PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asian Smaller Companies Fund

Quarterly Investment Report
31 March 2017

FOR PROFESSIONAL INVESTORS ONLY

1Q17 PASCF Quarterly

In the first quarter of 2017 the Prusik Asian Smaller Companies Fund saw a rise of 11.19% versus the index rise of 12.8%. Stock markets were strong across the board, led by India and China. During the quarter we saw increasing evidence of improving economies with macro-economic data widely picking up. This was mostly reflected in the strong outperformance of cyclicals versus growth or defensive stocks, especially in North Asia. This is partly being driven by the fact that ROEs for cyclicals have been rising whilst their price to book ratios remain low relative to growth and defensive stocks. In ASEAN this valuation gap combined with cyclical companies' ROE improvement, is still wide enough to drive another quarter, at least, of outperformance from this segment.

For the fund this meant a quarter of mild underperformance but we did see some very good moves from some of our themes, especially local brands, Vietnam and communication tech.

No element of the portfolio was a serious detractor in terms of performance during the quarter but geographically China, Malaysia and the Philippines contributed below index returns. Vietnam, however, thanks to good stock selection, was amongst the top two contributing areas for the fund, despite the Vietnamese index lagging the region this quarter. As we wrote last quarter, we remain very positive about Vietnam and expect that, when the cyclical catch up is complete, we will see the overall relative performance of Vietnam recover again.

Below is a theme by theme look at performance attribution this quarter and some of the key changes in each theme.

<u>Outperforming Themes in 1Q17</u>

Local Brands: 25.3% Average Weighting in 1Q17

- Our local brands were a very positive contributor, generating a 14.5% return.
- This was led by Philippine convenience store, **Philippines 7-11**, and Indian coffee brand/wholesaler, **CCL Products**.
- Indian home appliance brands, **Crompton Greaves** and **Bajaj Electricals**, were added to the fund and did well.

Communication Tech: 7.8% Average Weighting in 1Q17

- Our communication tech theme saw strong returns of 18.3% in 1Q17.
- All holdings generated positive returns, led by China smartphone casing company, **Tongda**.
- Singapore sensor maker, **Innovalues**, was delisted post the acquisition process by private equity firm, Northstar, being completed.

Leisure & Tourism: 5.6% Average Weighting in 1Q17

- Our leisure and tourism theme saw a 18.4% return in 1Q17.
- Long term holding in the Indian cinema sector, **PVR**, responded well to good results.

Vietnam: 22.4% Average Weighting in 1Q17

- Vietnam theme returned 13.3% and was the second biggest contributor to NAV.
- Property construction company, **Hoa Binh**, saw stellar returns on strong orders and index inclusion.

<u>**Underperforming Themes in 1Q17**</u>

Financialisation: 7.6% Average Weighting in 2016

- Our financialisation theme saw a return of 5.2% in 1Q17, lower than the index.
- Exposures to Indonesian banks (**Danamon** + **Negara**), plus Indian micro finance **(Mahindra & Mahindra Financial Services**) were added in the quarter.
- **Danamon** saw very strong returns in the quarter; Shariah insurance company, **Takaful**, was flat.

Ecommerce: 0.3% Average Weighting in 1Q17

- A final tranche of Taiwan's Ebay, **PCHome Online**, was sold in the quarter.
- The holding size was negligible, as was the positive return.
- The fund currently has no exposure to this theme.

Infrastructure: 15.1% Average Weighting in 1Q17

- Our infrastructure theme returned 9.1% in 1Q17, less than the index.
- 4 out of 7 holdings in the theme saw weak to muted returns, including our Pakistan + Philippine cement stocks and our Hainan Island (China) airport operator.
- Strong returns were seen in **IRB** Infrastructure, our Indian toll roads operator and **Huaku**, our Taiwanese property company.

Outlook

In April net foreign buying accelerated to a level not seen on more than 8 days in the past 3 years and, as highlighted by Credit Suisse, we are seeing the best ROE fundamentals for Asia ex-Japan that we have seen for 6 years. This buying has also been supported by clearly improving macro-economic data.

We can see a number of positive factors that could combine to make Asia remain a worthwhile destination for investors and propel share prices further. These include the rise in ROE, continuing reforms, a really quite considerable increase in earnings expectations across the region with guidance from companies during results season especially encouraging and a general underweight exposure for global funds in Asia.

