Asian opportunities in challenging times
Invesco Asia Opportunities Equity Fund

July 2020

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"There have been very effective institutional responses in Asia to address the Covid-19 situation and policy support is strong across countries."

We believe Asian markets will fare better than other emerging markets amid the current Covid-19 crisis. There has been very effective institutional responses to address the outbreak and many economies, particularly in North Asia, are now on the path to recovery. As bottom-up stock investors, with a strong research platform and a time-tested bottom-up investment process, we often find our best ideas during the most testing times.

In this piece, we highlight our investment propositions in three key markets - China, South Korea and India. In China, we focus on domestically exposed companies that are capitalising on long term structural growth trends. We see these trends continuing despite Covid-19 and some, such as digitalisation, being accelerated. At the same time, we focused our investments in South Korea on strong leaders with global reach in the technology and communication services sectors. India is another attractive market, in our view, but in the short term we see some challenges amid the Covid-19 outbreak. Hence, we reduced our overweight position relative to the fund's benchmark MSCI AC Asia ex. Japan Index to underweight earlier this year, retaining exposure to select IT consultancies.

The Invesco Asia Opportunities Equity Fund is a regional product managed by the Asia Equity Investment Team. It has delivered attractive risk-adjusted outperformance for clients to date, outperforming its benchmark across 1-, 3- and 5-year periods. Even recently amid the heightened market volatility during the Covid-19 outbreak, the performance was resilient.

China's domestic economic outlook remains robust

China has always been one of our preferred markets in Asia. It offers many compelling investment opportunities that are benefiting from the country's strong economic growth. China's economy is stabilising after the Covid-19 disruption and this has led to an increased overweight position relative to the benchmark index MSCI AC Asia ex. Japan Index within the Invesco Asia Opportunities Equity Fund. On stock selection, we prefer companies that are exposed to domestic demand, particularly those capitalising on long term structural growth trends. The geopolitical tensions with the US is another factor that has shaped the fund's tilt towards domestic sectors.

Both monetary and fiscal policy support has been evident particularly in light of the Covid-19 outbreak
We believe policy support will play a key role in stabilising China's growth outlook. Lending rates and banks' reserve requirements been cut several times to enhance liquidity while, at the same time, the budgetary fiscal deficit has increased and special Covid-19 government bonds will be used to boost infrastructure spend and employment. Against this backdrop, domestic industrial production and retail sales have improved since March and we expect this to continue as economic activities normalises further.

Structural growth trends intact and accelerated by Covid-19
As long term active investors, we focus on structural growth trends that we believe are generating faster and more sustained growth. Despite Covid-19, we see these trends remaining largely intact. In particular, we expect an acceleration in digitalisation as the virus boosted the purchasing of new products and services online, so much that online retail sales as a percent of total sales increased notably (28% in 1Q20 vs. 23% in 1Q19)[1].

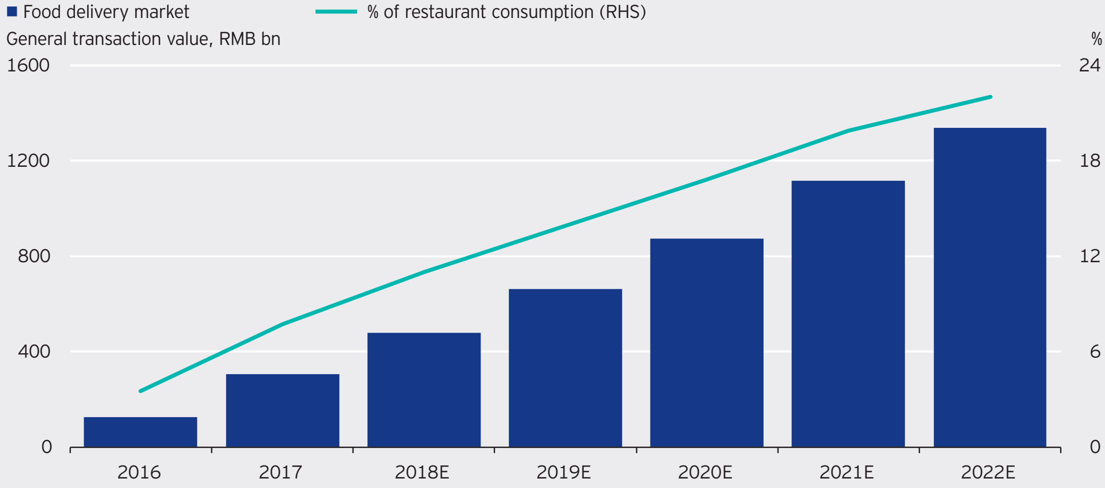
This increase in online sales was partly achieved by companies becoming more innovative. We saw the e-commerce platforms launching a new shopping festival, Double Five on May 5th, throughout which discounts were provided to generate sales growth. Meanwhile, the Covid-19 backdrop led to the emergence of some new businesses, such as the telemedicine market. E-commerce platforms, which had previously just delivered drugs or booked appointments, began to provide treatment and advice. For example: a subsidiary of our holding in a large online platform claimed that monthly consultations had grown tenfold since the outbreak: an arm of another large platform (a holding) launched a free "online clinic"; and WeDoctor, an app backed by a leading internet conglomerate (a holding) mobilised 20,000 physicians to work online during the epidemic thereby encouraging the use of its platform going forward.

