PRUSIK

Growth Investing in Asia

Prusik Asia Emerging Opportunities Fund

Quarterly Investment Report
30 June 2020

FOR PROFESSIONAL INVESTORS ONLY

Prusik Asia Emerging Opportunities Fund 2Q20 Quarterly Report

"For last year's words belong to last years' language, and next year's words await another voice."
T. S. Eliot

2Q20 Performance Commentary

Through the course of 2020, time has taken on an elliptical quality – simultaneously stretching and condensing. Within the short three-month period since we wrote the first of this year's quarterlies, global events have continued to unfold at an unprecedented pace, while day to day living for many continues to operate at a slower clip of 'in-limbo'. Our collective existence, globally, remains both familiar and unfamiliar. Perhaps 2020 thus far is best surmised by Lewis Carroll's Alice asking the White Rabbit "How long is forever?" to which the White Rabbit replies "Sometimes, just one second."

In more concrete terms, the second quarter has seen global infections of coronavirus rise from 3 million cases to 25 million cases and coronavirus related deaths increase from 220,000 to 850,000 (John Hopkins Coronavirus Resource Centre). Economically, an estimated US$20 trillion of monetary and fiscal stimulus from the Fed and other central banks has filled the hole created by forced selling in the markets in a matter of months, not years and economies around the world have steadily reopened. Socially, divisions and tensions have soared in the form of the Black Lives Matter movement, sparked by the chilling death of George Floyd, in addition to migrant protests in India, anti-government protests in Thailand and demonstrations against police brutality and coronavirus restrictions in many countries across the world. At a more pedestrian level, social distancing, masks and working from home for those that can have become commonplace.

Set against this tumultuous backdrop, the Prusik Asia Emerging Opportunities Fund returned 30.8% in the second quarter. While the fund is not measured against a benchmark, to put this in context, this represented 12.3% outperformance relative to the MSCI Asia ex-Japan Index rise of 18.5% and was roughly in-line with the MSCI Asia ex-Japan Smaller Companies Index, which increased by 30.7%. Clearly, the fund was buoyed by its 75-80% exposure to small and mid-sized companies. All in all, the fund's excellent performance in the second quarter reduced the fund's overall decline in the first half of the year to 13.0%.

Breaking this down further, the fund saw particularly strong performance in 2Q20 from its Vietnam portfolio which appreciated by 34.0% and its Indonesia exposures which gained 37.7% in the period. The strength in Vietnam was broad based with 4 out of our 5 core holdings delivering 30-55% returns, while the fund's investments in Indonesia benefitted from sharp rebounds in our Indonesia property stocks and branded retail operator, **Mitra Adiperkasa**. Elsewhere, returns were in double digit territory for the fund's investments in India, Pakistan and Singapore (which represents our investment in **Sea Ltd**) with only the Philippines portfolio standing out for rising by a more modest 11.7% in the quarter. This was on account of our holding in **Philippine Seven**, which was flat in the period.

From a thematic perspective, two very clear themes emerged for global equity markets in the first half of 2020 and the influence of these themes on the fund in the first quarter continued in the second quarter. The first theme is the acceleration in demand for digital services. This has been driven by a large portion of the global population shifting to work from home, retail and service providers closing their physical stores, and fears regarding the virus leading to lower footfalls even as physical stores re-open. The second theme is a clear and decisive shuttering of the global tourism industry, as well as many segments of the leisure industry such as cinemas, casinos and mass sporting events.

Viewed in this context, it is unsurprising that the fund's Emerging Technology theme continued to be the dominant contributor to performance in the second quarter. In 2Q20, the fund's 27.3% weighting in the Emerging Technology theme rose by 66.6%. This was supported by our investments in ASEAN focused ecommerce and gaming company, **Sea Ltd**, Vietnam's blue-chip software leader, **FPT**, the emerging ecommerce giant in India, **Reliance Industries**, and owner of India's equivalent of Deliveroo, **Info Edge**. Equally unsurprising is that the fund's 4.3% exposure to the Leisure & Tourism theme delivered a suboptimal 6.3% return in the second quarter. At the time of writing, we remain invested in our leading India cinema chain, Filipino casino and low cost Indian airline on account of the fact that each remains an industry leading business, the current stress is likely to drive consolidation and they have sufficient liquidity to survive a protracted period of zero to low utilisation.

