PRUSIK

Growth Investing in Asia

Prusik Asia Emerging Opportunities Fund

Quarterly Investment Report
31 March 2020

FOR PROFESSIONAL INVESTORS ONLY

1Q20 Performance Overview

"You may not control all the events that happen to you, but you can decide not to be reduced by them." Maya Angelou

The first quarter of 2020 has been an extraordinary period in human history. In the course of just 3 months, COVID-19 escalated from a China-centric crisis to a global one with the disease now present in 210 countries and territories. At the time of writing, recorded infections have breached 3 million and a third of the world's population is under some form of lockdown to try and slow the rampant spread of the virus. Markets across the globe have corrected, in many instances sharply.

During 1Q20, local indices in South and South East Asia fell by c.30-40% with Indonesia, in particular Indonesian small caps, falling by more than this. This proved to be a very challenging backdrop for the fund which decreased by 33.5% in the quarter. While the fund is not measured against a benchmark, to put this in context the main MSCI Asia ex-Japan Index declined less, falling by 20.7%, and so did the Asia ex-Japan Small Cap Index, which corrected by 28.6%. It is worth highlighting that the majority of the underperformance came in just the last 2 weeks of March. Indeed, as of 18 March, the fund was outperforming the MSCI Asia ex-Japan Small Cap Index by 3.8% and its underperformance relative to the MSCI Asia ex-Japan Index was much more muted at 2.8%. A key factor for the change was the fact that India and Vietnam, where c.55% of the fund is invested, announced their lockdown intentions towards the end of March. Moreover, this coincided with the confirmation of the US$2 trillion stimulus package in the US which saw many markets rise towards late March. While our exposures in the Philippines and Indonesia bounced, our India exposure was flat and our Vietnam portfolio corrected into the end of the quarter.

Looking at performance in geographical terms, the fund saw significant outperformance relative to the local index in Singapore and the Philippines, in-line performance in Pakistan, some underperformance in India and quite marked underperformance in Indonesia and Vietnam. In terms of performance by theme, our Emerging Technology theme outperformed, falling by 19.4% in the quarter, while all other themes underperformed. Both the performance in Singapore and our Emerging Technology theme were helped by the fact that ASEAN Ecommerce and mobile gaming company, **Sea Ltd**, rose by 10.2% in the period, plus the fact that it is one of our largest weightings in the fund at 8.8%. Our Philippines exposure was buoyed by convenience store operator, **Philippine Seven**, which corrected by just 8.5%. Overall, the underperformance witnessed in different geographies and themes was primarily driven by the fund's exposure to smaller companies. By stock, the greatest detractors in the quarter were **Mobile World** and **FPT**. Having reached valuations by the end of March of just 5.5x P/E and 8.0x P/E, respectively, we are unsurprised that these stocks have been recovering strongly as of the time of writing.

In terms of portfolio changes during this time, we took steps in February to trim our more richly valued positions and to exit our more illiquid positions such as **Taseco Air Services** and **Sai Gon Cargo** in Vietnam. As March progressed, we increased cash to a peak of just over 10.0% and then as valuations became more extreme and there were indications of significant stimulus in the US, we reduced the cash back down to 3.9%. This process allowed us to build more substantial positions in companies we admire such as food delivery and classifieds business in India, **Info Edge**, and top up positions in our Indian city gas company, **Indrapsprastha Gas Ltd** and Filipino home improvements business, **Wilcon Depot**, where we had been waiting for a correction to add to our positions. At the time of writing, we have also initiated 2 new positions, **Saigon Beer Alcohol Company** or **SABECO** and **Universal Robina**, more on which below.

