PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asian Smaller Companies Fund

Quarterly Investment Report

30 June 2015

FOR PROFESSIONAL INVESTORS ONLY

PASCF Quarterly June 2015

During the second quarter the Prusik Asian Smaller Companies Fund rose 2.75%, 3.6% ahead of the index, which fell 0.9%. This represented a stronger absolute and relative performance for the fund compared to the first quarter. We feel that the significant restructuring of the portfolio undertaken in the January to March this year, towards a shorter list of high conviction stocks and themes, is already starting to bear fruit.

The biggest contributors to performance during the quarter were all in our infrastructure theme in China, namely **Beijing Urban Construction Design & Development** (metro design company), **Wasion** (smart meters) and **Jiangnan** (ultra-high voltage cables). Stocks in our financialisation theme also did well, especially **Syarikat Takaful** (Shariah insurance company operating in Malaysia) and **iFAST** (online wealth management / robo-advice platform listed in Singapore, but servicing across ASEAN).

Elsewhere the smart textile theme was very strong, driven partly by **NIKE** delivering higher than expected earnings growth but also in response to our holdings in this theme producing good numbers themselves. Taiwanese yarn dyer, **Toung Loong Textile Manufacturing** was a key contributor to performance in the quarter.

Consumption stocks continued to do well too, especially **Philippine Seven**, the 7-11 franchise and **Distilleries Co of Sri Lanka**, a company which we will return to in more detail later.

Finally, Vietnam also had a very strong quarter, driven mainly by the government announcement that foreign ownership limits for listed companies will finally be raised. In addition, Vietnam is showing strong GDP growth owing to the huge Foreign Direct Investment (FDI) flowing into the country's manufacturing sector. Textiles companies have played a significant part in this (more on this below) as have technology companies such as **LG Electronics**, **Samsung Electronics** and **Intel** as they look for a second manufacturing base after China.

Portfolio Activity

Following a large number of changes to the portfolio in the first quarter, portfolio activity in the second quarter was relatively quiet. One of the key changes we made was to exit two positions in Indonesia owing to growing evidence that the economy is faltering and valuations remain unsupportive. Since exiting Indonesia altogether the market has fallen by 10%.

We also made some changes in India, selling software company **Persistent Systems** and agricultural business **Kaveri Seed**. Although we remain positive on the long term growth outlook for these two companies, we believe the attractions of a new stock we have recently bought in India, **Eros International**, were far greater and so we exited these two holdings for opportunity cost reasons. **Eros International**, which we will expand on later, fits into our leisure and entertainment theme and should also be a beneficiary of rising internet penetration in India.

Finally, following an in depth assessment of the company's M&A activity and substantial related party transactions, plus our conclusion that the valuation could no longer be justified, we exited a long held position, **Silverlake Axis**. **Silverlake Axis** is one of the top contributors to performance over recent years.

China

While the recent stock market volatility is a subject on everyone's lips, and something which is worth taking a moment to consider, we also wish to draw attention to the staggering amount of reform which is taking place in China at present. In fact, we believe these reforms are significantly more interesting and more important than the stock market volatility. However, before we turn to discuss these reforms in detail, a quick word on the recent stock market machinations, plus where we are in terms of valuations.

Stock Market Correction

It was in June that we saw the now infamous Chinese stock market correction begin, followed by the denouement, which included government intervention, in early July. More recently, the Chinese stock market has recovered somewhat whilst the Hang Seng, which had echoed China's fall, has still not regained its June peak. Statistically, there is reasonable evidence to suggest this correction is nothing more than a correction in a bull phase. According to Goldman Sachs, bull markets have a 78% chance of experiencing a 10% correction and a 44% chance of experiencing a 20% correction, usually driven by a valuation retrenchment.

In terms of valuations, apart from the still over extended Shenzhen market, valuations look well within historical support levels. The median P/E for China A-shares has gone from 20x a year ago to 44x at the peak of market in June and is now back down to 25x as of 8th July. On a price to book basis, the MSCI China price to book ratio has fallen to 1.4x or levels not seen since June 2013.

Whilst we cannot rule out an unforeseen major event which could take the Chinese market deeper into negative territory, the likely downside based on historic valuations suggests 10% lower than recent lows. On the other hand, should the market price to book 'normalise' at its long term average of 1.5-1.6x, and factoring in dividend income growth of 5-10%, this would yield 30-40% upside from here.

