EDISON

Schroder AsiaPacific Fund

Finding value in the Asian growth story

Investment trusts

Schroder AsiaPacific Fund (SDP) aims to achieve long-term capital growth by investing in companies across Asia, excluding Japan. At the helm since launch in 1995, manager Matthew Dobbs has seen many market cycles in his 27 years as an Asian specialist with Schroders, and builds the portfolio with a value slant, focusing on stocks with strong competitive positions and those that will benefit from positive change. Performance has been above benchmark over most periods, and with Asian markets now performing better after being punished in the 2013 'taper tantrum', the c 10% discount may provide a favourable entry point for long-term investors.

12 months ending	Share price (%)	NAV (%)	Benchmark* (%)	MSCI World index (%)	FTSE All-Share index (%)
30/06/11	19.5	22.3	20.1	22.3	25.6
30/06/12	2.1	0.5	(11.1)	(2.2)	(3.1)
30/06/13	13.1	15.6	12.9	23.3	17.9
30/06/14	1.1	0.3	3.5	10.6	13.1

Source: Thomson Datastream. Total return basis. Note: *Benchmark is MSCI AC Far East ex-Japan until 30 January 2011 and MSCI AC Asia ex-Japan thereafter.

Investment strategy: Stock-picking Asian specialist

SDP provides diversified exposure to the Asia ex-Japan region through a portfolio of 70-90 stocks. Schroders' well-resourced team of local analysts at six offices in the Asia-Pacific region is the primary source of idea-generation, with manager Matthew Dobbs building a portfolio based mainly on stock-specific considerations but with an appreciation of top-down factors. Holdings fall into four broad categories of positive transition, superior business models, opportunistic situations and intrinsic worth. Unconstrained by its MSCI AC Asia ex-Japan benchmark, the trust has a high active share (only 20.1% direct overlap with the benchmark) and 40% of the stocks held are outside the index.

Market outlook: Long-term investment case remains

Asian equity markets have begun to re-establish a trend of positive performance, after struggling for much of the past year in anticipation of the scaling back of quantitative easing measures in the West. Potential foreign investor risk-aversion – whether brought on by adverse geopolitical or economic developments globally – could mean the immediate path is not a smooth one. However, generally favourable valuation measures and economic growth forecasts above the world average suggest long-term investors may still be rewarded as countries and companies in the region continue to develop.

Valuation: Potential for discount narrowing

At 7 July, SDP stood at cum-income discount to net asset value of 10.3%, exactly in line with the average over one year, but slightly wider than the three- and five-year averages (9.8% and 9.4% respectively). An informal discount control policy aims to maintain the cum-income discount below 10%, and in 2014 to date 475,000 shares have been bought back. The longer-term average discount is lower, at 5.8% over 10 years, reflecting greater appetite for Asian equities in the pre-financial crisis period.

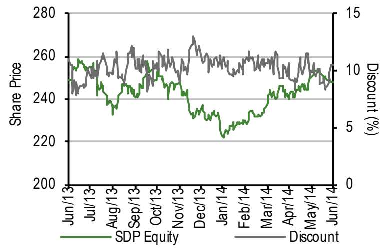
9 July 2014

Price	**253p**
Market cap	**£428m**
AUM	**£482m**
NAV*	280.85p
Discount to NAV	9.9%
NAV**	282.02p
Discount to NAV	10.3%

*Excluding income. **Including income. Data at 7 July 2014.

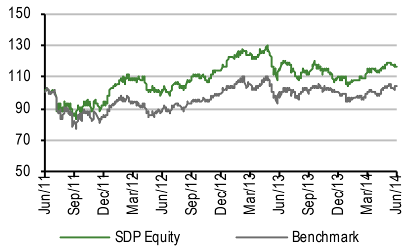
Yield	1.3%
Ordinary shares in issue	169.2m
Code	SDP
Primary exchange	LSE
AIC sector	Asia Pacific ex-Japan

Share price/discount performance*



*Including income. Positive values indicate a discount.

Three-year cumulative perf. graph



52-week high/low	259p	222.5p
NAV* high/low	281.30p	248.25p

*Excluding income.

Gearing

Gross	0%
Net	-2%

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Edison profile page

Schroder AsiaPacific Fund is a research client of Edison Investment Research Limited

Exhibit 1: Schroder AsiaPacific Fund at a glance

Investment objective and fund background

Schroder AsiaPacific Fund aims to achieve capital growth through investment primarily in the equity of companies located in the continent of Asia (excluding the Middle East and Japan), together with the Far Eastern countries bordering the Pacific Ocean, with the aim of achieving growth in excess of the MSCI All Countries Asia excluding Japan index in sterling terms over the longer term. Until 30 January 2011 the benchmark was the MSCI Far East ex-Japan index, but it was changed to an index that included India to reflect the growing importance of the Indian stock market.

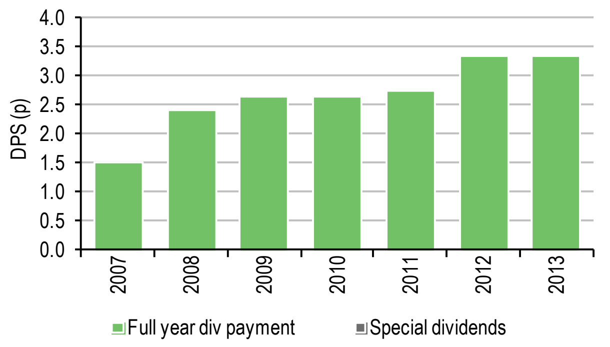
Recent developments

- 30 May 2014: Half-year results for the six months ended 31 March. NAV TR +0.9% versus -0.2% from benchmark MSCI AC Asia ex-Japan index.
- 27 February 2014: Interim management statement for the three months ended 31 December 2013: NAV TR -1.2% vs +1.1% for benchmark.
- 16 December 2013: Final dividend of 3.35p declared.