Escalating geopolitical risk led to a greater tilt towards domestic stocks
US-China tensions have moved beyond trade to technology and finance, evidenced by US actions aimed at limiting Huawei's (China's largest telecommunication equipment manufacturer) access to semiconductor technology and a tightening of regulations surrounding US-listed Chinese companies. The Phase 1 trade agreement[2] helped mitigate tensions somewhat, but we believe they will continue given the strategic rivalry between these two countries. In particular, we believe geopolitics will be a key risk that investors will monitor in the 2H20 as the US election approaches.

Stock selection is focused on domestically exposed companies benefiting from structural trends
Due to the above factors, we increased the fund's tilt towards domestic stocks within the communication services and consumer discretionary sectors. We added one large online platform company and an online gaming company in the 4Q19, followed more recently in March (2020) by a new position in China's largest e-commerce platform offering services ranging from food delivery to lifestyle deals and travel reservations.

Our holding in the large online platform business is a key beneficiary of e-commerce growth, in our view. What differentiates this company from others is that it has invested heavily in logistics. Hence, when China locked down its economy, it was positioned to continue delivering orders to its growing number of customers. This stock has since added value to relative returns on the back of strong results. As regards the gaming company, we believe this internet gaming company can achieve robust growth given its strength in developing blockbuster games.

Figure 1
Food delivery market in China is expanding fast



Source: iResearch, GS Global Research as at end 2018.

This, combined with its overseas presence in Japan and other western countries, will drive a rerating of its share price, while its valuation is not demanding compared with peers, in our view.

Finally, we initiated a position in an online food delivery platform (see figure 1 for market growth) which is capitalising on the growing digitalisation of consumer markets. Despite being a latecomer to the food delivery market, this company gained market share to become the number one food delivery platform. Using this position, it has been successful in cross-sell higher-margin lifestyle services in leisure and entertainment. The company is now a leading channel for lifestyle services ranging from beauty to wedding planning.

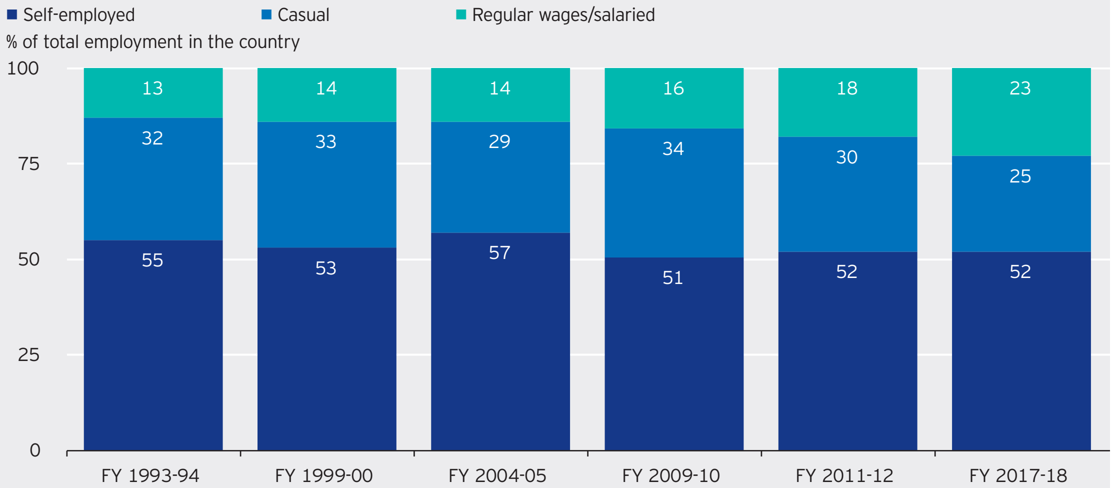
India's IT consultancies offer attractive opportunities

India is another area where we look for attractive investment opportunities arising from structural growth. Backed by ongoing structural reforms and a government that is bringing about tangible change, the economy has potential to offer such opportunities. As such, the Invesco Asia Opportunities Equity Fund has tended to be overweight India relative to its benchmark MSCI AC Asia ex. Japan Index over the long term. However, in the short term, we see challenges amid the Covid-19 outbreak.

