FOR PROFESSIONAL INVESTORS ONLY

LION GLOBAL INVESTORS

April 2014

VIEWPOINT*PLUS*

SEE THROUGH THE DELUSION FOR BETTER RETURNS IN ASIA

THE ASIAN ASSET SPECIALIST
lionglobalinvestors.com

Lion Global Investors Limited
65 Chulia Street #18-01
OCBC Centre, Singapore 049513
T: +65 6417 6800
F: +65 6417 6806

Co Reg No: 198601745D

For more information, visit: lionglobalinvestors.com
or email: ContactUs@lionglobalinvestors.com

A member of the OCBC Group

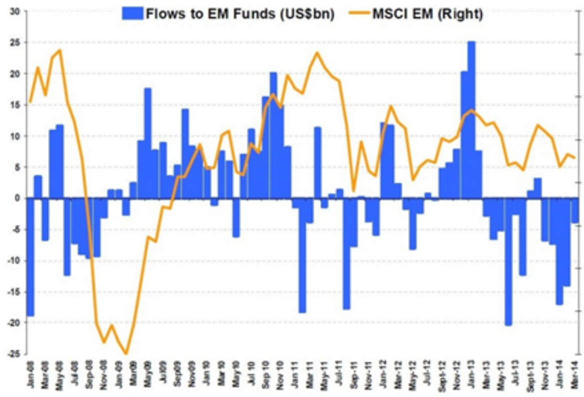
Since the start of 2014, emerging markets have been dragged down by a series of political and economic data. This has contributed to the negative sentiment surrounding Asia Pacific's equity markets. But we believe the negativity is unjustified, firstly because Asia Pacific is fundamentally stronger than the rest of the EM (emerging market) region, and secondly, within Asia Pacific, sufficient opportunities present themselves for investors with the wherewithal to hold for the long term. Finally, we present two Lion Global Investors Asia Pacific strategies that we believe are suited for investors seeking to tap investment opportunities in the region.

ASIA PACIFIC WEATHERS EMERGING MARKETS STORM

- **Non-Asia EM is economically weaker than Asia Pacific**
- **Asia Pacific economies are generally lower risk than non-Asia Pacific emerging economies**
- **Valuations in Asia Pacific ex-Japan are below historic average**

More funds flowed out of EMs in the start of 2014 than in 2013. Year-to-date flows out of EMs reached US$12.5 billion as at 5 March 2014, while 2013 saw outflows of US$8.4 billion, as shown in Chart 1.

Chart 1: More money flowed out of emerging markets in the start of 2014 than in 2013



Source: EPFR Global, Morgan Stanley Research, March 2014

While fund flows are indicative of negative sentiment surrounding the region, we believe Asia Pacific will weather the uncertainty and emerge with renewed fundamental strength setting it on a diverging trajectory from the rest of EM.

Because there is some overlap between Asia Pacific and emerging market groupings, a broad EM selloff will have an impact on parts of Asia. Table 1 illustrates this overlap, which feeds the delusion that Asian economies are similar to EM economies. Seeing through the delusion would unmask the reality that Asia Pacific economies are significantly different from EM economies, and provide a wealth of investment opportunities.

In our opinion, there are more attractive opportunities for dedicated stock pickers within Asia Pacific, and among Lion Global Investors' suite of strategies, two are particularly well-placed to capitalise on the investment opportunities in the region. Our belief is underpinned primarily by fundamentals and valuations.

Firstly, Asia Pacific fundamentals are in better shape than non-Asia Pacific EMs.

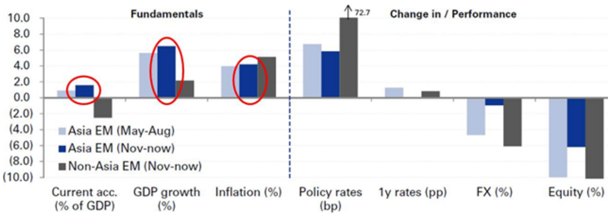
As seen in Chart 2, in terms of current account as a percentage of GDP, Asia Pacific EM's current account balance has improved historically and relative to EM peers.

