PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asian Equity Income Fund

Quarterly Investment Report
30 September 2015

FOR PROFESSIONAL INVESTORS ONLY

THOMSON REUTERS
LIPPER FUND AWARDS 2015
UNITED KINGDOM

3Q15 Review & Outlook

The fund fell 8.2% during the third quarter compared to a market fall of 16.5% and so outperformed by 8.3%. This outperformance was due to solid alpha generation across our portfolio, with especially strong performances in India, where the fund returned 15.2% whilst the local market fell 6%, as well as Australia. During the quarter we reduced the fund's cash level from 5% to 1% as we introduced 3 new positions to the portfolio (more details later in the report). However, unfortunately, the majority of this cash reduction was carried out in July which meant we were unable to take full advantage of the sell-off in markets in August. As a reminder, the fund's cash position does not change in response to our view on markets, but rather it reflects how many high conviction investment ideas we have – we will always be fully invested if we have enough ideas. It is owing to this philosophy that we had allowed the cash to build up earlier in the year when this was not the case. All of that said, it was frustrating not to have that extra firepower during the recent market volatility. Perhaps, in retrospect, we were too quick to reinvest the cash.

It was a relatively uneventful quarter in terms of changes to the portfolio, despite the volatility in markets. Although markets were turbulent, they were also relatively efficient in that they only marked down stocks which had seen a rapid deterioration in fundamentals, whilst many of the high quality stocks held up well. A large number of our holdings fell into this latter category and in turn the fund outperformed in the quarter, which is clearly positive. However, this situation could also be interpreted negatively. The implication of markets' behaviour and the fund's performance in the quarter is that the type of stocks we like are holding up better than the market. In the short term of course this is good for relative performance, but in the longer term we would rather have weaker performance if it allows us to buy great businesses at cheap prices.