Despite the disappointing performance in 1Q20, the operational and financial strength of our invested companies remains strong. Nearly half of our companies are net cash and the net debt ratio for our companies which do have some leverage is just 24%. In addition, c.45% of the fund is invested in companies where a substantial part of the business or the whole business is expected to see continued demand throughout the crisis or the business is likely to benefit from the crisis. Businesses which fall into this category include Ecommerce, gaming, food delivery, branded food, supermarkets and convenience stores, telecoms and software, OTT providers and utilities. Finally, the fund is focused on investing in market leaders and we believe the operational and financial strength which has enabled our invested companies to achieve this status will also enable them to emerge from this crisis even stronger than before. As of the end of the quarter the fund was trading on just 13.1x P/E with an 18.8% ROE.

COVID-19: Looking for What We Do Know Amongst the Unknown

SARS-COV-2 or COVID-19 is a member of the coronavirus family. While coronaviruses are a large family, only seven of its members can infect humans. Out of these seven, four circulate frequently amongst humans and cause symptoms as mild as the common cold. The remaining three are deadly and include SARS, MERS and now COVID-19. Each coronavirus shares a halo-like structure and it is from this halo or ‘crown’ that they take their name – ‘corona’ being Latin for ‘crown’. Coronaviruses are also known for their ability to jump the barrier between animals to humans, something which is incredibly rare for a virus. This is on account of their genomes being encoded as RNA instead of DNA. RNA viruses are sloppy when it comes to copying their genetic code which means mutations are introduced at a high rate. As a result, an RNA virus has a huge amount of diversity in its population and this allows it to adapt to new environments and new hosts very easily. To give a sense of just how rare such an event is, it is worth noting that we currently share the planet with more viruses than there are stars in the universe. To be specific, that is an estimated 10 nonillion or 10 to the 31st power.[1]

While animal to human transition for viruses is a very low probability event, pandemics, nevertheless, have featured relatively regularly in human history. Between the mid-eighteenth century and the late 1970s an event occurred every 30-40 years. Our research reveals pandemics were endured in 1743, 1782, 1803, 1831, 1847, 1889, 1918, 1947, 1957, 1967 and 1976. More recently we witnessed SARS in 2003, swine flu in 2009, MERS in 2012, and more latterly, the Ebola crisis. Viewed through this lens it is reasonable to ask why was the risk of another pandemic not more visibly on our radar? Of course, it is one of the characteristics of a ‘black swan event’ that the event takes on some sense of predictability with hindsight. Equally, even if we had studied epidemiological history and had greater

[1] Source: http://www.nationalgeographic.com

awareness of these past cycles, we do not believe we could ever have imagined the world which we are currently all living in today.

The most devastating of all the pandemics in the last 300 years was the Spanish flu of 1918. The Spanish flu, named after the fact that it was widely discussed in the Spanish press which was not subject to censorship at the time, is estimated to have infected a third of the global population and killed somewhere between 20 to 50 million people, possibly more as records of the event are poor. Many observers of COVID-19 have drawn attention to the fact that the mortality rate for COVID-19 is similar to that of the Spanish flu. Importantly, it is actually too early to say if this is the case. Moreover, several factors point to the likelihood that the mortality rate for COVID-19 is in fact lower than Spanish flu. For instance, many COVID-19 patients are asymptomatic, testing capacity is limited in most countries and in some instances under-reporting is happening wilfully. Collecting sufficient data to be able to answer this question with confidence remains vital and would be a key ingredient in informing countries' lockdown exit strategies.

Although the current global situation remains unprecedented and clearly extremely alarming, we believe it is paramount to underline that what we are experiencing is far less severe than what was experienced in 1918. There are numerous factors which illustrate this point.