Portfolio Positioning

We now have over 80% of the fund invested across the countries with the best and most youthful demographic, namely India, Indonesia, the Philippines, Vietnam and Pakistan, as well as Sri Lanka where the demographics are slightly less favourable but where income per capita remains well below the Asia average, collectively known to us as 'VIIPS'. We expect to retain the 20% still invested elsewhere for the time being as the companies we like are continuing to do well and have not yet risen to our valuation targets. However, we would nevertheless, expect to invest the remaining 20% of the fund in the VIIPS countries as both the opportunity and valuations allow.

Index Changes

In May Pakistan will move from the MSCI Frontier Index into the Emerging Markets Index, leaving scope for Vietnam to become a larger part of Frontier portfolios and elevating Pakistan to a universe which has great potential for inflows. There is much optimism in Vietnam that this market will also be moved to the Emerging Markets Index before long. The practical process, however, takes two years from the time the MSCI announces a change, so the earliest that Vietnam could enter the Emerging Markets Index universe is 2019 if we assume an announcement is forthcoming this summer. The best gains, however, are often made during this lead-up period.

The key question is whether Vietnam is likely to be included immediately. Vietnam's determination to achieve Emerging Market status, in tandem with some fairly intensive ongoing lobbying of MSCI, could enable the first hurdle to be vaulted this June in spite of the fact that Vietnam's market is not currently sufficiently open for it to qualify for inclusion under MSCI rules. We expect there will be conditions attached requiring REAL improvements in foreign access to be made within a year, to enable Vietnam to move to the next stage of the process. If MSCI's conditions are not met within a year we fully expect Vietnam to be removed from the watch list and sent to the back of the queue with a three to four year delay as the consequence. The large pools of international institutional cash currently looking for a way in-to the market are not going to wait forever, so it is time to line up the ducks if Vietnam is serious in its ambitions.

In the short term, this presents some uncertainty for Vietnam but we believe there is little premium in share prices for Vietnam’s potential inclusion in the index, much as there was little premium relating to the now abandoned TPP trade agreement.

Mobile World Group - Vietnam

One of our larger positions, at 5% of the fund, is **Mobile World Group**. **Mobile World Group** is the Carphone Warehouse of Vietnam as well as having a thriving consumer electronics business and the largest domestically managed e-commerce site. More recently the company announced it was launching a convenience store-style branded grocery chain, called BachhoaXANH, which looks to have been a success on initial tests. This will be rolled out over the coming 3 years on a scale which could mean this new business will contribute up to 30% of **Mobile World’s** net profit by 2021 and help drive a profit cagr of 30% during the period. In the existing businesses same store sales are growing fast and the company delivered 1Q17 year on year revenue growth of 62%. **Mobile World Group** is one of the best managed, pure consumer companies in Vietnam and, as such, is highly sought after by foreigners but the share register is full. Interestingly, due to some rather arcane rules set by government on store sizes, **Mobile World Group** is not a candidate for increased foreign ownership limits at present.

Very few shares trade as a result, although the last block of foreign registered stock changed hands at over a 20% premium to the current price (which on our holding would represent about 1% of the fund NAV). Recently, **Mobile World Group** announced its dividend news. The company will pay a VND 1,500 cash dividend plus a 50% stock dividend. We expect **Mobile World Group** to continue to perform well given that it is currently valued by the market at just 12.8x 2017 P/E.

India and the Aadhaar Biometric System – Turning Fish Soup into an Aquarium

As the saying goes it is easier to turn an aquarium into fish soup than to turn fish soup into an aquarium. In past quarterlies we have written about India and the challenges it faces creating order out of seeming chaos. Now it seems that India is on the cusp of something that truly has the potential to enable a transformation which could be momentous, making the economy a super-efficient and technology-driven force. The remodelling could be as important to India as building the railways were to the UK or the benefits of the liberalisation of China’s economy in the 1980s.

“Aadhaar” is a Sanskrit word meaning support or basis and is the name given to a system which has given a 12-digit unique identity number to all Indian residents based on their biometric and demographic data. The system was started in 2009 and the data is now collected by the Unique Identification Authority of India (UIDAI), a statutory authority established on 12 July 2016 by the Government of India. Today it is the world’s largest biometric ID system with now over 1.1 billion enrolled members or an amazing 99% of the Indian population (which, by the way, is 17% of the world’s population). It contains basic demographic data and biometric information including a photograph, 10 fingerprints and 2 iris scans, which are stored in a centralised database. Aadhaar has recently also been described as the most sophisticated ID programme in the world and indeed its technological capability puts India at the cutting edge.

The Benefits of Aadhaar

Firstly, India allowed the creation of eleven payment banks for those who registered in Aadhaar, which can hold money but which cannot lend. To motivate people to open accounts additional benefits were offered such as some social welfare offers and free life insurance. This has since generated 270 million new accounts holding over $10 billion of deposits. All you need to open an account is your Aadhaar number.