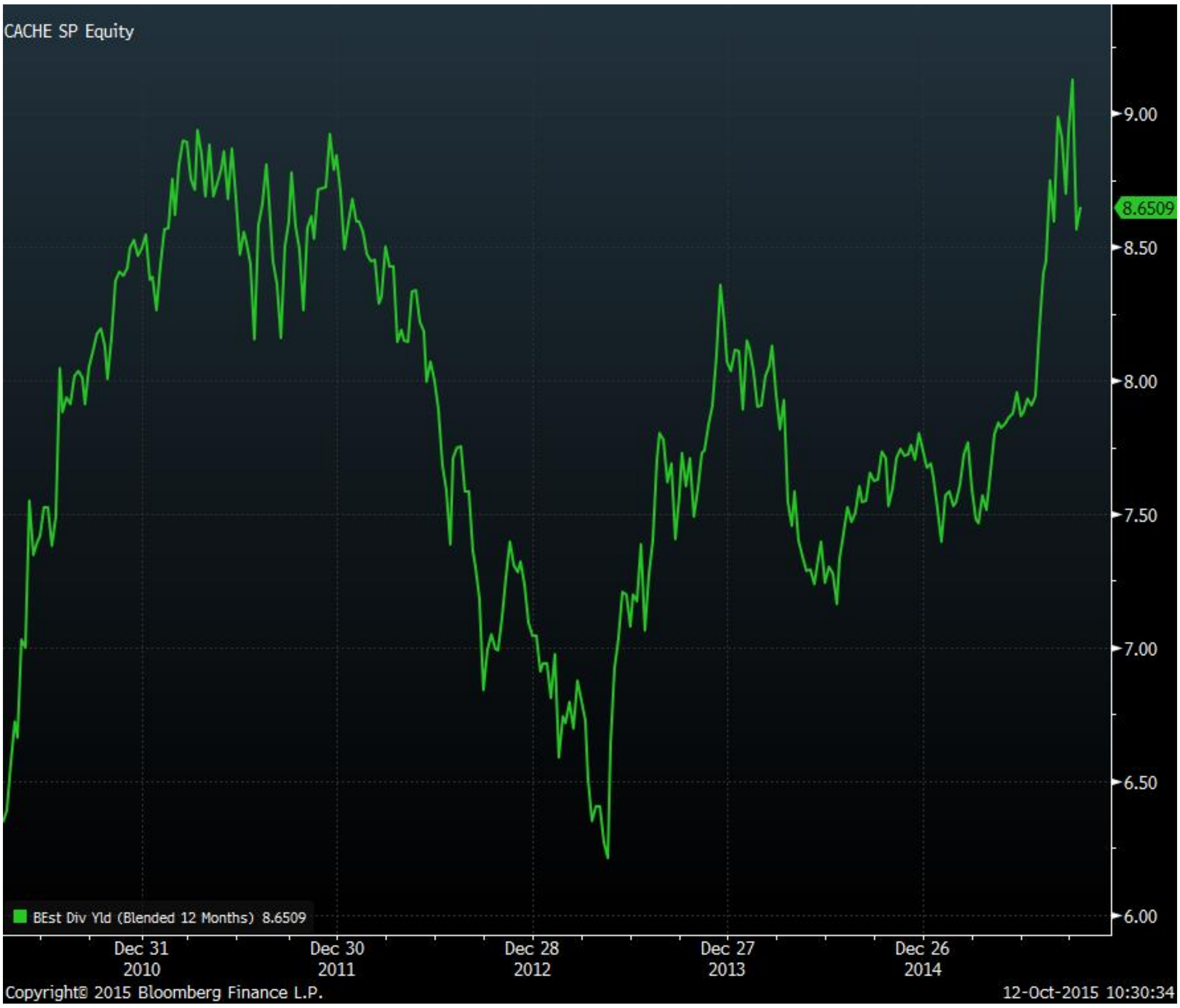
New Positions

Each of our 3 new positions are stocks which we have owned in the past and which had been sold due to valuation concerns. However, during the recent period of market weakness, the valuations for these stocks have returned to the levels at which we purchased them several years ago. We have set out more details on these 3 companies, **Cache Logistics Trust**, **Link REIT**, **Power Assets** and their respective investment cases below.

Cache Logistics

Cache Logistics Trust is a Singapore listed REIT which owns a portfolio of logistics warehouses in Singapore and Australia. It is a relatively simple company with a number of attractive characteristics for a REIT, including a long lease expiry profile, high occupancy and rental step-ups in the 3-3.5% range. The stock had been weak owing to indications that the controlling shareholder of one of the sponsors was seeking to exit their position and the market was concerned that this would lead to a weaker acquisitions pipeline for **Cache**. As a result, the dividend yield for the stock rose to almost 9% - the highest level in the past 5 years – which we felt provided an attractive entry point. The chart below depicts the forecast dividend yield[1] for **Cache** over the past 5 years.

[1] We use the "blended 12 month forward" dividend yield estimate for consistency



Source – Bloomberg.

Link REIT

Link has an attractive market position in Hong Kong where it is the dominant, low end mass market shopping mall operator. Initially a government owned company, **Link** was listed in 2005 and has since dramatically increased the profitability of its malls. From 2005 to 2014, management have increased the company's dividend by 13% per annum and generated annualised returns to unit holders of 19% versus just 8% for the overall Hong Kong real estate sector. Despite this glowing track record, **Link** struggles to attract investors' interest in a stock market where there is still a myopic focus on residential property development and the ownership of high end shopping malls which target (or used to target) high spending Chinese visitors.

Although not immune from the twin concerns of lower retail spending and higher interest rates, **Link** is less exposed to these risks compared to its peers. For example, **Link's** focus on 'every day spending', with 62% of its revenues coming from food related trade, makes the company less vulnerable to a slowdown in consumption. In addition, owing to the fact that a large proportion of **Link's** customers live in public rental housing rather than mortgaged property, **Link** is also less at risk from rising interest rates.

