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# Spotlight on Asian Income: Opportunities in an inflationary environment

## George Gosden –Portfolio Manager

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June 2022

This is a marketing communication. Please refer to the prospectus of the UCITS and to the KIID before making any final investment decisions.

# Threadneedle (Lux) Asian Equity Income

## Key Risks and Objective

**Currency Risk** – Where investments are made in assets that are denominated in multiple currencies, changes in exchange rates may affect the value of the investments.

**Political and Financial Risk** – The fund invests in markets where economic and regulatory risk can be significant. These factors can affect liquidity, settlement and asset values. Any such event can have a negative effect on the value of your investment.

**High Volatility Risk** – The fund typically carries a risk of high volatility due to its portfolio composition or the portfolio management techniques used. This means that the fund's value is likely to fall and rise more frequently and pronounced than with other funds.

**Liquidity Risk** – The fund may hold assets that are not always readily saleable without suffering a discount to fair value. The fund may have to lower the selling price, sell other investments or forego another, more appealing investment opportunity.

**Derivatives for EPM / Hedging** – The investment policy of the fund allows it to invest in derivatives for the purposes of reducing risk or minimising the cost of transactions.

**Investment Risk** – The value of investments can fall as well as rise and investors might not get back the sum originally invested.

**Objective** – The Asian Equity Income Portfolio seeks to achieve income and capital appreciation by investing principally in the equity securities of companies domiciled in Asia (with the exclusion of Japan) or with significant Asian (excluding Japan) operations. The Portfolio may further invest in other securities (including fixed income securities, other equities, convertible debt securities, real estate investment trusts and Money Market Instruments).

# Introduction



**George Gosden**  
Senior Portfolio  
Manager



1

## **Strong dividend recovery in Asia**

Asian dividends are expected to grow at twice the rate of inflation, with stronger earnings feeding through into a broad-based recovery in dividends.

2

## **Identifying income opportunities**

Dividends are well diversified by country and sector with dividend surprise a significant source of alpha for investors.

3

## **Strategy overview:**

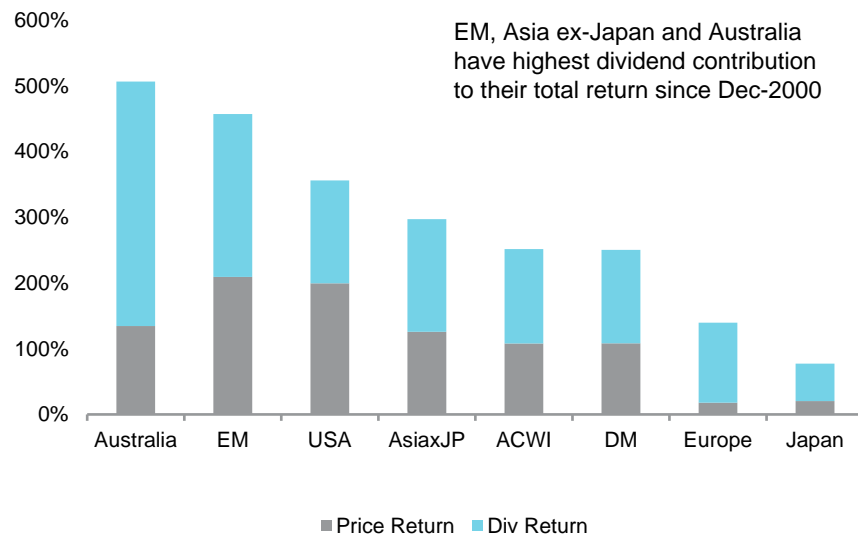
Key highlights and differentiating features of Threadneedle Asian Equity Income strategy.

# Why invest in Asian Income?

## Overview

- Over 50% of total return for Asia Pacific ex Japan since 2000 is attributable to reinvested dividends
- Dividend growth has been the highest for Emerging Markets (EM) and Asia
- Asian dividends grow at twice the rate of inflation

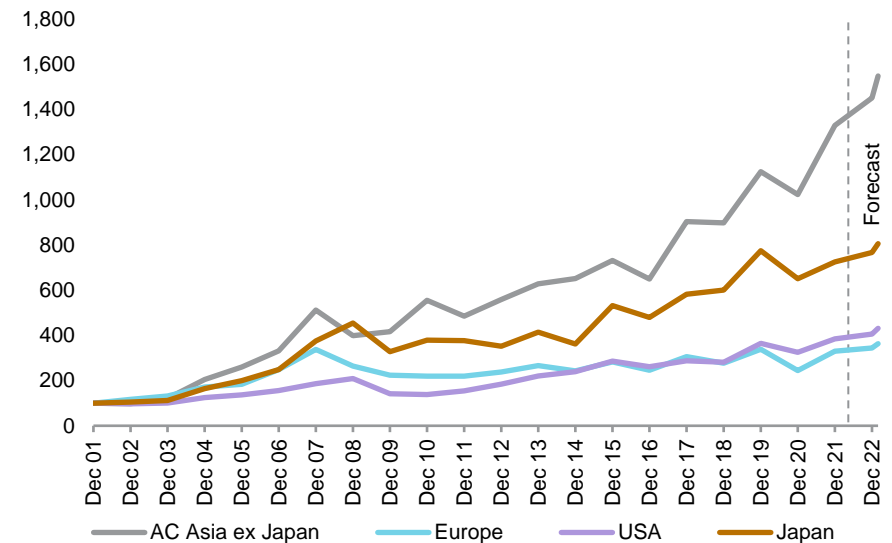
### Total returns with dividends reinvested since December 2000<sup>1</sup>



