PRUSIK

Growth Investing in Asia

Prusik Asia Fund

Quarterly Investment Report
31st March 2020

FOR PROFESSIONAL INVESTORS ONLY

1Q20 Performance Commentary

The first quarter of 2020 has been an extraordinary time in human history. In the course of the past few weeks, COVID-19 has spread to 203 countries and territories, a third of the world's population has been put under lockdown and, at the time of writing, reported global infections are poised to breach 1 million. Markets across the globe have corrected, in many instances very sharply, and governments have responded with unprecedented money creation in a bid to stave off what was threatening to become a liquidity problem and in an effort to ameliorate initial impact to the economy and consequent individual hardship. The damage to the global economy is likely to be huge but the full extent is, as yet, unknown.

Despite this grave and surreal global circumstance the most - perhaps the only - important thing is health. Therefore, and above all, we sincerely hope that this report finds you and your loved ones well and safe and adapting to the new measures that so many of us are living under.

In Asia, 1Q 2020 saw some very large declines in stock markets, with the MSCI AC Asia Pacific Ex Japan Index (M2APJ) falling 15.26% in sterling terms, while the Prusik Asia Fund fell 16.35% in sterling terms. The disparity of performance between Asian markets however was great, as can be seen in the table below of local indices. The right-hand column shows the (sterling based) move of each of the country indices and as you can see, at local index level, the fund outperformed all the major indices except China, Hong Kong and Taiwan.

Table of Asian indices % performance in GBP over 1Q 2020 (RH column)

TPX	d	1325.13	-4.74	-0.36%	-11.8573
NKY	d	17820.19	+1.47	+0.01%	-13.7125
JPNK400	d	11909.84	-20.99	-0.18%	-11.5846
HSI	d	23236.11	-43.95	-0.19%	-9.8254
SHSZ300	d	3713.22	-21.31	-0.57%	-5.3569
SHCOMP	d	2763.987	-16.65	-0.60%	-5.1583
SZCOMP	d	1689.572	-7.98	-0.47%	1.7129
HSCEI	d	9491.10	-35.46	-0.37%	-7.6419
TWSE	d	9663.63y	-44.43	-0.46%	-14.1940
KOSPI		1725.44	+0.58	+0.03%	-19.7567
KOSDAQ		573.01	+5.31	+0.94%	-14.6156
AS51		5067.482y	-86.82	-1.68%	-28.2441
NIFTY	d	8083.80	-170.00	-2.06%	-28.2302
SENSEX	d	27590.95	-674.36	-2.39%	-27.5703
SX40	d	16427.53	--	--	-31.1445
STI	d	2389.29	-63.74	-2.60%	-21.7967
FBMKLCI	d	1330.65	-0.25	-0.02%	-12.9323
SET	d	1138.84	+0.57	+0.05%	-30.2271
JCI		4623.429	+91.74	+2.02%	-34.2073

Source: Bloomberg. (Bloomberg snapshot of Asian indices at 31/03/20 showing full quarter move in RH column. other columns are index ticker, index level, daily move in points, daily move in % and YTD move respectively)

As an aside, we find it notable that the small cap Kosdaq Index in Korea also did relatively well, perhaps giving us a leading insight into the future benefits of not indexing?

Over the quarter we saw some very positive performance from some of our stocks, with about a third of our holdings – several of which are newer positions - actually returning a positive contribution for us over the period. These included **Yonghui Superstores** (China supermarket/home delivery), **Kingdee** (Cloud software in China), **Tencent** (online gaming), **Proya** (online cosmetics in China) and **JD.Com** (ecommerce). Longer held positions in **Poya** (Taiwan convenience store), **Sea Ltd** (ecommerce and gaming in SE Asia) and **China Railway Construction** were also positive contributors, as was **Ping An Healthcare and Technology** (online GP services). Finally, we sold our oil companies **CNOOC** and **PetroChina** at close to the peak and before the huge oil price decline. Happily, both these holdings therefore gave the portfolio a positive contribution over the period.

Our weaker performances came from a variety of places. Notably the two Vietnamese retailers we own, **PNJ** (jewellery) and **Mobile World Group** (consumer electronics, smartphones and computers and grocery convenience store chain) were both poor performers as Vietnam went into lockdown. However, we are seeing that Vietnam is managing the virus well so there is optimism that the economy can recover soon and that it will do so quickly. More on Vietnam below. We also saw a very weak performance from infrastructure/financial player, **Macquarie Group**, possibly due to some exposure to energy related projects and financial markets. Indonesian property developer, **Ciputra**, which also operates shopping malls was also a weak performer.

Below is a table laying out the performance over the quarter by theme and a more in-depth review of how the portfolio performed at theme level.

PAF 1Q20				
Theme	Portfolio Weighting (%)	Absolute Attribution	Return on Capital (Weighted Average)	Return on Capital (Contribution)
5G/AI/Software/Healthcare	19.26	0.19%	3.6%	1.0%
Ecommerce/Gaming/Entertainment	13.87	0.51%	3.3%	3.7%
Education	0.71	-0.17%	-14.5%	-23.9%
Brands	22.23	-4.60%	-15.1%	-20.7%
EV/Battery	4.68	-1.34%	-15.8%	-28.6%
Financialisation	5.45	-1.04%	-16.4%	-19.1%
Infrastructure/Property	13.51	-4.47%	-22.0%	-33.1%
Gold	6.71	-2.18%	-23.6%	-32.5%
Shortages/Value	10.98	-3.08%	-25.0%	-28.1%
M2APJ	-15.26%			
PAF (PRUGUDI)	-16.35%			
% Outperformed	56.07			
% Inline / Some Underperformance	10.13			
% Significant Underperformance	31.20			

Source: Bloomberg/Prusik/Morningstar

Outperforming Themes in 1Q20

5G/AI/Software/Healthcare: 19.3% average weighting in 1Q20

- The 5G/AI/Software/Healthcare theme returned 3.6% in 1Q20, led by **Ping An Healthcare & Technology**.
- China cloud computing company, **Kingdee**, and healthcare company, **Venus Medtech**, delivered 20-30% returns.
- Memory chip makers, **Samsung Electronics** and **TSMC**, saw double-digit declines.
- **Ping An Healthcare & Technology** is benefitting from increasing acceptance of online healthcare services.

Ecommerce/Gaming/Entertainment: 13.9% average weighting in 1Q20

- The ecommerce/gaming/entertainment theme returned 3.3% in 1Q20, led by **Sea Ltd**.
- China gaming and social media giant, **Tencent**, and ecommerce player, **JD.com**, saw high single digit returns.
- China online delivery service, **Meituan Dianping**, was added during the quarter and has started to contribute positively.

Underperforming Themes in 1Q20

Shortages/Value: 11.0% average weighting in 1Q20

- The shortages/value theme returned less than the market in 1Q20.
- COVID-19 pandemic saw continued rotation into 'growth' stocks and away from 'value' stocks.
- Cyclical companies such as shipping and resources which are seeing shortages also corrected.

Gold: 9.5% average weighting in 1Q20

- The gold theme returned less than the index in 1Q20.
- Gold is increasingly important as a hedge, either against the return of inflation or against the onset of debt deflation and the resulting collapse of the US dollar paper standard.
- Valuations for gold stocks are now very attractive (more on this below).

