PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asia Fund

Quarterly Investment Report

28 March 2013

FOR PROFESSIONAL INVESTORS ONLY

1Q13 Review and Outlook

The first quarter of 2013 was a good quarter for the fund which rose 9.9%. The significant drivers remained the ASEAN markets which have posted impressive gains for the year so far. In particular we have seen strong rises in the Philippines and Thailand whilst Vietnam has also found its way onto the radar of more foreign investors. Importantly we have seen good activity in some of our main themes. For example, the regional brands and consumer companies have been strongly re-rated. Additionally, we have seen a growing appreciation of the explosion in regional tourism, more on which below. Infrastructure spending has been a steady driver across the region and this sector has done well too. It has been particularly interesting to observe how many more investors are finally appreciating the overall ASEAN story (of which we have written extensively in the past 18 months) and are now enthusiastically discussing the impact and meaning of the upcoming ASEAN Economic Community in 2015.

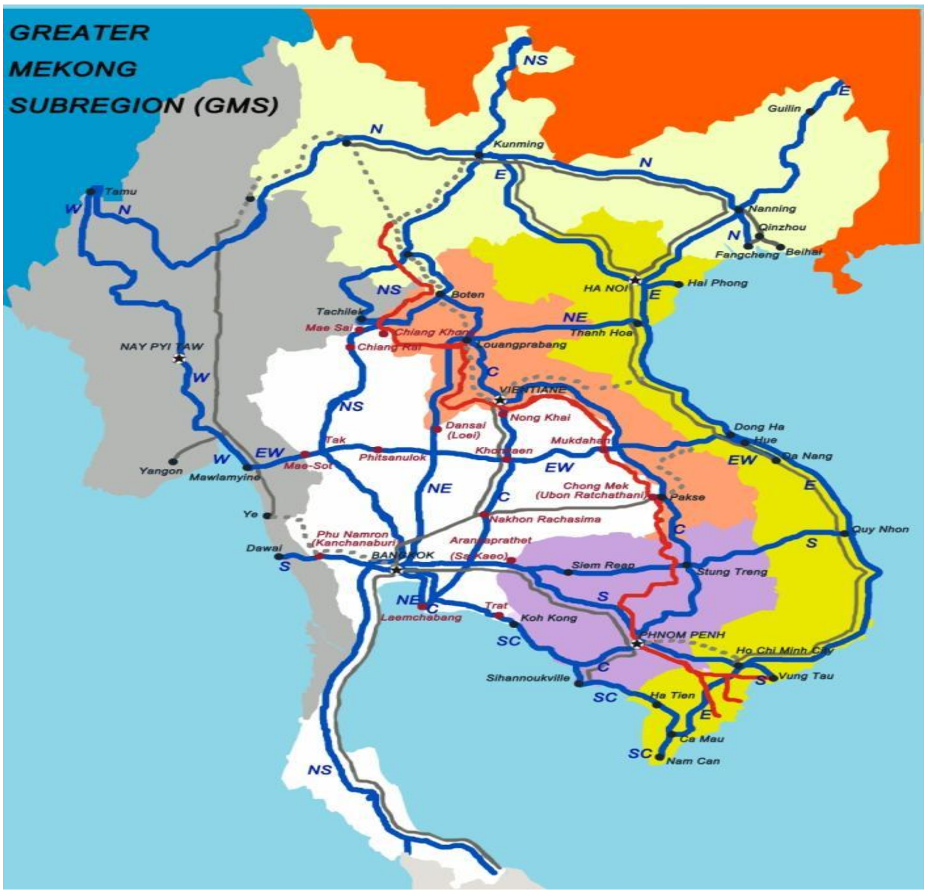
Whither ASEAN?

The key questions, therefore, have to be has ASEAN moved too far and is there any value left?

The first thing to say is that ASEAN has had a stellar start to the year. It would be very unusual NOT to see a significant correction in the short term and, in fact, it would be healthy. We have seen rolling intra-month corrections in the order of 8-9% during March and April in Thailand and the Philippines but something more wholesale is possible. In our view this would be a great buying opportunity.

The question relating to whether ASEAN has now discounted the whole story and moved far enough requires both a qualitative and a quantitative answer.

Firstly, qualitatively, in our experience good themes run for far longer and go far further than people expect. We believe it has only really been since the start of 2013 that mainstream investors have started talking about the ASEAN story with genuine vigour. We also observe that this year was the first time we actually heard companies actively discussing the wider opportunities in ASEAN. Indeed the map below, given to us by one of our Prusik Asian Smaller Companies Fund holdings, **Asia Sermkij Leasing**, illustrates the point well. This US$308 million market capitalization company sells hire purchase loans for construction vehicles and trucks. It has mapped out all the major routes and nodes across the entire region, rendering its native Thailand (shown in white on the map) as just one element in its growth plan. This map covers only around half the population of ASEAN (the Philippines and Indonesia are missing) but it is worth remembering that the addressable market included in this map alone is 300 million people! Gross over simplification or not, most of them do not yet own trucks or construction vehicles.



