Invesco Asia Trust

Unconstrained investment in Asia Pacific region

Investment trusts

14 June 2016

Invesco Asia Trust (IAT) seeks capital appreciation from a portfolio of Asia Pacific ex-Japan stocks, diversified by sector and geography. Despite investor concerns about slowing growth in the region, and China in particular, the manager is finding attractive investment opportunities. IAT's NAV has outperformed its benchmark over the short, medium and long term. In absolute terms, over 10 years both the NAV and share price have returned more than 10% pa. IAT has a 1.9% dividend yield, which compares favourably with its close peers.

12 months ending	Total share price return (%)	Total NAV return (%)	Benchmark* (%)	MSCI World (%)	FTSE All-Share (%)
31/05/12	(12.3)	(11.0)	(11.9)	(4.3)	(8.0)
31/05/13	21.6	23.1	23.0	30.5	30.1
31/05/14	5.4	3.8	(1.4)	8.0	8.9
31/05/15	21.1	21.8	15.7	16.8	7.5
31/05/16	(8.9)	(6.8)	(13.2)	1.3	(6.3)

Note: Twelve-month rolling discrete £-adjusted total return performance. *Benchmark is MSCI AC Asia Pacific ex-Japan until 30/04/15 and MSCI AC Asia ex-Japan thereafter.

Investment strategy: Seeking value opportunities

Manager Ian Hargreaves, assisted by the rest of the Asia Pacific team at Invesco Perpetual, seeks to invest in a relatively concentrated portfolio of c 60 stocks combining top-down views with bottom-up fundamental analysis. Meeting company management teams is viewed as an important element of the investment process and there is a large focus on company valuation. The manager is unconstrained by the benchmark and around a third of the portfolio is in small-cap stocks, which are often under-researched and may offer better value than the broader market.

Market outlook: Regional valuation is attractive

The Asia Pacific ex-Japan markets have lagged the world market due to deterioration in the macroeconomic backdrop, coupled with the outperformance of developed markets following the global financial crisis. The Datastream Asia ex-Japan index is trading at a modest forward P/E premium to its five-year history, but at a significant discount to the World index. This may provide an opportunity given that longer-term growth drivers in the Asia Pacific region remain favourable.

Valuation: Modestly wider discount versus history

IAT's current share price discount to ex-income NAV is 10.6%. This is modestly wider than its historical averages. The board targets a maximum average discount of 10% and manages this via share repurchases and tender offers. IAT has a solid performance record, which means there is scope for the discount to narrow if sentiment towards the Asia Pacific region improves. Although there is no formal dividend policy the annual dividend has been increased or maintained since 2001. IAT offers a dividend yield above the close peer-group average, currently 1.9%.

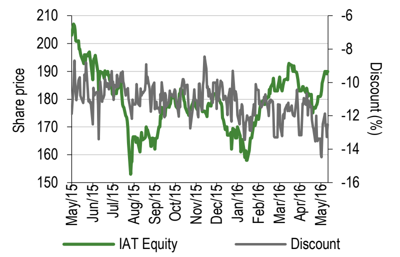
Price	**190.0p**
Market cap	**£161m**
AUM	**£181m**

NAV*	212.5p
Discount to NAV	10.6%
NAV**	217.2p
Discount to NAV	12.5%

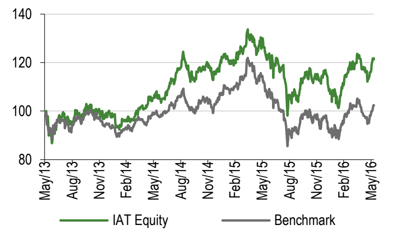
*Excluding income. **Including income. As at 10 June 2016.

Yield	1.9%
Ordinary shares in issue	84.8m
Code	IAT
Primary exchange	LSE
AIC sector	Asia Pacific ex-Japan

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	197.0p	153.0p
NAV** high/low	221.4p	173.3p

**Including income.

Gearing

Gross*	0.6%
Net*	0.6%

*As at 31 May 2016.