Table 1: MSCI Index components

MSCI Asia Pacific Index	MSCI Emerging Markets Index
Australia	
Hong Kong	
New Zealand	
Singapore	
Japan	
	Brazil
	Chile
China	China
	Colombia
	Czech Republic
	Egypt
	Greece
	Hungary
India	India
Indonesia	Indonesia
Korea	Korea
Malaysia	Malaysia
	Mexico
	Peru
Philippines	Philippines
	Poland
	Russia
	South Africa
Taiwan	Taiwan
Thailand	Thailand
	Turkey

Source: MSCI, September 2013

Chart 2: Fundamentals in Asia Pacific healthier than non-Asia Pacific EM



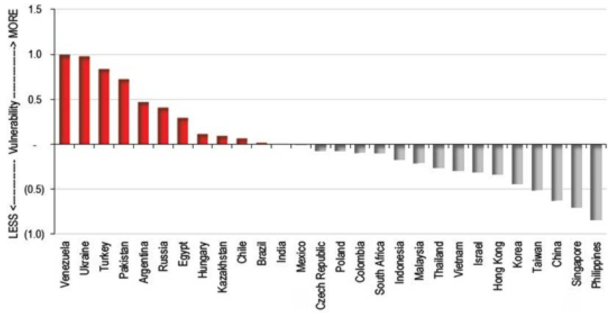
Source: Haver, Goldman Sachs Global Investment Research, March 2014

Comparing the periods before (May to August 2013) and after (November 2013 to February 2014) the Fed tapering announcement, we see an improvement in Asia EM's current account, as GDP growth increased and inflation remained subdued. Compared with non-Asia Pacific EM, Asia Pacific EM's current account, and GDP growth are stronger, while inflationary concerns are generally lower.

Secondly, vulnerable EM markets are located outside of Asia Pacific, as shown in Chart 3.

The HSBC EM Vulnerability Index comprises six indicators reflecting liquidity, solvency, and growth risks. The index illustrates non-Asia Pacific EMs as more vulnerable to liquidity, solvency and growth risks than Asia Pacific markets.

Chart 3: HSBC EM Vulnerability Index - Asia Pacific is less vulnerable relative to non-Asia Pacific EM



Source: HSBC, March 2014

While Asia Pacific's fundamentals are better positioned to ride out potential risks, the region's valuations remain below historical average, as shown in Chart 4.

Chart 4: APxJ 12-month forward P/E - Valuations are below historical average

Source: Bloomberg, ThomsonOne, 25 April 2014

Asia Pacific ex-Japan valuations are below historical averages, thus supporting a potential rerating of the region. While uncertainty continues to plague EMs, Asia Pacific's valuations have similarly been driven down, despite being relatively better positioned fundamentally.

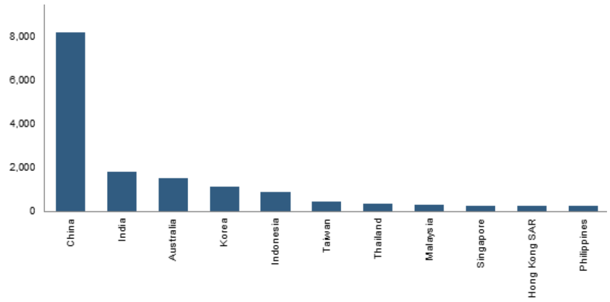
From this position of relative security, improving fundamentals and attractive valuations, Asia Pacific has started to diverge from non-Asia Pacific EMs. However, many have noted a slower China would negatively affect Asia. Barring a systemic collapse of the second-largest economy in the world, we argue a slower China would have a limited impact on our ability to seek out investment opportunities.

MORE TO ASIA PACIFIC THAN CHINA

- **Asia Pacific economies are not all about exports to China**
- **Regional grouping hides divergent markets**
- **Domestic themes within Asia Pacific present attractive investments for investors**

When economies get grouped together with the world's second largest economy in 2012, the temptation to equate Asia Pacific with China is understandable. In 2012, China's GDP (gross domestic product) dwarfs that of economies across the Asia Pacific ex-Japan region, weighing in at over US$8 trillion – more than the rest of Asia Pacific combined, as seen from Chart 5.

