NAV Updates

Series	*March 2011*	*MTD*	*YTD*
Class A	101.31	1.31%	
Class B	98.34	2.55%	-1.66%
Class C GBP	98.84	2.59%	-1.16%
Class D SGD	96.38	2.42%	-3.62%

Fund Size: $8m

Performance

2011 (YTD)	-1.66%

The Prusik Asian Equity Income Fund fell by 1.66% in the first quarter compared to a market rise of 1.97%. Taking out costs (including the purchasing of the portfolio and the high running costs for the first month) the fund was up 110bps which is slightly behind the index. The biggest three contributors to returns were Macquarie International Infrastructure Fund, ARA Asset Management and Major Cineplex. The biggest three detractors were Bosideng, Perusahaan Gas Negara and KT&G Corp.

As this is the first quarterly report, it will contain some background on the purpose of the fund, the investment process and some of the larger holdings.

There are three main aims of the fund:

- To generate an attractive dividend yield that is higher than the market
- To grow that dividend in real terms over time
- To outperform the Asian market by 5-10% per year over a full cycle

At the time of writing the expected dividend yield for 2011 is 6.1% for the fund which is more than double the average for the index. This dividend is forecast to grow by 10% in 2012 – comfortably ahead of inflation. It is valid to ask whether it is possible to have a high yielding portfolio that outperforms that market but historical evidence argues it is. From January 1999 until December 2010, the top 20% of stocks by dividend yield generated a total return of 23.3%[1] compared to the market return of 13.5% - almost 10% a year in outperformance. Although there is no reason that this will be the case in the next 10 years, it at least shows that it is consistent to expect outperformance by following a high dividend strategy. In addition, there is evidence from the US market that stocks with high payout ratios have higher earnings growth than those that retain a large proportion – the opposite of what financial theory teaches us.

[1] *1.Universe: MSCI AC Asia Pacific ex Japan 2. Sample period: Jan 99 - Dec 10 3. Factor for ranking: 12m Forward Dividend Yield 4. Rebalancing: Monthly. Source: IBES, MSCI, UBS Quantitative Research*

We define our universe as stocks that trade more than US$1m/day and have a dividend yield of more than 3.0%. This currently generates a list of around 1,000 securities. We will look at stocks outside this group if they offer an exceptional investment opportunity but narrowly miss either the liquidity or dividend yield cut off. By using quantitative and qualitative techniques, this list of 1,000 stocks is narrowed down to a short list of between 100 and 200 stocks. From a quantitative perspective, we are looking to screen out stocks that are unable to fund or grow the dividend and check that they have an appropriate balance sheet structure. The qualitative analysis focuses on understanding the competitive, economic and regulatory environment in which the company operates. For example, understanding the outlook for Chinese banking sector dividends depends to a large extent on regulatory and economic factors rather than anything that the companies themselves can control. Korean telecom providers rely on the generosity of the regulators. In Asia, understanding the prospects for dividend growth often necessitates a broader, non-quantitative understanding of the region. Our preference is to hold companies that are in control of their own destiny and can grow dividends regardless of changes in the environment. Our analysis also extends to understanding the motivation of management to pay and increase dividends to shareholders and particular attention is paid to how they reinvest cash flow that is not paid to shareholders.

In terms of man-hours, the greatest amount of time is then spent reducing this list of 100-200 stocks to the 30-50 that we will hold in the portfolio. We do this by further analysing the companies in more detail, almost always visiting them and analysing their business in great detail. When considering valuation, it is important to not just focus on the up front dividend yield but to calculate the intrinsic value of each company and ensure that we are purchasing stocks at a discount to this valuation. Also we incorporate the thematic work that Prusik is well known for. When we find attractive themes that also have high dividend yields, our weighting in these names will tend to be higher.

