EDISON

Invesco Asia Trust

Disciplined Asia specialist, solid long-term returns

Investment trusts

Invesco Asia Trust (IAT) aims to provide significant capital returns over the long-term through investing in listed companies in Asia. It follows a rigorous bottom-up investment process with few constraints, to build a relatively concentrated 50–70 stock portfolio representing the manager's highest-conviction ideas over a three- to five-year horizon. The approach also emphasises the valuation discipline and favours cash-generative companies, which is reflected in the underlying portfolio yield of c 3%. IAT has increased its annual dividend in seven out of the past 10 years and over that time has delivered an annualised NAV total return of c 16%.

12 months ending	Share price (%)	NAV (%)	Benchmark* (%)	MSCI World (%)	FTSE All-Share (%)
28/02/15	25.2	25.5	18.0	17.6	5.6
29/02/16	(7.8)	(9.2)	(13.2)	(0.7)	(7.3)
28/02/17	45.8	51.1	42.1	36.6	22.8
28/02/18	19.4	17.1	19.5	6.6	4.4
28/02/19	(3.8)	(4.8)	(4.7)	4.6	1.7

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.

The market opportunity

The MSCI AC Asia ex-Japan index has risen c 10% since the beginning of the year. Coupled with moderating earnings expectations, P/E valuations have returned to their long-term averages, although Asian equities are trading at a 9% discount to global equities. Economic growth in the region is expected to significantly outpace that of the global economy, which should underpin its medium- to long-term investment prospects. In the near term, the direction of equity markets is likely to be influenced by geopolitical developments, such as the US-China trade dispute.

Why invest in Invesco Asia Trust?

- Well-established trust, investing in Asia since 1995, managed by an experienced and stable team, led by Ian Hargreaves.
- Strong long-term performance track record.
- Tried and tested rigorous bottom-up investment approach.
- Flexible mandate allows the manager to focus on his highest-conviction ideas.
- Proactive board, committed to managing the discount.

Scope for discount to narrow

IAT is trading on a discount to ex-income NAV of 4.8%, which is below the three-year average of 10.6%. The board has a proactive approach to managing the discount and, under the new chairman Neil Rogan, has recently taken measures to broaden the trust's appeal. These include the introduction of an interim dividend (2.8p per share) and a tiered fee structure, reducing the fee for assets over £250m. The board also aims to raise the trust's profile, including increased direct engagement with individual investors. These efforts could help narrow the trust's discount.

19 March 2019

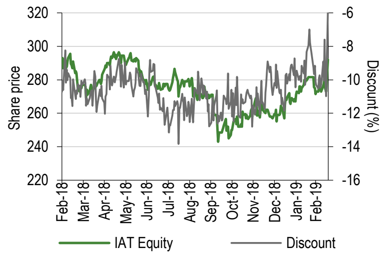
Price	**292.0p**
Market cap	**£205.8m**
AUM	**£225.8m**

NAV*	306.7p
Discount to NAV	4.8%
NAV**	309.1p
Discount to NAV	5.5%

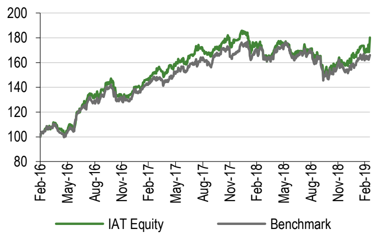
*Excluding income. **Including income. As at 15 March 2019.

Yield (based on FY18 dividend)	1.9%
Ordinary shares in issue	70.5m
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	296.5p	243.0p
NAV** high/low	335.4p	281.0p

**Including income.

Gearing

Gross*	2.9%
Net*	2.9%

*As at 31 January 2019.

