PRUSIK

Long Only Absolute Return Investing in Asia

Prusik Asian Equity Income Fund

Quarterly Investment Report

28 March 2013

FOR PROFESSIONAL INVESTORS ONLY

1Q 2013 Review and Outlook

The fund enjoyed relatively strong outperformance versus the market in the first quarter of 2013 but this overstates the true alpha generated. The poor performance of the overall market was largely due to the negative performance of several mega caps in China and the Australian resource sector. So, although it is pleasing to see that we can generate outperformance with the increased asset size, it is still too early to say whether we will be able to repeat this performance over the next 12 to 18 months.

Tracking Error

Tracking error has fallen from 8.5% at the beginning of 2012 to 7.1% currently. This reflects partly the increase in larger cap stocks as well as the increase in financial exposure. Given our target of 5-10% alpha then 7.1% is a reasonable tracking error to have. However, it has been in steady decline since we launched the fund and it is important to focus on monitoring whether this has any negative impact on performance. We have often pointed out that the current levels of outperformance are extremely unlikely to be repeated as the fund gets larger but we are confident in achieving the 5-10% level. Our portfolio overlap with our competition is still limited and we still follow a high conviction style of investing. The real reason for the lower tracking error is our higher weighting in large cap stocks which is now in the mid 50s as a percentage of the total portfolio. Over time we expect the large cap weighting to be around 40-60% but this not explicitly targeted.

Inflows and Fund Size

Following the decision to close the fund to new investors in November last year, we are pleased to see that March inflows were close to zero ($9m) following the higher level of activity over the past few months. At the current level of assets we are confident about the ability of the fund to meet our investment objectives. We believe that the soft close achieves the compromise between allowing our existing clients to manage their positions in the portfolio whilst constraining the fund growth. Following inflows of around US$300m in 4Q12 and US$100m in 1Q13, the current run rate would suggest inflows of US$30-40m for 2Q13. We are acutely aware of the need to ensure that the fund stays at an optimal size but would prefer to avoid taking any further measures to constrain inflows if we can help it. We have not, and almost certainly will not, for example, give an AUM figure because this would very likely create more buying pressure and in turn force us to introduce more measures to slow inflows if we felt that we could no longer generate superior investment performance at that asset size. So far this year (until 17 April) the alpha generation on an annualised basis is actually higher than it was in 2012. In fact our alpha seems to be increasing as the fund size increases.

The table below shows the annual outperformance of PAEIF versus the market for 2011, 2012 and the year to 17th April 2013. The outperformance figure for 2013 is calculated by annualising the year to date alpha of 7.8%.

	2011	2012	2013 (YTD)
Annualised outperformance vs. MXAPJ	11.3%	22.8%	29.5% (7.8% YTD)
AUM at end of period	$31m	$520m	$685m

Source - Bloomberg

Although this pattern is unlikely to be sustained, it is at least comforting to see that there is no evidence yet that the fund size is impacting performance.

Asset Allocation Changes

Although we do not make decisions on a top down basis, it is often interesting to see what impact bottom up decisions make on the overall portfolio. The biggest change from an asset allocation perspective over the quarter was the increase in the Korean portfolio from 17.8% to 20.5% and the reduction of Thailand from 15.0% to 11.4%. This is not the result of an active decision to take a top down view – if anything we are more positive on Thailand compared to Korea – but merely as a result of where the most compelling risk/reward opportunities are. We are reluctant to increase Korea any further given both the macro-economic concerns and due to the fact that we own most of the high quality, high dividend stocks there already. However, we believe that the stocks we do own have extremely attractive risk/reward profiles that have relatively little correlation to the Korean economy (two thirds of the portfolio is in telcos and tobacco). It is perhaps because Korea is so unappealing from a thematic perspective and hated by so many dividend investors that there are so many undervalued opportunities there. As many investors are uninterested in this market, there is less competition for ideas. Although more than 90% of Korean companies have very little interest in paying dividends, there are select companies that have committed themselves – both in words and deeds – to paying sustainable and even progressive dividends and these are the stocks we are looking for. It is also possible to argue that these shares should be rated at a substantial premium to the market given that there is a scarcity value to high quality, high dividend stocks in this market. That said, we are acutely aware of the risks in the Korean market and realise our Korean holdings require frequent and close monitoring[1].

