Edison investment research

Long-term outperformance

Investment trusts

Invesco Asia Trust (IAT) targets long-term capital growth from a portfolio of Asian (ex-Japan) and Australasian equities. It is co-managed by Invesco Perpetual's Stuart Parks and Ian Hargreaves, who actively manage the portfolio with a view to absolute returns, using a blend of fundamental bottom-up and top-down analysis. Given this active approach, short-term divergences from the benchmark index, the MSCI AC Asia Pacific ex-Japan, are inevitable, but IAT has beaten its benchmark by over 11% under the managers since 2004, despite a weaker performance in the last year.

Twelve months ending	Total share price return* (%)	Total NAV return* (%)	Total MSCI AC Asia Pac ex-Japan* (%)	Total return MSCI World Index* (%)
29/10/2009	91.4	92.6	79.1	24.0
29/10/2010	29.7	27.4	25.8	15.1
29/10/2011	(1.2)	0.4	(3.5)	4.4
29/10/2012	(0.3)	1.5	5.5	7.3

Note: *Twelve-month rolling discrete performance, figures in sterling.

Investment strategy: Quality at a discount

IAT invests across the Asian region and focuses on the larger, more liquid markets. IAT is differentiated from its Asian peer group in that its remit includes Australasia, which broadens its investment opportunities. The managers look for stocks that are trading at a significant discount to their estimate of fair value, in a process that gives emphasis to management quality, good corporate governance, balance sheet strength and cash generation. The investment process aims to create a diversified portfolio of 60-90 stocks, actively chosen for positive returns.

Political and economic outlook: Inflation moderating

For much of the past decade, investors have been attracted to the structural growth opportunity provided by Asia. Over the last couple of years, authorities across the region have been focused on dampening the inflation that arose in the aftermath of China's 2009, financial crisis-inspired, stimulus package. Reinforced by the protracted eurozone crisis and mixed signals from the US economy, regional growth has slowed, although still compares favourably with that generated by developed markets. There are signs that inflation is now moderating, which should provide room for less-restrictive monetary and fiscal policy. The managers believe that the Chinese economy is set to stabilise at a more sustainable pace of growth, still attractive but slower than in recent years and the portfolio is overweight the Greater China region in anticipation of this. Stock valuations are historically low, with room to respond favourably to potential cyclical recovery and a return to structural growth.

Valuation: Discount at the wider end of its range

IAT's discount has moved in a range of 5% to 10% over much of the last three years, and currently stands at 9.4%. The board intends to tender for 15% of the share capital at a 2% discount to NAV less costs, if the average discount exceeds 10% in the year to 30 April 2013, or an implied average 9.2% over the balance of the period.

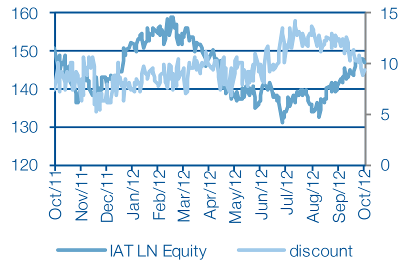
1 November 2012

Price	147p
Market cap	£157m
AUM	£178.9m
NAV	162.2p*
Discount to NAV	9.4%*
NAV	162.4p**
Discount to NAV	9.5%**
Yield	Nil

** NAX ex income, debt at FV*
*** NAV cum income, debt at FV*

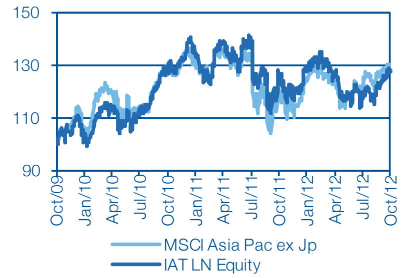
Ordinary shares in issue	107.1m
Code	IAT
Primary exchange	LSE
AIC sector	Asia Pacific ex-Japan

