PRUSIK

LONG ONLY ABSOLUTE RETURN INVESTING IN ASIA

Prusik Asian Equity Income Fund

Quarterly Investment Report
31st March 2021

FOR PROFESSIONAL INVESTORS ONLY

1Q21 Review and Outlook

The fund rose by 7.9% compared to a 2.8% increase for the MSCI AC Asia Pacific Ex Japan Gross Return Index (USD). The top 3 contributors to performance were **Swire Pacific**, **CK Hutchison** and **IRB Invit**. The biggest 3 detractors were **Petronet LNG**, **Metro Pacific** and **Media Nusantara Citra**.

Attribution Analysis

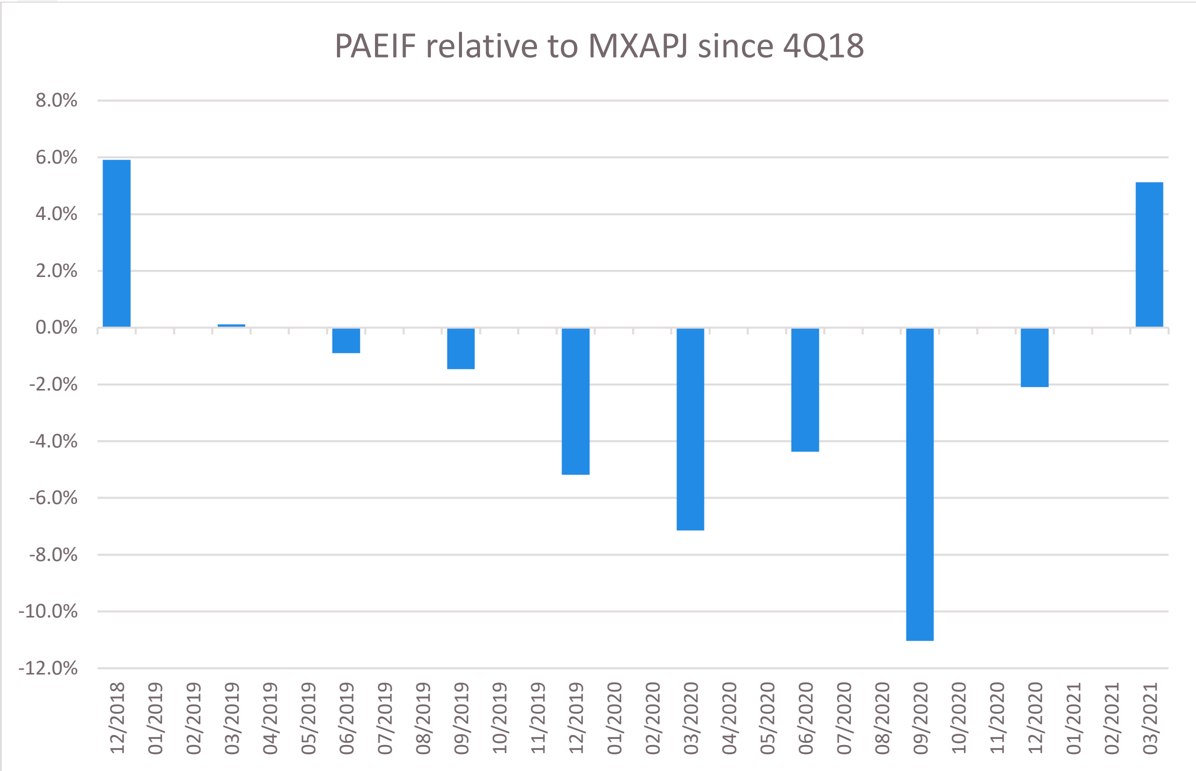
	Average Weighting		Total Return (%)		Contribution (bps)		Allocation	Selection	Currency	Total Attribution
	PAEIF	MXAPJ	PAEIF	MXAPJ	PAEIF	MXAPJ	(bps)	(bps)	(bps)	(bps)
Hong Kong	35.4%	8.5%	15.2%	5.2%	521	44	49	363	-9	404
China	11.0%	35.9%	6.9%	-0.2%	84	-5	94	94	-3	191
India	20.7%	9.0%	7.1%	5.3%	150	46	22	37	-1	59
South Korea	3.9%	12.8%	5.5%	0.9%	30	14	-5	18	-16	54
Macau	3.9%	0.2%	14.8%	14.2%	59	2	43	2	-1	43
Thailand	4.2%	1.7%	7.1%	4.6%	56	8	-11	19	-5	10
Australia	1.2%	13.2%	2.7%	3.7%	0	47	-9	-2	-3	5
Malaysia	1.4%	1.3%	-7.9%	-5.8%	-13	-8	0	-4	-4	-4
Indonesia	6.5%	1.2%	0.8%	-7.5%	5	-9	-45	57	-23	-7
Singapore	3.2%	2.0%	3.9%	8.9%	13	18	7	-16	-5	-11
Vietnam	2.1%	0.0%	-8.7%	0.0%	-19	0	-29	0	0	-29
Philippines	2.9%	0.7%	-11.8%	-10.4%	-37	-7	-33	-5	-3	-41
Taiwan	0.0%	12.8%	0.0%	11.2%	0	133	-108	0	0	-88

