PRUSIK

Growth Investing in Asia

Prusik Asia Fund

Quarterly Investment Report
30th June 2020

FOR PROFESSIONAL INVESTORS ONLY

2Q20 Performance Commentary

Firstly, and most importantly, we hope that this report finds you and your loved ones continuing to be well and safe and adapting to the 'new normal' that all of us are living under.

Despite the recent end of the worst of lockdown, the second quarter mostly took place against a backdrop of relative global silence, with shutdowns everywhere from the skies to every non-essential business almost across the entire globe. It has been a truly momentous pause for the world. Governments in the West, especially, took unprecedented financial measures to support economies and the impact this money creation has had on asset prices will, doubtless, stand out in the history books. Asian markets were also beneficiaries of this extraordinary liquidity surge so, in sterling terms, the second quarter saw the MSCI AC Asia Pacific Ex Japan Gross Return Index (USD) (M2APJ) rise 18.92%. Comparatively, the Prusik Asia Fund rose 36.79%, outperforming by 17.87% over the quarter and by 13.66% over the first half of the year.

The majority of our themes did well during the period. You may remember at the end of last quarter our positioning was particularly deliberate. We had divided the portfolio into just four areas where we felt company earnings were predictable, and that our holdings were likely to thrive or survive well, indeed coming out stronger, during the pandemic. Here is a recap of how we were positioned as we went into the second quarter:

1) Firstly, we hold 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.

This positioning has proven to be very helpful. Please find below a more detailed review of performance by theme and company contribution.

PAF 2Q20				
Theme	Portfolio Weighting (%)	Absolute Attribution	Return on Capital (Weighted Average)	Return on Capital (Contribution)
Ecommerce/Gaming/Entertainment	16.23	8.34%	62.2%	51.4%
Gold	9.32	4.85%	55.6%	52.0%
EV/Battery	7.56	3.38%	48.1%	44.7%
Shortages/Value	3.51	1.58%	41.9%	45.0%
Brands	20.95	7.14%	33.5%	34.1%
5G/AI/Software/Healthcare	14.14	4.99%	30.5%	35.3%
Financialisation	3.13	0.23%	5.7%	7.3%
Infrastructure/Property	4.48	-0.06%	-1.4%	-1.3%
M2APJ	18.68%			
PAF (PRUGUDI)	36.79%			
% Outperformed	71.71			
% Inline / Some Underperformance	-			
% Significant Underperformance	7.61			

Source: Prusik/Bloomberg

Theme	PAF Absolute Attribution 2Q20
Ecommerce/Gaming/Entertainment	8.34%
Brands	7.14%
5G/AI/Software/Healthcare	4.99%
Gold	4.85%
EV/Battery	3.38%
Shortages/Value	1.58%
Financialisation	0.23%
Infrastructure/Property	-0.06%

Source: Prusik

Outperforming Themes in 2Q20

Ecommerce/Gaming/Entertainment: 16.2% average weighting in 2Q20

- The Ecommerce/Gaming/Entertainment theme returned 62.2% in 2Q20, led by **Sea Ltd**.
- China media company, **Mango Excellent**, and social media/gaming platform, **Tencent**, delivered 30-50% returns.
- Digital services saw an acceleration of demand as a result of Covid-19.
- **Meituan Dianping**, China's leading online delivery business was sold on valuation concerns after a very strong rise.

Gold: 9.3% average weighting in 2Q20

- The gold theme returned 55.6% in 2Q20, with all 3 holdings delivering >40% return.
- Gold is benefitting from macro concerns regarding the Covid-19 driven economic shock.
- Gold is also likely to benefit from any increase in inflation which may ensue from the unprecedented increase in global money supply.

EV/Battery: 8.2% average weighting in 2Q20

- The EV/Battery theme returned 46.2% in 2Q20, with all 4 holdings delivering 20-65% return.
- Korean EV battery makers, **LG Chem** and **Samsung SDI**, benefitting from increased sales to Tesla Shanghai.
- Added **Bafang Electric**, a leading electric bike component manufacturer in China.

5G/AI/Software/Healthcare: 14.4% average weighting in 2Q20

- The 5G/AI/Software/Healthcare theme returned 30.5% in 2Q20.
- Highly innovative healthcare providers in China, **Ping An Healthcare** and **Alibaba Health** led the way.
- PPE maker **Topglove** was also a big contributor to performance.
- Cloud services company, **Kingdee International**, also in China, benefitted as the cloud was perceived to be a "WFH" beneficiary.

Underperforming Themes in 2Q20

Financialisation: 3.9% average weighting in 2Q20

- The financialisation theme returned less than the index in 2Q20.
- **Ping An Insurance Group** delivered a positive return, albeit less than the market.
- **Hong Kong Exchange** was added during the quarter.

Infrastructure: 4.5% average weighting in 2Q20

- The infrastructure theme returned less than the index in 2Q20.
- Weakness was concentrated in just 2 stocks, **China Railway Construction** and **Capitaland Ltd**. Both stocks have since been sold.
- Market leader in India, **Godrej Properties**, was added during the quarter and has been off to a strong start.

