Invesco Asia Trust

Look to the long term

Investment trusts

Invesco Asia Trust (IAT) has an actively managed portfolio of Asian equities (including Australia but excluding Japan), which is co-managed by Stuart Parks and Ian Hargreaves. Their stock-picking approach uses a blend of fundamental bottom-up and top-down analysis with the aim of achieving absolute long-term capital growth. An underweight to Australia has contributed to short-term NAV underperformance over the past year of 0.4% vs the benchmark index, the MSCI AC Asia-Pacific ex-Japan. However, over the past five years, IAT has beaten its benchmark by 13.5%.

12 months ending	Total share price return* (%)	Total NAV return* (%)	MSCI AC Asia-Pac ex-JPN GR GBP* (%)	MSCI World GR GBP* (%)
31/05/10	28.1	34.1	35.0	16.9
31/05/11	24.3	21.9	17.7	19.2
31/05/12	(12.3)	(11.0)	(11.9)	(7.2)
31/05/13	21.6	22.7	23.0	30.5

Note: *Twelve-month rolling discrete performance.

Investment strategy: Quality at a discount

IAT invests across the Asian region, including Australasia but excluding Japan, with an emphasis on the large, more liquid markets. The managers are looking for stocks that exhibit management quality, good corporate governance, balance sheet strength and cash generation. Candidate stocks must also be trading at a significant discount to the managers' estimate of their fair value. In recent months, the managers have been increasing the focus of the portfolio and are now targeting c 55 portfolio holdings (down from a previous range of 60-90).

Outlook: Cautiously optimistic

While intra-regional trade and domestic consumption are of increasing importance in Asia, Asian markets continue to be affected by weak demand from Europe and the US. However, it is concern over the pace of growth of China, the region's largest economy, which has been driving markets in recent times. Investors were cheered by signs of a recovery around the turn of the year, but fears that this may have stalled have hurt commodity plays and Chinese consumer stocks. The Chinese authorities seem wary of repeating stimulus on the scale of 2009 (probably for fear of reigniting inflation). The managers believe Chinese growth rates will stabilise at a more sustainable level and this should increase investors' confidence in the region. However, the managers caution that in some ASEAN countries, such as Indonesia, interest rates may have to rise and are positioning the portfolio accordingly.

Valuation: 9.7% discount, tender offer proposed

Over the past three years, until Q3 of 2012, IAT's discount tended to move in a range of 5% to 10%. However, coincident with the final expiry of IAT's subscription shares, the discount widened. It has narrowed again recently and currently stands at 9.7%. IAT has buy-back powers and has used them in the past, but the board has also announced that it intends to tender for 15% of the share capital at a 2% discount to NAV less costs after the AGM in August 2013 (see page 7).

18 June 2013

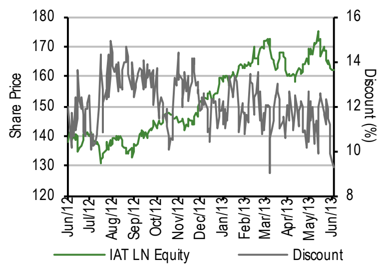
Price	**152.625p**
Market cap	**£161.6m**
AUM	**£184.3m**

NAV*	168.9p
Discount to NAV	9.7%
NAV**	173.0p
Discount to NAV	11.8%
Yield	2.0%

*Excluding income, as at 17 June 2013.
**Including income as at 17 June 2013.

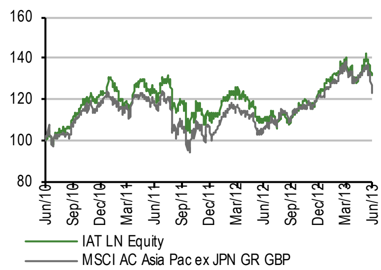
Ordinary shares in issue	105.9m
Code	IAT
Primary exchange	LSE
AIC sector	Asia-Pacific ex-Japan

Share price/discount performance



*Positive values = discount; negative values = premium.

