PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asia Fund

Quarterly Investment Report
30 September 2011

FOR PROFESSIONAL INVESTORS ONLY

INVESTMENT OBJECTIVE

To preserve capital and generate absolute returns over a full economic cycle by investing in listed equities in Asia Pacific Ex-Japan, whilst maintaining portfolio volatility significantly below the peer group.

INVESTMENT PROCESS

With anomalies as a start point, the investment process seeks to identify and invest in key 'themes' in the Pacific region. Our themes are driven by factors outside of normal economic cycle and are not yet discounted by the market. Companies are identified and chosen via rigorous bottom-up analysis with emphasis on traditional value and high ROCE. Cash and Index Futures are used when opportunities are few and to reduce portfolio volatility.

FUND MANAGER

Heather Manners - Partner
Appointed Head of Henderson Asia and GEM team in 1996 after which FUM tripled to USD5bn. Her flagship product was the S&P 3 Star rated Pacific Capital Growth Fund (long only) which she ran from 1990. The two main features of this fund were sub market risk for superior market returns. On the back of this fund she designed and launched the Henderson Asia Absolute Return Fund in 2000 (long/short) and managed it until 2002.

Heather has been running money in Asia for over 25 years. At some stage during her career she managed every type of asset class offered by Henderson, including short list portfolios and assets for a 5 star Morningstar rated Small Companies Fund.

Prusik Asia Fund

The fund was down 15.7% over the quarter, which, whilst ahead of the index which fell 20.4%, is a disappointing outcome for us all.

The frustrating thing was that our stock selection was, in fact, not so bad. Stocks such as **Neowiz Games**, **Alacer Gold**, **Advanced Info**, **Titan Industries and BEC World** were, in fact, up on the quarter. Weak spots included **Lock and Lock**, **Newcrest Mining** and **TVB**.

There was just one major reason why the fund was a disappointing absolute return performer this quarter and this was our use of index futures.

In August we started the month on a modestly defensive note with 15% cash and futures cover of 24%. As the month unfolded the extent and speed of the decline and deteriorating news flow prompted us to stay fast to the companies we owned including keeping the futures cover in an attempt to shelter from any further fall. This did help to ameliorate part of the decline but did not protect us as well as we had hoped. The reason for this was because the currencies also fell sharply. For example the Korean Won fell 10.5% against the US$ over the quarter and 14% peak to trough. Likewise, the Australian dollar fell 9.1% over the quarter while the Indian Rupee fell by 9.8%, the Taiwan dollar by 5.6% and the Singapore dollar by 6.7%. In all, we estimate that at about a third of the decline suffered by the fund was due to currency loss.

We have kept all our positions broadly in place given the current global backdrop. Reasons for this include the on-going signs of slowdown and increasing risk of a downgrade cycle in Asia, better but not distortedly low valuations giving only a luke-warm signal, the extreme volatility and brinksmanship being exerted in Western politics and, importantly, some unfolding regional issues such as the terrible flooding in Thailand, electioneering in Taiwan and concerns over shadow banking in China. These factors, combined with the lack of volume in the recent rally and a seeming disconnect between credit markets and equities, continues to send us a warning signal.

The upshot has been that, as markets have rallied, the upside for our stocks has been partially offset by futures.

Outlook

At the time of writing we have just seen Europe announce the solution for Greece. More importantly for Asia we have also heard the Chinese government fractionally ease the language they have been using around policy tightening, giving more hope that next year we will see stimulus policies re-emerge. This is more encouraging for next year in Asia but we suspect the volatility is not yet over especially as we doubt the Chinese will ease significantly until we are much closer to the leadership handover next year or unless there is another crisis in Europe. Elsewhere we expect that there will be a round of earnings cuts in some more cyclical businesses as the generally weaker outlook for 2012 is digested.

Valuations are attractive in some areas, notably China which is at a 10% discount in price book terms to its 2008/9 low.

Overall, despite current euphoria, we expect headwinds and further volatility.

Prusik Asia Fund

The fund remains quite defensively positioned. At the time of writing we have deployed much of the cash into a few key areas but the futures remain in place. We have increased our exposure to China infrastructure companies and businesses which have unique assets and strong recurrent income such as ports and toll roads. Companies in both these sectors have been sold off hard in recent months and now offer tremendous value.

We have also added to the mobile telecoms sector with a bias to emerging markets as the new generation of cheap smartphones will trigger huge ARPU increases as data usage explodes.

