PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asia Fund

Q3 & Q4 Quarterly Investment Report
31 December 2012

FOR PROFESSIONAL INVESTORS ONLY

PAF Half Year Report Dec 2012

The fund rose 14.9% in the second half of 2012, leading to a total return of 24.7% for the full year. Positive contributions in the second half came from Thailand, the Philippines and Singapore with ASEAN infrastructure and consumer stocks such as **Jasmine International** (telecom equipment), **Siam Cement** and **Alliance Global Philippines** (casino, beverages and restaurants) leading the way. The Korean mobile telecom operators were also positive contributors. Palm oil (which we have now disposed of), Vietnam and Hong Kong were among the negative contributors, whilst the gold mining companies reversed earlier gains in the final weeks of the year.

The fund remains fully invested and we have a committed overweight position in ASEAN, especially in Thailand and the Philippines.

Review

The second half of 2012 produced two quarters of steady, positive returns and precious little volatility. Although Vietnam gave way to serious concerns over the recapitalization of the banking sector, individual companies there did well and ASEAN in general, once again, swept the board in the region's performance tables.

In 2012 there was probably only one major decision that Asian fund managers needed to make. This was at any mention of macroeconomics in Europe and the USA to stick one's fingers in one's ears and sing loudly - at least metaphorically! The rewards for determinedly concentrating on Asia and the significantly different macroeconomic environment there, combined with focusing on individual Asian companies, their business opportunities and their valuations, have been very good indeed. The region has also probably just delivered its most 'cogent' year in a while. By this we mean that good fundamentals were rewarded with good performance. In turn the dispersion of returns was very high and not all markets performed in line. Interestingly, in 2012 big index stocks generally did very well. However, this is less surprising when you consider the fact that out of the $51 billion which flowed into Emerging Markets in 2012 some $36 billion of this went into ETFs versus just $15 billion into active funds!

Portfolio Changes

We made only a few major changes to the portfolio over the second half of the year. These changes included gently gathering more domestic exposure to regional consumers, with a particular emphasis on local brands, and reducing the gold exposure. We took profits in two out of our three holdings in Korean mobile telecoms operators after a strong run but we think the outlook for **SK Telecom**, which we still hold, remains very good. We had a very low cash weighting throughout the year.

Outlook – General Thoughts

We have set out our main thoughts for 2013 in brief below. We believe all of these points are important but in some instances, where some expansion might be helpful, we will address a few of these points in more detail later.

1) The Yen will continue its recent weakening trend and, indeed, this may accelerate. Evidence suggests that Japan will have to print considerably more money after the first quarter of 2013, something which could have three important consequences:
   a) Korean and Taiwanese competitiveness would be at risk.
   b) China might revisit the idea that currency depreciation is an easy way to stimulate nominal growth and we could see the Yuan begin to weaken.
   c) Japanese foreign direct investment into ASEAN might slow down.

2) With the partial resolution of the 'fiscal cliff' and the above mentioned Japanese printing, liquidity should remain supportive of equities, albeit with an increased risk of inflation later in the year.
3) Money which is still hiding in 'defensive' low return assets such as bonds and cash will continue to be forced into higher return and thus higher risk areas.
4) By the year end interest rates in certain Asian countries might have started to increase. Typically, early periods of tightening are often associated with strong earnings growth and mild inflation - stock markets don't tend to respond negatively until roughly the third round of interest rate hikes. As such, it will be important to be mindful of where we are in the cycle.
5) Asian stock markets are likely to keep up with earnings growth in 2013. In 2007 the MXASJ Index was 40% above indexed earnings, whilst today it is 13% below 2012 earnings and 28% below 2013 estimated earnings. Therefore, there is still plenty of upside assuming, with the admittedly not insignificant caveat, that estimates are correct.
6) After 5 terrible years China might have a strong year in equities, driven by a recovery in margins, inventory restocking and a weaker currency.
7) Infrastructure will become an even bigger theme in 2013. For example, Thailand has pledged to spend US$ 72 billion over the coming 6 years and in 2013 will see a 500% year on year increase in infrastructure spending. China and India will spend a total of US$ 2 trillion by 2017.
8) ASEAN, which has outperformed for a number of years, will become widely understood as a discrete region within Asia and worthy of separate note. The 2015 ASEAN Economic Community, which will see all countries in ASEAN open for business to companies from anywhere in ASEAN on equal terms, will become extremely important. This transformation combined with a strong credit cycle, huge infrastructure spending and a 50% increase in the size of the region's middle class in the coming 3 years should lead to growth in the region exceeding expectations. Owing to this, the ASEAN stock markets may yet see more international interest despite the lack of a valuation discount.
9) Gold and silver are likely to remain in an uptrend. Gold mining companies should do better than in 2012.
10) Global food stocks have fallen to dangerously low levels and we may well see food prices rise very sharply at some point in 2013.
11) Nuclear power is likely to enjoy a renaissance and lead to a shortage of uranium.
12) New and important themes for companies include 'deep automation' (i.e. automation that involves an element of 'intelligence' and internet connectivity) and the collection and use of 'big data'.
13) Volatility is very unlikely to remain as low as in 2012.