Source: FactSet Alpha Tester, EPFR Global, Bloomberg, CLSA, as at 31 March 2022 <sup>1</sup> Based on local currency performance. Gross reinvested dividends without considering the impact of taxes.

### MSCI regions & markets – indexed dividends since 2000

Dividend index rebased to 100 (local currency, current universe)



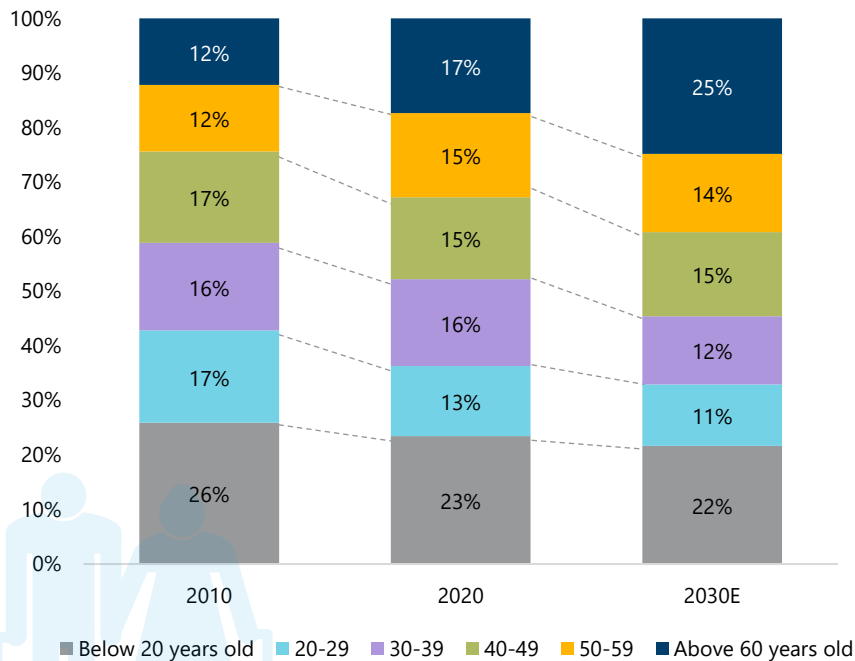
Source: CLSA, as at 31 March 2022.

# Why invest in Asian Income?

## Overview

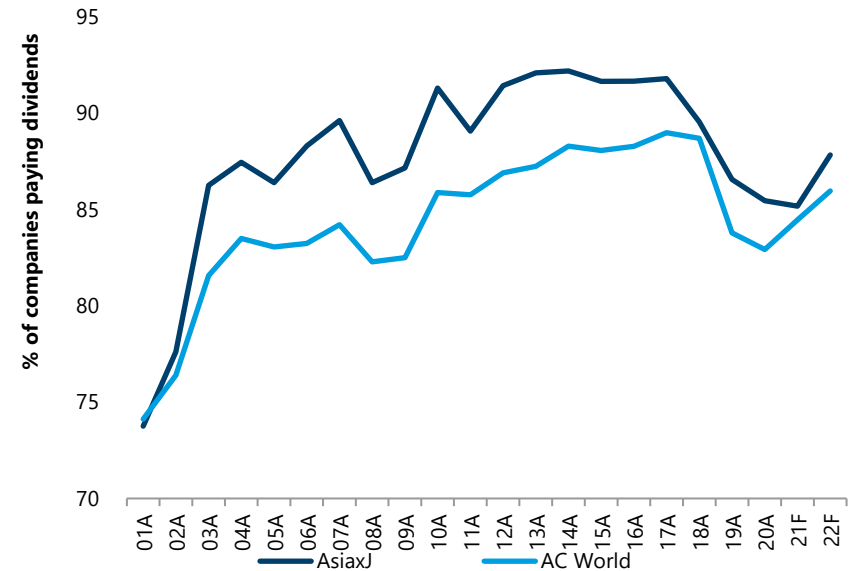
- Older and richer demographic driving steady demand for income
- Asian corporates have greater focus on corporate governance - better mix of growth and dividend

### China's population is getting older and wealthier...



Source: WIND, Jefferies Research, as at 31 March 2022.

