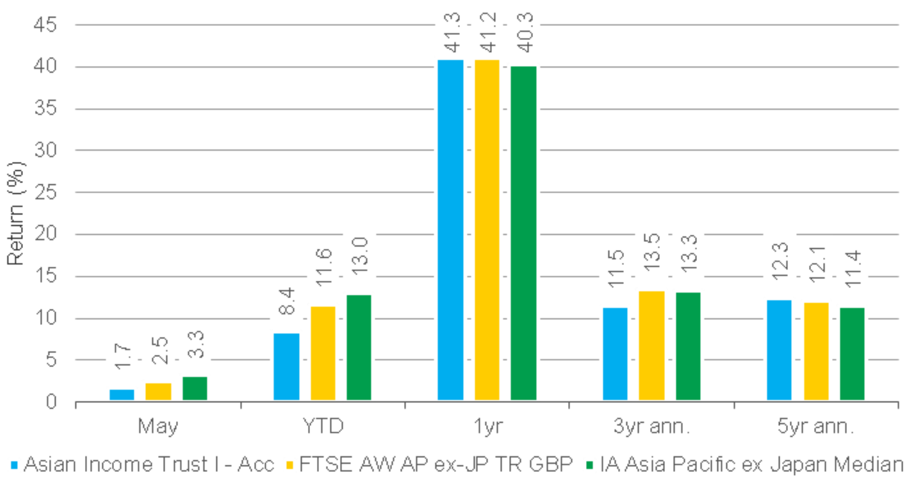
Legal & General Asian Income

Fund Update – May 2017

Performance



Source: Morningstar to 31/05/2017. Past performance is not a guide to future performance.

FUND COMMENTARY

Asia underperformed global equities on a sterling basis in May, yielding a total return of 2.5%, though the majority of Asian markets ended the month higher.

Korea outperformed, driven by buoyant corporate results and receding political concerns. Chinese equities also enjoyed strong performance. Official PMI readings for May came in better than expected and the People's Bank of China signalled it aims to provide a suitable backdrop for supply-side reform. New Zealand enjoyed a better month and Singapore also outperformed.

Australia was the performance laggard, delivering a return of -3%. This was driven by weaker performance of the banks sector, concerns facing a tougher consumer outlook and fears for the domestic housing backdrop.

From a sector perspective, energy, financials and healthcare underperformed in May, while technology and consumer goods enjoyed strong performance. During the period, the market appeared to favour momentum over quality, and in terms of style it was a growth not value orientated period with stocks like Tencent leading the charge.

The fund generated an absolute return of 1.74% on the period, underperforming the benchmark by 74bps. At a regional level, our underweight exposure to Korea, which performed well, was a drag on relative returns. Stock selection was particularly strong in Australia, but the area lagged relatively. Our exposure to China and Hong Kong also underperformed.

ATTRIBUTION DRIVERS

At a stock level, Qantas made the largest positive contribution, following strong third quarter results. The drivers of outperformance for the airline were the strong trends in domestic focused Qantas and Jetstar operations. A strengthening earnings profile is supported by strong free cashflow generation and high return on invested capital (ROIC).

Hyundai Motor performed well. Market expectations about a potential change in the ownership structure helped drive the stock higher. The hope is that this would improve corporate transparency and unlock hidden asset value

Downer Group shares rallied after a strong investor day. The group's transport, rail and utility services divisions continue to perform well, while the group remains well exposed to benefit from Australia's huge infrastructure budget. Not owning Commonwealth Bank of Australia was beneficial to performance.

Conversely, not owning Tencent Holdings was the biggest detriment to performance, after the company reported a very strong first quarter results. The revenue beat was mainly driven by mobile gaming and ad on WeChat Moments.

Department store Myer Holdings continues to drag on performance, with the market fixated on a deteriorating consumer spend environment. Fletcher Building also detracted from performance.

Source: LGIM. 31/05/2017. All attribution is based on gross performance.