Source: **Asia Sermkij Leasing**

As an aside **Asia Sermkij** generates a high teens ROE, should grow EPS this year by 41% and is trading on a 2013 P/E of 12.2x with a dividend yield of 4.9%.

We would also argue that the development of ASEAN, in particular the emergence and development of big countries such as Myanmar and Vietnam (with respective populations of 65 million and 85 million), is a 10+ year story which will continue to drive growth in the region at above average global growth rates. In a decade from now ASEAN will represent a far bigger slice of both global GDP and the investment indices than they do today. Today's mildly expensive valuations must be assessed in this context.

Quantitatively, the growth stories we are hearing (see below for more) make it likely that investors will have to adjust their sights when assessing the valuations. They are a moving target and at the moment the earnings momentum is upwards which is usually good for share prices.

We also urge investors not to judge the many by the few. Whilst we cannot pretend that paying 21x this year's earnings on average for index stocks in the Philippines is a bargain, we can attest that a well picked portfolio in the Philippines will be generating well over 20% earnings growth this year. Equally, whilst we agree that **CP All**'**s** bid for **Siam Makro** at 38x earnings is somewhat eye-watering and is no doubt an early warning of emerging hubris, in recent days we have been buying small and mid-cap ASEAN consumer stocks, which own key local brand names, trading on just single digit multiples and yielding close to 5%. So some areas of the market – mainly the index stocks – are becoming harder to justify but it is by no means endemic. Active investment research, away from the index and with a strong focus on sub US$5 billion market capitalisation companies still brings forth some excellent value, strong growth and high dividends, sometimes rolled into one!

By way of illustration, at the beginning of May this year, the average P/E for the Prusik Asia Fund was 13.4x, the fund's RoE was 16.4% and expected EPS growth in 2013 for our holdings was 19.2%. The fund has a c.50% weighting in ASEAN showing that it is still possible to be invested here without paying worrying valuations.

Outlook

Assuming no international disaster to throw things off track in Asia we remain constructive about ASEAN and suggest that investors keep the faith. On a ten year view it will be very difficult to match the macro environment, demographics and growth rates in ASEAN elsewhere in the world. Moreover, anecdotally, while we believe that the ASEAN story is now much more widely appreciated, our client meetings suggest that very few investors are actually overweight ASEAN.

In the short term cycles will occur but we shouldn't be too afraid of these! That said, the formation of the ASEAN Economic Community in 2015 may be an invisible line in the sand which marks a sensible near term investment horizon. Post this point some of the countries at a more advanced stage in the cycle such as Thailand and Singapore may see a more substantial correction. As the old stock market adage goes 'it's better to travel than to arrive', thus we believe that we still have time and distance to go and that despite a few expensive names the ASEAN markets are still broadly under owned.

Looking at Asia as a whole we have seen incrementally larger earnings upgrades in each of the past 3 months which is very encouraging. The P/B ratio for the region now stands at 1.6x, close to the trough in last 2 years of 1.5x. Quantitatively, China, Korea, India and Singapore are all very cheap.

Portfolio Changes

We have made very few alterations to the fund during the first quarter. Our weighting in Thailand did get quite high towards the end of March but we have subsequently taken profits here and mainly redistributed the funds to Malaysia (now flourishing post the election) and Korea where a multitude of companies in some of our favourite themes, such as entertainment, culture and leisure, sit. Our cash position remains low, reflecting the many opportunities we are still finding at attractive valuations. We do not expect this to change much in the short term.

Themes and Anomalies

Having banged the table very hard on ASEAN for 18 months we would now like to change the subject and focus for the rest of this report on some of our themes. We will do so by considering several of the anomalies we spotted which guided us to the bigger picture themes, the process which is at the core of our Prusik Asia Fund and Prusik Asian Smaller Companies Fund. The following is a collection of our favourite anomalies and themes.

Exponential Growth / Culture and Entertainment

Asia's film industry is growing fast, both in box office revenues and in terms of the number of films being made in the region. Whilst Hollywood still dominates globally, earning $10.8 billion in box office sales last year, the Chinese market also emerged in 2012 as a major player with revenues jumping 30% to US$2.7 billion. Whilst half of this is being earned by foreign films, the local growth is visible and recently two locally made Chinese movies grossed over $200 million each, a not insignificant success. The key point here is that movie going is rising in popularity across the region as consumers have more free time, more money and are increasingly looking to entertainment and culture as a result. Currently, about 4 new movie screens are built somewhere in China everyday!

