LIONTRUST

LIONTRUST ASIA INCOME FUND

MANAGER'S SHORT FINAL REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2013

Managed by Mark Williams & Carolyn Chan

The Liontrust Asia Income Fund

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This unit trust aims to provide investors with exposure to Asia Pacific (ex-Japan), a region with both attractive dividend yields and strong growth prospects. The Fund will invest in companies that tend to have a higher than average prospective yield backed by strong cashflows. The fund aims to return more than 1.1x the yield of the market.

MANAGER'S INVESTMENT REPORT

Market Commentary

In aggregate Asian markets registered a small gain in 2013 in sterling terms – the MSCI Asia Pacific ex-Japan index and MSCI Asia ex-Japan indices returned 1.5% and 1.2% respectively – but this appreciation was punctuated by a sharp sell-off in May and June.

Progress in dealing with the US 'fiscal cliff' helped boost global markets at the start of the year and the momentum was initially maintained, despite weaker-than-expected Chinese Q1 economic data, as the Bank of Japan announced aggressive quantitative easing measures in April. These included an acceleration in the pace of its government bond purchases from under ¥4trn each month to ¥7trn, representing a comprehensive change in its monetary policy framework to an attempt to achieve a 2% inflation target within two years.

The sell-off in Asian equities in May occurred as there was a confluence of negative events globally: a HSBC Flash manufacturing purchasing managers' index (PMI) figure for China which indicated a slowdown in manufacturing growth at 49.6, a spike in Chinese interbank rates, US Federal Reserve Chairmen Ben Bernanke's suggestion that a reduction in its quantitative easing (QE) programme was being considered, and increasing concerns about the stability of Europe's financial system. US newsflow subsequently took on a significant role in determining sentiment towards global equity markets, with, at times, greater focus on the Fed's potential reduction in its US$85bn monthly asset purchases than there was on Asian economic and corporate fundamentals. US events centred on a surprise Federal Reserve decision not to reduce quantitative easing in September, as well as the initial failure of Congress to reach agreements averting a government shutdown or extending the debt ceiling. The Fed eventually announced in December that it would reduce the monthly bond purchases that it makes to US$75bn per month from January 2014.

Developments in Asia were largely positive in the second half of 2013 and markets, which were buoyed by the surprise extension in QE, recovered from the summer sell-off. There were significant differences in economic events between the various countries in the region, but investor attention is inevitably dominated by China. The Chinese economy showed some tentative signs of acceleration as the year progressed, and the Government's third plenum report in November gave markets greater faith that necessary reforms are likely to be at least attempted. Chinese interbank borrowing rates spiked before Christmas. Although this was a predictable seasonal phenomenon, the level and speed of the rise was greater than expected. In contrast to a similar situation which had developed during the summer, the government reacted quickly, both making public announcements of their intentions to lower rates and injecting money into the economy, and rates did revert to more normalised levels relatively fast.

Throughout the year Asian currencies showed significant volatility, a trend which increased as foreign investors cut holdings of government bonds as expectations grew that the Fed would be reining in its monetary stimulus.

Fund Performance

In the twelve months to 31 December 2013 the Liontrust Asia Income Fund retail class shares returned 7.9% and the institutional class returned 8.7% in sterling terms.

The strong Fund performance relative to the regional indices was aided by its significant exposure to consumer discretionary stocks (25% at year-end), with relatively few holdings in more defensive sectors such as consumer staples. Eight of the top ten contributors to the Fund's gain were Hong Kong-listed companies. The biggest positive contributors to Fund performance over the 12 months included: Minth (+82.1%), a manufacturer of exterior auto-parts for passenger vehicles in China; Pacific Textiles (+80.1%) which manufactures customised knitted fabrics and has benefited from high exposure (about 50% of sales) to a recovering US economy and an improving capacity utilisation rate; Nagacorp (+79.0%), Cambodia's largest casino operator by revenue that has a 'monopoly' status until 2035 within a 200km radius of its Phnom Penh complex; Rexlot Holdings (+41.7%), one of the leading lottery companies in China, selling tickets in its licensed provinces as well as systems and equipment nationwide, the company should benefit from the country's structural growth in disposable income; and Hexaware (+38.0%) a mid-cap Indian IT services company with 65% of sales derived in the US, which we bought during 2013 and subsequently sold after it received a takeover offer.

