PRUSIK

Growth Investing in Asia

Prusik Asia Emerging Opportunities Fund

Quarterly Investment Report
31 December 2019

FOR PROFESSIONAL INVESTORS ONLY

4Q19 Performance Overview

In the fourth quarter of 2019, the Prusik Asia Emerging Opportunities Fund rose by 2.4% taking the return for 2019 overall to 12.3%. While the fund is not measured against a benchmark on account of its mere 14% overlap with the index by geography, the fourth quarter was disappointing from a relative perspective. Both the main Asia ex-Japan index and its small cap equivalent saw much stronger returns of 10.6% and 6.7%, respectively. The key factor for the underperformance was the strength in North Asia in December, where the fund does not invest owing to its focus on Asia's demographic growth markets. In December, MSCI China, Korea and Taiwan all increased by 8-9% on signs that negotiations between the US and China were improving, whilst the fund's invested markets saw low single-digit or negative returns.

On a more positive note, the fund outperformed the local index in 5 out of its 7 invested countries, namely Singapore, Sri Lanka, Philippines, Vietnam and Pakistan. Please see the table below for more details. In addition, bright spots were particularly evident in Pakistan where our portfolio returned 27.4% in the quarter and the fund's investment in ASEAN focused ecommerce and mobile gaming company, **Sea Ltd**, rose by 30% in the period. Pakistan was buoyed by the start of flows from the IMF which shored up the country's FX reserves and a significant improvement in the current account due to measures to curb imports.

	PAEOF Weighting (%)	PAEOF Return (%)	Local Index Return (%)	PAEOF Relative Performance
Singapore	5.1	30.0	7.5	22.5
Sri Lanka	1.6	10.0	6.9	3.2
Philippines	14.4	4.9	2.6	2.4
Vietnam	27.4	-3.1	-4.9	1.8
Pakistan	4.2	27.4	26.9	0.5
India	31.2	2.7	5.0	-2.3
Indonesia	14.1	-1.7	6.7	-8.4

Source: Bloomberg/Prusik

By theme, the Emerging Technology theme returned 12.4% and was the highest contributor to performance in absolute terms. As well as the aforementioned **Sea Ltd**, the theme benefitted from a strong rise in our Indian online recruitment and food delivery business, **Info Edge**, and India's future potential Alibaba, **Reliance Industries**. All stocks in the theme posted positive returns in the quarter.

The Financialisation theme also made a very positive contribution in the quarter, rising by 10.4%, which placed it as the second highest contributor to absolute returns. Similarly to the Emerging Technology theme, all holdings in the theme rose in 4Q19. **Pakistan Stock Exchange** jumped an impressive 49.7% in the period as news emerged that the Exchange will adopt Shenzhen Stock Exchange's advanced trading and surveillance system and that the Chinese are willing to provide sizeable financial support to the business should it be needed. Our leading private bank in Indonesia, **BCA**, also saw solid performance.

Our normally spritely Modern Retail theme took a breather in 4Q19 as consumer electronics and grocery retailer in Vietnam, **Mobile World**, corrected alongside market leading DIY retailer in Indonesia, **Ace Hardware**. Both stocks sank on no news. We made no change to either holding and remain wholly positive on both.

Theme	PAEOF Absolute Attribution 4Q19
Emerging Technology	2.35%
Financials	0.88%
Local Brands	0.55%
Infrastructure	0.10%
Leisure/Tourism	-0.25%
Modern Retail	-0.72%

Source: Bloomberg/Prusik

During the quarter we made a handful of changes to the fund. The broad thrust of these changes was to exit our lower conviction smaller holdings and increase the fund's exposure to larger companies, which the fund introduced a 25% maximum ceiling for as of 1st August 2019. We exited Indian hotel brand, **Lemon Tree Hotels**, Indian toll road trust, **IRB Invit** and Filipino fast food brand, **Jollibee Foods**. In their place we added 3 large companies in India, all of which are market leaders in their respective fields with deep competitive moats: firstly, **Titan**, the number one gold jewellery brand in the country, secondly, India's dominant low cost airline, **Indigo** and thirdly and finally, **ICICI Prudential**, the largest private player in India's insurance market.

