PRUSIK ASIAN SMALLER COMPANIES FUND PLC
PRUSIK INVESTMENT MANAGEMENT LLP
An Independent, Asian Specialist, Investment Management Team

PRUSIK

NAV Updates

Series	*Dec 2010*	*MTD*	*YTD*
Class A	145.69	1.67%	16.43%
Class B	145.71	1.67%	16.44%
Class C GBP	76.43	1.68%	16.87%
Class D SGD	202.21	1.61%	

Fund Size $72.7m

Performance

2008	- 21.06%
2009	+59.07%
2010	+16.43%

The fund rose 3.1% over the fourth Quarter.

Smaller companies took a back seat in the last quarter as large companies rose, driven by huge money inflows to the region. Interestingly we are now seeing some reversal of this as the first quarter proceeds. In the final quarter of 2010 Southeast Asian countries took the performance limelight but this has been reversed sharply in the early weeks of 2011. Therefore we have had a short period of consolidation for our smaller companies after the gains earlier in the year but we feel that this is now passing. We would also add, having just returned from an extensive visit to the region, any near term correction in Asia prompted by fears of inflation and headline exhortations to favor developed markets, will soon throw up some excellent buying opportunities. Indeed it is worth noting that in PE terms the combined portfolio (now on 9x 2011 earnings) has only ever been cheaper in 4Q 2008! We do not subscribe to the view that developed world economic recovery is the only story in town, indeed far from it, as you can see from the themes and valuations below.

At the time of writing 2011 has started solidly for the fund. India, Indonesia, Thailand and the Philippines have suffered sharp declines and our low weightings here have meant we have so far managed to avoid the worst of this. Meanwhile our themes continue to do well and we have added some exciting new companies and themes including the automation of factories in China (Lumax and AirTAC), Food (Sino Grandness), smartphones and tablets (TXC) and Indo China linkage (Hemeraj Land). Other themes well represented in the fund include healthcare, the China/Taiwan cross straits story, oil services, China lottery, cheap domestic consumption and telecom and broadband capex.

Outlook

There is no doubt that Asia is booming. The domestic economies are caught up in a spending boom, companies are regaining their confidence and hotels, airlines, taxis and restaurants are straining at the seams. The manufacturing sector is beginning to expand once again, albeit very modestly, property is rising in value and loan growth, again modest, is in evidence. Hence 2011 has most of the hallmarks of a normal cyclical upswing beginning its third year. However, this also includes inflation.

Inflation has already become a problem in South East Asia but a quick glance across the typical CPI forecast for the full year is instructive. CLSA, for example predict year end CPI will be 5.1% in Taiwan and this is the lowest forecast in the whole region. The highest is the Philippines which is predicted to reach a whopping 12.5% CPI level, while India, Indonesia, Malaysia and Thailand are not too far behind. This inflation, and how governments deal with it, will be one of the key factors behind how markets perform this year. The upside could be that we need to dust off our negative real interest rate spread sheets in

Hong Kong and prepare ourselves for a re-run of the early 1990s. The downside could be that governments continuously intervene to keep price pressures under control, raising rates, imposing controls on incoming capital and capping prices, thus creating in the process a very uncertain investment environment. If they are unsuccessful in their attempts to keep inflation under control then the less developed countries may see quite significant instability for a period. This remains an outside risk but the extraordinary weather around the world and its current impact on food prices, for example, is one influence which, should it deteriorate further, cannot be underestimated in China, Indonesia and India.

The homogeneity of performance around the region vanished last year and we suspect this will be a repeated this year. By way of illustration, the Prusik investment meeting this week took place after two days of meetings simultaneously in China and Taiwan. In China companies are battling headwinds including massive wage hikes, raw material increases and high valuations. By contrast in Taiwan the strong currency isn't helping but costs are under control, the technology sector, as well as the domestic growth story are firing on all cylinders and many companies are still on single digit PEs and offering dividend yields of well over 5%.

We currently have a significant portion of the fund weighted towards the north east of the region and in themes where we can clearly see a marriage of both domestic consumption and secular trend, such as factory automation in China, smartphones, tablets and the internet.

