PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asian Equity Income Fund

Quarterly Investment Report
31 December 2018

FOR PROFESSIONAL INVESTORS ONLY

4Q18 Review and Outlook

The fund had strong relative performance in the 4th quarter falling 2.9% compared to the market that fell 8.8%. This outperformance was driven by good stock selection in all markets with the exception of Hong Kong and from our structural overweighting of the more defensive areas of the market which outperformed during the quarter. The top 3 contributors to returns were **Sarana Menara Nusantara** (Indonesian mobile phone towers), **Power Grid of India** (Indian Power Transmission) and **Link Net** (Indonesian broadband internet provider). The bottom 3 contributors were **CNOOC**, **Samsung Electronics** preferred shares and **CK Hutchison**.

For the full year, we outperformed the market by 4.2% although this was not as impressive as it seems. The current market environment is one that plays to our strengths: plenty of volatility and defensive sectors outperforming cyclical ones. Our failure to capitalise on this situation was due a number of factors including poor stock picking (making too many errors) and inadequate portfolio management (having too much money in those mistakes). In my view this can be traced back to the second half of 2017 when we spent most of the time at or near our maximum cash level of 15%. Because of this, we probably held on to some stocks that we should have sold and bought some stocks that we should have not owned. In addition, we concentrated the portfolio a little too much and had bigger weightings in stocks that probably shouldn't have been that size. In short, the portfolio just got a little "out of shape" in 2017 which become apparent in the first half of 2018 when the markets became more challenging.

Since the summer, we have been focusing on whipping the portfolio back into shape to ensure that we have improved the health of the fund by removing stocks with inferior risk-return characteristics and replacing them with superior investments. Although there is no overriding theme to the changes, in general the portfolio now has more of a "value" bias as the current pessimistic mood (particularly with regards to China) has led to some bargains in areas such as the Hong Kong property sector and the Macau gaming sector which have strong balance sheets, high quality assets and attractive margins. However, they are more cyclical than our typical investment target.

The markers of health for the portfolio are now much better: we have minimal cash (which eliminates cash drag and means we are not constrained in terms of selling positions) and there is a much greater "competition for capital", which means stocks need to justify their place in the portfolio. It is worth noting (although perhaps just coincidental) that the performance since the end of the summer has been much more in line with our expectations.

The current valuation of the portfolio appears to be very cheap. At near 10x P/E, the fund is valued at a 12% discount to the market (compared to an average 1% premium since inception) and a 20% discount to the historic average for the current positions. Also, our internal valuation models show 40% upside to intrinsic value. Finally, we believe half of our portfolio has more than 50% upside potential. If mean reversion does occur (and of course it may not) then returns from this point are likely to be quite attractive.

5 Years of a "Temporary" Closure of the Fund

As readers will know, PAEIF was launched in December 2010 and we were fortunate enough to be in a position to close the fund to new investors in November 2012 as we had exceeded our planned AUM of US$500m. Due to inflows from existing investors causing the fund to grow to US$1bn we took the decision to "temporarily" place a front-end charge on the fund on 2nd December 2013. This means that the fund has been (effectively) closed for 5 years of its 8-year life.

It is pleasing to note that since closing, the fund has performed well returning +59.4% from 30th November 2013 until 31st December 2018 compared to the MSCI Asia Pacific ex-Japan index which is up +17.4% (and the S&P 500 which is up 50.3%). This implies an annualised outperformance of 6.4% which is in line with our expectations of 5-10%. **It also ranks the fund as the top performing Asia ex-Japan fund over the past 5 years by both performance and drawdown[1].**

