Invesco Asia Trust

Stronger performance, wide discount

Investment trusts

Invesco Asia Trust (IAT) aims to achieve long-term capital growth through equity investments in Asia (including Australia and excluding Japan). The relative performance of the trust has strengthened markedly over the last six months and the trust has outperformed its benchmark over one, three and five years. Continuation of global economic recovery should favour the portfolio's bias towards economically sensitive stocks. The improved performance has yet to be reflected in a narrowing of the discount.

12 months ending	Total share price return	Total NAV return	MSCI AC Asia Pac ex-Japan	MSCI World	FTSE All-Share
30/11/10	24.0	23.4	21.0	12.3	11.5
30/11/11	(7.1)	(6.6)	(10.6)	1.0	2.6
30/11/12	5.4	12.3	16.8	12.2	12.1
30/11/13	14.1	9.1	5.9	24.3	19.8

Note: Percentage 12-month rolling discrete total-return performance in sterling terms.

Investment strategy: Bottom-up and top-down

IAT invests across the Asian region 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. Views on the macro environment frame investment decisions. Over the last year the managers have increased the focus of the portfolio and are now targeting 50-60 portfolio holdings (down from a previous range of 60-90).

Outlook: Premium growth, lower valuations

The long-term growth-related case for investing in Asian equities remains in place and, while macro uncertainties are still a feature, medium-term growth estimates are relatively attractive. Asia-Pacific valuation measures also look attractive or reasonable in comparison with world or 10-year averages.

The managers have a more positive view of the market than six months ago, believing the background for growth in the region is now more secure, which should favour the economically sensitive stocks in the portfolio. The allocation, with overweights in Korea, Hong Kong and China, has been maintained with additions to China recently, reflecting greater confidence following a key meeting of Communist party leaders. The managers are still cautious on Australia, particularly the dollar, and have a significant underweight to this market (see page 4).

Valuation: Scope for the discount to narrow

The discount at 9.1% is close to its three-year average and has ranged between 7% and 13% over the last year. In view of the generally steady initial response of Asia-Pacific markets to the beginning of tapering and the trust's stronger recent performance (+7% relative since early July) there would seem to be scope for this discount to narrow towards the sector average (4.4%).

20 December 2013

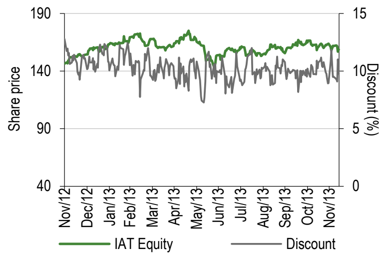
Price	**159.75p**
Market cap	**£142m**
AUM	**£161m**

NAV*	175.73p
Discount to NAV*	9.1%
NAV**	178.42p
Discount to NAV**	11.2%
Yield	2.0%

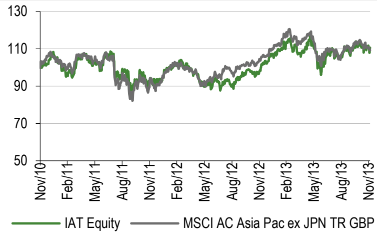
*Excluding income. **Including income.

Ordinary shares in issue	89.1m
Code	IAT
Primary exchange	LSE
AIC sector	Asia Pacific ex-Japan

Share price/discount performance*



Three-year cumulative perf. graph



52-week high/low	175.0p	143.5p
NAV* high/low	193.40p	160.28p

*Excluding income.