Infrastructure: 13.5% average weighting in 1Q20

- The infrastructure theme returned less than the index in 1Q20.
- Weakness was concentrated in just 2 stocks, Indonesia property play, **Ciputra Development**, and **Macquarie Group**.
- **Ciputra** has been sold, while **Macquarie Group** has been rebounding.

Portfolio Positioning Today

In the past few weeks we have undertaken a comprehensive review of the portfolio and made some significant changes to the fund as a result.

Our Framework

The guiding principle of our review is that the outlook has changed almost 180 degrees since 4Q 2019 where we were noting some significant signs of economic recovery, especially in China. As things stand at the moment and to reduce the situation to a very simplistic view, the stock markets are sitting on a see-saw.

On the one hand they have a very badly damaged global economy (and local economies) to factor in with, as yet, an unknown date after which things can 'return to normal'. Additionally, there are serious questions as to what does 'return to normal' really mean in practice given it looks unlikely that consumers will, or even can, behave as before, whilst in addition, we will likely have lost millions of jobs and maybe many companies too, and hence lost a lot of consumption power. We are aware that the 'going back to work' process in China is under way (please see more in this below) but it is far from robust and it is still too soon to say that there won't be a second virus wave, a risk we cannot just ignore. Finally, there are very serious difficulties in modelling or valuing many listed companies at this stage because we cannot know the E of the PE for many (e.g. an airline or a tourism related business, or a bricks and mortar retailer). In Asia analysts are still forecasting 8.5% earnings growth in 2020 (down from 12.5%) and so the markets look attractively valued on PE measures. However, we expect the next earnings season to yield some nasty shocks and very low guidance (if any).

On the other hand, the global economy has been given a monetary stimulus of unprecedented proportions and excess liquidity can often take precedence in driving stock markets up, no matter what the underlying malaise. We also believe it's important not to take this event as being a stand-alone event, yet. At a global level, given the magnitude and global nature of what is occurring (and despite the weird warping of time that we are all experiencing) we are only really a few weeks into this crisis. We must take into account the possibility of a second crisis. This could come potentially in the form of a financial knock-on from the COVID-19 crisis. To give one example of the kind of thing we are thinking in this respect, the commercial property sector in the US has $4 trillion of debt on its collective balance sheet, half of which is on commercial bank balance sheets. Or, this equally could be social problem, driven by wealth disparity and the fact that financial help, so far, is broadly failing to reach those that need it. The point here is that, whilst it is possible, it would be unlikely that this entire situation is consequence free and in full recovery by 3Q 2020 and as such, some caution is still required.

Portfolio Changes in 1Q 2020

As veterans of every global and Asian stock market crisis since 1986, we feel that this event most reminds us of the 1997/8 Asian crisis in terms of the huge loss of strength in the economy and damage to companies. Our experience during this time was that whilst stocks lost, in some cases, 95% of their value (and many didn't make it at all), by stock picking carefully we found some companies which made us multiples of our money during the same period (CSL, Cochlear, Li and Fung and Johnson Electric were all huge winners). We are also well aware that when stock markets undergo a major reset, it is rare to look back and feel that one had done enough. For example, at the end of the technology bubble in early 2000, it was not enough to just sell all overvalued tech companies but one also had to review every holding and also sell those with an inflated share price due to their having announced they were starting an online business! Very often this means a big portion of the fund needs a review.

So, we have undertaken what we believe to be a very proactive and thorough approach. We have based our positioning on being invested in companies who are thriving or winning or surviving well in this environment, indeed we expect that many of our holdings are in a position to increase market share at this time and that the trends we have observed at thematic level (e.g. online healthcare or home delivery) are being accelerated as a result of the current crisis. This enables us to take part in any liquidity driven upside in markets but also gives us confidence that our companies are not only likely to be successful survivors but that we are valuing them appropriately because we can see they are still generating revenue and profits. Moreover, we hope their ability to grow earnings in this environment will bring other investors to this increasingly small pool and that share prices can appreciate as a result.

At the time of writing we have sold almost all our economy sensitive companies including almost all retail and retail related stocks, (except Vietnam – see below), oil, property and 'value', and we added some new positions which are predictable, robust and seeing growth even in the current situation. At the time of writing we have circa 5% cash. We view the portfolio as being divided into several groups of companies, all of which we believe will serve well in the coming few months as the grave extent of the economic damage of the virus is fully understood and discounted. These can roughly be described as follows:

1) Firstly, those companies who are actually benefitting from the current environment in some way or whose business model is being more rapidly adopted than before. These are companies we see as **survivor-winners for the extent of the crisis** and beyond, and for whom it is possible to make reasonably accurate forecasts. Examples include online healthcare (such as **Ping An Good Doctor** or **Alibaba Health**), online entertainment and services, ecommerce and home delivery (such as **JD.com**, **Tencent** and **Meituan**) or

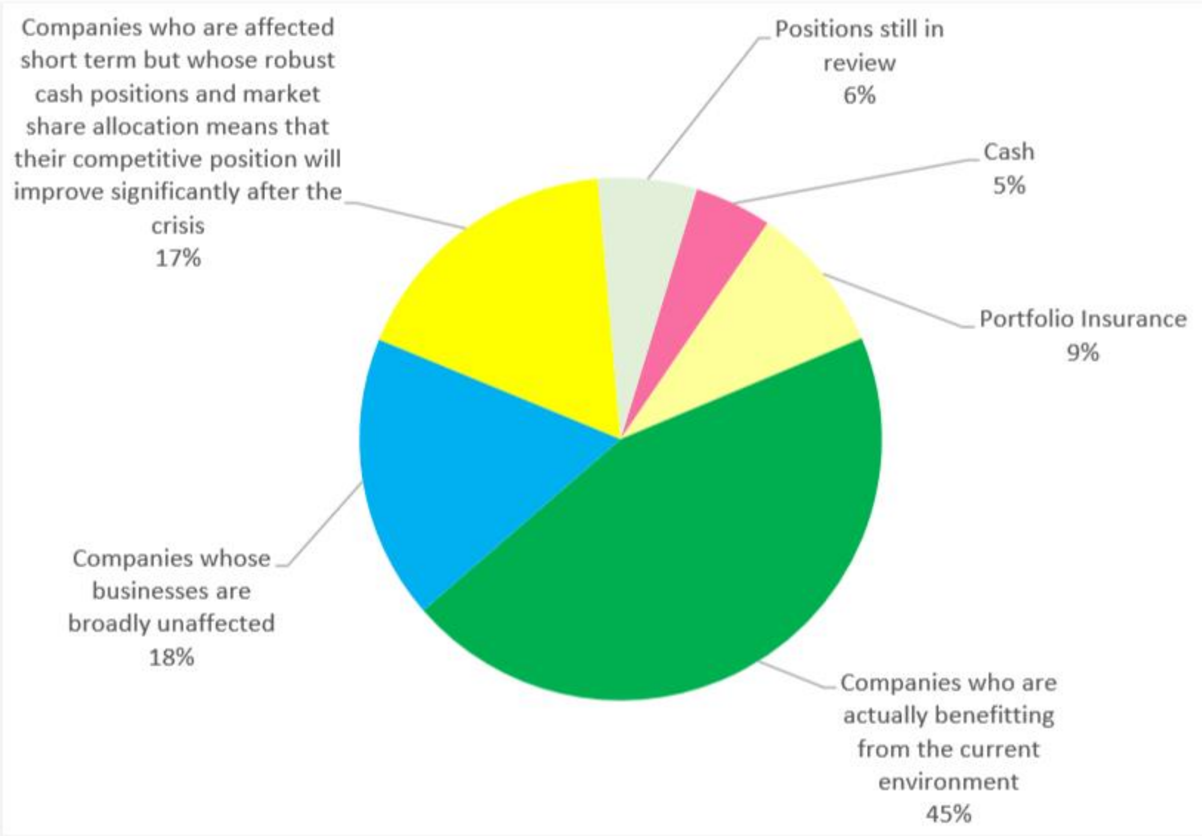
companies benefitting from the rapid adoption of cloud services, such as **Kingdee**. Additionally, we see companies with new policy tailwinds also in this category such as the Chinese construction companies. We have about **45% of the fund** in this category currently, and these companies are performing well with quite a few in positive territory during March.

