



GROWTH INVESTING IN ASIA

Prusik Asian Smaller Companies Fund

Quarterly Investment Report
29 December 2017

FOR PROFESSIONAL INVESTORS ONLY

PASCF 4Q17 Quarterly Report

During the fourth quarter the fund rose 5.8% in dollar terms, which brings to a close the full year in which the fund gained 17.5%. Whilst in absolute terms this is an attractive number, it was a result that lagged the main M2APJ index. The main reasons were that the index return this year was dominated by China and a very narrow selection of large cap stocks. Indeed, just Samsung Electronics, TSMC, AIA, Tencent and Ping An Insurance drove around 20% of the index return. We expect this to broaden this year as the recovery takes hold and smaller companies, which lagged over the year in general, should be beneficiaries of this in 2018.

Below we have a detailed breakdown of performance in each geography and theme over both periods.

4th Quarter Review

Themes

The best performing themes in 4Q17 for the Prusik Asian Smaller Companies Fund in terms of return on capital invested were leisure and tourism, modern retail and financialisation. As well as these top 3 performing themes, local brands also generated a return on capital which was above the index return. Around 72% of the portfolio was invested in these outperforming themes. During the quarter no theme generated a negative return on capital.

In terms of absolute attribution, the key positive contributors to performance in the quarter by theme were modern retail, financialisation and local brands. See the table below for more details.

Theme	PASCF Absolute Attribution 4Q17
Modern Retail	3.04%
Financialisation	1.40%
Local Brands	1.36%
Leisure & Tourism	1.31%
Infrastructure	1.08%
Communication Tech	0.54%

Source – Prusik/Bloomberg

Geography

For absolute attribution by geography, India was the biggest contributor to performance in 4Q17, followed by Vietnam and Cambodia. Pakistan and our ASEAN focused, ecommerce and mobile gaming company, listed in Singapore, were a slight drag on performance.

In terms of relative performance by geography, the Prusik Asian Smaller Companies Fund outperformed the local MSCI index in Cambodia, Sri Lanka, Philippines and India. The fund saw some slight underperformance relative to the MSCI local index in Indonesia and more marked underperformance in Pakistan and Vietnam.

Our Cambodian exposure, which we initiated in the fourth quarter, comprises the leading casino in the country, **Nagacorp**. Our investment here has performed well in response to the successful opening of a new casino which significantly expands capacity.

In Sri Lanka, **Hemas**, having corrected sharply in the third quarter on little news flow, returned to form towards the end of 2017. In the Philippines, **Philippine Seven** had a strong finish to the year as the company's recent aggressive store expansion boosted profitability. In addition, sentiment surrounding consumer stocks in the Philippines benefitted from the government's announcement regarding tax cuts. In India, many of our holdings which had taken a breather during the third quarter in reaction to the initial GST fallout, regained their lost ground and more in the fourth quarter. **Bajaj Electricals**, **Phoenix Mills**, **Crompton Greaves** and **Shankara Building Products** all delivered double digit returns over the period.

The weakness of our holdings in Pakistan, relative to the market, was largely on account of our small cap exposure, which fared worse than the overall market.

In the case of Vietnam, the relative underperformance primarily came down to the MSCI Vietnam index being driven by a 36% weighting in Vinamilk, the largest blue chip consumer stock in Vietnam. Vinamilk rose 70% during the full year, which heavily distorted the index over all periods. Another index heavyweight VinGroup also contributed to this distortion. Please see the table below for more details.

	PASCF Weighting (%)	PASCF Return (%)	Index Return (%)	PASCF Relative Performance (%)
Cambodia	2.9	27.5	3.9	23.7
Sri Lanka	7.4	3.9	-5.2	9.2
Philippines	4.5	13.3	6.5	6.7
India	31.0	15.1	11.8	3.3
Indonesia	12.1	3.3	8.1	-4.9
Pakistan	5.9	-21.2	-5.2	-16.0
Vietnam	26.9	12.7	36.3	-23.6

Source: Prusik/Bloomberg

From a stock perspective, the top contributors to performance were Vietnam software company, **FPT**, Indian home appliances brand, **Bajaj Electricals**, and Indian shopping mall operator, **Phoenix Mills**. The biggest detractors were our home appliances company in Pakistan, **Pak Elektron**, Taiwanese IC company, **Advanced Ceramic** (our final non-demographic growth holding) and our ASEAN focused, ecommerce and mobile gaming company, **Sea Ltd**.

