PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asia Fund

Quarterly Investment Report
31 March 2016

FOR PROFESSIONAL INVESTORS ONLY

1Q Review

Over the first quarter the index rose 1.9% whilst the Prusik Asia Fund fell 3.7%. This disappointing relative performance is attributable to a few, clear factors most of which we believe will enjoy a good recovery in coming months. We made very few changes to the fund during the period so the lack of an appreciation in the fund NAV is largely a failure of our stocks to rally as much as the index during March. While March was disappointing, we also think it is important to highlight that what did well in the month was mostly low quality cyclical stocks, which is not our typical hunting ground for long term investment ideas.

Here is a summary of the positive and negative contributors in 1Q16.

What did well in 1Q16?

Local Brands: 7.3% average weighting in 1Q16

- This was our best performing theme in 1Q16 in terms of attribution.
- 3 out of 4 stocks generated solid positive returns, led by our new purchase of **Treasury Wine Estates**.
- Another recent addition, **Haier Electronics**, also got off to a good start.
- Philippines multi-format retailer, **Robinsons Retail**, rebounded strongly after announcing 12% YTD sssg.
- **Anta Sports Products** was weak but saw 20% year on year EPS growth in 2015.

Treasury Wines, our Australian based global wine exporter which is seeing huge growth in China, was particularly strong in the quarter, rising by 22%. We have further added to this position given our confidence in this company's tremendous growth opportunity and momentum. We also took the decision to add to the local brands theme in the quarter via our purchase of **Haier Electronics**. **Haier** makes branded washing machines and water heaters in China where it is a market leader. In addition, it has a formidable logistics business where its ecommerce sub-segment is seeing very strong growth. The stock has been de-rated, likely in response to macro concerns in China, and so on 10.7x forward earnings and just 0.5x sales, we believe this stock represents a very attractive new investment opportunity.

"Other" [Gold, Healthcare, Data, Electric Car]: 9.9% average weighting in 1Q16

- We have 4 separate themes each represented by one stock, all of which contributed positively in 1Q16, led by **Newcrest**.
- We made a new purchase in the data theme, **Bharti Infratel**, which performed well.
- Electric vehicle play, **LG Chemical**, was strong in response to news that its 2015 EPS rose 34% year on year.
- Our Indonesian healthcare stock, **Lippo Karawaci**, rose in line with the previously oversold Indonesian market.

Our internet theme also saw returns slightly ahead of the index in aggregate, while the underlying growth story here continues to be very exciting indeed. Leading social network and mobile gaming giant, **Tencent**, saw its earnings per share increase by 35% year on year in 2015 and China's dominant online search and 'online to offline' player, **Baidu**, saw its earnings per share increase by a massive 156% in 2015 on the back of a marked improvement in operating margins.

Vietnam: 18.8% average weighting in 1Q16

- Our Vietnam theme saw a modest positive attribution in 1Q but underperformed the index overall.
- **Phu Nhuan Jewellery** was strong as the core business saw 55% year on year operating profit growth in 2015.
- Our Vietnam portfolio is still attractively valued on a 14.4x forward P/E.

What did not do well in 1Q16?

Financialisation: 10.7% average weighting in 1Q16

- Financialisation saw the poorest returns for the fund, led by **China Taiping**.
- **Ping An's** rising net investment yield and good asset-liability matching set it apart.

- The strength of **AIA's** franchise remains intact; **AIA** made a small negative contribution in the quarter though.
- We remain optimistic for this theme and would note it performed well in March. More on this below.

Smart textiles: 19.4% average weighting in 1Q16

- A key concern has been global sportswear brands' higher margin targets, which could lead to supply chain pressure.
- We have visited a number of companies in this theme recently and growing concerns have led us to reduce our weighting in this theme. More on this below.

Telecoms: 2.0% average weighting in 1Q16

- **Bharti Airtel** was switched for leading Indian telco towers business, **Bharti Infratel. Infratel** is a data play which will benefit from rising smartphone penetration in India. More data usage requires the telcos to have a denser presence on telecom towers, which means more demand for new towers and rising co-locations for existing towers.

