PRUSIK

Long Only Absolute Return Investing in Asia

Prusik Asian Smaller Companies Fund

Quarterly Investment Report

29 June 2012

FOR PROFESSIONAL INVESTORS ONLY

2nd Quarter Review

Over the quarter the fund was up 1.6% while the MXAPJ Index fell by 6.3%. Positive contributors included Philippine hypermarket, **Puregold**, as well as Korean mobile social gaming companies, **Com2us** and **Gamevil**. The gold companies were amongst the worst detractors to performance although they have rebounded strongly in July. Healthcare company **Starpharma** and mobile phone retail chain **Senao** were also negative contributors.

Current Position

Our geographic weightings remained broadly unchanged over the quarter. Our largest exposure, ASEAN, was stable at around 65% as of the end of 2Q. Thailand, the Philippines, Vietnam and Singapore remain the top four best performing markets in the region year to date. This is probably largely due to the fact that they are the most isolated from Europe and centered around the area of the region with the best domestic growth, demographic profile and resource development potential. Further to our visit to the Philippines we slightly increased our exposure there, especially in the consumer sector where we have found some very interesting companies in the food and retail markets all of which are growing strongly.

We remain fully invested. We can see on screening, quantitative analysis and from our travels that there are some very cheap opportunities now emerging in North Asia, especially Korea and China. Indeed, the valuation gap between defensives and cyclicals is approaching 2008/9 levels, suggesting that some rebalancing might be due. We are not overly optimistic about either economy but thematically and fundamentally we are far more inclined towards the Korean companies, noting that select cyclical stocks here have become so cheap that there is likely to be significant upside with probably just one small catalyst. At the time of writing we are rebalancing, slightly and cautiously, by reducing our overweight ASEAN position a tad and increasing our Korean exposure. We have done this via trimming our better and more expensive performers in ASEAN and adding 'defensive cyclicals' protected by underlying strong demand such as **Halla Climate Control.**

Overview and Outlook

So far, as an Asian investor in 2012, it has paid to pay as little attention to Europe as possible. This probably sounds like heresy in today's Euro centric, macro oriented and fearful world and to be clear we are far from ignorant or dismissive of the global risks which also threaten Asia's shores. However, calm and practical examination of prospects in Asia makes us increasingly certain that Asia is one of the very few areas in the world where investors should be more confident.

For example, we were struck by reports from the 2012 Morningstar conference that the panel on cash management was packed. Nobody has any idea what to do with cash at the moment. Treasuries seem to have shifted from being seen as an investment to being seen as an insurance policy against bad outcomes. But nobody wants to move up the risk spectrum to receive a better yield.

Meanwhile, 73% of stocks in Asia ex-Japan now yield more than treasuries. Indeed, one in three stocks in Asia yields over 3%. Since 2000 the compound annual growth rate for dividends per share has been 11.4% and given the low payout ratios and good cash flows it is possible this rate of dividend growth could be sustained. If so, then Asia ex-Japan will pay out some US$ 3.5 trillion dollars in dividends in the coming decade. Furthermore, if you are of the school of thought that high dividends usually preclude growth then look again. Recent academic research in the US has shown that over the long term high payout ratios have been precursors to periods of robust growth and this has been the case for Asia as well. It remains quite possible to construct a list of 'stocks for all seasons' in Asia where strong franchise businesses with large free cash flows are paying above average dividends which are likely to grow in the coming years. We see this as an important way to find companies where the risk/reward is disproportionate to the upside in any environment. We have added a few more such opportunities to our portfolio this month, more of which we will discuss later.

Finally, we think the recent airport traffic trends clearly illustrates the 'growth divide' between Asia and elsewhere. In April air traffic from Jakarta grew 18% yoy. In Q1 air traffic in the Philippines grew 11.8% and in May Bangkok saw a 10.8% increase in air traffic, including a 15.2% jump in domestic travel. Meanwhile, Paris air traffic fell by 4.6% in May, while London saw routes to Spain, Italy and Greece all decline sharply with the latter down 11.3%.