The focus on the fund is market-cap neutral however we believe that, in keeping with other Prusik funds, we have special edge when it comes to mid and small cap stocks which are less well followed. As we plan to keep the fund to manageable level (US$300-400m) we will be able to focus on stocks in these areas. At the moment the fund is 36% invested in stocks with market caps bigger than US$2bn, 42% invested in stocks with market caps from US$500 to US$2bn and 22% invested in stocks with market capitalisations less than US$500m.

When analysing the potential market for dividend yielding stocks, we divide the fund up into 3 broad categories:

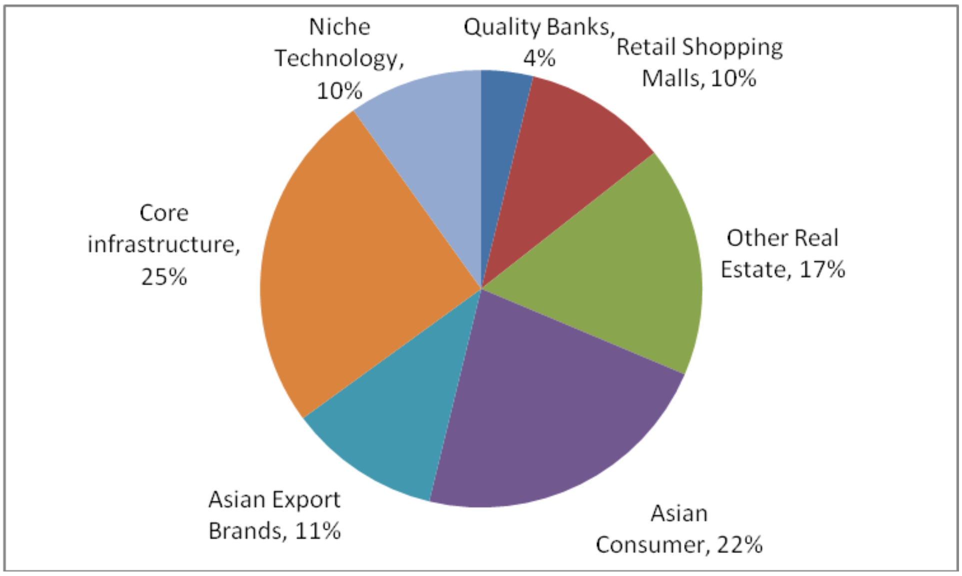
- **"Franchise"** stocks which we expect to account for the majority of our portfolio (50-70%) which have strong business models, excellent pricing power and proven management. In simplistic terms these could be described as "great businesses at a good price"
- **"Defensive"** stocks (expected to be 10-30% of the portfolio) which have very low risk to earnings and dividends, high yields but lower growth
- **"Cyclical/Growth"**stocks (expected to be 10-30% of the portfolio) which could be described as "good businesses at a great price". Generally operating in industries with some level of cyclicality or unpredictability but trading at deep discount to intrinsic value and offering a high dividend yield.

At the moment, 55% of our portfolio is in franchise stocks, 25% in cyclicals and 20% in defensives.

As can be inferred from the list above, we have a preference for high quality, dividend paying stocks operating in businesses with high levels of profitability and opportunities for growth. The "perfect" stock has:

- High dividend yield (4-8%)
- Limited debt
- High margins and return on capital
- Pricing power
- Ability to grow without large capital spending requirements
- Excellent growth opportunities
- Financial discipline with regards to reinvestment of free cash flow
- Management's interest aligned with minority shareholders'
- Culture of maintaining and increasing dividends

Thematic analysis
In very approximate terms, there are 3 main themes which account for 20-25% each of the fund and 3 other themes which account for 5-10% each.



The three main themes are Real Estate (both retail shopping malls and other real estate), Asian Consumer and Core Infrastructure. Addressing each in turn:

Real estate remains a sector with attractive characteristics. With the possible exception of China (where we have no exposure) it offers exposure to growing middle class incomes and is also somewhat insulated from higher inflation. We have 10% of the fund invested in shopping centre malls in Hong Kong, Malaysia and Thailand. The REITs have been selected as they are operating malls with high barriers to entry and have pricing power with their tenants. Typically, rents increase with retail sales and therefore as consumer spending increases, dividends for these REITs will also increase. Other real estate includes non-retail REITs, an estate agent in Hong Kong and a property fund manager in Singapore. These are also beneficiaries of the same themes but in the case of estate agency and property fund management they have the additional benefit of not having to contribute capital in order to grow profits as the businesses have limited capital intensity.

