EDISON

Schroder AsiaPacific Fund

Initiation of coverage

Successfully selecting winners across Asia

Schroder AsiaPacific Fund (SDP) invests in companies located and trading primarily in China, South Korea, Taiwan, India and South-East Asia. SDP recently celebrated its 25-year anniversary and was managed by Mathew Dobbs from inception until his retirement in March 2021. However, its new manager, Richard Sennitt, worked closely with Dobbs for 13 years and will maintain the same investment strategy and process: a bottom-up, stock-picking investment approach, which aims to achieve growth in excess of its benchmark, the MSCI All Countries Asia (ex-Japan). While recent performance has been undermined by events in China, it has achieved its investment objective; annual returns have averaged 12.5% a year over the past 10 years, compared to an index return of 9.5% on the same basis. SDP's long-term track record is testament to the strength of the fund's investment process and research resources, and the manager's superior stock selection skills.

NAV total return performance relative to MSCI AC Asia ex Japan Index

Source: Refinitiv, Edison Investment Research. Note: Total returns in sterling.

The analyst's view

Growth in the Asian region is forecast to rebound more strongly than in developed markets, led by India and China (see the Market outlook section). The manager believes that regulatory risk in China is likely to remain elevated and act as a headwind, but the sell-off has, in part, started to reflect this. The region is also characterised by wide divergences of value, offering potentially attractive returns for those capable of identifying opportunities. SDP may therefore appeal to investors seeking exposure to this dynamic, diverse and fast-growing region and to those who view the fund's strong long-term performance as evidence of the manager's stock selection skills. The fund may also attract UK investors wanting diversification away from their home market.

Discount may tighten if performance returns to form

SDP's discount began to narrow in 2020 as relative performance improved (see the relative performance chart above). At its narrowest, the discount reached 3.1%, but it has since drifted wider in response to near-term performance. The board actively manages the discount and share buybacks appear to have helped stabilise the discount in recent months. There is scope for the discount to tighten as and when performance returns to form.

NOT INTENDED FOR PERSONS IN THE EEA

Investment trusts
Asia Pacific Equities

24 November 2021

Price		**605.0p**
Market cap		**£994.7m**
AUM		**£1,147.4m**
NAV*		671.7
Discount to NAV		9.9%

*Including income. As at 22 November 2021.

Yield		1.3%
Ordinary shares in issue		164.4m
Code		SDP
Primary exchange		LSE
AIC sector		Asia Pacific
52-week high/low	683.0p	564.0p
NAV* high/low	725.9p	616.1p

*Including income.

Net gearing*	0.3%

*As at 31 October 2021.

Fund objective

The objective of Schroder AsiaPacific Fund is to achieve capital growth through investment primarily in equities of companies located in the continent of Asia (excluding the Middle East and Japan), together with Far Eastern countries bordering the Pacific Ocean. It aims to achieve growth in excess of the MSCI All Countries Asia (ex-Japan) Index in pounds sterling over the longer term.

Bull points

- Managers have a proven track record of outperformance over the medium to long term.
- A large team of investment professionals covering the Asia-Pacific region, including analysts located in eight offices across the region and a London-based emerging markets team.
- A consistent disciplined investment process focusing on quality, valuation and sustainability.

Bear points

- The portfolio has significant exposure to further Chinese regulatory risk.
- Asian markets are large and diverse, so identifying individual stock opportunities is a challenge, even when supported by extensive research resources.
- Conservative gearing limits performance upside in rising markets.

Analysts

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Schroder AsiaPacific Fund is a research client of Edison Investment Research Limited

Fund profile: Seeking capital gains from Asian equities

Schroder AsiaPacific Fund (SDP) was launched in November 1995 and has recently celebrated its 25th anniversary. Matthew Dobbs managed the fund from its inception until his retirement in March 2021. Since 1 April 2021, the fund has been managed by Richard Sennitt and Abbas Barkhordar. This change in management has not altered the fund's investment strategy or approach; Sennitt worked closely with Dobbs for 13 of the 27 years he worked at Schroders. Barkhordar has worked for Schroders for 13 years. He was focused on emerging and frontier markets before joining the SDP management team as assistant manager.

Schroder AsiaPacific Fund's principal investment objective remains to achieve capital growth through investment primarily in companies located in Asia (excluding the Middle East and Japan), together with Far Eastern countries bordering the Pacific Ocean. It aims to achieve growth in excess of the MSCI All Countries Asia (Ex Japan) Index (GBP) over the longer term. The fund invests in a portfolio of Asian equities, mainly listed or controlled in the region, or with material Asian exposure. The fund is well-diversified by country and sector. SDP may also invest up to 5% of total assets in unlisted businesses that are expected to list shortly. It can also invest in other financial instruments such as put options on indices and equities from the region. The managers employ a fundamental, bottom-up stock selection investment approach. The fund uses gearing modestly to maximise potential returns. The board may authorise the hedging of currency exposures.

Market outlook: Asian markets offer wide opportunities

The economies of north Asia did well in the immediate aftermath of the coronavirus pandemic. China's quick imposition of severe restrictions ensured a particularly swift recovery. Production increased quickly, thanks in part to strong export demand, although rising commodity and shipping costs, combined with power rationing and a shortage of tech components, have constrained manufacturing activity more recently. Domestic consumption has lagged industrial production. Consumers are struggling to meet the costs of housing, healthcare and education, the so-called 'three mountains'. This has put downward pressure on birth rates, despite the lifting of the one-child policy. In addition, China's borders remain effectively closed to tourists, which has muted the services sector recovery.