Gearing

Gross	2.9%
Net	2.9%

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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

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 and 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

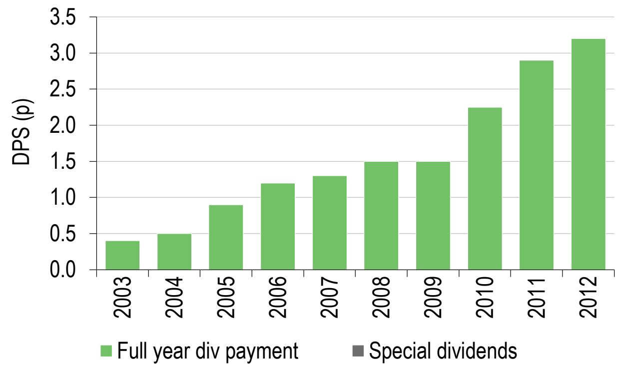
8 August AGM: Obligation for continuation vote in 2014 AGM lifted. David Hinde retires from the board and Carol Ferguson succeeds as chairman.

31 July 2013: Tender offer for 15.9m or c 15% of outstanding shares implemented.

Forthcoming		Capital structure and fees		Fund details	
AGM	August 2014	Ongoing charges	1.0% (31/10/13)	Group	Invesco Asset Management
Preliminary results	July 2014	Net gearing	2.9%	Managers	Stuart Parks, Ian Hargreaves
Year end	30 April	Annual mgmt fee	0.75% of net assets	Address	30 Finsbury Square
Dividend paid	July/August	Performance fee	No		London EC2A 1AG
Launch date	July 1995	Trust life	Indefinite	Phone	+44 (0)20 7065 4000
Continuation vote	2014 AGM (three yearly)	Bank loan	£20m multi-currency	Website	www.invescoperpetual.co.uk

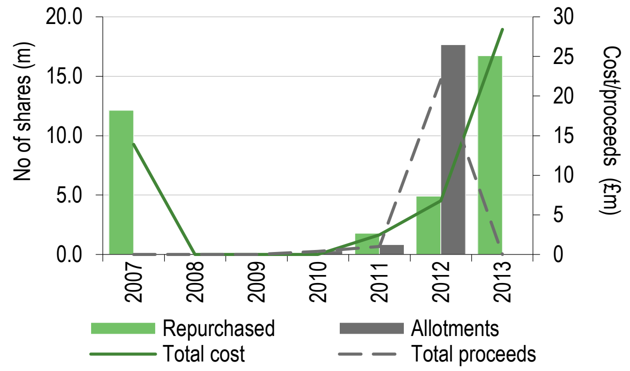
Dividend policy and history

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

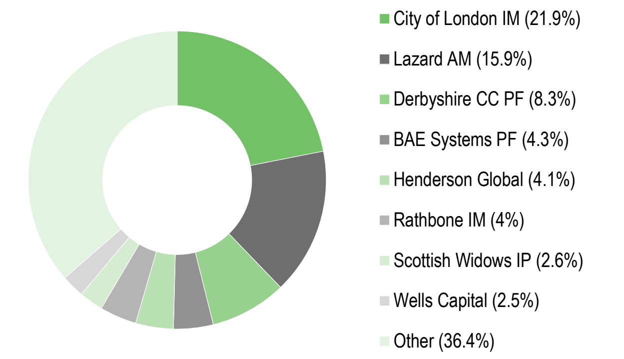


Share buyback policy and history

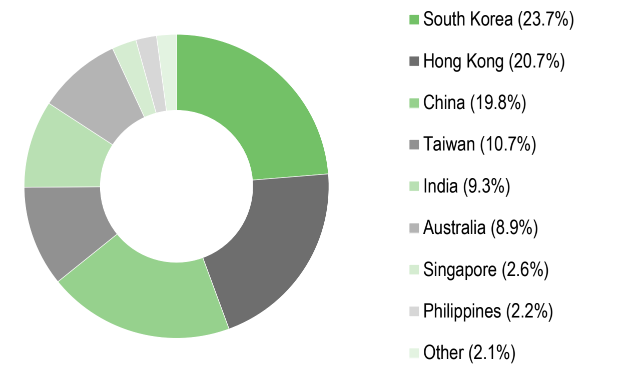
Renewed annually, the trust has authority to purchase up to 14.99% and allot up to 5% of issued share capital.