Smart Textiles

After a difficult quarter in terms of performance and some mixed results announced for this theme, we have just spent a week in Asia visiting a number of our smart textiles holdings. We found that whilst our longer term thematic view remains intact, namely that casual wear is increasingly likely to use functional fabrics and consolidation by the bigger sports brands towards fewer suppliers continues apace, there are some headwinds which we feel we cannot ignore in the short term. As a result we are lightening our exposure here.

The key issues include, firstly, the fact that major brands such as Lululemon have started to show signs of stress at the inventory level, suggesting the sportswear trend itself might be running out of steam. As a fashion this might be the case, although it is interesting to note some counter trends here such as the genuine pick up in sports activities in China. This, however, does not benefit our global suppliers as much.

Secondly, global players such as Nike and Under Armour, have recently announced that they are targeting higher margins. Although our suppliers in Asia are benefitting from supplier consolidation and are amongst the strongest in terms of value added services to their customers, we believe that there is a risk that this margin expansion for the global brands could happen at the expense of their suppliers. On the ground conversations with garment industry players indicate that there is no strong evidence of this so far, but it is a rising risk.

Thirdly, global competition in this space appears to be increasing. Many fashion brands have jumped into the sportswear trend which has led to significant benefits for our suppliers as supply has not yet kept pace with demand. However, capacity is increasing as is competition between the rising numbers of fashion brands entering the sportswear space, both of which are likely to be negative for our suppliers. Finally, these stocks are now not sufficiently cheap to withstand this period of rising risks.

At the time of writing we have just 11.3% remaining in this theme, down from 19.4% at the quarter end.

Chinese Insurance Companies

Our Chinese insurance companies sit within our financialisation theme. At the thematic level this was the biggest detractor in the quarter. While all our Chinese insurers saw very strong sales and good earnings growth in 2015, the market is concerned about falling net investment yields owing to weak equity markets and bond yields in China, declining agency force productivity and the possibility that the insurers will raise the discount rates they use to value their book of "in force" policies, all of which would contribute to lower future earnings growth.

In response to these concerns, we wish to highlight the following. Firstly, whether the trends we are witnessing in the Chinese equity and bond markets are set to continue is uncertain and we believe it is inadvisable to extrapolate short term events into long term trends. It is also worth noting that recent activity and signals at the highest level in China indicate a desire to increase liquidity in the system, which could lead to an improvement in the China A-share market performance on a more sustained basis. Secondly, we would note that net investment yields have not fallen across the board for our holdings. Owing to superior asset allocation abilities, one of our holdings, **Ping An**, actually saw its net investment yield *increase* in 2015. Thirdly, demand for investment products in China remains very strong. For example, another of our holdings in this theme, **China Taiping**, saw 87% year on year sales growth in 2015 and early reports indicate that year to date demand for the sector overall is running at 40-60%! Demand is likely to see a further kicker from supportive government policies. As touched on in previous reports, the Chinese government is poised to introduce tax incentives for private pension funds – a global norm but still not implemented in China – and it is estimated that such a change could boost first year premiums for the industry by 7%. Finally, with our holdings hovering around 1-1.5x price to book, we believe valuations remain supportive. All our stocks within the financialisation theme saw positive returns in March.

ASEAN

One of the reasons the fund has underperformed the index year to date is that, aside from our weighting in Vietnam, we have a low weighting in ASEAN. The ASEAN40 index has risen just over 10% since the beginning of the year but in that time earnings for the index have risen just 1.8%. While it is encouraging to see that earnings growth in ASEAN has turned positive, the absolute growth numbers remain low and so evidently the rise in the ASEAN markets this year has been driven by a rerating rather than earnings growth. One major driver of the valuation expansion has been the fall in bond yields across the region. This clearly has further to go in Indonesia and Malaysia, as well as Vietnam, while in Thailand bond yields in 1Q16 fell to lower levels than the US! Equity valuations are now at or above historical trend in most of ASEAN. Here is a table showing the 1Q16 year on year EPS growth, the local index move during the period and the forward P/E ratios for each index.