2017 Summary

The best performing themes during the year in terms of return on capital invested were clean energy, modern retail and communication tech. Only the legacy smart textiles theme had a negative return on capital in 2017 and this was sold during the year.

In terms of absolute attribution, the key positive contributors to performance in 2017 by theme were modern retail, local brands and communication tech. During the year, we exited the clean energy theme owing to high valuations after strong performance. We also exited the remainder of our smart textiles theme where margins were coming under pressure. Please see below for more details.

Theme	PASCF Absolute Attribution 2017
Modern Retail	8.09%
Local Brands	4.87%
Communication Tech	4.65%
Infrastructure	3.82%
Clean Energy	1.87%
Leisure & Tourism	1.69%
Financialisation	0.89%
Smart Textiles	0.03%

Source: Prusik/Bloomberg

2017 Performance by Geography

For absolute attribution by geography, Vietnam was the biggest contributor to performance in 2017 followed by India and Indonesia. Pakistan was a drag on performance.

From a relative perspective over the full year, the fund outperformed against each MSCI country index in Cambodia, Indonesia and Sri Lanka. Elsewhere, it underperformed. The primary drivers of the underperformance were **Max's Group** in the Philippines, the housing finance companies in India and our exposure to small caps in Pakistan and Vietnam which fared worse than their larger counterparts. In the case of Vietnam in particular, the relative underperformance came down to the distortion coming from the large MSCI index weighting to Vinamilk, as discussed above.

	PASCF Weighting (%)	PASCF Return (%)	Index Return (%)	PASCF Relative Performance (%)
Cambodia	1.1	25.5	-2.1	27.6
Indonesia	8.9	40.6	25.2	15.4
Sri Lanka	6.1	17.8	2.9	14.9
Philippines	8.1	19.2	24.6	-5.4
India	22.4	33.4	38.9	-5.5
Pakistan	8.8	-36.4	-23.0	-13.4
Vietnam	24.6	48.0	64.9	-16.9

Source: Prusik/Bloomberg

From a stock perspective, the top contributors to performance over the year were Vietnamese consumer electronics retailer **Mobile World**, software services and telecom services company, **FPT Corp**, and convenience store retailer, **Philippine Seven**. The biggest detractors were Pakistan consumer electronics brand, **Pak Elektron**, **Habib Bank** in Pakistan and Philippine restaurant chain **Max's Group** (which was sold during the year).

It is worth noting that at the time of writing over 13% of the fund is invested in stocks in Vietnam where the foreign share register is closed and a significant price premium of over 20% exists for foreign registered shares. We are long term holders of these companies but should we sell them at this time, then a significant uplift in value would be realised for the fund.

Portfolio Outlook

Through the course of 2017 we have been working hard to radically reposition the Prusik Asian Smaller Companies Fund to be invested in one of the most exciting growth opportunities in Asia – Asia's demographic growth markets. The fund is now 100% invested in – and will continue only to invest in – India, Indonesia, Philippines, Vietnam, Pakistan, Sri Lanka, Cambodia and Bangladesh. Combined, these countries have a total population of 2.2 billion people (note that this excludes China), a median age of 27 years old and an average GDP growth of 6.2% per annum, nearly double the GDP growth of Asia's more developed markets such as China, South Korea, Thailand and Taiwan. Moreover, given that GDP per capita in the Asian demographic growth markets is just one tenth that of Asia's more developed markets, plus the fact that these are very youthful populations, we would expect superior GDP growth rates in the Asian demographic growth markets to continue for many years to come. This creates an excellent backdrop for identifying smaller companies with high and sustainable profit growth over the long term.

The fund is focused on 5 main themes, namely modern retail (capturing the shift from unorganised to organised retail), local brands (capturing the ability of local brands to better cater to local tastes versus multi-national companies), financialisation (catering to the increasing shortage of wealth management in Asia despite big savings rates), communication tech (as these nations becoming more connected and live life online) and infrastructure.

Our companies are market leaders and / or businesses with a clearly identifiable competitive edge, strong balance sheets and which generate high and / or rising return on equity. The fund is highly concentrated with a total of 38 holdings. At the time of writing, it trades on 14.7x P/E, roughly in-line with Asia standard and Asia small cap index (3-4% premium for the fund). The ROE for the fund stands at 17.6%, nearly double that of the Asia standard index and nearly 1.5x higher than the Asia small cap index.

