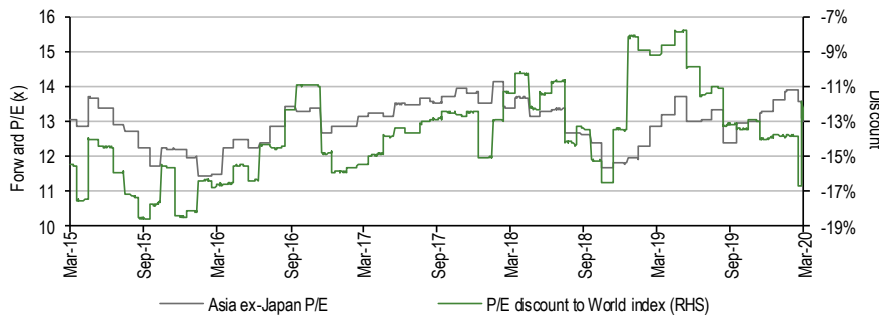


# Invesco Asia Trust

## Weak markets may present golden opportunities

Invesco Asia Trust's (IAT's) primary objective is to deliver long-term capital returns through investing in Asian companies that are worth more than the market believes, following a rigorous bottom-up process. Over the past 10 years the trust has generated an annualised NAV total return of 10%. Investor sentiment towards Asian equities has suffered from an extended period of negative events, including trade disputes, political protests in Hong Kong and, more recently, the outbreak of the coronavirus. The manager, Ian Hargreaves, has a long-term investment horizon and believes golden opportunities are presenting themselves in this environment.

### Asian equities at a steep discount to global equities



Source: Refinitiv, Edison Investment Research

### The market opportunity

Expectations for an economic recovery in Asia this year have been delayed by the outbreak of the coronavirus. It is too early to tell the full extent of its impact or what further government policy responses may materialise. However, as shown in the chart above, Asian equity valuations are trading at a discount to global equities and, over the long term, the region's rate of economic growth should continue to be meaningfully higher than that of developed markets.

### Why consider investing in Invesco Asia Trust?

- The manager has over 25 years' experience investing in Asian equities, following a bottom-up process. He is supported by a well-resourced team of five Asian equity investment professionals.
- The underlying portfolio generates good revenue income, underpinning the trust's ability to grow its dividends.
- The board is proactive and committed to promoting the trust and shareholders' interests.

### Discounts have widened, scope to improve

IAT currently trades on an 11.5% discount to cum-income NAV, which is significantly in line with the three-year average of 11.6%. The discount appeared to be on a narrowing trend following the board's efforts to broaden the appeal of the trust in late 2018; however, sentiment for Asian equities is currently weak and there is scope for the discount to narrow should this improve.

### Investment trusts Asia ex-Japan equities

16 March 2020

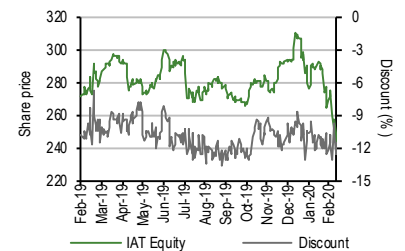
**Price** 240.0p  
**Market cap** £160.5m  
**AUM** £193.2m

NAV\* 267.5p  
Discount to NAV 10.3%  
NAV\*\* 271.3p  
Discount to NAV 11.5%

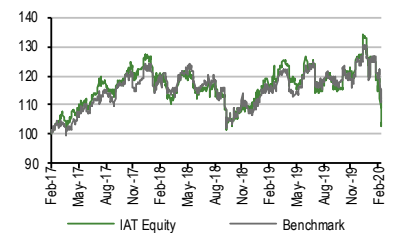
\*Excluding income. \*\*Including income. As at 12 March 2020.

Yield 2.4%  
Ordinary shares in issue 66.9m  
Code IAT  
Primary exchange LSE  
AIC sector Asia Pacific ex-Japan  
Benchmark MSCI AC Asia ex-Japan

### Share price/discount performance



### Three-year performance vs index



52-week high/low 310.0p 237.0p  
NAV\*\* high/low 342.6p 271.3p

\*\*Including income.

