



P R U S I K

PRUSIK ASIAN SMALLER COMPANIES FUND PLC **PRUSIK INVESTMENT MANAGEMENT LLP**

Authorised & Regulated by the Financial Services Authority: Schedule 5
An Independent, Asian Specialist, Investment Management Team

NAV Updates

| Series | Dec 09 | MTD | YTD |
|-------------|--------|--------|---------|
| Class A | 125.13 | +4.81% | +59.68% |
| Class B | 125.14 | +4.81% | +59.69% |
| Class C GBP | 65.40 | +5.01% | +56.04% |

Fund Size \$41.1m

Performance

| | |
|------|----------|
| 2008 | - 21.06% |
| 2009 | +59.07% |

The Prusik Asian Smaller Companies Fund rose 7.7% in the last quarter and 60% in 2009. The fund's 100 day volatility is 15%. This means that since inception in February 2008 the NAV has risen 25%. Over the same period the broader Asian index fell 12%.

We start the New Year with the fund fully invested and encouragingly, the blended 2010 EPS growth for the funds' holdings is at a record high of some 50%! We have examined our forecasts closely for evidence of over optimism but can report that we are amazed by the speed of growth now being generated within some of our companies and themes. Our expectations are for the market to start to differentiate between the high secular growth compared with the more cyclical areas where ongoing recovery depends wholly on an economic rebound. In particular, consumption, especially in China, internet and mobile internet services, internet equipment and applications demand, private healthcare, education, power transmission and distribution are all growing remarka-

bly fast this year. During the quarter we added an old favourite which we have not held in the portfolio recently; nuclear power. This is now starting to perform again having fallen to attractive valuations and responded to recent catalysts. We have reduced slightly the overall exposure to gold.

We remain excited about the story unfolding in Taiwan which is still in its early days. We expect we will hear more on this theme as 2010 progresses and the plans for Cross Straits economic development are fleshed out and acted upon by both governments. The extent of recovery in the property market in Taipei during 2009 leaves other investments standing, including the stock market which was still a good performer over the year. This bodes very well for the coming twelve months as domestic sentiment improves, savings are repatriated, mainland Chinese money continues to arrive and foreign investors finally start to really believe the story. A significant portion of the fund remains committed to this theme.

Despite what appears to be a very strong showing from our favoured

companies and themes we are well aware that risks are gathering for the world economy in 2010. We want to be very clear that during the year we expect to be tested heavily once more and we know we will need to be extra vigilant regarding valuations and disciplined in taking profits when our work suggests so. At some point during the year we do expect to be less invested than we are now.

General Outlook 2010 – more cautious

For the last two calendar years, investors have really had only one decision to make and stick to – to be invested or not? We think 2010 will be characterized by more volatility, sporadic returns and ‘shifting sands’ as relationships and correlations between asset classes change and surprise. The consensus believes it will be easier to make money earlier in the year and indeed lasting bull markets tend to unfold when valuations are very attractive, growth is strong and sustained and credit is readily available. In Asia we do indeed see neutral to cheap value, the latter mainly at smaller and mid-sized company level, good growth and plenty of available but, as yet, unused credit. Simplistically, global liquidity remains easy, earnings growth is strong in Asia and Asian currencies are still visibly undervalued relative to their Western cousins. This bodes well at first glance but there will be strong challenges

to the optimistic picture and they could come at any time.

So what are the possible catalysts for a period of readjustment in Asia?

The first possible catalyst is that China experiences an inflation scare. Our conclusion is that China will likely continue to stimulate its economy well into 2010 and beyond. There is a risk that some areas of the economy disappoint in 2010, especially the external side and we cannot rule out other speed bumps especially regarding trade issues. We should not underestimate the importance placed by general sentiment on China successfully re-stimulating its economy, and believe that everything is being done to succeed in the refraction, all of which is being supported anecdotally by the recent strong showing in retail sales. However, we now believe that by far the biggest risk is inflation. Recent food price increases and monthly annualized CPI suggest that there is quite a sharp pick up in consumer prices which could turn inflation towards the 4%+ level by mid year. We have already seen targeted attempts by the government to cool activity in property and suspect this will become an increasing feature as the year progresses and if economic activity remains strong. The upshot will mean that progression is not smooth as the government puts its foot alternately on accelerator and brake in an effort to put

the recovery on a sustainable course. Inflation much above 4% would probably trigger a full scale policy response and equities across the region would not perform well in this environment.