2019 Performance Overview

As touched on above, the total return for the fund in 2019 was 12.3%. For context, while this bettered the Asia ex-Japan small cap index by 1.3%, this was an inferior return relative to the main Asia ex-Japan index by 7.2%. As discussed previously, the bulk of this underperformance was rooted in how markets performed in December. In fact, for the first 9 months of the year, the fund outperformed the main Asia ex-Japan index by 1.6% and the small cap index by a generous 6.6%.

While it is clearly disappointing to end of the year on this note, we are nevertheless buoyed by the fact that a 12.3% appreciation is at the upper end of the 10-12% annual return which we believe the fund is capable of over the long term. We believe such a target is reasonable based on the following. Firstly, the underlying GDP growth of the demographic growth markets in Asia where the fund is invested is close to 7.0%. Secondly, our active stock picking leads us to companies with average earnings growth several percentage points above average GDP growth rates. Finally, factoring in the fund's 2.0% dividend yield, we believe that, combined, this should yield an annual return for the fund of 10-12% over a 5-year cycle.

We are also bolstered by the fact that by geography, the fund saw outperformance relative to the local index in 6 out of 8 markets and that, combined, these outperforming areas accounted for nearly 80% of the fund. Absolute and relative returns were particularly strong in Singapore (+255%), Vietnam (+35%) and Philippines (+19%).

	PAEOF Weighting (%)	PAEOF Return (%)	Local Index Return (%)	PAEOF Relative Performance
Singapore	4.5	255.3	15.1	240.2
Vietnam	27.7	35.0	7.7	27.3
Malaysia	0.5	7.1	-2.0	9.0
Philippines	14.1	18.9	10.5	8.4
Sri Lanka	1.8	7.0	3.4	3.6
India	30.4	-1.3	-4.6	3.3
Indonesia	14.7	-0.8	10.5	-11.3
Pakistan	4.5	-11.8	10.8	-22.6

Source: Bloomberg/Prusik

Vietnam's strong absolute and relative returns are of particular interest to us. For a number of years now we have witnessed an ongoing trend in Vietnam of larger companies outperforming smaller companies. In 2019 this trend reversed. We believe this strength in Vietnam's smaller companies was driven by stellar earnings growth, an increased focus by management on communication with local retail investors and the simple fact that our holdings now boast bigger equity values with market capitalisations of US$1-2 billion, which will broaden their potential investor base.

The Philippines portfolio benefitted from solid stock picking, patience and helpful position sizing as our casino holding, **Bloomberry**, returned to form in 2019 after correcting in 2018, our largest holding, **Philippine Seven**, despite it extreme month to month volatility, jumped 19% in the year, and new addition, DIY leader, **Wilcon Depot**, rose by 37%. **Jollibee Foods**, the branded fast food chain, was a disappointment but the impact was limited as we had kept the weighting low at just 0.4%. As touched on above, the stock has now been sold.

In India, although we bettered the Indian small cap index, we believe we could have delivered better returns and achieved a profit rather than a small loss. The key areas which we believe we could have improved upon include having recognised toll road operator, **IRB Infrastructure**, and non-bank financial, **Edelweiss** for the mistakes that they are sooner and held off from trimming online recruitment and food delivery business, **Info Edge**, as it proved to be one of the fund's highest return stocks by the year end. We could also have timed our purchase of leading low-cost airline, **Indigo**, more optimally. On the other hand, we are satisfied with the timing and the stock selection with regard to our purchase of leading auto brand, **Maruti Suzuki**, and consumer finance blue chip, **Bajaj Finance**. **Maruti** returned 19% from the time of purchase to the year end, while **Bajaj Finance** rose 40% before the close of 2019.

Overall, our Indian portfolio saw the greatest degree of change in the year as it was here that we added the majority of the fund's large cap exposure post the prospectus change, which allowed for a maximum of 25% large cap exposure from 1st August 2019. At the time of writing, around one third of the fund's India portfolio is in large caps, whilst two thirds is in small and mid-sized companies. Starting in 1Q20, we will be assessing our India portfolio relative to both the large cap and small cap India index, weighted in-line with the fund's exposures to both asset classes. We look forward to a more stable Indian portfolio in 2020 and are excited about both the individual companies as well as the combination of companies we now own. Management quality, often a clear determinant of performance in India, we consider to be first rate, and the forecast ROE for our India exposures is high at 19.0%. At the time of writing, Indian smaller companies are one of the best performing asset classes year to date.