### Gearing

Gross\* 0.0%  
Net\* 5.3%

\*As at 31 January 2020.

### Analysts

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**Invesco Asia Trust is a research client  
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## Exhibit 1: Trust at a glance

### Investment objective and fund background

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 new benchmark excludes Australasia, the trust may still invest in these markets.

### Recent developments

- 10 January 2020: interim report for six months ending 30 October 2019. NAV TR -3.7% versus benchmark TR -1.7%. Share price TR -6.7%. Declared interim dividend of 3.4p per share.
- 17 October 2019: announced appointment of Vanessa Donegan as non-executive director with immediate effect.

### Forthcoming

AGM	September 2020
Annual results	July 2020
Year end	30 April
Dividend paid	November, April
Launch date	July 1995
Continuation vote	Three yearly, next 2022

### Capital structure

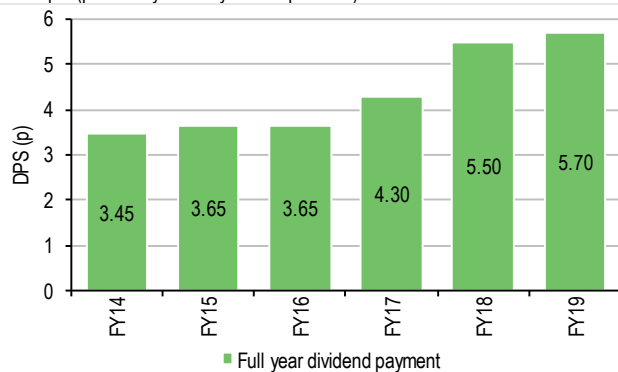
Ongoing charges	1.0%
Net gearing	5.3%
Annual mgmt fee	Tiered (see page 8)
Performance fee	None
Trust life	Indefinite
Loan facilities	£20m multi-currency

### Fund details

Group	Invesco Asset Management
Manager	Ian Hargreaves
Address	43-45 Portman Square London W1H 6LY
Phone	+44 (0)20 3753 1000
Website	<a href="http://www.invesco.co.uk">www.invesco.co.uk</a>

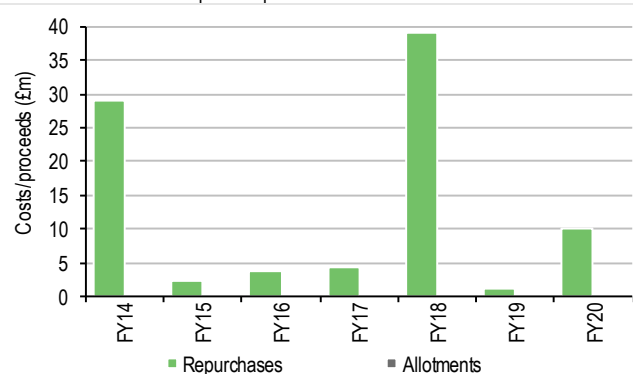
### Dividend policy and history (financial years)

An interim dividend was introduced in FY19. Dividends are payable in November and April (previously January and September).