We can generalize simply that our new acquisitions all offer remarkable value of one kind or another be it dividend yields over 8% or PE ratios well under 10x, or both!

Other themes we remain very optimistic for are 'entertainment', low end smartphones, healthcare, local brands, food, ASEAN and gold. Value, rather than growth, is where we believe we will find the best returns in the coming year.

ASEAN

When we first wrote about ASEAN earlier this year, it was in the context of a massive railway network planned to connect China in the north with Singapore in the South. The network is planned in three separate sections, covering Burma, Vietnam, Cambodia, Laos, Malaysia and Thailand en route. Our contention was, and still is, that these countries are becoming inextricably and powerfully linked, economically, politically and physically, and that the resultant transformation will be the foundation of the next most lucrative investment wave in Asia.

There are over 200 million people living on the land area between India and China, with another 180 million further south in the Indonesian archipelago. These are countries which boast the best demographics, the richest agricultural landscapes and most abundant untapped resources in the region. They are the jam in the sandwich between China and India.

The Association of South East Asian Nations (ASEAN) was formed 40 years ago but in the last 4 years the pace of initiation and change has accelerated rapidly with a series of key initiatives. The most progressive is the proposed establishment of the ASEAN Economic Community (AEC) by 2015. This has been described by the Deputy Secretary-General for ASEAN as more than just a trade agreement but different from the European Union. Rather, it is a 'Free Trade Agreement *plus plus*'.

The idea is that the region will allow free trade of goods, services, investment, capital, skilled labour, food, agriculture and forestry. There will be a special focus on helping Cambodia, Laos, Vietnam and Burma close the development gap with the other countries. An Infrastructure Fund, launched in September is to help prioritise spending in 12 key areas including healthcare, telecoms, tourism and air transport. The region aims to be outward looking and globally competitive. There is also much to be said on an individual basis for many of these countries.

Thailand

Thailand is among the region's better performing countries this year, together with several of its ASEAN neighbors. Although this is a trend which is establishing quietly, we believe the theme is already well under way. If you look closely at Thailand's trade numbers it is not hard to see why.

In the first 7 months of 2011, ASEAN countries comprised 23% of Thailand's total exports. This is more than the value of Thailand's exports to China and the US combined! The proportion of exports to ASEAN has steadily increased despite China's emergence as a trade partner. In tandem, exports to the US have halved in importance since 1995 to just 9% of total exports in 2011.

ASEAN is also Thailand's largest source of tourism accounting for 28% of arrivals in the first 8 months of 2011. Europe comprises 20% while Japan accounts for only 6%.

Of total foreign direct investment to Thailand in the first half of 2011, 40% came from ASEAN countries, second only to Japan and up from a 10 year average of 24%. Outward FDI from Thailand was also ASEAN bound to the tune of 39% of the total, a figure nearly double the next largest destination.

Short term – a note of caution

Thailand had a general election this year in July and voted in the Puea Thai party, known for its populist policies and up-country focus. The party has promised a massive 40% hike in minimum wages (and an attendant cut in corporate tax to pay for it) and a re-introduction guaranteed of rice prices of not less than Bt15,000 a tonne, which will please the 40% of the population still working in agriculture. They have also pledged incentive for first time buyers of cars and new homes and a tablet computer for every student. Not only does the weight of expectation and implementation of these policies now hang in the air but, since the new Prime Minister and head of the Puea Thai party is the sister of the exiled ex-Prime Minister Thaksin observers are keeping a very close eye for signs he may try to return to Thailand. This could threaten stability and is a risk to bear in mind, even if not an immediate one.

Floods

In the last few weeks, however, less manageable and quite shocking events have befallen Thailand. The rainy season has all but brought much of the country and industry to a standstill as the four major rivers and many dams and reservoirs converging on the Chao Phraya River, which runs through central Bangkok, have become overwhelmed by torrential rain. We can attest to this extraordinary weather having recently left Bangkok, taking off in what can only be described as an electrical rainstorm of biblical intensity.

Many, many businesses, estimated to be over 1000 companies and 6 up-country industrial estates are under water nearly 2 meters deep and equipment and facilities have been severely damaged. Worse, the rainy season has at least another 3 weeks to run and with more torrential rain forecast there is still a very real near term risk that central Bangkok, which has largely escaped so far, will finally be also under water. Estimates suggest that this event to date will cost in the order of 0.5% to 1.5% GDP and many facilities will be out for up to 6 months. In one example Hana Microelectronics owner and CEO, Richard Han, told us by telephone that 35% of his facilities are now only reachable by boat. He also fears that supply chain disruption could be at least as profound as the Japanese tsunami. For example, 60% of the world's HDDs are made in Thailand in facilities such as his.

