PRUSIK ASIAN SMALLER COMPANIES FUND PLC
PRUSIK INVESTMENT MANAGEMENT LLP

Authorised & Regulated by the Financial Services Authority: Schedule 5

An Independent, Asian Specialist, Investment Management Team

NAV Updates

Series	*JUNE '10*	*MTD*	*YTD*
Class A	126.92	+1.20%	+1.43%
Class B	126.93	+1.20%	+1.43%
Class C GBP	67.03	+1.12%	+2.49%
Class D SGD	176.45	+1.31%	

Fund Size $46m

Performance

2008	- 21.06%
2009	+59.07%
2010 (YTD)	+1.43%

The smaller companies fund rose marginally over the quarter against a backdrop of sharp falls in markets with the broader Asian index falling nearly 10%. This brings the YTD performance to +2% against the MSCI Asia Pacific ex Japan's fall of over 5% and the since inception return to 27% versus the index's fall of over 10%. The volatility of these returns is considerably lower than that of the index.

This quarter Asia itself contributed to the general malaise, with China introducing some dramatic anti-speculation measures in an effort to rein in runaway residential property prices in its larger cities. Transaction volumes have since fallen between 30%-80% and some price falls have been evident as developers finally reacted to the moves and cut prices. China's property markets make up nearly 30% of internal steel demand and as a consequence questions were raised over the entire China commodities demand story. We expect these heavy-handed property measures to remain in place, but believe the worst of the new measures are behind us.

In the US, to which Asian markets remain frustratingly correlated, we have seen trading patterns which, to us, do not suggest a healthy stock market. Since April 26th approximately one trading day in three has seen a 90% bias towards upside or downside in terms of volume, number of advancing issues and points moved. Combining these signs with devilishly low trading volumes and wildly gyrating currencies, they speak to us of an investment environment that is rife with confusion and indecision. The domestic signs in Asia vary from neutral to downright exciting (more on that later). Worryingly the global signs of economic health appear very poor, a pressing concern as it affects the crucial backdrop to the Asian economic business environment and global sentiment.

In Asia, there are still healthy exports to Europe and growth feels strong. The implication of what is happening in Europe is that this might deteriorate going forward but there are not many signs of this as yet. Regional central banks are keeping credit growth modest, in line with the new monetary targets, and indeed interest rates were very recently raised fractionally in Korea and Malaysia and in Taiwan and India earlier in June. The equity environment in

Asia feels quite suppressed and the resolution may be violent either way. If we do get a new round of QE or stimulus in the West then Asia will do very well. If not then western markets are in for a poor time and Asia will struggle to resist the sentiment. If all other things were equal in Europe, then Asia would be offering some great investment opportunities now and indeed our bottom up research in our favoured themes is largely very encouraging.

The bottom line is, that we wait in with some cash in hand and are amassing a list of stocks which we would like to buy if we get a deflationary scare. We don't think we will be waiting much longer and the resolution will be this quarter. It is too late to sell unless you think there will be no stimulus.

Portfolio

The portfolio is invested in brands and other domestic consumption businesses in China, India, Korea and the Philippines. Our other best-represented themes include healthcare, the nuclear supply industry in Korea, Gold, LED and OLED and a selection of high yielding stocks across Asia, such as property REITS and infrastructure companies.

China

There seems to be a tiny thaw in the austerity measures in China. So far this comes in the form of a restatement of existing large infrastructure projects in the western provinces, which is clearly intended as a reminder that it isn't all bad, and a speech from one official stating there will be no new property cooling measures in the third quarter. We have also seen the beginning of new domestic mutual fund launches, not seen for a while, suggesting that the stock market, at least, is due a little support from somewhere. None of this is surprising. In addition, the property market has seen transaction volumes drop by a whopping 30 – 80%, depending on location, with some local give on pricing but little follow through, on prices country wide. Meanwhile, GDP growth expectations seem to be settling on the 9% level, miraculously in line with government targets.

The question is, are we about to see a turnaround in China sentiment, led by government policy? Whilst the sighting of one swallow does not a summer make, it is probably not December either, so we are encouraged by what we have seen this month from the perspective of likely better policy news flow. However, we do not expect fireworks at this stage either. The key question is therefore if the government becomes a little more constructive, given the very poor performance of China year to date, is there really blue sky above for domestic equities or does China, like its western counterparts, have too many other problems to make significant headway at this stage?