A mid-year look at some of the key indicators in Asia

Earnings Growth

Firstly, some less good news. Consensus earnings growth expectations for 2012 are currently 14%, which is likely to be far too high. So far, at the time of writing, 26% of the index has reported earnings, of which 61% led to downgrades, 37% to upgrades and 2% with no change. We expect downgrades to remain a feature as we go through the August/September period after the results season in July. Mid single digit growth would be more in line with what we are hearing anecdotally. The question is: will share prices react or is this largely factored in?

Economic Surprises

In the main, as with analyst expectations, economists will probably have to revise down expectations. By the end of the year, however, year on year comparisons will become easier and on the current trajectory there will not be negative export growth this year. We expect to see a smattering of interest rate reductions but as real rates are mainly negative across the region this is likely to produce a muted reaction.

Central Bank Liquidity

Central bank balance sheets are growing but the rate of growth has decelerated to around 6%. This may pick up in the second half of the year. At present the total amount of deposits in the banking system in Asia ex Japan amounts to 141% of GDP and 181% of market cap, meaning there is plenty of liquidity available for when the new lending cycle begins. This is especially marked in ASEAN where the current investment to GDP ratio of 20-30% could easily grow to 40-45%.

More positively, growth in bank deposits is strong, demonstrating full confidence in the region's banks.

Valuations

Asia ex-Japan is currently on a Price/Earnings multiple which is one standard deviation below the mean and has a Price/Book ratio of 1.5X. This is a very short brush away from typical recession valuation lows of 1.4X. Moreover, the historical probability of making money from these levels over the past 37 years is 70%, with an average upside of 22% in the following year. Additionally, Asian implied earnings growth rate to perpetuity is back to negative! This is something which has only occurred twice before - during SARS and 2008. In Hong Kong, China and Singapore over half of the stocks currently have implied growth of zero or negative to perpetuity.

Sentiment

The relative underperformance of 'risky' (beta and volatility) versus 'quality' (strong cash flows and good balance sheets) has become more extreme than in 2008, but not quite as marked as over 9/11 or the Asian crisis in 1997/8. This may continue as a pattern for a while but as an indicator of sentiment it illustrates well how cautiously positioned investors are at present. Anecdotally, in our own sphere, we can confirm that most investors that we meet, whether in Asia or in the UK, are very conservatively positioned.

Export exposure to US and Europe

Conventional thinking puts Asia's export exposure to the US and Europe as one of the biggest reasons to remain cautious on Asia in the current climate. However, a careful look at the statistics reveals that this concern is overblown. The key statistics are:

- Only 13% of Asia ex-Japan's exports go to the US and 15% go to Europe.
- More than 60% of Asia's exports go to either Asia-ex Japan or other emerging markets.
- If you exclude China, only 20% of Asian exports go to US and Europe combined.

Concluding Thoughts

The overall macroeconomic picture in the region remains insufficient to begin the next bull market but does remain sufficiently supportive to continue current patterns. By this we mean significant outperformance and indeed impressive absolute returns in countries and companies which have genuinely strong fundamentals. The dispersion of returns in the region year to date is quite large and very supportive to attentive stock picking and non-index bets.

While we cannot rule out a globally driven correction in all markets we do feel that, given the relative fundamentals and value available in Asia, any significant falls from these levels is a very good buying opportunity.

ASEAN

We don't want to over-egg the ASEAN coverage in these reports. We have already written extensively and enthusiastically on the subject since last year, as well as individual markets. As you know ASEAN is the Association for South East Asian Nations. It was established in 1967 by Indonesia, Malaysia, Philippines, Singapore and Thailand and now includes younger members such as Laos, Vietnam, Cambodia and Myanmar. ASEAN's strength comes both from what it tries to do as well as what it doesn't do. It does not attempt to create a monetary or fiscal union across markets. It merely aims to promote trade, freedom of movement and capital, and collaboration between the member states. This is becoming more important as markets such as Myanmar and Cambodia enter the global economy as it creates new markets and opportunities for companies in the region.

During our recent visit to the Philippines in July a conversation with low cost airline **Cebu Air** illustrated well how ASEAN membership is really benefitting business. In the future airlines within ASEAN will not just be flying out of their home airport to other places but within ASEAN they will be allowed to fly *between* those other destinations as well. For a well managed airline like **Cebu** this is a huge future growth opportunity, potentially enabling it to grow well past the boundaries of its native country and into a regional carrier.