Thailand clearly has some difficulties to work through and valuations may fall shorter term. We are still very keen on the opportunities Thailand offers beyond these next few months though and will look to add positions in healthcare, leisure, domestic consumption, agriculture and infrastructure on any weakness.

Burma

Something is happening in the Hermit Kingdom and it's tempting to feel excited about it. The government is relaxing its grip on the media. In August this first showed up when state run newspapers dropped their slogans denouncing the BBC and Voice of America for sowing hatred among the people and the government opened previously blocked websites such as Youtube. Following this, pictures and interviews with famed dissident and Nobel Laureate Aung Sung Suu Ki have started to be published for the first time in years. In addition, journalists are now writing online without prior government censorship approval and a small rally to mark the four year anniversary of the bloody 2007 "Saffron Revolution" was both allowed to take place and to be reported in the news. This is extraordinary progress in a country said to rank next to last out of 196 countries for Press Freedom (ahead only of North Korea!) and where journalists are routinely imprisoned.

This is not all. In recent weeks there was a mass amnesty of an estimated 200 political prisoners. Much of this has caught western observers off guard. The military rule since 1962 finally handed over to a civilian government in an election earlier this year which was at the time generally deemed a fraud. However, since then a slew of conciliatory gestures have followed.

Burma, a country of 55 million people, which has been to all intents and purposes isolated from the world for the past 50 years, now sits right in the epicenter of the geopolitical map in Asia. It is physically 'where China meets India', bordering both countries in the north. Sanctions and neglect from the West have thrown Burma into the arms of China which is voracious in its need for its rich supplies of oil, teak, jade and emeralds. Projects with China now range from mining, railways, dams, ports to highways. India has also joined in building port facilities on the North West as well as several other projects.

Perhaps the most interesting move, therefore, came in very recent weeks. The government suspended construction of a $3.6 million China- backed hydro-electric dam in a rare concession to environmentalists, after weeks of critical coverage in local newspapers.

This is still very early days but the coming political direction will be crucial to Burma's future and that of ASEAN. Burma is part of a landmass which has huge potential but Burma perhaps needs to be part of ASEAN and everything it stands for to best maximize this. It now seems as though this could be, the new direction. These are baby steps for now but the anomalies are coming thick and fast and suggest a new frontier market is awakening.

Vietnam

We have just returned from our second visit to Vietnam this summer. This time we spent a week visiting companies and building our knowledge further about the country and its best companies. The Hanoi stock exchange index has fallen 85.6% from its 2007 peak to trough in August and the currency has also significantly devalued in that time. This is the kind of fall we witnessed in the Asian Crisis and which rarely comes along. We think the opportunity here is extraordinary as both valuations are cheap and inflation is peaking. Adding to this, rich resources, a young population and a prime position in the ASEAN region, means Vietnam has the ingredients to be one of the few places that marches to a different tune in the coming few years and gives investors the returns they will struggle to find in more developed markets.

Vietnam has had plenty to deal with this year and much of its problems stem from too much lending in previous years. In crude terms there has been a currency devaluation of 9% (thus eliminating the black market differential), a removal of fuel subsidies resulting in oil prices rising 18%, a deregulation in electricity pricing which is pushing electricity prices up 15% and a clamp down on bank lending. In 2010, bank lending was up 30% but this year the government reduced loan growth for all banks to 20% and stipulated that all loans must be made to 'productive' businesses, thus ruling out property and most other non-manufacturing enterprises. The upshot of this has been inflation of 23%. Food is 45% of CPI and energy is a further 25%. Deposit rates at the banks are about 14% and lending rates have soared to over 20%.

In addition, the trade deficit is 10% GDP and is made worse by the fact that Vietnam has to import nearly all the equipment it needs to make goods. Therefore a machine imported today for $100 that produces $20 of goods for export tomorrow results in a trade deficit of $80.

Another structural problem is that State-Owned Enterprises dominate the economy. They take over half of Vietnam's investment but only produce a quarter of all the industrial output. A Vietnamese SOE consumes $12 of investment to produce $1 of output. In China, the comparable number was $3.