New Positions

CK Assets & Sun Hung Kai Properties

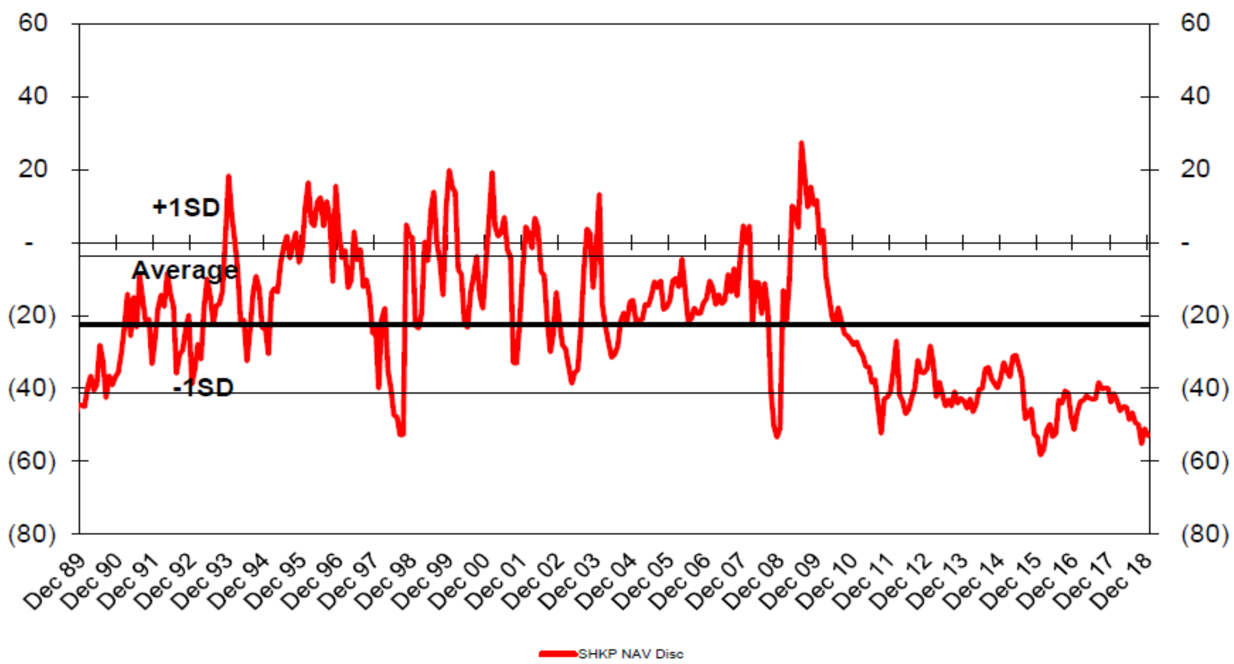
These two new positions share very similar characteristics including:

- Ownership of investment properties in Hong Kong and China
- Trading at record low valuations (approx. 50% discount to net asset value)
- High quality assets with strong annuity like income (albeit with some cyclicality)
- Rock solid balance sheets
- Long track records in managing their businesses through difficult times

CK Assets was the company originally created to take the real estate assets when the Cheung Kong group was restructured in 2015. Since then, it has diversified into infrastructure (co-investing with other group companies). The company has a strong track record in selling assets when they achieve attractive valuations (e.g. at the end of 2017 they sold an office property in Hong Kong at a gross rental yield of just 2.2%) and buying assets when they are distressed. In addition, the company is buying back shares and the major shareholder is also increasing their stake in the market.

Sun Hung Kai Properties is known as a property developer but almost 80% of its valuation is comprised of investment property assets. We believe that the current valuation is excessively cheap as can be seen by the historic discount to NAV chart shown below.

Figure 1. SHKP – NAV Discount



Source: dataCentral, Citi Research Estimates

[1] Performance from 31/12/13 to 31/12/18 for the Morningstar Asia Pacific ex-Japan fund universe

Travelsky Technologies

Travelsky is the dominant global distribution system (GDS) provider in China for the domestic and international airline industry. In simple terms, this means **Travelsky** operates a computerised network with real time airline seat inventory data which it provides to online and offline travel agents.

Despite being a service provider in a cyclical aviation industry, **Travelsky** operates a less cyclical business currently when compared to the domestic airlines. The company has a relatively simple and well-defined business model, adopting the same GDS model as its global peers, and operates in a natural monopoly with over 94% of the domestic market share. **Travelsky** has a strong balance sheet with net cash. In my opinion, it is very likely that we will see **Travelsky**'s revenue to grow in line with the air passenger growth in China of around 10% for some years to come.

Exited Positions

- **Contact Energy** (rotating into other positions with better risk/return profiles).
- **Digital Telecommunications** (The stock reached our valuation target).
- **Hong Kong Telecom** (We felt there was a better risk/return in PCCW – the holding company for Hong Kong Telecom).
- **Shenzhen Airport** (We believe that Travelsky is a better-quality business in the same sector with a cheaper valuation).

Outlook

We continue to follow the same strategy as we have been using since launch in 2010. Our focus is to find stocks with the following characteristics:

- Non-cyclical business.
- Predictable, annuity like earnings stream.
- High margins or return on capital.
- Strong balance sheet.
- Competent management and boards with good capital allocation discipline.
- Upside from growth optionality.
- Non-linear risk return.

