PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asian Smaller Companies Fund

Quarterly Investment Report

30 June 2017

FOR PROFESSIONAL INVESTORS ONLY

PASCF Quarterly June 2017

In the second quarter, the M2APJ index rose by 6.3% while the Prusik Asian Smaller Companies Fund rose by 4.1%. The top positive contributors from a country perspective were Vietnam and Sri Lanka, while from a stock perspective our last position in Korea, **Woory Industrial**, led the way. **Woory** has recently been sold as it reached our valuation target. On the negative side, India and the Philippines were less helpful with two of our worst performers, **D-Link** and **CCL Products**, being Indian stocks. That being said, we completed a trip to India in June, more of which below, and found the on the ground evidence so overwhelmingly positive that we have in fact added to our Indian portfolio on our return.

Below is a detailed look at the portfolio by theme during the second quarter.

Outperforming Themes in 2Q17

Local Brands: 38.2% average weighting in 2Q17

- Our local brands theme returned 9.6%. On an absolute basis, it contributed 185bps to NAV.
- Vietnamese mobile and consumer electronics giant, **Mobile World**, was a key contributor.
- Sri Lankan personal care + healthcare company, **Hemas**, re-rated post strong results.
- Indian mall player, **Phoenix Mills**, and fashion brand play, **Aditya Birla**, were added post our trip.
- Indonesian DIY retailer, **Ace Hardware**, and dairy brand, **Ultrajaya**, were also bought for the fund.
- Philippines casual dining operator, **Max's Group**, was sold as its execution problems continue.

Clean Energy: 3.7% average weighting in 2Q17

- Our clean energy returned 41.7%. On an absolute basis, it contributed 146bps to NAV.
- This was a single stock theme comprising **Woory Industrial**, a key aircon system supplier for Tesla.
- As mentioned, **Woory Industrial** has now been sold as the stock reached its valuation target.

Communication Technology: 10.9% average weighting in 2Q17

- Our communication technology theme returned 12.1% in 2Q17.
- Vietnam software and telecom company, **FPT**, led the way.
- We added to the theme via a new holding in Indonesian tower company, **Protelindo**.
- China smartphone casing maker, **Tongda**, sold due to insider selling and valuation target reached.

Underperforming Themes in 2Q17

Infrastructure: 21.1% average weighting in 2Q17

- Our infrastructure theme returned 2.0%, which was less than the index.
- Our infrastructure exposure in Vietnam – **REE**, **PC1**, **Hoa Sen** – all saw good returns.
- Weaker areas included infrastructure exposure in Pakistan as MSCI change led to outflows.
- Indian broadband infrastructure company, **D-Link**, detracted post weak results; now sold.
- Taiwan property developer, **Huaku**, was sold as it hit our valuation target. Strong profits booked.
- Indian PVC pipes brand, **Finolex**, now partnered with Buffet-owned, Lubrizol, was recently bought.

Leisure & Tourism: 6.2% average weighting in 2Q17

- Our leisure and tourism theme returned 0.7%, which was less than the index.
- Indian cinema operator, **PVR**, saw muted returns as GST did not boost margins as expected.
- Korean cinema operator, **CJ CGV**, was sold as its Turkish acquisition continues to hurt profits.

Financialisation: 12.4% average weighting in 2Q17

- Our financialisation theme returned 6.9%, which was roughly in-line with the index.
- Indonesian banks, Indian non-bank financials and Vietnam brokers performed strongly.
- Pakistan's **Habib Bank** fell as the MSCI upgrade led to outflows. Long term we remain positive.
- A new position in the Indian mortgage finance company, **Repco**, was added post our trip.

Demographic Growth and the Index.

Over the second quarter, we moved significantly towards being fully invested in the demographic growth markets. This has meant a little bit more turnover than normal and has taken us to a much higher weighting in India. It is also worth noting that the demographic growth markets, whilst offering some of the best growth opportunities in Asia and comprising a combined population of over 2 billion people, in total make up just 14.5% of the M2APJ index! Specifically, India has a 10.1% weighting in the index, followed by 2.8% for Indonesia, 1.4% for the Philippines, 17bps for Pakistan and zero weighting for Vietnam and Sri Lanka as both Vietnam and Sri Lanka are still classified as Frontier Markets. So, although we are still measuring the performance of the fund relative to M2APJ index, we are currently and will continue to be invested very differently to the index.

In order to enhance our investors' understanding of the fund's performance we will be providing the fund's performance by country versus each MSCI country index on a regular basis. The table below shows this data for the first half of 2017. As you can see, in the first half of 2017 we have outperformed in most markets by a significant margin and seen a small degree of underperformance in the Philippines and India.