Three-year cumulative perf graph



52-week high/low	175.0p	131.0p
NAV* high/low	193.4p	149.2p

*Including income

Gearing

Gross	5%
Net	5%

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Edison profile page

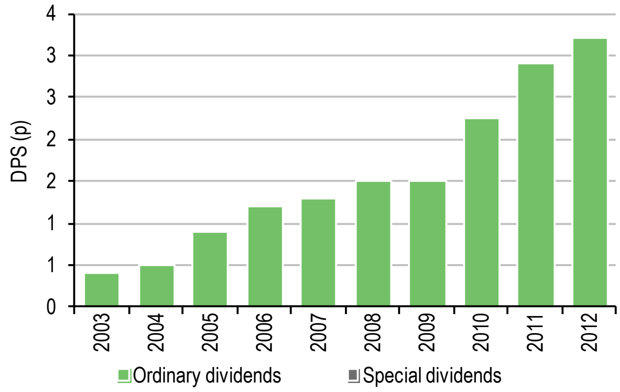
Invesco Asia Trust is a research client of Edison Investment Research Limited

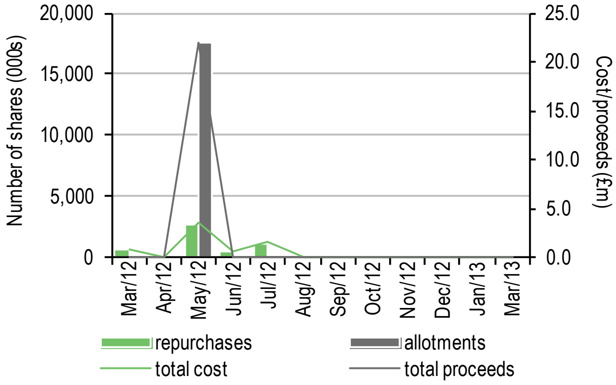
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
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.	2 May 2013: 15% tender offer proposed. 2 April 2013: Chairman D Hinde is to retire at next AGM. 21 March 2013: Two directors acquire shares.

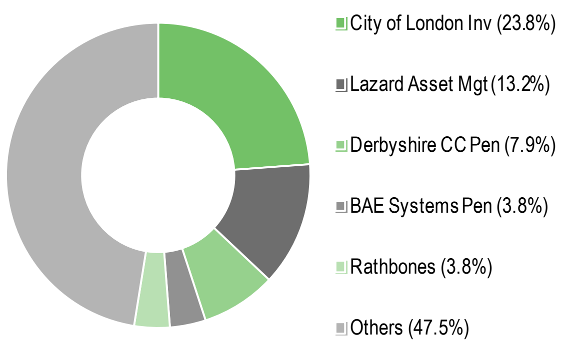
Forthcoming		Capital structure		Fund details	
AGM	August 2013	Ongoing expenses	1.05%	Group	Invesco Asset Management
Preliminary results	July 2013	Net gearing	5%	Manager	Stuart Parks, Ian Hargreaves
Year end	30 April	Annual mgmt fee	0.75% of net assets	Address	30 Finsbury Square
Dividend paid	August	Performance fee	None		London EC2A 1AG
Launch date	July 1995	Trust life	Indefinite	Phone	+44 (0)20 7065 4000
Continuation vote	2014 AGM (three yearly)	Loan facilities	£20m multi-currency	Website	www.invescoperpetual.co.uk

Dividend policy and history	Share buy-back policy and history
Dividends are paid annually in July/August. Income is a by-product of stock selection and there is no yield target.	Renewed annually, the trust has authority to purchase up to 14.99% and allot up to 5% of issued share capital.