Secondly, we expect Aadhaar to catalyse a rapid rise in use of smartphones. Currently only 28% of the population in India have a smartphone but the growth of smartphones is around 70% per year. In July 2016 the UIDAI called for Google, Microsoft, Samsung and all key makers of Android devices to develop Aadhaar compliant devices. No wonder Tim Cook has said that India is a priority market for Apple from here.

Thirdly, in December last year India launched a digital payments platform, UPI (Unified Payments Interface), which is effectively an app that allows any bank account access to the payment system, so money can be transferred and instant payments made using QR codes. In fact, payments can now even be made without a mobile phone, all that’s needed are fingerprints and an Aadhaar number! Already the system works, including on the 2G network, which brings the same efficiencies to rural areas where 60% of the workforce still reside and 17% of GDP is created.

Finally, there is another innovation called the India Stack which looks like a blockchain-type digital ledger and which will allow all digital records (medical, financial etc) to be stored using the Aadhaar biometric ID system. This effectively creates an electronic “know your customer” and will allow for instant registration for any transaction from buying a property to asking for a loan to registering at the doctors. The India Stack is already the largest open API in the world and will allow for all kinds of fintech opportunities and services to flourish.

Eventually the India Stack will work in real-time, allowing for almost instant approval for items such as loans. It also brings the country to a place where you can participate in any services, anywhere in the country, with a retina or finger scan and a number. The country can now finally give up its paper ledgers for a paperless world of digital records, documents can be more secure and, most fascinatingly, the economy can become cashless. It is also massively good news for tax collection (and hence infrastructure spending) and makes corruption far more difficult.

Indeed, this final point is likely reinforced by the cash ban last year. It brings everybody into the system, recapitalises the banking sector, creates more income for the government to spend and likely creates an almost frictionless world in which areas such as telecoms, financial services and online services can boom.

The India Sensex reached a new all-time high in local currency terms in the past week. It’s a struggle to justify the lofty valuations; however, we will be adding to our exposure here on any weakness and are visiting India in a few weeks’ time.

Technology Hardware and AI

It is surely an anomaly that, at a time where general investment in new capacity globally is below levels seen before the Global Financial Crisis, there is a boom in technology hardware. As we have written in the past, the key driver of this is the explosion in AI related demand, which is touching many areas from graphics processors, analogue, passive components and MLCCs. What is more unusual is that it looks as though this boom will last far longer and be much bigger than anyone has currently anticipated. Indeed, even Amazon, the world’s leading supplier of cloud capacity and owner of the world’s most advanced IT systems and thus in the best position to forecast growth, has underestimated this demand. Micron’s results also underlined this. Demand for its cloud customer business was up 30% quarter on quarter, which is a huge number. Samsung’s recent results also showed a similar pattern with demand for semiconductors stronger than anticipated.

At the heart of this explosion is the focus on vision related technologies. This requires more memory and more computing power than any other activity, just as it requires bigger brains in the animal world. It is also the area of AI which is behind much of the technology in demand today, such as self-driving cars, drones, robots and many of the most popular applications in social networking. Although we tend to consider that rational logic is key to our development, the ability to ‘see’ increases the ability to solve complex problems (such as driving), and that is why it is at the forefront of tech spending today. Sony, for example, which controls 35% of the global sensor market, has just announced that it will be producing new CMOS sensors that will contain memory and machine learning algorithms.

Another area at the heart of such a ride in demand for hardware is the Internet of Things (IoT).

Advanced Ceramic X Corp

Advanced Ceramic is one of the companies which we have elected to keep in the portfolio for now, despite it being listed in Taiwan. It is probably one of the the best proxies for the IoT boom as it designs and manufactures LTCC filters which are used in all wirelessly connected devices. Crucially, **Advanced Ceramic** has a process technology which gives it a leading global position here, whilst in 5G, LTCC filters may also be the only technology that can support the 10GHz frequency. This places **Advanced Ceramic** as one of just three companies globally (alongside Murata and TDK of Japan) who can supply this technology in the 5G era. The company is, therefore, likely to see rising ASPs and better margins as the product mix improves towards these areas. This has already driven the gross profit margin to 62% and net profit margin to 42%. The company has zero debt, is very cash generative and is making an ROE of 29%. **Advanced Ceramic's** market capitalisation is US$670 million and it is trading on a dividend yield of 4.0%.