Share price/discount performance



** Positive values indicate a discount; negative values indicate a premium.*

Three-year cumulative perf graph



52 week high/low	159p	131p
NAV* high/low	173.9p	147.1p

** Excluding income.*

Gearing

Gross	3%
Net	3%

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Exhibit 1: Investment trust at a glance

Investment objective and fund background

The investment objective of Invesco Asia Trust is to provide long-term capital growth by investing in a diversified portfolio of Asian (defined primarily as China, Hong Kong, India, Malaysia, Singapore, South Korea, Taiwan, Thailand) and Australasian companies. The company aims to achieve growth in its net asset value in excess of the MSCI All Countries Asia Pacific ex-Japan Index, measured in sterling.

Recent developments

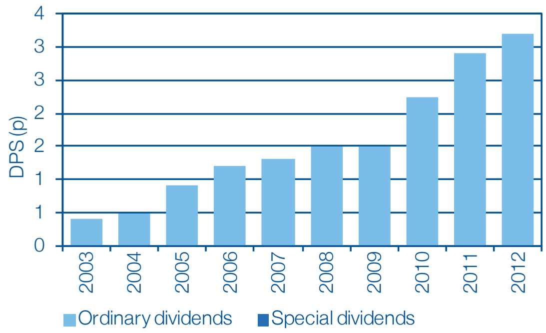
12 September: City of London Investments has 27.3m shares (25.4% of the total).

31 August: Final exercise of subscription shares.

Forthcoming		Capital structure		Fund details	
AGM	August 2013	Ongoing expenses	1.05%	Group	Invesco Asset Management
Preliminary results	July	Net gearing	3%	Managers	Stuart Parks/Ian Hargreaves
Year end	30 April	Annual mgmt fee	0.75% on net assets	Address	30 Finsbury Square
Dividend paid	August	Performance fee	None		London EC2A 1AG
Launch date	July 1995	Trust life	Indefinite	Phone	+44 (0)20 7065 4000
Continuation vote	AGM 2014 (3 yearly)	Loan facilities	£20m multi-currency	Website	www.invescoperpetual.co.uk

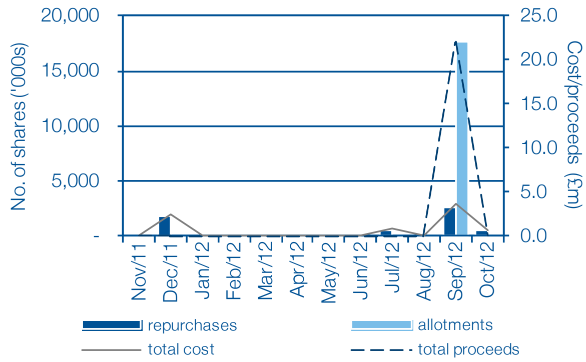
Dividend policy and history

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

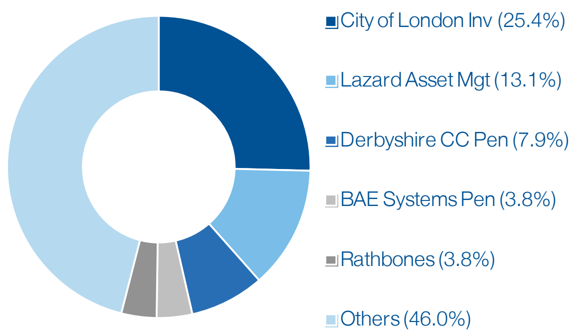


Share buyback policy and history

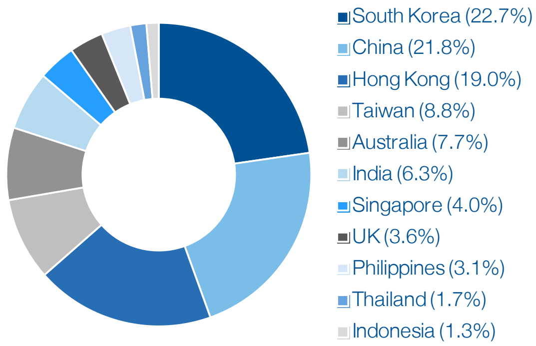
IAT is authorised to buy up to 14.99% of its ordinary shares and issue up to 5% of its issued capital without pre-emption rights.