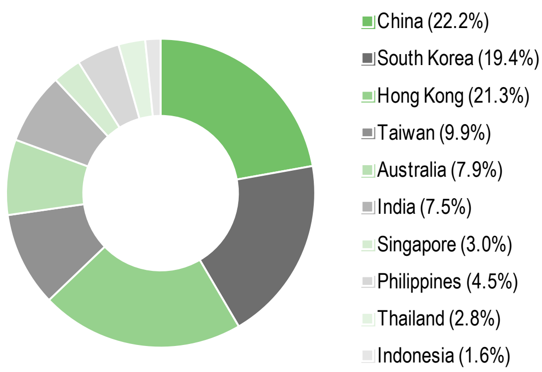




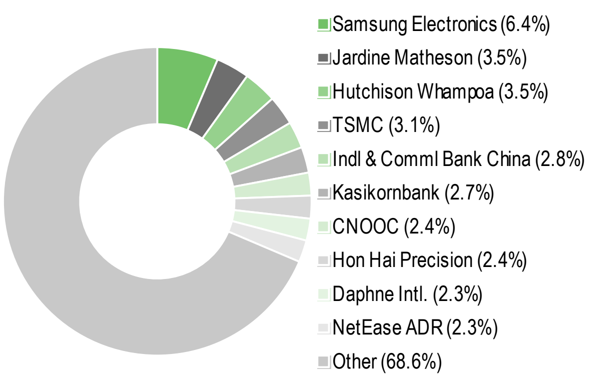
Shareholder base (as at 10 June 2013)



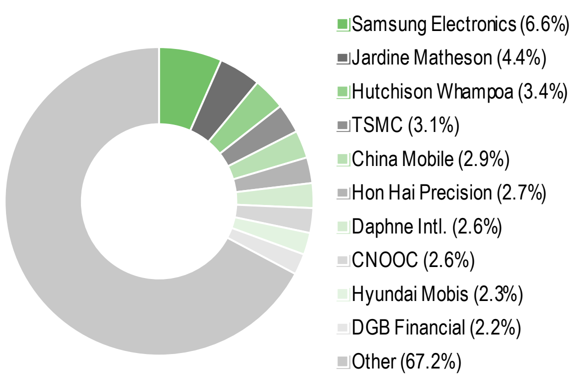
Geographic distribution of portfolio* (as at 30 April 2013)



Portfolio composition *(as at 31 March 2013)



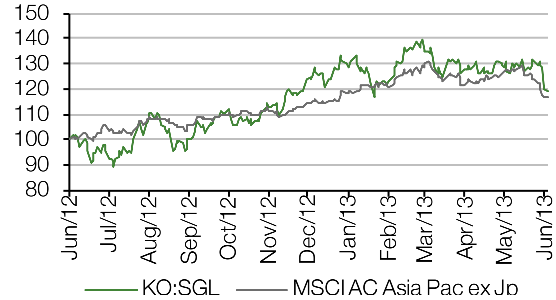
Portfolio composition *(as at 31 September 2012)



Source: Invesco Asia, Edison Investment Research. Note: *As a percentage of gross assets.

Exhibit 2: Top five holdings at a glance

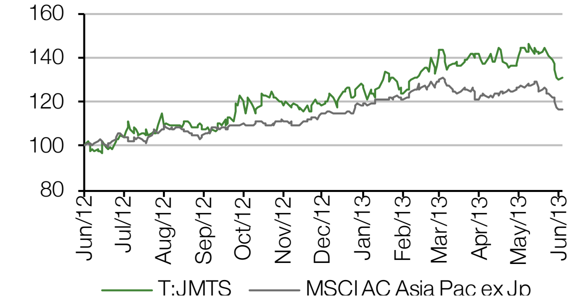
Samsung Electronics	Code: KO:SGL	Market cap: KRW204.6trn (£115.5bn)



Div yield (trail. 12 months)	0.6%
Industry/Sector	Information technology
Listing	Seoul
Website	www.samsung.com

Samsung Electronics is a leading global manufacturer of electronic products. The manager has an overweight position in the stock (6.4% at end-March 2013 vs c 4.5% for the index). The managers think Samsung's current lack of performance is caused by investors reading across from Apple and worrying that Samsung's growth potential is dwindling. However, the managers point out that half Samsung's phone sales are of low-margin feature phones and there is still huge potential for sales and profit growth as consumers upgrade to smartphones. Recent downgrades led to a share price fall, but the managers believe the rating does not reflect its growth potential.