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Edison profile page

Invesco Asia Trust is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

IAT's objective is to provide long-term capital growth by investing in a diversified portfolio of Asian companies. On 1 May 2015 the trust adopted a new benchmark, MSCI AC Asia ex-Japan, in place of the former benchmark, MSCI AC Asia Pacific ex-Japan. While the new benchmark excludes Australasia, the trust may still invest in these markets.

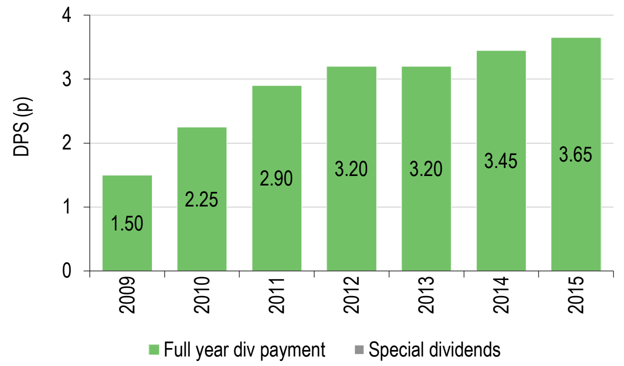
Recent developments

- 16 December 2015: Interim report for the six months ended 31 October 2015. NAV TR -13.6% versus -17.9% for benchmark. Share price TR -14.7%.
- 29 June 2015: Dividend of 3.65p declared for FY15, a 5.8% increase on the FY14 dividend.
- 29 June 2015: Annual report for the 12 months ended 30 April 2015. NAV TR +28.3% versus +22.7% for benchmark. Share price TR +29.4%.

Forthcoming		Capital structure		Fund details	
AGM	August 2016	Ongoing charges	1.02% (30 April 2016)	Group	Invesco Asset Management Ltd
Preliminary results	June 2016	Net gearing	1.7%	Managers	Ian Hargreaves
Year end	30 April	Annual mgmt fee	0.75% of net assets	Address	125 London Wall London EC2Y 5AS
Dividend paid	July/August	Performance fee	None		
Launch date	July 1995	Trust life	Indefinite	Phone	+44 (0) 20 3753 1000
Continuation vote	Three-yearly, next 2017	Loan facilities	£20m multi-currency	Website	www.invescoperpetual.co.uk

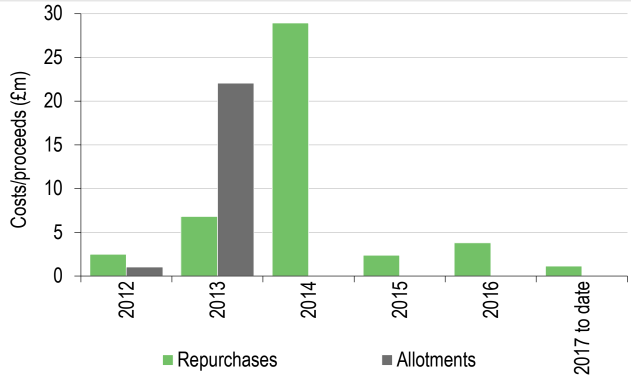
Dividend policy and history

Dividends are paid annually in July/August. Income is a by-product of stock selection and there is no yield target.

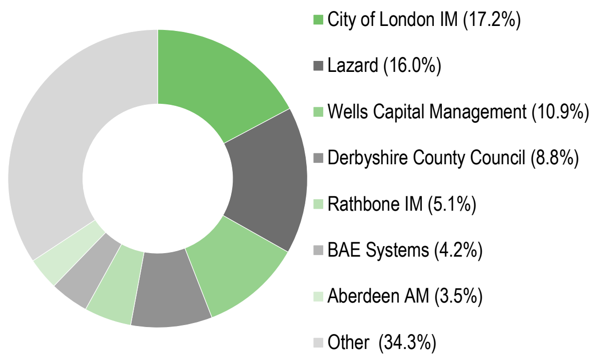


Share buyback policy and history

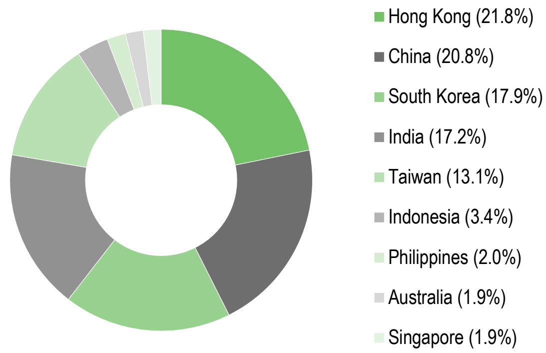
Renewed annually, the trust has authority to purchase up to 14.99% and allot up to 5% of issued share capital. The chart below shows financial years.