Forthcoming		Capital structure		Fund details	
AGM	January 2015	Ongoing charges	1.1%	Group	Schroder Investment Management
Annual results	December 2014	Net cash	2%	Manager	Matthew Dobbs
Year end	30 September	Annual mgmt fee	Tiered, 0.8-0.95% (see p11)	Address	31 Gresham Street, London EC2V 7QA
Dividend paid	February	Performance fee	No		
Launch date	November 1995	Trust life	Indefinite	Phone	020 7658 3206
Continuation vote	Five-yearly, next in 2016	Loan facilities	US$75m revolving	Website	www.schroders.co.uk/its

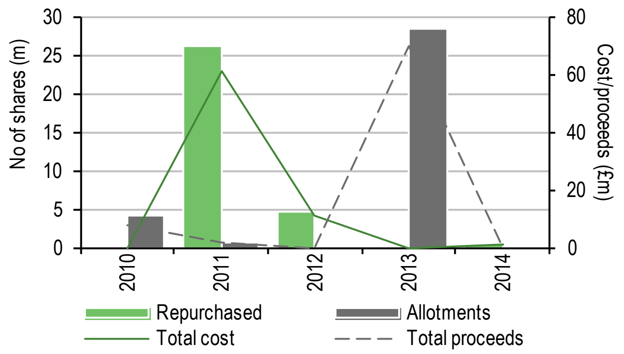
Dividend payments

Dividends paid annually in February. While the trust is focused on capital growth it has maintained or increased dividends in 14 of its 18 years.

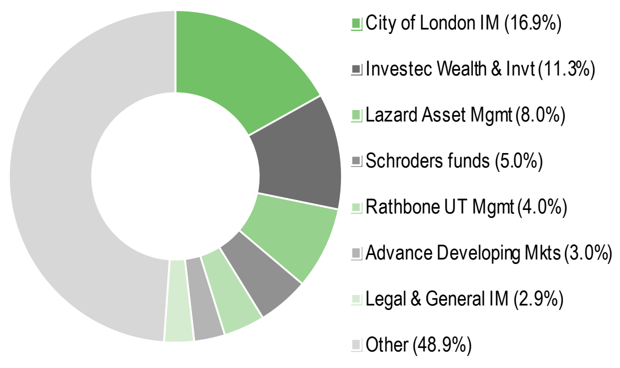


Share buyback policy and history

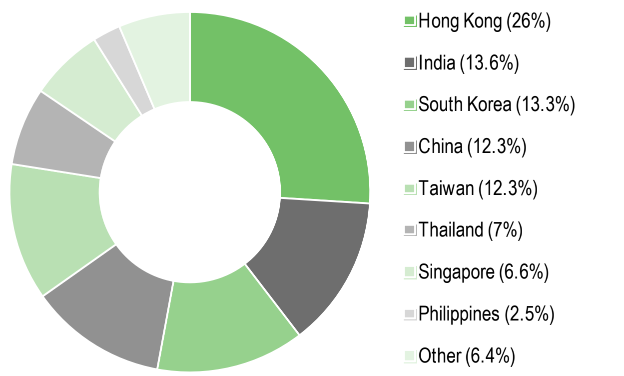
SDP may buy back shares if they are trading at a discount wider than 10%. Issuance in the chart below includes exercise of subscription shares.



Shareholder base (as at 9 June 2014)



Geographical breakdown of portfolio (as at 30 May 2014)



Top 10 holdings (as at end May 2014)

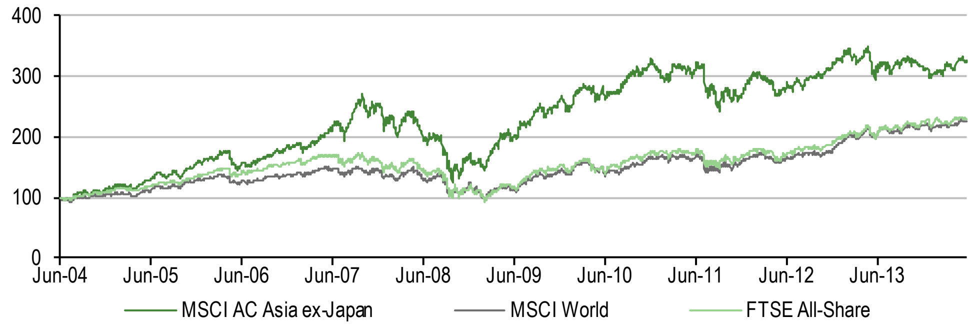
			Portfolio weight %	
Company	**Country**	**Sector**	**30 May 2014**	**31 May 2013***
Taiwan Semiconductor Manufacturing	Taiwan	Technology	6.5	5.8
Samsung Electronics	South Korea	Consumer goods	6.1	5.9
Jardine Strategic Holdings	Hong Kong	Industrials	4.8	5.5
Hyundai Motor	South Korea	Consumer goods	3.7	3.2
Fortune Real Estate IT	Hong Kong	Financials	3.2	3.5
AIA Group	Hong Kong	Financials	3.0	N/A
China Petroleum & Chemical	China	Oil & gas	2.9	N/A
Hankook Tire	South Korea	Consumer goods	2.3	N/A
Techtronic Industries	Hong Kong	Consumer goods	2.2	N/A
Swire Properties	Hong Kong	Financials	2.1	N/A
Top 10 (% of portfolio)			**36.8**	**36.9**
Total holdings			**80**	**75**

Source: Schroder AsiaPacific Fund, Edison Investment Research, Morningstar, Bloomberg. Note: *Top 10 – N/A where not in top 10 at end May 2013.

