LION
GLOBAL
INVESTORS

LIONGLOBAL JAPAN GROWTH FUND

Affirming an award-winning strategy

April 2014

The LionGlobal Japan Growth Fund, managed by Wee Ban Yew, head of the Japanese equities team at Lion Global Investors, is recognised once again at the Lipper Fund Awards for its consistently strong risk-adjusted performance relative to peers.

FUND PERFORMANCE

The LionGlobal Japan Growth Fund is once again awarded 'Best Equity Japan Fund over 10 years, Singapore & Taiwan' in 2014 for the fifth consecutive year by Lipper[1].

Fund manager Wee Ban Yew, supported by his team of analysts, has consistently applied a bottom-up stock selection process in constructing our portfolio of 65 to 90 positions, while avoiding ultra-large capitalisation companies that are made up of the top 30 largest companies by market capitalisation.

LIPPER
FUND AWARDS 2014

Lipper Fund Awards 2014, Singapore & Taiwan

Best Equity Japan over 10 years

MORNINGSTAR ★★★★★ ™

5-Star Morningstar Rating™ [2] ★★★★★

28 February 2014

Chart 1: LionGlobal Japan Growth Fund outperformed benchmark and sector peers

Source: Morningstar, monthly returns, January 2004 - February 2014, in SGD terms on a bid-to-bid basis with dividends reinvested.

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Table 1: LionGlobal Japan Growth Fund outperformed benchmark and sector peers

INVESTMENT	CUMULATIVE RETURN %	ANNUALISED RETURN %
LIONGLOBAL JAPAN GROWTH FUND SGD	1.64	0.16
TOPIX TR JPY (BENCHMARK)	-5.02	-0.51
GIFS OE JAPAN LARGE-CAP EQUITY	-9.81	-1.03
GIFS OE JAPAN SMALL/MID-CAP EQUITY	-3.87	-0.39

Source: Morningstar, 19 March 2004 - 18 March 2014, in SGD terms on a bid-to-bid basis with dividends reinvested.

Smaller-sized companies with a relatively narrow range of products tend to outperform ultra-large capitalisation companies in an upward trending market environment - the result of a more significant impact of sales on corporate earnings.

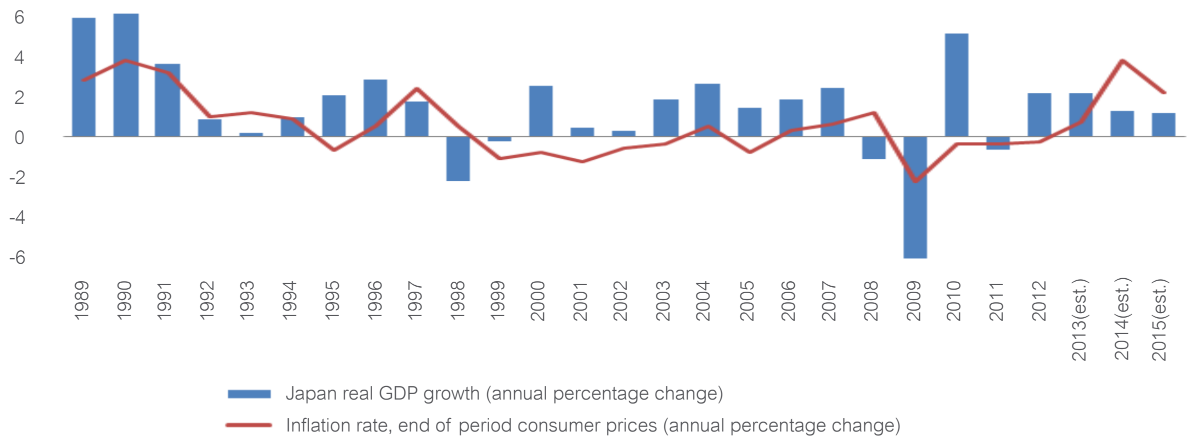
As shown in Chart 1, by avoiding ultra-large capitalisation stocks and following a disciplined stock selection process, our fund manager has achieved decade-long out-performance from March 2004 to March 2014^. Table 1 shows the annualised returns of the LionGlobal Japan Growth Fund over 10 years, which demonstrates that the Fund has been able to outperform its benchmark by more than 6 percentage points, as well as peer sector averages by more than 5 percentage points.

