Prusik Asian Equity Income Fund

Long Only Absolute Return Investing in Asia

PRUSIK

30 August 2019

Monthly Fund Fact Sheet

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 time. The fund aims to outperform the MSCI Asia Pacific ex-Japan index by 5-10% annually whilst growing its dividend over time.

Fund Facts

Fund Size (USD)	828.3m
Launch Date	31 December 2010
Fund Manager	Tom Naughton
Fund Structure	UCITS III
Domicile	Dublin
Currencies	USD (base), GBP, SGD
Index	MSCI Asia Pacific ex Japan Index

Performance - Class B USD (%)

	Fund	Index
1 Month	-5.11	-4.36
3 Month	-1.52	0.49
Year to Date	4.90	6.12
Since Launch	166.16	35.70
Annualised†	11.96	3.59

Source: Morningstar.

Launch Date: B: 31.12.10

†Since Launch Performance

Investment Process

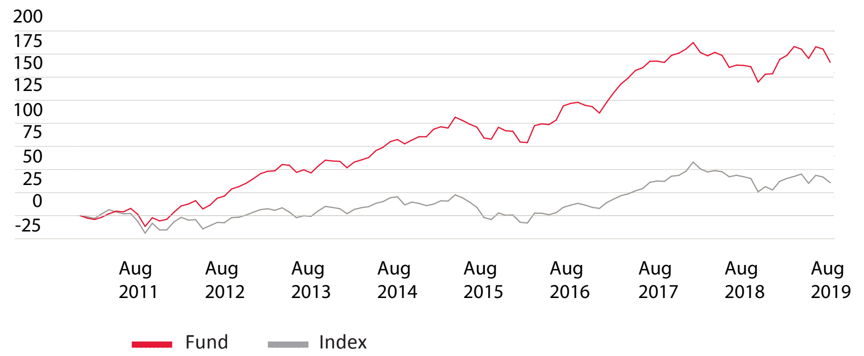
The process is both quantitative and qualitative with the latter dominating. The universe is screened for those high dividend stocks which have the greatest ability to sustain and grow their dividends over time. A particular emphasis is placed on identifying those companies with exceptional franchises,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

Dividend Dates

Dividends paid twice annually (January and July)

FINALIST 2019 INVESTMENT WEEK FUND MANAGER OF THE YEAR AWARDS

Fund Performance - Class B USD (%)



Source: Morningstar. Total return net income reinvested.

Fund Manager Commentary

August was marked by a significant increase in intensity of the demonstrations in Hong Kong. We have approximately 30% of our fund in this region and although our underlying exposure to the Hong Kong economy is only a third of this, (e.g. **CK Hutch** derives only 1% of its profits from Hong Kong and the Hong Kong Telecom stocks have very little economic sensitivity), the violent stock market reaction to the civil unrest has hurt all of our positions. Our basic thesis is that Hong Kong will prove more resilient than many expect and we will return to an uneasy truce between the protestors and the Chinese government as neither side would gain from a collapse of Hong Kong and the end of its special status. That said, the current situation is serious and there is of course some probability that it will get worse over the next several months and years. However, we believe that the stocks we own which are particularly exposed to the current turbulence (**CK Assets** and **Swire Pacific**) are already factoring in an extremely negative scenario. **CK Assets,** we estimate, is pricing in a 75% fall in Hong Kong asset prices and **Swire Pacific** trades at a third of book value. Both have rock solid balance sheets and strong cash generating ability even during challenging economic circumstances.

This month we added **Samsonite** to the portfolio**. Samsonite** has been hit hard in recent months both by the downturn in spending on consumer goods as well as the impact of tariffs on their business, given most of their products are manufactured in China and much of this is exported to the US. Although we believe the company does need to improve on certain areas of their business (slimming down their product range, reinvigorating their marketing strategy), the current valuation prices in no value for their brands (which as well as the core brand also includes Tumi and American Tourister) or margin recovery potential. Trading at a P/E of 11x with a 5% dividend yield, we believe the expectation for a recovery is low and, stripping out the valuation they paid for Tumi in 2016, the core business is valued at just 4x EV/EBITDA despite having the number one market share globally in luggage.

We ended this month with a cash position of close to zero and are fully invested for the first time since late 2018. We always prefer to be fully invested both because it maximises our return on capital by minimising the cash drag and because it increases competition for capital in the portfolio. When cash is zero and we add a new position, it means we must reduce an existing position which means, in turn, we can reallocate capital from positions with lower upside potential. We have analysed the relationship between the cash level of the fund and future performance from when we gave ourselves the option to vary the cash position in early 2013. Since then, we have found a very close relationship between low cash levels and future portfolio performance. When the cash level is low (below 2.7% of NAV – it is more than this 90% of the time) the fund has risen by an average of 17.1% in the following 12 months compared to the MXAPJ return of 8.9%. When the cash level is high (above 13.5% of NAV – it is less than this 90% of the time) the fund has risen 2.0% compared to market return of 2.1%. This suggests that the low cash level is predictive of both stronger future returns – both from an absolute and relative perspective. I believe the absolute returns are higher because a low cash level is also associated with cheaper market valuations: when the cash level is low, the price to book ratio for the MXAPJ has averaged 1.4x compared to 1.7x when the cash level is high. The low cash level is associated with higher alpha because of the greater competition for capital as noted above.

All data as at 30.08.19. Source: Prusik Investment Management LLP, unless otherwise stated.

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Prusik Asian Equity Income Fund

Top 5 Holdings (%)

CK Hutchison Holdings Ltd	6.3
Samsung Electronics Co Ltd - Pref	6.2
Power Grid Corporation of India	5.8
Scentre Group Ltd	5.2
CK Asset Holdings Ltd	5.1
Total Number of Holdings	30

Portfolio Financial Ratios

Predicted Price/Earnings Ratio	10.0x
Predicted Dividend Yield (%)	5.6

Risk Metrics

Tracking Error (% pa)	9.21
Beta	0.77
Alpha	8.60
Volatility (%)	13.49
Sharpe Ratio	1.22

Thematic Breakdown (%)

Real Estate	20.2
Communications Infrastructure	18.3
Financials	16.9
Power Utilities	13.0
Consumer	9.2
Transport Infrastructure	9.0
Cheung Kong / Hutchison	6.3
Technology	6.2
Cash	0.9

Geographical Breakdown (%)

Hong Kong	33.3
India	14.9
China	10.5
Singapore	9.2
Indonesia	6.3
Korea	6.2
Macau	5.8
Australia	5.2
Thailand	4.1
Philippines	3.4
Cash	0.9

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Management Fees

Annual Management Fee
1.0% 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, with a high-water mark paid quarterly.

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	273.80
B	USD	Unhedged	Distributing	B4QVD94	IE00B4QVD949	186.81
C	GBP	Hedged	Distributing	B4Q6DB1	IE00B4Q6DB12	178.49
D	SGD	Hedged	Distributing	B4NFJT1	IE00B4NFJT16	176.74

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	166.89
Y	GBP	Hedged	Distributing	B4TRL17	IE00B4TRL175	159.88
Z	SGD	Hedged	Distributing	B6WDYZ1	IE00B6WDYZ18	163.97

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	172.57

Class U shares are open to current investors only. Performance fee based on fund performance as a whole.