Prusik Asian Smaller Companies Fund Plc

Prusik Investment Management

An Independent Asian specialist investment manager

NAV Updates

Series	*June '09*	*QTD*	*YTD*
Class A	103.50	+32.3%	+32.08%
Class B	103.51.	+32.31%	+32.10%
Class C GBP	53.08	+27.55%	+28.37%

Fund Size $30.3m

NAV Update	**June 09**
Class A USD	
Non distributing	USD103.50
Class B USD	
Distributing*	USD103.51
Class C GBP	
Distributing*	GBP 53.08

The fund rose 32% over the quarter. The significant pick up of inflows into the region which started in March across the larger capitalised Asian stocks started to percolate down into the smaller companies from April. Given the extraordinarily depressed levels these companies were trading at after the desperate deleveraging in 2008, this led to some dramatic stock price performance over the quarter. For example, Rexlot doubled, Wasion Meters more than doubled, China Auto doubled, to name a few of our favourite investments.

We wrote to you in early April to point out how much further upside we thought the fund had, on our internal forecasts, just to meet our own targets. Even after over a 30% gain since then we still think there is plenty more to go. We have adjusted our forecasts a little since April but the bulk of the upside is still mostly a factor of how depressed valuations and earnings expectations had become. We write below on our top 5 holdings and the outlook and upside for them – we also write on some of the newer purchases we have made and why.

Overall, therefore, we still think that there is further upside of 30-40% which would bring the portfolios holdings, on average, to our current valuation targets which remain doggedly conservative. If we were to use normal cycle multiples as our target then the upside extends significantly beyond 40%, but we feel this is not prudent at this time.

Thematically we continue to pursue internet gaming & gaming in China, power transmission & distribution, food, railroad infrastructure investment in China, regional reflation, nuclear investment, Taiwan domestic and healthcare.

China Update

Less than a week ago the Chinese stock market daily turnover reached a 2 year high of US$48.6bill. This is bigger than the rest of Asia and Japan combined and also bigger than the combined volume of the US markets at $30billion. Beijing continues to flood the economy with ample liquidity. In June bank loans continued to grow at a stunning rate, indeed they achieved the third highest growth rate in history following the January and March expansions, reaching $220billion. Total loans issued in the first half, therefore, reached $1.08 trillion – equivalent to nearly 25% of last year's total GDP and representing an annual growth rate of 32% YoY! The monthly loan rate is currently nearly triple last year's rate and now exceeds the full year's monthly target of $176billion by over 45%.

Hardly surprisingly, the economy has

been showing us signs of life. China's PMI indicated its fourth consecutive rise in June, whilst asset prices seem to be gaining momentum. Urban property prices in 70 of China's large and medium sized cities rose 0.2% YoY in June, the first increase for six months, whilst in bigger cities like Shanghai and Beijing, property prices are now effectively at record highs. Likewise both stock markets are at 13 week highs with valuations beginning to look 'normal' whilst car sales indicate the strength of recovery at consumer level. June car sales rose 36% YoY prompting suggestions that we are seeing the beginning of a new car boom in China. In the corporate world we are hearing anecdotal evidence of a pick up in capital expenditure, especially amongst domestic oriented businesses. As a result of this renewed activity commentators have raised their growth expectations once more with upgraded estimates of 2Q GDP growth of 7-7.5% rising to 8% and 9% in the final two quarters.

We note that Beijing policy makers seem intent on remaining supportive of consumption and employment. Indeed eight of the nine Politburo members due to meet imminently have, in recent weeks, visited coastal and inland provinces raising anticipation of such policies. Data on employment suggests new graduates have only a 68% chance of finding a job vs 73% a year ago whilst government revenues are still rising healthily pointing to possible tax cuts as an additional way to increase consumer demand.
Our short term conclusion on China is thus reasonably optimistic, but we would like to temper this view with come caution medium term.