General Outlook

'Nothing is so firmly believed than that which we least know'

Michel de Montaigne

2017 generated some extraordinary returns for a surprisingly narrow number of companies in Asia, frustrating anyone who was underweight the region and even some who were already invested, but more defensively. It also challenged a widespread cognitive and emotional bias that China was to be avoided, a viewpoint which remains prevalent outside of the region even after the country announced 2017 GDP growth above expectations at 6.9% and delivered a strong year of equity performance.

Whilst we do not consider ourselves to be macro experts in any way, we believe there are possibly two more widespread biases which may also be challenged this year, namely that the oil price will remain low and that inflation is not a risk. These, plus the bias against China, are all interlinked up to a point.

Firstly, the key debate this year is whether China can repeat such a strong year of growth or whether this is a year for the government to rein in growth and focus on debt repayment. We think it is most likely that we will fall somewhere between the two, with the chosen government areas for development doing well, whilst new debt is increasingly bought back onto banks' balance sheets. However, we would caution that whatever growth China posts in 2018, higher or lower than 2017, we do think that China has changed its internal landscape for pricing going forward and that the years of overcapacity and oversupply are now gone. It follows that the era in which China exports deflation is also behind us. In the future we are more likely to see China exporting inflation.

We have been pointing out China's dramatic supply side reform for several quarters now and it is plain to see that China has successfully consolidated many key industries including its coal and steel industries. The recent rises in coal and steel prices, globally, bear witness to this; in fact, the supply-demand balance may even have become too tight.

In addition, China's increasing secular labour shortage is becoming more apparent as evidenced by continuing wage increases. This is creating further inflationary pressures both from a wage-driven cost perspective and from a demand-led perspective as spending power rises. In short, inflationary forces in China are gathering momentum.

Viewed in this context, it is perhaps less surprising that in recent weeks we have seen China raise pork prices by 8%, air travel by 10% and premium liquor by 18%. With real interest rates now hovering close to zero or negative, and the likely knock on effect of spurring a new mobilization of savings domestically, we do not expect these inflationary pressures in China to ease any time soon. Higher inflation in China will affect a portion of the global inflation basket - some estimates suggest by around 13% - which is not insignificant.

Oil is another area where there exists a strong cognitive and emotional bias. We believe that China's demand for oil will rise faster than expected before electric vehicles are numerous enough to compensate or supply can properly respond. Whilst we do not expect this to get totally out of hand, one risk for this year is that oil is an even bigger problem for inflation numbers, globally, than China's export prices.

To summarise, China's economy is currently strong, supply side reform is kicking in and domestic wages, profitability and ultimately prices are rising. Oil demand, in our view, is likely to surprise on the upside in this environment. Outside of China we will experience rising prices for key goods whether they were manufactured in China or we are simply just competing with demand from China. China's tendency for dumping cheap goods is a thing of the past. All in all, inflation is not something we are likely to be able to ignore in 2018.



Source: Stockcharts.com/13D

The above chart of the relative performance of a TIPS bond ETF versus a Treasury 7-10 year bond ETF shows how the effect of these inflationary pressures is already breaking a 15 year trend in financial markets.

In this environment it is likely that performance will be seen from sectors we have not invested in for more than a decade such as coal, metals, shipping, energy, food and Chinese banks. Indeed, this year, possibly the biggest challenge will be overcoming the decade old preconception that favours investing in 'quality defensives' and which expects no cycle. If the above trend continues we will also see a dramatic shift towards reflation markets such as Asia and Emerging Markets. As the chart above suggests, we are still at the very beginning of a huge turnaround in some very long term trends.

Why Invest in Small Cap Asia?

A client recently asked us this question and here is our reply.

The received wisdom for small caps is that they typically outperform standard indices over the long term. The performance of the Asian ex-Japan standard index versus the Asian ex-Japan small cap index (herein after referred to as the Asian standard index and Asian small cap index) from the end of 1996 to the end of 2017, however, would suggest otherwise. During this period, the standard Asian index has returned 264.2% in US dollar terms, whilst the Asian small cap index has returned 67.2%, marking an outperformance for the standard index of 197.1%. Certainly, small caps have outperformed in individual years during this period (roughly 40% of the time with the frequency of the outperformance increasing dramatically since 2009) but one would assume that investors allocating capital to small caps would be doing so with the expectation of generating significant returns, and thus outperformance, over a time frame of several years (Source: Bloomberg, Prusik).

