PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asian Equity Income Fund

Quarterly Investment Report

30 June 2016

FOR PROFESSIONAL INVESTORS ONLY

2Q16 PAEIF Review and Outlook

The fund returned +3.0% in the second quarter compared to a market return of +0.6%. The biggest contributors were **Link REIT** (Hong Kong retail malls), **Jasmine Broadband** (Thai broadband) and **Power Grid Corp** (Indian power transmission). The biggest detractors were **HKBN Ltd** (Hong Kong broadband), **IOOF** (Australian wealth management) and **CK Hutchison** (global infrastructure).

Dividend

We paid a dividend for the first half of 2016 which was 4.5% higher than the same period last year. The 12 month dividend (1H16 and 2H15 compared to the period 12 months previously) was up 8%. Considering the weakness in Asian currencies over that period, combined with the sluggish economy, we are relatively happy with this level of growth. We do not target a particular level of dividend growth and we are certainly not worried about the year to year changes; however, given that we own relatively stable companies with strong businesses we would expect the dividend to grow steadily over time.

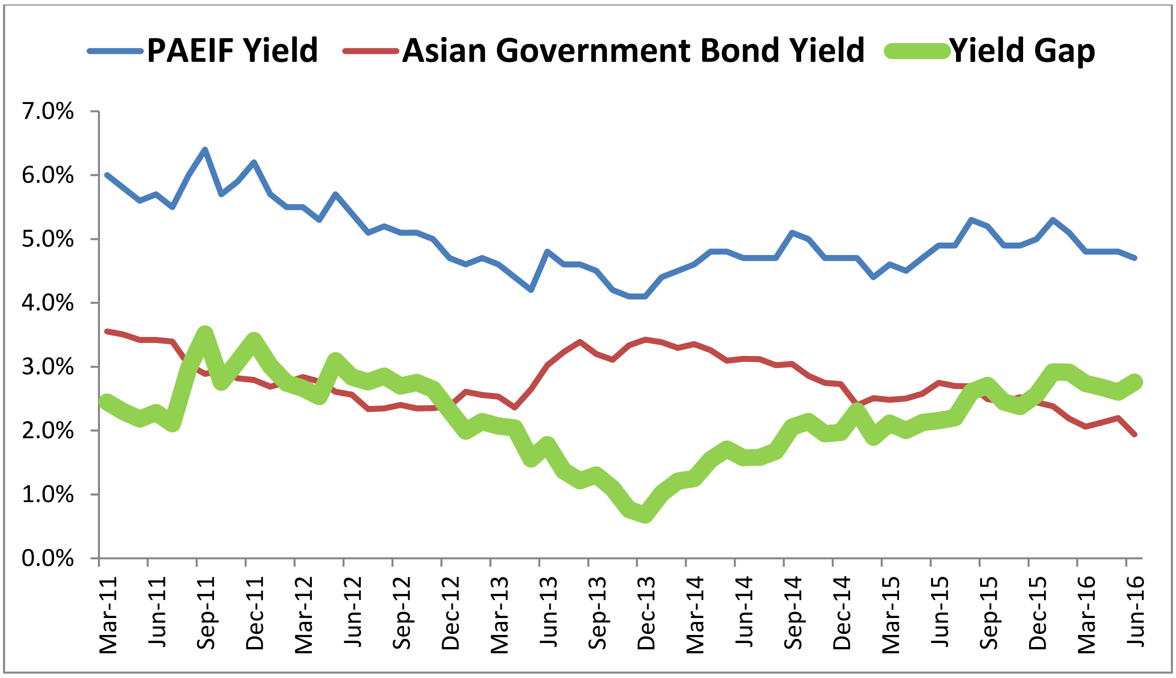
Brexit

The direct impact from Brexit on Asia is very limited given the low trade exposure to the UK (on average 1-2% of exports go the UK). We only have one position with any significant exposure to the UK and that is **CK Hutchison** (inconveniently also our largest position). **CK Hutchison** has around a third of its profits coming from the UK, although that is in sectors that are largely insulated from the economic cycle such as infrastructure and telecoms. However, every 10% fall in sterling reduces the valuation by just over 30% and so should sterling fall to parity with the US dollar, this would reduce the valuation of **CK Hutchison** by 7%. Given that we have 6% of NAV in **CK Hutchison** then it follows that this would reduce the fund's valuation by around 0.4%.

