

SHINING A LIGHT ON..... LIONTRUST ASIA INCOME FUND

At a glance

First State and Aberdeen have dominated the Asian and Emerging Market Retail Investment Market. The managers are now looking to limit new money coming into their funds as they have grown in assets to a level that limits investment options.

We have identified a number of talented fund managers who we can turn to as replacements. One of the funds is run by Liontrust. The Asian Strategy is new to Liontrust (launched 2012) but the team have a track record stretching back to 1993.

The managers adopt a multi-cap strategy, although currently they favour small and mid-cap companies. The focus is on the ability for companies to grow and deliver a sustainable dividend. Since launch it has significantly out-performed its benchmark.

Who are the team behind the fund?

The Asian Team was brought into Liontrust in 2011 and the Asia Income Fund was launched in 2012. Mark Williams and Carolyn Chan are the co-managers. Mark has an excellent track record dating to 1998, in 2007 he was awarded first place in the S&P Equity Asia Pacific awards. He subsequently joined Occam which was then purchased by Liontrust. Carolyn has worked in Asian equities since 1993, and prior to joining Liontrust worked for Hampton Investment Management Ltd.

What is the story behind the investment?

The Asian Markets consist of 11 diverse markets which continue to grow their share of global output. In 2000, these markets represented less than 20% of GDP. This is expected to rise to 35% by 2017.

The main trends underpinning these economies are:

- **Increasing consumption:** Greater industrialisation and the emergence of an urban middle class are generating greater wealth, which in turn raises domestic consumption.
- **Strong economic fundamentals:** Many Asian economies entered the global downturn with relatively sound fiscal positions and monetary policies. This has allowed governments in the region to implement interest rate cuts and fiscal stimulus packages, thus maintaining domestic consumption levels.
- **Favourable demographics:** Young, fast-growing populations and a shift from rural areas to cities, combined with increases in national and personal income, are stimulating strong economic growth.
- **Improved corporate governance:** This has given rise to a new generation of world-class companies that are increasingly capable of delivering superior returns.

The recent volatility in the markets has seen investors move away from these economies to 'safer' developed economies. However, the fundamentals behind investing in Asia remain and long-term investors are likely to be rewarded.

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Fund highlights?

Income Funds are perceived as defensive; investors believe this means compromising on potential upside.

Income funds in fact are not a compromise and can outperform pure growth funds. The key to this is to understand the management style.

This update was with Carolyn but we have also met Mark. They are very passionate about what they do and why this is different. They argue that a good sign for a well-managed business is the ability to pay dividends (i.e. shareholder interest is at the heart of the company), and that companies that pay dividends can be growth stocks (so the combination of growth and income significantly outperforms pure growth stocks).

However, they are also conscious of risk to investors. The fund can liquidate 80% of holdings over a three day period. He also has indicated that around £1.5 billion he would look to limit inflows into the fund to protect investor interest. So there is a balance between risk and reward.

Carolyn and Mark are stock pickers however the philosophy centres on the drivers for Asian equities. This means there is no country or sector bias. Currently the fund is weighted towards Hong Kong and China (47%), Australia (14.5%), Thailand (9.9%), Taiwan (8.7%) and Singapore (8.7%), and 58% of the fund is invested in small and mid-cap companies.

An example of drivers for Asian Equities is government policies supporting consumption and higher value manufacturing.

In China, ongoing wage increases mean traffic on the roads is expected to increase by 9 to 10% p.a. as more people can afford to buy cars. Jiangsu Expressway is a toll road, which not only delivers a healthy yield but will also benefit from the increased traffic meaning this is both a growth and income stock.

In Thailand Major Cineplex controls 75% of the cinema industry admission revenue. With the growth in urbanisation they expect to double their screens by 2020. The dividend is currently 6% and again this is a growth stock so the two elements together provide a compelling investment story.

Carolyn and Mark are bullish on China but target what they describe as new China – examples are Casinos, Healthcare and Technology. Companies they like are Giant Interactive (Multi game user app), Rexlot (lottery provider) and Great Wall Motor (largest SUV and pickup manufacturer).

On average Asian economies have low debt to GDP and their brands are becoming more globalised. Well-known brands include Hyundai, LG and Samsung but new brands are becoming more established like Great Wall Motor and Lenovo.

Being able to identify the drivers for Asian equities and companies which will benefit from this makes this fund stand out from the crowd; for this reason we believe this is a fund for investors to consider.

However, investors should be aware this has a short track record, and that if the fund grows to a size over £1.5 billion the managers could look to limit in-flows into the fund.

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Fund performance

The table below shows performance since launch and going into 2014:

	2012 (since 5 March)	2013	2014	Since Launch
Liontrust Asia Income Fund	5.40%	8.47%	-0.99%	13.19%
iShares MSCI AC Far East Ex Japan	0.71%	-1.21%	-4.34%	-4.83%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

Conclusion

We believe this is a well-managed fund with a point of difference. It has been able to deliver strong performance since launch and we would look to add this to our portfolios.

The source of information in this note has been provided by Liontrust and is correct as at March 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.