

# Spotlight on Asian Income: Opportunities in a reflationary environment

## George Gosden – Senior Portfolio Manager

11 May 2021

# Introduction



**George Gosden**  
Senior Portfolio  
Manager



1

## **Strong dividend recovery in Asia**

Asian economies have recovered rapidly and stronger earnings are 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:**

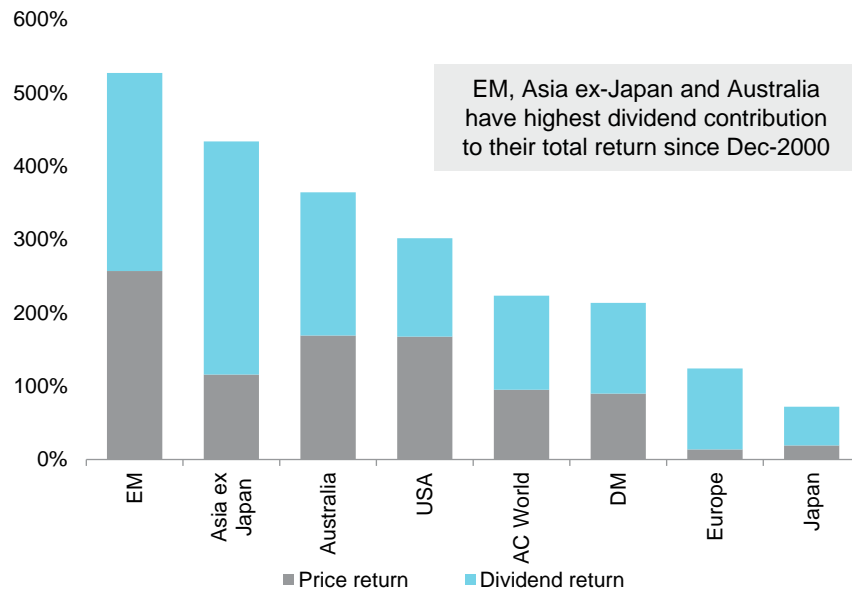
Key highlights and differentiating features of Threadneedle Asian Equity Income strategy.

# Why invest in Asian Income?

## Overview

- 41% of total return for Asia Pac ex Japan over the last 25 years is attributable to reinvested dividends
- Dividend growth has been the highest for EM and Asia

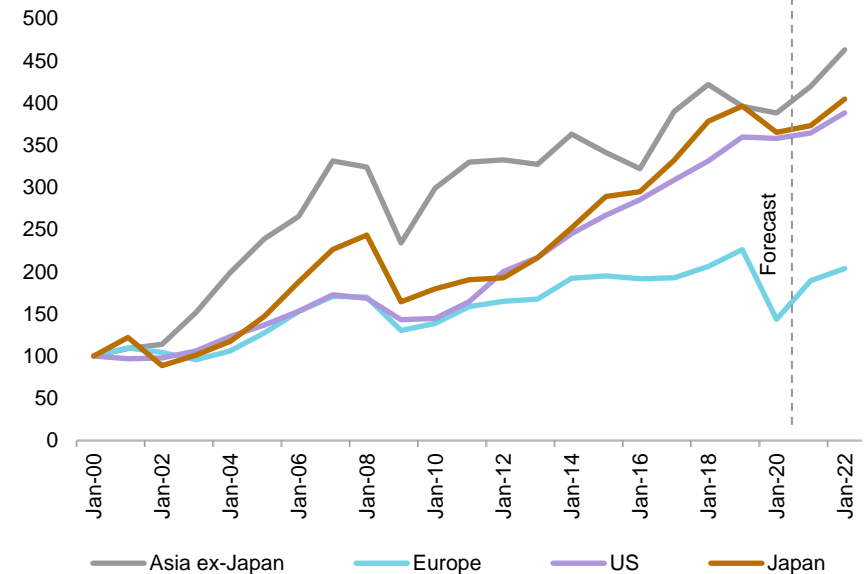
### Total returns with dividends reinvested since December 2000<sup>1</sup>



Source: FactSet Alpha Tester, EPFR Global, Bloomberg, CLSA, as at 28 February 2021.  
 1 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)



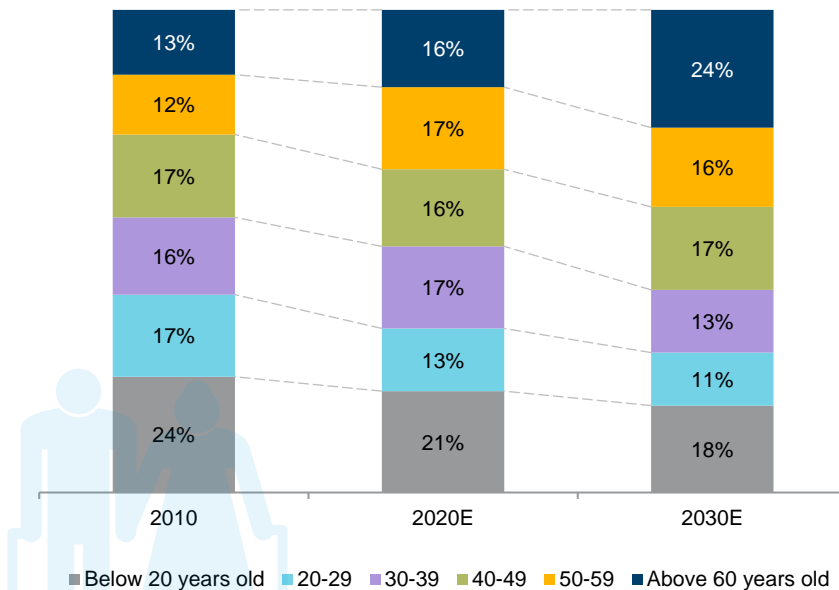
Source: BAML, as at 28 February 2021.

# Why invest in Asian Income?

## Overview

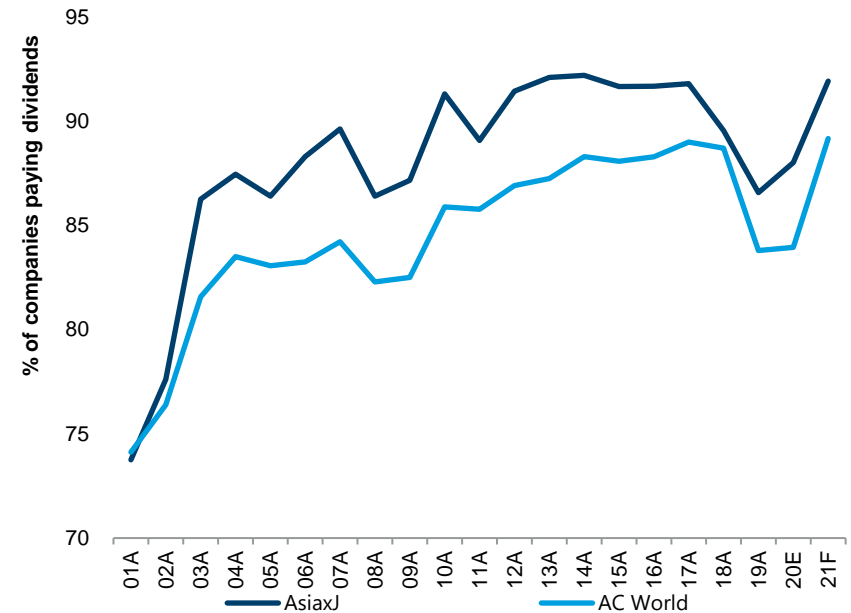
- Older and richer demographic driving steady demand for income
- Asian corporates have greater focus on corporate governance - better mix of growth and dividend

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



Source: WIND, Jefferies Research, as at July 2020.

