PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asian Equity Income Fund

Quarterly Investment Report
31 March 2016

FOR PROFESSIONAL INVESTORS ONLY

THOMSON REUTERS
LIPPER FUND AWARDS 2015
UNITED KINGDOM

1Q16 Review & Outlook

The fund returned 3.2% in the 1Q16 compared to 1.9% for the MSCI Asia Pacific ex-Japan Index. The biggest contributors were **Glow Energy**, **Digital Telecommunications** and **TSMC**. The biggest detractors were **Credit Analysis and Research**, **Indiabulls Housing Finance** and **Sun TV Network**. We generated strong alpha in Taiwan, Hong Kong, China and Korea and negative alpha in Singapore and India.

It has been a relatively frustrating year so far as we entered the first quarter with a zero cash position as a result of purchases late in 2015 and the payment of the dividend in January. That meant that our flexibility to take advantage of the weakness was relatively limited. However, we were able to add two new positions that were hit very hard by the turmoil. In addition, the rush into very defensive holdings allowed us to exit some other positions that performed very strongly. Following the rebound, however, our ability to recycle capital in this way has become much more limited.

2015 Dividends[1]

With nearly all of our companies having reported results, we thought we would look what dividend increases our current holdings produced in 2015. We are pleased to see that almost all of our companies maintained or increased dividends last year. The only one that cut (down 24%) was **CPN Retail Fund** which is a retail shopping mall operating in Thailand. Dividends fell because the company was renovating one of its malls during the year and we would expect 2016 dividends to show a sharp recovery. On average, dividends grew by 11% ranging from growth of 47% at the top end to a more modest 0.8% at the bottom.

There is no magic solution to ensuring that the companies that we own continue to maintain and grow dividends but we expect that our process naturally gives us some protection as we tend to avoid companies with high economic cyclicality, low margins, weak balance sheets that are often forced to cut dividends to preserve cash. That said, we do expect to make mistakes – we can only seek to minimise them and also minimise our loss should our estimates of intrinsic value prove incorrect.

It is worth noting that we do not believe that the absolute level of dividends or the year on year growth rate is particularly significant for long term returns. It is a by-product rather than an aim in itself. If we own companies with strong businesses and good cash flows and do not overpay for them then the dividends will follow. It is important to note that we invest that way around. We have never been particularly keen on the concept of “progressive dividends” as it often forces companies to maintain an unsustainable dividend which harms the long term value of the company. We would always back a board that cut dividends if it meant increasing the long term value and strategic strength of the company. That said, we tend to invest in companies that have limited capital requirements, strong cash flows and good corporate governance that often have potential to increase their dividends at a faster rate than their earnings. So we would certainly like to think that the portfolio will have healthy dividend growth.

[1] This data only considers companies that pay regular dividends and have comparable data for 2014. We have excluded special dividends. We do not consider when we purchased the stocks and so this is not intended to be compared to the companies we actually owned during the year. It is merely an exercise to study what the current portfolio did. Most companies have a December year end but when the year end is June or March we have adjusted the numbers to get 4 quarters or 2 halves of comparable data (ending December 2015).

New Positions

Zhejiang Expressway

We have owned this company before but to recap: **Zhejiang Expressway** is a Chinese toll road operator which owns a number of roads in Zhejiang province. The roads it owns are shown below in red. The bulk of the value of the company is in the toll road operation but the company also owns a 52% stake in a securities broker (which management have been trying to IPO). Like many companies in China, **Zhejiang's** management have had some issues with regards to sticking to their core business but they are realising that diversification causes more problems than it solves and they are, by and large, focused on their core business.

Valuation

- We value the securities business at book value (this is approximately 10% of total valuation)
- The company is in a net cash position (incredible for a toll road company which are normally geared to within an inch of their lives)
- We assume low single digit traffic growth and no increase in tolls
- We calculate there is 60% upside to fair value

- If you strip out the value of the cash and securities**,** the implied equity IRR for the toll road is 18%. This compares to equity IRRs of 6-8% for European/US toll roads
- It has a dividend yield of 5.8% and trades on a P/E of 10x earnings

Risks

- Although management have stated that they do not want to expand into any more new business areas, it is still a risk that they do
- Government policy is always a risk. Recently, the Zhejiang government banned the company from placing advertising along its roads. The government also retains considerable power over setting tolls and the process for doing so is opaque
- Competing roads: the company has been negatively affected by two competing expressways – this might happen again

Upside Surprises

- The government has announced a new "Toll Road Management Ordinance" which should lead to the company being compensated for revenue losses caused by government policies (e.g. toll free travel during holidays). It also allows for the extension of concessions in excess of 30 years which has not been done before. It is expected that the company should get a concession extension for the expansion of the Shanghai-Ningbo-Hangzhou road (from 4 lanes to 8 lanes at a cost of RMB4.3bn) which was completed in 2008 but **Zhejiang** was not compensated for. All this potentially adds 5-10% to the valuation
- The weaker economy reduces the ability for roads that do not make financial sense to be constructed thus reducing diversion risk
- If there is a boom in the A-share market – **Zhejiang Expressway** owns a securities broker!

