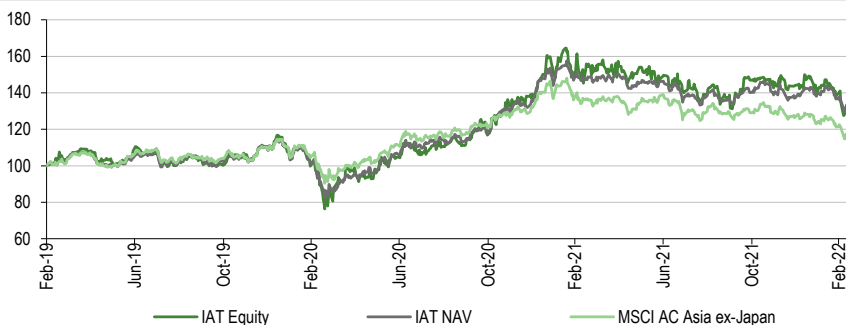


Invesco Asia Trust

Picking quality value stocks

Despite the notable setback in Asian markets during Q122, Invesco Asia Trust (IAT) continues to generate a double-digit annualised NAV total return (c 11% over the past 10 years), supported by consistent income. It has continued to pay a regular six-monthly dividend equivalent to 2% of NAV (4% per year). In January 2022, the fund management team was enhanced when Fiona Yang was appointed co-manager alongside Ian Hargreaves, who has run the portfolio since 2011 (from 2015 as a sole manager). IAT's team targets double-digit annualised returns from each portfolio holding over a rolling three-year period.

IAT outperforms Asian equities during 2021 and 2022



Source: Refinitiv, Edison Investment Research

Why IAT now?

The team believes that the current investment environment benefits skilful stock pickers, who can navigate volatile markets and invest in companies with strong future prospects, particularly in China and Indonesia.

As the team witnessed the recent investment outflow from China, the managers observed that a similar level of pricing was last seen in 2009 and therefore believe that some high-quality, high-growth stocks have been underpriced. While valuations remain low, they will continue to look for more buying opportunities.

The analyst's view

2021 portfolio performance (54 holdings at 28 February 2022) benefited considerably from blending growth and value styles. The team has achieved solid absolute and relative performance over the long term, since Hargreaves began co-managing IAT.

We believe that dividend enhancement, introduced by the board in 2020 (see page 6 for details) brings additional stability to the fund's performance and underlines the board's focus on total return.

Investment trusts Asia ex-Japan equities

28 March 2022

Price 340.0p
Market cap £227m
AUM £248m

NAV* 371.5p
Discount to NAV 8.5%
NAV** 377.4p
Discount to NAV 9.9%

*Excluding income. **Including income. As at 24 March 2022.

Yield 4.5%
Ordinary shares in issue 66.9m
Code IAT
Primary exchange LSE
AIC sector Asia Pacific ex-Japan
Benchmark MSCI AC Asia ex-Japan
52-week high/low* 395.5p 312.0p
NAV** high/low 425.2p 342.0p

**Including income.

Gearing

Net cash at 28 February 2022 1.3%

Fund objective

Invesco Asia Trust's objective is to provide long-term capital growth by investing in a diversified portfolio of Asian companies. On 1 May 2015, the trust adopted a new benchmark, MSCI AC Asia ex-Japan, in place of the former benchmark, MSCI AC Asia Pacific ex-Japan. While the benchmark excludes Australasia, the trust may still invest in these markets.

Bull points

- A total return approach with relatively high dividend income and enhanced dividend policy.
- IAT is able to use revenue and capital reserves when necessary.
- Strong track record of manager Ian Hargreaves, supported by the co-manager Fiona Yang and an experienced team of eight Asia investment specialists.

Bear points

- IAT has yet to build a track record of covering dividend with revenue, on a 4% yield.
- Negative sentiment towards Chinese equities can impede performance.
- Investments in value stocks made during 2021 have yet to contribute positively to performance.