Shareholder base (as at 9 December 2013)



Geographical allocation of portfolio (as at 30 November 2013)



Top 10 holdings

			Portfolio weight %	
Company	**Country**	**Sector**	**30 November 2013**	**30 November 2012***
Samsung Electronics	South Korea	Communications equipment	6.6	6.8
Hutchison Whampoa	Hong Kong	Pharmacies & drug stores	4.6	3.6
Baidu – ADR	China	Internet media	4.2	
UPL	India	Agricultural chemicals	3.2	
Taiwan Semiconductor	Taiwan	Semiconductor manufacturing	3.2	3.2
Indl. & Commercial Bank of China - H	China	Banks	3.1	
Hyundai Motor – Preference shares	South Korea	Automotive OEM	3.0	2.2
NetEase – ADR	China	Internet media	2.9	
HSBC - Hong Kong Reg	United Kingdom	Banks	2.6	
CNOOC – R	China	Oil & Gas	2.5	2.8
Top 10			**35.9**	

Source: Invesco Asia Trust, Bloomberg, Thomson Datastream, Edison Investment Research. Note: *Where no figure is shown for 2012 portfolio weight, the stock was not in the top 10.

Market outlook: Relative attractions

The performance of the Asia-Pacific market, as measured by Invesco Asia's benchmark index (MSCI Asia Pacific ex-Japan), is shown in Exhibit 2. In absolute terms the Asia-Pacific market recovered strongly from the financial crisis but, as can be seen (Exhibit 3), the performance relative to the MSCI World index followed a broad downward trend from late 2010. This can be attributed to the strength of the US market (over 50% of the world index) and, in May this year, to the impact of "taper talk" on emerging and Asian markets.

Exhibit 2: MSCI Asia-Pacific ex-Japan

Source: Thomson Datastream, Edison Investment Research

Exhibit 3: MSCI Asia-Pacific ex-Japan/MSCI World

Source: Thomson Datastream, Edison Investment Research

There continue to be considerable uncertainties in the macroeconomic background globally and in the Asia-Pacific region, including the achievement of stable sustainable growth in China, the success of Abenomics in rekindling growth in Japan, avoidance of a major crisis in the eurozone and the successful management of QE tapering. In addition political risks and natural hazards could disrupt an otherwise benign environment (protests in Thailand, China's air defence zone moves and concerns over North Korea are examples).

However, while commentary on prospective growth tends to be strongly hedged, forecasters generally expect recovery to continue. The IMF expects world growth to rise from 2.9% this year to 4.0% in 2015. For Asia-Pacific ex-Japan, growth is only expected to increase from 6.0% to 6.3%, but this includes a modest decline to c 7% growth in China. If delivered, this would represent a significant premium over advanced countries (2.5% estimated for 2015).

Without destabilising events, this should provide a relatively favourable background for Asia-Pacific markets although experience suggests the link between economic developments and market trends is loose. The prospective P/E multiple for the Datastream Asia ex-Japan index is 5% below its 10-year average (the US multiple is 10% above its average), and, at 11.6x, compares favourably with the world market average of 13.6x. The price to book is also modestly below its 10-year average at 1.7x.

We would conclude that while there are risks, longer-term investors may be encouraged by these valuation measures and the prospect of faster than average growth in the Asia-Pacific region.

Fund profile: Pan-Asia ex-Japan

Invesco Asia Trust emerged from the reconstruction of a pan-Asian investment trust (Drayton Far Eastern) in 1995. The trust aims for long-term capital growth through investment in Asian and Australian companies, excluding Japan. 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 $11.4bn and consists of four fund managers and an analyst, all based in Henley. In total, at end September 2013, Invesco Ltd managed $23.3bn in Asia-Pacific and Asia ex-Japan mandates.