Outlook and Portfolio Positioning

The period between February and July was a fairly straight line in terms of performance for certain stocks. Almost all categories of our portfolio did well, from the Covid beneficiaries right down to the 'portfolio insurance' (gold). The leadership in technology (especially internet), healthcare (especially PPE makers) and gold has recently become very narrow, with quite a few of the leading names seeing rolling corrections from what can only be described as parabolic spikes. We tend not to enjoy being on the final stages of a parabola as our experience is that they never end well. The hardest part is to be able to time one's exit. This is especially difficult as valuation at these times is never helpful and, in this regard, we do have a track record of being early on the way in but early on the way out. That being said, we also have a record for being risk averse at the right times and seeing the portfolio relatively well through any rough patches.

We have no idea if we are about to see a rough patch in stock markets but the current environment certainly looks more fraught than in recent years. As a result, it is important that we keep an eye on the most widely held and expensive part of the market and diversify more at this time. Below is a (non-exhaustive) list of some of the key risks to market sentiment as we see them today (some are also covered in more detail later in this report):

- Rising expectation of a Democrat win in November (corporate tax increases, anti-trust crackdown, share buybacks outlawed, MMT introduced in earnest raising spectre of inflation).
- A Republican win in November. More geopolitical and other madness.
- A narrow victory for either party, leading to half (at least) of the US population not accepting the result, leading to a constitutional crisis and/or social unrest.
- Governments in the West cannot resist MMT and inflation rises. Or inflation rises anyway, led by food/oil post 4Q 2020.
- A long and tough recession but without MMT and with austerity/debt workout/the end of commercial bank guarantees.

- 2 US aircraft carrier fleets in the South China Sea cause a US/China cold war which is currently about capital, trade and technology adding a fourth leg - armaments.
- China becomes overtly keen on bringing Taiwan back into the China fold.
- ETFs and other passive investments such as target date funds (overall, passive funds are now estimated to be 43% of the US market) create a liquidity problem on the sell side where there is not enough actively managed AUM left in existence to buy (experts modelling this currently are extremely concerned).
- Financial repression, such as inflation rising but interest rates held low.
- US bond purchases dry up leading to lower liquidity for financial markets, whilst bond issuance rises.
- The introduction of the Chinese global digital currency causes large and unexpected disruption.

On the positive side, we expect that the current US government will do anything to keep shares aloft ahead of the election.

In Asia, governments are not helping at the social level in the way we have seen in the West. We have seen policies to help corporates and plenty of reforms and spending announcements in China which will help somewhat and certainly give us some good direction for certain investment themes in that country. In ASEAN we have seen very aggressive lockdowns, with many still continuing as we write. We can expect the reality of high unemployment to remain very real in a large swath of this region. This, and the lack of technology shares in south Asia, has meant that ASEAN has, up until now, remained a poor performer year to date compared to China, Korea and Taiwan. It also means that 'growth' in Asia has become as overly expensive versus cyclical stocks in the same way as in the West. This latter disparity in performance is now a truly spectacularly over-extended disconnect. In fact, in the US, growth versus value is now in the 6 – sigma stratosphere.

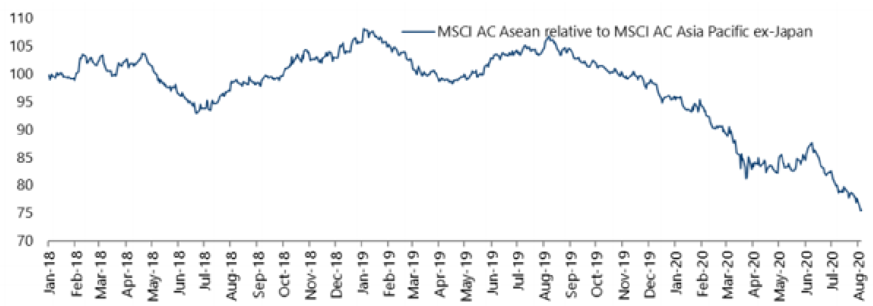
Chart 1: On P/B, Growth vs. Value valuations in the stratosphere

Russell 1000 Growth vs Russell 1000 Value relative P/BV, 1978 - 7/24/20

Source: BofA US Equity and Quant Strategy, FactSet, Compustat, FTSE Russell

We are also aware that the relative underperformance of ASEAN suggests a rebalancing before long but it depends on economic recovery and the direction of the US dollar. Year-to-date however, our ASEAN ecommerce/gaming stock, **Sea Ltd** is (at the time of writing) up 262% versus the MSCI AC ASEAN Index which is down 19%.

MSCI AC Asean Index relative to MSCI AC Asia Pacific ex-Japan:



Source: Datastream

In February/March, as we have already written, we totally re-oriented the portfolio towards 4 key categories – Covid beneficiaries, companies not affected, companies affected but stronger after and portfolio insurance (gold).

Once again, in the past month, we have re-oriented the portfolio again, not to such a great degree this time but we have made a few key changes. Our thesis is that we should reduce the overweight in expensive growth and reinvest this portion of the fund in areas which have at least one of the following 3 characteristics:

1) Companies about to have a decent period of growth ahead thanks to tech disruptions or government policy but which have normal valuations and attractive (not parabolic) share price charts.
   Examples of this include:
   a) Telecoms which are historically very cheap, cash rich, and where in China and Korea we can see that the arrival of 5G is now beginning to have a material effect on ARPUs and profits. Data centres are also driving a new profit centre for many of the telcos which have fixed line networks and these could, in future, be spun-off, creating huge value in due course. COVID has brought many more people online for the first time in developing countries. We have so far bought **China Telecom** and **China Mobile** for the fund. At this point we would also see the telcos as being relatively defensive. They are not economically sensitive, are standing at material valuation discounts to history and tend to move with their own capex cycles and system upgrades. We also believe they are not widely held.
   b) China smart infrastructure – a stated goal of the 14th 5-Year Plan is to create significant advancements in Tier 3-5 cities. Companies like **Conch Ventures** (cement and waste management) and **Sany Heavy** (heavy equipment supplier in China) will benefit here.