2Q20 Portfolio Changes

During the quarter we made a limited number of focused changes to the fund. Firstly, owing to the strong performance of our ASEAN focused ecommerce and mobile gaming company, **Sea Ltd**, we were obliged to trim our position in the stock on several occasions in the period. As a means of limiting the stock's risk of exceeding the UCIT's 10% single stock limit and in light of the sometimes sizeable single day moves in the stock, we have settled on a maximum position size of 8.5% in **Sea Ltd** and use that 8.5% weighting threshold to trigger a 1.0% sale in the stock. Given that **Sea Ltd** rose by a colossal 142% in the second quarter, a number of reductions were carried out in 2Q20. We also exited our long-standing position in Toyota's Pakistan franchise, **Indus Motor**. This has been a disappointing investment as the devaluation of the Pakistan rupee in 2018 led to surging input costs and a sharp increase in interest rates in the country which simultaneously crimped sales and margins. While we are likely through the worst of the economic cycle in Pakistan, our increasing focus on corporate governance within the fund has led us to the conclusion that the fraudulent activity amongst the company's dealer network, plus a poor attitude towards communication with shareholders, overrides the otherwise positive aspects of the investment case including the company's sizeable market opportunity and optically attractive valuation.

The capital raised was reinvested in three areas. Firstly, we added to **Reliance Industries**, India's emerging technology leader which we believe could become one of the most valuable companies in Asia over the next 5 years. Secondly, we increased the fund's weighting in **PVR**, India's leading cinema chain, which had seen its price-to-book ratio collapse to a 5-year low. While **PVR's** cinemas remained closed at this time, it was notable that Hong Kong's cinemas had reopened and were seeing 30% occupancy levels. Optically that might seem low, however, the breakeven occupancy level for **PVR** is 20-22% and its historical average occupancy is 30-35%. With a young audience that is less vulnerable to COVID, it is not inconceivable that **PVR** could return to profitability within months of opening. Finally, we established a new position in **Vinamilk**, the dominant dairy brand in Vietnam. Over and above its market leading position in fresh and powdered milk, **Vinamilk** boasts some compelling new growth avenues in the form of ice cream, organic milk, dairy alternatives, a milk for schools programme and overseas ventures in Asia. In the recent past, investors have been asked to pay in excess of 30x P/E for **Vinamilk** but in the wake of the market collapse in spring we were able to pick up the stock at 19.1x P/E on an ex-cash basis.

Outlook

We believe that the fund is at a particularly interesting juncture at present and that now represents a more than usual opportune moment to invest. Our rationale for this claim is as follows.

Asia's experience of coronavirus, both in the real world and in stock market terms, has been clearly bifurcated. While North Asia, in particular China and Korea, was first to experience the virus, North Asia was also far better placed versus South and South East Asia to respond to and manage such a crisis. Not only does North Asia have far superior resources when it comes to healthcare and technology, but North Asia is also in a much stronger position to use monetary and fiscal tools to deal with the economic fallout. North Asia also benefits from higher educational standards and this, plus its particular government models, meant compliance amongst the population when it came to social distancing and other strategies to minimise transmission has typically been high.

However, the official coronavirus data for South and South East Asia over the most recent months and weeks reveals a more positive trend emerging in this part of Asia. The headline case numbers for our invested countries, especially India, is high and their rate of increase since April is substantial. For instance, in April India had around 50,000 cases of coronavirus but this has since increased 70 times over to reach 3.5 million cases. In the Philippines, Indonesia and Pakistan, cases ranged from 15,000-25,000 in April, whereas total cases now have reach 200,000 to 300,000 (John Hopkins Coronavirus Resource Centre). However, importantly, these headline statistics belie two crucial points. Firstly, headline cases are cumulative, they do not represent the active number of cases. Active cases in India are substantially lower at 0.7 million, while active cases in the Philippines, Indonesia and Pakistan are 10,000 to 60,000. These are far more manageable numbers of infected persons. Secondly, for those that have had coronavirus in Asia's demographic growth countries but are no longer active cases, the majority have recovered and death rates have been noticeably low. Between April and the time of writing, recovery rates in our invested countries have risen from 10-20% to well over 70%. What's more, there are indications that the peak of infections has now been passed in Mumbai and Delhi in India and Jakarta in Indonesia, all of which are powerhouses of economic growth in their respective countries. Elsewhere, Pakistan is now reported to have very little coronavirus circulating and the Philippines has finally started to roll back its longstanding lockdown restrictions in Manila. In Vietnam, a flurry of new cases which emerged as a result of illegal immigration has still only seen total infections in the country rise to around 1,000.