From late 2020 onwards, the attention of China watchers shifted towards a series of government regulatory crackdowns on fintech companies, social media and gaming platforms, property developers, healthcare companies, private after-school tutoring businesses and casinos. These measures raised concerns that the government has abandoned its focus on growth and wealth creation, in favour of social controls that may sacrifice the operations and profits of private companies for the sake of a 'greater good'. The government has countered these concerns with claims that the measures are aimed at achieving 'common prosperity' by addressing social inequalities: rebalancing the economy in favour of workers, dampening housing price pressures and reducing the burdens on families.

Elsewhere in Asia, the technology heavy Korean and Taiwanese markets have performed strongly, with earnings benefiting from ongoing strong export demand for semiconductors and tech products. Singapore has also done well, but India has been the surprise outperformer over the past year, despite experiencing a devastating second wave of COVID-19 infections during the spring. India's performance is due in part to recent structural reforms to the labour market and other areas, including measures to improve labour market flexibility, streamline regulation and liberalise the market for some agriculture products.

As in all other major markets, news of viable vaccines saw investors in Asian equities rotate from growth to value stocks, in anticipation of a recovery in more economically sensitive, cyclical sectors such as consumer discretionary, materials, banks and energy. This rotation benefited India and some of the smaller South-East Asian markets such as Thailand that have a higher exposure to more value-oriented sectors and relatively attractive valuations. The MSCI AC Asia ex-Japan (GBP) reached an all-time high in late January 2021 before succumbing to a succession of concerns, including the risks posed by higher inflation, rising interest rates and China's regulatory crackdown.

Despite these concerns, the economic outlook for the Asian region appears positive. The International Monetary Fund (IMF) expects growth in emerging and developing Asia to recover strongly in 2021 and 2022, led by India and China, although Chinese GDP growth is expected to drop below 6% next year. Following a small (0.8%) contraction in 2020, the IMF forecasts regional GDP growth of 7.2% in 2021 and 6.3% in 2022. This compares favourably with the growth profile of developed economies, where GDP contracted more steeply (-4.5%) in 2020, and is forecast to rebound less vigorously: by 5.2% in 2021 and 4.5% next year.

Robust growth should support Asian equity markets. There have been strong upward revisions to earnings across the region, although earnings face some risks from rising input prices, logistics costs and shortages of semiconductors and other components. Asian company balance sheets are also conservative relative to major development markets.

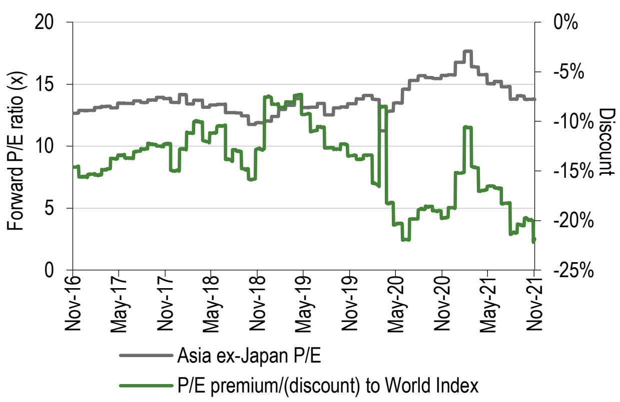
Valuations for Asian equity markets have improved following the recent sharp correction in the Chinese market, and lesser declines in the regional index. Forward P/Es for Asian equities compare favourably to other major markets, and their discount to the World Index is at its widest for at least five years (Exhibit 1). While many of the obvious recovery trades now appear to be fully factoring the recovery into valuations, the region remains characterised by wide divergences of value, offering potentially attractive returns to those able to identify opportunities. In such market conditions, stock selection skills will likely be key to investment success.

Exhibit 1: Market performance and valuations

Forward P/E multiples of Datastream indices (x)

	Last	High	Low	10-year average	Last as % of average
Asia ex-Japan	13.8	17.7	10.3	12.8	107
Japan	15.1	18.6	10.5	14.2	106
US	22.4	23.8	11.4	19.1	118
Europe	14.6	16.9	8.6	14.2	103
World	17.6	19.8	10.3	14.7	119

Asia ex-Japan forward P/E and discount to World Index over five years



Source: Refinitiv, Edison Investment Research. Note: Valuations as at 23 November 2021.

The fund managers: Richard Sennitt and Abbas Barkhordar

The managers' view: Confident in their process and team

SDP's managers Richard Sennitt and Abbas Barkhordar are keen to stress their belief that Asian markets are inefficient, and that their fundamental, bottom-up stock selection approach is thus the best way to identify and add value across Asian equity markets. Their performance track record is evidence of their ability to generate alpha from stock selection over the long term. Sennitt attributes this success at least in part to the amount of time he and Barkhordar spend analysing potential investments and monitoring existing holdings.

The quality and experience of Schroders' teams in Asia, as well as the company's substantial London-based resources, are another factor in their success. 'Having teams on the ground across the region, meeting companies and scouting out investment opportunities, has been especially useful in the last eighteen months, when we have been unable to travel' says Sennitt. And as things begin to return to normal, he is confident their process will continue to deliver a strong long-run performance.