Thailand was the worst performing regional allocation and accounted for the Fund's largest detractor. Over 11% of the Fund was invested in Thailand at the start of the year but this exposure underperformed as the political environment deteriorated beyond our expectations, causing a significant sell-off in the Thai equity market. The opposition's desire to remove the current Prime Minister, Yingluck Shinawatra, from power has resulted in civil unrest.

Outlook and Fund Positioning

The Liontrust Asia Income Fund remains positioned to benefit from Asia's growth, with a portfolio comprised of stocks with strong earnings growth which also provide a good dividend yield that is underpinned by free cash flow and, in our view, attractive valuations. We continue to believe in the structural growth of domestic consumption, as well as the increasing purchasing power of the ASEAN economies in particular. Asian markets currently trade at around 11.5x forward earnings, below their historic average of 13.3x. The Fund's companies have an average PE of 10.9x, a net prospective dividend yield of 4.5% and conservative earnings growth expectations of over 10% per annum.

The Fund is overweight Hong Kong and China, Thailand and Singapore.

As the world's second-largest economy, China will impact the majority of the decisions that we make in our investments. While we remain positive on Chinese equities (around 45% of the portfolio is invested in Hong Kong and China) our view is not predicated on an ongoing acceleration of economic growth. We expect the economy to decelerate again over the medium term towards growth levels of 6.5%. We see the slowdown in the Chinese economy as a long term necessity for the country's development, which is already reflected in valuations. While the Chinese transition to slower growth will provide some significant negatives, it will also throw up some positive structural shifts for companies, largely through growth in consumption-driven revenues. Reform will be a slow and difficult process but we believe the country has the financial resources and, increasingly, the political will to initiate such a switch. In this respect, the outcome of the third plenum was encouraging with, among other measures, Chinese policy makers indicating a willingness to allow the market to play a more decisive role in resource allocation.

The disruption in Thailand has had a real economic impact – particularly through the delay to potential disbursement of government infrastructure funding and a negative impact on tourism (which indirectly contributes as much as 15% to GDP) – but the equity sell off has been savage enough that we now believe valuations to be fundamentally attractive. The market is trading on 11x 2014 expected earnings and is backed by low teens growth.

The Fund is underweight Australia and India. We believe the Australian market looks overvalued given the domestic debt-led headwinds the economy faces. Interest rate cuts may stimulate consumption but the forecast decrease in mining companies' capital expenditure seems likely to have a significant impact on the economy. In addition, tapering of QE implies that cheap US financing will be harder to come by and the popular carry trade into higher yielding alternatives, such as Australian assets, will become less attractive. The end of an open-ended guarantee of cheap US dollar borrowing could have a significant impact on a number of equities and this was the motivation behind some of the portfolio changes outlined in the following section. We are particularly cautious about countries with current account deficits due to their ongoing need for international financing.

Inflation remains an issue in India. Wholesale price index annual inflation continued at a rate as high as 7.5% (in November) which led to further rate rises, taking the Reserve Bank of India's benchmark rate to 7.75% at year end, and the country has a current account deficit which – as previously explained – we view as a negative for equities. We believe that valuations are not attractive at 14.2x forward earnings given continuing weak growth and potential for further rate rises.

Events outside the region will continue to have an impact on Asian equities. We view the reduction in the Fed's QE programme as a sign that US growth is sufficient and broad enough to withstand such measures. We therefore see the taper which was announced in December as the start of a return towards more normalised economic and monetary policies. The eurozone remains a concern; as we stated in the interim report, incredibly difficult structural changes need to take place but the ECB should have enough tools at its disposal to avoid a market-driven dissolution of the currency block.

Portfolio Activity

10 holdings were sold from the Fund in 2013. The proceeds from these sales and fund inflows allowed us to initiate 17 new positions.

