Quarterly Update

Invesco Asia Trust Plc

July 2019 (covering the 3 months ending 30 June 2019)

This document is for Professional Clients only and is not for consumer use.

Market & economic review

Asian equity markets ended the three months to 30 June 2019 slightly higher, in sterling terms. US-China trade turbulence continued to sway investor confidence, and markets rebounded in June on renewed confidence of a breakthrough in trade talks ahead of a meeting between Presidents Trump and Xi at the G-20 summit in Osaka, Japan. The meeting concluded with an announcement that the two sides would resume negotiations while the US promised to temporarily halt imposing new tariffs on Chinese imports and to lower some restrictions on Chinese technology giant Huawei. China, in turn, agreed to increase its purchase of US food and agricultural products. This was in marked contrast to the market slide triggered by the Trump administration's raising of tariffs on US$200bn of China imports in May. Market sentiment was further buoyed towards the end of the quarter by indications from the US Federal Reserve that it would consider interest rate cuts as the global economic outlook remains opaque given weaker data and the net negative impact of ongoing trade tensions. Elsewhere, Indian equities ended the period higher off a mid-May rally on the back of the ruling Bharatiya Janata Party's (BJP) return to power.

Performance review

Over the first quarter the investment trust returned 1.1% (£, NAV Total Return), compared with the reference MSCI All Countries Asia ex-Japan Index, which returned 1.8% (£, Total Return).

Performance to 30 June 2019 (% growth)*

	Share price	NAV	Index	Diff.
2018	-10.5	-11.5	-8.8	-2.7
2017	32.8	32.7	29.8	2.9
2016	28.8	29.1	26.2	2.9
2015	-0.3	-0.2	-5.3	5.0
2014	16.8	16.6	9.5	7.1
3 months	4.3	1.1	1.8	-0.7
6 months	13.3	10.4	10.9	-0.5
1 year	8.3	3.1	3.6	-0.5
3 years	54.7	45.1	46.8	-1.7
5 years	91.1	82.6	65.3	17.3

Standardised rolling 12-month performance (% growth)*

	30.6.14 30.6.15	30.6.15 30.6.16	30.6.16 30.6.17	30.6.17 30.6.18	30.6.18 30.6.19
Share price	15.8	6.7	36.1	5.0	8.3
NAV	13.7	10.6	32.5	6.2	3.1
Index	8.4	3.9	30.8	8.4	3.6

This information is updated on a calendar quarterly basis. Up-to-date information is available on our website www.invesco.co.uk

Past performance is not a guide to future returns

Portfolio performance over the second quarter was positive but just below that of the reference index. Our exposure to selected Indian financials contributed positively, with ICICI Bank outperforming thanks to an improvement in its earnings visibility as core profitability recovers. HDFC Bank was also a leading contributor over the period, supported by steady earnings growth and improved cost controls. Our holding in Hyundai Motor added value following the Korean carmaker's successful launch of new SUV models that are expected to help drive an earnings recovery.

Exposure to selected Taiwanese tech companies benefited, including Mediatek which was buoyed by news of sooner-than-expected 5G product launches. It is also seen as a potential beneficiary of the Huawei situation. Meanwhile, our holding in Qingdao Port International contributed to performance over the quarter after making strong gains as the trade outlook improved towards the end of the period.

Lead detractors to relative performance included Aurobindo Pharma, after a period of outperformance amidst USFDA concerns surrounding one of its manufacturing facilities, which we believe are overdone. Elsewhere, Samsonite detracted on weak first quarter earnings reflecting the impact of US-China trade issues on sales.

Stock selection in China negatively affected relative performance. The contribution from Chinese internet companies was mixed, with JD.com and NetEase adding value, while BitAuto and Baidu detracted. Other detractors included: China BlueChemical which underperformed amidst weaker product prices and selling pressure after the company had paid its dividend; and Dongfeng Motor as the Chinese auto sector continued to suffer from slowing sales while the roll out of new emission standards further dampened investor sentiment.

