PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asian Equity Income Fund

Quarterly Investment Report

31 December 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.

4th Quarter Review

The fund returned 8.65% compared to a market return of 4.47% to finish the year with a total return of -3.96% compared to the market return of -15.22%. The fund therefore outperformed the market by 11.26% for its first full year. Our target is to outperform the index by 5% to 10% per annum over a full cycle and so, although we would rather start off ahead of this target than behind it, there is a long way to go before we can say we have been successful in achieving our aim. Total returns were disappointing but not out of line with expectations. Given our expectation for total returns across a full cycle of approximately 15% (5% dividend yield + 10% dividend growth) with volatility of 15% (roughly in line with dividend volatility and slightly below historic share price volatility) then occasional negative years are to be expected.

The main contributors to returns in the quarter were **Jiangsu Expressway** (#1 Chinese toll road operator), **Anhui Expressway** (#2 Chinese toll road operator) and **Major Cineplex** (Thai cinema chain). The biggest detractors to returns were **Merida** (Taiwanese bicycle manufacturer), **Hite Jinro** (Korean brewery) and **Rural Electrification** (Indian power infrastructure).

For the year as a whole our biggest contributors were **KT&G** (Korean tobacco), **Major Cineplex** and **TVB** (Hong Kong TV company). The biggest detractors were **Macquarie Group** (Australian investment bank), **Anhui Expressway** and **CNOOC** (Chinese oil exploration and production company). At the sector level we made money in consumer staples, consumer discretionary, telecoms and utilities and lost money in financials, IT and energy. By country we made money in most markets with the exceptions of China, Australia and India.

2011 Performance Review

In summary, the performance in 2011 was within our target range. There were several things that helped performance during the year:

- Dividend stocks performed well (the top quintile of dividend stocks outperformed the market by 5.0%)
- The fund avoided most of the value/dividend traps (e.g. cyclicals)
- Good stock selection in terms of selecting very high quality stocks with high upside potential but low downside risk

What hurt us was:

- High TER for the first quarter when the fund was US$2-3m
- Not aggressive enough in avoiding ANY cyclicality
- Some poor stock selection in China based on incorrect analysis (Bosideng, Hui Xian REIT)
- Too high an exposure to the Chinese toll road sector
- Mid and Small Cap exposure was costly during the market sell-off when all betas tended towards 1.0x and our downside risk was higher than expected

What can be improved for 2012?

- We have improved our quant analysis and screening potential greatly by employing the Starmine system. Starmine (now owned by Thomson) specialises in improving broker estimates by analysing which analysts have the best forecasting records on particular stocks and is extremely useful when screening for new ideas
- More rigour in analysing downside risk to earnings and dividends
- Expansion of research universe

Outlook for 2012

Forecasting the future generally plays a very small part in how the portfolio is constructed and so there is little we can add to the debate on where the global economy is headed. There are, however, some evolutionary changes occurring in the portfolio which might help understand where we are trying to position ourselves.

Selling some overvalued defensive positions

Given the desire of investors to seek companies with secure earnings, it is part of our strategy that some of our positions will get bid up to levels at which we are happy to sell them. Regretfully, we had to sell positions in **BEC World** and **Guinness Anchor** on this basis. Although they are both wonderful companies, they had both produced total returns of approximately 40% during 2011 and were rated at above 20x earnings. Although they are still likely to produce positive returns from this point, the risk-reward in owning the stocks no longer made sense as their discount to intrinsic value was too small (we saw less than 20% upside in an optimistic scenario for these stocks and 30-40% downside in an extremely stressed market scenario).

Buying some higher risk stocks but ONLY if downside risk is limited and upside potential is large

As investors know, we allocate approximately 20% of the portfolio that is not invested in high quality defensive and franchise stocks to “cyclical/growth” stocks. These are stocks (Delete - are those) that do not have the same level of predictability as the rest of the portfolio but, for other reasons, merit a position in the portfolio. It can generally be thought of as buying “good companies at great prices”. In the current portfolio this includes some well managed exporters (including **VTech** and **Merida**), niche technology (only one position – **Advantech**) and occasionally a “special situation”. We would not expect special situations to account for more than 10% of the portfolio but opportunities do present themselves in this area when stocks trade at extremely distressed levels and deep discounts to intrinsic value. Although we will only consider those stocks that are paying a dividend, we will take on greater dividend risk if the potential return is significant. One example of this is **New World Development**.

New World Development is not a stock that we would normally consider. With low return on equity, a volatile earnings stream and even with exposure to the dreaded Chinese property market, it offers none of the characteristics that we normally look for in a company and many of those that we seek to avoid. So why do we own it? In simple terms it is because there is a price for everything.

New World Development was listed in 1972 on the Hong Kong Stock Exchange. It is a conglomerate with exposure to the property and infrastructure market. Although its allocation of capital during the 1990s and early 2000s was poor, it has since cleaned up its balance sheet and operates a relatively streamlined set of businesses.