Meanwhile, in Korea, over the past 12 years the film industry has enjoyed a 22% compound annual growth rate. These days Korean movies and soap operas probably lead the region in terms of quality and popularity. In fact, Korean popular culture is now so influential and sought after in Asia (and arguably the world post Sy's *Gangnam Style*) that young Asians are flocking to Seoul for live music events, tours of soap opera sets, fashion and shopping, world class skincare and cosmetic surgery and a general infusion of 'Korean cool'. This is well illustrated by the dramatic shift witnessed by the domestic movie market. In 2010 70% of cinema revenues in Korea were generated by foreign movies; however, in 2012, just 2 years later, the situation was reversed with 70% of revenues generated by Korean films!

Korean cinema chain **CJ CGV** (held in PASCF) has 46% market share in the Korean cinema market and a growing cinema business in China and Vietnam. The company recently announced that 1Q attendances in Korea were up 40% yoy whilst in China cinema revenues grew by an epic 45% in the same period. We believe **CJ CGV** has a long period of strong growth ahead of it driven by improving occupancy rates in its existing cinemas and rapid roll out of its new cinemas. According to what they believe are conservative estimates, management forecast that **CJ CGV** could see earnings grow by a 35% cagr over the next 5 years. Global cinema attendance statistics illustrate why such a forecast has a sound basis: in the US people go to the cinema on average 7 times a year; however, in Korea cinema attendance per capita is around half this at 3.7x per year and in China average attendance per person is much, much lower at just 0.3 visits per year.

Broken Records / Local Content

The Thai movie *Pri Mark Pra Kha Nong* (translation *'Brother Mark,'* poster below) has recently broken all local box office records by grossing over Bt 700 million ($24 million). This is about 5 times more than the average local movie normally makes.

Meanwhile, a Chinese made movie *Lost in Thailand* (apparently a comedy), shot in Thailand and featuring the beautiful scenery around Chiang Mai has become the highest grossing movie in China ever, outselling both *Avatar* and *Titanic*.

These two examples are just the tip of the iceberg though. In 2012 Thailand hosted 53 international film productions, representing a 45% increase on the previous year. Not only is this an absolute record for the country but it also acts as a very strong endorsement of the quality, skills and technical ability of the Thai film industry.

Major Cineplex, a Thai cinema chain held in Prusik Asia Fund, which is expanding in Thailand's 'upcountry' or rural areas, as well as Cambodia, will benefit hugely from this success in local content movies. Sell side analysts have recently hiked 1Q and 2Q revenue estimates by 14% and 18%, respectively, highlighting how a good theme can continue to deliver upside surprise. We expect the company to deliver about 25% earnings per share growth in 2013 and the stock is currently yielding 4.5%.

New Patterns of Behaviour / Shortage / Tourism

In 1Q 2013 the Thai baht had the biggest quarterly move against the yen since 1998, strengthening 14% and then adding another 7% during April. This precipitated a massive 31% yoy increase in Thai tourism to Japan. Quite amazingly, in the run-up to Thai New Year in early April this caused a shortage of yen bank notes in Thailand and led to Thai press headlines hailing Japan as 'the 78th province of Thailand!' There are two items of note to be drawn from this observation. Firstly, a comment on currencies and secondly, a new theme: tourism.

The strong currencies in Asia excluding Japan relative to much of the world (e.g. the Thai baht has effectively doubled against the British pound since 2004) seem to be fast tracking the consumer boom, with tourism at the forefront. Mostly this is a blessing (assuming your portfolio is not full of exporters!) until or unless these currencies become regarded as 'safe havens' in their own right and inflows rise dramatically. Regarding Asian currencies as a 'safe haven' might seem a tad anomalous as conventional thinking does not recognise this quality in these countries yet but stranger things have happened! Indeed the fact that Moody's upgraded the Philippines to BBB/minimum investment grade in early May could be a sign that times are changing! There is a risk that in the fullness of time large hot money inflows become very difficult for these economies to handle. However, in the meantime, as long as interest rates remain low these inflows should be good for assets and currency strength should be good for consumption.

New Patterns of Behaviour / Tourism

A boom in outbound tourism from Asian countries, especially to destinations within the region, is upon us. Here is an extract from the recent Visa survey on travel intentions:

Visa's latest Global Travel Intentions Study 2013 has revealed that global cross-border tourism is thriving and travellers intend to increase budgets for their next trip by an average of five percent - with some holidaymakers even suggesting that they would more than double what they spent on their previous trip.

