PRUSIK ASIAN SMALLER COMPANIES FUND PLC
PRUSIK INVESTMENT MANAGEMENT LLP

PRUSIK

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An Independent, Asian Specialist, Investment Management Team

NAV Updates

Series	*MAR 10*	*MTD*	*YTD*
Class A	126.86	+3.68%	+1.38%
Class B	126.88	+3.69%	+1.39%
Class C GBP	66.89	+3.53%	+2.28%
Class D SGD	176.08	+3.83%	

Fund Size $43.2m

Performance

2008	- 21.06%
2009	+59.07%
2010 (YTD)	+1.38%

The fund rose 4% over the quarter. Stock markets around the world, most notably in the United States, responded to data points and earnings releases fuelling hope that the economic recovery is gaining traction. Asia is further ahead on the recovery curve than the West and during the quarter we saw instances all around the region of a change in policy stance from the super stimulus levels of 2009 to a bias towards slowing down the pace of growth and lending. Most visibly this happened in China where the Government wisely cracked down on banks after the January lending rates soared in excess of the high levels of 2009. More recently we have seen several changes to mortgage lending rules in an attempt to cool the domestic property market as well. At the time of writing this is starting to cause much anxiety in China and related markets. This coupled with the first signs of a rise in inflation caused some volatility in markets during the quarter, a feature which has been worsened recently by events in Europe and a general deterioration in sentiment everywhere.

Going forward we suspect the Chinese will continue to rein in what is still loose monetary policy, the brunt of which will be felt in infrastructure, construction and the nation's property markets. Property prices in some of the larger cities are still rising and recent GDP data showed prices across 70 cities up by 11% in the first quarter. This is one of the key statistics the Government is watching. Overall bank lending is still growing but much more slowly at around the 15% per annum, which was the stated target at the beginning of the year. This coupled with a slowdown in infrastructure spend and, although not seen as yet, a slowdown in property activity should ensure that the 11% GDP growth figure we saw in Q1 slows to a more sedate, for China that is, 8-9% in Q2. Domestic consumption continues to roar with same store sales figures across retail networks still beating expectations. White goods and TV sales are particularly strong thanks to government subsidies in rural areas and we expect the centre and western parts of China to continue to dominate growth for the country as a whole.

There are two areas which are vulnerable to current policies in China. One is resources where we have very little exposure beyond rare earths. Traditional metals and fuels may see weakening demand as both infrastructure and housing take a breather at the same time. The Australian government's proposal to tax resources companies at 40% has not improved this picture and resources companies are widely held and not cheap, and hence at risk. The second concern is whether wider domestic consumption will be affected by China's efforts to rein in its property market. We discuss our retail holdings later but in short we have reduced our exposure to this area since the quarter end and are skewed towards those brands servicing the rural areas rather than the big coastal cities and which are increasing profitability via changing business models.

The Chinese Currency

Speculation as to whether the Chinese will allow the Yuan to appreciate again reached fever pitch during the quarter. Nothing has happened as yet, probably more due to American pressure than anything else, but in time we would expect to see policy resume in favour of a small appreciation over time. Indeed Singapore, whose economic and political model China often follows, has allowed the Singapore dollar to appreciate to the higher end of its band. Any movement from the Chinese will give other countries in the region more confidence to allow their own currencies to rise. Given the region as a whole is on a monetary tightening footing, allowing currencies to appreciate would be a far healthier step to contain and prolong growth than sharp moves in interest rates. Seasoned researchers and confidantes of the regions Central banks state that they are beginning to see more confidence amongst the political elite in the sustainability of Asia's domestic engines of growth. We sense the dawn of a new era where Asia increasingly relies less on external demand and mercantilist exchange rates. We are reminded of comments made by a renowned emerging market guru 12 years ago, who when asked when the Asian's might drop their crawling USD pegs and mercantilist monetary policies replied "when they can". Asia's domestic balance sheets have been steadily rebuilt since 1998, post the Asian crisis. The robust surpluses we now see, coupled with the recent demise in Western demand suggests that moment could be nigh and, possibly, "they can". Meanwhile on many measures the region's currencies are still undervalued. For example, Korea usually becomes concerned when the Won/Yen exchange rate reaches 10 and it is currently at 14 so there is plenty of room to move.

Most of the invested assets of the fund are of course in Asian currencies. Should you be looking for an added layer of exposure, we recommend the Singapore Dollar share class that the fund is quoted in.