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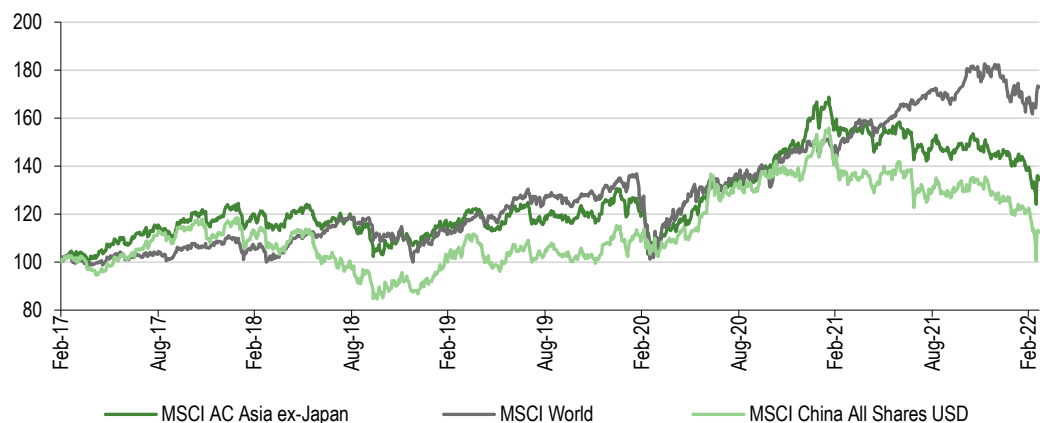
The manager's view: More challenging environment ahead

Invesco has managed IAT since its first day of trading on 11 July 1995, as IAT became one of two successor companies to Drayton Far Eastern investment trust. Invesco held an optimistic tone at the start of 2022 but, together with the rest of the world, was saddened and shocked by Vladimir Putin's invasion of Ukraine on 24 February 2022. These events heightened other geopolitical risks (particularly relations between China and Taiwan) and changed Invesco's outlook for 2022 to a more cautious one.

At the same time, the portfolio managers believe that lower Asian equity valuations create investment opportunities. The managers note that during 2020 Asia managed the recovery from the COVID-19 pandemic well. Having been hit by the pandemic before the Western hemisphere, most Asian countries entered 2021 in recovery mode. Regulatory scrutiny over corporates, executed by the Chinese government to maintain economic stability and exercise more control over the financial system during 2021, resulted in a broad drop in equity valuations (China accounts for c 43% of the MSCI AC Asia ex-Japan Index). The current price-to-book (P/B) and forward price-to-earnings (P/E) ratios of the MSCI AC Asia ex-Japan Index stand at c 13.5x and c 13.7x (at end-February 2022), close to the 15-year historical averages and down from 2021 highs (sources: Invesco, Refinitiv).

Large differences in valuation between countries remain, with China equities on particularly attractive valuations (see portfolio examples on pages 3 and 4). The portfolio managers observe that a stream of 2021 regulatory policy interventions into corporations by the Chinese authorities, since the embargo on the high-profile \$34bn Ant Group's IPO and a \$2.8bn fine on its parent company Alibaba in November 2020, resulted in negative investment sentiment towards China.. This had a significant negative impact on valuations. Exhibit 1 shows how the MSCI China All Shares Index has been decoupling from the MSCI World Index during 2021.

Exhibit 1: Performance of Asian and Chinese equities vs global equities over three years



Source: Refinitiv

The latest geopolitical events intensified the sell-off in Chinese equities and the MSCI China Index sharply corrected by c 25% over the first two weeks of March, then recovered by c 20% in the following three days, as the Chinese government issued statements to reassure international investors. The P/E ratio for the MSCI China Index almost halved from the 2020 highs of c 20x, and the forward P/E currently stands at c 10.5x.

Despite renewed concerns about tensions in relationships between developed democracies and emerging nations, particularly, US-China relations, Invesco believes that China is not currently in a

position to cut ties with Taiwan or the West. According to Invesco, China is still dependent on high-end technology and semiconductors from Taiwan, and will continue to be in the foreseeable future.

Portfolio positioning

At end-February 2022, the portfolio had 54 holdings in line with its 50–60 range (55 at end-February 2021). Exhibits 2 and 3 show the fund's exposures by country and sector at end-February 2022 and illustrate its differentiation from the benchmark MSCI AC Asia ex-Japan Index.

The largest weighting in the portfolio at 43.8% (at end-February 2022) is to Hong Kong & China. The previously underweight position (of c 8.0pp), which the company had two years ago, gradually eliminated, and the weighting is currently almost in line with the index (43.6%). Amid negative headlines and market volatility, Invesco has focused on the potential impact on the fundamentals of Chinese portfolio companies and believes that adding to those at a time of stress may ultimately lead to a better risk-reward when confidence returns. Given the strategy is to populate the portfolio with undervalued companies, IAT's actions are perhaps unsurprising as the team rebalances the portfolio of attractively valued stocks.

