PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asian Equity Income Fund

Quarterly Investment Report

30 June 2011

FOR PROFESSIONAL INVESTORS ONLY

INVESTMENT OBJECTIVE

To select a portfolio of equity investments in the Asia Pacific ex Japan region with above average dividend yields and which have the ability to grow their dividends over the time. The fund aims to out-perform the MSCI Asia Pacific ex Japan index by 5-10% annually whilst growing its dividend overtime.

INVESTMENT PROCESS

The process is both quantitative and qualitative with the latter dominating. The universe is screened for those high dividend stocks which have the greatest ability to sustain and grow their dividends over time. A particular emphasis is placed on identifying those companies with exceptional franchises, annuity like cash flows and pricing power which are trading at significant discounts to intrinsic value.

FUND MANAGER

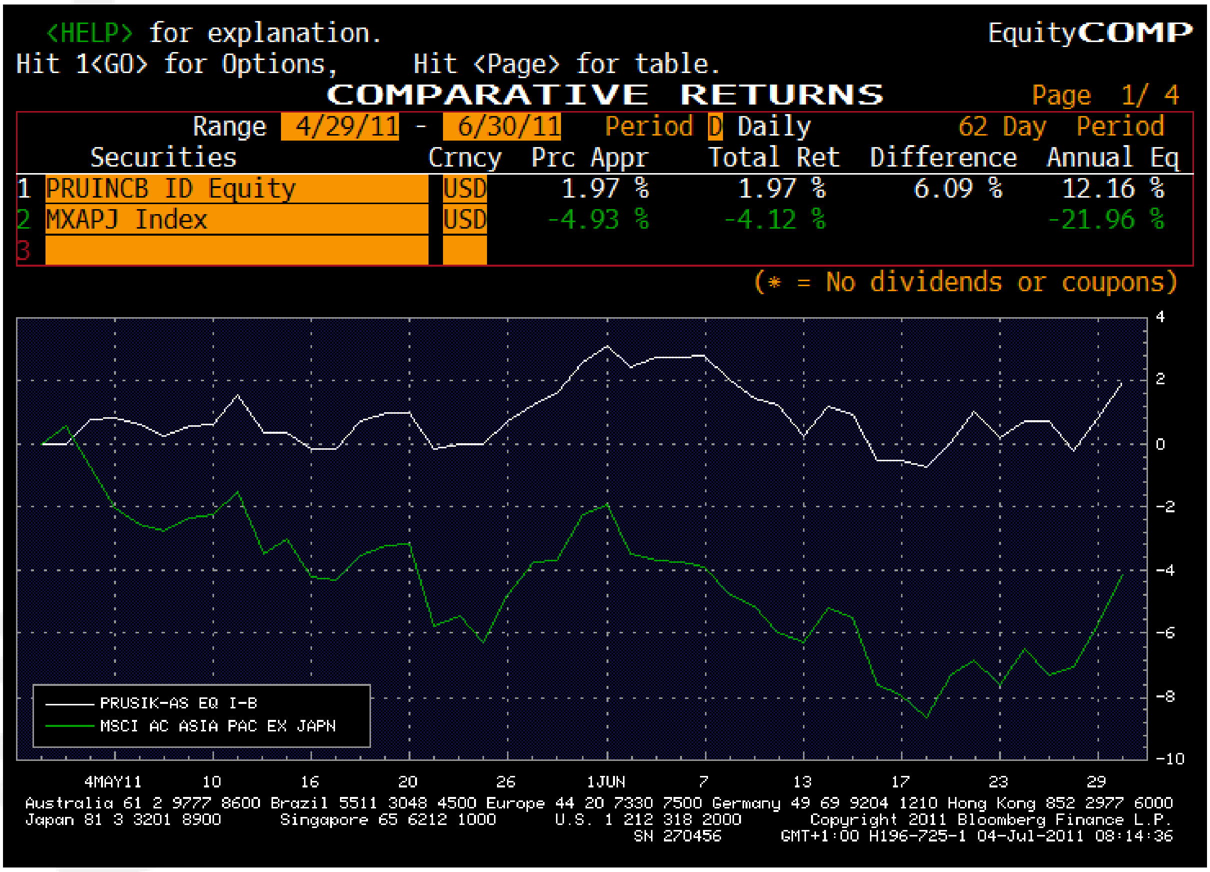
Tom Naughton - Partner
15 years experience in Asian fund management including 7 years spent in Hong Kong. Chief Investment Officer for the equity team at PMA, a US$1.7bn multi-strategy absolute return fund focused on Asia ex-Japan and built the equity business from zero to a peak of US$1.5bn in a assets. During this time he ran several equity income funds including the Sparx Asia Pacific Equity Income Fund (SPAIX). Previously was the Pacific Equities manager for Universities Superannuation Scheme Ltd where he worked from 1994 until 2002.