The Indian market has underperformed on concerns surrounding the potential impact of the virus, just as the economy was emerging from years of balance sheet repair within the banking system. Nationwide lockdowns have been implemented, and with approximately 80% of its workforce in the unorganized sector, the economy is vulnerable if the lockdowns are prolonged (figure 2). In fact, we believe a technical recession cannot be ruled out in India.

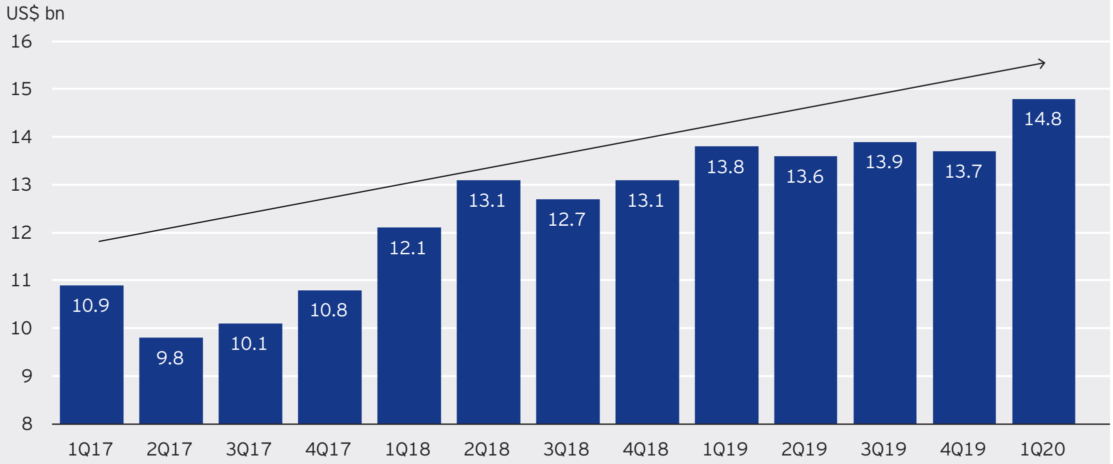
As a result, we reduced our overweight to underweight over 1Q20 by selling holdings in the consumer exposed auto companies and private financial institutions. Specifically, in relation to the banks, we are worried that non-performing loans as a % of total loans might rise on a worsening economic outlook. Currently we do not have any direct consumer

Figure 2
Approximately 80% of India's workforce is in the unorganized sector



Source: Motilal Oswal Financial Securities Ltd, as at end 2018.

Figure 3
IT consultancies benefit from acceleration of digital transformation
Global annual contract value (ACV) quarterly trend



Source: CLSA research, as at April 2020.

exposure and instead, the fund is focused on the IT consultancies.

India's technology sector is expected to enter a high-growth phase
Recent commentaries from 200 global companies highlighted that they are expecting to allocate more capital to technology projects. Past economic cycles have led us to expect that Indian outsourcers should benefit significantly from this increased spend. Recently, Covid-19 has boosted technology spend as it has forced exponential use of apps and platforms, from online shopping to telemedicine. This will drive technological spend, implying higher revenue growth for Indian players, in our view.

Indian technology consultancies have experienced limited disruptions from Covid-19
We expect our two holdings in IT consultancies to experience limited disruption given their revenue is globally sourced and their workforces are working from home. One of these consultancies has talked about a minimal impact so far from a ramp-down of projects that had begun before the virus outbreak. There are short term uncertainties but over the medium to long term, technology spend is likely to remain resilient thanks to the accelerated digital trend that we have witnessed in the past few months (figure 3).