Secondly, analysts predict company earnings will rise strongly in 2010 and in Asia the consensus expects around 20-25% earnings growth this year, with the same next. The risk is that these expectations are not met or start to wane as the year progresses. These high expectations are largely based on both continued margin expansion and continued economic strength in China. Leaving aside the debate over the ongoing growth rate in China, where we are reasonably optimistic, we are more cautious on whether corporate margins, on average, can remain this high or rise further to meet analysts extrapolations. Company margins are currently strong because they are operating with relatively skinny cost bases following the 2008 cut backs and demand is recovering. However, a pick up in operating costs should occur very soon - witness already the rise in oil price and some commodities and start to cap margins. If the overall economic recovery really gathers momentum we would thus expect to see volumes and selling prices of finished goods rise accordingly. However, from our extensive conversations with companies over recent weeks we can only detect reluctance amongst management to spend on

expanding capacity and workforces. It is believed that consumers have still not recovered sufficiently to increase consumption or indeed endure significant price increases. Of course, this maybe indeed a correct response. Meanwhile, companies are throwing off cash at such a rate that many are now sitting on cash piles which give them two or more years cover of operating and expansion costs and suggest one of two things. Either we are about to see one of the busiest periods of corporate activity we have had in ages, in terms of both takeovers and capital expenditure, or return on equity is likely to start declining. Some of the companies the fund holds have started to spend but still the clock is ticking with only a few months left before disappointment starts to prevail and the latter becomes a possible dampener on equity valuations. Upside could be restored if dividend yields are increased but we simply do not see this possibility in company thinking at present.

A few thoughts for the coming decade

Demographics are like global warming albeit with more certainty. We know there is a problem out there but we tend to think it's not today's issue and so we largely ignore it. This decade we do so at our peril. A recent independent report published looks at the numbers through a lens of age based

salary growth, arguing that the youthful population of the United States' workforce was accountable for around 1.3% of annual GDP growth at the peak. Looking at the same statistic today, this fell to below 1% for the first time in 2008 and is set to decline further as more of the population retires. By contrast, Japan's age based salary growth was last at 1% in 1990. Japan has a population 10 years older than that of the USA. Importantly, China's population will also age rapidly after the coming decade due to the effects of the one child policy and indeed age based salary growth will also dip below 1% after 2013. The interesting countries with younger demographics include India, Indonesia, Vietnam, Brazil and Iran.

Healthcare, already a subject of frenzied obsession in the USA will become increasingly important as a theme everywhere during the 2010s. Cheap private healthcare and generic drugs are already well represented in Prusik's portfolios but we expect a surge of spending in early diagnostics, preventative medicine, screening and of course, geriatric care.

As more of the world's population retires the demand for equities will recede and the requirement for income will rise. With interest rates so low, more and more savings will be required to fund retirement without using capital. Income will also become increasingly important and

investments paying high dividend yields will become sought after, as will any businesses paying a decent return of 10% per annum or more.

Finally, and heretical though it may sound, it is important to remember there have been large tracts of time in recent history where stock markets other than Japan have gone sideways or even fallen, for example; Dow 1965-1982, Taiwan 1988-2010, Kospi 1988-2004 and spectacularly, UK 1693-1945 (not a typo!). The savings industry as a whole still seems reasonably in thrall to the notion of buy and hold for the long term but this could be the decade where the conventional wisdom finally changes.

