



# LIONTRUST ASIA INCOME FUND

**MANAGER'S SHORT INTERIM REPORT**  
FOR THE PERIOD ENDED 30<sup>TH</sup> JUNE 2013



Managed by Mark Williams &  
Carolyn Chan

**The Liontrust Asia Income Fund**

# THE LIONTRUST ASIA INCOME FUND

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IS MANAGED BY **MARK WILLIAMS**  
AND **CAROLYN CHAN**



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

## The Market

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In the first quarter of 2013, equities in the Asia Pacific ex-Japan region held on the gains made following the strong rally in the second half of 2012 as progress in dealing with the US 'fiscal cliff' helped boost global markets at the start of the year. Asian markets then pulled back in March, regained the lost ground in April, only to then fall by over 10% in US dollar terms at the end of the period (from the 2013 high on 9 May). These equity market movements were exacerbated by significant currency swings, with all Asian currencies bar the Chinese renminbi losing ground against the US dollar.

The Bank of Japan announced aggressive quantitative easing measures in April, which included an acceleration in the pace of its government bond purchases from under ¥4trn/month to ¥7trn/month, representing a comprehensive change in its monetary policy framework in an attempt to achieve a 2% inflation target within two years. The move initially supported regional equity markets in the face of macroeconomic data from China which showed signs of a slowdown: first quarter Chinese GDP growth of 7.7% year-on-year was below economist expectations for 8.0% and the 7.9% recorded in the previous quarter and Chinese manufacturing PMI data of 50.9 for March was below the consensus expectation of 51.2, the fifth consecutive month that it had undershot expectations. The sell-off in Asian equities in May was sparked by a HSBC Flash manufacturing purchasing managers' index (PMI) figure for China which, at 49.6, indicated a slowdown in manufacturing growth, combined with Ben Bernanke's suggestion towards the

end of the month that the Federal Reserve might consider reducing its asset purchases associated with quantitative easing (QE). The sell-off was exacerbated by a spike in Chinese interbank rates in June. Asian currencies declined as foreign investors cut holdings of government bonds to reflect the expectations of the Fed reining in its monetary stimulus.

## Fund performance

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In the six months to 30 June 2013, the Liontrust Asia Income Fund retail class shares returned 7.5% (and the institutional class returned 7.9%) compared to the 1.0% return from both the MSCI Asia Pacific ex-Japan and MSCI Asia ex-Japan indices.

The biggest positive contributors to Fund performance over the six months include: Great Wall Motor (+49.2% in sterling terms), an automobile manufacturer specialising in SUVs which offers exposure to domestic consumption growth; Nagacorp (+41.4%), Cambodia's largest casino operator by revenue that has a 'monopoly' status until 2035 within a 200km radius of its Phnom Penh complex; Alliance Global (+41.2%), one of the largest conglomerates in the Philippines, with interests in food and beverage, real estate development, and gaming which gives good exposure to the structural increase in discretionary spending in the country; SHIN Corp (+35.1%), a holding company which trades at a 20% discount its listed interests in mobile and fixed-line telecoms and satellite businesses; and Pacific Textiles (+33.6%) which manufactures customised knitted fabrics with a focus on complex, value - added fabrics and has benefited

# MANAGER'S INVESTMENT REPORT CONTINUED

from high exposure (about 50% of sales) to a recovering US economy and an improving capacity utilisation rate.

## Fund positioning and outlook

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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. We believe that Asia remains a high growth region, with GDP growth set to exceed 6% for 2013. Inflationary pressures are contained and we expect low double-digit earnings growth which should continue to be supportive of equity market returns. At the time of writing Asian markets trade at 10.7x forward earnings, almost one standard deviation below their historic average. The dividend culture in the region is growing and current valuations are attractive in our view. We continue to believe in the structural growth of domestic consumption, as well as the increasing purchasing power of the ASEAN economies in particular.

As the world's second-largest economy, China will impact the majority of the decisions that we make in our investments. 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. We see the slowing in the Chinese economy as a necessary and desired element of a transition away from the levels and type of growth utilised over the past decades in China. As the country tries to remove its reliance on investment-led growth, resulting in increasingly inefficient capacity, there should be a slowdown.