Yield Gap

Below we show a chart of the dividend yield for PAEIF and compare it to the Asia bond yield[1] to calculate the yield gap (i.e. the difference between the two). What is clear from the chart is that the gap between the two is near record highs and it has risen substantially since the lows of late 2013. Since the inception of the fund the gap has averaged 2.2% compared to today's level of 2.8%. This suggests to us that valuation, relative to bonds, is relatively attractive at the moment.

[1] This is the 10 year government bond yield for all the markets that we invest in weighted by the average weighting in the fund since inception.



Source: Prusik/Bloomberg

In addition, although the absolute level of bond yields is low on a historical basis, it is still substantially higher than any other major bond market in the world.

	10 year government bond yield (June 2016)
Asia (PAEIF weighted)	+1.9%
US	+1.5%
UK	+0.9%
Germany	-0.1%
Japan	-0.2%

Source: Prusik/Bloomberg

New Positions

Cikarang Listrindo

Cikarang Listrindo supplies electricity to 5 industrial estates located in Java, 45 km southeast of Jakarta. Its customers are large national and international companies including Mattel, Astra and Kao. It has an effective monopoly on the sale of power to these customers who pay a capacity and usage fee which is protected against movements in the exchange rate (it is effectively a US dollar payment). In addition, the company is able to pass on any increase in fuel costs to its customers, which further enhances the predictability of the business. Although **Cikarang's** prices are higher than those charged by PLN, the state electricity provider, customers are happy to pay this as a) **Cikarang** offers a more reliable power source, b) power is a relatively small part of customers' costs and, c) perhaps mostly importantly, customers have no choice as PLN does not supply power to the estate. Growth comes both from existing customers growing their own business as well as new industrial customers entering the estate.

In addition to this business **Cikarang** also supplies electricity to the grid on a Power Purchase Agreement basis. Although this is lower return than its core business, it allows management to utilise the company's power production assets in the evening and night time when the factories on the industrial estates are less busy.

The company has a return on capital just over 20% and a relatively healthy balance sheet. The stock trades on a free cash flow yield of 11% and dividend yield of 5%. It has one bond outstanding which restricts the company's payout ratio to 50% but, as a result of the IPO, management are in a stronger position to refinance this at better terms. The bond is trading above its call price and we would not be surprised to see a refinancing in the near future. On an EV/EBITDA basis the stock trades at 7x compared to a regional average of 10x, despite earning a significantly higher return on capital.

Risks include lower volumes to customers as well as lower prices as contracts are signed on a yearly basis. There is some risk that **Cikarang's** gas supply is disrupted as there is excess demand but the company is regarded by the government as a "vital asset" and, therefore, should be protected.

KEPCO

Readers with a good memory will recall we have owned shares in **Korea's Electric Power Corporation** before. Shortly after purchasing previously, we allowed concerns over the regulatory regime to scare us into selling the position which proved to be unwise. We have re-entered the position (in a small size) and hope our mental approach to managing the position will be better this time.

The investment thesis has not changed over this time. **KEPCO** is an integrated electricity production with an effective monopoly on the generation, transmission and distribution of electricity in Korea. The stock trades on a very low valuation owing to concerns over the regulatory regime in Korea, which is poor, and the operational and financial leverage of the company, which is high. However, the valuation is extremely cheap at just 4x P/E and a 40% discount to book value. In addition, the company is benefiting from low energy prices and an improving fuel mix (less LNG, more coal and nuclear).

One new development is that the government is seeking to de-regulate the power industry, which we believe will be positive for **KEPCO** as the regulator will need to ensure that it is profitable in order to allow new entrants to enter. We think fears that it will lead to lower prices are unwarranted[2].

Positions Exited

Samui Airport Fund

Reluctantly, we were forced to sell **Samui Airport Fund** as strong stock price performance meant that the implied rate of return we were receiving was too low.

BTS Mass Transit

For similar reasons, we exited **BTS Mass Transit** as the stock reached our price target and we saw limited upside.