2) Companies which have reached absolutely crazy valuations on the downside but where we could see huge value created if the company management decides to privatise or sell assets, there is a pickup in M&A or, if we see any good reason for the market to view the economic recovery more positively (such as a viable vaccine). These companies could remain cheap of course, however, we also believe they would most likely now be very defensive in a wholesale market decline. An example here is **Swire Pacific**, which is now trading on just 0.2x P/B. We do not expect to have a very large part of the portfolio here at this stage but, given the acutely stretched disparity between growth and value, it seems prudent and defensive to gently add exposure here.

3) A stronger market share post Covid as a result of sector consolidation and a very likely chance of a powerful reversion to the mean business-wise once things revert to normal. Examples here are **Dentium** which makes dental implants and, pre-Covid, was growing fast in China. **Godrej Properties** in India (where affordability has never been better) is another consolidation, 'stronger after' story.

Our key themes now as follows:

Portfolio Insurance – Gold miners (currently correcting but will likely have another big rally to come) and now **Avichina** (a military spending play in China). Weighting around 10%.

Internet/Growth – This is still a major area for the portfolio but overall our tech exposure is down from about 48% to around a 30% weighting, with this segment taking up c.20%. Stocks include **Tencent**, **Alibaba**, **Naver** (Korean ecommerce and online comics now taking off (see Webtoons), **Mango Excellent**, **Sea Ltd**, **JD.com** and **Venustech** (cybersecurity).

Tech Hardware – This includes **Samsung** and **TSMC**. We are also looking at SK Hynix (memory), where the recovery in demand next year will be very strong led by 5G, IOT (Internet of Things), data centres and potentially China's digital currency. Weighting around 9%.

Smart Infrastructure – This includes telcos, 5G, China infrastructure such as **Sany Heavy** and **Conch Ventures**. Around 10% here.

Wellbeing – This includes EV battery makers and **Bafang Electric** (e-bike motors). Around 9% here.

Food – Still a small part of the fund but an area we would like to have more in although it's very hard to find good food producers. So far we have **Yonghui Superstores** (fresh food in China).

Financialisation – around 8%, via **Ping An insurance** and **AIA**.

Recovering Consumer/Brands with top market shares – This includes, **Astra International** (Indonesian cars plus infrastructure, heavy/mining equipment), **Suofeiya** (China fitted furniture), **VEA**, **Mobile World** and **PNJ** in Vietnam (all should see a good recovery next year), **Poya** (Taiwan convenience store) and **Dentium** (dental implants). Around 16% here.

Recovery/Value - This is the 'unsavoury corner' where anomalously low P/B ratios of 0.2-0.5x abound but, for the companies with enough cash to see this period through and tons of operational gearing, the risks at this point are skewed to very little downside but potentially to lots of upside. One could also look at this section and state they are 'defensive but with possible huge upside'. Stocks include **Godrej Properties**, **Swire Pacific** and **Air China** (trades at just 0.5x P/B with domestic flights now back at pre-Covid levels and load factors are steadily rising). Around 11% here.

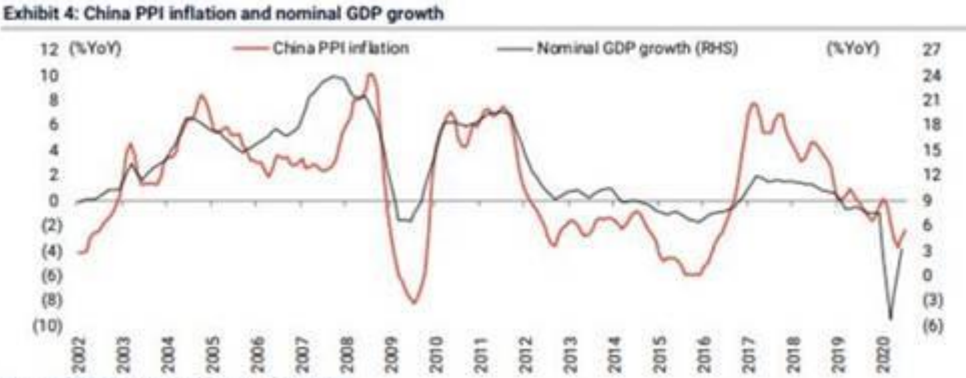
We are confident that, in time, reducing the very expensive and widely held technology shares will be the right thing to have done. We did give back a little relative performance during July as some of these companies continued upward. However, we note more recently that volatility is picking up, analysts are becoming a little more wary and as the world tries to regain some normality, we are unlikely to repeat the exceptional demand increase that these virtual businesses saw during the 2Q global lockdown.