Firstly, during the Spanish flu it is estimated that 1.7% of the population died on account of the disease. Scaling this up to today's global population would imply a potential death toll of over 130 million people, many times in excess of the 220,000 fatalities we have witnessed at the time of writing. Secondly, pandemics typically afflict the most vulnerable in society – the very young, the very old and others with weakened immune systems. A particularly striking feature of the Spanish flu was that it impacted healthy men and women in their 20s to 40s the most. Thirdly, when the second wave of the Spanish flu hit in autumn 1918, the disease had become incredibly lethal. The worst of the symptoms would typically come on within a 24-36 hour period and led to victims collapsing in the street as they haemorrhaged from their lungs and nose; there were reports of patients' skin turning dark blue due to the characteristic heliotrope cyanosis caused by oxygen failure. Fourthly, scientists' understanding of viruses was still only just developing at that time. Indeed, until the invention of the electron microscope 2 decades later, it was not even possible for scientists to look at viruses in 1918. Ventilators were also still yet to be developed. Fifthly, the Spanish flu arrived when society and individual's health had been decimated by 4 years of war and medical resources were significantly depleted and dispersed. Finally, with the war effort and its end taking precedent, in the autumn of 1918 multiple 'bond drives' were held in the US, drawing as many as 200,000 people at a time to appeal to people's patriotism and encourage them to buy bonds to support government finances, and Armistice Day also saw thousands gather together to celebrate. While quarantines and social distancing measures had been imposed in the wake of the Spanish flu, these mass parades and gatherings still went ahead, sadly proving to be a fatal mistake in the weeks which followed.[2]

[2] Source: C, Arnold, 2018, Pandemic 1918: The Story of the Deadliest Influenza in History

In contrast, at the time of writing just 0.04% of the global population is reported to have contracted COVID-19 and 0.003% has regrettably succumbed to the virus. Even if we assume significant under-reporting for the data, these numbers still remain a fraction of what the world endured 100 years earlier. While we are all greatly saddened by the deaths caused by this coronavirus, the pandemic is at least following a more typical path of impacting our more vulnerable members of society and then, even within that, our youngest cohort has largely been spared. Perhaps most importantly, our scientific and technological resources to respond to the virus have scaled to dazzling levels. Scientists were able to sequence the genome for COVID-19 within just 2 weeks of the virus being identified, tracking apps are able to pinpoint those infected within a 100 metre radius and an artificial intelligence platform assisted in sending out the first alerts of the outbreak. Steps are being taken to accelerate the development and mass manufacturing of a vaccine at an unprecedented rate and human trials are already underway on existing drugs to see if they can be repurposed. Temporary hospitals have been erected in a matter of weeks and hotels and public buildings have also been requisitioned to provide much needed resources. Manufacturers all over the world have pivoted to produce face masks, PPE and ventilators. Governments have taken never seen before steps to protect jobs and income as part of widespread lockdown procedures and central banks have stymied early signs of a liquidity crisis. Cooperation is being witnessed between governments, otherwise competitors, Apple and Google, and at a grass roots level in local communities. While there are pockets of tension and dislocation, for example in the bubbling up of protests against quarantine measures, the continuing need for more PPE and hostile reactions to China from the US, the overwhelming momentum in the last few months has been a wholly positive collective effort of " we will do whatever it takes to get through this".

COVID-19 in South and South East Asia

COVID-19 in South and South East Asia is in many ways a daunting prospect. Healthcare resources in the region are woefully limited, in many cases these countries have a high proportion of migrant workers, and multi-generational families living in cramped conditions are commonplace. All of this speaks to the challenge our invested countries face in responding to the crisis as well as how internal conditions may make their populations particularly susceptible to the virus' spread.

All of that said, there are also factors which may mitigate the impact of the virus in South and South East Asia. Firstly, it is well documented that it is the older generation who are more vulnerable to the virus. However, according to the World Bank, in India, Indonesia, Philippines, Vietnam and Pakistan, the percentage of the population over the age of 65 years old is just 4-7%. This relative youthfulness may lessen the virus' impact in our invested countries. Secondly, the high incidence of severe viral infections such as dengue fever in South and South East Asia may mean that individuals' immune systems there are potentially more resilient, which would also be positive. Finally, while there is still some debate on this point, scientists at Beihang and Tsinghua universities in China and Maryland's Institute of Virology in the US, have carried out studies which indicate that transmission rates of the virus are lower in hot and humid climates. Should this prove correct over time then this bodes well for South and South East Asia where temperatures are currently 30-35 degrees. Although South and South East Asia is still at an earlier stage of the virus' spread compared to North Asia and the quality of the data coming from these countries is likely to be lower than elsewhere, it is nevertheless interesting to see that in recent weeks the death rate in our invested countries has remained relatively stable while the recovery rates have been steadily increasing. Importantly, at present, recoveries are growing at a much faster pace than infections in our invested countries.