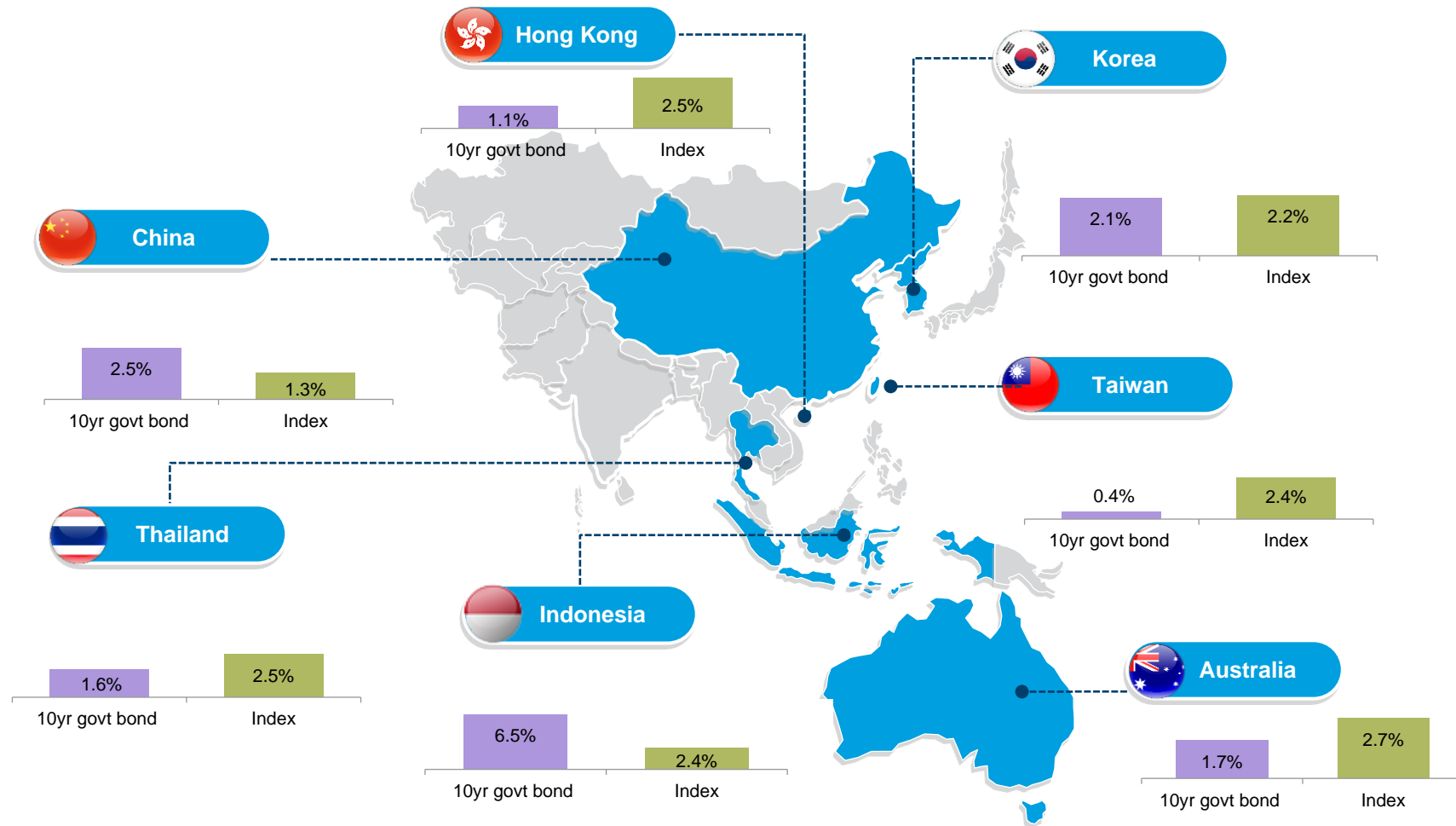
### A higher percentage of Asian companies pay dividends versus the rest of the world



Source: Microstrategy, Jefferies Research, as at 5 May 2021. noted based on MSCI universe.

# Why invest in Asian Income?

## Attractive dividend yields across the region



Source: Columbia Threadneedle Investments, Bloomberg, as at 30 April 2021.

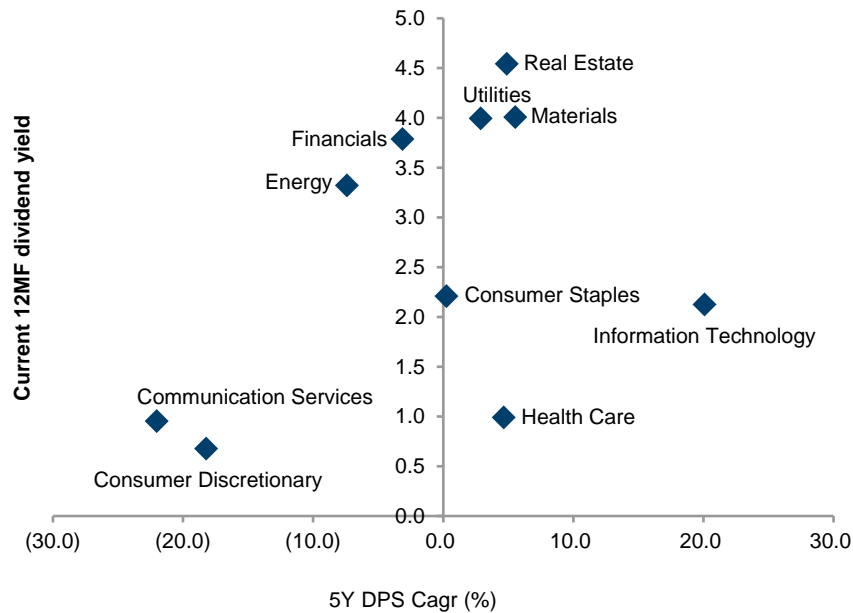
\* Fund relates to Threadneedle (Lux) Asia Equity Income Fund. Index relates to MSCI All Country Asia Pacific ex-Japan Dividend Yield Index.