In Asia we think this adds up to another year where equities could do very well. In short many countries around the world will be at the printing presses and much of that liquidity could find its way into Asia. We think it will be essential to ignore the index and favour more domestic opportunities, particularly via smaller markets and companies. We also believe that, after the opening of China and the rise of Asia's middle class, ASEAN will emerge as the next big investment theme in Asia.

However, we cannot ignore the risks. These include the possibility that this year valuations in select markets and sectors might get very expensive and that signs of inflation may appear.

China

Now that the leadership transition in China is clear, rebalancing and steady reform of the economy can, and should, continue. Indeed 2012 was the first year since 2005 where a larger share of China's GDP growth came from consumption than from gross capital formation. This process of rebalancing, in particular allowing consumption to rise and take a larger role in driving growth, will continue and is likely to drive the domestic sectors in the stock market to outperform.

China's new leaders are also likely to take steps to update the *hukou* (household registration) system. In China whilst 51% of the population lives in a city only about 30% of the population holds a *hukou* for the city where they live. As these reforms hit smaller cities it will be easier for the Chinese government to manage the urban underclass, allowing better access to basic services and gradually boosting consumption whilst at the same time reducing social tensions.

Other reforms which we might see over the next few years include resource pricing reform, interest rate liberalization, greater exchange rate flexibility, capital account liberalization, VAT reform and increased social spending.

As touched on above, one possible event to look out for in 2013 is a resumed and deliberate weakening of the Chinese Yuan. The Chinese might take advantage of the US's decision to tone down its accusations of currency manipulation by China and start to depreciate the currency again. A move to weaken the Yuan could also be triggered by the anticipated weakness in the Yen, which would render China even less competitive, and the fact that domestic inflation signals such as wages, energy and food prices appear to be leveling. Finally, the current People's Bank of China governor will reach retirement age in January, allowing for some retrenchment in the Central Bank's recent trend for independence. In short, the scene is set for possible currency weakness to resume in 2013 and this, combined with the most attractive equity valuations for the past 5 years, could bring a strong turn for the better in Chinese equity prices.

Valuations

On consensus estimates Asia is on a 2013 P/E of 11.6x 2013 and a historic P/B of 1.6x – roughly 0.5-1 standard deviation below historical norms. The region is also still on a P/E discount to developed markets, again, nearly 1 standard deviation below the norm.

Quant analysis done by Credit Suisse on a proprietary model suggests a possible 20% further upside for Asia in 2013 based upon equities catching up with earnings per share. History suggests the two normally track each other pretty well but whilst in 2007 the Morgan Stanley Asia ex Japan Index was some 40% ahead of earnings per share, today it is 13% below 2012 earnings per share and 28% below projected 2013 earnings per share.

If one assumes no valuation expansion or contraction but simply looks at earnings growth, then there are many companies, especially in ASEAN, which should generate total returns in the order of 20% over 2013.

Portfolio Outlook

The bulk of the portfolio remains in domestic stocks with the largest exposure to ASEAN. Many of these companies represent strong and growing domestic brands, businesses which are hard to replicate and often only accessible via mid-sized companies. Indeed, at the time of writing, just over half the portfolio is in stocks under US$5 billion market cap, and half of those are in companies under US$ 2 billion market cap. We remain very watchful of valuations and opportunities where the risk-reward is tilted towards the upside. Liquidity also remains a key factor to monitor and if 2013 proves to be a more volatile year, this often overlooked risk is likely to become more important again.

Since the year end we have increased our China weighting, reflecting the increased chances of a substantial rally there.

Within the consumer sector we remain very focused on particular areas of consumption, namely *entertainment and tourism*, *services (e.g. insurance, hire purchase and healthcare) and local brands*. We especially like companies exposed to the structural growth opportunity in the modern retail segment and any products which involve sugar and caffeine!

We have recently increased our exposure to construction and infrastructure beneficiaries as this is an area of increased spending and should see extraordinary growth in 2013. We also have a healthy weighting in telecoms infrastructure in developing Asia.

The 2013 P/E of the fund is 11.4x, the expected ROE is 16% and the 3-5 year earnings growth rate of the underlying portfolio is 15.5%. The forecast yield of the portfolio is 3.2%.