Chart 5: 2012 GDP (US$ billion) - China's economy towers over Asia Pacific ex-Japan peers



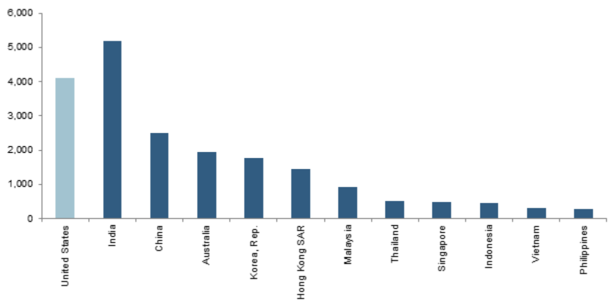
Source: International Monetary Fund, World Economic Outlook Database, October 2013

Based on the sheer size of its economy, China stands as the heavyweight of Asia Pacific ex-Japan. However, we note two misperceptions that we believe may cause investors to miss out on potential gains in Asia Pacific.

Firstly, many see China as the biggest opportunity in the Asia Pacific region. The reality is that there are bigger opportunity sets in the region, and omitting Asia Pacific ex-China ignores the numerous investments available.

Chart 6 shows the number of listed companies across Asia Pacific markets. For the purpose of comparison, we have included the number of listed companies in the US. Listed companies are domestically incorporated companies listed on the country's stock exchanges, excluding investment companies, mutual funds, or other collective investment vehicles.

Chart 6: Number of companies - A bigger set of opportunities across Asia Pacific

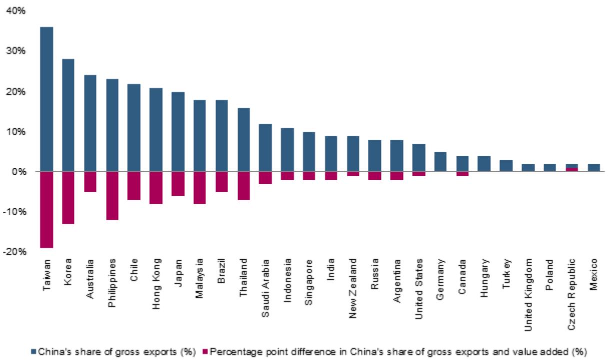


Source: World Bank, 2012, World Development Indicators

The investment opportunities in Asia Pacific's markets are more numerous and diverse than the region's GDP suggests. China in 2012 had around 2,500 listed companies, but India had more than double the number of listed companies. Meanwhile, the Southeast Asian region had around 2,900 listed companies. A narrow focus on China's fortunes blinds investors to opportunities available elsewhere in Asia Pacific.

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.

Chart 7: China's share of gross exports (blue, top) versus percentage point difference between China's share of gross exports and value added exports (red, bottom)



Source: Morgan Stanley, March 2014

We believe the rise of China as a major export destination needs to be put in context. With the onset of the Lehman crisis, the global financial crisis and the European debt crisis, the export markets of US and Europe went into hibernation, leaving China as the next major export destination.

Measuring exports on a value-added basis (exports for final consumption) yields a different picture from exports on a gross basis (includes intermediate exports as part of the production cycle). Chart 7 shows that while the gross export share of China remains significant for certain markets, from a value-added perspective, China does not hold as large a share as gross exports suggest. For instance, on a gross export basis, China accounts for 36% of Taiwan's exports. However, on a value-added basis, China only accounts for 17% of Taiwan's exports.

The key takeaway is that Asia's exports hinge more on the recovery of US and European markets, rather than China's slowing economic growth.

While much focus has been placed on the role of Chinese imports, exports are only one part of the economic growth equation. Domestically-focused themes across Asia are still a long-term trend that provides earnings growth potential. Toll operators, gaming companies, and supermarket chains are more reliant on domestic consumption than international trade for earnings.

But many of these opportunities are not captured by broad market indices having relatively smaller market capitalisation and hence less analyst coverage. In this environment, Asian strategies can add value over a market cycle, through a process of meticulous stock selection and high conviction portfolios.

