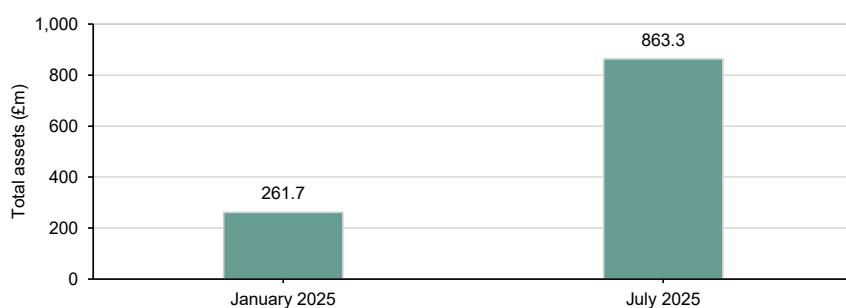


Invesco Asia Dragon Trust

Benefiting from strength in Chinese equities

Invesco Asia Dragon Trust (IAD) delivered an 18.1% net asset value (NAV) total return (TR) over the 12 months to end-July 2025, supported by the strong performance of Asian markets, especially China and Hong Kong. The performance was ahead of the 16.4% return delivered by its benchmark index (MSCI AC Asia ex-Japan), reinforcing our confidence in the managers' strategy. The case for the trust's investments is often contrarian at the point of purchase and may take time to play out, but over the long term IAD has delivered returns above the benchmark and its peers. The fund does not structurally favour any region, with one of its current strongest convictions being a revival of consumption in China, and there have been signs of positive economic readings in this area. Additionally, the trust's share price TR in the last year was 21.5%, as the discount to NAV narrowed after the announcement of its merger with Asia Dragon Trust (DGN).

IAD retains Invesco Asia Trust's strategy with significantly larger scale



Source: IAD, Edison Investment Research

IAD helps investors navigate Asian complexities

Asia should remain a key driver of global economic growth in the years to come, and IAD's managers highlight the combination of reasonable average valuations across the region and a solid double-digit corporate earnings outlook for 2025. That said, there are multiple factors at play that may affect local economic prospects and in turn may lead to a disparity in equity valuations. These include the AI boom, global uncertainty around US-imposed tariffs and their effect on foreign direct investments, as well as political complexities. Expertise in the Asia region and stock-picking ability may prove critical to generating attractive returns.

Concluded merger creates a compelling fund

After absorbing DGN, IAD commands assets of around £800m and is now a constituent of the UK flagship 250 index. This has likely attracted new investors, as liquidity increased and the discount to NAV narrowed. The merger was paired with operational improvements, leading to an expected decrease in the ongoing charges ratio to 77bp from the last reported 103bp. The enlarged fund follows Invesco Asia Trust's (IAT's) contrarian, bottom-up valuation-aware strategy, which has proved effective over the years. Therefore, we consider IAD an appealing gateway to Asian equities.

Investment companies
Asia ex-Japan equities

10 September 2025

Price	381.00p
Market cap	£776m
Shares in issue	203.8m
Code/ISIN	IAD/GB0004535307
Primary exchange	LSE
AIC sector	Asia Pacific ex-Japan
Financial year end	30 April
52-week high/low	381.0p / 300.0p

Fund objective

Invesco Asia Dragon Trust's objective is to provide long-term capital growth and income by investing in a diversified portfolio of Asian and Australasian companies. It aims to achieve an NAV total return in excess of the benchmark index, MSCI AC Asia ex-Japan. It follows a valuation-aware, bottom-up strategy.

Bull points

- IAD's valuation-aware approach may prove well-suited for exploiting the current valuation discrepancies across Asian markets.
- Strong track record of managers Ian Hargreaves and Fiona Yang, coupled with the expertise of Asia and emerging markets investment specialists.
- The combination with Asia Dragon Trust translates into economies of scale, an attractive fee and discount control mechanisms.

Bear points

- IAD's low weighting to India versus the peer average may have an impact on returns if the rally in Indian equities resumes.
- IAD's contrarian approach at the point of purchase means that its stock picks may take time to prove either right or wrong.
- Emerging Asia's long-term growth may be dampened by weaker capital investments and exports.

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Strategic merger provides enhanced scale and operational efficiency

The successful completion of IAT's merger with DGN on 14 February 2025 created the enlarged IAD, which represents a strategically compelling combination that addresses key structural challenges facing the investment trust sector. The overwhelming shareholder support of 99.9% from DGN shareholders validated the merger's rationale.