Managers: Stuart Parks and Ian Hargreaves

The managers' views: Positive and finding attractive stocks

In the trust's last financial year, to April 2013, performance was hurt by the portfolio's exposure to economically sensitive stocks and the significant underweight position in Australia. Subsequently, following market volatility when the US Federal Reserve mooted QE tapering, the positions have worked in the trust's favour (see Exhibit 8). The managers have largely maintained their allocations over the last six months with the exception of an increase in China, in part reflecting the view that the positive outcome of a key meeting of Communist party leaders will have a long-term impact as reforms are progressively announced. The relatively negative view on Australia remains in place given the prospect of more tepid growth than the regional average and the potential for the currency to weaken further as tapering is implemented.

Our recent conversation with Ian Hargreaves underlined the importance of bottom-up stock selection in the formation of the portfolio. Two examples indicate the specific stock attributes that lie behind their choice. The largest holding in India is UPL (formerly United Phosphorus). This has been held for several years and the managers see the prospects for this business as among the most promising in the portfolio. The business is a generic crop protection, seeds and chemicals producer. The attraction of the business for the managers are the barriers to entry created by licensing and trial requirements before a generic product can be launched. This, together with a low-cost manufacturing base, supports sustainable margins while global geographical diversification evens out the inevitable fluctuations in agricultural markets. The managers believe the stock is unfairly seen as a cyclical petrochemical stock. Greatview Aseptic Packaging Company (China) is a more recent addition and here the attraction is the substantial potential for the business to develop its packaging business from an established base in China, where it has a 20% market share, into other markets where customers are keen to have it as a challenger to Tetra Pak. The technical requirements in the business are high, providing a sustainable differentiating characteristic.

Asset allocation

Investment process: Top-down and bottom-up combined

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. Most time is devoted to company research with macro considerations forming a backdrop and influencing some allocation decisions. In order to gain a strong understanding of the companies that they invest in, the managers 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. It is core to the process that risks are taken deliberately and 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 October 2013). Turnover is typically around 35% a year.

Overview

There are 61 holdings in the portfolio, which is slightly lower than the 65-holding average for the Asia-Pacific ex-Japan sector. The managers last year reduced the target number of holdings from 60-90 to 50-60 to ensure greater focus on preferred stocks. The concentration of the portfolio, as measured by the percentage of assets accounted for by the top 10 holdings is slightly higher than the peer group, at 36% versus 32% for the peer group. Current gearing is 2.9%: somewhat lower than recent years when it has typically been around 5-6%. Given the managers' relatively positive view on the Asia-Pacific market, gearing may rise modestly.

Current portfolio positioning

Exhibit 4: Sector allocations as at 30 November 2013

	Portfolio weight (%)	MSCI AC Asia-Pacific ex-Japan weight (%)	Active weight vs benchmark (%)	Trust weight/ index weight
Information Technology	21.9	14.9	6.9	1.5
Industrials	11.1	8.0	3.1	1.4
Consumer discretionary	10.6	8.1	2.6	1.3
Energy	7.5	6.0	1.4	1.2
Materials	9.6	9.2	0.5	1.1
Health Care	1.5	2.1	-0.6	0.7
Utilities	2.5	3.2	-0.7	0.8
Cash	-2.5	0.0	-2.5	N/A
Telecommunication services	2.4	5.2	-2.8	0.5
Financials	33.9	37.1	-3.2	0.9
Consumer staples	1.6	6.3	-4.7	0.3
	100	**100**	**0.0**	**N/A**

Source: Invesco Asia, Edison Investment Research. Note: Some rounding differences in active and relative weights.

As Exhibit 4 shows, the principal active sector positions versus the benchmark, resulting from stock selections, are overweights in information technology and industrials and underweights in consumer staples and financials.