Sun Hung Kai Properties

This is the second time we have invested in **Sun Hung Kai Properties** (we also owned the stock in 2013). **Sun Hung Kai Properties** is one of Hong Kong's oldest real estate companies and operates in the residential development sector as well as owning a number of office and retail assets in Hong Kong and China.

Real estate development is a very lumpy business and the market tends to value the stock on an NAV basis which values the DCF on each property project. Owing to the fact that most people expect real estate valuations to fall over the next several years, we have stress tested the NAV and assumed that valuations fall by 43% due to a weaker Chinese economy, higher US rates and therefore lower asset prices. We assume some areas fall more than others depending on the cyclicality.

Even under this scenario, the stock price only has 5% downside on our estimates.

If prices stay at around these levels then we estimate 46% upside.

Downside Risks

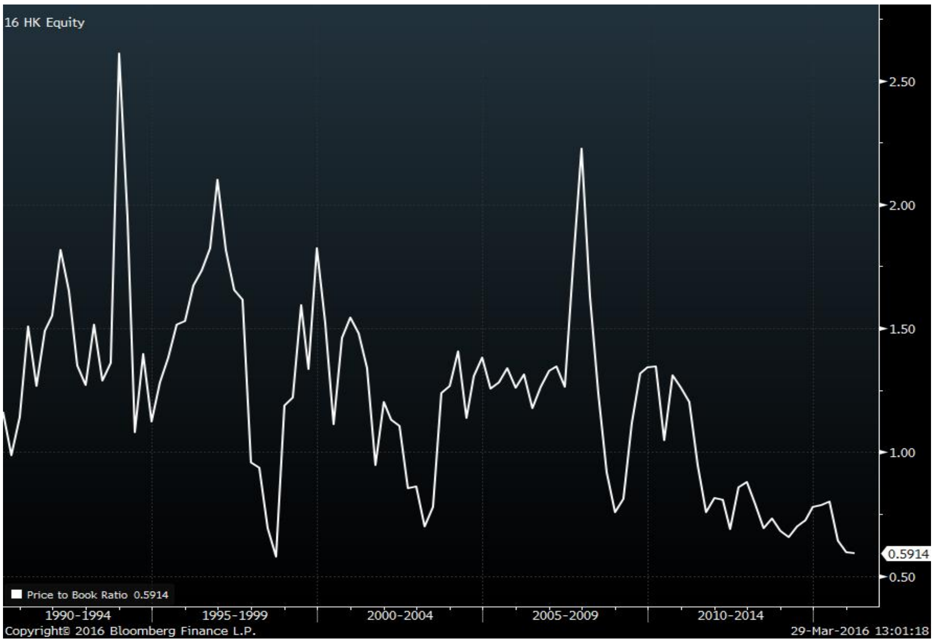
- Real estate prices fall by 30-40% and the stock price continues to trade at 50% discount to valuation
- CNY devalues
- US rates move up substantially which pressures cap rates (so even if rentals stay strong then valuations will fall)
- Clearly it is a "loser" from the low growth/deflation scenario. Not the most comfortable stock to hold from a portfolio construction viewpoint as it has a high beta to the downside

