EDISON

Invesco Asia Trust

Track record of solid long-term performance

Investment trusts

Invesco Asia Trust (IAT) aims to provide attractive long-term capital growth through investing in a diversified portfolio of Asian and Australasian equities. With few investment constraints, the relatively concentrated portfolio of 50-60 stocks is a reflection of the manager's highest conviction ideas, driven primarily by bottom-up considerations. IAT has a solid long-term track record and its NAV total return has outperformed the benchmark over three, five and 10 years. Asian equities have performed strongly over the past two years, leaving valuations above the historic average. However, they remain at a meaningful discount to global equities, and the manager continues to find attractive long-term investment ideas.

12 months ending	Share price (%)	NAV (%)	Benchmark* (%)	MSCI World (%)	FTSE All-Share (%)
28/02/14	(6.3)	(7.3)	(10.1)	10.8	13.3
28/02/15	25.2	25.5	18.0	17.6	5.6
29/02/16	(7.8)	(9.2)	(13.2)	(0.7)	(7.3)
28/02/17	45.8	51.1	42.1	36.6	22.8
28/02/18	19.4	17.1	19.5	6.6	4.4

Source: Thomson Datastream. Note: All % on a total return basis in GBP. *Benchmark is MSCI AC Asia Pacific ex-Japan until 30 April 2015 and MSCI AC Asia ex-Japan thereafter.

Investment strategy: High conviction, fundamental

IAT has a fundamental approach in seeking quality companies with strong balance sheets, cash flows and management, which are trading at a significant discount to estimated fair value on a three- to five-year investment horizon. A team of six UK-based Asian equity specialists facilitate IAT's bottom-up process, which involves meeting around 700 companies a year, and conducting in-depth analysis to help build a diversified portfolio of around 50-60 highest conviction stocks. Top-down analysis helps to guide country and sector weights.

Market outlook: Conditions still benign

The MSCI Asia AC ex-Japan index has risen 19.5% in the year to end-February 2018, outperforming both the MSCI World and FTSE All-Share indices. Earnings upgrades have been stronger than expected, lifted by accelerating and synchronous global growth. Looking ahead, although stock markets are now more fairly priced than last year, and earnings surprises could be harder to achieve, the economic backdrop nevertheless remains supportive, while Asian equity valuations, especially relative to global equities, do not appear overstretched.

Valuation: Discount in line with three-year average

IAT currently trades at an 11.0% discount to ex-income NAV, which is in line with its three-year average, with the discount ranging between 6.8% and 14.2% over this period. The board is committed to managing the discount and views a level below 10.0% to be desirable under normal market conditions. A policy review in 2017 now gives the board discretion to repurchase shares, when it deems conditions to be appropriate, and when a repurchase can enhance NAV.

23 March 2018

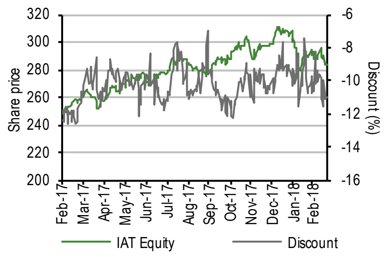
Price	**284.0p**
Market cap	**£201.4m**
AUM	**£232.0m**

NAV*	320.8p
Discount to NAV	11.0%
NAV**	326.7p
Discount to NAV	13.1%

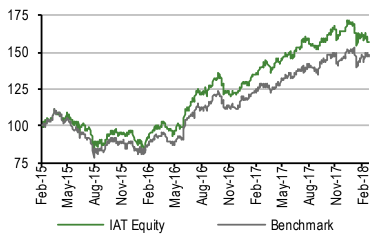
*Excluding income. **Including income. As at 21 March 2018.

Yield	1.5%
Ordinary shares in issue	70.9m
Code	IAT
Primary exchange	LSE
AIC sector	Asia Pacific ex-Japan
Benchmark	MSCI AC Asia ex-Japan

Share price/discount performance



Three-year performance vs index



52-week high/low	310.5p	251.8p
NAV** high/low	347.8p	284.9p

**Including income.

Gearing

Gross*	0.0%
Net cash*	0.5%

*As at 28 February 2018.

