PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asian Equity Income Fund

Quarterly Investment Report
30 September 2019

FOR PROFESSIONAL INVESTORS ONLY

3Q19 Review and Outlook

The fund fell 5.3% in 3Q19 underperforming the market which fell 3.9%. The underperformance was almost all due to our overweighting of Hong Kong, which fell 10% during the quarter. In addition, we have no holdings in Taiwan which rallied 5.6%. This allocation effect could not be offset by positive stock selection in most of the other markets in which we invest. The top 3 contributors were **Cikarang Listrindo**, **Samsonite** and **Multi Commodity Exchange**. The bottom 3 contributors were **Indiabulls Housing Finance**, **Zhejiang Expressway** and **Swire Pacific**.

Hong Kong

The situation in Hong Kong has continued to deteriorate and this has had a negative impact on our fund performance. Although it is still a highly volatile and unpredictable situation, I will outline my thoughts on where we are and our framework for navigating the crisis.

My belief continues to be that Hong Kong is more resilient than people think and that it has been through similar periods before (e.g. the communist riots of '67) and has been written off many times in the past. Indeed, I remember clearly the consensus view in the mid-1990s, when I was starting my career, was that once Hong Kong returned to the Chinese, that Shanghai would take over from Hong Kong which would become irrelevant. However, this proved wildly inaccurate and the situation today is that China needs Hong Kong to access global financial markets and that this need will only increase if the world becomes less globalised and China decides not to open up its financial sector to foreign capital. In addition, Hong Kong has many strengths that China is unable to replicate. These include the rule of law, a generally tolerant society, efficient bureaucracy, generally independent judiciary, an attractive place for international workers, low tax rate, excellent infrastructure, ease of doing business and the existence of English as a national language. If China were to intervene in Hong Kong in a forceful way, this would almost certainly cause a significant economic downturn as China was shut out of financial markets.

Another factor that gives us comfort is that a very negative scenario is built into stock prices, even those that have substantial portions of their business outside of Hong Kong. For example, consider **CK Assets**. The market capitalisation of the company is US$25bn and, assuming the takeover of Greene King is completed, it will have US$5bn of debt. It owns real estate in Hong Kong worth US$32bn, it also owns real estate in other markets (mainly China) and global infrastructure assets (operating in developed markets including Australia, Canada and Europe) worth a total of US$29.5bn. In other words, even if we assume the Hong Kong assets are worth nothing, the company is trading in line with the estimated value of its non-Hong Kong assets.

New Positions

Samsonite

Samsonite is a global manufacturer and retailer of travel products and accessories, with products ranging from casual and mountaineering backpacks to high-end suitcases. **Samsonite** and its main brands (**American Tourister** and **Tumi**) are well-known and established brands. The company is at the centre of the fast-growing tourism industry that has been growing at 4.9% CAGR in the past five years.

The stock has been weak following Trump's announcement of tariffs on Chinese goods entering the US market, as almost half their sales are in the US market, and most of their manufacturing is in China. This caused the stock to de-rate from a 20x P/E multiple in early 2018 to below 10x at our time of purchase. For a company that should be able to generate mid to high single-digit sales growth, and dividend growth in the mid-teens over the next several years (as margins recover), we believe this is too cheap despite the uncertain macro-economic environment.

Bangkok Bank

Due to a weak Thai economy and falling interest rates, Thai banks have suffered a significant de-rating. In common with many banking sectors around the world, the sector is priced at crisis valuations which, in our view, overstates the risk. Unless there is a significant asset quality issue, ROEs should be maintained at the 8% level.

Bangkok Bank trades at 25% discount to book value despite a strong balance sheet and low leverage level. I believe we should earn a 10% total return assuming a 4-4.5% dividend yield, plus 5-6% growth in book value even with no re-rating of the stock. If the bank re-rates to 1.0x P/B over next 3-5 years then this would increase the target returns to a mid-teens level on an annualised basis.

Long term Price to Book ratio for Bangkok Bank

Source: Bloomberg

Exited Positions

Indiabulls Housing Finance

Although we generated a significant profit in our investment in **Indiabulls Housing Finance**, our failure to cut the position earlier in the year has been costly and led to a sizeable drawdown from the highs.