Thus, we have a handful of markets across South and South East Asia, where the fund is focused, which now appear to be managing the virus well and experiencing the beginnings of economic recovery. An excellent case in point comes from **Maruti Suzuki**, the leading auto manufacturer in India and one of our invested companies, who reported that its July sales volumes were at 90% of pre-COVID levels. Despite these positive indicators, stock markets in India, Indonesia, Philippines, Vietnam and Pakistan all lag their North Asian counterparts in terms of year to date performance by a very wide margin. To be specific, China has returned nearly 19.0% in 8M20, while South and South East Asian indices remain in negative territory. With the playing field between the two regions beginning to level out in both real world terms and with regard to the economic recovery, we expect markets in South and South East Asia to take note. In fact, we believe we are already beginning to witness this trend. From mid-July to the time of writing, MSCI India, MSCI Indonesia and the KSE100 in Pakistan have meaningfully outpaced MSCI China.

What's more is that even if the economic recovery in South and South East Asia in the near term does not quite match that of North Asia, it follows that the relative impact of positive vaccine developments will represent a far greater transformation for South and South East Asia. While a discussion of the prospect of a vaccine is beyond the scope of this report, we would, however, note that there are over 130 vaccines currently being trialled with 7 at the phase 3 vital large-scale efficacy stage. Moreover, all of these trials are backed by an unprecedented amount of political will and with far less emphasis on profit maximisation. We believe the potential for vaccine at some scale and a meaningful, if not perfect, level of efficacy within the next 6-12 months is high.

The second point to note is the dispersion of returns we have seen within the fund year to date. A significant portion of the fund's performance so far this year has been generated by a single investment in **Sea Ltd**, the leading ecommerce and mobile gaming company in ASEAN. We expect returns within the fund in the latter part of this year to become more broad based and this, plus a still very exciting long term outlook for **Sea Ltd**, should help propel the fund higher in the coming months.

Finally, the Fed's recent announcement regarding its commitment to keep interest rates low for longer and tolerate slightly higher inflation at around 2.0% is likely to be supportive of our investments in Asia's demographic growth markets. Our investments in India, Vietnam, Indonesia, the Philippines and Pakistan are looking to benefit from the rise of the middle class in these countries, supported by their demographic dividend, as a growing middle class will lead to higher spending on consumer goods and services, technology, financial services and residential property. This approach inevitably results in a growth bias and on occasion this means higher headline valuations being asked for in return for very long-term sustainable growth opportunities. As such, lower interest rates for longer which equate to lower discount rates for equities should help support the valuations of our invested companies.

Sea Ltd and Our Investment Objective

Since the beginning of 2019 to the time of writing, **Sea Ltd** is the best performing stock, globally. Over this time period, the stock has delivered a total return 1,329.3% or 391.1% on an annualised basis. All of this came from a hitherto little-known mobile gaming and ecommerce company headquartered in Singapore with a particular focus on Indonesia for ecommerce. We invested in the company in 2017 during the IPO process at just shy of US$5 billion market capitalisation. Today the company is worth in excess of US$75 billion.

This is exactly the kind of investment we are seeking to identify and hold over the very long term in the Prusik Asia Emerging Opportunities Fund. Given the more nascent stage of economic development in India, Indonesia, Vietnam, the Philippines and Pakistan where we find a heady mix of rapidly rising incomes combined with a shortage of goods and services, this yields very fertile ground for well-managed, relevant companies to create tremendous value – and often from a very low base. It follows that this is also why we believe it is rewarding to pay particular attention to small and mid-sized companies in the region. We do not invest in small and mid-sized companies because we have a particular view on that asset class. Nor do we invest in small and mid-sized companies with an aim to sell at a particular price target and reinvest the capital in another small or mid-sized company. Our objective is to invest in today's and tomorrow's market leaders in Asia's demographic growth markets, and while this process will often involve allocating capital to small and mid-sized companies, our expectation is that our holding period will cover the transition to very valuable, large capitalisation businesses.