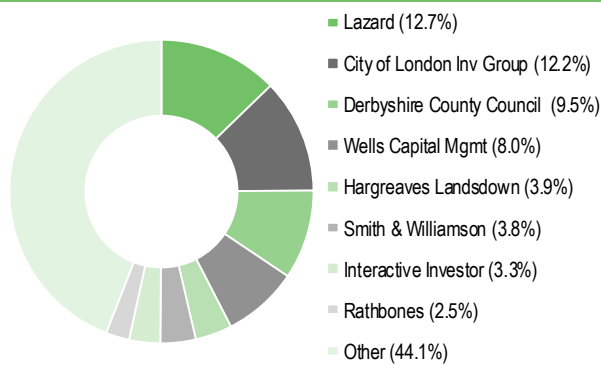


### Share buyback policy and history (financial years)

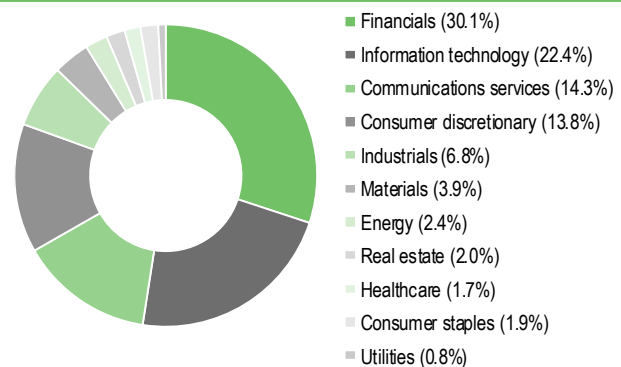
Renewed annually, the trust has authority to purchase up to 14.99% and allot up to 5% of issued share capital. Repurchases include tender offers.



### Shareholder base (as at 26 February 2020)



### Portfolio exposure by sector (as at 31 January 2020, ex-cash)



### Top 10 holdings (at 31 January 2020)

Company	Country	Sector	Portfolio weight %	
			January 2020	January 2019*
Tencent	Hong Kong	Software & services	6.0	4.2
TSMC	Taiwan	Semiconductors & semiconductor equipment	5.7	3.7
Alibaba	China	Retailing	4.8	N/A
Samsung Electronics	South Korea	Technology hardware & equipment	4.7	3.8
ICICI Bank	India	Banks	3.8	2.8
NetEase	China	Software & services	3.7	N/A
AIA	Hong Kong	Insurance	3.2	3.3
United Overseas Bank	Singapore	Banks	3.2	N/A
Samsung Electronics (pref)	South Korea	Technology hardware & equipment	3.0	N/A
MediaTek	Taiwan	Semiconductors & semiconductor equipment	2.9	2.8
<b>Top 10 (% of portfolio)</b>			<b>39.8</b>	<b>36.1</b>

Source: Invesco Asia Trust, Edison Investment Research, Bloomberg, Morningstar, Refinitiv. Note: \*N/A where not in end-January 2019 top 10.

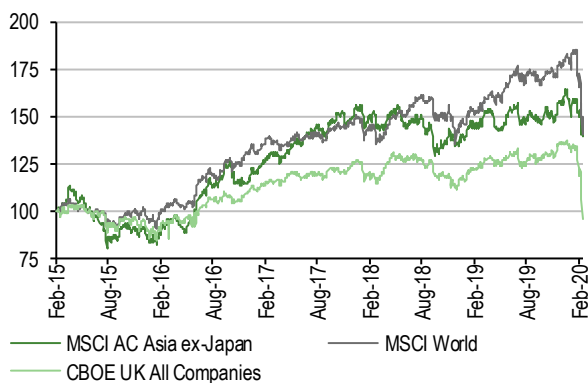
## Market outlook: Uncertain near-term prospects

The outlook for Asian equities is clouded by the outbreak of the coronavirus at a time when global economies had appeared to be poised for recovery. At the start of 2019, fears of recession were looming in an environment of synchronised global economic slowdown, exacerbated by geopolitical events such as the US-China trade dispute. Central banks reversed stances to withdraw liquidity and shrink balance sheets and resumed accommodative monetary policies. The US Federal Reserve cut interest rates three times, while the ECB and the People's Bank of China also undertook stimulus measures. Recession was averted and towards the end of the year, there were signs that global growth had stabilised, with the potential for a recovery in 2020. Global PMIs had turned, improvements were seen in several countries, including India and China. Inventories around the world were also at unusually low levels, which would normally bode well for an improvement in trade, suggesting a favourable backdrop for Asian economic growth. At the time of writing, however, the coronavirus is significantly disrupting manufacturing and consumer activity, which will dent near-term growth; China's February manufacturing PMI recorded an all-time low of 35.7. However, it is too early to gauge the full impact of the virus and what further government responses may be.