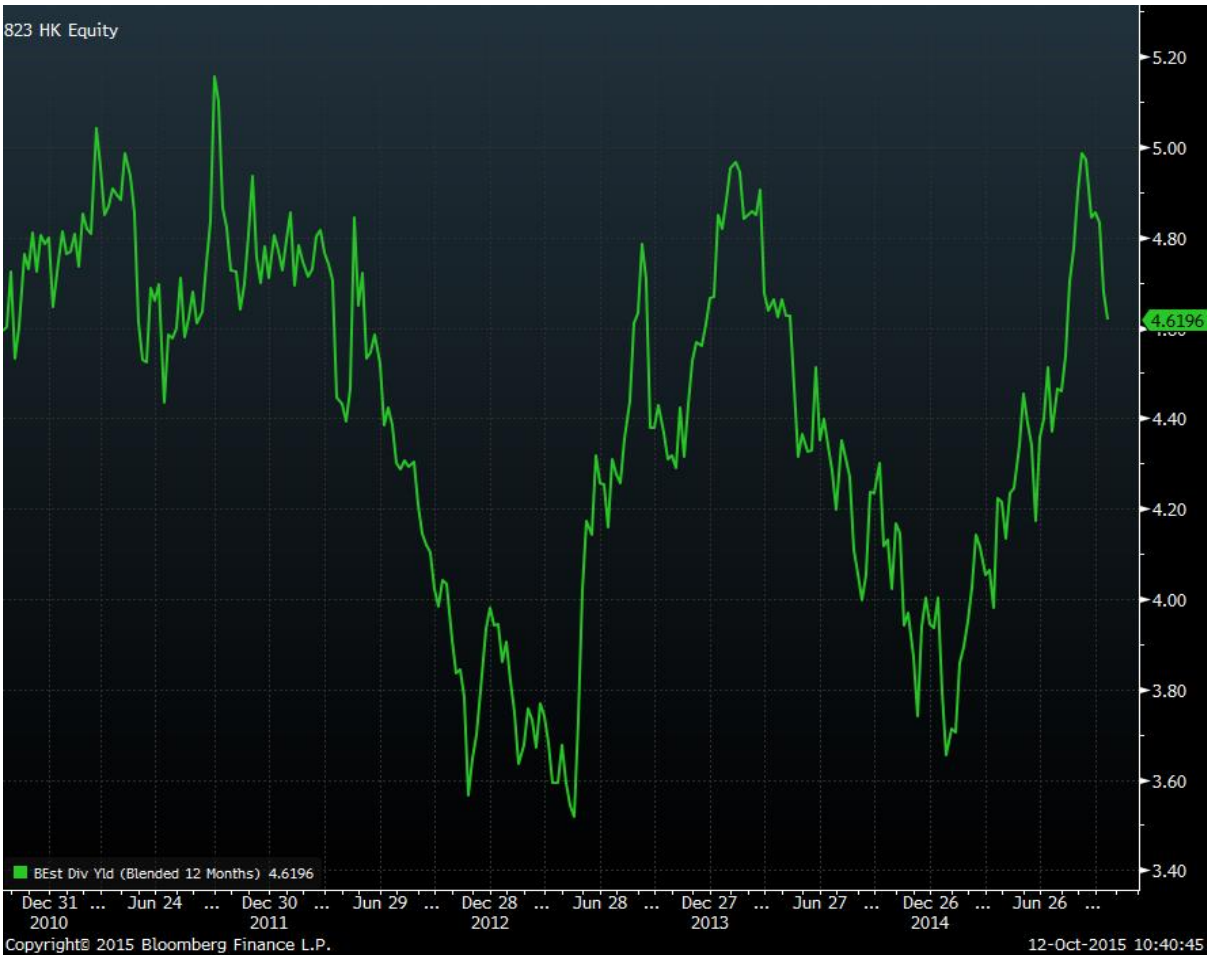
The company does have borrowings but 60% of **Link's** debt is fixed and long term with an average maturity of 5.2 years. Another positive is that management have reinvested capital back into the business to enhance the quality of many of the company's existing assets. This has boosted **Link's** rental growth and generated very attractive returns on capital. The images below shows a simple but powerful example of asset enhancement at **Link's** Tai Wo Plaza.