Exhibit 5: Geographical analysis as at 30 November 2013

	Portfolio weight (%)	MSCI AC Asia-Pacific ex-Japan weight (%)	Active weight vs benchmark (%)	Trust weight/ index weight
South Korea	23.7	15.5	8.2	1.5
Hong Kong	20.7	13.3	7.4	1.6
China	19.8	14.9	5.0	1.3
India	9.3	5.8	3.5	1.6
United States	1.7	0.0	1.7	N/A
Philippines	2.2	0.9	1.3	2.5
New Zealand	0.6	0.4	0.2	1.6
Taiwan	10.7	10.9	-0.1	1.0
Thailand	1.3	2.3	-1.0	0.6
Indonesia	1.0	2.1	-1.1	0.5
Singapore	2.6	4.8	-2.2	0.5
Cash	-2.5	0.0	-2.5	N/A
Malaysia	0.0	3.6	-3.6	0.0
Australia	8.9	25.0	-16.1	0.4
Other	0.0	0.8	-0.8	0.0
	100.0	**100.0**	**0.0**	**N/A**

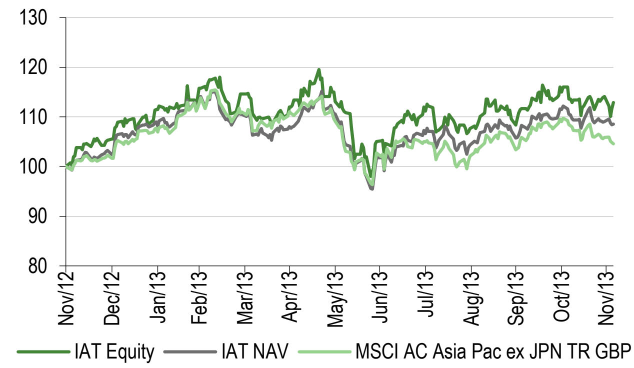
Source: Invesco Asia Trust, Edison Investment Research

The geographical exposure is shown in Exhibit 5. Stock selections have positioned the trust with its largest active overweights in South Korea, Hong Kong and China, a collective overweight of 20 percentage points, with the three countries accounting for 64% of the portfolio. At the other end of the scale there is a large negative position versus the benchmark for Australia (16 percentage points), reflecting the managers' cautious view on its growth profile compared with other countries in the region and on the valuation of the Australian dollar.

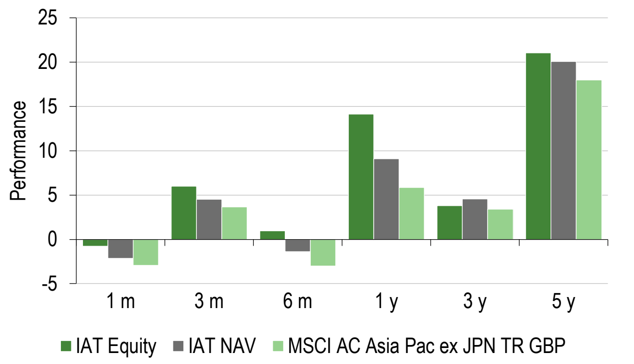
Performance: Ahead of benchmark over five years

Exhibit 6: Investment trust performance

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-year and five-year figures are annualised.

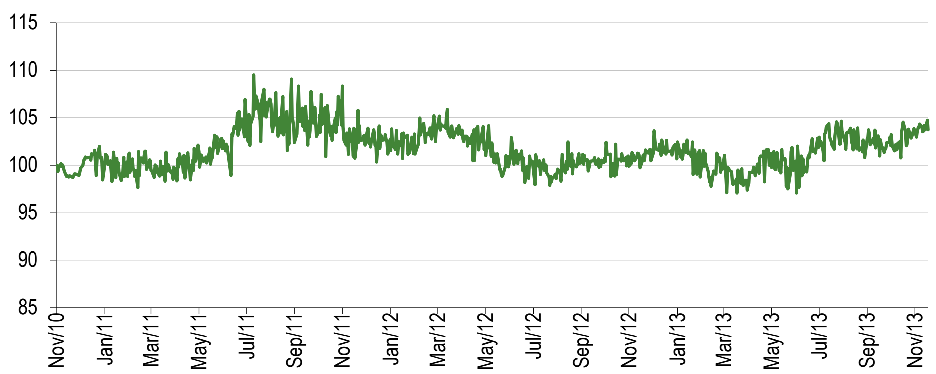
Exhibit 7: Share price and NAV total return performance, difference versus market indices (percentage points)