Shareholder base (as at 31 May 2016)



Portfolio exposure by geography (as at 30 April 2016)



Top 10 holdings (as at 31 May 2016)

			Portfolio weight %	
Company	**Country**	**Industry**	**31 May 2016**	**31 May 2015***
Samsung Electronics	South Korea	Semiconductors	5.9	5.5
China Mobile (red chip)	China	Telecoms	4.1	3.5
Baidu (ADR)	China	Software & services	3.9	3.3
NetEase (ADR)	China	Software & services	3.6	5.1
HDFC Bank	India	Banks	3.4	N/A
UPL	India	Chemicals	3.3	2.8
AIA	Hong Kong	Insurance	3.2	2.9
CK Hutchison**	Hong Kong	Industrial conglomerate	3.1	5.1
Taiwan Semiconductor Manuf.	Taiwan	Semiconductors	3.1	N/A
MINTH	China	Auto parts	2.7	N/A
Top 10			**36.6**	**36.4**

Source: Invesco Asia Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in May 2015 top 10. **Hutchison Whampoa at 31 May 2015.

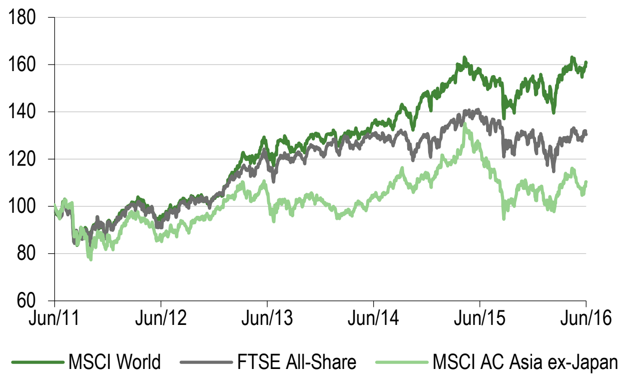
Market outlook: Valuation may provide opportunity

As shown in Exhibit 2 (left-hand side), Asia Pacific ex-Japan markets have lagged UK and world markets over the last five years. Reasons include slowing economic growth and stock market turmoil in China and weak commodity prices as well as outperformance by the US stock market, which now comprises nearly 60% of the MSCI World index. As a result of lower earnings growth and estimates that have been subject to regular analyst downgrades, relative valuations in the region have come down. As shown in Exhibit 2 (right-hand side), the current forward P/E multiple of the Datastream Asia ex-Japan index of 12.4x is modestly higher than the five-year average of 11.6x. However, on a relative basis, the current discount to world markets of 18.1% is towards the high end of the historical range and is much wider than the 10.3% average of the last five years.

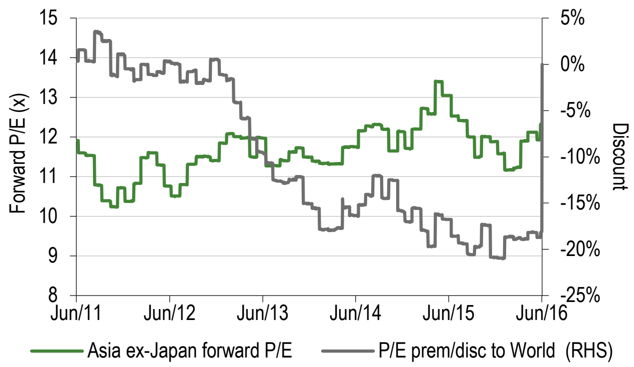
As Asian markets have become more mature, the diversity of potential growth drivers has increased, including higher consumption as a result of rising disposable income, low unemployment and infrastructure spending. In its latest World Economic Outlook, the International Monetary Fund modestly revised up its projections for economic growth in emerging and developing Asia, while downgrading estimates for world output, and growth expectations for Asia are relatively higher in both 2016 and 2017. For investors attracted by current valuations, a fund with a good track record of picking stocks and outperforming its benchmark may hold appeal.

