PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asian Equity Income Fund

Quarterly Investment Report
31st December 2020

FOR PROFESSIONAL INVESTORS ONLY

4Q20 Review and Outlook

The fund returned 17.1% in the fourth quarter compared to the MSCI AC Asia Pacific Ex Japan Index (GR) (USD) which returned 19.2%. The top 3 contributors were **Samsung Electronics** preference shares, **Power Grid Corp of India**, and **ITC**. The biggest 3 detractors were **China Xinhua Education**, **Hong Kong Broadband Networks Ltd** and **China Mobile**.

10-Year Anniversary

Although the original version of this strategy was conceived whilst at my previous firm, the current version of the fund was born on 31 December 2010 with US$2m of "friends and family" money. The aim was to create a fund that focused on generating an income in a low interest rate world by taking advantage of the fact that Asian markets tended to undervalue low risk, income producing assets as most market participants were more interested in momentum and growth stocks. And unlike most other Asian income funds at the time, the process was not just based on screening for stocks with high yields over the next 12 months, but it looked for companies that had the ability to sustain and grow dividends over the long term.

In the first quarterly report we outlined the aims of the fund which were:

- To generate an attractive dividend yield that is higher than the market.
- To grow that dividend in real terms over time.
- To outperform the Asian market by 5-10% per year over a full cycle.

A decade later we can review whether those targets have been met:

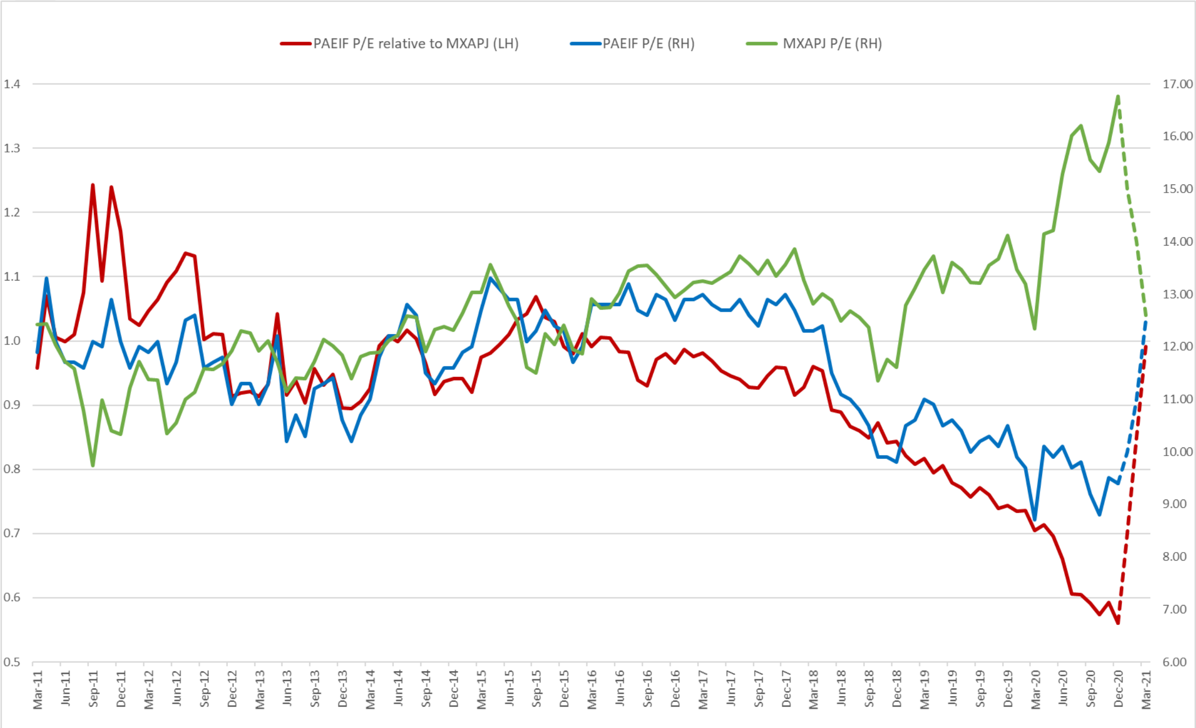
- The dividend yield has, on average, exceeded the market by just under 200bps since inception (5.1% vs 3.2%).
- The dividend has grown by 5.8% a year since launch compared to inflation[1] which has averaged 1.8% over the same period.
- We have generated 10.4% annualised returns compared to 6.5% for the index, so a touch under 4% annualised which is below our target.