The Economy

Moving from the stock market to the economy, it is abundantly clear that the Chinese economy has been a source of concern for investors in Asia and Emerging Markets for many years now. The recent volatility and subsequent government intervention in the market has arguably added to those concerns, particularly the government intervention, as this runs counter to the ethos of free markets. The key question is why did the Chinese Securities Regulatory Commission react so strongly? The tendency is to assume the worst. Indeed, we believe the risk of China entering a genuinely serious period of disruption is fairly high, maybe around 30%. In addition, the government is engaged in the Herculean task of moving away from a manufacturing based economy to a more serviced based one, the likely success of which remains unclear. Finally, there is still no real transparency on the debt in the system and it is arguably around this that most fears lie.

However, we are inclined to take a more positive stance. Firstly, as mentioned and as we have highlighted in our quarterlies for over a year now, there are far reaching reforms being enacted in China. We believe these reforms should have an enormously positive impact on the country in the long term. Moreover, should the Chinese economy really falter, China has a wardrobe full of potential measures it can implement, even before further quantitative easing might be required.

Background and Lessons to be Learned

China's current economic malaise is the result of the stagflation that occurred from 2007-12, when the country saw rising inflation but declining GDP growth rates. The present policy response in China is similar to the Reaganomics/Volcker period of the 1980s when the US government liberalized the economy whilst the central bank kept rates high to defeat inflation. It was a time of an enormous economic upheaval in the US as the reform process and tight monetary policy contributed to significant financial distress. From the early 1970s to the early 1980s, the share of the workforce in US unions fell from around 30% to 20%. In China, with less pressure on the Chinese authorities to 'create jobs' as demographic changes take hold and the population ages, it is not unreasonable to consider the US in the 1980s as a template for Chinese State Owned Enterprise (SOE) reform. During this period, the best investment resulting from deregulation and lower inflation was US government bonds. Equities also did very well.

Another way in which parallels can be drawn between China today and the US in the 1980s, and possible lessons which can be learned from this, relates to the combination of falling interest rates and a greater degree of free market forces being afforded to (or enforced on?) businesses.

In April and May this year the Chinese government continued to cut the Reserve Ratio Requirement (RRR) and reduce interest rates. Owing to rising deflationary pressures in China, a stable job market, China running one of the tightest monetary policies globally, plus a high exchange rate and a restrained fiscal position, we think further easing is likely.

Interestingly, during the Reagan/Volcker era in the US, a combination of falling real interest rates and rising real incomes contributed to a consumer boom. At the same time, the government's role in the economy was de-emphasised. As Ronald Reagan put it back then: 'Only by reducing the growth of government can we increase the growth of the economy'. If investors in China believe that the leadership will reduce the involvement of 'government' in China then services and consumption will benefit the most.

In addition, falling interest rates and deregulation in the US in the late 1980s and 1990s was also very good for equity markets. As companies were in effect granted more flexibility in their ability to raise prices which led to margin improvement, there was a huge re-rating of stocks. Notably it was the companies which saw the greatest margin improvement and which generated high RoEs which did particularly well. These are all lessons which we would probably benefit from bearing in mind.

Reform

Below we have picked a handful of reforms which we think are particularly important and which have potential implications for investors and our portfolios. To underline our point we have published at the back of this report a table issued by Barcap which lists the reforms announced in China to date.

1. **Pension Fund Reform**

Thematically, we are most interested in pension reform in China as we believe this will drive growth in the asset management and insurance sector for the next decade and beyond, as well as providing huge liquidity for the equity and bond markets in China.

According to the United Nations' forecasts, China's retired population (i.e. aged 60 and above) will increase from 14% of the total population in 2013 to 17% in 2020 and 33% by 2050. To put this in context, the same metric in the US is expected to hit 27% by 2050. As well as having a rapidly ageing population, China's accumulated pension assets are also very low at just 6.6% of GDP. Taking only private sector employees into account, pension asset accumulation is even lower with the figure standing at a miserly 1.1% of GDP. As such, we firmly believe the development of a sustainable pension system and proper retirement funding scheme will become a key focus area for the government and the financial system in China in the coming years.

Important steps are already being taken to address the situation. In 2014, it was announced that there will be a formal employee/employer scheme in China, equivalent to superannuation schemes in other countries. The start date for the scheme is pencilled in for December 2015. At first the scheme will only be mandatory for State Owned Enterprises (SOEs). Employees will be required to contribute 8%, whilst employers will need to pay in 20%. At the same time, a private sector enterprise annuity scheme and an individual voluntary annuity scheme will be encouraged, although will not mandatory. At present, the private sector only accounts for 10% of the pension assets but in time this could grow substantially as people realise the importance of a pension.

