



LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asian Smaller Companies Fund

Quarterly Investment Report
31 December 2011

FOR PROFESSIONAL INVESTORS ONLY

INVESTMENT OBJECTIVE

To preserve capital and generate absolute returns over a full economic cycle by investing primarily in Small Cap companies in Asia Pacific Ex-Japan, whilst maintaining portfolio volatility significantly below the peer group.

INVESTMENT PROCESS

With anomalies as a start point, the investment process seeks to identify and invest in key 'themes' in the Pacific region. Our themes are driven by factors outside of normal economic cycle and are not yet discounted by the market. Companies are identified and chosen via rigorous bottom-up analysis with emphasis on traditional value and high ROCE. Cash and Index Futures are used when opportunities are few and to reduce portfolio volatility.

FUND MANAGER

Heather Manners - Partner

Appointed Head of Henderson Asia and GEM team in 1996 after which FUM tripled to USD5bn. Her flagship product was the S&P 3 Star rated Pacific Capital Growth Fund (long only) which she ran from 1990. The two main features of this fund were sub market risk for superior market returns. On the back of this fund she designed and launched the Henderson Asia Absolute Return Fund in 2000 (long/short) and managed it until 2002.

Heather has been running money in Asia for over 25 years. At some stage during her career she managed every type of asset class offered by Henderson, including short list portfolios and assets for a 5 star Morningstar rated Small Companies Fund.

4th Quarter Review

2011 was a miserable year for Asian smaller companies with the MSCI Asia Pacific ex-Japan Smaller Companies Index falling 26.3%. This partly explains the performance of the Prusik Asia Smaller Companies Fund. The final quarter of the year was especially disappointing. We failed to make gains in the strong up month of October due to our defensive positioning and cash weighting, resulting in a fall of 6% over the quarter. 2011 was an exceptionally volatile year where owning defensives was really the only winning strategy. Our thematic approach, small-cap orientation and more growth orientated style was swamped by the market's overall risk aversion and wild gyrations. We did have some areas of success, notably the biotech and healthcare sectors which performed very strongly throughout the year.

In this report we want to focus on 2012. There is an old saying 'Don't fight the Fed' but it is likely to be applicable to all central banks. The European Central Bank programme to lend unlimited three year money to the banks is a form of quantitative easing. Emerging market banks are already joining the fray with four cutting rates and more are expected to join soon. Inflation is gradually falling. Moreover, this is taking place against a backdrop of very attractive valuations in Asia (see below) and many signs that economic growth is not just a feature of our past. Signs of life in the US economy are important but there is also plenty elsewhere to get excited about. Asia's stock markets could step away from the fears and news flow volatility from the Eurozone and respond to the regional news and demonstrable value.

In 2012, we are setting out our stall as follows:

- We think the liquidity environment will be better in 2012 than in 2011.
- There is unlikely to be a resolution in Europe (such as fiscal unity) until later in the year at the earliest, so the current status quo remains.
- Asian valuations suggest likely upside from here. Furthermore, if shares and hence valuations were to fall a further 20% then we would be at *all time* historic valuation lows and would have reached levels where it has *always* been correct to ignore the macro picture and buy stocks. As such, the risk/reward is favorably skewed with the risk on the downside now looking smaller than the potential upside.
- At current valuations we believe there is over 40% upside to Hong Kong and China and well over 100% upside in Vietnam. Other ASEAN markets such as the Philippines warrant at least 15%-20% upside from here.
- Smaller companies fell on average 30% in 2011, so there is also extreme value in this segment of the market.

Within the region the most expensive set of stocks are the defensives. Although the relative performance of these has fallen in January to date, they remain well held by investors and there is better value elsewhere. Owing to this, we have made some portfolio changes, some of which have taken place in January. These include reducing the defensive REITS and healthcare weightings in favour of increasing cheap cyclicals with good franchise businesses, such as China brands **TCL** (handsets, 2012 PE of 4x) and **Skyworth** (TV's, 2012 PE of 6x). We are totally focused on quality, value, competitive position and high ROE. We have a simple selection of areas which we believe will do well in 2012 all of which are discussed below. We are currently positioning the portfolio to make maximum benefit from these areas. We expect to keep cash between 5%-15% and futures are unlikely to reduce net exposure to below 40%. At the end of the repositioning we expect to have the following weightings:

- **Hong Kong and China: 25%-40%** based on the attractive value of companies and expectations of softening in China.
- **ASEAN: 45%-55%** based on the extreme value and upside potential in Vietnam and the Philippines and strong demographic and domestic economic environment in Thailand and Malaysia.

- **Gold: 5%-10%** based on the likely move towards money creation in the absence of anything else working in the West and Asian governments' voracious appetite for increasing gold as a share of foreign reserves.
- **Technology: 5%-10%** based on the strong low-end smartphone theme, now very cheap after a bad 2011.
- **Mobile Gaming: 5%-10%** one of the strongest new themes which will arrive in China and emerging markets this year.
- **Biotech: 5%-10%** a good performer in 2011 but 2012 will bring further upside through monetization of products and M&A from 'big Pharma' predators.