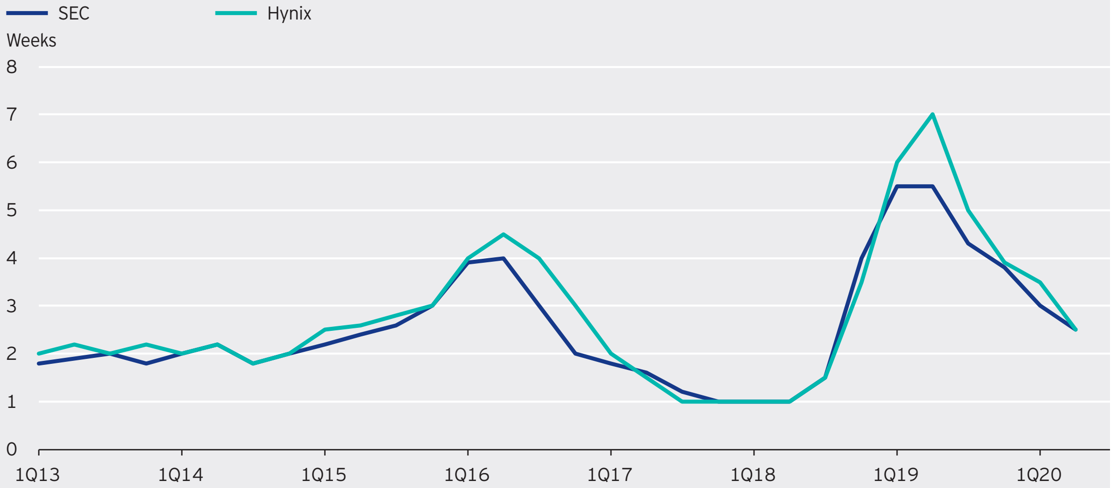
These companies are high quality companies which have experienced robust deal wins and strong revenue growth over the last year. Furthermore, we have seen the rupee depreciated by 4.5% versus the dollar since the end of February, which should provide a tailwind to margins and earnings. Their substantial cash flow generation, high earnings visibility, reasonable valuations and attractive ESG rankings implies a healthy prospect going forward, in our view.

South Korea offers attractive opportunities within technology

South Korea is a developed economy in Asia with technological capabilities. This has given rise to many industry leaders with global reach, many of which can be found within the technology and communication services sectors. In particular, we are attracted to a large electronics equipment company, which has extended its lead over competitors in its main businesses. Furthermore, we favour internet companies that are benefiting directly from the structural digitalisation trend in Asia.

An electronic company's (holding) valuation does not reflect the memory sector's resilient outlook
Our investment case for this electronics business is based on the memory sector's outlook remaining resilient combined with the fact that the company is

Figure 4
DRAM suppliers' inventory at healthy level
Two industry leaders - Samsung Electronics (SEC) & SK Hynix



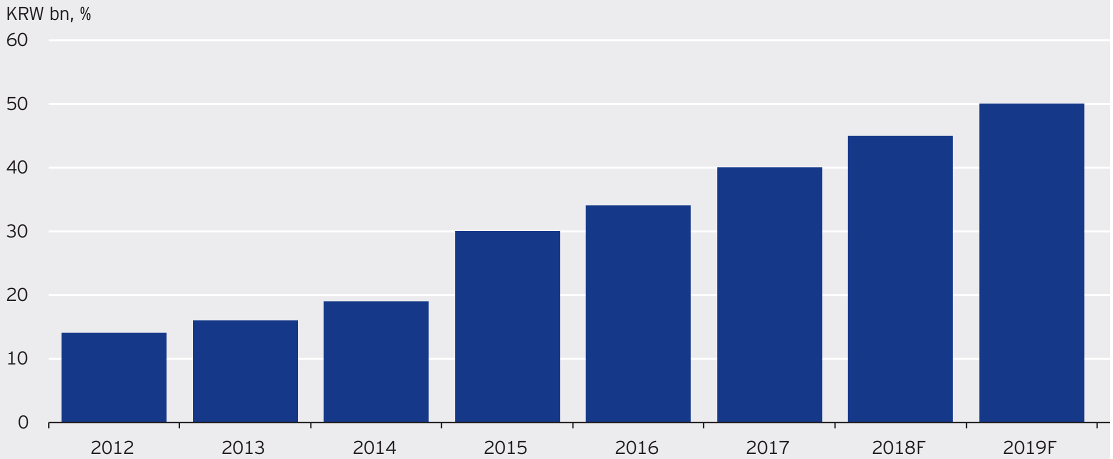
Source: CLSA research, as at June 2020.

only trading slightly above its book value. Thanks to healthy inventory levels (figure 4) and disciplined capital expenditure, we believe that extended price declines are unlikely. At the same time, DRAM demand looks healthy: smartphone demand is expected to normalise (2021) and demand stemming from streaming and gaming is increasing. This company's recent results highlighted restocking in the memory chip cycle and signs of a normalisation in mobile shipments.