To put Vietnam in perspective, it is about 15 years behind China. Labour costs 50% of what it does in China and annual GDP is about $100 billion – which is the expected revenue of Apple this year! The stock market is tiny; there are some 289 stocks listed in Saigon and about the same again in Hanoi and the stock market capitalisation of Saigon is just $20 billion. For foreigners there is an additional frustration which is that many of the better companies have reached their foreign ownership limits (49%).

So the question is whether we have now seen the worst? There is nearly 5 years of bear market mentality now hardwired into local investors' minds and it will be the locals, not foreigners, who will get this stock market moving again. But we have to say we are very taken with the opportunities Vietnam offers any investor with a 3-5 year horizon. Here are the main reasons:

Firstly, this is a resource rich country with more food, water, coastline, resources than it needs. It sits on the doorstep of China and India and in the midst of the ASEAN peninsula, about which we have already written extensively.

Secondly, it has a population of 90 million people and the average age is 26. Indeed two thirds of the population is under 35, meaning that demographics will be supportive until mid-century. Furthermore, they are a very cohesive nation having fought together in recent history.

Thirdly, the country does not look or feel like a country which has been in economic crisis over the last 5 years. Since our 2007 visit there are fewer mopeds and more cars in District 1 (the main business area), everyone now wears a helmet (albeit more decorative than functional, we suspect) and there is also a skyscraper! We went to visit a blue chip dairy products company, **Vinamilk** in their new offices in District 7 which last time we were there was a swamp but now resembles the newer outskirts of Taipei. We have since learnt it was in fact conceived by a Taiwanese architect and was quite complete with tree-lined roads and sedate traffic. The point here is that economic progress is ongoing, there is no rupture.

Fourthly, Vietnam receives about 10x the annual foreign direct investment than the Philippines. Indeed this was the main reason we went to Vietnam again as so many of our companies were looking to set up there. Honda, for example, plans to make 64% of all their motorbikes globally in Vietnam! Other companies, such as Lock and Lock, see Vietnam as the start point for an ASEAN customer base as well as good, cheap manufacturing. Samsung has just announced it will make a third of its mobile phones in Vietnam. Such FDI could well further accelerate as the floods in Thailand make manufacturers think twice.

Fifthly, since our visit earlier in the summer, a new Central Bank Governor and Finance Minister are making huge improvements. Locals say they have seen more change in the past 3 months than in the past 4 or 5 years. This includes powerful steps to control lending and stabilize deposit rates, possibly aimed at rationalizing the banking sector. This is important as Vietnam has the anomalous situation of having 66 banks even though only a third of the population has a bank account! There are also new steps clearly aimed at getting the State Owned sector more efficient and less corrupt. This is all important as the savings believed to be “outside the system”, probably in gold or US$ held domestically in home safes, is estimated to be as much as 60% of GDP. Bringing this back into official circulation will be very important. One senses that these new figures are savvy enough to realize that they need to allow the stock market to grow and broaden in order to allow companies to raise cash and that policies will be in line with this objective. I was also told, on reasonable authority, that they are hoping to remove or ease foreign ownership limits sometime in 2012. This would have huge consequences including paving the way for Vietnam’s possible inclusion in the MSCI Index.

Of course there are negatives. Inflation remains very high although the monthly rate is now falling sharply and the year on year comparisons will decline from Q1 2012. Visiting companies in Vietnam is a bit like going back in time by 15 years. Presentation and information is patchy, English has significant room for improvement and there is much more company debt than we are used to seeing in the rest of Asia these days (although as rates fall next year this will be very positive for equities). In addition, there are very few single product companies and many have sprawling company structures. Real estate is widely held (and has collapsed in price) and rights issues loom in many cases should prices rise much from here. That being said we saw some very interesting companies including ones which fit well into our current thematic thinking. These included companies in confectionary, jewellery, bed linen, telecom equipment, software, agri-products and fish farming.

Finally, the stock market looks very cheap. The Hanoi stock exchange offers a combined dividend yield of 6.6%. The average PE on both exchanges is 8x this year but the median company is on 5x. A good example is FTP, the country's leading IT conglomerate which has a market cap of $464 million and annual sales of $1 billion. It trades on 7x earnings and is likely to see earnings grow 20% this year.

In conclusion, we think Vietnam will regain its stock market poise. It managed an extraordinary counter-global trend rally of 20% in August and has since corrected healthily. The next 2 quarters will see slower growth as this year's tightening takes grip but the stock market may well decide to look through this in view of its recent decline and relative value. Certainly on a 1 to 3 year view it offers one of the more interesting investment opportunities in Asia, especially if the SOEs begin to make headway towards achieving better efficiencies. The stock market is very illiquid and small so latecomers will be disappointed in the next cycle.