Importantly, there are a number of reasons why performance of the Asian small cap index may not be a good indicator of potential Asian small cap fund performance over the long term.

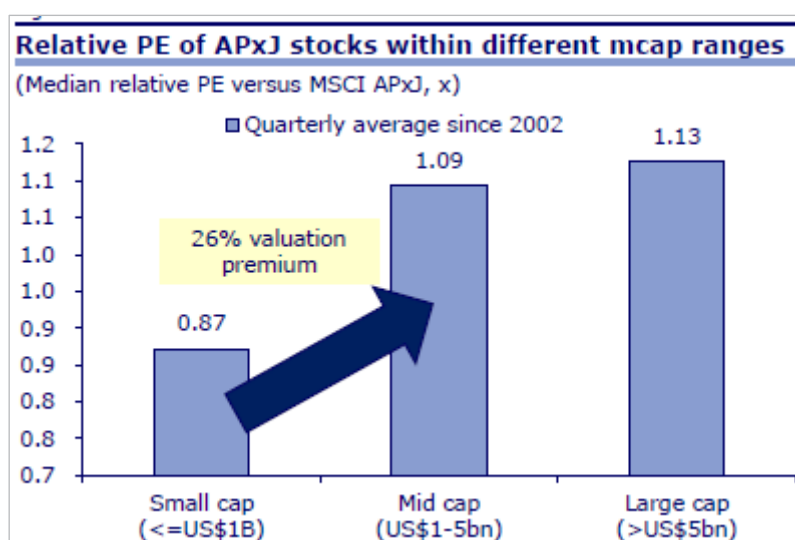
Firstly, small caps by nature of their size have a greater chance of remaining small or even shrinking compared to their larger counterparts, which typically have more entrenched competitive positions. With this in mind, if you adjust the performance of the Asian small cap index for the shrinking and failed businesses, then the performance of the Asian small cap index improves dramatically. Of course, it goes without saying that if you strip out the worst performers of any index that performance will improve, but the key point here is that a small cap index has a far greater proportion of poor performers owing to the higher business risk which comes hand in hand with being a smaller company (Source: UBS).

Secondly, it is very unlikely that a small cap fund would seek to replicate or even closely resemble the small cap index of the universe it is investing in. Indeed, liquidity and trading costs alone would typically preclude this. As such, one should not necessarily expect small cap index-like returns for a small cap fund. Indeed, this may be one of the few bastions of equity investing left for which an active manager is a prerequisite.

So, if we can see that performance of the Asian small cap index may not be a good indicator of potential Asian small cap fund performance over the long term, what are the factors which enable Asian small cap funds to generate above index returns over the long term, or to put it differently, what are the key attractions of investing in Asian small cap funds?

One of the most compelling reasons for investing in Asian small caps is the potential to maximise one's exposure to 'multi-baggers' (defined as a stock which returns over 200% over a 5-year time period). The statistics here are important. The chance of investing in a 'multi-bagger' when investing in the Asian large cap space is 9%. However, by choosing to focus on Asian small caps this chance increases to 15%. Further still, if you adjust for companies with strong earnings track records and higher than average ROE versus the universe then the chance of buying a 'multi-bagger' when investing in Asian small caps increases to 22% (Source: CLSA). In other words, by investing in Asian small caps you can more than double your chance of buying a 'multi-bagger' from 1 in 11 times to 1 in 4.5 times when compared with investing in Asian large caps.

In addition, investing in Asian small caps also presents an opportunity to benefit from the re-rating which stocks undergo as they transition from being Asian small caps to Asian mid-caps. Indeed, stocks with a market cap of less than US\$1 billion in Asian trade at a 26% discount to their mid cap peers (Source: CLSA). The re-rating occurs as a result of Asian mid-caps receiving more institutional interest versus small caps, greater coverage from the sell side and potentially index inclusion.



In summary, while long term performance data calls into question the received wisdom that Asia small caps outperform over the long term, this data is likely misleading on account of the Asian small cap index performance being negatively impacted by a higher proportion of business failures, plus the unlikelihood of an Asian small cap manager closely replicating the Asian small cap index. Importantly, Asian small caps as an asset class offer two key attractions. Firstly, investing in Asian small caps can more than double your chance of investing in 'multi-baggers' versus investing in Asian large caps. Secondly, investing in Asian small caps offers the opportunity to benefit from the re-rating that occurs for stocks which transition from small cap to mid-sized market capitalisations.