Luckily, we believe the country has the financial resources and, potentially, the political will to initiate such a switch, although we recognise that this will be a slow and difficult process. Events outside the region will also have an impact as Asian equities remain highly correlated to global events and more volatile than other regions. For the US, we see the end to QE - should it happen - to be a positive development as it would only be orchestrated with the backdrop of stronger American growth. It is the eurozone that remains our biggest external concern, but even here we believe the ECB has enough tools at its disposal to avoid a market-driven dissolution of the currency block. While all this does is allow politicians time to attempt some incredibly difficult structural changes, it means that volatility is less likely to hit the peaks experienced in recent years.

The Fund is overweight Hong Kong and China, Thailand and Singapore, while cautious with respect to the Australian market, which we believe remains overpriced and vulnerable to a weakening domestic environment. The second quarter of 2013 saw a slew of profit warnings in the Australian market which were concentrated in the domestic cyclicals and mining service sectors, as domestic economic data continued to weaken (particularly building approvals and consumer confidence). The Reserve Bank of Australia cut rates by 25bps during the quarter taking the cash rate down to a record low of 2.75%, and the Australian dollar fell to a 20 month low.

We retain the Fund's low exposure to India, and here too data during the review period supported our negative bias. Real GDP growth for the first

quarter of 2013 was 4.8% year-on-year after 4.7% in the previous quarter, which was the first instance since 2003 of two consecutive quarters of sub-5% GDP growth, illustrating the extent of the slowdown. It is caused in part by sharp cuts in government spending in the second half of the fiscal year ending March 2013. We believe that further meaningful economic reforms will only be undertaken after the next general election which is due before May 2014 and expect growth to recover only slightly over the next few quarters.

## Portfolio changes

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We sold four holdings from the portfolio in the first six months of 2013 and used the proceeds, together with Fund inflows, to initiate ten new positions.

We sold out of the Singapore-listed Cambridge Industrial REIT as we thought its valuation was excessive at a premium to NAV of over 20% and a dividend yield that had compressed to 5.6% from over 8.5%. We also sold the holding in Sonic Healthcare in Australia, as we believe that international pricing pressures may inhibit growth in the next couple of years. Chinese company Zijin Mining also exited the portfolio. We switched the Fund's holding in Supalai to Sansiri – both property developers based in Thailand – on the grounds of valuation and yield differentials.

The other new holdings are: ANZ Banking (one of the largest banks in Australasia, with high exposure to ASEAN economies and 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), Hexaware Technologies (an Indian IT service provider which generates 65% of its revenues from mid-sized clients based in the US), 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).

## Mark Williams & Carolyn Chan

Partners, Liontrust Investment Partners LLP  
August 2013

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

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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 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

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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.

## Risk Profile

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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 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 ESMA guidelines and are consistent with rating disclosed in the KIID.

### Lower Risk

Typically lower rewards

### Higher Risk

Typically higher rewards



- 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

	30 <sup>th</sup> June 2013	31 <sup>st</sup> December 2012
Class A income units	1.60%	1.58%*
Class I income units	1.37%	1.55%
Class R income units	2.11%	2.42%

### Fund Calendar

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

\* Class A income units launched 17<sup>th</sup> December 2012.



# PERFORMANCE

<b>Net Asset Values pence per unit</b>		
	<b>30<sup>th</sup> June 2013</b>	<b>31<sup>st</sup> December 2012</b>
Class A income units	103.75	97.70*
Class I income units	107.96	101.84
Class R income units	101.91	96.59

<b>Distributions pence per unit</b>		
	<b>6 months to 30<sup>th</sup> June 2013</b>	<b>since launch to 31<sup>st</sup> December 2012</b>
Class A income units	1.94	0.12*
Class I income units	2.12	3.89
Class R income units	2.02	3.54

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

\* A class income units launched 17<sup>th</sup> December 2012.