	Company contribution	Individual contribution
Pension	20%	8%
Annuity	8%	4%

Pension reform in China is expected to lead to a significant reallocation of capital. Today, 50% of China's pension fund assets are in bonds, whilst the remaining 50% are in cash/deposits. In terms of how this might change, we can look to South Korea as a possible benchmark. In South Korea, 30% of pension assets are in shares, 60% are in bonds and 10% are in others. The Chinese government has already released interesting new guidelines for pension investment strategies. Here are some examples:

- Article 33: Pension funds can invest in domestic securities
- Article 34: Pension funds can invest in national projects, including construction projects
- Article 36: No more than 30% of a pension fund can be invested in stocks or ETFs

As for potential flows, initial estimates suggest that some Rmb 600 billion (US$97bn) of long term institutional money could come into equity and bond markets per year, as well as a possible additional Rmb 330 billion (US$53bn) from enterprise annuities. To put this in context, the current Chinese GDP is Rmb 37 trillion (US$6 Trillion).

While the government plans to introduce trustees, custodians and investment managers to manage pension assets, the sector possibly most likely to benefit over the next 3-5 years is the Chinese insurance sector. According to recently released documents, the Chinese insurance companies are the most qualified institutions to take on this role at present. Whilst the Chinese insurance companies already manage annuity schemes and have a small private sector pension business, profits for these business lines are still immaterial in the context of their broader businesses. However, we believe further growth and reforms of the pension framework will offer meaningful upside for the sector. In the next 5 years, with proper policy support, analysts estimate that additional earnings derived from pension-related business could reach Rmb 23 billion (US$3.7bn) per year, equivalent to 30% of the 2013 industry earnings.

While it is difficult to say how the competitive landscape might develop, current market shares in the annuity market could provide some indication. The top 5 players and their respective market shares are as follows:

	Market share
Ping An Insurance Group	14%
China Life Insurance	12%
Changjiang Securities	6%
China Taiping Insurance Holdings	5%
Taikang Life Insurance	2%

As well as benefitting from growth in pension funds, the insurance companies in China are also likely to benefit from growing demand for wealth management products. According to McKinsey, high net worth assets in China are expected to reach US$16 trillion by 2016, or 50% of the addressable market for wealth management in Asia ex-Japan. Looking further out, Credit Suisse estimates that by 2019 China will rank only behind the US in terms of its population of 'super-rich' families, defined as families with at least US$50 million in assets and disposable income.

2. Mainland-Hong Kong Mutual Recognition of Funds (MRF)

In addition to the insurance companies in China we are also alert to the fact that local brokers and fund managers may be a good hunting ground for stocks as financial reform in China continues. A development which would support this assessment came on 1st May this year. At this time, the China Securities Regulatory Commission (CSRC) and Securities and Futures Commission (SFC) jointly announced a new scheme allowing investors from Hong Kong and China to buy up to Rmb 300 billion (US$48bn) of qualified funds, starting with 850 mainland funds and 100 Hong Kong based funds. The funds covered include equity, bond, ETF and mixed funds which meet certain size and other practical criteria. The size of this scheme is comparable to the Stock Connect Quota and is another important step towards opening China's capital markets. Clearly, participating local brokers and fund managers, as well as Hong Kong Exchange, are well placed to benefit from such changes.

3. Loan to Deposit Ratios

In June, it was announced that the current restriction on the Chinese commercial banks regarding their overall loan to deposit ratios might be lifted. At present, the banks are forbidden from letting this ratio exceed 75%. The State Council has proposed amending the nation's banking law so that instead of the 75% cap being a regulatory statute it should be regarded as more of a reference point. Should this proposed change be implemented, a system will be set up to monitor the liquidity of banks based on this ratio. This change would be particularly helpful to the mid-sized banks in China. It would also boost credit expansion in the economy overall. Longer term, allowing banks to have greater flexibility in managing their loan to deposit ratios, alongside easing other regulatory controls and deregulating interest rates, is part of a bigger objective of reshaping China's state-run banking industry.

4. The Interbank Market

Out of China's two formal bond markets, the larger market in terms of assets and trading volume is the interbank market. It is worth US$5.7 trillion and accounts for approximately 95% of total trading volume.

A couple of weeks ago, quite extraordinarily, and seemingly unnoticed by many investors, China broke open its interbank market to select foreign investors. While these select foreign investors mostly comprise Sovereign Wealth Funds, there is a good chance that this is a 'pilot programme' for a broader opening up of the market's investor base. Given the current interest in owning Reminbi assets, any further opening up of the Chinese interbank market should prove popular. At present, foreign investors own just US$108 billion of Chinese bonds and deposits, partly because an extremely cumbersome approval process makes investing in this market largely inaccessible. Should China's bond market open up fully by the year end, something which we believe is possible, then it would rank as the third largest bond market globally, behind only the US and Japan.