# Why invest in Asian Income?

## Dividends by sector

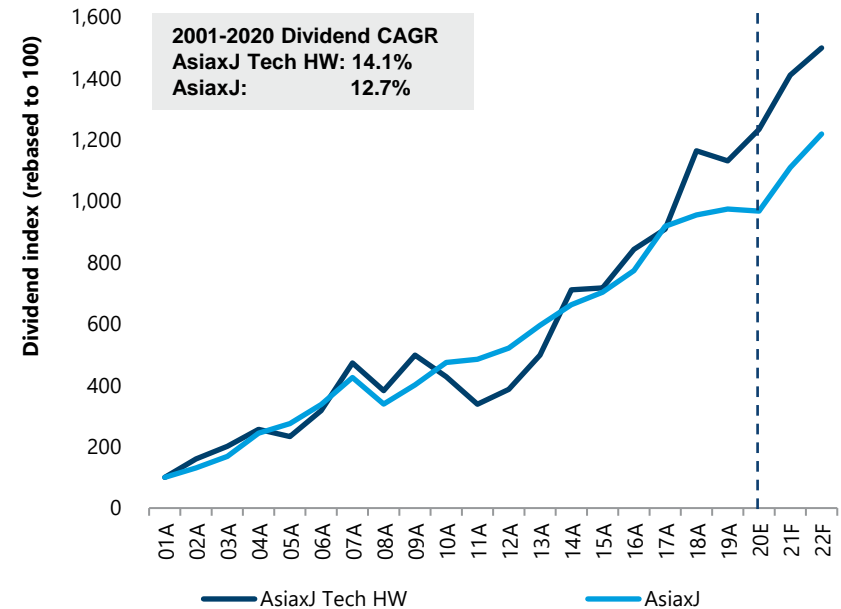
- Unlike other regions, Asia offers dividend opportunities in “more growthy” sectors such as Technology
- Diversification of yield drives consistent performance over time and through different market environments

### Dividend growth by sector



Source: Jefferies, as at 30 April 2021.

### MSCI AsiaxJ Tech hardware - Dividend growth since end of 2001



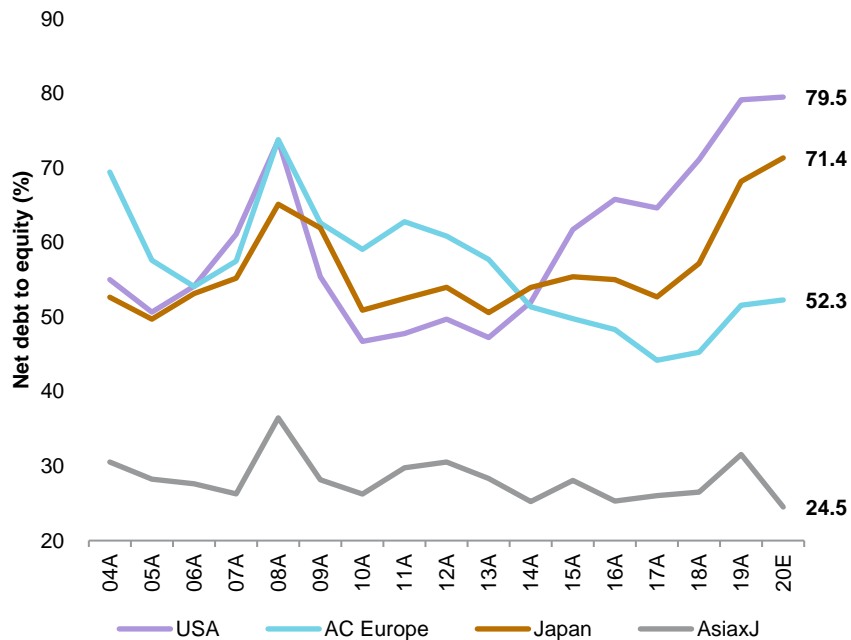
Source: Jefferies, as at 30 April 2021.

# Why invest in Asian Income?

## Greater sustainability of dividends in Asia

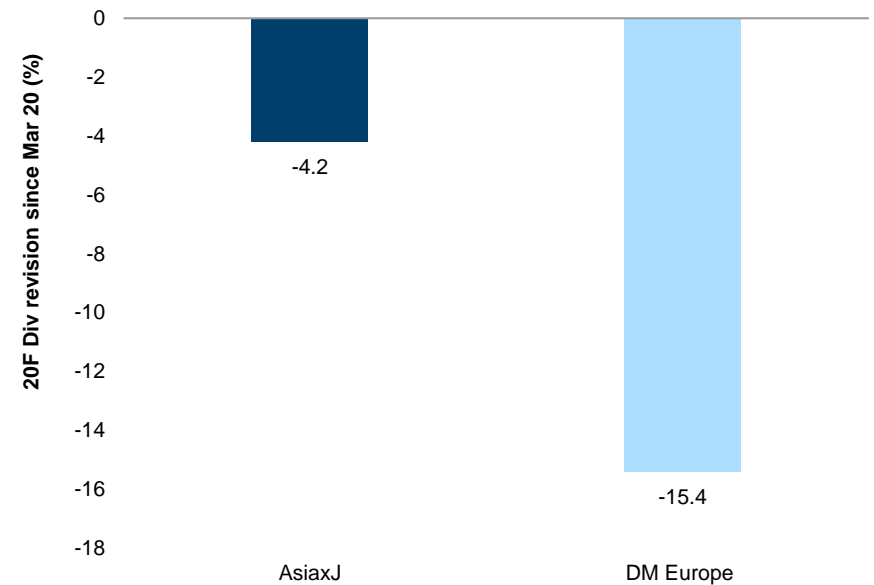
- Asian balance sheets are relatively under-gearred
- Asian dividends have been more stable than in other regions

### Debt to equity ratios across the regions



Source: Jefferies, as at 31 March 2021.

### Asian dividends outperformed during COVID



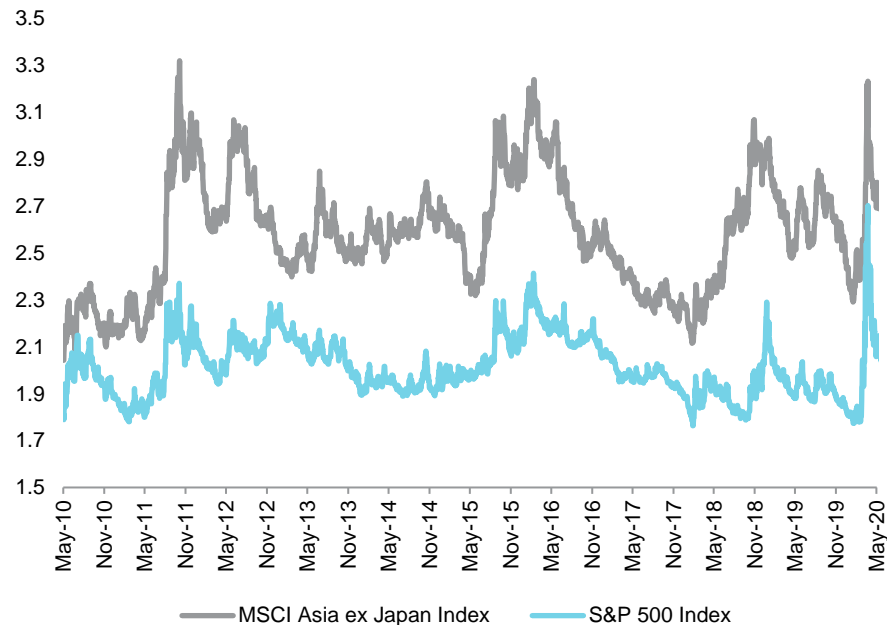
Source: Jefferies, as at 31 March 2021.