Investors that bought on day 1 paid $100 for their shares which have since generated $65 per share in dividends and ended the year at $180 having paid out just under $8 per share in dividends for 2020. Our aim is to better this over the next decade and there are several reasons why I am optimistic we can do that:

1. **Valuation**. Although dividend yield is at a similar level today as it was at launch (5.7% vs 6.0%), the P/E ratio is substantially lower at 9.5x compared to 12x at launch. Given where

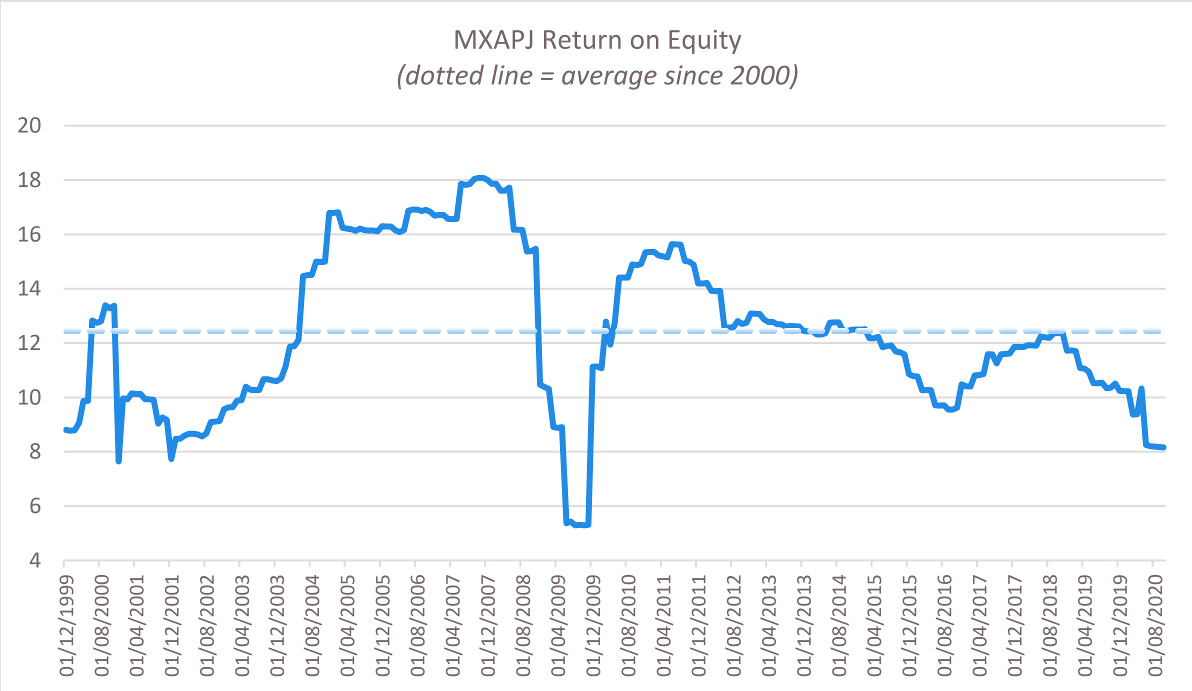
[1] US Consumer Price Inflation.

interest rates are today when compared to a decade ago, the valuation starting point is much more attractive. In relative terms the difference is even more stark as the chart shows. The underperformance we have suffered over the last several years is almost entirely down to this de-rating.



Source: Prusik/Bloomberg

2. **Dividend Growth – Looking forwards**. ROE has been in a continuous decline in Asia since 2010 and so earnings and dividend growth have grown at less than nominal GDP growth over this period. Assuming that ROEs can return to a normal range of 10-12% in the future would lead to double-digit dividend growth for Asian equities, even if nominal GDP growth is relatively muted.