While the tightening of regulatory controls on many areas of the Chinese economy has alarmed many investors, SDP's managers do not share their worst fears. In their view, the government still wants to continue to foster economic success and the private sector, and has done a good job of elevating people out of extreme poverty. However, prosperity has not been spread evenly across Chinese society, with China having one of the highest levels of income inequality among the world's major economies, according to the widely used Gini co-efficient measure of income dispersion. It also has a relatively low level of social mobility compared to many developed economies, according to the World Economic Forum. Sennitt and Barkhordar believe the government's drive for 'common prosperity' and associated regulatory restrictions is therefore understandable, to redress these imbalances.

For example, China's small and medium-sized enterprises (SMEs) are the country's largest employers. Many compete directly or indirectly with the e-commerce platforms and the crackdown on these internet retailing giants is intended, at least in part, to ensure the SMEs remain competitive, and that the jobs and living standards of their employees are thus protected. The government's crackdown on gig economy employers is motivated by similar concerns, while the effective ban on private after-school tuition, which only middle-class families can afford, will help to level the playing field for all students. Within the property sector, stricter controls on developers are intended to curtail credit expansion and speculative activity that is driving home ownership beyond the reach of many households.

If successful, these and other measures intended to 'level up' Chinese society may lead to greater domestic consumption in the long run. However, in the short term, these policies have adversely affected some sectors and SDP's managers are cautious about further regulatory risks. They are most concerned about the possibility some e-commerce and internet companies, as well as other sectors, may become subject to heavy and uncertain regulation that makes their profitability and returns harder to forecast and therefore value. The managers will therefore continue to monitor regulatory developments in China closely, to ensure they do not threaten the investment case for any of SDP's portfolio holdings.

Asset allocation

Current portfolio positioning

SDP had 57 holdings at end October 2021, spread across a range of countries and sectors, as set out in Exhibits 2 and 3. The most notable feature of Exhibit 2 is the portfolio's marked underweight to China, which has increased significantly over the past year. This shift has been motivated in part by concerns about ongoing regulatory risk, which, as discussed above, has the potential to further undermine profitability, especially in e-commerce and fintech. These sectors are also characterised by increasing competition, which will further erode profits. The increasing underweight to China also reflects a lack of attractive stocks in this market compared to other Asian markets. In the meantime, the trust's increased underweight to mainland China over the past year is partially offset by a sizable, but diminishing, overweight to Hong Kong. The portfolio's overweight to Singapore has increased and it now has small overweights to South Korea and India (from a previous underweight). It is slightly underweight Taiwan.

These moves are part of a general portfolio shift away from Northern Asia, towards India and South-East Asia, where the managers see more attractive long-term growth opportunities, at more attractive valuations. In addition, they have opened an exposure to Thailand and have added to an out of index position in Vietnam, via Vietnam Enterprise Investments, a closed-ended investment trust listed on the London Stock Exchange. This position now numbers among SDP's top 10 holdings (Exhibit 4). The managers' search for companies with exposure to Asian demand also accounts for longer-standing positions in ASML, a Dutch semiconductor manufacturer, BHP, an Australian metals and mining company, and Prada, the Italian luxury fashion house.

Exhibit 2: Portfolio geographic exposure at 31 October 2021 (% unless stated)

	Portfolio end-Oct 2021	Portfolio end-Oct 2020	Change (pp)	MSCI Ac Asia Ex Japan	Active weight vs Benchmark (pp)
China	19.1	31.2	-12.1	39.6	-20.5
Taiwan	16.4	13.0	3.5	16.8	-0.4
South Korea	15.8	14.6	1.2	13.9	1.9
India	14.3	9.5	4.7	13.7	0.6
Hong Kong	13.1	16.7	-3.7	7.3	5.8
Singapore	7.2	4.9	2.4	2.9	4.3
United Kingdom	4.6	3.1	1.5	0.0	4.6
Netherlands	2.5	1.5	1.0	0.0	2.5
PAC	1.9	0.0	1.9	0.0	1.9
Thailand	1.7	0.0	1.7	1.9	-0.2
Indonesia	1.6	1.8	-0.2	1.7	-0.1
Other	1.8	3.6	-1.8	2.3	-0.5
	100.0	**100.0**		**100.0**	

Source: Schroder AsiaPacific Fund, Edison Investment Research

At a sectoral level, the trust is significantly overweight information technology. The global appetite for digitalisation is likely to keep growing and this trend, combined with an associated demand for data processing and storage, will continue to benefit companies in these sectors. The portfolio is underweight healthcare, materials, consumer staples and consumer discretionary, where the managers believe valuations look either fair or excessive across the Asian region. They also fear growth rates and profits in some sectors may slow due to supply chain concerns and inflation pressures.