	PASCF Weighting (%)	PASCF YTD Return (%)	Index YTD Return (%)	PASCF Relative Performance (%)
Sri Lanka	5.6	39.0	15.7	23.4
Vietnam	22.6	30.3	13.1	17.2
Indonesia	5.0	24.1	17.1	7.0
India	15.6	20.5	20.8	-0.3
Philippines	10.1	12.9	13.8	-0.9
Pakistan	10.2	7.6	-4.0	11.6

Source: Bloomberg (30th Dec 2016 to 30th June 2017; Indonesia 30th Dec 2016 to 22nd June 2017, Philippines 3rd Jan 2017 to 30th June 2017 due to markets closed for national holidays)

The underperformance in the Philippines and India came in the second quarter.

In the Philippines the underperformance in the second quarter was on account of just one stock, **Max's Group**, a leading casual dining franchise operator which has been unable to overcome operational challenges. **Max's Group** has now been sold. We remain very positive on our remaining holding in the Philippines, **Philippine Seven**, which is the dominant convenience store operator in the country. **Philippine Seven** operates 2,000 stores in a country of 101 million people, whilst Thailand's convenience store market leader, CP All, operates 9,400 stores in a country of 67 million people.

In India our broadband infrastructure investment, **D-Link**, posted disappointing results during the second quarter, as did coffee wholesaler and local coffee brand, **CCL Products**. We took the decision to sell **D-Link** on account of the lack of transparency provided by management in reaction to disappointing results; however, we continue to hold **CCL Products** due to the short-term nature of the company's headwinds. **CCL Products** has also recently hired consumer products champion, Dabur's, Head of Marketing, Praveen Jaipuriar, to lead the development of its rapidly growing branded coffee business, which we are very positive on.

There has also been a bigger picture phenomenon at play in India during the second quarter, namely GST. GST is a key reform in India which is impacting many industries, particularly the home appliance, fashion retail and entertainment industries where the fund is invested (more on this below). It is widely known that these industries and others are seeing de-stocking in the run up to 1st July, the official implementation date for GST, and in turn many affected companies have seen a sell off in anticipation of a quarter or two of subdued earnings growth as the transition is completed. However, any negative earnings impact from GST is likely to be very short term in nature.

What is much more important for us as long term investors is that in the medium to long term GST, plus other key reforms in India, are paving the way for a far more frictionless and dynamic Indian economy, and thus one which is likely to see GDP growth above 7%. We will return to why we think India may be one of the most attractive investment opportunities in Asia over the long term in due course. In the meantime, please see below for more details of the fund's performance by country during for the first and second quarters of 2017.

1Q17

	PASCF Weighting (%)	PASCF 1Q17 Return (%)	Index 1Q17 Return (%)	PASCF Relative Performance (%)
Sri Lanka	5.5	39.0	-5.5	44.5
Vietnam	22.36	13.1	10.2	2.8
Indonesia	2.5	13.6	7.6	6.0
India	11.44	26.9	17.4	9.5
Philippines	11.42	17.3	6.0	11.3
Pakistan	10.2	7.6	-2.0	9.6

Source: Bloomberg (30th Dec 2016 to 31st March 2017, Philippines 3rd Jan 2017 to 31st March 2017 due to markets closed for national holidays

2Q17

	PASCF Weighting (%)	PASCF 2Q17 Return (%)	Index 2Q17 Return (%)	PASCF Relative Performance (%)
Sri Lanka	5.7	28.4	22.4	6.0
Vietnam	22.89	15.2	2.6	12.7
Indonesia	7.5	9.2	8.8	0.4
India	20.11	-5.0	2.8	-7.9
Philippines	8.8	-3.8	7.3	-11.1
Pakistan	12.4	6.6	-2.1	8.7

Source: Bloomberg (31st March 2017 to 30th June 2017, Indonesia 31st March 2017 to 22nd June 2017 due to markets closed for national holidays)

We expect that it will take MSCI a while to find an appropriate index to compare with the opportunity we are highlighting in this fund until there are more 'Emerging Asia' funds. Until then we would like to flag that although we are strongly of the belief that the demographic growth markets in Asia will give the best performance in the region over the long term owing to their very powerful demographic dividends, performance in the short term may well vary from the Asian indices.

Outlook

Despite very strong stock market performance in Asia year to date, the price to earnings ratio for the index has barely changed as the attendant increase in earnings expectations has more than kept up. We are, therefore, now in what feels like a strong upcycle for demand growth in Asia and we are also seeing some anecdotal evidence that capex is beginning to pick up. There is also rising interest in equities appearing in some countries from domestic investors, notably Vietnam, India and, to an extent China, which is helping to propel share prices as well. However, with the price to earnings valuation of the market barely changed we remain a long way off having to evaluate whether or not we have reached peak valuations. We would also add that so far, no case can be made for rising inflation, tight employment, rising wages, shortages or bubble-like behavior. As such, in the absence of any shocks and surprises from the global and political stages, we believe we can afford to be optimistic about Asia for the remainder of 2017.

At the time of writing, the fund is trading on 12.4x P/E, which represents a 14.4% discount to the index spot multiple of 14.5x P/E, whilst the fund's ROE at 23.0% is nearly double that of the index.