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Edison profile page

Invesco Asia Trust is a research client of Edison Investment Research Limited

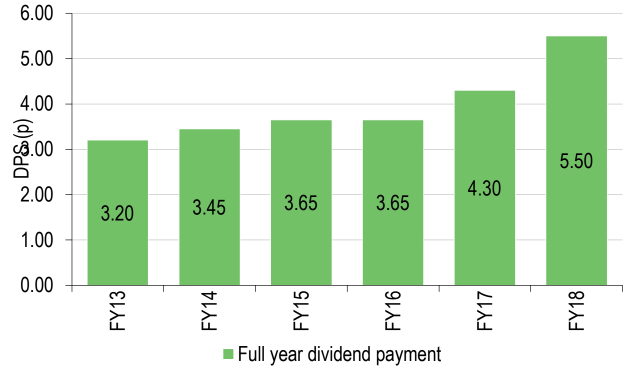
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
IAT'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.	■ 17 December 2018: interim report for six months ending 31 October 2018. NAV TR -10.5% versus benchmark TR -11.0%. Share price TR -10.8%. ■ 17 December 2018: declaration of first interim dividend of 2.8p per share. ■ 31 July 2018: Carol Ferguson retired as chairman and was replaced by Neil Rogan at AGM. ■ 28 June 2018: annual report for 12 months ending 30 April 2018. NAV TR +14.5% versus benchmark TR +16.8%. Share price TR +13.0%.

Forthcoming		Capital structure		Fund details	
AGM	September 2019	Ongoing charges	0.97% (January 2019)	Group	Invesco Asset Management
Interim results	June 2019	Net gearing	2.9%	Manager	Ian Hargreaves
Year end	30 April	Annual mgmt fee	Tiered (see page 7)	Address	125 London Wall
Dividend paid	January, August	Performance fee	None		London EC2Y 5AS
Launch date	July 1995	Trust life	Indefinite	Phone	+44 (0)20 3753 1000
Continuation vote	Three-yearly, next in 2019	Loan facilities	£20m multi-currency	Website	www.invesco.co.uk

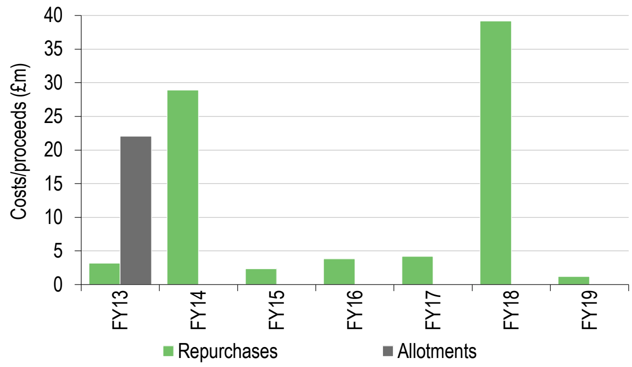
Dividend policy and history (financial years)

An interim dividend was introduced in FY19, payable in January. Previously, dividends were paid annually in August.

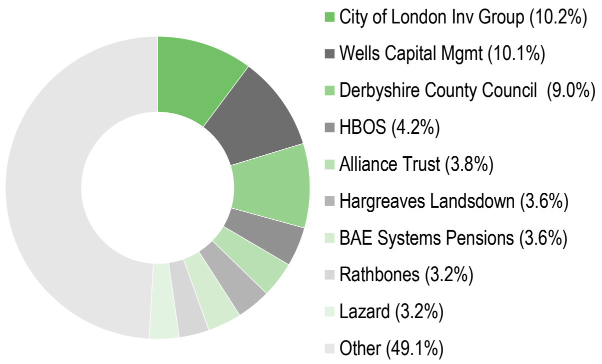


Share buyback policy and history (financial years)