Risks

Perhaps the key risk to the region is external although the picture remains quite unclear with still much dependent on government policy in both Asia and the West. When America drove itself out of the Savings and Loans crisis in the early 1990's, with similar though less aggressive stimulus policies, the recovery accelerated to a point where the Fed appeared behind the curve. The subsequent moves to hike interest rates aggressively in 1994 collapsed Asian markets albeit from bubble type valuations. A recurrence of this would be unhealthy but we would point out that, firstly, Asian valuations are still neutral and not in bubble territory. Secondly, given the lack of credit growth in the US economy and now also in China, the pace of the recovery will more likely decline from here and we expect to see, at best, muted growth in lending both in Asia and elsewhere.

Possibly a greater likelihood is that recent action in Europe sparks another strong liquidity driven rally in equities around the world, similar to that which we saw in 3Q 2007 where there was little fundamental basis to such optimism, as we subsequently discovered. Meanwhile the fundamental issue of deficit reduction remains largely unaddressed, setting up more pain as we move into late 2010 and 2011.

Ultimately any real resolution, forced or planned will be accompanied by much lower medium term growth in the west and either debt forgiveness, default or painful workout. Those who have invested in Asia for over a decade know this first hand from the Asia crisis of the mid 1990s. Such a difficult external environment for Asia means, potentially, slower than anticipated growth in China as well. One aspect to watch out for in the second half of the year, therefore, is renewed stimulus in China in response to the need to boost domestic growth in the face of both worldwide malaise and the cooling off in their own property and infrastructure industries which they have instigated this year. If such meticulous government control fails then 2011 will be very poor but a reasonably robust domestic environment in Asia, especially China would put the region in a hugely favourable light globally.

Portfolio

The fund has 32 holdings as of end March 2010. We have maintained a broad exposure to domestic type themes including brands and consumer stocks in China, property in Singapore and Taiwan, healthcare, defence, content providers, food growers and value added telecom services. We continue to own a small exposure to Australian gold miners and rare earth miner, Lynas. We also still have exposure to Korea's expertise in the nuclear power industry via Korea Plant services which is one of the few companies in the world able to maintain and service nuclear power plants without recourse to outsourcing which can present security risks.

Overall the flavour of the portfolio reflects our concern expressed over many monthlies for the Prusik Asia Fund and in these quarterly reports that Asia will not escape the fallout of both the European sovereign debt issue and the impact, likely delayed but nonetheless important, of China's reduction in lending growth in mid-January together with the ongoing cooling of their domestic property market. Both China's actions will help reduce the liquidity flowing into the region and will provide a chill wind which we are, at the time of writing, possibly starting to see. We have deliberately chosen to keep some cash throughout this year and since the end of the first quarter have become more defensively positioned, ensuring that our companies are not only cheap enough to withstand renewed scrutiny but also are liquid enough not to cause us concern should we decide to sell.

We expect in the next few months equities could be tested by the liquidity downdraft and risk aversion increases but that this should offer some great entry points later in the year. In addition it is possible that by then we shall also see China become less hawkish and renew its growth stimulus once more. Furthermore it is important to see this environment differently to 2008 as regards smaller companies. Looking at shareholder registers we are comforted that many more of the larger shareholders are known longer term investors who are more familiar with Asia, as opposed to shorter term money based in the US. Of course, we are in risky territory for all equity markets but the performance of the better smaller companies has so far been encouraging and more rational than in the recent past.

Finally, we would like to be clear that although we do still have exposure to China's consumption story, which to date continues to grow apace, we are aware that should the government be successful in slowing property transactions and reducing prices, there is likely to be some impact on consumption, perhaps later in the year. For China this is unchartered territory but of course we have innumerable examples from elsewhere where the patterns are clear that lending and property prices do have a bearing on consumption. This could be offset by a turnaround in government policy, the ongoing catch up by rural areas and the longer term story for domestic consumption in China, so we remain cautiously on watch and in regular touch with our companies and analysts on the ground at this stage.

Brands

We have reshuffled and reduced our brand exposure in China in pursuit of better value and undiscovered stories with more than the basic underlying recovery in consumption to support future performance and a slightly more regional flavour. We still hold Xtep, (a Chinese sports brand), Basic House in Korea, (which owns a ladies Chinese fashion brand), Hengdeli, (which distributes luxury watches in China) and Nestle India. The sales figures for these companies continue to astound. The step-up in revenue over the quarter hasn't been just a function of new store openings and more throughput but also has been driven by an increase in pricing and reduction of discounts offered during the latter part of 2008 and in 2009. We are also seeing a change in the brand/distribution model with many brands realising that they cannot rely on independent or franchised distribution chains to meet adequately and consistently their expectations in quality and management. In fact a strong trend is developing to increase control over brand distribution networks and so a more integrated business model is developing in the more proactive companies. Daphne, which owns a collection of Chinese footwear brands have already taken control of their distribution network and the benefits showed in its Q1 results which showed far better inventory management and profitability. We suspect that the value of well managed distribution and upholding of quality is less appreciated by the market whereas brand value is now well understood. Indeed we are increasingly struck by our conversations with both shoppers and analysts who look at the China market in particular as to how often they mention the customer experience, service, such as home delivery, beautiful packaging and so on as a key factor between brands who are doing well and those that are not.