Prusik Asian Equity Income Fund

The fund rose by 6.0% compared to a market rise of 0.0% over the same period. Year to date the fund has risen 4.2% compared to a market return of 2.0%. The biggest contributors to returns were Merida, KT&G and Telecom New Zealand. The biggest detractors were Hui Xian REIT, Jiangsu Expressway and Macquarie Group.

As it stands we are still a little behind our target of 5 to 10% annualised outperformance (currently running at 4.5% annualised) but the performance during the second quarter since the fund's assets have been at a meaningful size is perhaps more representative as the TER has fallen to a more normal level (in the 1.5-2.0% range). The most positive part of the second quarter's performance was not so much the absolute level of outperformance but more the capital preservation during the turbulence of the May/June period. At the worst point, the market was down 8.5% yet the fund was only down 0.5% showing that it is possible to preserve capital whilst still being fully invested. Of course it is possible that this may not happen in the next downturn but it shows it is at least consistent to do so.

<u>Prusik Asian Equity Income Fund v's MSCI Asia Pacific ex-Japan Index 29/04/2011 – 30/06/2011 net income re-invested. (Source: Bloomberg).</u>



During the second quarter, trips to Malaysia, Philippines, Thailand and Hong Kong were conducted. The overall impression was that the economies and markets have some strong fundamentals despite the short term inflationary pressures resulting from the of higher oil prices. Although many local investors and companies were blasé about the prospect of GDP growth of 5-7%, low levels of corporate debt and high levels of profitability it appears to us to be the perfect environment for equities ie. strong enough so that earnings growth will be attractive but not too strong so that over-investment and monetary tightening becomes an issue.

Philippines

The Philippines is one of the least analysed markets in Asia, not least because it only contains 32 companies that trade more than US$1m/day and 1 company with a market capitalisation above US$10bn - **PLDT**. Although PLDT has a high dividend yield and therefore is the choice for many income funds in the region, our meeting suggested that they are perhaps not as attractive an investment choice as may first appear. The bulls point to the excellent management, sector consolidation and the fact that PLDT enjoys the highest profitability of any operator in the region with a 41% pre-tax margin compared to the average in emerging Asia of 23%. It is exactly this high level of profitability that most concerns us because of the general rule of thumb that real, risk adjusted profitability always tends towards zero unless there is a good reason otherwise. The reason that PLDT's margins are so high is that 50% of their revenues come from SMS messages which are incredibly profitable due to the low capex requirements to send SMS messages rather than voice calls. To say that the SMS service has proven popular in the Philippines somewhat understates the situation. Around 1.8bn SMS messages were being sent every day during 2009 and at one stage 10% of all SMS sent *globally* were in the Philippines. However the SMS is now being threatened by the growth in social networking sites such as Facebook which can be accessed on a smart phone. Rather than send an SMS message for someone's birthday, consumers are just "posting on someone's wall" instead. This growth in data traffic is causing capex to sales to increase from 18% to 28% over the next 2 years whilst they build out the network to cope with the increased usage. This is likely to constrain the cash flow available for paying dividends at a time when the margins for the core business are also under pressure. The company admitted that consumers switching from "SMS to Facebook" would be very negative for their business.