The other two notable overweight positions are Indonesia (3.8pp) and Australia (2.5pp). The largest underweight (2.8pp) is in Taiwan, which is IAT's second largest country exposure at 15.7%. This has reduced by 3.0pp, compared to 12 months ago, as the managers recycled the profits from strongly performing stocks into more attractively valued opportunities in China, Indonesia and Australia.

Exhibit 2: Portfolio geographic exposure vs benchmark (% unless stated)						
	Portfolio end-February 2022	Portfolio end-February 2021	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/index weight (x)
Hong Kong & China	43.8	42.4	1.4	43.6	0.3	1.0
Taiwan	15.7	18.7	(3.0)	18.5	(2.8)	0.8
South Korea	13.6	15.7	(2.1)	14.1	(0.5)	1.0
India	13.6	14.5	(1.0)	14.2	(0.6)	1.0
Indonesia	5.7	2.6	3.0	1.8	3.8	3.1
Singapore	3.0	2.8	0.2	3.1	(0.1)	1.0
Australia	2.5	1.4	1.1	0.0	2.5	N/A
Thailand	2.1	1.8	0.2	2.1	(0.0)	1.0
Malaysia	0.0	0.0	0.0	1.7	(1.7)	0.0
Pakistan	0.0	0.0	0.0	0.0	0.0	N/A
Philippines	0.0	0.0	0.0	0.9	(0.9)	0.0
Total:	100.0	100.0		100.0		

Source: Invesco Asia Trust, Edison Investment Research

Over the 12 months to end March, the major sector changes were an increase in consumer discretionary (8.5pp), financials (4.8pp) and a decrease in information technology (-4.5pp), see Exhibit 3.

At 24.7%, financials is the largest weight and the result of selective additions to the sector. The financials weighting has swung from 33.9% in July 2019 to as low as 17.8% in July 2020. The team focuses on well capitalised banks with strong financials, conservatively funded, and with high capital provisions. These include ICICI Bank, one of the largest Indian banks (a top 10 holding, 3.5% of the portfolio at end-February 2022), United Overseas Bank, a diversified Singaporean financial services conglomerate which provides investment, corporate and private banking services as well as wealth management, Kasikornbank and PT Bank Negara Indonesia Persero, Thai and Indonesian banks, respectively. The team also flavours companies with growth stories, such as QBE, an Australian insurance group and Ping An, one of China's largest insurers.

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

	Portfolio end-February 2022	Portfolio end-February 2021	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/index weight (x)
Financials	24.7	21.6	3.1	20.0	4.8	1.2
Consumer discretionary	22.2	19.4	2.7	13.7	8.5	1.6
Information technology	20.4	25.1	(4.7)	25.0	(4.6)	0.8
Communication services	10.5	12.8	(2.3)	10.2	0.3	1.0
Industrials	8.4	8.9	(0.6)	6.6	1.8	1.3
Real estate	5.0	4.0	1.0	3.9	1.0	1.3
Materials	3.5	2.4	1.1	5.5	(1.9)	0.6
Consumer staples	2.6	1.4	1.2	5.1	(2.6)	0.5
Health care	1.8	1.5	0.3	4.0	(2.2)	0.4
Utilities	1.0	0.7	0.4	2.9	(1.9)	0.4
Energy	0.0	1.2	(1.2)	3.2	(3.2)	0.0
Total:	100.0	100.0		100.0		

Source: Invesco Asia Trust, Edison Investment Research

At 22.2%, the consumer discretionary sector weight is the second largest. Big online retailers, such as JD.com (top 10 holding, 3.1% of the portfolio) and Alibaba (top 10 holding, 3.7%), form the core of consumer discretionary exposure. Autohome, a consumer discretionary name held by IAT, is China's largest online platform for automobile buyers and sellers. During the last 12 months, the team has bought Gree Electric Appliances, a Chinese air conditioner manufacturer.

Following their strong performance in 2020, the team reduced positions in technology stocks (the third largest sector weighting at 20.4%), such as Tencent (top 10 holding, 6.0%) and fully exited Baidu. This process was halted when a correction in Chinese internet company share prices went beyond the managers' expectations. They continue to have selected, sizable positions in the sector and are optimistic about their prospects.