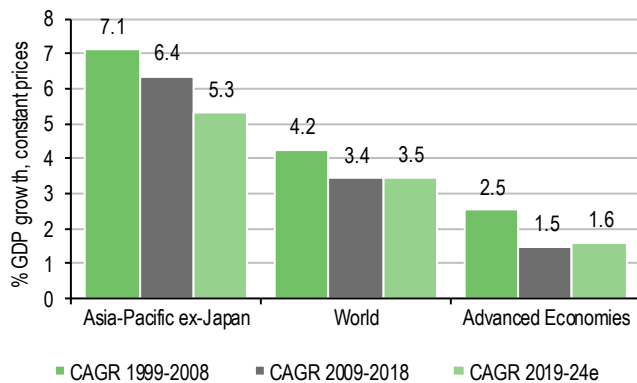
Asia's long-term economic prospects remain bright and, despite current disruptions, it should continue to show faster growth compared to advanced economies. Exhibit 2 (RHS) shows the IMF expects growth in the Asia-Pacific ex-Japan region to be significantly higher than that for advanced economies over the five years between 2019 and 2024. While the absolute figures may be subject to revision in response to the coronavirus and any other economic shocks, the trend for superior Asian growth should remain intact.

**Exhibit 2: Market performance and valuation**

Performance of indices (last five years, in £)



IMF October 2019 World Economic Outlook forecasts



Source: Refinitiv, Edison Investment Research

## Fund profile: Long-term fundamental approach

Launched in 1995, IAT aims to provide long-term capital growth through investing in a well-diversified portfolio of companies listed in Asia. The trust changed its benchmark to the MSCI AC Asia ex-Japan index in 2015 (previously the MSCI Asia Pacific ex-Japan Index) to better reflect its primary focus on Asia and persistently low exposure to Australasia. However, the investment process is not constrained by the benchmark and the manager, Ian Hargreaves, employs a disciplined bottom-up investment process to find companies that are intrinsically undervalued on a long-term horizon of three to five years or more. The portfolio of c 50–70 stocks represents the manager's highest-conviction investment ideas. Gearing is permitted up to 25% of net assets; at end-January 2020, IAT had net gearing of 5.3%.

## The fund manager: Ian Hargreaves

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### The manager's view: Golden opportunities are emerging

Hargreaves had hoped for an Asian economic recovery in 2020 but believes this will be delayed. In his view, the coronavirus is causing a significant demand shock as consumers are forced to stay at home and uncertainty hits sentiment. He also thinks comparisons with the SARS outbreak in 2003 are no longer relevant and the short-term economic impact could be far greater, noting that governments in China and the region have taken a much more draconian approach to containing the virus, while information is widely and often instantly transmitted to consumers. Hargreaves points out that the outbreak has accentuated some existing trends, for example, the shift to online activity and IAT is well positioned to benefit from its overweight exposure to Chinese internet companies. As a patient investor, the manager is looking to 2021 earnings potential and is focused on finding companies that are oversold, which are presenting a golden opportunity for the long term.

## Asset allocation

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### Investment process: Well established and rigorous

The Invesco Asia team consists of six highly experienced fund managers and analysts and Hargreaves has been investing in the region for over 25 years, following a bottom-up approach. There are over 10,000 listed companies in Asia, which are initially screened against size, liquidity and environmental, social and governance criteria. This filter results in an investable universe of c 1,000 companies. The team conducts up to 1,000 company meetings per year and undertakes rigorous fundamental analysis to arrive at a company shortlist of around 100 stocks. Companies are evaluated against numerous factors, including industry dynamics, financial strength and management quality. Particular attention is paid to valuations and Hargreaves looks to buy companies that are trading at a significant discount to their long-term fair value, as he believes that, over time, share prices reflect true fundamentals. Shortlisted companies are ranked by their estimated total return over three years. Portfolio construction reflects the conviction levels behind the individual stocks, but also portfolio diversification and risk considerations.