<b>Total Return % (capital and income)</b>			
	<b>6 months</b>	<b>1 year</b>	<b>Since launch*</b>
Liontrust Asia Income Fund (R) class	7.5	19.0	13.0
Liontrust Asia Income Fund (I) class	7.9	19.9	14.2
IMA Asia Pacific ex-Japan sector average	1.9	13.5	6.1

<b>Discrete Years' Performance %</b>					
<b>To previous quarter, 12 months ending:</b>	<b>Jun 09</b>	<b>Jun 10</b>	<b>Jun 11</b>	<b>Jun 12</b>	<b>Jun 13</b>
Liontrust Asia Income Fund (R) class	n/a	n/a	n/a	n/a	19.0
Liontrust Asia Income Fund (I) class	n/a	n/a	n/a	n/a	19.9
IMA Asia Pacific ex-Japan sector average	n/a	n/a	n/a	n/a	13.5

\* The Liontrust Asia Income Fund launched 5<sup>th</sup> March 2012.

Up-to-date past performance information may be obtained from the Fund's most recent fact sheet, available on our website ([www.liontrust.co.uk](http://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. 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. A portion of 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 30.06.2013.

# PORTFOLIO

## Top Ten Holdings

As at 30 <sup>th</sup> June 2013	%	As at 31 <sup>st</sup> December 2012	%
Thai Tap Water Supply	2.90	Sunlight	3.25
Sunlight	2.69	Bank of China	3.06
Pacific Textiles	2.67	Suntec	3.01
Shin	2.65	Krung Thai Bank	2.93
Minth	2.64	Thai Tap Water Supply	2.92
NagaCorp	2.61	Cambridge Industrial Trust	2.90
Alliance Global	2.54	Samsung Electronics (Participating Warrants 14/03/2017)	2.75
Krung Thai Bank	2.49	Guangzhou R&F Properties	2.68
Suntec	2.35	Transurban	2.57
Bank of China	2.31	Pacific Textiles	2.58
<b>Total</b>	<b>25.85</b>	<b>Total</b>	<b>28.65</b>

## Classification of Investments

As at 30 <sup>th</sup> June 2013	%	As at 31 <sup>st</sup> December 2012	%
Australia	12.65	Australia	13.97
Cambodia	2.61	Cambodia	2.45
China	19.07	China	20.25
Hong Kong	17.17	Hong Kong	15.53
Indonesia	5.25	Indonesia	6.36
Korea	1.87	Korea	2.75
Macao	1.66	Macao	1.99
Malaysia	2.54	Malaysia	1.16
New Zealand	1.41	New Zealand	1.80
Philippines	2.54	Philippines	2.30
Singapore	10.42	Singapore	13.21
Taiwan	6.03	Taiwan	6.06
Thailand	11.68	Thailand	11.54
Derivatives	(0.11)	Derivatives	0.00
<b>Portfolio of investments</b>	<b>94.79</b>	<b>Portfolio of investments</b>	<b>99.37</b>
<b>Cash (including SSgA* cash deposits)</b>	<b>5.21</b>	<b>Cash (including SSgA* cash deposits)</b>	<b>0.63</b>
<b>Net assets</b>	<b>100.00</b>	<b>Net assets</b>	<b>100.00</b>

\*State Street Global Advisors

# FURTHER INFORMATION

## Unitholder Notice

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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

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Liontrust, which was founded in 1994, is an independent fund management group whose shares are quoted on the London Stock Exchange. Liontrust manages £3.3 billion (as of 30 June 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

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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](http://www.liontrust.co.uk).

## FURTHER INFORMATION CONTINUED

### The Manager

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Liontrust Fund Partners LLP, 2 Savoy Court, London WC2R 0EZ.

Administration & Dealing enquiries **0844 892 1007**

Facsimile **0844 892 0560**

Email **[admin@liontrust.co.uk](mailto:admin@liontrust.co.uk)**

Website **[www.liontrust.co.uk](http://www.liontrust.co.uk)**

Authorised and regulated by the Financial Conduct Authority.

## NOTES

## NOTES





**LIONTRUST FUND PARTNERS LLP**

2 Savoy Court, London WC2R 0EZ

Liontrust and Fund Enquiries **+44 (0)20 7412 1700**

Email **[info@liontrust.co.uk](mailto:info@liontrust.co.uk)**

Administration & Dealing Enquiries **0844 892 1007**

Administration & Dealing Facsimile **0844 892 0560**

Administration & Dealing Email **[admin@liontrust.co.uk](mailto:admin@liontrust.co.uk)**

**[www.liontrust.co.uk](http://www.liontrust.co.uk)**

Authorised and regulated by the Financial Conduct Authority