

Schroder AsiaPacific Fund

Selecting for value and growth in Asia

Schroder AsiaPacific Fund (SDP) aims to achieve long-term capital growth by investing in companies across Asia, excluding Japan. Matthew Dobbs has managed the portfolio since launch in 1995 focusing on individual stock selection supported by Schroders' considerable Asian research resource. A bias towards value can prompt some contrarian positions while 'real' growth stocks such as Baidu also have a place in the fund. Performance has been ahead of the benchmark since inception and over most periods, with a notable pick-up in absolute and relative performance over the last year.

12 months ending	Share price (%)	NAV (%)	Benchmark* (%)	MSCI World index (%)	FTSE All-Share index (%)
31/03/11	14.8	17.5	15.2	7.4	8.7
31/03/12	8.3	5.8	(6.8)	0.9	1.4
31/03/13	14.9	18.1	12.7	17.7	16.8
31/03/14	(9.6)	(9.0)	(6.4)	8.4	8.8
31/03/15	26.2	26.1	24.4	19.1	6.6

Source: Thomson Datastream. Total return basis. Note: *Benchmark is MSCI AC Far East ex-Japan until 30 January 2011 and MSCI AC Asia ex-Japan thereafter.

Investment strategy: Seeking insights

The manager selects a portfolio of 70-90 stocks primarily on a bottom-up basis drawing on ideas generated by the in-house analyst team, but also with an awareness of the macro environment. A key characteristic of the investment process is the emphasis on gaining insights into businesses and identifying when these have not already been recognised by the market. Dobbs seeks companies with visible earnings growth and sustainable returns above their cost of capital trading at an attractive price. Dobbs is aware of the MSCI AC Asia ex-Japan benchmark weightings but is not driven by them; the trust has a high active share (only 22.1% direct overlap with the benchmark at end February) and 38.2% of the stocks held were outside the index.

Market outlook: Relative value and growth

Asian equity markets have lagged the world market since 2011, primarily reflecting the sustained strength of the US market. There are signs this year that this trend may have run its course, with markets increasing their focus on the timing of US rate increases and the pace of its economic growth. Asian growth prospects are a source of uncertainty as well, particularly in China, but on a longer view are still expected to outpace advanced countries significantly. Valuations in Asia are now standing at a significant discount to the world market (see page 3), suggesting that relative value exists while a selective fund can aspire to pick out genuine opportunities and gauge country allocations prudently.

Valuation: Stable discount, could narrow

SDP trades at a discount to NAV of c 7.5%, modestly below its three- and five-year averages and in line with the board's indication that it will seek to maintain the discount at this level or below, subject to review. Given the performance record and potential for sentiment towards the region to improve, there may be scope for the discount to narrow from here.

Investment trusts

29 April 2015

Price 310p
Market cap £525m
AUM £584m

NAV* 334.92p

Discount to NAV 7.4%

NAV** 335.57p

Discount to NAV 7.6%

*Excluding income. **Including income. Data at 28 April 2015.

Yield 0.9%

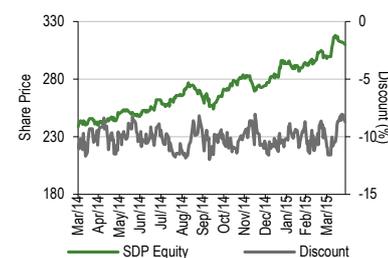
Ordinary shares in issue 169.2m

Code SDP

Primary exchange LSE

AIC sector Asia Pacific ex-Japan

Share price/discount performance*



*Including income. Positive values indicate a discount.

Three-year cumulative perf. graph



52-week high/low 318p 240p

NAV* high/low 355.03p 264.38p

*Excluding income.

Gearing

Gross 1.7%

Net cash 0.1%

Analysts

Andrew Mitchell +44 (0)20 3681 2500

Sarah Godfrey +44 (0)20 3681 2519

investmenttrusts@edisongroup.com

[Edison profile page](#)

Exhibit 1: Schroder AsiaPacific Fund at a glance

Investment objective and fund background

Schroder AsiaPacific Fund plc aims to achieve capital growth through investment primarily in the equity of companies located in the continent of Asia (excluding the Middle East and Japan), together with the Far Eastern countries bordering the Pacific Ocean, with the aim of achieving growth in excess of the MSCI All Countries Asia excluding Japan index in sterling terms over the longer term. Until 30 January 2011 the benchmark was the MSCI Far East ex-Japan index, but it was changed to an index that included India to reflect the growing importance of the Indian stock market.