Why Now?

So why invest in Asian small caps right now? During the past 20 years, there have been times when Asian small caps have witnessed periods of underperformance for 3 consecutive years. Such periods, however, are concentrated around the time of the Asia crisis. Interestingly, since 2005, we have not seen periods of underperformance for Asian small caps exceed more than one calendar year. Fast forward to now and Asian small caps underperformed in both 2016 and 2017. As such, this represents the first time in more than a decade that Asian small caps have underperformed for two calendar years. Based on performance trends since 2005, it would be unusual for Asian small caps to continue to underperform in 2018.

From a more fundamental perspective, an important point to understand when addressing the “Why now?” question for Asian small caps relates to earnings growth. **One of the key differences between the Asian standard index and the Asian small cap index in 2017 was that the former saw its aggregate forecast earnings revised up by 10%, while Asian small caps saw their aggregate forecast earnings revised up by just 1%.** Should Asian small caps see greater forecast revisions in 2018 we would expect Asian small caps overall to generate much stronger returns. With global growth, we believe, now improving, and with Asia being no exception to this, we think it is reasonable to see it as only a matter of time before the forces driving faster earnings growth for Asian large caps filter down to Asian small caps.

Vietnam

Vietnam ended the year as the best performing market in Asia, driven by strong inflows from foreigners into the equity market as well as healthy local investor support. However, digging into the details reveals that the breadth of the market in Vietnam in 2017 was narrow, as in other markets, with just 10 of the larger companies contributing over 70% of the VNI index rise. This means that although headline valuations in Vietnam are beginning to look similar to other markets (15x 2018 earnings), the reality is that beneath the largest companies valuations are still much more attractive than the headline numbers suggest. We expect to see the market broadening in 2018 and that, in general, sentiment will remain positive.

A further driver in 2017 was the huge number of IPOs as the government sold off state assets as well as successful divestments from existing private companies. We expect this pipeline to remain very active in 2018, which does bring the risk of indigestion at some point. However, the overall impact of the new listings to date has been to broaden the market scope, introducing many new and sought-after consumer companies to investors such as brewery company, Sabeco, airline, Vietjet and consumer banks such as HD Bank. This has also significantly increased daily volumes which were very low prior to this year. As a result, Vietnam is now on the investment radar of many more foreign fund managers than it was a year ago.

The Vietnamese economy itself currently looks set to grow by another 7% in 2018 driven by more direct manufacturing investment, especially by technology companies which bring large and very high-end manufacturing capability to Vietnam. It is also growing as a popular tourist destination within the region whilst local consumption is rising impressively. In 2018, it is possible that Vietnam’s oil and gas sector, as well as agriculture, could also make a more meaningful contribution to overall GDP growth. In short, it is one of the currently more successful Asian economies, aided by its youthful population and clear regional niche in the manufacturing sector.

Further catalysts for 2018 include more companies actually raising foreign ownership limits and the possibility that Vietnam may be considered for inclusion in the Morgan Stanley EM index. This is a step forward that Vietnam did not make in 2017 but which would add further fuel to the fire at this stage. Meanwhile, company earnings are forecast to grow in the high teens in 2018.

The risk of course is that the economy or stock market overheats. Given inflation is likely to remain below 4% this year, the main risk is that the stock market becomes too popular and valuations cannot be sustained. We remain invested in Vietnam but remain vigilant on valuations. We will be visiting the country for a week in March to attend a conference.

Leisure and Tourism in Vietnam

Airports across Vietnam are estimated to have served a total of 94 million passengers in 2017, up 16% year on year, according to the Airports Corporation of Vietnam (ACV). Currently, as many as 67 foreign airlines and four domestic ones are operating in Vietnam. In the past 20 years, the number of passengers to Vietnamese airports has risen by 17 times, while the number of flights has increased by 5.3 times.

In 2017, Vietnam is estimated to have attracted nearly 12.9 million foreign tourists, up an impressive 29.1% year on year, according to the latest figures from the General Statistics Office (GSO). During the year, Vietnam is likely to have received 9.8 million tourists from Asia, 1.9 million visitors from Europe, and 817,000 holidaymakers from America, which represents respective year on year growth rates of 34.4%, 16.6% and 11.1%. From within the region, South Korea took the lead in terms of tourism growth rate during the year followed by China and Russia.