# Dividends and Asia's reflation

## A widening opportunity set

- Asian dividend yields remain attractive versus other regions such as US & Japan
- High yielding stocks remain attractive against backdrop of persistently low interest rates
- No. of high yielding stocks is growing rapidly – wider opportunity set

### Superior dividend yield in Asia versus the US



Source: Bloomberg, as at 4 May 2021

### MSCI AsiaxJ - Percentage of companies with dividend yield over 3%



Source: Jefferies, as at 30 April 2021.

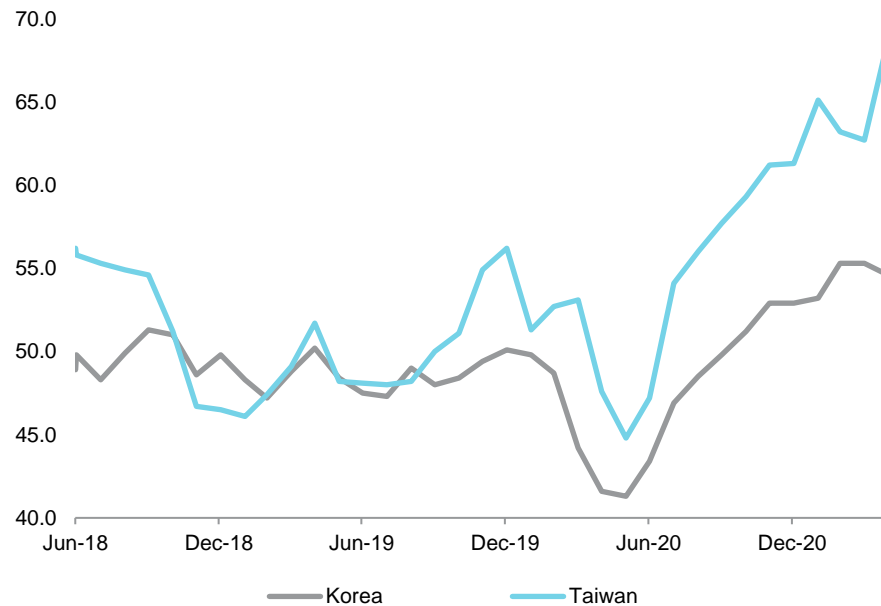


# Dividends and Asia's reflation

## Asia leading the global dividend recovery

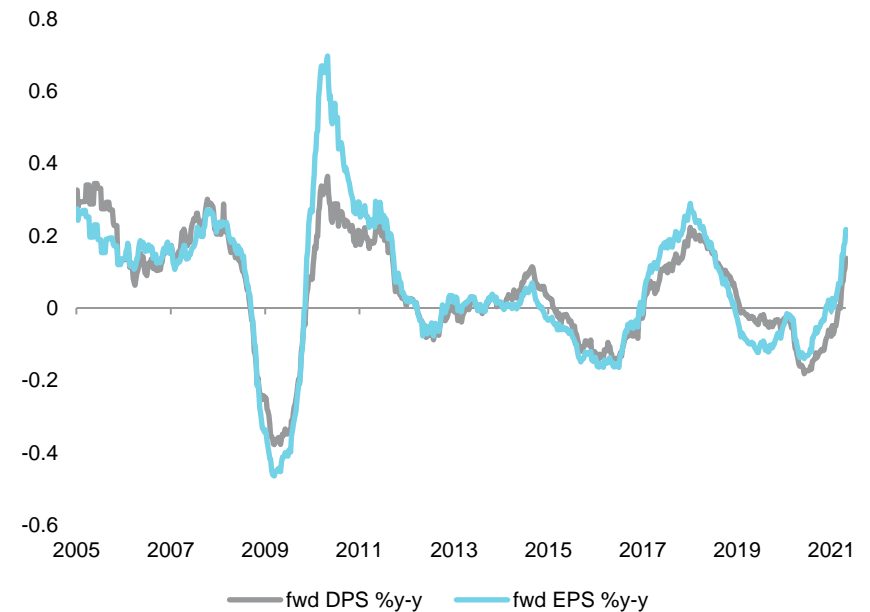
- Asian economies have bounced back faster post COVID
- Scope for dividend growth underestimated as earnings recover

**PMI data has rebounded in Taiwan and Korea**



Source: Bloomberg, as at 31 March 2021.

**MSCI Asia ex Japan 12 month forward DPS and EPS**



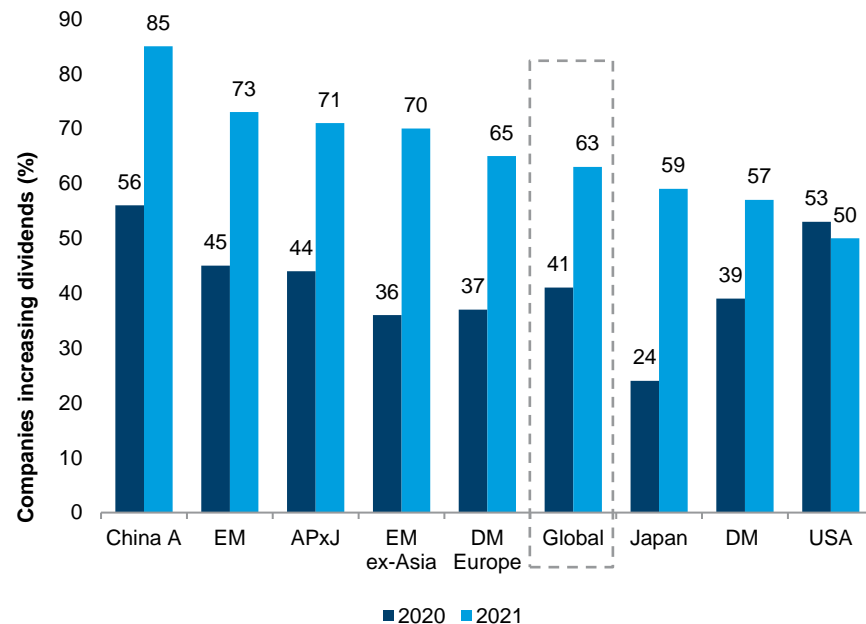
Source: JPM Research, as at 31 March 2021.

