Prusik Asia Fund

Growth Investing in Asia

PRUSIK

28 February 2020
Monthly Fund Fact Sheet

Investment Objective

The Fund aims to achieve capital growth by investing in listed equities in the Asia Pacific region excluding Japan.

Fund Facts

Fund Size (USD)	126.8m
Launch Date	7 October 2005
Fund Manager	Heather Manners
Fund Structure	UCITS III
Domicile	Dublin
Currencies	USD (base), GBP, SGD
Index	MSCI AC Asia Pacific Ex Japan Gross Return Index (USD)

Performance (%)

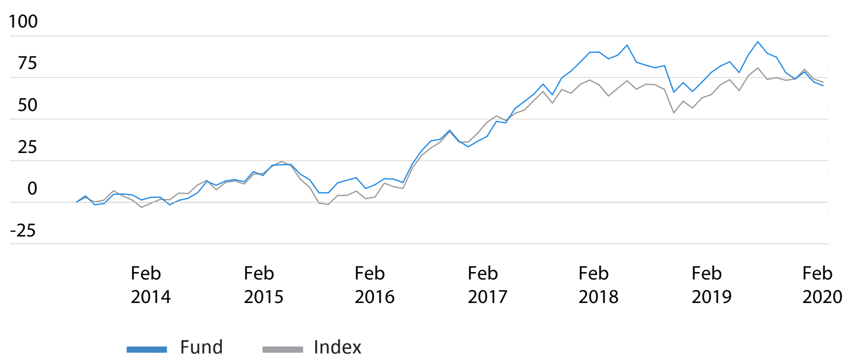
	U (GBP)	Index (GBP)
1 Month	-1.23	-1.16
3 Month	-2.31	-1.14
Year to Date	-4.62	-4.34
2019	7.07	14.87
Since Launch	70.15	72.16
Annualised†	8.30	8.49

Source: Morningstar.
Launch Date: U: 01.07.13
†Since Launch Performance

Investment Process

With anomalies as a start point, the investment process seeks to identify and invest in key 'themes' in the Pacific region. Our themes are driven by factors outside of the normal economic cycle and are not yet discounted by the market. Companies are identified and chosen via rigorous bottom-up analysis with emphasis on traditional value and high ROCE.

Fund Performance - Class U GBP (%)



Source: Morningstar. Total return net of fees.
Performance since launch of Class U GBP share class - 01.07.13

Fund Manager Commentary

February saw some shocking scenes develop across China as hundreds of thousands of people were kept at home after Chinese New Year in what seems, at least for now, to have been a fairly successful bid to contain the Coronavirus. The impact on the stock market and the economy, however, have been severe. The most eye-catching economic statistic so far has been the China PMI number for February, published at the weekend, which fell 14.3 points to 35.7 – a record low. The equivalent smaller companies' series, Caixin-Markit Manufacturing PMI, also fell to the lowest number on record.

In stock market terms, the China indices actually rose in February while the MSCI AC Asia Pacific ex Japan Gross Index (USD) (M2APJ) fell 1.16% although this belies much bigger drops in Indonesia, Korea and Australia. The fund fell 1.23% in the month, largely due to our gold mining companies' ongoing correction and a correction in Australian infrastructure giant, **Macquarie group**. On the positive side, AI driven GP service, **Ping An Healthcare,** led the gainers, while construction, EV batteries, gaming and ecommerce were all positive contributors.

Given that, apart from Korea, the virus has not affected other countries in Asia as badly (at least not yet), and given its importance now in the global economy, the focus is still very much on China as they begin to make their way back to work. All indications are that this will be a slow and steady process, with only about 25% of production estimated to be already back up and running. There are three key determinants (a second virus flare-up aside) which will dictate the speed of this progress. The first is the c.350 million migrant workers who are still in their home towns, having been stuck there since Chinese New Year. The government is allowing them back to work 30-40 million at a time (and including a 14-day quarantine on arrival). The second is the availability of masks. The government is tripling the available mask manufacturing capacity from 300 million to 900 million by the end of March and this should prevent more localised outbreaks in any large facility and permit a more wholescale return to work. Both of these factors should mean that between 50% and 75% of workers should be able to return to work by the end of March. The third limiting factor is that there is at least 6 weeks (as opposed to 2 weeks, typically, post Chinese New Year) backlog to clear of containers and other vessels waiting to disgorge components and other manufacturing necessities in China. Until these have been received and delivered around the country, many manufacturing companies will not be able to restart production fully. Ironically, today's environment favours those with the sloppiest inventory management! All in all, it is fairly plain to see that many, if not most, exports from China will not really be back to normal for another 2-3 months at the earliest. The key for the global economy will be to see how this impacts the West as well.