The enlarged trust now commands over £800m in total assets (versus IAT's c £250m at end-October 2024), providing enhanced liquidity and operational leverage. Importantly, IAD's replacement of DGN in the UK flagship 250 index from 18 February should broaden the investor base and provide structural support for discount management. The discount narrowed to the 7–10% range upon the initial announcement in October 2024 and has broadly remained in that range ever since. This kicker to the share price has led to shareholder returns surpassing the benchmark index over the 12 months ending July 2025 with 21.5% in total return terms. Currently, the shares trade at an 8.5% discount to NAV ex income, which is below the long-term average of 10% (see Exhibit 1) and slightly below the average of its peers.

Exhibit 1: Discount to NAV (ex income) over three years



Source: LSEG Data & Analytics, Edison Investment Research

The merger was paired with enhancements to the trust's value proposition, including distributions, ongoing charges and tender offers:

- The frequency of dividend payments was increased to quarterly payments (from semi-annual) while maintaining the total distribution (1% of NAV each quarter, from 2% of NAV twice a year). This is on top of share repurchases, as the board believes that under normal market conditions the shares should trade 'below 10% discount' and has the authority to buy back shares when it deems the discount to be wider than desired. The NAV-accretive buybacks support shareholder returns above the 4.1% dividend yield.
- The manager calculates that the ongoing charges ratio will decrease to about 77bp (from 103bp for IAT and 91bp for DGN), supported by a decreased share of fixed costs due to the larger scale and implementation of IAT's investment structure.
- The continuation vote will be replaced by triennial unconditional tender offers (with the first to be held in early 2028), where investors can cash out all their holdings at a 4% discount to the prevailing NAV. We view this change as attractive to investors, introducing more flexibility to exit than provided by continuation votes or IAT's previous performance-related conditional tender offer.
- To ensure continuity, IAD's board was expanded to eight members from the former four, by appointing four board members from DGN. The enlargement is planned to be temporary, and the board will consist of six members following the September 2026 AGM, when James Will and Neil Rogan plan to step down from their roles.

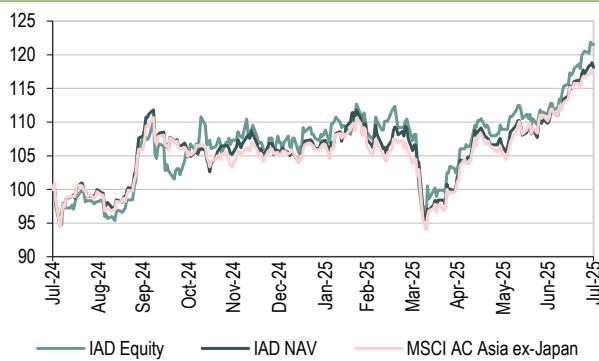
We note that a majority (69%) of DGN shareholders opted for a cash exit upon the merger, rather than IAD shares, and as the cash option was capped at 25%, a significant portion of them received shares. However, we believe that this has not created any meaningful share overhang, as evidenced by the lack of discount widening following the merger.

Performance: Asia has delivered strong stock returns

Over the year ending June 2025, IAD delivered a solid 7.2% NAV TR, reflecting the strong performance of Asian equities, especially in China and Hong Kong. The performance was slightly below the benchmark (7.8%), but we note that the effectiveness of IAD's contrarian investment strategy should be reviewed on longer time scales and its returns over five- and 10-year periods remain above the benchmark. Over the year, IAD's overweight positions to Indonesia and South Korea acted as the main detractors, as these markets posted below-average returns. These overweight positions are paired with underweight positions in other countries, mostly to India, which the manager currently views as having demanding valuations susceptible to downgrades in earnings expectations. Despite IAD's underweight position to Taiwan, the manager believes that the long-term earnings power of Taiwanese AI plays remains well underpinned.

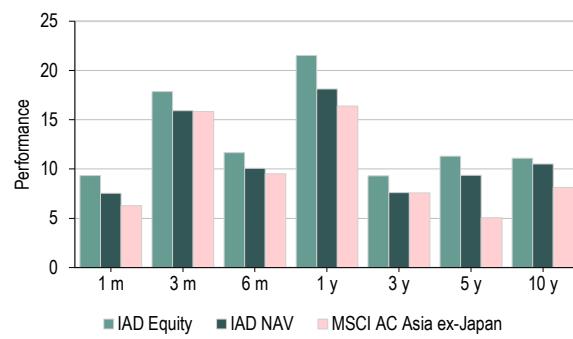
In July 2025, IAD delivered a 7.5% NAV total return compared to 6.3% posted by the benchmark, which has driven the one-year performance to end July to 18.1% – ahead of the benchmark's 16.4%. We attribute the solid performance in July to IAD's continued overweight positioning to China, as well as Samsung's share price rally (described below), which is currently IAD's third-largest holding.