	One month	Three months	Six months	One year	Three years	Five years
Price versus MSCI AC Asia Pac ex Japan	2.18	2.34	3.96	8.26	1.23	31.42
NAV versus MSCI AC Asia Pac ex Japan	0.78	0.87	1.64	3.21	3.76	21.02
Price versus MSCI World	-0.63	1.00	-2.57	-10.22	-29.08	63.75
NAV versus MSCI World	-2.03	-0.47	-4.88	-15.27	-26.55	53.35
Price versus FTSE All-Share	-0.06	1.27	-2.95	-5.68	-25.98	61.21
NAV versus FTSE All-Share	-1.46	-0.20	-5.26	-10.72	-23.45	50.81

Source: Thomson Datastream, Edison Investment Research. Notes: Data to end November 2013. MSCI Asia Pacific ex-Japan in £ is the IAT benchmark. All indices total return and in sterling terms.

The trust's NAV total return performance has been above its benchmark over all the periods shown in Exhibit 7. As Exhibit 8 below shows, this strong showing owes much to the trust's relative strength since early July this year. Prior to this, relative weakness in the financial year to April reflected the portfolio's weighting towards more economically sensitive stocks and the large underweight in Australia. The risk-adjusted returns, as measured by the Sharpe ratio, have outperformed the combined Asian sector average over one year (at 1.0 versus 0.8) and been just below average over three and five years.

Exhibit 8: Invesco Asia performance relative to MSCI Asia Pacific ex-Japan

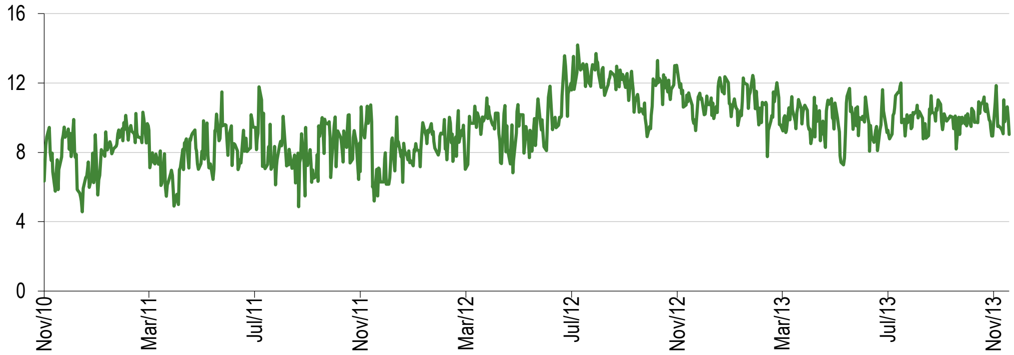


Source: Thomson Datastream, Edison Investment Research

Discount: In line with three-year average

Over the last three years the discount (on NAV ex-income) has averaged 9.4%, ranging between 7% and 13% over the last year (see Exhibit 9). The company's discount control arrangements, adopted in July 2010, are likely to have helped stabilise the discount over the last three years. The arrangements included the potential for a subscription offer for up to 15% of the shares if the discount averaged more than 10% over the financial year. This was triggered in FY13 and implemented in July 2013, effectively offsetting most of the issuance of shares associated with the exercise of subscription shares in 2012 (see Exhibit 1). The discount arrangements have been extended for the current year, providing a measure of reassurance for potential investors, while the fact that the discount is the second widest in the trust's sector following a period of strong relative performance suggests the potential for a contraction towards the average level (4.4%, Exhibit 10).

Exhibit 9: Discount over three years (NAV at par ex-income)



Source: Thomson Datastream, Edison Investment Research. Note: Positive values indicate a discount.