Here are some statistics published recently by the Asian brokerage firm, Kim Eng. They paint a nice clear picture of the opportunity here and we think they are worth sharing not least because they illustrate why we think this is the next major investment theme in Asia, one which will be reviewed in a decade's time as the third big investment opportunity after the emergence of China and the growth of Asia's middle class.

- ASEAN's population is twice that of the US (600m compared to 240m) and larger than the population of Europe
- ASEAN's GDP is only 1/8 of the US (US$1.9trn vs. US$14.7trn)
- ASEAN GDP per capita is therefore only 1/16 of the US
- In 1990-1995, pre Asian crisis, ASEAN grew faster than China
- Of particular interest to us is the integration of Indochina's 110m population which has spectacular upside
- ASEAN runs large current account surpluses and has low levels of public, personal and corporate debt
- Expected GDP growth of 5%+ over next several years

Korea

A trip to Korea, even in high summer, can be profoundly depressing. There is little beauty from the countryside or the architecture and the weather was like London, which this summer means cold and wet. This is also a country with some deeper problems. Two people commit suicide every hour in Korea - the highest suicide rate in the OECD - and the culture reeks of stress and grueling competition, from the aggressive education system to the hierarchical corporate structures. Even visiting companies is quite exhausting. There is a drag in communication and information flow which is not helped by poor English, meaning that a complex dance that has to be performed to elicit the required data. It feels like there are barnacles and seaweed on the bottom of the boat.

Around 35-40% of 30-45 year olds are unmarried, a tenfold increase over the past decade, and debt is high. Household debt/disposable income is 165% and the typical Korean has 70% of personal assets in property. Over 23% of economically active people are self-employed and typically debt servicing costs over 20% revenue. Year to date, 2 out of 3 new bank loans went to self-employed people. The delinquency rate on loan repayment is starting to edge up.

Perhaps the most interesting observation is that whilst the population is ageing in Korea there is very little immigrant activity. Korea, like Japan, is one of the very few countries in the world not to have a China town, illustrating how hard it is to live in Korea as a foreigner. The comparison with Japan is perhaps one which shouldn't be ignored.

Of course we can find some individually fantastic companies in Korea and some very intriguing value opportunities as well but we make this point openly because Korea is 16% of the regional index and these medium term concerns mean that it is important to find funds which in the future can freely sidestep an obligation to this much of the index.

Do not hold or buy the index!

At the time of writing, **Inditex,** the holding company of retail success, **Zara**, has risen 26% year to date to a new all time high whilst the Spanish index has fallen by 35%. In Malaysia the large cap bank, **Maybank**, has risen 2% while Shariah insurance company, **Syarikat Takaful**, (held in our Prusik Asian Smaller Companies Fund) has risen 246%! In Korea, meanwhile, department store, **Shinsegae**, has fallen 20% whilst cosmetics brand shop company, **Able C&C**, is up 145% and mobile social gaming company, **Com2us**, (also held in our Prusik Asian Smaller Companies Fund) has risen 92%.

These are clearly crude but also illuminating examples of how stock markets are operating at the moment. In one of the worst markets in the world there is a large company which is trading like an ASEAN growth stock and in ASEAN some of the larger companies are amongst the least exciting performers! Everywhere stocks in genuine growth niches are performing incredibly well, as they should, versus the pedestrian mainstream.

The point here is that picking themes or companies, not simply just investing in Asia per se, is the only route to strong returns and relative performance. Large funds full of large cap big index constituent companies will by definition have exposure to heavily cyclical stocks such as Korea's **Shinsegae** and countries such as Korea, Taiwan and China and sectors such as Australian resources. Korea, Taiwan, China and Australia comprise about 70% of the MXAPJ Index and Australian resources alone are about 5% of the index. ASEAN, by contrast, is 15% of the index and if you take out Singapore then the rest of ASEAN (roughly 590 million people) is represented by only 9% of the index!

If this sounds like a shameless plug for Prusik's non-index, mid-cap bias approach, it is! But only because we can see literally billions of dollars sitting in mainstream funds holding mainstream stocks and we do not see the future performance of the whole index standing out until the next major bull cycle.