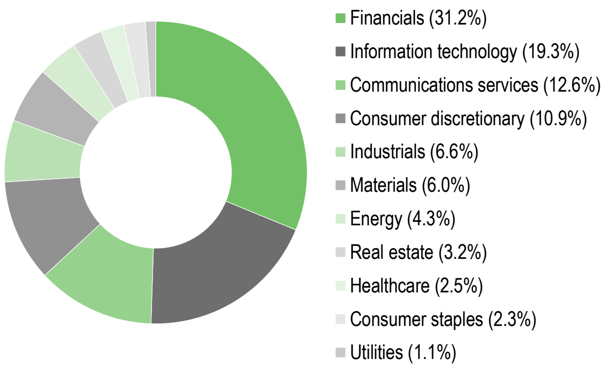
Renewed annually, the trust has authority to purchase up to 14.99% and allot up to 5% of issued share capital. Repurchases include tender offers.



Shareholder base (as at 1 March 2019)



Portfolio exposure by sector (as at 31 January 2019, ex-cash)



Top 10 holdings (as at 31 January 2019)

			Portfolio weight %	
Company	**Country**	**Sector**	**31 January 2019**	**31 January 2018***
Samsung Electronics	South Korea	Technology hardware & equipment	6.2	5.8
Tencent	Hong Kong	Software & services	4.1	3.0
HDFC Bank	India	Banks	3.7	3.5
TSMC	Taiwan	Semiconductors & semiconductor equipment	3.6	3.6
ICBC	China	Banks	3.5	2.9
AIA	Hong Kong	Insurance	3.2	3.4
Baidu (ADR)	China	Software & services	2.8	3.5
MediaTek	Taiwan	Semiconductors & semiconductor equipment	2.7	N/A
Hyundai Motor (preference shares)	South Korea	Automobiles	2.7	2.9
ICICI Bank	India	Banks	2.7	2.9
Top 10			**35.2**	**35.2**

Source: Invesco Asia Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-January 2018 top 10.

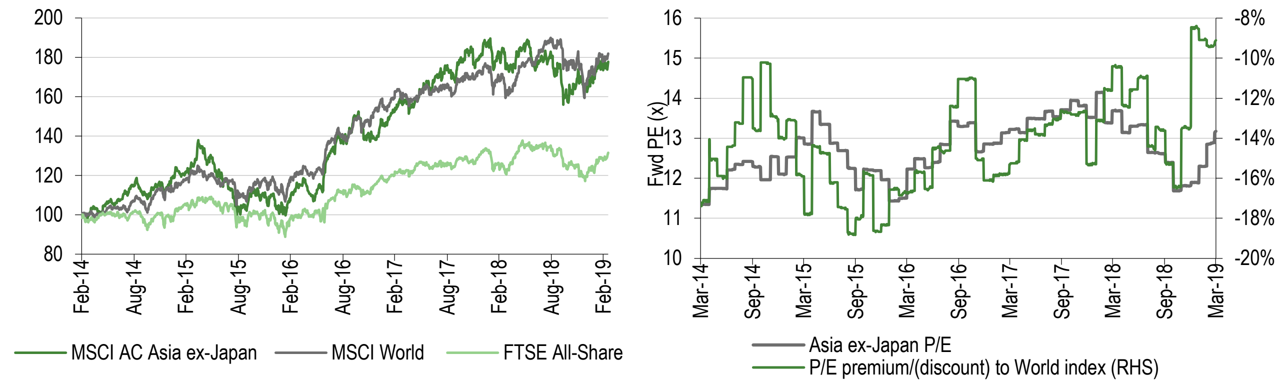
Market outlook: Influenced by geopolitical factors

Investor sentiment towards Asian equities turned more cautious in early 2018, as central banks started to reverse quantitative easing, signalling less favourable liquidity conditions and higher interest rates. Geopolitical developments also amplified risks for equity markets. These include an ongoing US-China trade dispute and political impasse in the US, which led to a government shutdown. The trade dispute has taken a toll on global economic growth, most notably in China where growth was already moderating in response to the government's de-leveraging policy. Prospects for slowing growth in the US are also exacerbated by the waning effects of its 2018 tax cuts.