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

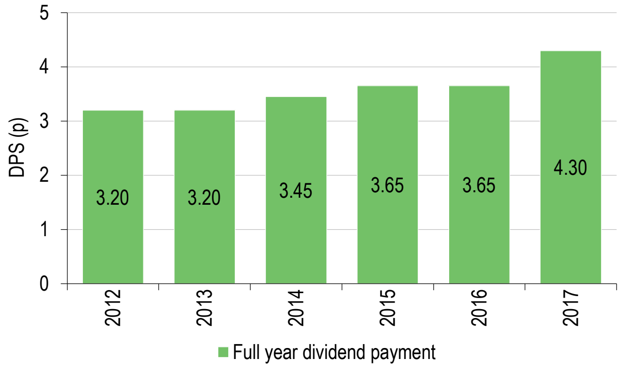
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
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.	■ 14 December 2017: Interim report for six months ending 31 October 2017. NAV TR +14.8% versus benchmark TR +15.5%. Share price TR +13.4%. ■ 11 August 2017: 15% of shares repurchased for cancellation in tender offer at a 2% discount to NAV. ■ 10 August 2017: Neil Rogan appointed as a non-executive director. ■ 28 June 2017: Annual report for 12 months ending 30 April 2017. NAV TR +40.6% versus benchmark TR +37.5%. Share price TR +42.9%. ■ 28 June 2017: Annual dividend of 4.3p declared, +17.8% versus FY16.

Forthcoming		Capital structure		Fund details	
AGM	August 2018	Ongoing charges	0.97% (February 2018)	Group	Invesco Asset Management Ltd
Annual results	June 2018	Net cash	1.0%	Manager	Ian Hargreaves
Year end	30 April	Annual mgmt fee	0.75%	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 in 2019	Loan facilities	£20m multi-currency	Website	www.invescoperpetual.co.uk

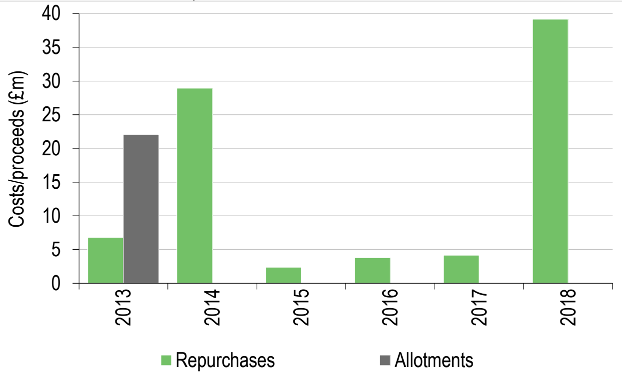
Dividend policy and history (financial years)

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

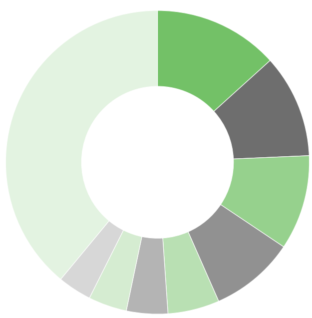


Share buyback policy and history (financial years)

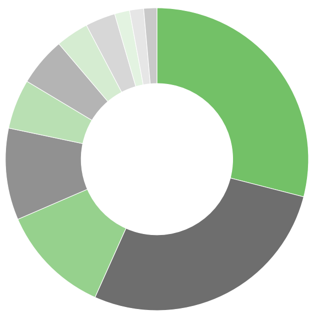
Renewed annually, the trust has authority to purchase up to 14.99% and allot up to 5% of issued share capital.



Shareholder base (as at 9 March 2018)



Portfolio exposure by sector (as at 28 February 2018, ex-cash)



Top 10 holdings (as at 28 February 2018)

			Portfolio weight %	
Company	**Country**	**Sector**	**28 February 2018**	**28 February 2017***
Samsung Electronics	South Korea	Technology hardware & equipment	5.3	4.3
JD.com (ADR)	China	Retailing	3.7	N/A
TSMC	Taiwan	Semiconductors	3.6	3.6
AIA	Hong Kong	Insurance	3.5	3.1
Baidu (ADR)	China	Software & services	3.4	3.3
HDFC Bank	India	Banks	3.3	3.4
CNOOC	China	Oil & gas	2.9	N/A
Tencent	Hong Kong	Software & services	2.9	N/A
Hyundai Motor (preference shares)	South Korea	Automobiles	2.8	3.1
MediaTek	Taiwan	Semiconductors	2.8	N/A
Top 10			**34.2**	**36.5**