Visa's regular barometer of travel trends indicates budgets are no longer among the top three reasons behind why travellers choose their next holiday destination. The pull of attractions, scenery and rich culture are instead stronger reasons for travel. According to the Study, which surveyed 12,631 travellers from 25 countries, the average global travel budget of US$2,390 per trip is set to increase to US$2,501. Top spenders abroad in the past were the Saudi Arabians, spending an average *of US$6,666 per trip, while Australian (US$4,118) and Chinese travellers (US$3,824) were not far behind.* ***However, future travel budget increases are especially high amongst Asian markets with a predicted increase of 46 percent! Travelers from Singapore, Thailand and Hong Kong all plan to at least double the budget of their last trip in the future.***

Looking ahead, regional travel is set to increase, especially in reflection of the growing popularity and economic strength of Asia Pacific (APAC). ***31 percent of global travel is expected to be to Asia, and new APAC destinations such as Australia (four percent) and Korea (three percent) are now making it on to the list of most preferred destinations for future travel.***

The increasing popularity of APAC is partially driven from within the region. *Among travellers across the four global regions (APAC; the Americas; Middle East and Africa; Europe), respondents from APAC indicated strong intention (77 percent) to travel more in the future - with residents from nine of the region's markets stating a higher intention to travel than the global average. Much of this increased travel is expected to take place within the region, where 80 percent of Asian travellers have chosen to take trips in the last two years.*

One of the keys to this boom in Asia is the proliferation of low cost carrier airlines. These have enabled affordable travel and have opened a market where few alternatives (roads and railways) currently exist in point to point travel. Whilst airlines do not generally make our list of ideal investments, airports, which are a general play on passenger numbers, duty free shopping and travel insurance all do and are excellent ways of investing in this theme.

We recently had a meeting with the CFO of **Qantas Airways** which entered into a joint agreement with **Emirates** earlier this year. This greatly opens up **Qantas'** opportunities in Asia. When asked for management's views on the future of air travel in Asia they produced the chart pictured below. The red dots represent the size of the middle classes for different regions, including Asia, in 2009 and the black circles are the estimated size of the middle class population for that region in 2030. This chart tells the story perfectly.

Source: IATA OECD Research. Standard Chartered

Airports of Thailand (held in PASCF) has been one of our more exciting investments this year. Passenger and aircraft movements grew 21% yoy in March and the old airport is providing new areas of growth as it becomes a low cost carrier centre. The shares trade on 2.9x P/B and we expect earnings per share to increase by an eye popping 50% in 2013. We have also recently acquired (in PAF) **Malaysia Airports Holdings** which we expect to boast a similar story over the coming years. **Air Asia**, the region's most successful low cost carrier and Emirates will help create the vibrant hub needed for growth in Asian travel and there is plenty of capacity for expansion. A new low cost carrier terminal will be designed so that shopping revenues are maximised to rival revenues from plane and passenger fees. We have also invested in **Tune Ins Holdings** (in PASCF), the travel insurance company for **Air Asia** and for whom the major shareholder is also the owner of **Air Asia**. Travel insurance has very low penetration rates in Asia and **Tune's** policies are offered online to all **Air Asia's** customers. **Tune** is also expected to complete tie ups with other airlines across Asia. We believe RoEs for **Tune** are sustainable in the mid 20s range over the next few years and that it could see EPS growth in the order of 30% per annum or more over the same period. This will be supported by the fact that **Air Asia** alone expects to order 4x its current fleet (not a typo!) growth over the next 5 years.

Automation and Robotics

Believe it or not the world's first robot restaurant opened recently in Harbin, China, with 20 robots who greet, usher and serve customers. Quite amazingly, robots also cook the food, providing customers with a choice of 30 dishes which can be prepared in 3 minutes on average per order! This is a great piece of PR from the **Haohai Robot Company** which owns the restaurant; however, with each robot costing between $30,000 and $50,000 and the average meal costing roughly $10 this is not an ideal business venture – or at least not one we want to invest in today! While this might seem like a light hearted observation, the growth in importance of the automation theme it represents, be it in the form of robotics, the internet of things or the use of algorithms, will be one of the most important and most grave changes society has seen for a generation.

Business Intelligence / Disruptive Technologies and Business Models

The use of 'Business Intelligence', a related phenomenon, is likely to be one of the most impressive and disruptive business models of our time. Business Intelligence or the use of 'Big Data' is the name given to using all the data available about customers much more creatively and aggressively than before to create algorithms. These algorithms are then deployed to maximise selling and advertising opportunities amongst other things. UK online retailer, **ASOS**, is the poster child of this revolution. **ASOS** is one of the fastest growing and most profitable companies in the sector despite having no bricks and mortar presence and a customer base of under 25's, i.e. a demographic generally without jobs or money.