South Korea's top internet companies have attracted our attentions
We have select holdings in two internet companies, including South Korea's top search portal, and a games company. The search portal's revenue is driven by advertising revenue, which we expect will remain robust (figure 5) given rising mobile monetization and an accelerating e-commerce ad contribution. Furthermore, this company has a 73% stake in a global mobile messenger service which offers promising growth with its ads business driven by the growth in the mobile ad market and the monetization of its large active uses. The robustness of this company's business was highlighted during Covid-19, when its platform saw a significant increase in both trading volume and traffic.

Turning to the games company, it is a pure MMORPG (Massive Multiplayer Online Role Playing Game) company whose games are available in domestic and overseas markets. The company's games have generated stable earnings over the last 20 years and will continue to do so, in our view. The Covid-19 impact on earnings has been largely neutral. The source of revenue expansion for the domestic market has been content updating, while overseas, this company has witnessed a significant traffic increase which should be positive for sales, in our view.

Figure 5
Advertisement revenue has been shifting to digital



Source: Invesco as at end 2019.

Performance: Solid performance track record

Consistent risk-adjusted outperformance across all periods
The Invesco Asia Opportunities Equity Fund has outperformed its benchmark across 1-, 3- and 5-year rolling periods (Share class A (Acc-USD): see table) while achieving a first quartile position within the offshore Asia ex Japan equity peer group. Even recently amid the heightened market volatility during the outbreak of Covid-19, the performance was resilient. The bottom-up stock selection process was supported by an equity investment team with extensive local knowledge.

Table 1
Performance to 31 July 2020 (net performance figures, USD, %)

	YTD	1 year	3 years	5 years
Fund	15.8	23.8	25.5	53.6
Benchmark	3.4	12.3	14.6	43.7
Sector	3.5	11.3	10.7	33.6
Quartile	1	1	1	1

Standardised 12-month performance figures (%)

	31/07/15 31/07/16	31/07/16 31/07/17	31/07/17 31/07/18	31/07/18 31/07/19	31/07/19 31/07/20
Fund	1.0	21.2	10.2	-8.0	23.8
MSCI AC Asia ex. Japan Index	-1.5	27.3	5.2	-3.1	12.3
Out/underperformance	2.5	-6.1	5.0	-4.9	11.5
Sector	-1.9	22.9	3.3	-3.6	11.3
Quartile	2	3	1	4	1

Past performance is not a guide to future returns. Source: Invesco as of 31 July 2020 and Morningstar. Net figures are net of ongoing charges and portfolio transaction costs and do not reflect the entry charge payable by individual investors. All performance data is in the currency of the share class.
There is currently a discretionary cap on the ongoing charge of 2.01% in place. This discretionary cap may positively impact the performance of the Share Class.
As the Fund is actively managed, it is not intended that the performance of the Share Class will track the performance of MSCI AC Asia. Ex. Japan Index (Net Total Return) (the „Benchmark“). *Fund inception on 30 June 1987. The current lead manager began managing the strategy in July 2014.

Risk-adjusted returns are strong with risk ratios among 1st quartile within the peer group
Importantly, the fund has also achieved substantial risk-adjusted performance with superior Sharpe, Sortino and Information ratios all ranking 1st quartile against the peer group over 5 years and, at the same time, the returns have been less volatile than peer fund returns (measured by standard deviation). In addition, the fund's positioning has produced comparatively low drawdowns (max drawdown ranked 1st quartile over 5 years), providing risk mitigation in weak market cycles.

Outperformance driven by capitalising on strong consumer demand
Over the last three years to July 2020, country allocation and stock selection added value. This was particularly the case in China where a leading online consumer-exposed platform business was a positive contributor. Its share price outperformed as it increased the retail penetration of its product categories and pushed its margins higher. Furthermore, our select exposure to an online food delivery company also added value, as it capitalised on its market leading position.

Elsewhere, the Chinese healthcare companies were among the largest positive contributors due to increasing demand for healthcare products and their perceived "safe haven" status during times of geopolitical tensions. In particular, a large healthcare company delivered strong returns on the back of its rich product pipeline and solid R&D capabilities.

Notes
1 Source: Morgan Stanley Research, National Bureau of Statistics as of March 2020.
2 Phrase 1 trade US-China agreement delayed indefinitely new tariffs on $160bn of Chinese imports and reduced tariffs on $120bn of Chinese imports to 7.5% from 15%.

Risk Warnings

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. As a large portion of the fund is invested in less developed countries, you should be prepared to accept significantly large fluctuations in the value of the fund. The fund may invest in certain securities listed in China which can involve significant regulatory constraints that may affect the liquidity and/or the investment performance of the fund. Investments in small and medium sized companies involve greater risks than those customarily associated with larger companies.