Source: Bloomberg/Prusik

3. **Corporate Activity**. Because the gap between the cost of equity (extremely high) and cost of debt (extremely cheap) is so high and in general our companies are underleveraged, we believe that if the stock market doesn't re-rate these stocks, private capital will. This is already occurring with several of our companies selling assets at significant premiums to the valuations implied by the market (e.g. **Swire Pacific** and **CK Hutchison**)

Dividend Growth – The Last Ten Years

The dividend paid by the fund fell by 7% in 2020 which was in line with our estimate of a 5-10% fall but much better than the 20% stress test that we discussed earlier in the year. In the table below we show the dividend growth over the past 10 years and compare it to the index. We also include the forecast dividend for 2021 and 2022 (in red) to give an idea of what sort of recovery might be expected. Over the past decade, the dividend for the fund has been substantially higher than the market and has also held up better in years where the MXAPJ dividend has fallen.

	PAEIF dividend	% change	MXAPJ dividend	% change
31/12/2011	4.76		14.06	
31/12/2012	4.72	-0.9%	13.64	-3.0%
31/12/2013	4.76	0.8%	14.11	3.4%
31/12/2014	6.18	29.8%	15.31	8.5%
31/12/2015	6.40	3.6%	14.24	-6.9%
31/12/2016	6.10	-4.7%	12.78	-10.3%
31/12/2017	6.97	14.3%	14.57	14.0%
31/12/2018	8.20	17.6%	15.82	8.6%
31/12/2019	8.52	3.9%	15.74	-0.5%
31/12/2020	7.91	-7.2%	12.01	-23.7%
31/12/2021	*8.54*	*7.9%*	*14.95*	*24.4%*
31/12/2022	*9.68*	*13.4%*	*16.52*	*10.5%*
	Cumulative	**CAGR**	**Cumulative**	**CAGR**
2011 to 2020	66%	5.8%	-15%	-1.7%
2011 to 2022	103%	6.7%	17%	1.5%
2017 to 2020		6.7%		-1.6%

Source: Bloomberg/Prusik

As you can see, the fund has provided very favourable dividend growth against the index and inflation.

Finally…

We would like to thank our investors for their support over the past decade and, particularly, over the past year. One of the things I most enjoy about this job is talking to investors because I often learn more about the fund when I am challenged to defend certain stocks and views and hear your reasons on why you disagree with me. Because the fund closed to new investors in 2012, most of you have been readers of these reports for a while and have witnessed the highs and lows of performance over that time. The last 12 months have been a particularly challenging time and many of you have probably questioned why you invest with a fund that has had high volatility and poor returns during a time when many fund managers are making huge returns with what appears to be very low volatility.

I can only guarantee you that no one worries more about that than me and I am constantly paranoid that my strategy has stopped working and rest assured, I am working hard to ensure that we prevent that happening. Do I have too much invested in Hong Kong? Was I too complacent about Covid? Are physical assets now worthless? I always keep coming back to the initial aims of the fund which are to focus on buying companies that can sustain and grow dividends in real terms over the next decade. If we can do that over that period of time then I believe the fund will justify its inclusion in your portfolio.

Portfolio Activity

New Positions

CNOOC is a Chinese Oil & Gas Exploration and Production company which offers a unique combination of low operating costs, good production growth, strong balance sheet and upstream carbon intensity which is 30% below the average of the global oil majors on Scope 1 & 2. With all in operating costs of US$26/barrel, it is extremely profitable at the current level of oil prices. Because of the fact that the company is the subject of a executive order by Donald Trump that prevents US investors from buying the stock, **the valuation is at a distressed level and trades on a 2022 dividend yield of 9.2%** (50% pay-out ratio) despite having virtually no debt.

Jardine Strategic is one of the original Hong Kong trading companies and now operates in a number of areas including real estate, consumer and automobile. The company has a long track record of consistent profitability and conservative financial management (it has a net cash balance sheet). Its capital allocation record was quite poor in the 1980s and 1990s but has improved in recent decades and the stock, even after the recent period of poor performance, has returned 14.5% annually since 1999. Trading at just 1/3 of intrinsic valuation we believe the upside potential is significant.

KASIKORNBANK is one of Thailand’s most conservative and well capitalised banks. Although the Thai economy has been hit hard by the downturn in tourism, which accounts for 12% of GDP, the re-opening of the world that is likely to occur as a result of the vaccine roll-out will allow a recovery in growth during 2021 and 2022. The stock is currently factoring in ROEs remaining at around 5% as the stock is trading at a Price to Book ratio of just 0.5x. We believe that ROEs can rise to 8-10% over the next several years implying a stock price that should trade at a premium to book value.