Around half of our holdings have all of seven of the characteristics mentioned above and all of our holdings have at least five. This means that stocks that lack the first two criteria always have the remaining five. At the moment, there is a significant amount of value in stocks that have exposure to the Chinese economy and we have increased our positions in these areas (which include **Sun Hung Kai Properties**, **CK Assets**, **Rio Tinto**, **BHP** and **Wynn Macau**) which typify the type of position that we would own, despite having cyclicality and lack of earnings predictability. Although these stocks are correlated to the Chinese economy, we believe that they all have attractive risk/return potential as they are already discounting a fairly pessimistic outlook.

PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 31.12.2018

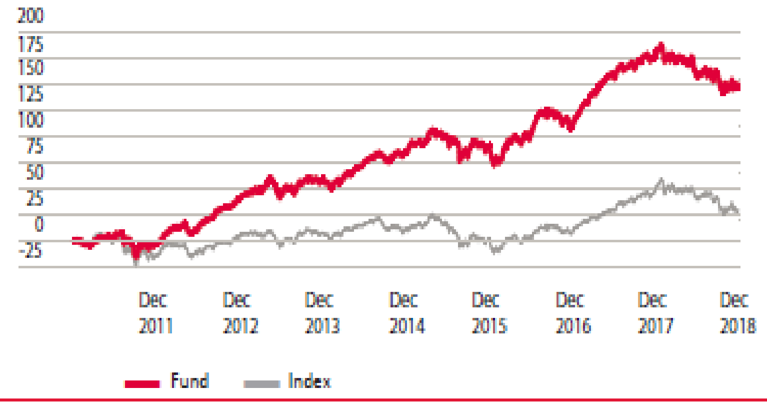
Class 1*	B USD	Benchmark **
1 Month	0.21	-2.74
3 Months	-2.91	-8.82
2018	-9.52	-13.68
2017	32.79	37.32
2016	10.36	7.06
2015	3.17	-9.12
2014	16.79	3.09
Since Launch+	153.72	27.87
Annualised since Inception	12.34	3.12

* Class 1 shares were closed to further investment on 30th November 2012

**MSCI Asia Pacific ex Japan

+ Launch date: B 31.12.2010

Fund Performance – Class B (USD) (%)



Source: Morningstar. Total return net income reinvested.

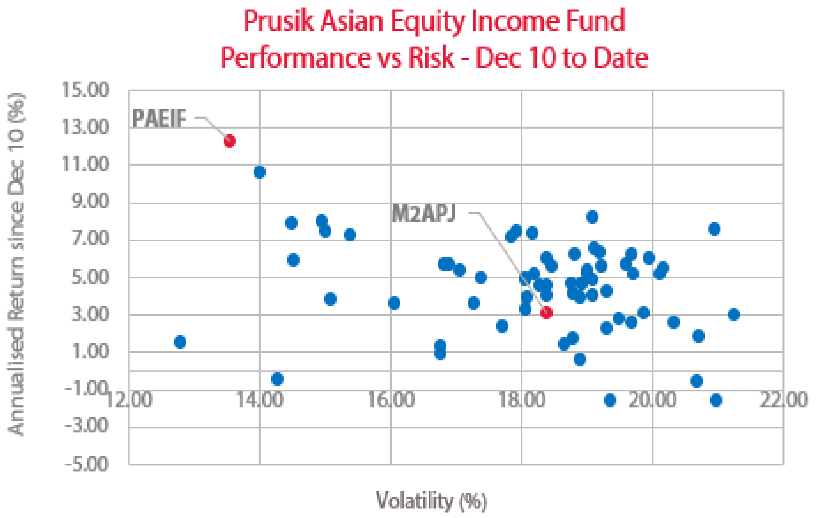
Class 1 B, USD Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2018	2.51	-3.76	-1.26	1.34	-1.18	-4.76	0.96	-0.13	-0.52	-6.38	3.49	0.21	-9.52
2017	5.49	4.77	3.98	2.69	3.25	1.11	2.71	0.06	-0.54	2.91	0.85	1.61	32.79
2016	-6.04	-0.37	10.28	0.95	-0.38	2.46	7.56	1.20	0.54	-1.43	-0.68	-3.16	10.36
2015	4.35	1.41	-0.70	6.01	-1.69	-1.97	-1.63	-6.01	-0.70	7.04	-1.91	-0.33	3.17
2014	-4.34	4.03	1.50	1.58	4.63	2.14	3.50	1.24	-2.54	2.31	2.00	-0.05	16.79
2013	3.93	1.78	0.35	4.57	-0.53	-4.95	1.87	-2.24	5.07	4.15	-0.56	-0.25	13.45
2012	8.12	6.54	1.92	3.20	-7.67	3.84	6.72	1.92	6.36	1.97	2.76	3.63	45.77
2011	-2.68	-1.46	2.55	3.90	2.58	-0.60	3.56	-6.06	-12.80	10.62	-3.52	1.79	-3.96