India – Making an Aquarium Out of Fish Soup - Part 2

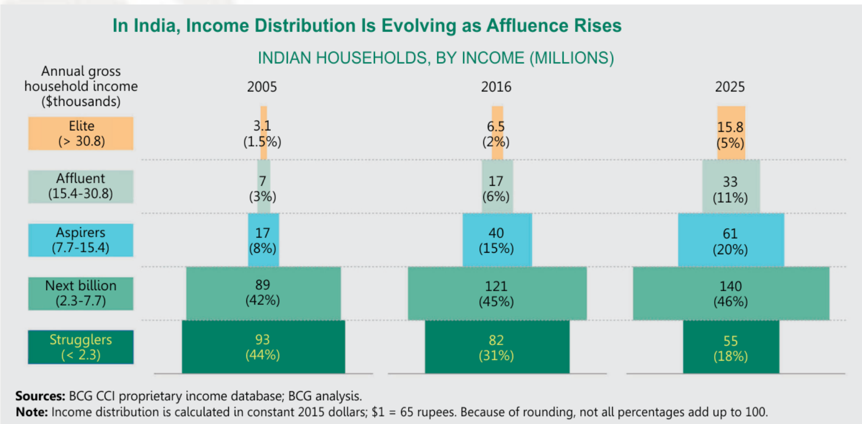
Last quarter we wrote about the cutting edge, new digital identity system in India, Aadhaar, which we believe could revolutionise the inefficiencies that have dogged India for decades and, in a short time, could help create an almost frictionless economy and certainly one which is able to reap the benefits of a globally cutting edge financial system. If you missed it, here's a synopsis.

The National Biometric Identity Card

The government has completed the enrollment of nearly every citizen – effectively 98% of the population - under the biometric identity card or Aadhaar program. This database is being used to develop a national digital infrastructure platform called the "India Stack". Last month, the government mandated the linking of bank accounts with Aadhaar as well as transactions over Rs 50,000. Biometric identity is now also mandated for income-tax-return filings. These steps will make it hard to carry out cash transactions and hide "black money." Spurred by the demonetisation last year and with these new rulings, in 6 months the country has gone from 60% of the population not having a bank account to 96% of the population having one. Yes, that is correct.

In early June, following up on this theme, we spent a week in India visiting 27 companies and learning more about how Modi's newest and boldest policies will shape India's future. What we found has made us seriously ask ourselves ***could India be the world's best performing economy for the next 10 years?***

First of all, India will have the largest middle class globally by 2027. Currently, only 5% (27 million) of the 519 million strong workforce is classified as "urban middle", defined as earning more than $11,000 per year. The chart below illustrates how India's expanding middle class is driving growth in disposable income.



Source: The Boston Consulting Group

Nearly 120 new cities in India are expected to match the current household income level of its major metropolitan areas by 2025. Economic output for several Indian cities will be close to that of middle-income nations. Rapid urbanization and expansion of India's middle class is leading to higher disposable income. McKinsey estimates that India adds three times the population of Los Angeles to its urban populace every year. By 2025, 69 cities in India will each contain over 1 million people, while 49 large cities will account for over three quarters of India's economic growth.

India's estimated domestic consumption growth of 12% year on year through 2025 is forecast at more than double the global average of 5% and is poised to triple to $4 trillion by 2025. Cisco, for example, estimates that 829 million Indian citizens will use the internet by 2021 - nearly doubling from 428 million at the end of last year. Internet penetration is rising faster in rural India than in urban centers and the internet economy of India is expected to reach $250 billion by 2020 - double the current level.

Not Just a Big Country

The young population, rising middle class, urbanization and all the consumption changes that we know come with these demographic changes would be exciting enough by themselves. However, we feel that India's extraordinary Prime Minister Modi is setting up something far more intelligent and far reaching for the Indian economy. What is extraordinary about each of the policies we will discuss below is that in each case they have been announced, clarified or confirmed only in recent weeks or, at the most, recent months. They have not yet had any chance of really impacting the system.

While you read the following, please also bear in mind as you go that there is currently still plenty of unemployment (in fact everyone is still complaining about this), that interest rates are still falling towards 7%, that private sector capex has barely started/is still non-existent and that the infrastructure projects (e.g. the Bombay subway, the Bombay coast road, the Delhi-Mumbai corridor, another Mumbai airport etc) have only just started or are yet to start. Cement capacity utilization, which acts as a bell weather for this, is still only at 65%. In other words, the economy is *only just* twitching into life after over two years of modest expansion, as exampled by stagnant property sales and retail sales and two false starts to the economic recovery, thanks to demonetization 316 and the rollout of GST in July 2017.

GST

All the final details for the implementation of nationwide uniform 'Goods and Services Tax' (GST) were announced during our visit to India and this new policy was formally rolled out on 1st July. It is likely that India's GDP growth numbers for the second quarter will be influenced by the heavy destocking that took place before this uncertainty was solved. However, as was the case with demonetization, we expect any impact to be short lived and that GDP growth in the third quarter should be stronger.