Asian market outlook: Positive factors re-emerging

The higher economic growth and rapidly emerging middle class in many developing Asian nations have fuelled stock market returns over the past decade. However, with so much overseas money invested in Asian markets,[1] the region is vulnerable to exogenous shocks, as is evident in Exhibit 2. Asia was largely uninvolved in the 2008/09 global financial crisis, yet the correction in Far East markets surpassed that seen in the West. In the era of ultra-loose monetary policy in the developed world following the crisis, excess liquidity flowed back to Asia in search of returns above the meagre yields on government bonds. However, when the Federal Reserve first hinted in May 2013 that it might begin scaling back its quantitative easing programme, the flow of money reversed, spurring the US market to all-time highs but leading to a lacklustre spell for investors in Asia.

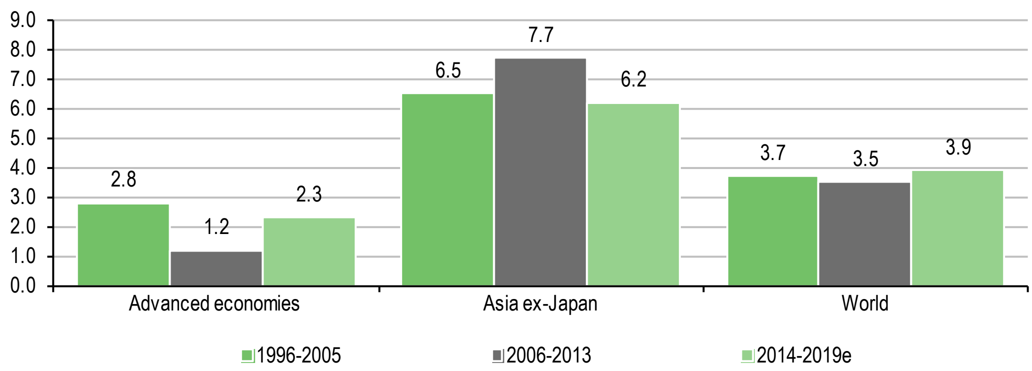
Exhibit 2: MSCI AC Asia ex-Japan, MSCI World and FTSE All-Share indices over 10 years



Source: Thomson Datastream. Note: Sterling-adjusted, total return indices.

While the markets of the region seem to have re-established their upward trajectory, questions remain as to whether Asia – and particularly China – can continue the impressive economic growth seen in recent years. The new Chinese leadership has indicated it would be satisfied with annual GDP growth of c 7.5% compared with the 9-14% achieved between 2006 and 2011, though the risk is that it undershoots even this target. Latest predictions from the International Monetary Fund (Exhibit 3) forecast Asia ex-Japan GDP growth from 2014-19 to be 20% lower than the growth seen from 2006-13. However, this is still well ahead of the growth expected from developed economies and from the world as a whole, suggesting continued opportunities in areas such as infrastructure and consumer stocks as Asian nations develop and their people become more prosperous.

Exhibit 3: Average % real GDP growth – Asia versus advanced economies and world

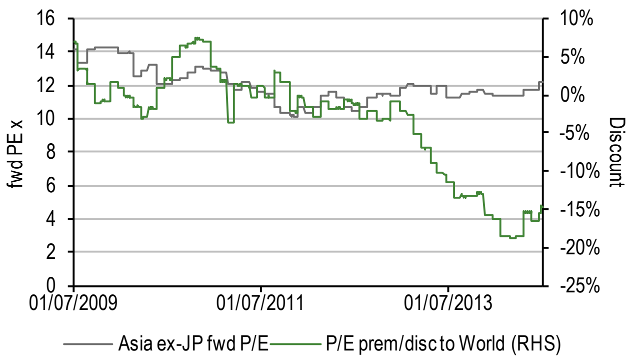


Source: IMF April 2014 World Economic Forecast, Edison Investment Research. Note: Asia ex-Japan group made up of MSCI index constituents.

[1] HSBC data cited by the IMF show foreign ownership of Asia ex-Japan equities at 33.4% at end-2005, and World Bank data show net foreign investment in equities of US$4.1tn since 2006.

Meanwhile, as at the end of June Asia ex-Japan stocks traded at a discount to the rest of the world on a forward price/earnings (P/E) basis (Exhibit 4); this has widened dramatically since the early part of 2013, suggesting value opportunities exist in the region. Looking at a wider range of valuation measures in Exhibit 5, it can be observed that Asian equities (using the Datastream Asia ex-Japan index as a proxy) are broadly in line with their 10-year average on the basis of forward P/E ratio, price/book value, and dividend yield, although substantially below their 10-year highs. The below-average return on equity suggests scope for further cyclical improvement in returns.

Exhibit 4: Asia ex-Japan index prospective P/E



Source: Thomson Datastream. Note: Datastream indices.

Exhibit 5: Datastream Asia ex-Japan index metrics

	Last	High	Low	10-year average	Last % of average
P/E (fwd)	12.16	16.88	8.72	12.14	100.2%
Price to book	1.67	2.81	1.11	1.74	95.7%
Dividend yield	2.52	5.13	1.72	2.57	98.1%
Return on equity	12.70	17.14	9.78	14.53	87.4%

Source: Thomson Datastream. Note: Data to 30 June 2014.

As shown in Exhibit 6, however, the regional average forward P/E hides a significant divergence between markets. While China is on barely half its 10-year average P/E ratio, Hong Kong is the only other region to be below the 10-year average, while stocks in the Philippines are some 30% above their long-term average forward P/E. This suggests a selective approach to investments may be rewarded, although it must be noted that the average figures for each market are equally likely to mask a range of underlying valuations. For instance, the NASDAQ-listed Chinese internet stock Baidu traded on a forward P/E of 32.4x at 23 June, four times the latest forward P/E figure for China (and indeed twice the latest US figure).