Recent developments

- 28 January 2015: Robert Binyon retired as a director of the company.
- 12 December 2014: Annual report for year to 30 September 2014: NAV TR +10.9% vs +8.4% for benchmark and +11.2% price TR.
- 12 December 2014: Final dividend of 2.75p declared.

Forthcoming

AGM	January 2015
Annual results	December 2014
Year end	30 September
Dividend paid	February
Launch date	November 1995
Continuation vote	Five-yearly, next in 2016

Capital structure

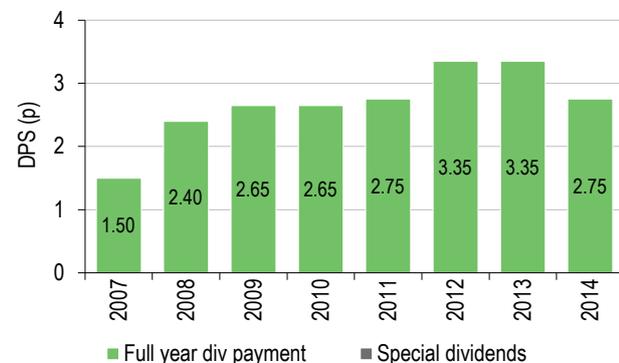
Ongoing charges	1.08%
Net cash	0.1%
Annual mgmt fee	Tiered, 0.8-0.95% (see p11)
Performance fee	No
Trust life	Indefinite
Loan facilities	US\$75m revolving

Fund details

Group	Schroder Unit Trust Ltd
Manager	Matthew Dobbs
Address	31 Gresham Street, London EC2V 7QA
Phone	020 7658 3206
Website	www.schroders.co.uk/its

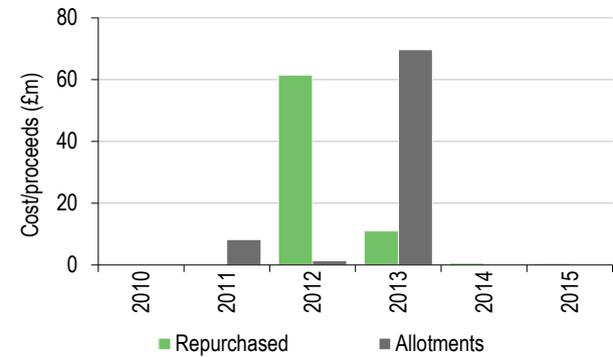
Dividend payments

Dividends paid annually in February. While the trust is focused on capital growth, it has maintained or increased dividends in 14 of its 18 years.

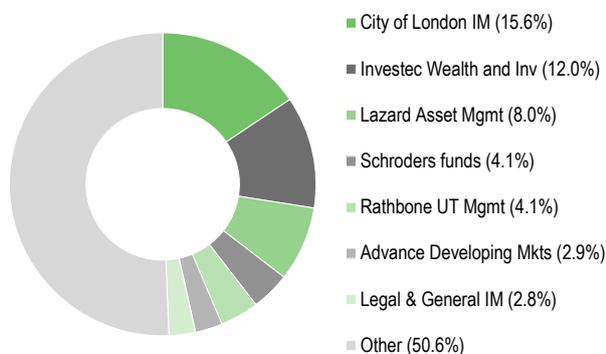


Share buyback policy and history

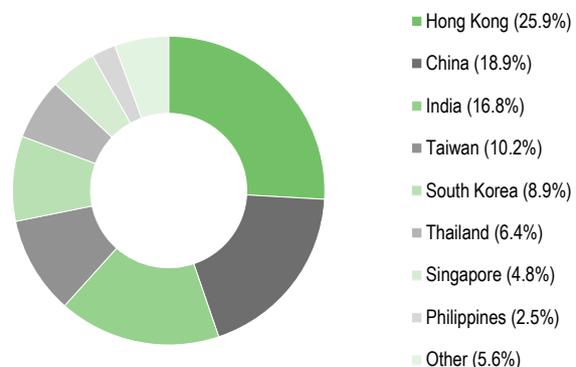
SDP targets a discount of below c 10%. Issuance in the chart below includes exercise of subscription shares.