In December, Vietnam is likely to have welcomed 1.3 million international visitors, which was the ninth consecutive month from the beginning of the year which saw over one million foreign tourists visit the country. In 2017, Vietnamese agencies implemented various tourism promotion roadshows in foreign countries including Australia, Japan and numerous European and ASEAN countries. Vietnam recently added six more countries to an existing list of 40 countries which are applicable for e-visas when entering Vietnam.

We expect Vietnamese air travel to continue to rise over time. This will be driven by the local middle-class travelling more domestically and abroad and Vietnam's rapidly rising reputation as a great holiday destination, on par with Thailand for beautiful beaches and good food.

To this end we have recently added a new position in Vietnam, **TASECO Air Services**, which is very much geared into the growing air travel and tourism industry in Vietnam. We have set out details on this stock, plus three other recent additions to the fund below. Our new additions sit within our local brands and financialization themes as well as our leisure and tourism theme.

TASECO Air Services

Taseco Air Services is one of the few plays on tourism in Vietnam other than the airlines and airport management companies. Its main businesses are a number of food and beverage and souvenir shops at Noi Bai (Hanoi), Danang and Phu Bai (Hue) airports where the company has a 30% share in non-cargo airport services. It also owns a four-star hotel in Danang and a 40% stake in an in-flight catering and services company which covers Hanoi, Danang, Cam Ranh and Hue and which has a growing market share. This company also provides storage, cold and cool storage, logistics and tax-suspension warehouses, laundry services and other products such as newspapers, flowers etc. **Taseco** has a market cap of around \$100 million and is on 2017 P/E of just 11.0x.

In the first nine months of last year, **Taseco Air** made VND480 billion in revenue, up 139% year on year. Pretax profit for the company was VND135 billion, up 420% year-on-year, while post-tax profit reached VND110 billion, nearly four times the same period last year.

Muhibbah Engineering

Muhibbah Engineering is a Malaysian listed company with business operations spanning construction, shipbuilding and oil and gas services, both in Malaysia and overseas. It also has a 62% stake in a leading crane services provider, Favelle Favco, which is also listed in Malaysia. The company was founded in 1972 and listed in 1994. Whilst the legacy business could benefit from an uptick in global growth and increased infrastructure spending in Malaysia courtesy of rising inward investment from China, the primary attraction for this company is its 21% stake in SCA, the operator and manager of Cambodia's 3 main airports, Phnom Penh, Siam Riep and Sihanoukville. In recent years, the associate profits from this stake have accounted for 30-40% of **Muhibbah's** pre-tax profits but this is expected to rise to 50% post the impact of significant capacity expansions which were completed at the end of 2016. Total airport capacity for these 3 airports now stands at 13.5 million passengers. The capacity expansions have facilitated an acceleration in passenger growth. In 2016, passenger growth for the Cambodian airports was 9%, but in 9M17, passenger growth was 26%. International passengers account for the majority of the traffic with the Chinese ranking as the highest percentage of international passengers. The value of this stake is currently estimated at Rm 667 million. Factoring in this, plus a 16x P/E multiple for the construction profits, a marked to market value for the stake in Favelle Favco, a 12x multiple for the shipyard, Rm 10 per square foot for the land on the balance sheet and assuming the stock does not trade at a discount to its NAV, this yields a fair value per share of Rm 4.31 / share or 34% upside from the current share price of Rm 3.23 / share. In addition, management are looking for airport management opportunities in Indonesia which, if executed well, could also prove to be value accretive. Finally, **Muhibbah** has an outstanding claim from a stalled project from 2013 which has recently been revived post investment from the Chinese. If **Muhibbah** is fully compensated for this outstanding claim then this would add an additional Rm 0.79 / share to the NAV.

Local Brands

John Keells Holdings

John Keells Holdings is a blue-chip conglomerate listed in Sri Lanka with operations spanning leisure, transportation, ports, plantations, consumer food and retail, IT and financial services. The largest contributor to sales and profits is the consumer food and retail business, which accounts for 38% of sales and 22% of profits as of FY17. The business was incorporated in 1979 and listed in 1986.