	1Q16 yoy EPS Growth	Index Return	Index Forward P/E
Indonesia	1.0%	6.3%	16.3x
Malaysia	-0.8%	1.1%	15.9x
Philippines	-0.3%	3.8%	17.7x
Thailand	-3.6%	9.9%	14.5x

Source: UBS

The question from here is whether growth can catch up with valuations or whether a correction is due. This is not clear but the ASEAN countries have a few tailwinds. One is that the governments have and will continue to spend on massive infrastructure projects such as the ambitious railway network project due to run from Southern China through to Singapore. These kinds of projects could be accelerated if the economies in the region show signs of weakening. Laos, Vietnam, Cambodia and Myanmar are also seen as important engines for the region.

In our view, Vietnam represents the most attractive investment proposition out of these countries given Vietnam's vast growth potential and low exposure in global portfolios. In addition, there are discussions that Morgan Stanley might introduce an ASEAN index which would include Vietnam. This would fast forward the process for inclusion in other indices. Other positive factors driving Vietnam this year include the removal of foreign ownership limits and one of the fastest GDP growth rates in the region of 6.5%, driven by manufacturing related FDI.

Summary and Outlook

Overall, we remain very excited about the long term prospects for our themes and the portfolio as a whole. As of the end of March the portfolio was trading on 17.1x P/E with an average ROE of 15.4%. Furthermore, the results season is now behind us and we can see the aggregate outcome of this for our portfolio. We continue to focus on companies which sit within themes with long term structural growth drivers and which can create value on a sustainable basis over the long term. The resulting tilt towards fast growing companies in the portfolio is clearly evidenced by the 21% average operating profit growth for our holdings in 2015 in local currency terms. This is far ahead of the nominal GDP growth rates we are seeing across Asia, highlighting the importance of putting more of our energy and resources into analysing and investigating companies rather than countries when investing in the region.

Stock Connect and 3 Reasons We Would Not Be Short China

The Chinese index has rallied hard from the lows earlier in the quarter. Most observers, however, are unmoved and there is a prevailing bearishness surrounding China. There may be very good reason for this bearishness but we would not bet the farm on shorting China. In fact, on a one year view we can now see some quite interesting factors which could support a further rise in the Chinese stock market.

1) **Macro Data in China Turns More Positive**

   The first reason is perhaps the least compelling on the basis that it is grounded in macroeconomics. This is not to say that macroeconomics is not important, quite the opposite; however, it is equally important to remember how many times stock markets and macroeconomics have moved in opposite directions, often in the process confusing investors and in some cases destroying them. On this occasion the undeniably huge and real macroeconomic risk posed to us all is the towering and hard to quantify debt in China, a macroeconomic risk which could cause huge pain in the stock markets.

   So with the proviso that it is not always the case that good economic data alone does a bull market make, it is worth noting that in recent weeks there has been a plethora of more positive macroeconomic indicators and anecdotal evidence coming out of China, underlining the possibility that the Chinese economy might be picking up.

   CLSA's China team has a 'Small & Medium Enterprises Review' which logs order growth seen at the smaller end of the private sector in China. In 1Q16 order growth for this sub-segment rebounded to 5.4% up from 0.3% in the previous quarter.

   In January and February 2016 property investment in China rose by 3% year on year compared to a 0.5% fall in December 2015. Moreover, nationwide sales by gross floor area were up 30% year on year in the same period and construction starts were up 10% year on year.

   Overall, industrial profits in China turned saw a significant turnaround, rising by 4.8% year on year in January and February compared to a fall of 4.7% in December 2015. In tandem with this, the PMI indicator of manufacturing went back into expansionary territory, coming in at 50.2 in March, marking the first expansionary reading in 7 months.

   In March, inflation as measured by the PPI index rose by 0.5% month on month, the first month on month increase since January 2014.

   Exports for China grew 11.5% in March after a sharp decline of 17.9% in January and February.