2) Secondly, companies whose businesses are **broadly unaffected**, or affected to a small degree, but where we see ongoing demand or even shortages in future. These include the semi-conductors, such as **Samsung**, and server demand as well as networking (servers, cloud services), 5G build-out and telecoms. We also include Taiwanese convenience retailer **Poya**. These companies make up another **18%** of the fund.

3) Thirdly, companies who are affected short-term but whose **robust cash positions and market share allocation means that their competitive position will improve significantly after the crisis and/or they are in areas of strong future demand** (examples are EV battery companies, **LG Chem** and **Samsung SDI,** and Vietnam retail blue chip **Mobile World Group**). These companies are trading exceptionally cheaply vs the opportunity and thus should deliver above average performance once the market starts to discount recovery. We have about **17%** of the fund in this category.

4) Finally, **portfolio insurance**. These are the gold miners who currently trade very cheaply in relation to gold and have burgeoning free cash flows. We have **9%** here.

This leaves a mere **6% in positions which are still being reviewed**. Our intention is to keep a slightly higher level of **cash** than normal **(5-10%)** in order to be able to take full advantage of opportunities as they come up.



Source: Prusik
Data as at 07/04/2020

We believe that this crisis is unlikely to end quickly and that, over time, we will see active management outperform ETFs as certain new business models will thrive in the coming months and years and grow even despite the terrible economic backdrop.

Asia was first into this crisis globally so it should be recovering soonest also. Its companies have more cash on the balance sheet on average than any other geographical area and many are still paying high – and crucially - secure dividends. So Asian corporates have survival power, generate reliable income and many are beginning to offer considerable value. Asia is beginning to outperform the Western markets in this global reset and, we believe, with good reason.

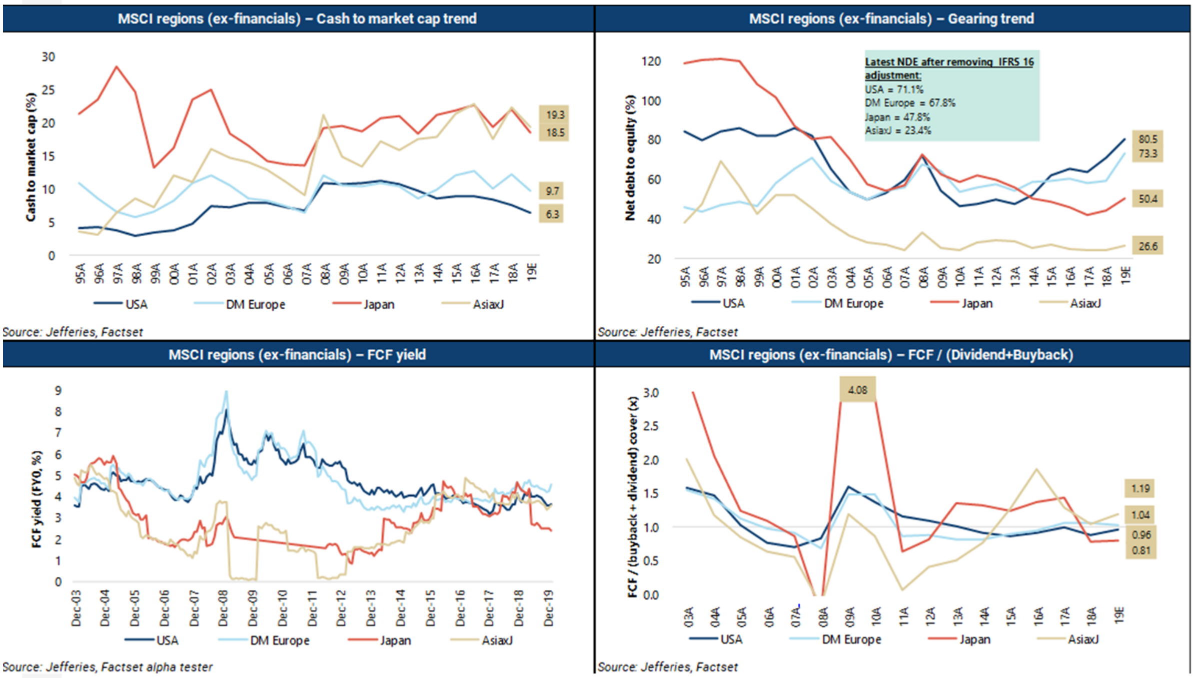
Valuation: Asia looks very good on PB, cash, dividend stability and FCF

On a forward-earnings basis, the MSCI AC Asia Pacific ex-Japan universe is now trading at 12.1x 2020 forecast earnings, based on the consensus forecast earnings growth of 8.5%. It should be noted that the forecast earnings growth has been downgraded from 12.8% at the start of this year. We would have to add a caveat here that we believe this is still way too high and analysts will need to reduce their earnings forecasts not least because, currently, a reasonably significant percentage of the market is impossible to model on a 1 to 2 year view. We are also expecting that earnings announcements will be delayed in many cases, the accountants will likely find auditing difficult so there will be many disclaimers, whilst some company guidance could be painful to hear.

The best guide to valuation in these times is the trailing price-to-book ratio (PB), which remains below the past 25-year mean. The MSCI AC Asia Pacific ex-Japan's trailing PB is now 1.29x, compared with a mean of 1.77x since 1995. The index is now trading at 12.5x trailing PE, based on companies with positive earnings. This compares with the trailing mean valuation of 13.8x since 1995.

Asia, however, continues to offer defensive qualities in terms of still-significant dividend support. Clearly there is a growing risk of some dividends being cancelled or cut but, relative to the rest of the world, Asia looks very stable on this measure. The MSCI AC Asia Pacific ex-Japan universe has a projected 2020 dividend payout ratio of 42%. A total of 83% of the stocks in the universe have a forecast 2020 dividend yield higher than the US 10-year Treasury bond yield of 0.67%, and 58% have a forecast dividend yield higher than their local 10-year government bond yields.

Furthermore, in Asia the sustainability outlook, overall, has never been better. Cash to market cap is 19.3%, the highest of any geographical area. Dividends are likely more sustainable, whilst FCF yield is high and rising. The charts below tell the full story.



China Returns to Work

After the end of the Spanish flu it took 4 years before church congregations reached the numbers they had been pre-flu.