The next sector is what we call "core infrastructure" this includes toll roads, power companies, telecom operators, an airport and a water company. They often have regulated earnings and operate a service which is typically both essential and also stable. The attractions of this sector are that Asia needs to invest significant amounts in infrastructure over the next decade and therefore they are incentivised to make sure that investors make adequate returns. By selecting investments that have high returns, monopoly like characteristics and, most importantly, regulatory environments that can be trusted (i.e. the operator cannot be forced to reduce prices) it is possible to access cash flows that will grow substantially over time and enjoy explicit inflation protection. For example, one of our investments is in Manila Water in the Philippines. They enjoy a guaranteed 9% *real* return on assets and are their asset size will double over the next 5 years. This would translate into around 20% growth in dividends per share over the same period.

The third main sector is Asian Consumer. These are companies which supply consumer products and services to consumers in Asia . Often, stocks in this sector trade at large premiums reflecting the expectations of high growth and so it is important to purchase shares in these companies at attractive valuations in order to be able to generate high yields. Several of these companies are either monopoly or duopoly providers of consumer products and therefore are able to enjoy significant pricing power. The fund owns shares in Korean casinos (Kangwon Land), Malaysian breweries (Guinness Anchor Malaysia) and Television broadcasting (TVB).

The three smaller sectors are:

Asian export brands
These are companies that export products (often within Asia) and are more dependent on global growth. They include producers of electronic toys (VTech) and the manufacturer of the highly regarded Specialized Bicycles (Merida).

Niche Technology
As a result of the extremely attractive valuations together with the thematic work that Prusik has done in this area we own three stocks in this sector. Although they are high risk and have some what unpredictable earnings streams, the potential upside and valuation discount mean they are included.

Quality Banks
We own HSBC and Macquarie Bank. Both are trading at or below "ex-growth" valuations meaning that the market is assuming that they will not be able to grow earnings again. This appears too conservative.

What we don't own
Although the portfolio is not constructed with regards to a benchmark, we are aware of the countries and sectors we are not including. We will tend to be less exposed to markets that have a lack of high yield stocks. This includes India, Korea and Indonesia. We are also underexposed to Industrials, resources,

banks and technology.

For the first newsletter we will list out 5 stocks that are significant holdings to give a flavour of the type of stocks the fund owns and why they are likely to be good investments.

<u>TVB (Franchise, Asian Consumer. 5.1% of NAV)</u>

TVB is one of 2 free to air broadcasters in Hong Kong. It was founded in 1967 and owned by Sir Run Run Shaw (aged 103). It has 86% of Cantonese and 75% of English market in a region where cable TV has failed to have a real impact on the free alternative. It is currently enjoying the upturn in the domestic advertising market where it is still the cheapest way of reaching a mass audience. Trading on 13x earnings with a 4.9% dividend yield and net cash on the balance sheet it is an attractive investment with just the above. The upside potential comes from their large library of Chinese programming. Although they do generate profits by selling this to cable operators at the moment, the real opportunity comes from the ability to sell to the China market. Previously the company had not focused on entering the market as Sir Run Run Shaw had little interest in the complexities of operating in the Chinese market. However, he has now sold his stake to a group which we expect to take a more active role in developing the business here. To date, TVB programming has been uploaded illegally by cable operators in Guangdong but, if an agreement was reached to monetise the business, it would lead to substantial upside in both earnings and also valuation. Currently the market is not valuing this option and so the risk/reward profile is extremely attractive.