   Finally, March power consumption grew by 5.6% year on year, the highest since June 2014.

   We would also add that at the time of writing we have seen a strong surge in commodities prices, exacerbated by some very active buying at the hands of Chinese investors.

2) **Stock Connect and What Happens Next**

   Connect is the name for the process set up for investors in both Hong Kong and China to invest across the border into each other's equity markets. So far, apart from causing a huge run up in Chinese A-shares when it was first announced, it has been a somewhat muted affair. For foreigners this may be to do with some lack of clarity on the risks of dealing in A-shares, whilst on the mainland locals were still smarting from the corruption crackdown and possibly nobody wanted to be seen sending large sums of money to invest in Hong Kong.

Last week we met with Hong Kong Exchange and here, in essence, is what they told us about what they believe comes next in the Hong Kong China Stock Connect story.

In the coming summertime, management believe MSCI will announce the introduction of A-shares into the MSCI Emerging Markets index. It is likely that the initial amount will be symbolic before rising to around 5% later in the year. We believe this second stage of the process is likely to be effective from November or soon after but it will be announced in the summer to give everyone time to prepare. In order to facilitate this change to the index, the existing A-share quotas, which dictate how much foreign investors can allocate to A-shares, will need to rise. In addition, the Stock Connect programme, which was announced and initiated in 2014, will need to be extended. This extension of Connect will involve adding the three bourses in Shenzhen (so far it has just included Shanghai) and expanding the number of Shanghai stocks in the programme to 1,300 companies up from the 580 companies included at present.

The northbound quota is currently Rmb 300 billion and the southbound quota is currently Rmb 250 billion. In the coming months these quotas are expected to double and these higher quotas plus the Rmb 600 billion quota for Shenzhen will take the new total to Rmb 1.2 trillion. We subsequently expect 'Connect ETFs' to be launched, showing mutual recognition for the agreement.

Connect allows much better price transparency and choice for investors. Up until now P-notes have been a popular way for investors to trade A-shares but, in fact, these can trade at big premiums and restrict which brokers investors can deal with. Crucially, in the past week delivery versus payment settlement has been improved so there is now no overnight counterparty risk involved with trading via Connect. This has been a significant barrier for many and its recent removal will likely mean many more foreign funds will participate in Connect in the future.

In summary, the Connect quotas in each direction are set to increase and settlement procedures are being changed to remove nearly all the impediments for both north bound investors and MSCI inclusion, meaning that index oriented portfolio managers will soon have to invest in A-shares as part of their mandate. The southbound investors will no doubt wait for a nod of approval from the government but it is widely expected that the Chinese internet names, for example, which are currently listed in the US will dual list in Hong Kong to allow mainland investors access. The combination of all this activity, likely combined with the Chinese government moves on with pension reform and other policies to open and deepen financial markets, could create quite a buzz.

This is going to be a busy second half for Hong Kong Exchange and all investors interested in China. It is also worth remembering that when Connect was first announced in April 2014 the HSCEI China index was over 10% higher than where it is today. The subsequent rallies both post announcement and post Connect coming into effect in November 2014 took the index up by around 50% in those 12 months.

3) Efficient Allocation of Capital

Sadly, this is not a big subject yet in China but we are writing about it because it is an enormous wild card and we are sure it is where the government is headed after it feels secure that the current reforms have created enough momentum and a solid foundation for a healthier, more consumer and services based economy. However, we mention it because if there is any sign given by the government that they are prepared now not to allow the value destroyers, many SOES and other very clear examples of over gearing, misallocation of capital to continue in their past vein then this could be a very strong catalyst for a rerating of equities.

Please note that not one of these scenarios would necessarily alleviate the vast and unknown risk posed to China by the debt mountain. However, they *could* all move the mainland stock market higher and for a reasonably prolonged period.