In 2011 the stock fell 53% as market fears of a collapse in the Hong Kong and Chinese property markets led investors to exit anything with any real estate exposure.

The current stock price is just over HK$6/share. The net asset valuation of the company is as follows:

Listed Holdings	**HK$/Share**	**Comments**
NWS Holdings Limited	4.00	*(Chinese infrastructure assets)*
New World Department Store	1.00	*(Chinese Department stores)*
New World China Land	1.60	*(Chinese property development)*
Unlisted businesses		
Hong Kong Investment Property	7.30	*(Mainly retail properties in Hong Kong)*
Hong Kong Development Property	3.70	*(Expect prices down 10%-20%)*
Hotels and other assets	3.30	
Net Debt	($2.10)	
Total NAV	**18.80**	
Stock Price	**6.30**	
Discount to NAV	**67%**	
Memo:		
2011 estimated price to book ratio	0.28x	
2011 estimated price earnings ratio	5.8x	
2011 estimated dividend yield	5.4%	

Price to Book Valuation of New World Development

Source: Bloomberg

The above calculation demonstrates that the entire company is trading at below the value of just its listed holdings. So the rest of the assets are being priced at zero. These include a relatively stable retail property investment portfolio, in addition to some higher risk Hong Kong development assets. The attraction of the investment does not come from the underlying businesses, but from the option-like characteristics of the position. If nothing happens then we can collect a 5.4% dividend yield and it is trading near crisis lows in terms of price to book value (see above). The dividend can easily be covered by cash flows from the more defensive retail assets. It is not uncommon in Hong Kong for conglomerates to trade at variable discounts to net asset value. When the market is bullish and analysts are optimistic, they often trade at close to, or even a premium to, net asset value and then when the market is depressed the discounts widen. Occasionally, the owners of the company seek to arbitrage this difference by issuing stock when it is at a premium and then buying it back, or even privatising the company, when the discount is large. Often there is no catalyst but the discount quietly moves back towards the average.

If the Hong Kong or Chinese property markets stabilise and the stock trades at the average discount to NAV then the share price might increase by 50%. This is undoubtedly a more opportunistic investment and is an example of the type of special situation we are interested in, which provides higher risk, higher return opportunities. It is currently a 1.8% position – one of our smaller positions – reflecting the higher risk nature of the investment.

Portfolio Structure

Readers will note that both the “Core Infrastructure” and “Asian Consumer” weightings in the fund have increased. We now have 34% in Asian Consumer, 33% in Core Infrastructure and 14% in Retail Shopping Malls. This means that we have more than 80% of the portfolio in these domestically focused assets with stable earnings growth and a degree of insulation from what is happening in Europe. It is equally important to note that the valuation of the portfolio has not changed significantly, so we are not overpaying for defensiveness. At 12x earnings, our portfolio is only trading at a slight premium to the market. We are therefore confident that our portfolio is substantially undervalued relative to the market.

Below is a list of the new positions introduced to the portfolio in 4Q11 and a very brief discussion of the reason for the inclusion.

- **Thai Beverage** – Thai spirits and beer producer that has 70% of the spirits market in Thailand. Trades a 10.7x earnings and a **7.1% dividend yield**.

- **Sheng Siong Group** – Singaporean supermarket chain operator. New listing which is perhaps why the market is not yet appreciating the dividend growth potential of stock. Low capex requirement means almost 100% of earnings can be paid out as dividends. P/E of 16.4x earnings with **dividend yield of 5.5%**.

- **Guangdong Investment** – 80% of revenue from high margin water sales to Hong Kong government. Rates increase by increase in RMB/HKD exchange rate and Chinese inflation rate each year (so if RMB appreciates by 10% and Chinese CPI is 5% then rates increase by 15%). 10.8x earnings and **3.7% dividend yield**. Minimal earnings volatility from core business

- **NWS Holdings** – Investments in the Chinese water, rail and toll road industries. Recent acquisition of Hangzhou ring road is an excellent use of capital. 9.2x earnings and **5.4% dividend yield**.

- **Power Assets** – Hong Kong power utility with guaranteed return structure. 13x earnings and **4.2% dividend yield**. Not one to own for high returns but stability of business warrants a premium.

- **Hite Jinro –** current valuation discounts business remaining poor forever but management’s plan to improve margins is credible. At current valuation of 11x earnings and **5.4% dividend yield** there is no belief in this priced in.