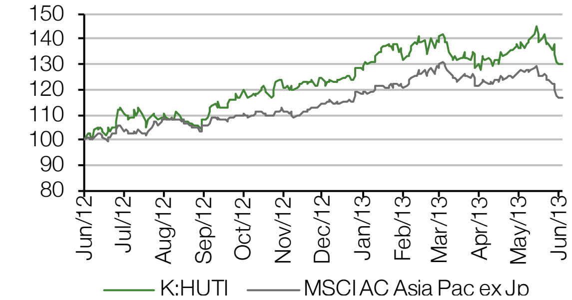
Jardine Matheson	Code: T: JMTS	Market cap: $40.2bn (£25.8bn)



Div yield (trail. 12 months)	2.3%
Industry/Sector	Industrials
Listing	Singapore
Website	www.jardines.com

Conglomerate Jardine Matheson (JM) 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. The managers say JM is a solid story, on a low teens valuation and has done well for IAT, but they see signs of weakness in JM's Indonesian Astra subsidiary (which has been the main driver of profit growth over the past few years). However, the story is not all bad, as Astra has a low emission car, which the managers think could sell well.

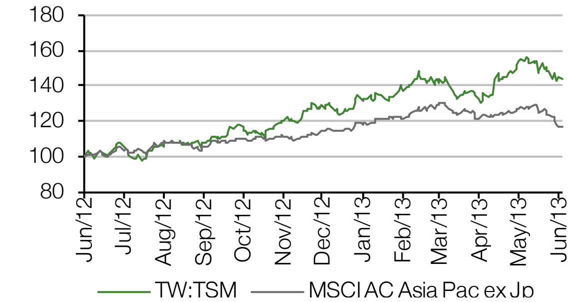
Hutchison Whampoa	Code: K: HUTI	Market cap: HK$340.4bn (£28.1bn)



Div yield (trail. 12 months)	2.6%
Industry/Sector	Industrials
Listing	Hong Kong
Website	www.hutchison-whampoa.com

Hutchison's global operations are divided into six core business units – ports and related services, property and hotels, retail, infrastructure, energy and telecoms. The managers believe these are high-quality businesses, but Hutchison's rating has been knocked by problems in its European 3G telecoms operations. The managers met the MD of Hutchison recently and say he is targeting an EPS of $10 by 2015 (from $6.5 in 2013); analysts are going for $9. Given this, the managers believe the stock is attractively valued and think Hutchison can achieve growth in the region of high single digits/10% in each of its main businesses over the next couple of years.

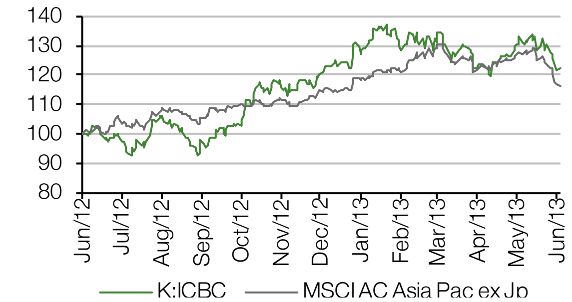
Taiwan Semiconductor Manufacturing	Code: TW: TCM	Market cap: TW$2,799.8bn (£59.9bn)



Div yield (trail. 12 months)	2.8%
Industry/Sector	Information technology
Listing	Taipei
Website	www.tsmc.com

Taiwan Semiconductor Manufacturing (TSMC) manufactures integrated circuits used in a wide variety of electronic products. The manager believes 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 TSMC at the forefront of its industry and allowing it to outperform its peers. The Taiwanese market is dominated by technology stocks and these are largely dependent on PC sales, which have been in decline, cannibalised by tablets and smartphones. The managers say TSMC's technology advantage gives it an advantage over its peers.

Industrial & Commercial Bank of China	Code: K: ICBC	Market cap: HK$1,836bn (£151.4bn)



Div yield (trail. 12 months)	5.8%
Industry/Sector	Financials
Listing	Hong Kongl
Website	www.icbc.com

Industrial & Commercial Bank of China (ICBC) has been a holding in the fund for some time. The managers recently decided to switch IAT's holding in China Construction Bank into ICBC as they felt there was not much to choose between the two stocks. There is general market scepticism about the Chinese financial sector, but the managers believe bad debt problems are already priced in, and in ICBC's case, it has generous provisions for bad debt, 3.0-3.5% of its balance sheet or c 3x its annual bad debt write-off. The managers think the well-covered, high yield will eventually attract investors and the stock will be rerated.