Pakistan Investment Trip, April 2017 – Anna Gallagher

A Road Less Travelled

Ten years ago when we were living in China we had the opportunity to travel to one of China's remotest provinces, Xinjiang. This trip led us to Kashgar and up along the Karakoram Highway, allegedly the world's highest paved road, to Tashkurgan, the last town in China before the border crossing into Pakistan. This route forms part of the old Silk Road. In Tashkurgan we sat on the edge of a crumbling fort and looked across a valley, supposedly into Pakistan itself. At that time, this was about as close to Pakistan that we felt comfortable getting.

Source: Prusik

Anti-clockwise from Above: Map showing Kashgar in China and the route to Tashkurgan on the border with Pakistan. 2007 view of the Karakoram Highway in Xinjiang, China. 2007 view of Pakistan from a fort in Tashkurgan, Xinjiang.

Source: Prusik

Fast forward ten years and this very same Karakoram Highway lies at the heart of Pakistan's gradual transformation. The Chinese-Pakistan Economic Corridor (CPEC), the reason for China's pledged c.$50 billion investment into Pakistan, comprises two main routes which pass from Xinjiang's Karakoram Highway down along the east side of Pakistan to Port Qasim and the west side of Pakistan to Gwadar Port, where the latter is able to reduce transport times for Chinese goods by a third versus the usual Malacca Straights route. This time there was no stopping at the border. We spent 6 days in Pakistan, travelling to the country's industrial heartland, Karachi, the more commercial, Lahore, and, finally, Pakistan's capital, Islamabad. We met with 12 companies as well as the International Monetary Fund, Asia Development Bank, the State Bank of Pakistan and the Pakistan Stock Exchange.

Statistics Versus Reality

Gather any basic statistics on Pakistan and they will clearly tell you that the opportunity there is huge. To see and experience this first hand though is really something else. We know that new car sales in Pakistan are just 250K units per year but to see donkey pulled carts sat alongside you at the traffic lights and swathes of relatively uncongested roads at rush hour drives that reality home harder; we know that the country suffers from a power deficit but experiencing brownouts in our hotel and getting stuck in a lift because of a power cut paint a more powerful picture; we know that cement consumption per capita is amongst the lowest globally but to see the damaged buildings built from mud bricks and read stories of families still living in caves in the local newspapers gives those numbers a very tangible context. While it was possible to see plenty of signs of wealth during our time there too - Malibu / Sandbank style homes in the luxury quarter of Karachi, lavish outfits at a wedding in our hotel and references to top class Western educations – overall, when we touched down in Jakarta to continue the next leg of our trip, we felt that we might as well have arrived in New York.

Source: Prusik

While some roads were very congested, it was not uncommon to see donkeys on the road in Karachi and Lahore and there were a number of the times when the roads in Karachi felt quite empty.

Source: Prusik

Probably the best wire ‘boggle’ we have ever seen to the left. On the right is the generator which kicked in outside the Pakistan Stock Exchange when we got stuck in the lift due to a power cut.

Pakistan, the Story So Far

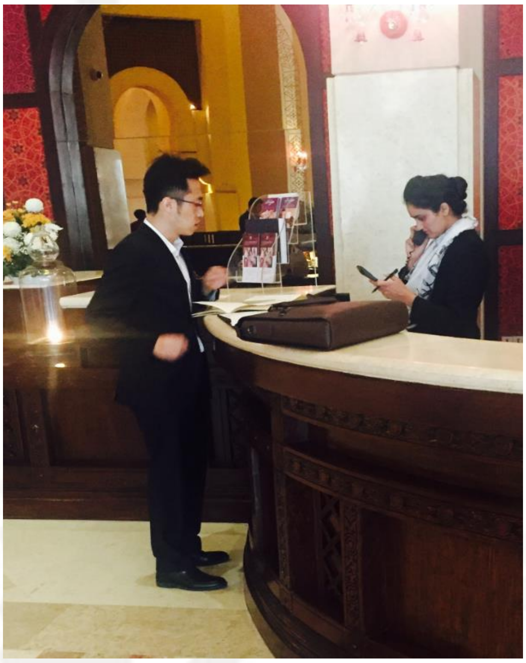
Pakistan’s momentous rise, both economically and in stock market terms, in recent years is well documented. In 2013 when Pakistan found itself in crisis territory once again with a budget deficit of 7.5%, dwindling reserves, high single-digit inflation, GDP growth well below the level needed to absorb the millions entering the work force each year and record power outages, Pakistan entered a three-year IMF programme and received a loan of $6.7 billion. By the end of 2016, after 3 years’ continual assessment relative to 47 structural benchmarks and the enactment of 18 laws by Parliament under the IMF programme, Pakistan reached a far more stable footing. GDP growth recovered to 4.7%, inflation fell to 2.8%, the budget deficit fell by 3.9 percentage points of GDP to 4.6% and gross international reserves grew threefold. Power shortages were reduced and political stability and national security saw marked improvements. While it is worth noting that some of this success stems from factors outside the IMF’s control such as falling oil prices and rapid growth in remittances, the IMF’s involvement nevertheless lent valuable creditability to the process. None of this has gone unobserved by the investment community: from the end of 2013 to the end of 2016 the Pakistan stock market returned 101.7% in local currency terms.