The opening up of China's bond markets could also lead to the duration of corporate bonds in China lengthening; at present, the average duration of Chinese corporate bonds is just 3 years. This would be a welcome change as it would enable longer term projects to get funding which more closely matches project lengths. Moreover, the timing of such changes could be auspicious. As detailed above, China is also at the start of witnessing large scale pension reform meaning that huge pools of capital could become available and in search of longer duration investments just at the time that the supply of bonds increases.

Finally, taking this one step further, should the existing Shanghai-Hong Kong Connect programme be widened to accommodate government bond trading and hence open the capital account completely, this would increase the chances of the Reminbi being included in the International Monetary Fund's SDR basket and even sets the stage for the Reminbi one day to have reserve currency status.

Debt to Debt and Debt to Equity Swaps

A final point which we wish to highlight on China relates to liquidity in the financial system, rather than reform. However, we feel this is noteworthy as this also gives credence to the possibility that a more positive stance can be taken on the Chinese economy.

Recently, local governments in China have become financially constrained as returns from investment projects have deteriorated while new investment has fallen sharply. Without the ability to obtain additional funding they are not be able to encourage any further Fixed Asset Investment (FAI). This has been at the heart of concerns regarding China's hidden debt problem.

In order to address this quandary, China is in the process of conducting a shadow Long Term Refinancing Operation (LTRO), similar to the refinancing programme the European Central Bank (ECB) initiated on a very wide scale in 2011. The ECB's LTRO provided European banks with the ability to swap debt (with a suitable haircut) with the ECB for three-year paper, thereby improving liquidity. In China, local authorities, while not allowed to sell local government debt or 'munis' to the People' Bank of China (PBOC) directly, can now raise funds via the Pledged Supplementary Lending (PSL) facility which itself can use munis as collateral in return for liquidity through the PBOC window. The significant expansion in the PBOC's operations of late shows that this channel is already being well used. Moreover, recent reports have indicated that the Chinese authorities may increase the initial Local Government Financing Vehicle (LGVF) swap from Rmb 1 trillion (US$161bn) to Rmb 1.5 trillion (US$242bn). Overall, these steps should work to considerably reduce the financial logjam China has been sitting on, allowing local government spending to flow again. It could also considerably reduce fears over the local government finances and liquidity issues for the banks.

The Latest Development in Smart Textiles: 'Technical Cashmere'

Elsewhere, our smart textiles theme continues to do well. The latest update is that we are excited and encouraged by a new development we have come across in recent weeks. A hot new brand - and a new technical step for smart textiles - has come to the market courtesy of leading US yoga brand, LuluLemon, and in the shape of 'Kit and Ace'. When we say this brand has just arrived we mean quite literally as a new store has just been opened a stone's throw away in Shoreditch! 'Kit and Ace' is casual wear but with a new buzzword: 'technical cashmere'. This is a wool plus synthetic fibre mixture that boasts all of the comfort of cashmere whilst abolishing bagging and sagging material and, crucially, is washing machine friendly.

The arrival of 'Kit and Ace' underlines the beginning of what we believe is the unfolding (no pun intended) of a new megatrend in textiles, one that is related to but could also dwarf the sportswear fashion trend taking place now. Our belief is that once we have become accustomed to wearing technical fibres we will not revert to 'normal' clothing. Casual wear will either be reinvented to encompass the ethos of 'Kit and Ace' where the look is 'modern/technical preppy' (our interpretation!) and based on a combined casual/sports approach, or casual wear as we recognise it will simply jump on the band wagon and start using more technical fabrics as standard.

In terms of the fund's exposure to the smart textiles theme the news flow continues to be very positive. NIKE recently reported earnings per share 14% ahead of consensus numbers. More specifically NIKE's women's wear, which only represents 20% of total sales (hence the appeal of making a new breed of sportswear desirable to women as casual wear), saw 20% year on year growth. This bodes well for our holding **Toung Loong Textile Manufacturing** (May sales up 17% year on year), which specialise in Nylon 6,6, the super stretchy fabric which sports leggings and yoga pants are made from.

Meanwhile, the Trade Promotion Authority bill (TPA) was passed in the Senate during the quarter and from there will head to the White House for President Obama's signature. We view this as legislative progress on the Trans Pacific Partnership (TPP). The TPP is currently being negotiated by 12 countries, namely Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam.