Three Themes in Ascendancy

Virtual Reality

Most Americans are still not sure what virtual reality is. According to recent surveys, around half of those questioned were uninterested in purchasing a device, have not heard of any of the virtual reality products names or do not even know what virtual reality is! A quarter of those questioned thought the virtual reality devices were too expensive. In fact, only one out of six respondents were sure that they will purchase a device "at some point". So there you have it, welcome to virtual reality: the new technology on the street with probably some of the worst consumer intention data going. This is hardly a story to set investors' hearts racing. Counter to this, however, companies in the virtual reality supply chain are already witnessing shortages and delays are proving a challenge for the virtual reality brands. This would suggest that somebody, somewhere thinks it is a good idea.

What is Virtual Reality?

As interested technology followers and thematic investors we are constantly learning about and trying out new technologies which are capturing people's interest and being given the 'next best thing' tag. Importantly, none, and we mean none, have provided such an experience as virtual reality did when we first tried it. While it feels like there is a lot of hype around virtual reality in technology circles, once you have put a headset on you will realise that this is one technology that is not overhyped.

So here is my companion for the day, Johnny, at **HTC** headquarters in Taiwan a few weeks ago, wearing the **HTC** Vive VR headset and shooting zombies.

Source: Prusik

What Johnny experiences once he puts on the headset and headphones is a totally immersive, 360 degree, realistic environment. If you turn to look behind you, you see behind; if you look up, you see above; and this all happens in real time; and you get to interact with this environment. The result is an exhilarating thrill unlike anything else you have experienced. For those few minutes your reality is completely altered. It is a bigger and deeper experience by many orders of magnitude than TV, movies, gaming and IMAX rolled into one.

The potential uses are huge. First will come the hardcore gamers but entertainment using virtual reality will eventually be for everybody. Always wanted to go to Rome? With virtual reality you can come home from a day at work and spend the evening walking around the Coliseum. The possibilities are endless: you could look at a new home, try your hand at scuba diving or even climb Mount Everest.

However, virtual reality offers more than just entertainment. Indeed, at **HTC** we tried the 3D drawing app which allows users to design and draw in 3D in thin air. Quite brilliantly, a number of people can do this at the same time and create designs together. In time it will be possible for people to do this despite not being in the same room or even the same country! It is easy to see how this kind of functionality could become hugely valuable for industrial applications. For example, car designers working for the same company but living in different cities across the globe could collaborate on designs together in real time. Users can also walk into their drawings and see and experience their designs from the inside. It is also possible to send these virtual reality designs to others. Finally, there is a fascinating array of mediums on offer. As well as traditional pencils and paints it is also possible to create designs with really fun things like fire or running water! We strongly believe that virtual reality will become indispensable to designers.

Given that the virtual reality experience is so profound and immersive there will also be huge learning, educational and rehabilitation possibilities via this new medium. Indeed, it has already been shown that rehabilitation from a stroke is faster and more effective using virtual reality. There are also applications such as empathy training. With virtual reality you can literally put yourself in somebody else's shoes, experiencing, for example, what it is like to be in a Syrian war zone or to swap gender.

Ernest Cline's sci-fi novel, Ready Player One, set in 2044 and about one man's mission in the virtual reality world, OASIS, which eventually collides with events in the real world, is about to become real. Indeed, when Stephen Spielberg's movie adaptation of the book is released at the end of 2017, if it has not happened already, we believe this could become a trigger point for virtual reality to become mainstream.

Evidently, the potential for virtual reality to become a massive technology is clear and we would urge you to try it at the soonest opportunity. Whilst the technology is at its more nascent stages many people are probably more likely to experience virtual reality in arcades, almost as an alternative to going to the movies; however, in time, as devices develop and prices fall, we will be more likely to experience it in the home.

There are three companies currently with virtual reality offerings – Sony, Facebook (via Oculus Rift) and **HTC** in Taiwan (via Vive). **HTC's** Vive is currently priced at US$799 but users will need to spend more to add on the Nvidia graphics card and upgrade their computer's processing power. The simplest – and in turn probably the cheapest – kit to set up will be the Sony virtual reality headset which can be plugged straight into a Sony PlayStation.