The key at **ASOS** is that the company generally looks at and analyses its customers through the lens of mathematics and technology, not retail or fashion. Indeed a staggering 20% of its employees are writing primary algorithms! **ASOS** is one of a handful of companies globally which are successfully employing this model. Others include **Google**, **eBay** and online translation service **Babylon**. What is impressive, or indeed frightening depending on your view point, is that a company like **Babylon** which provides a 'free ' translation service and requests no information about its customer can know so much about us that, according to its CEO, it is able to increase the hit rate of ads by '100s of percent'. So what do they know? In under a second they can see, for example, your keyboard language, postcode, internet browser, type of antivirus software, whether it's working hours where you are and so on. At **ASOS** the company also, for example, analyses items you browsed and didn't buy and how you browsed them. These companies also use algorithms to look at the external environment. For example, **Babylon's** algorithms know if there's a big international football match on and in turn will calculate that more people online at that time will be a) female and b) not interested in sport and then tailor ads accordingly during that 2 hour period.

The speed of growth of companies using this technology is impressive. **ASOS** is still only a £3 billion market capitalisation company but its shares have risen 8 fold since early 2010. In Asia it is most likely that online businesses will be at the forefront of adopting this and probably newer companies will adopt it quicker. We think Korea which harbours some great online businesses is likely to be from where the Asian 'Business Intelligence' success stories emanate but software literate workers in all Asian countries could see a similar boom.

However, the key thing that investors need to be aware of as they look out for companies using this business model is that it will turn much of conventional thinking on its head. In today's world of business models, size usually starts to work against companies as they often find it harder to grow after a certain stage. With Business Intelligence, however, the bigger the company the more data it has available to it and so the more powerful its algorithms will be. The big will get much bigger and more dominant than we have ever seen before.

You have been warned.

Unintended Messages / Smaller Companies

The Korean National Pension Fund is the third largest in the world after Japan and Norway. This is not the anomaly we intend to write about but anyone not inclined to take Asia seriously as a place to invest would be wise to absorb that statistic. The unintended message which we are more interested in comes from a recent announcement from the Korean National Pension Fund that it will be increasing its exposure to smaller companies. Interestingly, in 1Q 2013 the Korean index fell 3.7% in US dollar terms whilst the Korean small cap index, the KOSDAQ, rose by 7.2% over the same period. It seems that regional smaller companies are increasingly being recognised as a serious investment category by local institutions. It is only a matter of time before foreigner investors will also see Asian smaller companies as a natural addition to their Asian exposure, just as they might in the USA, Europe or UK.

Symbolism / Gold / Demographics

A picture tells a thousand words. Here are two of our recent favourites.

Gold

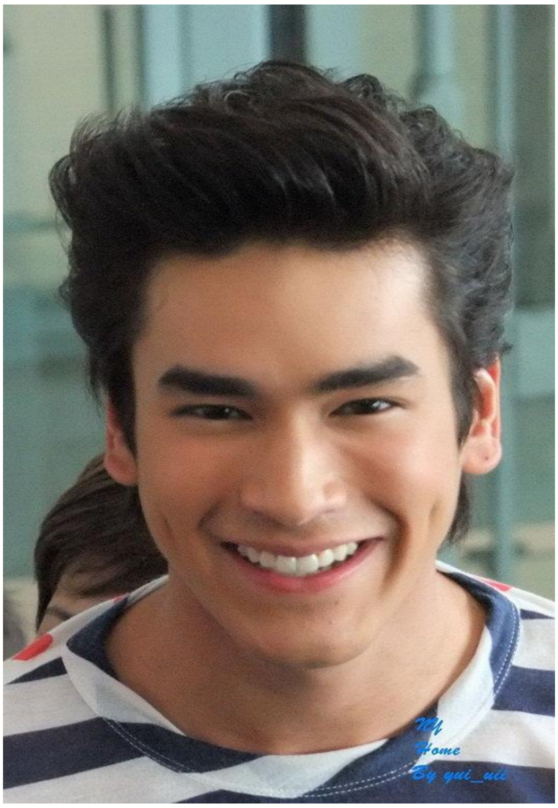
In April, as the gold price plunged to 20% below its price at the year's start, shops selling gold and gold jewellery in China and Thailand were besieged by buyers. In some provinces in Thailand the shops were forced to close early, having run out of stock.

Source: Bangkok Post

Buying gold is in the DNA of most Asians. It has been a store of wealth for centuries in most cultures here and most likely no matter how many intellectual arguments can be made to question its intrinsic value, as Asians get wealthier, they will be buying more gold.

Demographics

Meet Nadech Kugimiya, who goes by the disarming nickname of 'Barry'.