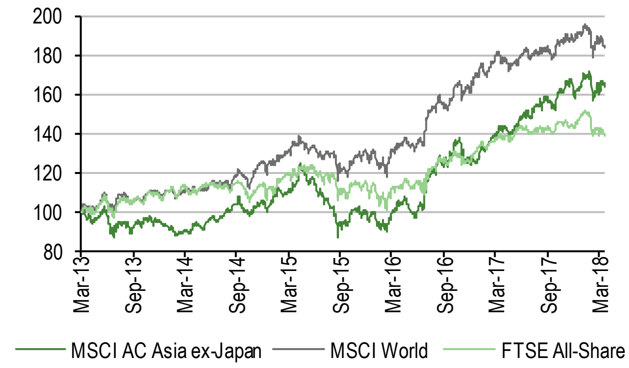
Source: Invesco Asia Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-February 2017 top 10.

Market outlook: Global growth favourable for Asia

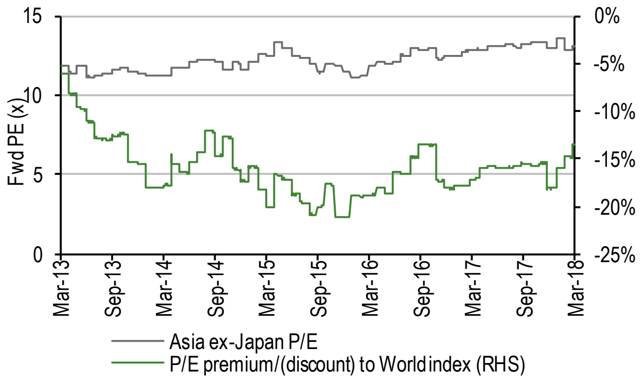
The MSCI AC Asia ex-Japan index has performed strongly over the past year to end-February 2018, rising 19.5%, significantly outperforming the MSCI World (6.6%) and FTSE All-Share (4.4%) indices. Accelerating global growth has been favourable for Asia, and spurred strong earnings momentum for exporters and cyclical sectors, which are significant drivers for the region's markets. As a result, Asian equities valuations are no longer cheap; however, they are also not overly expensive, comparing favourably with global equities. The right-hand chart in Exhibit 2 shows Asian equities currently trading at a c 15% forward P/E multiple discount to global equities, having previously achieved premium valuations as recently as 2012.

Exhibit 2: Market performance and valuation

Performance of indices (last five years, all in £)



DS Asia ex-Japan vs DS World valuation comparison



Source: Thomson Datastream, Edison Investment Research. Note: Valuation data as at 21 March 2018.

Fund profile: Targeting long-term capital growth

IAT was launched in July 1995. Its objective is to provide attractive long-term capital growth through fundamental investing in a diversified portfolio of Asian and Australasian equities. Since 1 May 2015, the trust has been benchmarked against the MSCI AC Asia ex-Japan index, changing from the MSCI Asia-Pacific ex-Japan index, which more suitably reflects IAT's habitual significant underweight to Australasia. The trust has the freedom to invest in companies of all sizes across the region with relatively few constraints, notably a maximum exposure of 10% of total assets to any one company, unquoted investments, and investments in warrants and options. Gearing is permitted up to 25% of net assets. The portfolio typically consists of around 50-60 stocks, which represent the manager's highest conviction investment ideas.

The fund manager: Ian Hargreaves

The manager's view: Still plenty of attractive investment ideas

Asian equities have performed strongly over the past year, and Hargreaves believes that, at current price levels, the risk-reward ratio is now fairly balanced. Although he now has more confidence in the outlook for global growth, he expects the rate of growth to peak this year. In the US, it is likely that the Institute for Supply Management's (ISM) leading indicator peaked in October 2017. China's growth is also slowing, although this is not necessarily evident in reported headline numbers. The manager observes other indicators that point to slowing growth, including sales of property, cars and cement. China's central government policies to dampen consumer credit growth, which has grown by around 30% pa over the past few years, as well as to curb financial powers of local governments, all point towards tighter credit conditions.

Given Asian exporters' sensitivity to the US and China's GDP growth, and the global bias towards raising interest rates, the economic backdrop has become more challenging, but not disastrous, for earnings. Earnings revisions for 2017 have been stronger than expected, and consensus forecasts are looking for an ambitious 18% earnings growth in 2018. Positive surprises should be harder to achieve, while valuations are above average, but not overstretched. In this environment, Hargreaves has reduced the trust's exposure to cyclical sectors, such as IT hardware, cement and real estate, but cautious optimism is underpinned by his ability to continue to find interesting investment ideas elsewhere.