Valuation

- 2011 Dividend yield 4.9%
- 2011 P/E ratio 13.0x
- Net debt to equity -41% (i.e. net cash)

Risks

- Downturn in Hong Kong advertising market
- Company fails to execute China business and incurs substantial cost in trying to do so

Jiangsu Expressway (Franchise, Core Infrastructure. 5.2% of NAV)

Jiangsu Expressway has a concession to operate several tolled roads in the Jiangsu province, the busiest of which is the Shanghai-Nanjing Expressway. Jiangsu is a rich and high growth province located just to west of Shanghai. Traffic growth has averaged 1-1.5x GDP growth since listing. It is not expected that they will be able to raise tolls over the remaining life of the concession however margins are very high (66%) and so there is also limited downside from a fall in traffic. In addition, the company has a strong track record in paying and growing dividends to shareholders. Indeed it is one of very few stocks in China that have increased dividends each and every year for the past 10 years despite some challenging times during that period. Although any business in China is not risk free, the current P/E of 14x and dividend yield of 5.1% arguably reflects the concern that toll rates may be negotiated. Extensive conversations with other operators, investors and experts on Chinese policy indicate that it is unlikely that any action would be taken without appropriate compensation.

An additional attraction is that its revenues are of course denominated in RMB. If the RMB is revalued up then their income will see a similar rise. As the revenues are relatively stable, it can almost be viewed as an RMB bond with growth.

Valuation

- 2011 Dividend yield 5.1%
- 2011 P/E ratio 14.2x
- Net debt to equity 34%

Risks

- Government removes franchise without compensation
- Tariffs are reduced without traffic increase
- Traffic growth affected by competing roads or downturn in economy
- Company invests cash flow in non-core businesses which compromises dividend payout and growth

ARA (Franchise, Real Estate, 3.3% of NAV)

Although property REITs are often a substantial part of yield funds (including PAEIF) they do have one unattractive feature namely they cannot grow earnings except by increasing prices. Given that real rental growth over time tends to equal zero this means it is important to consider both the normalised rental level or a market and also make sure the REIT is purchased at a big enough discount to intrinsic value. The reason they cannot grow is of course because they need to issue shares in order to buy more assets and therefore the benefits of that extra income (assuming they are bought at close to fair value) goes to new shareholders. Also bearing in mind the fact that most REITs in Asia are managed externally, the manager is often motivated to grow the REIT in order to maximise fees rather than grow the dividend for existing shareholders.

ARA is one of those external managers. Founded by John Lim and partly owned by the Cheung Kong Group in Hong Kong, it manages a number of REITs including Fortune (Hong Kong retail assets) and Suntec (Singapore retail and office assets). Its business position is very strong as REIT managers are very difficult to remove (in Singapore it requires 75% of unit holders to approve) and has never occurred. In addition, the fees are agreed when the fund is set up and cannot be changed. Typically there are set up in relation to both the asset value of the fund and also the income generated. As both typically rise over time as REITs gather assets and those assets tend to be low risk. The attractive part of the business model is not just the fact that they have predictable margins on a growing asset base but the fact that, each time the REIT buys an asset they not only charge fees on the transaction, they also see their earnings grow without having to contribute any capital. It is similar to Coca Cola and the bottling companies. This means that they can grow earnings at 30% a year and pay out all those earnings as dividends. It is somewhat reminiscent of the listing of stocks exchanges several years ago when investors took time to realise that they had almost monopoly businesses that could grow "for free" and a similar rerating for ARA is possible. Trading on 18x earnings with a 2.9% dividend yield it is one of the most expensive stocks in the portfolio but this is justified by the potential for this yield to grow at 15%+ for the next decade.

Valuation

- 2011 Dividend yield 2.9%
- 2011 P/E ratio 18.4x
- Net debt to equity -13%

Risks

- If the underlying REITs fail to perform, pressure might grow on the manager to sell assets, cut fees
- A fall in asset values and rents would hurt earnings

Midland Realty (Cyclical, Other real estate, 5.2%of NAV)

Midland Realty is one of two large estate agencies in Hong Kong. It operates 250 branches. It runs what is without doubt a cyclical business and has seen dramatic swings in profitability over the past 15 years. Operating margins have ranged from 20-30% in the good years to -5% in the poor years. However the company has been quick to cut costs during a downturn and maintains a very healthy balance sheet to insulate the company from this volatility. At the current time, the company has net cash equal to HK$2.20/share compared to a market price of HK$6.00.