Exhibit 2: Market performance and valuation

Five-year performance of World, UK and Asia ex-Japan indices (all in £)



DS Asia ex-Japan vs DS World valuation comparison



Source: Thomson Datastream, Edison Investment Research

Fund profile: Well-established Asia Pacific specialist

Invesco Asia Trust (IAT) was launched in 1995 and seeks to generate long-term capital growth by investing in a diversified portfolio of stocks in the Asia Pacific region. Prior to 1 May 2015, the benchmark was the MSCI AC Asia Pacific ex-Japan index. The current benchmark is the MSCI AC Asia ex-Japan index, which excludes Australasia, although the portfolio currently has a c 4% exposure to Australia. IAT is managed by Ian Hargreaves, who has been the sole manager since 1 January 2015, having previously been co-manager with Stuart Parks. He has been working at Invesco Perpetual as an analyst and fund manager since 1994 in both Hong Kong and the UK.

The manager runs a portfolio of c 60 stocks and is not constrained by the benchmark, although the portfolio is appropriately diversified by geography and industry. There are broad investment limits including a maximum single company exposure of 10% and a group-related exposure of 15%. Up to 15% of the portfolio may be in unquoted investments and warrants/options are permitted up to a maximum exposure of 10%. Gearing is permitted up to 25%, although the working range is 0-15%; the manager aims to increase gearing when the markets are looking attractive on a valuation basis. There is a three-year continuation vote; the next is due at the 2017 AGM.

The fund manager: Ian Hargreaves

The manager's view: Finding opportunities

The manager comments that earnings growth in the region has been anaemic for the last two to three years and estimates have been subject to downgrades. This is a result of weak global growth, deceleration in China during the shift from investment to consumption-led growth, weak commodity prices and increased lending, which has led to over-investment and hence overcapacity in some industries. The level of earnings growth in the Asia Pacific region is now more aligned with the developed world and as a result valuations have come down. However, the manager is hopeful that over the next year or two, corporate margins can show modest improvement. Commodity prices are improving, which should be less of a drag on earnings. The manager also believes that the Chinese economy appears to be stabilising, with some areas such as property sales seeing improvement, which should lead to higher demand for construction activity and materials. Hargreaves says investor sentiment towards the country is too negative, so any signs of economic improvement could relieve some of the pressure on stock markets.

Although the manager suggests that average earnings growth will remain in the single-digits range, the market has shown willingness to re-rate those companies that have done better from an earnings perspective. He is finding plenty of attractive opportunities and views the environment as a stock picker's market. In recent years, investors have generally been willing to pay a premium for quality stocks that have a visible growth profile. This year there has been a switch, where more cyclical and value stocks have outperformed; however, the manager says one way of finding such stocks at a discount is to look further down the market cap spectrum.

Asset allocation

Investment process: Unconstrained stock selection

The manager combines macro views with bottom-up fundamental analysis to construct a relatively concentrated portfolio of c 60 stocks. The process is pragmatic and flexible to take advantage of different market cycles and environments. A top-down view is seen as more important at turning points in the markets and is necessary given that countries in the region vary by phase of development, valuation and economic and credit cycles. The portfolio is diversified and sector and country exposure is primarily driven by bottom-up stock selection. There is no specific income target, but the manager is happy to see the portfolio yield rise over time, given the importance of income to investor total returns over the long term.