Thematically, we remain very keen on domestic consumption but must emphasise that this does not include the expensive consumer staples companies nor the widely held luxury brands. Instead we have significant exposure to **Shopping Malls, Tourism**, including **Air Travel** (a more cyclical and value driven choice), **Domestic Brands, Toll Roads, Private Healthcare, Game Developers**, and some **Property, Banks** and **Construction** in the Frontier Markets. We expect to be fully positioned in the coming month.

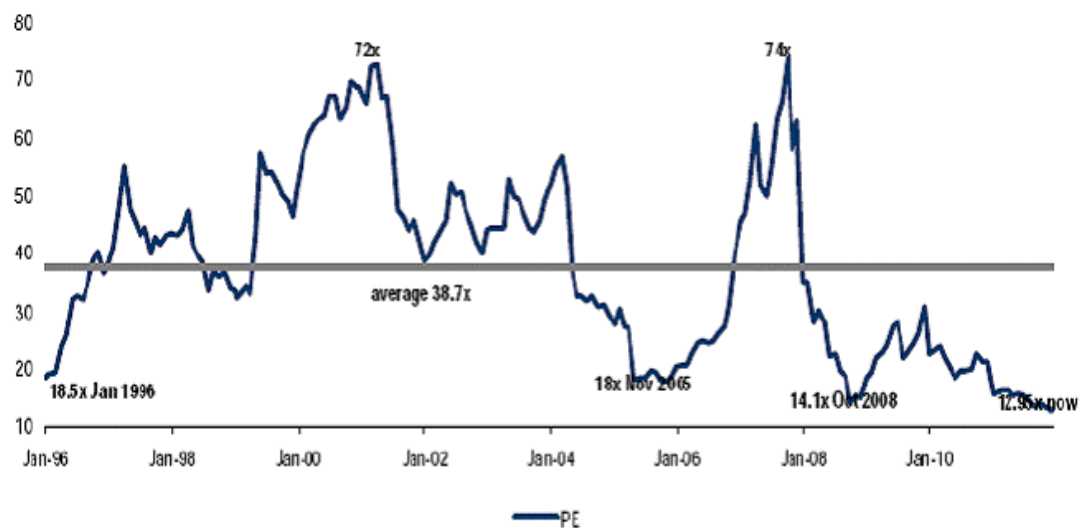
China

It will be important to approach China with a light touch this year. There can be little debate that digging deeply into the underbelly of China's debt situation, bank loan quality, housing supply or future viability as a cheap source of manufacturing for the world, yields worrying stuff. Indeed, we have been struck in particular by a recent anomaly that Phillips has announced it is taking a significant portion of its manufacturing away from China and back to the Netherlands, citing that a product engineer in Shanghai is now the same cost as one in Drachten, whilst China's employee turnover is too high to remain sustainable. China needs to reappraise its situation and effect some deep changes.

However, there are a few reasons to be a little more equivocal this year about China's outlook and in particular the stock market. Firstly, there can be no doubt that small medium enterprises (SMEs) are struggling and some kind of relief will be afforded by the government, possibly via tax reform or by less tight, but quite directed, fiscal and monetary measures. Secondly, the possible routes for stimulating the economy generally have narrowed, ruling out property and infrastructure and making a return to the policy of a heavily undervalued currency and aggressive exports unviable or unlikely. Although we believe that the inflation outlook will become sufficiently benign such that the government could stimulate aggressively, we think it is unlikely unless unemployment rises sharply. Instead they will focus on particular issues such as the heavy outflows of capital we are seeing.

This means we are very likely to see some positive changes in the financial services and savings environment. To this end, the Chinese government will be pushing on an open door. Below are charts of the P/B and PE of the Shanghai Index, which stands close to its all time low. Indeed, the PE of the index, now at 12.9x 2012 earnings, has never been lower while ROE is at 15.1% which compares well with 9.5% in 2005 when the market reached its historic P/B low.