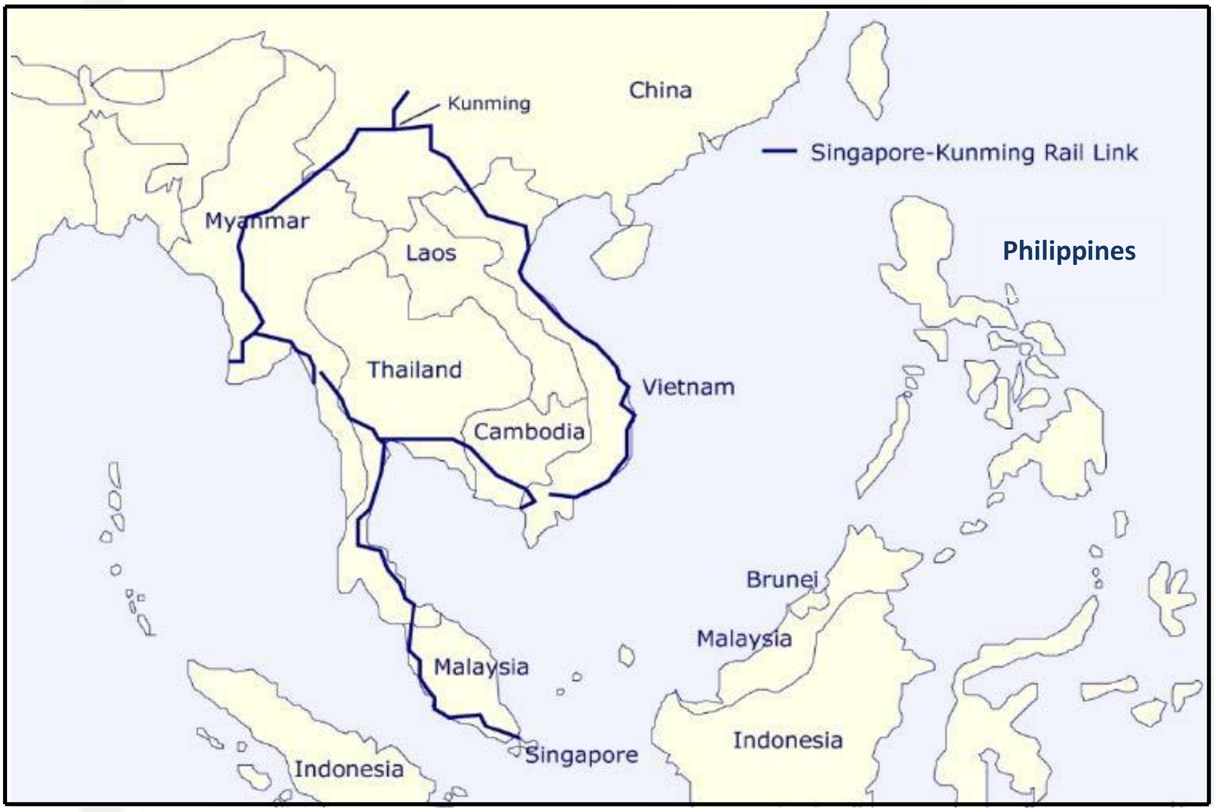
THE CASE FOR INVESTMENT IN ASEAN

A Short History - 'Back to Basics'

The Association of South East Asian Nations or ASEAN was founded in August 1967 by Indonesia, Malaysia, Singapore, the Philippines and Thailand; since then Brunei, Cambodia, Laos Vietnam and Myanmar have become members. ASEAN's aims include the 'three pillars' of accelerating economic growth, promoting social progress and advancing cultural development. As you will see below they also love acronyms!

The progress of this group, even prior to the forthcoming wave of deeper integration, has been impressive. Since 1989 the average growth rates of the 5 main countries (Singapore, Malaysia, Indonesia, Thailand and the Philippines) ranged between 3.7% and 6.7% - well above the 2.8% average achieved by the wider region.

The ASEAN countries have a total population of over 600 million people and if ASEAN were a single economy, it would currently rank as the ninth largest in the world.



Map of ASEAN Source: CLSA

The map of the ASEAN region is instructive. A large part of ASEAN is located in one landmass between India and China and this will afford huge advantages in the coming decades. One such impetus will come from the proposed railway linkage between China and Singapore which will connect cities and rural areas across the region, bringing with it tremendous economic opportunity (see the map above for the proposed routes). Thailand, being in the centre of the region, should flourish as the 'halo effect' of the developing countries surrounding it drives growth.

ASEAN Economic Community (AEC) 2015 or the Economic Benefits of Being in ASEAN - Important!

In 1992 the then 6 ASEAN countries signed the ASEAN Free Trade Agreement (AFTA) which the newer members of ASEAN have since joined. The next major step is the ASEAN Economic Community (AEC) which is set to come to fruition in 2015. The objectives of the AEC include a single market and production base which will create a highly competitive economic region, equitable economic development and a focus on supporting small and medium enterprises. Across ASEAN, small and medium enterprises account for 96% of businesses and between 50-85% employment.

In 2015 import duties between the ASEAN members will be slashed to zero.

There is also a plan to create an ASEAN Comprehensive on Investment Agreement (ACIA) allowing the free flow of investment across ASEAN in almost all industries. The current ASEAN Summit is also launching the ASEAN Regional Comprehensive Economic Partnership (RCEP) with will focus on integrating ASEAN further with the rest of Asia.

Additionally, by 2015 there will be an ASEAN Single Aviation market (ASEAN-SAM), plus open and visa-free travel and tourism for all citizens of ASEAN.

The ultimate goal is one economic community but, crucially, without a single currency!

Whilst the above words sound like familiar high level political endorsements, which they are, the impact at company level should not be underestimated.

The key point here is that soon, indeed by 2015, ASEAN based banks, airlines, consumer brands, healthcare businesses, entrepreneurs and so on will all be able to compete on equal footing in one market with 600 million customers.

This is one very big, and relatively new, investment opportunity.