CPEC and the Future of Pakistan

So how should we view Pakistan’s prospects now? In short, we believe Pakistan stands at a very critical juncture. While great progress has been made, political stability and the success of CPEC, in particular the investments in Pakistan’s power industry, which should see the power deficit eradicated, are crucial to this progress continuing. While there has been significant progress in making Pakistan's economy more robust, public debt to GDP is still high at 66% and exports as a percentage of GDP are low at around 10% versus Asia's average of 40%. Both these characteristics mean Pakistan remains vulnerable as its levers for self-help at times of crisis are relatively weak.

Crucially, our trip findings indicate that the CPEC programme is progressing well. We touched on CPEC in our last quarterly but, as a brief reminder, the programme should see 10K MW of power capacity added, over 1,000km of new roads and 2,000km of new railways built, 820km of fibre optic cables rolled out, new airports added, multiple industrial zones created and more. While we were anticipating some signs of CPEC in action on our trip, we were not prepared for quite how frequently we would encounter those signs or the gravitas which often characterised their context.

During our first evening in Karachi we turned on the TV to find an hour-long documentary heralding the benefits of CPEC. In our hotels we saw Chinese businessmen and women on a daily basis, walking through the lobbies and eating at breakfast. We also encountered them at the airports and on our flights. We saw signs for desks dedicated to providing security assistance for the Chinese and an investor on our trip who is Pakistani reported that her friends at local universities have seen Chinese people signing up for Arabic courses. Perhaps the most powerful symbol of all though came when driving through the government quarter in Islamabad: the fences surrounding Parliament were lined with flags – each Pakistani flag alternating with a Chinese one.



Source: Prusik

Chinese businessmen were a common sight on our flights and in our hotels.

Source: Prusik

Pakistani and Chinese flags lined the fences around the government buildings in Islamabad.

In practical terms, there are also clear signs of progress. In the power sector two 660 MW coal fired power plants have been built in Sahiwal, Punjab, and are due to start commercial operation in July, 200 MW of wind power projects are already operating, work has started on two 660 MW coal-fired power plants at Port Qasim and a further four 330 MW power plants, which are part of the Engro Thar project, have also commenced. This is just the beginning. As touched on above, over 10K MW of new power is due to come online under CPEC in the next 1-2 years. Elsewhere, the construction of the Peshwar to Karachi motorway has started and of the 820km of fibre optic cable, which is due to be rolled out in the north to boost 3G and 4G connectivity, 220km has already been completed.

Although the term CPEC suggests that the relationship developing between China and Pakistan is purely an economical one, our trip led us to believe that this relationship is also very important to both sides from a strategic and political point of view as well. The survival of the Chinese Communist Party depends largely on its ability to continue to deliver economic growth for the country. Opening up new markets for China in the Middle East and Central Asia will help China secure GDP growth over the long term and in turn perpetuate the status quo for China’s ruling elite. Equally, should CPEC deliver its promised economic benefits for Pakistan, then rising incomes and more employment opportunities could provide Pakistan with a very real answer to terrorism and its wider security concerns. We believe that the importance of CPEC to both parties from a strategic and political perspective, as well as an economic one, increases the probability of CPEC’s success.

At the corporate level, the senior management teams we met with were also very positive on CPEC. While they acknowledged that some of the easy to imagine benefits of CPEC are unlikely to bear fruit – for example, for some CPEC projects Chinese workers and heavy duty equipment are being brought to Pakistan rather than being sourced locally, and key materials such as steel are being allowed to circumvent import tariffs in specified CPEC zones – there was one clear, key potential positive which everyone agreed on. Out of the c.$50 billion to be invested by the Chinese, c.$35 billion will be invested in the power sector. If Pakistan is able to address its severe power shortages this is likely to be truly transformational for the country. Not only would this reduce Pakistan's reliance on oil imports, which recently cost the country as much as $14.8 billion in FY14, equivalent to 6.1% of GDP, but more importantly this would open up the opportunity for wide scale industrialisation, in turn driving productivity growth, job creation, the export industry and more.