We switched from Guangdong Investment – whose shares had performed well – into another Chinese company, China Machinery Engineering, an international engineering company which is gaining significant contracts in the developing world for power plants and communications. We sold Frasers Commercial Trust, whose valuation is vulnerable to the potential rise in interest rate expectations over the next year, and invested in Ticon Industrial Connection. The latter develops and leases industrial estates in Thailand and should be a bigger beneficiary of ongoing global growth while also providing a relatively stable cash flow, which supports a 5% dividend yield. In another switch, we sold the holding in Supalai and invested in Sansiri – both property developers based in Thailand – on the grounds of valuation and yield differentials.

We initiated a position in an Indian IT service provider Hexaware Technologies, partly to gain exposure to the US recovery via the 65% of its revenues which it derived from mid-sized clients based in the country. A subsequent buy-out bid by Barings Private equity led us to take profits and sell our position.

The remaining new positions initiated in the 12 months were: ANZ Banking (one of the largest banks in Australasia, whose shares yield over 5%); Aurora (a Taiwanese office equipment distribution company which is expanding its network in China); Bonjour Holdings (a Hong Kong-listed cosmetics retailer benefiting from rising sales to tourists from mainland China); China Bluechemical (a producer of mineral fertilisers that is well placed to benefit from the requirement to increase efficiency of crop production to meet the needs of rising populations); First Pacific (a Hong Kong-listed company with a range of assets, predominantly in the Philippines, including telecoms, infrastructure and mining); Harvey Norman (an Australian retailer of home goods which should benefit from any rise in house-building activity); Hutchison Whampoa (the Hong Kong conglomerate with interests including ports, infrastructure and telecoms, which we expect to benefit from a recovery in global growth); King Yuan Electronics (a Taiwanese testing company, targeting low end electronics applications such as cheap smartphones); Langham Hospitality (which gives pure exposure to the Hong Kong hotel sector); Oil India (the second largest state-owned oil exploration company in India, which is benefiting from the government's recent fuel reform measures of raising diesel prices to reduce the subsidy burden); Overseas Union Enterprises (a Singapore property group specialising in hospitality assets which trades at a substantial discount to NAV), Rexlot Holdings (a HK-listed lottery operator in China) and Silverlake Axis (a provider of integrated banking solutions to major financial institutions which we believe will benefit from ongoing consolidation of ASEAN banks).

The remaining sales were: Asustek (impacted by poor PC demand); Astra International and Ciputra Development (even though we believe in Indonesia's longer term structural growth, it is one of the more vulnerable economies to QE tapering due to significant international investment in its bond market and we sold out of both companies on this rationale); Cambridge Industrial REIT (the Singapore-listed REIT's valuation looked excessive at a premium to NAV of over 20% and a dividend yield that had compressed to 5.6% from over 8.5%); Sonic Healthcare (we believe that international pricing pressures may inhibit the Australian company's growth in the next couple of years); and Zijin Mining (we no longer saw gold exposure in the same positive light).

Mark Williams & Carolyn Chan
Fund Managers
February 2014

Past performance is not a guide to future performance. The value of investments and the income from them can fall as well as rise.

FUND PROFILE

Investment Objective and Policy

The investment objective of Liontrust Asia Income Fund is to provide a high level of income with long term capital appreciation.

Although the Fund may invest in all economic sectors in all parts of the world, it is intended that it will currently invest primarily in equities and equity-related derivatives (such as total return swaps of equities, futures and options) in companies deriving the majority of their revenues in Asia Pacific excluding Japan which are listed on a recognised stock exchange worldwide. The Fund may also invest in other transferable securities, money market instruments, warrants, cash and near cash and deposits. The Fund may also invest up to 10% of its property in units or shares in collective investment schemes. The Fund is permitted to use derivatives for the purposes of efficient portfolio management and for investment purposes.

Investment Approach

This unit trust aims to provide investors with exposure to Asia Pacific (ex-Japan), a region with both attractive dividend yields and strong growth prospects. The Fund will invest in companies that tend to have a higher than average prospective yield backed by strong cashflows. The fund aims to return more than 1.1x the yield of the market.