Until then, the route to survival and better performance is quite counter-intuitive for these risk-averse times: *Head into the non-index areas of growth and strong fundamentals and eschew the mainstream.*

How much of a stock does your typical large Asian fund manager own in total? Beware illiquid positions even in large companies!

In our recent trip round Asia we had the same rather concerning conversation with several members of the broking community. Each conversation was initiated by them and pertaining to our small fund/high liquidity of positions ethos at Prusik. Their interest lay in the heavily concentrated portfolios of some of the larger Asian fund managers and what might happen if fund flows reversed. This is only an issue if you believe the consensus view that stocks might fall significantly from here around the world and that another round of risk aversion is nigh. If you do, then some serious questions must be asked about the overall holding sizes at fund manager level in some larger open ended portfolios. In a forced sell down a widely observed 20% position in any large company could well prove to be more dangerous than a portfolio of smaller company holdings of manageable and appropriate size.

Soft Commodities

Longer term followers of Prusik will know this is not the first time we have been fans of this theme, hard though it may be to find good companies at the producing end of the food chain. Last quarter we wrote about palm oil and soya but it is worth repeating that this time around the shortage story supporting this theme is significantly more severe than in 2006-8 and arguably far more threatening to global stability. However, we feel this is still not yet fully understood.

The anomalies around this theme are coming thick and fast. With thanks to Gavekal, here is a test:

Which country recently agreed the single largest purchase of US corn in more than 20 years?

a) China
b) Indonesia
c) Mexico

The answer is Mexico, which is suffering the worst drought in 70 years. They bought 1.5 million tons of US corn.

This is especially concerning due to the fact that the US is experiencing similar drought conditions. Iowa, the largest corn producing state, is seeing crop yield declines of over 30%. Moreover, the growing season hasn't finished yet and many estimate that a further 9-12% of the yield may be lost. This is unprecedented and the USA Department of Agriculture has declared that 26 states and 1,000 counties are in danger of being officially in a national agricultural and food emergency.

The reasons why this is such a serious issue are several fold. Firstly, food stocks around the world, as we highlighted in 2006, have been falling at the fastest rate ever in recent years. The 6 largest corn importing nations have a 6% stocks to use ratio but should the US decide to embargo corn sales then these stocks will quickly fall to zero. Moreover, if corn production declines by a further 9% then the US corn stocks-to -use ratio will also fall to zero.

Higher corn prices have led to less soya being planted and so soya, too, is in short supply. Similar to corn, soya is reported to be at least 14% down on yield and in critical condition due to the drought. If the crop yield falls another 5% from here then the US stocks-to-use ratio for soya will also fall to zero.

This is almost unprecedented.

Secondly, looking at previous years where crops have been small, this last happened in 1995 and at that time corn prices rose by 160%. So far corn has risen by about 50%, so a reasonable target might be $1500/ton (from US$800/ton today). In any event prices are likely to rise a lot from here.

Thirdly, India is experiencing a light monsoon and may see a poor rice crop, meaning reduced rice exports and most likely a higher rice price. Fourthly, La Nina is about to give way to El Nino. This means Australia, India, Indonesia and Brazil are likely to see droughts in the coming year.

In conclusion, the risk here is that soft commodity prices rise very sharply in the final months of the year and shortages are not out of the question.

Vietnam

At the time of writing, Vietnam remains the second best performing market in Asia year to date but this belies a more volatile picture. Earlier this year the Vietnam market rallied trough to peak by 45% before correcting in the past two months. The collapse in inflation and the attendant fall in interest rates has happened as we expected and indeed the past two months have seen negative month on month CPI while the yearly data looks set to fall as low as 8% for 2012 as a whole.

The stock market is now wrestling with a clear slowdown in external demand and an absence of positive news regarding some of the domestic issues which are still pressing. Chiefly, these issues are the restructuring of the banking sector and some awaited shuffling of senior positions in government.

The economy grew by 4.3% in 1H 2012 and in May we saw a stimulus package which included a 30% cut in corporate income tax, deferral of VAT and income tax payments, and other measures to help small businesses. However, this is unlikely to spur the corporate capital expenditure needed to really stimulate growth. Bank lending, which is currently flat and unlikely to top 5-6% growth for the full year, tells the same story.