A stock we much prefer in the Philippines and visited on our travels is **Manila Wate**r. Manila Water owns the concession to provide water and waste water services to over 6 million people in eastern Manila. Water is a theme which is typically very difficult to profit from as an investor due to the political sensitivity of the sector. Manila Water is an unusual company which has managed to create a profitable business but at the same time ensure that they are operating in a socially responsible way thus defusing potential conflicts with the government. Pricing is set in a way so that no customer pays more than 5% of their income to buy water. Low income residents pay around US$2 a month and they have increased the percentage of residents in their concession area receiving clean, 24 hour a day water from 27% in 1997 to 99% at the end of 2009. On the financial side they have a concession agreement lasting until at least 2037 which guarantees them a 9.4% *real* rate of return on assets. As they also have some debt this allows them to generate a 20% return on equity with very low risk. Due to the economic growth in the Philippines they will be doubling capacity over the next five years which means that earnings are also likely to double (in real terms) over this period. Although offering only a 3.0% dividend yield at the moment (one of the lowest in our portfolio) this is because they are only paying 30% of earnings in order to pay for the expansion in assets. As the business matures, the payout ratio is likely to increase and therefore it would not be unreasonable to expect the business to yield 10% on today's price in 5 years time.

Malaysia

During our visit to Malaysia it is striking how much the country now resembles Singapore. Such is the improvement in roads, buildings and other infrastructure. The country is planning to increase GDP per capita from US$7000/head to US$14,000 a head by 2020 and, even to a sceptic; it is possible that they can achieve this aim. We visited all of our portfolio holdings on the trip. **Guinness Anchor** has been operating in Malaysia since 1893 and so has a long established brand in the country. Although not a high growth market, profit increases of 10% a year are expected and therefore the 5% dividend yield makes this a solid holding. Another holding is **Media Prima** which controls 50% of the commercial free to air market TV as well as operating several local language newspapers.

Interestingly, the demand for local language content is increasing strongly and their tabloid "Harian Metro" (described by the company as "The Sun minus page 3) is growing circulation by 15% annually in contrast to the English language press which is facing declining sales. Advertising rates for the Harian are less than one third of the level of the English language press but this gap is expected to close if current market trends continue. The company is debt free and is able to pay out a large percentage of earnings as dividends. Trading at 14x earnings and with a 4.2% dividend yield, it is an attractive asset.

The most impressive visit of the trip was to **Sunway REIT**. Sunway operates a number of shopping malls, the largest of which is in Petaling Jaya, approximately 20kms outside Kuala Lumpur. We visited the mall and met with a number of senior managers at both the sponsor company (Sunway Holdings) as well as the actual managers of the mall itself. Malls are a way of life in much of Asia as very little space in the cities given over to parks and very high temperatures, spending weekends at the mall is a fact of life and therefore operating a well located, high occupancy mall is an attractive business. Sunway Pyramid Mall is an extremely successful mall. Operating at 100% capacity with very high footfall due to its location near many residential developments as well as several of the large universities it is considered to be one of the best malls in Malaysia. Management impressed with their knowledge of retailing (gained in part by frequent visits to US/Australia/UK). In addition, the REIT has just purchased a mall (Putra Place which is located in a prime area of Kuala Lumpur) out of bankruptcy at a very attractive price. By a rough calculation they have created value equal to almost 15% of the current market capitalisation by buying the asset at a 50% discount to its conservative valuation and on a 9% ungeared yield. The stock is likely to receive a further boost as the market realises the extent to which this value is being realised. Sunway is trading on a 6.3% dividend yield (excluding the current acquisition which has not yet been finalised) and growing at >5% we believe this is a very attractive risk reward proposition.

Thailand

Thailand was also booming during our visit and the local businessmen were perhaps surprisingly relaxed about the upcoming election. We visited a number of our holdings and the story of continued growth and cautious optimism was common to most meetings. **BEC World** is another free to air TV operator which is benefiting from the upturn in the economy. They are benefiting from the consumer goods multinationals battling for consumer attention. Unilever accounts for 10% of total advertising in Thailand versus Proctor & Gamble at 4% even though they are similarly sized companies so expect to see P&G boost spending. Unilever has also yet to really start marketing its food business which is also likely to lead to their advertising budget increasing. Of course cash flow generation from these "old media" companies is legendary and BEC admitted they hadn't even managed to spend their IPO proceeds from 15 years ago and so were happy to pay out almost 100% of earnings as dividends. Generating a 5.0% dividend yield and growing at 10% it seems cheap.