Despite a stellar period for **Sea Ltd**, we believe we are still at an early stage of the company's trajectory. This year has seen a consolidation of its position in the Indonesian ecommerce market from a top three player to the market leader. Its payments business has also emerged as a key new source of value creation as 40% of its ecommerce customers in Indonesia paid for their purchases using SeaMoney. Quite incredibly, there are some sell-side analysts who are still attributing zero-value to **Sea's** payments business. In contrast, management believe that over the long term SeaMoney could be a more valuable business than the ecommerce platform today.

PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 30.06.2020

	A-USD	C-GBP	D-SGD
1 Month	5.81	5.63	5.71
3 Months	30.77	30.15	30.38
Year to date	-13.03	-14.78	-13.67
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
2014	-3.49	-3.01	-3.43
Since Launch+	37.39	35.44	-1.84
Annualised 5 years	-3.30	-4.60	-3.76
Annualised 3 years	-7.34	-9.35	-8.23
Annualised Since Inception	2.60	2.50	-0.18

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

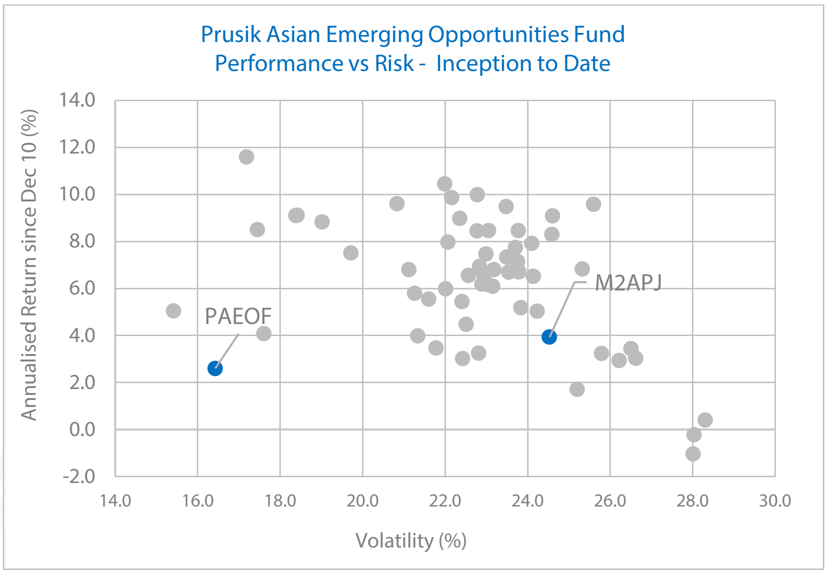
Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2020	-1.87	-5.65	-28.17	17.61	5.08	5.81							
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	0.64
Alpha (%)	0.29
Sharpe Ratio	0.25
Volatility (%)	16.43

Source: Morningstar
Since Inception: A: 08.02.08



Source: Morningstar

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Sea Ltd - ADR	7.4
FPT Corporation	7.4
Mobile World Investment Corporation	6.4
Reliance Industries	5.0
Philippine Seven Corporation	4.6
Total Number of Holdings	36

Thematic Breakdown (%)

Emerging Technology	26.7
Modern Retail	26.4
Local Brands	21.0
Infrastructure	10.5
Financialisation	8.9
Leisure/Tourism	4.7
Cash	1.9

Geographical Breakdown (%)

India	28.8
Vietnam	28.2
Indonesia	15.6
Philippines	14.6
Singapore	7.4
Pakistan	3.6
Cash	1.9

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

Portfolio Financial Ratios

Predicted Price/Earnings Ratio	18.8x
Predicted Return on Equity (%)	16.8
Predicted Dividend Yield (%)	2.0

FUND PARTICULARS

Fund Facts

Fund Size (USD)	28.4 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	137.39
B USD	Unhedged	Distributing	B2PKN32	IE00B2PKN327	127.66
C GBP	Hedged	Distributing	B2PKN43	IE00B2PKN434	62.51
D SGD	Hedged	Distributing	B3M3HJ5	IE00B3M3HJ55	170.72

Class U			SEDOL	ISIN	Month end NAV
U GBP	Unhedged	Distributing	BBQ37T7	IE00BBQ37T77	93.56

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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