Figure 2: Shanghai historical P/E



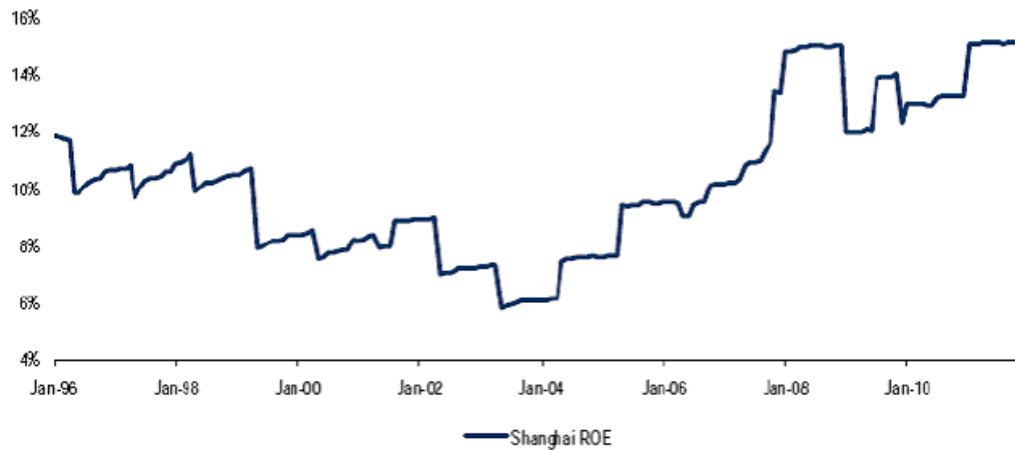
Source: WIND, Credit Suisse estimates

Figure 3: Shanghai historical price-to-book



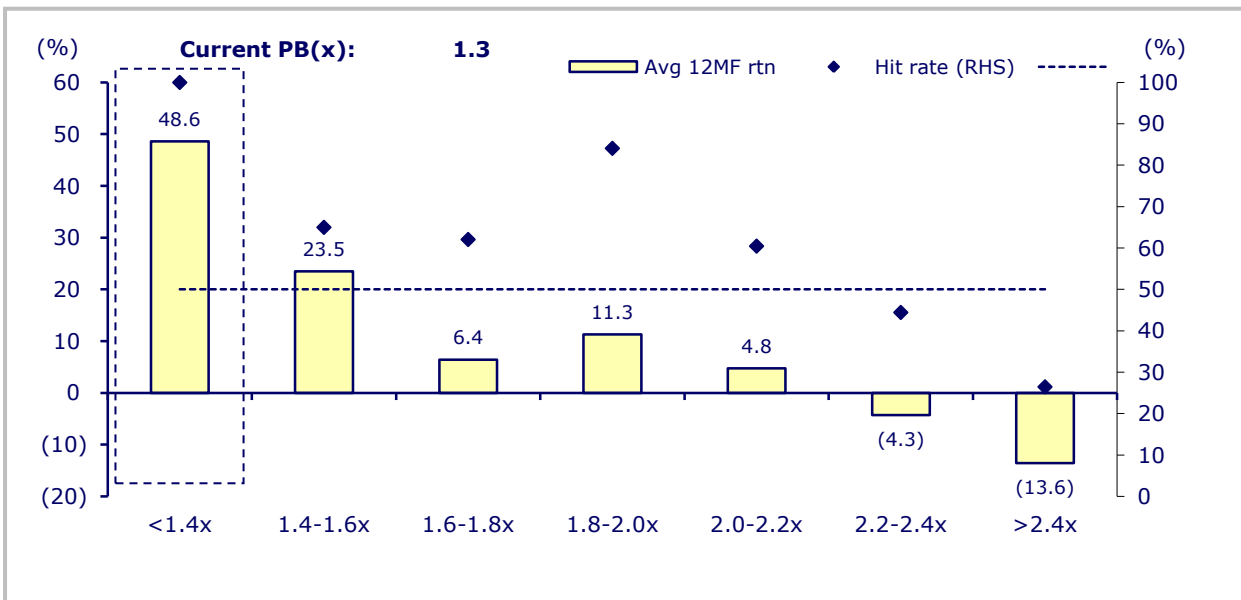
Source: WIND, Credit Suisse estimates

Figure 4: Shanghai historical ROE



Source: WIND, Credit Suisse estimates

Furthermore, CLSA has carried out some research regarding the current low valuation of shares in Hong Kong. They observe that since 1993 whenever the P/B has fallen to below 1.4x (and it is currently 1.3x) there is a 100% probability of a 48% or more return in the subsequent year. Of course the past is no guide to the future but the simple observation is that valuations are compellingly low and so any change of wind direction in government policy to something more supportive could have a disproportionate impact on share prices.



Source: CLSA

Technology Themes

We have selected a very small handful of technology themes for 2012, taking care that the areas we are looking at not only benefit from some secular and extraordinary shift in growth and demand but also that the companies we invest in are in very strong competitive positions and are attractively valued. Although we expect smartphone handset shipments to increase over 40% year on year in 2012 and for WIFI growth to reach nearly 30%, growth in itself is not enough. We recognize that touch screen and battery life are both interesting areas but now suffer from having a number of capable players. The most exciting technology franchises with effective barriers to entry at the most attractive valuations are to be found in the supply chains for **OLED** and **Gallium Arsenide**.

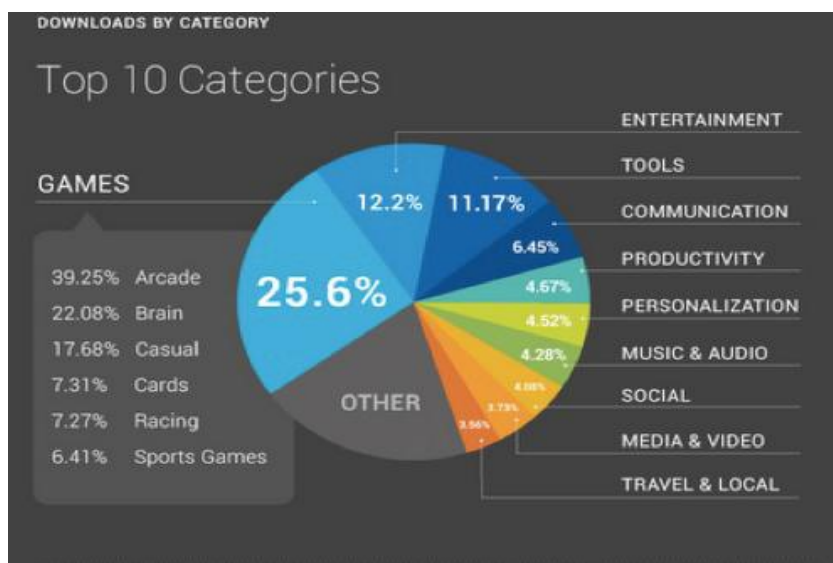
We are also expecting a massive disruption in the TV market. This is an area which has managed to resist change but internet and TV will converge with Apple's and Microsoft's interface software, Siri and Kinect, becoming key weapons in the battle. Watch this space in 2012.