We have spent much of the past couple of weeks speaking to contacts in China and addressing the return to work here and it is clear that the 'return to normal' is so far quite insipid. Whilst we have now seen most migrant workers returning, so about 90% are back to work, the factories themselves are operating at about 50%-60% at best. Bottlenecks in the supply chain (most recently parts from Europe), social distancing, regular cleaning of everything and shortages of masks have all been cited as 'inefficiencies' in the process, but it's also fair to say managers are not sure how to judge future demand from Europe and the US. Clearly, just in time inventory management is unlikely to remain a feature in future. Elsewhere whilst the roads are jammed (and polls show a big increase in the desire to own a car) public transport number are still way down, whilst restaurants are weird places with widely spaced tables, fewer staff and moderate numbers of clientele. We are still expecting the government to roll out more areas for reform and stimulus, including big revamps in healthcare, tier 3-5 cities, autos (the subsidy period for EVs has been extended for 2 years) and the food production system.

Vietnam – A Surprising Winner

Vietnam has been quietly leading the way as one of the countries who seem to have managed the COVID-19 outbreak particularly well. Thanks to early and efficient border closures, uncharacteristic government transparency and clever strategic, soft diplomacy it could also become an even bigger winner once the pandemic is over. The stock market meanwhile is, in US$ terms, the fifth best performing market in the region year to date, behind only Malaysia amongst its SE Asian neighbours and China, Hong Kong and Taiwan overall.

Internationally, Vietnam has ramped up its medical equipment production and made related donations to countries in COVID-19 need, including USA, Russia, Spain, France, Germany and the UK. Indeed, even Trump thanked 'our friends in Vietnam' after a Vietnam based DuPont factory ramped production and sent 450,000 protective hazmat suits to the US. Vietnam has also donated face masks, hand sanitizers and other medical supplies to neighbouring Laos and Cambodia. The pandemic has been a great time for Vietnam to prove itself as a reliable and responsible global actor and this clever diplomacy is likely to pay big dividends once the crisis is over. Additionally, Vietnam has just taken over the rotating chairmanship of ASEAN and is now leading a vigorous regional crisis response to COVID-19.

If this continues to go well it perhaps couldn't be a better time for Vietnam. World Bank estimates that Vietnam's GDP growth will be just 1.5% this year, down from 7% in past years and although this would mark the lowest growth in decades for Vietnam it will still be much, much better than its neighbour Thailand, which for example, is forecast to see GDP shed 5.3% in 2020. Only time will tell but Vietnam could be on the receiving end of further factory relocations from China and enjoying much better diplomatic ties with the West.

We continue to hold around 8.5% of the fund in Vietnam. Two of our holdings here are retail brands, **PNJ**, (a jewellery brand) and **Mobile World Group** (consumer electronics and convenience grocery stores) and they are the only two retail companies we still hold in the portfolio. Partly this is because we believe that the modern retail story in Vietnam is still in its infancy and therefore, on today's super cheap valuation, it would be crazy to sell. Additionally, foreign ownership limits remain full with both shares still trading at between 20-30% premiums to the local register, so buying them back would be almost impossible. Thirdly, it seems as though Vietnam may be able to allow a return to work before long.

But we also believe that, in the case of **Mobile World Group**, the current events will accelerate their growth in market share. This is especially the case for the convenience grocery chain which has remained open throughout the crisis and as of a couple of weeks ago when we spoke with the chairman, this was seeing a more than 20% surge in turnover as customers moved over to modern retail from the traditional stores and wet markets. The **Mobile World Group** stores by contrast are offering social distancing in store, deliveries and better quality goods, so customers feel much safer. We doubt very much that this dramatic shift in behaviour will reverse post COVID-19 and that modern retail in Vietnam will continue to take large market share.

India – Few Positives

The Indian macro story continues to be beset with negatives. The latest GDP data showed no sign of a pickup with real GDP growth slowing to 4.7% year-on-year in 4Q19. More recent data continues to be equally disappointing. For example, passenger car sales and two-wheeler sales declined by 8.8% year-on-year and 19.8% year-on-year respectively in February. Additionally, the recent quarter ended with escalating concern about rising Coronavirus cases, including frankly harrowing images of migrant workers crowding onto buses to get home for the lockdown. If all of the above is not challenging enough, there was also growing concern last quarter that the central government is not prioritizing its social agenda over the economic one, at a time when the economy is really under pressure. Doubtless this is not helped by continuing negative ripple effects from the ongoing liquidity squeeze in the non-bank finance company (NBFC) sector, about which we have written extensively over the past year. Total NBFC/housing finance companies' loan growth has slumped from 26% year-on-year in FY18 to 7% year-on-year in 3QFY20 ending December 2019. The budget announced on 1 February was an anti-climax with no sign of an "Indian Tarp". Finally, small but diminishing positive news remains on the inflows into domestic equity mutual funds. Domestic equity mutual funds' net inflows declined from Rs247bn in March 2018 to an outflow of Rs29bn in November but, have since risen to Rs97bn of inflows in February.

We have sold our last two positions in India based on the expectation that India's economy will suffer from already being at such low ebb as the virus takes hold. We note that Reliance Jio are already subsidising many low-end user phone packages out of compassion whilst we note that in 2008/9, the software companies saw sharp dips as overseas business capex declined. We do not find easy winners in this current environment in India.

Gold

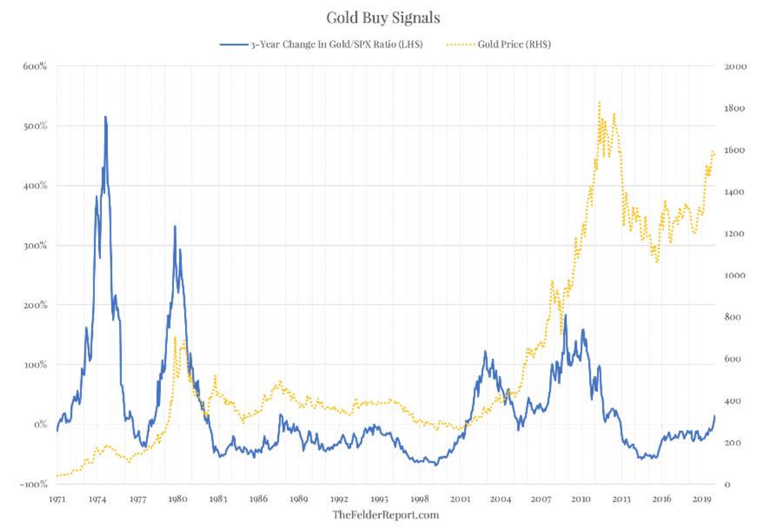
Ray Dalio has famously said, "If you don't own gold, you don't know history."