Exhibit 4: Top 10 holdings

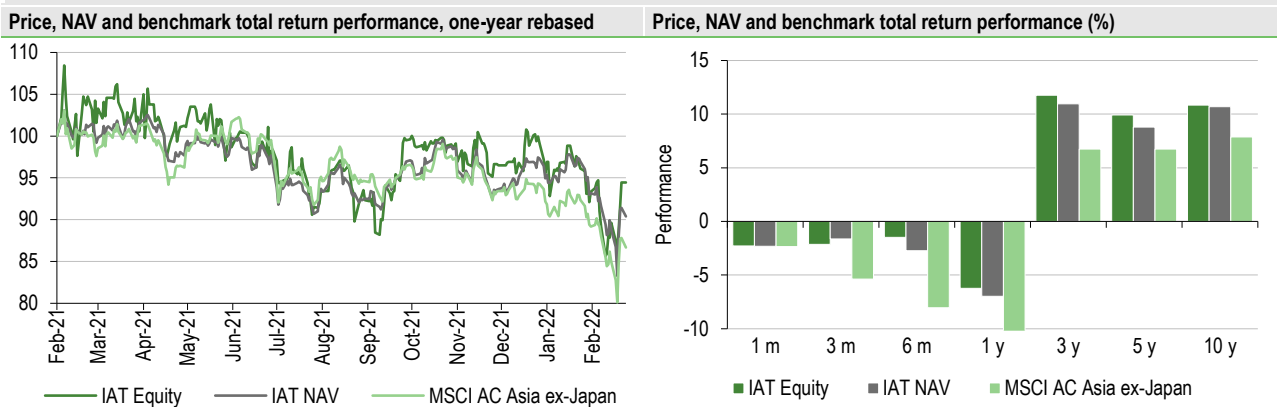
Company	Country	Industry*	28-Feb-22	31-Jan-21	Change
TSMC	Taiwan	Semiconductors & equipment	7.3	7.6	-0.3
Samsung Electronics	South Korea	Technology hardware & equipment	6.3	7.9	-1.6
Tencent	China	Software & services	6.0	7.8	-1.8
Alibaba	China	Retailing	3.7	5.5	-1.8
ICICI Bank ADR**	India	Banks	3.5	3.4	0.1
Housing Development Finance Corporation	India	Real estate	3.5	3.1	0.4
JD.com	China	Retailing	3.1	2.7	0.4
AIA	Hong Kong	Insurance	3.0	3.0	0.0
MingYang Smart Energy (A shares)	China	Energy	2.7	N/A	N/A
NetEase	China	Media & entertainment	2.5	N/A	N/A
Top 10 (as % portfolio)			41.6	46.3	

Source: Invesco Asia Trust, Edison Investment Research. Note: *Industry classification according to the company. **American depository receipts.

Performance

IAT has consistently outperformed the benchmark over the longer term, including three, five and 10 years, as shown in Exhibit 5. Following the timely portfolio restructuring in Q220 in response to the pandemic-hit markets, the manager picked the right stocks to drive outperformance in the calendar year 2021.

A number of selective value cyclicals were among the biggest drivers of relative performance over the past 12 months to end-February 2022. These included Pacific Basin, a shipping company (+1.6pp to NAV TR), MingYang Smart Energy Group, a Chinese wind turbine manufacturer (+1.4pp) and ICICI Bank, a large Indian bank (+0.9pp). The latter two companies are in the top 10 holdings, with 2.7% and 3.5% weightings, respectively (see Exhibit 4).

Exhibit 5: Investment company performance to 28 February 2022


Source: Refinitiv, Edison Investment Research. Note: Three- and five-year performance figures annualised. Data to end-February 2022.

The five-year discrete performance data in Exhibit 6 illustrate the visible relative performance boost over the 12 months to end February 2021. The 12-month data to end February 2022 illustrate that in the most recent China market sell-off, the portfolio was more defensive than the MSCI AC Asia ex-Japan Index.

Exhibit 6: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	MSCI AC Asia ex-Japan (%)	MSCI World (%)	MSCI China All Shares (%)
28/02/18	19.4	17.1	19.5	6.6	11.9
28/02/19	(3.8)	(4.8)	(4.7)	4.6	(10.6)
29/02/20	(0.1)	1.2	4.6	9.6	8.6
28/02/21	49.0	45.2	30.1	18.8	29.3
28/02/22	(6.2)	(7.0)	(10.6)	15.9	(13.8)

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

In Exhibits 7 and 8 we present performance and other metrics relative to peers. IAT exhibits strong relative performance against its Asia Pacific equity income peer group of five funds. It ranks top over three, five and 10 years, on a net asset value (NAV) total return basis. This strong relative performance is complemented by a competitive yield of c 4.5%.