Our conclusion is that if any stock market could move against the grain from here, then it is China. Valuations are much more compelling and some Price/Book ratios and Price/Earnings ratios are now down to 2005 and 2008 lows. The risk in the immediate future is international demand for exports, which we think will remain sluggish, if not deteriorate in the second half of 2010.

Additionally, there are two really difficult issues with which we think China will continue to wrestle with and which could continue to unsettle or cheapen the stock market.

China Property

The first is property, where there has been selective success from the governments cooling policies so far. Volumes have collapsed but as yet there has been very little follow through on prices. Normal markets would probably see nasty falls following such a precipitous decline in volumes and, indeed, fear of this may be what is behind the recent indication that no more cooling measures will be forthcoming this quarter. This is China, however, and many new property owners are currently only part way through their first property 'cycle' so the concept of actual falling prices is not a familiar one. Thus, most property owners generally remain blithely of a mind that this is more of a pause than a correction. As a result, we must therefore assume, that should a proper correction take hold, the results could be either quite shocking or long running, or both. Therefore the conventional thinking is that if prices were to fall much the government would once more step in with supporting measures.

Perhaps not so obvious is the slightly more complex relationship that is emerging, between rising property prices and a 'wealth effect', which leads to correlated retail spending. Certainly in rural areas the 'wealth effect' felt from rising property values is alive and well. However, in the major cities it is likely that the opposite is now occurring. After a certain point, rising property prices become too high for average incomes and act as a tax on urban dwellers, curbing consumption and creating social tensions. This ever rising cost of living in the city undermines the security of city residents and they feel less wealthy. In China these two factors at work are creating an environment where the average city dweller is probably seeing their foothold in the city looking less secure, whilst at the same time they are feeling more wealthy as a result of the value of their retained land rights at home in the more rural areas. It is no surprise therefore that the recent labour unrest has happened at the peak of the property boom and has been met with unprecedented wage increases. Thus, China's migrant labour force has been, as a result of the rise in property prices, at once impoverished and enfranchised and the effects are not only hugely destabilising socially but will profoundly impact industrial China, as we are already starting to see.

Our belief, is that falling property prices are not as negative for China or its urban dwellers as it first appears and indeed falling property prices would probably not undermine the consumer as much as might be expected. This is good news for the very strong underlying consumer story in China. The short term risk, however, is that the government may not be as supportive to a falling property market in urban areas as might be expected, causing more fear in equities than is warranted. On the positive side, we can expect property in the rural, western and central provinces to be supported and the wealth effect there is alive and well.

Workers and Wages

It took our recent trip to SE Asia to understand fully the already massive impact of the recent worker unrest and wage hikes on business throughout the region. Not only are many manufacturers reportedly busy looking for capacity away from China, the anecdotes were quite shocking, even for somebody who was in China the week the Tiananmen Square demonstrations started. For example, Mazda are on the hunt for car assembly capacity in Malaysia after a worker went crazy and drove a car (presumably a Mazda!) onto the factory floor, and wrecked an entire line of machinery and hurt 11 people.
Michael Taylor of Coldwater Economics sums up the situation brilliantly in his recent review of the book *'Against the Law: Labour Protests in China's Rustbelt and Sunbelt'* by Ching Kwan Lee. This is what he has to say about how Chinese labour politics works. Three points are particularly important:

"First, the political economy of Chinese reform is characterized by persistent contradictory imperatives and conflicts of interest between the central government and local states. Worker politics derives from these tensions, not from system logics.

Second, there is no singular political economy in China. Institutions embedding and enabling the commoditisation of labour, especially the labour rule of law, are unevenly established in different regional economies, giving rise to diverse local labour regimes and labour politics.

Third, worker subjectivity cannot be reduced to material interests. Equally important are workers' sense of dignity, justice, and their need for recognition. Post socialist transition in China spawns labour unrest because enormous normative violence has been inflicted on workers."

Our overriding feeling is that China has reached some kind of turning point in its development. It's not bad, but it's different. And perhaps one of the important distinguishing features of the next era will be that we stop regarding China as homogeneous and similarly to Europe, we will increasingly see that central politics will not work well everywhere at once.

Finally, a highly respected sage from the Nobel prize winning world of economics made this point to us: If over the coming years you assume that roughly Asian currencies double and wages triple, a room at Claridges (please interchange here any western asset or luxury of your choice) will be around 16% of the cost it is today for the Asian consumer. This is an exaggerated picture but the message is clear: The Asia consumer story won't just stay in Asia.