Sri Lanka entered an IMF programme in June 2016, receiving a US\$1.5 billion loan and a clear framework for stabilising numerous economic parameters for the country. Despite this improved financial and strategic support, the Sri Lankan economy saw slower economic growth in 2017 versus 2016, growing at 4.4%, owing to a number of very extreme weather events. As such, and noting that China is also making several new, large infrastructure investments in Sri Lanka's ports and land reclamation, we believe that the Sri Lankan economy is now poised to see higher GDP growth in 2018 and we wanted to increase our exposure to this market. Investing in **John Keells** is an opportune way to do this owing to the company's leading supermarket and branded consumer goods business which has been growing at over 20% in recent years and which operates in a market where the penetration of both organised retail and branded consumer goods remains very low. In addition, tourist arrivals for Sri Lanka have been growing strongly for a number of years and **John Keell's** hotel operations are well placed to benefit from this. Its port operations are now operating at over 70% capacity and capacity expansions are in the pipeline. Finally, the quantitative scores for the stock recently turned very positive and the valuation looks attractive with the stock having de-rated nearly 10% since mid-2017. At the time of purchase, the stock was trading at a 22% discount to its 10 year average 12 month forward P/E or 12.9x P/E.

Financialisation

Edelweiss Financial Services

Edelweiss Financial Services is a diversified non-bank financial company in India. Its 3 main businesses are credit comprising distressed credit, retail credit and corporate credit, brokerage and wealth management. It encapsulates well our financialisation theme giving the fund, in particular, exposure to the nascent wealth management industry in India and with very impressive management.

Edelweiss is the number one player in distressed credit which involves buying distressed debt from the banks. Given the high proportion of stressed assets in the Indian banking system it is unsurprising that management believe that this part of the business is on the cusp of a "large growth phase". Its retail credit business is also seeing rapid growth on the back of high demand for mortgage financing. In brokerage, **Edelweiss** is the number one player amongst the domestic Indian brokers, whilst in wealth management, **Edelweiss** is the number three player behind Kotak and IIFL. Importantly, **Edelweiss'** target market is distinct from Kotak and IIFL. Whereas the latter focus more on high-end wealth management, Edelweiss targets the high-end mass market and is explicitly looking to replicate Charles Schwab's model in India. **Edelweiss** set up its wealth management business in 2010 and already has US\$9 billion in assets under administration. In addition, this part of the business saw its assets double in size in the last year.

Overall, management believe their businesses are sub-scale and that as the businesses grow, they will see marked improvements in profitability due to operating leverage. For example, the cost to income ratio for the wealth management business is 70-75% but this should fall to 60-65% once assets under administration grow to US\$14-15 billion. They also believe that **Edelweiss** can improve its credit rating and benefit from a lower cost of funds as a result. On an aggregate basis, management expect the business to deliver 40% profit growth per annum for the next 2-3 years and for the ex-insurance ROE for the business to increase from 18% to 22%.

Having met with the company in June last year and reported on our positive findings to the team, we had a follow up meeting in India with the promoter. This provided valuable insights into the company culture and management's long-term vision for developing the business and enhanced our positive view of the company.

Edelweiss has a market capitalisation of US\$4.1 billion and is trading on 5.2x P/B and 22.0x P/E. In mid-2016 a Canadian pension fund bought a 20% stake in the company for US\$750 million which gave an implied value for the company at the time of US\$3.75bn or just a 9% discount to the current market cap.

PORTFOLIO PERFORMANCE

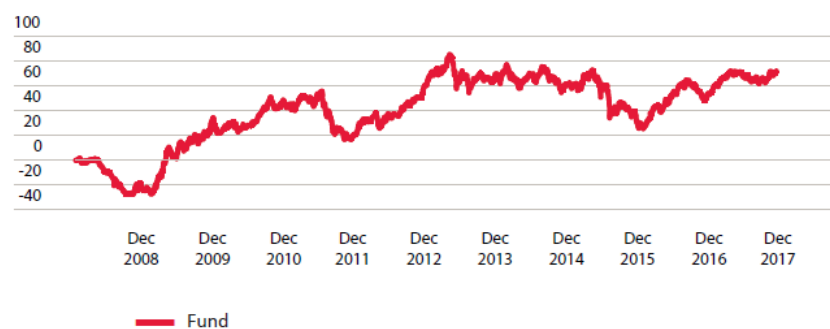
Performance Summary (%)
Period ending 29.12.2017