Arguably one of the beneficiaries of virtual reality in the longer term will be **Tencent**, the giant Chinese gaming platform, which we already hold in the fund. If **Tencent** produces a new massively multiplayer online role-playing game, such as World of Warcraft, which is compatible with virtual reality technology, **Tencent** has the financial clout to subsidise the hardware in China's internet cafes, opening up the possibility of creating a viral virtual reality success story.

In addition to **Tencent**, we also have exposure to the theme via our recent purchase of **HTC**. **HTC** owns a smartphone brand which is struggling in today's competitive market. However, it is also one of just three companies globally which has a virtual reality offering and, importantly, one which is particularly suited to industrial applications. While a turnaround in the handset business is still yet to be seen, sales of **HTC's** virtual reality headset are expected to reach 400K units in 2016 (remember this is a product which half of people surveyed had never heard of!) or 10% of revenues. We believe this new technology could be transformative for **HTC** and also makes it a prime acquisition target. The company has a market capitalisation of US$1.8 billion and is trading on 0.5x P/S.

Solar

Our recent trip to Taiwan confirmed what we suspected. Namely that in 2016 there will be a huge increase in global solar panel manufacturing capacity, led by the Chinese, and this increase when properly understood in the context of global demand is borderline reckless.

Gintech, a Taiwanese solar cell manufacturer, gave us these statistics. In 2015 global supply and demand of solar panels was roughly in balance with global supply standing at around 65GW global capacity while global demand stood around 55GW. Indeed, this tighter supply-demand balance led solar panel average selling prices (ASP) to rise by 10-15% in 2015. However, in 2016 there has been a sharp reversal in this trend with ASPs down 10% and no sign of things stabilising.

The key reason for the fall in ASPs is the huge increase in solar panel manufacturing capacity which is underway. The Chinese suppliers, which combined account for 30% of solar panel manufacturing globally, are expanding capacity by 35% this year. Solar panel manufacturers in Taiwan and Europe are also expanding. As such the likely 10-15% increase in demand in 2016 will be far outstripped by the increase in supply.

This might fair badly for the companies in the commoditised parts of the solar value chain with no competitive edge; however, there are a handful of companies set to benefit from this massive increase in panel capacity. These companies include Gigasolar (silver paste), **Xinyi Solar** (solar glass) and low cost wafer makers such as **GCL Poly**, all of which should see big volume increases. In the case of **Xinyi Solar** when we visited the company in Hong Kong, management confirmed that the supply of solar glass is tight and pricing is responding accordingly.

There is much conjecture regarding solar subsidies globally, and in particular in China, but we believe we are approaching the point where such a discussion is missing the point. Gintech estimates that 10 cents per kilo watt hour places solar power at grid parity i.e. the point at which the cost of generating power via solar matches the cost of generating electricity using traditional power generation methods. Today, factoring in the cost of capital but excluding installation costs, solar power generation costs 12 cents per kilo watt hour. If you wanted to allow a margin for installation then this adjusted grid parity point for solar would be more like 8 cents per kilo watt hour. All of this said, given the expansion we are seeing in solar panel capacity, solar generation costs could fall to grid parity very quickly – in some markets within a year and in most markets soon after.

This creates a very strong backdrop for the likes of **Xinyi Solar**, **GCL Poly** and Gigasolar. To this end we have recently added two new positions in the fund in **Xinyi Solar** and **GCL Poly**.

Xinyi Solar is a leading supplier of solar glass with 24% market share. **Xinyi Solar's** leading market position is supported by its cutting edge technology and cost advantages. Inside ownership is high at 32% and the company has a strong balance sheet with low levels of net debt. ROEs have been rising recently from 12% in 2012 to 27% in 2015 owing to margin expansion and we believe this is sustainable over the long term. **Xinyi Solar** has a market capitalisation of US$2.7bn and is trading on 12x 2016e P/E.