Exhibit 3: Portfolio sector exposure at 31 October 2021 (% unless stated)

Sector	Portfolio weight end-Oct 2021	MSCI AC Asia ex-Japan	Active weight vs benchmark (pp)
Information technology	30.9	23.3	7.7
Financials	19.0	18.9	0.1
Consumer discretionary	16.2	16.9	-0.7
Communications services	10.3	10.6	-0.3
Industrials	4.4	6.0	-1.6
Real estate	3.8	3.9	-0.1
Materials	3.0	5.2	-2.2
Energy	2.5	3.0	-0.5
Healthcare	2.5	4.8	-2.3
Consumer staples	0.9	4.9	-4.0
Other	6.5	2.6	3.9
Total	**100.0**	**100.0**	

Source: Schroder AsiaPacific Fund, Edison Investment Research

The recent tightening of government regulations across many areas of the Chinese economy has triggered some portfolio activity, to limit losses and as a precaution against the possibility of further restrictions. For example, late last year, the managers trimmed positions in Chinese giants Tencent, an internet content and information company, and Alibaba, an e-commerce platform, although these two companies remain among SDP's top four holdings. The crackdown on private tutoring companies had a substantial adverse impact on SDP's position in New Oriental Education, which operates in this sector, and the managers decided to close the position, realising a loss. However, subsequent to this sale, the stock weakened much more, justifying the exit, even though the decision to sell was painful at the time.

At the end of 2020 and in 2021, the managers also closed or took partial profits on positions in several growth stocks that had performed well during the year, including Delta Electronics, a Taiwanese electrical components supplier, and Shenzhou, a Chinese garment manufacturer. They also sold out of 51job, a Chinese employment services company that was subject to a takeover bid. At the same time, the managers trimmed profitable holdings in Samsung Electronics, a South Korean semiconductor company, and in TSMC, a Taiwanese semiconductor supplier, but they have since begun adding back to these positions in information technology, including Samsung and some of the Taiwanese names, following declines in their share prices. Samsung and TSMC are now the portfolio's largest positions. A position in SK Hynix, a South Korean semiconductor producer, was also closed due to its high valuation, and as with Samsung and TSMC, its price has since declined to a more attractive level and the managers may re-invest soon.

Exhibit 4: Top 10 holdings (as at 31 October 2021)

Company	Country	Main area of business	Portfolio weight %	
			30 October 2021	30 October 2020*
Taiwan Semiconductor Manufacturing	Taiwan	Semiconductors	9.2	8.4
Samsung Electronics	South Korea	Semiconductors	8.9	9.2
Tencent Holdings	China	Internet content & information	4.8	9.1
Alibaba Group Holding	China	E-commerce	4.2	9.1
HDFC Bank	India	Financials	3.2	3.1
Sea Ltd	Singapore	Gaming & Multimedia	3.1	2.1
Reliance Industries	India	Oil & gas	2.5	N/A
AIA Group	Hong Kong	Financials	2.5	3.3
ASML Holdings	Netherlands	Semiconductors	2.5	N/A
Vietnam Enterprise Investments	Vietnam	Various, incl banks & real estate	2.4	N/A
Top 10 (% of holdings)			**43.3**	**51.2**

Source: Schroder AsiaPacific Fund, Edison Investment Research. Note: *N/A where not in the Top 10 holdings at end-Oct 2020.

These portfolio sales have funded top-ups to existing positions and the acquisition of several new names. The managers' confidence in the outlook for IT stocks saw them add to a position in MediaTek, another Taiwanese semiconductor manufacturer. As part of the shift in favour of South-East Asian stocks, they bought Singapore Exchange, a high moat business, which they believe has room to grow outside its core equity business, including in areas such as information and index and consulting services. The acquisition of Hong Kong Exchange was motivated by a correction in the share price and, in part, due to its attraction as a listing venue for Chinese companies. The portfolio has also acquired or increased positions in several South-East Asian regional banks, including Indonesia's Bank Mandiri and Thailand's Kasikornbank. The managers see value in these banks after pressure from low rates and COVID-19 concerns drove their share prices down to attractive levels, and they expect earnings to improve as economic activity gathers momentum.

Another new holding consistent with the move away from Northern Asia is Reliance Industries. This company is known as an oil and gas producer, but it also operates in many other sectors, including grocery and retail stores, online news and entertainment and financial services, and SDP's managers believe some of these businesses have very long growth runways, which will be supported by the company's digital platform. Reliance is now a top 10 holding. They have also added to a position to Maruti Suzuki, a car manufacturer, motivated by a wish to increase exposure to the Indian auto sector, where penetration is presently low, but growing rapidly. The managers view this company as one of India's best auto producers, with good long-term potential.

Annualised portfolio turnover is presently around 31%, slightly below the average of 36% over the past five calendar years. The company does not currently hold any unlisted companies.

Performance: Long-term outperformance

Exhibit 5: Five-year discrete performance data

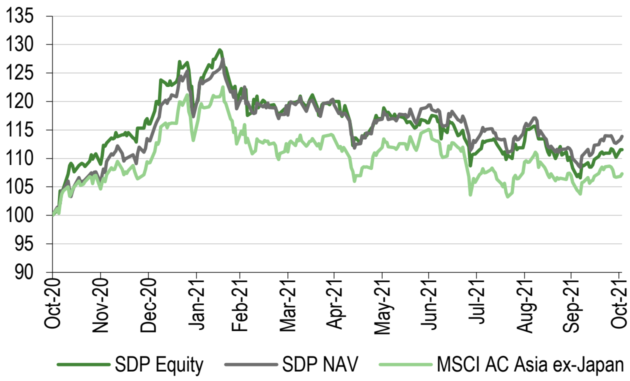
12 months ending	Share price (%)	NAV (%)	MSCI AC Asia Ex-Japan (%)	MSCI World (%)	CBOE UK All Cos (%)
31/10/17	24.8	25.7	20.3	12.9	13.6
31/10/18	(12.6)	(13.8)	(10.0)	5.1	(1.6)
31/10/19	15.0	13.7	12.1	11.3	6.9
31/10/20	26.5	22.4	16.3	4.4	(20.2)
31/10/21	10.2	12.7	6.7	32.5	36.0