Asia is not free of geopolitical concerns – even though the Thai military coup and a stand-off between Vietnam and China in the South China Sea have been largely digested by the market – and may yet suffer from a renewed bout of Western investor risk-aversion. However, with valuation data largely favourable and markets showing signs of recovery, the long-term case for investing in the region looks to remain intact.

Exhibit 6: Asia-Pacific – prospective country P/Es

Price to earnings (12m forward)	Last (x)	High (x)	Low (x)	10-year average (x)	Last % of average
China	8.0	36.7	8.0	14.7	55%
Hong Kong	12.9	19.6	9.1	13.5	96%
Pakistan	8.5	11.7	5.6	8.5	100%
Korea	9.9	12.4	6.5	9.4	105%
Singapore	14.3	17.2	8.5	13.5	106%
Taiwan	14.6	18.2	10.0	13.2	110%
Australia	14.6	16.2	8.7	13.1	111%
Indonesia	14.5	16.0	7.6	12.8	113%
Malaysia	16.1	16.2	10.9	14.3	113%
India	15.3	19.7	8.6	13.4	114%
Thailand	13.4	14.1	6.7	10.9	123%
New Zealand	16.9	19.0	8.8	13.0	130%
Philippines	16.9	19.0	8.8	13.0	130%
Asia ex-Japan	12.2	16.9	8.7	12.1	100%
US	16.3	16.3	9.3	13.4	121%
UK	14.0	14.2	7.4	11.1	125%
World	14.3	14.5	8.7	12.3	116%

Source: Thomson Datastream. Note: Data at 30 June 2014. Uses Datastream indices.

Fund profile: Regional stockpicker with value bias

Schroder AsiaPacific Fund was launched in 1995 to seek capital growth from companies in the Asia-Pacific region, excluding Japan and Australia. It has been managed since launch by Matthew Dobbs, now Schroders' head of global small-cap equities. This stability of management puts SDP in the top 20 trusts (out of a universe of c 400) for manager tenure. Richard Sennitt works closely with Dobbs in Schroders' London office. Dobbs has over 32 years' investment experience, of which 27 have been spent as a Far East specialist with Schroders. He also runs the Schroder Oriental Income Fund.

The SDP portfolio, which targets 70-90 holdings, is largely bottom-up but the manager's value bias can lead to underweight positions in certain sectors and countries. Risk controls dictate that no more than 15% can be invested in a single company and no more than 10% may be invested in other listed investment companies (including real-estate investment trusts). Up to 5% may be invested in unlisted securities, but in practice no such investments are held.

The fund manager: Matthew Dobbs

The manager's view: Better macro picture; less obvious value

While SDP is a stock picking portfolio, companies do not operate in a vacuum, and Dobbs does take account of macroeconomic factors. He points to current account surpluses for most economies, and notes that while debt levels have risen, they are not at unsustainable levels. In India and Indonesia – the two Asian countries in the group dubbed the 'fragile five' in 2013 because of high deficits and weak currencies – there are positive adjustments taking place, partly as a result of actual or expected political change, with interest rates increased to contain inflation, and a more favourable current account position.

In the immediate term, Dobbs is cautious on China, although he says he is not a long-term bear. The combination of a credit boom, overheating housing market and slowing economic growth has parallels with the onset of the global financial crisis, and meanwhile the returns on assets are pedestrian. However, he notes that the new Chinese leadership shows appreciation of the problems, although he expects longer-term economic growth in China to be nearer 5% than 7%.

Valuations across Asia are below long-term averages on both a P/E and price/book basis, but Dobbs says the average figure masks a divergence: growth stocks are largely trading above their average long-term price/book value, while out-of-favour names are very cheap. However, the cheap names are far from abundant. With Asian markets once more on a rising trend, the percentage of stocks that Schroders' analysts assess as being below fair value has fallen to less than 50%, compared with more than 90% at the height of the financial crisis, and above 60% as recently as last summer. This means it is harder to find stock opportunities offering absolute upside, and is one of the factors behind the manager's decision to keep the SDP portfolio largely ungeared in recent months.

Asset allocation

Investment process: Research-intensive and value-driven

In managing SDP, Dobbs is able to draw on Schroders' extensive team of analysts in the Asia-Pacific region. There are 30 staff in six offices (Hong Kong, Seoul, Shanghai, Singapore, Sydney and Taipei), with an average of 15 years' industry experience (more than six years on average with Schroders). While Dobbs and his alternate Richard Sennitt are based in London, daily contact with the local analysts ensures a constant two-way flow of information, and meetings with company management – whether carried out in London or Asia – are an essential part of the process.

The investment approach is based on four key characteristics of knowledge, insight, discipline and conviction, described below.