Finally, please note that we have sold all of our ADRs in Chinese listed companies as we are increasingly wary that the US government's desire to regulate, tax or exile (or any combination of the above) Chinese listed companies is only becoming more fervent. We have, for example, switched to the Hong Kong listings of **JD.com** and **Alibaba**, thus also avoiding the complex problem of holding VIEs in the process. We have remaining only one ADR holding in **Sea Ltd**, which is not Chinese and where there is no alternative at this point.

China Post-Covid

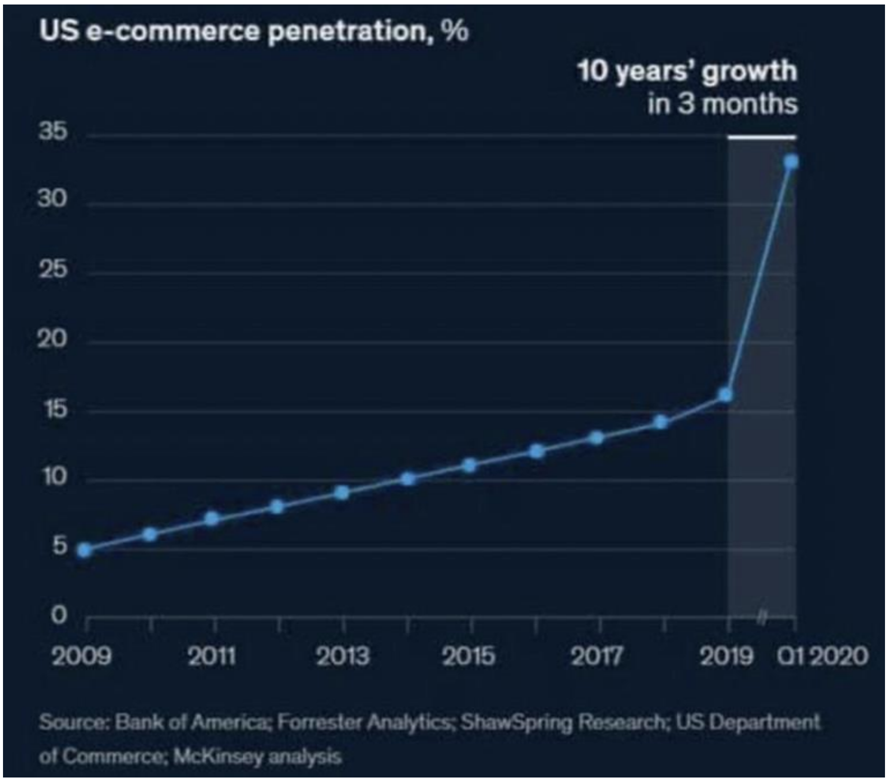
As the first country to grapple with the crisis, China has been on the frontline both of post Covid-19 economic recovery and also of the societal changes the pandemic has precipitated. Efforts to stabilise the domestic economy are already well underway, and though China's first-quarter gross domestic product declined 6.8% over the previous year, according to government statistics, research suggests that economic activity may have bottomed out in the first quarter. We note that a rising PPI is always a positive for old economy, cyclical stocks given the longstanding correlation between Chinese nominal GDP and PPI. Indeed, the correlation between Chinese nominal GDP growth and PPI has been 0.73 since 2002. The chart below suggests that we may be about to see a recovery in PPI and hence some old economy stocks in China:

Exhibit 4: China PPI inflation and nominal GDP growth



Source: CEIC Data, National Bureau of Statistics

As that recovery takes shape, several important shifts in the makeup of China's economic landscape have already become apparent. Covid-19 has accelerated pre-existing trends, ushering in the arrival of a future we were already on track to realise. Nowhere has this been more apparent than in technology as the (US) chart below illustrates. We have accelerated through 10 years of ecommerce development in 3 months.



Unfortunately, among the technology stock valuations, many are now also discounting 10 years ahead as well!

However, we do see a few other trends shaping the Chinese economy that have been accelerated, or "fast-forwarded," as a result of the onset of the Covid-19 and which are not yet fully discounted in share prices.

Firstly, China's affluent younger generation had never experienced a domestic economic downturn prior to Covid-19. The virus has forced them to think harder about spending, saving, and trade-offs in purchasing behaviour. Attitudes to spending among consumers in their 20s and 30s, traditionally the engine of China's consumption growth, have changed markedly in the wake of Covid-19. One survey showed 42 percent of young consumers intend to save more as a result of the virus. Consumer lending has also declined, while four out of five Chinese consumers intend to purchase more insurance products post-crisis. Savings have also rocketed-the country's household deposit balance increased by 8% over the first quarter to reach Rmb 87.8 trillion. Meanwhile, 41% of consumers said they planned to increase sources of income through wealth management, investments, and mutual funds.

We have recently added **Ping An Insurance** and **AIA Insurance** to the fund.

The virus has also forced purchasing trade-offs, with consumers seeking better quality and healthier options: more than 70% of respondents in a COVID-19 consumer survey will continue to spend more time and money purchasing safe and eco-friendly products, while three-quarters want to eat more healthily after the crisis.

We have started an important new theme – Wellbeing – and remain owners of **Yonghui Superstores**, a fresh food grocer with a budding home delivery business. We also remain owners of EV batteries (**LG Chem** and **Wuxi Intelligent**) and more recently, bought Ebike motor maker, **Bafang Electric**.