Shareholder base (as at 20 March 2015)



Geographical breakdown of portfolio (as at 27 February 2015)



Top 10 holdings

Company	Country	Sector	Portfolio weight %	
			27 February 2015	28 February 2014*
Taiwan Semiconductor Manufacturing	Taiwan	Technology	5.7	6.2
Jardine Strategic Holdings	Hong Kong	Industrials	4.3	4.8
Fortune Real Estate Investment Trust	Hong Kong	Financials	3.9	3.0
Samsung Electronics	South Korea	Consumer goods	3.6	6.3
AIA Group	Hong Kong	Financials	3.3	2.6
Gujarat Pipavav Port	India	Industrials	2.9	N/A
Hyundai Motor	South Korea	Consumer goods	2.8	4.1
Tencent Holdings	China	Technology	2.7	N/A
Techtronic Industries	Hong Kong	Consumer goods	2.3	2.0
Zee Entertainment	India	Consumer services	2.2	N/A
Top 10 (% of portfolio)			33.7	36.5
Total holdings			82	77

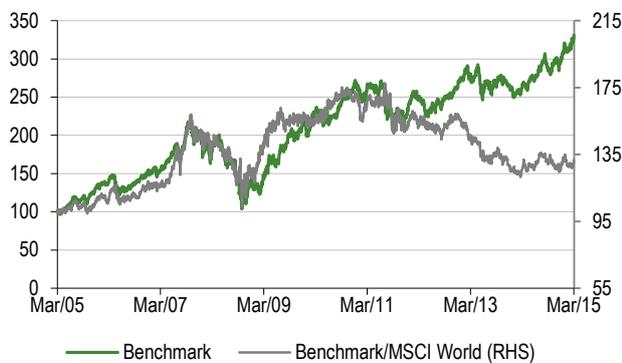
Source: Schroder AsiaPacific Fund, Edison Investment Research, Morningstar, Bloomberg. Note: *Top 10 – N/A where not in top 10 at end February 2014.

Asian market outlook: Offering value and growth

Long-term economic growth in Asia and development of regional listed companies has fuelled the strong total return for SDP's benchmark index and outperformance versus the MSCI World index over 10 years (Exhibit 2). The chart also shows that this has been despite the significant absolute and relative setback during the financial crisis, and later relative weakness against the world market, driven by the pronounced strength of the US market in this index.

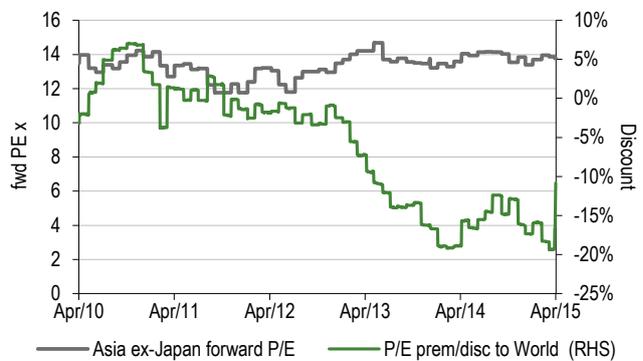
Where next for Asia? Given the diversity of economies in the region it is difficult to generalise but, broadly, IMF expectations, reduced again in January, point to Asia ex-Japan GDP growth substantially outpacing major Western economies over the medium term. Corporate earnings/market levels are unlikely to mimic this progress directly, but the environment should be favourable in the absence of major negative regional or global shocks that could again knock relative performance for a period.

Exhibit 2: Asia ex-Japan benchmark and relative



Source: Thomson Datastream

Exhibit 3: Asia ex-Japan index forward P/E



Source: Thomson Datastream. Note: Datastream indices.

Exhibit 3 shows that the forward P/E for the Thomson Datastream Asia ex-Japan index has been largely stable over five years (currently c 13.3x and 8% above its 10-year average) and that it still stands at a significant discount to the world market of over 10%. The average earnings multiple conceals a wide range, but is at least suggestive of relative value opportunities. One way to play this would be through a selective stock-picking fund.

Fund profile: Asia Pacific stock selection

Launched in 1995, Schroder AsiaPacific Fund plc seeks capital growth by investing in companies in the Asia Pacific region, excluding Japan. The trust is the second largest in the AIC Asia Pacific ex-Japan sector. Matthew Dobbs, now Schroders' head of global small-cap equities, has managed the portfolio since inception; both he and his colleague, Richard Sennitt, have over 20 years' experience investing in Asia at Schroders. Matthew Dobbs also runs the Schroder Oriental Income Fund.

