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LION GLOBAL INVESTORS

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VIEWPOINT*PLUS*

ASIAN DIVIDEND STRATEGY RESILIENT AMID UNCERTAINTY

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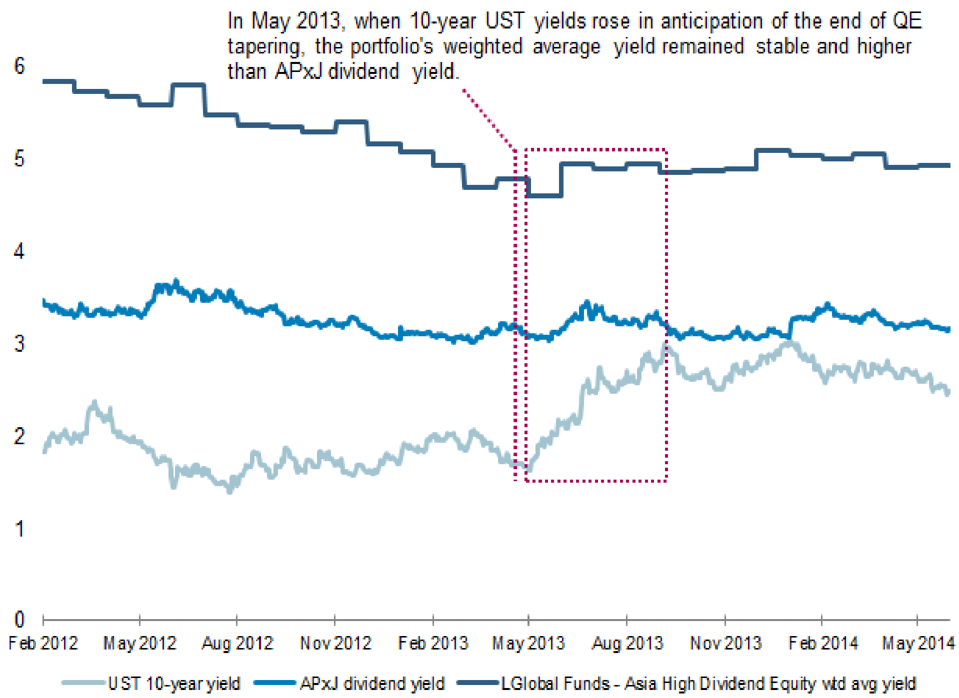
EXECUTIVE SUMMARY

- Traditionally, long-dated bonds have been a source of income for investors but in the current near-zero rate environment, long-dated bonds are no longer able to provide sufficient income
- Rising rates will negatively impact long-dated bond prices and to achieve a reasonable level of income an alternative to long-duration bonds is needed
- Asia Pacific ex-Japan equities have delivered a stable level of yield comparable to 10-year USTs (US Treasuries) in 2009
- The search for yield in Asia remains strong as populations age and expectations of rate hikes add to market volatility
- Asian corporates are likely to see better earnings and supportive free cash flow margins to maintain dividend payouts
- Low-volatility stocks across Asia Pacific ex-Japan have historically outperformed high-volatility stocks
- LGlobal Funds – Asia High Dividend Equities combines disciplined volatility and dividend screens with macro-aware bottom-up stock picking to generate a stable level of yield
- In May 2013, the portfolio's ability to maintain a stable dividend yield was tested when comments about Fed tapering led to a selldown in Asia Pacific ex-Japan equities, as shown in the chart below
- Over the 12-month period from May 2013 to May 2014, the weighted average yield of the portfolio averaged 4.9% while its lowest point was 4.6% in May 2013
- As at end-May 2014, the portfolio's indicated weighted average yield of 4.9% is higher than the MSCI APxJ yield of 3.2% and the 10-year US Treasury yield of 2.5%
- The gradual, US-led economic recovery is positive for Asian corporate earnings while geopolitical and policy risks continue to lurk in the background. We continue to focus on delivering reliable income at less risk for clients



Source: Lion Global Investors, Style Research, Bloomberg as at end-May 2014. Weighted average yield of portfolio is based on monthly data. Past performance is not indicative of future performance.

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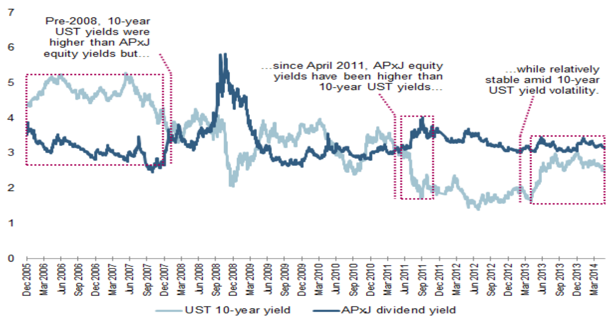
SEARCH FOR YIELD CONTINUES AMID RATE HIKE EXPECTATIONS

Faced with near-zero interest rates, investors who previously turned to long-duration bonds for income must now seek out stable, high-yielding alternatives.