Pakistan's current power requirements are in the region of 22K MW per annum, while supply currently hovers around 16-18K MW. As mentioned, CPEC's key objective is to increase the capacity of the power industry by at least 10K MW. With projects already underway, the Pakistan government has announced that the power deficit in Pakistan will be narrowed significantly, or even eradicated altogether, as soon as 2018 or 2019. While power outages have seen marked reductions in the last 3 years to just one hour a day for industry and 5 hours per day for urban areas, power shortages remain one of Pakistan's greatest weaknesses. In the words of the CFO of Habib Bank "half of our industry is shut down because of no power, no one is willing to invest". While there may be some exaggeration here, it certainly makes no sense that Pakistan has the sixth largest coal reserves globally but derives none of its power from coal fired power plants. In contrast, China is the largest consumer of coal fired power globally, both in absolute and percentage terms. As such, the Chinese are very well positioned to have a radical impact on Pakistan's power industry and in turn Pakistan's economic development and growth.

While the potential benefits of CPEC for both sides are clear, what about the potential costs? Indeed, we have seen China conduct large scale infrastructure investment programmes in recent years in parts of Africa, Sri Lanka and Indonesia with little benefit and arguably much sacrifice for the host countries, so what is the risk that Pakistan suffers a similar fate?

We believe that the key risk for the CPEC programme is the burden the repayments could place on Pakistan's balance of payments. Repayments are due to start in 2021 with the annual bill totalling $1-1.5 billion for the most part with peak payments reaching c.$4 billion. However, addressing Pakistan's power deficit in the interim and in turn raising GDP due to the kick start to industry and exports, plus the lower energy import bill, should make these repayments affordable. Equally, the potential challenge of repayments is an element of the CPEC programme which so far we have found less widely acknowledged and which we believe would be prudent to bear in mind.

As we have endeavoured to set out above we believe that the probability of a successful outcome for Pakistan from CPEC is high. There is a plethora of symbols as well as verifiable construction which indicate that CPEC is already progressing well and, while the direct benefits of CPEC such as employment opportunities and increased demand for materials such as steel might at times be diluted, the key benefit of CPEC to Pakistan will be solving the country's power deficit. Moreover, China's strategic and political objectives under CPEC of opening up the Middle East and Central Asia as new markets to help support GDP growth and in turn secure the continuation of the Communist Party are very long term in nature, thus decreasing the chance that this is a 'smash and grab' style policy. Perhaps the most tangible evidence for China's long term commitment to Pakistan is the recent purchase by a consortium of Chinese investors, including the Shenzhen and Shanghai stock exchanges, of a 30% stake in the Pakistan Stock Exchange, alongside 4 out of 16 seats on the Board as well as the COO and other key IT positions for the Chinese. Finally, the CPEC programme also has the potential to be widened with Iran's interest in joining already having been mooted.

Companies

We met with companies in the auto, consumer, media, oil and gas, cement, healthcare, financial, steel and chemical sectors, giving us a very broad view of the economy from a true bottom-up perspective. The majority of companies we met with were reporting strong growth, if not record growth, and ambitious long term expansion plans; the only exceptions were those being hampered by competition or a lack of spare capacity. With regard to the Prusik Asian Smaller Companies Fund we met with three of our holdings, **Pak Elektron**, **Indus Motor** and **DG Khan Cement**.

Pak Elektron

Pak Elektron is one of our most compelling investments in Pakistan for the fund. The business is focused on two main areas – home appliances where refrigerators and deep freezers account for around 90% of sales – and power equipment including transformers, switchgears and energy meters. The two business units might not be natural bedfellows but what they both have in common is that their end markets are in something of a sweet spot in Pakistan at present.

The urbanisation rate in Pakistan is low at 40% but rising and wages are increasing. This, plus Pakistan's young population, is helping drive demand for home appliances. In the case of refrigerators there is still a large structural growth opportunity ahead with penetration at just 43% compared to the global average of 85%. **Pak Elektron**, as the second largest player in refrigerators with a 26% market share, is targeting growth ahead of the market as its key competitor, Dawlance, was recently taken over by Arcelik of Turkey and has allegedly taken its eye off the ball during the integration process. **Pak's** increased aggressiveness was evident in its recent results where 1Q17 sales grew by 36% year on year. Management are now turning their attention to washing machines and aircon. The former will be a whole new category for **Pak**, while the latter is growing rapidly from a low base with the company increasing its market share in aircon from 2% to 5% in 2016.