Chinese brands and competition

Over the quarter, we have engaged in a comprehensive review of the Chinese retailing sector, speaking to many of the participants including Ports Design, Stella, Bosideng , X-tep, Daphne, Belle, Li Ning and Embry. Our conclusions are two fold. Firstly, some of the top tier brands are still carrying high levels of inventory and this is forcing companies such as Nike to widen their distribution spheres away from the larger coastal cities. Secondly, the market place is becoming more competitive at a retailing level. This means more investment in the control of point of sales outlets and the distribution chain is necessary, and beginning to occur.

Nike announced at their quarterly update that it would now be expanding its reach deeper into China. A pair of Nike sports shoes retails at over RMB400 in Shanghai and Beijing whereas the local brands that have established themselves in the countries central and western regions are selling similar products for RMB200 a pair. The top Chinese brand, "Li Ning" enjoys pricing between RMB300 and RMB400 per pair of shoes. Clearly the pricing differential is enormous between international and national brands and it will be important to see whether Nike has to drop prices in future in order to broaden their sales reach. This may well have consequences for some of the higher priced national brands. However we believe Daphne's brand strength and huge pricing advantage will protect them and it will also take time for Nike to penetrate into the cities that Daphne and X-tep dominate, if indeed Nike get this far into China at all.

At a retailing level some of the brand managers have begun to build up more distribution control and, similarly, some of the traditional distributors such as Belle have begun to acquire more brands. Broadly speaking the wholesale and distribution margin is around 25% and the brand margin 50%. Daphne have expanded their reach into the distribution sphere with considerable success and are now seeing an improvement to margins through better supply chain management and cost control. We favour companies following this route going forward. It generates the highest returns and, given potential competition from the international brands, those companies tucked away in the interior will continue to prosper most. Of these, X-tep is our favourite.

Nike will not be the only MNC to broaden its product range in order to compete with the local Chinese brands. Procter & Gamble have initiated a Chinese named alternative to its Whisper brand of sanitary towels and at a 10% discount to its existing range, in direct competition to the dominant local brand, Hengan. Pepsi have introduced a cut-price juice product. Kimberley Clark is introducing a Chinese branded range of diapers. In fact, advertising expenditure is forecast to pick up materially both from MNC's and local brands this year. For example, Menginu Dairy is committed to a 60% increase in advertising this year. However the local control over distribution networks is as solid as ever, and the Chinese brands enjoy considerable first mover advantage. Furthermore, the market is, as we all know, constantly growing supported by the normal patterns of increasing wages driven by recent but likely ongoing wage hikes across the country and by the Government's continued commitment to raising agricultural prices and boosting and subsidising rural incomes.

In conclusion, we are becoming more wary of the expensive and well-known brand stories, which dominate in the East and South and prefer the lesser-known second tier operating in the West and Central areas of China. We remain happy with those companies who are clearly moving to improve profitability by controlling distribution. We suspect the China consumption story will remain strong for many years but competition and changing fashions will mean we have probably seen peak multiples for the bulk of the local retail brands. Of these brands very few have been breaking into national or international dominance, and we can see quite a few headwinds for those with their own manufacturing business. Meanwhile, we sense a whole new genre of growth areas as the consumer story evolves. These include financial services, advertising, healthcare, insurance, the automobile services industry and travel and tourism.

Healthcare

The spending per capita on healthcare in China is less than 2% of that in the US, according to the WHO. The growth rate is nearly double that of most countries but we note that even at this growth rate, the spending per capita would still be well below international averages, even by 2015. This provides significant opportunity. Since 2000, the annual growth in total healthcare expenditures in China is approximately 15%, which is higher than the rate of GDP growth but well below some of the growth rates we have seen in other sectors, such as investment in infrastructure and power. In China, the current priority of the government is to provide basic healthcare to as much of the population as possible, funded in part by public funds. Indeed, we suspect that in the future, the government's attention will turn away from the currently well-serviced areas, such as infrastructure, towards areas where the country lacks resources, such as healthcare. To this end, the government has allocated an additional Rmb850bn to be spent on healthcare from 2009 to 2011, of which we believe as much as 60% has been allocated to greater drug reimbursements for essential drugs primarily in rural areas. Both traditional Chinese medicine (TCM) and low cost western medicines such as penicillin and antibiotics are key beneficiaries of the government policies of providing basic medicines to the lower income population. We believe low cost medicines should experience much faster growth than the overall pharmaceutical market in China.