Source: Prusik/Bloomberg

Most of the outperformance this quarter came from Hong Kong stock selection. China also added to performance due to both our underweight position and good stock selection. Our underweight in Taiwan continues to detract from returns.

The underlying driver of the improved performance was a reversal of many of the factors that had been hurting performance during 2020: physical outperformed virtual, non-China markets outperformed China markets and there was a (small) re-rating for our portfolio compared to the market.

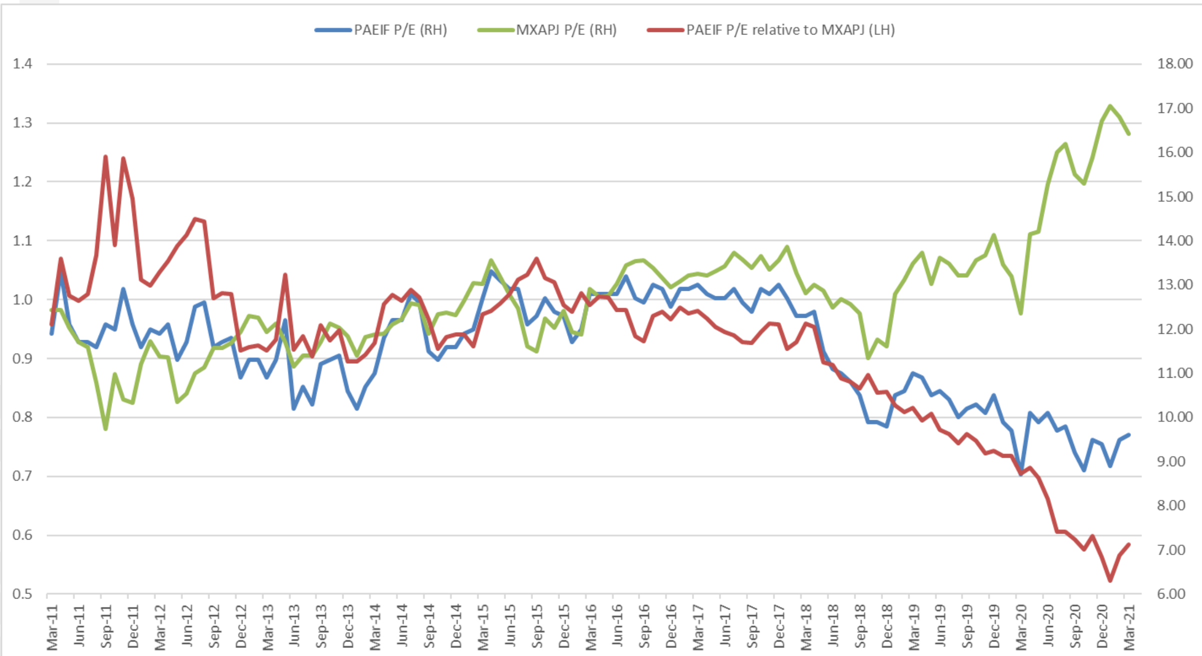
The chart below shows that this was the first period of outperformance for 2 years, although the ten-year track record of the fund has been strong and reasonably consistent with outperformance in seven out of the ten years.



Source: Prusik/Bloomberg

Outlook

Despite the more positive performance, the valuation gap between PAEIF and the market is still significant (see below). **Our contention is that our portfolio should trade at least in line with the market and therefore, we believe the upside potential from here is considerable**.



Source: Prusik/Bloomberg

We do not intend in this quarterly to revisit the reasons for the underperformance of the past 18 months as we have written on this extensively in previous quarterlies. In this note, we aim to explore what the potential returns might be going forward in various scenarios and what risks the fund is taking on to achieve those returns.

Future returns will be determined by three things and three things only: the dividend yield, the growth in dividends and the change in dividend yield.

