PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asian Equity Income Fund

Quarterly Investment Report
31 December 2015

FOR PROFESSIONAL INVESTORS ONLY

THOMSON REUTERS
LIPPER FUND AWARDS 2015
UNITED KINGDOM

4Q15 Review & Outlook

The fund returned 4.7% in the fourth quarter, underperforming the 5.1% rise in the market. The biggest contributors were **Samsung Electronics preferred shares**, **Man Wah** and **PCCW**. The largest detractors were **SK Telecom**, **Cheung Kong Property** and **Asia Pay Television**.

5 Year Review

December 31st marked the 5 year anniversary of the fund. During that time the fund has returned 13.9% on an annualised basis compared to MSCI Asia Pacific ex-Japan which has returned 0.5%. This is above our target of 5-10% outperformance and so we are pleased with the performance over this time. Currency weakness (versus the US dollar) has detracted a little over 100bps on an annualised basis from these returns and so our local currency returns are close to the 15% absolute return level that we also target.

Overall we are happy with the performance of the fund. Of course, there are plenty of things that we could have improved upon and no doubt a large amount of good fortune was involved as well. We cannot predict what will happen to Asia over the next several years and certainly the outlook is, shall we say, cloudy. All we can do is continue to try and improve the investment process (which we believe we have done since launch) and try and minimise the number of mistakes we make. We have confidence that the opportunity set is still attractive enough for us to generate similar returns in the next five years as we have done in the previous five. We are grateful to all our investors for their support and look forward to the next five years of partnership.

Evolution Of The Fund

Part of the challenge of running a fund is how to evolve the strategy whilst keeping the integrity and purpose of the fund intact. The key strength of our investment process is identifying companies that have below average risk, above average return potential and generating strong cash flows with minimal cyclical risk. At first, we were able to find many stocks that had those characteristics but, in addition, had above average dividend yields. As time went on, the price of many of these stocks got bid up and our choice was either to "chase yield" and sacrifice total returns or else accept lower yields and better return potential. We have always indicated that we would choose the latter course and fortunately our investors have backed that decision. Over time, we would expect that gap to increase and it is important for investors to note that we will ALWAYS trade "tens of basis points" of upfront dividend yield for "hundreds of basis points" of total return potential. Ultimately, our expertise is trying to generate attractive total returns from selecting stocks with the following characteristics:

- High margins and return on capital
- Minimal economic cyclicality
- Appropriately geared balance sheets
- Excellent cash generation
- Management and owners that are competent "stewards" of the assets
- "Real" businesses (inflation protection) that are easy to understand
- Annuity like earnings
- Attractive dividend yield **or** high rate of return on reinvested capital
- Limited downside if we are "wrong" versus significant upside if we are "right"

These tenets, rather than a slavish desire to maximise dividend yield, will remain the tenets of the fund.

Mistakes

As readers will know, our view is that fund management is much more to do with how many mistakes you make and how you deal with those mistakes rather than dealing with the "winning" stocks.

We have performed a thorough review of the last 5 years to see what the biggest mistakes have been and how we can learn from them. We tried to find any common factors in what went wrong and we came up with the following characteristics:

- **Cyclical** – did the business do poorly as it was too tied into the economic cycle?
- **Balance sheet** – did the investment do badly because company had debt that was too high?
- **Valuation risk** – did we pay too high a price for the stock and lose because the valuation compressed (even if business didn't do too badly)
- **Earnings risk** – did investment do poorly because earnings were below expectations?
- **Foreseeable** – is this something we could have predicted had we done better research/due diligence?
- **Regulation risk** – did we lose money because government changed regulations or did not honour terms of existing regulatory framework?
- **Poor capital allocation** – was this a good business ruined because company allocated the cash flows poorly?

We then looked at all the mistakes and classified them into one (or more) of the above categories.

Conclusions:

- The biggest reason for losing money turned out to be earnings risk, usually combined with a cyclical component.
- Balance sheet, valuation or regulatory problems were rarely an issue.
- In most cases we believe the risk was foreseeable and we could have avoided it with better analysis and better discipline. This has both positive and negative implications!
- Poor capital allocation was sometimes an issue.
- The overall lesson is to pay more attention to earnings risk, bearing in mind that if the economy in Asia improves then this might make us too risk averse.