Source: Invesco Asia, Thomson Datastream, Edison Investment Research

Fund profile: Pan-Asia ex-Japan

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 Perpetual's UK-based Asian team manages approximately $10bn and consists of four fund managers and an analyst, all based in Henley. Teams based in Asia manage another $20bn.

Asian equity outlook: Preoccupied by Chinese growth

Asia encompasses a collection of economies at quite different stages of development, but some broad-brush generalisations may be made. Many of the region's economies offer potential for further catch-up in GDP per capita vs western equivalents. Asian government, corporate and household balance sheets are generally robust, with low levels of debt and strong savings rates, and Asian growth rates compare favourably with those of most developed countries. Asia was adversely affected by falling demand from Europe and the US, although those with large domestic economies such as Korea, India and China were more insulated from outside events than some of the smaller export oriented economies. Today, investors appear to be preoccupied by the pace of growth of the Chinese economy, the region's largest, as it adjusts to a more sustainable level. In most Asian markets inflation is under control, but governments are wary of over stimulating their economies and in some countries there are some signs of overheating, such as wage inflation in Indonesia and the Philippines, and fast rising residential property prices in Hong Kong and Singapore. However, regardless of short-term shifts in sentiment, the Asian long-term growth story remains attractive and a stock-picking fund such as IAT can still find attractive opportunities.

The fund managers: Stuart Parks and Ian Hargreaves

The managers' view: Investors are too pessimistic

In mid-2012, when the managers thought markets were pricing in the worst outcome for the global economy, including China, they took a contrarian stance. This was beneficial over the second half of 2012. However, since the middle of January, the managers believe there has been a return to risk aversion sparked by renewed concerns over the pace of Chinese growth. They believe investors in China seem to be buying stocks perceived as being "high quality" and are shunning cyclical areas. They think this is overdone, stating lead indicators are positive, there is modest growth and there has been no Chinese hard landing. China is transitioning to lower rates of growth, and infrastructure investment will play a smaller part. The managers argue that there is not a general bubble in the Chinese property market but there are some areas of concern. Credit growth has been too fast and needs to fall. The managers think non-performing loans on local government balance sheets will end up on the central government's balance sheet. The managers are continuing to invest for growth in Chinese consumption and believe many discretionary consumer plays are relatively inexpensive. They have become marginally more positive on India and were buyers when the market corrected in January. They still have some concerns about high inflation, poor governance standards and India's balance of payments. There is also a national election due before May 2014 and the managers think the uncertain outcome could unnerve investors. On the plus side, recent falls in the oil price ought to reduce inflationary pressure in India and the managers are focusing on quality companies they believe can grow, irrespective of the economic cycle. In Korea, residential property prices have fallen 20-30% over five years and the new government has been trying fiscal stimulus. The dispute with the North was a reminder of why South Korea stocks trade at a discount, but the managers see no immediate threat of hostilities.

Elsewhere, the managers think IAT's overweight in the Philippines may have run its course as the market is becoming expensive. In Indonesia, they think wage inflation is problematic and interest rates may be too low in both markets; this may eventually be true of Thailand, but not just yet. IAT has been underweight Australia, a market that has been performing well, but the managers think the Australian dollar is overvalued and say a recent rate cut might reverse this. They regard Taiwanese domestic stocks as generally unexciting. Improving relations with mainland China would be positive, but in general, the managers do not think Taiwan's underlying growth rate is attractive.