We have recently explored further opportunities in this area and two recent additions to the portfolio following our trip to Hong Kong earlier this year are VST and Bosideng. VST distributes branded IT products across China and five other developing countries in Asia, and it is benefitting from both the uplift in corporate spending on IT but also, crucially is well exposed to increasing demand in consumer electronics items such as TVs and computers. Margins are expanding from very low levels and VST focuses carefully on its product mix with a view to increasing profitability as well as revenue and has a highly impressive new finance director who has a strong intention to increase return on equity and impressive plans for achieving this. The shares traded when we bought them on a single digit PE multiple and book value. We feel VST is yet to come under the full feeding frenzy that exists in the region for any business with a domestic consumption angle.

Bosideng already has a strong domestic brand in China and has dominant market share in down jackets sold mainly in concession and third party stores. The company, recognising that this is a seasonal business which suffers lower margins has recently used its good brand name to start a chain of men and women's clothes shops and is already seeing very strong growth. Its plans feel very like the expansion of Timberland from tough outdoor shoes to branded clothing. The company has an impressive cash war chest from which to finance this metamorphosis and is also one of the highest yielding stocks and cheaper stocks in our Asia universe at 5% yield and 11x 2011 PE.

LED

There is a growing shortage of LEDs as demand hovers dangerously above supply, with little relief in sight before the end of the year. A typical netbook uses 50 LEDS while PC monitors use about 100 LEDs and LED TVs use anything from 300 to 500 per TV. In addition, LED general lighting will become mainstream in the coming two years leading to a double digit increase in demand per annum for the coming few years. China is one of the big demand factors behind LED TVs supported by government rural subsidies which were raised this quarter to RMB 7000 from RMB 3,500. Skyworth Digital, a TV maker with a leading market share and a top brand name in China estimates that over the past two years some 60million TVs have been sold in China with 42million expected to be sold this year. However, they estimate there are still some 400million old CRT TVs which are over 6 or 7 years old which need to be replaced, and most of these replacements will be LED TVs as prices are coming attractively close to TFT screen TVs.

In addition LED general lighting will become mainstream in the coming two years leading to a double digit increase in demand per annum for the coming few years. Protec is a manufacturer of LED and semiconductor dispensers, selling to major LED packagers/module makers including Samsung, LG and Lumens. In 2008 LED was only 5% of revenues and we expect it to be 75% by the end of 2010 and again this business will provide much higher margins. We forecast this will translate into net profit growth of 70% CAGR over the next 2 years. Currently valued at 3x 2011 PE, we see this as a little gem in the LED space.

OLED

OLED is a superior alternative to traditional LCD with more intense colours, deeper blacks and faster response times. The viewing angle is also wider, while the display is much thinner and power consumption is lower. Crucially OLED uses no backlight so eyes are not strained over long periods of reading, making it the only real contender for the e-reader and tablet market in time. We also expect OLED will replace LCD as the standard TV technology – the only questions is when this will occur. Challenges exist in being able to produce large scale displays at present, but we expect this to change over coming years with the smaller screens becoming more widespread in the coming three years lead by Samsung who have the largest technological advantage at this stage. Duksan is a producer of organic material for OLED panels and is also a major supplier of solder ball for DRAM packaging. It is a major supplier to Samsung. Currently 40% of their revenues are from organic material; however we should see this segment grow substantially faster as the company increases their capacity by 60% by the end of 2010. The OLED business is also higher margin for them and combining this with high top line growth, we expect this to translate to 75% net profit CAGR over the next 2 years. Trading at 13x 2011 PE, we believe that significant value exists. Furthermore, this is probably the company with the most pure exposure to the OLED market making it a candidate for a serious re-rating as OLED becomes a mainstream alternative to LED screens for tablet type devices where the absence of a backlight is desirable for longer reading use.

India

We have reduced our exposure to the power transmission & distribution sector in India, partly due to valuation and partly due to the fact that we have entered a lull in order book growth. We have replaced BGR, KEC and Kalpataru with more domestically orientated companies such as Shriram Transport and Manappuram.

Manappuram is we believe one of the most profitable companies we have come across in the industry of micro finance. The company lends against gold jewellery deposited by Indian farmers taking collateral of 130% against a loan. Lending rates are in excess of 25% and the company generates net interest margins of over 17% and these are rising. Deposits are largely funded by the Indian banking sector who have to satisfy regulatory requirements by having 25% of their loan book directed to India's rural sector. Their eagerness to fund Manappuram at 6% indicates how they see the company's credit risk approach as a far less risky means of financing the Indian rural sector than lending directly themselves. This seal of approval from the Indian banking sector is comforting. Our valuation models suggest the company share price will double. Price to book is below 3x and ROE is 40%. It is unique to be able to find such a pure exposure to micro finance. Bank Rakyat in Indonesia trades at over 4x book and is a less profitable and less focussed micro finance operator.