- 'Knowledge' is the idea-generation stage of the process, some 70% of which is based on investment ideas from the regional analyst team. The manager also draws on interactions with in-house global sector specialists in areas such as healthcare and technology. Quant screens are used at a country and sector level as a counter-check, looking at macro factors and data such as valuations, earnings revisions, cash flow, dividend yield and P/E ratios, although as the core of the process is based on stock selection, Dobbs says he will not buy into countries or sectors with favourable quantitative signals if he cannot find stocks in which he has conviction. Limited use is made of sell-side research, largely as a measure of market consensus.
- Insight into stocks is gained through rigorous long-term fundamental analysis. The analysts build models on potential holdings, forecasting the development of balance sheet and cash flows over as long a period as possible, and assessing management, corporate governance and sustainability. Fair value targets are set using the most appropriate measures according to sector (for instance, sum-of-the-parts valuations for some industrial stocks, or appraised net asset value for property companies). There is a focus on identifying change in terms of positive multi-year developments, although the manager is not looking for short-term catalysts as these are less likely to be under-appreciated by the market. The value bias leads to a naturally contrarian view, and Dobbs does not buy stocks on the basis of momentum. All stocks are given a grade from 1 to 4, based on the strength of the analysts' conviction that they will outperform or underperform the market (a 1 grade is the strongest conviction that a stock will outperform, while a 4 grade is the strongest conviction that it will underperform).
- Discipline is employed in the construction of the portfolio, ensuring that it is a concentrated set of 'best ideas' (70-90 stocks from a broad universe) that is unconstrained by the benchmark: at 30 April SDP's active share (that is, the extent to which its portfolio differs from benchmark weightings) was 79%. Stocks tend to fall into four broad categories – positive transition (36% of the portfolio at 30 April), core stocks with superior business models (41%) opportunistic positions (15%) and those based on intrinsic worth (4%).
- Conviction is exercised in the ongoing management of the portfolio, ensuring that the investment case for all stocks held remains sound, and valuation versus targets is constantly reassessed. While the analyst models are built on a three-year view, stocks often hit their assessed fair value before this, which would trigger a sale if the manager felt there were good stocks available with more valuation upside.

Dobbs says he is risk-aware and would rather sell a stock a little early and sacrifice some upside than hang on for too long. Average turnover for the past five financial years (to 30 September) has been 95% a year, although in the more recent periods it has been lower, at 66% in 2012 and 60% in 2013, implying an average holding period of c 18 months.

Current portfolio positioning

At 30 April 2014 there were 79 stocks in the SDP portfolio, with the top 10 making up 35.9% of the total. This is largely in line with the 32.9% average for the AIC Asia Pacific ex-Japan sector, where the weighted average number of holdings is 66.

Exhibit 7: Top 10 active over/underweights at 30 April 2014

Overweight	Active vs index (% pts)	Underweight	Active vs index (% pts)
Jardine Strategic Holdings	+4.8	China Mobile	-1.9
Taiwan Semiconductor	+3.2	China Construction Bank	-1.7
Fortune REIT	+2.9	ICBC	-1.5
Hyundai Motor	+2.6	Bank of China	-1.1
Techtronic Industries	+2.3	CNOOC	-1.0
Hankook Tire	+2.1	Hutchison Whampoa	-1.0
China Petroleum & Chemical	+2.0	Tencent Holdings	-0.9
Kasikornbank	+1.9	PetroChina	-0.8
Swire Properties	+1.9	Singapore Telecom	-0.8
Baidu	+1.9	DBS Group	-0.8

Source: Schroder AsiaPacific Fund. Note: Index is MSCI AC Asia ex-Japan.

In line with the conviction-based portfolio management style, all of the top 10 positions are overweight versus the index (second-biggest holding Samsung is an overweight position although not one of the top 10). Five of the top 10 holdings have index weightings of 0.2% or less, illustrating the active style. The portfolio has only 20.9% overlap with the benchmark (active share of 79.1%), and nearly 40% of holdings are not in the index at all. The largest underweights are predominantly to Chinese banks and telecom stocks, none of which are held in the portfolio at present. Dobbs eschews what he describes as 'negative positives' – taking underweight positions in unfavoured stocks because they are a significant part of the benchmark – and tends not to hold stocks he does not like, however large, rather than taking underweight positions.

Exhibit 8: Exposure by country (% unless stated)

	Portfolio end April 2014	MSCI Asia ex JP weight	Active weight vs index (% pts)	Trust weight/ index weight (x)	Portfolio end April 2013	Change from 2013 (% pts)
Thailand	7.6	3.0	4.6	2.5	8.2	-0.6
Hong Kong & China	39.5	36.2	3.3	1.1	38.2	1.3
India	11.6	8.5	3.1	1.4	8.8	2.8
Singapore	8.3	6.7	1.6	1.2	10.9	-2.6
Australia	1.6	0.0	1.6	N/A	2.9	-1.3
Philippines	2.5	1.3	1.2	1.9	2.1	0.4
Sri Lanka	0.9	0.0	0.9	N/A	0.7	0.2
Vietnam	0.3	0.0	0.3	N/A	N/A	N/A
Indonesia	1.9	3.4	-1.5	0.6	2.3	-0.4
Taiwan	12.1	15.3	-3.2	0.8	12	0.1
Malaysia	0.0	5.0	-5.0	0.0	0.0	0.0
South Korea	13.4	20.5	-7.1	0.7	13.1	0.3
United States	0.0	0.0	0.0	N/A	1.5	-1.5
Cash	0.2	0.0	0.2	N/A	-1.5	1.7
	100.0	**100.0**	**0.0**		**100.0**	

Source: Schroder AsiaPacific Fund, Edison Investment Research. Note: Ranked by active weight (excluding cash). Rounding errors mean some figures may not sum.

The portfolio is diversified by sector (Exhibit 9) and geography (Exhibit 8), and Dobbs says he aims for a balance of themes, types of company and market capitalisation, although he is generally underweight mega-cap stocks, which tend to be either state-controlled or to have limited future growth prospects. He tends to favour lower-beta stocks, which he says present good value opportunities because of the perception among some investors that Asia is a one-way bet driven by positive demographic and GDP growth factors, leading them towards higher-beta stocks. From a country perspective, Dobbs is comfortable with his top active weight being to Thailand, a position that seems to have been vindicated as the market has largely recovered from any jitters caused by the military coup earlier this year. He has no exposure to Korean domestic stocks, and Korea is the largest country underweight as he feels that this market as a whole is not as cheap as it appears.