Thailand in many ways is the reverse of Korea. We are fully paid up subscribers to the bull case for ASEAN and believe it is a superb medium term story. However, we are just not able to find enough stocks with limited downside to maintain a high weighting in that market. A trip in May to the region might allow us to uncover some more opportunities there but until then we have scaled back our allocation to Thailand.

[1] For those that are interested in finding out more about this seemingly impenetrable country the following book by the local correspondent for *The Economist* is highly recommended (http://www.amazon.co.uk/Korea-Impossible-Country-Daniel-Tudor/dp/0804842523).

What this shows is how the valuation discipline of a dividend fund causes us to allocate capital as the markets move. As Korea fell during the *1Q* it presented more opportunities relative to the rest of portfolio whereas as Thailand rose we tended to find more of our positions traded closer to fair value.

	1Q market performance	Dec 12 weighting	March 13 weighting	Change in weighting
Korea	-4.6%	17.5%	20.5%	+3.0%
Thailand	+15.7%	16.5%	11.7%	-4.8%

Source- Bloomberg

What Worked During 1Q 13?

- Continued overweighting of ASEAN
- Low degree of cyclicality which insulated us from much of the negative market performance
- Strong alpha from most markets with the notable exception of India

What Did Not Work?

- Our India exposure detracted 50bps. The initial performance of our Indian holdings has been negative and the structural and cyclical concerns surrounding India mean we must remain vigilant. Two of the three biggest detractors from the fund's performance during the quarter were in India and we only own 2 Indian stocks.
- Korea was a polarised market. **KT&G** was our weakest position as we have been too slow to interpret the poor underlying performance of this company. **KT Corp** was also a small negative contributor. On the other hand, **SK Telecom** was one of our best performers so Korea in total was still a positive contributor to performance, despite the Korean market falling overall.
- It is possible we are being too quick to sell positions that reach our target price as many of them go on to perform strongly after we exit. We are fine tuning our models to try and improve performance but not expose the fund to unnecessary valuation risk by owning stocks that are trading too far above our floor valuations.

Comments On Positions That Were Exited During 1Q13

Samui Airport

Although this is one of our favourite stocks in Asia, the 90% rise in the share price over the past year meant that **Samui Airport** was finally trading at only a small discount to our fair value. It still generates a 7.0% dividend yield but the fact that it only enjoys another 25 years on its lease means that the stock has a terminal value of zero so, care must be taken when using the current yield to value the stock.

Glow Energy

Glow Energy is another Thai stock we have exited as the demand for safe, "riskless" utility stocks led the stock to trade at a premium to its net present value. Although the company has excellent management and a high quality asset portfolio, we believe the market is too optimistic on the profitability of future projects for which it is bidding.

Bangkok Expressway

Similar to **Samui Airport**, **Bangkok Expressway** is a very high quality asset but one that also has a limited concession life, so care must be taken when using short term earnings to value the stock. Whereas it was extremely undervalued a year ago and attracted very little interest from the market, it now trades close to its net present value but many are using P/E multiples to value the company. Unfortunately, **Bangkok Expressway's** main asset reverts to government ownership in 2020 and so the company's earnings will fall around 70-80% at that point.

Chipbond

When we first started looking at **Chipbond** it seemed unlikely that it would be a suitable fit for PAEIF. Generally we avoid tech companies as their earnings are too unpredictable and **Chipbond** initially appeared to be a low value company in a competitive sector. However, Taiwan does contain several extremely well managed mid cap companies and we decided to visit the management in Taipei. After an extremely productive meeting with the company we understood how both the consolidation in the industry and also the company's determination to focus on cash flow meant that it could be an interesting addition to the portfolio. The company performed as expected and the significant share price performance since purchase meant that it was no longer "cheap". At 12x earnings it would be difficult to argue that the stock is expensive but we are reluctant to pay 2x book value for a company that still has cyclical risk.

New Additions

1) Ascendas India Trust

Ascendas is a business trust listed in Singapore that operates business parks in India which cater to the IT industry. Their tenants are largely US multinationals such as **Xerox**, **Bank of America**, and **General Motors**. Although the growth outlook is promising with the IT-BPO industry expected to grow at a double digit rate for the next several years, the growth in distributions has been hampered by the decline in the Indian rupee against the Singapore dollar. 16% growth in Indian rupee terms has led to 5% growth in Singapore dollar terms. Although it is possible that the Indian rupee continues to depreciate versus the Singapore dollar, we believe that the company has the ability to grow its dividend per unit at 10-15% in Indian rupee terms, and that this should translate into similar performance in Singapore dollar terms. Additional upside will come from the development pipeline, as it is structured as a business trust rather than a REIT it is able to have up to 20% of NAV in development assets. The stock is currently trading at a 6.0% dividend yield.