Relox

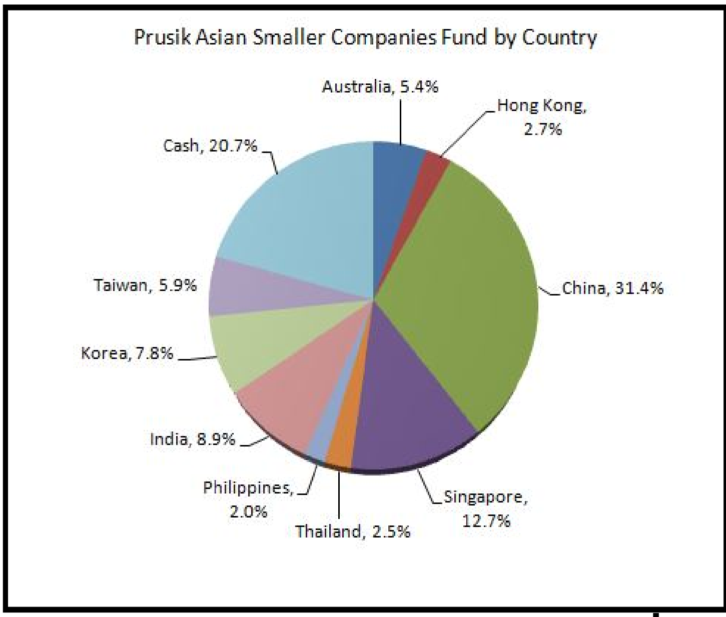
We have reduced our exposure to this long term holding as we are concerned that betting by mobile phone in China will not roll out as early as we expected. Rex's traditional lottery sales formats are scratch cards and computer generated tickets. We expect scratch cards to be consigned to history in time but without phone betting to take up the slack there will be an earnings hole for the company. Indeed already there are some complaints from Mom and Pop store operators that computer generated tickets are cannibalising their scratch card revenues. As a result the regulator has slowed down the implementation of CGT store roll out, mobile betting is beyond that and maybe delayed as well.

The portfolio trades at 11.5x 2010 and 9.8x 2011 earnings, with estimates generating 59% earnings growth this year and an ROE of 17.9%.

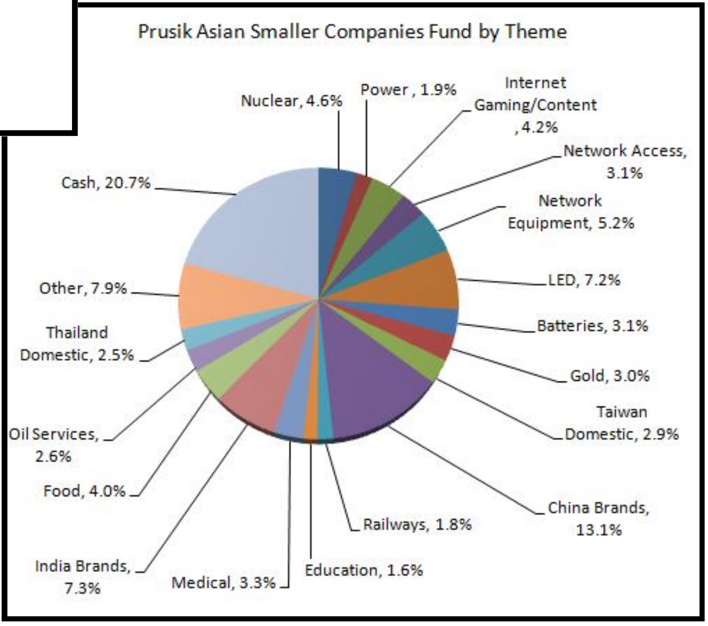
Ed visits Singapore in May and Heather will be in Taiwan, Korea and Hong Kong in June.

Please note that we have increased on demand the dealing days for the fund and it now trades every Friday rather than fortnightly.

Prusik Asian Small Companies Fund
Top Line Figures—1st Quarter 2010



Number of holdings	35
Percentage of Fund invested	79.3%



Top 5 Holdings	%
HENGDELI HOLDINGS LTD	3.5%
PARKWAY HOLDINGS LTD	3.3%
REXLOT HOLDINGS LTD	3.2%
NESTLE INDIA LTD	3.2%
TIANNENG POWER INTL LTD	3.1%

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										1.38

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 calendar days
Redemption Notice Period	10 calendar 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.