Asset allocation

Investment process: Stock selection with a top-down overlay

The managers aim to generate absolute returns from active fund management. The investment process combines bottom-up stock picking with top-down appraisal of macroeconomic and sector-specific factors. They also seek to identify regional markets that may benefit from local, positive liquidity flows. Risk is assessed by comparison with the benchmark. The managers aim to get a strong understanding of the companies they invest in and each make three to four trips per year to the region, meeting approximately 700 companies between them. Companies are analysed on a three- to five-year view and 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 managers also seek to identify potential performance catalysts and understand the consensus expectations for each stock. The overall process aims to create a diversified portfolio selected to produce positive returns and not by reference to their index weight. Risk is controlled primarily by diversification, 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% (only one, Samsung Electronics, exceeded 5% at the end of April 2013). Turnover is typically around 35% a year.

Overview

Exhibit 3: Geographic allocations as at 30 April 2013

	Trust weight (%)	MSCI AC Asia-Pacific ex-Japan weight(%)	Trust active weight (%)	Trust weight/ Index weight
China	22.2	12.9	9.2	1.7
Hong Kong	21.3	13.2	8.1	1.6
South Korea	19.4	13.7	5.7	1.4
Philippines	4.5	1.0	3.5	4.4
India	7.5	6.5	1.1	1.2
Thailand	2.8	2.7	0.1	1.0
Taiwan	9.9	10.5	(0.6)	0.9
Other	0.0	0.8	(0.8)	0.0
Indonesia	1.6	2.9	(1.3)	0.6
Singapore	3.0	5.2	(2.2)	N/A
Malaysia	0.0	3.4	(3.4)	0.0
Australia	7.9	27.2	(19.3)	0.3

Source: Invesco Asia, Edison Investment Research

At 30 April 2013, IAT had c 60 holdings and the manager was aiming to focus on higher-conviction ideas by reducing this to c 55. The top 10 holdings accounted for 31.4% of IAT's net assets and net gearing was 5%. The manager believes the 15% tender planned for after the AGM can easily be financed through sales of stocks, but is considering raising the gearing level closer to 10%. As Exhibits 3 and 4 illustrate, IAT's geographical and asset allocations may vary significantly from those of the benchmark index, reflecting the actively managed nature of the trust. The biggest underweight is to Australia, reflecting the managers' views on its currency. There is also an overweight to China, as the managers believe other investors are overly pessimistic about its growth rate. As Exhibit 3 shows, IAT has exposure to a range of Asian currencies, and although permitted, it is not policy to hedge currency movements back into sterling. IAT is permitted to invest in frontier markets, such as Vietnam or Cambodia, but this is limited as a result of the liquidity constraints of those markets. Turnover has been a little higher recently, as the managers have been refocusing the portfolio, but this does not represent any change in investment style.

Exhibit 4: Sector allocations as at 30 April 2013

	Trust weight (%)	MSCI AC Asia-Pacific ex-Japan weight (%)	Trust active weight (%)	Trust weight / Index weight
Information technology	22.6	13.4	9.3	1.7
Industrials	14.0	7.5	6.5	1.9
Consumer discretionary	9.3	7.1	2.2	1.3
Financials	40.7	38.9	1.8	1.0
Healthcare	1.5	2.0	(0.5)	0.8
Materials	7.7	9.3	(1.7)	0.8
Energy	4.0	6.2	(2.2)	0.6
Consumer staples	3.5	6.8	(3.3)	0.5
Telecommunications	2.1	5.5	(3.4)	0.4
Utilities	0.0	3.4	(3.4)	0.0
Cash	(5.2)	0.0	(5.2)	N/A

Source: Invesco Asia, Bloomberg, Edison Investment Research

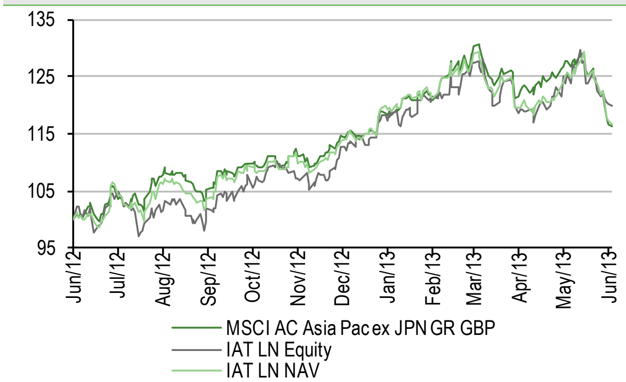
Current portfolio positioning: Adding to India