So, what exactly is GST? In its most simple form GST is a nationwide tax policy which will replace the previously very complex setup of different tax systems for every state, as well as at the national level, and a system whereby the tax was levied across the production chain. Previously, even the simplest of items could face 17 different taxes in the form of state, interstate and federal duties. Under GST there will be a hugely simplified system of just 6 national taxes and these taxes will be levied at the point of consumption rather than production. In addition, every transaction will be required to be reported online using the government's GST network, which will improve transparency and largely eliminate tax evasion.

So what impact is GST likely to have? At the most prosaic level, the rollout of GST will decrease paperwork and reduce compliance hurdles. From a bigger picture and longer-term perspective, it is likely that many companies which have restricted their businesses to just a handful of states on account of the tax complications which would ensue from expanding more aggressively will now look to build a pan India presence. Indeed, in the past, companies have treated different states in India almost as if they were different countries with each state having its own logistics and storage network. This also meant it was often not cost effective to expand aggressively as this approach would make it harder for a company to enjoy the scale benefits associated with expansion. This all now looks set to change and we are already seeing tangible effects on the ground. CCL Products, a coffee wholesaler which is held in the Prusik Asian Smaller Companies Fund, has been investing in its own brand of coffee in recent years but it is only post the implementation of GST that management have decided to try and sell this product across the whole of India rather than just a few states. Importantly, management are very explicit about the fact that it is the GST rollout which has been the catalyst for this change in strategy. For a wider scale impact and a possible boost to GDP we may still need to wait some years to see the full effects given that GST was only rolled out on 1st July; however, what matters most is that Indian companies are now able to turn this opportunity into a reality.

Property and Low Cost Housing

During our trip, we met with both **Godrej** and Oberoi, both high-end residential developers in Delhi and Bombay. Both companies say that the market is just starting to move after 4 years or so of static volumes and the recovery is being seen across the whole of market. One of the drivers for this is a new and very thorough piece of industry regulation termed 'RERA' (the Real Estate Regulation and Development Act), which was introduced in the government budget this February. RERA includes strict rules on completion, transparency in terms of cash management, the use of escrow accounts and more. Simply put, this makes it extremely challenging for many of the smaller property developers to stay in the business. As **Godrej** put it, in the past investors would have needed two days in Delhi to meet all the significant property developers there but nowadays it takes just two meetings!

The second key driver for a pick up in the Indian property market is the recently announced tax breaks for any developers building low cost housing. This means that even for high end condominium builders, such as **Godrej** and Oberoi, margins are now equally good if not better for low cost housing projects. In this way, our policy-savvy Modi gets his supply of low cost housing whilst keeping the developers and their shareholders happy. Moreover, project quality is better ensured.

There are also some very innovative solutions to some of the other key housing problems in India, such as the massive slums which sit on government land. For example, 'Public Private Projects' (PPPs) are being pioneered in Modi's former state, Gujarat. Our visit to Nila Construction gave us a clear illustration of how these PPPs might work in practice. Nila takes a slum area on government land and with the government creates a plan. In short, Nila rebuilds low cost housing in a high-rise format for the slum dwellers on 50-60% of the land and then Nila gets the remaining 40-50% of land to sell or develop for its own book. In this way, the government satisfies its objective of getting slum areas redeveloped, although not on its balance sheet, whilst at the same time the slum dwellers receive better housing with proper sanitation. The housing offered to the slum dwellers is done so at a very subsidised mortgage rate for a total property value of roughly $10,000 for 33 square metres. Nila is an interesting and innovative company to meet. Management are looking to grow the business aggressively and thus far have a good record of management and balance sheet management.

Mortgages

Mortgages still represent just 9% of GDP in India. For many of the niche players serving smaller sized loans like Repco, which lends to the self-employed or non-salaried borrowers, the current environment affords many years of strong growth ahead. Year to date mortgage loan growth in India is already in the region of 25%, or higher, and many of the housing loan companies we met with expect that volumes will grow at a cagr of 20% or more in the coming few years.

Entrepreneurship

We were struck on our visit by the repeated mention that failure is not a dirty word and how many young Indians aspire to starting a company. Crucially, this environment is being supported by the government with yet another recent and radical overhaul in regulations and law, this time in the bankruptcy area. In India, it is it now possible to wind up a young company in just two days and under much clearer legal guidelines, which now protect lenders from willful defaulters.
India is rapidly emerging as a global innovation hub**.** More than one-third of the global top 1,000 companies by R&D expenditure have centers in India and over half of the Fortune 500 companies employ more than 10% of their global workforce in India. Additionally, nearly 28% of domiciled companies from Japan, European and the Asia Pacific region have research centers in India. “Global customers looking for IT solutions came to India for cost savings, stayed for quality, but will now continue the journey for innovation,” according to R. Chandrasekaran, Chairman of The National Association of Software and Services Companies (NASSCOM).