Portfolio holdings

"Little Siemens"

After 20 years of Government promotion and encouragement Chinese engineering companies are now beginning to make inroads into the more critical and sophisticated end of the market. The Chinese Government has been encouraging a move "up" the value added chain across the manufacturing and services sector for many years. 10 years ago an entire subway would have been foreign supplied, now, more and more of the parts are domestically manufactured. Favourable local content contract rules and import tariffs have started to

have an effect. China Automation and Hollysis, two of our top five holdings are increasingly taking market share from the multi national engineering specialists. In fact Hollysys announced this week that it had commenced shipping Distribution Control Systems (safety devices) to the Guohua ultra- supercritical thermal power plant. This is the first ever deployment of domestically made large scale DCS systems in China. It is good for Hollysis's margins and bad for Siemens. We have over 10% of the fund in these up and coming companies. We believe the wider market estimates are still light in this sector. From a corporate governance perspective management are behaving well. For example even though the Hollysis share price has risen 6 fold this year the management chose to pay cash for a recent acquisition of a regional Chinese industrial automation company rather than issue a material amount of shares. Furthermore, we were able to upgrade our earnings expectations on the company by 12% post this deal.

Power Transmission and Distribution

Wasion Meters

Readers will be aware that Wasion Meters has been an old favourite of the Smaller Companies Fund. However, last quarter, we trimmed our position due to delays in Government orders and uncertainty

over its overseas orderbook. The last couple of months have seen Government orders newsflow turn positive and the stock has performed well. However, as the stock was approaching our fair value estimate, we arranged an update with the company. Though there was considerably better visibility coming through on domestic orders, we learnt that there were more qualified players tendering for the orders than had initially been expected and that there was a significant risk that the Government would be unlikely to give full orders to one company and more likely split the orders between a number of players. With the increase in the competitive landscape there was also concerns that pricing pressure would be more intense than we had expected and there was likely to be margin erosion in 2010. With this in mind and the fact that the stock had reached our fair value target on more optimistic assumptions we sold our position in December. Subsequent to us selling our holding, results of the government orders were announced which showed that Wasion had only been successful in the single phase meter tenders and had received no orders on the higher margin three phase meters. We must add that while we still see growth in smart meter demand in China we feel that more intense competition means profitability has possibly peaked.

We continue to remain positive on our names in the Indian Power Transmission & Distribution space, where we still see good growth prospects. Orderbooks are increasing, the competitive landscape is relatively benign and valuations remain cheap. We continue to hold KEC, Kalpataru, KSK Energy and BGR Energy.

Chinese brands

Over 12% of the fund is invested in this sector the main holdings being Daphne, Xtep and Hengdeli. January sees many key trade fairs take place in China and the early feedback is again positive and it looks like the same store sales growth acceleration we saw in Q4 2009 will continue. Excess inventories, a hang over from the Beijing Olympics and softer demand in the first half of 2009 now seem to be historic issues.

Cash generation at these companies is very high. Again we ask the question on whether companies will just sit on cash, bloating ROE's. Daphne answered our concerns this week by paying cash for a suite of shoe brands which we believe will increase our earnings forecast for 2011 by 13% and boost ROE.

Rexlot

Longer term readers of this quarterly will probably be becoming quite familiar with Rexlot which is

now 4.4% of the fund. The shares rose 30% in December after the release of some good operating numbers which gave the market confidence that in 2010 Rex will meet or in our opinion, exceed analysts' earnings expectations. (There are now 2 analysts who cover the company properly).

Rex has been testing its fixed odds sports betting system since last April. We expect China to announce a full roll out of legal soccer betting legislation after Chinese New Year in time for the World Cup. As clarity increases on this new exciting business for Rex we feel that a further 50 to 100% upside in the share price is possible.

Nuclear

Anomalies lead us to themes just as they are starting to unfold and the nuclear power sector provides us with one of the best examples of an 'unintended message' anomaly, namely that the Middle East, dominator of world oil production, is building a massive nuclear power system.

Demand for nuclear power, which currently generates 15% of the world's electricity, is rising fast as nations try to cut down on polluting energy sources such as oil and coal. Indeed the World Nuclear Association estimates that the number of nuclear power reactors may double by 2030, driven mainly by

demand from India and China. As of today there are 53 plants under construction world wide but about 435 new plants are now planned in the coming 20 years.

Needless to say this translates to potentially explosive growth in the nuclear engineering industry.

South Korea has just won its first nuclear plant order from the United Arab Emirates, beating the favourites, France and other contenders such as the US, Canada, Japan and Russia to a \$40billion order to build and maintain four 1,400MW reactors. The order was won on Korea's record as having built the most plants in recent years, having the lowest construction costs, having the best safety record in terms of forced outage rates and for being able to match the French offer on non nuclear plant issues.