The potential benefits to the US of TPP being passed are clear. The US is the largest importer of textiles from Vietnam accounting for 50% of Vietnam's textile and garment exports with a trade value of US$4.1 billion. To put this in context, the second largest importer of textiles and garments from Vietnam is Japan with a trade value of US$1 billion, a quarter of that to the US.

As the implementation of TPP nears we expect to see further shift of garment orders to the Vietnam based yarn, textile, garment and footwear companies we have mentioned. Indeed, this shift already appears to be taking place. In the first 5 months of this year Vietnam's textile and garment exports to the member countries of the TPP surged 70% year on year. A key holding for the fund, **Toung Loong Textile Manufacturing**, has a meaningful portion of its production in Vietnam and we would expect the company to benefit from the passing of TPP. Our other holding in this theme, **Best Pacific International Holdings**, has yet to expand into Vietnam but management are making this a focus and we believe the company could still be in time to reap the first round of benefits. More on the latter stock below.

Smart Textiles: Best Pacific

Best Pacific International Holdings is the leading manufacturer for high end lingerie and counts Victoria Secrets, Chantelle, Spanx and Marks and Spencer amongst its customers. Victoria Secrets is its largest customer, accounting for around 15% of sales last fiscal year. We are very positive on Victoria Secrets as we believe it has similar characteristics to Inditex (Zara) in its ability to appeal to customers across different cultures. Victoria Secrets is due to start selling lingerie in China where demand is expected to be very strong. We are also positive on the high end lingerie market growth opportunity in general owing to the fact that lingerie sales are expected to grow faster than the apparel market as consumers upgrade to branded versus non branded underwear. In addition, lingerie manufacturers are expanding into sportswear, adding another growth driver. In terms of the competitive position, barriers to entry in the lingerie market are high because the machinery required for production is very expensive. This is illustrated by the fact that **Best Pacific International Holdings** is the leading supplier to Victoria Secrets, accounting for 40% of its production and forming just one of five suppliers in total. In comparison, Gap has an estimated 600-900 suppliers. Finally, the company's margins are expected to expand as it moves into lace products which have a 60% gross margin versus 20-30% gross margins for the core business.

On a 2015e P/E of just 11.5x, **Best Pacific International Holdings** is trading at a significant discount to its apparel textile peers. We think this discount might exist because since the company only listed recently, investors are less familiar with the lingerie market growth opportunity than the sportswear market growth opportunity. To date, the company has no manufacturing capacity in Vietnam, although management indicated that they are looking to change this, and so it is not being awarded a premium for its potential to benefit from TPP. However, we think that this discount is unjustified.

Consumer / Local Brands: Distilleries Co of Sri Lanka

As mentioned at the outset, one theme in which select stocks continue to perform very strongly is our consumer or local brands theme. Within this, our local brands theme, **Distilleries Co of Sri Lanka**, is no exception, up nearly 30% year to date. It is trading on headline P/Es of 10.4x March 2016e and 9.4x March 2017e and has a market capitalisation of just US$600 million. In recent years the company's margins have become more stable with the company consistently delivering a net margin of 20-25%, whereas historically margins were much more volatile. While the co also has operations in tea and rubber plantations, power generation, hotels and shipping, its core business is liquor, which accounted for 97% of operating income in the last fiscal year. It is the market leader by a very wide margin with 75% market share. Given its already high market share, one of the key growth drivers for **Distilleries Co** will be the branded market taking share from the unbranded market. The company's already good financials could also improve further should management decide to spin off some of its non-core assets. This has been a long term holding for the Prusik Asia Smaller Companies fund and we continue to be very positive on the stock and the Sri Lankan economy more broadly.

Leisure and Entertainment: Eros International

A very recent purchase for the fund is **Eros International PLC**. We invested in the stock following a meeting with the Chairman and founder of the company. **Eros International PLC** is the US listed parent of **Eros International Media**, listed in India, with the financials for the India business being fully consolidated with the parent company. **Eros International Media** is responsible for film production and sales in India whilst the **Eros International PLC** is responsible for international distribution of the group's film library. The group has recently launched Eros Now which can be thought of as the 'Netflix of India' combined with Spotify, and which is available both in India and worldwide. So far, the Eros Now app has been downloaded by 19m subscribers. At present the focus is on growing the subscriber base and so monetisation is limited, although management believe monetisation will improve once it lowers the monthly subscription fee in India from Rs 200 (US$3) to Rs 100 (US$1.5) (note that Rs 200 (US$3) is not far off the cost of a month's subscription to the equivalent of Sky in India). Management are also looking to offer more varied paid for premium options, for example, paying a one off fee to watch one film in particular. There is also an advertising revenue stream linked to Eros Now. Long term management expect to derive 70% of sales from subscription fees and 30% from advertising. Quite excitingly, **Eros International PLC** has been approached by Amazon.com, Netflix, Tencent Holdings and others who want to buy stakes in the company but management believe if this is going to happen the transaction needs to be done at a higher valuation. In the next year, the group is likely to be restructured with the US and India businesses effectively de-listing and then relisting as one unified operation in India. The restructuring is expected to be conducted via a share swap.