### Current portfolio positioning

Exhibits 3 and 4 show the portfolio's exposures by country and sector at end-January 2020. Over the past year, IAT's geographic weight has increased most notably to China (+8.5pp). This partly reflects the strong performance of several holdings, in particular, internet names such as Tencent, JD.com and NetEase. Hargreaves has also added a new position in A-share listed Suofeiya Home Collection, which manufactures and sells customised wardrobes and cabinets. The manager explains that new homes in China are mostly sold as a shell, without these items fitted as standard. Furthermore, the industry is very fragmented and Suofeiya is one of the leading players with the automation and scale to benefit from consolidation. The manager observes that China's property completion cycle, which has been weak for the past two years, is due to rise and should support demand for the company's products. Furthermore, the government is encouraging developers to offer basic furnished apartments, which in Hargreave's view could help accelerate market consolidation for furniture companies, favouring players with scale.

IAT's exposure to Taiwan increased by 2.6pp over the past year, partly reflecting strong outperformance from several of its holdings, including Mediatek and TSMC. The manager has also added to existing positions selectively. These included Delta Electronics, a dominant player in power supply technology in the electronics industry. Hargreaves believes the company's expertise

should allow it to capitalise on several exciting high-growth sectors, including industrial automation, 5G mobile technology and electric vehicles.

The manager continues to be positive on the outlook for India despite its economy slowing more severely than expected in 2019. This has presented him with opportunities to invest in several companies at, what he views to be, very attractive valuations. Some of the new Indian portfolio additions over the past 12 months were discussed in our [September 2019](#) review. Hargreaves believes that India's extended credit downcycle is near its trough, and that many policy reforms that depressed growth in the short-term, auger well for the longer-term. These include measures to improve the informal economy, such as de-monetisation and the introduction of a goods and sales tax. Hargreaves has initiated a new position in conglomerate, Larsen & Toubro. He is positive on the outlook for its core engineering and construction businesses (accounting for c 60% of revenues), as he believes the country has underinvested over the past few years and is poised to raise spending in line with nominal GDP growth as a new investment cycle begins. He has high regard for Larsen & Toubro's professional management team and believes the company is well positioned to gain market share as construction activity improves. The manager notes that the company has been investing in IT and financial services businesses, which he thinks have hidden value, yet to be reflected in the company's share price.

<b>Exhibit 3: Portfolio geographic exposure vs benchmark (% unless stated)</b>						
	Portfolio end-January 2020	Portfolio end-January 2019	Change (pp)	Benchmark weight	Active weight vs index (pp)	Trust weight/index weight (x)
China	35.0	26.5	8.5	40.2	(5.2)	0.9
South Korea	17.6	16.5	1.1	13.7	3.9	1.3
Taiwan	14.8	12.2	2.6	13.7	1.1	1.1
India	14.3	15.0	(0.8)	10.6	3.7	1.3
Hong Kong	9.1	16.2	(7.2)	9.8	(0.8)	0.9
Singapore	3.2	2.5	0.6	3.6	(0.5)	0.9
Thailand	2.6	2.5	0.0	2.9	(0.3)	0.9
Australia	1.9	1.7	0.2	0.0	1.9	N/A
Indonesia	1.3	1.5	(0.3)	2.3	(1.1)	0.5
Malaysia	0.4	1.4	(1.0)	2.1	(1.7)	0.2
Japan	0.0	2.8	(2.8)	0.0	0.0	N/A
Philippines	0.0	1.2	(1.2)	1.1	(1.1)	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>		<b>100.0</b>		

Source: Invesco Asia Trust, Edison Investment Research. Note: Rebased for cash/gearing.