Potential portfolio holdings are researched from a variety of sources to gain an understanding of their historical and potential business drivers, to enable the manager to assess their competitive positions, their strategic advantages/disadvantages and the quality of the management teams. Valuation is a key input for the manager when considering a company for potential inclusion in the portfolio; he suggests that the ideal investment is a quality growth company, purchased at a reasonable price. Over time the manager has broadened his investable universe and is willing to invest in small-cap stocks, which are often under-researched and trade at a discount to the broader market; their inclusion in the portfolio has added to fund performance. There are five members in the Invesco Perpetual Asia Pacific investment team; all have different fund responsibilities and some level of individual country expertise, with Hargreaves having a particular focus on Hong Kong and China. All members of the investment team travel to the Asia Pacific region at least three to four times a year, meeting several hundred companies. There is regular dialogue and evolution of ideas within the team.

Current portfolio positioning

At the end of May 2016, the top 10 holdings accounted for 36.6% of the portfolio; this in line with the 36.4% in May 2015. Gearing has recently come down; as the market has rallied, cyclical exposure has been reduced and 2% cash was raised following the takeover of Broadspectrum by Ferrovial.

On a sector basis, IT remains the largest overweight within the portfolio. A recent addition was Delta Electronics, which the manager views as a blue-chip stock that has shown its ability to generate good margins over a long period. It is developing operations in higher-growth businesses such as factory automation; a recent decline in the company's valuation provided an attractive buying opportunity. Chroma, a Taiwanese small-cap, niche test and measurement company was also purchased. It has a new growth business, testing batteries for electric vehicles. It is a cyclical company, but a potential new earnings cycle meant that the stock warranted a position in the portfolio. FIH Mobile is a deep-value technology company. The manager was attracted by fact that cash on the balance sheet is almost equivalent to the entire market cap. The company, which is part of the Hon Hai group, manufactures (non-Apple) smartphones; Q116 earnings were weak, but may have bottomed. FIH has the largest capability for manufacturing smartphones in India, the market which is expected to have the greatest growth potential in the next few years.

Financials exposure has been reduced due to the manager's views about the credit cycle. (Asian relative valuations are inversely correlated to the credit cycle.) However, without a major change in the US interest rate cycle, the manager does not expect another Asian debt crisis. Financial holdings are selective, such as HDFC, an Indian bank. Here, growth is expected to continue, customer service is good and the company has avoided problem lending, the valuation is more appealing than for some other Indian stocks and private banks are well positioned to compete with undercapitalised government entities. The manager sees value in some of the Korean banks such as DGB Financial which, despite delivering a return on equity of 9.2% in 2015, is trading on a low 0.5x price-to-book ratio.

Exhibit 3: Portfolio sector exposure vs benchmark (% unless stated)

GICS sector	Portfolio end-Apr 2016	Portfolio end-Apr 2015	Change	MSCI AC Asia ex-Japan	Active weight vs index (pts)	Trust weight/ index weight (x)
Information technology	29.7	22.8	6.9	23.3	6.4	1.3
Financials	20.3	28.8	-8.5	24.3	-4.0	0.8
Consumer discretionary	13.4	10.1	3.3	8.8	4.6	1.5
Industrials	10.0	14.2	-4.3	9.0	1.0	1.1
Materials	7.6	9.0	-1.4	4.7	2.9	1.6
Telecoms	6.2	4.9	1.3	6.5	-0.4	0.9
Real estate	5.9	3.8	2.1	6.5	-0.6	0.9
Utilities	5.2	1.6	3.6	4.2	1.0	1.2
Energy	3.4	4.5	-1.1	4.4	-1.0	0.8
Healthcare	0.0	0.0	0.0	2.6	-2.6	0.0
Consumer staples	0.0	0.3	-0.3	5.8	-5.8	0.0
Cash	-1.5	0.0	-1.5	0.0	-1.5	N/A
	100.0	**100.0**		**100.0**		

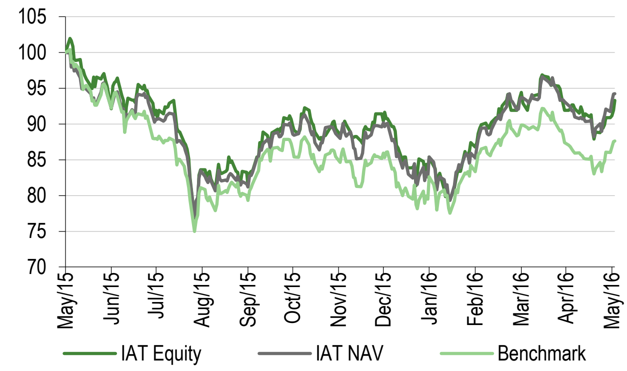
Source: Invesco Asia Trust, Edison Investment Research