Exhibit 7: Country specialist – Asia Pacific Equity Income peer group*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Gearing	Dividend yield (%)
Invesco Asia	227.3	(8.4)	31.1	43.7	172.5	(8.8)	1.0	No	99	4.5
Aberdeen Asian Income	381.7	6.5	30.7	38.9	113.6	(13.1)	1.0	No	109	4.3
Henderson Far East Income	446.4	3.4	8.2	17.2	89.4	(1.4)	1.1	No	103	8.0
JPMorgan Asia Growth & Income	370.3	(11.2)	20.1	43.7	145.0	(8.2)	0.8	No	99	5.1
Schroder Oriental Income	712.0	3.1	29.5	40.1	161.6	(4.3)	0.9	Yes	104	3.9
Sector average (5 funds)	427.5	(1.3)	23.9	36.7	136.4	(7.2)	0.9		103	5.1
MSCI AC Asia Pacific ex Japan HDY		7.0	16.7	22.6	90.1					4.4
Rank in sector	5	4	1	1	1	4	3		4	3

Source: Morningstar, Edison Investment Research, Bloomberg. Note: *Performance data to 25 March 2022 based on cum-fair NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Q122 has been challenging for global equities, and in Asia, for Chinese equities in particular. By the start of calendar 2022 the managers had repositioned the portfolio more towards Chinese equities, which fell out of favour during 2021, eliminating the China underweight position. During March, the performance of four of the top 10 Chinese holdings was very volatile and resulted in IAT's short-term drop in ranking among four equity income peers on a NAV TR basis. Over the past year to 25 March, IAT ranks fourth among five peers. These holdings included Tencent (6.0% at end-February 2022), Alibaba (3.7%), JD.com (3.1%) and NetEase (2.5%) and, combined, accounted for 15.3% of the portfolio.

Exhibit 8 illustrates that IAT lagged most of its growth-style focused peers over five years, when growth strategies outperformed, but is in the middle of the group, ranking third over three (among top 50% of seven peers) and fourth over 10 years. As Chinese markets continued to slide in 2021 and 2022, rotation from growth to value might not have been fully reflected in IAT's performance and the fund ranks fifth over a one-year period.

Exhibit 8: Country specialist – Asia Pacific peer group*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Gearing	Dividend yield (%)
Invesco Asia	227.3	(8.4)	31.1	43.7	172.5	(8.8)	1.0	No	99	4.5
Aberdeen New Dawn	309.2	(6.2)	30.5	44.8	115.2	(12.2)	0.9	No	109	1.5
Asia Dragon	538.7	(12.8)	20.5	34.9	99.5	(10.2)	0.8	No	111	1.5
Pacific Assets	382.2	3.3	28.2	47.0	194.0	(10.5)	1.1	No	96	0.8
Pacific Horizon	645.8	4.4	127.2	168.9	314.0	(2.8)	0.8	No	98	0.0
Schroder Asian Total Return	487.7	(5.6)	41.2	65.3	172.9	(3.5)	0.9	Yes	109	1.6
Schroder Asia Pacific	872.3	(9.2)	30.3	48.5	166.1	(10.6)	0.9	No	100	1.8
Sector average (7 funds)	494.8	(4.9)	44.1	64.7	176.3	(8.4)	0.9		103	1.7
MSCI AC Asia Ex Japan		(11.0)	16.3	28.8	107.4					1.9
Rank in sector	7	5	3	6	4	3	2		5	1

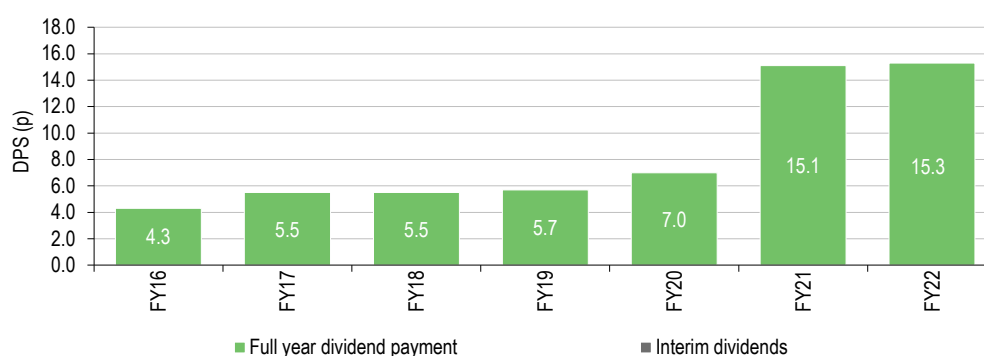
Source: Morningstar, Edison Investment Research, Bloomberg. Note: *Performance data to 25 March 2022 based on cum-fair NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The Association of Investment Companies moved IAT from the Asia Pacific sector into the Asia Pacific Equity Income sector. Considering the board's initiative in August 2020 to introduce a regular six-monthly dividend equivalent to 2% of NAV, we believe the reclassification is justified.