### A higher percentage of Asian companies pay dividends versus the rest of the world



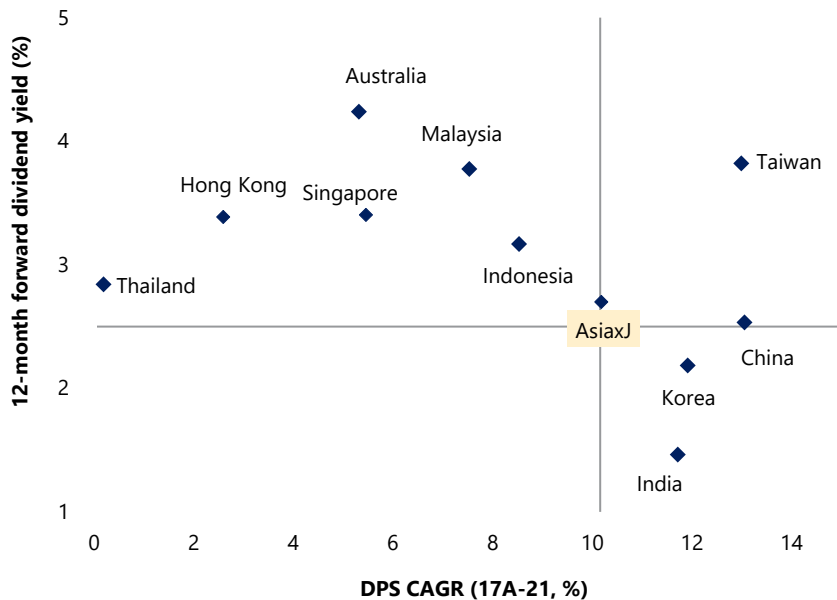
Source: Microstrategy, Jefferies Research, as at 31 March 2022. noted based on MSCI universe.

# Why invest in Asian Income?

## Diverse income opportunities

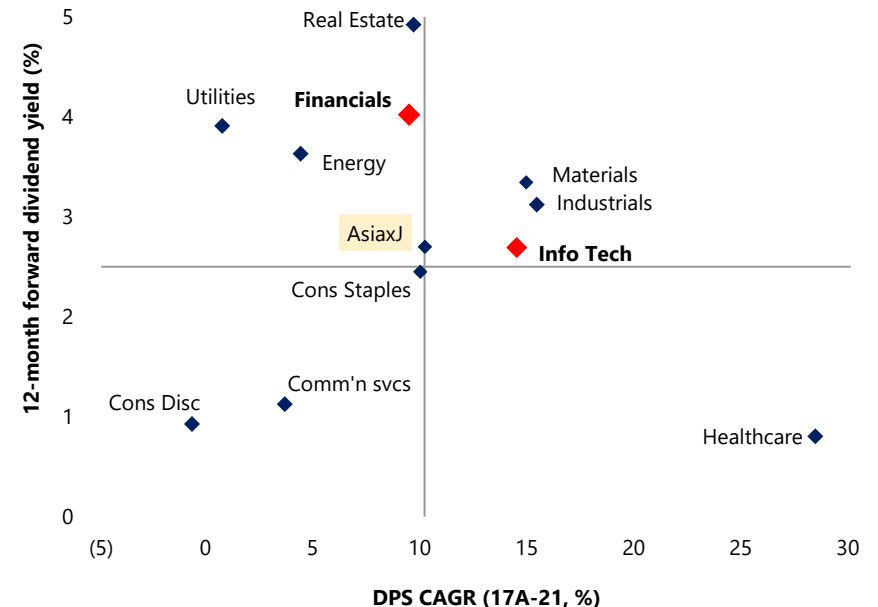
- Dividend culture is being rapidly embraced in Asia led by Australia, Taiwan and Singapore with laggards such as India starting to catch up
- Dividends broadly available across a range of sectors over time with scope for pay-out ratios to increase further

### Dividend growth by country



Source: Jefferies, as at 31 March 2022.