# Dividends and Asia's reflation

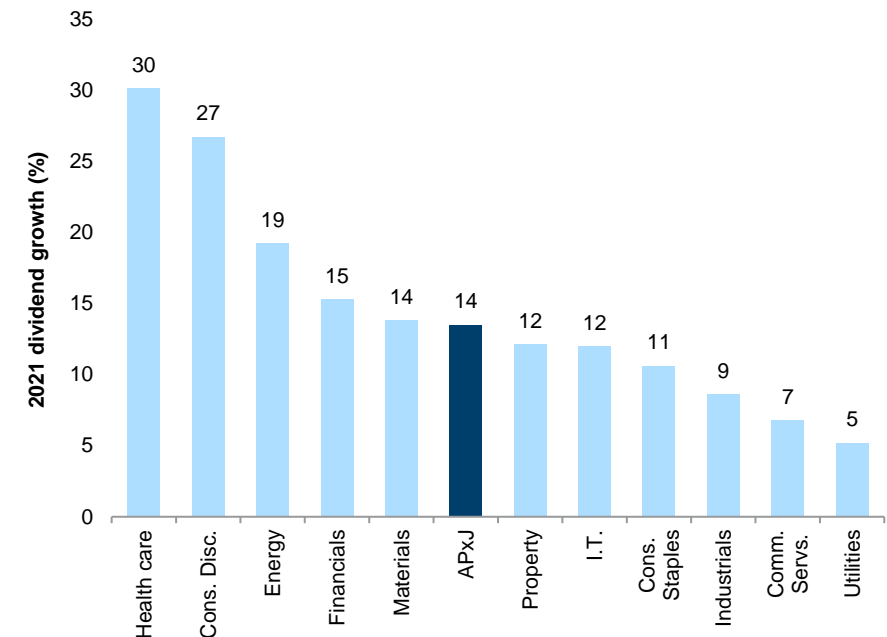
## Asia leading the global dividend recovery

- Asian dividends already recovering faster than in other regions
- Broad-based recovery with cyclical sectors leading the reflationary bounce

### Dividend increases to accelerate in Asia



### MSCI Asia ex Japan sector dividend growth



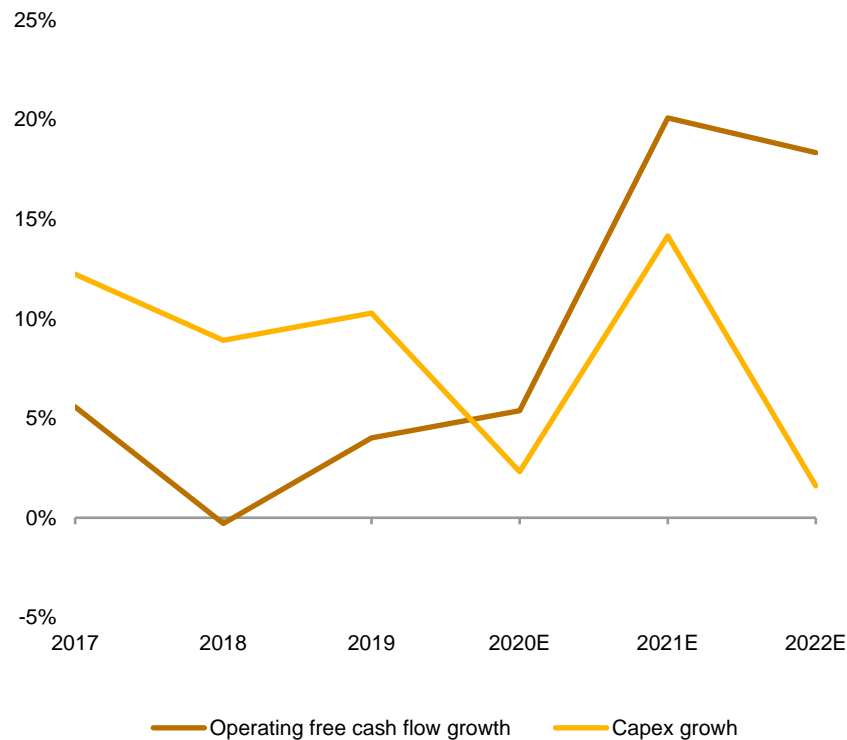
Source: Jefferies, as at 30 April 2021.

Source: Jefferies, as at 30 April 2021. Bottom up aggregated with free float based on MSCI universe.

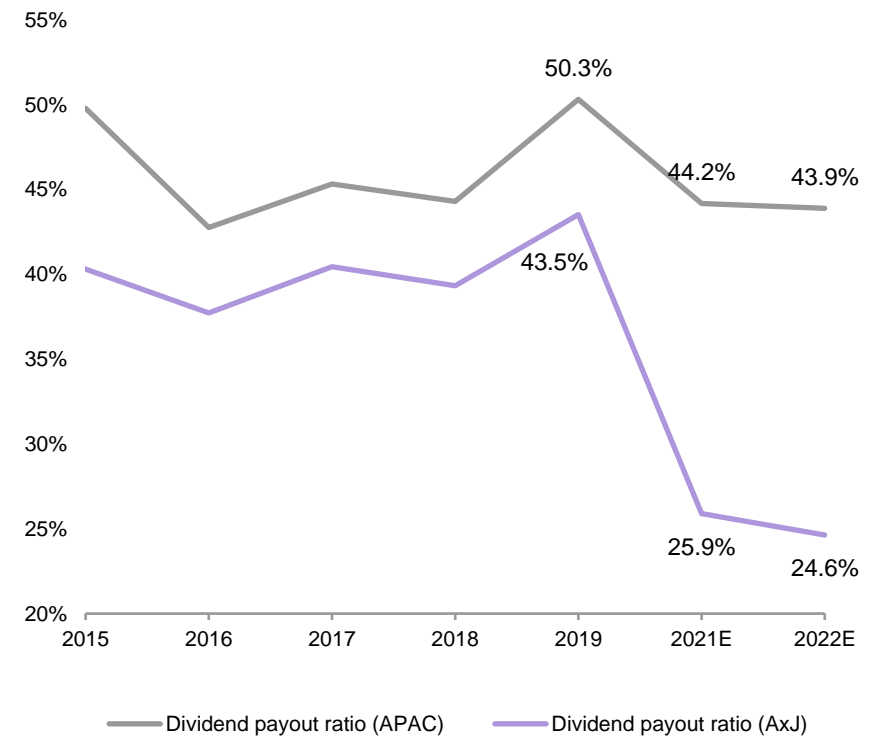
# Dividends and Asia's reflation

## Alpha opportunities from dividend surprise

- Strong cash flows and disciplined capex to sustain dividend momentum
- Further upside to dividends as pay-out ratios revert to mean



Source: UBS, as at 30 April 2021.



Source: UBS, as at 30 April 2021.

# Stock example – dividend surprise

## MediaTek

### Share price



### Investment Thesis

### Global leader in semiconductor system solutions

- Designs microchip systems for consumer electronic products
- Key beneficiary of 5G chipset growth in smartphones
- Long term thesis supported by addressable market expansion and product mix improvements

### Dividend surprise

- Announced special dividend from 2021 to 2024 and increased pay-out ratio to 80%
- Share price rose 10% post announcement

### ESG

- CTI Responsible Investment rating – 1 (best score)
- MSCI ESG rating – BBB

Source: Bloomberg, as at 30 April 2021.