Technology Boom

A number of well known commentators have made the point that technology valuations are the cheapest they have been for 20 years. This may be the case but as we saw in the 1990s it takes a catalyst, a big idea, to lodge in the minds of investors before they feel comfortable to take the risk in technology shares. We think 2011 will be the year this begins to happen.

Since the mid 1980s TMT has tripled as a proportion of US GDP and now represents 7% of global GDP whilst hardware and software together now accounts for almost 30% of fixed asset investment globally. The addressable market for technology has exploded into almost every sector. Take for example the automotive or healthcare sector. The latter represents a market of $150 billion in annual sales of technology equipment, driven by diagnostic and imaging equipment whilst clean tech, a market that barely existed a decade ago – might be $120 billion. Technology is suddenly everywhere and yet nowhere. It is quietly settling into every corner of the very fabric of life in a less visible but more indispensible way.

However, the real key to the coming explosion in technology awareness, and very probably the rise in multiples of key technology stocks, lies in three trends; firstly, increased investment in mobile infrastructure to meet the bandwidth requirements of the smart- paradigm. Secondly, the boom in demand for storage and such services as more data and applications are situated in the cloud. Thirdly, and most importantly, the rise of consumers in emerging markets, in particular Asia. Technology has become a must-have consumer item. It is fashion. It is an essential means of showing your status as well as running your life. The smartphone or tablet and the Asian consumer were made for each other.

We have written in past reports about smartphones. In 2010 some 300 million of these devices were sold and this year that number may surpass 450 million. Taking an average price of $250 or so per device, the smartphone industry total revenue this year could be as much as $90 to 100 billion! Not bad for a product that didn't really exist before 2007!
Moore's Law

Smartphones are a great way to play Moore's Law. In the first half of 2011 both Samsung and Taiwan listed HTC will launch smartphones which have comparable processing power and more storage than the first Macbook Air and an 8 megapixel camera! The Samsung phone will also have an AMOLED display (see below). In another year smartphones will be powerful enough to run stripped down versions of Photoshop or Microsoft office. This is momentous as it means phones will be able to handle very sophisticated visual applications such as Augmented Reality. We will also see another round of new components which will become standard. These will include GPS, Gyroscopes, accelerometers and motion control processing, meaning you will gain another mode of interaction with your telephone: motion. Of course the applications and games possibilities are extraordinary. We will also see Near Field Chips about, which we wrote briefly last month, that will usher in the era of smartphone as ID and bank. Users will 'bump' their phone onto a reader device to make a transaction, enter a building, ID themselves on a computer and so on.

Asian investors need to be very careful at this stage. There is a large swathe of unwieldy electronics manufacturing companies overly exposed to the PC cycle, something which in a decade's time we will look back on as quaint and already outmoded. Many of these companies will be subject to rising wages in China, strong currency and increasing competition as their share of the pie diminishes. However, there is a new breed of technologies and smaller companies which are at the very epicentre of the smart paradigm boom. Samsung Electronics is the ring leader.

TXC is a Taiwanese listed quartz crystal (QC) component vendor. QC is a must-have component of every IT and consumer electronics product. The QC industry is set to resume growth in the coming years, driven largely by smartphones, which not only consume larger quantities of QC than feature phones but also use higher-quality QC. TXC is the best company in the industry in terms of execution. Compared to other leading QC vendors, the firm registered the highest revenue growth rate. It has also maintained the highest operating margins every year from 2005, with market share rising from 3% to 8.5%, and it's ranking going from No 8 to No 5. We expect TXC to become one of the top 3 vendors globally by 2013. With increased investments in R & D, TXC has quickly narrowed its technology gap with Japanese peers. It is now on par with them in supplying the small QC components widely used in smartphones. A large proportion of QCs used in iphones and HTC phones are supplied by TXC, indeed Apple currently accounts for around 20% of TXC's sales up from 8-10% in early 2010. Apple sold 17 million IPads last year (n.b. the industry forecast was initially for 3 million) and in 2011 it is expected that as many as 60 million units could be sold, including 10 million non-Apple products. Our conservative estimates have TXC currently trading on a 2011 PE of 12x, with an estimated ROE of 21% and dividend yield of 5%.