Companies with Growth Options

One example of how this opportunity manifests itself is that nearly every company we meet in the consumer, cement, car parts and banking sectors is planning for 2015 when ASEAN becomes a single market. These companies are looking to expand outside their home market and into other countries, if not every country, within ASEAN. Crucially, there are a large number of countries in ASEAN, such as Vietnam, Myanmar and Indonesia, where the penetration of basic consumer items, services and cars is very low indeed! Moreover, balance sheets in ASEAN are generally very strong meaning that companies are well placed to embark on this expansion. The companies with good brands and the right strategy will see a period of very strong growth, although there will of course be losers as well as competition heats up. What interests us in particular though is that the winners will be able to grow to sizes as yet unimaginable in their own country. This provides a very rich environment for stock picking!

Demographics – Very Good!

A whopping 37% of the ASEAN population is under 20 years old and this percentage is even higher in Malaysia, Laos, Cambodia and the Philippines. The mean age in ASEAN is 30 years old which is much lower than China's mean age of 38 years old but slightly higher than India's mean age of 28 years old. The labour force in ASEAN is, therefore, set to grow by 1.4% p.a. for the next decade, whilst in China the workforce will begin to shrink from 2014.

Since 2000 the population of ASEAN has grown by 1.3% p.a. and will continue to grow at 1.2% p.a., reaching 621 million people by 2015. ASEAN already has the sixth largest population in the world.

For reference, here are the current populations of ASEAN countries as of 2011: Indonesia 235m, Malaysia 29m, Philippines 96m, Singapore 5m, Thailand 70m, Vietnam 86m, Laos 6m, Cambodia 15m, Brunei 0.5m, Myanmar 60m.

As you can see the region *offers no less than 5 country opportunities of a size equivalent to or greater than the UK. Combined, the ASEAN region is more than double the size of the USA and larger than Europe!*

Employment and Wages – Bodes Well for Consumption

Unemployment is relatively low in the 5 main countries of ASEAN. The most extreme example of this is Thailand where unemployment is 0.5% despite having over 3 million illegal workers from Myanmar doing, quite literally, the heavy lifting. This tightness in the labour market is beginning to take its toll in unexpected ways though. For example, a small company in Thailand which sells ceramic tiles recently had a profit warning due to half of its truck drivers not turning up for work after they found less manual and better paid jobs elsewhere. For the rest of ASEAN, official unemployment rates average between 3% and 6%. Admittedly there are pockets where wage growth has become a little overheated – take Indonesia, for example – but equally it is barely visible in the Philippines or Vietnam. Crucially, low unemployment rates and rising wages bodes very well for consumption.

GDP per Capita – An Important Threshold

Since 2006 the 5 main countries in ASEAN have together enjoyed a 9.6% cagr in GDP per capita and as a result, the average GDP per capita has now reached a very important level. When GDP per capita reaches $3,000 consumers begin to consume in a 'middle class' way, including beginning to buy cars and more discretionary spend items such as spending on travel and leisure. Thailand, Indonesia and the Philippines (with a combined population of over 400 million!) are now close to or above this level and as a result are the most interesting consumer markets in ASEAN. To give a sense of the range in GDP per capita for the 5 main countries in ASEAN the Philippines ranks amongst the lowest at US $2,300 whereas Singapore is the highest in the region at US $50,000.

Another key observation is that as wages rise, the population bulge popping up into the middle class bracket creates an exponential increase in the numbers. Estimates suggest that by just 2015 an additional *50 million people* will pass into the middle class in ASEAN on top of the current middle class population in ASEAN of 110 million people *i.e. ASEAN's middle class is estimated to grow by around 50% in the next 2 years!* Over the next 5 years this growing middle class population is expected to drive discretionary spending in the region by 80% in total or 13% p.a.

Retail – A Structural Growth Story

Last year the ASEAN retail market was worth an estimated $298billion but there is an underlying story here which will drive retail growth *over and above economic growth and wage growth, and in spite of spending fads.* In ASEAN only 46% of the retail market is 'organised' or 'modern', as opposed to 'informal' or 'traditional'. 'Traditional' retailers mainly comprise 'mom and pop' stores and wet markets while 'organised' or 'modern' retailers comprise branded shops, supermarkets, hypermarkets and convenience stores i.e. the retail experience found in developed countries. However, this 46% statistic is considerably skewed by the more developed nature of Malaysia and Singapore. Importantly, looking at the Philippines, Vietnam and Indonesia in isolation the current percentage of 'modern' retail is significantly lower than the region's average at just 10%, 10% and 20% respectively.

Put differently, the number of modern stores per 1 million people in developed countries is 482, in Asia is 264, in ASEAN is 127 but in the Philippines is just 30! As GDP per capita in ASEAN rises over the magic US$ 3,000 level this will start to change rapidly. We can thus expect at least 16% pa growth in ASEAN based modern retail over the coming 5 years, more than the expected increase in discretionary spending, owing to the structural shift to modern retail. From an investment point of view, companies operating modern retail or selling locally branded and packaged goods, especially food stuffs, will thus be enjoying growth over and above the general levels of consumption growth as the modern retail share increases.