Risk Profile

Although the Fund may invest in all economic sectors in all parts of the world, it is intended that it will currently invest primarily in equities and equity-related derivatives in companies deriving the majority of their revenues in Asia Pacific excluding Japan which are listed on a recognised stock exchange worldwide. The principal risks are those associated with stock market investments. The Fund will invest primarily in Asian companies which may be less liquid than companies in more developed markets.

Risk and Reward Profile

The Risk disclosures are in accordance with CESR guidelines and are consistent with rating disclosed in the KIID.

Lower Risk Typically lower rewards						**Higher Risk** Typically higher rewards
1	2	3	4	5	6	7

- The indicator is based upon historical data and may not be relied upon to gauge the future risk profile of the Fund.
- The risk and reward indicator shown is not guaranteed and may shift over time.
- The lowest category (1) does not mean 'risk free'.
- The Fund's risk and reward category has been calculated using the methodology set by the European Commission. It is based upon the rate by which the Fund's value has moved up and down in the past.
- The Fund is categorised 7 primarily for its exposure to securities (equity) of high yielding companies.
  - Their value and income paid may rise and fall over time because of stock market and currency movements.
  - Currencies, stock market prices and interest rates can move irrationally and unpredictably driven by factors which include political and economic events both in the UK and globally.
- The Fund invests in assets which are in currencies other than the Fund's accounting currency (sterling). The exchange rate between the value of those assets – both capital and any income received will fluctuate. This will benefit or adversely affect the Fund's price depending upon those currency exchange rates.

The risk and reward indicator does not take into account the following Fund risks:

- That a company may fail thus reducing its value within the Fund.
- Any overseas investments carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of the Fund.
- A currency risk arises for any overseas holdings denominated in a local currency as it will require conversion to the currency of the Fund, which is pounds sterling.
- The Fund will comprise both growth and value companies as appropriate.
- The Fund may, under certain circumstances, make use of derivative instruments but it is not intended that their use will materially affect the Risk and Rewards Profile indicator.

FUND PROFILE CONTINUED

Ongoing Charges Figure*		
	31st December 2013	**31st December 2012**
Class A income units**	1.48%	1.58%
Class I income units	1.28%	1.55%
Class R income units	2.03%	2.42%

Fund Calendar		
Ex-dividend date	1st January, 1st April, 1st July and 1st October	
Income payment date	End of February, 31st May, 31st August and 30th November	
Accounting period ends	Interim: 30th June	Final: 31st December

* The Ongoing Charges Figure is capped at 0.50% above the AMC.

** A class income units launched 17th December 2012.

PERFORMANCE

Net Asset Values *pence per unit*		
	31st December 2013	31st December 2012
Class A income units*	101.49	97.70
Class I income units	106.19	101.84
Class R income units	99.91	96.59

Distributions *pence per unit*		
	31st December 2013	31st December 2012
Class A income units*	1.21	0.12
Class I income units	1.14	1.56
Class R income units	1.09	1.27

The Fund distributes income four times per annum, End of February, 31st May, 31st August and 30th November. The ex-dividend dates are 1st January, 1st April, 1st July and 1st October each year. Income can be reinvested to purchase units at no initial charge.

* A class income units launched 17th December 2012.

Total Return % (capital and income)			
	6 months	1 year	Since launch†
Liontrust Asia Income Fund (R) class	0.4	7.9	13.4
Liontrust Asia Income Fund (I) class	0.7	8.7	15.0
IMA Asia Pacific ex-Japan sector average	-0.1	1.8	6.0

Discrete Years' Performance %					
To previous quarter, 12 months ending:	Dec 09	Dec 10	Dec 11	Dec 12	Dec 13
Liontrust Asia Income Fund (R) class	n/a	n/a	n/a	n/a	7.9
Liontrust Asia Income Fund (I) class	n/a	n/a	n/a	n/a	8.7
IMA Asia Pacific ex-Japan sector average	52.5	23.1	-16.8	15.9	1.8

† The Liontrust Asia Income Fund was launched on the 5th March 2012.

Up-to-date past performance information may be obtained from the Fund's most recent factsheet, available on our website (www.liontrust.co.uk) or by calling our Administration and Dealing team on 0844 892 1007.