Within South and South East Asia, Vietnam stands out for having handled the virus impeccably. At the time of writing, Indonesia, Philippines and Pakistan have in the region of 15,000 to 25,000 cases, while India has north of 50,000 cases. In contrast, Vietnam has had a total of just 270 cases and zero deaths. An aggressive 'contact and trace' strategy, a reliance on old Communist networks for information and a population that is culturally obedient and trusting with regard to its government have contributed towards this success. Lockdown measures are now being lifted meaningfully in the country. In 1Q20, earnings growth for our Vietnam portfolio fell on average by 9.7% year on year. Clearly, this is a marked decline compared to the 13.9% year on year earnings growth our Vietnam portfolio achieved in 2019; however, given Vietnam's excellent management of COVID-19 we can be reasonably confident that earnings growth will witness an improving trend from here.

Staying with Frontier Asia, the onset of COVID-19 has prompted some interesting developments in Pakistan. Prior to the outbreak, Pakistan was under an austere IMF programme which had seen Pakistan raise interest rates to 13.25% and GDP growth was expected to drop to 2.5% in 2020. However, the additional economic strain caused by the virus has led the IMF to allow Pakistan to temporarily ease its austerity measures. Interest rates have been cut by 425bps to 9.0% and are now the lowest they have been in a year. In addition, the IMF has granted Pakistan a much needed US$1.4 billion relief loan. At the time of writing, this softening of measures has caused Pakistan to see more sanguine performance relative to its South and South East Asia peers.

Finally, COVID-19 has also encouraged some interesting developments at the company level, including the acceleration or initiation of Ecommerce operations. For example, **Robinsons Retail** in the Philippines has launched an Ecommerce platform for its pharmacy business which to date has seen a basket size 8 times bigger than an average in-store basket size. In India, our branded food business, **Tata Consumer**, has initiated an Ecommerce venture with the domestic leader, Flipkart, to deliver its products nationwide. Also in India, leading restaurant delivery service, Zomato, which is part owned by our invested company, **Info Edge**, has pivoted to grocery delivery services in response to COVID-19. Evidently, the crisis is providing unprecedented challenges but it is also providing opportunities. By encouraging business model developments and innovations, the long-lasting impact of the virus for some of our holdings may be that they are even better placed to grow their earnings over the long term.

New Holdings

Just as COVID-19 has created opportunities for some of our invested companies, the sharp correction witnessed by the markets by the middle of March, also ushered in opportunities for the Prusik Asia Emerging Opportunities Fund. We took advantage of the indiscriminate selling to build positions in two companies we have long admired, **Universal Robina** and **Saigon Beer Alcohol Beverage Corp (SABECO)**. We have set out more details on both below.

Universal Robina

Universal Robina is the leading snack food company in the Philippines. It also has a significant market position across 12 other countries in ASEAN and Oceania. In the Philippines, **Universal Robina** is the number one player in snacks, candies, chocolates, ready-to-drink tea, cup noodles and sugar and the number three player in coffee and biscuits. Elsewhere, the company is the number one player in biscuits and wafers in Thailand and the third largest brand in ready-to-drink-tea in Vietnam.