From a developed market perspective we might be inclined to think that e-commerce could undermine the growth rate of the bricks and mortar retail; however, e-commerce is still probably at too nascent a stage in ASEAN to pose a real threat to off-line retail. True, since 2008 e-commerce has delivered very good growth of 22% p.a. on average across ASEAN but internet penetration rates remain very low at under 30% in Thailand and Vietnam and only 11% in the Philippines and Indonesia. Moreover, the logistical challenges of operating a large distribution network in the island nations of the Philippines and Indonesia increase the barriers to entry for e-commerce companies in these countries. Hence the attractions of a new mall or hypermarket will most likely dominate for now.

Leisure and Tourism – Wow!

To date, this is the only sector which has completed all the measures needed to meet the AEC 2015 requirements and is one of the top priority areas targeted in the integration of the ASEAN region.

The best way to understand what is happening to regional tourism is to go to one of the bigger regional tourist destinations and take a look around you. In October we were at the famous Ankor Wat temples in Siem Reap, Cambodia, and we didn't see much owing to the vast numbers of Asian tour groups there. A straw poll suggested a ratio of probably 70:1 Asian to Western tourist with large Asian tour groups to the fore! The actual numbers support this. For example, in ASEAN, intra-ASEAN passenger arrivals account for a staggering 78% of pleasure trips and 22% of business trips!

In addition, numerous passenger growth numbers highlight that ASEAN is rapidly becoming a key travel destination. Over the past 10 years, total passenger arrivals to ASEAN have increased at an 8% cagr. More recent data tells a story of increasing growth rates. For example, in the first half of 2012 Thailand saw an 11% increase in arrivals (domestic up 15%), arrivals increased by 12% in the Philippines and Jakarta enjoyed 18% passenger growth. China in particular is proving to be a key source of travellers to ASEAN with passenger arrivals from there compounding at nearly 10% p.a. in recent years. Current estimates suggest that by 2014 there will be over 100m Chinese passengers a year arriving in ASEAN – this would represent a tripling over the past 10 years! A key limiting factor to travel in and out of ASEAN is the infrastructure i.e. airport capacity and airlines. However, the arrival of a number of low cost airlines in the region has had a very positive impact on local tourism and these now account for 29% of all flights.

Interestingly, tourism is just one aspect of leisure spending though. Spending on entertainment in Singapore, for example, has seen a 68% cagr over the past 6 years, helped by the building of a number of resorts and casinos. The Philippines may well see similar growth from its forthcoming casino projects. Hotels and restaurants are also booming. Thai restaurant and hotel operator, **Minor International**, saw a 26% increase in revenue growth in the first half of 2012.

Infrastructure

Infrastructure spending in ASEAN, or more precisely, ASEAN linkage, was what initially sparked our interest in ASEAN. It all started with a map we saw showing the proposed railways down from China to Singapore. Like America's 'Guilded Age' (still less than 150 years ago!) there is nothing that promotes wealth creation quite like a railroad network and communications! What has followed is 2 years of above average growth in the rural areas of ASEAN, especially Thailand. What excites us now is that the bulk of the infrastructure spending is still to be done. For example, as we touched on earlier, Thailand has just doubled its budget for infrastructure spending to US$ 72 billion in the next 6 years following a period of the lowest level investment in infrastructure in 50 years. In 2013 alone this will result in a 500% year on year increase in government spending on infrastructure. Indeed, already, cement production in Thailand last quarter has already reached levels only ever seen twice before.

The charts below are intended to give at a glance an idea of what is proposed in the coming years in ASEAN. In addition, there are huge road, city railway and MTR projects as well as new airports and ports to be built.