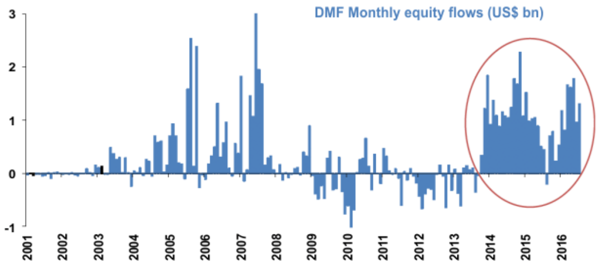
Interestingly, Indian nationals represent only 6% of Silicon Valley’s population but have founded 15% or more of its new startups. Indians also outrank other immigrant groups in the number of companies founded. We could see a reverse brain drain, as Indian executives abroad realize superior opportunities at home**.** It is estimated that 80,000 Indians returned home for work in the past two years, including over 1,000 scientists of the 30 million total working offshore.

Savings

India has always been a nation of savers but, in past generations, this has manifested itself in the gold and jewellery market as well as property and cash. Thanks to the recent digitisation of the economy and the increasingly important influence of the millennial generation who thinks differently to their parents, a structural shift of household savings moving into equities is helping propel the Indian stock market**.**

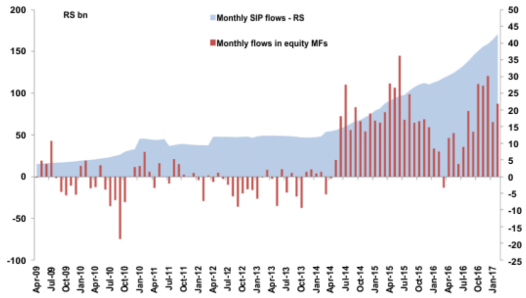
For the first time ever, India’s domestic flows into the stock market outpaced foreign flows for the twelve-months-ending May 2017. The major reason for this is consistent investing through Systematic Investment Plans (SIPs), which is ensuring regular inflows. Currently, domestic Indian mutual funds are receiving US$1 billion or more monthly through SIPs. Moreover, this fund flow has remained consistent during recent periods of increased market volatility and sell-offs. Analysis carried out by Morgan Stanley concludes that domestic equity savings are on track to rise by $525 billion over the next decade. The government is also taking steps to increase public equity exposure.

Flows into domestic equity mutual funds remain steady over the past three years



Source: AMFI, Morgan Stanley Research.

SIP contribution to monthly flows is rising



Source: AMFI, Morgan Stanley Research.

Source: Morgan Stanley

Serious Government Innovation

We visited Ahmedabad and learned about the government's new innovation called GIFT City - because the GIFT stands for Information and Finance. This is a completely new 'Special Economic Zone' (SEZ) which sits 20 kilometres outside of Ahmedabad. Whereas there may be too many acronyms in India, this innovation is ambitious, allowing as it does total capital account convertibility plus a whole host of completely new and different regulations existing to be attractive to foreign technology and finance companies. They are inviting stock exchanges, banks and other financials from all over the world to consider setting up here.

Shopping Malls

International retailers are beginning to come to India and are looking for good shopping malls to open in. However, they cannot find enough good malls because they simply do not exist. Phoenix Mills, which owns the only two grade A malls in Bombay, is an obvious beneficiary and our meeting with management implied that rent reversions are currently running at 100% or more, driven by the fact that all the of major global retail brands, such as Zara and H&M, are opening here and competing with high-end local brands as well.

A Travel Boom is Coming

We met with and even flew with India's leading airline, IndiGo, which is a low-cost carrier with 41% market share, significantly ahead of the number two player, Jet Airways, with 20% market share. IndiGo, who has a large banner in its office reading "Late is a four-letter word" is impressive and while management's expansion plans for the coming years (135 planes in operation and 430 on order!) seem slightly overwhelming this is only until you view them in the context of the overall market. In China, there are 2,700 commercial aircraft serving a population of 1.4 billion people, whilst in India there are just 450 commercial planes serving 1.2 billion people! Both markets are growing much faster than GDP. Inevitably, the government is getting involved by backing expansion to the smaller destinations and linking these with the larger hubs, thus providing IndiGo with another opportunity for expansion. In any event, Indians are all very keen to travel and hotels, airport management companies, booking agencies and time-share operators all seem set for a very positive future.