Private and social sectors step-up. During the 2003 SARS outbreak, the government and state-owned enterprises (SOEs) were the primary actors during the economic recovery. Now, the private sector and leading technology companies are playing a more significant role, making large socio-economic contributions amid the emergence of powerful social institutions that have donated millions to recovery efforts. Policy debates also indicate Covid-19 might be accelerating long-awaited structural reforms to land, labor, and capital markets. In the wake of the 2003 SARS outbreak, SOEs were the major driver of China's economy, accounting for about 55% of China's assets, and 45% of profits. Today, the private sector contributes close to two-thirds of China's economic growth and 90% of new jobs, illustrating a significant shift in the balance of economic power. In the wake of Covid-19, joint efforts between government and large private companies have played a leading role. For example, Alipay and WeChat supported the Shanghai government's "Suishenma" health QR code launch to help contain the spread of the virus.

Before Covid-19, China was already a digital leader in consumer-facing areas, accounting for 45% of global e-commerce transactions, while mobile payments penetration was three times higher than that of the United States. Consumers and businesses in China have accelerated their use of digital technologies as a result of Covid-19. Based on mobile surveys of Chinese consumers, about 55% are likely to continue buying more groceries online after the peak of the crisis. Nike's first-quarter digital sales in China increased 30 percent year-over-year after the company launched home workouts via its mobile app, while property platform, Beike, said agent-facilitated property viewings on its virtual reality showroom in February increased by almost 35 times compared with the previous month.

Working practices also changed significantly. Enterprise communication platform, DingTalk, almost doubled its monthly active users in a single quarter to 177 million. In healthcare, digital interactions accelerated the rapid growth of online consultations, partly thanks to a regulatory shift in reimbursement policy, as well as broader virtual interactions between pharmaceutical sales agents and physicians. These changes occurred ahead of wide deployment of 5G technology, which will likely catalyse the use of digital tools.

We have exposure to the 'homebody' trend via **Suofeiya Home**, which sells bespoke built-in furniture. Working from home is covered in a multitude of other indirect ways also via technology to data centres.

New stimulus, 'New Infrastructure'

Segment	Specific targets
5G	Three major telecos have guided a total CAPEX of RMB180.4bn for 5G infrastructure build by 2020; CAICT estimates cumulative investment of RMB 1.2tn by 2025.
Data centers	RMB 300bn investment in 2020; 3.27mn data center racks by end-2020 (vs. 2.03mn in 2018)
AI	20 AI+ vertical industry test areas by 2023
Industrial Internet	At least RMB 100bn investment every year; 10 benchmark networks, 100 key enterprises equipped with industrial internet and 1000 industrial Internet upgrade projects
EV charging piles	150K charging piles by end-2020
UHV electric grids	7 UHV power lines by end-2020; the investment for one line ~RMB 20bn
Inter-city HSR and track transportation	4,000km of HSR in 2020; total mileage of HSR to reach 39,000km

Source: Government and company data, UBS

Our newer positions in **China Mobile** and **China Telecom** will benefit from the rising penetration of 5G which is, as yet, still below 10% penetration.

A mix of geopolitical and economic forces was already driving a change in the relationship between China and the world, and Covid-19 appears to be accelerating this trend. Before Covid-19, China had been reducing its relative exposure to the world as the majority of economic growth was generated by domestic consumption, supply chains matured and localised, and its innovation capabilities were enhanced. The US–China trade dispute raised risks and uncertainties so much so that 40% of companies surveyed by various institutions in 2019 indicated that they were considering adjusting their supply-chain strategies by seeking alternative sources or relocating production to other geographies.

Covid-19 has intensified the debate, with several governments calling for companies in critical sectors to relocate their operations back to their home countries and announcing financial support packages to facilitate this. Around 20% of companies surveyed by AmCham China believe Covid-19 may accelerate "decoupling." A paper published in February by the European Union Chamber of Commerce highlighted how diversification is now at the top of the agenda for many European companies in China.

This trend should continue to benefit neighbours Vietnam, where we retain a 7.5% weighting as well as other nascent manufacturing countries such as India and Indonesia.

US-Listed Chinese Companies

The duration for Chinese companies to delist from US has certainly shortened and now become certain. On the plus side, the US paper recommendations are not as bad as some of the rumours we had heard such as withholding tax. But in addition to compliance with PCAOB rules, there are recommendations about increased disclosure requirements on funds in terms of outlining the risks of investing in China in their risk disclosures and also greater due diligence on their choice of index providers. It no longer matters if the Kennedy Bill goes through the house now and the risk of delisting is no longer four years away, it's less than two. Indeed, Chinese companies now have until the 1st January 2022 to comply with US PCAOB rules, or they face delisting.

Given the vast majority cannot comply as they are in industries that are of national interest to China, we should expect more and more companies that meet the criteria of **Hong Kong Exchange** to come back to Hong Kong for secondary listings. Clearly this is positive for **Hong Kong Exchange**. Furthermore, we think that Hong Kong might ultimately change the market cap requirement to open up the market for mid-caps, but recent discussions suggest they have no interest to do so as they already have a huge backlog of large companies looking to come back to Hong Kong. They do suggest, however, that these companies can just apply to Hong Kong for a primary listing rather than a secondary.

We have already exchanged our US listed ADRs for the Hong Kong listings in the case of **Alibaba** and **JD.com**. We have no ADR listings of Chinese companies left in the portfolio at this time.