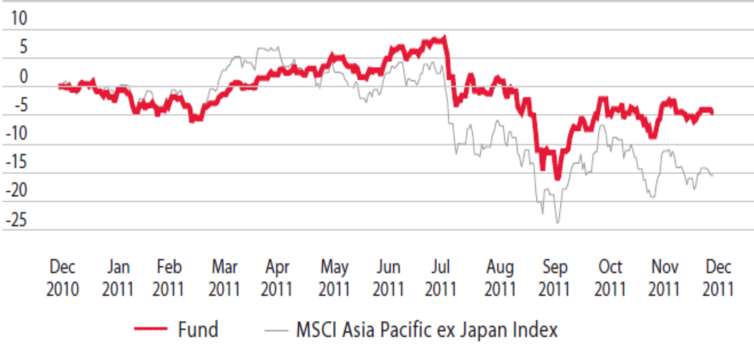
PORTFOLIO PERFORMANCE

Performance Summary (%)
Periods ending 31.12.2011

	USD	GBP	SGD	Benchmark *
1 Month	1.79	1.83	1.58	0.05
3 Months	8.65	8.63	8.16	4.49
Year to Date	-3.96	-3.60	-6.73	-15.20
Since Launch+	- 3.96	-3.60	-6.73	-15.20
Annualised since Inception	- 3.97	-3.83	-6.73	-15.20

*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 (%)

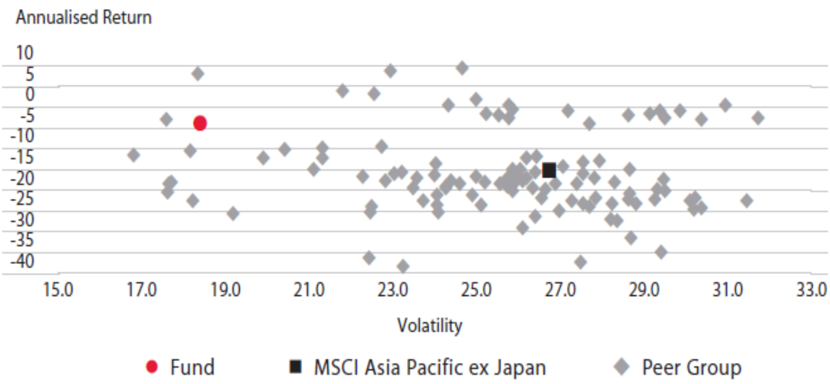
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
2011	-2.68	-1.46	2.55	3.90	2.59	-0.60	3.56	-6.06	-12.80	10.62	-3.52	1.79

RISK ANALYSIS

Risk Metrics	Fund (%)
Tracking Error (% pa)	8.54
Beta	0.79
Alpha (%)	8.08
Volatility (%)	18.40

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 Index Fund), 31.12.10 to 30.12.11.

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

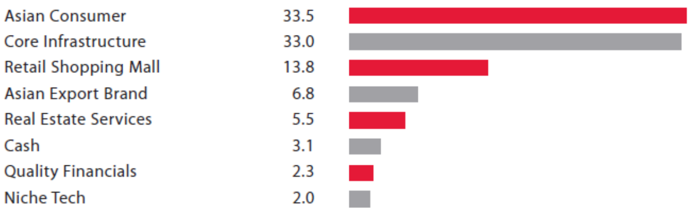
Anhui Expressway Co Ltd	**4.1**
Television Broadcasts Ltd	**4.0**
Power Assets Holdings Ltd	**4.0**
Merida Industry Co Ltd	**4.0**
KT&G Corp	**3.9**
Total Number of Holdings	**34**

Portfolio Financial Ratios*

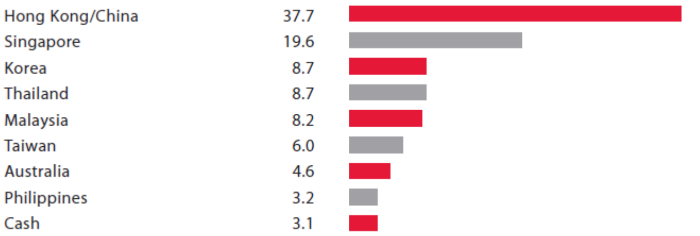
Predicted Price/Earnings Ratio	**12.2x**
Predicted Return on Equity (%)	**18.7**
Predicted Dividend Yield (%)	**6.2**

*Fiscal year periods

Thematic Breakdown (%)



Geographical Breakdown (%)



All data as at 30.12.11. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size USD	**31.4m**
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	**Daily**
Min. Initial Subscription	**USD 10,000**
Min. Subsequent Subscription	**USD 5,000**
Subscription Notice	**1 Day**
Redemption Notice	**1 Day**

Share Class Details

Codes

Class 1			**SEDOL**	**ISIN**	**NAV***
A USD	**Unhedged**	**Non Distributing**	**B4MK5Q6**	**IE00B4MK5Q67**	**98.80**
B USD	**Unhedged**	**Distributing**	**B4QVD94**	**IE00B4QVD949**	**96.04**
C GBP	**Hedged**	**Distributing**	**B4Q6DB1**	**IE00B4Q6DB12**	**96.40**
D SGD	**Hedged**	**Distributing**	**B4NFJT1**	**IE00B4NFJT16**	**93.27**

***Month End 31.12.2011**

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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