Potential Upside Risks

- The company buys back shares or pays a higher dividend

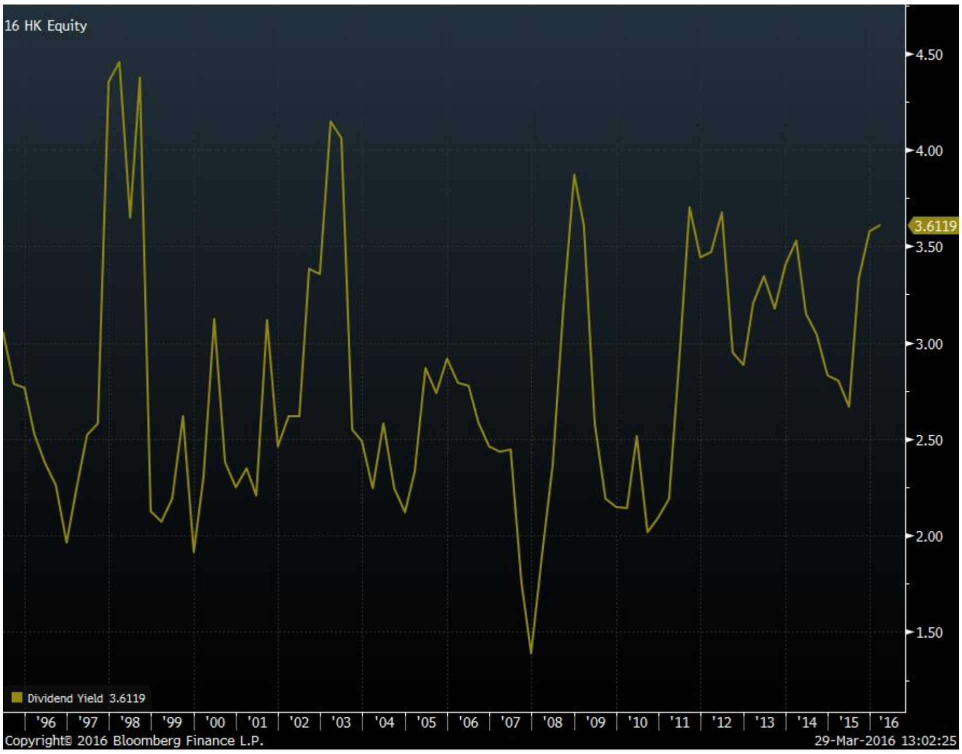
- The office market is very strong in Hong Kong as vacancy rates are low and supply is minimal which could mean there is upside to the Hong Kong office valuation
- Rentals for shopping malls are far less volatile than high street rents so do not assume that rents in tourist heavy Tsim Sha Tsui falling 50-75% means that mall rents will be similarly impacted
- We think the stock price should recover to above HK$100 (compared to purchase price of HK$80) even if the market stays weak given the 50% discount to NAV that the stock trades at

Price to Book Ratio at 26 Year Low



Source - Bloomberg

Dividend Yield at all-time high (4.3% at purchase price)



Source - Bloomberg

Exited Positions

Hon Hai Precision

We switched part of our position in **Hon Hai** into **TSMC** and sold the balance. **TSMC** and **Hon Hai** have demonstrated diametrically opposed attitudes towards corporate governance in recent months. Whereas **TSMC** has announced a 33% increase in its dividend this year (after hiking by 50% the year before), **Hon Hai** has continued to demonstrate a less than prudent attitude towards its use of cash flow. After its shareholder friendly decision to more than double the dividend in 2015, it has since announced a takeover of perennial basket case Sharp Corp of Japan. Management have justified the bid on the basis of vertical integration (**Hon Hai** supplies screens to Apple) but it seems extremely difficult to see how the company will make a return here that covers its cost of capital – let alone a positive return on its investment.

SK Telecom

We have to admit outstaying our welcome with regards to our holding in **SK Telecom**. This was always a business with relatively modest growth and an unattractive competitive and regulatory environment but we believed its high market share and dominant market position would allow the company to generate higher returns than the market expected and the valuation discounted this negative scenario. However, the company has not been able to translate that competitive market position into earnings growth and its capital allocation policy has been unsatisfactory – it is expanding into pay TV and falling behind other Korean companies with regards to its dividend policy.

TVB

We have discussed this position in previous quarterlies but we have sold the business as there are multiple structural, cyclical and specific issues with the company and we believe it will struggle to generate strong cash flows in the future. Interestingly, the dividend yield of the company was 9% at the time of sale but we believe this payment will prove unsustainable.

Hong Kong Telecom

Due to the increased appetite for high quality stocks, **Hong Kong Telecom** approached our target price and was sold as the risk/reward was no longer attractive. We continue to hold **PCCW** which derives most of its valuation from its stake in **Hong Kong Telecom** as we believe the discount that it trades at is still too wide.

Outlook

Although we spend a lot of time talking to investors about macro factors (Will interest rates rise? Will China collapse? Will value outperform defensives?), those factors do not play a huge role in how we construct our portfolio. We tend to focus on trying to have the strongest portfolio for whatever state of the economy we will find ourselves in. Our approach is similar to Boris Johnson's position on cake ("My policy on cake is pro having it and pro eating it"). In other words, we are trying to buy defensive companies but not pay any more than a market multiple for that portfolio; we are wanting to benefit from the very cheap valuations available in Asia without taking on any cyclical or balance sheet risk. We do take on risks of course but they tend to be specific risks that we believe we a) understand and b) are being adequately compensated for. Each year we worry that the supply of these opportunities will dry up – and of course one day they might – but for now we believe it is possible to construct a portfolio with excellent risk/return characteristics and one that we believe has the ability to generate strong absolute and relative returns regardless of what market conditions we find ourselves in.