[2] UK based investors will need little reminder that deregulation does not necessarily lead to lower electricity prices given that electricity tariffs have doubled since the industry was deregulated in 1999

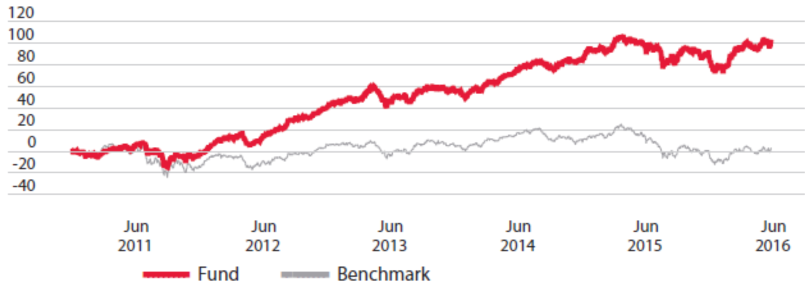
PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 30.06.2016

Class 1*	B USD	Benchmark **
1 Month	2.46	2.21
3 Months	3.04	0.56
YTD	6.37	2.50
2015	3.17	-9.12
2014	16.75	3.09
2013	13.45	3.65
2012	45.77	22.63
Since Launch+	103.48	3.29
Annualised since Inception	13.79	0.59

* 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.

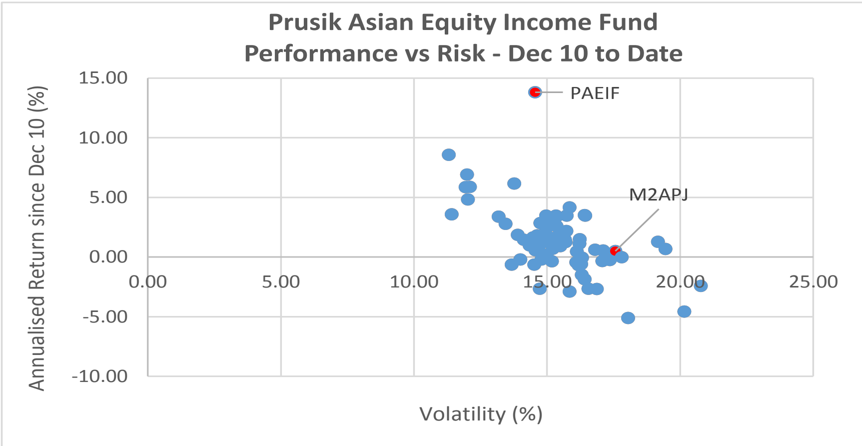
Class 1 B, USD Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2016	-6.04	-0.37	10.28	0.95	-0.38	2.46							
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	16.75
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)	9.97
Beta	0.78
Alpha (%)	12.57
Volatility (%)	14.50

Source: Morningstar
Since inception: B 31.12.2010



Source: Morningstar

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

CK Hutchison Holdings Ltd	**6.1**
Samsung Electronics Co Ltd	**5.9**
Link Reit	**4.7**
Power Grid Corp of India Ltd	**4.6**
Macquarie Korea Infra Fund	**4.2**
Total Number of Holdings	**34**

Portfolio Financial Ratios

Predicted Price/Earnings Ratio	**12.6x**
Predicted Return on Equity (%)	**14.2**
Predicted Dividend Yield (%)	**4.7**

Thematic Breakdown (%)

Financials	19.1
Transport Infrastructure	15.4
Communications Infrastructure	12.7
Power Utilities	11.6
Asian Brands & Technology	9.0
Cheung Kong / Hutchison	8.9
Consumer	8.2
Shopping Malls	7.8
Cash	7.3

Geographical Breakdown (%)

Hong Kong	32.1
India	11.7
China	11.5
Thailand	11.4
Korea	10.8
Cash	7.3
Singapore	5.6
Taiwan	3.2
Pakistan	2.2
Australia	2.0
Indonesia	1.7
Philippines	0.5

All data as at 30.06.16. 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	209.38
B USD	Unhedged	Distributing	B4QVD94	IE00B4QVD949	164.55
C GBP	Hedged	Distributing	B4Q6DB1	IE00B4Q6DB12	166.06
D SGD	Hedged	Distributing	B4NFJT1	IE00B4NFJT16	159.45

*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	147.32
Y GBP	Hedged	Distributing	B4TRL17	IE00B4TRL175	149.01
Z SGD	Hedged	Distributing	B6WDYZ1	IE00B6WDYZ18	148.24

* 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	137.91

* 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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