PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asian Equity Income Fund

Quarterly Investment Report

30 June 2017

FOR PROFESSIONAL INVESTORS ONLY

Prusik Asian Equity Income Fund 2Q17 Commentary

The fund returned 7.2% for the quarter which was marginally ahead of the index which rose by 6.3%. As was the case in first quarter, the returns came largely from stock selection with allocation decisions (which are implicit rather than deliberate) detracting from returns. Our overweighting of underperforming areas such as utilities, telecoms and cash versus our underweighting of strongly performing areas including technology, China and Taiwan hurt us. However, strong stock selection in China, Hong Kong and India helped drive returns despite this. The top 5 contributors to returns were **Wuliangye Yibin**, **Samsung Electronics preference shares**, **AIA Group**, **Beijing Capital Airport** and **Gree Electric**. The 5 biggest detractors were **K-Electric**, **Cikarang Listrindo**, **PCCW**, **HKBN** and **Kangwon Land**. We believe that our current portfolio has relatively low economic cyclicality and a higher than normal degree of defensiveness which is not planned but perhaps reflects the fact that we are slightly more cautious than the market with regards to the current investing environment. Although our portfolio is designed to benefit from growth in Asian economies, we pay close attention to how we can best limit our potential downside in more negative economic scenarios. However, during times of optimism and calm, providing that level of protection is unnecessary (ex-post).

In general, the market continues to favour stocks with strong growth potential and economic cyclicality as fears over a slowdown in China subside and confidence in the earnings recovery grows. 4 of our top 5 contributors would not be described as “dividend” or “income” stocks as they all have lower yields than the market, which shows how important it is for the fund to have the flexibility to operate outside the traditional hunting ground for income focused strategies. In general, we would agree with the market’s disdain for many income stocks as they are not offering particularly good value and do not benefit from higher growth potential. We are finding more value in what might best be described as “Buffett” stocks that have strong businesses with high barriers to entry but are often retaining a greater proportion of free cash flow to invest in the business. That said, at the moment, new ideas of any kind are very thin on the ground.

Cash Level

During the quarter, our cash position increased from 3% to 13.5% of NAV and reached our self-imposed limit of 15% of NAV during the quarter. When it comes to our cash level, it is worth noting that it occurs completely as a result of individual stock decisions. If one of our holdings is expensive or we want to exit, then we do so regardless of whether we have any home for that money. In that sense, sell decisions are independent of buy decisions. At times when markets are rallying sharply and we have more sell ideas than buy ideas, our cash level will tend to rise. We can offset this to some extent by increasing our position sizes in existing holdings but we face constraints both with regards to liquidity and also portfolio structure (we need to avoid becoming too concentrated). There is no magic to the 15% figure but our experience is that once cash rises to more than 20 or 25% of the portfolio, then relative performance is almost entirely driven by whether the market goes up or down rather than stock selection as the cash becomes too dominant a feature. Over the history of the fund, cash has averaged 5.6% and since 2013, when we gave the fund flexibility to run cash positions, it has averaged 8.2%. Of course, we prefer our cash level to be lower than it is today as it means we are using our balance sheet inefficiently, however, it is difficult to put a price on the flexibility that a cash position gives and the strength it gives us to be aggressive during times of market stress.

When cash does get to 15% and we are still finding more things to sell than to buy it means we are faced with several options, none of which are appealing but one must be chosen. We can:

- Let the cash rise to more than 15% (see above).
- Become more concentrated or less liquid (see above).
- Introduce lower quality stocks into the portfolio.
- Accept greater valuation risk.

Although none of the above are ideal, our general preference is to choose the last option – accepting valuation risk. We would rather own great companies and accept the fact that our expected returns might be slightly lower than target, rather than compromise on the quality and risk profile of the fund.

Fund Re-Opening

We have received several recent enquiries about when we might "re-open" the fund to existing investors (in other words remove the 3% front end charge). We have therefore updated our "traffic light" system and updated the criteria. Rather than give hard targets for when this might occur, we try and outline our thought process and update investors on a regular basis so that if and when we do re-open, investors understand why we are doing it. The traffic light system looks at 7 indicators including fund size, redemption velocity, liquidity, cash level, performance, bench of new ideas and overall market valuations. These are not set in stone but we consider them to be the key factors in determining whether we can reopen the fund without damaging our ability to meet our investment return targets. We have changed two of the criteria. Firstly, what we have updated is a review of fund size which reflects the fact that for the first time in several years, we do not believe that the fund size is slightly too large and believe a fund size of US$800m to 1bn is comfortable (increase from $600m-800m). Secondly, we have changed the redemption velocity indicator to show the numbers on an annualised basis.

At the moment, this gives us 5 amber and 2 red lights. **We believe that we need 4 or more green lights and 1 or less red lights (ideally 0) before reopening**. Note that in January this year we had 3 green lights and no red lights so it shows that we have been close in the recent past.