On a geographic basis, over the last 12 months exposure to Hong Kong and China has increased. Investor sentiment towards China has remained negative, but the manager has taken the opportunity to invest in selected companies that he believes were oversold. His continued commitment to the region has resulted in positive performance attribution. The largest overweight exposures are in India and Australia, which is not in the benchmark. The manager has zero exposure in Malaysia and Thailand and is underweight Singapore and Taiwan. However, in an environment where growth is modest, Taiwan has some companies that are shareholder friendly and pay generous dividends, such as notebook manufacturer Asustek; the manager has increased the size of this position within the portfolio. Cash and investments make up 30% of its market cap, it has an expected dividend payout ratio of 65% with a sustainable yield and is trading on a forward P/E multiple of 11x. The dividend yield of 5.2% is helping to increase the income of IAT.

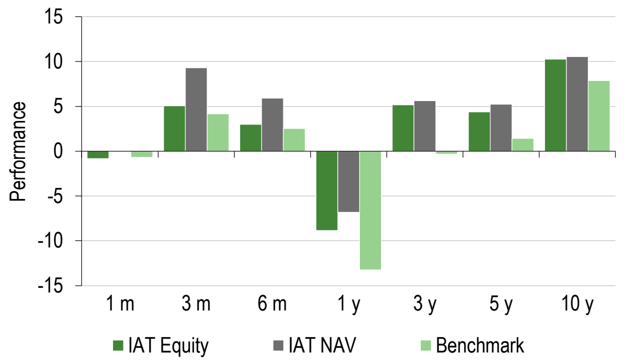
Performance: Consistent outperformance

Exhibit 4: Investment trust performance to 31 May 2016

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised. Benchmark is MSCI AC Asia Pacific ex-Japan until 30 April 2015 and MSCI AC Asia ex-Japan thereafter.

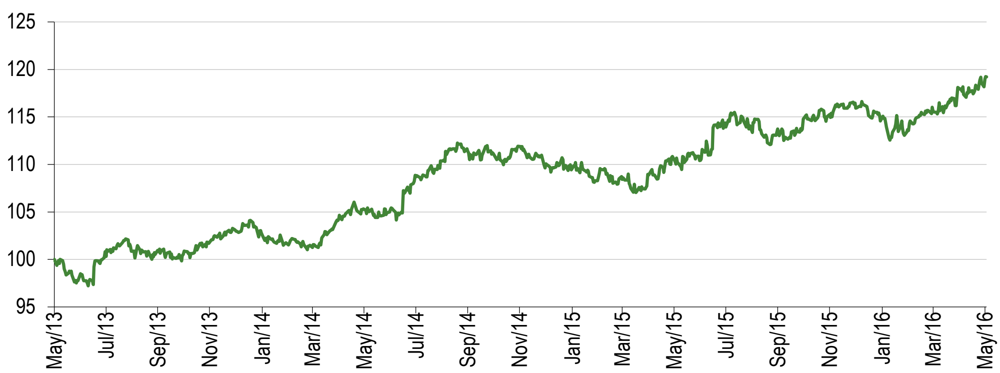
As shown in Exhibit 5, IAT's NAV has outperformed its benchmark over all periods shown. The benchmark was changed on 1 May 2015 from MSCI AC Asia Pacific ex-Japan to MSCI AC Asia ex-Japan, which excludes Australasia. Over 10 years, IAT has produced annualised NAV and share price total returns in excess of 10%. Annualised returns are lower over shorter time periods as investors have gravitated to developed markets as a result of quantitative easing since the global financial crisis. As a reference for UK investors, IAT has underperformed the FTSE All-Share index over one and five years, but has outperformed over three years and significantly over 10 years.