Since our last visit to Vietnam we have been engaged in the complicated process of opening accounts for dealing direct in Vietnam. This is all but concluded and we expect to begin to build Vietnam into our portfolios by the end of the year, with a view to having 5- 10% exposure here.

Nagacorp

Nagacorp owns, manages and operates NagaWorld, the only licensed casino in Phnom Penh, the capital city of Cambodia. The company has an exclusive license to provide gaming services in Phnom Penh and the surrounding areas until 2035. NagaWorld includes a 506 room hotel, entertainment venues including an exhibition space, 25,000 square foot of meeting and ballroom space, a nightclub, karaoke lounge, swimming pool and spa. The company has just announced record 1H 2011 results with EBITDA increasing by 84%. Future growth will be driven by customer arrivals from Vietnam, new marketing initiatives in Thailand and some new facilities.

Nagacorp has traditionally paid dividends and has a current 12 month dividend yield of 6.4% and trades on a 2015 PE of 5.6x.

Entertainment

The boom and boom of the theme of the retail consumer in Asia is starting to look a little weary. Not so much because the consumer is slower, but because the number of listed companies now selling 'luxury' goods has risen to levels where it is almost prudent to infer a valuation discount for 'too much choice'. For a while we have argued for less consumption of 'goods' and more consumption of 'services' where the latter takes the form of healthcare, financial services, tourism or entertainment.

Entertainment is one area where Asia is poorly serviced, so demand outstrips supply. In addition, few listed companies exist in this segment which bodes well for investors in the successful business models. This year **Major Ciniplex** (cinema chain in Thailand), **Genting Malaysia** (casino, resorts and amusement parks in Malaysia) and **Kangwon Land** (casino in Korea) have been among our better performers and we remain very keen on this area as Asian consumers widen their leisure activities and focus spending on entertainment. Some 14% of the portfolio is in this theme, in which we also include internet gaming. **Neowiz** in Korea has been our standout performer here.

Free-To-Air TV broadcasting

We own 2 companies in this sector. Free to air broadcasting in Asia is attractive for several reasons. Firstly, in many markets in Asia particularly the lower income ones, TV is still the only way of reaching mass audiences. Cable/Satellite TV is often not widely available and internet based advertising is still too small a market to be effective. As a result, these companies enjoy strong bargaining positions with customers wishing to advertise. Capital spending requirements are limited and companies are normally able to distribute close to 100% of earnings as dividends**.** Multi-national consumer companies including **Unilever** and **Nestle** are often the biggest advertisers in these markets and their efforts to increase their emerging market sales are leading to greater spending on advertising**.** As consumer spending grows in Asia, spending on advertising will also increase**.** Because they are perceived to be “boring” businesses they trade at very attractive valuations but, in fact, have probably one of the most secure earnings profiles.

As a result, we believe that our companies in this sector **TVB** (Hong Kong) and **BEC World** (Thailand) offer exceptional value with dividend yields of 5% and growing at a double digit rate.

Online Gaming

The video games market is alive with anomalies which underline how fast it is growing; a new game ‘Halo Reach’ made $200 million in sales in its first 24 hours – more than any US movie in an opening weekend.

Indeed online, mobile and casual gaming is estimated to be growing faster than any other media segment (at a compound annual growth rate of 10.5%) and will reach a size three times that of the global music market by 2014 at some $85 billion of industry revenues. Leading this explosion is the advance of technology, including more advanced mobiles, more exciting new games and the concept of micropayments.

The next stage of gaming will see the transformation of an interactive medium into a social medium and no doubt this will be inspired further by the next revolution in TVs. Internet ready TV is here and 3D TV has been a mixed experience but the TV market is the last major technology bastion that hasn’t changed much and we expect that, shortly, it will be revolutionized by Apple. Gaming will also appear more in website and marketing campaigns in a bid to engage customers and it is showing up in education. For example, doctors who engage in video games more than three times a week make 37% less mistakes in laparoscopic surgery and complete the procedure in 27% less time. Gaming is also now used in training programs and even problem solving. Players of an online game 'Foldit' have managed to devise ways of folding proteins which had, to date, eluded both experts and protein analysis software!