In a world where central banks suppress bond yields by fiat money, equities should in the long-term outperform dramatically in relative terms. But it is also the case that *gold has become more important than ever as a hedge, either against the return of inflation or against the onset of debt deflation and the resulting collapse of the US dollar paper standard*. The below table shows where assets stand relative to their 12-month highs. ***Gold is outperforming everything but the dollar and treasuries.***

Market	% Change 12-month high (Date)
USD Index (DXY)	-0.1 (March 19, 2020)
UST 30-yr Bond	-5.2 (March 9, 2020)
Gold	**-11.5 (March 9, 2020)**
Shanghai Comp.	-16.1 (April 19, 2019)
NASDAQ 100	-28.0 (Feb 19, 2020)
MSCI EM Index	-30.0 (Jan 17, 2020)
Nikkei Average	-31.3 (Jan 20, 2020)
S&P 500	**-31.9 (Feb 19, 2020)**
MSCI World	**-32.8 (Jan 17, 2020)**
CRB Index	-34.7 (April 10, 2019)
German DAX	-35.2 (Feb 19, 2020)
Brent Crude	-61.1 (April 24, 2019)

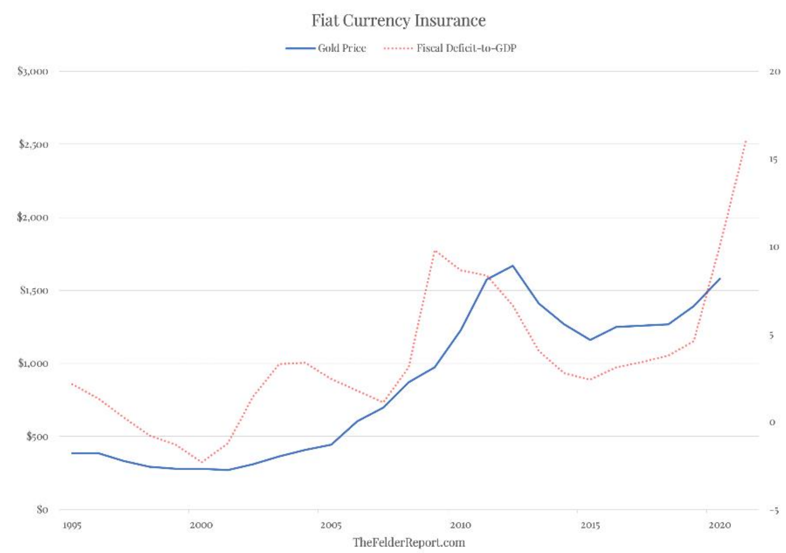
Source: 13D

There are times to own gold and times to own stocks but there are also times when it makes sense to own both, and both perform well. Past examples of this include the period post SARS/9/11 recession in 2003 and again in 2009 post GFC. The 36-month rate of change in the ratio between gold and the S&P 500 has provided a pretty good signal in this regard. In the past, when it has crossed above the zero line it has been a good buy signal for gold. It did so at the end of February (proving its worth once again).



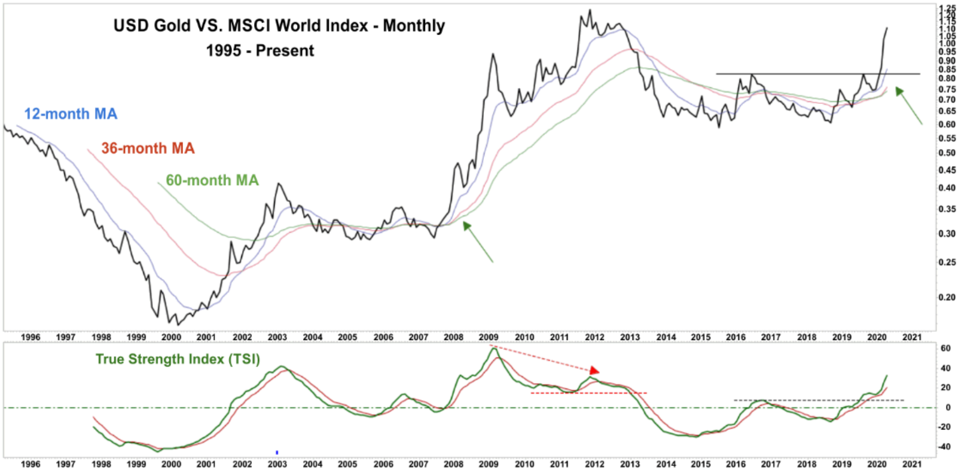
Source: Fielder Report

Furthermore, gold prices tend to rise when the fiscal deficit as a percent of GDP is rising. Part of the reason for gold's strong performance recently is the fact that the annual deficit recently rose above $1 trillion for the first time since the aftermath of the Great Financial Crisis when gold prices rose to nearly $2,000 an ounce. Some expect the deficit to expand by a much greater degree in the current crisis than it did a decade ago, as a result of the combination of record fiscal stimulus paired with falling revenue. If so, gold would very likely break out above the high it set in 2011.



Source: Fielder Report

Gold versus the MSCI World Index continues to lead the upward trend in gold. As shown in the chart below, the monthly momentum measure is rising strongly and the 12, 36, and 60-month moving averages (MA) have likely registered a long-term bullish signal**.** The 12-month MA is rising above the 36-month MA, which is rising above the 60-month MA. The previous such occurrence in early 2008 signalled the multi-year out-performance by gold versus global stocks.



Source: StockCharts.com

Why You Shouldn't Own Gold ETFs

Many investors own gold ETFs which, in most cases, are no more than "paper" assets unless they are backed by physical gold. The current rush to own physical gold is a sign that distrust for paper assets has started**.** Soaring central bank balance sheets and unprecedented government spending will lead to sustained, long-term demand for physical gold, and eventually hard assets.

*One of the most important reasons to own gold is because it is outside of the financial system***,** and owning ETFs defeats the purpose for owning gold. Most gold ETFs do not allow for delivery of physical gold.

Only by owning physical gold do investors get real protection against any financial chaos**.** Sooner or later, the disconnect between the paper gold market and the physical market is bound to be exposed and cause trouble. The 'financialization' of gold through futures trading, derivatives and ETFs has also caused large mispricing and an unsustainable disconnect in supply and demand for gold. James Rickards quoted in 13D on gold said: "It's no different from any other kind of fractional reserve banking. Banks never have as much cash on hand as they do deposits…If everyone showed up for the cash at once, there's no way the bank could pay it**.** That's why the lender of last resort, the Federal Reserve, can just print the money if need be. It's no different in the physical gold market, except *there is no gold lender of last resort."* And that's why physical gold is the ultimate safe haven.

How About Gold Mining Companies?

As shown in the chart below, despite the unprecedented financial market volatility, the gold miners' R/S (GDX) has been consolidating above the 12- and 36-month MAs. The upward trend in the R/S measure appears poised for further gains.

Source: StockCharts.com

At current gold prices, the industry's annualized profit margin is nearly as high as it was at the peak of the gold market 8-9 years ago. This is based on AISC estimates from the World Gold Council (WGC). Despite this, the NYSE Gold BUGS Index (HUI) of gold-mining stocks is roughly **68% below its 2011 peak.** As a result, miners' share prices still have a large gap to fill, despite their strong performance over the past year.

Source: StockCharts.com

The Australian gold sector is well positioned to capitalise on healthy margins, strong balance sheets, and a favourable outlook due to a resilient or rising gold price. Australian mining companies have so far lagged their US counterparts and so offer particular upside at this time. According to Goldman

Sachs, the sector is now trading at 0.8 of NAV, versus ~1.1x at the start of the year, and on an average EV/EBITDA of 5x versus 6-7x average since 2007 and a recent peak of 8x.