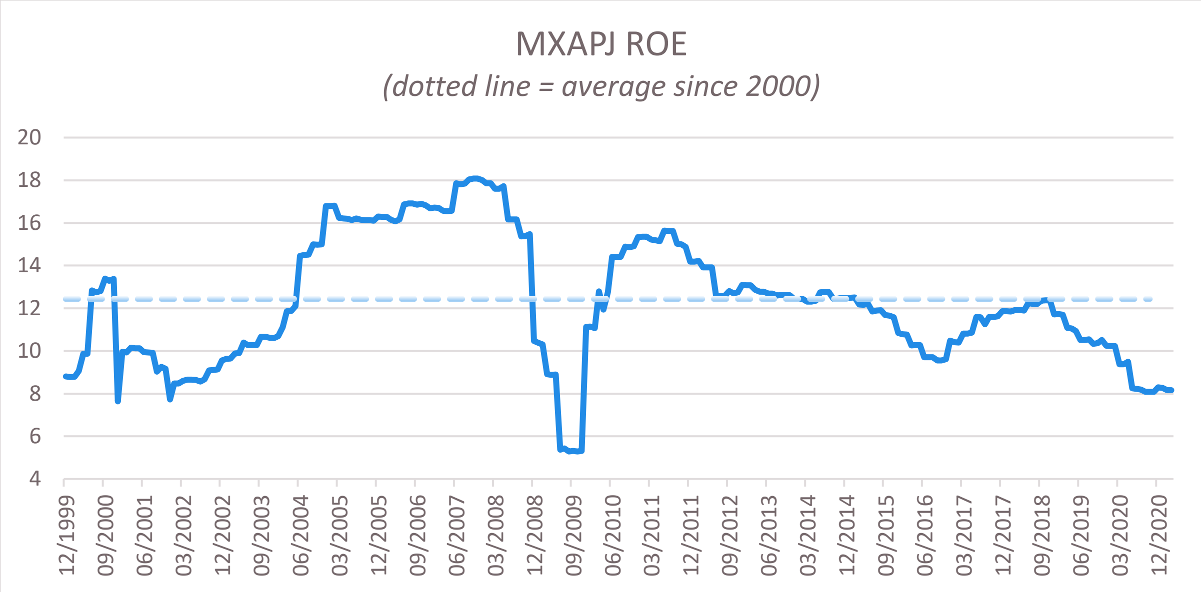
We have a high degree of control over what the short-term dividend yield of the fund will be. Even in a year such as 2020, the final dividend was only 15% below our expectations[1]. Because of the way dividends vary from year to year we can, in general, expect to earn 5-6% from the dividend yield over the next several years.

The growth of dividends over the next several years is more difficult to forecast but there are techniques we can use to estimate it, such as:

- **Historical dividend growth for the fund.**
  - Dividend growth has been 5.8% per annum since 2011 (7.5% excluding 2020)[2].
- **Nominal GDP growth.**
  - Nominal GDP growth across Asia is expected to be 7-8% over the next several years (4-5% real and 2-3% inflation) which would suggest earnings growth at a similar level for a diversified portfolio of companies.
- **ROE based approach.**
  - If we assume that earnings growth equals return on equity multiplied by the retention rate then the growth expectations are between 5.5-6.0%[3]. Higher ROE (see below) would increase this estimate.
- **Bottom-up forecasts**
  - We forecast the earnings growth of each company individually. On this basis we have an estimate of 7.2%.

Taking a blend of these estimates, we believe that the portfolio will generate dividend growth of around 7-8% over the next several years. We note that ROEs have been falling for the past decade which has depressed earnings growth for Asian corporates over this period. **If ROEs were to normalise, we estimate that would add around 15% to earnings for our portfolio[4].** If that normalisation occurred over the next 3 years, that would add roughly 5% to annual growth.

[1] i.e. we expected 5-10% growth and it turned out to be -7%.
[2] This compares to MXAPJ dividend growth over the same period of -1.2%/year (+1.0% excluding 2020).
[3] We think this method understates potential earnings growth – particularly for real estate assets as well as companies that capitalise concession agreements.
[4] To calculate normalised earnings, we take the average ROE for the past 10 years and apply it to book value to calculate a theoretical earnings per share for each stock.



Source: Prusik/Bloomberg

Asian vs US market Total and Dividend Return Comparison.