The mention of stocks is not a recommendation to deal. All intellectual property rights in the brands and logos set out in this slide are reserved by respective owners.

Past performance is not a guide to future returns.

# Stock example – dividend surprise

## SK Telecom

### Share price



Investment Thesis

### Wireless telecoms operator in Korea

- Rapid 5G rollout driving recovery in revenue growth whilst network costs remain well contained
- Solid growth from new digital related businesses
- Corporate restructuring should release hidden value in stake in SK Hynix semiconductor and drive renewed focus on distributions

### Dividend surprise

- Dividend yield uplift of SKT Mobile Network Operator following spin off
- Treasury share cancellation gives strong signal of management’s shareholder value focused strategy

### ESG

- CTI Responsible Investment rating – 2
- MSCI ESG rating – A

Source: Bloomberg, as at 30 April 2021.

The mention of stocks is not a recommendation to deal. All intellectual property rights in the brands and logos set out in this slide are reserved by respective owners.

Past performance is not a guide to future returns.

# Threadneedle (Lux) Asian Equity Income

## Fund characteristics

### Differentiating features

#### High underlying yield

- In aggregate the fund aims to provide a yield at least 1.3 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

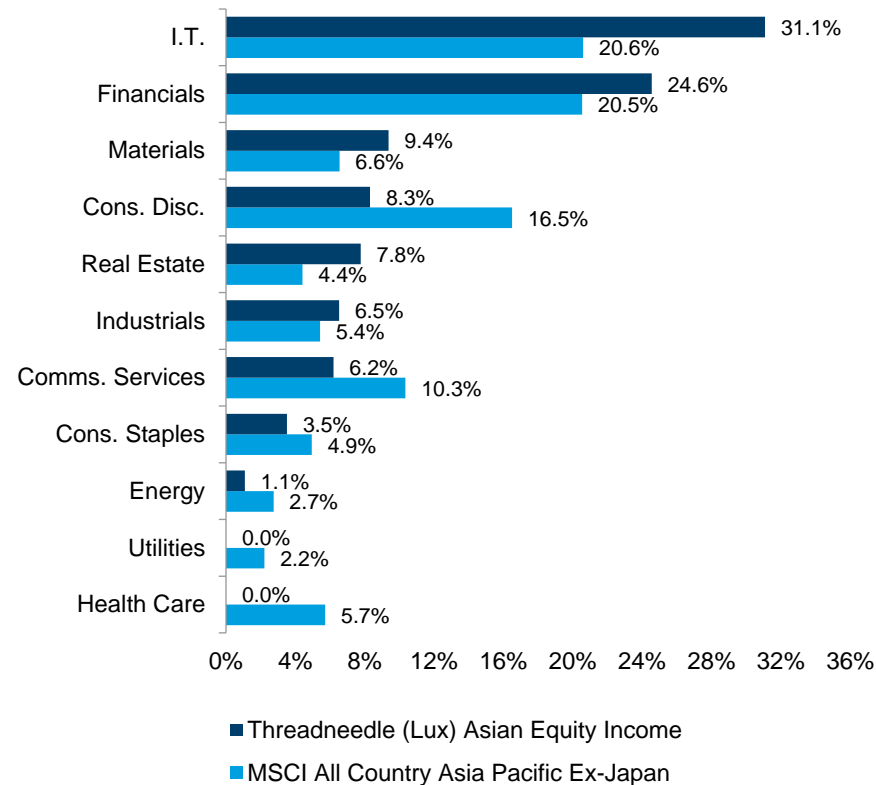
| Threadneedle (Lux) Asian Equity Income |                                 |
|--|---------------------------------|
| <b>Benchmark</b>                       | MSCI AC Asia Pacific ex Japan   |
| <b>Outperformance target</b>           | 3% p.a. rolling three years     |
| <b>Expected tracking error</b>         | 4%-8%                           |
| <b>Stock weightings</b>                | +/- 3% versus benchmark         |
| <b>Sector weightings</b>               | +/- 10% versus benchmark        |
| <b>Country weightings</b>              | +/- 10% versus benchmark        |
| <b>Number of holdings</b>              | 40-60                           |
| <b>Current dividend yield</b>          | 2.7%                            |
| <b>Current index yield</b>             | 2.0%                            |
| <b>Current tracking error</b>          | 4.9%                            |
| <b>Volatility</b>                      | Fund: 22.9%<br>Benchmark: 22.9% |
| <b>Fund size</b>                       | \$52.5 million                  |

Source: Columbia Threadneedle Investments, as at 31 March 2021. Past performance is not a guide to future returns. 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.

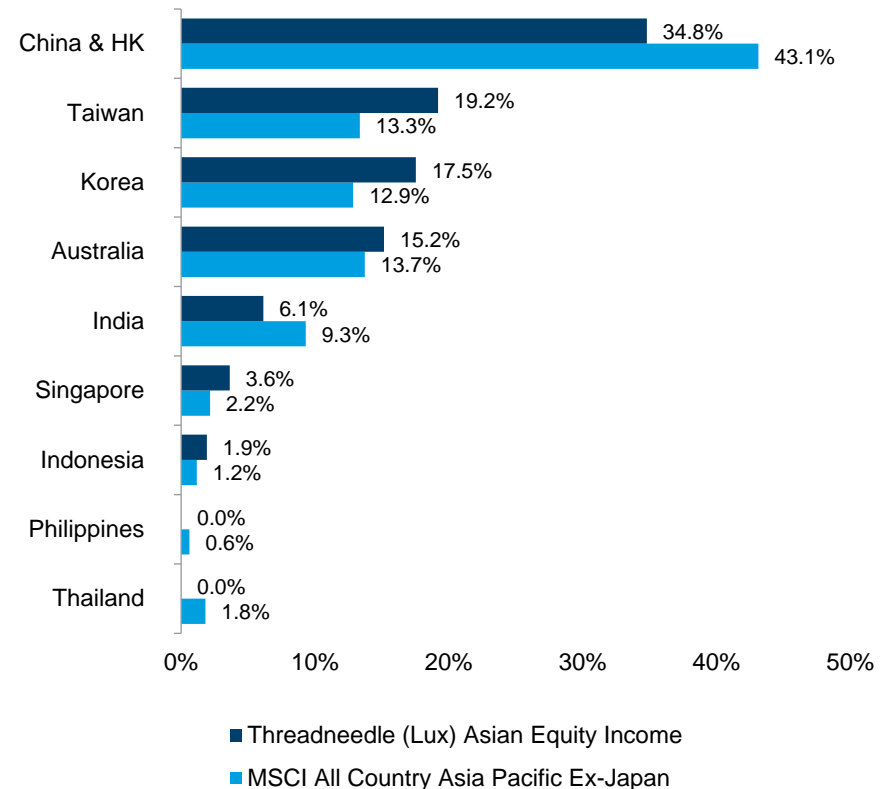
# Threadneedle (Lux) Asian Equity Income