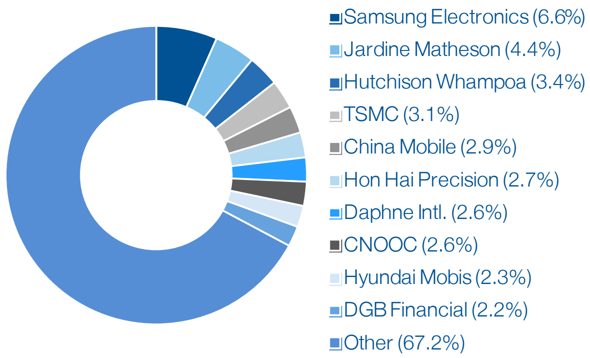
Shareholder base (as at 10 October 2012)



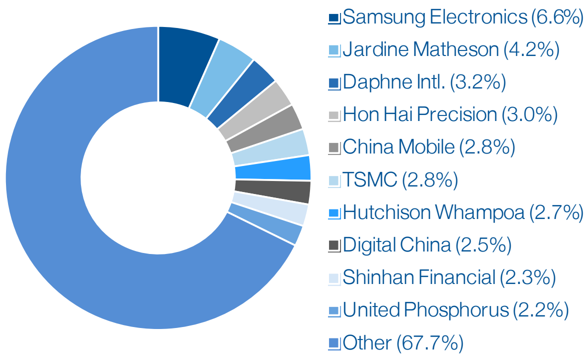
Geographic distribution of portfolio (as at 30 September 2012)*



Portfolio composition (as at 30 September 2012)*



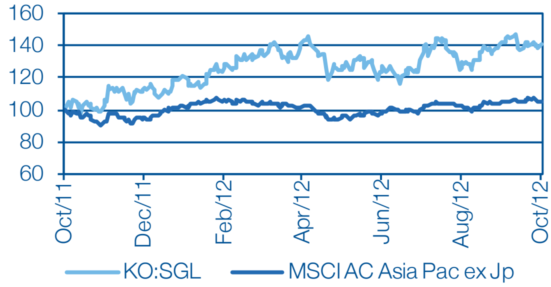
Portfolio composition (as at 31 March 2012)*



Source: Invesco Perpetual, Edison Investment Research. Note: *Geographic distribution and portfolio composition are as a proportion of gross assets – IAT has net gearing of 3% of net assets.

Exhibit 2: Top five holdings at a glance

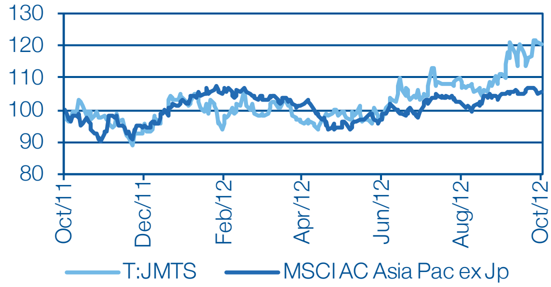
Samsung Electronics | **Code: KO: SGL** | **Market cap: KRW191.2trn (£108.9bn)**



Div yield (trail. 12 months)	0.42%
Industry/sector	Information technology
Listing	Seoul
Website	www.samsung.com

Samsung is a leading manufacturer of electronic products. Its share price has been strong this year, underpinned by improving profitability as evidenced by Q3 earnings guidance showing sales up c 26% and profits up c 20% y-o-y, driven by strong sales of smartphones (which offset losses in its DRAM operations, where margins are cyclically low). The managers are taking profits but continue to hold a large position, believing there to be further upside.