Gold – Much Further to Go

We note that Warren Buffett has recently bought shares in Barrick Gold, sparking several debates. One contends that he is behind the times and should have bought Bitcoin! Another debate is whether generalists might now start coming back to gold mining shares or, indeed, asset managers who have never held gold could start to buy. It would seem that the set of macro-economic and social/geopolitical circumstances that might drive people to Bitcoin and to gold are very similar.

Given our current weighting in gold mining companies we remain focussed on gold. We expect corrections, of course, and, indeed, gold has recently just endured a 10% correction but we will not be trading the corrections. It is worth highlighting that the 1970's bull-market in gold featured a lengthy mid-cycle correction, similar to the gold bear market between 2011 and 2015. Following a multi-year advance to the December 1974 top at $195.25, gold ***declined 47%*** to $103.50 in August 1976. But, in the following three-plus years, gold soared nearly nine-fold to $875 in January 1980.

By contrast, gold is up barely two-fold in this bull market.

We can see the following possible reasons as to why miners could continue to do very well in the coming few years:

1) As recently as March 2020, the gold and silver-mining sector was valued at $355 billion, or less than 10% of the FAANG stocks.

2) The sector's combined net debt declined almost 20% since 2014.

3) The mine-supply of gold could fall over 35% by the end of the decade.

4) The bullion banks will no longer be able to manipulate the market by leveraging their gold holdings via the paper-gold futures market.

5) The costs of mining gold have not moved over the past two to three years. And most currencies have come down vis-à -vis the US dollar. The most important cost factor is the energy price, or oil price, which is about 25% of the costs of running a mine. Energy prices are likely to remain low. So, the margin expansion that the mining companies are currently seeing is unprecedented.

6) The price to earnings ratio for the gold mining companies are still at an all-time low.

7) Incredible operational gearing ahead. If you leave the gold price at current levels of $1,800-$1,900 per ounce and the all-in costs do remain broadly unchanged at around $800 an ounce, which is quite a typical cost of extraction per ounce, that is an approximate $1000 margin. If gold goes to $2,800, the miners will enjoy a $2,000 margin. These kinds of margin increases could come through over the next two to three years but is just not factored into the price of the shares today.

We recently came across the following chart, via independent research 13D, illustrating how a 2-5% allocation of institutional assets—or $2.6-6.6 trillion—would overwhelm the historic investment demand for gold. In the absence of sufficient quantities of above-ground gold to satisfy this demand, how much of this will find its way to mining stocks if their performance continues to outpace the rest of the market?

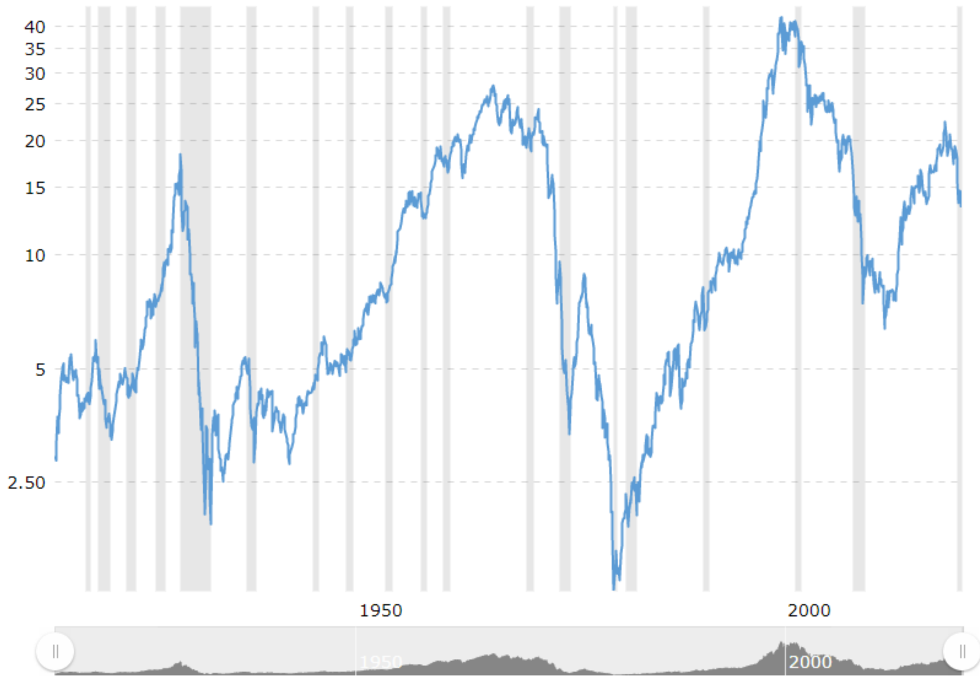
If Institutional Investors Want to Buy Gold

	Total AUM, Trillion $	5% AUM, Trillion $	% of 2018 Gold Investment Demand	2% AUM, Trillion $	% of 2018 Gold Investment Demand
Mutual Funds	$50.20	$2.51	3024.1%	$1.00	1209.6%
Pension Funds	$44.01	$2.20	2651.2%	$0.88	1060.5%
Investment Banks	$17.28	$0.86	1041.0%	$0.35	416.4%
Life Insurance	$8.16	$0.41	491.6%	$0.16	196.6%
Sovereign Wealth	$7.97	$0.40	480.1%	$0.16	192.0%
Hedge Funds	$3.15	$0.16	189.8%	$0.06	75.9%
Private Equity	$1.00	$0.05	60.2%	$0.02	24.1%
Total	$131.77	$6.59	7938.0%	$2.64	3175.2%

Source: GoldSilver.com

The Dow-Gold Ratio Returning to One-to-One

The Dow-Gold ratio over 100 years:



Source: Macrotrends.net

This chart tracks the ratio of the Dow Jones Industrial Average to the price of gold. The number tells you how many ounces of gold it would take to buy the Dow on any given month. Previous cycle lows have been 1.94 ounces in February of 1933 and 1.29 ounces in January of 1980.