More positive signs can be gleaned from the stability of the Dong which is trading at the same level as it did in February 2011 and has been rock steady in 2012. The trade deficit is falling while at the company level earnings growth of around 13% in 2012 seems achievable.

We have 12% of the fund invested in Vietnam and see very little reason to sell at this stage. It is still likely that positive domestic catalysts will spur equities in the second half of the year and valuations remain very attractive. For example, it remains possible to construct a portfolio of 10 companies with strong underlying fundamentals and growth with an average yield of 12.2%, a trailing PE of 6.7X and a Price/Book ratio of 1X.

Our portfolio includes **Dong Phu Rubber**, which is Vietnam's best rubber company. We expect the company to benefit from ongoing demand for car and motorbike tyres yet the shares are trading on a trailing PE of just 2.7X combined with a 6% dividend yield.

Military Bank is the only major private bank in Vietnam without a foreign strategic partner or shareholder. This is likely to change soon as so few foreign financial institutions have a presence in Vietnam. This could be a strong catalyst for a re-rating. At present, the bank is trading on a Price/Book ratio of 1.1X, a forward P/E of 5X and has a dividend yield of 12.1%.

Oil Services

Thanks to the recent decline in the oil price there is little fanfare about the current state of the oil services industry, but we see a very large investment cycle building in Asia.

The statistics are very simple: by 2015 over 55% of the world's fleet of oil rigs will be over 30 years old, or effectively obsolete. The number of rigs becoming obsolete between now and 2015 doubles in that time to about 2,880 rigs. This suggests a future shortage of about 160 jack-up rigs. Currently, the world builds about 30 rigs a year. With rig builders' books showing strong order flows for the next 18 months, demand for jack up rigs has a powerful tailwind.

Furthermore, the offshore service vessel (OSV) to rig ratio should peak this year at 4.5X, meaning there is likely to be an uptick in OSV demand from 2013. Three other factors are also driving this cycle. They are: firstly, a dramatic increase in unconventional resources which are growing at 5X the pace of conventional resources and require new tools and skills for extraction; secondly, new discoveries are running at well over the average trend of the past decade signaling strong future activity; finally, deepwater investment is growing at about double the rate (19% pa) of shallow water investment, again requiring more expensive and complex equipment.

There is particular value in the OSV area and we have initiated this theme with a holding in **Hilong Holdings**, which is an equipment provider with exposure to unconventional resources. It is on a 2012 PE of 7.5x and has a dividend yield of 5%.

Mobile Social Gaming

One of our strongest and most interesting themes over and above our enthusiasm for ASEAN is **mobile social gaming**. The mobile gaming market in Korea is still at a nascent stage of growth but is expanding rapidly. Despite being a late comer to the smartphone market Koreans have been one of the fastest adopters of smartphones globally, with smartphone penetration expected to reach >70% by the end of 2012. This is higher than even the UK and US where penetration is expected to reach 55% and 45%, respectively, by the end of 2012. Moreover, Korea has the most developed 4G network in the world with 42% of smartphone users having a 4G rather than a 3G phone. Altogether this means that Korea's infrastructure for smartphone users is very sophisticated, enabling users to stream content on their phones and play advanced mobile games at leisure. Interestingly, the app market in Korea has just hit a tipping point as until the end of last year Google's Android and Apple's App Store were not available in Korea for regulatory reasons. This is no longer the case meaning that Korean mobile game developers should benefit from being able to distribute their games on more platforms. Indeed, the Korean mobile game companies we are invested in saw a sharp jump in revenues in the last quarter following this change!

Before we get into the specifics of our Korean mobile game holdings it is worth highlighting that mobile games to date are one of - *if not the* - most profitable kind of app available. The key reason for this is the emergence of business models whereby the game is free to download but users pay to buy virtual or 'in app' items to participate and often progress in a game. These virtual items cost next to nothing to produce but are then sold for anything from 50 cents to thousands of dollars in extreme cases! This means that the gross margin on these items can be as high as 99%. Plus, the total cost of producing mobile games is a fraction of the cost of producing the massive multi player online role player games which we associate with traditional online gaming companies. The fact that globally mobile games account for roughly 25% of the number of apps downloaded but as much as two thirds of global app revenues also points to how profitable mobile gaming is. In Korea the portion of app related revenues coming from mobile games is even higher at 80%!