The Hong Kong property market has been very strong over the past several years due largely to the fact that, due to the Hong Kong dollar peg, Hong Kong has US interest rates but a Chinese growth rate (GDP growth of 6.8% in 2010). This has led to a boom in asset prices and led the government to consider ways of cooling asset prices without being able to hike interest rates. In November last year the government came up with a solution. It proposed the introduction of a Special Stamp Duty which would penalise short term speculators in the property market. The most draconian part of which meant that if a flat was sold within 6 months of purchase, the special stamp duty would be 15% of the purchase price. Understandably this led to a fall off in transactions and caused the share price of Midland Realty to fall 40% over the next few days. Currently the stock trades on 10.0x (reduced) earnings expectation for 2011 with a 6.0% yield. Stripping out the net cash it trades on 6x earnings and generates a 10% dividend yield. It is therefore we believe an interesting opportunity even with the reduced activity in the property market. However, transactions have now bounced back even despite the government measures and there is also the possibility that the stamp duty does not receive legislative approval and the duty does not eventuate.

This is more of an opportunistic position as the Hong Kong property market will remain volatile and unpredictable however we believe the risk premium implied at the current market price is excessive.

Valuation

- 2011 Dividend yield 6.1%
- 2011 P/E ratio 10.0x
- Net debt to equity -89%

Risks

- Further measures from the government to cool the property market
- Significant increase in mortgage rates leads to property price falls and decrease in activity

MIIF (Defensives, Core infrastructure 5.2% of NAV)

MIIF could be described as a good business at a great price. Listed in the boom days of 2006, it was to be Macquarie Bank's Asian vehicle for expanding their infrastructure business in the region. Since then, there has been an aversion to listed infrastructure funds which has led Macquarie to sell or privatise nearly all of their listed vehicles in order to close the discount to NAV. MIIF was a special case in that it escaped this cull. It owns stakes in 3 businesses: a Taiwanese cable TV company, a Chinese toll road and a Chinese port. All these assets now have moderate gearing and stable growth. The stock yields 9.5% and is buying back shares as the management see that the stock is trading at 25% discount to net asset value. We have met with the company on many occasions over the past 6 months and are impressed with their discipline with regards to asset purchases.

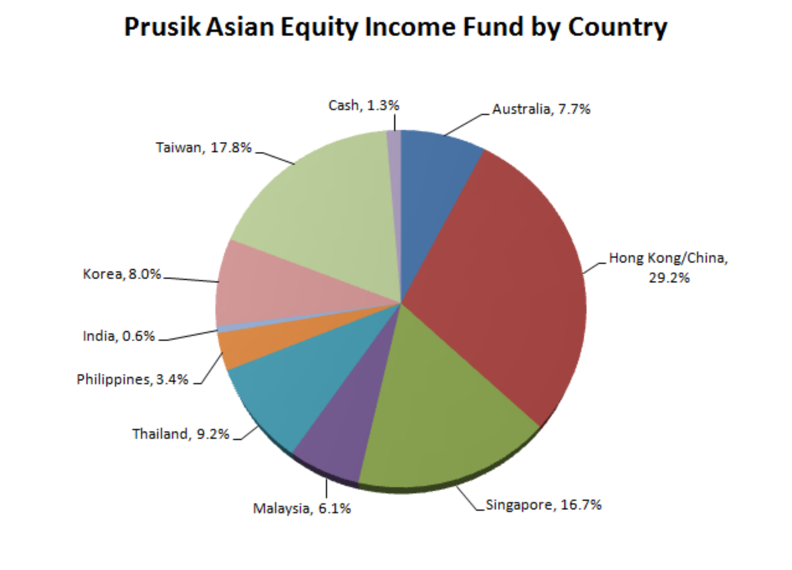
Valuation

- 2011 Dividend yield 9%
- 2011 P/E ratio 11.1x
- Net debt to equity -8%

Risks

- A downturn in the Chinese economy would hurt the port business in particular
- Regulatory pressure to reduce tolls on their Chinese road