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

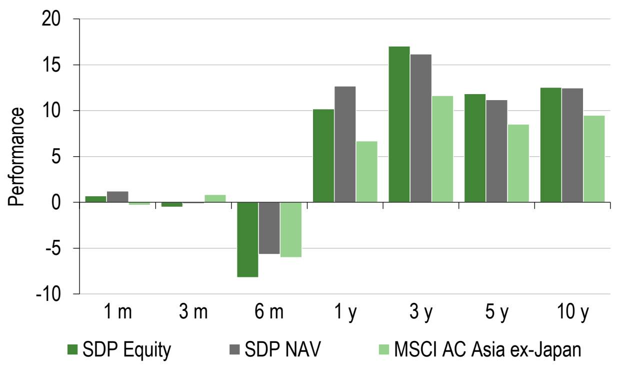
The sharp sell-off in the Chinese market hurt recent performance in absolute terms, and this meant that in the six months to end October 2021, SDP declined by 5.7% in net asset value (NAV) terms. However, this decline was slightly less than the 6.0% fall in the benchmark, the MSCI AC Asia ex-Japan (GBP) Index, due to SDP's underweight to China. The fund's share price declined 8.2% over the period. SDP's long-term performance has been strong in both absolute and relative terms. It has delivered outright gains and outperformance over one, three, five and 10 years (Exhibit 6), and its average annualised return over 10 years is 12.5% on an NAV basis, compared to a benchmark return of 9.5% on the same basis. SDP has also outperformed the UK market over three, five and 10 years – a reminder to UK investors of the diversification benefits of investing outside the home market (Exhibit 7).

Exhibit 6: Investment trust performance to 31 October 2021

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.

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 MSCI AC Asia ex-Japan	1.0	(1.3)	(2.3)	3.3	15.2	16.1	31.4
NAV relative to MSCI AC Asia ex-Japan	1.5	(1.0)	0.4	5.6	12.7	12.8	30.7
Price relative to MSCI World	(3.1)	(5.5)	(16.4)	(16.8)	4.2	(4.3)	(12.5)
NAV relative to MSCI World	(2.6)	(5.2)	(14.1)	(14.9)	1.8	(7.0)	(13.0)
Price relative to CBOE UK All Cos	(0.7)	(3.6)	(12.7)	(18.9)	38.3	34.9	59.2
NAV relative to CBOE UK All Cos	(0.2)	(3.2)	(10.3)	(17.1)	35.2	31.0	58.3

Source: Refinitiv, Edison Investment Research. Note: Data to end-October 2021. Geometric calculation.

Stock selection was the main detractor from performance over the past six months, due in part to the trust's exposure to several Chinese companies adversely affected by the government's regulatory crackdown. Detractors from performance included Tencent, Alibaba, Samsung Electronics and AIA, a Hong Kong life insurer. The adverse impact of these positions was only partially redressed by the positive performance contribution of ASML, Sea, a Singaporean gaming and ecommerce company, Indian companies Reliance Industries and Apollo Hospitals, and Vietnam Enterprise Investments.

Sector selections also detracted modestly from recent performance, due in part to the trust's underweight to materials at a time when this sector did well due to demand/supply imbalances. A small overweight to financials also detracted, as this sector was unsettled by recent events in China. Losses on these positions were only partly offset by the favourable impact of stock selection within telecommunications, healthcare, real estate and industrials and by the overweight to IT.

SDP's country allocations supported performance over the period. The significant and increasing underweight to China was the largest contributor to relative returns at the country level, following the sharp sell-off in this market in recent months. The overweight to Singapore was the next biggest contributor and the trust's out-of-index position in Vietnam also made a notable contribution. These positive country allocations were only partially offset by the unfavourable effect of a small underweight to Taiwan and an overweight position in India, where stock selection detracted despite the outperformance of the Indian market.

Exhibit 8: NAV performance versus benchmark over five years

Source: Refinitiv, Edison Investment Research

Peer group comparison

SDP is a member of the AIC's Asia Pacific sector, which has six constituents. All members of the peer group share SDP's focus on growth, and dividend payouts are low, although the fund's managers consider themselves to be on 'the growth side of core, but not out-and-out growth', which suggests a more balanced investment approach than its peers. Two members of the AIC sector, Pacific Assets and Pacific Horizon, have much greater exposures to India than SDP, with little or no cross over in holdings. SDP's two closest peers are Aberdeen New Dawn and Asia Dragon, which both have a number of top 10 holdings in common with SDP. Schroder Asian Total Return Investment Company (ATR) is also a member of this peer group, but it is distinguished from SDP by its absolute return focus, its more aggressive gearing and its small cap bias, compared to SDP's overweight in large cap companies. ATR also has relatively high exposure to Australia (11.3% as at end October 2021) compared to SDP's exposure of c 3%.

SDP is the largest fund within its peer group. It has underperformed the average of its peers over one, three and ten years, but it has outperformed half the funds within the sector over five years, including its two closest peers. SDP's ongoing fee is competitive and like all the members of the sector except ATR, it does not charge a performance fee. Its discount is wider than the average and unlike most of its peers, it does not employ significant levels of gearing. Its dividend yield is amongst the highest in the group.

