SHINING A LIGHT ON……
LIONTRUST ASIA INCOME FUND

Update….

We reviewed this fund in 2014; our belief remains that this is a hidden gem within the Asian Sector. It is well managed and has outperformed the sector since its launch in 2012.

Our update with the Co-Manager, Mark Williams, covered the argument for investing in an Asia Income Fund and in particular this fund, and areas where Mark is finding value.

On paper the argument for investing in Asia Income seems obvious. But for many, Asia Income appears to be a new asset class whereas the reality is that it has a strong track record going back many years.

Going back two decades the MSCI AC Asia Pacific Index ex Japan would have generated a dividend return of 74% and a total return of 155% by the end of 2014. From the end of 1997 Asia Pacific equities returned 92% from income alone and 241% total return. In contrast the UK equity market returned 84% of which 65% was income (Source: Liontrust).

Clearly past performance is no guide to the future and investments can fall as rise but this highlights that far from being a new asset class it is one with a strong performance track record.

But like any asset class care needs to be taken. This is where the fund offers a point of difference. Not only does it give investors access to this region but Mark searches out the best economies and countries.

Mark went on to explain using the example of the credit crunch. Just holding the index would not necessarily have delivered the best returns. For example, in 2008 nearly 80% of dividends were cut by more than 5% in Taiwan, however by contrast Thailand, Indonesia and the Philippines all saw healthy increases in their dividend income. His point being that to drive the returns you need to be active and move with the cycle.

Being aware of the cycle is one part of it, it is also about understanding the cultural mind-set of some countries. An example of this is Korea where companies have a poor track record of returning cash to shareholders. Although the government has started to make moves to force companies to re-invest cash, it is clear that Shareholders are not yet likely to be the beneficiaries of this; Hyundai spent its cash not on shareholders' interests or projects of benefit to the business but mainly to avoid paying tax on surplus cash and this is one of the reasons Mark doesn't favour this region.

The fund favours China (nearly 49% of the fund) – Mark's view is that it offers attractive valuations and earnings growth. Although China is like marmite, Mark believes that despite the economy needing to adjust there remains plenty of opportunities to invest. The reforms cover Financial Reforms through to Environment-related policies, and therefore in his view opens up many different types of investment opportunities. Holdings include Jiangsu Expressway which is paying 4.1% divided through to Bank of China paying 4%.

He also likes Thailand, with the Military Coupe providing stability he sees many opportunities opening up including infrastructure. Two holdings which Mark likes are Krung Thai Bank and Intouch. Taiwan is another region offering cheap valuations, and Taiwan Cement is an example of a company he likes.

We are becoming increasingly aware that there are two ways to potentially make money. Firstly by buying the index via a tracker fund or ETF which is cheap, or selecting an active fund manager who aims to outperform the index but will be more expensive.

It is our belief that in both cases both active and passive funds have been able to make money since the credit crunch simply because the prices had to re-rate. However, going forward to make money will be much harder. A good active fund manager should out-perform the index because they are not investing in the index! But it is about understanding what the manager does. In this case we believe Mark can and will outperform the index and he has proved that he can do this. It is also important that the fund remains small which means he has more opportunities than much larger funds.

In summary this continues to be a well-managed fund which invests in a region which offers good return potential.

Fund performance

Performance vs iShares MSCI AC Far East ex Japan 2012 to 31 March 2015 is shown below:

	2012 (launch 5/3/12)	**2013**	**2014**	**2015**	**Since Launch**
Liontrust Asia Income Fund	6.04%	9.31%	7.88%	9.73%	37.21%
iShares MSCI AC Far East ex-Japan	0.71%	-1.21%	6.63%	9.45%	16.11%

	1 Year	**3 Years**
Liontrust Asia Income Fund	19.82%	38.91%
iShares MSCI AC Far East ex-Japan	19.84%	21.36%

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.

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