Before

After

Source: Link REIT

The chart below shows the forecast dividend yield for **Link REIT** over the past 5 years. Similar to **Cache**, **Link's** yield recently reached historic highs.



Source - Bloomberg

A key downside risk for the business is that management have started investing in the Hong Kong office property market and the Chinese retail property market. In general, we believe investing in both these markets is a mistake and will lower the quality of the franchise. However, on balance, at just 7% of total sales, these investments are not significant enough to undermine the bullish case for the stock. In addition, we believe the stock market shares our view and that this inferior strategy of management's is already fully discounted by the market. This is a good example of the type of risk premium which we like to try and pick up. That is, specific risk, unrelated to cyclical concerns that cause a stock to trade at a discount.

Power Assets

Power Assets owns a portfolio of power generation and distribution assets in the UK, Hong Kong and Australia. Over the past several years, **Power Assets** has been selling its Hong Kong assets as the regulator has lowered the returns these businesses are allowed to generate (as recently as 2008 power generation companies in Hong Kong were allowed to make a staggering 13.5-15% ungeared return on assets!) and the capital raised from this has been reinvested in global power businesses. The most recent chapter in this story was the listing of **Hong Kong Electric**, which reduced the company's exposure to Hong Kong to just 9% of total assets and increased its net cash position to 40% of its market capitalisation. If we strip out both the company's holding in **Hong Kong Electric** and the cash, then the stock is trading on a multiple of just 10x its profits for its UK and Australian businesses.

We believe there are several reasons for the stock's cheap valuation:

- Although Hong Kong represents only 9% of the company's assets, **Power Assets** is still considered to be a "Hong Kong utility" and therefore the share price has been hit by the negative sentiment towards falling regulated returns for utilities in this market.
- Pre-stripping out the large cash position which generates virtually no income, the P/E of the stock appears high.
- **Power Assets** is a UK/Australian power company listed in Hong Kong and covered by Hong Kong analysts who are not familiar with those regions

What attracted us to the stock was its cheap valuation combined with good upside optionality. Part of this upside optionality was related to the cash on the balance sheet which might either be paid back to shareholders or possibly used to make a value accretive acquisition. Owing to the unique way that the **Cheung Kong Group** is structured, combined with Hong Kong's treatment of interest income, **Power Assets** is able to take advantage of certain tax loop holes which enable it to pay more for assets than its competitors whilst still achieving the same post tax returns. Although this is not guaranteed to continue as governments seek to curb such activity, for the time being, it is a significant advantage for the company.

The second source of upside optionality comes from the potential restructuring of the **Cheung Kong Group's** infrastructure holdings. After the restructuring of the **Cheung Kong/Hutchison Group** earlier in the year (which we have discussed in previous quarterlies), there was speculation that the group might look to simplify its infrastructure holdings. Both **Power Assets** and its parent **Cheung Kong Infrastructure** invest in almost identical assets and so there is little reason for them to exist separately. **CK Hutchison Holdings** owns 76% of **Cheung Kong Infrastructure** which in turn owns 39% of **Power Assets**. It seemed logical at some point that **CK Hutchison** would seek to merge the two companies.

Shortly after we had built an initial position in **Power Assets**, **Cheung Kong Infrastructure** announced a merger proposal with **Power Assets**. Although this led to a short term increase in the share price, we still believe that the offer undervalues **Power Assets** and think it is unlikely that it will be successful if this offer is not improved upon.

Exited Positions

We did not exit any positions during the quarter.