Exhibit 5: Share price and NAV total return performance, relative to index (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to benchmark	(0.1)	0.9	0.4	4.4	17.3	16.6	52.2
NAV relative to benchmark	0.8	5.1	3.4	6.4	18.8	21.7	59.4
Price relative to FTSE All-Share	(1.5)	1.3	2.9	(2.5)	6.7	(7.2)	97.8
NAV relative to FTSE All-Share	(0.6)	5.5	5.8	(0.5)	8.2	(2.2)	104.9

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-May 2016. Geometric calculation.

Exhibit 6: NAV performance relative to benchmark over three years



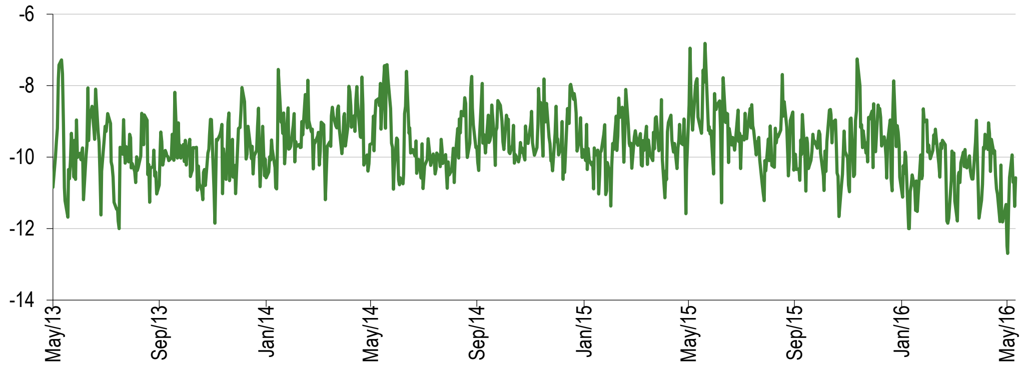
Source: Thomson Datastream, Edison Investment Research

Exhibit 6 shows the medium-term performance of IAT versus its benchmark. There have been periods of underperformance such as between August 2014 and April 2015. However, the trend is positive and recent months have seen another period of strong relative performance, which adds to the good long-term record of the trust.

Discount: Modestly wider than historical averages

IAT's current share price discount to ex-income NAV of 10.6% is modesty wider than the last 12-month average of 9.8% (range of 6.8% to 12.7%). Over the longer term, the average discount is 9.7% over the last three and five years and 9.4% over the last 10 years. However, the current discount is in line with the AIC Asia Pacific ex-Japan peer group average (excluding specialist income trusts) shown in Exhibit 8. The board has an objective to keep the average discount below 10%; this is managed using a combination of share buybacks and tender offers. During FY15, 1.2m shares were repurchased, which enhanced NAV by 0.2%; there was no tender offer as the average discount of 9.5% was below the 10% threshold (the last tender offer was in FY13). During FY16, 2.2m shares were repurchased and so far in FY17, 0.6m shares have been repurchased at an average price of 180p.

Exhibit 7: Share price discount to NAV (excluding income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

IAT is a conventional investment trust with one class of share; there are currently 84.8m shares outstanding. A revolving credit facility is in place, which is the lower of 25% of NAV and £20m; the interest rate is Libor +0.85%. The maximum level of gearing permitted is 25% of net assets, but the board has set a working range of up to 15%; at the end of April 2016 net gearing was 1.7%. Invesco Fund Managers provides investment management and administration services to IAT; the annual management fee is 0.75% of net assets (excluding any funds managed by Invesco). It is charged 25% to income and 75% to capital, which is in line with the board's expectation of the split in long-term returns between income and capital gains. There is no performance fee. At 30 April, ongoing charges were 1.02% versus 1.06% at the end of April 2015.

Dividend policy and record

IAT has no specific income requirement; its objective is to provide long-term capital growth and income generated is as a result of stock selection. However, IAT's dividends, which are paid annually in July or August, have grown or been maintained in each year since 2001. Over the last five years, the compound annual growth rate has been 10.2%, well above the level of UK inflation. The 2015 dividend of 3.65p was an increase of 5.8% versus the previous year and was fully covered by income. At the FY15 year end, the revenue reserve was 5.89m, which was a 4.8% increase over the year and more than sufficient to cover the dividend payment. For H116, revenue per share was 2.5p: 8.7% higher than in H115. Based on the current share price, IAT has a dividend yield of 1.9%, which is above the weighted average of its close peer group.