Neowiz Games

Neogames has one of the strongest pipelines of online games in the sector including sports, shooting and two MMORPG (massive multi user) games. This removes some of the pressure on its current blockbuster game, Crossfire, which is selling well in China. The majority of the new games will be launched in the coming 9 months which suggests that earnings growth targets of 40% should be easily met in 2012. The company is on 9x 2012 earnings and has ROE of over 40%.

China/ Emerging market Smartphones

Smartphone penetration in the USA, Hong Kong and Singapore is now at about 50% but China and the emerging markets remains the last bastion of parabolic growth in this area. In China as much as 80% of the market is still using 2G phones. Analysts predict that China's smartphone market will grow from US$ 7 bill (28 million units) in 2010 to US$32 billion (199 million units) by 2014, underpinned by carrier subsidies, rich local mobile content and more affordable devices. This will therefore be a strong environment for handset producers, especially those at the low end not affected by slower demand in the West. Content and mobile internet service providers such as **Baidu** and the mobile operators themselves, will also be huge beneficiaries as data traffic takes off.

Android has become the dominant operating system in China with 44% market share in 2Q 2011. It is expected that smartphones below US$ 200 will dominate and once again white box makers (local vendors) will likely take nearly 20% of the market share. One example of this is the Xiaomi handset which has come out of a small new company in Beijing made up of 250 employees, many of whom come from Motorola, Kingsoft, Microsoft and Google. Their phone has identical features and performance to a top tier phone and yet retails at US$130 – about 45-60% cheaper than its top end peer group. This will put pressure on many of the top tier suppliers.

Mediatek

Mediatek is a Taiwanese company which designs integrated circuits (ICs) used in consumer electronics such as handsets, PCs, TVs and DVD players. The handset business dominates, accounting for c.70% of sales. Mediatek typically sells its handset chipsets to Chinese handset manufacturers which sell their phones domestically, as well as exporting them to other emerging markets. Mediatek also counts some Western customers, such as Vodafone, within its customer base which also uses its chipsets in its low end phones destined for emerging markets.

Owing to the fact that Mediatek outsources production to local foundries, it has a cash generative, capital light business model which has enabled it to generate ROEs in the range of 23%-66% from 2002-2010.

The shares performed very well from the end of 2008 as Mediatek gained a significant amount of market share in the 2G market in developing countries, particularly China. However, the shares have since fallen c.45% from their peak as the company made a number of strategic mistakes, including being slow to come out with a credible 3G solution, and competition intensified in the 2G market from tier two Taiwanese players.

Why now?

Mediatek has begun selling 3G and smart phone chipsets. While these products only represented c.5% of handset sales in 2010, this part of the business is likely to grow very rapidly. Similar to the 2G market, Mediatek's 3G and smart phone chipsets will initially be targeted at the lower end of the market. Chinese telecoms do not need to provide subsidies for low-end smart phones and so there is a clear incentive for them to push this segment of the market. If the smart phone market comes to replicate the 2G market, then low-end smart phones could come to represent 50% of the market in China. Low-end smart phone growth is also likely to be strong in India, South America and Eastern Europe. Analysts have underestimated the speed of smart phone adoption in the West and I think the same is likely to happen again in emerging markets. All of this bodes well for investing in Mediatek.

Mediatek has the equivalent of 12% of its market cap in cash and has a 6% dividend yield. Mediatek's US$12bn market cap compares with Qualcomm's market cap of US$90bn and ROEs for Qualcomm in the mid-teens are much lower than Mediatek's. By our analysis, the consensus is underestimating the potential earnings growth likely to be driven by sales and margin at Mediatek.

Mobile telecoms

We wish we had had more courage of our conviction on this theme in the past 2 years. Although it is 14% of the portfolio, when we launched this theme in 2010 we had more exposure. Our resolve was tested by companies' refusal to join in with our enthusiasm on the potential rise of data revenue but history now tells a different story. Perhaps it is helpful, as a glimpse into the future, to look at the US experience given they are now at 50% penetration of smartphones. AT&T say year to date some 75% of revenue has come from data which is growing at 18% annualized and has tripled since 2007 from US$ 7 billion to US$22 billion. The last quarter was the 11th in a row that ARPU rose and ARPU is now US$ 64 for a typical post paid subscriber, a clear US$7 more than their nearest competitor and up 1.4% yoy. Furthermore, they have found that over 50% of smartphone users take the most expensive package and that the ARPU of a smartphone is nearly 2x that of other devices.