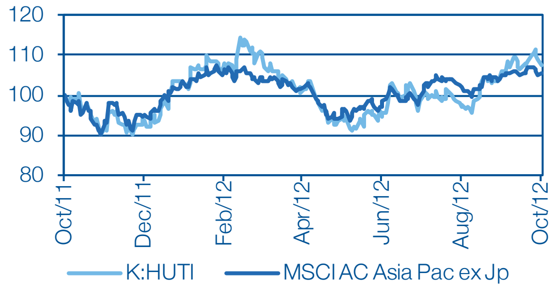
Jardine Matheson | **Code: T: JMTS** | **Market cap: $41.8bn (£26.0bn)**



Div yield (trail. 12 months)	2.04%
Industry/sector	Industrials
Listing	Singapore
Website	www.jardines.com

Conglomerate Jardine Matheson has exposure to a broad range of businesses, including automotive retail, food processing, property and insurance. Many of these businesses are highly cash generative and this has been attracting new investors during the recent slowdown. Jardine Matheson has been re-rated in recent years and, while the manager believes it remains an excellent company, they are now trimming the position.

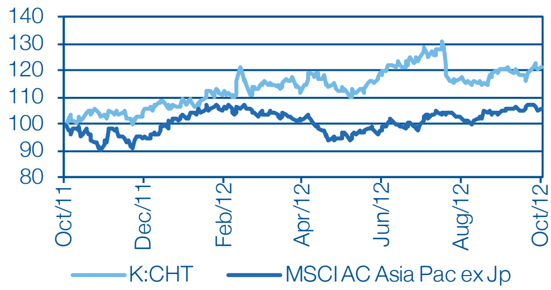
Hutchison Whampoa | **Code: K: HUTI** | **Market cap: HK$321.0bn (£25.8bn)**



Div yield (trail. 12 months)	2.76%
Industry/sector	Industrials
Listing	Hong Kong
Website	www.hutchison-whampoa.com

HWL is one of the largest companies listed on the main board of the Hong Kong SE. Its global operations are divided into six core business units – ports and related services, property and hotels, retail, infrastructure, energy and telecoms. First half profits were up 13% on revenues up 6%. The managers consider the valuation of HWL to be attractive as a result of the broader market taking an unduly pessimistic view of its European exposures (42% of 2011 revenues).

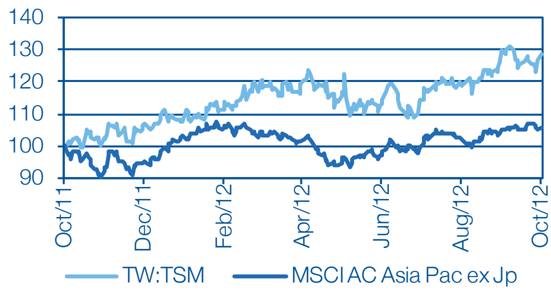
China Mobile | **Code: K: CHT** | **Market cap: HK$1,714.5bn (£137.5bn)**



Div yield (trail. 12 months)	3.96%
Industry/sector	Telecommunications
Listing	Hong Kong
Website	www.chinamobileltd.com

With almost 700m customers, China Mobile is China's largest mobile phone operator. The company has seen customer growth of c 7% so far this year. China Mobile has relatively low penetration in 3G phones – the consequence of government policy to encourage more competition in the sector. However, there are no corresponding restrictions on their rollout of 4G. Profit growth may accelerate when it is granted a 4G licence and this is the attraction for the managers.

Taiwan Semiconductor Manufacturing | **Code: TW: TCM** | **Market cap: TW$2,280.6bn (£ 48.5bn)**



Div yield (trail. 12 months)	3.41%
Industry/sector	Information technology
Listing	Taipei
Website	www.tsmc.com

TSMC manufactures integrated circuits used in a wide variety of electronic products. TSMC's sales and earnings were both up 16% y-o-y in the second quarter. The company benefits from a virtuous circle of high R&D translating into sales growth, high margins and the cash flow to fund further investment; maintaining the company at the forefront of its industry. The stock has performed well and the managers believe the stock is starting to look fully valued.