The SDP portfolio, which targets 70-90 holdings, is largely selected on a bottom-up basis and the manager's value bias can lead to underweight positions in certain sectors and countries. Risk controls dictate that no more than 15% can be invested in a single company and no more than 15% may be invested in other UK-listed investment companies. Up to 5% may be invested in unlisted securities, but in practice no such investments are held.

The fund manager: Matthew Dobbs

The manager's view: Reasonable valuations, selective openings

The main driver of stock selection in SDP's portfolio is the bottom-up fundamental assessment of individual companies, although macroeconomic factors play a role. On the key topic of China's growth, Dobbs thinks that it is far from guaranteed that the government will navigate a smooth transition from investment-led growth to lower, more consumer-led development. Nevertheless, state control of leading companies, a large current account surplus and high levels of foreign exchange reserves and private savings are mitigating factors in the event of a wobble. In the Chinese market, the manager continues to avoid banks and insurers where legacy issues are among the factors contributing to an unattractive risk/reward balance. By contrast, he has added holdings in a number of stocks he sees as good-quality growth companies in the consumer staples and healthcare sectors. The portfolio includes internet growth plays in China, with Tencent among the top 10 holdings and Baidu a top 10 overweight.

Dobbs has taken some profit on holdings in India, but remains positive on the market, where SDP has its largest overweight position, seeing the reform agenda as potentially generating long-term benefits that will allow earnings to catch up with market appreciation. He has a positive stance on Hong Kong, which is home to companies with good governance and where property companies stand to benefit from improving opportunities for profitable investment. Thailand is another overweight, benefiting from the lower oil price, increased infrastructure spending and a quieter political situation.

Asset allocation

Investment process: Research-intensive and value-driven

Matthew Dobbs and his colleague Richard Sennitt both have experience of over 20 years investing in Asia, are based in London and have daily contact with members of Schroders' 36-strong team of analysts working from seven offices across the Asia Pacific region.

The investment approach is described with reference to four key characteristics.

1. 'Knowledge' informs the idea-generation stage of the process, reflecting the collective experience of the investment team and frequent company meetings. Quant screens are used as a counter check, including macro factors, valuations and earnings revisions. Sell-side research is largely seen as a measure of market consensus.
2. 'Insight' is gained by thorough fundamental analysis including model building and identifying potential multi-year catalysts for change. The output is individual stock valuations and ratings. There is a value bias that means the manager may take contrarian positions and Dobbs does not buy on the basis of short-term momentum.
3. 'Discipline' is used in constructing the concentrated portfolio, taking account of valuation and risk exposures, but not bound by benchmark weightings.
4. 'Conviction' in an idea is required for a stock to remain in the portfolio and holdings will be sold when targets are met rather than risk hanging on too long. Portfolio turnover has recently been relatively low at around 50%, but has been higher in earlier periods when there was a more turbulent market background.

Current portfolio positioning

At end February 2015 there were 82 stocks in the SDP portfolio, central in a target range of 70-90, while the top 10 holdings accounted for 33.7% of the total, which is in line with the average for the

AIC Asia Pacific ex-Japan sector, where the weighted average number of holdings is somewhat lower at 66.

Exhibit 4: Top 10 active over/underweights at 31 December 2014

Overweight	Active vs index (% pts)	Underweight	Active vs index (% pts)
Jardine Strategic Holdings	4.3	China Mobile	-2.3
Fortune Real Estate	3.5	China Construction Bank	-1.9
Gujarat Pipavav Port	2.8	ICBC	-1.7
Hyundai Motor	2.2	Bank of China	-1.4
Zee Entertainment	2.2	China Life Insurance	-0.9
Baidu	2.2	DBS Group	-0.9
China Petroleum & Chemical	2.2	Housing Development Finance	-0.9
Techtronic Industries	2.1	Ping An Insurance	-0.9
Hong Kong Land	1.9	SK Hynix	-0.8
Kasikornbank Public	1.9	Sun Hung Kai Properties	-0.8

Source: Schroder AsiaPacific Fund. Note: Index is MSCI AC Asia ex-Japan.