Given penetration of smartphones is just taking off in emerging countries, although the overall numbers will be lower due to affordability, the outlook is no less rosy. Capital expenditure on the infrastructure is peaking, subsidies will be lower as the cheaper phones will be favoured, and we already know Asian mobile users are enthusiastic consumers of local data services, so the mobile telecoms should be in for a good three years. Early data supports this as users in China moving to 3G typically spend another 20%. Likewise data available in the past week in Thailand also suggests a 36% higher ARPU when customers upgrade to 3G.

The emerging market mobile sector should do well for at least another 12 months, especially as we consider this to be the least cyclical area of consumption, bordering on 'necessity' in the consumer priority list. Our favorite companies are those operating in markets where smartphone penetration is still very low (well below 10%) such as the Philippines, China and Indonesia. These countries will benefit the most from the cheap smartphone theme and to date have seen very little uplift from data packages. Furthermore **PLDT** and **Globe Telecom** in the Philippines will in future operate in a duopoly as PLDT has just acquired the number 3 player. Both stocks trade at around 11x 2012 earnings and yield 9% and 7.6% respectively.

Local Brands – Indian jewelry

We have about 8% of the portfolio in local 'brands'. These companies tend to be stand-out, home-grown product franchises, such as Korean kitchen storage company **Lock and Lock**, Indian cooking appliance top brand **TTK Prestige** or Chinese laptop and handset maker **Lenovo**. History shows that franchises which are attractively valued are very defensive in volatile times.

One area where we think there is an additional layer of defensiveness is the Indian jewelry market. The Indian jewelry market comprises 90% independent makers with only a tiny handful of branded jewelry shops, the largest of which, by some margin, is **Titan Industries** which has about a 5% national market share. The Indian jewelry market as a whole has been growing at 6% per annum whereas the organised/branded national jewelry market has been growing at 15% per annum. We think this is unlikely to change in the near future as there is some way to go before the branded jewelry chains dominate and run out of growth space. In addition, the organized Indian jewelry market is helped by an increasing awareness of brand advantages, viewed in terms of quality assurance, money back guarantees and convenience. In addition, **Titan** has been offering saving schemes to its customers who put in monthly amounts towards buying an item. As well as engendering brand loyalty it has also been the case that customers spend more than their savings after the 11 month period is up.

Titan will see earnings rise about 45% in the coming year and will continue to see strong growth thereafter as it takes market share away from the un-branded sector. It has ROE of 50% and margins are rising thanks to product mix changes and the introduction of watches to its sales mix.

China Infrastructure

In the current environment there is much to be said for stable businesses whose revenues are unlikely to fluctuate too much one way or another, where the assets are valuable and, arguably, not replicable and where the vast majority of earnings are paid out to shareholders.

One area where such companies can currently be found cheaply is China. MSCI China is currently trading at a 10% discount to its 08/09 Price/Book low and this seems to be a fertile ground for such opportunities.

For example, **Jiangsu Expressway** now trades on a dividend yield of 8.5%, having grown dividends at a CAGR of 18% since listing 15 years ago. It would seem unlikely that traffic growth would be negative for any period of time in China, even if the country entered a sharp recession and therefore, that yield is relatively secure, even in dire economic circumstances. Likewise, **Hutchison Ports** is growing throughput at a steady single digit rate but has seen steady market share improvements and advantages from moving billing over to the RMB. It trades on 0.5% Price/Book and has a dividend yield of 9.2%.

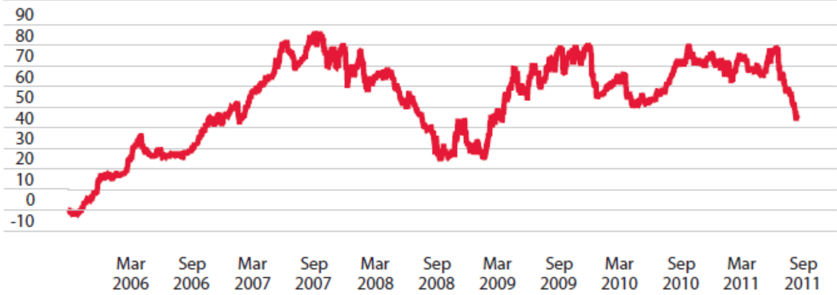
PORTFOLIO PERFORMANCE

Performance Summary (%)
Periods ending 30.09.2011

	USD	GBP	SGD
1 Month	-8.24	-8.29	8.49
3 Months	-15.72	-15.80	-15.71
Year to Date	-16.69	-18.15	-16.55
Since Launch+	44.43	13.69	-19.62
2010	-2.66	-3.00	-3.70
2009	26.59	23.20	-
2008	-20.84	-17.70	-
2007	21.88	21.69	-
2006	33.94	13.89	-
2005	8.86	-	-
Annualised 5 years	2.46	2.51	-
Annualised 3 years	1.44	1.14	-
Annualised Since Inception	6.34	2.49	-12.01