Finally, and possibly most importantly of all, apps have snuck into everyday life but we do not perhaps fully appreciate that in 5 or 10 years from now we will see their creation as one of the most important technological innovations of the age! Apps stores have democratized the writing of software, enabling anyone anywhere (even in North Korea, in fact!) who solves a problem or sees an opportunity to use freely provided tools to create a product that tens of millions can buy, instantly, anywhere. They are hugely efficient and massively deflationary and their impact will be seen to have been momentous.

Mobile Social Gaming

In 2011 Call of Duty became the largest entertainment franchise of all time, beating those leviathan successes Star Wars and Lord of the Rings. But it is not a movie, it is a computer game. COD (as it is known by its players – for more information ask any teenager) has also taken the world record as the only entertainment franchise that has set opening day records three years in a row, selling a staggering 6.5 million units in just 24 hours in 2011 *in just two territories*.

We have written in the past about the rising role that game playing has in our lives. The chart below, released by Google, tells the gaming story clearly.



Source: Google

Now this seems to be extending further. We now use game playing as part of problem solving, training, education and health recovery. Gamers have even played a recent part in solving the molecular structure of a new AIDS drug, the configuration of which had foxed scientists for over a decade. Companies use games to train and engage staff. New games have been designed for helping restore health to sufferers of psychological traumas and traumatic brain injuries. The list will get longer

It must, therefore, be close to a sure thing that gaming is only going to become far more dominant in the mobile internet area. Indeed, Price Waterhouse Coopers estimates that currently mobile gaming delivers only \$7bn revenue out of the \$56bn total gaming market. To date, there are 5 billion mobile phones in the world and only 20% of those are smartphones, so gaming on mobiles will be one of the fastest growing areas as smartphone penetration rises. On top of this, one fascinating aspect of the potential for new social platforms in the mobile market is Facebook's relative weakness here. Only a third of its revenue comes from mobile compared with over 60% for Twitter. Thus, the possibility for mobile gaming platforms to also come to dominate social networking on mobiles is therefore huge, not least because games, like Disney cartoons, transcend language barriers. Mobile social gaming will be the blended outcome and it is likely to dwarf what we have already seen.

The size of this opportunity is not lost on the major players such as **Gree** and **Nexon** in Japan and even **Papayamobile**, an aspirational mobile gaming company started by two students in 2008 in China, which already has offices in Beijing and Menlo Park down in Silicon Valley.

Com2us is a Korean listed, \$200m, market cap company which focuses entirely on mobile gaming. At the GStar online gaming conference in Korea in November three hundred and eighty companies attended and **Com2US** was the only one without PC terminals on its stand. They have a number of social mobile game launches in 2012, so its time may have arrived.

Other companies with strong mobile gaming potential include Korean game company, **Gamevil** and **Tencent**, the Hong Kong listed China online games leader. **Daum Communications**, currently a leader in mobile search in Korea, has signed an exclusive deal with Japan's largest mobile game developer, **DeNA**, to publish its mobile games in Korea so this will likely be a major driver of growth for **Daum** in the future.

Frontier Markets

One Tuesday in August, as markets across the globe fell, stocks on the S&P 500 index traded with the highest correlation co-efficient ever, of 0.84. This was higher even than the previous record of 0.83 set on the Black Monday crash in 1987. In such turbulent times investors have been taught to seek established markets for safety but in August, for example, this was not helpful. On August 15th 2011, the 10 day rolling average of volatility for the S&P500 Index hit a high of 66.8. The same measure for the MSCI All Country World Index reached 46.7 while the MSCI Emerging Markets Index registered 39. The MSCI Frontier Markets Index, however, peaked on the same 10 day volatility measure, at just 23.1.

August's example of how Frontier Markets can be uncorrelated when it matters extends to Asia. In August 2011, the S&P fell 5.6%, the developed market heavy MXAPJ All Country Asia ex Japan Index fell 8.9%, while Thailand and Indonesia fell 5.6% and 7.1%, respectively. Vietnam, however, rose a counter intuitive 4.6%!