LION GLOBAL INVESTORS

LGLOBAL FUNDS - ASIAN HIGH CONVICTION EQUITY

BE BOLD WITH HIGH CONVICTION STOCK PICKING

- **A wealth of under-researched companies operate across Asia Pacific**
- **Stock selection, and the fund manager's willingness to invest in off-benchmark holdings drives upside potential**
- **Asia is not immune to volatile markets so downside volatility is managed with the use of index futures and prudent portfolio construction**
- **Fund manager Jan de Bruijn has prior experience managing downside risk with futures**

Asian markets offer a wealth of high return stocks for prudent stock pickers. Our LGlobal Funds – Asian High Conviction Equity strategy is benchmark agnostic, willing to take high conviction positions outside the benchmark, to deliver superior returns and manage downside risk over a market cycle.

At the heart of the strategy is a benchmark unconstrained but risk aware approach to stock selection. Removing benchmark constraints while keeping a tight rein on portfolio risks enables one to take contrarian positions outside the benchmark's largest – and often most crowded – stocks and sectors.

The global financial crisis has shown that equity market correlations can rapidly converge to one, meaning an unacceptably large exposure to underlying equity market volatility. Funds must now look beyond benchmark constrained approaches for alternative ways to deliver returns and manage risks. A benchmark unconstrained approach better expresses our stock convictions with portfolio holdings based purely on the stock's individual merits.

Our best ideas are selected using a consistent, disciplined investment process built around three key areas: the underlying quality of a company, its valuation, and its "critical factors" and associated catalysts. Our high conviction is demonstrated at a stock, portfolio and risk level.

Through our investment process, we seek holdings with 15% potential upside from either valuations rerating or greater value. We also seek a high level of confidence in each holding that sets it apart from other opportunities. At the portfolio level, we maintain a concentrated portfolio of between 25 to 40 positions typically capped at 5% of the portfolio. In line with our high conviction approach, the portfolio can hold up to 20% in cash and equivalents. At the risk level, we deploy index futures to protect against the downside risk of a broad market selloff from affecting our holdings.

"A benchmark unconstrained approach better expresses our stock convictions with portfolio holdings based purely on the stock's individual merits."

- Jan DE BRUIJN,
head of Asian equities and fund manager of LGlobal Funds - Asian High Conviction Equity

Jan DE BRUIJN has spent over 20 years actively managing various Asian-related mandates and long-short strategies for a broad range of institutional and retail clients. He has worked for well-known industry players and gained extensive experience in the pensions, insurance and asset management industries. Prior to joining Lion Global Investors in 2011, Jan was the head of Asia at Gartmore Investments where he developed and launched Asian equity products.

LGLOBAL FUNDS - ASIA HIGH DIVIDEND EQUITY

HOLD STEADY WITH DISCIPLINED INCOME INVESTING

- **A disciplined income approach has shown to be resilient in times of risk aversion**
- **Apart from a deep understanding of every position in the portfolio, the Fund deploys a volatility screen to enhance stability in the portfolio**
- **Amid volatile markets, the Fund has delivered around 4% dividend yield at lower-than-benchmark volatility**
- **Fund manager Lim Fang Suan has managed a variety of Asian strategies, including the Asia high dividend equity, Shariah-compliant and infrastructure strategies**

LGlobal Funds – Asia High Dividend Equity employs a simple strategy of picking lower volatility stocks while maximising dividends.

With the Fed signalling that it will keep short-term rates low for longer, and the likelihood that the global economy may be facing an extended period of low interest rates, the global search for yield is likely to continue. Historically, investors seeking steady income have turned to bond products, but as the Fed taper continues, long-term interest rates are expected to rise, which would negatively impact fixed-income portfolios.

Against this backdrop, investors will benefit from investing in equity income strategies, which provide steady dividend payouts while benefitting from steady growth of the businesses underlying these portfolios. With lower capital expenditure intensity, growing cash flows, low gearing and rising dividend payouts, Asian markets provide ample opportunities to invest in high dividend-yielding stocks with higher growth prospects while still retaining a low level of risk.