Outlook

As usual, the difficulty in managing money in Asia is getting the balance right between the difficult top down environment (low growth, deflation, credit concerns) versus the extremely attractive valuations that are available. For the first time in a long time, we are no longer bearish on the more cyclical areas of the market, although we do not think the risk/reward on offer in cyclicals has yet become compelling. At present, we believe the risk profile of the fund is relatively low and that the likely next move will be to increase the risk profile of the fund, albeit incrementally. However, at the moment, we still see more value in defensive names. It is worth remembering that the fund's exposure to cyclical stocks is not driven by a top down view, but is simply the result of where we see the best opportunities. For example, as the price of cyclical stocks falls, their risk/reward improves as the downside to the "worst case" scenario reduces and the upside to intrinsic value increases; similarly, as defensive stocks rise in price the opposite occurs. So any outperformance of defensives versus cyclicals in the fund tends to be corrected in this fashion rather than relying on me to make a single decision regarding how much of the fund should be invested in cyclicals and how much should be invested in defensives.

Removal of the Front End Charge

We have had a number of enquiries in recent marketing meetings about the front end charge and whether we are closer to being able to remove it from the fund, so it is worth spending a little time on why the charge is in place and the conditions under which we would remove it.

The first point to remember is that the number one reason for putting the charge on the fund is to protect the interests of the existing shareholders in the fund. We would only remove the charge if we believed it would not impede our ability to generate returns for investors. There is never any guarantee that we can generate alpha in the future, but we strongly believe that the larger the fund size then the less chance we have of doing so. That said, we very much understand why clients would like the flexibility to increase their positions in the fund and are keen remove the charge as soon as we can to allow them to do this.

We have an internal system of "traffic lights" that we use to monitor the factors that we believe allows us to judge when to remove the charge. These are:

- Fund size
- Redemption velocity
- Liquidity of the portfolio
- Cash level of portfolio
- Performance
- "Bench" of new ideas
- Market valuations

We rank each of these factors as green, amber or red depending on whether we think the data point at the time is consistent with removing the charge (green) or keeping it on (red). For an example a cash level of <5% would be ranked green, or deemed in favour of removing the charge, whilst a cash level of 15% would be ranked red, or viewed as a reason to keep the charge in place. We use amber when we think the situation is ambiguous. When we first analysed the portfolio on this basis in December 2014 we had 3 reds, 3 ambers and 1 green. When we performed the same analysis in July we had zero reds, 4 amber and 3 greens. Although we use qualitative measures as well to determine the opening, we would likely need at least 5 green lights and no reds before removing the charge. The current ambers are:

- Fund size: At present the fund is at US$800 million which is only slightly smaller than the US$900 million level where we imposed the front end charge on the fund.
- Redemption velocity: This is still running at an annualised rate of 3-4% which is less than we expected.
- Liquidity of portfolio: This is adequate but it would be difficult to increase our ownership of some of our smaller cap ideas if we took on more assets.

- “Bench” of new ideas: Although we have more potential ideas than before, our preference would be to have more than we do removing the charge. At present we have 5-10 potential new positions and when ideally we’d like 15 or more.

If we did remove the front end charge the fund would still only be available to current investors. Further, even if we were to remove the charge, we would implement a mechanism to prevent the inflow from being more than we could manage. Our intention is that the fund size would increase by no more than 25% - enough to allow our investors to rebalance their portfolios but not enough to impact on the portfolio substantially.

In short, even though there is no short term plan to remove the charge, we wanted to update you on our thoughts and be as transparent as we can be about how we monitor the situation.

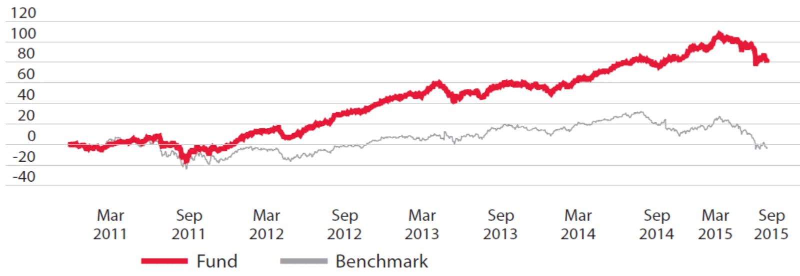
PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 30.09.2015