In the meantime, China's government is working hard on many local projects in the smaller tier cities. This was a focus even before the virus but has been stepped up in recent weeks. One example, given to us by somebody close to this particular community, was a small town of 200,000 people about 100 miles from Chengdu, where 75% of the population are normally migrant workers. Here the government is spending around RMB 80-90 million (US$50 million) on a building to act variously, depending on demand, as a quarantine/community centre/school, a warehouse for food, drinks and medicine, and a water treatment facility. We expect to see the government's upcoming 5-year plan to focus heavily on mid-level construction. In line with their recent relaxation of the shadow banking rules and tax cuts, we expect more projects going forward. We also expect the government to focus on getting the auto industry into a strong growth position by encouraging lower tier city auto purchases. These factors, combined with what will be a period of furious recovery and double shifts once factories are up and running, are likely to see the economy recover well in 2Q19, absent one or two significant risks.

These risks are, firstly, the possibility of the virus returning but, additionally, also spreading to cause chaos with China's other major trading partners such as the US. The second risk is equally hard to foretell at this point and is whether this whole event has in some way altered how people will think and consume in future. Is it possible that luxury brands or travel for example simply do not have the same audience in a shocked and more health-conscious world?

Regardless, we hear that the Chinese government will encourage domestic stock market investing. This year they have a line-up of some 120 'unicorns' ready for IPO, 42 of which are healthcare related.

The portfolio is currently holding around 6% cash which we aim to deploy if we see further weakness. We believe this is likely given the ongoing vulnerability to the virus in Western countries and the rest of Asia and the risk to earnings forecasts and GDP growth. We have exposure in a number of areas where we are seeing strong activity in China such as online gaming, ecommerce and construction. Elsewhere, we remain positive on semiconductors (driven by 5G, IOT and China's rush for self-sufficiency), the rise of EVs, local brands versus foreign brands and local retail brands. We also remain in gold, which is correcting after a very good 18 months, but still, in our view, remains historically undervalued versus many other assets.

All data as at 28.02.20. Source: Prusik Investment Management LLP, unless otherwise stated.

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Prusik Asia Fund

Top 5 Holdings (%)

Ping An Healthcare & Technology Co Ltd	6.0
Taiwan Semiconductor Manufacturing Co Ltd	5.0
Tencent Holdings Ltd	4.2
Sea Ltd	3.5
Samsung Electronics Co Ltd	3.5
Total Number of Holdings	33

Portfolio Financial Ratios

Price/Earnings Ratio	16.6x
Predicted Return on Equity (%)	18.6
Predicted Dividend Yield (%)	2.3

Risk Metrics

Tracking Error (% pa)	6.36
Beta	0.84
Alpha	-0.11
Volatility (%)	17.17
Sharpe Ratio	0.41

Thematic Breakdown (%)

5G/AI/Software/Healthcare	20.4
Brands	18.7
Ecommerce/Gaming/Entertainment	14.8
Infrastructure/Property	11.5
Shortages/Value	8.1
Gold	7.7
EV/Battery	7.0
Financialisation	6.0
Cash	5.9

Geographical Breakdown (%)

China	30.6
Australia	12.8
Vietnam	11.2
Korea	10.5
India	9.4
Singapore	9.1
Taiwan	8.2
Cash	5.9
Indonesia	2.3

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Management Fees

Annual Management Fee
Class U: 1% p.a. Paid monthly in arrears
All Share Classes except Class U: 1.5% p.a. Paid monthly in arrears

Performance Fee
Class U: 10% of the net out-performance of the MSCI AC Asia Pacific Ex Japan Gross Return Index (USD), with a high-water mark paid quarterly
All Share Classes except Class U: 10% NAV appreciation with a 6% hurdle annually

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 day
Redemption Notice	1 business day

Share Class Details

Share Class				Sedol	ISIN	Month-end NAV
A	USD	Unhedged	Non distributing	B0MDR72	IE00B0M9LK15	240.36
B	USD	Unhedged	Distributing	B0M9LL2	IE00B0M9LL22	240.52
C	GBP	Hedged	Distributing	B18RM25	IE00B18RM256	124.62
D	SGD	Hedged	Distributing	B3LYLK8	IE00B3LYLK86	325.48

Performance fee based on individual investor's holding.

Share Class				Sedol	ISIN	Month-end NAV
U	GBP	Unhedged	Distributing	BBQ37S6	IE00BBQ37S60	170.15

Performance fee based on fund performance as a whole.