Peer group comparison

IAT is in the AIC Asia Pacific ex-Japan sector; Exhibit 8 shows the peer group, excluding three trusts that have an income-focused mandate. On a NAV total-return basis, IAT ranks above the peer group weighted average over one, three, five and 10 years. Relative performance has been particularly strong over three years, where IAT ranks third out of 12 trusts, outperforming the weighted average by 15.6 percentage points. On a risk-adjusted basis, as measured by the Sharpe ratio, IAT is ahead of the peer group over one and three years. Its discount is in line with the average, its ongoing charge is lower and there is no performance fee. IAT currently has a modest level of gearing, in a peer group where some of the trusts are running a net cash position. Its dividend yield is above the peer group average.

Exhibit 8: Asia Pacific ex-Japan peer group as at 3 June 2016

% unless stated	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	NAV TR 10 Year	Sharpe 1y (NAV)	Sharpe 3y (NAV)	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Invesco Asia Trust	157.7	(3.8)	19.5	30.7	175.8	(0.6)	0.4	(11.4)	1.1	No	102	2.0
Aberdeen Asian Smaller	287.0	(5.2)	(11.9)	47.8	282.9	(1.1)	(0.6)	(11.3)	1.5	No	111	1.9
Aberdeen New Dawn	185.5	(11.7)	(11.2)	6.4	130.5	(1.1)	(0.4)	(12.7)	1.1	No	111	2.5
Asian Total Return Inv. Company	150.3	1.3	10.6	11.5	127.7	(0.4)	0.2	(5.9)	1.1	Yes	106	1.6
Edinburgh Dragon	473.6	(7.9)	(6.6)	13.3	153.9	(0.9)	(0.3)	(13.2)	1.2	No	109	1.2
Fidelity Asian Values	178.2	2.7	26.2	37.8	192.7	(0.2)	0.6	(11.8)	1.4	No	102	0.8
JPMorgan Asian	206.3	(10.5)	3.1	0.9	93.0	(1.0)	0.0	(11.9)	0.9	No	103	1.0
Martin Currie Asia Unconstrained	99.9	(5.8)	(3.1)	11.7	57.9	(0.8)	(0.2)	(12.6)	1.2	No	103	2.7
Pacific Assets	229.3	0.3	24.0	60.9	161.0	(0.6)	0.6	(4.9)	1.3	No	100	1.4
Pacific Horizon	96.8	(12.8)	4.4	12.0	107.0	(1.1)	0.1	(12.6)	1.0	No	97	0.2
Schroder Asia Pacific	454.4	(3.6)	6.6	32.2	165.2	(0.7)	0.1	(11.8)	1.1	No	104	2.6
Scottish Oriental Smaller Cos	232.7	(4.7)	3.6	48.5	304.0	(0.8)	(0.0)	(14.9)	1.0	Yes	94	1.5
Weighted average		**(5.1)**	**3.9**	**27.9**	**173.6**	**(0.8)**	**(0.0)**	**(11.4)**	**1.2**		**104**	**1.7**
IAT rank in sector	**9**	**5**	**3**	**6**	**4**	**3**	**3**	**4**	**6**		**8**	**4**

Source: Morningstar, Edison Investment Research. Note: TR=total return. Sharpe ratio is a measure of risk-adjusted return. The ratios shown 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 total assets less cash and equivalents as a percentage of net assets.

The board

There are four members on the board at IAT, all of whom are independent non-executive directors. Carol Ferguson was appointed in March 2009 and became chairman in August 2013; she is also chairman of BlackRock Greater Europe Investment Trust and a non-executive director of Standard Life Smaller Companies and Monks investment trusts. The other three board members are James Robinson (appointed in January 2007), Tom Maier (March 2009) and Owen Jonathan (March 2013). The directors have backgrounds in investment and law.

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