GCL Poly is a leading polysilicon and wafer manufacturer for the solar industry in China with some exposure to solar farm operations via its 62% stake GCL New Energy Holdings as well. **GCL Poly** has a cost advantage in its polysilicon production process owing to its captive power plant which was set up in 2014 and its increasing usage of the 'fluidised bed reactor' method to convert silane gas to high purity silicon, a method which requires less power and less downtime compared to the Siemens' method which was originally used. ROEs reached a mid-teens level in recent years. **GCL Poly** has a market capitalisation of US$2.7bn and is trading on a 7.3x 2016e P/E

The point at which solar power reaches grid parity will also herald an incredibly important stage in the disruption of traditional energy generation and utilities. When Elon Musk opens his Gigafactory this year and starts selling Tesla Powerwall home battery packs then, as we have written last year, this disruption will move very quickly.

Electric Vehicles

As electricity gets cheaper and cheaper to generate it will be harder to resist buying an electric vehicle. This is difficult enough already when Tesla is launching such attractive cars with so many cool features.

Whether it is the Japanese announcing they will have 50,000 self driving taxis on the road by the 2020 Olympics or simply the traditional car makers looking to add smart technology to existing models – for example, electronic parking assistance and ADAS braking systems – or just straight electric vehicle sales, the trends are clear.

Electric vehicles are part of a big move by governments, particularly China, to move to a cleaner environment, cheaper cars and more home grown car manufacturing, for example BYD, which is famously owned by Warren

Buffet. Self driving cars are hot on the heels of this trend. All cars are adding huge quantities of sensors, wiring and cameras to fulfil all the new automated safety features.

This is a rich environment for investors as this trend has only just started. Tesla's early target of 50,000 vehicles by 2020 now looks very credible, yet if achieved this would still represent just 0.5% of global light vehicle sales in 2020!

Electric vehicle trends are also emerging in public sector transport. To gain exposure to this we have recently bought a holding **Yutong Bus**, the number one manufacturer of buses in China. As well as producing traditional commuter and long distance travel buses, **Yutong** also produces hybrid and electric buses and has been a pioneer in this new market since 2008. As of 2014 hybrid and electric buses accounted for 23% of sales and a higher percentage of profits because these 'new energy vehicles' earn significantly higher gross profit margins (30% for a hybrid bus and 35% for an electric bus versus 21% for a conventional bus sold in the domestic market). Owing to concerns over air pollution in China the government wants to see many of its buses converted to clean energy buses. As a reflection of this China became the largest EV bus market globally in 2015 with 60K shipments, up by 193% year on year. The company has a strong balance sheet with a net cash position and ROEs are high and have been for some time, sitting at 20-30% since 2008. **Yutong Bus** has a market capitalisation of US$6.9bn and is on 11.4x 2016e P/E. It is also worth noting that **Yutong** is a Chinese A-share.

A Final Word on Disruption

A thousand year old industry is under threat.

http://www.youredm.com/2016/05/07/drone-shows-replace-firework-shows/

Fireworks are to be replaced by drone displays. There are two lessons here. One is that no matter how long you have been in business you are vulnerable to technology disruption and secondly, that for many industries, not just firework makers, the future is already here. It is just not yet widely or evenly distributed.

PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 31.03.2016

	USD	GBP	SGD
1 Month	7.08	6.87	6.94
3 Months	-3.68	-3.66	-3.68
2015	-2.95	-2.10	-1.81
2014	1.08	1.59	1.29
2013	16.63	16.76	16.50
2012	24.68	24.36	23.95
Since Launch+	88.45	50.43	5.33
Annualised 5 years	2.05	2.34	2.10
Annualised 3 years	0.08	0.39	0.43
Annualised Since Inception	6.23	4.29	0.84

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.