Firstly, reports circulated last week that two government bond auctions had failed to attract enough interest for all the paper being sold. Whilst the shortfall was not huge, it is an early signal that given all the money sloshing about in the system at present a 1% interest rate on the investment is not enough. Secondly, there is a growing split between the PBOC who are responsible for monetary policy and the CBRC who are responsible for patrolling the banking system. While there are no visible inflation pressures the risk is that the PBOC will continue to lend aggressively, setting up a large Non Performing Loan problem later on. Recently the CBRC has imposed curbs on 'wealth management products', many of which are a back door route for provincial governments to raise leverage for infrastructure products. This suggests that the tension between the two bodies is starting to rise and the CBRC are, possibly rightly, already trying to head off the chances of their patch becoming littered with bad debts in the future. Additionally, but crucially, these products also raise the spectre of future problems as most of these long term projects are thus being funded by short term debt.

Finally, Yu Yongding, a former advisor to the Chinese central bank has warned that China has the highest M2-to-GDP ratio in the world at present at 180% GDP. This he described as a 'very scary' prospect in terms of future inflation risk. Certainly, the runes suggest that if today's levels of debt expansion remain, China could face much higher inflation in a years time. History suggests that as we approach an inflation level of about 5% the tightening starts in earnest with all the attendant negatives for the stock market. History also suggests that inflation can erupt very suddenly in certain circumstances. We certainly feel the world has become very relaxed about inflation risk with China no exception and therefore remain very alert to this particular risk.

PORTFOLIO UPDATE

Top 5 review

Rexlot – *equipment & service provider to China's nascent lottery industry.*

As we wrote in the last quarterly the biggest risk to lottery suppliers in such a huge market as China, would be a change in regulatory stance. Given the nascent state of the industry we still think that rather than changing regulations to tilt profits more towards the State (the perennial bugbear of Malaysian lottery operators) what China will do is just introduce "some" regulation. For example, if there were no official provider of fixed odds betting for next years World Cup football the illegal fraternity would monopolise a billion dollar + industry. Thus the introduction of an officially sanctioned fixed odds betting network announced last month , governed by the Ministry of Sport now enables Rexlot, who supply the Sports lottery with the road map to roll out a "point of sales" network to service fixed odds betting as well. This is the second string to Rex's bow, the first being its service provider status to the Welfare lottery. Earnings expectations are at 14c for 2010. We think that with the contribution from the sports lottery becoming more visible this earnings number is understated and forecast at least 16c. Secondly, interim results due Sept will be the first indication to the street that the concept of Rex is becoming reality, another positive. 10 times an EPS of 16c would give a target of 1.60 which would be six times our initial investment price and 150% upside from the current price - we hope even 1.60 is only half way. Amit met with the management in May this year and we are to meet them again in London in July.

Wasion Meters – *Prusik's favourite "smart" electricity meter supplier in China.*

Two significant developments occurred in the quarter for Wasion. The first was that the State Grid, frustrated by regional grids purchases of somewhat dated equipment, centralised all purchases of equipment through a subsidiary. Given Wasion's smart meters are one of the preferred options already in the State Grid's Power Consumption Data Collection System Project, Wasion's market share is likely to rise from 15% to over 20% and the overall potential market will grow as second rate systems are ruled out.

Secondly, Russia has agreed to open its electrical transmission and distribution networks to Chinese suppliers, potentially increasing demand by equivalent to 20% of Chinas existing domestic market. China is already constructing and supplying grids in Central Asia so additional demand from Russia augers well for China's small but growing export market in this field. We have raised our expectations for Wasion's 2010 profits after speaking to them about State Grid centralised procurement but deem it too early to factor anything in for Russia. Wasion is growing at 30% per annum and is on a PE of 11x 2010. Its peer group are mostly listed on the China A share market and trade over 30x prospective earnings. For now, however, we expect another 40% upside. We saw management in Hong Kong in March and again spoke to them in April and July.

China Automation - *China's dominant railroad network engineer*

China Automations is one of the most profitable business models in the portfolio, but is still one of the most undervalued. Software implementation margins for railroad management networks and for engineering efficient petrochemical plant are still over 50%. The company has a cash pile which they may use to aquire more intellectual property in pipeline engineering. This is a business model that seems to be heading towards that of Worley Parsons in Australia as the company increases and broadens its ability to perform increasingly complex engineering and software implementation tasks in China. Worley trades 15 times forward earnings with substantially lower profitability. China Automation is on half that multiple and is one of the few preferred suppliers to the Chinese railroad and petrochemical industries which are both areas that appear increasingly difficult for foreign companies to get a foothold in. Management are frustrated by the low multiple the market ascribes their business and after several meetings with them recently we are confident that they will be successful in improving this rating.