Class 1*	B USD	Benchmark **
1 Month	-0.70	-2.23
3 Months	-8.18	-16.45
YTD	-1.42	-13.40
2014	16.79	3.26
2013	13.45	3.95
2012	45.90	22.96
2011	-3.96	-15.20
Since Launch+	83.02	-1.97
Annualised since Inception	13.57	-0.50

* 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 (%)

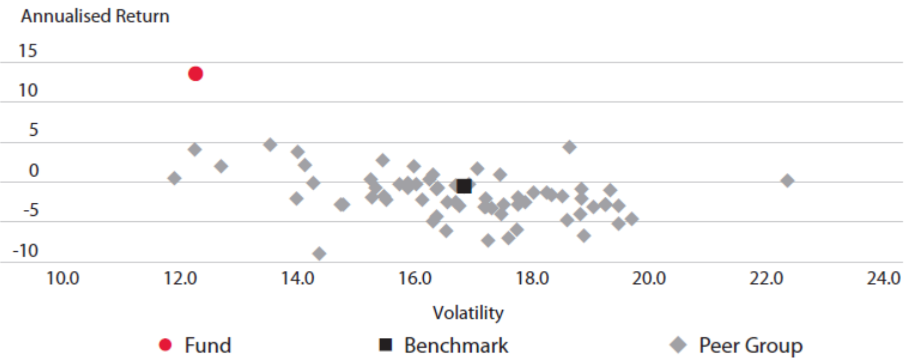
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2015	4.35	1.41	-0.70	6.01	-1.69	-1.97	-1.63	-6.01	-0.70				
2014	-4.34	4.03	1.50	1.58	4.63	2.14	3.50	1.24	-2.54	2.31	2.00	-0.05	16.79
2013	3.93	1.78	0.35	4.57	-0.53	-4.95	1.87	-2.24	5.07	4.15	-0.56	-0.25	13.45
2012	8.12	6.54	1.92	3.20	-7.67	3.84	6.72	1.92	6.36	1.97	2.76	3.63	45.90

RISK ANALYSIS

Risk Metrics	Fund (%)
Tracking Error (% pa)	6.55
Beta	0.78
Alpha (%)	13.96
Volatility (%)	12.28

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 30.09.15

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

CK Hutchison Holdings Ltd	7.3
Samsung Electronics Co Ltd	5.8
Cheung Kong Property Holdings Ltd	5.0
SK Telecom Co Ltd	4.6
Macquarie Korea Infrastructure Fund	4.3
Total Number of Holdings	41

Portfolio Financial Ratios

Predicted Price/Earnings Ratio	12.2x
Predicted Return on Equity (%)	13.7
Predicted Dividend Yield (%)	5.2

Thematic Breakdown (%)

Communications Infrastructure	21.3
Transport Infrastructure	17.4
Financials	13.3
Cheung Kong / Hutchison	12.3
Asian Brands & Technology	11.5
Shopping Malls	9.5
Consumer	7.2
Power Utilities	5.7
Cash	1.8

Geographical Breakdown (%)

Hong Kong	34.3
Korea	14.7
Thailand	12.6
China	7.5
India	7.4
Taiwan	5.7
Australia	5.7
Singapore	5.2
Pakistan	2.5
Cash	1.8
New Zealand	1.5
Philippines	1.2

All data as at 30.09.15. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size USD	774.2m
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	188.10
B USD	Unhedged	Distributing	B4QVD94	IE00B4QVD949	151.02
C GBP	Hedged	Distributing	B4Q6DB1	IE00B4Q6DB12	152.45
D SGD	Hedged	Distributing	B4NFJT1	IE00B4NFJT16	146.22

*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	135.69
Y GBP	Hedged	Distributing	B4TRL17	IE00B4TRL175	137.32
Z SGD	Hedged	Distributing	B6WDYZ1	IE00B6WDYZ18	136.50

* 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	112.55

* 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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