Since April 2011, Asia Pacific ex-Japan (APxJ) equities have posted yields higher than 10-year UST yields as shown in Chart 1.

Chart 1: APxJ equity yields and 10-year US Treasury yields



Source: Bloomberg as at end-May 2014.

Chart 1 also shows the stability of Asia Pacific ex-Japan equity yields when the 10-year UST yields rose in May-2013. The yield of 10-year USTs rose 115 bps (basis points) from 1.63% at the start of May to 2.78% by end-August 2013. Over the same period, APxJ dividend yields rose 18 bps from 3.08% to 3.26%.

The increased uncertainty from expectations of Fed rate hikes increases the pressure on income investors to seek alternative sources of stable yield. According to the Federal Reserve, 13 of 16 FOMC (Federal Open Market Committee) members expect rates to be higher by 2015 and while Federal Reserve chair Janet Yellen has indicated a preference to keep interest rates lower for longer, investors should expect US Treasuries (USTs) to be impacted by rising rates.

Just as USTs rallied as policy rates fell to near-zero levels, Fed policy rate hikes could lead to corrections in the price of long-duration USTs. The implication is that yield investors would benefit from a reliable income strategy that can maintain a stable yield amid the uncertainty of a rising rate environment. The dividend yield of APxJ equities remained stable when rates rose in 2013, and at 3.15% (as at end-May 2014), is at a level comparable to 10-year USTs in 2009.

LGlobal Funds – Asia High Dividend Equity

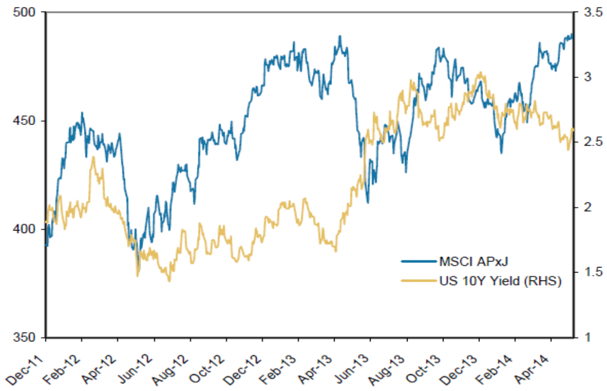
- Aims to provide long term capital growth by investing in Asia Pacific ex-Japan equities and corporates that offer attractive dividend yields and sustainable dividend payments
- Capitalise on Asia's robust growth and strong fundamentals
- Potential low volatility returns and long-term outperformance

ASIA PACIFIC EX-JAPAN EQUITIES IN A RISING RATE REGIME

Investors who remember May 2013 will recall how then-Fed chair Ben Bernanke's comments on tapering its bond purchase program caused 10-year UST yields to spike, leading investors to flee emerging markets and sparked a selloff in APxJ equities.

With such corrections still fresh in recent memory, investors may fear rising rates and the subsequent rise in 10-year UST yields leading to another selloff in APxJ equities. However, looking further back in time suggests the relationship is less clear – periods of rising 10-year UST yields have accompanied both rising and falling APxJ equities, as shown in Chart 2.

Chart 2: APxJ equities have rallied and corrected in both rising and falling 10-year UST yield environments



Source: Datastream, MSCI, IBES, Morgan Stanley Research as at 10 June 2014.

The data suggests investors should question the view that 10-year UST yields and APxJ equities are closely tied. Earnings are a more direct measure of how well businesses are performing and hence the ability to pay dividends. The focus then shifts to the underlying drivers of corporate earnings across the region.

DELIVERING DIVIDENDS IN ASIA PACIFIC EX-JAPAN

While 10-year UST yields do not move APxJ equities in the medium term, one measure that moves more closely with its Asian counterpart is earnings. As shown in Chart 3, the region's earnings have moved closely with US earnings.

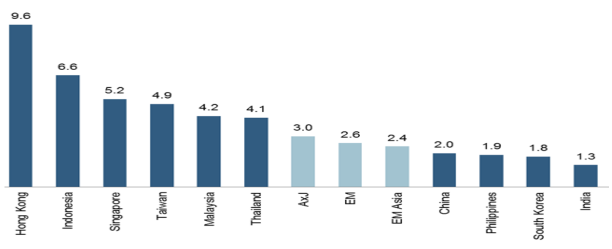
Chart 3: Asia ex-Japan earnings driven by US earnings

12-month trailing earnings. 100 = 1 October 2007. Source: MSCI, Datastream, SG Cross Asset Research/Equity Strategy as at 12 June 2014.