Indonesia merits commentary for the fact that it witnessed the most significant underperformance relative to the local index in 2019 (Pakistan was a close second if we take the KSE100 as a benchmark rather than the MSCI which comprises just 3 stocks). Firstly, two of our holdings saw issues in terms of the investment case which we believed would play out. In the case of mortgage lender, **Bank Tabungan**, government policy turned unsupportive in the second half of the year in addition to asset quality deteriorating more than we expected. For **Surya Citra Media**, our leading TV broadcaster, the stock saw a significant de-rating as the digital strategy which management launched caused concern with regard to how much capital would be required for an otherwise very cash generative business. Owing to the fact that fundamental changes in our original investment case is a key signal for us to sell, we took the decision to exit both stocks, unfortunately, at a loss. Secondly, one of our longstanding and high conviction holdings, **Ace Hardware**, the DIY and lifestyle retailer, after very strong performance all year went on to see a sharp correction at the year-end on account of a single month of disappointing sales growth. We believed this was overdone and, indeed, the share price has been rallying in 2020 at the time of writing. Finally, while we remain positive on our Indonesian property exposures, our expected returns here were not delivered in 2019. However, more constructively, we start 2020, after a couple of changes, with a portfolio which exhibits a diverse range of high-quality businesses with attractive competitive positions and, in turn, the opportunity to grow earnings faster than the market on a sustainable basis.

The leading themes in performance terms for 2019 were Emerging Technology and Modern Retail. Quite staggeringly, our Emerging Technology theme saw an 88.6% return for the year. Modern Retail also stood out for its 18.5% annual return. In total, we had nearly 50.0% invested in these 2 themes in 2019. Elsewhere, Leisure & Tourism saw mid-teen returns and Local Brands posted positive returns. The more disappointing areas were Infrastructure, which was flat, and Financialisation, which saw negative returns, although the latter had just a 9.0% weighting in 2019.

Theme	PAEOF Absolute Attribution 2019
Emerging Technology	3.76%
Modern Retail	1.20%
Local Brands	-0.09%
Infrastructure	-0.20%
Leisure/Tourism	-0.70%
Financials	-0.98%

Source: Bloomberg/Prusik

Outlook

Overall, 2019 was a period of bright spots, including clear evidence that the fund is a great vehicle for gaining exposure to fascinating emerging companies such as **Sea Ltd**, **Info Edge** and **Bajaj Finance**, some not insignificant disappointment at the year end and probably most notably, change. 2019 marked the year when the fund fully embraced its new identity as the Prusik Asia Emerging Opportunities Fund with the formal name change taking place in the second half, combined with the prospectus change to allow for a maximum of 25% of the NAV in large capitalisation companies (>US$10 billion), a lower fee structure, and the first full year with the fund being managed under a co-managed stewardship. We look forward to building on this new foundation and the double-digit returns achieved by the fund during the year.

At the time of writing, coronavirus has been in force for nearly one month. The current consensus is that this will likely be a 3-6 month phenomenon and that, following the blip, global growth (or at least the 'new normal' version of global growth) will resume. While it is impossible to say with a high degree of certainty how this will play out, we are slightly less confident than this prevailing consensus, largely on account of our own personal experience of SARS having lived and travelled in China in 2003, and also because of the nature in which China has transformed since then. We discuss the subject in more detail below. With regard to the fund and its relation to this current phenomenon, perhaps the most obvious observation is that a fund which invests in India, Vietnam, Indonesia, Philippines and Pakistan may prove more resilient compared with funds heavily exposed to a China that is facing a new external shock. This is possible but we would also note that Vietnam often proves quite correlated to China, given the close connections between the two in manufacturing and exports, and Indonesia is typically seen as a bellwether for global growth and so also has the potential to be vulnerable in this environment. What perhaps gives us the greatest confidence at a nervous time for Asia is the quality and strength of the businesses we are invested in – longstanding companies supported by strong brands, market leadership positions, well-funded balance sheets, low capex requirements and highly regarded management teams. Perhaps the biggest risk is that government support of the market in China propels an exuberance there which its neighbours do not share.