Monthly Performance Summary (%)

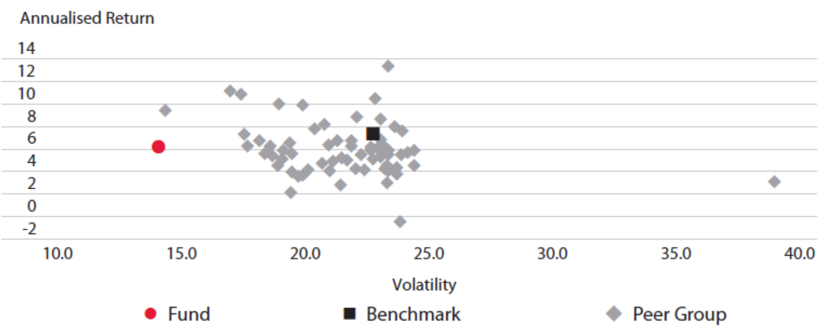
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2016	-8.91	-1.24	7.08										-3.68
2015	1.57	0.07	1.23	4.06	-0.96	-1.83	-3.40	-7.67	-1.41	6.77	-0.60	-0.11	-2.95
2014	-3.15	3.04	-0.56	-3.44	2.15	2.91	2.08	4.20	-4.06	0.95	-1.12	-1.48	1.08
2013	6.68	3.52	-0.45	1.73	0.09	-7.21	3.75	-3.21	4.60	4.19	1.92	0.66	16.63
2012	5.81	6.55	-0.38	3.08	-6.93	0.67	4.33	-2.54	6.47	0.24	2.45	3.39	24.68
2011	-2.27	-0.70	1.19	1.23	-0.86	0.30	4.32	-11.95	-8.24	-0.55	-4.02	-0.52	-20.89
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	-2.66
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	26.59
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	-20.84

RISK ANALYSIS

Risk Metrics	**Fund (%)**
Beta	0.57
Alpha (%)	2.03
Sharpe Ratio	0.44
Volatility (%)	14.09
% of the portfolio –which could be sold in 2 business days	86.73

Source: Bloomberg
Since Inception: A: 07.10.05

Risk Adjusted Performance - Class A USD (%)



Source: Bloomberg. Annualised return and 1 year volatility versus the peer group (open ended offshore Asia Pacific ex Japan Equity Fund Index), 7.10.05 to 31.03.16

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Newcrest Mining Limited	4.9
AIA Group	4.8
Beijing Capital International Airport	4.7
Vietnam Dairy Products	4.6
Pacific Textiles Holdings Ltd	4.2
Total Number of Holdings	29

Thematic Breakdown (%)

Vietnam	21.7
Smart Textiles	13.6
Financials	11.7
Infrastructure/Logistics/Property	11.0
Local Brands	10.0
Internet	8.5
Leisure/Tourism	5.2
Other	4.9
Electric Car	3.9
Telecoms	3.1
Healthcare	2.6
Virtual Reality	2.3
Cash	1.7

Portfolio Financial Ratios*

Predicted Price/Earnings Ratio	16.9x
Predicted Return on Equity (%)	15.5

* Fiscal year periods

Geographical Breakdown (%)

Hong Kong/China	41.9
Vietnam	21.7
Australia	10.8
India	6.0
Taiwan	5.4
Korea	3.9
Thailand	3.3
Philippines	2.8
Indonesia	2.6
Cash	1.7

All data as at 31.03.16. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size (US)	62.4m
Launch Date	7 October 2005
Fund Structure	UCITS III
Domicile	Dublin
Currencies	USD (base), GDP, SGD

Management Fees

Annual Management Fee
1.5% p.a Paid monthly in arrears
Class U – 1% 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 total returns will be applied.

Class U: 10% of the net out-performance of the MSCI Asia Pacific ex Japan Index with a high-water mark paid quarterly

Dealing

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

Share Class Details

Codes

Class 1			SEDOL	ISIN	Month end NAV
A USD	Unhedged	Non Distributing	B0MDR72	IE00B0M9LK15	188.45
B USD	Unhedged	Distributing	B0M9LL2	IE00B0M9LL22	188.57
C GBP	Hedged	Distributing	B18RM25	IE00B18RM256	103.87
D SGD	Hedged	Distributing	B3LYLK8	IE00B3LYLK86	262.37

Performance fee based on individual investors' holding.

U GBP	Unhedged	Distributing	BBQ3756	IE00BBQ37560	114.11

Performance fee based on fund performance as a whole.

Fund Manager

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

Sales & Marketing

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

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