	2000 to 2010	**2010 to 2020**	**2000 to 2020**
S&P 500			
Total Return	1.4%	13.9%	7.5%
Dividend growth	3.4%	9.8%	6.6%
MXAPJ			
Total Return	14.7%	6.9%	10.7%
Dividend Growth	9.7%	0.3%	4.9%

Source: Prusik/Bloomberg

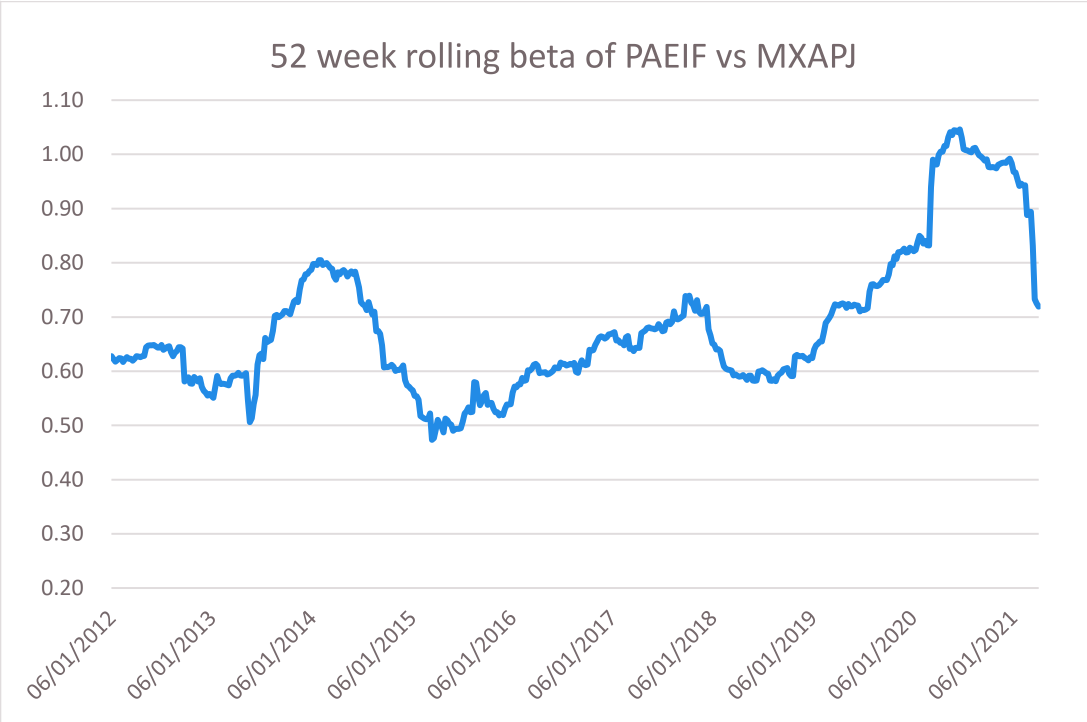
Valuations

We believe the current situation is very similar to the period in 1999/2000 when investors were transfixed by a very narrow range of stocks that were producing strong earnings growth and trend following behaviour had led to an extraordinarily bifurcated market. We are now in the position where even though the fundamentals of our portfolio are outperforming the index, the valuation discount remains significant. We have no way of predicting where this will end up **but if the P/E of our portfolio moves towards a market P/E[5] then there would be 70% upside to valuations**. Although I am very sceptical of anyone's ability to forecast the future, there are several potential catalysts for a re-rating:

- **Reversion to the mean**. The simplest prediction is that life in 2022 is more similar to 2019 than we currently expect. We can see from places like Taiwan and New Zealand, which have effectively dealt with Covid, that life can return to normal. This would lead to both a recovery in earnings and a re-rating for stocks that are perceived to be negatively affected by Covid.

[5] Which is where it has traded historically.