On cash & balance sheets:

Gearing is low, and on average, the sector is net cash. Companies have generally acted pro-actively to preserve cash on the balance sheet; drawing down on debt facilities, retaining the flexibility to defer hedge deliveries and dividends where appropriate, and restricting non-essential activities in the near term (exploration, some capital projects). Most companies have refinanced or extended facilities in the last 12 months, including the more highly levered names.

What does worst case scenario look like?

A simplistic analysis shows all companies under GS coverage (and those held in PAF) *would be able to endure complete production shutdowns for at least six months or greater out of cash and liquidity on hand* (assuming a c.60% fixed cost base for operations). On average, EBITDA margins are strong (c.45% FY20e/53% FY21e) and capex requirements are low, leading to a sector FCF yield of c.10% in FY21e on GS forecasts. However, at the time of writing almost all operations of the gold mining companies in our portfolio are continuing to operate. **Newcrest Mining** for example has one of its major assets on an island which has not received visitors for over 2 weeks. The company is working with Apple and using technology to keep track of employees so they can easily isolate anybody who might need to be quarantined.

Companies could nonetheless continue to protect their balance sheets through reducing dividend payout ratios and deferring growth capex if required, although we are not expecting this. We actually think the recent sector de-rating and potential for further prolonged shutdowns globally could provide some companies with opportunities to act counter-cyclically via value-accretive M&A.

At the operational level, there may be some downside risk of further production interruptions, however we now sit at the bottom end of production guidance for most companies. There will be some minor delays to brownfield projects in the construction phase due to restrictions in labour and equipment movements, probably a 1-3 month delay across the board, which is already in analysts' forecasts.

We own three Australian gold mining stocks (NB the company year ends are June, hence we are giving 2021 data). Firstly, we own **Newcrest Mining** which is the blue-chip gold miner in Australia. Trading on 2021 FCF yield of 9%.

Secondly, we own **St Barbara Mining** which is now trading at 0.52x NAV with 2 long-life mines post a recent acquisition. Strong EPS growth, to June 2021, of 27% is expected and in 2022, EPS growth of 70%. The company has a dividend yield of 4% and trades on a low PE 5.6X 2021.

Lastly, we own **Northern Star Mining** which also has a high expected growth rate in the coming 3-years with EPS up 23% to 2021, and 41% in 2022. The company is generating a dividend yield of 3% in 2021 and trades on 2021 PE of 9.9x.

Anomalies – 'Well-Being' is the New Wealth – A gigantic theme for the next few centuries ahead!

We are seeing a new and interesting anomaly: Even the most scientifically based products are sending a new kind of marketing message to their customers. The first example we saw came from Augustinus Bader skincare, which is a brand owned by a German scientist and is a product rooted in cutting edge science but, in fact, we are seeing this trend everywhere. According to one source, even JP Morgan has posted about traditional eastern medicines on its internal staff notice board! Something our friend had never seen or imagined happening before.

The new offerings we are receiving are 'gifts' of value of a very different nature than the usual discount or new product launch. These offerings are often quite personal and the connecting factor is that they all include wisdom on well-being. Examples we have received include guided meditations from gurus in Tullum, herbal medicine remedies, guidance on manifestation, the transformative power of gratitude and forgiveness, poetry, yoga routines, tai chi, supplement advice, food as medicine, baking sourdough 1001 ways and so on. You get the picture! Clearly these offerings, which so many major brands are sending out to customers, are designed to be soulful, supportive, human, caring, free and to be shared, all of which is wonderful, but the interesting and anomalous thing is that the nature of some of this content could even have been seen as a total disconnect and as such, brand threatening to a science based product (or an investment bank) just a few short years ago (maybe that should read months or weeks ago?). Indeed, much of it would have been viewed as, or possibly dismissed as, somewhere between 'alternative' and 'woo-woo' and most of it was certainly not mainstream.

What IS going on?

Well in the first instance maybe we should not be surprised. Of course we are all focussed on health right now and the bizarre events of the past few months still remain shocking and surreal, so it makes sense that we should all be reaching out to each other in this way. However, we think we are seeing the beginnings of a huge and likely rapid change in peoples' thinking and priorities. Indeed, a very recent poll by YouGov of British people shows that only 9% of people polled would like things 'to go back to normal' after this pandemic is over. According to the study we are suddenly valuing the stillness, the ability to hear nature, being closer with our communities, time with close family, the freedom to organise our own days and the many other non-material benefits of this current time which notably, meaningfully and crucially, actually bring a greater sense of well-being.

After some careful thought on this and a fair bit of reading, we believe that this less well recognised, less traditional world of 'alternative' well-being has a view of what is happening which is worth hearing, and which we think will have a bearing on us all. It is radical, exciting and involves lots of change (and some pain along the way). And so, wading into this newest of trends ourselves and with a viewpoint that is borne from both ancient ways and new science, here is our first take on what this new anomaly might mean and how we might best react:

Since the days of the astronomers somewhere in the 1600's we have been in a Scientific/Mechanistic era - the era of Material Consciousness. Here, cold hard logic and maths, physical proof, laws, reasoning and the drive for certainty led the science thought field. In this era it was believed there were a finite number of solutions to every problem and, with that, the major currency of this era was material resources, or, eventually, MONEY.

The thinking is that we are now at the beginning of a new era – The Quantum Era.

The Quantum era uses Quantum physics for thought leadership. Quantum theory started to be recognised in the 1920s, pioneered by Einstein in 1905 and followed by Werner Heisenberg, Niels Bohr, Max Born. At this point it became an official branch of science but has only been in the ascendancy of public awareness for a few decades and has really only been taken seriously since the 1990s. The simplistic difference is that Quantum Physics allows for non-linear solutions, and the possibilities of more than one outcome. Quantum thinking allows (very crudely, apologies to any quantum physicists out there) for such things as non-physical communication over distance, the quantum field, particles which are energy but not mass, 2 particles being in the same place at once, quantum entanglement, the observer affecting the outcome (as per Schrodinger's Cat thought experiment) and so on. In the world of 'alternative' health, for example and for those studying evidence based data these phenomena are already accepted (and have been for centuries) in many ways including remote healing, dowsing, manifestation, auras as well as homeopathy and other energy based medicine such as acupuncture. It also accounts for some basic observable data which old school science dismisses because it can't explain it, such as that if you live next door to a happy person you are 60% more likely to be happy yourself, *even if you don't know your neighbour*.

It seems as though the Quantum era requires us to understand ourselves differently, as beings with an energetic charge that extends beyond our physical presence and interacts with the entire system we live in.

So, back to the original anomaly, is it so weird then that in lockdown everyone, it seems, is making sourdough and practising meditation virtually with gurus from Tullum? No, not really. It is thought that we actually need to pass through the following three phases to be ready for the new Quantum era that is now here:

The first phase is **Disruption**, the purpose of which is to shatter old patterns, in order to be able to then align more closely with who we are individually and collectively. (Hello, COVID-19.)

Second comes **Liminality** – the Void. The liminality is a disorienting and ambiguous threshold between one stage of a rite of passage and the next. It is sitting in the unknown. This can feel very uncomfortable as nobody knows what to do. The purpose is to do nothing and begin to consider and clarify really who you are and what you want. We cannot 'go back to normal', but instead it's important to look forward. If we can't see what is ahead, then we must sit in the void, with grace, until we can. The question we must ask ourselves is what do our minds, bodies and spirits need in order for us to bridge the void and then to be able reach back and to help others to create their bridge? Maybe making sourdough and meditating are just the things to be doing! In the stillness we can hear ourselves.