We believe the upside has huge potential for this business. The film production offering is expected to double in the coming 2 years while the possible upside for Eros Now, given the Indians love of music and film, is significant. We feel that this, combined with India arriving into the 'sweet spot' of wider internet availability and rising middle class together, gives **Eros Group** a very clear competitive run at a huge opportunity.

Chinese Reforms (Source: Barclays)

Financial reform and capital account liberalisation	
May-14	State Council issues capital market guideline on agenda of future reforms
Nov-13	Third Plenum laid out the direction for financial reforms
Interest rate liberalisation	
Jun-15	PBoC released the guideline for Certificate of Deposit with market-determined tenor and rates
May-15	The ceiling on deposit rates was increased to 1.5x from 1.3x the benchmark rate
Mar-15	The ceiling on deposit rates was increased to 1.3x from 1.2x the benchmark rate
Nov-14	The ceiling on deposit rates was increased to 1.2x from 1.1x the benchmark rate
Dec-13	Banks are allowed to issue interbank negotiable certificates of deposit
Jul-13	China's lending rate was fully liberalised after the PBoC's removal of the floor on the benchmark lending rate
RMB internationalisation and capital account opening	
Jul-15	As of July 2015, PBoC has signed 32 RMB-denominated bilateral swap agreements with foreign central banks, worth an aggregate notional amount of RMB 3.1trn.
Mar-15	Asian Infrastructure Investment Bank approved 57 founding members , including four of the G7 countries, the UK, Germany, France and Italy
Nov-14	Shanghai-HongKong Stock Connect was launched; the next will be Shenzhen-Hong Kong stock connect
Jun-14	Free trade account in the Shanghai's free trade zone (FTZ) was officially launched
Feb-13	RMB clearing bank was set up in Singapore, the first country other than Hong Kong. Now the number of clearing banks reached 16.
Free Trade Zones	
Apr-15	Three new FTZ in Guangdong, Tianjin and Fujian launched in the same day
Jun-14	Free trade account for Shanghai's free trade zone (FTZ) was officially launched by PBOC on 18th June, as part of efforts to test bolder financial reforms in a risk-controlled environment.
Sep-13	Shanghai Free trade Zone launched
Stock market	
Apr-15	Draft of new Securities Law went through the first round review by NPC standing committee, which contains details of IPO reform
Nov-14	CSRC has completed a draft plan to reform stock issuance regime, including plan on introducing a registration-based system for stock issuance, replacing the current system of administration
Nov-14	Shanghai-HongKong Stock Connect was launched, with the Shenzhen-HK Stock Connect expected in 2015
Banking system	
Jun-15	Requirement of minimum 75% in loan to deposit ratio was removed from draft of Commercial banking Law
Mar-15	Banks may receive the license to conduct equity business in the future according to CSRC

Mar-15	State council published the regulation of deposit insurance scheme to be in effect from 1 May 2015
Jul-14	China has approved the establishment of three private banks
Jan-14	State Council reportedly issued guideline (Document No. 107) on the regulation of shadow banking businesses
Fiscal reform and local government debt management	
Jun-15	MoF announced a second CNY one trn quota for LG debt swap
May-15	Stated council published document #42 to promote PPP model on 19th May,
May-15	Issuance of the LG bond will be targeted to the bond-holding banks, according to Document #102
Apr-15	Three guidelines on LG debt investment on special and general LG debt
Mar-15	MoF announced the plan and approved quota(CNY 1trn)for first round of local government debt swap
Oct-14	Government announced action plan to identify and categorize local government debt, led by MoF, re emphasized the principle in guideline and gave more detailed criteria for LG debts
Oct-14	Guideline for local government debt management #43 on regulating local government debt, and debt clearing up
Aug-14	China approved the revision in China 's Budget Law on 31 August.
Dec-13	National Audit Office announced the audit result of national government debt in December 2013
VAT and tax reform	
May-15	State council called to finalised reform on Business tax to VAT by covering building, real estate, financial services and housework services
Oct-14	Mof and SAT released measures for resource tax reform on oil and gas, the measures also including tax cut for specific categories of resource
Jun-14	MoF and SAT declared to reduce the tax rate to benefit micro and small enterprises. For entities applying rate of 4% and 6% , VAT rate is reduced to 3%. The simplified VAT rate will be valid on 1st of July.
Apr-14	To cut tax for micro and small businesses by raising the tax threshold. MoF and SAT announced on 8 April to raise the preferential tax threshold to CNY100,000 from CNY60,000 previously.
Jun-14	Reform on Business tax to VAT started in telecom industry
Jan-14	Replacing the business tax with VAT were expanded further to cover railway and postal services sectors starting from 1 January 2014
Aug-13	Pilot program on VAT replacing business tax stated to roll out national wide
SOE reform	
Jan-15	As one of the 1+N top design package for SOE reform, the plan on employee ownership scheme was discussed by SASAC in January.
Jul-14	SASAC has started the four pilot projects for State-owned Asset Management Company, mixed ownership, improving system of board of director and discipline inspections, in central SoEs
Land reform	
Jul-15	Pilot program at 33 counties was approved
Jun-15	NAO published the result of auditing on compensation on land right transfer
Feb-15	Central No.1 Document in 2015 call for large scale operating for agriculture. This will subsequently require improvement of land circulation system and agricultural cooperative model.