	A-USD	C-GBP	D-SGD
1 Month	0.47	0.27	0.41
3 Months	5.82	5.39	5.67
2017	17.49	15.88	16.74
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 ⁺	75.24	83.18	28.55
Annualised 5 years	2.64	2.60	2.66
Annualised 3 years	3.16	2.99	3.14
Annualised Since Inception	5.83	6.39	3.21

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 (%)

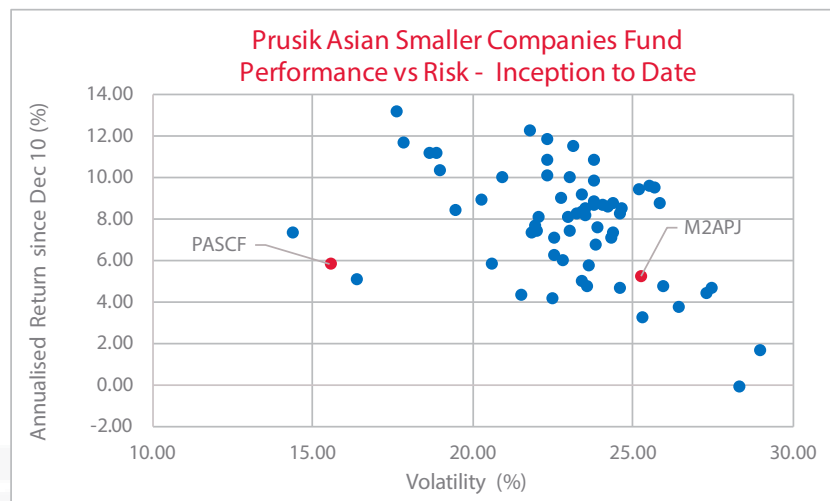
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2017	3.51	4.55	2.74	2.64	-0.86	2.35	-1.95	-1.54	-0.68	0.69	4.61	0.47	17.49
2016	-6.98	-0.67	8.76	2.98	0.65	4.49	2.57	3.55	0.17	-1.10	-3.51	-3.04	7.14
2015	1.25	-0.11	-2.04	7.23	1.21	-5.33	-1.78	-11.48	-2.63	4.83	-2.71	-0.78	-12.78
2014	0.21	3.58	-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	0.57
Alpha (%)	2.69
Sharpe Ratio	0.58
Volatility (%)	15.54
% of the portfolio –which could be sold in 2 business days	76.72%

Source: Morningstar

Since Inception: A: 08.02.08










Source: Morningstar

THEMATIC & GEOGRAPHICAL BREAKDOWN**Top 5 Holdings (%)**

Mobile World Investment Corporation	7.0
FPT Corporation	6.9
Philippine Seven Corporation	4.0
Phoenix Mills Ltd	4.0
Bank Tabungan Negara Persero	3.5
Total Number of Holdings	37

Thematic Breakdown (%)










Local Brands	24.5	
Modern Retail	22.0	
Infrastructure	14.2	
Financialisation	13.9	
Communication Technology	13.4	
Leisure/Tourism	6.1	
Cash	5.8	

Portfolio Financial Ratios*

Predicted Price/Earnings Ratio	14.9x
Predicted Return on Equity (%)	16.4
Predicted Dividend Yield (%)	2.2

* Fiscal year periods

Geographical Breakdown (%)

India	35.0	
Vietnam	28.2	
Indonesia	10.0	
Sri Lanka	7.7	
Cash	5.8	
Pakistan	4.9	
Philippines	4.0	
Cambodia	2.9	
Singapore	1.5	

All data as at 29.12.2017 Source Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS**Fund Facts**

Fund Size (USD)	54.9m
Launch Date	8 February 2008
Fund Structure	UCITS III
Domicile	Dublin
Currencies	USD (base), GBP, SGD

Share Class Details

Class 1			SEDOL	ISIN	Month end NAV
A USD	Unhedged	Non Distributing	B2PKN21	IE00B2PKN210	175.24
B USD	Unhedged	Distributing	B2PKN32	IE00B2PKN327	171.25
C GBP	Hedged	Distributing	B2PKN43	IE00B2PKN434	89.01
D SGD	Hedged	Distributing	B3M3HJ5	IE00B3M3HJ55	235.26

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.

Performance fee based on individual investor's holding

Class U			SEDOL	ISIN	Month end NAV
U GBP	Unhedged	Distributing	BBQ37T7	IE00BBQ37T77	114.11

Performance fee based on fund performance as a whole

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

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