The top 10 overweight and underweight holdings are shown in Exhibit 4, with six of the overweights included in the list of top 10 holdings in the portfolio (see bottom of page 2). The list shows diversity, ranging from real estate plays to an internet stock. On the underweight side of the table there are several Chinese banks and insurers where Dobbs is happy to be unrepresented if the companies do not meet his bottom-up selection criteria, even when they are significant benchmark components.

Geographically, the portfolio is heavily weighted to China/Hong Kong (45.5% at end December) with an underweight position in China and overweight in Hong Kong in comparison with the benchmark index (a net overweight of 6.8 percentage points, taken together). In addition to Hong Kong, the manager's other preferred regional markets are also significant overweight positions: India (+7.8 points and a weighting of 16.5%) and Thailand (+3.5 points and 6.5% of the portfolio). The largest underweight is Korea (-9.5 points) where Dobbs notes most stocks are relatively expensive once Hyundai and Samsung are excluded. Other underweights include Taiwan (still 10% of the portfolio) and Malaysia.

Sectorally, the result of bottom-up stock selection is that consumer discretionary is a significant overweight position (see Exhibit 5), which includes a number of the good-quality growth companies the manager favours. At the other end of the scale the underweight position in banks again partly reflects the cautious views on leading Chinese stocks in this area.

Exhibit 5: Sector allocations 31 December 2014 (% unless stated)

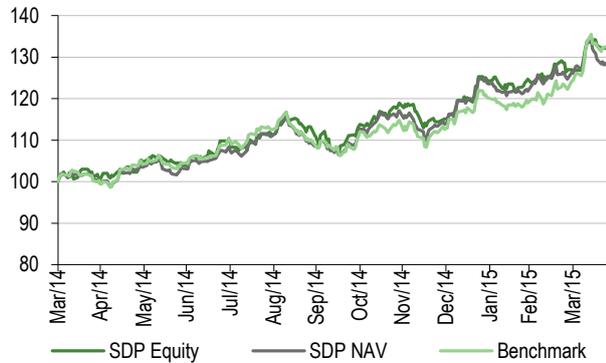
	Portfolio end December 2014	MSCI Asia ex JP index weight	Active weight vs index (% points)	Trust weight/index weight (x)
Consumer discretionary	18.8	8.7	10.1	2.2
Industrials	13.2	8.3	4.9	1.6
Healthcare	5.1	1.9	3.2	2.7
Energy	4.5	5.0	-0.5	0.9
Information technology	21.0	21.7	-0.7	1.0
Materials	2.7	4.7	-2.0	0.6
Telecom services	3.7	6.6	-2.9	0.6
Consumer staples	1.4	5.2	-3.8	0.3
Utilities	0.1	4.2	-4.1	0.0
Financials	28.3	33.7	-5.4	0.8
Cash	1.2	0.0	1.2	N/A
	100.0	100.0	0.0	

Source: Schroder AsiaPacific Fund, Edison Investment Research. Note: Ranked by active weight (excluding cash).

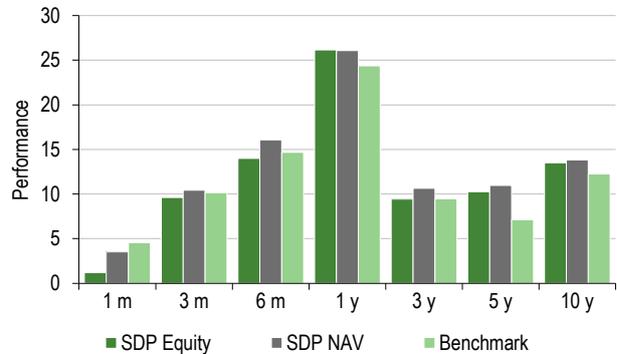
Performance: Strong long-term record

Exhibit 6: Investment trust performance

Price, NAV and benchmark one-year total return performance



Price, NAV and benchmark total returns (%)*



Source: Thomson Datastream, Edison Investment Research. Note: *Three-, five- and 10-year figures annualised.