KEY FUND CHARACTERISTICS

Investment objective
We aim to provide income, with some potential for growth. The fund will typically invest between 90% and 100% in company shares. In respect of portfolio construction, we will invest in a broad spread of company shares from all economic sectors. The company shares the fund invests in will be from Asia (excluding Japan), the rest of the Pacific region and Australasia

Fund size
£367m

Benchmark
FTSE AW Asia Pacific ex-Japan

Target
Generate a yield above the benchmark, with a total return mind-set

IA sector
Asia Pacific ex-Japan

Legal structure
UK Unit Trust, UCITS compliant

Ongoing charges
0.93% (I class)

Dealing cut-off time
12.00 (noon) GMT

ISIN
GB00B409KQ03 (I class – Acc)

Launched
10 November 2008

Active share
81.5%

Dividend yield
3.9%

Top 10 holdings
27.3%

Number of stocks
74

Source: LGIM. 31/05/2017.

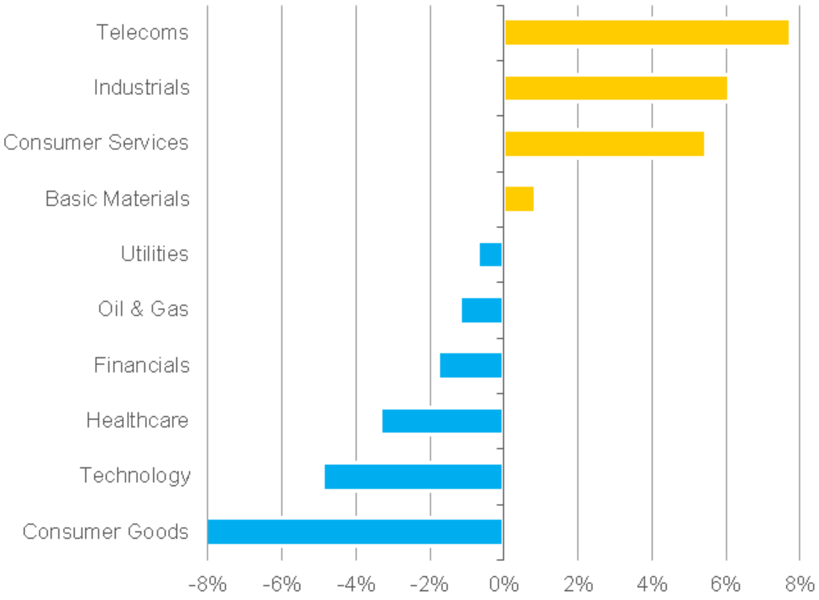
Legal & General INVESTMENT MANAGEMENT

FUND COMPOSITION

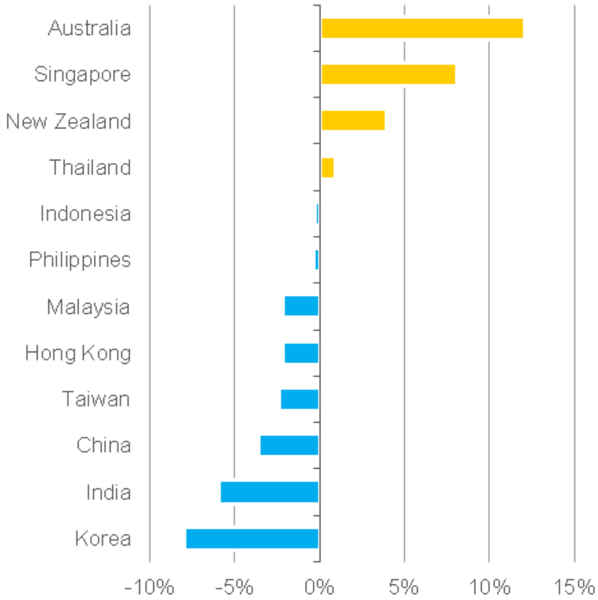
Top 10 Holdings		
Transurban Group	Industrials	3.7%
China Construction Bank	Financials	3.6%
Taiwan Semiconductor	Technology	3.4%
China Mobile	Telecoms	2.9%
Qantas Airways	Consumer Services	2.8%
DBS Group	Financials	2.4%
National Australia Bank	Financials	2.2%
United Overseas Bank	Financials	2.1%
Orica	Basic Materials	2.1%
SJM Holdings	Consumer Services	2.1%
	Total	27.3%