Summary

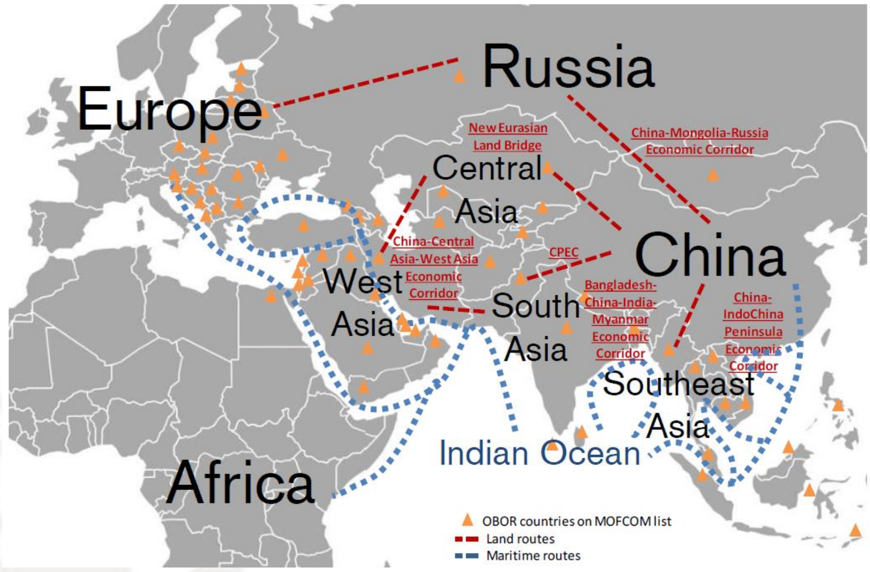
Crucially, Modi's recent key state-election victories following the currency ban highlight people's trust in his development agenda. Moreover, these victories suggest Modi is well placed for the next general election in 2019, along with rising political capital in the Upper House of Parliament, where he lacks a majority to carry out the politically-tough reforms.

As we see it, what is particularly extraordinary is that these key reforms which are finally initiating the start of cyclical uptrends in property, logistics and growth overall are in practice just a few weeks or months old. Moreover, the structural growth opportunities in areas such as insurance, savings, travel, leisure and infrastructure are still so underpenetrated that it is to see anything but multi-year growth trajectories ahead. In this context we find it hard to imagine that we could possibly be at the top of the cycle and would question that if growth, globally, remains scarce then what will people pay to be invested in India?

'One Belt One Road' (OBOR)

China hosted the One Belt One Road (OBOR) summit in May, with an impressive 29 heads of state attending. With the rising clout of China and a potentially more isolationist US administration, China's overseas investments will be more significant than ever in Emerging Markets, especially those in Asia.

According to UBS, under OBOR, China could make investments between US$313 billion and US$502 billion in 62 OBOR countries over the next five years. US$502 billion equates to 4% of the OBOR countries' total 2015 GDP and may create incremental GDP of US$238 billion for them. Recent studies suggest that the majority of China's OBOR investments are likely to be directed towards India, Russia, Indonesia, Iran, Egypt, the Philippines and Pakistan (the underlining is ours and denotes four out of the six demographic growth countries which PASCF is focused on and which at the time of writing represents 54.2% of the fund). Interestingly, while OBOR is likely to lead to further investments by China in African countries this is expected to be smaller in scale compared to the funds earmarked for the central and southern Asian regions at an estimated US$52 billion to US$79 billion.



Source: Credit Suisse

China is using various financial institutions to support this plan. These include the policy banks, China Development Bank (CDB) and the Export-Import Bank of China (EXIM), the multilateral development bank, the Asian Infrastructure Investment Bank (AIIB), and the US$40 billion Silk Road Fund, with commercial banks also participating.

Among them, AIIB is the most eye-catching. China always looks to enhance its voting right in existing multilateral development institutions. By establishing AIIB, it has the single-biggest voting power and a dominant role for the first time in a multilateral development institution.

In the past year AIIB has lent a total of US$1.7 billion to nine projects. It has been working on improving its credit rating and plans to start issuing bonds this year, ideally via the Hong Kong market. China has openly stated that it welcomes other multilateral development institutions to join in its efforts.

Pakistan

China and Pakistan have been close allies since the 1950s, firmly backing each other on almost all major issues and recognising the other as an all-weather friend. China and Pakistan's longstanding cooperation is now being taken to a whole new level via the China-Pakistan Economic Corridor (CPEC) project, which once completed will form an alternative trade route for China to the Malacca Strait (the gateway for trade to and from China), bisecting the whole of Pakistan. The CPEC project was unveiled during President Xi's visit to Pakistan in April 2015.

The China-Pakistan Economic Corridor (CPEC) is the flagship project in the OBOR initiative with the project leading the way in terms of money pledged and investments received so far. Under CPEC China will invest US$55 billion in Pakistan between now and 2030 to facilitate the construction of the CPEC route. This will be China's largest overseas investment in a single foreign country ever, equal to 19% of Pakistan's GDP in 2014!

Unsurprisingly, China Pakistan Economic Corridor (CPEC) remains the major investment theme in Pakistan over the medium to long term, having the capacity to address Pakistan's crippling energy deficit and to revive ailing transport infrastructure. As a consequence of CPEC Pakistan should see large scale improvements in its infrastructure, including roads, railways, pipelines and ports, as well as improvements in associated industries such telecommunications and resource supply including coal and power. Recently, a few new additional projects have been added to the program such as new mass transit networks in provincial capitals and LNG import infrastructure. As energy availability improves under CPEC, which will in turn allow manufacturing activity to pick up, we would expect Pakistan's GDP to remain robust at over 5% in the near term and possibly moving closer to 6% or more in the medium to long term.