Exhibit 9: Sector allocations (% unless stated)

	Portfolio end April 2014	MSCI Asia ex JP index weight	Active weight vs index (% points)	Trust weight/ index weight (x)
Consumer discretionary	18.0	10.1	7.9	1.8
Industrials	12.7	8.9	3.8	1.4
Healthcare	4.3	1.4	2.9	3.1
Information technology	22.8	21.1	1.7	1.1
Financials	29.9	31.1	-1.2	1.0
Telecom services	4.3	6.1	-1.8	0.7
Energy	3.7	6.0	-2.3	0.6
Materials	2.3	5.7	-3.4	0.4
Consumer staples	1.7	5.6	-3.9	0.3
Utilities	0.0	4.0	-4.0	0.0
Cash	0.2	0.0	0.2	n/a
	100.0	**100.0**	**0.0**	

Source: Schroder AsiaPacific Fund, Edison Investment Research. Note: Ranked by active weight (excluding cash). Rounding errors mean some figures may not sum.

Exhibit 10 shows the 20 largest stocks at 30 April 2014 with their performance over 12 months to 23 June (share price total return in local currency and sterling terms), forward P/E ratio and dividend yield. The table illustrates the dampening effect of the strong pound for UK-based investors in Asia, with the average 21.3% share price total return in local currency terms translating to a still-respectable average sterling return of 12.7%. (Korean stocks were the exception, with sterling returns higher than the won equivalent.) The average forward P/E ratio for the top 20 stocks was 15.3x, although a third of the list is on sub-10x P/Es, and the dividend yield of 2.1% is somewhat higher than the 1.35% yield on the overall portfolio.

Exhibit 10: Valuation and performance of largest 20 holdings (% unless stated)

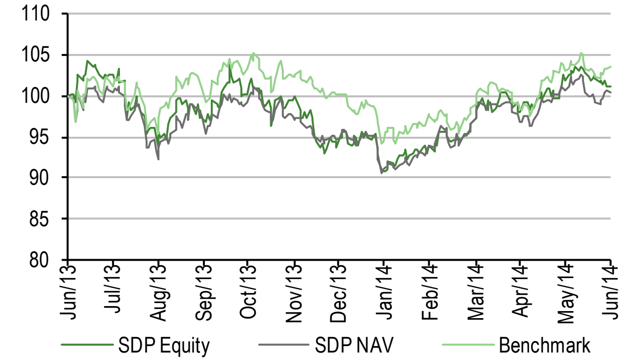
Company name	Description	% of SDP portfolio	12m price return local	12m price return GBP	Forward P/E ratio (x)	Gross div yield
Taiwan Semiconductor	Market-leading semiconductor manufacturer	6.4	22.2	14.9	14.0	2.4
Samsung Electronics	South Korean electronics manufacturer	5.6	0.8	7.3	7.2	1.1
Jardine Strategic Holdings	HK diversified investment company	4.8	-2.5	-10.6	13.1	0.7
Hyundai Motor	South Korea-based vehicle producer	3.8	9.6	15.9	6.2	0.9
AIA	Asian regional life insurer	2.9	19.2	12.3	18.4	1.1
Fortune Real Estate IT	Hong Kong property developer	2.9	-1.2	-6.7	19.5	5.4
China Petroleum & Chemical	Chinese producer of oil and gas	2.8	42.4	34.4	9.3	4.2
Techtronic Industries	HK electrical/electronic products manufacturer	2.3	35.5	23.2	17.5	1.0
Hankook Tire	South Korea-based tyre producer	2.2	19.8	24.1	9.3	0.7
Swire Properties	Property developer in HK/China	2.0	8.7	-1.2	20.8	2.6
Kasikornbank	Thai bank	1.9	20.8	5.2	10.7	1.7
Baidu	Chinese web services provider	1.9	97.5	84.9	32.4	0.0
PT Bank Mandiri	Indonesian bank	1.8	19.3	-9.4	11.4	2.4
Johnson Electric	HK-listed manufacturer of micro-motors	1.8	41.5	28.6	14.9	1.7
Cheung Kong Holdings	HK property developer and investor	1.8	44.8	31.7	9.2	2.6
BOC Hong Kong	HK arm of Bank of China	1.7	-0.2	-9.3	9.8	4.5
Hongkong Land	HK commercial property developer	1.7	6.4	-3.4	17.9	2.7
Yum! Brands	Fast food restaurant operator in China	1.7	20.8	10.3	22.0	1.8
Ayala Land	Philippines property developer	1.7	11.4	1.3	30.2	1.3
Keppel Corp	Singapore marine, property & infrastructure business	1.7	8.5	0.8	12.3	3.7
Simple average			**21.3**	**12.7**	**15.3**	**2.1**

Source: Schroder AsiaPacific Fund, Bloomberg, Edison Investment Research. Note: Price and valuation data at 23 June 2014. Top 20 holdings at 30 April 2014.

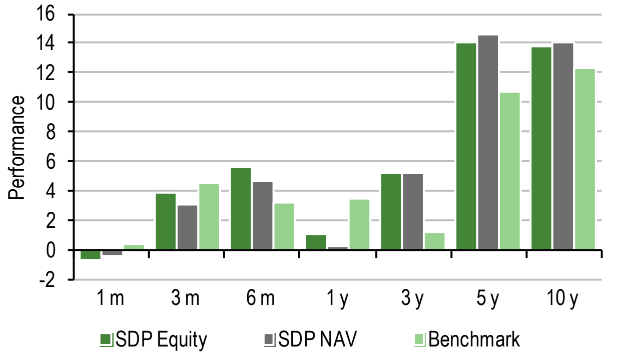
Performance: Long-term outperformer with 1-year blip

Exhibit 11: Investment trust performance

Price, NAV and benchmark one-year total return performance



Price, NAV and benchmark total returns (%)*



Source: Thomson Datastream, Edison Investment Research. Note: *Three, five and 10-year figures annualised.