Dividend policy and record

In August 2020, the board announced a dividend enhancement initiative to pay a regular six-monthly dividend equal to 2% of NAV on the last business day of September and February. In 2020, the board approved the use of revenue and capital reserves when necessary to smooth dividend payments in the years when they are not fully covered by revenue income.

Exhibit 9: Dividend history



Source: Bloomberg, Edison Investment Research

On 6 October 2021 and 24 March 2022 the company announced a first and second interim dividends of 7.7p and 7.6p per ordinary share, respectively, for the year ending 30 April 2022, bringing the full year dividend to 15.3p (up 1.3% from 15.1p in FY21). 7.7p is equivalent to 2% of the company's NAV on the last business day of September 2021. The company intends to pay the second interim dividend for FY22 in April, also representing c 2% of NAV, within the target of c 4% of NAV over the year.

Team

On 24 January 2022 the board announced Fiona Yang's appointment to the role of co-manager of the trust alongside Ian Hargreaves, with immediate effect. Hargreaves started to co-manage IAT in 2011, and between 2015 and 2022 was its sole manager. Fiona joined Invesco in August 2017 and manages Invesco's Asian Equity Income Fund. As a member of the Henley-based Asian and Emerging Market equities team, she covers the entire Asia ex-Japan region, with particular expertise in China's equity markets. She started her career with Goldman Sachs in July 2012, initially within the company's graduate programme, before becoming a member of its Asian Equity sales team, where she was a China product specialist. Fiona relocated to Invesco's Singapore office in February 2022 and will be based there.

Fund profile and investment process

Launched in 1995, IAT aims to provide long-term capital growth through investing in a well-diversified portfolio of companies listed in Asia. The benchmark is the MSCI AC Asia ex-Japan Index (the MSCI Asia Pacific ex-Japan Index prior to 2015), reflecting the trust's primary focus on Asia and persistently low exposure to Australasia. The fund managers aim to outperform the market over three- to five-year rolling periods, following a bottom-up, contrarian approach. They look to buy companies with strong fundamentals, but which are 'unloved' by the market and trading at a significant discount, and the team targets a double-digit annualised return from each portfolio stock.

IAT has recently enhanced its dividend policy and income will continue to contribute materially to NAV and share price total returns. The board targets a dividend yield of 4% of NAV per year. The portfolio of c 50–60 stocks represents the manager's highest-conviction investment ideas. Gearing is permitted up to 25% of net assets.

The approach is team based, bottom up and valuation focused. The Invesco Asia team consists of eight experienced analysts/portfolio managers and Hargreaves has been investing in the region for over 25 years. The initial universe of over 10,000 listed Asian companies is narrowed down by quantitative filters to an investable universe of c 1,000 companies. The team conducts close to 1,000 company meetings each year. Analysts maintain their stock monitoring lists with up-to-date valuations and pitch ideas to each other. These companies are ranked by their estimated total return over three years. Portfolio construction reflects the conviction levels behind the individual stocks, as well as portfolio diversification and risk considerations.

Board

The board appointed Myriam Madden as a non-executive director on 4 November 2021 with the intention that she would take over from Fleur Meijs (who indicated her intention to step down after serving the company for six years), as audit chair in early 2022. Following her appointment, the board comprises five directors (Exhibit 10). September 2022 will mark the AGM after the ninth anniversary of Owen Jonathan joining the board, the point at which directors usually retire. The company is looking for a replacement for Jonathan and the board will comprise four directors after he retires.

Exhibit 10: IAT's board of directors

Board member	Date of appointment	Remuneration in FY21	Shareholdings at end-FY21
Neil Rogan (chairman)	1-Sep-17	£38,100	90,017
Fleur Meijs	7-Dec-16	£28,900	28,862
Owen Jonathan	1-Mar-13	£25,200	38,344
Vanessa Donegan	17-Oct-19	£25,200	5,069
Myriam Madden	4-Nov-21	N/A	N/A

Source: company reports.

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