### Dividend growth by sector



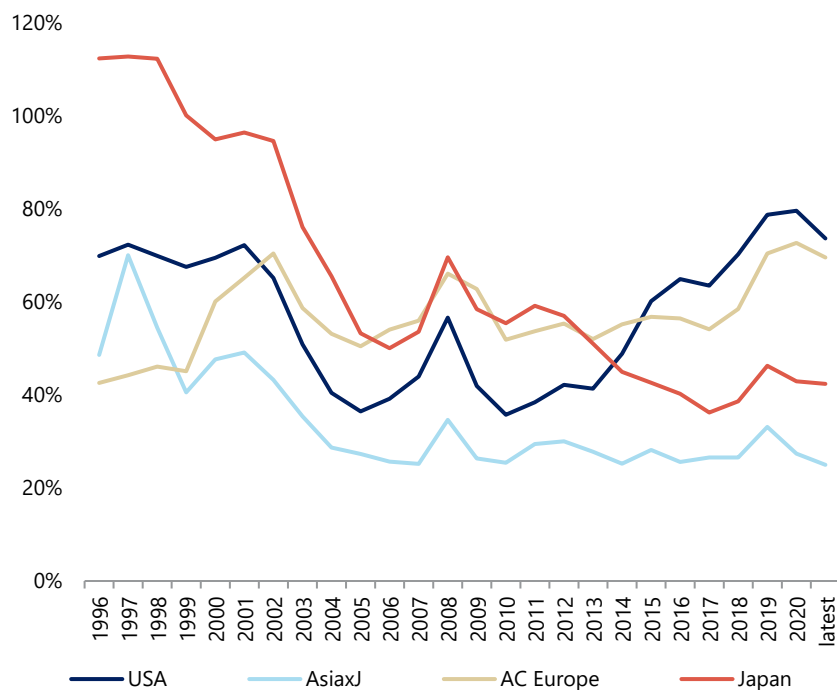
Source: Jefferies, as at 31 March 2022.

# Why invest in Asian Income?

## Greater sustainability of dividends in Asia

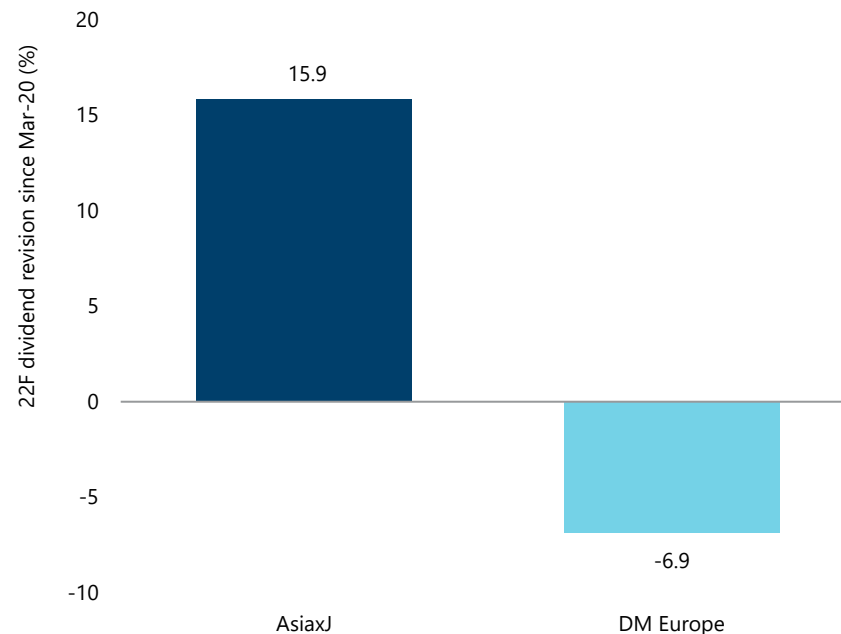
- Asian balance sheets are relatively under-gearred
- Asian dividends have been more stable than in other regions

### Debt to equity ratios across the regions



Source: Jefferies, as at 31 March 2022.

### Dividend sustainability

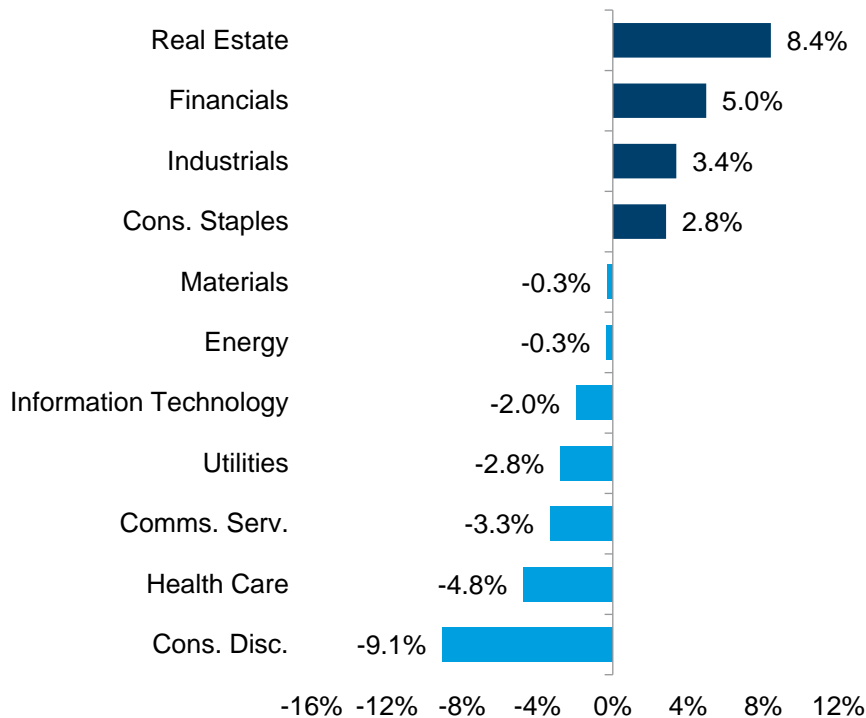


Source: Jefferies, as at 31 March 2022.