Exhibit 7: Share price and NAV total return performance, relative to indices

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to benchmark	(3.2)	(0.5)	(0.6)	1.5	(0.1)	15.6	12.0
NAV relative to benchmark	(1.0)	0.3	1.2	1.4	3.2	19.4	14.9
Price relative to MSCI World index	(1.3)	2.0	1.0	6.0	(13.8)	(1.0)	50.3
NAV relative to MSCI World index	1.0	2.8	2.8	5.9	(10.9)	2.3	54.2
Price relative to FTSE All Share index	2.9	4.7	8.3	18.4	(3.2)	9.2	68.5
NAV relative to FTSE All Share index	5.3	5.5	10.2	18.3	0.0	12.8	72.9

Source: Thomson Datastream, Edison Investment Research. Note: Data to end March 2015. Geometric calculation.

SDP has produced strong absolute and positive relative NAV returns over one, three, five and 10 years (see Exhibits 6 and 7). Looking at attribution in the year to December, the manager comments that stock selection was the main positive contributor including holdings in India, Hong Kong, Thailand and Taiwan. In terms of allocation, positive contributors were the Indian overweight, Korean underweight and Thailand, where maintaining the exposure through political unrest paid off.

While performance has also been robust over longer periods, Exhibit 8 makes clear that the portfolio has suffered periods of underperformance over the last 10 years, with a notable dip at the onset of the financial crisis and subsequently as indications of US QE tapering dented Asian markets in May 2013. In each case, patient investors were rewarded with a sustained improvement in relative performance. On an even longer view, since launch (20 November 1995) the NAV total return to end March has compounded at an annual rate of 7.7% compared with the benchmark compound annual return of 4.8%.

Exhibit 8: NAV performance relative to benchmark over 10 years



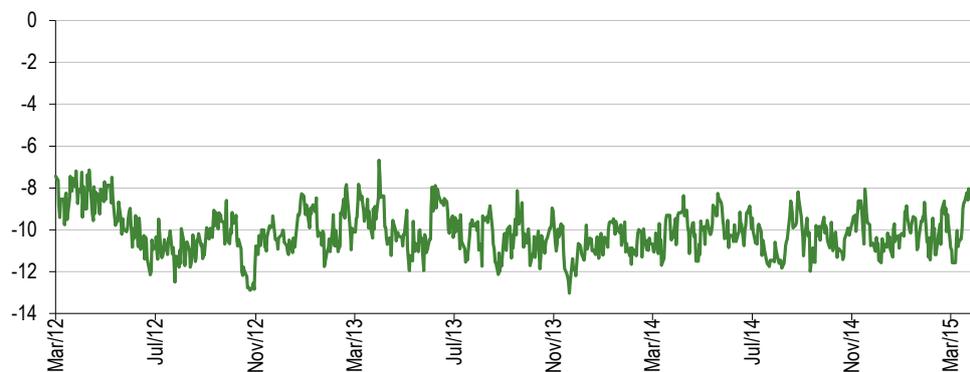
Source: Thomson Datastream, Edison Investment Research

Discount: In line with growth-seeking peers

The trust has the authority to buy back up to 14.99% of its shares to manage the discount to NAV. While there is no rigid discount control mechanism, the board has said it will seek to use the buyback facility to maintain the long-term cum-income discount to NAV below c 10%. In FY14 0.475m shares were bought back and before that 4.7m shares in 2012, and a tender offer in 2011 saw 25.7m shares repurchased (see Exhibit 1).

SDP's cum-income discount at 29 April stood at 7.6%, modestly below its three- and five-year averages (10.1% and 9.7% respectively). SDP's discount is above the weighted average for the AIC Asia Pacific ex-Japan peer group (6.1%), but below the 8.3% average once companies with income mandates are excluded.

Exhibit 9: Discount over three years (to cum-income NAV)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

SDP has 169.2m shares in issue. While SDP has an indefinite life, it is subject to five-yearly continuation votes, with the next set to take place at the January 2016 AGM. A revolving credit facility of US\$75m is in place to allow SDP to gear up to a maximum of 20%. The manager regards one of the advantages of gearing as facilitating the addition of stocks to the portfolio without selling an existing holding. At the end of February there was a small net cash position.

Schroders is paid a tiered management fee starting at 0.95% on the first £100m of assets under management (less current liabilities other than short-term debt) and reducing in 5bp increments to 0.80% on assets above £400m. The ongoing charges were 1.08% for the year to end September 2014. The management charge was reduced by 5bps at the beginning of April 2014 and on a pro-forma basis this would suggest a 2.5bps reduction in the charge for the current financial year, all else being equal. There is no performance fee.