The industry background for **Pak's** power business is also extremely favourable. As discussed earlier, plans are afoot to increase power supply in Pakistan by 10K MW. In relation to this it is estimated that 15.5K MWA of transmission will be added in the next 2 years, in addition to 3.5K km of transmission lines. We expect **Pak** to be be a clear beneficiary of this.

Pak Elektron has a market capitalisation of US$544 million and is trading on 12.4x 2017 P/E with a mid to high teens ROE. We expect **Pak's** ROE to improve over time as the mix of higher margin home appliance sales increases for the business.

DG Khan Cement

DG Khan Cement is another stock we are very positive on within the Prusik Asian Smaller Companies Fund's Pakistan exposure. Our meeting with management gave us further grounds for our positive stance. Firstly, the CFO outlined how CPEC is creating incremental demand for the already buoyant cement sector in Pakistan, as well as touching on some of the key non-CPEC drivers. In 2017 management expect CPEC projects to increase volume demand for cement in Pakistan by 2-3%. In the years after that they expect incremental demand from CPEC to tick up to 3-5%. Indirectly, management believe the build-out of infrastructure under CPEC will lead to an increase in demand for new houses, a segment which currently accounts for around two thirds of cement demand in Pakistan. Indeed a sharp uptick in housing demand was one of the key reasons why **DG Khan** achieved mid-teens volume growth in 2016. This is something which we find particularly appealing as there is currently a huge shortage of property in Pakistan but no listed property companies of a significant size to invest in. Finally, we were pleased to learn that Bestway Cement has had its bid accepted for Dewan Cement, thus blocking Anhui Conch of China's bid. It was Anhui Conch's purchase of a small cement player in Indonesia some years ago that turned the then highly profitable cement industry in Indonesia into a blood bath. We are monitoring the industry closely to watch for whether history is going to repeat itself in Pakistan.

DG Khan Cement has a market capitalisation of US$1.0 billion and is trading on 8.2x EV / EBITDA and 10.3x June 2018 P/E. The company's mid-teen ROE is expected to improve when the company's new plant in the south comes on-line which is able to generate higher margins than its capacity in the north.

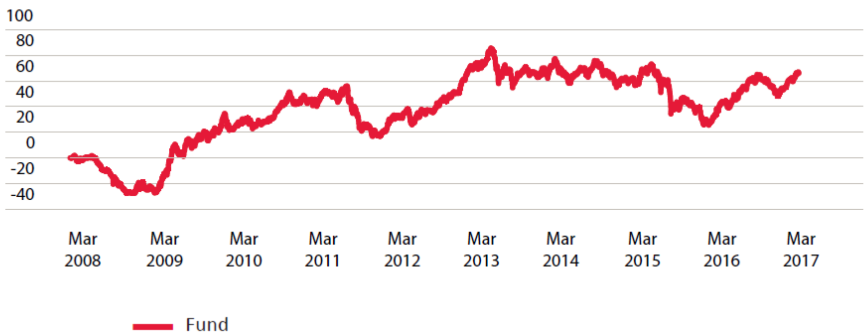
PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 31.03.2017

	USD	GBP	SGD
1 Month	2.74	2.54	2.65
3 Months	11.19	10.81	10.93
YTD	11.19	10.81	10.93
2016	7.14	7.32	7.06
2015	-12.78	-12.15	-12.21
2014	-3.49	-3.01	-3.43
2013	7.51	7.29	7.64
Since Launch+	65.84	75.16	22.16
Annualised 5 years	4.72	4.96	4.85
Annualised 3 years	-0.26	0.10	-0.13
Annualised Since Inception	5.69	6.41	2.82

Source: Morningstar
+ Launch date: A: 08.02.08, C: 25.03.08, D: 15.01.10

Fund Performance - Class A USD (%)



Source: Morningstar. Total return net of fees.