July 2017

	Green light	Amber	Red
Fund size	<US$800m	**$800m-1bn**	>$1bn
Net redemptions as % of AUM	>10% annualised	**0-10% annualised**	>0% a month (ie net inflows)
Number of days to liquidate 80% of fund	<10 days	**10-15 days**	>15 days
Cash level	<5%	5-10%	**>10%**
Alpha over past 12 months	>5% alpha	**0-5% alpha**	<0% alpha
Bench of new ideas	>15	5-15	**<5**
Overall market valuations	MXAPJ <1.5x book	**MXAPJ 1.5-2.0x book**	MXAPJ >2.0x book

Source - Prusik

January 2017

	Green light	Amber	Red
Fund size	**<US$800m**	$800m-1bn	>$1bn
Net redemptions as % of AUM	>5%/month	**0-5%/month**	>0% a month (ie net inflows)
Number of days to liquidate 80% of fund	<10 days	**10-15 days**	>15 days
Cash level	**<5%**	5-10%	>10%
Alpha over past 12 months	>5% alpha	**0-5% alpha**	<0% alpha
Bench of new ideas	>15 potential ideas	**5-15 new ideas**	<5 new ideas
Overall market valuations	**MXAPJ <1.5x book**	MXAPJ 1.5-2.0x book	MXAPJ >2.0x book

Source – Prusik

New Positions

Sarana Menara Nusantara (Protelindo)

Protelindo is the largest independent mobile phone tower operator in Indonesia with 14,600 towers. The mobile phone tower business in Indonesia is attractive given the market structure as there are several independent tower companies in existence, which means that there is a market acceptance of sharing mobile phone towers. Growth is relatively assured as mobile data traffic is growing by more than 50% a year which will lead to more demand for towers. In addition, all the operators are increasing their coverage of the non-Java regions of Indonesia which have been largely the preserve of incumbent operator Telkomsel until now. This build out will further enhance demand.

From an economic perspective, the sharing of towers is a good example of a “win win” scenario for both telecom operators and tower companies. Telecom companies that share towers can drastically reduce both their capital spending and network build-out time and mobile tower operators can increase return on capital by adding new tenants to the existing tower network with limited capital cost. The issue in many markets in Asia is that telecom companies often dislike sharing infrastructure with their competitors and once they have built out their network, it is too late for independent companies to enter.

Tower companies find the sites, construct the towers and then lease them to operators on long term contracts. Before building, they secure an “anchor tenant” that generally specifies where the tower needs to be (to suit the coverage plans). This normally covers their cost of capital for constructing the tower and returns can be increased by adding additional tenants. Once signing up to a particular tower, it is difficult for mobile operators to leave as they plan their network build-out around certain sites and it is often difficult to replicate the site in a way that ensures service continuity. An additional benefit is that the credit risk is very low as if you fail to pay your tower company then they can turn off your network and so even during times of great financial distress, operators tend to default on debt before they default on mobile tower payments. When it comes to building the business, the tower companies can either build the towers or, as if often the case, they buy an existing tower network from the telecom operator and lease it back to them.

We first met the management in **Protelindo** shortly after joining Prusik in late 2010. We were impressed by the management quality and discipline with regards to capital allocation but, at the time, the low dividend yield and limited liquidity meant that we did not buy it for the fund. Since then we have followed the company and met with them again after they had decided to place US$500m of stock (from existing investors) in an attempt to improve the liquidity. Although it doesn't happen very often I am always excited when you meet a company 5, 10 or 20 years after the first meeting and you note that they have a) stuck to and b) executed on the strategy that they outlined at the first meeting. It has only happened a handful of times in our career and was the case for **Protelindo**. The company was founded by tower industry guru Michael Gearon who helped American Tower develop its international business in Mexico and Brazil. Management are ex-American Towers and have shown themselves to be more than competent stewards of the business. The capital allocation ability of management is crucial as the company needs to decide whether to take on more debt to buy towers from existing operators, build new towers or return cash to shareholders via dividends. We would obviously prefer them to invest the money back in the business if returns are attractive but need to know that management are disciplined to pay back the cash if they cannot find suitable opportunities.

What are the risks? The biggest risk is what price contracts are renewed at. When operators sell towers to mobile tower companies, the price that they receive is dependent on the rental rate that they agree. If they want a high price for the towers then they need to agree to a high rental rate and if they want a low rental rate then they need to accept a lower price for the towers. The risk is that if the price agreed for the towers is artificially high then when they resign after 10 years then they will be able to renegotiate a lower rental rate. The issue is that it is difficult for them to move away from the towers and so we believe this risk is somewhat lower than the market thinks.

The company trades on 13x earnings and has a 2.5% dividend yield although there is significant upside to that should they not find suitable acquisition targets. Their net debt to EBITDA ratio is 1.4x which is very low for the industry (their closest competitor in Indonesia has 5.2x debt to EBITDA). We believe the business is significantly undervalued at the current share price.

Exited Positions

TSMC

Although we hold **TSMC's** management in high regard and believe the outlook for the business is very promising, we believe the risk/reward at this price level is not attractive enough to continue holding the position. This was a very tough decision and arguably we are being too risk averse but, on balance, we believe the downside if market conditions deteriorate is too great.

ARA

The takeover of **ARA** by Warburg Pincus was completed during the quarter and we were forced to exit the position.