Zhaojin Mining – *one of China's largest goldminers*

If management achieve their goal of decreasing extraction costs then the future looks reasonably promising for Zhaojin. They continued to increase gold reserves over the quarter and have stopped trying to tweak selling volumes to gold price fluctuations which is all good news. Valuing gold stocks has always been an imprecise, science but we believe Zhaojin's share price reflects gold at $780. This leaves some room for disappointment but plenty of room for valuation upgrades if we see further increases in bullion prices.

BGR Energy – *an emerging player in Indian power plant construction.*

The Government of India is giving due thrust to augment capacities for power generation, transmission and distribution. It has targeted to add 78,700 MW in the 11th year plan period with an investment of Rs 4000 bn. There are very limited players in Balance of Plants (BOP) and EPC space and BGR Energy is well positioned to capture the benefits. Balance of plant consists of the remaining systems, components, and structures that comprise a complete power plant or energy system that are not included in the prime mover and waste heat recovery (ex. gas turbine, steam turbine, HRSG, waste heat boiler, etc.) systems. This is a new core position for the portfolio, in an area where we see strong long term growth prospects. BGR was one of the first companies to adopt BOP concept in India. The company has completed projects ranging from 25MW to 330MW using different types of fuel. Approximately 40-50% of the BOP systems are manufactured in-house and this in-house design and engineering capabilities of the company gives it a competitive edge in Cost, Design & Project schedule over its competitors. BGR's strong orderbook position, executable over a period of 3-4 years, provides strong revenue visibility. And as we write this, news has just been released that BGR has been awarded the BOP contract for the Maharashtra Government this Rs16.32bn order increases its current order book by 17% taking their total order book to Rs111.52, equivalent to 5.7x 2009 sales. BGR is also moving up the value to chain to become a complete EPC contractor. The company has recently bagged 2 large EPC orders from the Tamil Nadu and Rajasthan electricity boards.

We expect the company to report 31% EPS CAGR over the next 2 years, with an ROE of over 26%. BGR is currently trading at a PE multiple of 12.1x for Mar 2010 and 10.1x for Mar 2011. Comparing that to BHEL, arguably the industry leader with similar bottom line growth and ROEs, trading on a PE multiple of 22x for Mar 2010 and 18x Mar 2011, we see significant upside for BGR from current levels.

New additions

Inspur

Inspur Group is one of the largest IT companies in China. Inspur International is the listed vehicle of the group with Microsoft as a major shareholder. The company develops high-end software and solutions in China. China is dramatically short software relative to hardware. Key growth drivers for the company will be their Enterprise Resource Planning division which provides IT consultancy to railway companies and other major engineering based clients including Petrochina, Sinopec and China Aviation. This division contributes 18% of revenues with 50% gross margins. We expect 20-30% growth from this division. The other large growth driver will be the company's tax control system. Here penetration is low at 3%, pointing to significant medium term upside. The Chinese government has been slow in implementing an efficient tax collection system with the original target to try and have the whole country covered by 2010. This is unlikely to be achieved but the focus has not changed and indeed we expect this to now be accelerated. In 2006 this division had $6mn in sales which has since soared to HK$80mn in 2008! Gross margins at Inspur are 38% versus industry average of 10%, and are driven by economies of scale and proprietary technology. The company expects to sell 200,000 units this year versus 120,000 last year, so growth is significant.

We expect the company to report 26% EPS CAGR over the next 2 years, with an ROE of 35%+. Stock is currently trading at a PE multiple of 11.5x for 2010, which we view as significantly undervalued.