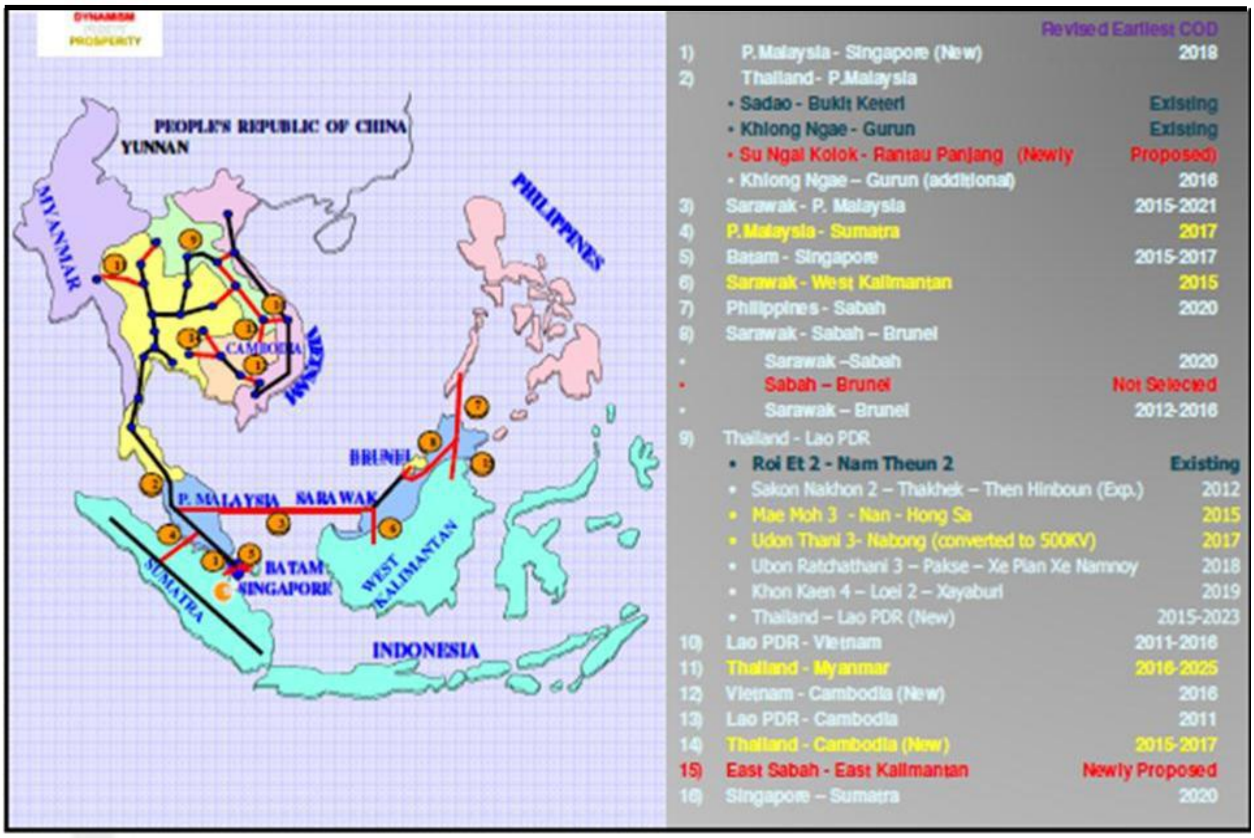
This type of spending is being mirrored across ASEAN in Indonesia as well as the Philippines. Moreover, in the developing countries around Thailand, especially Myanmar, even more accelerated projects will begin, putting construction companies and materials across the region into a boom in a way we have not seen for over a decade.

Outside of ASEAN the infrastructure spending theme continues with China and India proposing some US$ 2 trillion of infrastructure projects between now and 2017.

Singapore – Kunming Railway line network and proposed links

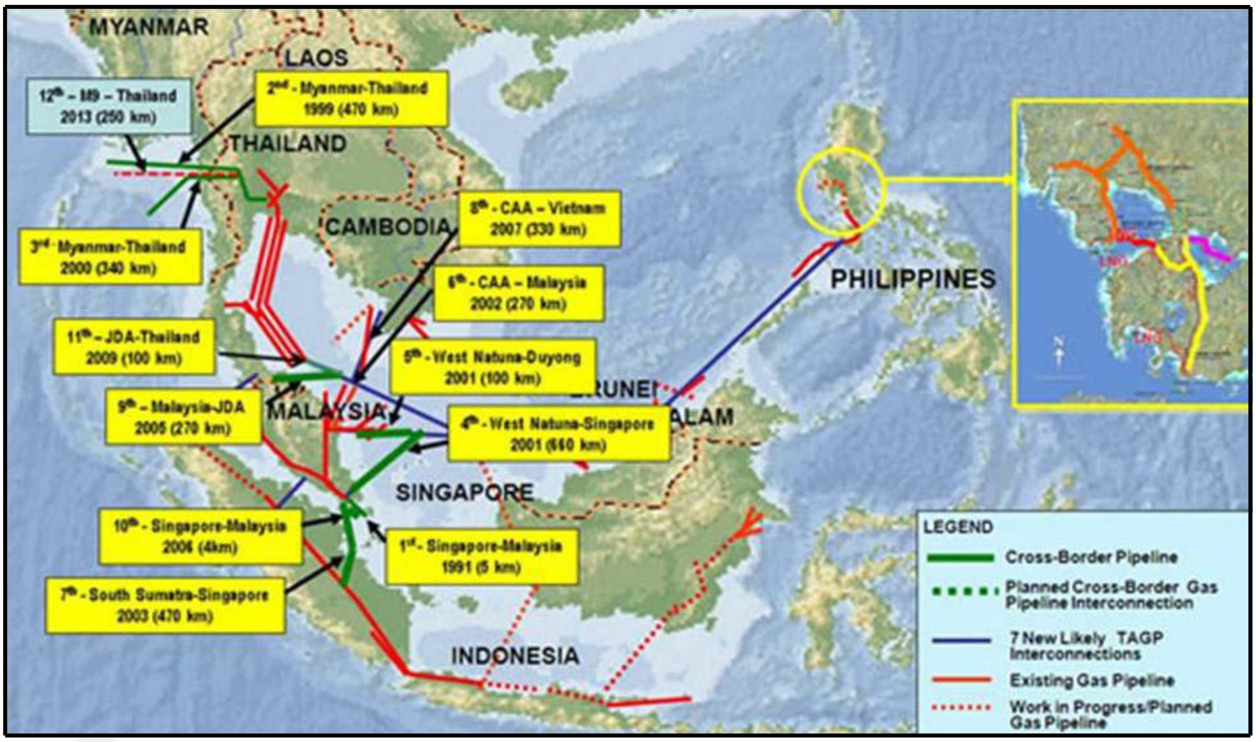
Source: ASEAN Transport Strategic Plan 2011-2015

ASEAN Power Grid – Proposed Connection and time to completion.