<b>Exhibit 4: Portfolio sector exposure vs benchmark (% unless stated)</b>						
	Portfolio end-January 2020	Portfolio end-January 2019	Change (pp)	Benchmark weight	Active weight vs index (pp)	Trust weight/index weight (x)
Financials	30.1	31.1	(1.0)	22.7	7.4	1.3
Information technology	22.4	19.3	3.0	18.9	3.5	1.2
Communications services	14.3	10.9	3.3	14.9	(0.7)	1.0
Consumer discretionary	13.8	12.6	1.2	12.0	1.8	1.2
Industrials	6.8	6.5	0.2	6.6	0.2	1.0
Materials	3.9	6.0	(2.0)	4.2	(0.3)	0.9
Energy	2.4	4.3	(1.9)	3.8	(1.4)	0.6
Real estate	2.0	3.2	(1.2)	5.5	(3.5)	0.4
Healthcare	1.7	2.5	(0.8)	3.1	(1.4)	0.5
Consumer staples	1.9	2.3	(0.5)	5.2	(3.3)	0.4
Utilities	0.8	1.2	(0.4)	3.1	(2.3)	0.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>		<b>100.0</b>		

Source: Invesco Asia Trust, Edison Investment Research. Note: Rebased for cash/gearing.

Recent sales include Hong Kong-listed port operator, Qingdao Port, for which Invesco Fund Managers received an attractive offer for its aggregate holdings from a strategic buyer. IAT also trimmed its holding in Indian-listed HDFC Bank, a long-held position. The manager is cautious the stock could be volatile during a management transition period later this year, when its highly

respected managing director, Aditya Puri, will retire without a successor. Hargreaves, however, continues to believe the company's strong underlying business has excellent prospects and is well placed to benefit from an improvement in the credit cycle.

## Performance: Strong long-term performance

Exhibits 6 and 7 show that IAT has delivered good long-term performance. The trust's NAV total return has meaningfully outperformed its benchmark over five and 10 years, generating annualised gains of 9.1% and 9.9% respectively. The trust has performed largely in line with the benchmark over shorter periods, although the manager has a long-term investment discipline and is not influenced by near-term performance.

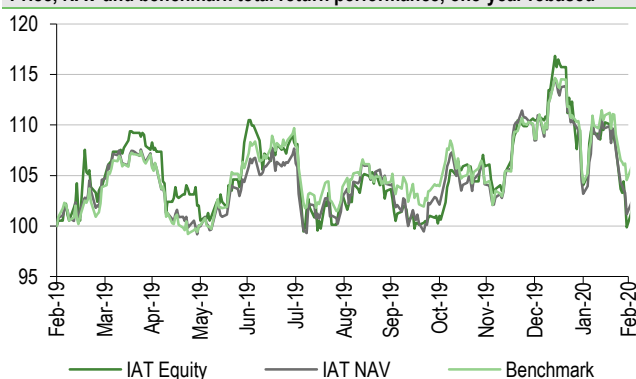
**Exhibit 5: Five-year discrete performance data**

12 months ending	Total share price return (%)	Total NAV return (%)	Benchmark* (%)	MSCI World (%)	FTSE All-Share (%)	MSCI AC Asia ex-Japan (%)
29/02/16	(7.8)	(9.2)	(13.2)	(0.7)	(7.6)	(11.5)
28/02/17	45.8	51.1	42.1	36.6	23.7	42.1
28/02/18	19.4	17.1	19.5	6.6	4.4	19.5
28/02/19	(3.8)	(4.8)	(4.7)	4.6	1.6	(4.7)
29/02/20	(0.1)	1.2	4.6	9.6	(2.1)	4.6

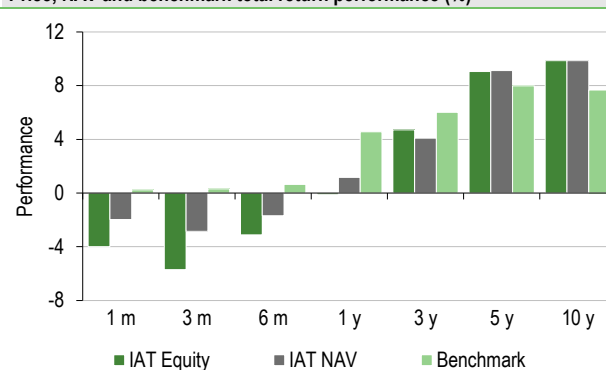
Source: Refinitiv. Note: All % on a total return basis in GBP. \*Benchmark is MSCI AC Asia Pacific ex-Japan until 30 April 2015 and MSCI AC Asia ex-Japan thereafter.