Frontier Markets often offer healthier fiscal positions (witness ASEAN), more solid economic fundamentals as well as lower volatility and more attractive valuations. Indeed, Frontier Markets are trading on an average 2012 PE of 8.7x earnings (and have an average dividend yield of 5.3%!) versus MSCI Emerging Markets on 9.6x

and MSCI World on 11.7x (and a dividend yield of half that in Frontier Markets!). Frontier Markets account for 15% of global GDP on a purchasing power basis but occupy only 4% of global stock market capitalization and under 0.5% of the MSCI World Index. Only 20% of the 2,500 companies in Frontier Markets are covered by any analysts. Of the world's fastest growing countries 39 out of 45 are Frontier Markets and it is hardly surprising when you look at the demographics. More than 37% of the world's 15-34 year olds live in Frontier Markets which will drive growth rates at well above average. This is coupled with very low debt levels, high savings and the benefits of leapfrogging to the most recent technologies (e.g. mobile penetration is similar to mainstream emerging markets).

Asia has some of the most interesting Frontier Markets: Vietnam, Sri Lanka, Bangladesh, Mongolia and Laos to name a few. But for those who missed the pleasure of watching the emergence of developed Asia over the past 25 years, look no further than Burma, now Myanmar. Whilst in portfolio terms we will all need to be patient, its coming emergence will probably be one of the most speedy and exciting we have seen.

Vietnam

We have written extensively in recent reports about Vietnam but the story gets more intriguing as the stock market continued to fall towards the end of the year, with the Ho Chi Minh Index losing another eye popping 17.7% in the final quarter of 2011. The acute credit crunch and tightening initiated at the start of the year really started to bite and headline inflation numbers around the 20% level have not helped. Furthermore, the property sector was squeezed terribly by the government's restrictions on bank lending whilst the banking sector is now undergoing forced restructuring as the government acts to consolidate the small banks with high levels of non performing loans.

BUT the seeming mess that the country is in seems largely to be in the price. Year on year headline inflation numbers remain high but the month on month numbers suggest for the past 5 months that the annualized inflation rate is in fact well down into single digits. At the end of 1Q 2012, will see the actual year on year comparison rate for the Consumer Price Index tumble, which could provide a wake-up call to equity investors. Until then, we are likely to see the government retain interest rates at high levels (deposit rates are about 14%) to protect the currency as the restructuring takes place.

At the end of a five year bear market (for that is for how many years Vietnam has been falling, totting up an 87% decline on the Hanoi Index a good proxy for the median stock) it is bound to be hard to find bulls. Indeed, it is hard to find analysts, stockbrokers or even fund managers who have any interest in the country at all.

We visited Vietnam twice in 2011 and are visiting again in February. What we see is a country brimming with potential (location, demographics, resources, size, beaches, and work-ethic) and now a government who is steadily tackling the problems. The value that has been created by this year's declines is extraordinary and we have no doubt that Vietnam could enjoy a huge rally as inflation falls and interest rates come down. If the government keeps its course on reforms then Vietnam has the chance to be at the bottom of a proper secular bull market, such as we have seen in Indonesia.

Vietnam Portfolio

As we came to the final few days of December and early January we have taken the first step towards building a small basket of Vietnamese holdings in the fund. We think the biggest question is not if but when the stock market recovers and, at least in the first instance, this is likely to be led by locals. The risks include possibly further currency weakness, corruption scandals, weakening of government resolve and low liquidity. But the top 50 stocks in Vietnam now offer 17.5% EPS growth for 2012 on an average PE of 6.3x. This PE ratio is heavily skewed by half a dozen large and expensive companies, so we are generally being paid to accept such risks. Our new holdings cover sectors such as rubber, fertilizer, sugar, fish farming, housing and infrastructure. Our basket averages a 2012 PE of around 4x and our stocks have dividend yields between 5% and 20% for the coming year. We are aiming to have about 5%-15% of the portfolio in Vietnam in the belief that when this stock market turns, and it should do so this year as inflation and interest rates fall, it could double.

Myanmar

Asian investors with long will harbour plenty of nostalgia for the unbeatable spectacle, not to mention the investment opportunities, of an emerging country transforming to developed status over a couple of decades. Well, we are once again being handed just such an opportunity utterly in the raw. The country in question is Myanmar.

In the 1930s, Myanmar was Asia's largest rice exporter and Asia's second wealthiest country. It has some beautiful but now decrepit buildings to show for it. It has twice the landmass of Vietnam and is 30% larger than Thailand. It has 90% of the world's rubies, 60% of the world's teak reserves, vast quantities of rubber, oil, gas, coal, nickel and some stunning beaches to rival the best in Asia. The country borders with five countries including India and China so the neighbouring population totals 2.6 billion people or 40% of the world's population! The young population of 55 million people are mostly employed in agriculture and have between them just 500,000 cars (compare this with Thailand which has 24 million cars). Nobody is quite sure what the GDP of Myanmar is, but estimates range from \$19bn to \$43bn.

Since the 1930s, Myanmar has endured some pretty shocking times. Demonetisation of some bank notes in 1987 rendered 75% of cash in circulation worthless. Even now the official exchange rate is 120x different from the unofficial one (yes, that is a multiple, not a percentage). The resulting havoc of the political and economic mismanagement means that almost everything needs to be done. For example *any* traditional banking would be good. In addition, telecoms, the exchange rate, tax, land rights, infrastructure – the list goes on – all need to be addressed.