Top Active Weights	
Transurban Group	+3.3%
Qantas Airways	+2.7%
SJM Holdings	+2.0%
Meridian Energy	+2.0%
Orica	+2.0%
BHP Billiton	-1.2%
AIA Group	-1.7%
Commonwealth Bank of Aus	-2.0%
Tencent Holdings	-3.8%
Samsung Electronics	-4.1%

Sector Positioning – Relative to benchmark index



Relative Country Positioning



TRADING ACTIVITY

During the period, there were no significant changes to the portfolio.

MACRO

The growth outlook for Asia has improved since the beginning of the year, helped by stable domestic demand and an improving external backdrop. We believe the Chinese economy will remain strong ahead of the Autumn National Party Congress. In addition, we continue to look for further Chinese reform.

Overall, fiscal policy continues to play a more proactive role in supporting investment growth. Inflation is returning to Asia, as expected, driven by supply-side pressures amid rising commodity prices. China's domestic economy appears in resilient shape, reflecting solid economic data and fewer concerns surrounding capital outflows. Q1 GDP growth came in ahead of market expectations, at a reported 6.9% year-on-year. This was slightly offset by concerns over policy tightening, with regulators tightening restrictions on shadow banking.

From a bottom-up perspective, we believe that market volatility continues to create interesting stock-specific opportunities. Australia and New Zealand continue to provide quality exposures within the region.

Source: LGIM. 31/05/2017. All attribution is based on gross performance.

Legal & General Asian Income

Reasons to invest

BOTTOM UP, VALUATION FOCUSED APPROACH TO INVESTING

The fund manager adopts a bottom-up approach to stock picking, with a valuation-focused selection process. Our philosophy is to focus our detailed research on long-term income-generating companies where we can identify growth opportunities and the valuation is compelling. The manager has the ability to invest across the market cap spectrum, affording the fund greater potential to provide investors with a good level of capital growth and income diversification. We manage the portfolio with a broad diversity by country and sector, normally consisting of 60-70 holdings.

FOCUSED ON BUYING HIGH-QUALITY STOCKS AT ATTRACTIVE VALUATIONS

We look to invest in companies which have scalable and sustainable business models. The fund manager seeks opportunities where valuations are attractive, companies are generating a healthy level of cash-flow and management has sufficient respect for shareholders to consider dividend payouts important.

CAPITALISE ON ASIA'S DIVERSIFICATION

Asia is a prime hunting ground for equity income investors, with attractive growth potential and numerous high-quality, differentiated companies. The region offers a wide range of opportunities at different stages of economic development, with favourable demographic exposure.

FUND MANAGER TENURE AND EXPERTISE

Paul Hilsley has more than 25 years' investment experience, combining both buy-side and sell-side research analysis, during which time he established a strong performance track record. Furthermore, he has built a credible reputation amongst peers and colleagues, ensuring he has the best access to research and is able to utilise the expertise of LGIM's wider emerging market and investment teams.

ASIAN COMPANIES FOR INCOME - A RICH SOURCE OF RETURN

The development of a dividend paying culture marks a significant shift in the region. Since the turn of the decade, Asian companies have changed their approach to shareholders, driven by demands to improve capital distribution and in order to attract a larger pool of global investors. We believe this is important from a portfolio construction perspective. The fund distributes income quarterly and we continue to believe that dividend payouts will rise in Asia over the long term as external shareholders increase their influence on companies.

Paul Hilsley
Fund Manager

Paul Hilsley is a fund manager within the Global Equity Income desk and manager of the Asian Income Trust. Paul joined LGIM in 2006 having previously managed Asian and other International Equity funds for Phillips and Drew Fund Management and UBS Asset Management. He has over 25 years' investment experience, of which 17 are in Asian Equities, and manages in excess of £850m Asian assets.

CONTACT US FOR MORE INFORMATION

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*Call costs may vary

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