Asset allocation

Investment process: Bottom-up, valuation discipline

The manager's investment approach is fundamental, seeking to identify stocks with quality characteristics, which are intrinsically undervalued with a three- to five-year investment horizon. A well-resourced team of six experienced fund managers and analysts each travel to Asia three or four times each year, meeting around 700 company managements. Investment ideas are subject to in-depth analysis, focusing on a company's competitive position, financial health, understanding the key drivers of earnings growth, and management quality. These assessments help determine a company's fair value and identify candidates for a shortlist of stocks, which are ranked by expected total annual return over a three-year horizon. Portfolio construction is mainly driven by bottom-up considerations, including the expected return of a stock, conviction level and liquidity. Portfolio risk is managed through in-depth knowledge of investee companies, and rigorous valuation discipline to help protect against capital loss. Diversification is also an important part of risk management, and the team's top-down economic analysis provides an overlay to help guide the portfolio's sector and country weightings.

Current portfolio positioning

Over the past year to end-February 2018, the most significant changes to the portfolio are a reduction in information technology (-5.5pp) and increased exposures to financials (+6.6pp) and energy (+3.1pp). Information technology remains the largest sector exposure at 29.0%. The main reductions were to the highly cyclical hardware and semiconductor manufacturing sub-sectors, where Hargreaves believes profitability has peaked. He sold the position in Taiwanese passive component manufacturer Yageo. Tight supply for its components resulted in "meteoric" levels of profitability and gross margins in 2017 increased from 24% to 32% year-on-year. Samsung Electronics Co (SEC) in Korea also benefited from a very tight market for its products (DRAM and NAND semiconductors) and achieved 25-year-high margins. With new semiconductor supply in the region looming, the manager trimmed the SEC position to 5.3% (down from a peak of around 8.0%). It remains the largest holding in the portfolio, however, as the manager believes demand for its products will continue to grow, and the stock is still modestly valued.

The manager added Australian general insurance company, QBE, to IAT's portfolio. Extremely low interest rates have depressed insurance companies' profitability for many years. However, the interest cycle has started to reverse, which should be positive for margins. A significant number of catastrophes in 2017 (including hurricanes Harvey, Irma and Maria, and wildfires in California) resulted in hefty write-downs and profit downgrades. A restructuring of the business is underway, while a new CEO is in place. Hargreaves believes QBE has good recovery potential driven by cyclical factors and medium-term benefits from restructuring. The manager also added to the position in Korean Reinsurance, which should share similar cyclical recovery potential. The company is relatively small in market capitalisation terms, and less well-researched, contributing to its modest valuation of 0.6x price-to-book ratio. Hargreaves believes the company, which commands a c 60% share of the Korean reinsurance market, can generate a return on equity of around 10% in normalised conditions, suggesting the shares are meaningfully undervalued.

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

	Portfolio end-February 2018	Portfolio end-February 2017	Change (pp)	Benchmark weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Hong Kong & China	42.8	41.0	1.7	46.6	(3.9)	0.9
South Korea	19.2	20.9	(1.7)	16.9	2.3	1.1
India	12.7	14.5	(1.8)	9.5	3.2	1.3
Taiwan	12.6	14.6	(2.0)	13.3	(0.7)	0.9
Japan	3.5	1.1	2.4	0.0	3.5	N/A
Australia	2.3	1.4	1.0	0.0	2.3	N/A
Singapore	2.2	2.1	0.1	4.2	(2.0)	0.5
Thailand	1.5	0.0	1.5	2.9	(1.4)	0.5
Philippines	1.2	1.3	(0.1)	1.2	0.0	1.0
Indonesia	1.2	3.1	(2.0)	2.5	(1.3)	0.5
Malaysia	0.8	0.0	0.8	2.8	(2.0)	0.3
Pakistan	0.0	0.0	0.0	0.1	(0.1)	0.0
	100.0	**100.0**		**100.0**		

Source: Invesco Asia Trust, Edison Investment Research. Note: Rebased for cash/gearing.