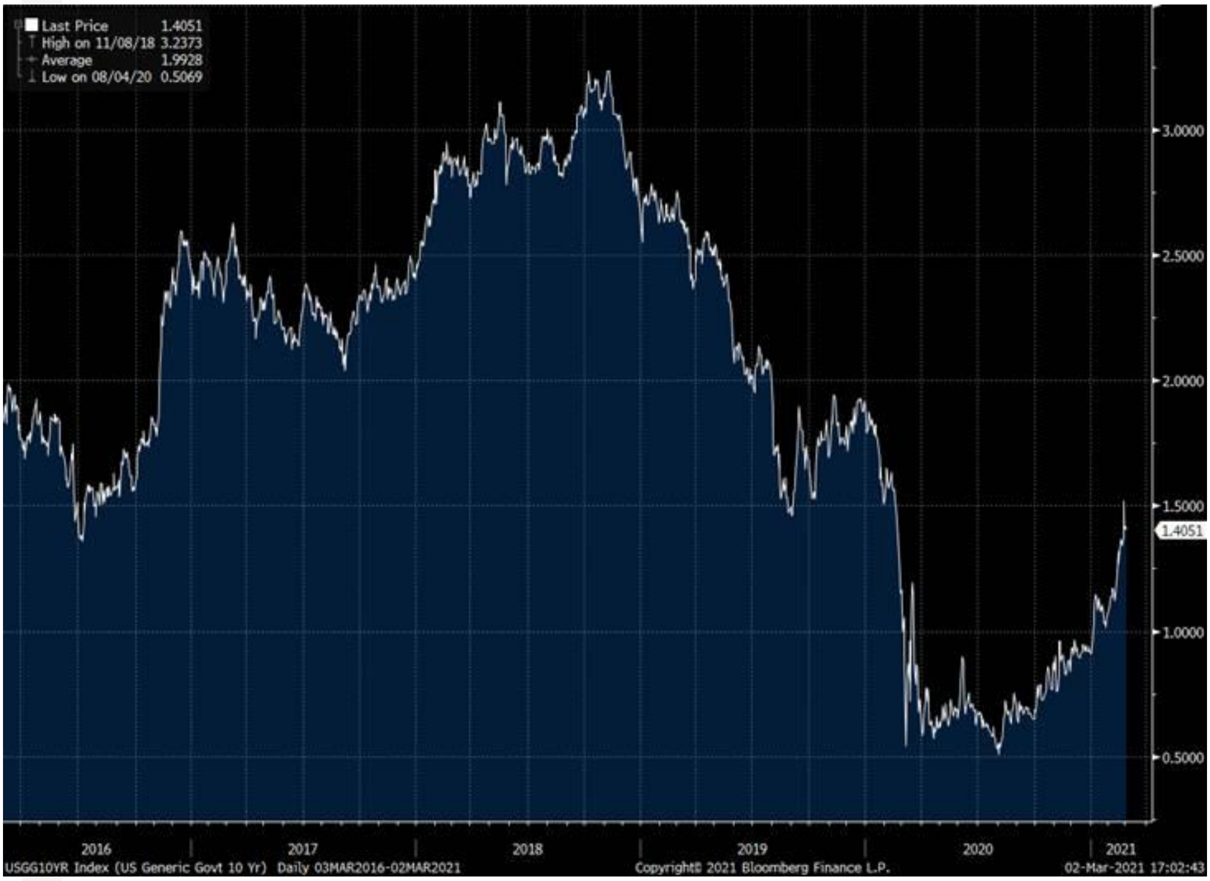
- **Normalisation of interest rates** causes rotation from long duration sectors (e.g. technology) to short duration sectors (e.g. our portfolio!).
- **Corporate activity**. We have seen Jardine Matheson privatise Jardine Strategic and they cited the cheap cost of borrowing, combined with a depressed share price, as the reason that they decided to act. We own a large number of companies that are in a similar position and would not be surprised if more deals like this took place in 2021.
- **Falling beta.** Our 12-month rolling beta has fallen sharply and, in time, this is likely to lead to a lower risk premium being applied to our portfolio.



Source: Prusik/Bloomberg

Will Higher Bond Yields Be Negative For Our Portfolio?

At the beginning of March, I analysed what dividend yields were for our portfolio in late 2018 when US bond yields got to 3.2%.



Source: Bloomberg

As can be seen from the table below, the portfolio[6] traded at a lower dividend yield then than it does today and so the spread is considerably wider. I would argue that this is because the market is pricing in a very pessimistic scenario for earnings and therefore if higher rates are accompanied by a more optimistic outlook for growth, then I would expect the yield spread to narrow.

[6] I only include stocks that we own today that had dividend estimates in November 2018.

	Nov-18	Mar-21	
Median	**4.6%**	**4.9%**	
Bond yield	**3.2%**	**1.4%**	
Spread	**1.4%**	**3.5%**	