**Exhibit 6: Investment trust performance to 29 February 2020**

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised. Benchmark is MSCI AC Asia Pacific ex-Japan until 30 April 2015 and MSCI AC Asia ex-Japan thereafter.

**Exhibit 7: 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	(4.2)	(6.0)	(3.7)	(4.5)	(3.6)	5.0	22.2
NAV relative to benchmark	(2.2)	(3.1)	(2.3)	(3.2)	(5.3)	5.4	22.1
Price relative to CBOE UK All Companies	5.7	4.2	2.7	2.1	10.5	30.0	32.4
NAV relative to CBOE UK All Companies	7.9	7.4	4.3	3.4	8.6	30.4	32.3

Source: Refinitiv, Edison Investment Research. Note: Data to end-February 2020. Geometric calculation.

**Exhibit 8: NAV total return performance relative to benchmark over three years**



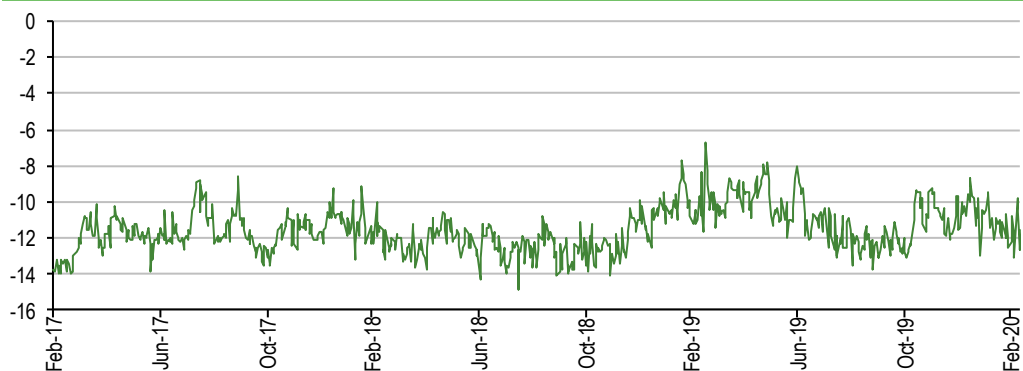
Source: Refinitiv, Edison Investment Research

## Discount: Poor sentiment has hit share price

IAT is currently trading at an 11.5% discount to its cum-income NAV, which is significantly wider than its three-year average of 11.6%. The board considers a discount of less than 10%, in normal market conditions, is desirable. As shown in Exhibit 9, following the introduction of a number of measures to broaden the appeal of the trust, the discount started to narrow from late 2018 and IAT's discount frequently traded below 10% through to mid-2019. However, the US-China trade dispute, political protests in Hong Kong and, more recently, the outbreak of the coronavirus, has significantly dented investor sentiment for Asian equity funds, and the discounts for IAT and its peers have widened.

Changes introduced by the board in late 2018 to help broaden the appeal of the trust, with the aim of reducing the discount, include the introduction of an interim dividend and the ability to use the company's capital reserves if necessary; and a reduction in the management fee for assets above £250m. The board also has the ability (renewed annually) to repurchase up to 14.99% of the trust's share capital.

**Exhibit 9: Share price discount to NAV (including income) over three years (%)**



Source: Refinitiv, Edison Investment Research

## Capital structure and fees

IAT is a conventional investment trust with one class of share; there are currently 66.9m shares in issue and a further 8.1m held in treasury. Since the start of FY20, IAT has repurchased 3.6m shares



at a total cost of £10.1m, representing 5.1% of total shares in issue (0.5m shares were repurchased in FY19). The trust is subject to a continuation vote; the next vote is at the September 2022 AGM.