Exhibit 4: Portfolio sector exposure vs benchmark (% unless stated)

	Portfolio end-February 2018	Portfolio end-February 2017	Change (pp)	Benchmark weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Information technology	29.0	34.5	(5.5)	31.2	(2.2)	0.9
Financials	27.7	21.0	6.6	23.5	4.2	1.2
Consumer discretionary	11.8	13.3	(1.4)	9.1	2.8	1.3
Industrials	9.8	8.7	1.1	7.2	2.5	1.4
Energy	5.3	2.2	3.1	4.2	1.1	1.3
Materials	5.2	5.9	(0.7)	4.7	0.5	1.1
Real estate	3.5	5.2	(1.7)	6.1	(2.6)	0.6
Telecom services	3.2	5.0	(1.8)	4.6	(1.4)	0.7
Utilities	1.6	2.8	(1.2)	3.0	(1.4)	0.5
Consumer staples	1.5	1.4	0.1	4.4	(2.9)	0.3
Healthcare	1.4	0.0	1.4	2.0	(0.6)	0.7
	100.0	**100.0**		**100.0**		

Source: Invesco Asia Trust, Edison Investment Research. Note: Rebased for cash/gearing.

Hargreaves also added to ICICI Bank in India as he gained conviction on India's credit cycle recovery. A credit boom in the years preceding the global financial crisis left many banks, including ICICI Bank, with a high proportion of non-performing loans. However, little progress was made to recognise these problems until recently. The Modi government has recapitalised the state banking sector and introduced a new bankruptcy code, which is leading to accelerated recognition of impaired assets. ICICI Bank has been implementing these measures, paving the way for balance sheet and profit recoveries over the next 12-18 months. The bank is well capitalised, and its core business is highly profitable. Post recovery, Hargreaves expects the bank to be able to generate a normalised mid- to high-teens return on equity, leading to a potential re-rating of the stock.

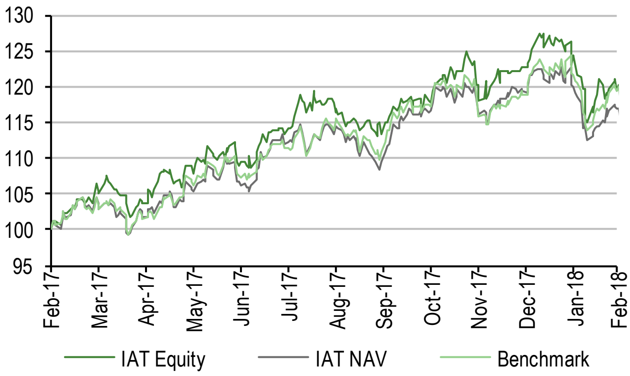
In the energy sector, the manager increased the holding in China-listed oil and gas company, CNOOC. Following a meeting with the company's CEO in the second half of 2017, Hargreaves gained conviction on the quality of the company's assets and management capability. The market perceives the company as low growth and inefficiently managed, typical of state-owned enterprises in China. The team's in-depth research concluded otherwise, and is confident CNOOC can continue to generate good growth and profitability, benefiting from one of the lowest lifting costs among its global peers. The manager also bought a new position in Japan-listed Inpex, which has a large LNG project based in Australia due to come on-stream imminently. This project could transform the profitability of the company, with the prospect of generating a free cash flow yield of c 10% over the next two years. The manager believes the LNG market could be undersupplied by the end of the decade as China is switching from coal to gas usage more quickly than originally envisaged.

Performance: Good investment track record

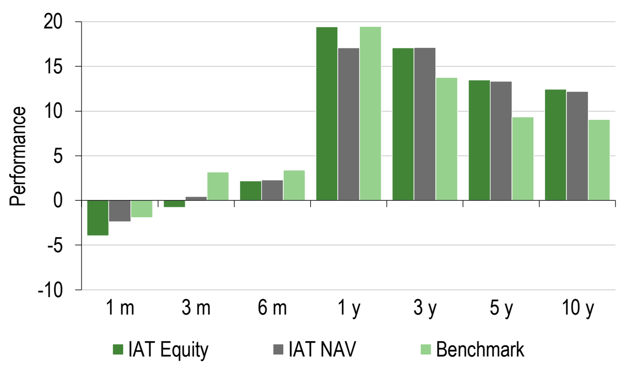
As shown in Exhibits 5 and 6, IAT has a strong medium- and long-term track record; its price and NAV total returns have outperformed the benchmark over three, five and 10 years. Over one year, IAT's NAV has modestly lagged the benchmark, although its share price performance is in line. IAT's NAV total return relative performance is even stronger when measured against the FTSE All-Share index, outperforming over all periods shown.