Since the beginning of 2019, however, there has been a reversal of several headwinds: the US Federal Reserve signalled that interest rate rises are on hold for the time being; the Chinese government announced policies to stimulate the economy; and the US and China governments appear to be trying to avert a further escalation of tariffs. In response, as shown in Exhibit 2 (LHS), Asian equities have rebounded and the MSCI AC Asia ex-Japan index is up c 10% year-to-date (compared with the 14.4% decline in 2018). Earnings growth expectations have been revised down to less ambitious single-digit levels resulting in the region's P/E ratio at around its 10-year average, but still at a 9% discount to global equities. However, the medium-term economic GDP growth outlook for Asia ex-Japan is superior to that for the global economy. The IMF forecasts compound annual growth over 2018–2023 of 5.7% for Asia ex-Japan, which compares very favourably to 3.6% forecast for the world and 1.8% for advanced economies. However, the direction of Asian equities over the near term is likely to continue to be influenced by geopolitical developments.

Exhibit 2: Market performance and valuation

Performance of indices (last five years, all in £) | **DS Asia ex-Japan vs DS World valuation comparison**



Source: Refinitiv, Edison Investment Research. Note: Valuation data as at 18 March 2019.

Fund profile: Disciplined Asian equity specialist

IAT was launched in 1995 and its objective is to provide long-term capital growth by investing in a diversified portfolio of companies based in Asia. The trust changed its benchmark from the MSCI Asia Pacific ex-Japan index to the MSCI AC Asia ex-Japan index in May 2105 to better reflect its primary focus on Asia and habitual low exposure to Australasia. Fund manager Ian Hargreaves follows a bottom-up investment approach with particular emphasis on valuation discipline, strong company balance sheets and a long-term investment horizon of three to five years or more. Although capital growth is the trust's primary objective, the portfolio has a good underlying yield of c 3%, which supports its ability to pay dividends. The board recently introduced an interim dividend (2.8p per share for the six months to end-October 2018), which it expects to represent around half of the full-year distribution.

The fund manager: Ian Hargreaves

The manager's view: Asia relatively attractive

Hargreaves believes Asian equities are no longer cheap, having rebounded since the beginning of the year from depressed levels in late 2018. He notes that global growth is slowing and this will have an impact on Asia, which is sensitive to exports and global demand. The manager believes the ongoing US-China trade dispute is reflected in equity values; however, there is scope for positive surprise if a resolution is reached and if recently imposed tariffs can be removed. Downward earnings revisions are welcome, to bring investors' expectations to more realistic levels, and Hargreaves would turn more confident on the prospects for Asian equities with signs of this trend bottoming. Meanwhile, although the region looks fairly valued relative to its own history, the manager thinks it is attractively valued compared to most other major equity markets. This is particularly the case when considering the relative health of Asia's corporates. Hargreaves has observed that, since the global financial crisis, Asian companies in general are more conservatively managed; capital expenditure to sales has been falling and free cash flow generation has improved. These trends underpin scope for improving dividend growth in the region over the medium term.

Asset allocation

Investment process: Fundamental, focused on valuation

Hargreaves, supported by a team of six fund managers and analysts, follows a fundamental investment approach, unconstrained by benchmark considerations. The universe of listed companies in Asia comprises over 10,000 companies. By applying a proprietary screen, which filters by size, liquidity and environmental, social and governance factors, the investible universe is whittled down to around 1,000 companies. Visiting businesses and performing rigorous bottom-up analysis are important elements of the investment process and particular attention is paid to valuation. Hargreaves looks to buy companies trading at a significant discount to the team's estimate of fair value and he is comfortable being contrarian, investing in stocks that are unloved by the market. The team targets double-digit annualised total returns for each stock that it invests in and maintains a company shortlist of around 100 stocks, ranked by estimated annual total return over the next three years. Stock selection is the primary driver for portfolio construction and the relatively concentrated portfolio of 50–70 stocks represents the manager's highest-conviction investment ideas. However, top-down macroeconomic analysis and the need to ensure diversification also influence country and sector weights.