Many years ago, **Universal Robina** was a market darling in Asia. The company was propelled to this position on account of its three-in-one powdered coffee product which was cheaper and had a better, more localised taste profile. This enabled the company to decimate the then market leader, Nestle, in a matter of months. However, the company went on to expand extensively across ASEAN and make acquisitions in Australia and New Zealand. Arguably, the expansion was too aggressive, the acquisitions were ill-considered and the company faced a similar threat to that which it had previously posed as Indonesia's Mayora Indah took share in the Philippines coffee market, helped by a significant cost advantage. This resulted in **Universal Robina's** earnings peaking in 2016 and then declining in 2017 and 2018.

The earnings declines and the loss of market share were sufficient for the founding family to take note. In 2018 a decision was made to professionalise the company, strengthen operations and restore the company's competitiveness. The key step in this process was the move in May 2018 to appoint Irwin Lee as CEO, an FMCG veteran with 32 years experience, including at P&G. His impact has already been seen with key product innovations in the coffee segment in 2019 leading to market share gains and, in turn, an improvement in profitability. In addition, productivity of the company's sales teams has shot up, although management claim there is more to be done, and the number of SKU's has been rationalised, alongside strict new thresholds for what items will remain and what items will be cut from the portfolio in the future.

This impressive turnaround led by a new professional management team caused the stock to re-rate significantly in 2019. At the peak, the shares were trading on 35x P/E. We had looked closely at the stock in 2019 but found the valuation unpalatable. However, the current crisis has afforded us with an opportunity. The indiscriminate selling of shares saw this largely unaffected business de-rate to below its 10-year average. We were happy buyers of the shares at 22.3x P/E.

Saigon Beer Alcohol Beverage Corp

Saigon Beer Alcohol Beverage Corp (SABECO) is the leading beer brand in Vietnam with an impressive 38% market share. As a nation of beer drinkers, with beer accounting for 93% of alcohol consumption in the country, plus high single-digit to low double-digit industry growth rates, the Vietnamese beer market is clearly an attractive place to invest.

SABECO has a long history and nearly all of that history has seen the company owned and operated by the Vietnamese government. While growth had been robust on account of underlying expansion in the market, innovation has always been lacking and there were efficiencies to be had. In 2017, all of this changed as one of Thailand's leading beverage companies, Thai Beverage, bought a controlling stake in **SABECO**.

A combination of a compelling long-term growth opportunity, an entrenched leading market position and well-regarded management has meant that the shares have been richly valued since listing in 2016, often trading in excess of 30x P/E. For the duration of the company's listing we have wanted to invest but such a lofty valuation had always been a deterrent. As was the case with **Universal Robina**, we believed the correction witnessed in the stock in the first quarter was based on fear, not fundamentals, and thus provided a rare opportunity to invest. Such was the dislocation, that when we bought the shares, the company's cash position had risen to the equivalent of 18% of the company's market capitalisation. On an ex-cash basis, we were able to buy the shares at just 15.1x P/E. We believe buying such a strong brand with such an attractive long-term growth opportunity on a mid-teens price to earnings multiple is a steal.

PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 31.03.2020

	A-USD	C-GBP	D-SGD
1 Month	-28.17	-29.16	-28.49
3 Months	-33.50	-34.52	-33.78
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+	5.06	4.06	-24.71
Annualised 5 years	-7.85	-8.96	-8.30
Annualised 3 years	-14.11	-15.93	-14.90
Annualised Since Inception	0.41	0.33	-2.74