Exhibit 5: Investment trust performance to 28 February 2018

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



Price, NAV and benchmark total return performance (%)



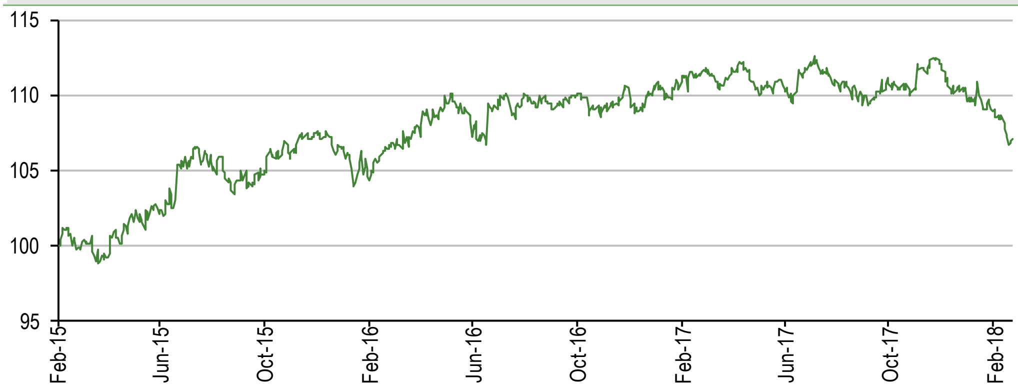
Source: Thomson Datastream, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised. Benchmark is MSCI AC Asia Pacific ex-Japan until 30 April 2015 and MSCI AC Asia ex-Japan thereafter.

Exhibit 6: 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	(2.1)	(3.8)	(1.2)	0.0	9.0	20.5	35.7
NAV relative to benchmark	(0.5)	(2.7)	(1.1)	(2.0)	9.1	19.6	32.5
Price relative to FTSE All Share	(0.7)	(0.2)	3.1	14.4	35.1	32.5	70.1
NAV relative to FTSE All Share	0.9	1.1	3.2	12.1	35.2	31.5	66.1

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-February 2018. Geometric calculation.

Exhibit 7: NAV total return performance relative to benchmark over three years

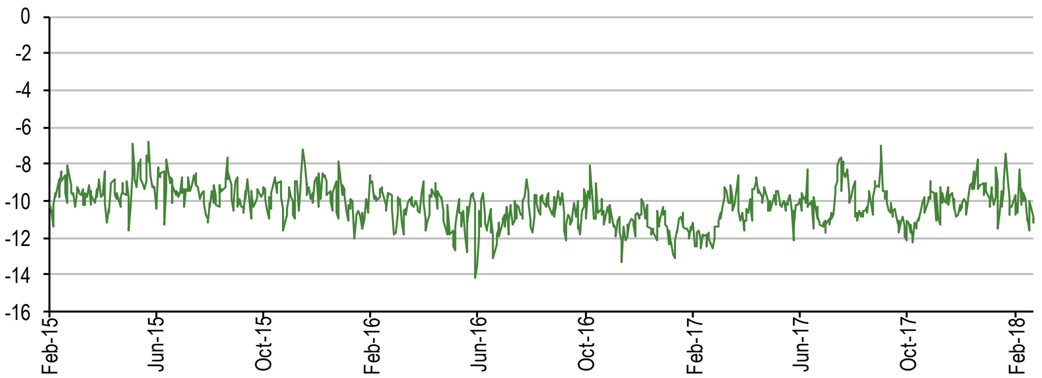


Source: Thomson Datastream, Edison Investment Research

Discount: New approach to discount management

IAT currently trades at an 11.0% discount to ex-income NAV, which is in line with its three-year average, with the discount ranging between 6.8% and 14.2% over this period. Previously, the board proposed a tender offer if the trust's shares traded over any financial year at an average discount of more than 10.0% to ex-income NAV. In 2017, the board reconsidered the appropriateness of tender provisions with a specific discount trigger, and concluded the practice to be against shareholders' long-term interests, potentially shrinking the size of the trust, leading to higher ongoing charges and lower liquidity. Tender offers have therefore been discontinued. Managing the trust's share price discount continues to be an important focus for the board, aiming for a share price discount of less than 10% of ex-income NAV in normal market conditions. The board has shareholder approval, renewed annually, to buy back up to 14.99% of its shares, and will use this facility at its discretion, when repurchases can enhance the NAV, taking into consideration factors such as market conditions and the discounts of comparable peers.