## Sector and geographic exposure

**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>**



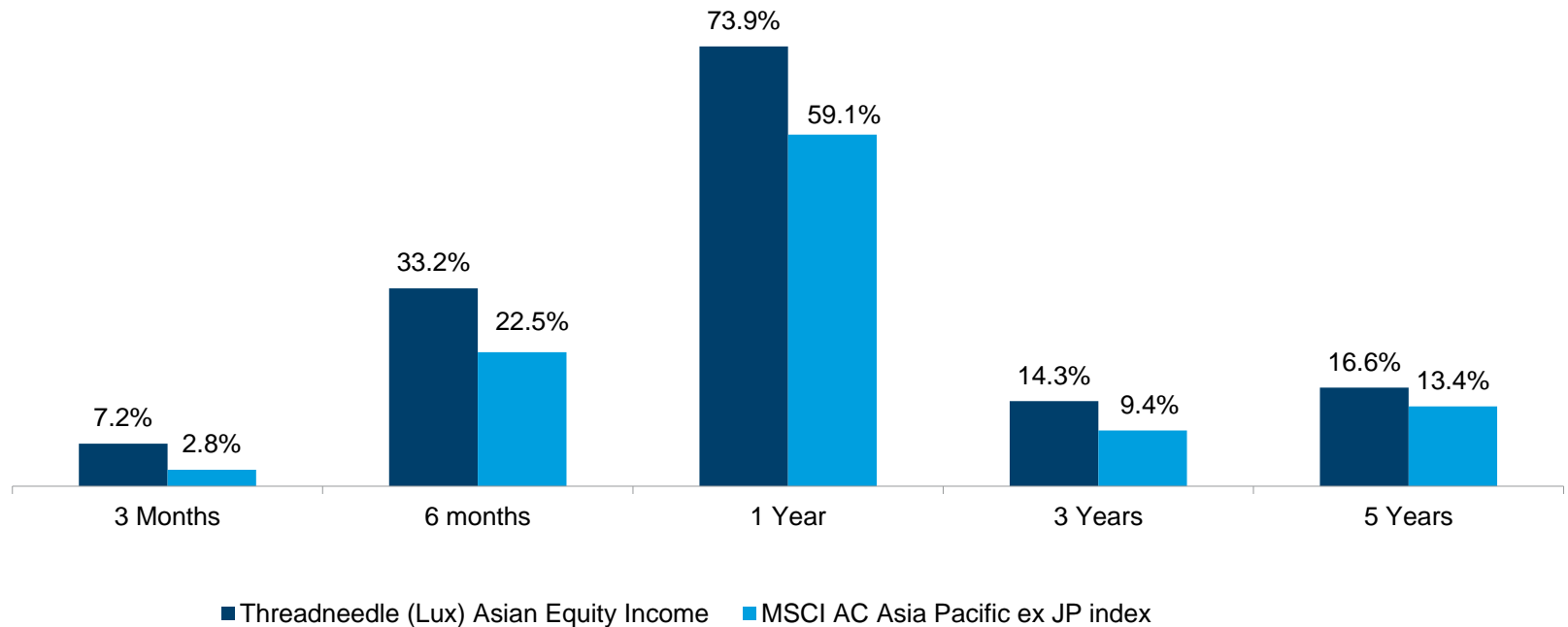
Source: Columbia Threadneedle Investments and MSCI, as at 31 March 2021.

1 Excludes Cash and Cash Equivalents of 1.6%.

2. Shows top absolute country weights.

# Threadneedle (Lux) Asian Equity Income Performance

## Annualised gross performance versus index<sup>1</sup>



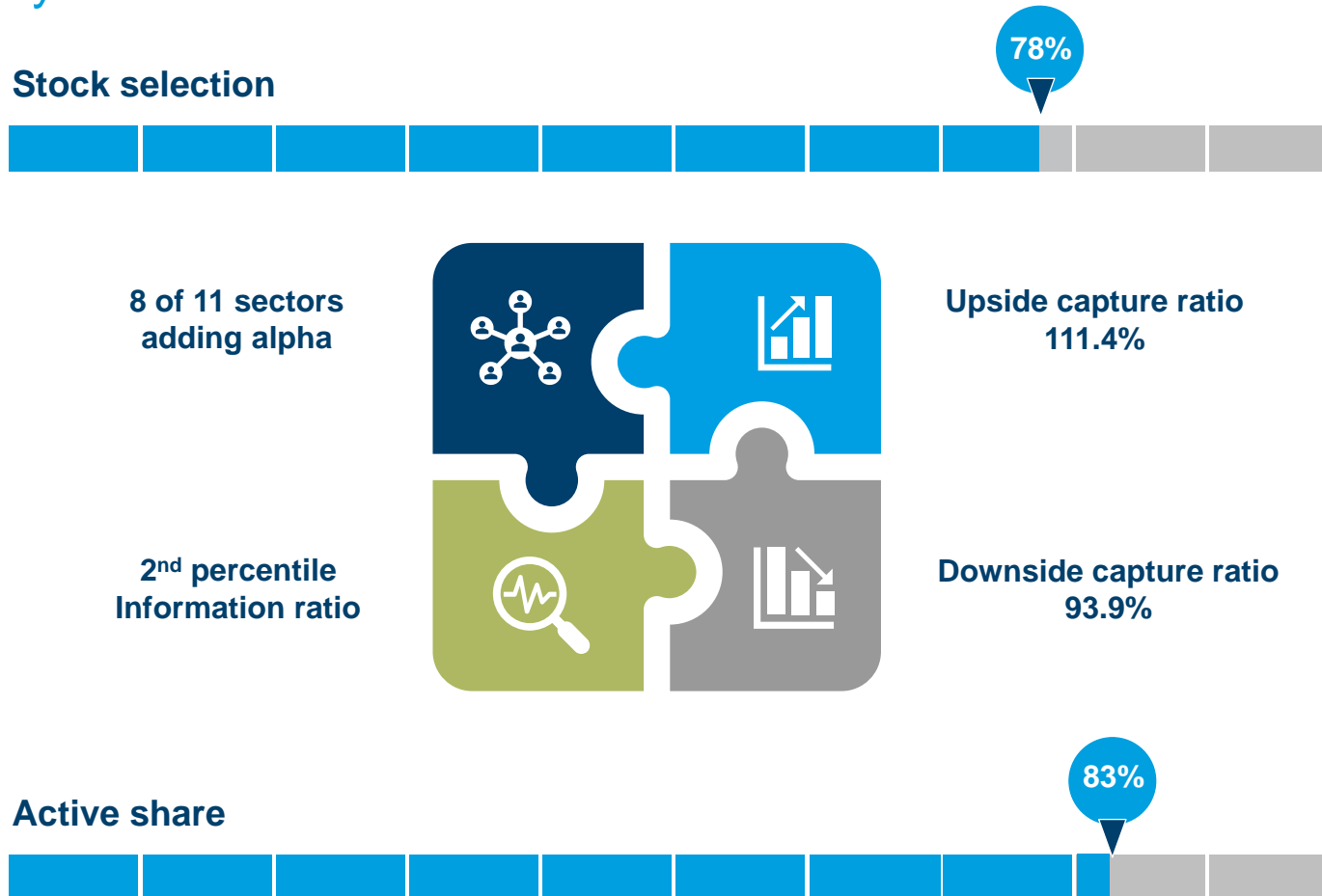
|                                       |              |              |              |              |              |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Outperformance<sup>1</sup></b>     | <b>+4.3%</b> | <b>+8.8%</b> | <b>+9.3%</b> | <b>+4.5%</b> | <b>+2.8%</b> |
| <b>Percentile ranking<sup>2</sup></b> | <b>42</b>    | <b>1</b>     | <b>1</b>     | <b>1</b>     | <b>1</b>     |