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

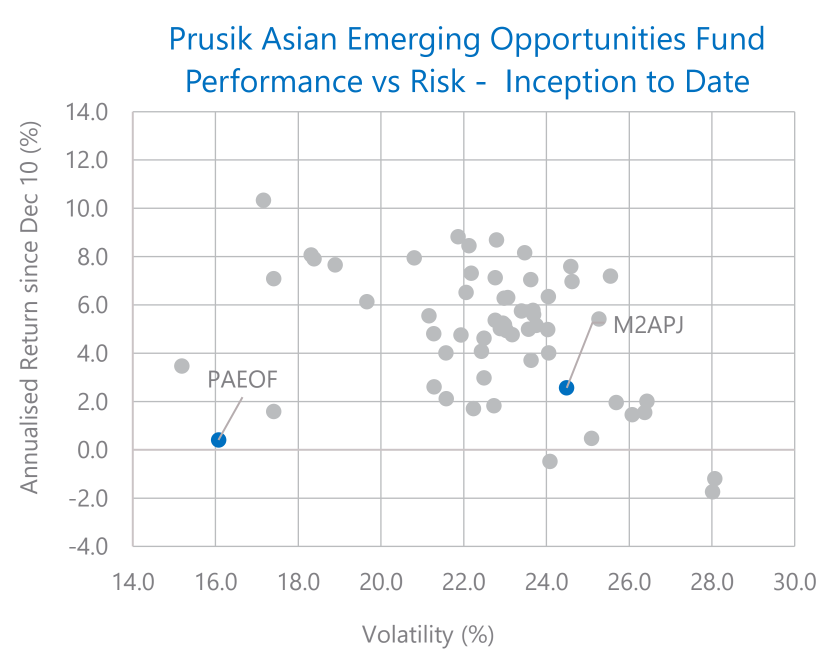
Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2020	-1.87	-5.65	-28.17										
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	0.62
Alpha (%)	-1.05
Sharpe Ratio	0.06
Volatility (%)	16.07

Source: Morningstar
Since Inception: A: 08.02.08



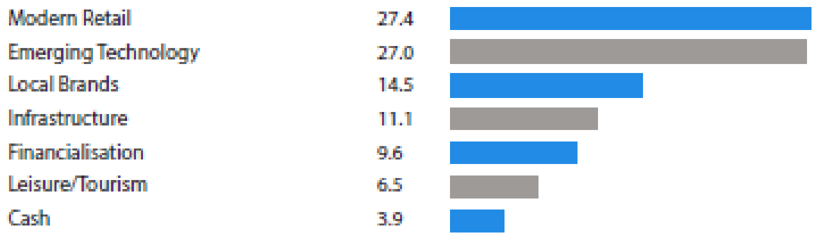
Source: Morningstar

THEMATIC & GEOGRAPHICAL BREAKDOWN

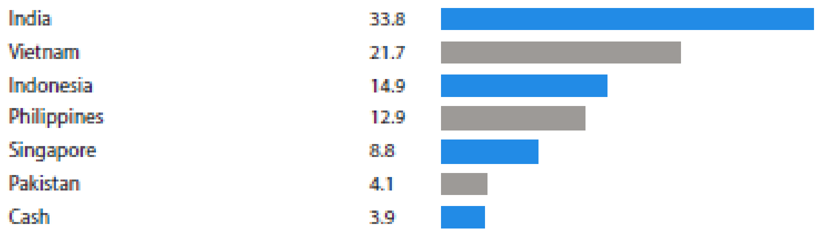
Top 5 Holdings (%)

Sea Ltd	8.8
FPT Corporation	7.4
Philippine Seven Corporation	6.0
Mobile World Investment Corporation	6.0
Bank Central Asia	4.3
Total Number of Holdings	34

Thematic Breakdown (%)



Geographical Breakdown (%)



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

Portfolio Financial Ratios

Predicted Price/Earnings Ratio	12.8x
Predicted Return on Equity (%)	18.8
Predicted Dividend Yield (%)	2.3

FUND PARTICULARS

Fund Facts

Fund Size (USD)	21.8 m
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	105.06
B USD	Unhedged	Distributing	B2PKN32	IE00B2PKN327	97.62
C GBP	Hedged	Distributing	B2PKN43	IE00B2PKN434	48.03
D SGD	Hedged	Distributing	B3M3HJ5	IE00B3M3HJ55	130.94

Class U			SEDOL	ISIN	Month end NAV
U GBP	Unhedged	Distributing	BBQ37T7	IE00BBQ37T77	71.04

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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