Stock	DY (Nov 18)	DY (Mar 21)	% change
WYNN MACAU LTD	7.8%	1.7%	-6.1%
SANDS CHINA LTD	6.6%	3.0%	-3.6%
MEDIA NUSANTARA	5.8%	3.3%	-2.5%
LINK NET TBK PT	4.7%	3.3%	-1.5%
NAGACORP LTD	5.1%	3.9%	-1.2%
SCENTRE GROUP	5.7%	4.9%	-0.8%
SINGAPORE TELECO	5.8%	5.1%	-0.7%
ZHEJIANGEXPRE-H	7.4%	6.7%	-0.7%
SHK PPT	4.8%	4.3%	-0.5%
THAI BEVERAGE	3.4%	3.4%	-0.1%
METRO PACIFIC IN	2.6%	2.6%	0.0%
CK ASSET HOLDING	3.8%	3.8%	0.0%
CIKARANG LISTRIN	8.3%	8.3%	0.0%
SK TELECOM	3.9%	4.2%	0.3%
VIET NAM DAIRY P	3.7%	4.1%	0.4%
JARDINE STRAT	1.0%	1.4%	0.4%
FORTUNE REIT	6.1%	6.5%	0.4%
CKH HOLDINGS	4.3%	5.0%	0.6%
DAIRY FARM-900	3.1%	4.1%	1.0%
TELKOM INDONESIA	4.1%	5.1%	1.1%
CKI HOLDINGS	4.6%	5.7%	1.2%
HKBN LTD	6.1%	7.7%	1.6%
CNOOC	5.4%	7.1%	1.7%
CHINA MOBILE	4.2%	6.4%	2.2%
NWS HOLDINGS	4.7%	7.1%	2.3%
FIRST PACIFIC	4.2%	6.6%	2.4%
BRIT AMER TOBACC	4.5%	7.3%	2.8%
ITC LTD	2.4%	5.2%	2.8%

Source: Prusik/Bloomberg

Portfolio Activity - New Positions

Vtech

Vtech operates in several different sectors but the most significant (and attractive) part of the business is their electronic learning products (ELP) division. The ELP business is a consolidated market with the top three players taking the majority of the market and **Vtech** being the market leader. This is a market where gaining the trust of parents is important and buyers know the products **Vtech** sells will be suitable and safe for their children. The company's long history of innovation has ensured that they are able to achieve attractive margins on their hardware business and have steadily been increasing their software sales as parents pay a monthly fee for access to the content on their platforms. As this business increases, the network effect also strengthens which makes the overall business more valuable. Our conversations with experts and competitors in this field highlighted **Vtech's** competitive advantage in this area based on the unique way that designers and engineers work together to produce products. Trading on a P/E of 11x and offering an 8% dividend yield, we believe the upside potential is significant for a company with a net cash balance sheet, very limited capital expenditure and enormous free cash flow. The stock has performed poorly over recent years as profit growth has been weak due to external factors, but we believe this is more than discounted in the current share price.

SK Telecom

SK Telecom is the leading mobile communications operator in Korea with a 46% 5G subscriber market share. The company also offers broadband, media and ecommerce services and holds a 20% stake in SK Hynix.

Our belief is that the core business is more attractive than the market gives it credit for because capital spending will be lower than expected (as the 5G build-out ends) and margins will be higher (as competitive and regulatory pressure will ease). This will allow the core business to generate US$1.2-1.6bn of annual free cash flows over the next several years and our DCF valuation of these cash flows is around US$17.5bn. Net of US$5.5bn debt this values the core telecom business at US$12bn.

The 20% stake in Hynix has a market value of US$18bn and their holdings in other businesses (media, ecommerce and security) are worth another US$4bn. In total this amounts to US$34bn compared to the market cap of **SK Telecom** of US$20bn. Readers will note that their holding in SK Hynix is worth almost as much as the market cap of the entire company. **SK Telecom** is on 10x P/E and offers a 4% dividend yield.

There are several catalysts that might close the gap between the share price and intrinsic value. At the recent AGM, the CEO stated that the company's share price did not reflect the intrinsic value of the company and they were committed to closing that gap via several measures including:

- Higher dividend payments. They changed its corporate article to pay a quarterly dividend and committed to an increasing dividend stream.
- The CEO stated that he would be presenting on a possible restructuring plan within the year (which may result in the company being split into a core telco business and an investment business which would contain Hynix and the other non-telco assets). This would allow the core business to pay higher dividends whilst allowing the other divisions to prioritise investment.

Brookfield India Real Estate Trust

Brookfield India Real Estate Trust owns a portfolio of four Indian office assets. 75% of the rents come from multinational companies such as Accenture, Bank of America and Tata Consulting Services. Because current rents are 35-40% below market rents, we can expect revenue growth to be relatively strong – even in tough market conditions. Although leasing conditions are currently tough due to Covid, we expect office space absorption to remain strong over the next decade as multinational companies use India to build out their IT capabilities as operating costs per employee are 80% lower than Tier 2 cities in the US. The Indian IT trade association, Nascomm, expect the technology market in India to grow at a CAGR of 12% from 2019 until 2025. Cap rates in India remain high on a global basis (we assume 7.5-8.0% in our valuation) but this may well fall over time as investors seek our higher yielding markets. A dividend yield of 9% combined with dividend growth in the high single digit range provides excellent return potential. Net debt to assets is less than 20% (compared to regional levels of 30-40%).