Adding to the challenge was the global financial crisis that saw Japan unsuccessfully attempt to stimulate the economy and weaken their currency. The move failed as the combined quantitative easing of other central banks sent investors fleeing to the yen as a safe haven currency, causing it to strengthen, leading to dampened corporate profits, stagnant wages and weaker consumption.

It was not until 2012 did Abenomics succeed in weakening the yen and stimulating inflation. Sentiment recovered but has waned in the early part of 2014 against a consumption tax hike in April 2014.

Looking ahead, two catalysts could boost the Japanese market.

Chart 2: Japan real GDP growth and inflation



Source: IMF World Economic Outlook, October 2013.

INVESTING IN JAPAN'S LOST DECADES

Following the collapse of Japan's real estate bubble in the early 1990s, the Japanese economy flatlined, posting what would come to be known as the 'lost decades'.

As seen in Chart 2, from the 1990s till the 2010s Japan experienced some of the lowest gross domestic product growth rates in the developed world while simultaneously struggling with stubbornly entrenched deflation.

CATALYSTS AND POSITIONING

The first potential catalyst is the reform of Japan's Government Pension Investment Fund (GPIF), which at third quarter of fiscal year 2013, managed around ¥128 trillion in assets. The GPIF holds more than 50% of its assets in Japanese Government Bonds or JGBs in the light of growing pressure for the GPIF to reduce its weighting to JGBs and increase its weighting to domestic Japanese equities[3]. The return of inflation, particularly given Abenomics' 2% inflation target, would put further pressure to reallocate.

The second possible catalyst is the Japanese individual investor, who has accumulated financial assets of around ¥1,500 trillion. Roughly half of this ocean of assets is held in cash and deposits, effectively earning zero interest. To encourage individuals to invest some of this cash, the Japanese government proposed the Nippon Individual Savings Account, which would offer tax exemptions on capital gains and dividend income on Japanese equity investments of up to ¥1 million a year over five years. Nomura estimates around ¥28 trillion to ¥68 trillion of assets could flow into equity markets[4] – a tremendous amount of liquidity that could drive a rerating of Japanese equities.

While a wave of liquidity would lift the Japanese market, our disciplined stock selection process has enabled us to position the Fund in sectors where we find healthy fundamentals and sustainable growth drivers. Two such overweights are in the industrial and healthcare sectors.

In the industrials sector, the fund is positioned in machinery companies involved in automation, where an aging demographic in Japan and other parts of Asia is expected to see greater demand for factory automation. Healthcare is another key overweight in the portfolio, as a focus on health coupled with an aging demographic, both domestically and regionally, is expected to drive demand for healthcare consumer devices such as blood pressure monitors.

While the future remains uncertain, there are potential catalysts and long-term drivers that set the stage for optimism in Japan. At the forefront stands our team of experienced investment professionals who remain strongly focussed on smaller, less covered companies that we believe will further the consistent track record^ of the LionGlobal Japan Growth Fund.

"The Japanese retail investors moving from cash into equities could be one of the biggest drivers of a Japanese market rally – even 1% of cash moving into equities is huge – and more will come if equities are seen to be making money. It's a tremendous opportunity."

- Wee Ban Yew, head of Japanese equities, 16 years of investment experience

[1] Past performance of the Fund is not indicative of future performance. Lion Global Investors' full list of awards is available on www.lionglobalinvestors.com.

[2] Ratings are objective, based entirely on Morningstar's mathematical evaluation of past performance. Morningstar ratings are a useful tool for identifying funds worthy of further research but should not be considered buy or sell recommendations.

[3] Source: Investment results from Government Pension Investment Fund, Japan, third quarter of fiscal year 2013.

[4] Source: Asset Management In Japan 2013: Opportunities and challenges for foreign managers in 2013, Nomura Research, 2013.

^ Past performance of the Fund is not indicative of future performance.

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