Major Cineplex is a cinema operator and we visited several of their operations (both those suggested by the company and also some that were not) and spoke with the local management. It is apparent how actively the company runs its business although it has a 70% market share of cinemas it is still actively investigating how returns can be improved. Can a restaurant be moved to free up more space for advertising? Can MNCs such as Apple be persuaded to use their private cinemas for product launches? How can they improve their loyalty programmes to fill up non-peak viewing times? This is another company that can pay out 80% of its earnings as dividends due to the peaking of capital spending and high margins that the company enjoys.

Hong Kong

During a brief visit to Hong Kong it is striking how strongly the economy is still growing with the financial and tourism sectors showing particular strength. The one cloud on the horizon is the tightening of mortgage rates. Due to the rising loan/deposit ratio in Hong Kong driven by lending growth of 30% so far this year, banks are increasing the margin on the mortgage lending. Having been as low as HIBOR +50-100bps 6-12 months ago (many contacts seem to be paying <1% on their mortgage) **HSBC** has increased their rates to HIBOR + 180-230bps and expects to see rates at HIBOR +250-300bps by the end of the year. So households in Hong Kong are facing a 200bps increase in mortgage rates even before the possibility that the Fed raises rates. Although not likely to cause any systemic issues it might not be positive for property prices in the Special Administrative Region. The fund has no exposure to Hong Kong property developers or local banks.

Asian Banking Sector

One theme that has built out towards the end of the second quarter is an increased exposure to the Asian banking sector. Despite (or perhaps because) it is now one of the least popular sectors in Asia there is some exceptional value to be had. Our holdings include: **HSBC, Macquarie Bank** and **DBS** which all have similar characteristics:

- Trading at close to book value.
- Strong deposit franchise/limited reliance on wholesale funding.
- Proven management over multiple market cycles.
- Maintained profitability even during the recent crisis.
- Even at these depressed level of profitability they are generating attractive dividend yields at payout levels of 50-60%.

Although the current trading environment is undoubtedly challenging we do not believe that Asian banking sector profitability will remain, as share prices imply, near zero forever. When purchasing banks trading at near book value that have a low systemic risk (ie they have high capital ratios and levels of liquidity both in absolute terms and relative to the sector) the risk/reward is generally very favourable as they are, by definition, trading at close to liquidation value. That is to say, an orderly liquidation and winding down of the business should result in close to book value being returned to shareholders. Of course, in a distressed scenario or where the bank has very high leverage this may not be the case but for quality banks it is more likely that a premium to book value were to be achieved. For HSBC and particularly Macquarie Bank there are also several businesses that have very limited assets but have substantial value (e.g. Macquarie Bank's fund management operations by themselves would probably be worth more than the market capitalisation of the entire business) which further improve the trade off. Asia is still broadly underbanked and options to increase revenues from great capital market development as well as growing the fee income pool, especially from wealth management exist.

Even assuming that profitability remains depressed, these investments are likely to return approximately 10% a year as book value compounds over time. If profitability returned to more normal levels and the rating of the banks returned to 1.5-2.0 book value then annualised returns of closer to 25% are possible. If Macquarie Bank returned to its pre-crisis valuations then the stock could triple from these levels. Is that likely? No. Is it possible? Yes. Finding stocks with that type of "optionality" (limited potential downside, very high potential upside) is key to generating high returns over time and the fact that Macquarie Bank can still pay an attractive yield despite the current market environment gives us greater comfort that the risk/reward profile is very attractive at these levels.

PORTFOLIO PERFORMANCE

Performance Summary (%)
Periods ending 30.06.2011

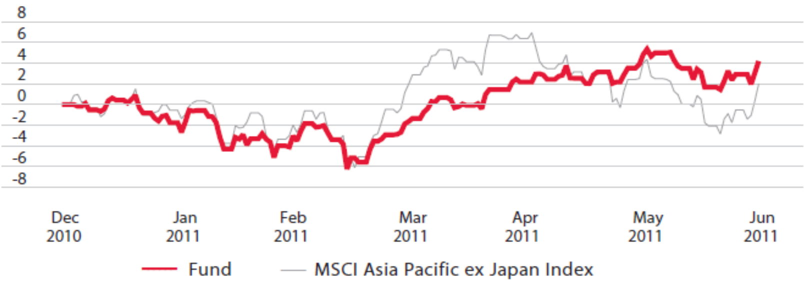
	USD	GBP	SGD	Benchmark *
1 Month	-0.60	-0.53	-0.78	-1.93
3 Months	5.95	5.65	5.61	0.03
Year to Date	4.19	4.42	1.79	2.00
Since Launch+	4.19	4.42	1.79	2.00
Annualised since Inception	8.59			4.06