The Prusik Asian Smaller Companies Fund holds 2 Korean pure play mobile game companies, **Gamevil** and **Com2Us**. We also hold **Daum**, the #2 online search and portal company in Korea which importantly is expanding into mobile gaming very aggressively this year. The Korean mobile gaming market is still quite fragmented and so while **Gamevil** is the #1 player it only has 15% share of the market. However, we believe it is shaping up to extend that lead. Importantly, **Gamevil** transitioned from a simple feature phone mobile game company to producing games for smartphones in just one year, demonstrating management's execution capabilities plus the benefits of being a niche player with a 100% focus on mobile gaming. Although traditional online gaming companies in Korea are trying to enter the mobile gaming market we think they will struggle to do so in a meaningful way any time soon because of internal conflicts between online and mobile gaming and the tendency for larger companies to be more bureaucratic and hence slower to make decisions. This is the antithesis of what a successful mobile gaming company should be!

With its first mover advantage **Gamevil** should be able to build on its mobile gaming expertise faster than its peers. We are watching to see how well it manages to develop social mobile games which are the holy grail for mobile gaming companies as they help ensure a sticky customer base. (It is a strong social network plus a concentrated industry structure which has led markets to award Japanese mobile gaming company, **Gree**, a market capitalization of nearly US$5bn!). Sell side analysts are expecting **Gamevil** to achieve an EPS of KRW 4,322 in 2013 which would represent 15% yoy growth. We think **Gamevil** will achieve much higher growth than this. Although there are differences between **Gamevil** and **Gree** it is still relevant to note that **Gree's** EPS grew at a 95% cagr from 2009-2011 when its mobile gaming business took off. We think **Gamevil** could easily see 30-

40% EPS growth in 2013 as it appears to be entering a very high growth period. **Gamevil** has very high returns on capital and this is even before you strip out the cash – equivalent to 11% of its market capitalization – on its balance sheet.

Com2Us, our other pure play Korean mobile gaming company, is the #2 player in the market. What makes **Com2Us** particularly interesting to us is its recent tie up with one of the leading mobile game companies in Japan, **DeNA**. **Com2Us** should benefit from **DeNA**'s expertise in ramping up a gaming platform as well as what it takes to develop a sticky user base. We also think that **Com2Us** has scope to improve its margins which are lagging many mobile gaming operators at the moment as its business scales up.

As previously mentioned **Daum** is a portal company not a mobile gaming company but it is entering the mobile gaming market this year. We think the market has got too pessimistic on **Daum**'s growth opportunity, taking the view that, as the #2 search and portal company, it will be squeezed out of the market by the market leader, **NHN**. In fact the reality is that its advertising revenues are still growing very rapidly and showing no sign of slowing down. We do not think the market is giving **Daum** any credit for its venture into the mobile gaming business either. Importantly, **Daum** operates one of the leading instant messenger services in Korea called 'My People' meaning that it already has a large and sticky user base which it should be able to channel into mobile gaming. Interestingly, this is the very strategy that **Tencent** in China uses to drive its gaming business and launch new services! On just 9.9x 2013 P/E and with the equivalent of 14% of its market capitalization on its balance sheet in net cash we think **Daum** looks very attractive indeed!

Shariah Insurance - Syarikat Takaful Malaysia

Syarikat Takaful is one of the leading Takaful companies in Malaysia. Takaful is a special form of insurance which is compliant with Shariah laws and is becoming increasingly popular in the Middle East, Malaysia and Indonesia. In order to comply with Shariah law Muslims are forbidden from using conventional insurance on the basis that it involves uncertainty, usury ('excessive' profit or benefiting from others' misfortunes) and could be interpreted as a form of gambling. **Syarikat Takaful** has 21% share of the Malaysian Takaful market up from 15% in 2010. These share gains have been driven by its attractive 15% rebate policy combined with a large agency force and exclusive distribution through **BIMB**, one of the leading Islamic banks in Malaysia. Takaful penetration in Malaysia is still relatively low at 28%. Through a combination of 20% pa industry growth and further share gains we expect that **Syarikat Takaful** will see very rapid growth in the next 2-3 years.