Finally, we get to **Expansion** where we put transformation into action. This is the new narrative of where we want to be and the main feature will be more alignment with who we are. This, in turn, will bring huge abundance in the form of well-being. It is an upgrade! But we are not there yet.

The world is for now, it seems, going through the second stage, almost a collective nervous breakdown. It is in the liminality, this disorienting and ambiguous threshold between one stage and the next. Anybody who has recovered from any life-threatening illness (or nervous breakdown) will tell you that that experience and recovery creates, actually necessitates, a similar stage and that this process often significantly alters your world view and changes your priorities. You reach an understanding that to heal and recover you need to live more closely to your true self and, for example, not compromise with any job/relationship/career/circumstances that are not aligned to who you truly are.

Living too far from our true selves is not sustainable and in the longer run, it will drain our ability to remain vital and may even make us ill. Perhaps the key issue to understand as we move into the quantum age is that we need to absorb the tenets of Quantum Physics and begin to understand ourselves as beings made of and radiating energy. Taking this all the way through to its logical conclusion, our thoughts and actions all affect our energy and well-being for better and for worse, and our energy in turn affects the energy of others.

The Quantum Era, however, is starting painfully and life threateningly and this shocking pandemic is a just such a wakeup call, one that is asking us – indeed demanding of us- all to take time and to make ourselves as healthy as possible. In terms of energetic well-being this requires us to align more with who we are as individuals and as a society and to focus on our individual and collective well-being in order that we can become more sustainable as physical beings.

And so, whilst it is clear and truly extraordinary that we are all thinking about the same thing at the same time – our health - and that this same thing is happening, amazingly, all around the whole world, there is a deeper takeaway here where the key message is not a short-term one as we maybe presently believe. If indeed we are entering a new era, the Quantum Era, it is highly likely that the main currency of this new Quantum Era will be different, and that wealth and abundance will be measured differently. **It is likely that as the future evolves, we will see that our new currency is well-being**.

The 'Well-being' Theme

Well-being is about quality of life and living a life close to who you really are, with fewer compromises. The trend has begun with a focus on physical health but will quickly expand to a more broad and integrated understanding of how physical health, mental health, societal health and what creates true vitality and a sustainable healthy life are all deeply intertwined. On the negative side (for the economy) it may require 'unbuilding' and simplification and being prepared to 'let go' of many things we had thought were important.

So how can this be reflected in portfolios today? We think there are likely to be some very early signs of the major changes to come after we have witnessed the re-starting of the economy. It will be important to spot these, not least in order to avoid areas which may not attract back the same levels of demand as pre-crisis. Consumption trends across the board are particularly vulnerable areas to these possible changes with both positive and negative trends likely.

In the category of likely areas we may want to avoid in future we will be carefully watching fast/low-end fashion, fast food, processed food, sugary products, low cost airlines, non-essential plastic products and business travel. For example, we have noticed that Hong Kong supermarkets are reporting that sales of fresh fruit and veg are up 18% whilst sales of biscuits are down 20%, whilst in China our commerce position, **JD.Com**, has seen sales of fresh produce rise 260% since the crisis! We also believe that fresh, local and seasonal will dominate food to reduce CO2-creating transport costs. We also note that in the midst of the crisis the cost of air freight has risen between 7 and 10-fold!

We are also very wary of the luxury brands (and don't own any in the portfolio) but note that the Guangzhou branch of Hermes opened this week for the first time since COVID-19 and took a record $2.7million in one day! We will be watching this carefully but generally expect this is unlikely to be a stable trend.

Regarding areas we do like under this theme, firstly, it seems likely that ESG will return as a huge theme but it will become absolutely non-negotiable and eventually ubiquitously accepted. It is likely that the social part of ESG will be given much more weight, with employees gaining in financial share and power to influence.

We also believe that working from home (WFH) will be a big part of the new well-being pillar. This serves in so many ways, for example, if we have half the commuters in the world will we have half the emissions? We expect to see many new technologies to support this such as ongoing demand for servers and, for example, technical upgrades for 360' cameras, streaming and virtual solutions for anything from education or fitness sessions to home doctor visits, to general monitoring and surveillance. We are unlikely to fully relinquish the virtual world we are all currently inhabiting. Other areas in the WFH theme thus include home improvements and gym equipment for the home. Existing beneficiaries which are already doing well will include ecommerce, online gaming, home entertainment and virtual socialising and home delivery of food. Here we already own **JD.Com**, **Meituan**, **Sea Ltd**, **Tencent** and **Mango Excellent Media.**

We expect to see a renewed demand for cleaner air quality long-term, especially in major cities, and the need for less noise. To this end we see EVs as a natural transport solution in cities. Here we have **LG Chem** and **Samsung SDI** as well as **Wuxi Lead**, all EV battery related.

Well-being, as we have discussed, requires that society takes care of all members and that they take care of themselves. We notice that there are already some interesting studies which are pointing the way into the future here, most notably the work of Dan Buettner on 'Blue Zones'. Blue Zones are small areas around the world where groups of people live together in profoundly healthy ways, often reaching over 100 years of age. No surprise that these are uncomplicated rural lives filled with physical work, family and friends close by, and simple home cooked and mostly plant-based food, often with less than 20 ingredients used overall in the kitchen. Thankfully, there is red wine involved – but there are no Peleton bikes in the Blue Zones! More recently a number of Blue Zones Projects have been undertaken in the US where local communities have been given aggressive but achievable strategies in line with the blue zone model. The results have been incredible, including double-digit drops in obesity, smoking and BMI (body mass index), millions of dollars saved in healthcare costs and measurable drops in employee absenteeism. Here are the key aspects of Blue Zone living:

Move naturally throughout the day

Have and cultivate a strong sense of **purpose**

Downshift every day to relieve stress

80% Rule: stop eating when you are 80 percent full

Plant Slant: Make beans, whole grains, veggies, and fruit the centre of your diet

Wine @ 5: Enjoy wine and alcohol moderately with friends and/or food

Belong: Be part of a faith-based community or organization

Loved Ones First: Have close friends and strong family connections

Right Tribe: Cultivate close friends and strong social networks

Overall, we do not doubt that we will see many new investment opportunities in the well-being area spring up. At the time of writing, over 27% of the portfolio is in companies associated in some way with well-being, either via direct healthcare or in lifestyle well-being improvements including EVs, virtual GPs, fresh food delivery and vaccination solutions.

A Poem

Finally, we are sharing a favourite poem with you, a mighty earthquake of a poem, which we feel was almost prophetic of these times and is a lovely reminder to remain in wonder and not to give in to fear.

We wish you all health and well-being.

THE TURNING by Rowan Mangan

I.
My sweet darlings,
however did you stay afloat for so long
and never suspect you were
built to breathe underwater?

Why did you never toss thoughts
around in three dimensions,
never loose them like dragonflies
into the deep sky?

How could you fear falling?
Didn't you see the spiders
stringing safety nets
across the earth every day, just in case?

II.
Instead, you tore at this world, and I watched.
I felt the air's grim thickening, saw the waters rise.
You were huddled at the precipice—at the very brink,
my loves—and still bellowing for more.