The market which is intriguing us the most at present and gives us reason to believe there are more positive developments afoot right now is India. It is now nearly 18 months since the default of IL&FS triggered a credit crunch in India, halting lending to the more questionable pockets of real estate development and impairing asset quality and the ability to make fresh loans for lenders to the same. In the interim and in an effort to shore up GDP growth which subsequently slipped to 4-5%, the government rolled out a swathe of measures. These measures include injecting liquidity, support for the non-bank financial sector, setting up a fund to buy stuck real estate projects, cutting corporation tax by 10% and an infrastructure spending plan which, if delivered, will see spending on infrastructure rise by 18% per annum for the next 5 years. These measures may finally be having an impact as recent quarterly results for many of our India holdings have been surprising positively and economic bellwethers such as auto brand, **Maruti Suzuki,** have highlighted that wholesale dealer inventory has fallen to as low as 9 days. Finally, smaller companies in India have been one of the best performing asset classes in Asia since the beginning of the year, which can be a leading indicator of a broader recovery. At the time of writing, we have just over 35% of the fund invested in India.

Coronavirus

In early 2003, with a rucksack that was so overpacked it was not possible to lift without assistance, we travelled to China to teach English in a small town, three hours' drive from Shanghai, called Taixing. Alongside being an unimaginable rollercoaster of discovery, learning and fun, this was also the time that China was hit by SARS, a virus which belongs to the coronavirus family. Our experience of life in China during this outbreak nearly twenty years ago could not be more different to the present situation. Information on the outbreak was sparse. In fact, we often found we got more detail from our parents' emails from the UK than from local news sources or Chinese colleagues and friends. We had our accommodation sprayed with unidentifiable chemicals and had to have our temperature taken before teaching our most junior classes. We were encouraged not to travel to nearby Wuxi where several Western and Chinese friends were staying but we felt sufficiently unthreatened by the situation to ignore the ban and accept any reprimands that followed. A Western friend in another neighbouring town was hospitalised with a severe temperature for three weeks before we had even heard of SARS and it was only several months later that we thought perhaps he had actually fallen victim to the virus. After our teaching post came to a close, we travelled throughout the west and south of China, spending a night in fact in Wuhan, and while the backpacking routes may have been slightly light on Westerners, we travelled freely and without fear.

The situation we find ourselves in today is worlds apart. Whole cities are in lockdown, international carriers have been cancelling flights, medical supplies are in shortage, the Chinese government is reaching out for help and being cooperative and transparent with its international partners, and billions of yuan have been pumped into markets to bolster equity valuations. Initial analysis has largely been cautious but sanguine, pointing to the fatality rate being just 2% so far compared to 10% for SARS and some are suggesting that the infection rate is slowing. We are unsure that it is wise to place too much emphasis on data points that may either change or may not in fact be accurate. A contact of ours in the UK government who works with China thought that while the infection rate outside of Wuhan is likely to be correct, that within Wuhan the reported infection rate could be just 10% of what it is in reality. Moreover, we are particularly struck by how extreme the difference is in the government's current handling of the coronavirus compared to our experience of SARS. Today's measures suggest the government is incredibly fearful and it is this which we believe merits more attention than the data that is emerging just a few weeks into this phenomenon. Containment is clearly paramount and possibly the biggest concern. The fatality rate may be lower in percentage terms but if the contraction rate is magnitudes higher then a lower fatality rate will still result in a large number of deaths. Such a backdrop also increases the risk of widespread panics and potential backlash and protests against government mishandling of the crisis. Indeed, coronavirus may breathe fresh life into the protestors' motivations in Hong Kong. Finally, should the extreme measures work in limiting the spread of the virus, will China's businesses be able to withstand the quasi-shutdown which may pressure working capital, supply chains and demand? We very much wish to see China be successful in its endeavours but our sense is that this is perhaps the Chinese government's biggest test to date.

So far we have changed little in the portfolio, preferring not to reduce Vietnam, where it is often challenging or impossible to buy back the shares, and we are wary of making changes to our more cyclical parts of the portfolio, such as Indonesia and Pakistan, should these moves be driven by sentiment and fear rather than fundamentals. We will continue to evaluate this position closely.

India, Air Pollution and ESG

In our last quarterly, we wrote about our experience of the extreme air pollution we encountered in Delhi during our trip. We also learned that the government has decided to drop its targets for electric vehicle uptake owing to challenges relating to affordability and building out the required charging infrastructure. Thus, simultaneously, we have a country which needs to do significantly more to lower its carbon emissions but is not yet drafting in a switch to EVs to help tackle the problem. What also became apparent during our trip is that gas is being posited as a solution. To this end, we have invested in **Indrapastha Gas (IGL)**, the main distributor of natural gas in India's National Capital Region.