Historically, earnings in Asia have followed that of the US, and with a US-led recovery in developed nations taking hold, the earnings of Asia's corporates are expected to follow. With a positive earnings tailwind boosting the region's corporates, companies are better positioned to maintain or increase the amount of dividends paid out.

Across Asia Pacific, free cash flow margins (a measure of cash generated per dollar of sales) in a number of markets supports the view that corporations have the wherewithal to deliver dividends as shown in Chart 4.

Chart 4: Free cash flow margins as at end-2013



Source: Worldscope, FactSet, Citi Research as at 19 May 2014.

While strong cash flow margins and an earnings tailwind are positive for the ability to pay dividends, the demand for income is further driven by the fact that Asia is aging – populations aged 60 and above are growing.

The United Nations estimates that by 2015, the economies of Hong Kong (21.5%), Australia (20.3%) and New Zealand (19.9%) will see around 20% of their population aged 60 and above. While Korea (18.2%) and Singapore (16.9%) face similar pressures. By 2020, all five economies are estimated to have more than 20% of the population aged 60 and above.

As a greater proportion of the population seeks income to sustain their retirement, demographic pressures will intensify the search for reliable, attractive income.

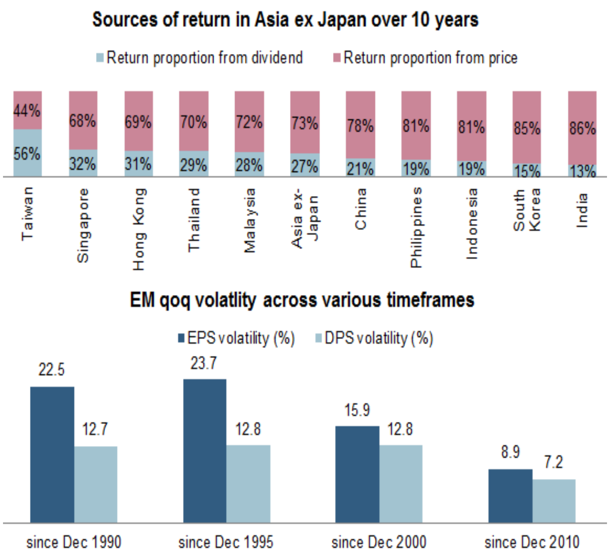
The second misconception is that Asia Pacific's growth revolves around China's exports, based on China's dominance as a trade partner to Asian markets.

QUALITY DIVIDENDS FOR RELIABLE INCOME

LGlobal Funds – Asia High Dividend Equity seeks total return consisting of a combination of income and capital growth by investing in Asia Pacific ex-Japan securities of companies that have low dividend and price volatility and offer attractive and sustainable dividend yields.

Our investment approach focuses on dividends over earnings. The former is less volatile than the latter and yet contributes a significant proportion of return in a number of markets across Asia Pacific. Over the long term, dividend contributions to total returns can be substantial due to compounding effects. As seen from Chart 5, dividends have delivered a significant proportion of return in various Asian markets over the past 10 years. From a broader regional perspective, dividend per share (DPS) volatility in EM (emerging markets) has been less volatile than earnings per share (EPS).

Chart 5: Dividends are a significant and less volatile component of return then earnings



Source: MSCI, Citi Research as at 19 May 2014.

Besides dividends the investment process focuses on low volatility stocks based on the observation that over time, low-volatility stocks tend to outperform high volatility stocks, as shown in Chart 6.

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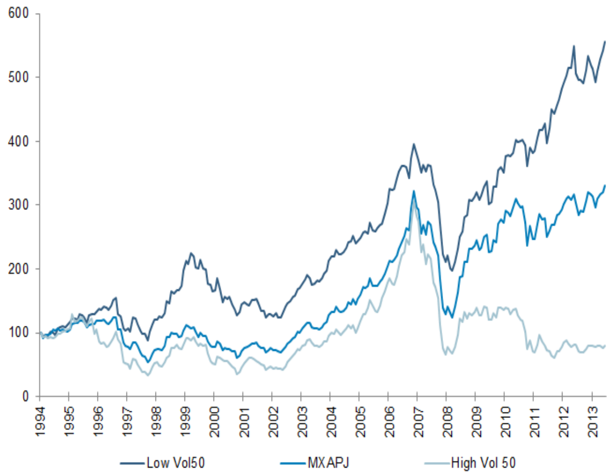
Chart 6: Low volatility stocks outperform high volatility stocks, broader market



Source: Daiwa Capital Markets as at May 2014.