However there are some extraordinary events now taking place in Myanmar and at breakneck speed. As we wrote last year the new President, Thein Sein, who is known to be less corrupt and a reformist, was elected. Aung Sang Suu Kyi has since been released from house arrest, has met with President Thein Sien (and Hilary Clinton), been photographed in all the newspapers (previously unthinkable in itself) and is expected to be elected to parliament. At Davos 2012 substantial tax breaks for foreign companies investing in Myanmar were announced. Meanwhile, hundreds of political prisoners were released in January and a ceasefire was agreed with the Karan National Union. The civil war had previously endured for over six decades. We expect sanctions will be lifted from most major economies in the very near future.

Whilst there are probably more important decisions to be made at portfolio level (Myanmar has a minute stock market with two companies listed and no turnover) as Myanmar develops, the impact on ASEAN will be huge and the speed of change will take all our breaths away. If you want a front row seat for this travel there

soon. Do not hesitate. You can also appreciate the beautiful Shwedagon Pagoda that dominates Yangon and gives the Eiffel Tower a good run for its money!



Source: CLSA Thailand

Yoma Strategic

Yoma Strategic, listed in Singapore, is one of the few listed companies in Asia with the significant portion of its business in Myanmar. It has a stock market capitalisation of \$130m and interests in Myanmar in property, agriculture (covering an area the size of 40% of Singapore!) and vehicle distribution. The Chairman and major shareholder also have interests in manufacturing, services and finance, including a banking license which was rescinded by the government in 2003 (this was a nationwide event) and has only in recent weeks being reinstated. The company, therefore, potentially has all the right ingredients for becoming the new **Astra International** or **Jardines**. That may be over stating the immediate opportunity but there are plenty of growth opportunities to go around for years to come. Most other companies with significant Myanmar exposure are listed in Vietnam.

It's more fun in the Philippines

The Philippines has started 2012 with a splash, not in stock market terms but in marketing ones. The Department of Tourism has launched one of the more innovative and thus amusing tourism campaigns we have seen entitled "More Fun in the Philippines" and starring well known beauty spots and tourist activities. Additionally, anyone can upload any picture to go with the heading, and thus create their own advertisement for the Philippines. The result has been so successful that the whole scheme has gone viral. Innovative, international standard content creation is something we are seeing more and more of in Asia and notably this entire campaign was home grown. We love the humour and could not resist showing you an example.



Source - CLSA

But we digress.

As well as clever advertising, the Philippines has much going for it this year not least a clearly rather more joyful frame of mind than that in the West, an observation which carries a serious point for investors.

The economy is in strong shape as overseas remittances reached \$20bn in 2011 or roughly 10% of GDP and are growing at over 5% per annum. Manufacturing is also growing thanks to outsourcing and the whole sector is growing at 20%. These two segments alone are bringing \$3bn a month into the economy and the consumer is on the rise. The number of high net worth individuals is set to double in the coming three years whilst average income per capita is likely to reach \$2,500 in the same period up from \$2,000 in 2011. There is virtually no consumer debt, seven out of ten people do not even have a credit card and only 3% of the population owns a car. Meanwhile, demographics will also provide longer term growth momentum. Over 50% of the population is less than 25 years old and the population is growing at 2% per annum.

The banking sector is in great shape to support a structural and prolonged period of growth. Loan growth is running at about 21% per annum and the average bank has a loan/deposit ratio of 62%. The reserve requirement ratio is 21%, one of the highest in the world. Indeed, the Philippine banking system would easily pass muster for Basel III today. Interest rates and the reserve requirement could thus both fall in 2012.

Security Bank is currently trading on 2x P/B. Given that Security Bank is already generating ROEs in excess of 20% we think that the stock easily deserves to be trading on a much higher P/B multiple than it currently is.

Finally we expect infrastructure spending, delayed from last year, to pick up. There are 16 major projects lined up, worth some \$2.65bn. We think the Philippines has the hallmarks of being one of the better performing countries in 2012. The stock market trades on a 2012 PE of 12.7x which is well below its 10 year average of 15x. It is sufficiently small and under researched to remain off the track for many investors but the locals will likely be enthusiastic for their own market.

Cebu Air

The Philippines' Department of Transport wants to increase the number of tourists visiting the Philippines from 3.8 million in 2011 to 6.5 million by 2016. With the country's location at the heart of Asia, new casinos and hotels in place and many beautiful beaches it is easy to see the appeal. We expect **Cebu Air**, as the leading airline in the Philippines, to be a key beneficiary of this trend. Double digit increases in passengers and the addition of new routes to Vietnam and China should help drive strong growth for Cebu Air. With the shares currently trading on a 9x P/E and yielding 3% we are not being asked to pay much for this opportunity.

Shale Gas

The Western press has been full of stories about the coming revolution in America's energy sector. At the centre is the discovery of huge quantities of shale gas which is now accessible via a relatively new technology which entails highly specialized horizontal drilling and an extraction process known as 'fracking'. This does not appear to be a passing fad as the energy/cost balance of shale gas extraction is extremely attractive, as is the potential to US government for the USA to become more energy independent.

