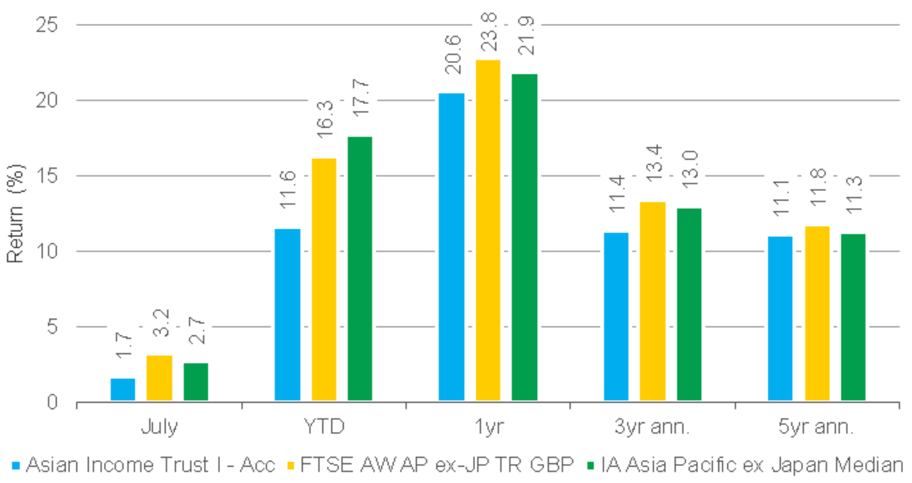
Legal & General Asian Income

Fund Update – July 2017

Performance



Source: Morningstar to 31/07/2017. Past performance is not a guide to future performance.

FUND COMMENTARY

Asia ex Japan equities were up 3.2% in July, raising YTD returns to 16%. China outperformed as growth continues to positively surprise. The second quarter's GDP growth exceeded investor's expectations. In addition, retail sales and industrial production strengthened. India also performed well, as disinflation raised expectations of a further interest rate cut. Singapore equities also enjoyed a strong month, rising 3.7% as fears about non-performing loans at the countries banks receded.

Korea was a relative underperformer, up only 1.8%, on concerns about North Korea after the country conducted missile tests. Within ASEAN, Thailand and Philippines performed fairly well rising 1.1% and 0.6%, respectively while Indonesia was down 1.3%.

Commodity sectors were strong in the period, benefitting from a weaker US Dollar and robust China data. Financials also outperformed, driven by insurance names, while the software industry continues to be strong. Conversely, healthcare and consumer sectors lagged.

The fund underperformed in the period, delivering a return of 1.7%, as the market continues to favour growth names over value. Stock selection in consumer services and financials was the biggest area of disappointment. At a country level, Hong Kong was a drag on performance, while Australia saw mixed returns. Our underweight positioning in China and India also proved detrimental.

ATTRIBUTION DRIVERS

At a stock level, not owning Tencent hampered relative returns and was the biggest detriment to performance in the period. Despite announcing new age restriction rules to address regulatory concerns around gaming addiction – limiting the time an under 18 year old can play Honour of Kings to between one and two hours per day – the shares continue to move higher as investors remain focused on the growth outlook in mobile gaming, WeChat and cloud revenues.

Macau gaming companies, MGM China and SJM Holdings were weaker after disappointing trading updates for the second quarter. MGM China missed expectations following share loss in VIP and mass market during the quarter. SJM also saw share erosion, reflecting the shift to Cotai resorts. Meanwhile, gross gaming revenues disappointed, driven by softer-than-expected mass market performance.

Other detractors included Transurban, which was weak ahead of full-year financial results due in August, given reduced visibility on the latest quarterly traffic and toll road data. Investors are also anxious on potential equity requirement for WestGate Tunnel / WestConnex projects.

Qantas Airways fell following a period of profit taking, as valuation metrics have trended higher following very strong year-to-date performance.