New Positions

Power Grid

During the quarter we continued to increase our weighting in India owing largely to the addition of a new holding in **Power Grid**. **Power Grid** is a government owned power transmission company operating in India. Electricity transmission connects power producers to the local distribution companies. The company benefits from both the growth in power demand in India as well as the growing connectivity of the grid. Over 90% of the company's projects are guaranteed a 15.5% return on equity by the government, which gives the earnings a high degree of predictability. Trading at 10x earnings with a 2% dividend yield, we believe the upside potential is significant. The business can be valued in two parts. The existing projects we can assume continue to earn a 15.5% return on equity and can be valued as a zero growth, perpetual government bond. Then there is a value for the future business that the company is expected to win as it has historically grown its assets by 10-15% annually.

Glow Energy

We have owned **Glow Energy** twice in the past already but took advantage of the recent weakness to initiate a position here for the third time. Recall that **Glow** is an independent power producer in Thailand. Around two thirds of its capacity is sold to EGAT, the state power company, on a "take or pay basis" and the earnings are highly secure as they are paid regardless of how much power is actually consumed and the company is allowed to pass through changes in energy price and exchange rate movements. Over the twenty years that these power purchase agreements have been in existence there has never been any issues with payment – even during the Asian financial crisis. In addition, the company also sells electricity and steam from its cogeneration plans to industrial customers under 15-20 year contracts.

The company is 70% owned by French Power Giant, Engie (formerly GDF Suez), who tightly control the company's investment plans. Stiff return targets and a tight geographical remit have ensured that the company has been extremely efficient with its reinvestment of cash flow and currently achieves a 20% return on equity. A recent decision by the company not to invest in any more coal based projects was taken negatively by the market as most of the company's plants are coal fired. However, our view is more positive. Given the increased competition in the IPP market, it was not clear that **Glow** would be able to find any profitable expansion opportunities and therefore it was likely new projects would not be found in any case. Given Engie's desire to upstream cash and the fact that **Glow's** balance sheet was rapidly de-gearing due to a lack of investment opportunities, it is highly likely that management will increase the dividend substantially.

Exited Positions

Jasmine Group

This is a perfect example of a good core business combined with a spectacularly poor ability to allocate capital. Perhaps because we were keen to buy the business we were susceptible to the argument that we could win either way as we managed to convince ourselves that **Jasmine Group** could build out a profitable model using a "small cell telecoms strategy" after talking to a particularly compelling argument by an "expert". We have already discussed this in the December monthly report but the company decided to spend more than 3 times its market capitalisation on a new 4G licence in an almost certainly futile bid to enter the Thai mobile market. As a text book example of how to break Warren Buffett's rule ("The difference between a great company and a great investment is how the management reinvest the cash flow"), we are doubtful it can be bettered.

Genesis Energy

The weakness in the oil price pressures the company's ability to pay dividends as 25% of its cash flows come from its stake in the Kupe oil field.

SCentre Group

The company reached fair value and so was sold. This is a high quality asset and we would be keen to buy back on any pull back.

MTR Corp

This position was sold as the position was approaching fair value. In addition, after a meeting with management in Hong Kong we felt the core business growth potential was slightly lower than we had originally thought.

Power Assets (New and Exited Position)

We initiated a position in **Power Assets** as the stock was trading at a very attractive valuation level with the potential for corporate activity or a special dividend providing additional upside potential. Shortly after our purchase, the parent company, **Cheung Kong Infrastructure**, announced a bid for **Power Assets** which was generally thought by the market to undervalue the company. Although **Cheung Kong Infrastructure** subsequently made a very slight improvement to the offer, we believed it was unlikely that **Power Assets'** shareholders would vote through the deal. As a result we exited the position shortly before the shareholder vote.