China Factory Automation and 'The Internet of Things'

The industrial automation industry is a major beneficiary of the 12th Five-Year Plan (FYP), supported by favourable government policies. Upgrading equipment manufacturing, energy efficiency and new information technology are among the newly defined pillar industries that are positive for automation industry companies. Furthermore, macro tailwinds such as wage growth are driving capital intensity and hence automation. Coupled with this, China has listed 'The Internet of Things' as a strategically important industry and a key technology that the country needs to implement. "The Internet of Things" also called sensor network, uses information-sensing equipment such as sensors, radio frequency identification (RFID), global positioning systems (GPS) and laser scanners to connect things with the Internet. The objective is to carry out information interchange and communications and maximize efficiency and automation on processes such as intelligent identification, positioning, tracking, monitoring and management. Premier Wen Jiabao has listed 'The Internet of Things' as a strategically important industry and a key technology that China needs to master.

Lumax is the largest process control equipment vendor in Taiwan, supplying products to top-tier foundry, petrochemicals, and steel plants. It also has an electronics/ communications division but the process control division contributes 80% of group earnings. Process control is part of the construction of a plant, and is an engineering discipline that deals with mechanism and algorithms for controlling the output of a specific process. The customized process control solutions provided by Lumax can help clients avoid unexpected shutdowns, reduce energy costs and improve product quality. Lumax's core competency is to provide industrial automation solutions, which are consolidated hardware and software solutions that manage and control manufacturing facilities. In Taiwan, Lumax has the highest market share in process control within the foundry, petrochemical and incinerator industries. In North East China they also have the highest market share at 32%. The Chinese market is the real growth driver for the company. We expect sales from China to be greater than 60% of total sales by 2012 compared to 47% in 2009. We estimate that in 2011 the company will generate an ROE of 22%. It is currently trading on a 2011 PE of 8.1x and has a 7.6% dividend yield, making it one of the cheapest China automation plays in the region.

AirTAC is a leading supplier of pneumatic equipment in China. The company's main products are pneumatic actuators and control valves, which are primarily used in production line automation. They are the second-largest player by shipments in the pneumatic equipment sector in China, accounting for a 13% market share. In 2010, 87% of their sales came from China. According to the China Hydraulics Pneumatics & Seals Assoc. (CHPSA), the China pneumatic equipment market will grow at a sales CAGR of 15% from 2010-15 mainly thanks to China's sustained economic growth and rising demand for automation, driven by wage increases.

We expect AirTAC to grow its market share to 17% by 2015 thanks to aggressive expansion in China and overseas such as Singapore and new product launches. By improving its manufacturing processes and increasing its vertical integration, AirTAC has improved its gross margin (GM) from 44.7% in 2007 to 57.3% in 2010F. We expect AirTAC's GM to continue to be in excess of 60% in the next two years after penetration into high end markets such as auto assembly and healthcare industry automation, where the ASP and GM are general higher than AirTAC's current level.

AirTAC is guiding for 35% pa growth in the coming two years. It is on a forward PE of 14x, has ROE of 26% and has a dividend yield of 4%.

LED

Lighting was probably invented 1,420,000 years ago when Australopithecus lit the first fire. Yale economist William Nordhaus believes the lighting we use today is 30,000 times more efficient than that used by our prehistoric forbears.

LEDs are the latest thing in lighting. In terms of energy used to emit a unit of light they are about 15% efficient compared with 2% for an ordinary light bulb. So far the growth story of LEDs has largely been as use for backlights for notebook PCs and more recently TVs, but in the coming 2 years, we expect LEDs properly to enter the mainstream lighting industry which is worth some $30 billion. We would not be surprised to hear China announce a program in the coming weeks, favoring LED public lighting. So far LED holds only 1% of the global general lighting market.

Furthermore, we are hearing of new uses of LED's including one developed by Edinburgh University who have used LED's ability to switch on and off in milliseconds for signaling in high speed data networks. They believe that data transmission speeds of up to 1Gigabyte per second can be achieved with LEDs.