United Laboratories is the countries largest maker of 6-APA, the core chemical in penicillin and enjoys a 60% market share. They have increased capacity by 35% in 2009. In addition, they are expanding their product base to include branded medicines such as antibiotics, eye drops and diabetes drugs to generate future growth and diversify their revenues. The stock is trading at 13x 2011 PE – a significant discount to both its historical trading range and relative to its peers.

Ruinian is a beneficiary of both healthcare spending and consumer spending. It is the largest manufacturer of amino acid-based nutritional supplements in China with a market share of 22%. Amino acid supplements are almost unheard of in the West but to put this very important sector into perspective, the amino acid supplement industry in Japan alone is worth US$5billion. Ruinian's products are available at 41,400 retail outlets across 29 provinces. Like the overall healthcare industry, we believe the core nutritional supplements market in China is set to ride on growing health consciousness, higher disposable income and an aging population. In addition to their nutritional products Ruinian started a pharmaceutical business in July 2009, manufacturing eye drops and anti-cancer medicines. This new business has recorded a robust gross margin of 80%+. We believe that both their core business coupled with their new venture will provide significant growth. Net profit will grow 50% this year and 35% next year and the stock is trading on an attractive PE of 13.1x 2011, which is about half the multiple of the better-known clothing brands.

Railways

Railways have been a long-term theme for both the Prusik funds, however, until recently, our investments in this sector were mainly in China until valuations rose above our comfort zone. Over the last few months we have been researching the same theme in India, which is significantly behind China on the evolution path, but the growth opportunity is equally immense. The government of India, along with Indian Railways, has announced the construction of two dedicated rail freight corridors with an aim to link the entire nation in one grid. The first corridor, which will link Delhi to Kolkata, has received financial closure from ADB and the World Bank. The second freight corridor, from Mumbai to Delhi, is close to a tie up with Japan. These proposed freight corridors, along with expected growth in goods traffic, will generate huge demand for new wagons from Indian Railways. Titagarh Wagon, with a 40% share of the domestic wagon market, is poised to benefit from this growth and orders from Indian Railways comprise 49.9% of their current order book. We expect Titagarh Wagon's FY11 order backlog to rise by 50% to Rs7.5bn (equivalent to 1 x FY11 revenues). With a shortage of wagons already, the new programs should ensure strong business for the company over the next 2 years. Wagons ordered by the government also have high margins of 27% because of specialized work involved. On our estimates, the stock is trading at 8.8x FY11 and 7x FY12 PE. This compares with Midas, an old favourite listed in Singapore, which is trading at double these valuations. We are still researching other names in the sector, as well as any related beneficiaries.

Indian Brands

Like China, we still believe the domestic consumption trends in India are still at a very early stage. We have previously mentioned Nestle as a core holding in the fund, however, we feel that even though MNC brands have strong opportunities in India, home grown brands which have significant market share in niche areas and which have strong export markets will provide opportunities that are being very overlooked. One such opportunity is TTK Prestige – they are a branded manufacturer in the kitchen appliances segment and enjoy more than 40% market share in the organized segment in India. The company started as a pressure cooker manufacturer (a must for any Indian household – domestically or internationally and including Prusik's own kitchen) with 60% market share and has over the last few years transformed to a total kitchen solutions provider. We see still good growth from the pressure cooker market, but the real step in growth will be driven by their appliances division. Having already built a strong brand, they are now leveraging on this to diversify their revenues in related businesses. We forecast that this will enable them to continue posting 35%+ earnings growth over the next 3 years. We believe that we may be overly conservative on our estimates for the company's revenues and earnings. Even as we write, they have reported Q1 FY11 results – showing sales growth of 47% yoy, EBITDA margins expanding to peak levels (15.8%), and Net profit growing by 117% yoy. The company is investing in expanding capacity and also in increasing their retail outlets – both of which we estimate will allow TTK to continue showing strong growth numbers. Trading on 14x March 2012 PE, we feel that the stock is still very cheap compared to the sector, which trades at well above 20x.