Exhibit 12: 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	(1.1)	(0.7)	2.3	(2.3)	12.4	16.1	14.4
NAV relative to benchmark	(0.8)	(1.5)	1.5	(3.1)	12.3	18.7	17.2
Price relative to MSCI World index	(0.6)	1.4	2.4	(8.6)	(12.6)	(2.9)	61.6
NAV relative to MSCI World index	(0.3)	0.6	1.5	(9.3)	(12.7)	(0.7)	65.6
Price relative to FTSE All Share index	0.6	1.6	4.0	(10.6)	(9.7)	(1.7)	59.3
NAV relative to FTSE All Share index	0.9	0.8	3.1	(11.3)	(9.8)	0.5	63.3

Source: Thomson Datastream, Edison Investment Research. Note: Data to end June 2014. Geometric calculation.

Over the longer term, SDP has produced positive absolute and benchmark-relative returns (three, five and 10-year figures in Exhibits 11 and 12). The right-hand chart in Exhibit 11 shows annualised share price and NAV returns of more than 12% over both five and 10 years. One-year performance has been weaker, with the trust underperforming against a backdrop of decreased investor appetite for Asian equities, following the 'taper tantrum' in May 2013, when the US Federal Reserve first mooted a scaling back of its quantitative easing programme. As shown in Exhibit 13, SDP has outperformed its benchmark (MSCI AC Far East ex-Japan until 30 January 2011 and MSCI AC Asia ex-Japan thereafter) for most of the post-financial crisis period, although it fell more than the index in May 2013 and initially recovered less strongly. With Asian equities less favoured, the world and UK indices in Exhibit 12 have outperformed SDP's NAV and share price over periods of one to five years, but a more positive trend for Asian markets has begun to re-assert itself in recent months. All the measures shown above are in sterling; the recent strength of the currency has pegged back gains for UK investors.

Exhibit 13: NAV performance relative to benchmark over 10 years

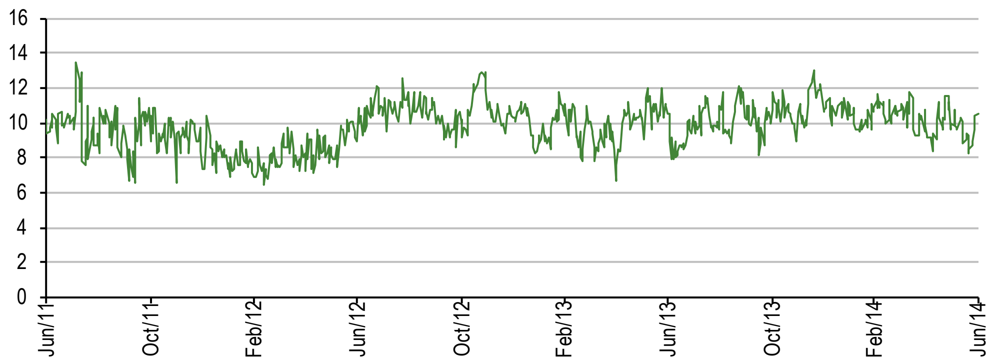
Source: Thomson Datastream, Edison Investment Research

Discount: In line with growth-seeking peers

SDP's cum-income discount to net asset value stood at 10.3% at 7 July, broadly in line with the average over one, three and five years (range of 9.4% to 10.3%). Over one year the discount has ranged from 7.9% to 13.0%. SDP's current discount is a little above the weighted average for the AIC Asia Pacific ex-Japan peer group (Exhibit 15), where the cum-income average discount excluding the three income specialists in the sector (all of which have recently been trading at a premium to NAV) was 8.0% at 25 June. The 5.4% discount for the AIC Asia Pacific ex-Japan sector including the income specialists was close to the average discount for all investment trusts (5.6%) at 31 May 2014, according to AIC figures.

In line with the board's intention to maintain the longer-term discount to net asset value below c 10%, SDP has bought back 475,000 shares at a cost of £1.1m so far in 2014. No buybacks took place in 2013, but 4.7m shares were bought back in 2012, and a tender offer in 2011 (in line with the wishes of a major shareholder that such an offer should accompany a continuation vote) saw 25.7m shares validly tendered.

Exhibit 14: Discount over three years (cum-income NAV with debt at fair value)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

SDP is a conventional investment trust with one class of share (10p ords). At 30 June 2014 there were 169.2m shares in issue. A bonus issue of subscription ('sub') shares in 2009 awarded one sub share for each ordinary share held. Following the final exercise date for the subscription shares on 31 December 2012, 24.7m unexercised sub shares were converted into ordinary shares and sold in the market, the proceeds being distributed to shareholders.

While SDP has an indefinite life, it is subject to five-yearly continuation votes, the next of which is set to take place at the January 2016 AGM.

The trust has the authority to buy back up to 14.99% of its shares in order to manage the discount to NAV. While there is no rigid discount control mechanism, the board will seek to use the buyback facility to maintain the cum-income discount to NAV below c 10% (prior to the 30 September 2013 year-end the ex-income discount was used as the reference level). This target level is reviewed quarterly and may be amended in line with market conditions.

A revolving credit facility of US$75m is in place to allow SDP to gear up to a maximum of 20%. Gearing has been modest recently, with a 3.3% net cash position at the 30 September 2013 year-end and gearing of 0.2% at the 31 March half-year. At 30 June 2014 the trust had 2% net cash.