The LED makers have suffered this year due to an expected glut of new supply but a combination of poor yields in some of the new capacity, plus cancellation of new production lines, means over supply is not as bad as feared. In addition, prices have fallen to levels where some believe that over 60% of all TVs will be made with LED backlights this year, ahead of consensus imputed demand. Any increase in demand for general lighting LEDs will be very positive for the sector.

Protec is a long standing holding of the portfolio. 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 had originally expected it to be 75% by the end of 2010. However, stronger growth from their semiconductor business and slower LED TV sales meant that it ended 2010 just above 60%. A significant growth nonetheless. We expect that the unrealized growth in LED in 2010 will make 2011 come in significantly stronger, especially given the recent price fall we have seen in LED TVs which will drive the switch to LED TVs in 2011.

We continue to like this little gem in the LED space for its extremely undemanding valuation, trading on a 2011 PE of 4.8x and 36% ROE.

Food

In 2004, for the first time, China bought wheat on the global market. This anomaly, among others, took us to the food theme which we have explored, invested in and written about over the past five years. The global financial crisis had such a massive negative impact on all asset prices that the underlying story behind our conviction that food prices would rise over time was temporarily dismissed. With food prices back in the headlines as CPI rises uncomfortably in India and China, we think it is important to revisit the reasons why. Putting huge global deflationary downturns aside, food prices are likely to continue to increase for a while to come. The most obvious driver is simply population growth: the UN estimates that by 2050 food production will need to rise by 50% to meet demand. It is also crucial not to underestimate the huge impact on grain prices that China can exert by even modest increases in import demand.

However, as with all major trends and good themes, there are even more factors at work.

'Japan Syndrome'

Earlier this year China took the unusual step of importing corn from the USA. It is too early to say whether this is the start of a trend but looking at the examples of Japan, South Korea and Taiwan, there is every chance this is the beginning of a long rise in China's imports of key grains. China has all the ingredients for what agricultural expert Lester R. Brown calls 'Japan Syndrome'. Brown observed a three stage process which occurred when densely populated countries industrialize and urbanize very rapidly: grain consumption increases as incomes rise, grain land area shrinks and grain production falls. The outcome of this is that in a few decades countries move from being self sufficient in grain to importing 70% or more of their grain. This process took Japan 28 years from 1955 to 1983. In China the process has probably already started as grain production shrank 18% between 1998 and 2003, according to Brown, and in that time grain land shrank by 16%. In Japan's case increasing land productivity ceased to offset the decline in land area after about 6 years, so, by implication, China is possibly now at take off point in its demand for grain imports.

Weather

Recently a panel of scientific experts labeled 2010 as the 'year of dramatic climate change developments'. This may seem an unnecessary observation to those of us freezing through November in the UK, in record minus temperatures of levels normally reserved for our January visit to South Korea. But for those of us who look at anomalies, the weather stats this year are providing rich pickings. The data this year includes the heaviest rainfall in history in Mexico, Florida this week in freezing temperatures not seen since 1937, much of the Balkans seeing far worst floods in 100 years, droughts in Nigeria and China (the worst in over a century) and the wettest September and November on record in Australia. The important point is that these weather anomalies are already having a big impact on production and prices. Thailand, for example, has experienced the worst floods in five decades and rough-rice production (70% of the total rice output) has fallen by 7%. Post floods, Australia's wheat exports may drop 13%. Vietnam, Pakistan and the Philippines are also struggling. With rice inventories now declining the Thai Rice Exporters Association estimate prices could rise three fold in the coming 18 months!

Science to the Rescue?

In early November Monsanto's much vaunted new corn seed, SmartStax, which boasts an unprecedented eight inserted genes, was shown to have yields no higher than the previous seeds, posing the question whether science indeed can deliver the solution to the world's food needs. Indeed, on closer inspection the truth is that, since 1998 yields of corn have barely risen at all. There is an interesting analogy with the medical world here. In the two decades after President Nixon's declaration of war against cancer in 1971, which triggered huge spending on the problem, the number of deaths from non age-related cancers rose by 6%. Studies have since shown that there is on average a two decade lag between research spending and results. In addition to this however, spending on food production research in the US (which spends the most on this problem) has actually fallen (in 2008) from $400m a year in 1980's to $60m in 2006. The supposition was that private companies would take up the slack.