Source: Invesco Perpetual, Thomson Datastream, Bloomberg, Edison Investment Research

Fund profile

IAT emerged from the reconstruction of a pan-Asian investment trust (Drayton Far Eastern) in 1995. Drayton's Japanese assets became Invesco Tokyo and the balance, including Australasian investments, became IAT. The current co-managers, Stuart Parks and Ian Hargreaves, were appointed in 2004 and 2011 respectively. Ian Hargreaves was assistant manager to IAT from 2005. Invesco's Asian team manages approximately $10bn and consists of four fund managers and an analyst, all based in Henley.

The case for Asia

For much of the past decade, investors have been attracted to the structural growth opportunity provided by Asia. Many of the region's economies remain under-developed and offer potential for further catch-up in GDP per capita versus western economies, with investment spending supported by generally strong savings rates. Government, corporate and household balance sheets are generally in good shape, with low levels of debt, and this provides flexibility if the need to support economies arises. Over the last couple of years, authorities across the region were focused on dampening the inflation that arose in the aftermath of China's massive stimulus programme in 2009 as the global financial crisis deepened. The Chinese economy, the region's largest, has been deliberately slowed from the frantic pace of recent years (c 10%) to a level that appears more sustainable (c 7% now). The protracted eurozone crisis and mixed signals from the US economy have added to the regional slowdown, although Asian growth still compares favourably with that generated by developed markets. The signs are that inflation is now moderating, which should provide room for less-restrictive monetary and fiscal policies. Regional equity markets have generally been weak in response to the slowdown in growth and corporate earnings, but stock valuations are now below long run averages, with room to respond favourably to potential cyclical recovery and a return to structural growth.

The co-managers of the fund: Stuart Parks and Ian Hargreaves

The view of the managers

While uncertainty persists around the degree to which the growth of China's economy will slow, in the view of the managers, it is bumping along near the bottom of the cycle and they hope to see definitive signs of improvement as early as the end of this year. They believe that stabilisation alone will provide the necessary conditions for a stronger equity performance, given the attractive level of valuation. Indeed, they do not expect a return to previous Chinese growth rates, but look to the authorities to focus on the quality and sustainability of growth rather than the quantum. A key element is the rebalancing of growth towards domestic demand, with less reliance on investment. The portfolio continues to offer diversified exposure across the region, looking for companies with strong competitive advantage, undervalued earnings and upside potential for share prices over the medium to long term, regardless of market conditions. The managers believe the share prices of many defensive stocks have been driven up too high by investors seeking safe havens for their money and that some of these 'safe' stocks may disappoint the market. This may be particularly the case where investors have been focusing largely on yield, rather than more general financial performance and broader valuation approaches. IAT has avoided Taiwan Mobile, which is trading on 24x earnings but with little forecast profit growth, for these reasons. The managers see good value in selected cyclicals, mainly industrial cyclical stocks that have been lagging the market. They note that property sales in China have been surprisingly good despite the slowdown, and that property stocks have reacted well, creating a stock performance anomaly with other cyclicals. Stocks being considered for further or new investment include Pacific Basin (a bulk shipping company), Cathay Pacific (the travel group, trading below book value) and POSCO (a leading steel producer trading at 0.7x book).

Asset allocation

Investment process: Stock selection with a top-down overlay

The managers' investment philosophy is based on generating absolute returns from active fund management, while using a comparison with the benchmark to assess risk. The portfolio construction process combines both bottom-up and top-down analysis. Bottom-up stock fundamentals and valuation are assessed, generally looking three to five years out, to gain a strong understanding of the company, identify potential performance catalysts and understand the consensus expectations of the market. The managers look for stocks that are trading at a significant discount to their estimate of fair value in a process that gives emphasis to management quality, good corporate governance, balance sheet strength and cash generation. Although based in the UK, the team each make three to four trips per year to the region, meeting approximately 700 companies between them. Top-down analysis includes an appraisal of macroeconomic and sector-specific factors and also seeks to identify regional markets that may benefit from local, positive liquidity flows. The overall process aims to create a diversified portfolio of 60-90 stocks that are all expected to produce positive returns, and not by reference to their index weight. Risk is controlled primarily by diversification and reinforced by a number of informal limits including no more than 50% in small caps, a maximum double or minimum half weight in core markets and sectors, and no more than 10% in cash. Individual stock holdings seldom exceed 5%. Turnover is around 35% per year, implying an average three-year holding period.