AGI

The fund is invested in AGI in the Philippines. This company owns some interesting hard liquor brands notably Emperador and also has a 49% interest in the McDonalds Philippines franchise. AGI has a 54% interest in Megaworld, which has arguably the best land bank for middle income/high-rise residential development due to its proximity to the CBD in Makati. The jewel in its crown is a 45% joint ownership of Travellers with the Genting group. Travellers is a fast growing casino operator in Manila. Early expectations for the gambling halls look to be very conservative. This cash generative business is, we believe, largely the reason AGI surprised analysts in June and paid out a dividend. Return on Equity is usually a difficult measure of the "conglomerate" business model but we see returns rising from single digits to above 12%. The individual assets also look undervalued in analysts' estimates. We believe that the retail brands are worth double the existing forecasts and, as stated, the casino operations (as they are tending to do all around Asia) will continue to defy expectations.

Male Skincare

Male skincare and cosmetics is a new theme for Prusik. Recent data and extensive research, not least amongst the Prusik team and the male stock broking community in Asia, suggests huge market potential. L'Oreal says China's market for men's skincare products rose 27 per cent last year and have been rising at a 40 per cent clip this year – about five times as fast as women's beauty potions. However, we believe the real opportunity in this sector is Korea. The impressive growth trend in Korea dates back to 2000, when a host of cosmetic companies launched entirely new brands aimed specifically at men.
The cosmetic market that was worth around W320 billion in 2003 stood at an estimated W620 billion in 2008 thanks to an average 17 percent growth rate over the past few years. The total market share of the male cosmetic market is said to be around 10 percent while we anticipate that it could grow to as much as 20 percent, which is about the same as neighbouring Japan, where the idea of feminine-looking men with long hair has been around for a long time. The use of male grooming products has seen solid growth, revealing the importance that male grooming products currently have in the cosmetics industry; however, the skin care market is seeing the fastest growth.

We have recently added Able C & C to our investments in Korea. This company, through its brand names Missha and Swiss pure, is dominant in the low-price sector of the Korean cosmetic market, and is ever-increasingly popular within the global markets. Growth in this sector in 2009 was 12%, comparable to the growth rate for the total cosmetic sector. This is projected to rise faster in coming years. Missha currently has 56% of the domestic market share in the low-price sector and continues to expand globally with over 300 retail stores in markets diverse as Hong Kong, Mexico, Romania, the United Arab Emirates and the US. However, the more interesting business segment is Missha's positioning in the male cosmetic market, with numerous products and lines such as Missha Homme Urban Soul. Currently this is still a small portion of the company's revenues, however we believe that this will be the most significant growth driver for the company over the next few years. In 2008 the male cosmetics division contributed 3% of revenues for the company and this jumped to 7% in 2009. They already have the distribution network and the brand awareness and we expect that they will be able to use both of these to drive growth in this segment. The market is valuing the company as ex-growth within an ex-growth industry – both of which we disagree with. Trading on 5x 2011 PE we expect that as the market begins to see the growth materialise Able C&C will rerate. The PE multiple could double from current levels and still be cheap on a sector comparison basis.

We continue our search for other companies and countries that are seeing similar trends – next stop, India!!

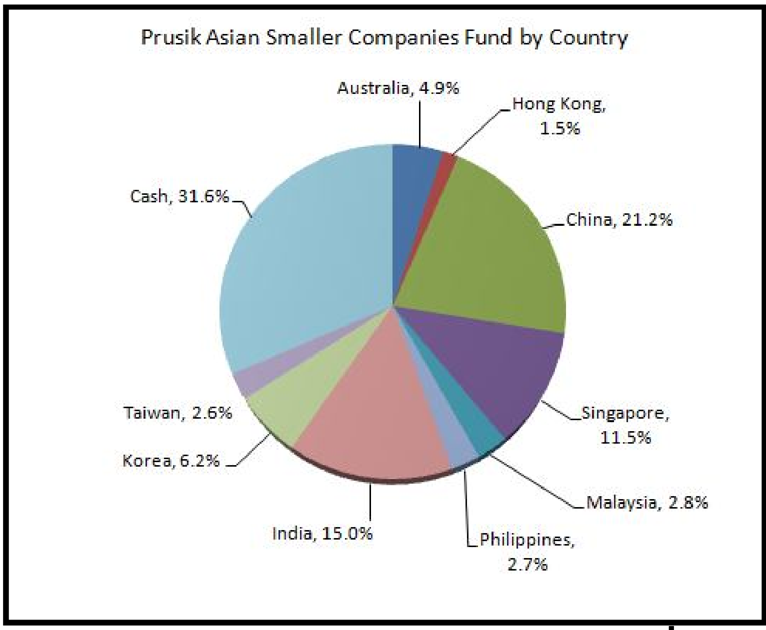
Portfolio Valuation

The portfolio trades at 10.4x 2010 and 8.5x 2011 earnings, with estimates generating 55% earnings growth this year and an ROE of 17.5%.