Water

A recent new study in *Nature* by Chinese scientists suggests that rising carbon levels in the air mean that plants and trees will transpire at an increased rate, causing them to need more water. China has 20% of the world's population but only 10% of per capita water and, according to the World Bank about 65% of that is directed towards the agriculture sector. What is quite extraordinary is that in the last 20 years, with all the development taking place and while, for example, the mileage of national expressways tripled the area of irrigated farmland only increased by just 8%! Much of this has to do with the very low returns on investment in farming but the upshot is that over half of China's agricultural land remains un-irrigated and subject only to the vagaries of the weather. Any droughts in China should not be underestimated in terms of stress to the countries agricultural output.

Waste and Fertilizers

In the recently published book, *The Coming Famine* by Julian Cribb, it is suggested that America wastes 40-50% of its food. The typical US household throws away 14% of its food purchases, and a third of all fruit and vegetables grown never even makes it to the end user. In the UK it is estimated that if each household could save a fifth of the wastage then the saving would be $1,000 per annum. Changing our habits around food may be one part of the solution. In the meantime we expect the use of fertilizers to pick up dramatically. In 2007 China used 11m tonnes of potash which all but halved in the following year and has only just begun to pick up. Like vitamins, cropland cannot go unfertilized for long before yields fall sharply.

Palm Oil

Besides short-term weather patterns and strong demand, the market is braced for a structural shift that could be supportive to palm oil prices. Indonesia, which accounts for almost half the world's palm oil production, will implement a two-year ban on commercial development of forests and peat lands starting in January. We are expecting that palm oil production this year will be flat year on year and show only modest growth next year. With strong demand and supply constraints, we expect palm oil prices will remain stronger for longer than just their seasonal peaks and we may be entering a period where a new norm for prices is established. We believe the plantation companies are best placed to leverage of the higher prices. Genting Plantation has the 3rd highest profit per tonne, but the highest sensitivity to movements in the palm oil (CPO) price. They have the strongest balance sheet in the space, with the largest net cash position. The gearing deflates their ROEs as they are the most underleveraged in the group, but their profitability leverage to the CPO price makes it the most attractive. For every RM100 increase in CPO price, profits will increase by 5%. Assuming that the current CPO price remains flat for the next 12 month, the stock is currently trading at a 13x FY11 PE – we believe, that the street earnings expectations are being extremely conservative for next year and expect that significant upward revisions to occur.