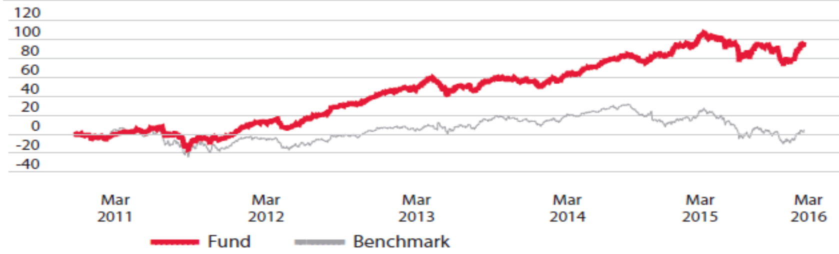
PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 31.03.2016

Class 1*	B USD	Benchmark **
1 Month	10.28	11.59
3 Months	3.24	1.97
2015	3.17	-8.99
2014	16.79	3.26
2013	13.45	3.95
2012	45.90	22.96
2011	-3.96	-15.20
Since Launch+	97.73	4.89
Annualised since Inception	13.86	0.91

* 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: Bloomberg. Total return net income reinvested.

Class 1 B, USD Monthly Performance Summary (%)

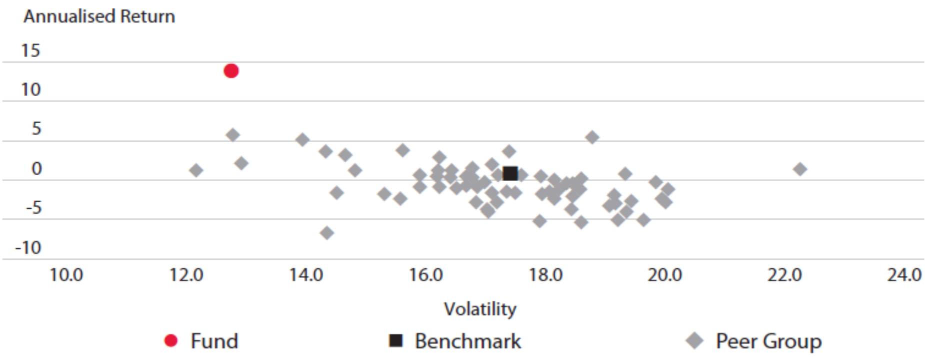
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2016	-6.04	-0.37	10.28										
2015	4.35	1.41	-0.70	6.01	-1.69	-1.97	-1.63	-6.01	-0.70	7.04	-1.91	-0.33	3.17
2014	-4.34	4.03	1.50	1.58	4.63	2.14	3.50	1.24	-2.54	2.31	2.00	-0.05	16.79
2013	3.93	1.78	0.35	4.57	-0.53	-4.95	1.87	-2.24	5.07	4.15	-0.56	-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	45.90
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)	6.38
Beta	0.79
Alpha (%)	13.14
Volatility (%)	12.78

Source: Bloomberg
Since inception: B 31.12.2010

Risk Adjusted Performance - Class B USD (%)



Source: Bloomberg. Annualised return and 1 year volatility versus the peer group (open ended offshore Asia Pacific ex Japan Equity Fund Index), 31.12.10 to 31.03.16

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

CK Hutchison Holdings Ltd	**7.3**
Samsung Electronics Co Ltd	**5.6**
Cheung Kong Property Holdings Ltd	**4.4**
Macquarie Korea Infrastructure Fund	**4.3**
Link Real Estate Investment Trust	**4.2**
Total Number of Holdings	**34**

Portfolio Financial Ratios

Predicted Price/Earnings Ratio	**12.8x**
Predicted Return on Equity (%)	**13.8**
Predicted Dividend Yield (%)	**4.8**

Thematic Breakdown (%)

Financials	18.4
Transport Infrastructure	17.2
Communications Infrastructure	13.0
Cheung Kong / Hutchison	11.7
Consumer	8.9
Asian Brands & Technology	8.8
Power Utilities	8.4
Shopping Malls	7.2
Cash	6.3

Geographical Breakdown (%)

Hong Kong	33.2
Thailand	15.3
India	11.0
China	10.3
Korea	9.9
Cash	6.3
Singapore	5.6
Taiwan	3.2
Australia	2.4
Pakistan	1.9
Philippines	0.8

All data as at 31.03.16. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size USD	**783.8m**
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	203.21
B USD	Unhedged	Distributing	B4QVD94	IE00B4QVD949	159.70
C GBP	Hedged	Distributing	B4Q6DB1	IE00B4Q6DB12	161.31
D SGD	Hedged	Distributing	B4NFJT1	IE00B4NFJT16	154.73

*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	143.35
Y GBP	Hedged	Distributing	B4TRL17	IE00B4TRL175	145.06
Z SGD	Hedged	Distributing	B6WDYZ1	IE00B6WDYZ18	144.22

* 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	125.60

* 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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