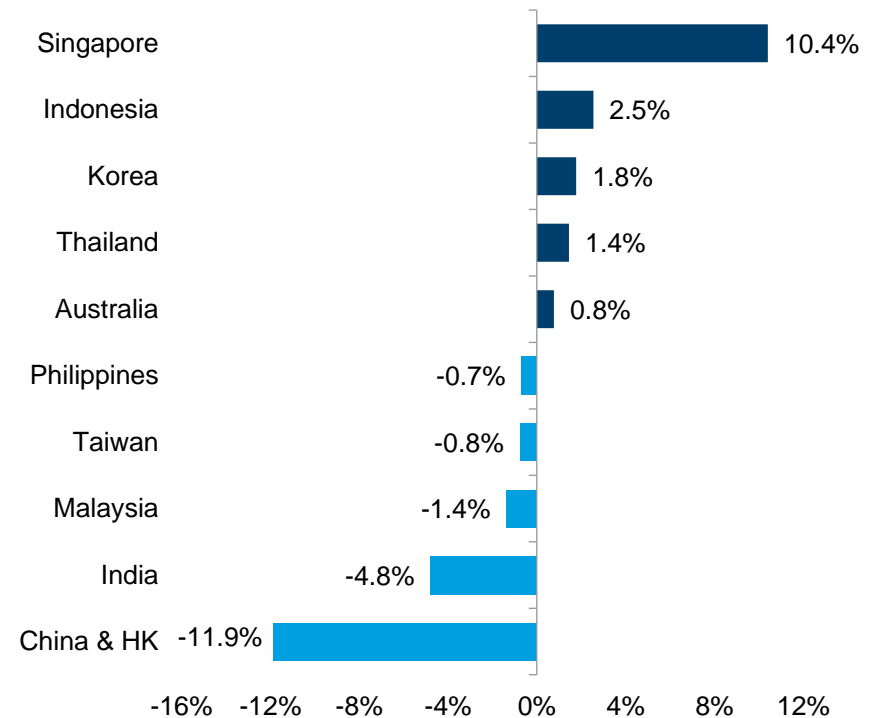
# Threadneedle (Lux) Asian Equity Income

## Sector and geographic breakdown

**Sector relative to MSCI AC Asia Pacific ex. Japan Index<sup>1</sup>**



**Geographic relative to MSCI AC Asia Pacific ex. Japan Index<sup>2</sup>**



Source: Columbia Threadneedle Investments, as at 31 May 2022.

<sup>1</sup> Excludes Cash at 2.9%.

<sup>2</sup> Shows selected overweight and underweight countries and sectors. The fund is an actively managed portfolio. Holdings, sector weights, allocations and leverage, as applicable, are subject to change at the discretion of the Investment Manager without notice. Provided for information only, not to be construed as investment recommendation or advice. Investments involve risks, not all investment ideas are suitable for all investors.



# Strategy overview

## Clearly defined philosophy



We believe bottom-up stock selection is as important as top-down analysis because the number of Asian stocks paying dividends has increased dramatically over the last decade