What crucial inspiration turned you at the last?
I'll never know what broke over you,
and with what calamity, clamour
or grace—

but when you knelt, as one, it was a mighty sight.
You placed your hunger on the ground
and left it to lie among the gadgetry of old logics,
beside the corpses of cruelty and greed.

You were exquisite to me then, long-legged and bright-eyed,
built of gravel and stardust; oh,
my sweet, funny loves. My unfurling galaxy, my
pebble-scatter of promises.

III.
And so we came to the age of the great unbuilding,
where everyone's name is stillness.
Here, day gathers you into the deep magic of play.
Here, night powders you with the ancient magic of rest.

It's a time of dragonflies.

So be soft in your hearts, dear hearts,
for we are all cast shining and short-lived into the sky—
And allow your face to take the shape of wonder
when your children ask again to hear the tale

of the time you almost broke the world.

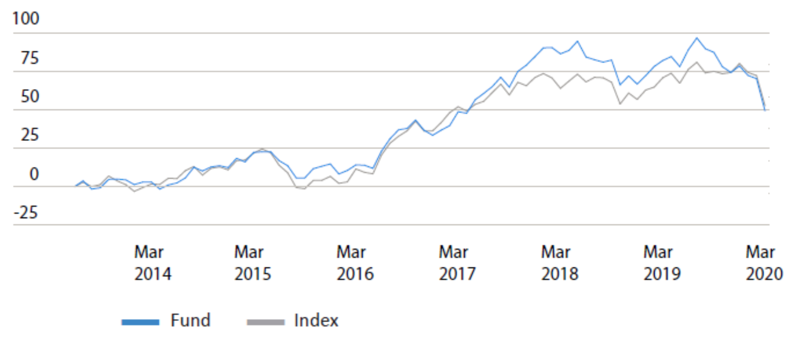
PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 31.03.2020

	U (GBP)	Benchmark **
1 Month	-12.30	-11.42
3 Months	-16.35	-15.26
2019	7.07	14.87
2018	-9.63	-8.32
2017	38.25	25.43
2016	16.21	27.70
2015	2.14	-3.85
Since Launch+	49.23	52.50
Annualised 3 years	0.13	0.13
Annualised Since Inception	6.11	6.45

Source: Morningstar
**MSCI Asia Pacific ex Japan
+Launch Date: U: 01.07.13

Fund Performance – Class U (GBP) (%)



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

Monthly Performance Summary (%)

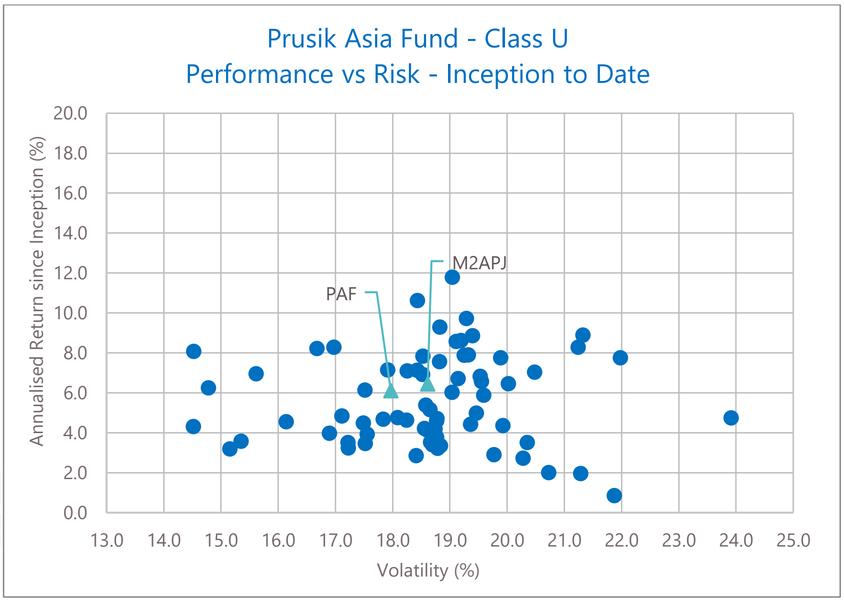
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2020	-3.44	-1.23	-12.30										
2019	3.31	3.43	2.17	1.41	-3.52	6.11	4.09	-3.56	-1.26	-4.98	-2.09	2.43	7.07
2018	3.14	0.11	-2.14	1.19	3.2	-5.3	-0.96	-0.86	0.74	-8.81	3.48	-3.10	-9.63
2017	2.50	2.15	6.46	-0.63	5.92	2.63	2.73	3.70	-3.76	6.20	2.33	3.05	38.25
2016	-5.66	2.09	3.24	-0.15	-1.79	9.96	6.53	4.45	0.68	3.99	-4.65	-2.42	16.21
2015	5.39	-2.00	5.34	0.30	0.03	-4.71	-2.81	-6.95	-0.05	5.68	1.42	1.33	2.14

Source: Morningstar

RISK ANALYSIS

Risk Metrics	Fund (%)
Beta	0.88
Alpha (%)	-0.97
Sharpe Ratio	0.20
Volatility (%)	17.97

Source: Morningstar
Since Inception: U: 01.07.13



Source: Morningstar

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Taiwan Semiconductor Manufacturing Co Ltd	6.1
Tencent Holdings Ltd	5.9
Sea Ltd	4.9
China Railway Construction	4.4
Samsung Electronics Co Ltd	4.3
Total Number of Holdings	33

Thematic Breakdown (%)

5G/AI/Software/Healthcare	22.4
Ecommerce/Gaming/Entertainment	21.0
Brands	19.7
Infrastructure/Property	11.2
Gold	8.8
EV/Battery	7.4
Shortages/Value	6.0
Financialisation	3.5
Cash	0.0

Geographical Breakdown (%)

China	38.7
Australia	13.7
Korea	11.0
Taiwan	10.2
Singapore	9.6
Vietnam	8.5
India	7.3
Indonesia	1.0
Cash	0.0

All data as at 31.03.2020. Source Prusik Investment Management LLP, unless otherwise stated.

Portfolio Financial Ratios

Predicted Price/Earnings Ratio	14.2x
Predicted Return on Equity (%)	18.4
Predicted Dividend yield (%)	2.8

FUND PARTICULARS

Fund Facts

Fund Size (USD)	90.3m
Launch Date	07.10.05
Fund Structure	UCITS III
Domicile	Dublin
Currencies	USD (base), GBP, SGD

Management Fees

Annual Management Fee

Class U: 1% p.a. paid monthly in arrears

Other Classes: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 classes except Class U: Provided the fund achieves an overall increase of 6% a yearly performance fee of 10% of total returns will be applied.

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

Share Class Details

Class 1			SEDOL	ISIN	Month end NAV
A USD	Unhedged	Non Distributing	B0MDR72	IE00B0M9LK15	202.07
B USD	Unhedged	Distributing	B0M9LL2	IE00B0M9LL22	202.20
C GBP	Hedged	Distributing	B18RM25	IE00B18RM256	103.55
D SGD	Hedged	Distributing	B3LYLK8	IE00B3LYLK86	272.49

Performance fee based on individual investors' holding.

Class U			SEDOL	ISIN	Month end NAV
U GBP	Unhedged	Distributing	BBQ3756	IE00BBQ37560	149.23

Performance fee based on fund performance as a whole.

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