Exited Positions

ICTSI, **Jasmine Broadband Infrastructure** were sold as the risk/reward profile had deteriorated due to strong relative price performance

Added to: **Nagacorp, Thai Beverage, Petronet, Zhejiang Expressway, China Mobile**.

Reduced: **Scentre Group, China Xinhua Education, Hong Kong Broadband Networks Ltd, AIA, Samsung Electronics**

PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 31.12.2020

Class 1*	B-USD	Benchmark**
1 Month	2.50	6.69
3 Months	17.11	19.21
2020	-4.96	22.75
2019	11.26	19.48
2018	-9.52	-13.68
2017	32.79	37.32
2016	10.36	7.06
Since Launch⁺	168.28	87.55
Annualised Since Inception	10.37	6.49

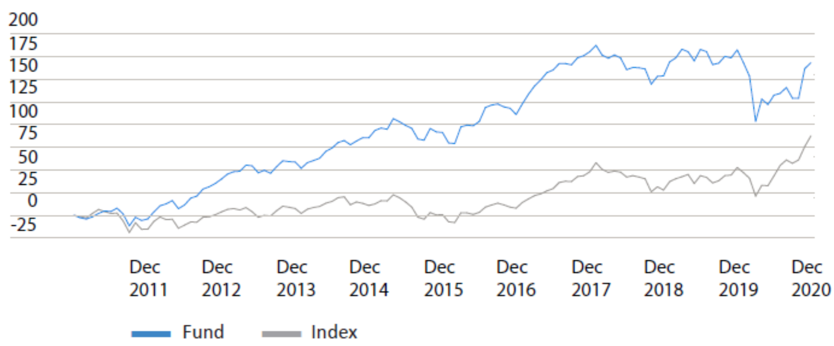
Source: Morningstar

* Class 1 shares were closed to further investment on 30th November 2012

**MSCI AC Asia Pacific Ex Japan Gross Return Index (USD)

⁺ Launch date: B 31.12.2010

Fund Performance – Class B (USD) (%)



Source: Morningstar. Total return net income reinvested.

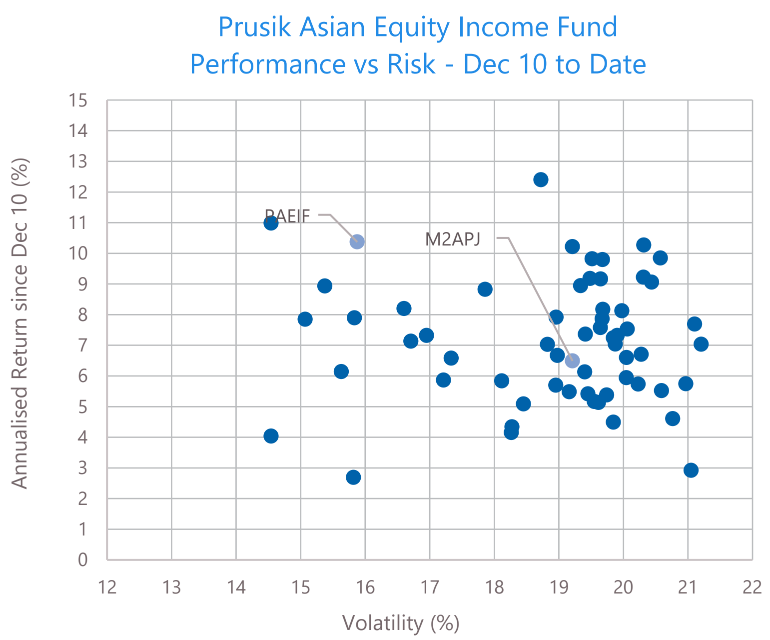
Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2020	-4.88	-5.63	-19.60	11.98	-2.62	4.67	0.84	2.76	-4.92	0.01	14.24	2.50	-4.96
2019	6.09	1.66	3.47	-0.99	-3.59	4.65	-0.84	-5.11	0.62	2.79	-0.62	3.19	11.26
2018	2.51	-3.76	-1.26	1.34	-1.18	-4.76	0.96	-0.13	-0.52	-6.38	3.49	0.21	-9.52
2017	5.49	4.77	3.98	2.69	3.25	1.11	2.71	0.06	-0.54	2.91	0.85	1.61	32.79
2016	-6.04	-0.37	10.28	0.95	-0.38	2.46	7.56	1.20	0.54	-1.43	-0.68	-3.16	10.36
2015	4.35	1.41	-0.70	6.01	-1.69	-1.97	-1.63	-6.01	-0.70	7.04	-1.91	-0.33	3.17
2014	-4.34	4.03	1.50	1.58	4.63	2.14	3.50	1.24	-2.54	2.31	2.00	-0.05	16.79
2013	3.93	1.78	0.35	4.57	-0.53	-4.95	1.87	-2.24	5.07	4.15	-0.56	-0.25	13.45
2012	8.12	6.54	1.92	3.20	-7.67	3.84	6.72	1.92	6.36	1.97	2.76	3.63	45.77
2011	-2.68	-1.46	2.55	3.90	2.58	-0.60	3.56	-6.06	-12.80	10.62	-3.52	1.79	-3.96