Exhibit 9: AIC Asia Pacific peer group as at 23 November 2021*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Performance fee	Discount	Net gearing	Dividend yield
Schroder AsiaPacific	994.7	9.7	57.5	88.6	248.4	0.9	No	(9.9)	100	1.3
Aberdeen New Dawn	352.2	10.9	59.2	86.8	177.2	0.9	No	(11.4)	106	1.3
Asia Dragon	645.1	7.8	53.9	79.4	170.5	0.8	No	(8.9)	108	1.2
Pacific Assets	428.2	23.5	52.0	78.9	273.8	1.1	No	(11.0)	95	0.7
Pacific Horizon	831.1	35.4	186.4	257.8	451.1	0.8	No	8.2	101	0.0
Schroder Asian Total Return Inv.	552.6	14.5	70.9	114.0	266.7	0.9	Yes	(1.7)	106	1.4
Simple average	**634.0**	**17.0**	**80.0**	**117.6**	**264.6**	**0.9**		**(5.8)**	**103**	**1.0**
SDP rank in peer group	**1**	**5**	**4**	**3**	**4**	**2**		**4**	**5**	**2**

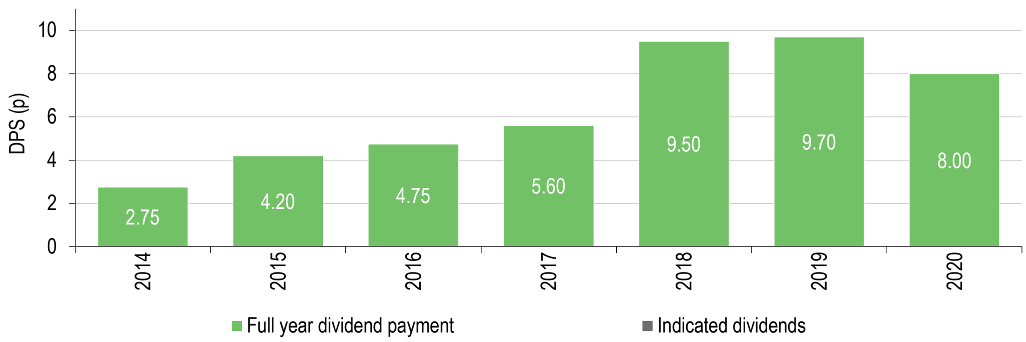
Source: Morningstar, Edison Investment Research. Note: *Performance as at 22 November 2021 based on ex-par NAV. **Ordinary shares only. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Dividends: Capital growth focus limits dividend payout

SDP has a capital growth objective and does not target a particular level of dividend payments. The board's policy is to distribute substantially all income received by the trust via one dividend payment a year, normally in February. A final dividend of 8.0p per share was paid for the year ended 30 September 2020, funded in small part from reserves. This represents a decrease of 17.5% on the 9.7p dividend paid in respect of the previous financial year (Exhibit 10). This decline was due to a 20.1% decline in the company's net revenues after tax, as some portfolio companies cut their dividend payments. The dividend was paid on 8 February 2021 and represents a yield of 1.3% based on the current share price. Following this payout, SDP's revenue reserve stood at £5.9m (as at end March 2021), equivalent to about 45% of the FY20 dividend payment.

During the current financial year, some companies that cut or cancelled dividend payments during the pandemic reinstated them, so there is a possibility that the dividend for the financial year ending 30 September 2021 may increase. It will be announced in the annual report due in December 2021.

Exhibit 10: SDP's dividend payments over the past seven years



Source: Refinitiv, Edison Investment Research

Discount: Supported by share buybacks

SDP's board has a flexible discount management policy that takes account of the level of the discount among its peers, prevailing market conditions and activity within the sector. It does not target a defined maximum discount level regardless of market conditions.

SDP's share price traded at a discount to cum-income NAV of between 10% and 14% for some years until late 2020, when it began to tighten in response to an improvement in relative performance (see chart on page one). At its narrowest, the discount stood at around 3% in late

2020/early 2021 but has since drifted out in response to recent performance. Investor concerns about Chinese regulatory risks may also be contributing to the widening discount.

SDP's board monitors the discount closely and regularly reviews the share buyback policy. It has authority to purchase up to 14.99% of issued share capital. During the financial year to end September 2021, the company bought back 1.96m shares for cancellation. Since then, it has repurchased a further 0.44m shares. Shares in issue currently total 164.4m. These buybacks appear to have stabilised the discount, which has been around 10% for several months (Exhibit 11). There is scope for the discount to narrow as and when performance returns to form.