In terms of the progress of CPEC thus far, commissioning of the Gwadar Port on the southern coast of Pakistan and the arrival of the first convoy from Kashgar, China near Pakistan's northern border last year was an important early milestone for the project.

The fund's investments in Pakistan which are most geared into CPEC include the market leading commercial bank, **Habib Bank**, and the country's third largest cement producer, **DG Khan Cement**. In the case of **Habib**, the company is taking the lead in CPEC project financing in collaboration with select Chinese banks. Several large ticket deals have already been signed. Besides this, **Habib Bank** also owns a stake in the Pakistan Stock Exchange, which is also co-owned by the Shanghai and Shenzhen stock exchanges. At the time of writing, **Habib Bank** is trading on 1.9x P/B and generating a high-teens return on equity.

In the case of **DG Khan Cement**, CPEC has already bolstered domestic cement demand from mid-single digit to high single digit growth and to low double-digit volume growth over the past 18 months. Conversations with management indicate an additional incremental demand growth of 2-3% per annum is possible as CPEC moves into full swing. At the time of writing, **DG Khan** is trading on an EV/EBITDA of just 5.9x.

Indonesia

Indonesia**,** despite not having a border with China and not having a history of particularly warm relations with China either, could also be very meaningful in China's OBOR strategy on several grounds. First, it has a population of 260 million, a good base for development, which is being held back by its poor infrastructure (scoring only 73rd among 160 countries in a study by UBS). Second, it is home to the world's largest Muslim population (followed by Pakistan and India), thus is a potential additional bridge for China to reach out to the Muslim world. Thirdly, and perhaps most importantly, its geographic position is essential. Together with Malaysia and Singapore, Indonesia controls the Malacca Strait. Fourth, in recent years, economic links between the two countries are getting stronger. China is Indonesia's major trading partner in both export and import. It is a big client of Indonesia's crude oil and gas, but also contributes greatly to the non-oil trade. Finally, it is a good alternative too, for the manufacturers leaving China due to rising cost. In 2015, Indonesia's GDP per capita was less than half of China's. Therefore, there is a big demand in Indonesia that Chinese investment could significantly help.

In the past few years, Chinese investment in Indonesia has grown steadily. Indeed, one of the signature projects of OBOR is the Jakarta-Bandung high-speed railway link. This is a planned 142 kilometre railway link which, once up and running, will reduce the travel time between Jakarta and Bandung, the provincial capital of West Java, from more than 3 hours to 40 minutes. The total investment is estimated to be in the region of US$5 billion and China Development Bank is expected to cover around 75% of the total investment.

Philippines

At present, the Philippines is still more leveraged to the US and Japan than to China. This is also true when it comes to investment. For the Philippines, just 14% of its FDI comes from China, while 27% comes from Japan and 34% comes from the US. Anecdotal evidence suggests that FDI from the US tends to flow more towards BPO services and manufacturing, whereas FDI from China is generally directed more at the mining and construction industries.

Nonetheless, post the new Duterte administration’s pivot towards China, there has been a pick-up in China-sourced investment in the Philippines in recent months. We would expect this trend to continue over the course of 2017 and 2018.

Pakistan Politics

The Prime Minister of Pakistan, Nawaz Shariff, has been implicated in the Panama Papers, which revealed links between the Prime Minister’s family and 8 offshore companies. In conjunction with this, Shariff and his family have been accused of money laundering and corruption. Recently, as the investigation into Shariff and his family has intensified this has caused damage to sentiment and calls for his resignation.

A joint investigation team comprising one senior official from each of the major government bodies has been tasked to investigate the case, probing the offshore assets. Thus far the investigation team has cross examined the Prime Minister himself, his brother, the Chief Minister of Punjab, his sons, his daughter and her husband, and close aides including the Federal Minister for Finance.

In reaction to the possibility that the Prime Minister will be disqualified and the attendant political uncertainty, the MSCI Pakistan index fell by 6.2% in June and a further 8% in the first half of July, although 5% of this lost ground has since be regained at the time of writing.

This political uncertainty has also come at the same time as Pakistan exiting the MSCI Frontier Markets index and entering the Emerging Markets index. Selling by the Frontier funds has not been matched by the Emerging Market passive inflow and anecdotal evidence suggest that active Emerging Market managers remain on the sidelines, for now, with regard to Pakistan. These flows have provided further impetus to recent market weakness.

While politics is likely to guide market sentiment in the very short term as the joint investigation team completes its enquiries over the coming weeks, we would note that the Pakistan KSE-100 index has de-rated from a high of 12.0x to 9.5x P/E in just a matter of months. As such, we are assessing whether this de-rating has sufficiently opened up valuation opportunities in select stocks. Indeed, the bigger picture fundamentals for Pakistan remain positive with earnings forecast to grow by 12% in the next year, interest rate cuts to the tune of 50bps expected by mid-next year and of course further progress in the CPEC project to support GDP growth.