Crown Resorts

We bought the stock in late 2016 after the stock fell when several staff members of the company were arrested in China. Given the underlying business is relatively mature, once the stock reached our price target we did not see enough upside potential to continue owning the stock.

Man Wah

We sold the stock as we believed the risk/reward was no longer attractive and the margins of the company were unsustainably high for what is a relatively cyclical business.

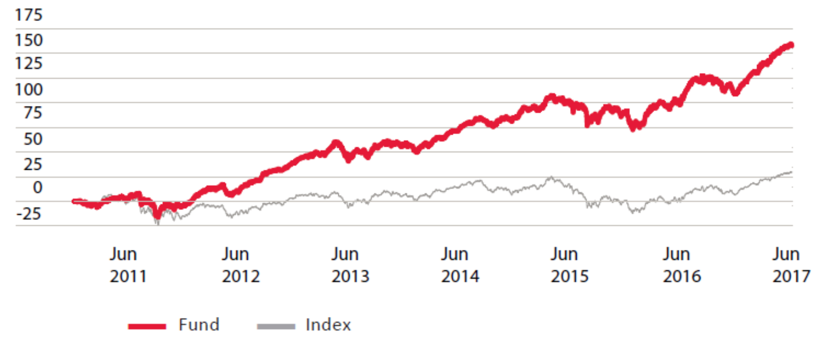
PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 30.06.2017

Class 1*	B USD	Benchmark **
1 Month	1.11	1.91
3 Months	7.20	6.28
YTD	23.20	19.93
2016	10.36	7.06
2015	3.17	-9.12
2014	16.79	3.09
2013	13.45	3.65
2012	45.77	22.63
Since Launch+	160.17	29.39
Annualised since Inception	15.86	4.05

* 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.

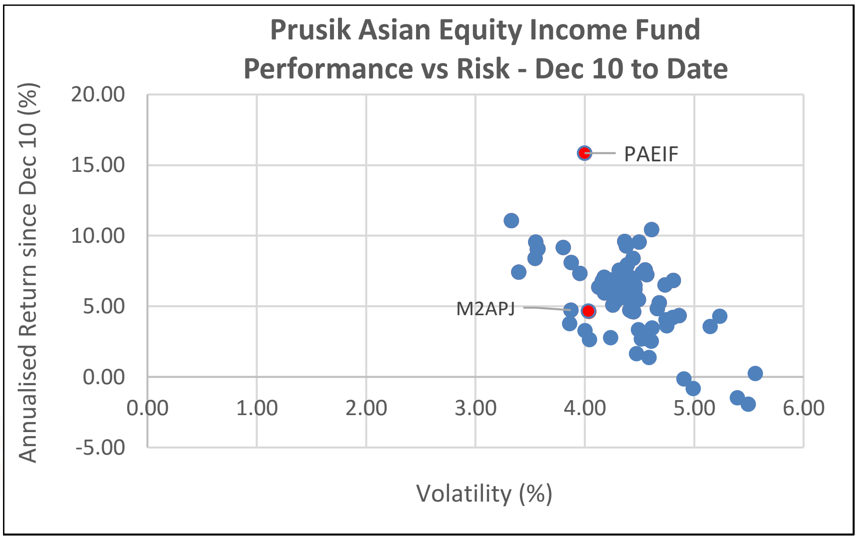
Class 1 B, USD Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2017	5.49	4.77	3.98	2.69	3.25	1.11							23.20
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)	9.59
Beta	0.79
Alpha (%)	11.72
Volatility (%)	13.89

Source: Morningstar
Since inception: B 31.12.2010



Source: Morningstar

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Samsung Electronics Co Ltd - Pref	7.7
CK Hutchinson Holdings Ltd	6.2
AIA Group Ltd	5.4
Zhejiang Expressway	5.6
Indiabulls Housing Finance Ltd	4.7
Total Number of Holdings	31

Portfolio Financial Ratios

Predicted Price/Earnings Ratio	12.7x
Predicted Return on Equity (%)	15.6
Predicted Dividend Yield (%)	4.2

Thematic Breakdown (%)

Consumer	16.3
Transport Infrastructure	15.0
Communications Infrastructure	14.3
Cash	13.4
Financials	12.7
Power Utilities	11.6
Technology	7.7
CK Hutchison	6.2
Real Estate	2.6

Geographical Breakdown (%)

Hong Kong	39.2
Korea	16.8
Cash	13.4
Thailand	9.9
India	8.6
New Zealand	3.1
Indonesia	2.7
Australia	2.4
Pakistan	2.4
Singapore	1.4

All data as at 30.06.17. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size USD	940.4m
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	267.63
B USD	Unhedged	Distributing	B4QVD94	IE00B4QVD949	202.70
C GBP	Hedged	Distributing	B4Q6DB1	IE00B4Q6DB12	202.64
D SGD	Hedged	Distributing	B4NFJT1	IE00B4NFJT16	195.72

* 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	181.09
Y GBP	Hedged	Distributing	B4TRL17	IE00B4TRL175	181.79
Z SGD	Hedged	Distributing	B6WDYZ1	IE00B6WDYZ18	181.70

* 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	175.64

* 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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