Gas is significantly cleaner than coal and liquid fuels, which are India's primary sources of power. Currently, gas in India is increasingly being used for passenger cars, aggregator taxis, public buses, in the home for cooking and for industrial and other commercial uses but the usage is still not widespread enough. Owing to this, the Modi government has clear targets to increase the proportion of gas within India's energy mix from 6% to 20% over the coming 5 years. Looking at global comparisons, there is, in fact, scope for the use of gas to exceed this, as it does in a number of developed countries where gas makes up 30-40% of the energy mix. Volume growth for city gas has historically ranged from high single digits to mid-teens but there is potential for growth rates to be higher than this on account of the low penetration rates and the likelihood of favourable government policies to drive uptake. Indeed, in **IGL's** most recent quarterly results, volume growth for the industrial and commercial segment surprised positively by a wide margin, increasing by 35% year on year. As the government continues to bid out new areas for the development of city gas, **IGL** also has the potential to grow via expansion. Management have also been buying small stakes in other small city gas distributors to drive growth. The company has consistently delivered an ROE over 20% in the past 5 years, whilst also being net cash. We believe the company is capable of sustaining double digit earnings growth over the long term and that the stock may also come into greater focus for its excellent 'ESG credentials'.

PORTFOLIO PERFORMANCE

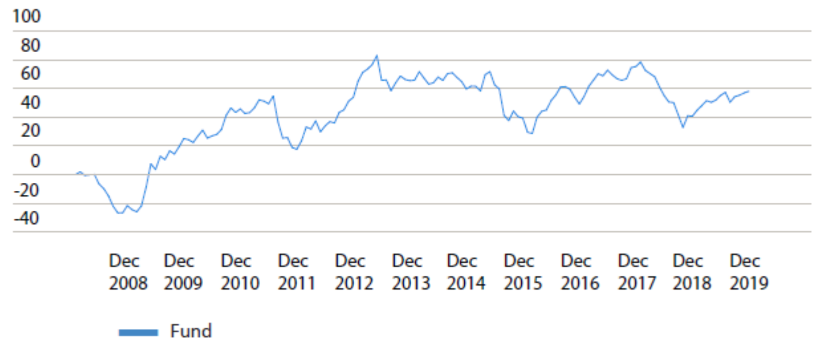
Performance Summary (%)
Period ending 31.12.2019

	A-USD	C-GBP	D-SGD
1 Month	0.69	0.50	0.63
3 Months	2.42	2.07	2.32
2019	12.28	10.28	11.44
2018	-19.71	-21.32	-20.63
2017	17.49	15.88	16.74
2016	7.14	7.32	7.06
2015	-12.78	-12.15	-12.21
Since Launch*	57.98	58.93	13.70
Annualised 5 years	-0.20	-1.06	-0.60
Annualised 3 years	1.94	0.18	1.07
Annualised Since Inception	3.92	4.02	1.30

Source: Morningstar

*Launch date: A: 08.02.08, C: 25.03.08, D: 15.01.10

Fund Performance – Class A (USD) (%)