If you believe the Dow-Gold ratio will once again mean-revert towards 1, there are two ways for the ratio to go. You could have the Dow coming down from say 24,000 to 12,000 and you get one-to-one with a $12,000 gold price. Or you could have the Dow stay where it is and the gold price goes up to $24,000.

The ratio is an interesting indicator of where gold is potentially going. It is conceivable that the Dow will not have huge downside given the financial support from governments. In addition, we could also see interest rates at zero or below for years as governments gradually increase debt. Fiat money will lose its value over time in this scenario and then the upside for gold could be much, much higher than people imagine.

Politics watch – Could the US election capsize America *regardless of the outcome?*

We believe that we are likely facing a time of rising risk, social and political, in the US. Nothing we have read sums up the election risks as well as this short article by the Financial Times's Edward Luce, which merits sharing in full. Of course, a landslide victory would allay these risks but, as we head into November, it would be as well to remember its 2020 and anything could happen. The US is on a knife edge.

> By Edward Luce in the Financial Times (Swamp Notes) June 26th
> *A lot of people have likened the conditions of this year's election to 1968 — because of that decade's race riots, Donald Trump's Nixonian "law and order" campaign, and the bright cultural lines dividing America. A far more worrying one is 1860, which of course led directly to the US civil war. A number of academics have been warning of the similarities between today and the eve of the American civil war. Stress indicators include mutual contempt*

between a factionalised elite, the inability of America's system to address a mounting backlog of deep-seated problems, and a popular tendency to view the other side as the enemy. Such conditions make the ordinary compromise of politics almost impossible.
Much like the 1840s and 1850s, today's stresses have been building up for a long time. Trump, like James Buchanan, did not invent America's democratic crisis, even though he has made it far worse. They pre-exist him. Eventually something has to crack. As Ernest Hemingway is said to have remarked about bankruptcy: "It happens slowly and then all at once."

That crack could of course be a positive — the landslide defeat of Trump in November's election. The bigger the margin of Joe Biden's victory the harder it would be for Trump's base to pick up the echo of the south's "lost cause" that did so much to undo what it had lost on the battlefield. Recent polls, including the New York Times/Sienna College poll that gave Biden a 14-point lead nationally and double-digit advantages in Midwestern swing states, lend credence to that possibility. But it still takes quite a leap of imagination. Do not forget that Michael Dukakis had a 17-point lead over George HW Bush a few weeks before the 1988 election (for the record, I'm glad Bush Snr won).

Slightly likelier is that Biden either wins narrowly in November, or takes the popular vote but loses the electoral college. Each case is a recipe for US civil breakdown.

I recently participated in a four-hour "war games-style" scenario helping to play the role of the media. Others included senior US political operatives, constitutional lawyers and scholars — who variously played the roles of the Trump and Biden campaigns, the parties, the governors and the courts. The Chatham House rule prevents me from specifying the organiser or its participants. But take it from me that it was a credible and disturbingly plausible exercise. Trump vs Biden: who is leading the 2020 election polls?

It started on the night of November 3 with the premise that Trump narrowly wins the electoral college on a historically low turnout in which the vote has clearly been suppressed in many states. Biden won 52 per cent of the popular vote, Trump 47 per cent. By the end of the game — in mid-January 2021 — the US system was at breaking point. There is no precedent in American history, or provision in the US constitution, to rerun a presidential election, which would have been the obvious way out. Several states, including Michigan and Wisconsin, sent competing electoral college returns to the US Congress (the Democratic governor one result, the Republican legislature another). The Supreme Court saw no basis to interfere. The growing popular backlash on the streets, and Democratic calls for a do-over, and threats of Californian separatism, played into Trump's claim to be America's only hope for stability and continuity.

At that point the game ended. What worried the organisers is that they had arrived at the same result in early games with very different starting points (Biden narrowly winning the electoral college, for example). In each scenario, and to their surprise, America was plunged into a constitutional crisis.

I thought this was a plausible threat beforehand. Now I am convinced it is. It is hard to believe the majority of Americans would accept another president having lost the popular vote. It has already happened twice this century — in 2000, when the Supreme Court simply halted the recount, and in 2016 when Hillary Clinton won 3m more votes than Trump. Yet there would be very little, if anything, the anti-Trump majority could legitimately do to make the popular verdict prevail within the parameters of the constitution. Likewise, a narrow Biden victory would almost certainly trigger a Trumpian denial of the result (accusations that illegal immigrants had been drafted by the deep state to hijack the people's will, etc). That would be a particularly lethal moment as Trump would still be president for another 10 weeks with its awesome range of powers. William Barr would also still be US attorney-general.