Gearing is permitted up to 25% of net assets. The trust has a £20m multi-currency revolving credit facility with Bank of New York Mellon and at end-January 2020 it had net gearing of 5.3%. In 2018, the board agreed a new fee structure with Invesco Fund Managers. The annual fee of 0.75% per year continues to apply to assets up to £250m; however, a lower fee of 0.65% per year on assets over £250m was introduced. The fee is paid from the revenue and capital accounts in the proportion of 25:75 respectively, representing the board's expected split of long-term returns from the portfolio.

## Dividend policy and record

IAT's primary objective is to deliver long-term capital growth; however, the underlying portfolio has also consistently delivered good dividend growth. An interim dividend was introduced in FY19 and the board also approved the use of capital reserves when necessary to smooth payments in years when they are not fully covered by revenue income. An FY20 interim dividend of 3.4p has been announced and represents a 21% increase over the previous year, which is all derived from income, reiterating the strong underlying revenue of the portfolio. The board has changed the timing of the dividend payments to align more closely with the receipt of income into the trust. Dividends are now payable in November and April (previously January and September).

## Peer group comparison

Exhibit 10 shows the AIC Asia Pacific sector funds with a market capitalisation greater than £100m. IAT is the smallest among this group. Its NAV total returns over five and 10 years rank fourth and third respectively and are above the peer group average. Performance over the shorter one- and three-year periods lag the peer average, ranking eighth and seventh respectively. IAT has the joint highest dividend yield, and its discount to cum-fair NAV is wider than average; however, discounts have widened across the peer group since the outbreak of the coronavirus, reflecting generally weak sentiment for Asian equities.

**Exhibit 10: Selected peer group as at 13 March 2020\***

% 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	Net gearing	Dividend yield (%)
Invesco Asia	160.4	(11.7)	(1.0)	36.1	115.3	(8.1)	1.0	No	105	2.4
Aberdeen New Dawn	240.7	(5.0)	7.0	28.7	88.8	(9.9)	0.9	No	112	2.0
Asia Dragon	459.1	(2.4)	10.6	33.9	99.1	(8.4)	0.8	No	104	1.3
Pacific Assets	278.2	(9.8)	3.6	27.3	125.7	(7.0)	1.2	No	100	1.3
Pacific Horizon	174.6	(3.5)	18.7	46.7	98.2	(3.4)	1.0	No	109	0.0
Schroder Asian Total Return	301.5	(7.0)	11.9	47.3	91.8	0.7	0.9	Yes	106	2.0
Schroder AsiaPacific	671.6	(5.4)	10.7	45.6	147.1	(4.0)	0.9	No	100	2.4
Witan Pacific	183.7	(8.2)	(4.0)	21.8	70.6	(3.6)	1.0	Yes	100	2.3
<b>Average</b>	<b>308.7</b>	<b>(6.6)</b>	<b>7.2</b>	<b>35.9</b>	<b>104.6</b>	<b>(5.4)</b>	<b>1.0</b>		<b>104</b>	<b>1.7</b>
<b>Trust rank in sector (8 funds)</b>	<b>8</b>	<b>8</b>	<b>7</b>	<b>4</b>	<b>3</b>	<b>6</b>	<b>4</b>		<b>4</b>	<b>2</b>

Source: Morningstar, Edison Investment Research. Note: \*Performance data to 12 March 2020. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

## The board

The IAT board consists of five independent non-executive directors, chaired by Neil Rogan (appointed in September 2017 and assumed his current role in July 2018). Vanessa Donegan was



appointed to the board with effect from October 2019, bringing 37 years' experience of managing Asian equity portfolios. She will replace Tom Maier who will retire this year after 11 years on the board. The other directors are Owen Jonathan (appointed March 2013 and became senior independent director in July 2018) and Fleur Meijs (December 2016).

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