OPTO Circuits

We have written at length in previous Prusik newsletters about the opportunity in the healthcare space from emerging market economies, driven primarily by their low cost manufacturing base. We believe India's cost advantage and technical expertise can make the country a global hub for medical devices over the next 10 years. Opto Circuits, being the only large Indian medical device company, would be a key beneficiary of the industry's growth. Opto operates in both the invasive and non-invasive segments. Opto's growth in the next 2-3 years will be driven by sensors and monitors in global markets and vascular intervention products in the European and Asian markets. Opto's market share in the key markets in which it operates is still in single digits, so there is huge potential for growth. Eurocor, its subsidiary in the invasive devices business, focuses on stents and balloons, and has scope to increase its penetration of the global markets. The total invasive market for which they are exposed to is USD 5bn vs revenues of EUR 12mn in 2009. For the non-invasive segment, as well as Opto's own brands, Opto have acquired Criticare, a US based medical device manufacturer, producing a wide range of patient monitoring devices. Opto is revamping the products and the sales and marketing function of newly acquired Criticare. The company is also trying to penetrate non-US markets with Criticare's advanced products. Currently Criticare products are manufactured in the US, but this is expected to move over to India over the next 12 months. This should translate to significantly higher margins for Criticare products (currently Criticare EBITDA margins are 18% vs 40% for OPTO products). These initiatives, we believe, will be the major growth drivers for the next couple of years.

We forecast an EPS CAGR of 23% over the next 2 years, with an ROE over 37%. At current market price the stock is trading at a PE multiple of 8.6x March 2010.

Nuclear

We think the current acceleration in interest in Nuclear power is likely to continue, not least because focus on carbon emissions will make nuclear look like a very attractive option. Currently 16% of world electricity generation is nuclear, 39% coal, 15% gas, 10% oil and 19% hydro. In 2005 there were 374 nuclear reactors – of which 114 were in North America, 133 in Europe and 64 in Asia. Russia had 23, China 7 and India 3. By 2020 the number is expected to rise to over 500 however, the mix is changing. Europe is reducing the number whist the US is adding. Meanwhile, China, India and Russia are getting serious; adding 28, 11 and 10 reactors respectively with a further 111 planned.

We have added 2 companies that will benefit from the rollout in the nuclear space. Korea Plant and Services, currently 80% held by KEPCO, provides maintenance and planned outage services for power plants including nuclear which contributes 36% of sales and Hydro/thermal which contributes 40%. It has, of course, dominant market share in Korea due to the security and technical importance of what it does. However, its market share is rising overseas also as their almost unique ability to manage an entire nuclear plant service project end to end means they are an easy choice for customers from both an efficiency and security perspective.

At home in Korea, starting with the completion of the Kori 1 reactor in 2010, the construction of a total of eight new nuclear power plants with a capacity of 1,000MW-1,400MW each, is scheduled to be finished by 2016. KPS is in charge of nearly 100% of the services at these plants. As such, when the new plants start operating in 2011 the company's sales should rise to a much higher level. In 2011, its total sales are projected to exceed W1tn from W764mn in 2008 aided by W357.2bn in sales from the nuclear power division. Furthermore, in 2012 sales from this division are predicted to reach W405.6bn on the back of operations at new plants such as the Kori Unit 2 and the new Wolseong Unit 1. These sales will account for 36% of the company's total sales. We believe the division will grow into a major growth engine increasing overall sales for the company.

Areva T & D India, is the other company we have added in the nuclear arena. Its global parent – Areva which holds a 72% stake in Arevea T & D India - is the world's market leader in nuclear power and the third largest player in the T & D space. We see Areva T & D, best positioned to benefit from the nuclear roll out in India, driven by Areva's current projects which should translate to orders for the Indian arm. In addition Areva T&D has emerged as the strongest player in Power Transmission & Distribution (T & D) space in terms of order intake in the past one year. It has also undertaken huge capex in India to cater to the booming demand in the 765kv substation and High Voltage Direct Current segment. We are positive on the long term prospects of the company given the anticipated investment in Power T & D segment and their exposure to Nuclear.