I don't have any ringing conclusions to this jeremiad except to say I hope that I'm being a Cassandra. The only thing I will confidently predict is that Trump will lose the popular vote in November. The larger his popular defeat the better.

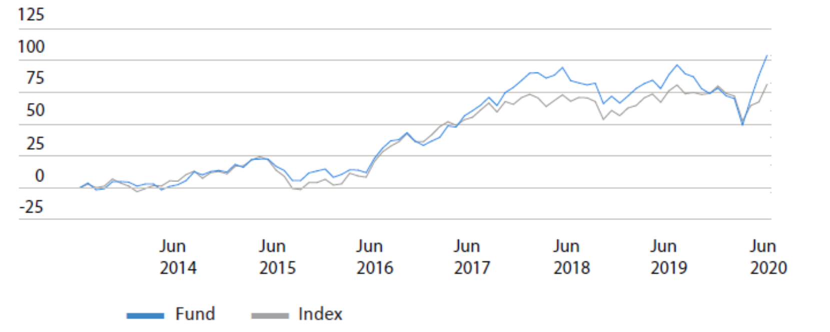
PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 30.06.2020

	U (GBP)	Benchmark **
1 Month	8.41	8.30
3 Months	36.79	18.92
Year to date	14.42	0.76
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+	104.13	81.35
Annualised 3 years	8.33	5.27
Annualised Since Inception	10.74	8.88

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 (%)

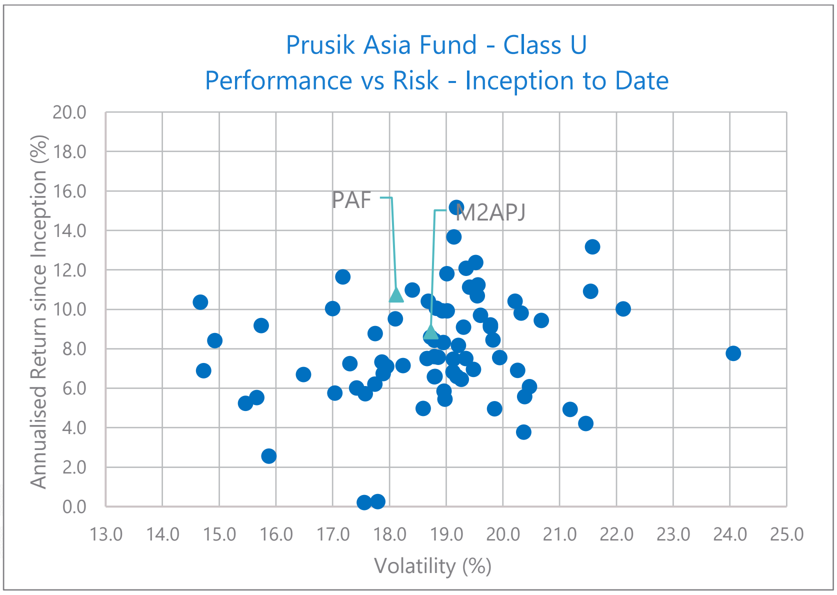
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2020	-3.44	-1.23	-12.30	13.72	10.95	8.41							
2019	3.31	3.43	2.17	1.41	-3.52	6.11	4.09	-3.56	-1.26	-4.98	-2.09	2.43	7.07
2018	3.14	0.11	-2.14	1.19	3.2	-5.3	-0.96	-0.86	0.74	-8.81	3.48	-3.10	-9.63
2017	2.50	2.15	6.46	-0.63	5.92	2.63	2.73	3.70	-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	0.91
Alpha (%)	1.56
Sharpe Ratio	0.53
Volatility (%)	18.12

Source: Morningstar
Since Inception: U: 01.07.13



Source: Morningstar

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Tencent Holdings Ltd	5.7
Samsung Electronics Co Ltd	4.9
Poya International Co Ltd	4.2
Alibaba Health Information Technology Ltd	3.4
Kingdee International	3.4
Total Number of Holdings	36

Thematic Breakdown (%)

Brands/Modern Retail	22.6
Ecommerce/Gaming/Entertaiment	16.7
Software/Cloud/5G	13.6
Gold/Copper	12.5
Healthcare	8.9
EV	8.0
Infrastructure and Property	7.6
Financialisation	7.2
Cash	2.9

Geographical Breakdown (%)

China	43.5
Australia	18.0
Korea	10.6
Vietnam	9.0
Taiwan	5.9
India	3.0
Cash	2.9
Singapore	2.8
Indonesia	2.4
Hong Kong	1.9

All data as at 30.06.2020. Source Prusik Investment Management LLP, unless otherwise stated.

Portfolio Financial Ratios

Predicted Price/Earnings Ratio	20.3x
Predicted Return on Equity (%)	16.9
Predicted Dividend yield (%)	1.9

FUND PARTICULARS

Fund Facts

Fund Size (USD)	122.1m
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	274.08
B USD	Unhedged	Distributing	B0M9LL2	IE00B0M9LL22	274.25
C GBP	Hedged	Distributing	B18RM25	IE00B18RM256	140.07
D SGD	Hedged	Distributing	B3LYLK8	IE00B3LYLK86	368.70

Performance fee based on individual investors' holding.

Class U			SEDOL	ISIN	Month end NAV
U GBP	Unhedged	Distributing	BBQ3756	IE00BBQ37560	204.13

Performance fee based on fund performance as a whole.

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