Exhibit 2: Price, NAV and benchmark TR performance, one-year rebased



Source: LSEG Data & Analytics, Edison Investment Research

Exhibit 3: Price, NAV and benchmark TR performance (%) to end-July 2025



Source: LSEG Data & Analytics, Edison Investment Research

Exhibit 4: Five-year discrete performance data

12 months ending	IAD share price (%)	IAD NAV (%)	MSCI AC Asia ex-Japan (%)	MSCI World (%)	MSCI China All Shares US\$ (%)
31/07/21	32.8	24.9	12.7	28.1	0.6
31/07/22	(1.5)	0.5	(8.2)	4.3	(8.3)
31/07/23	8.0	5.7	0.8	7.9	(9.1)
31/07/24	(0.4)	(0.2)	6.8	19.1	(15.4)
31/07/25	21.5	18.1	16.4	12.8	32.5

Source: LSEG Data & Analytics. Note: All percentages on a total return basis in pounds sterling unless otherwise stated.

China continues to grow despite global headwinds

IAD's overweight exposure to China proved the primary driver of relative performance during the second calendar quarter of 2025, with the allocation benefiting from a combination of supportive macroeconomic and sector-specific factors. China reported above-consensus GDP growth of 5.3% in H125, and interest rates were kept unchanged at a low level, as the central bank continues to address the very low inflation, including targeted credit easing and modest fiscal stimulus. Within the portfolio, NetEase emerged as the standout contributor to relative performance, driven by robust earnings that exceeded market expectations. The broader Chinese technology and internet sector also delivered strong returns, with investor confidence receiving a notable boost from the launch of DeepSeek, which reinforced positive sentiment towards domestic tech capabilities.

Nevertheless, IAD's stock selection within Chinese names was a detractor to relative performance, as the fund is overweight consumer-related stocks that still face low consumer demand and deflationary pressure in the economy. The manager maintains its view that consumer-facing stocks remain undervalued, and consumer staples remain the strongest overweight sector in its portfolio. Consumer demand in China shows early signs of revival, as retail sales increased by 5.0% y-o-y in H125, supported by increasing disposable income, which increased by 5.4% in H125 after adjusting for inflation. Significant growth in household bank deposits outstanding in China is another supportive factor.

Central bank representatives described these recent macroeconomic readings as a 'hard-won achievement', given persistent uncertainty in the global economic environment. Consumer confidence is yet to be restored, as its recent increase to 88pt (May 2025, OECD) still reflects subdued expectations compared to c 120pt before the onset of 2022 lockdowns.

IAD remains confident in its investment theses

Exhibit 5: Strongest contributors and detractors to relative performance against the benchmark in Q225

Top contributors	% impact	Top detractors	% impact
NetEase	0.6	JD.com	(0.5)
Delhivery	0.3	Full Truck	(0.5)
Samsung Fire and Marine	0.3	China Resources Beer	(0.4)
Naver	0.2	Wuliangye Yibin	(0.3)
AIA	0.2	SK Hynix	(0.3)

Source: IAD

Stock selection across Hong Kong and India provided an additional performance uplift during Q2 of CY25, with HK insurer AIA benefiting from significant new business value growth and Indian logistics company Delhivery recovering strongly following robust full-year results; both positions rank among IAD's five top performance contributors for the quarter. However, the portfolio's consistent overweight position in Samsung continued to create relative performance headwinds, as the South Korean giant lagged domestic memory competitor SK Hynix despite delivering positive absolute returns. Samsung's challenges reflect broader investor scepticism about the company's ability to capitalise on the AI boom, compounded by disappointing Q2 results showing a 55% year-on-year decline in operating profit, driven by a 94% collapse in chip division earnings amid US export controls affecting China sales. Nevertheless, IAD's contrarian positioning now appears better justified following Samsung's post-period \$16.5bn semiconductor supply contract with Tesla, which drove a 17% share price rally since end-June compared to SK Hynix's 4% decline. With IAD maintaining a 3.4pp overweight position in Samsung at end-June, this development provided meaningful support to July's performance, validating the trust's patient approach to what it views as a fundamentally undervalued stock.

IAD currently favours Association of Southeast Asian Nations (ASEAN) countries through its overweight positions in, among others, Indonesia, Thailand and Singapore. These markets underperformed in Q225 as investors await clearer signs of an economic recovery (in Indonesia) or political stability (in Thailand, which has seen the suspension of its prime minister amid an ethics investigation).

IAD has delivered returns ahead of its direct peers over the long term

IAD's one-year performance was ahead of its peers, although we note that the funds follow differentiated strategies and none acts as a direct comparator (see our [January 2025 note](#) for details). The effectiveness of IAD's strategy should be reviewed on a longer timescale, and we note that IAD ranks first over 10 years and third over five years within the Asia-Pacific equity income subgroup (and third and third, respectively, in the whole peer group).