Overview

At 30 September 2012, IAT had 65 holdings in the portfolio. The top 10 holdings accounted for 33.0% of IAT's net assets and there was negligible cash. The conversion of the outstanding subscription shares at the end of August 2012 subsequently provided a significant influx of cash (£18.4m) that was used to bolster existing holdings. As Exhibits 3 and 4 illustrate, IAT's asset and geographical allocations can vary significantly from those of the benchmark index, reflecting the actively-managed nature of the trust. As Exhibit 3 illustrates, IAT has exposure to a range of Asian currencies and it is not policy to hedge currency movements back into sterling. Although IAT is permitted to invest in frontier markets, such as Vietnam or Cambodia, this is much less likely due to the lack of liquid stocks to invest in.

Current portfolio positioning

IAT is very underweight Australasia (primarily a lack of investment in banks and materials companies), but this is largely offset by an overweight to both China and Hong Kong, The off-benchmark UK weight represents holdings in HSBC and Standard Chartered (increased on weakness due to US regulatory concerns). The largest sector overweight is information technology, partly due to IAT's large holding in Samsung Electronics (6.6%). The apparent overweight in industrials reflects the classification of conglomerates Hutchison Whampoa and Jardine Matheson. Recent portfolio additions have shifted the overall position slightly towards cyclicals and away from defensives.

Exhibit 3: Geographic allocations as at 30 September 2012

	Trust weight (%)	Benchmark weight (%)	Trust active weight (%)	Trust weight/ benchmark weight
China	21.8	13.0	8.8	1.7
South Korea	22.7	15.5	7.2	1.5
Hong Kong	19.0	12.9	6.1	1.5
UK	3.6	0.0	3.6	N/A
Philippines	3.1	0.9	2.2	3.4
Thailand	1.7	2.2	(0.5)	0.8
India	6.3	7.0	(0.7)	0.9
Other	0.0	0.7	(0.7)	0.0
Singapore	4.0	5.4	(1.4)	0.7
Indonesia	1.3	2.7	(1.4)	0.5
Taiwan	8.8	11.0	(2.2)	0.8
Malaysia	0.0	3.6	(3.6)	0.0
Australia	7.7	25.1	(17.4)	0.3

Source: Invesco Perpetual, Edison Investment Research

Exhibit 4: Sector allocations as at 30 September 2012

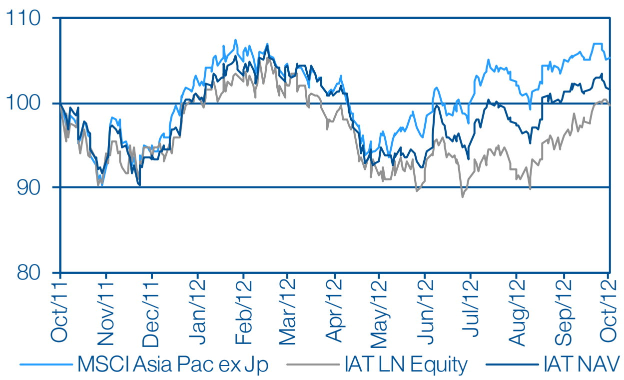
	Trust weight (%)	Benchmark weight (%)	Trust active weight (%)	Trust weight/ benchmark weight
Information Technology	20.5	13.8	6.7	1.5
Industrials	14.2	8.3	5.9	1.7
Consumer discretionary	11.3	7.5	3.8	1.5
Financials	35.9	35.5	0.4	1.0
Healthcare	1.4	1.8	(0.4)	0.8
Telecommunications	3.9	5.5	(1.7)	0.7
Consumer staples	4.2	6.4	(2.3)	0.6
Energy	4.3	6.9	(2.6)	0.6
Cash	(2.9)	0.0	(2.9)	N/A
Utilities	0.0	3.2	(3.2)	0.0
Materials	7.3	11.1	(3.7)	0.7