Attribution - sector & stock level (%)*

Sector		Stock	
Top five			
Banks	0.9	ICICI Bank	0.3
Real Estate Management & Develop	0.3	Hyundai Motor	0.3
Semiconductors & Semiconductor E	0.3	HDFC Bank	0.3
Internet & Direct Marketing Retail	0.2	Mediatek	0.3
Transportation Infrastructure	0.2	Qingdao Port	0.2
Bottom five			
Pharmaceuticals	-0.4	Aurobindo Pharma	-0.6
Textiles, Apparel & Luxury Goods	-0.4	Samsonite	-0.4
Interactive Media & Services	-0.4	Baidu	-0.3
Tobacco	-0.2	BAT	-0.3
Machinery	-0.2	Bitauto	-0.2

Attribution measures the relative outperformance or underperformance of sectors and stocks in the fund compared to benchmark holdings, including the relative impact of benchmark holdings that are not held in the portfolio. Three-month figures.

Outlook

Markets rebounded in June on news that the US and China would return to the negotiating table. While the resumption of talks was market-positive, uncertainty is still likely to linger given the seesaw nature negotiations have taken over recent months. However, global central banks' softer policy stance and a more pro-growth Chinese government position should continue to offer some support to regional markets. While valuations are currently less attractive than they were at the start of the year, in terms of price/book the broader market continues to trade below its long-term historic average. Consensus earnings growth estimates for 2019 have been revised down to around 3%, and there could be more cuts to come. Although there are ongoing concerns over trade tensions and the health of the global economy, Asia remains the biggest driver of global growth, with solid economic and corporate fundamentals. In particular, we believe there is an impressive trend of greater capital discipline being displayed by companies across the region, with strong balance sheets and improving free cash flow generation.

Strategy

We seek to invest in undervalued companies from across the region. In terms of sector exposure, financials remains the portfolio's biggest overweight position, given what we consider to be improved fundamentals at selected banks and insurers. We also continue to have significant exposure to dominant, highly cash generative Korean, Taiwanese and Indian technology companies, while selected Chinese internet companies also feature amongst the largest holdings.

Although the portfolio remains underweight in China relative to the reference index, we still view it as a valuable source of opportunity. Over the period we introduced Huayu Automotive, an auto parts maker that has seen its valuation fall in line with other Chinese auto firms on weakening domestic demand, but

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we believe it has an opportunity to take market share from foreign competitors and use its strong balance sheet more efficiently. We also added to our holding in Dongfeng Motor. The car manufacturer has grown its earnings at a 14% CAGR over the last decade and trades on a valuation that implies negative growth.

Furthermore, we added to our holding in Bitauto. The company has struggled with uncertainty over the value of its stake in auto finance company Yixin Capital and limited visibility in the loan facilitation business. However, we get Bitauto's core advertising and subscription business for free if we extract its cash and apply a 20% discount to its 44% stake in Yixin. In our view, this gives significant upside, albeit with some uncertainty.

Finally, we took some profits from a number of outperformers over the period, including UPL and JD.com, and sold our position in Filinvest Land.

Sector breakdown (%)*			
Most overweight	**Fund**	**Ref. Index**	**Active**
Banks	23.0	15.2	7.8
Insurance	10.7	6.4	4.2
Automobiles & Components	4.9	2.8	2.1
Technology Hardware & Equipment	10.0	8.2	1.9
Transportation	3.3	1.9	1.4
Most underweight			
Real Estate	2.4	6.4	-4.0
Diversified Financials	0.0	2.7	-2.7
Telecommunication Services	1.6	4.2	-2.6
Utilities	0.8	3.3	-2.5
Consumer Services	0.0	2.3	-2.3

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

The product invests in emerging and developing markets, where difficulties in relation to market liquidity, dealing, settlement and custody problems could arise.

The product uses derivatives for efficient portfolio management which may result in increased volatility in the NAV.

The use of borrowings may increase the volatility of the NAV and may reduce returns when asset values fall.

Important information

*All data is as at 30 June 2019, sourced from Invesco unless otherwise stated. Performance figures are shown in Sterling. Ordinary share price performance figures have been calculated using daily closing prices with dividends reinvested. NAV performance figures have been calculated using daily NAV with dividends reinvested. The NAV used includes current period revenue and values debt at fair. The benchmark index for this investment trust changed on 1 May 2015 from the MSCI AC Asia Pacific ex Japan to the MSCI AC Asia ex Japan (both indices total return in sterling terms). The benchmark performance in the table shows the returns of the former index for periods prior to 1 May 2015.

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Where individuals or the business have expressed opinions, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice.

For more information on our products, please refer to the relevant Key Information Document (KID), Alternative Investment Fund Managers Directive document (AIFMD), and the latest Annual or Half-Yearly Financial Reports. This information is available using the contact details shown.

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