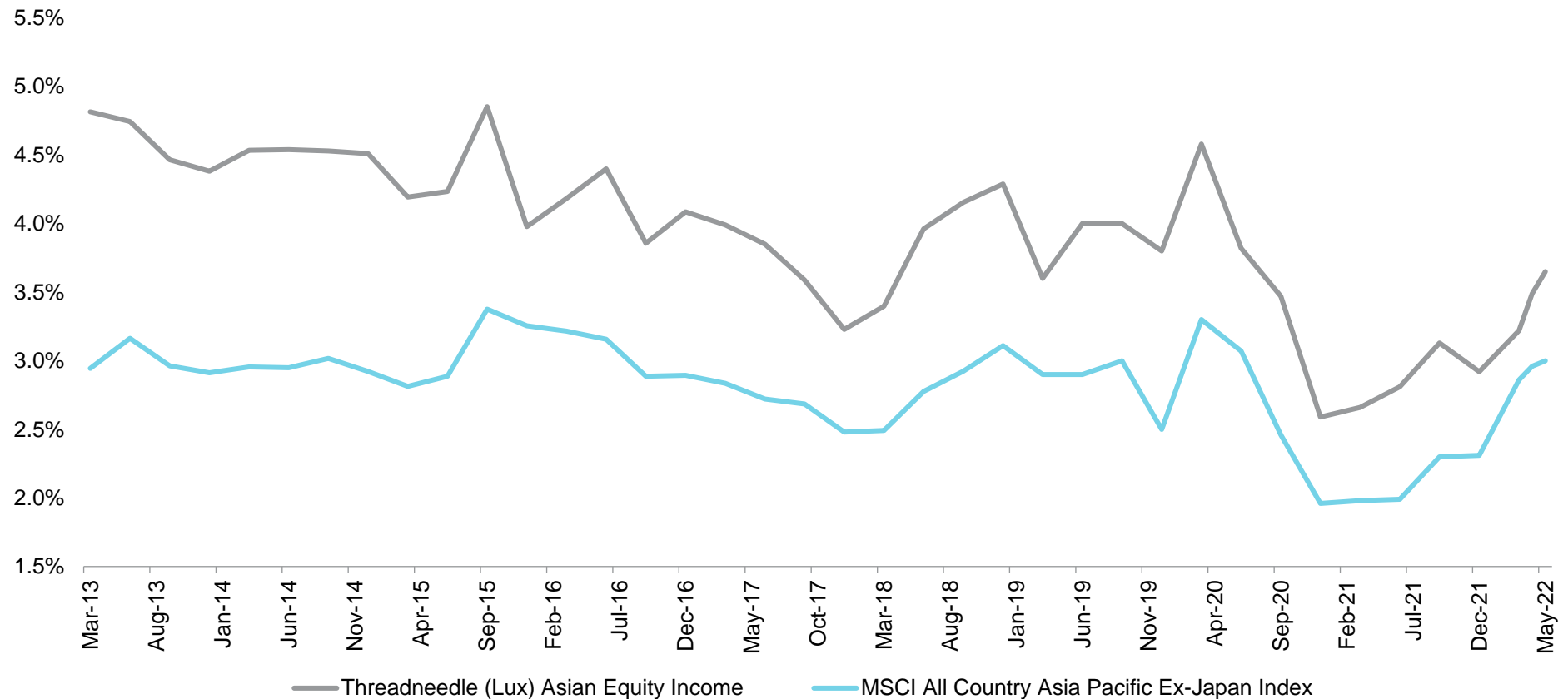
We believe companies that can demonstrate a sustainable income whilst exhibiting the potential to grow dividends are best placed to take advantage of this maturing approach to capital distribution within Asia

We believe in dividend surprise for additional alpha generation – exposing the potential for an unanticipated change in dividend policy

# Threadneedle (Lux) Asian Equity Income

## Consistent dividend yield

### Fund and benchmark dividend yield over time



Source: Columbia Threadneedle Investments, as at 31 May 2022.

# Threadneedle (Lux) Asian Equity Income

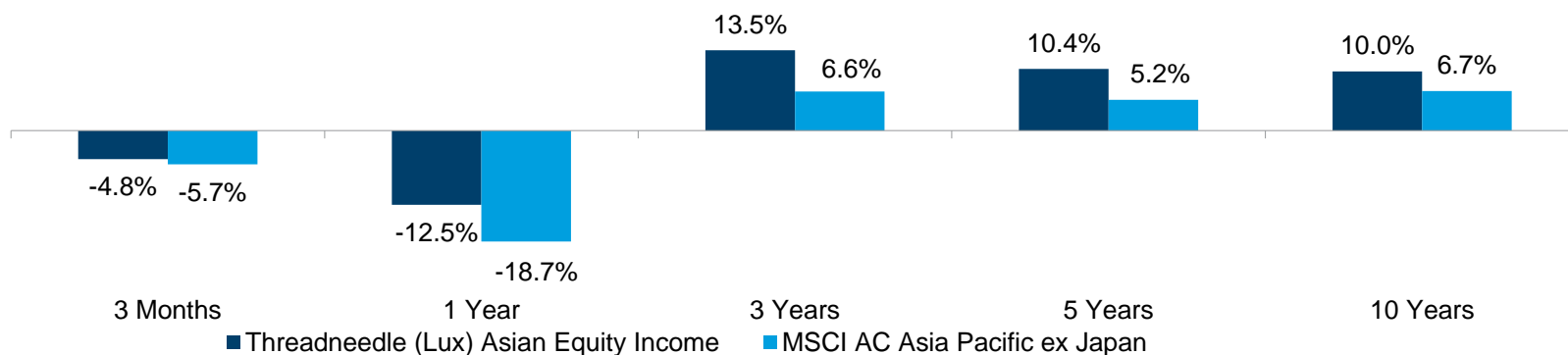
## Performance analysis

Past performance does not predict future returns

Rolling year gross performance (%)

12 months ending	May 22	May 21	May 20	May 19	May 18	May 17	May 16	May 15	May 14	May 13
Threadneedle (Lux) Asian Equity Income	-12.5	65.7	0.9	-7.2	20.6	22.3	-9.3	2.0	11.2	25.3
MSCI AC Asia Pacific ex Japan Index	-18.7	51.6	-1.8	-8.5	16.2	25.6	-15.3	5.3	9.1	21.2
Outperformance <sup>1</sup>	<b>+7.6%</b>	<b>+9.3%</b>	<b>+2.7%</b>	<b>+1.5%</b>	<b>+3.8%</b>	<b>-2.7%</b>	<b>+7.1%</b>	<b>-3.1%</b>	<b>+2.0%</b>	<b>+3.4%</b>