2) Coway

We have already discussed **Coway** in March's monthly report. It is a high quality, consumer company operating in an industry with high barriers to entry (water filters) and with an owner that is incentivised to maximise the share price. **Coway** has a 4.0% dividend yield.

3) Makalot Industrial

Makalot Industrial does not initially sound like the type of company we would be interested in. It is a Taiwan apparel manufacturer with operations across Asia which supplies clothes to companies such as **Target**, **Wal-Mart**, **Gap** and **H&M**. Although 90% of its current sales are to the US it is expanding into emerging markets as its customers enter these countries. As it has manufacturing locations across Asia **Makalot** is able to shift production to wherever labour is cheapest. Its long term relationships and excellent cost control mean that it can earn operating margins which are 2-3x higher than its competitors. Generating a 25% ROE and with a 90% payout ratio we believe it is an excellent addition to the portfolio. **Makalot** has a 6.1% dividend yield.

Turnover

In general the turnover has been slightly higher than we would expect which reflects the alpha generation of the portfolio. As we have pointed out, if we have positions that perform strongly and therefore reach our target prices more quickly than anticipated, then we will generally exit those positions to reallocate capital to positions with better risk/reward profiles. We would prefer in some ways not to have to do this as it increases reinvestment risk but we have to judge the potential gain of transacting against the cost of doing so. There is no right answer as to how frequently to do this and we are constantly checking whether our portfolio turnover is adding value or not. If it ceases to do so (in other words, our portfolio would have done better had we not done anything) then we will likely reduce turnover.

Reinvestment Risk

Although we are happy with the current portfolio in terms of risk/reward, we should highlight that the reinvestment risk at the moment is relatively high because the list of alternatives is relatively short. Although there are several sectors (e.g. Singapore banks) which are reasonably attractive, there are few that we think offer enough upside potential to warrant inclusion in the fund. This is not necessarily a problem as new ideas come on to the radar screen from time to time and it really is more of an issue for alpha in 6 to 12 months time but it is worth pointing out. Perversely, the cure for this which would be a significant correction in stock markets. This would have the impact of both increasing the supply of suitable stocks and also increasing the chance that they would be incorrectly priced.

PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 28.03.2013

Class 1*	B USD	C GBP	D SGD	Benchmark **
1 Month	0.35	0.44	0.35	-1.71
3 Months	6.15	6.63	6.21	1.82
Year to Date	6.15	6.63	6.21	1.82
2012	45.90	45.34	44.69	22.96
2011	-3.96	-3.60	-6.73	-15.20
Since Launch+	48.74	49.38	43.34	6.15
Annualised since Inception	19.36	20.15	17.40	2.70

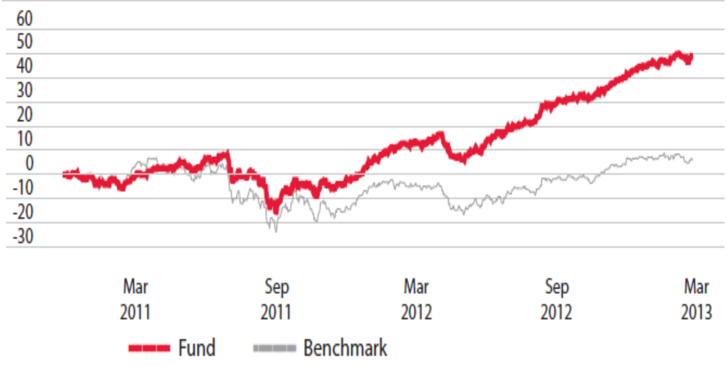
* Class 1 shares were closed to further investment on 30th November 2012
**MSCI Asia Pacific ex Japan
+ Launch date: B 31.12.2010, C 21.01.2011, D 31.12.2010

Performance Summary (%)
Period ending 28.03.2013

Class 2*	X USD	Y GBP	Z SGD	Benchmark
1 Month	0.14	0.20	0.14	-1.71
3 Months	5.69	6.14	5.80	1.82
Year to date**	5.69	6.14	5.80	1.82

* Class 2 shares were soft closed to new investors as of 30th November 2012
** Launch Date: 30.03.12
Source: Bloomberg

Fund Performance - Class B USD (%)