Source: ASEAN Power Grid Consultative Committee

<u>The Trans -ASEAN Gas Pipeline Project</u>



Source: ASEAN Council on Petroleum

Stock Examples

1) Local Brands – Haier

Haier is China's number one brand in washing machines, fridges and water heaters. It could well be the next Chinese brand to follow **Lenovo** and go global but in any event there is still plenty of growth at home. The reason **Haier** is interesting goes beyond its high quality, reliable and good value products. It has 40,000 franchised stores across China and a distribution network which together form its key competitive advantage. In China, distribution and logistics are a massive issue, so much so that the government has made distribution and logistics a top ten focus industry in its next 5 year plan. To put this into perspective, China has 0.4 square metres of warehousing stock per capita versus the US which has 5.2 square metres of warehousing stock per capita. China also spends a hugely inefficient 21% of GDP on logistics whereas the US spends just 10% and Europe spends not much more at 14%. One of the benefits of **Haier's** 83 nationwide distribution centers is that it will be able to take advantage of the current and future growth in online retail. Currently, most online retail companies in China lose money because of poor logistics. This partly explains why online retail as a percentage of total retail spending in China is just 2% versus 5% in the US. However, the online retail sector is growing at a 58% cagr which suggests that companies like **Haier** with top quality nationwide distribution networks are poised to benefit most. Financially **Haier** is in good shape with a net cash position and excellent free cash flow generation with the company currently on a free cash flow yield of 7.6%. Indeed, management say they will start paying dividends in 2013. The shares are trading on a forward 2013 P/E of 12.6x which is very attractive for a company generating >30% RoE and possessing a leading brand name in such a strong position for future growth.

2) Infrastructure – Siam Cement

A visit to **Siam Cement** last autumn highlighted that the chemical division, which had been holding back the company by producing losses, was seeing a turning point. Polypropylene and polyethylene prices had fallen to breakeven levels whilst industry inventories have corrected. As is often the way, demand is now recovering but no significant new capacity is planned until 2016-2017, so the scene is set for a recovery in this division which could contribute meaningfully to profits from 2013 onwards. Indeed, should prices and margins head back to levels seen at the peak of the last cycle, the chemical division alone could generate the profit made by the whole company in 2012. Meanwhile, domestic cement demand is growing at about 20% p.a. and with government infrastructure spending only increasing over the coming 6 years, demand growth should be well supported in the future. In addition, **Siam Cement** is expanding throughout ASEAN, both building and acquiring cement plants in neighbouring countries such as Myanmar, and thus in time we expect it will embody the vision of a typical ASEAN regional blue chip.

3) Organised Retail/Sugar - Kinh Doh Bakery

Kinh Doh Corp was set up as a family run business in Vietnam in 1993 and was listed in 2005. It is the leading private confectionary company in Vietnam with sales of over US$ 200 million and a market cap of US$ 308 million. It enjoys a local market share of around 70% in moon cakes and buns and around 30% in biscuits, ice cream and cakes. It is typical of the kind of company we are looking for in ASEAN which is growing strong local brands and selling into the burgeoning modern retail sector. According to Philippine snack food blue chip, **Universal Robina**, biscuit sales overall in Vietnam, for example, are growing at 15% p.a. **Kinh Doh Corp** has in the past 2 years introduced a new and very strong management team which is increasingly directing growth towards higher margin products. Management have also divested some loss making divisions. Owing to this, net profits are expected to grow in the order of 45% in 2013 while the company trades on a 2013 P/E of 15.2x. This looks expensive in Vietnam terms where all but the top 10 companies trade on low to mid single digit P/E multiples; however, importantly, in terms of P/E multiples **Kinh Do Corp** is still trading at a significant discount to its blue chip regional counterparts.

4) Entertainment and Leisure - Major Cineplex

Major Cineplex is Thailand's largest operator of cinemas, accounting for 75-80% of ticket sales. It also owns a film content and distribution house, operates karaoke bars and bowling alleys and holds 8% of Indian cinema chain, **PVR Cinema**. There are a number of factors which should help drive earnings growth for **Major Cineplex's** in 2013. These include an approximate 20% increase in new screen capacity and upgrades to digital theatres, both of which will lift ticket prices and reduce costs, a rise in advertising revenues as the economy continues to grow and a strong movie line up, including 8 in house local content movies in 2013, which should help drive good attendance. This should translate to about 30% growth in earnings per share. The shares are on 17x 2013 earnings reflecting their rarity status for investors looking to invest in the growth in leisure spending in Asia. The company also has a dividend yield of over 5% meaning that with no multiple expansions at all this year total returns should still comfortably be over 25%.