Current portfolio positioning

Exhibits 3 and 4 show IAT's end-January 2019 exposures by sector and geography respectively. There is a higher weighting in financials compared to 12 months ago (4.6pp). In China, the manager purchased life insurer China Pacific, where he believes the quality of the business is improving, shifting from lower-margin savings products to higher margin and longer duration products, such as critical illness. Hargreaves believes this trend should continue, reflecting an increasing awareness of the low provision of state social security. Furthermore, he thinks the shares at purchases were attractively valued, trading at around half the embedded value of the company with little ascribed to its ability to grow new business. In India, the manager added to ICICI Bank as he gained confidence in new management and in the country's improving credit quality cycle, where bad loans had impeded profitability over the past several years. The financials exposure was also increased in Thailand through the purchase of Kasikornbank and additions to the holding in Bangkok Bank. Hargreaves views Thailand's credit cycle favourably. Household debt has been falling from unsustainably high levels over the past few years and the economy's cyclical recovery is continuing, having been interrupted by unusually depressed activity during the 12-month mourning period for the late King Bhumibol, which ended in Q417.

Exhibit 3 shows a 9.4pp increase in communications services and a 10pp reduction in information technology over the year to end-January 2019. However, this largely reflects MSCI's industry sector changes in September 2018, which expanded the previously named telecommunications sector to communications services and now includes some stocks that were previously classified as information technology companies. These large shifts in the portfolio mainly reflect reclassifications for China internet stocks Tencent, NetEase and Baidu, which are now in the communications services sector.

Shifts in country weights over the past year were relatively modest. South Korea was reduced by 3.2pp, partly reflecting relative performance, but also the sale of Hyundai Home Shopping, which disappointed investors with poor capital allocation decisions, ultimately leading to the manager's loss of confidence in the company's management.

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

	Portfolio end-January 2019	Portfolio end-January 2018	Change (pp)	Benchmark weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Financials	31.2	27.6	3.6	23.8	7.3	1.3
Information technology	19.3	29.3	(10.0)	16.7	2.6	1.2
Communications services	12.6	3.2	9.4	12.9	(0.3)	1.0
Consumer discretionary	10.9	11.4	(0.4)	12.8	(1.8)	0.9
Industrials	6.6	10.2	(3.6)	6.9	(0.3)	1.0
Materials	6.0	5.2	0.7	4.7	1.3	1.3
Energy	4.3	4.8	(0.6)	4.7	(0.4)	0.9
Real estate	3.2	3.5	(0.2)	6.5	(3.2)	0.5
Healthcare	2.5	1.3	1.2	2.9	(0.4)	0.9
Consumer staples	2.3	1.9	0.5	4.9	(2.6)	0.5
Utilities	1.1	1.7	(0.6)	3.3	(2.2)	0.3
Total	**100.0**	**100.0**		**100.0**		

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

Exhibit 4: Portfolio geographic exposure vs benchmark (% unless stated)

	Portfolio end-January 2019	Portfolio end-January 2018	Change (pp)	Benchmark weight	Active weight vs index (pp)	Trust weight/ index weight (x)
China	27.1	27.5	(0.4)	36.2	(9.1)	0.7
South Korea	16.5	19.7	(3.2)	16.3	0.2	1.0
Hong Kong	15.5	15.1	0.4	11.7	3.8	1.3
India	15.0	13.3	1.7	9.9	5.1	1.5
Taiwan	12.2	12.2	(0.0)	12.4	(0.2)	1.0
Japan	2.8	3.3	(0.5)	0.0	2.8	N/A
Singapore	2.5	2.1	0.4	4.0	(1.5)	0.6
Thailand	2.5	1.4	1.1	2.9	(0.3)	0.9
Australia	1.7	2.1	(0.4)	0.0	1.7	N/A
Indonesia	1.6	1.1	0.5	2.7	(1.1)	0.6
Malaysia	1.4	1.0	0.4	2.7	(1.2)	0.5
Philippines	1.2	1.2	0.0	1.3	(0.1)	0.9
Pakistan	0.0	0.0	0.0	0.0	(0.0)	0.0
Total	**100.0**	**100.0**		**100.0**		