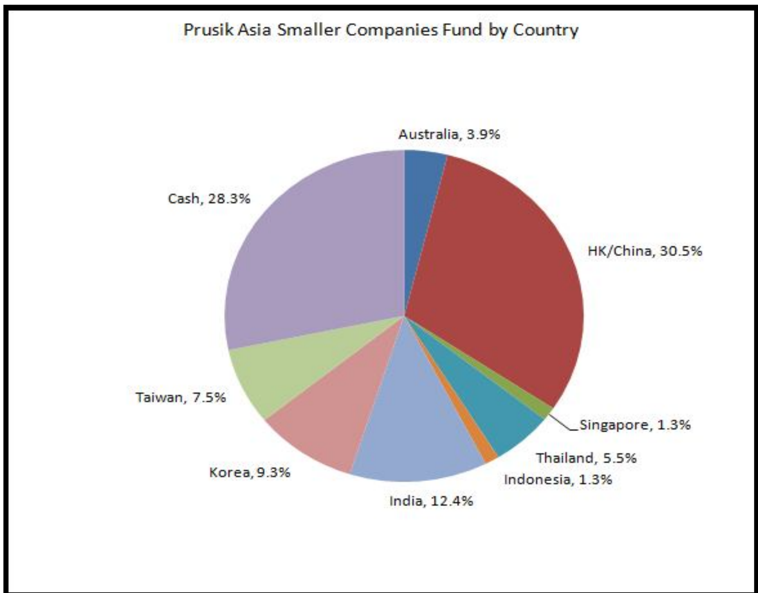
We have also added some investments in niche Hong Kong, Thai & Indonesian real estate developers, and one Thai sugar producer.

Portfolio valuation

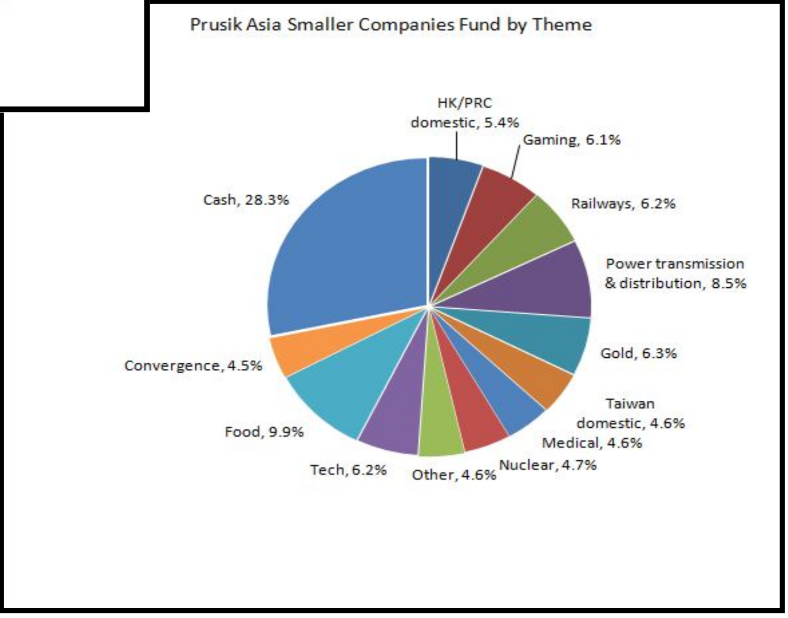
Ex the two gold holdings the portfolio trades on 13x 2009 and 10x 2008 with 30% growth into 2010 and a ROE of 20% on 2010 earnings.

Amit has returned from a trip to Singapore where he viewed a number of the fund's holdings and prospective holdings. Heather is in Hong Kong, Malaysia and Singapore in September. Ed visits Beijing, Shanghai and then goes to Hong Kong, Singapore, again in September.

Prusik Asia Small Companies Fund
Top Line Figures—2nd Quarter 2009



Number of holdings	30
Percentage of Fund invested	71.7%



Top 5 Holdings	%
Wasion Group	3.9%
Rexlot	3.9%
BGR Energy	3.4%
Zhaojin Mining	3.4%
Ju Teng	3.3%

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
Year	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**YTD**
2009	-3.6	-2.1	5.6	16.7	17.7	-3.7	-	-	-	-	-	-	32.1

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	Every Two Weeks
Minimum Subscription	USD100,000
Min Subsequent Subscription	USD10,000
Subscription Notice Period	10 business days
Redemption Notice Period	10 business days
Dividends	
Class A	None
Class B	Annual
Class C	Annual

Prusik Investment Management LLP
Third Floor, 45 Charles Street, London, W1J 5EH.
Tel: (+44) 20 7493 1331
Email: edward.buckley@prusikim.com

Manager Fees

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