Chinese consumer-related stocks account for c 20% of the portfolio. This includes Chinese internet companies (about 6% of the portfolio) such as NetEase, which the managers believe is attractively valued on 12x earnings (less than 10x adjusting for cash on its balance sheet) and earnings growth in excess of 20%. IAT's holding in China Construction Bank has been switched into ICBC (see page 3). The managers added to China Shinwa (a large and profitable coal miner), believing the current low coal price will help to eliminate overcapacity in that sector. In Hong Kong, the portfolio is a mixture of regional and global stocks and the managers have been selling Jardine Matheson to add to Hutchison Whampoa. In Korea, DGB performed well and was sold. They also sold Hyundai Home Shopping, as they were concerned about its control over the cost of access to television channels. The managers have been redistributing money from ASEAN to India, taking profits in the Philippines in particular. In India they added ICICI Bank.

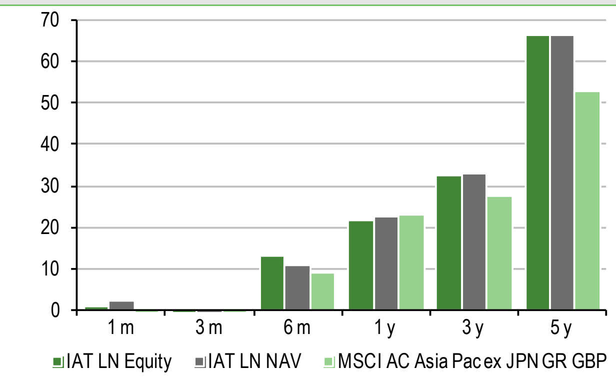
Recent performance: Short-term relative improvement

Exhibit 5: Investment trust performance

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



Price, NAV and benchmark total return performance (%)



Source: Invesco Asia, Morningstar, Edison Investment Research

IAT's performance relative to its benchmark over one year has improved over the past month as its portfolio proved relatively defensive in response to falling Asian markets. The underweight to Australia, which rose by over 11% in the first four months of 2013 while most other Asian markets were flat to down, had been unhelpful, but this market has fallen by 15% over the past month. IAT's holdings in BHP and Newcrest detracted as commodity stocks were out of favour. In China, consumer stocks (including IAT's holding in Baidu) were weak. Stock selection in Hong Kong was generally positive. In India, United Phosphorous performed well as its earnings doubled.

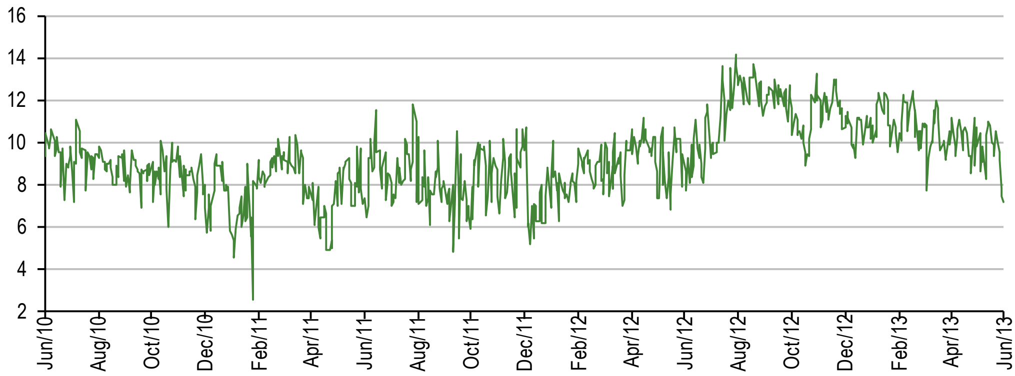
Exhibit 6: Share price and NAV total return performance relative to benchmarks, to 10 June 2013