Syarikat Takaful also has a 56% stake in unlisted **PT Syarikat Takaful Indonesia**. Takaful penetration in Indonesia is just 1%! Management believe that if the explosive growth they are anticipating in Indonesia materializes then the Indonesian business could go from 5% of net profit at present to 25% within 5 years.

Despite a strong rally in **Syarikat Takaful's** share price since we invested the shares are still only on a 2012 P/E of 14X. In 2011 the company generated an 18% RoE, meaningfully ahead of the industry range of 11-15%.

Car Sales in Laos

Kolao Holdings calls itself the 'miracle of the Mekong' and we don't disagree! This US$515m company, listed in Korea, is the exclusive distributor of **Hyundai** and **Kia** cars and the leading motorcycle manufacturer and retailer in Laos. Laos is a relatively small country with a population of just 7m people but the growth opportunity is still huge with motorcycle penetration at c.20% and car ownership even lower at 4%. Strong GDP growth in Laos over the coming years, which is expected to average 7%, should help drive growth in individuals' incomes. As this happens demand for motorcycles and cars should follow step. The emergence of vehicle financing in the market since 2009 will also help propel growth.

Over the last 10 years **Kolao** has delivered impressive share gains in new vehicle, used vehicle and motorcycle sales. The Japanese auto brands used to have around 70% of the market but this has since fallen to 35% as **Kolao** has taken share. The same trend has been seen in motorcycles where Japan's Honda used to dominate but now **Kolao** is in poll position with 30-35% of the market. **Kolao**'s leading market position is supported by the largest sales and distribution network in the country.

Kolao has zero debt and US$9m of net cash on the balance sheet. With its tremendous growth opportunity, strong competitive position and cash rich balance sheet we think **Kolao** is worth far in excess of its current market capitalization. Arguably, its valuation should also reflect a scarcity premium given that the Laos stock market which opened in January 2011 still has just 2 companies listed – a bank and a power company – both of which are government run. There is no comparison. The shares are currently trading on a 2013 P/E of 14.1X based on consensus estimates.

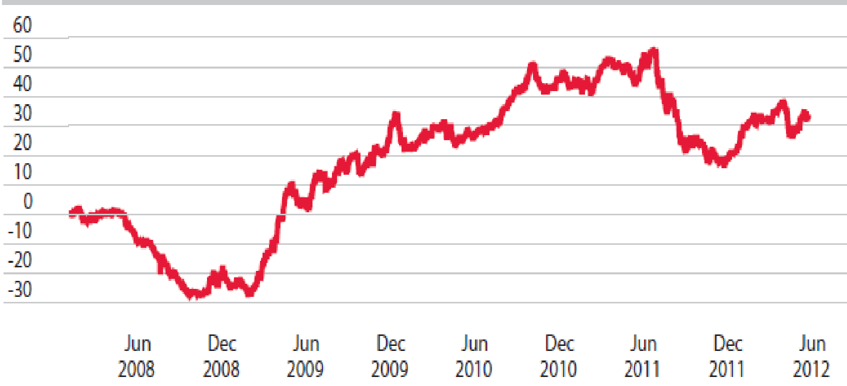
PORTFOLIO PERFORMANCE

Performance Summary (%)
Periods ending 29.06.2012

	USD	GBP	SGD
1 Month	3.11	3.01	3.01
3 Months	1.58	1.49	1.41
Year to Date	13.78	13.50	13.33
Since Launch+	33.80	39.54	-2.25
2011	-19.28	-19.86	-20.04
2010	16.43	16.90	7.90
2009	59.70	56.10	-
2008	-21.60	-18.40	-
Annualised 3 years	8.94	8.92	-
Annualised Since Inception	6.85	8.12	-0.92

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. Since launch: 08.02.08.

Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
2012	5.05	7.75	-1.04	4.29	-5.53	3.11						
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
2010	-0.70	-1.52	3.68	3.23	-4.23	1.20	0.83	2.74	7.45	3.62	-2.11	1.67
2009	-3.55	-2.02	-5.64	16.67	17.71	-3.66	8.91	-2.01	5.48	-2.16	4.42	4.81
2008			-2.44	0.52	0.26	-6.71	-3.49	-5.53	-8.52	-5.94	0.05	6.87

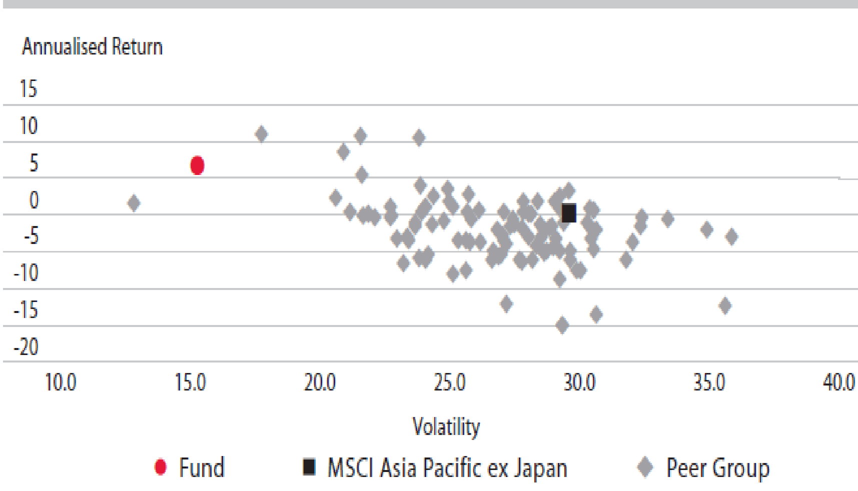
Source: Bloomberg

RISK ANALYSIS

Risk Metrics	**Fund**
Beta	0.55
Alpha (%)	6.69
Sharpe Ratio	0.45
Volatility (%)	15.28
% of the portfolio –which could be sold in 2 business days	83.48%

Source: Bloomberg
Since Inception: A: 08.02.08

Risk Adjusted Performance - Class A USD (%)



Source: Bloomberg. Annualised return and 1year volatility versus the peer group (open ended offshore Asia Pacific ex Japan Equity Fund Index), 8.02.08 to 29.06.12.

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Hemaraj Land Development	4.3
Gamevil Inc	3.8
LPN Development	3.2
Sino Thai Engineering & Construction	3.2
Airports of Thailand	3.1
Total Number of Holdings	58

Portfolio Financial Ratios*

Predicted Price/Earnings Ratio	15.1x
Predicted Return on Equity (%)	20.4
Predicted Earnings Growth (%)	21.1

*Fiscal year periods

Thematic Breakdown (%)

ASEAN Linkage/Domestic Growth	25.7
Domestic Consumption Services	16.3
Vietnam	13.2
Mobile Gaming	8.4
Gold	5.9
Singapore Office	4.8
Financial Services	4.6
IT Services	4.2
Healthcare	3.7
Cash	3.1
Tablet/Smartphones	3.0
Environment	2.9
Water	2.6
Domestic Infrastructure	1.8

Geographical Breakdown (%)

Thailand	16.4
Philippines	15.1
Vietnam	13.2
Korea	10.8
Singapore	9.9
Hong Kong/China	9.5
Malaysia	7.9
Australia	7.0
Taiwan	4.9
Cash	3.1
Indonesia	2.2

All data as at 29.06.12. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size (USD)	82.0m
Launch Date	8 February 2008
Fund Structure	UCITS III
Domicile	Dublin
Currencies	USD (base), GBP, SGD

Share Class Details

Codes

Class 1			SEDOL	ISIN	Month end NAV
A USD	Unhedged	Non Distributing	B2PKN21	IE00B2PKN210	133.80
B USD	Unhedged	Distributing	B2PKN32	IE00B2PKN327	133.94
C GBP	Hedged	Distributing	B2PKN43	IE00B2PKN434	69.52
D SGD	Hedged	Distributing	B3M3HJ5	IE00B3M3HJ55	183.24

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

Management Fees

Annual Management Fee
1.5% p.a Paid monthly in arrears
Performance Fee
10% of NAV appreciation conditional on a 6% hurdle

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