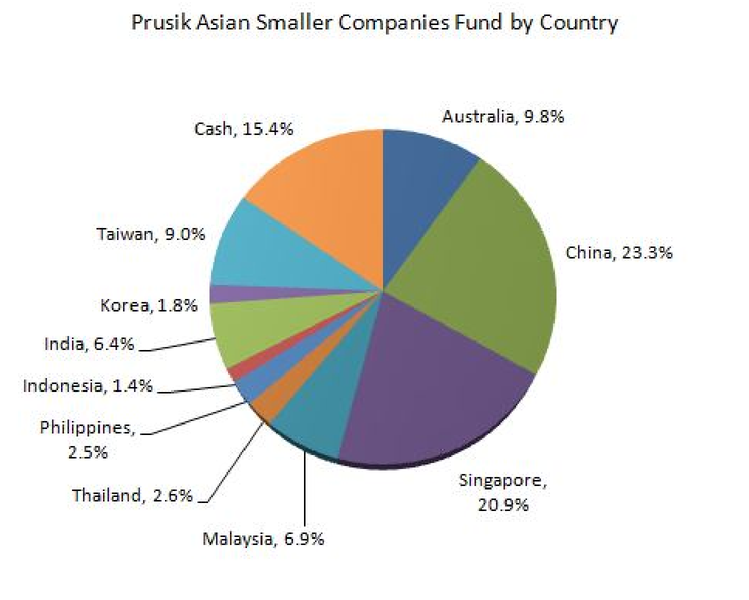
Juice and Value

Sino Grandness is a food processor with a successful business exporting canned vegetables, notably white asparagus from China to Europe. In the past year they have successfully launched a new branded health juice product into the China market which delivered around RMB 40 million in sales in 2010 and is expected to deliver turnover of at least RMB 100 million in 2011. In practice this could be conservative as they are signing up many high profile distributors. The China juice market is estimated to be growing close to a 20% per annum clip, and could likely be worth as much as RMB 145 billion in 2011. This means that even a less than 1% market share could increase the company's sales 10 fold from 2011 levels in juice alone. We think the clever positioning of Sino Grandness product and the state of the Chinese juice market, which is dominated by a few key players, suggest a very strong chance of significant growth in the coming 3 years. When we visited the company in Singapore in January it was trading on a price to sales ratio of 1x and a PE of 4.2x and management are guiding growth in net profits in 2011 of 25%. It has net cash and generates a ROE of 28%.

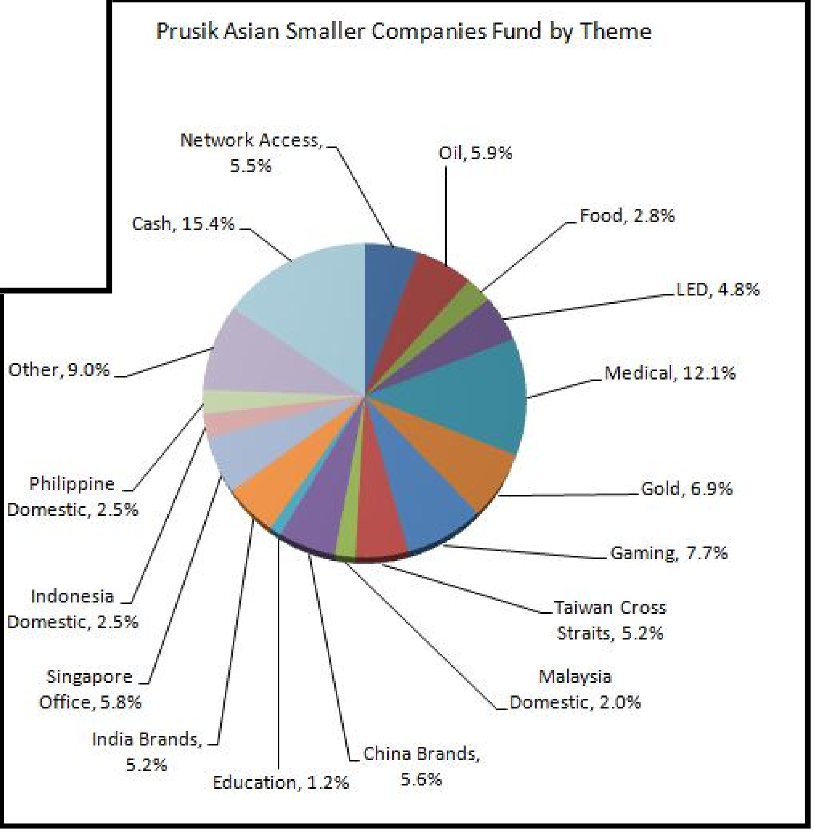
Portfolio Valuation

The current combined investments of the Prusik Asian Smaller Companies Fund are trading on a weighted average CY11E PER of 9x with 28% EPS growth forecast for 2011 generating an ROE of 18% for that year.

PRUSIK ASIAN SMALLER COMPANIES FUND
TOP LINE FIGURES —4TH QUARTER 2010



Number of holdings 38
Percentage of Fund invested 84.61%



	Top 5 Holdings	%
1	AVOCA RESOURCES LTD	3.5%
2	MEDUSA MINING LTD	3.4%
3	VTECH HOLDINGS LTD	3.1%
4	K-REIT ASIA	3.0%
5	CSE GLOBAL LTD	3.0%

Futures	%
SGX S&P CNX NIFTY Dec10	-5.45%

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	0.83	2.74	7.45	3.62	-2.11	1.67	16.43

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	2 business days
Redemption Notice Period	2 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.