Past performance is not a guide to future performance. The Fund launched on 05.03.2012 and therefore discrete data is not available for more than one 12 month period. Investment in the Fund carries the risk of potential total loss of capital. Investment in the Fund involves a foreign currency and may be subject to fluctuations in value due to movements in exchange rates. The Fund's expenses are charged to capital. This has the effect of increasing the distribution and constraining the Fund's capital performance. Equity investment should always be considered as long term.

Performance data source: Financial Express, bid-to-bid basis, total return as at 31.12.2013.

PORTFOLIO

Top Ten Holdings

As at 31st December 2013	%	As at 31st December 2012	%
REXLot	4.28	Sunlight	3.25
NagaCorp	3.04	Bank of China	3.06
Pacific Textiles	2.81	Suntec	3.01
Minth	2.72	Krung Thai Bank	2.93
Alliance Global	2.66	Thai Tap Water Supply	2.92
Harvey Norman	2.49	Cambridge Industrial Trust	2.90
Guangzhou R&F Properties	2.48	Samsung Electronics (Participating Warrants 14/03/2017)	2.75
Giant Interactive ADR	2.29	Guangzhou R&F Properties	2.68
Wynn Macau	2.15	Pacific Textiles	2.58
Radiant Opto-Electronics	2.13	Transurban	2.57
Total	**27.05**	**Total**	**28.65**

Geographical Breakdown

As at 31st December 2013	%	As at 31st December 2012	%
Australia	12.61	Australia	13.97
Cambodia	3.04	Cambodia	2.45
China	21.36	China	20.25
Hong Kong	19.86	Hong Kong	15.53
Indonesia	1.63	Indonesia	6.36
Korea	1.61	Korea	2.75
Macao	2.15	Macao	1.99
Malaysia	2.11	Malaysia	1.16
New Zealand	1.18	New Zealand	1.80
Philippines	2.66	Philippines	2.30
Singapore	6.64	Singapore	13.21
Taiwan	7.97	Taiwan	6.06
Thailand	9.54	Thailand	11.54
Derivatives	0.03	Derivatives	0.00
Portfolio of investments	**92.39**	**Portfolio of investments**	**99.37**
Cash (including SSgA* cash deposits)	**7.61**	**Cash (including SSgA* cash deposits)**	**0.63**
Net assets	**100.00**	**Net assets**	**100.00**

*State Street Global Advisors

FURTHER INFORMATION

Unitholder Notice

Effective 3 July 2013, the Liontrust Asia Income Fund's investment objective and policy changed from investing in companies deriving the majority of their revenues in "Asia excluding Japan" to "Asia Pacific excluding Japan".

Liontrust Asset Management PLC

Liontrust, which was founded in 1994, is an independent fund management group whose shares are quoted on the London Stock Exchange. Liontrust manages £3.6 billion (as of 31 December 2013) in UK, European and Asian equities and Global Credit. We take pride in having a distinct culture and approach to asset management. This comes through the following factors:

- Liontrust is an independent business with no corporate parent.
- Liontrust specialises in those asset classes where it believes it has particular expertise and fund managers have strong long-term track records rather than try to be all things to all people.
- Liontrust uses rigorous investment processes that are robust and scaleable to ensure they are capable of delivering superior long-term performance. Using these investment processes ensures the way we manage money is predictable and repeatable.
- We aim to provide a culture that gives all fund managers the freedom to manage their portfolios according to their own investment processes and market views.
- We have created an environment in which fund managers can focus on running money and not get distracted by other day-to-day aspects of running a fund management business, particularly administration.
- We aim to treat clients, investors, members, employees and suppliers fairly and with respect. Therefore, we are committed to the principles of Treating Customers Fairly (TCF) and they are central to how we conduct business across all our functions.

Further Information, Report & Financial Statements

Further information on the Fund and its portfolio, the Manager's Long Final and Interim Reports & Financial Statements and the Prospectus and Key Investor Information Document (KIID) are available free of charge from the Manager upon request, and from www.liontrust.co.uk.

FURTHER INFORMATION CONTINUED

The Manager

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Authorised and regulated by the Financial Conduct Authority.

NOTES

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