*MSCI Asia Pacific ex Japan

Source: Bloomberg

+ Launch date: B 31.12.2010, C 21.01.2011, D 31.12.2010

Fund Performance - Class B USD (%)



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

Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
2011	-2.68	-1.46	2.55	3.90	2.59	-0.60						

Source: Bloomberg

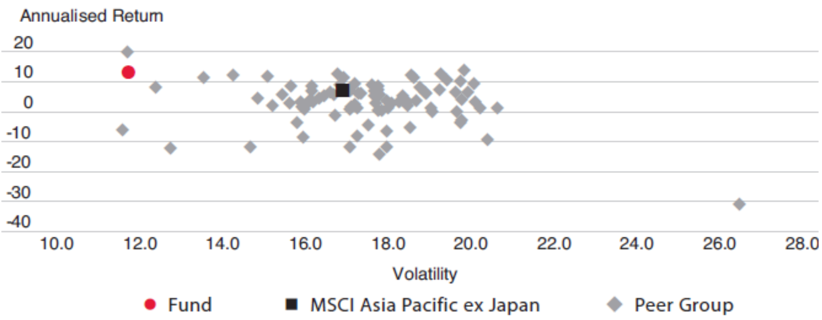
RISK ANALYSIS

Risk Metrics	**Fund**
Tracking Error (% pa)	8.90
Beta	0.49
Alpha (%)	6.6
Volatility (%)	0.73

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, 31.12.10 to 30.06.11.

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Jiangsu Express	4.8
Anhui Expressway	4.7
Sunway Real Estate Investment	4.3
KT&G	4.3
Texwinca Holdings	4.2
Total Number of Holdings	33

Portfolio Financial Ratios*

Price/Book Value	2.8x
Price/Earnings Ratio	14.2x
Predicted Price/Earnings Ratio	11.7x
Return on Equity (%)	21.7
Historic Dividend Yield (%)	4.3
Predicted Dividend Yield (%)	5.7

*Fiscal year periods

Thematic Breakdown (%)

Asian consumer	26.1
Core infrastructure	24.2
Quality Financials	11.3
Real estate services	9.6
Niche Tech	8.3
Asian export brand	7.5
Retail shopping mall	7.3
Cash	5.7

Geographical Breakdown (%)

Hong Kong/China	24.1
Taiwan	13.5
Singapore	13.4
Australia	11.8
Malaysia	10.3
Thailand	10.3
Korea	8.1
Cash	5.7
Philippines	2.8

All data as at 30.06.11. Source: Prusik Investment Management LLP, unless otherwise state

FUND PARTICULARS

Fund Facts

Fund Size	13.8m
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

Dealing

Dealing Line	+353 1 603 6490
Administrator	Brown Brothers Harriman (Dublin)
Dealing Frequency	Weekly, Friday
Min. Initial Subscription	USD 10,000
Min. Subsequent Subscription	USD 5,000
Subscription Notice	2 business days
Redemption Notice	2 business days

Share Class Details

Codes

Class 1			SEDOL	ISIN	NAV*
A USD	Unhedged	Non Distributing	B4MK5Q6	IE00B4MK5Q67	107.19
B USD	Unhedged	Distributing	B4QVD94	IE00B4QVD949	104.19
C GBP	Hedged	Distributing	B4Q6DB1	IE00B4Q6DB12	104.42
D SGD	Hedged	Distributing	B4NFJT1	IE00B4NFJT16	101.79

*Month End 30.06.2011

Class 1 will remain open to investors until the fund reaches USD50m. It will then soft close (to new investors) remaining open for current investors until the fund is USD100m. A new share class (Class 2) will be launched when Class 1 is approximately USD50m. This will carry a 1% AMC with a 10% performance fee relative to the index.

Dividend Dates

Ex Dividend: Interim 1 January, Final 1 July

Distribution: Interim end February, Final 31 August

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