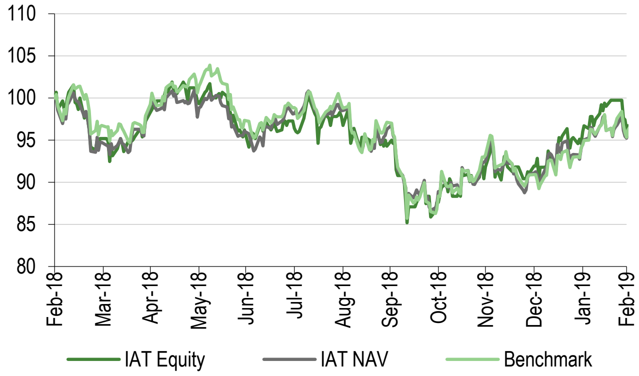
Source: Invesco Asia Trust, Edison Investment Research. Note: Rebased for cash/gearing.

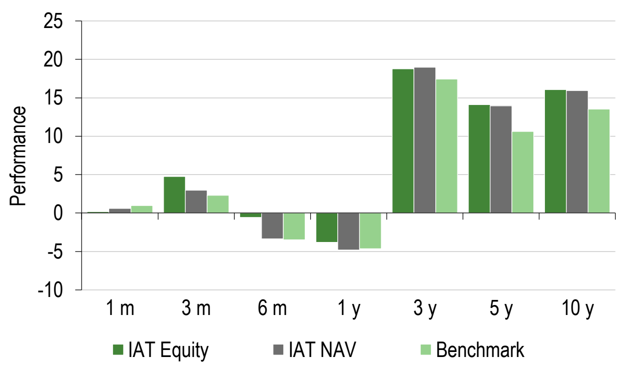
Performance: Solid long-term track record

As shown in Exhibit 6, IAT's share price and NAV total returns performance have outperformed the benchmark over three, five and 10 years, while the outperformance against the FTSE All Share index is particularly meaningful over these periods. Over shorter periods, the NAV total return has been broadly in line with the index; however, the manager focuses on long-term capital gains over a three- to five-year horizon and is not influenced by shorter-term performance considerations.

Exhibit 5: Investment trust performance to 28 February 2019

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





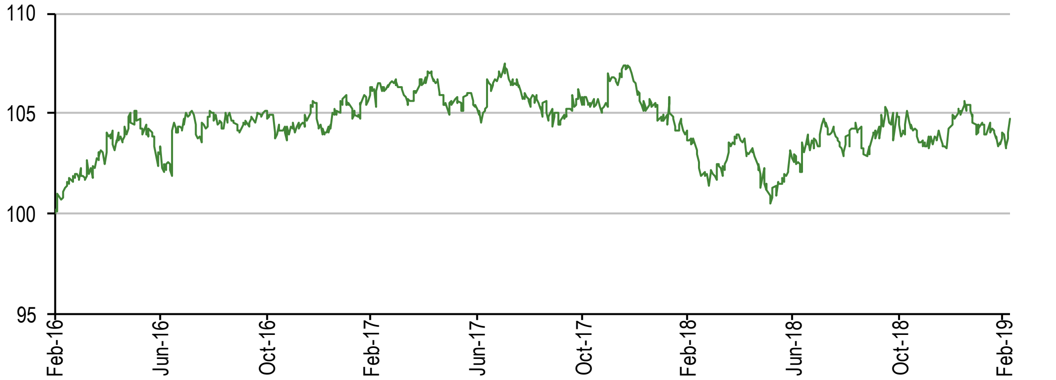
Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised. Benchmark is MSCI AC Asia Pacific ex-Japan until 30 April 2015 and MSCI AC Asia ex-Japan thereafter.