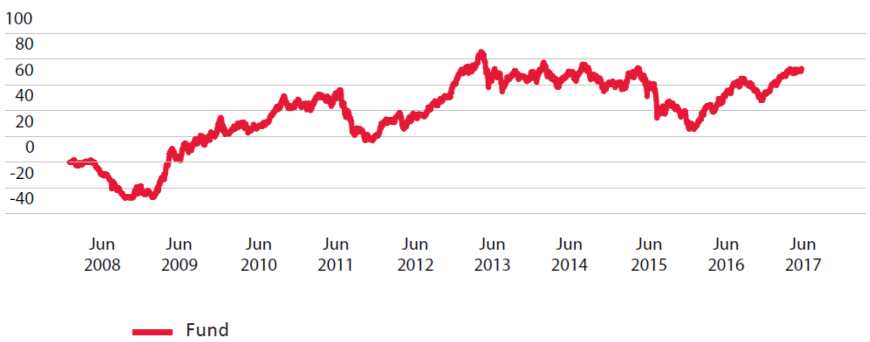
PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 30.06.2017

	USD	GBP	SGD
1 Month	2.35	2.21	2.27
3 Months	4.14	3.79	3.99
YTD	15.79	15.01	15.36
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+	72.70	81.81	27.04
Annualised 5 years	5.24	5.43	5.38
Annualised 3 years	0.95	1.18	1.05
Annualised Since Inception	5.99	6.66	3.26

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 (%)

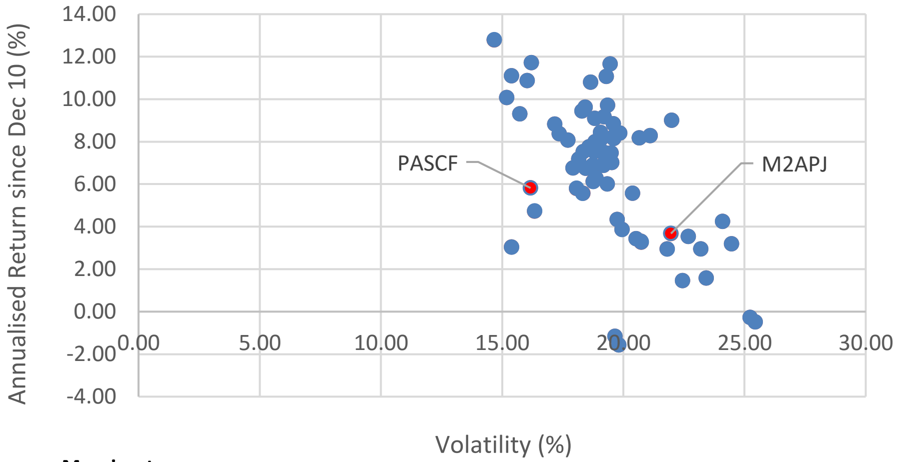
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2017	3.51	4.55	2.74	2.64	-0.86	2.35							15.79
2016	-6.98	-0.67	8.76	2.98	0.65	4.49	2.57	3.55	0.17	-1.10	-3.51	-3.04	7.14
2015	1.25	-0.11	-2.04	7.23	1.21	-5.33	-1.78	-11.48	-2.63	4.83	-2.71	-0.78	-12.78
2014	0.21	3.58	-2.62	-2.50	0.56	2.45	-1.39	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 (%)	3.49
Sharpe Ratio	0.59
Volatility (%)	15.83
% of the portfolio –which could be sold in 2 business days	72.05

Source: Morningstar
Since Inception: A: 08.02.08

Prusik Asian Smaller Companies Fund Performance vs Risk - Inception to Date



Source: Morningstar

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

FPT Corporation	6.1
Mobile World Investment Corporation	5.9
Woory Industrial Co Ltd	4.8
Philippine Seven Corporation	4.1
PAK Elektron Ltd	3.9
Total Number of Holdings	32

Portfolio Financial Ratios*

Predicted Price/Earnings Ratio	13.1x
Predicted Return on Equity (%)	23.0
Predicted Dividend Yield (%)	2.3

*Fiscal year periods

Thematic Breakdown (%)

Local Brands	40.6
Infrastructure	16.8
Financialisation	16.3
Communication and Technology	15.5
Cash	7.5
Leisure/Tourism	3.4

Geographical Breakdown (%)

Vietnam	25.7
India	25.2
Indonesia	12.4
Pakistan	11.3
Cash	7.5
Sri Lanka	6.3
Korea	4.8
Philippines	4.1
Taiwan	2.7

All data as at 30.06.17. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size (USD)	51.1m
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	172.70
B USD	Unhedged	Distributing	B2PKN32	IE00B2PKN327	169.86
C GBP	Hedged	Distributing	B2PKN43	IE00B2PKN434	88.90
D SGD	Hedged	Distributing	B3M3HJ5	IE00B3M3HJ55	233.96
Performance fee based on individual investor's holding					
U GBP	Unhedged	Distributing	BBQ37T7	IE00BBQ37T77	117.42
Performance fee based on fund performance as a whole					

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