Indiabulls has always been a controversial stock. From the moment we first discovered the stock in 2014, when it was trading at a dividend yield of 14% and a price earnings ratio of 4x, we struggled to find a single analyst that was positive on the company. It was perceived as having poor corporate governance and would be unable to challenge HDFC in the mortgage market. Its business is relatively simple: it is a housing finance company which borrows money in the wholesale market and lends that to house buyers that are seeking a mortgage. In addition, and this was something that did prove to be an issue, they lent money to real estate developers (in line with every other housing finance company) to develop projects. From 2014 until 2018 it grew its loan book at 20% a year and our interactions with the company were productive. We were a little concerned when it bought a stake in Oaknorth Bank (a UK challenger bank) but accepted the management's reasons for doing so[1]. The trouble started in late 2018 when there was a default in the Indian bond market by ILFS, an infrastructure development and finance company, which caused the wholesale funding market to seize up. Our first mistake was to assume that this would be temporary. Partly this is because, in general, when investing in emerging markets it doesn't pay to panic (or be overtaken with greed) at the same time as everyone else. And partly this was because India (and in particular India consumer finance) is one of few areas of growth that I see in Asia and so I was particularly keen to maintain an exposure to this sector. I was therefore more inclined to take the positive view ("this will be short lived and **Indiabulls** will go back to growth") than the negative view ("**Indiabulls** is a wholesale funded mortgage provider and if the market loses confidence in it, then its business will cease to function"). My second fault was to believe that **Indiabulls'** market leading ROEs (25%+ compared to HDFC at 15%) would be sustainable and not digging enough into the contribution of the real estate funding to these high ROEs. Because of these high ROEs the company traded on a premium to book value which meant that if this changed, the downside could be considerable.

Although there has been a lot in the press about **Indiabulls** (several accusations of fraud and corruption – all denied and/or proven incorrect in court), the main issue was the sector. Similarly sized finance companies had all fallen about the same amount in the past 12 months and below we show the performance in the past 12 months for Edelweiss and IIFL, together with **Indiabulls.**

[1] This went on to be a huge success for them as they invested at a valuation of US$250m for a business which is now valued at closer to US$2.5bn

Source: Bloomberg

Ultimately, the problem was being too complacent about the state of the funding markets in India and not stressing the valuation enough for a normalisation of ROEs.

Outlook

Our portfolio continues to trade at a highly attractive valuation whether that is from the perspective of the absolute P/E ratio (10x) relative to the MXAPJ (25% discount) or relative to the historical average (18% discount). Although there is no guarantee when or if this gap will close, we can do our best to reduce the risk of investing in “value traps”. We do this in several ways including quantitatively, (aiming to own stocks with strong balance sheets, positive earnings and price momentum with good earnings quality – our portfolio ranks above average in all of those categories) as well as qualitatively, (owning stocks with low economic cyclicality, high quality management teams). In addition, around half of our portfolio holdings are actively taking advantage of the valuation dislocation by buying back stock or selling assets at high prices to private equity funds. For example, **Metro Pacific** has just sold its hospitals business to KKR at a P/E ratio of 55x compared to its own P/E ratio of 9x.

PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 30.09.2019

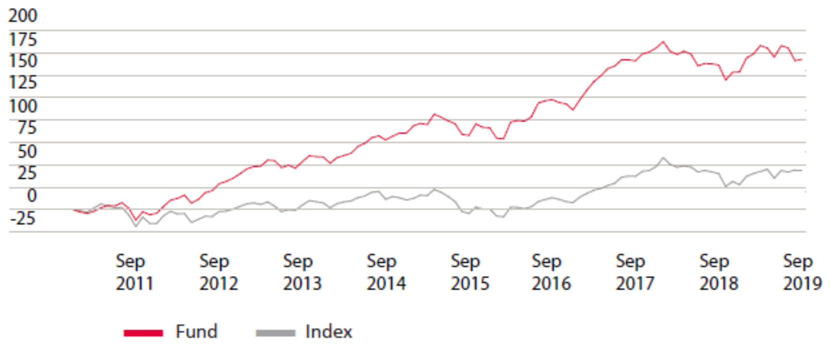
Class 1*	B USD	Benchmark **
1 Month	0.62	1.81
3 Months	-5.32	-3.86
YTD	5.55	8.04
2018	-9.52	-13.68
2017	32.79	37.32
2016	10.36	7.06
Since Launch+	167.81	38.15
Annualised since Inception	11.92	3.76

* 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: Morningstar. Total return net income reinvested.

