Automation/Internet of Things	2.3
Healthcare	2.3

Geographical Breakdown (%)

Hong Kong/China	40.3
Vietnam	17.5
Taiwan	10.4
Korea	7.7
Cash	7.1
India	4.9
Thailand	3.1
Singapore	2.8
Philippines	2.5
Indonesia	2.3
Australia	1.5

All data as at 30.09.15. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size (US)	68.3m
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 (MXAJP) 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	184.55
B USD	Unhedged	Distributing	B0M9LL2	IE00B0M9LL22	184.67
C GBP	Hedged	Distributing	B18RM25	IE00B18RM256	101.50
D SGD	Hedged	Distributing	B3LYLK8	IE00B3LYLK86	256.40

Performance fee based on individual investors' holding.

U GBP	Unhedged	Distributing	BBQ3756	IE00BBQ37560	105.66

Performance fee based on fund performance as a whole.

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