RISK ANALYSIS

Risk Metrics	Fund (%)
Tracking Error (% pa)	9.33
Beta	0.77
Alpha (%)	9.31
Volatility (%)	13.54

Source: Morningstar
Since inception: B 31.12.2010



Source: Morningstar

THEMATIC & GEOGRAPHICAL BREAKDOWN

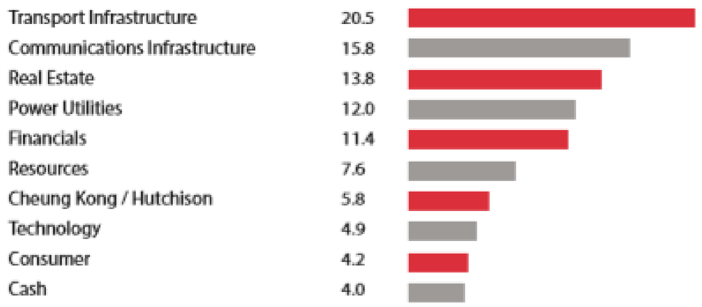
Top 5 Holdings (%)

CK Hutchison Holdings Ltd	5.8
Power Grid Corp Of India Ltd	5.2
Zhejiang Expressway	5.1
Samsung Electronics	4.9
Swire Pacific Ltd	4.4
Total Number of Holdings	33

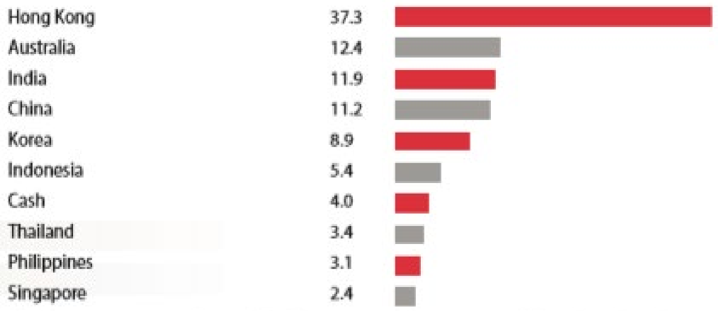
Portfolio Financial Ratios

Predicted Price/Earnings Ratio	9.8
Predicted Dividend Yield (%)	5.6

Thematic Breakdown (%)



Geographical Breakdown (%)



All data as at 31.12.18. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size USD	866.4m
Launch Date	31st December 2010
Fund Structure	UCITS III
Domicile	Dublin
Currencies	USD (base), GDP, SGD

Management Fees

Annual Management Fee

1% p.a paid monthly in arrears

Performance Fee

Class 1: None
Class 2 and Class U: 10% of the net out-performance of the MSCI Asia Pacific ex Japan Index (MXAPJ) with a high-water mark.

Temporary Front End Charge: 3% introduced on 2nd December 2013 paid to the benefit of the fund.

Dealing

Dealing Line	+353 1 603 6490
Administrator	Brown Brothers Harriman (Dublin)
Dealing Frequency	Daily
Valuation Point	11am UK time
Dealing Cut - off	5pm UK time
Min. Initial Subscription	USD 10,000
Min. Subsequent Subscription	USD 5,000

Share Class Details

Class 1*			SEDOL	ISIN	Month end NAV
A USD	Unhedged	Non Distributing	B4MK5Q6	IE00B4MK5Q67	261.00
B USD	Unhedged	Distributing	B4QVD94	IE00B4QVD949	186.58
C GBP	Hedged	Distributing	B4Q6DB1	IE00B4Q6DB12	181.14
D SGD	Hedged	Distributing	B4NFJT1	IE00B4NFJT16	177.68

*Class 1 shares were closed to further investment on 30th November 2012.

Class 2*			SEDOL	ISIN	Month end NAV
X USD	Unhedged	Distributing	B4PYCL9	IE00B4PYCL99	166.68
Y GBP	Hedged	Distributing	B4TRL17	IE00B4TRL175	162.48
Z SGD	Hedged	Distributing	B6WDYZ1	IE00B6WDYZ18	164.85

*Class 2 shares were soft closed to new investors as of 30th November 2012. Performance fee based on individual investor's holding

Class U*			SEDOL	ISIN	Month end NAV
U GBP	Unhedged	Distributing	BBP6LK6	IE00BBP6LK66	164.82

*Class U shares are open to current investors only. Performance fee based on fund performance as a whole

Dividend Dates

Dividends paid twice annually (January and July)

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