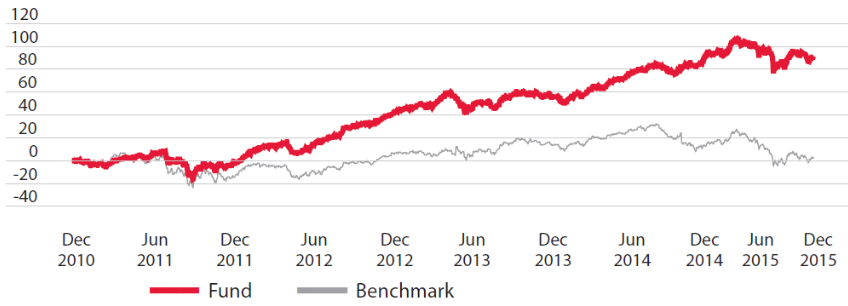
PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 31.12.2015

Class 1*	B USD	Benchmark **
1 Month	-0.33	0.17
3 Months	4.65	5.10
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+	91.53	3.03
Annualised since Inception	13.87	-0.52

* 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 (%)

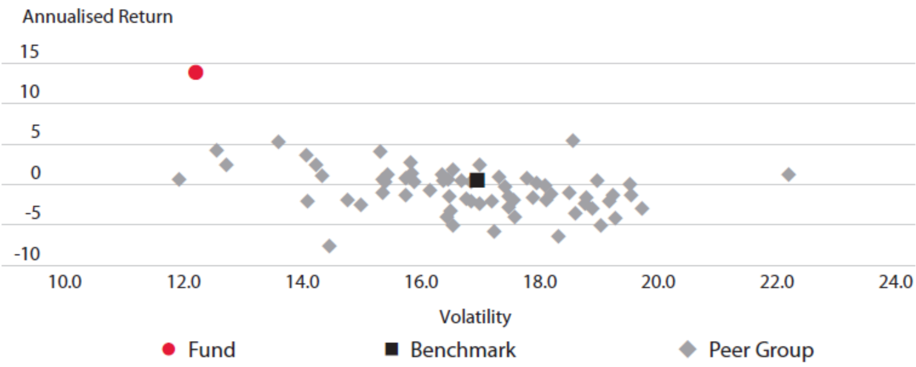
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2015	4.35	1.41	-0.70	6.01	-1.69	-1.97	-1.63	-6.01	-0.70	7.04	-1.91	-0.33	3.17
2014	-4.34	4.03	1.50	1.58	4.63	2.14	3.50	1.24	-2.54	2.31	2.00	-0.05	16.79
2013	3.93	1.78	0.35	4.57	-0.53	-4.95	1.87	-2.24	5.07	4.15	-0.56	-0.25	13.45
2012	8.12	6.54	1.92	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)	6.47
Beta	0.78
Alpha (%)	13.46
Volatility (%)	12.22

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 31.12.15

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

CK Hutchison Holdings Ltd	**7.4**
Samsung Electronics Co Ltd	**6.7**
Cheung Kong Property Holdings Ltd	**4.3**
Macquarie Korea Infrastructure Fund	**4.3**
SK Telecom Co Ltd	**3.8**
Total Number of Holdings	**36**

Portfolio Financial Ratios

Predicted Price/Earnings Ratio	**12.2x**
Predicted Return on Equity (%)	**14.4**
Predicted Dividend Yield (%)	**5.4**

Thematic Breakdown (%)

Communications Infrastructure	20.3
Transport Infrastructure	15.5
Financials	15.5
Cheung Kong / Hutchison	11.7
Asian Brands & Technology	11.3
Consumer	9.0
Power Utilities	7.4
Shopping Malls	5.7
Cash	3.5

Geographical Breakdown (%)

Hong Kong	33.5
Thailand	14.3
Korea	14.2
India	10.8
China	8.0
Singapore	5.7
Taiwan	4.7
Cash	3.5
Australia	2.4
Pakistan	2.2
Philippines	0.8

FUND PARTICULARS

Fund Facts

Fund Size USD	**797.5m**
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	196.84
B USD	Unhedged	Distributing	B4QVD94	IE00B4QVD949	158.04
C GBP	Hedged	Distributing	B4Q6DB1	IE00B4Q6DB12	159.75
D SGD	Hedged	Distributing	B4NFJT1	IE00B4NFJT16	153.30

*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	141.99
Y GBP	Hedged	Distributing	B4TRL17	IE00B4TRL175	143.91
Z SGD	Hedged	Distributing	B6WDYZ1	IE00B6WDYZ18	143.05

* 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	120.72

* 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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