Schroder Investment Management receives a tiered management fee of 0.95% on the first £100m of assets under management (less current liabilities excluding short-term debt), 0.90% on assets between £100m and £300m, 0.85% on assets between £300m and £400m, and 0.80% on assets above £400m. This fee arrangement has been in place since 1 April 2014 and represents a 5bps reduction on the previous level for each tier. The management fee paid for the 2013 financial year was £4.32m. Schroders also provides company secretarial services to SDP and is paid a separate fee for this (£91k for the year ended 30 September 2013). Ongoing charges were 1.1% at the 2013 year-end. There is no performance fee.

Dividend policy and record

SDP is focused on capital growth and has no formal yield target, although it has paid a dividend in 16 out of 18 possible years. Where payable, a single dividend is paid in February. The last financial year for which a dividend was not paid was 2001, and the dividend has been maintained or increased each year since the 2007 financial year. The dividend for the year ended 30 September 2013, at 3.35p, was unchanged on a year earlier. While net revenue for the portfolio was slightly up on a year earlier (+1.6%), net revenue returns per share were lower at 3.08p (2012: 3.37p) owing to an increase in the number of shares following the final exercise of subscription shares (see Capital structure and fees section, above). Because of this, the 2013 dividend was partly funded out of SDP's revenue reserve, which stood at £5.66m (3.35p per share, equivalent to exactly one year's dividend) at the year-end. This suggests a reluctance by the board to restrict the dividend to the level of income received, where doing so would mean a cut and where there are funds available in reserve to maintain it. Dividends were also partly uncovered in 2011, 2010 and 2007. Based on the 25 June share price, SDP has a yield of 1.35%.

Peer group comparison

There are 14 trusts in the Association of Investment Companies' Asia Pacific ex-Japan sector. It is a diverse peer group, including smaller companies funds, income specialists and trusts that may specialise in specific areas of Asia or that include or exclude Australasia. The five trusts to which SDP is most directly comparable in terms of investment universe are highlighted in Exhibit 15 below. SDP is the second largest trust in the group.

Exhibit 15: Asia Pacific ex-Japan investment trusts

% unless stated	Market cap £m	TR one year	TR three years	TR five years	Ongoing charge	Perf. fee	Discount (-) /premium	Net gearing*	Yield	Sharpe NAV 1 year	Sharpe NAV 3 years
Schroder AsiaPacific Fund	**420.1**	**6.0**	**17.5**	**96.4**	**1.1**	**No**	**-10.0**	**98.0**	**1.4**	**-0.7**	**0.3**
Aberdeen Asian Income	385.0	-0.6	29.5	120.7	1.2	No	0.6	102.0	4.0	-1.1	0.7
Aberdeen Asian Smaller	340.4	-4.3	43.3	206.4	1.2	No	-1.5	110.0	1.1	-0.9	0.9
Aberdeen New Dawn	217.5	2.3	10.6	94.6	1.1	No	-10.7	108.0	1.9	-0.6	0.2
Asian Total Return Inv Company	127.9	2.0	-4.5	42.9	0.8	Yes	-7.9	99.0	1.9	-0.7	-0.1
Edinburgh Dragon	514.5	2.0	11.7	86.5	1.2	No	-9.5	110.0	0.8	-0.9	0.2
Fidelity Asian Values	145.7	16.5	11.6	90.0	1.6	No	-11.9	108.0	0.5	0.1	0.1
Henderson Far East Income	339.6	6.0	18.9	63.5	1.3	No	1.8	103.0	5.6	-1.0	0.3
Invesco Asia	150.4	19.4	13.4	87.6	1.1	No	-12.8	100.0	1.9	0.1	0.2
JPMorgan Asian	194.9	6.0	-8.0	37.1	0.8	Yes	-10.9	102.0	1.3	-0.8	-0.3
Pacific Assets	189.9	13.4	31.1	93.3	1.2	Yes	-3.1	94.0	1.6	-0.2	0.6
Pacific Horizon	125.4	17.1	10.7	73.2	1.2	No	-10.1	99.0	0.8	-0.2	0.1
Schroder Oriental Income	401.8	4.6	30.1	136.1	1.0	Yes	-0.2	107.0	4.1	-0.9	0.6
Scottish Oriental Smaller Cos	259.2	8.9	36.9	182.3	1.0	Yes	-3.6	91.0	1.4	-0.7	0.7
Sector weighted average		**5.2**	**20.6**	**108.0**	**1.1**		**-5.4**	**103.1**	**2.2**	**-0.7**	**0.4**
SDP rank in sector	**2**	**6**	**7**	**5**	**8**		**9**	**12**	**9**	**6**	**7**

Source: Morningstar, 25 June 2014, Edison Investment Research. Notes: TR = NAV 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. A figure of 100 represents zero gearing.

Within the wider sector, SDP's NAV total returns over one, three and five years are broadly mid-table and close to the average. Among the smaller group of six trusts, it has the highest NAV total return over five years and the second-highest over three years, but is fourth out of six over one year. Risk-adjusted returns as measured by the Sharpe ratio are in line with the averages over both one and three years. While the discount is wider than the average for the AIC sector, this average is skewed by the presence of three income trusts that frequently trade at a premium to NAV, and SDP's 10.0% cum-income discount at 25 June is in line with the 9.3% average for the smaller group. The small net cash position puts SDP towards the lower end of the gearing range for the sector.

The board

Schroder AsiaPacific Fund has five directors, all non-executive and independent of the manager. The Honourable Rupert Carington has served on the board as chairman since launch in 1995. Robert Binyon has been a board member since 2000, Anthony Fenn was appointed in 2005, Nicholas Smith joined the board in 2010 and the newest member, Rosemary Morgan, became a director in 2012. All of the board members have lived and worked in Asia.

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