Capital structure and fees

IAT has a conventional capital structure with 89.2m ordinary shares in issue and 3.3m shares held in treasury. It has an indefinite life, but for shareholders there is the opportunity for a continuation vote every three years (the obligation for a vote at the 2014 AGM was removed by a vote at the 2013 AGM). The board has set a maximum gearing limit of 25% of net assets, but the day-to-day level of gearing is at the discretion of the manager and is currently equivalent to 2.9% of net assets, slightly lower than the level typical of recent years (5-6%). The management fee is 0.75% a year based on net assets; there is no performance fee. The arrangement is terminable by either party on six months' notice. The ongoing charge last year was 1.08%, similar to the five-year average of 1.1%.

Dividend policy

The dividend policy is to distribute net earnings in one annual payment with no formal yield target. Revenue reserves at the year end, after deducting the proposed dividend, were equivalent to 2.1p per share or about 65% of last year's dividend.

Peer group comparison

In the peer group comparison (Exhibit 10) we put Invesco Asia in the context of the Asia ex-Japan AIC investment company sector, excluding the income and smaller companies trusts to leave a peer group of nine companies. The weighted average values for the whole sector are also shown.

Comparing NAV total return performance, the trust has outperformed the peer average over one, three, five and 10 years. The discount to NAV is above the peer average of 8.8% while the yield is well above the peer average at c 2% and second highest in the group.

In terms of both ongoing charge and net gearing the trust is in line with or close to the peer group averages (1.1% and 2.8%).

Exhibit 10: Asia-Pacific ex-Japan selected peer group

% 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	Yield
Peers												
Aberdeen New Dawn	205	(4.0)	1.8	137.1	253.4	0.5	0.3	(9.3)	1.1	No	7.0	2.1
Asian Total Return Inv	133	(6.2)	(10.1)	93.7	134.2	0.4	0.0	(1.4)	0.9	Yes	(3.0)	1.9
Edinburgh Dragon	488	(4.3)	5.7	122.3	235.8	0.6	0.4	(8.4)	1.2	No	11.0	
Fidelity Asian Values	146	11.9	9.0	135.1	252.7	1.2	0.3	(7.8)	1.6	No	10.0	0.5
Invesco Asia	**142**	**3.7**	**10.3**	**128.7**	**245.1**	**1.0**	**0.4**	**(10.5)**	**1.1**	**No**	**2.9**	**2.0**
JPMorgan Asian	207	3.0	(8.4)	82.9	152.4	0.9	(0.0)	(10.9)	0.9	Yes	1.0	1.3
Pacific Assets	174	5.8	23.0	135.8	178.5	1.0	0.7	(6.5)	1.3	Yes	(7.0)	1.8
Pacific Horizon	124	4.7	5.3	124.2	216.7	0.7	0.2	(9.4)	1.2	No	(1.0)	0.9
Schroder Asia Pacific	395	(3.6)	15.8	154.8	250.5	0.5	0.6	(11.1)	1.2	No	(4.0)	1.4
Peers wtd. average		**(0.4)**	**6.8**	**126.9**	**221.0**	**0.7**	**0.4**	**(8.8)**	**1.1**		**2.8**	**1.1**
Sector wtd. average		**1.7**	**17.5**	**157.5**	**210.5**	**0.8**	**0.6**	**(4.4)**	**1.1**		**3.3**	**2.3**
IAT rank among peers	7	4	3	5	4	3	4	7	6		4	2
Number in group	9	9	9	9	9	9	9	9	9		9	8

Source: Morningstar 16 December 2013. Notes: TR=total return. The Sharpe ratio is a measure of risk-adjusted return. The ratios we show are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is shown here as total assets less cash/cash equivalents as a percentage of shareholders' funds.

The board

The board comprises four directors, all of whom are independent and non-executive. The directors, with year of appointment in brackets, are as follows: Carol Ferguson (appointed March 2009 and chairman from August 2013), James Robinson (January 2007), Tom Maier (March 2009) and Owen Jonathan (March 2013).

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