Source: Bloomberg. Total return net income reinvested. Since Launch: 31.12.10

Class 1 B, USD Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
2013	3.93	1.78	0.35									
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
2011	-2.68	-1.46	2.55	3.90	2.59	-0.60	3.56	-6.06	-12.80	10.62	-3.52	1.79

Class 2 X, USD Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
2012	-	-	-	2.91	-7.94	3.74	6.44	1.64	6.26	1.90	2.70	3.58

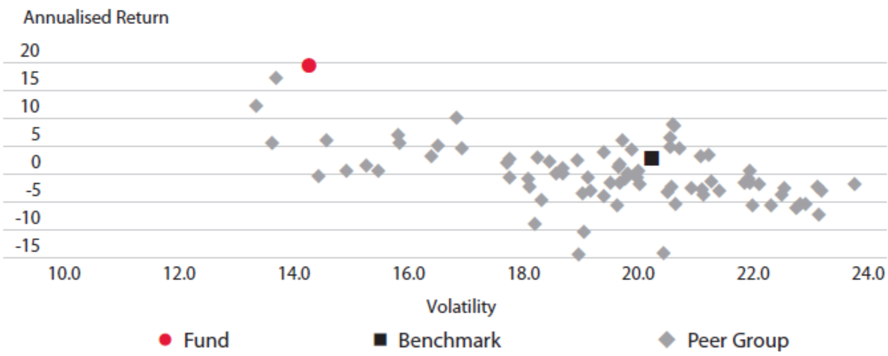
Source: Bloomberg

RISK ANALYSIS

Risk Metrics	Fund (%)
Tracking Error (% pa)	7.1
Beta	0.8
Alpha (%)	17.2
Volatility (%)	14.3

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 28.03.13

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

SK Telecom Co Ltd	4.7
HSBC Holdings	4.5
Telekomunikasi Indonesia	4.4
Bangkok Bank	4.0
Bank of Ayudhya	3.9
Total Number of Holdings	45

Portfolio Financial Ratios*

Predicted Price/Earnings Ratio	10.9x
Predicted Return on Equity (%)	17.3
Predicted Dividend Yield (%)	4.6

*Fiscal year periods

Thematic Breakdown (%)

Core Infrastructure	34.9
Asian Consumer	18.5
Quality Financials	17.6
Real Estate Services	9.3
Asian Export Brand	8.4
Retail Shopping Mall	5.7
Cash	2.4
Oil & Gas	1.9
Niche Tech	1.3

Geographical Breakdown (%)

Hong Kong/China	40.7
Korea	20.5
Thailand	11.7
Singapore	7.6
Malaysia	4.9
Indonesia	4.4
India	3.9
Taiwan	2.5
Cash	2.4
Australia	1.4

All data as at 28.03.13. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size USD	667.1m
Launch Date	31st December 2010
Fund Structure	UCITS III
Domicile	Dublin
Currencies	USD (base), GDP, SGD

Share Class Details

Class 1*			SEDOL	ISIN	Month end NAV
A USD	Unhedged	Non Distributing	B4MK5Q6	IE00B4MK5Q67	152.86
B USD	Unhedged	Distributing	B4QVD94	IE00B4QVD949	135.95
C GBP	Hedged	Distributing	B4Q6DB1	IE00B4Q6DB12	136.36
D SGD	Hedged	Distributing	B4NFJT1	IE00B4NFJT16	130.80

*Class 1 shares were closed to further investment on 30th November 2012

Management Fees

Annual Management Fee
1% p.a Paid monthly in arrears

Performance Fee
Class 1: None
Class 2: 10% of the net out-performance of the MSCI Asia Pacific ex Japan Index with a high-water mark.

Class 2*			SEDOL	ISIN	Month end NAV
X USD	Unhedged	Distributing	B4PYCL9	IE00B4PYCL99	125.68
Y GBP	Hedged	Distributing	B4TRL17	IE00B4TRL175	127.14
Z SGD	Hedged	Distributing	B6WDYZ1	IE00B6WDYZ18	125.82

* Class 2 shares were soft closed to new investors as of 30th November 2012

Dealing

Dealing Line	+353 1 603 6490
Administrator	Brown Brothers Harriman (Dublin)
Dealing Frequency	Daily
Min. Initial Subscription	USD 10,000
Min. Subsequent Subscription	USD 5,000
Subscription Notice	1 Day
Redemption Notice	1 Day

Dividend Dates

Dividends paid twice annually (January and July)

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