	One month	Three months	Six months	One year	Three years	Five years
Price relative to MSCI AC Asia Pac ex-JPN	2.6	0.9	3.9	(1.5)	4.8	13.5
NAV relative to MSCI AC Asia Pac ex-JPN	4.0	1.2	1.5	(0.4)	5.3	13.5
Price relative to MSCI World	(0.6)	(9.6)	(4.0)	(9.0)	(12.0)	47.5
NAV relative to MSCI World	0.7	(9.3)	(6.4)	(7.9)	(11.4)	47.5

Source: Invesco Asia, Morningstar, Edison Investment Research

Discount: Widened in autumn 2012, narrowed recently

Exhibit 7: Discount over three years



Source: Morningstar, Edison Investment Research

The discount has moved in a relatively narrow range of between 5% and 10% for most of the past three years, but in the third quarter of 2013 it widened to over 10%. 1.15m shares were bought back and cancelled on 15 November 2012, but this had only a temporary narrowing effect and the discount stayed above 10% until recently. A tender for 15% of the share capital at a 2% discount to NAV (adjusted for costs) has been triggered (as the average discount over the year to 30 April 2013 exceeded 10%) and will be conducted after this summer's AGM.

Capital structure: Conventional, modest gearing

IAT has a conventional capital structure with 105.9m ordinary shares in issue and 3.3m shares held in treasury. It has an indefinite life, but shareholders have a continuation vote every three years (next scheduled for the 2014 AGM). The gearing policy is determined by the board and there is a set maximum of 25% gearing on net assets, but the day-to-day level of gearing is at the discretion of the manager (currently net gearing is 5% of net assets). The management fee is 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: One dividend annually

The dividend policy is to distribute net earnings in one annual payment with no formal yield target. Revenue reserves equate to 2.2 pence per share and income accrued in the NAV for the year to end-April 2013 was 3.1 pence per share, suggesting the potential for the directors to at least maintain last year's dividend of 3.2 pence.

Peer group comparison

IAT's share price performance is sixth of nine funds over one year, but fourth of nine over five years. Its ongoing charges are in line with the average of the peer group and its discount and gearing a little wider than average. IAT's yield and five-year dividend growth are the highest of the peer group.

Exhibit 8: Peer group comparison as at 10 June 2013

Company	Share price total return on £100			Ongoing charges (%)	(Disc)/ prem	Net gearing (100=no gearing)	Five-year dividend growth (%)	Div yield	Sharpe ratio price one year	Sharpe ratio NAV one year
	One year	Three years	Five years							
Invesco Asia	**20.1**	**31.4**	**62.7**	**1.1**	**(9.6)**	**104**	**113%**	**2.0**	**0.8**	**1.0**
Sector average	**21.3**	**30.6**	**56.2**	**1.1**	**(7.5)**	**102**	**52%**	**1.3**	**1.2**	**1.4**
Aberdeen New Dawn	25.2	39.1	83.7	1.1	(5.6)	107	61%	1.4	2.1	1.5
Asian Total Return Inv Company	28.5	31.2	60.1	0.9	2.6	91	35%	1.6	1.6	0.7
Edinburgh Dragon	21.9	37.7	93.7	1.3	(7.1)	109	37%	0.8	1.2	1.4
Fidelity Asian Values	17.1	19.8	58.1	1.5	(12.6)	108	24%	0.5	0.5	1.0
JPMorgan Asian	22.1	13.9	21.7	0.9	(9.8)	102	41%	1.1	0.7	0.9
Pacific Assets	34.1	48.2	45.9	1.3	(2.6)	95	102%	1.7	2.2	3.6
Pacific Horizon	8.5	13.3	14.9	1.3	(11.7)	99	14%	0.9	0.4	0.9
Schroder Asia Pacific	14.1	40.7	65.2	1.2	(11.1)	102	40%	1.3	1.3	1.5

Source: Thomson Datastream, Edison Investment Research

The board

There are five independent non-executive directors. David Hinde (chairman) was appointed in June 2003. He will retire at this year's AGM. James Robinson was appointed in January 2007, Tom Maier and Carol Ferguson (ex-chairman of the AIC) were appointed in March 2009. Owen Jonathan joined the board in March 2013. The average length of service is 5.1 years.

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