He is half Austrian, half Thai and his adopted father is Japanese. Despite his slightly shocking youthfulness he is *the* current heart throb and highest grossing actor in the Thai movie industry, mostly recently staring in the box office smash hit *Brother Mark* which we mentioned earlier Nadech is 21 years old and perfectly represents his country's demographic. This picture serves as a strong reminder that Western nations are full of old people who think Leo di Caprio is youthful and ASEAN is not.

Leisure and Entertainment in China: as seen from the ground during our analyst's recent trip

Clearly, leisure and entertainment is an area which we at Prusik are fascinated by and feel passionately about. Thus far we have examined these themes through the prism of Korean and ASEAN companies. However, we would also like to relate what our analyst, Anna Gallagher, observed in relation to these themes during her recent trip to China. Not only were we intrigued to hear how visible people's appetite for leisure and entertainment is in China but also that Chinese people's tastes and demands for leisure appear to be developing in new and unexpected ways. Below are some of Anna's reflections on the topic in China.

Leisure and entertainment is in many respects an integral part of Chinese culture with traditional pursuits such as Mah Jong and the importance attached to banquets having been common features in China for a long time. Indeed when I was lucky enough to live in a small rural town in China ten years ago the question asked when I was invited to Chinese families' homes for dinner and card games was 'do you want to come and *play*?' During my recent trip to China, which took in 9 cities ranging from the well trodden tier one cities to more obscure destinations in the centre and south west of the country, I saw examples of the Chinese appetite for leisure and entertainment in these more traditional forms wherever I looked. So in Chengdu I was fortunate enough to have time to stop and play Mah Jong on the streets, on Tomb Sweeping Day I was *unfortunate* enough to get caught in the crowds on a famous snack street in Beijing's trendiest district and in Yibin I was a guest at a banquet in a dining hall of multiple banquets happening in unison.

However, what surprised me the most during this trip was the new ways in which many Chinese people are starting to look for and consume culture and entertainment. Intriguingly, such is the demand versus the lack of supply for theatre and classical concert tickets in Beijing that ticket prices can now be as high as £80 for an average seat. Further, a Chinese friend of mine has recently opened an art studio in Shanghai where budding or professional artists can come and paint and create for what we would not describe as a modest hourly fee. And the name of the workshop? 'Paintertainment'. Another friend is considering setting up a business offering Chinese students cultural tours to the UK and Europe focused on particular literary figures and composers. Interestingly, Chinese shopping malls are increasingly moving towards a model where up to 35% of the gross leasable area is dedicated to restaurants, children's play areas and amusement arcades as managers discover that the best way to grow and sustain footfall is to provide individuals and families with ways to enjoy themselves.

Finally, as if what I was seeing and hearing was not enough, when I opened The China Daily one morning there on the front page was an article declaring Deloitte's prediction that 'China's culture and entertainment industry is predicted to grow at 20% and could be worth 5.5 trillion yuan within the next seven years'. For clarification that is a staggering US$887 billion! Western press headlines may, with good reason, choose to focus on the growing stresses of debt in the Chinese economy and the implications of the leadership transition, but below the macro level there is a growing population of people who are developing into sophisticated and enthusiastic consumers of leisure and entertainment. The more cynical view, of course, is that the Chinese government has a vested interest in China having a burgeoning culture industry if that industry serves as a distraction from more provocative political and economic questions which the populace is increasingly asking. Either way, this is a booming sector which deserves our full attention.

Out of the 33 companies I visited on my trip to China 12 fell into our category of leisure and entertainment. These companies included **Beijing Capital International Airport**, a host of companies producing 'bai-jiu' – the Chinese liquor drunk at formal banquets - including the industry number two player, **Wuliangye**, the film producer and cinema operator **Bona Film Group**, **Future Bright Holdings** the Macau restaurant owner and more. During these company visits I heard a similar story of fervent demand for leisure and entertainment in China.

Interestingly, the historical growth rates which many of these companies and industries have been seeing over the past 5 years have been far in excess of the 15-25% we might typically associate with more conventional Chinese consumer companies. For example, over the past 5 years in China, box office revenues have increased at a 43% CAGR, **Future Bright** has seen its Macau restaurant business sales rise at a 47% cagr and **Wuliangye's** liquor has not been far behind with sales increasing at a 30% cagr over the same period. Without doubt such colossal growth rates are largely driven by the fact that these are young, emerging industries but equally what interests us the most is just that – that leisure and entertainment in these forms in China are still in their infancy and thus are a fantastic hunting ground for new, albeit very selective, investment ideas.