This is a very exciting development for Korea and the potential is not lost on government who has stated its intentions to dominate the industry. Exporting some 80 nuclear reactors worth \$400billion in the coming two decades and propelling the industry to become a top contributor to the Korean economic story alongside cars, semiconductors and shipbuilding.

Furthermore they also intend to target the \$80billion global market to operate, maintain and repair nuclear reactors and reportedly a significant portion of this recent order

was to operate the plants for 60 years.

Korea Plant Services has now been held in the fund for several months now. It is a subsidiary to Korea Electric Power and the sole Operations and Maintenance contractor for all of their nuclear power plants. It is one of the very few companies in the world to be able to maintain an entire nuclear power plant without needing to outsource any part of the effort. This is a crucial and valuable advantage given security is of key importance and so the fewer contractors the better. On the domestic front, as Korean nuclear capacity is set to grow over 50% by 2016 and the age of existing plants increases, KPS will continue to enjoy a dominant position in an industry with high entry barriers. KPS's overseas business continues to grow rapidly, with sales up 169% YOY in FY08 and estimated 30% in FY09. We expect very strong growth in orders in 2010. We believe KPS's overseas power plant servicing business will also see improved visibility in orders and duration of contracts (40-60 years) which will provide significant earnings visibility. On top of this KPS has a stable financial structure, supported by a continued net-cash position since FY01. Cash & equivalents in FY08 accounted for about 32% of total assets. The continued free cashflow has enabled the company to maintain an annual dividend payout ratio of around 50%.

Railways

Readers will be well aware of our outlook on the Chinese Railway sector and it is a theme that we have been invested in since the inception of the Smaller Companies Fund. We have already written about China Automation and Hollysis and though we understand that we may be entering the peak of the capex cycle from an infrastructure point of view we believe that there is still a long way to go before we get to a peak in the equipment cycle. As an illustration, we have just had an update with Zhuzhou CSR, which is a provider and integrator of electrical systems for the railway industry. They have only just begun supplying the new 350km/h type electrical multiple units (EMUs) or electric trains. Currently China has 6,000km of railway track, which is expected to grow to 13,000km by 2012 and to 20,000km by 2020. For every 10km of track they would expect to need one EMU unit, hence to lay 20,000km of track by 2020, they will need 2,000 EMUs versus the 100-200 currently in operation. The company has guided for a 50% growth in revenues for 2010 and are still very confident of the outlook for the industry.

Midas, another old favourite continues to go from strength to strength on order wins, which we believe will be the strongest catalyst for the stock price. Having increased capacity, the ability to increase our

and street earnings estimates remains high. With the current order-book, our estimates for 30% growth in earnings for 2010 are close to locked in, with potential for upside from new order wins, and even as we write, Midas has announced another order win, increasing their order backlog by another 5%. Both Midas and Zhuzhou are held by the fund.

Portfolio valuation

The portfolio trades at 13x 2010 and 11x 2011 earnings estimates generating 51% earnings growth this year and an ROE of 21%.

New Singapore dollar share class

On Jan 15th the Prusik Asian Smaller Companies Fund launched a 4th share class which will be Singapore dollar denominated. Like the C class which hedges out dollar/sterling risk the new D class will hedge out US dollar / Singapore dollar exchange rate risk.

Rationale:

Volatility in Singapore's exchange rate is mitigated by the Singapore government's monetary policy framework. This is because the Singapore government sets monetary policy through managing the level of the exchange rate rather than by setting the level of domestic liquidity or interest rates. Importantly, the Singapore government

intervenes in the foreign exchange market to manage the movements of the Singapore dollar against all its major trading partners not just the US dollar (in contrast to HK which operates a USD exchange rate peg). Operationally the authorities manage the Singapore dollar against a weighted average of trading partner currencies. The weights are not published but the so called 'Nominal Effective Exchange Rate' (NEER) itself is published with a lag. Estimates of the weights suggest the most important currencies in the NEER are the USD, EUR, Chinese Yuan, and JPY. The upshot of this policy is that, for a holder of the Singapore dollar, the value of the currency against the average of Singapore's trading partner currencies is broadly predictable within a range. The Singapore Dollar essentially reflects the average of a basket of important global currencies and therefore the risk in comparison to holding any one of those currencies in isolation is reduced.