The portfolio of 30 to 40 holdings is benchmark-aware at a stock level, but allocations at a geographical or sector level are driven purely by bottom-up stock picking. Our portfolio deviates from the benchmark in its above-benchmark yield and below-benchmark beta, which is a clear testament of our stock picking discipline.

Managing portfolio volatility is vital to the sustainability of the portfolio's dividends. Excluding high-beta stocks, our portfolio discipline sets a beta limit of 0.9 or lower. We consciously avoid a yield-at-all-costs approach, instead opting for a stable level of yield that we believe can be maintained throughout market cycles. Since inception, we have maintained a portfolio yield of around 4%^, even through 2013, when the Fed taper announcement sparked a broad selloff in Asia.

"Increasing cash flows and dividend payouts with less debt and capex intensity suggest Asian corporates can provide dividend-yield with higher growth prospects at relatively low risk."

*- **LIM Fang Suan, CFA,** senior Asian equities fund manager and fund manager of LGlobal Funds - Asia High Dividend Equity*

LIM Fang Suan, who has more than 20 years of investment experience covering Asian equities, is the lead manager of various regional mandates with specialised investment strategies including the Asia Pacific ex-Japan High Dividend Yield strategy. Previously, he was the lead manager for the ASEAN Equity strategy at Lion Global Investors. He holds the CFA (Chartered Financial Analyst) designation.

^ LGlobal Funds - Asia High Dividend Equity Class I QDist SGD, as at March 2014, incepted 3 January 2012. Past performance does not guarantee future results. Dividends are not guaranteed.

RISKS AND REALITY

Among the issues facing Asia Pacific markets, two are worth highlighting based on the depth and breadth of their impact.

The first risk is a faster-than-expected rise in rates. Ironically, the catalyst for this would be a better-than-expected economic recovery in the US, which might embolden the Fed to accelerate the taper, and hike interest rates ahead of expectations. Asia Pacific markets would have to adjust very quickly and the resulting uncertainty could lead to investors pulling out of the region. Currently, weather-weakened data suggests the recovery is still fragile.

Our second concern is China's slowing growth, which could impact commodity exporters across the region. With the second and third quarters of 2014 under the additional strain of maturing trust products, policymakers will need to tread carefully to avoid the risk of a hard landing in China. Comments from policymakers suggest they are committed to reform and social stability, and have a policy response in place to support growth if the need arises.

These risks do not detract from the Asian reality – economic growth in Asia is higher than in non-Asia EMs, with more room to manoeuvre in case of unanticipated negative news. A narrow focus on a single market will tend to overlook opportunities elsewhere in the region, and investors will have to look past the delusion and home in on the value in the market.

We believe Asian equity strategies can deliver attractive risk-adjusted returns and in today's uncertain markets, high-conviction stock selection and disciplined dividend investing are two strategies that will be indispensible to investors seeking better returns in Asia.

LION GLOBAL INVESTORS

DISCLAIMER

Lion Global Investors Limited ("LGI") is a company incorporated in Singapore and a member of the OCBC group.

This publication is for information and for use by professional investors only. It is not an offer or solicitation for the purchase or sale of any securities/investments and does not have regard to your specific investment objectives, financial situation or particular needs. All applications for units in our funds must be made on application forms accompanying the prospectus. You should read the prospectus for details, available and may be obtained from Lion Global Investors Limited ("LGI") or any of its approved distributors, before deciding whether to subscribe for or purchase units of the Fund. Investments in the Fund are not obligations of, deposits in, guaranteed or insured by LGI or any of its affiliates and are subject to investment risks including the possible loss of the principal amount invested. The performance of the funds is not guaranteed and the value of units in Fund and the income accruing to the units, if any, may rise or fall. Past performance, as well as any prediction, projection, or forecast on the economy, securities market, or the economic trends of the markets are not necessarily indicative of the future or likely performance of the funds. Any opinion or view presented is subject to change without notice. Accordingly, no warranty is given and no liability is accepted for any loss arising directly or indirectly as a result of you acting on any information, opinion, forecast, or estimate contained herein. You may wish to seek advice from a financial adviser before making a commitment to purchase the Fund. In the event that you choose not to seek advice from a financial adviser, you should consider carefully whether the Fund is suitable for you.