Exhibit 11 Discount over three years (NAV incl income)

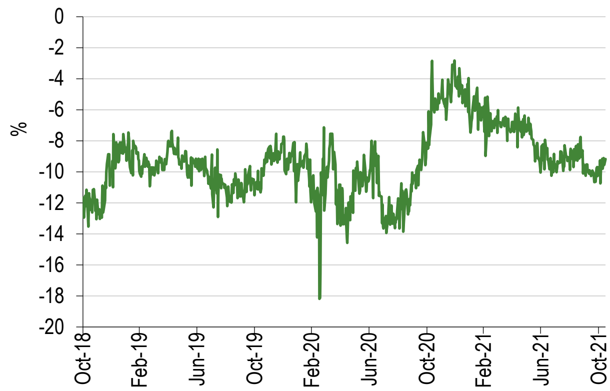
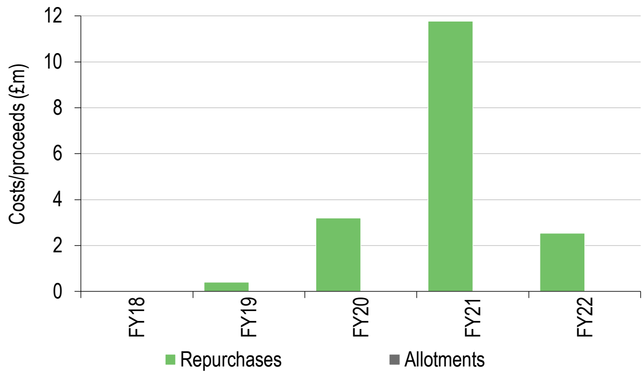


Exhibit 12: Share buybacks



Source: Refinitiv, Edison Investment Research

Investment process: Well-resourced stock pickers

SDP's managers employ a fundamental, bottom-up stock picking investment approach, to identify quality, growth-oriented companies across Asia. More specifically, they are seeking mispriced companies with good business models and scope to deliver sustainable returns and grow shareholder value over the long term. Given the emergence of inflation pressures over the past year, it is also important that potential investments possess pricing power and market share, to allow them to pass on costs. Relatively high immunity to regulatory risk is also an important factor in the decision to invest in Chinese names. The managers' quality bias ensures that the portfolio holds better quality companies than the index, in terms of balance sheet strength, gearing, the sustainability of returns and management ability. The company has scope to invest up to 5% of assets in securities that are not listed on any stock exchange, but the managers will normally only acquire unlisted stocks that are expected to list in the near future.

SDP's managers are supported by Schroders' extensive research resources on the ground in six offices across Asia, and in London, which is where Schroders' macroeconomic, emerging market and ESG teams are located. The trust's managers have regular calls with the Asian analysts, managers and emerging markets colleagues to discuss the company meetings they have attended, changes of view and stock recommendations. Direct company contact is also a key part of the analysts' initial due diligence, as well as the analysts' and managers' ongoing monitoring process.

Investment ideas also come from several other sources in addition to the Asian analysts: research conducted by the trust's own managers, sell-side research and a proprietary quantitative screen. Ideas from all these sources are distilled into a diversified portfolio of best ideas, comprising 60–80 stocks. Sennitt and Barkhordar make investment decisions together, but Sennitt has the final call if required.

There are no hard limits related to the size of holdings. Position size depends on several factors including the forecast upside to fair value, the level of the analyst's conviction, the liquidity of the stock, the size of the company and risks associated with ownership. Usually initial positions will be modest, representing 0.2–1.0% of portfolio value, with further additions depending on performance and market developments.

The managers are not constrained by set sector or geographical weighting limits, and allocations by sector and country tend to be the result of bottom-up stock selections. Nonetheless, when constructing the portfolio, the managers do consider sectoral and geographical weightings when selecting stocks and sizing positions, to ensure the portfolio does not become unbalanced. Country allocations are reviewed monthly, based on the output of a proprietary quantitative model and the qualitative views of the managers.

Sennitt and Barkhordar employ various valuation methods, depending on the sector and type of stock being valued. Broadly, they may use NAV or discounted cash flow calculations to value property companies and companies yet to generate profits, while price/book or price/earnings ratios are used to value more cyclical stocks. And for stocks with a long growth runway, the analyst may take a five-year view, make assumptions about the company's market share if it successfully executes its development plans, then discount the fair value back to a present value. During the valuation process, the managers have a two-way dialogue with the analyst on valuation methods and the assumptions on which their analysis is based. They also use the work of the global equity research team, which looks across sectors globally, to determine whether Asian companies offer relative value on a global basis.

Each portfolio holding is also assessed according to its projected return on invested capital (ROIC), as the managers believe that the future trend in a company's ROIC reflects the attractiveness and sustainability of its business model and serves as a predictor of long-term shareholder returns. This approach is used as another means by which to assess the relative attractiveness of different businesses.

There are several factors that may trigger the decision to trim or sell a portfolio holding. As mentioned above, SDP's managers monitor the portfolio's largest positions, with a view to trimming to limit risk. Positions of all sizes will be reassessed once the share price has reached the analyst's assessment of fair value, although this reassessment may lead to an increase in the fair value estimate if the company's performance is exceeding initial expectations. Exposures will be reduced or closed if the competitive environment deteriorates, or if macroeconomic or industry factors begin to deviate from the investment thesis. However, even once a position is closed, the valuation process continues, as the managers remain watchful for the opportunity to re-open positions at more favourable valuations.

SDP's approach to ESG

SDP's managers believe that the assessment of environmental, social and governance (ESG) factors is an essential part of the research process and stock appraisal when seeking companies with sustainable business models, and the team was taking these issues into account well before they became the focus of investors' attention. In their view, governance issues are particularly important in Asia, and companies that are well governed tend to manage societal and environmental risks well. And they are more likely to perform well and possess positive prospects.