Feb-15	The State Council has passed a draft decision that will enable rural construction land to have the same rights and market price as state-owned construction land in some areas.
Dec-14	Regulation for property registration was published on 25 Dec and will be effective from March 2015.
Dec-14	Xi reiterated three baseline for land reform during the central reform group meeting: to ensure the public ownership; ensure the sufficiency of farming land; ensure the interest of farmers
Dec-14	Ministry of Agriculture declared the list of tasks for second stage of pilot program, the list includes tasks in 14 area and will be experimented in 34 cities and towns. Main focus of this second stage pilot program is land reform
Nov-14	State council published the guideline to regulate the circulation of agricultural land rights when encourage large scale operation.
Jun-14	New rules to regulate the use and organization of land are to be effective in September . It emphasized on the intensive use of the land available and the quantity control on land of constructive nature. Market oriented land rights transfer are encouraged. New rules also called for recycling/ utilization of lands in spare.
Feb-14	Ministry of Land and Resources carried out rules to prohibit function transform of rural farming land. Ministry of agricultural also vowed to promote the land right recognition and certification.
Social security and pension reform	
Jan-15	State council published the decision to unify pension structure on 14th Jan
Feb-14	The Ministry of civil affairs issued two notices on aged-care reform last December and this January, respectively, to ask local governments at different levels to select at least one aged-care institution as the reform pilot, and to submit their reform plans by January.
Oct-13	State council issued opinions on promoting the development of the health service sector.
Pricing reform	
Aug-14	Tiered price of gas supply also started to be implemented
Jun-14	NDRC required to boost pricing reform in resource product, transport, telecom and healthcare.
Dec-13	NDRC promised to further improve the household tiered pricing system, The pilot of electricity reform has been expanded from 14 provinces to nationwide
Mar-13	NDRC shortened the retail fuel price adjustment period to every 10 working days when prices automatically adjust top international crude price fluctuations greater than 50 Yuan per ton.
Jul-14	The average city –gate price for natural gas in the no-residential segment has been raised from CNY 1.69/cubic metre to CNY 1.95/cubic metre
Jan-13	NDRC and Ministry of Housing issued document jointly to require all cities to fully implement the new pricing system by 2015
Product market reform and the One Belt One Road plan	
May-15	State council called to promote international cooperation for manufacturing industries, and to bring capacity aboard together with the companies investing abroad
Jan-15	Government published guide (Document #296) to replacing excessive capacities in steel, metals, cement and glass manufacturing industries, based on document #41 in 2013. This plan is expected to be complete in 2017.
Oct-13	The government annouced the plan of One belt One road.
Oct-13	State council released guidelines to reduce overcapacity (Document #41) and stop newly constructed capacities

PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 30.06.2015

	USD	GBP	SGD
1 Month	-5.33	-5.09	-5.27
3 Months	2.75	2.97	2.38
Year to Date	1.81	2.21	1.49
Since Launch+	62.49	66.27	18.92
2014	-3.49	-3.01	-3.43
2013	7.51	7.29	7.64
2012	30.80	31.05	30.69
Annualised 5 years	5.06	4.96	4.78
Annualised 3 years	6.68	7.08	6.75
Annualised Since Inception	6.79	7.12	3.23

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

Fund Performance - Class A USD (%)

Source: Bloomberg. Total return net of fees.