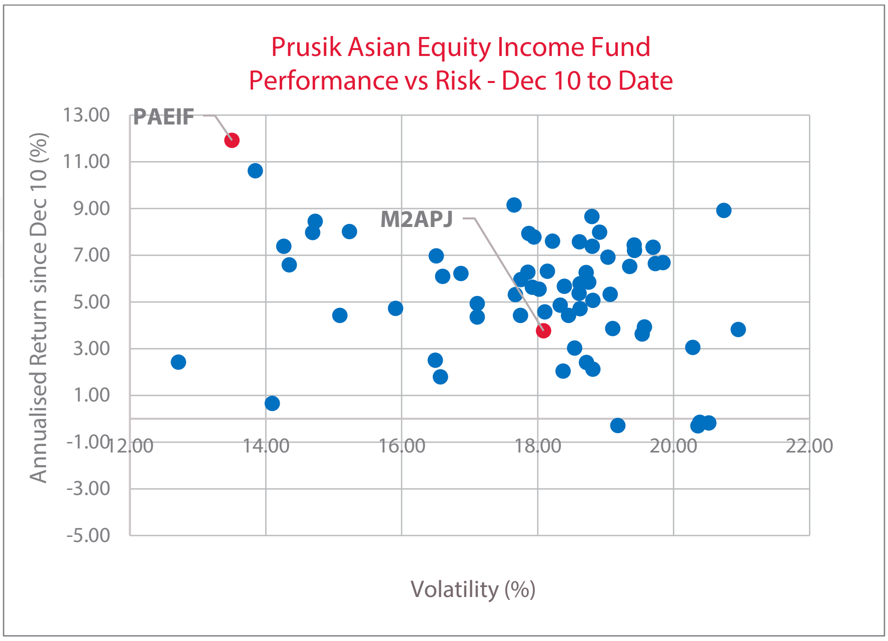
Class 1 B, USD Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2019	6.09	1.66	3.47	-0.99	-3.59	4.65	-0.84	-5.11	0.62				
2018	2.51	-3.76	-1.26	1.34	-1.18	-4.76	0.96	-0.13	-0.52	-6.38	3.49	0.21	-9.52
2017	5.49	4.77	3.98	2.69	3.25	1.11	2.71	0.06	-0.54	2.91	0.85	1.61	32.79
2016	-6.04	-0.37	10.28	0.95	-0.38	2.46	7.56	1.20	0.54	-1.43	-0.68	-3.16	10.36
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	45.77
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)	9.19
Beta	0.77
Alpha (%)	8.43
Volatility (%)	13.50

Source: Morningstar
Since inception: B 31.12.2010



Source: Morningstar

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Samsung Electronics	6.72
CK Hutchison Holdings Ltd	6.34
Power Grid Corporation of India Ltd	5.74
Zhejiang Expressway Co	5.18
CK Asset Holdings Ltd	5.07
Total Number of Holdings	30

Portfolio Financial Ratios

Predicted Price/Earnings Ratio	10.2x
Predicted Dividend Yield (%)	5.5

Thematic Breakdown (%)

Real Estate	18.8
Communications Infrastructure	18.1
Financials	16.7
Power Utilities	13.0
Consumer	9.2
Transport Infrastructure	9.1
Technology	6.7
Cheung Kong / Hutchison	6.3
Cash	2.1

Geographical Breakdown (%)

Hong Kong	33.1
India	12.3
China	10.6
Singapore	9.9
Korea	6.7
Indonesia	6.2
Macau	5.7
Thailand	5.4
Australia	4.6
Philippines	3.5
Cash	2.1

All data as at 30.09.19. Source: Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size USD	832.88m
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	275.49
B USD	Unhedged	Distributing	B4QVD94	IE00B4QVD949	187.97
C GBP	Hedged	Distributing	B4Q6DB1	IE00B4Q6DB12	179.13
D SGD	Hedged	Distributing	B4NFJT1	IE00B4NFJT16	177.69

*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	167.92
Y GBP	Hedged	Distributing	B4TRL17	IE00B4TRL175	160.45
Z SGD	Hedged	Distributing	B6WDYZ1	IE00B6WDYZ18	164.86

*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	171.94

*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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