Gross annualised performance versus benchmark (USD)



Outperformance <sup>1</sup>	<b>+0.9%</b>	<b>+7.6%</b>	<b>+6.5%</b>	<b>+4.9%</b>	<b>+3.1%</b>
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Source: Columbia Threadneedle Investments and FactSet, all data as at 31 May 2012 to 31 May 2022 and in USD. Based on global close valuations with cash flows weighted at start of day and excluding entry/exit charges and ongoing charges, and net of transaction costs. The Index does not include fees or charges and you cannot invest in it. The return of your investment may change as a result of currency fluctuations if your investment is made in a currency other than that used in the past performance calculation..(1) Relative return is shown on a geometric basis. For detailed information on Fund Changes please see "Significant Events -Threadneedle (Lux) Funds" PDF available on [www.columbiathreadneedle.com/en/changes](http://www.columbiathreadneedle.com/en/changes) 1 Fund returns gross of fees and management expenses for comparison with MSCI AC Asia Pacific ex Japan Index.

# Threadneedle (Lux) Asian Equity Income

## Differentiating features

### High underlying yield

- In aggregate the fund aims to provide a yield at least 1.1 times that of the underlying index
- No derivatives or hedging used

### Portfolio style

- A balanced style bias, with dividend yield as the only significant tilt
- Diversified sources of income, spread by country and sector

### Dividend surprise

- Additional source of alpha generation through unanticipated changes in dividend policy

## Current characteristics

### Threadneedle (Lux) Asian Equity Income

<b>Benchmark</b>	MSCI AC Asia Pacific ex Japan
<b>Article 6*</b>	The Fund is categorised an Article 6 under the EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR) and DOES NOT promote environmental or social characteristics as an objective.
<b>Outperformance target</b>	3% p.a. rolling three years
<b>Expected tracking error</b>	4%-8%
<b>Stock weightings</b>	+/- 4% versus benchmark
<b>Sector weightings</b>	+/- 15% versus benchmark
<b>Country weightings</b>	+/- 15% versus benchmark
<b>Number of holdings</b>	40-60
<b>Current dividend yield</b>	3.7%
<b>Current index yield</b>	3.0%
<b>Current tracking error</b>	5.8%

Source: Columbia Threadneedle Investments, as at 31 May 2022. Where references are made to fund characteristics and features these may be subject to change over time and subject to prevailing market conditions. Actual investment parameters will be agreed and set out in the prospectus or formal investment management agreement. Please note that the outperformance target does not form part of the fund's objectives and may not be attained.

Past performance is not a guide to future returns.



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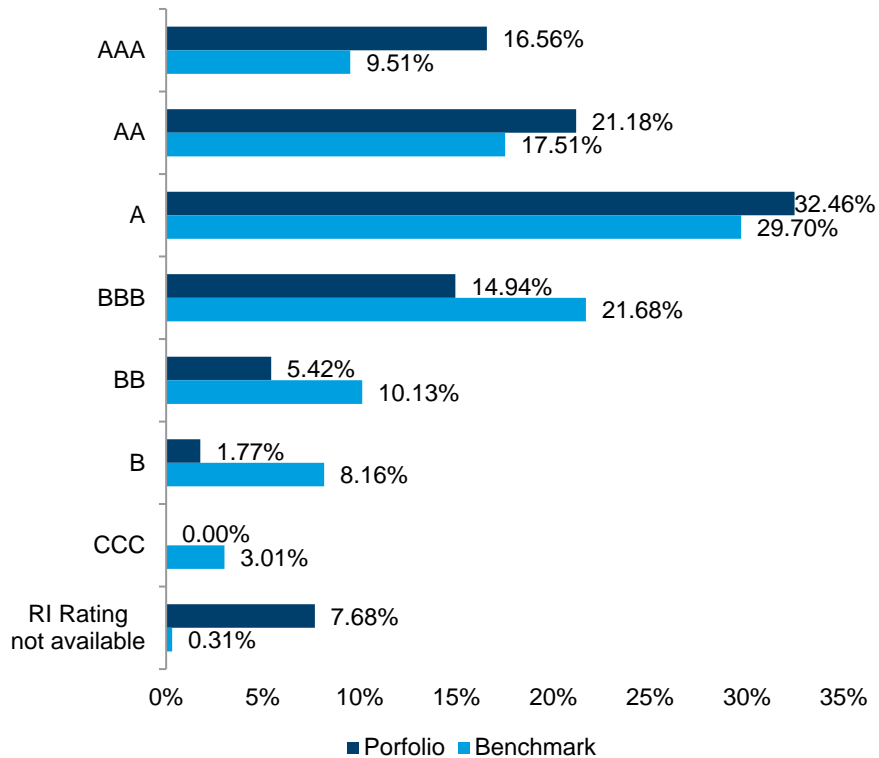
# Appendix



# Threadneedle (Lux) Asian Equity Income

## MSCI Rating

MSCI Rating	Portfolio	Benchmark	Positive / negative tilt
Weighted average (AAA is highest quality, CCC is lowest quality)	7.03	5.96	1.07



**MSCI ESG Rating - AAA**

NB: Portfolio and benchmark weights are expressed on a reweighted basis to eliminate any allocation to non-corporate issuers or cash. Headline numbers are further adjusted to eliminate the impact of any allocation to 'unrated' issuers.