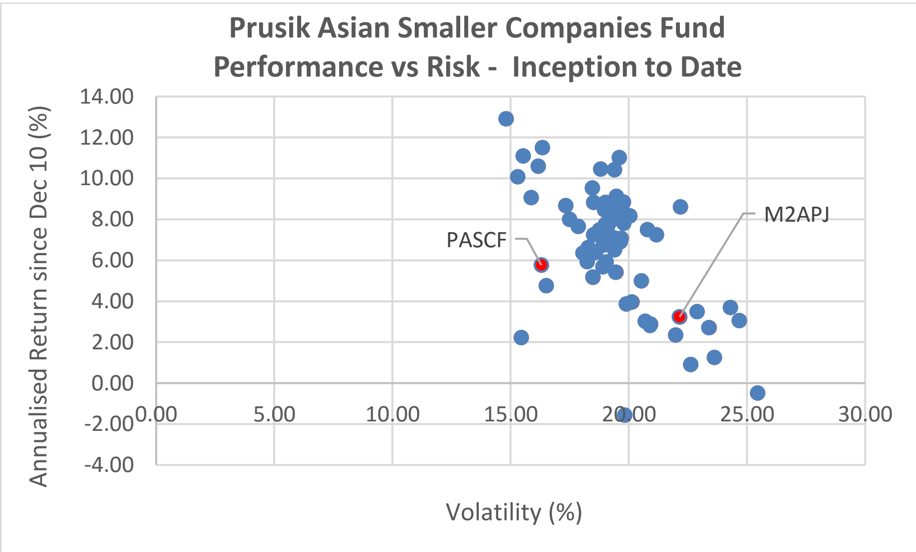
Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2017	3.51	4.55	2.74										11.19
2016	-6.98	-0.67	8.76	2.98	0.65	4.49	2.57	3.55	0.17	-1.10	-3.51	-3.04	7.14
2015	1.25	-0.11	-2.04	7.23	1.21	-5.33	-1.78	-11.48	-2.63	4.83	-2.71	-0.78	-12.78
2014	0.21	3.58	-2.62	-2.50	0.56	2.45	-1.39	2.86	0.32	-1.85	-1.76	-3.11	-3.49
2013	7.27	3.73	1.32	1.82	3.58	-9.40	0.10	-4.52	3.54	2.84	-1.44	-0.51	7.51
2012	5.05	7.75	-1.04	4.29	-5.53	3.11	2.27	-0.65	5.40	1.27	4.12	1.81	30.80
2011	-2.15	0.43	2.35	3.75	-0.57	-1.22	3.60	-11.67	-8.27	0.37	-5.50	-1.07	-19.28

RISK ANALYSIS

Risk Metrics	Fund
Beta	0.58
Alpha (%)	3.53
Sharpe Ratio	0.56
Volatility (%)	15.98
% of the portfolio –which could be sold in 2 business days	75.22

Source: Morningstar
Since Inception: A: 08.02.08



Source: Morningstar

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Philippine Seven Corporation	8.2
FPT Corporation	5.6
Mobile World Investment Corporation	5.0
Max's Group Inc	3.6
PVR Ltd	3.6
Total Number of Holdings	32

Portfolio Financial Ratios*

Predicted Price/Earnings Ratio	12.2x
Predicted Return on Equity (%)	24.3
Predicted Dividend Yield (%)	2.7

*Fiscal year periods

Thematic Breakdown (%)

Local Brands	40.3
Infrastructure	21.9
Communication Technology	10.5
Cash	9.1
Financialisation	8.2
Leisure/Tourism	6.5
Clean Energy	3.5

Geographical Breakdown (%)

Vietnam	21.6
India	17.6
Philippines	11.8
Pakistan	9.7
Cash	9.1
Korea	8.2
Taiwan	5.9
Sri Lanka	5.2
Indonesia	3.8
Singapore	2.6
Hong Kong/China	2.6
Malaysia	1.9

All data as at 31.03.17. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size (USD)	48.9m
Launch Date	8 February 2008
Fund Structure	UCITS III
Domicile	Dublin
Currencies	USD (base), GBP, SGD

Management Fees

Annual Management Fee
1.5% p.a Paid monthly in arrears

Performance Fee
All classes except Class U: Provided the fund achieves an overall increase of 6% a yearly performance fee of 10% of the total returns will be applied.
Class U: Provided the fund achieves an overall increase of 1.5% per quarter, a performance fee of 10% of the total return will be applied.

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			SEDOL	ISIN	Month end NAV
Class 1					
A USD	Unhedged	Non Distributing	B2PKN21	IE00B2PKN210	165.84
B USD	Unhedged	Distributing	B2PKN32	IE00B2PKN327	163.11
C GBP	Hedged	Distributing	B2PKN43	IE00B2PKN434	85.65
D SGD	Hedged	Distributing	B3M3HJ5	IE00B3M3HJ55	224.98
Performance fee based on individual investor's holding					
U GBP	Unhedged	Distributing	BBQ37T7	IE00BBQ37T77	117.23
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)7891 767 386
Email: mark.dwerryhouse@prusikim.com

Jack Barham
Tel: +44 (0)20 7297 6858
Fax: +44 (0)20 7493 1770
Email: jack.barham@prusikim.com

Prusik Investment Management LLP
6th Floor
15–16 Brook's Mews
London W1K 4DS

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