Portfolio Activity - Exited Positions

- **Kasikorn Bank** & **TISCO**. We sold our only remaining financial stocks after a sharp rally reduced the upside potential.
- **KT&G**. There were better ideas with higher risk/return potential.
- **AIA**. The stock reached our target price and we no longer believe the risk/return is favourable.
- **Samsung Electronics**. Although we have a high opinion of the company, the risk/reward ratio became less attractive. Semiconductors remain a cyclical business and our experience has shown that caution is warranted when expectations about future growth become elevated.
- **Jardine Strategic**. After a 25-year wait, the elimination of the crossholding structure was accomplished as Jardine Matheson bid for the 15% of **Jardine Strategic** that it did not already own. We took the opportunity to exit the position at a small discount to the offer price.

ESG/Sustainability

It has been a busy start to the year for Prusik from this perspective as we have finally released Prusik's Sustainability Policy which is now available on the website and we are happy to discuss further as required. We have also signed up to the UN PRI and joined the Asia Corporate Governance Association. Although we still follow a very flexible investment policy and so will not be screening out any sectors, we believe the process has been very helpful in leading to a deeper understanding of the positions we own and helped us improve some areas of our investment process.

Ultimately, the aim is to increase the chances that the companies we invest in will be around in ten or twenty years' time to pay dividends by ensuring they operate in a fashion that prioritises long term value creation above short-term profits.

Final Thoughts

It has been a difficult 18 month for performance and "one good quarter does not a turnaround make" but we believe that the outlook from this point is much more promising as both fundamental and price momentum has improved.

Our belief is that if our portfolio can generate a 5-6% dividend yield which grows at 7-8% over the next several years, then that will provide investors with an attractive return. Although valuation changes are never easy to predict, the balance of probabilities suggests that there is considerable upside potential if mean reversion still exists.

PORTFOLIO PERFORMANCE

Performance Summary (%)
Period ending 31.03.2021

Class 1*	B-USD	Benchmark**
1 Month	0.03	-2.08
3 Months	7.89	2.77
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+	189.46	92.74
Annualised Since Inception	10.93	6.61

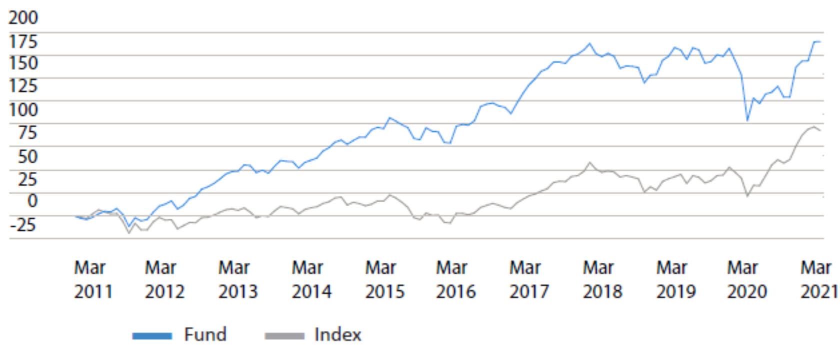
Source: Morningstar

* 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.

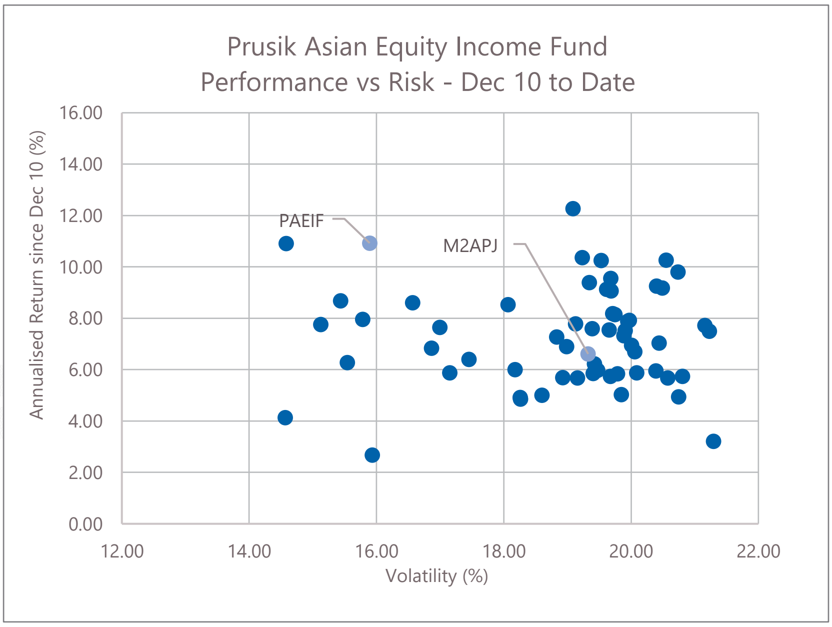
Monthly Performance Summary (%)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
2020	0.17	7.69	0.03										
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	0.82
Alpha (%)	5.29
Sharpe Ratio	0.97
Volatility (%)	15.89