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
2011	-2.27	-0.70	1.19	1.23	-0.86	0.30	4.32	-11.95	-8.24			
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

Source: Bloomberg

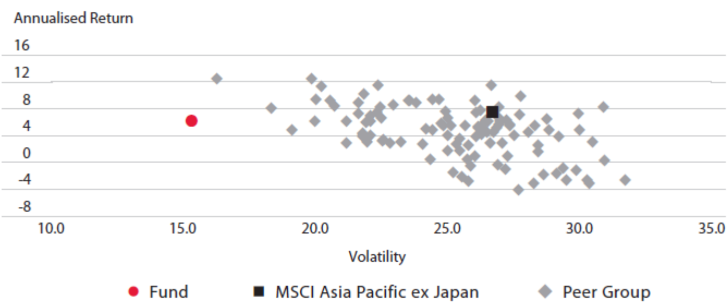
RISK ANALYSIS

Risk Metrics

	Fund
Beta	0.57
Alpha (%)	1.6
Sharpe Ratio	0.41
Volatility (%)	15.3
% of the portfolio –which could be sold in 2 business days	90.4%

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 30.09.11.

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

KT&G Corp	4.7
China Mobile	4.0
Advance Info Services	3.3
Television Broadcasts Ltd	3.3
Celltrion Inc	3.3
Total Number of Holdings	23

Portfolio Financial Ratios*

Price Earnings Ratio	16.9x
Predicted Price/Earnings Ratio	24.5
Predicted Return on Equity (%)	20.4

*Fiscal year periods

Futures (%)

Hang Seng Index Futures (Oct 2011)	-5.9
KOSPI2 Index Futures (Dec 2011)	-15.1
MSCI Taiwan Index (Oct 2011)	-4.0
SET50 Futures (Dec 2011)	-2.8
SGX S&P CNX NIFTY (Oct 2011)	-1.2

Thematic Breakdown (%)

Cash	34.7
Domestic Consumption/Services	13.8
Telecoms	13.1
ASEAN Linkage/Domestic growth	13.0
Uranium/Gold	7.7
Healthcare	6.4
Tablet/Smartphones	6.3
Internet	3.2
Power	1.8

Geographical Breakdown (%)

Cash	34.7
Korea	19.8
Hong Kong/China	11.3
Thailand	8.2
Taiwan	7.0
India	6.8
Malaysia	6.5
Australia	5.7

All data as at 30.09.11. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size (US)	137.7m
Launch Date	7 October 2005
Fund Structure	UCITS III
Domicile	Dublin
Currencies	USD (base), GDP, SGD

Dealing

Dealing Line	+353 1 4367 200
Administrator	Citi Hedge Fund Services (Dublin)
Dealing Frequency	Weekly, Friday
Min. Initial Subscription	USD 100,000
Min. Subsequent Subscription	USD 10,000
Subscription Notice	2 business days
Redemption Notice	2 business days

Share Class Details

Codes

Class 1			SEDOL	ISIN	NAV*
A USD	Unhedged	Non Distributing	B0MDR72	IE00B0M9LK15	144.43
B USD	Unhedged	Distributing	B0M9LL2	IE00B0M9LL22	144.49
C GBP	Hedged	Distributing	B18RM25	IE00B18RM256	78.50
D SGD	Hedged	Distributing	B3LYLK8	IE00B3LYLK86	200.22

Performance fee based on individual investors' holding.*Month End 30.09.2011

N USD	Unhedged	Non Distributing	B3LP510	IE00B3LP5101	144.43
O USD	Unhedged	Distributing	B3M40N3	IE00B3M40N30	144.49
P GBP	Hedged	Distributing	B3MWDD8	IE00B3MWDD86	78.32
Q SGD	Hedged	Distributing	B3M3Z35	IE00B3M3Z357	215.52

Performance fee based on fund performance as a whole.*Month End 30.09.2011

Management Fees

Annual Management Fee
1.5% p.a Paid monthly in arrears
Performance Fee
10% of NAV appreciation conditional on a 6% hurdle

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