Exhibit 6: Peer comparison to end-July 2025

% 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	Performance fee	Net gearing	Dividend yield
Invesco Asia Dragon	776	18.1	24.6	56.4	171.9	(8.4)	0.7	No	102	4.1
Asia-Pacific equity income group										
JPMorgan Asia Growth & Income	280	16.7	29.4	35.1	162.4	(9.4)	0.8	No	100	5.6
Aberdeen Asian Income	350	15.4	24.8	58.5	122.6	(9.3)	0.9	No	106	6.5
Henderson Far East Income	429	13.9	13.1	16.5	64.2	3.3	1.0	No	106	10.5
Schroder Oriental Income	709	14.9	34.8	67.3	151.6	(4.7)	0.9	Yes	104	3.9
Sector average (four funds)	442	15.2	25.5	44.4	125.2	(5.0)	0.9	-	104	6.6
IAD's rank in sector	1	1	4	3	1	3	5	-	4	4
Asia-Pacific group										
Pacific Assets	416	(3.7)	10.2	45.5	124.4	(11.1)	1.1	No	100	1.1
Pacific Horizon	582	8.3	9.8	50.4	268.2	(10.1)	0.7	No	106	0.5
Schroder Asian Total Return	473	10.0	30.6	48.1	200.1	(5.6)	0.9	Yes	107	2.3
Schroder AsiaPacific	837	14.1	23.1	36.7	157.4	(10.5)	0.9	No	104	2.0
Sector average (four funds)	577	7.2	18.4	45.2	187.5	(9.3)	0.9	-	104	1.5
IAD's rank in sector	2	1	2	1	3	2	5	-	4	1
IAD's rank in total (nine funds incl IAD)	2	1	5	3	3	4	9	-	7	4

Source: Morningstar, Edison Investment Research

Portfolio: Awaiting catalysts while protecting the downside

The manager believes Asian equities currently offer double-digit earnings growth potential, with reasonable valuations across much of the universe as, while not as attractive as they were 12–18 months ago, Asian indices continue to trade at a significant discount to global equities, particularly the US market. The manager favours companies that provide healthy total shareholder return yields (dividends and buybacks), as well as those with strong balance sheets (the portfolio, excluding financials, had a net cash position at end-FY25), which should help absorb market headwinds. While the most prominent macro sensitivity currently is the uncertainty around US tariffs, the portfolio has very limited exposure to exporters. The manager also expects that the ongoing cross-Pacific trade tensions should boost intra-Asian trade and provide new opportunities to invest.

IAD maintains its conviction that the South Korean 'value-up' programme (see article by Patrick Garvin of Invesco on [Edison's website](#) for details) should be a significant catalyst for South Korea's equity valuations. Following presidential elections held in June, the National Assembly passed its next reform bill in early July, which includes limiting large shareholders' voting rights when appointing audit committee members, mandates that hybrid virtual shareholder meetings must be held by publicly traded firms above a certain size and raising the required proportion of independent directors on boards from one-quarter to one-third. The changes were met with enthusiasm, and foreign capital inflows accelerated in July, although a 'Korean discount' persists and investors are awaiting further actions. Among stocks positioned to benefit from the regulatory guidelines are KB Financial (1% of the portfolio at end-May) and Samsung Fire and Marine (2%), which has performed well lately, with the latter being among IAD's top positive contributors to performance relative to the benchmark in the second calendar quarter of 2025.

In Q2 CY25, IAD sold two positions that it believes have played out their investment theses. Sea Ltd is a tech conglomerate based in Singapore; its most significant operations include e-commerce platform Shopee, game developer Garena and digital financial services provider Monee. The stock delivered a return of c 140% over the last year and the manager believes the successful turnaround is already priced in. Similarly, Hansoh Pharmaceutical (a drug manufacturer in China) has reached its potential according to the manager, after delivering a 105% share price increase in the year to date. Both companies were exited on the grounds of valuation and lacking near-term share price catalysts, while both continue to show good growth prospects. The manager decided to rotate into higher-upside opportunities.

New additions to the portfolio included Shenzhen Mindray and Valterra Platinum. The former is Chinese manufacturer of medical devices that currently trades near the bottom of its valuation range, due to ongoing concerns about government policies regarding bulk purchasing of medical products at reduced prices, which are putting pressure on margins. Meanwhile, the company has a strong balance sheet and good innovation momentum, according to the manager, which provides for a good long-term outlook. Valterra Platinum is the world's largest producer of platinum, is located in South Africa and was demerged from Anglo American in May 2025.

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