RISK ANALYSIS

Risk Metrics	Fund (%)
Beta	0.83
Alpha (%)	4.84
Sharpe Ratio	0.93
Volatility (%)	15.88

Source: Morningstar
Since inception: B 31.12.2010



Source: Morningstar

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

Power Grid Corporation of India Ltd	6.2
CK Hutchison Holdings Ltd	6.1
ITC Ltd	5.6
Zhejiang Expressway Co	5.0
China Mobile Ltd	4.4
Total Number of Holdings	40

Portfolio Financial Ratios*

Predicted Price/Earnings Ratio	9.4x
Predicted Dividend Yield (%)	5.7

Thematic Breakdown (%)

Consumer	25.9
Power Utilities & Energy	18.2
Real Estate	16.7
Communications Infrastructure	15.3
Transport Infrastructure	11.4
Financials	6.9
Cash	3.0
Technology	2.5

Geographical Breakdown (%)

Hong Kong	33.5
India	19.9
China	11.4
Thailand	6.5
Indonesia	6.3
Korea	4.5
Macau	4.0
Singapore	3.2
Philippines	3.1
Cash	3.0
Vietnam	2.2
Malaysia	1.5
Australia	1.0

All data as at 31.12.2020. Source Prusik Investment Management LLP, unless otherwise stated

FUND PARTICULARS

Fund Facts

Fund Size (USD)	711.2m
Launch Date	31st December 2010
Fund Structure	UCITS III
Domicile	Dublin
Currencies	USD (base), GBP, SGD

Management Fees

Annual Management Fee
1% p.a paid monthly in arrears

Performance Fee
Class 1: None
Class 2 and 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.

Dealing

Dealing Line	+353 1 603 6490
Administrator	Brown Brothers Harriman (Dublin)
Dealing Frequency	Daily
Valuation Point	11am UK time
Dealing Cut - off	5pm UK time
Min. Initial Subscription	USD 10,000
Min. Subsequent Subscription	USD 5,000

Share Class Details

Class 1*			SEDOL	ISIN	Month end NAV
A USD	Unhedged	Non Distributing	B4MK5Q6	IE00B4MK5Q67	275.98
B USD	Unhedged	Distributing	B4QVD94	IE00B4QVD949	180.13
C GBP	Hedged	Distributing	B4Q6DB1	IE00B4Q6DB12	166.13
D SGD	Hedged	Distributing	B4NFJT1	IE00B4NFJT16	167.99

*Class 1 shares were closed to further investment on 30th November 2012.

Class 2*			SEDOL	ISIN	Month end NAV
X USD	Unhedged	Distributing	B4PYCL9	IE00B4PYCL99	160.92
Y GBP	Hedged	Distributing	B4TRL17	IE00B4TRL175	149.04
Z SGD	Hedged	Distributing	B6WDYZ1	IE00B6WDYZ18	155.85

*Class 2 shares are open to current investors only and were closed to new investors as of 30th November 2012. Performance fee based on individual investor's holding

Class U*			SEDOL	ISIN	Month end NAV
U GBP	Unhedged	Distributing	BBP6LK6	IE00BBP6LK66	148.24

*Class U shares are open to current investors only. Performance fee based on fund performance as a whole

Dividend Dates

Dividends paid twice annually (January and July)

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