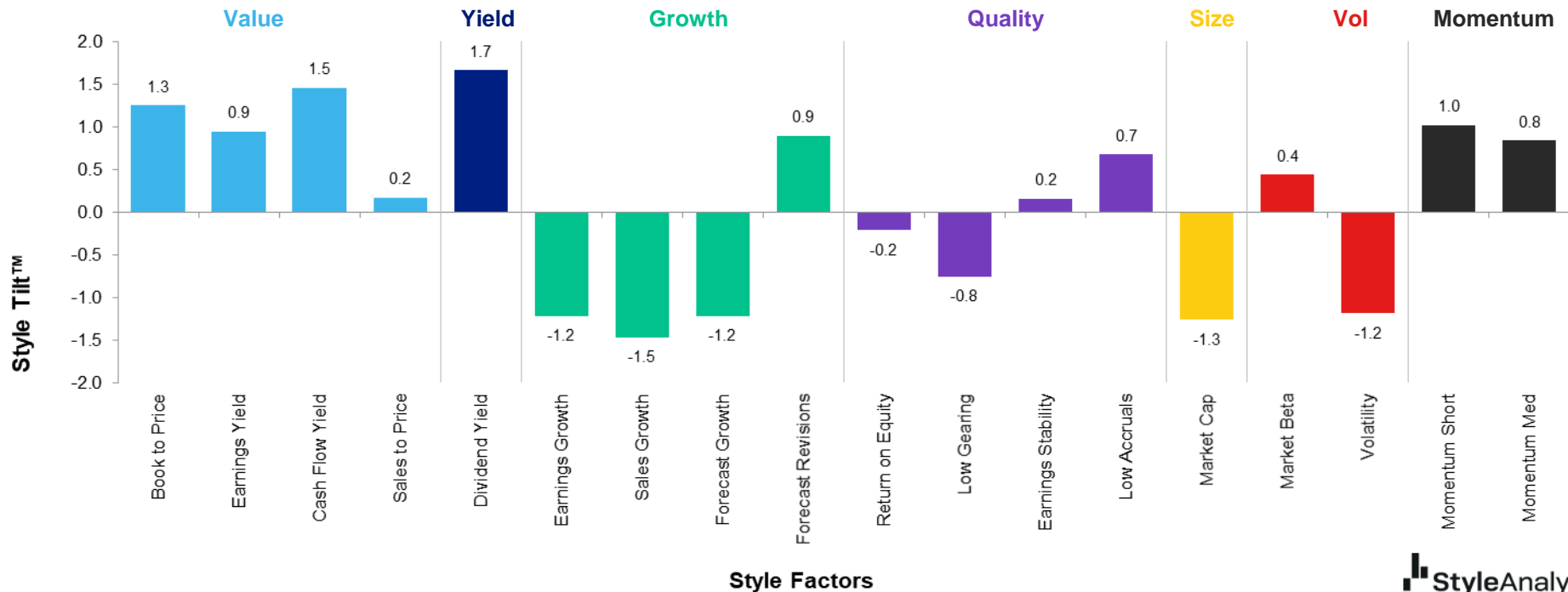
Source: Columbia Threadneedle Investments, as at 31 March 2022 . MSCI ESG Research, as at 31 March 2022. The Benchmark relates to MSCI AC Asia Pacific ex Japan Index.

# Portfolio factor exposures

## Balanced portfolio with exposure to dividends

- The fund has a strong bias towards high dividend yielding stocks
- The fund does not have a significant bias to Value or Growth

### Portfolio Style Skyline™ – Threadneedle (Lux) Asian Equity Income




Source: Style Research, as at 31 May 2022. Style Skylines™ created with, embodies and/or executes proprietary software and/or data under license from Style Research Ltd. © Style Research Ltd. All Rights Reserved. Must not be redistributed by third parties. Data represents Threadneedle (Lux) Asian Equity Income versus MSCI Asia Pacific ex Japan, historical ranges from 30 June 2014. Positive scores represent a tilt towards each style metric. Vertical axis measurement is standard deviation. The fund is an actively managed portfolio. Holdings, sector weights, allocations and leverage, as applicable, are subject to change at the discretion of the Investment Manager without notice. Provided for information only, not to be construed as investment recommendation or advice. Investments involve risks, not all investment ideas are suitable for all investors.

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