Source: LGIM. 31/07/2017. 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
£384m

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
80.7%

Dividend yield
3.9%

Top 10 holdings
27.2%

Number of stocks
74

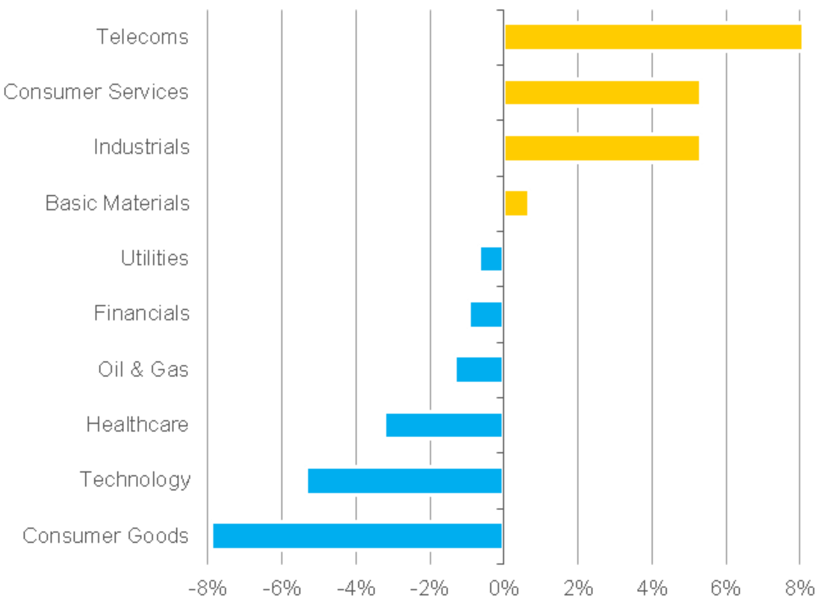
Source: LGIM. 31/07/2017.

FUND COMPOSITION

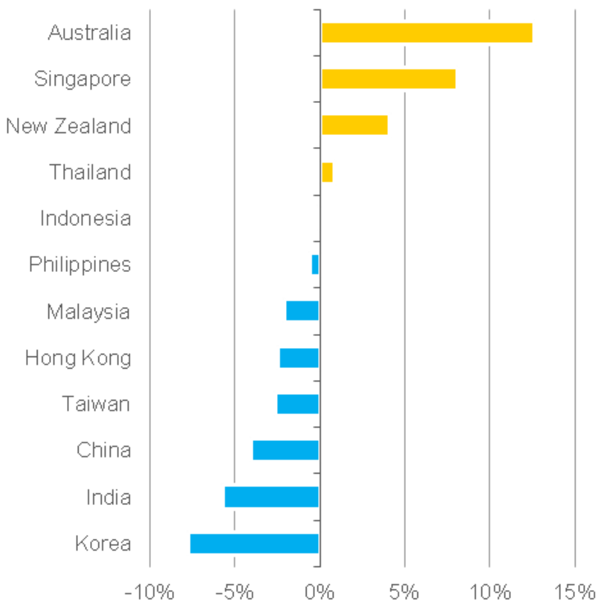
Top 10 Holdings		
Transurban Group	Industrials	3.5%
Taiwan Semiconductor	Technology	3.4%
China Construction Bank	Financials	3.2%
China Mobile	Telecoms	3.1%
Qantas Airways	Consumer Services	2.9%
DBS Group Holdings	Financials	2.5%
National Australia Bank	Financials	2.3%
United Overseas Bank	Financials	2.2%
Fletcher Building	Industrials	2.1%
Rio Tinto	Basic Materials	2.1%
	Total	27.2%

Top Active Weights	
Transurban Group	+3.1%
Qantas Airways	+2.8%
Fletcher Building	+2.1%
Downer Group	+2.0%
Meridian Energy	+1.9%
BHP Billiton	-1.3%
AIA Group	-1.8%
Commonwealth Bank of Aus	-2.2%
Samsung Electronics	-4.0%
Tencent Holdings	-4.1%

Sector Positioning – Relative to benchmark index



Relative Country Positioning



On the flipside our holding in Rio Tinto made the biggest positive contribution. The diversified miner reported solid, if not spectacular, second quarter production numbers, but was largely supported by ongoing strength across China data and given the scope for higher capital returns.

Bharti Infratel, the Indian telecoms services company reported a strong operational performance as part of its first quarter trading update. Tenancy additions were strong and core margins were ahead of expectations.

Our holding in China Shenhua also added value, given it is a beneficiary of higher coal prices.

TRADING ACTIVITY

In July, we took advantage of share price weakness to initiate a new position in Vicinity Centres, one of Australia's leading retail property groups. The market has been concerned with the weak consumer and threat from online, but we see more international retailers coming to Australia, which should be supportive of growth prospects for Australian mall REITs. Recent senior management change may also see an improvement of the dividend policy. Further asset disposals are also a possibility, which would help boost the bottom line.

Finally, we added to our existing positions, mainly China Mobile and Coal India on the back of recent share weakness.

Source: LGIM. 31/07/2017. All attribution is based on gross performance.

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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 £900m Asian assets.

CONTACT US FOR MORE INFORMATION

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*Call costs may vary