Source: Invesco Perpetual, Edison Investment Research. Note: Rounding means the totals may not add up to 100%.

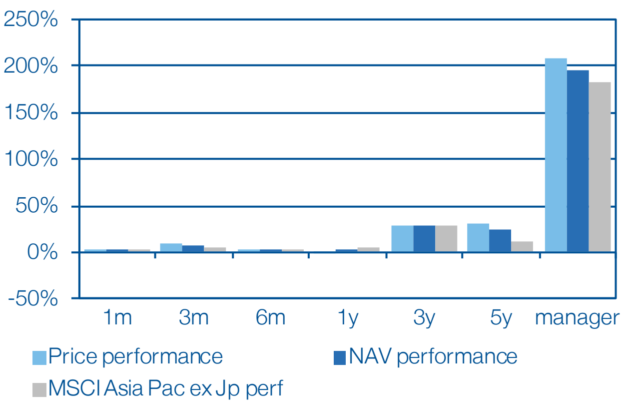
Recent performance

Exhibit 5: Investment company performance

Price, NAV and benchmark total return perf, one year rebased



Price, NAV and benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research

Recent performance has negatively affected the long-term numbers, although since Stuart Parks was appointed as manager (later joined by Ian Hargreaves), IAT has beaten its benchmark by over 11%. Over the past year, the portfolio has underweighted what the managers believe are overly expensive defensive stocks (which have continued to perform well), symptomatic of the absolute-return mindset and long-term approach. Recent performance has also been impacted by positions in three or four stocks, including LG Fashion (a Korean consumer stock) and Iluka Resources (an Australian zircon play).

Exhibit 6: Share price and NAV total return performance (sterling-adjusted), relative to benchmarks

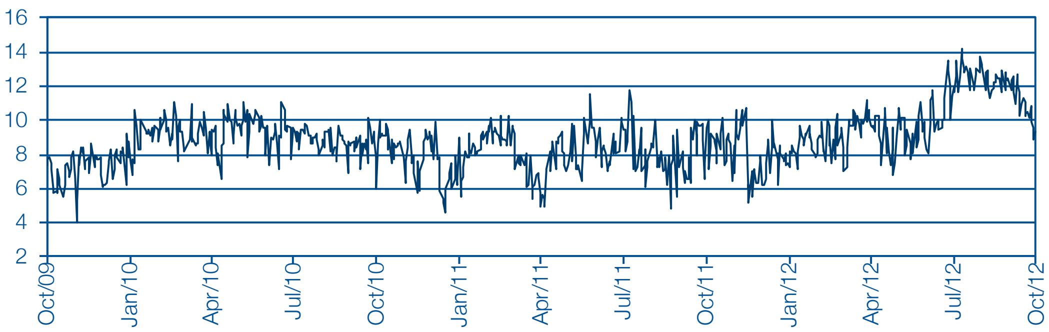
	One month	Three months	Six months	One year	Three years	Five years	Manager
Price rel. to MSCI Asia Pac ex Jp TR	3.4	3.7	(2.2)	(5.7)	(0.3)	17.6	25.8
NAV relative to MSCI Asia Pac ex Jp TR	(0.2)	1.3	(3.4)	(3.9)	1.8	12.6	11.3
Price relative to MSCI World Index TR	3.9	5.7	0.9	(1.6)	7.2	23.1	110.1
NAV relative to MSCI World Index TR	0.3	3.3	(0.3)	0.2	9.2	18.0	95.6