We do want to stress that 'selective' is our key modus operandi when looking for potential investment candidates for Prusiks' funds exposure to the entertainment and leisure sector in China. Crucially, China, perhaps more so than any other country in Asia, while capable of generating very attractive growth rates does not always follow through in delivering very profitable growth. Further, the regulatory background and the interplay between private and State Owned Enterprises is often a complex one with no single formula existing for what type of industry structure is most likely to lead to profitable growth for companies we can invest in. A State Owned Enterprise is just as likely to benefit from its government status in a way which sets it ahead of its competitors as it is likely to be inefficient and uninterested in making a return above its cost of capital. Equally, private companies can operate with entrepreneurialism and possess a technological edge that gives them a genuine advantage or suffer because their private status makes it more expensive to access capital and connect with customers.

The US listed Chinese cinema operator and film producer, **Bona Film Group**, is a good example of how it is possible to identify a rapidly growing industry in China's leisure and entertainment sector only to find that caution is merited when it comes to the specifics of the listed Chinese companies exposed to that growth. China's cinema industry is dominated by 6 companies, including **Bona Film Group**. However, importantly, three of those players are State Owned Enterprises. The fact that State Owned Enterprises play such a significant role in the industry makes us inclined to think that the future could be relatively more challenging for the private industry players. **China Film Group**, the leading State Owned Enterprise player, already enjoys much more favourable terms than its peers. For example, it is currently the only company allowed to distribute foreign films in China and its expected future listing on China's A-share market will give it greater financial fire power to expand much more aggressively than **Bona Film Group**. A final point of concern for **Bona Film Group** is that, as a US listed Chinese company, its VIE structure brings with it an added corporate governance risk. Taking all of this into account we decided that the optimum way to gain exposure to China's rapidly growing film industry was indirectly via **CJ CGV** which we have written about above and which is listed in Korea rather than directly via **Bona Film Group**. In the meantime, we will continue to keep an eye on **Bona Film Group** should developments in the industry suggest we have been overly cautious.

Looking for investment ideas in Asia but outside of China which are geared into China entertainment and leisure industry is one approach worth bearing in mind alongside continuing to look and watch for ideas on the ground. One example has been the Korean cosmetics brands which are so popular amongst Chinese women.

Beauty treatments, cosmetics, plastic surgery and spa experiences is another sub-sector of the Chinese leisure industry which we think is very attractive. To this end we have recently invested (in PASCF) in a small branded face mask company selling its products throughout China, but headquartered in Hong Kong, called **Magic Holdings**. The company's most popular product is a range of 'peel off' masks priced at just £1 to £2 per mask which customers use to whiten and rejuvenate their skin as well as a way to relax and unwind. The face mask industry in China is still relatively young and has hence been growing ahead of the overall Chinese beauty market at 25-30% each year versus 15-20% each year, respectively. We think the Chinese face mask market still has excellent growth potential given that Taiwanese consumers of these products use up to one mask per day whereas the most intensive users in mainland China use around one per week. **Magic Holdings** is the leading player in the market by a wide margin with 26% market share versus just 9% market share for the second largest player. This is supported by an excellent distribution network with Watsons accounting for 33% of sales and supermarkets, convenience stores and hypermarkets accounting for 39% of sales. **Magic Holdings** caught our eye when we noticed how its products dominated the shelves in the Watsons and convenience stores we visited in mainland China. At the time of returning from our trip **Magic Holdings** shares were trading on a 2014e P/E of just 12.8x with the equivalent of about 25% of its market capitalization on its balance sheet in net cash, although the shares have been rising since then. Encouragingly, the stock is only covered by local brokers and so there is good reason to believe it is relatively undiscovered.

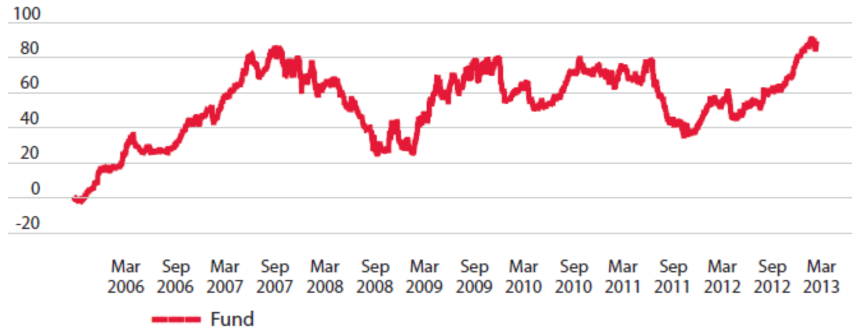
PORTFOLIO PERFORMANCE

Performance Summary (%)
Periods ending 28.03.2013

	USD	GBP	SGD
1 Month	-0.45	-0.19	-0.51
3 Months	9.94	10.58	10.16
Year to Date	9.94	10.58	10.16
Since Launch+	87.99	48.69	3.97
2012	24.68	24.36	23.95
2011	-20.89	-20.70	-20.95
2010	-2.66	-3.00	-3.70
2009	26.59	23.20	-
2008	-20.84	-17.70	-
Annualised 5 years	2.92	3.14	-
Annualised 3 years	5.01	5.15	4.65
Annualised Since Inception	8.81	6.09	1.22