Exhibit 6: 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	(0.8)	2.4	3.0	0.9	3.5	16.7	24.9
NAV relative to benchmark	(0.4)	0.6	0.1	(0.1)	4.0	15.9	23.6
Price relative to FTSE All Share	(2.1)	2.1	3.2	(5.4)	28.4	51.5	53.8
NAV relative to FTSE All Share	(1.7)	0.4	0.3	(6.4)	29.1	50.5	52.2

Source: Refinitiv, Edison Investment Research. Note: Data to end-February 2019. Geometric calculation.

Exhibit 7: NAV total return performance relative to benchmark over three years

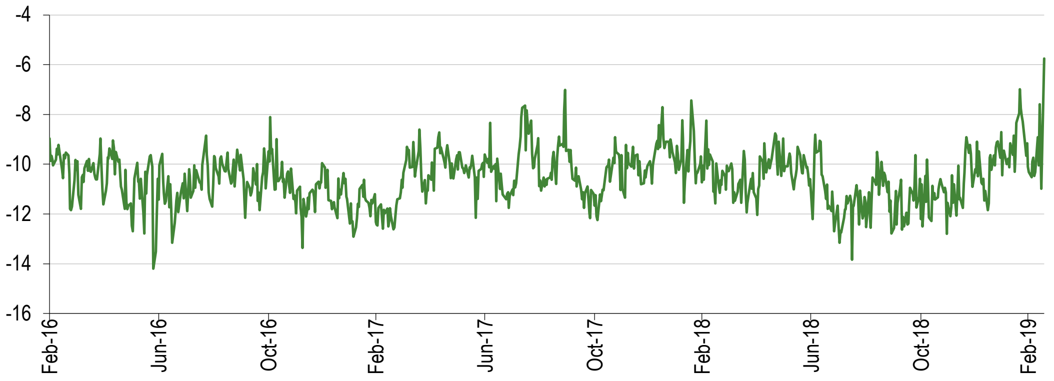


Source: Refinitiv, Edison Investment Research

Discount: Proactive board aiming to narrow discount

IAT trades at a 4.8% discount to ex-income NAV, which is below the three-year average of 10.6%. The board considers, on average, a discount of less than 10%, in normal market conditions is desirable. Renewed annually, it has the ability to repurchase up to 14.99% of share capital; however, share buybacks will only be undertaken when the board considers them to be effective, taking into account market factors and the discounts of comparable funds. Under the new chairman, Neil Rogan, the board has adopted several measures aimed to help create additional demand for IAT's shares and reduce the discount. These include the payment of an interim dividend, the introduction of a tiered fee structure, which would reduce the management fee for assets over £250m (see page 7), and increased engagement with individual investors including greater access to Hargreaves and the trust's directors.

Exhibit 8: Share price discount to NAV (excluding income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

IAT is a conventional investment trust with one class of share. During FY18, the board conducted a tender offer for 15% of ordinary shares, which resulted in the repurchase and cancellation of 12.5m shares at a cost of £39.5m. Smaller discretionary repurchases have taken place during FY19 (0.5m shares at a cost of £1.2m) leaving 70.5m ordinary shares in issue and 4.5m held in treasury. The trust is subject to a three-yearly continuation vote and the next is due at the September 2019 AGM.

Gearing is permitted up to 25% of net assets and IAT has a £20m multi-currency revolving credit facility with The Bank of New York Mellon. As at 31 January 2019, the trust had net gearing of 2.9%. The board has recently agreed a tiered fee structure with Invesco Fund managers. It will continue to pay an annual management fee of 0.75% of NAV for assets up to £250m, with a reduced fee of 0.65% pa on assets over £250m. The fee is split 25:75 between the revenue and capital accounts. As at end-January 2019, the ongoing charge was 0.97% (0.99% as at end-FY18).