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Fund Size $72m

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2008	- 21.06%
2009	+59.07%
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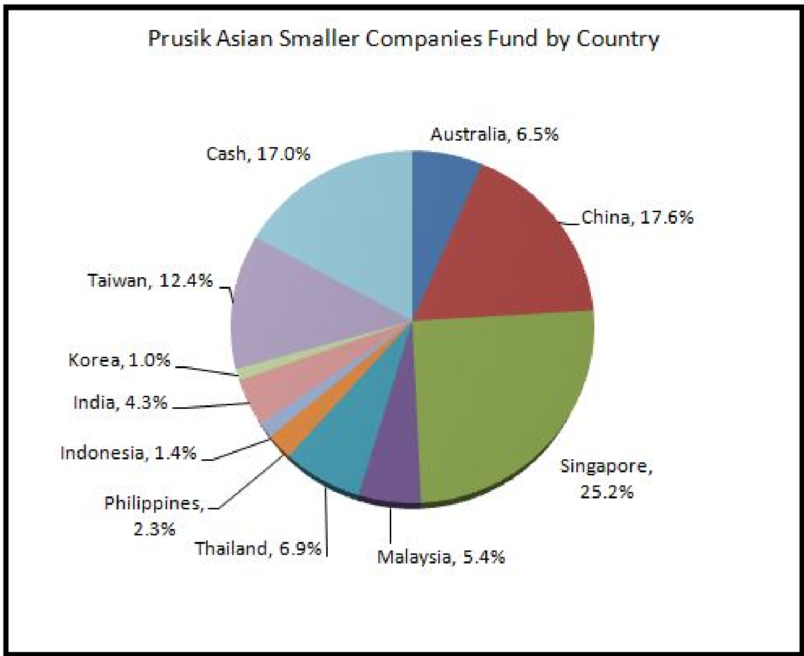
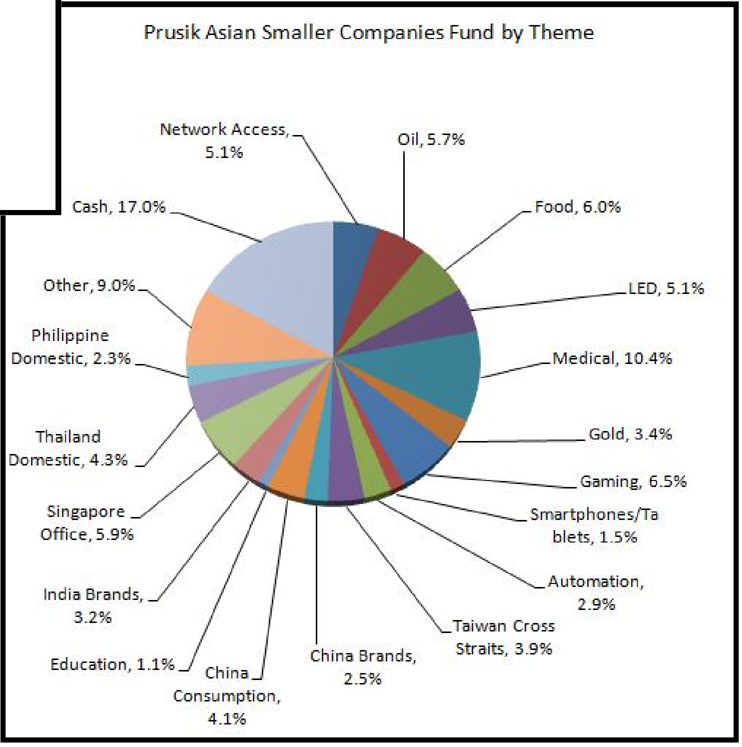
PRUSIK ASIA SMALLER COMPANIES FUND
TOP LINE FIGURES — JANUARY 2011



Number of holdings	41
Percentage of Fund invested	83.02%



	Top 5 Holdings	%
1	GENTING PLANTATIONS BHD	3.2%
2	K-REIT ASIA	3.0%
3	ARA ASSET MANAGEMENT LTD	3.0%
4	CSE GLOBAL LTD	2.9%
5	REXLOT HOLDINGS LTD	2.8%

Futures	%
MSCI SING IX ETS Feb11	-12.4%

PASCF Monthly Performance

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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	0.83	2.74	7.45	3.62	-2.11	1.67	16.43
2011	-2.15												-2.15

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Manager Fees

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Performance Fee	10% of NAV appreciation. With a 6% hurdle.