Singapore dollar share class

During the quarter the Monetary Authority of Singapore allowed the Sing Dollar to move up quite dramatically versus its targeted basket. There was a fall back during the equity sell off in May but still nothing like the moves we normally see in Asian currencies during sharp market sell offs. We still believe that for sterling investors this share class is attractive.

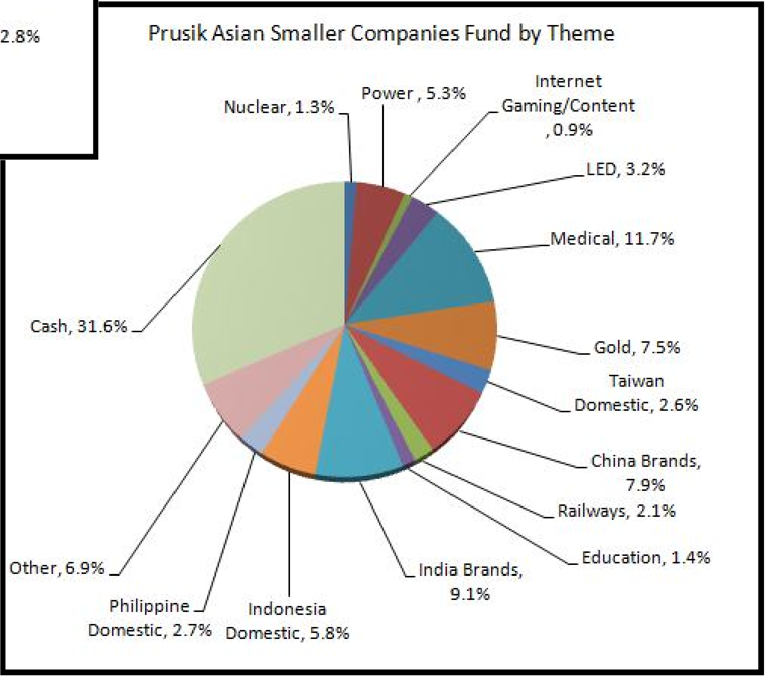
Prusik Asian Small Companies Fund
Top Line Figures—2nd Quarter 2010



Number of holdings	34
Percentage of Fund invested	68.41%

	Top 5 Holdings	%
1	AVOCA RESOURCES LTD	3.6%
2	RUINIAN INTERNATIONAL LTD	3.0%
3	FIRST PACIFIC CO	3.0%
4	TTK PRESTIGE LTD	2.9%
5	NESTLE INDIA LTD	2.9%

Futures	%
HANG SENG IDX FUT Jul 10	-7.5%
H-SHARES IDX FUT Jul 10	-3.3%
MSCI SING IX ETS Jul 10	-7.3%
SGX S&P CNX NIFTY Jul 10	-4.3%
TOTAL	-22.5%



PASCF Monthly Performance

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2008	-	-	-2.44	0.52	0.26	-6.71	-3.49	-5.53	-8.52	-5.94	0.05	6.87	-21.6
2009	-3.6	-2.1	5.6	16.7	17.7	-3.7	8.9	-2.01	5.48	-2.16	4.42	4.81	59.7
2010	-0.7	-1.52	3.68	3.23	-4.23	1.20							1.43

Key Parties to Fund

Investment Manager	Prusik Investment Management LLP
Administrator	Citi Hedge Fund Services (Dublin)
Custodian	Brown Brothers Harriman (Dublin)
Auditor	Ernst & Young
Legal Advisors	Dillon Eustace (Dublin) Simmons & Simmons (London)

Key Terms

Denomination	USD
Dealing Day	Weekly (Friday)
Minimum Subscription	USD100,000
Min Subsequent Subscription	USD10,000
Subscription Notice Period	10 business days
Redemption Notice Period	10 business days
Dividends	
Class A	$ Non distributing
Class B	$ Distributing
Class C	£ Hedged Distributing
Class D	SGD Hedged Distributing

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Manager Fees

Management Fee	1.5% p.a. paid monthly in arrears.
Performance Fee	10% of NAV appreciation. With a 6% hurdle.