Dividend policy and record

IAT's primary objective is to deliver long-term capital growth; however, the trust has also increased the annual dividend in seven of the past 10 years, with unchanged payments in the other three. The board aims to increase the dividend each year, using revenue reserves and, if necessary, capital reserves to smooth dividend payments in years when they are not fully covered by revenue. It recently announced the introduction of an interim dividend (2.8p for the six months to end-October 2018) and expects this to represent around half of the full-year dividend. This would suggest a prospective yield of 1.9% (in FY18, IAT paid an annual dividend of 5.5p per share).

Peer group comparison

IAT is a member of the AIC Asia Pacific ex-Japan sector and Exhibit 9 shows a selected peer group of 12 funds (excluding those with income focused mandates and a smaller trust with a shorter performance track record). The trust's NAV total return is above average over three, five and 10 years, ranking fifth, fourth and sixth respectively, while trailing the mean over one year. IAT is one of the smaller funds (ranking 10th) and its ongoing charge, ranking seventh, is in line with the peer average; however, it does not charge a performance fee. The dividend yield ranks fourth, reflecting the trust's good underlying income from portfolio holdings. IAT's discount to NAV is narrower than average, ranking seventh out of 12.

Exhibit 9: Selected peer group as at 18 March 2019*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Invesco Asia Trust	205.8	(2.9)	60.6	96.7	324.5	(6.8)	1.0	No	103	1.9
Aberdeen Standard Asia Focus	359.0	(0.3)	37.9	47.7	431.8	(12.9)	1.2	No	110	1.3
Aberdeen New Dawn	262.1	(2.7)	60.1	61.8	291.6	(12.4)	0.8	No	110	1.8
Edinburgh Dragon	487.7	(1.8)	56.1	67.4	264.6	(11.6)	0.8	No	104	1.1
Fidelity Asian Values	300.6	3.2	48.8	90.9	332.6	2.3	1.2	No	100	1.3
JPMorgan Asian	337.8	(1.5)	77.5	100.8	236.7	(8.4)	0.7	No	100	4.5
Martin Currie Asia Unconstrained	135.3	(1.8)	48.2	60.7	153.8	(12.5)	1.1	No	101	4.4
Pacific Assets	343.8	8.2	49.4	90.7	328.5	(0.5)	1.3	No	100	0.9
Pacific Horizon	195.7	(13.5)	69.4	79.2	269.4	2.7	1.0	No	105	0.2
Schroder Asia Pacific	733.5	(6.9)	65.7	98.5	369.1	(9.4)	0.9	No	100	2.2
Schroder Asian TR Inv. Company	321.6	(4.3)	61.7	101.1	287.1	0.4	1.0	Yes	103	1.4
Scottish Oriental Smaller Cos	295.5	(1.0)	33.5	50.5	423.0	(12.4)	1.0	Yes	100	1.2
Average	**331.5**	**(2.1)**	**55.7**	**78.8**	**309.4**	**(6.8)**	**1.0**		**103**	**1.8**
Trust rank in sector (12 funds)	**10**	**9**	**5**	**4**	**6**	**5**	**7**		**5**	**4**

Source: Morningstar, Edison Investment Research. Note: *Performance data to 15 March 2019. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

IAT's board consists of four independent non-executive directors. Chairman Neil Rogan was appointed in September 2017 (following Carol Ferguson's retirement in July 2018 after nine years of service). In alignment with the new Financial Reporting Council UK Corporate Governance Code, the trust appointed its first senior independent director, Owen Jonathan (who joined the board in March 2013), while the chairman has stepped down from the audit and remuneration committees. He will also serve a maximum term of nine years, ending no later than the AGM in 2026. The other directors are Tom Maier (appointed in March 2009) and Fleur Meijs (appointed in December 2016).