Singapore can run this policy because its strong fundamentals mean the currency is generally under appreciation pressure. However, with over USD 240bn (120% of GDP) in FX reserves, Singapore is well placed to offset pressures for a weaker currency.

With Singapore's economy becoming more service driven stability in the exchange rate will become even more important to the authori-

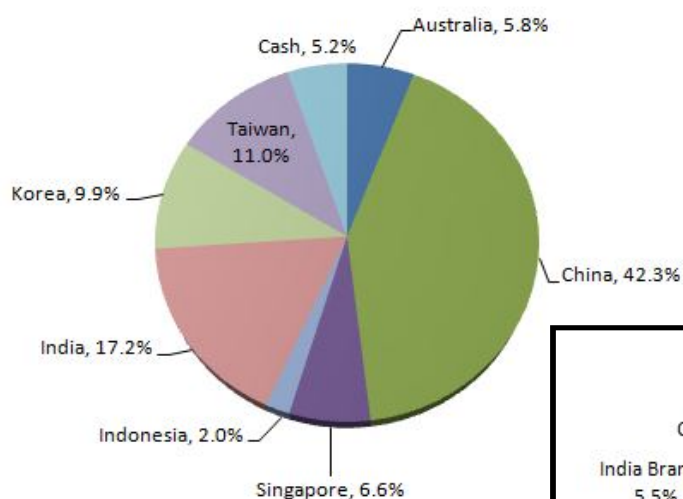
ties. We suspect the Singapore dollar is becoming the "Swiss Franc" of Asia and hope this translates into it becoming the least volatile currency at the heart of a hugely undervalued currency bloc versus a Western basket.

For any further enquiries please contact either Prusik Singapore or London.

Prusik Asian Small Companies Fund

Top Line Figures—4th Quarter 2009

Prusik Asian Smaller Companies Fund by Country

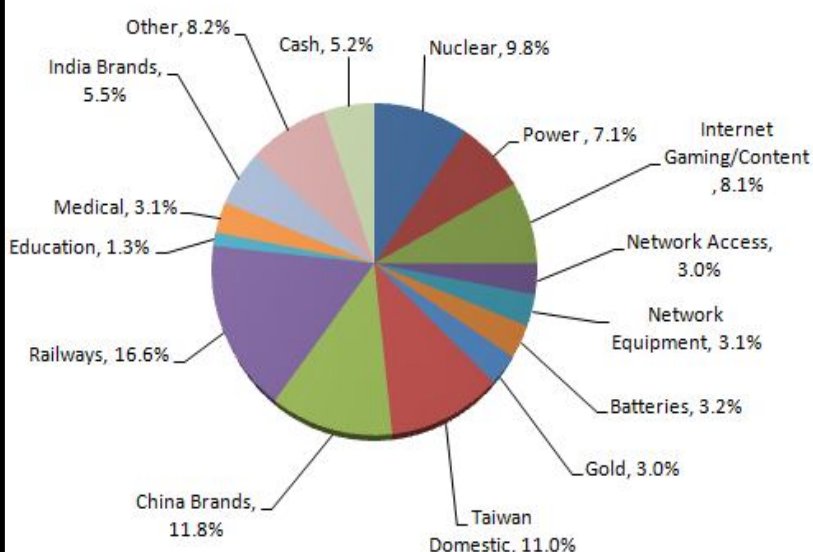


Number of holdings 34
Percentage of Fund invested 94.80%

Top 5 Holdings

| | % |
|------------------------------|------|
| REXLOT HOLDINGS LTD | 4.4% |
| HOLLYSIS AUTOMATION TECHNOLO | 4.4% |
| CHINA AUTOMATION GROUP | 4.4% |
| DAPHNE INTERNATIONAL HOLDING | 4.1% |
| XTEP INTERNATIONAL HOLDINGS | 4.0% |

Prusik Asian Smaller Companies Fund by Theme



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 |

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 | \$ Non distributing |
| Class B | \$ Distributing |
| Class C | £ 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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