Source: Morningstar
Since inception: B 31.12.2010



Source: Morningstar

THEMATIC & GEOGRAPHICAL BREAKDOWN

Top 5 Holdings (%)

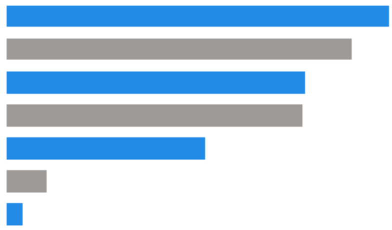
CK Hutchison Holdings Ltd	7.0
Power Grid Corp Of India Ltd	5.9
China Mobile Ltd	5.5
Zhejiang Expressway Co	5.2
CK Asset Holdings Ltd	5.1
Total Number of Holdings	37

Portfolio Financial Ratios*

Predicted Price/Earnings Ratio	9.6x
Predicted Dividend Yield (%)	6.0

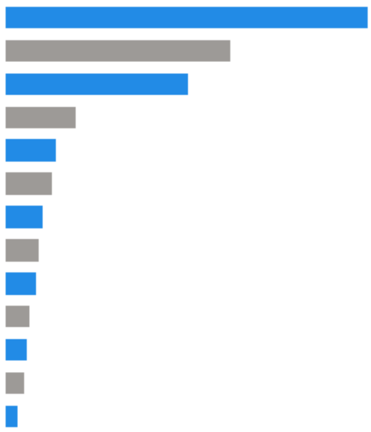
Thematic Breakdown (%)

Consumer	24.3
Communications Infrastructure	21.9
Real Estate	19.0
Power Utilities & Energy	18.8
Transport Infrastructure	12.6
Financials	2.5
Cash	0.9



Geographical Breakdown (%)

Hong Kong	33.1
India	20.5
China	16.6
Indonesia	6.3
Korea	4.4
Macau	4.1
Singapore	3.2
Thailand	2.9
Philippines	2.7
Vietnam	2.0
Australia	1.8
Malaysia	1.5
Cash	0.9



All data as at 31.03.2021. Source Prusik Investment Management LLP, unless otherwise stated.

FUND PARTICULARS

Fund Facts

Fund Size (USD)	713.4m
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 annually.

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	297.77
B USD	Unhedged	Distributing	B4QVD94	IE00B4QVD949	190.76
C GBP	Hedged	Distributing	B4Q6DB1	IE00B4Q6DB12	175.68
D SGD	Hedged	Distributing	B4NFJT1	IE00B4NFJT16	177.83

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	170.41
Y GBP	Hedged	Distributing	B4TRL17	IE00B4TRL175	157.63
Z SGD	Hedged	Distributing	B6WDYZ1	IE00B6WDYZ18	164.98

Performance fee based on individual investor’s holding.

Class U			SEDOL	ISIN	Month end NAV
U GBP	Unhedged	Distributing	BBP6LK6	IE00BBP6LK66	155.76

Performance fee based on fund performance as a whole.

Dividend Dates

Dividends paid twice annually (January and July)

Fund Manager

Tom Naughton
Tel: +44 (0)20 7493 1331
Email: tom.naughton@prusikim.com

Sales & Marketing

Mark Dwerryhouse
Tel: +44 (0)20 7297 6854
Mob: +44 (0)7891 767 386
Email: mark.dwerryhouse@prusikim.com

Lizzy Irvine
Tel: +44 (0)20 7493 1331
Fax: +44 (0)20 7493 1770
Email: lizzy.irvine@prusikim.com

Prusik Investment Management LLP
6th Floor, Moss House
15–16 Brook's Mews
London W1K 4DS

Web: www.prusikim.co.uk
Email: enquiries@prusikim.com