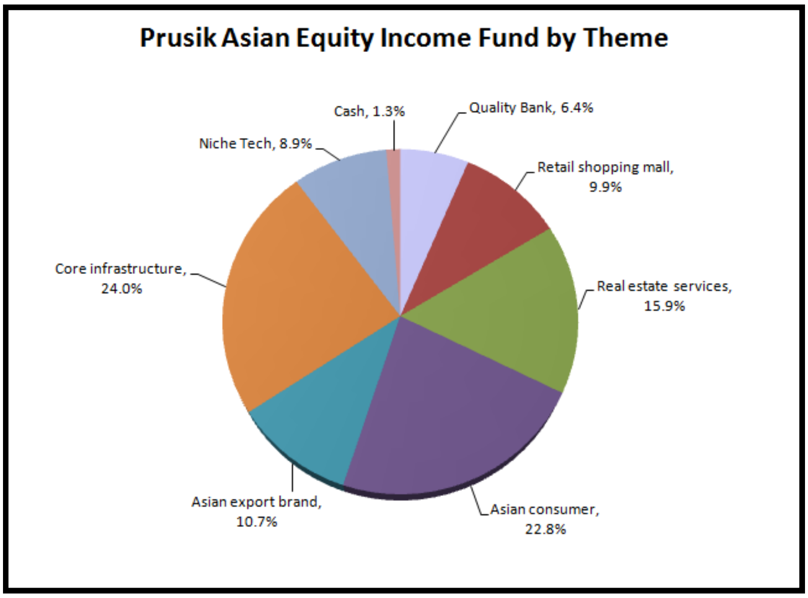
PRUSIK ASIAN EQUITY INCOME FUND
TOP LINE FIGURES — 1ST QUARTER 2011



Number of holdings	34
Percentage of Fund invested	98.7%

	Top 5 Holdings	%
1	MACQUARIE INTL INFRA FUND	5.3%
2	JIANGSU EXPRESS CO LTD-H	5.0%
3	MIDLAND HOLDINGS LTD	4.8%
4	KANGWON LAND INC	4.7%
5	DYNAPACK INTERNATIONAL TECH	4.2%

Financial Ratios	
Dividend yield historic	5.6%
Dividend yield forecast	6.0%
Price earnings historic	12.3x
Price earnings forecast	11.9x
Return on equity forecast	18.9%
Price to book forecast	2.0x



PAEIF Monthly Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	-2.68	-1.46	1.31										-1.66

Key Parties to Fund

Investment Manager	Prusik Investment Management LLP
Administrator	Brown Brothers Harriman (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	USD10,000
Min Subsequent Subscription	USD 5,000
Subscription Notice Period	2 business days
Redemption Notice Period	2 business days
Dividends XD	1st Jan & 1st July
Dividend Payment Date	28th Feb & 31st Aug

Class A	$ Non distributing
Class B	$ Distributing
Class C	£ Hedged Distributing
Class D	SGD Hedged Distributing

Prusik Investment Management LLP
First Floor, 46 Hays Mews, London, W1J 5QD.
Tel: (+44) 20 7493 1331

Contacts: Mark Dwerryhouse & Emma Bonham
Email: mark.dwerryhouse@prusikim.com
emma.bonham@prusikim.com

Web : www.prusikim.co.uk Fax : (+44) 20 7493 1770

Class 1
Management Fee 1% p.a. paid monthly in arrears.

Class 2
Management Fee 1% p.a. paid monthly in arrears.
Performance Fee 10% of NAV appreciation above the MSCI Pacific ex Japan With a 6% hurdle.