Dividend policy and record

The main objective of SDP is to achieve capital growth and it has no yield target or progressive dividend policy. It has paid a dividend in 17 out of 19 possible years (the exceptions being 2000 and 2001). Over 10 years the dividend payout has averaged 100% with the FY13 payment uncovered (109% payout). The FY14 dividend was reduced from 3.35p to 2.75p (98% payout). The revenue return was lower at 2.80p versus 3.08p, in part reflecting increased exposure to India where yields tend to be lower, although this market made a positive contribution to NAV performance in FY14, both in terms of stock selection and country allocation.

Peer group comparison

There are 15 trusts in the AIC Asia Pacific ex-Japan sector with market caps above £50m. The five trusts to which SDP is most directly comparable in terms of investment universe are highlighted in Exhibit 10 below. SDP is the second largest trust in the group and the NAV total return was above the sector average over one and five years. The risk-adjusted return, as indicated by the Sharpe ratio, was above and similar to the sector average over one and three years.

Exhibit 10: Asia Pacific ex-Japan investment trusts												
% unless stated	Market cap (£m)	TR one year	TR three years	TR five years	Sharpe NAV 1 year	Sharpe NAV 3 years	Discount (-) /premium	Ongoing charge	Perf fee	Net gearing*	Yield	
Aberdeen Asian Income	395.9	14.2	29.6	73.8	1.3	0.7	-3.6	1.3	No	107.0	4.2	
Aberdeen Asian Smaller	334.3	13.3	44.4	104.9	1.7	1.0	-11.5	1.5	No	108.0	1.5	
Aberdeen New Dawn	237.2	18.4	30.5	47.4	1.6	0.6	-11.7	1.1	No	109.0	1.9	
Asian Total Return Inv Company	156.5	22.4	24.9	25.7	2.3	0.6	-4.7	1.1	Yes	105.0	1.5	
Edinburgh Dragon	573.0	20.2	30.0	48.8	1.9	0.6	-10.5	1.2	No	107.0	0.8	
Fidelity Asian Values	187.7	32.0	51.6	58.1	2.1	1.0	-8.0	1.5	No	108.0	0.4	
Henderson Far East Income	390.2	23.9	41.7	52.6	1.7	0.9	1.3	1.2	No	102.0	5.2	
Invesco Asia	181.0	29.3	48.1	64.7	2.0	0.9	-10.9	1.1	No	99.0	1.7	
JPMorgan Asian	246.9	32.1	39.9	33.5	2.1	0.8	-8.9	0.9	Yes	98.0	0.9	
Martin Currie Pacific	129.2	19.5	23.2	27.1	1.6	0.5	-9.8	1.3	No	94.0	2.3	
Pacific Assets	253.6	32.5	67.3	73.2	3.0	1.7	2.2	1.3	No	89.0	1.2	
Pacific Horizon	129.4	22.9	31.9	36.7	1.6	0.7	-8.5	1.0	No	103.0	0.7	
Schroder AsiaPacific	521.0	26.7	35.7	67.0	2.1	0.8	-7.6	1.1	No	100.0	0.9	
Schroder Oriental Income	469.4	21.8	47.4	87.0	1.7	1.1	1.8	0.9	Yes	105.0	3.6	
Scottish Oriental Smaller Cos	271.2	21.5	54.7	96.8	2.1	1.3	-9.7	1.4	Yes	97.0	1.4	
Sector weighted average		22.7	40.0	64.3	1.9	0.9	-6.1	1.2		102.8	2.0	
SDP rank in sector	2	5	9	6	6	8	6	9		10	11	

Source: Morningstar, 29 April 2015, Edison Investment Research. Notes: TR = NAV total return. The Sharpe ratio is a measure of risk-adjusted return. The ratios we show are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. *Net gearing is shown here as total assets less cash/cash equivalents as a percentage of shareholders' funds. A figure of 100 represents zero gearing.

The board

Schroder AsiaPacific Fund has five directors, all non-executive and independent of the manager. The Honourable Rupert Carington has served on the board as chairman since launch in 1995. Anthony Fenn was appointed in 2005, Nicholas Smith in 2010 and Rosemary Morgan in 2012, while James Williams joined in August 2014 with Robert Binyon retiring in January following 15 years' service as a director. All of the board members have lived and worked in Asia.

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