Source: Morningstar. Total return net of fees

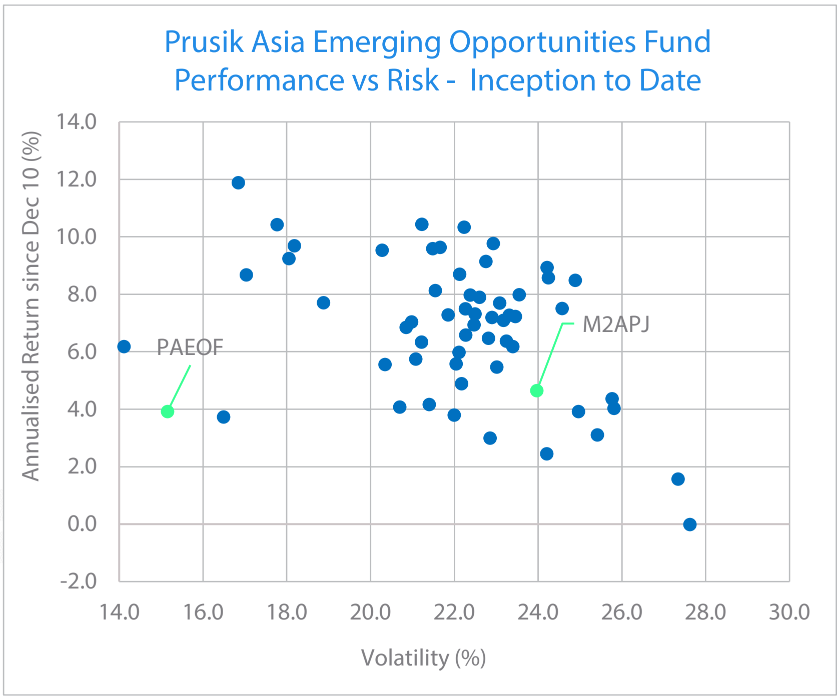
Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2019	2.89	2.25	2.35	-0.78	1.08	2.11	1.40	-4.39	2.55	0.65	1.07	0.69	12.28
2018	1.78	-3.24	-1.32	-1.29	-4.21	-3.74	-2.88	-0.28	-5.68	-6.21	6.11	-0.15	-19.71
2017	3.51	4.55	2.74	2.64	-0.86	2.35	-1.95	-1.54	-0.68	0.69	4.61	0.47	17.49
2016	-6.98	-0.67	8.76	2.98	0.65	4.49	2.57	3.55	0.17	-1.10	-3.51	-3.04	7.14
2015	1.25	-0.11	-2.04	7.23	1.21	-5.33	-1.78	-11.48	-2.63	4.83	-2.71	-0.78	-12.78
2014	0.21	3.58	-2.62	-2.50	0.56	2.45	-1.39	2.86	0.32	-1.85	-1.76	-3.11	-3.49
2013	7.27	3.73	1.32	1.82	3.58	-9.40	0.10	-4.52	3.54	2.84	-1.44	-0.51	7.51
2012	5.05	7.75	-1.04	4.29	-5.53	3.11	2.27	-0.65	5.40	1.27	4.12	1.81	30.80
2011	-2.15	0.43	2.35	3.75	-0.57	-1.22	3.60	-11.67	-8.27	0.37	-5.50	-1.07	-19.28

RISK ANALYSIS

Risk Metrics	Fund (%)
Beta	0.56
Alpha (%)	1.12
Sharpe Ratio	0.39
Volatility (%)	15.15

Source: Morningstar
Since Inception: A: 08.02.08



Source: Morningstar

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

FPT Corporation	8.6
Philippine Seven Corporation	8.1
Mobile World Investment Corporation	7.7
SEA Ltd	5.9
Ace Hardware Indonesia	3.6
Total Number of Holdings	38

Thematic Breakdown (%)

Modern Retail	30.5
Emerging Technology	22.5
Local Brands	14.7
Infrastructure	11.4
Financialisation	10.4
Leisure/Tourism	9.5
Cash	0.9

Geographical Breakdown (%)

India	32.0
Vietnam	26.9
Indonesia	14.3
Philippines	13.8
Singapore	5.9
Pakistan	4.6
Sri Lanka	1.7
Cash	0.9

Portfolio Financial Ratios

Predicted Price/Earnings Ratio	17.6
Predicted Return on Equity (%)	22.7
Predicted Dividend Yield (%)	1.8

All data as at 31.12.2019. Source Prusik Investment Management LLP, unless otherwise stated

FUND PARTICULARS

Fund Facts

Fund Size (USD)	33.6m
Launch Date	8 February 2008
Fund Structure	UCITS III
Domicile	Dublin
Currencies	USD (base), GBP, SGD

Management Fees

Annual Management Fee
1.2% p.a paid monthly in arrears

Performance Fee
No Performance Fee.

Share Class Details

Class 1			SEDOL	ISIN	Month end NAV
A USD	Unhedged	Non Distributing	B2PKN21	IE00B2PKN210	157.98
B USD	Unhedged	Distributing	B2PKN32	IE00B2PKN327	147.99
C GBP	Hedged	Distributing	B2PKN43	IE00B2PKN434	73.95
D SGD	Hedged	Distributing	B3M3HJ5	IE00B3M3HJ55	199.39

Class U			SEDOL	ISIN	Month end NAV
U GBP	Unhedged	Distributing	BBQ37T7	IE00BBQ37T77	101.01

Dealing

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

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