Source: Columbia Threadneedle Investments and FactSet, as at 31 March 2021. All data is quoted in USD. Past performance is not a guide to future returns. Data greater than one year is annualised. Gross performance from 31 March 2010 onwards is based on daily cash flows and valuations, from 1 January 2008 to 31 March 2010 based on Global Close prices, and prior to January 2008 based on 12pm prices. Fund data is quoted on a bid to bid basis with gross income re-invested at bid. Fund returns calculated Gross of TER (and Tax) for comparison with index. Relative returns calculated on an geometric basis. 2. Peer group refers to Morningstar Category Asia-Pacific ex-Japan Equity Inc.



# Threadneedle (Lux) Asian Equity Income

## Further analysis



Source: Columbia Threadneedle Investments and FactSet, as at 31 March 2021. All data refers to a representative account of the Threadneedle (Lux) Asian Equity income. Stock selection refers to Brinson Attribution since PM inception 31/12/12. Sector attribution since PM inception 31/12/12. Information ratio percentile since PM inception 31/12/12 vs Morningstar Category Asia-Pacific ex-Japan Equity. Upside/downside figures calculated monthly since PM inception 31/12/12. Average monthly active share since PM inception 31/12/12.



Your success. Our priority.

# Appendix



# Important information

For use by professional clients and/or equivalent investor types in your jurisdiction, not to be passed onto retail clients.

This is an advertising document.

Past performance is not a guide to future performance. The value of investments and any income is not guaranteed and can go down as well as up and may be affected by exchange rate fluctuations. This means that an investor may not get back the amount invested. Your capital is at risk.

Threadneedle (Lux) is an investment company with variable capital (Société d'investissement à capital variable, or "SICAV") formed under the laws of the Grand Duchy of Luxembourg. The SICAV issues, redeems and exchanges shares of different classes. The management company of the SICAV is Threadneedle Management Luxembourg S.A, which is advised by Threadneedle Asset Management Ltd. and/or selected sub-advisors.

Certain sub-funds of the SICAV are registered in Austria, Belgium, Denmark, France, Finland, Germany, Hong Kong, Iceland, Ireland, Italy, Liechtenstein, Luxembourg, Macau, the Netherlands, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the UAE and the UK; however, this is subject to applicable jurisdictions and some sub-funds and/or share classes may not be available in all jurisdictions. Shares in the Funds may not be offered to the public in any other country and this document must not be issued, circulated or distributed other than in circumstances which do not constitute an offer to the public and are in accordance with applicable local legislation.

Please read the Prospectus before investing.

Subscriptions to a Fund may only be made on the basis of the current Prospectus and the Key Investor Information Document, as well as the latest annual or interim reports and the applicable terms & conditions. Please refer to the 'Risk Factors' section of the Prospectus for all risks applicable to investing in any fund and specifically this Fund. Documents other than KIIDs are available in English, French, German, Portuguese, Italian, Spanish and Dutch (no Dutch Prospectus). KIIDs are available in local languages. Documents can be obtained free of charge on request by writing to the management company at 44, rue de la Vallée, L-2661 Luxembourg, Grand Duchy of Luxembourg, from International Financial Data Services (Luxembourg) S.A. at 47, avenue John F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg, from [www.columbiathreadneedle.com](http://www.columbiathreadneedle.com) and/or from (\*)

(\*) For Europe, add the place where it can be obtained:

- in Austria from Erste Bank, Graben 21 A-1010 Vienna;
- in Belgium: CACEIS Belgium S.A., avenue du Port 86 C b 320, 1000 Brussels
- in France from CACEIS Bank, 1/3 Place Valhubert, 75013 Paris;
- in Germany from JP Morgan AG, Junghofstr. 14, 60311 Frankfurt;
- in Sweden from Skandinaviska Enskilda Banken AB (publ), Kungsträdgårdsgatan, SE-10640 Stockholm, Sweden;
- in the UK from JPMorgan Worldwide Securities Services, 60 Victoria Embankment, London EC4Y 0JP.

## Important information

The analysis included in this document has been produced by Columbia Threadneedle Investments for its own investment management activities, may have been acted upon prior to publication and is made available here incidentally. Any opinions expressed are made as at the date of publication but are subject to change without notice and should not be seen as investment advice. Information obtained from external sources is believed to be reliable but its accuracy or completeness cannot be guaranteed.

Any opinions expressed are made as at the date of publication but are subject to change without notice. This presentation includes forward looking statements, including projections of future economic and financial conditions. None of Columbia Threadneedle Investments, its directors, officers or employees make any representation, warranty, guaranty, or other assurance that any of these forward looking statements will prove to be accurate.

The mention of any specific shares or bonds should not be taken as a recommendation to deal.

This presentation and its contents are confidential and proprietary. The information provided in this presentation is for the sole use of those attending the presentation. It may not be reproduced in any form or passed on to any third party without the express written permission of Columbia Threadneedle Investments. This presentation is the property of Columbia Threadneedle Investments and must be returned upon request. This presentation is not investment, legal, tax, or accounting advice. Investors should consult with their own professional advisors for advice on any investment, legal, tax, or accounting issues relating an investment with Columbia Threadneedle Investments.

© 2020 MSCI ESG Research LLC. Reproduced by permission. Although [CTI entity name]'s information providers, including without limitation, MSCI ESG Research Inc. and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties or any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

In the UK Issued by Threadneedle Asset Management Limited, registered in England and Wales, No. 573204. Registered Office: Cannon Place, 78 Cannon Street, London EC4N 6AG. Authorised and regulated in the UK by the Financial Conduct Authority.

In the EEA Threadneedle Management Luxembourg S.A. Registered with the Registre de Commerce et des Societes (Luxembourg), Registered No. B 110242, 44, rue de la Vallée, L-2661 Luxembourg, Grand Duchy of Luxembourg.

In the Middle East: This document is distributed by Columbia Threadneedle Investments (ME) Limited, which is regulated by the Dubai Financial Services Authority (DFSA). The information in this document is not intended as financial advice and is only intended for persons with appropriate investment knowledge and who meet the regulatory criteria to be classified as a Professional Client or Market Counterparty and no other Person should act upon it.

**Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies.**