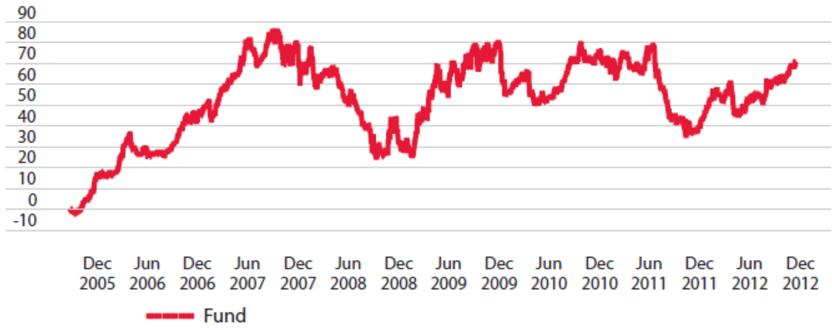
PORTFOLIO PERFORMANCE

Performance Summary (%)
Periods ending 31.12.2012

	USD	GBP	SGD
1 Month	3.39	3.34	3.37
3 Months	6.18	6.08	6.15
Year to Date	24.68	24.36	23.95
Since Launch+	71.00	34.47	-5.62
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	-0.77	-0.60	-
Annualised 3 years	-1.35	-1.46	-
Annualised Since Inception	7.68	4.67	-1.93

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 (%)

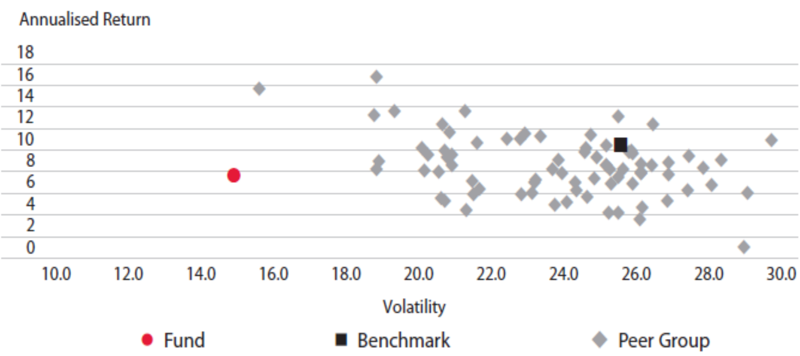
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
2012	5.81	6.55	-0.38	3.08	-6.93	0.67	4.33	-2.54	6.47	0.24	2.45	3.39
2011	-2.27	-0.70	1.19	1.23	-0.86	0.30	4.32	-11.95	-8.24	-0.55	-4.02	-0.52
2010	-9.67	-2.62	3.66	1.67	-7.15	-0.54	0.96	2.98	7.80	0.74	-0.38	1.08
2009	-6.90	-2.90	11.16	4.46	10.67	-2.69	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 (%)	1.81
Sharpe Ratio	0.52
Volatility (%)	14.91
% of the portfolio – which could be sold in 2 business days	94.41%

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 31.12.12

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Jasmine International Pcl	4.0
Samsung Electronics	3.7
Siam Cement	3.6
Metro Pacific Investments	3.5
Bangkok Bank	3.4
Total Number of Holdings	40

Portfolio Financial Ratios*

Predicted Price/Earnings Ratio	11.4x
Predicted Return on Equity (%)	15.5
Predicted Earnings Growth (%)	15

*Fiscal year periods

Thematic Breakdown (%)

ASEAN Consumer	25.5
Domestic Consumer	21.8
Telecoms	13.8
Local Brands	8.2
Infrastructure	8.0
Greater China Domestic	10.3
Gold	4.2
Smartphones	3.4
Entertainment/Tourism	2.4
Oil Services	1.4
Cash	1.0

Geographical Breakdown (%)

Thailand	27.5
Hong Kong/China	23.9
Korea	15.2
Philippines	14.1
Vietnam	6.7
India	4.1
Taiwan	3.4
Australia	2.7
Singapore	1.4
Cash	1.0

All data as at 31.12.12. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size (US)	74.6m
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	171.00
B USD	Unhedged	Distributing	B0M9LL2	IE00B0M9LL22	171.07
C GBP	Hedged	Distributing	B18RM25	IE00B18RM256	92.85
D SGD	Hedged	Distributing	B3LYLK8	IE00B3LYLK86	235.09

Performance fee based on individual investors' holding.

N USD	Unhedged	Non Distributing	B3LP510	IE00B3LP5101	170.99
O USD	Unhedged	Distributing	B3M40N3	IE00B3M40N30	171.09
P GBP	Hedged	Distributing	B3MWDD8	IE00B3MWDD86	92.68

Performance fee based on fund performance as a whole.

Fund Manager

Heather Manners
Tel: +44 (0)20 7493 1331
Email: heather.manners@prusikim.com

Sales & Marketing

Mark Dwerryhouse
Tel: +44 (0)20 7297 6854
Mob: +44 (0)7831 856 066
Email: mark.dwerryhouse@prusikim.com

Nazinna Douglas
Tel: +44 (0)20 7493 1331
Fax: +44 (0)20 7493 1770
Email: nazinna.douglas@prusikim.com

Prusik Investment Management LLP
1st Floor 46 Hays Mews
London W1J 5QD

Web: www.prusikim.co.uk
Email: enquiries@prusikim.com