Schroders' Asian equity analysts provide ESG analysis for each of the companies they cover, with the purpose of identifying and assessing the potential effect of ESG issues on the investment case. In each case, they are looking for anything that could derail earnings, whether it relates to carbon emissions, other forms of pollution, labour practices, a lack of transparency on governance issues, or any other practices that could potentially damage the company's reputation and profitability. The analysts' views on these matters will be informed in part by the direct engagements they have with companies at the initial due diligence stage, and as part of the ongoing monitoring process. If the analysts have any concerns, they have the option to apply an explicit discount (or premium, in the case of positive ESG practices) to their fair value estimate as a result of their ESG analysis.

In addition to this work by individual analysts, Schroders has a London-based team of 22 dedicated ESG analysts who are focused on long-term global ESG trends, and how these will affect different industries and stakeholders. This team, which now has two members based in Asia, acts as a central resource and is well-placed to provide a view on global best practice in a range of ESG matters. It also provides ESG training to regional analysts.

The integration of ESG factors into SDP's investment process is ongoing and practices are evolving over time. In the past year, SDP has adopted a broader, stakeholder-based approach to ESG analysis, drawing on a proprietary tool to provide a detailed evaluation of all stakeholders in a business from an ESG perspective: communities, suppliers, workers, customers and regulators, as well as the environment. In addition to separate rankings for environment, social and governance aspects, this approach also generates an overall absolute numerical ESG rating for each company, which feeds into the team's earnings estimates and valuations and may lead to a higher discount. The manager may limit the size of a position, or rule out exposure, if this process raises specific ESG concerns.

SDP's board recognises that ESG issues are increasingly important to shareholders, and it maintains a dialogue with the managers about ESG matters, including what further portfolio information the managers might provide to shareholders on this topic. The forthcoming annual report is expected to comment further on this matter.

Schroders has committed to being carbon neutral from 2020. It has held an A+ United Nations Principles of Responsible Investing (UNPRI) rating for seven consecutive years.

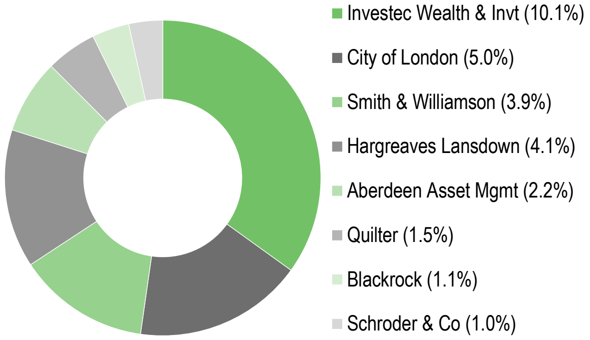
Gearing

SDP uses gearing modestly to maximise potential returns. At end October 2021, gearing was 0.3%. Gearing is limited to 20% of shareholders' funds. The fund has a £100m multi-currency revolving credit facility with Sumitomo Mitsui Banking Corporation. In addition, it has a £30m multi-currency overdraft facility with HSBC. It may use financial derivatives such as put options on indices and equities from the Asian region and the board may authorise the use of derivatives to hedge currency exposures.

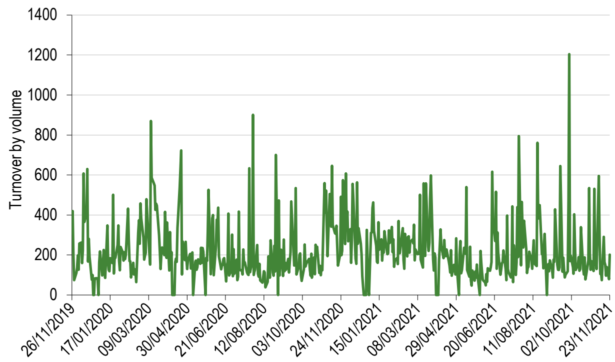
Capital structure, life of the company and ownership

SDP was launched by Schroders in November 1995. The trust is structured as an investment trust, with one class of ordinary shares. Share in issue currently total 164.4m. The fund is subject to a continuation vote every five years. Shareholders voted overwhelming in favour of continuation for a further five-year period at the AGM held in February 2021. The next continuation vote will be held in 2026 and thereafter at five yearly intervals.

Exhibit 13: Major shareholders (ordinary shares)	Exhibit 14: Average daily volume (ordinary shares)



Source: Schroder AsiaPacific Fund, as at 22 September 2021



Source: Refinitiv. Note: Two years to 23 November 2021

Fees and charges

With effect from 1 April 2021, SDP's management fee decreased to 0.75% pa for the first £600m of net assets (down from 0.80% previously) and 0.70% on net assets in excess of this amount (down from 0.75% previously). This is expected to generate a saving of around £0.4m per year.

The ongoing charge is 0.90% as at end October 2021, down slightly from 0.93% for the year ended 30 October 2020.

The board

Exhibit 15: SPD's board of directors

Board member	Date of appointment	Remuneration As at 30 September 2020	Shareholdings at 10 December 2020
James Williams, chairman	August 2014	£43,000*	10,125
Rosemary Morgan	July 2012	£38,000	5,375
Keith Craig	May 2015	£30,000	12,587
Martin Porter	October 2017	£30,000	10,000
Vivien Gould	May 2019	£30,000	5,000
Julia Goh	October 2021	-	-

Source: Schroder AsiaPacific Fund. Note: *On appointment as chair in December 2020.

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