Monthly Performance Summary (%)

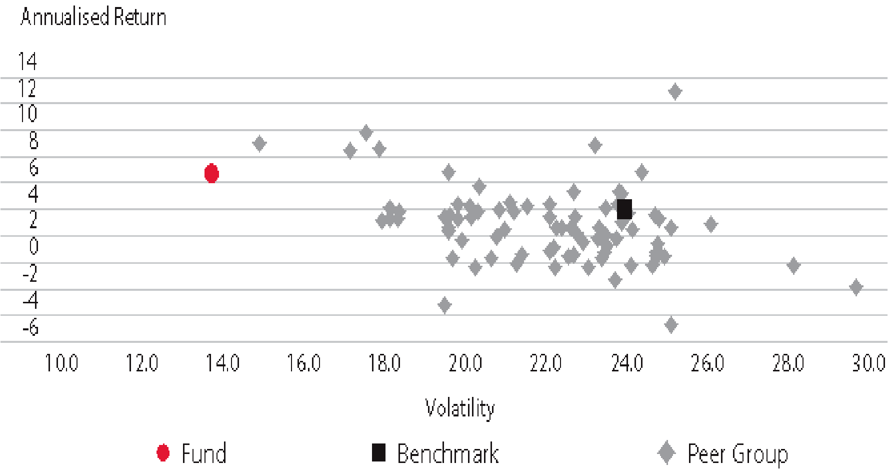
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2015	1.25	-0.11	-2.04	7.23	1.21	-5.33							
2014	0.21	3.58	-2.62	-2.50	0.56	2.45	-1.39	2.86	0.32	-1.85	-1.76	-3.11	-3.49
2013	7.27	3.73	1.32	1.82	3.58	-9.40	0.10	-4.52	3.54	2.84	-1.44	-0.51	7.51
2012	5.05	7.75	-1.04	4.29	-5.53	3.11	2.27	-0.65	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	0.55
Alpha (%)	4.6
Sharpe Ratio	0.49
Volatility (%)	13.7
% of the portfolio –which could be sold in 2 business days	51.00

Source: Bloomberg
Since Inception: A:08.02.08

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), 8.02.08 to 30.06.15

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

iFast Corporation Limited	5.8
Toung Loong Textile Manufacturing	5.1
Interpark	4.7
Jiangnan Group Limited	4.3
Tongda Group Holdings Limited	4.1
Total Number of Holdings	31

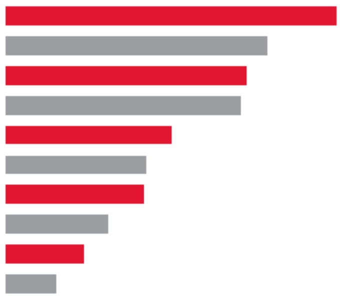
Portfolio Financial Ratios*

Predicted Price/Earnings Ratio	13.4x
Predicted Return on Equity (%)	20.4

*Fiscal year periods

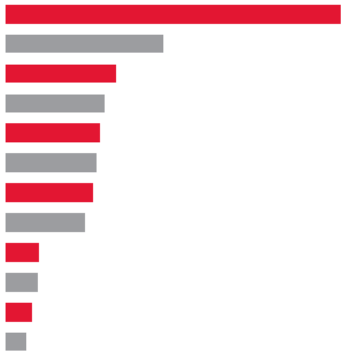
Thematic Breakdown (%)

Leisure / Tourism	19.0
Automation / Internet of Things	15.0
Financialisation	13.8
Vietnam	13.5
Brands / Beauty	9.5
Telecoms / Infrastructure / Logistics	8.0
Smart Textiles	7.9
Software / Smartphones	5.9
Environment	4.5
Cash	2.9



Geographical Breakdown (%)

Hong Kong / China	28.8
Vietnam	13.5
Singapore	9.5
India	8.5
Korea	8.0
Philippines	7.8
Thailand	7.5
Taiwan	6.8
Cash	2.9
Malaysia	2.8
Australia	2.2
Sri Lanka	1.8



All data as at 30.06.15. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size (USD)	80.5m
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	162.49
B USD	Unhedged	Distributing	B2PKN32	IE00B2PKN327	162.60
C GBP	Hedged	Distributing	B2PKN43	IE00B2PKN434	85.38
D SGD	Hedged	Distributing	B3M3HJ5	IE00B3M3HJ55	222.93
Performance fee based on individual investor’s holding					
U GBP	Unhedged	Distributing	BBQ37T7	IE00BBQ37T77	94.38

Performance fee based on fund performance as a whole
All share classes are closed to new investors as of 30th September 2013.

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