Source: Thomson Datastream, Edison Investment Research

Discount

The discount has moved within a narrow range of c 5-10% over much of the last three years and currently stands at 9.4%, having widened briefly over the summer. This may have been caused by the final exercise of the subscription shares on 31 August, which shareholders feared might create an overhang of stock despite the board having authority to buy back 14.99% of the company. 2.7m shares were repurchased at the time. In total, 5.5m shares have been repurchased over the past 12 months, at a cost of £7.6m. The board has promised to hold a tender for 15% of the company at a 2% discount to NAV (adjusted for the costs of the tender) if the average discount for the year to 30 April 2012 exceeds 10%. A similar discount control mechanism was in place last year.

Exhibit 7: Discount over three years



Source: Thomson Datastream, Edison Investment Research

Capital structure

IAT is a UK investment trust listed on the London Stock Exchange. It has no fixed life, but shareholders can vote on the future of the company every three years – the next vote is scheduled for the AGM in 2014. There are 107.1m shares in issue, following the exercise of IAT's subscription shares on 31 August, and 3.3m shares held in treasury. There are no other classes of share capital. IAT's gearing policy is determined by the board, but the day-to-day level of gearing is at the discretion of the investment manager (currently net gearing is 3% of net assets). The board has set a maximum limit of 25% gearing on net assets. The manager is entitled to a fee of 0.75% on net assets payable quarterly in arrears. There is no performance fee. The arrangement is terminable by either party on six months' notice. The ongoing charge last year was 1.05% (previous year 1.09%).

Dividend policy and record

The dividend policy is to distribute net earnings in one annual payment with no formal yield target. The dividend has increased in most of the last 10 years and is 8x higher than it was a decade ago, although there can be no guarantee that it will be maintained in the future and it may well fluctuate. Revenue reserves equate to 2.2 pence per share. The managers say the current yield on the portfolio is around 2%.

Peer group comparison

IAT has outperformed the average Asian investment company over five years and is comfortably ahead of the MSCI AC Asia Pacific ex-Japan Index (which returned 22.6% over that period). Recent performance has negatively impacted the one- and three-year numbers. IAT also has the second-highest dividend growth and the highest yield. Despite these factors, the discount is only slightly narrower than the peer average. Ongoing charges and gearing are in line with the peer group.

Exhibit 8: Asia ex-Japan sector as at 29 October 2012

Company	Share price total return on £100			Ongoing charges (%)	(Disc)/ prem.	Net gearing (100=no gearing)	Five-year dividend growth (%)	Dividend yield (%)
	One year	Three years	Five years					
Sector average	**6.2**	**31.0**	**16.4**	**1.1**	**(9.7)**	**103**	**103**	**1.5**
Invesco Asia	**(0.3)**	**27.8**	**30.3**	**1.1**	**(9.4)**	**103**	**146**	**2.2**
Aberdeen New Dawn	11.2	49.4	59.1	1.1	(8.3)	111	197	1.9
Edinburgh Dragon	8.9	47.4	57.9	1.2	(9.4)	112	100	1.3
Fidelity Asian Values	0.6	20.7	9.0	1.5	(11.2)	105	N/A	0.6
Henderson Asian Growth	1.8	13.8	4.8	0.6	(9.5)	104	63	2.0
JP Morgan Asian	0.5	13.2	(12.0)	0.9	(7.7)	97	69	1.1
Pacific Assets	14.8	37.8	(11.8)	1.3	(10.0)	91	132	2.0
Pacific Horizon	1.4	20.0	(19.6)	1.3	(12.2)	98	36	1.0
Schroder Asia Pacific	16.7	49.3	29.7	1.2	(8.7)	106	83	1.2

Source: Morningstar

The board

There are four independent non-executive directors. David Hinde (chairman) was appointed in June 2003, James Robinson was appointed in January 2007, Tom Maier and Carol Ferguson (the ex-chairman of the AIC) were appointed in March 2009. The average length of service is 5.7 years.

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