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. Since launch: 07.10.05

Monthly Performance Summary (%)

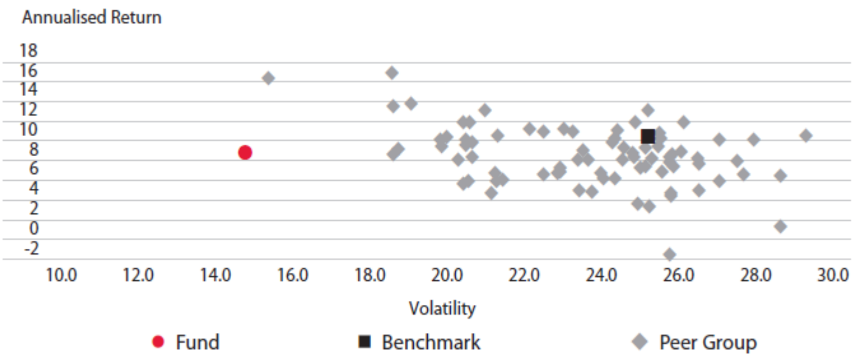
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
2013	6.68	3.52	-0.45									
2012	5.81	6.55	-0.38	3.08	-6.93	0.67	4.33	-2.54	6.47	0.24	2.45	3.39
2011	-2.27	-0.70	1.19	1.23	-0.86	0.30	4.32	-11.95	-8.24	-0.55	-4.02	-0.52
2010	-9.67	-2.62	3.66	1.67	-7.15	-0.54	0.96	2.98	7.80	0.74	-0.38	1.08
2009	-6.90	-2.90	11.16	4.46	10.67	-2.69	6.77	-4.94	6.42	-2.45	4.08	2.12
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
2007	-0.01	1.28	3.05	4.08	3.58	4.79	3.77	-3.75	5.67	2.61	-6.33	1.93
2006	7.71	0.09	1.84	10.14	-1.95	-0.45	-1.72	0.02	1.23	3.90	7.64	1.97
2005										-1.90	5.64	5.08

RISK ANALYSIS

Risk Metrics	Fund (%)
Beta	0.56
Alpha (%)	3.0
Sharpe Ratio	0.60
Volatility (%)	14.8
% of the portfolio – which could be sold in 2 business days	84.5

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 28.03.13

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Siam Cement	4.8
Metro Pacific Investments	4.0
Bangkok Bank	3.8
Universal Robina	3.8
Chipbond Technology	3.6
Total Number of Holdings	41

Portfolio Financial Ratios*

Predicted Price/Earnings Ratio	13.4x
Predicted Return on Equity (%)	16.4
Predicted Earnings Growth (%)	19.2

*Fiscal year periods

Thematic Breakdown (%)

ASEAN Consumer	28.5
Domestic Consumer	20.7
Infrastructure	9.2
Greater China Domestic	8.8
Local Brands	8.7
Gold	7.1
Telecoms	7.0
Smartphones	3.6
Cash	2.6
Entertainment/Tourism	2.5
Vietnam	1.2

Geographical Breakdown (%)

Thailand	28.1
Hong Kong/China	21.7
Philippines	16.6
Korea	10.6
Vietnam	7.6
Australia	5.9
Taiwan	3.6
India	3.3
Cash	2.6

All data as at 28.03.13. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size (US)	80.8m
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
Performance Fee
10% of NAV appreciation conditional on a 6% hurdle

Dealing

Dealing Line	+353 1 603 6490
Administrator	Brown Brothers Harriman (Dublin)
Dealing Frequency	Weekly, Friday
Min. Initial Subscription	USD 10,000
Subscription Notice	2 business days
Redemption Notice	2 business days

Share Class Details

Codes

Class 1			SEDOL	ISIN	Month end NAV
A USD	Unhedged	Non Distributing	B0MDR72	IE00B0M9LK15	187.99
B USD	Unhedged	Distributing	B0M9LL2	IE00B0M9LL22	188.07
C GBP	Hedged	Distributing	B18RM25	IE00B18RM256	102.67
D SGD	Hedged	Distributing	B3LYLK8	IE00B3LYLK86	258.98

Performance fee based on individual investors' holding.

N USD	Unhedged	Non Distributing	B3LP510	IE00B3LP5101	188.15
O USD	Unhedged	Distributing	B3M40N3	IE00B3M40N30	187.10
P GBP	Hedged	Distributing	B3MWDD8	IE00B3MWDD86	101.12

Performance fee based on fund performance as a whole.

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