Less well documented are the equally huge reserves of shale gas also found to exist in China, which potentially could supply current domestic consumption levels for 300 years. Petrochina told The Financial Times it is already experimenting with some wells but it is still early days.

The need for self-sufficiency in energy is no less urgent for China and therefore, we expect the government to fast forward this as much as possible including offering windfall tax breaks. Speaking to experts, however, we gather that the major sticking problem in China is lack of expertise in the technical details of the shale gas extraction processes.

Anton Oil is based in China and has all the leading domestic energy companies as its customers. Its key product offering is horizontal well completion and its business model is to acquire all the newest technological drilling know-how from the US and be the number one services and solutions provider to the Chinese energy giants. Currently, **Anton** benefits from both oil and gas capital expenditure both in China and overseas where the Chinese oil majors also operate but, crucially, it has been the main advisor for all the shale gas wells that have been made in China so far, clearly asserting itself in the number one slot for this new technology. As China's oil or gas capex increases so will Anton's revenue and with the additional driver of shale gas, revenue is forecast to rise by a CAGR of at least 30% in the coming 3 years. The company has just won corporate

governance company of the year award and, encouragingly, tells us that employees' salary and bonus is linked to extracting timely payment for services from the Chinese companies. ROE may well therefore rise and the company trades at book value with a 3% dividend yield.

Gold

In September 2011, China's imports of gold from Hong Kong (a good proxy for the country's overall buying) matched almost half of the entire purchases made in 2010. In October, China increased buying to a level 51% higher than in September! Similarly, Korea's gold holdings in November rose 39% on the prior month. This is extraordinary as sentiment indicators in the gold market were indicating levels of bearishness not seen since 2008.

There has certainly been some recovery in the gold price during January, probably coincident with equities rising and the resumption of central bankers hinting at a renewed emphasis on growth. But leaving aside the obvious demand spikes for gold in the face of global crisis or renewed and aggressive quantitative easing, China and India now account for over 45% of global investment in physical gold bars. In 2011, India's gold bar investment rose 6%, a new record which amounts to nearly 25% of all gold bar investment. The Year of the Dragon could see China's investment in gold rise another 25%-30% leading it to overtake India as the world's largest private hoarder of gold.

Biotech

Big Pharma companies like **Glaxo SmithKline** and **Pfizer** are sitting on rich balance sheets, paying big dividends and looking for new products to cushion the blow of the coming patent cliff they all face. Many are significantly reducing their R&D budgets but they desperately need to find acquisitions to supply them with their next generation of products to develop.

Such a drive has seen **Abbott** spend \$400m on **Reata Pharmaceuticals** whose product has potential in the area of kidney disease but which does not even enter human trials until 2013. This more than doubles the previous pre-clinical record of \$130m paid by **Celgene** for a cancer drug candidate and is ten times higher than what has typically been paid for the average Phase 2 candidate to date.

In Australia, each stock in our basket of bio sciences companies offers many potentially useful compounds. **Bionomics**, for example, has a market cap of just \$165m and has products aimed at depression, anxiety, cancer and epilepsy. It has recently signed an agreement with **Ironwood** to fund clinical trials for its anxiety drug.

Starpharma is capitalized at \$340m and has been given approval by the FDA and EU regulatory bodies for Phase 3 trials of VivaGel which is used to stop the transmission of sexually transmitted infections including HIV, genital herpes and to prevent or treat bacterial vaginosis. These trials should have finished by the end of 2012 after the successful conclusion of which the potential market is estimated to be \$1.6bn. Starpharma has also signed an agreement with **Ansell** to develop a VivaGel coated condom.

QRX with a market cap \$165m has recently secured a partner, **Actavis** which has 10,000 staff in 40 countries and revenues of \$2bn. One of Actavis' key drugs, Kadian, has recently moved to generic status so **QRX's** new pain relief drug, MoxDuo, will likely replace this. MoxDuo is facing final FDA approval in June 2012 after which revenue will accrue at a rate which conservatively puts the stock on a June 2014 PE of 4x.

The biotech basket did well in 2011, and 2012 looks equally promising for this sector.

PORTFOLIO PERFORMANCE

Performance Summary (%)
Periods ending 31.12.2011

	USD	GBP	SGD
1 Month	-1.07	-1.07	-1.14
3 Months	-6.17	-6.09	-6.36
Year to Date	-19.28	-19.86	-20.04
Since Launch+	17.60	22.94	-13.75
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	14.51	13.50	-
Annualised Since Inception	4.25	5.64	-7.28

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
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