Our investment process starts with identifying good quality companies that have sustainable competitive advantage, balance sheet strength, high calibre management and evidence of mispricing based on valuations and earnings prospects. We then run dividend yield and volatility screens to filter stocks that meet our investment criteria. The result is a portfolio built with disciplined quantitative screens, and macro-aware bottom up stock picking.

While we consider the approach a value strategy, we may not necessarily be identified by traditional measures of value, which revolves around quantitative criteria such as low PB and PE ratios. In our analysis of the fundamentals as well as financial analysis of companies, we seek to establish a stock's critical factors and identify the associated catalysts and strive to gain unique insights and conclusions that are different from the consensus.

PORTFOLIO POSITIONING

Unlike traditional dividend portfolios that focus on defensive sectors, the portfolio's top active holdings include a number of stocks in the industrials sector, as shown in Table 1.

Traditionally, dividend portfolios have favoured defensive sectors such as utilities, energy or telecommunication services. However, our bottom-up approach has identified a number of stocks in the industrials sector that benefit from structural growth drivers.

Among our holdings is Jiangsu Expressway Co, which builds and operates toll expressways in China. In the third quarter of 2011, the company's share price fell on news that the government planned to cut toll charges.

Table 1: Top 5 active overweight positions

Name	Sector	Weight (%)		
		Portfolio	Benchmark	Active
ComfortDelGro	Industrials	4.45	0.09	4.36
Hutchison Port Holdings Trust	Industrials	4.20	0.09	4.10
StarHub	Telecom	3.73	0.05	3.68
Jiangsu Expressway	Industrials	3.58	0.04	3.54
Singapore Post	Industrials	3.44	0.00	3.44

Source: Lion Global Investors, Style Research as at end-May 2014. Portfolio weights exclude cash holdings. Benchmark: MSCI AC Asia Pacific ex-Japan Index.

However, we believed the impact of toll cuts on earnings would be limited and in the fourth quarter of 2011, took a position in the stock. Since then, the stock has maintained a steady stream of dividend payouts and in 2013, returned 24.93% in USD terms[1].

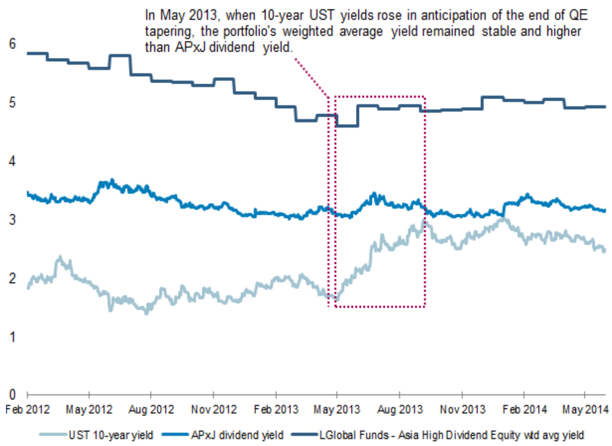
Our focus on delivering reliable income from quality companies has contributed to the portfolio's stable yield.

STABLE YIELD AMID UNCERTAINTY

When Bernanke's now-famous taper comments in May 2013 caused 10-year UST yields to rise, the portfolio's weighted average yield remained stable while higher than the benchmark yield.

Since then, as shown in Chart 7, the Fund has maintained a steady weighted average yield.

Chart 7: Yields of MSCI APxJ, 10-year USTs and LGlobal Funds – Asia High Dividend Equity



Source: Lion Global Investors, Style Research, Bloomberg as at end-May 2014. Weighted average yield of portfolio is based on monthly data. Past performance is not indicative of future performance.

[1] Source: Morningstar as at 31 May 2014.

As rates are expected to rise in 2015, the experience of mid-2013 has shown that companies across Asia Pacific ex-Japan are capable of maintaining stable dividend yields. An active management approach that combines disciplined volatility screens and bottom-up stock picking is key to building a portfolio that delivers a higher average weighted yield than the index. The LGlobal Funds – Asia High Dividend Equity has withstood market volatility to maintain a stable yield.

With earnings in Asia poised to grow with the US earnings recovery, investors seeking reliable income may want to consider LGlobal Funds – Asia High Dividend Equity when allocating to Asia Pacific ex-Japan.

"A strategy of investing in high-yielding stocks has been shown to vastly outperform lower-yielding stocks as well as the overall market over the long term. Also low volatility stocks have also outperformed high volatility stocks over the long term. A focused portfolio of low-volatility, higher-yielding stocks will appeal to investors who are looking for stable and steady returns with less risk."

*- **LIM Fang Suan, CFA,** fund manager of LGlobal Funds - Asia High Dividend Equity, 23 years of financial industry experience*

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