Exhibit 8: Share price premium/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. Following a tender offer for 15% of ordinary shares at a 2% discount to NAV, on 10 August 2017, there are currently 70.9m ordinary shares in issue. The trust is subject to a continuation vote every three years; the next is at the August 2019 AGM. Gearing is permitted, of up to 25% of net assets and IAT has an unsecured 364-day, multi-currency revolving credit facility for £20m with Bank of New York Mellon. In practice, the trust uses leverage conservatively; as at end-February 2018, IAT had no gearing and a net cash position of 0.5%. Invesco Fund Managers is paid an annual management fee of 0.75% of net assets on a quarterly basis. The fee is paid out of revenue and capital income, split 25% and 75% respectively. There is no performance fee. In FY17, IAT's ongoing charge at end-February 2018 was 0.97%.

Dividend policy and record

IAT's primary objective is to generate long-term capital growth, rather than dividend income. Since FY01, dividends have either increased or been maintained, and in FY17 the annual payment of 4.30p per share represented an 18% increase compared to FY16. This reflects robust revenue per share of 4.74p from strong earnings generated by investee companies, and the weakness of sterling following the EU referendum result. The current dividend yield of 1.5% compares relatively favourably to peers, ranking fourth among a group of 12 funds (Exhibit 9).

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Peer group comparison

IAT is a member of the AIC Asia Pacific ex-Japan sector. Exhibit 9 shows an adjusted sector peer group, with the removal of three trusts with an income mandate, and a small trust with a shorter performance track record. IAT's NAV total return compares favourably versus the peers over the longer term, ranking fifth, second and fourth over three, five and 10 years respectively. Over each of these periods, the NAV total return was significantly above the peer group average. IAT's dividend yield ranks fourth, although the discount to (ex-par) NAV is wider than the average, ranking seventh. It is one of the smaller funds in the group.

Exhibit 9: Selected peer group as at 21 March 2018*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Invesco Asia Trust	201.4	10.1	53.6	90.0	252.8	(11.0)	1.0	No	99.0	1.5
Aberdeen Asian Smaller	357.9	0.7	25.9	28.7	308.8	(11.9)	1.2	No	111	1.1
Aberdeen New Dawn	266.2	10.9	35.1	42.3	183.3	(13.3)	0.9	No	109	1.7
Edinburgh Dragon	721.1	11.4	36.6	43.6	195.4	(12.2)	1.0	No	100	0.9
Fidelity Asian Values	268.5	0.5	42.3	80.2	223.4	(1.6)	1.3	No	101	1.1
JPMorgan Asian	334.0	19.8	57.2	84.4	159.7	(11.9)	0.7	No	100	3.9
Martin Currie Asia Unconstrained	142.7	7.0	36.0	45.3	108.5	(10.5)	1.1	No	101	2.0
Pacific Assets	300.9	2.6	27.0	66.1	152.5	(2.7)	1.3	No	100	1.0
Pacific Horizon	197.5	38.6	68.7	102.3	181.9	(2.2)	1.1	No	107	0.0
Schroder Asia Pacific	770.8	20.1	61.7	86.6	262.4	(10.7)	1.0	No	106	1.2
Schroder Asian TR Inv. Company	307.8	21.2	62.3	77.4	210.4	3.9	1.0	Yes	104	1.2
Scottish Oriental Smaller Cos	300.8	(0.6)	25.6	37.3	318.6	(13.2)	1.2	Yes	100	1.2
Weighted average		**12.3**	**45.0**	**64.6**	**221.7**	**(8.9)**	**1.1**		**103**	**1.4**
Trust rank in sector (12)	**10**	**7**	**5**	**2**	**4**	**7**	**9**		**12**	**4**

Source: Morningstar, Edison Investment Research. Note: *Performance data to 20 March 2018. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

IAT's board has five independent, non-executive directors. Chairman, Carol Ferguson, joined in March 2009 and assumed her current role in August 2013. Tom Maier was appointed in March 2009, Owen Jonathan in March 2013 and Fleur Meijs in December 2016. Following the retirement of James Robinson in August 2017, after over 10 years' service, the board appointed Neil Rogan, with effect from 1 September 2017. He brings considerable investment management experience and was formerly head of international equities at both Gartmore and Henderson. Rogan is also chairman of Murray Income Trust.

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