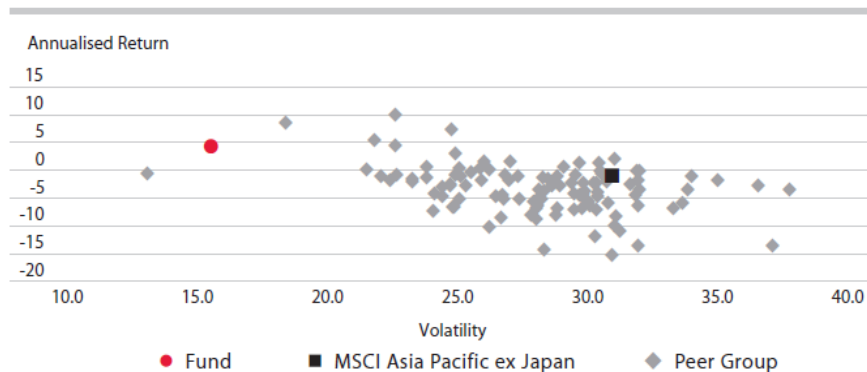
RISK ANALYSIS

Risk Metrics	Fund
Beta	0.54
Alpha (%)	4.81
Sharpe Ratio	0.27
Volatility (%)	15.57
% of the portfolio –which could be sold in 2 business days	85.20%

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 Index Fund), 8.02.08 to 30.12.11.

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Bangkok Dusit Medical Service	4.4
Hemaraj Land Development	3.7
KPJ Healthcare Berhad	3.7
Alliance Financial Group	3.3
Gamevil Inc	3.3
Total Number of Holdings	38

Futures (%)
















MSCI SING IX ETS (Jan 2012)	-4.2
SGX S&P CNX NIFTY (Jan 2012)	-2.6
Hang Seng Index Futures (Jan 2012)	-2.0
SPI 200 Futures (Mar 2012)	-2.0
KOSPI2 INX Futures (Mar 2012)	-1.3
SET50 Futures (Mar 2012)	-1.0

Portfolio Financial Ratios*












Predicted Price/Earnings Ratio	12.9x
Predicted Return on Equity (%)	22.1
Predicted Earnings Growth (%)	31.0

*Fiscal year periods

Thematic Breakdown (%)

Cash	30.2	
Asean Linkage/Domestic Growth	14.7	
Domestic Consumption Services	13.8	
Healthcare	10.0	
Singapore Office	4.6	
Financial Services	3.8	
Tablet/Smartphones	3.8	
Internet	3.6	
Gold	3.6	
Mobile Internet	3.3	
Water	3.1	
Environment	2.2	
Security	1.6	
Automation	1.6	
Oil Services	0.1	

Geographical Breakdown (%)

Cash	30.2	
Thailand	11.7	
Singapore	10.8	
Hong Kong/China	10.4	
Australia	9.2	
Taiwan	7.4	
Malaysia	7.0	
Korea	5.0	
Philippines	4.2	
India	3.4	
Indonesia	0.5	

All data as at 30.12.11. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size (USD)	71.3m
Launch Date	8 February 2008
Fund Structure	UCITS III
Domicile	Dublin
Currencies	USD (base), GBP, SGD

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

Class 1			SEDOL	ISIN	NAV*
A USD	Unhedged	Non Distributing	B2PKN21	IE00B2PKN210	117.60
B USD	Unhedged	Distributing	B2PKN32	IE00B2PKN327	117.72
C GBP	Hedged	Distributing	B2PKN43	IE00B2PKN434	61.25
D SGD	Hedged	Distributing	B3M3HJ5	IE00B3M3HJ55	161.68

*Month End 31.12.2011

Management Fees

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

Fund Manager

Heather Manners

Tel: +44 (0)20 7493 1331

Email: heather.manners@prusikim.com

Sales & Marketing

Mark Dwerryhouse

Tel: +44 (0)20 7297 6854

Mob: +44 (0)7831 856 066

Email: mark.dwerryhouse@prusikim.com

Prusik Investment Management LLP

1st Floor 46 Hays Mews

London W1J 5QD

Tel: +44 (0)20 7493 1331

Fax: +44 (0)20 7493 1770

Web: www.prusikim.co.uk

Email: enquiries@prusikim.com

This document is issued by Prusik Investment Management LLP and is for private circulation and information purposes only. Prusik Investment Management LLP is authorised and regulated by the Financial Services Authority in the United Kingdom. Prusik is also registered with the Securities and Exchange Commission in the United States of America under the Investment Advisors Act of 1940, as amended. The information contained in this document is strictly confidential and does not constitute investment advice, nor an offer or solicitation to buy or sell any securities and or derivatives or to make any investment decision and may not be reproduced, distributed or published by any recipient for any purpose without the prior written consent of Prusik Investment Management LLP.

The value of investments and any income generated may go down as well as up and is not guaranteed. You may not get back the amount originally invested. Past performance is not a guide to, or indicative of, future results. Changes in exchange rates may have an adverse effect on the value, price, or income of investments.

The information and opinions contained in this document are for background purposes only, and do not purport to be full or complete. Please refer to the fund prospectus for more detail. The information given is not exhaustive and does not constitute legal or tax advice. Prospective investors and investors alike should consult their own professional advisers as to the implications of their subscribing for, purchasing, holding, switching or disposing of shares under the laws of the jurisdictions in which they may be subject to tax. No representation, warranty, or undertaking, express or limited, is given as to the accuracy or completeness of the information or opinions contained in this document by any of Prusik Investment Management LLP, its partners or employees and no liability is accepted by such persons for the accuracy or completeness of any such information or opinions. As such, no reliance may be placed for any purpose on the information and opinions contained in this document.