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Investing in Asia with investment trusts

How investment trusts provide exposure to the growth story in Asia...

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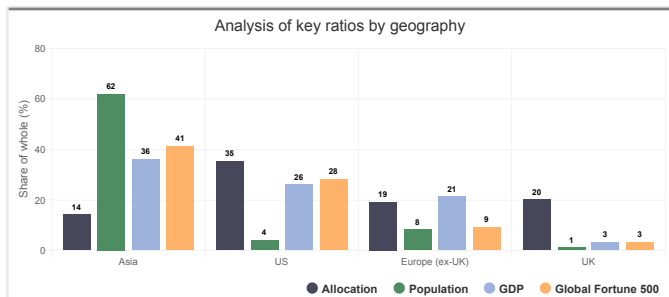


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As the saying goes, a picture is worth a thousand words and the graph below reveals a striking disconnect between the current portfolio allocations of UK investors and the fundamental drivers of returns.

Asia leads the world by population, GDP, and share of Global Fortune 500 companies, yet UK investors allocate just 14% of their portfolios to the region. In contrast, over a third is allocated to the US, despite it having a considerably lower share of Global Fortune 500 businesses. Perhaps most surprising is the 20% allocated to the UK itself, which accounts for less than 3% of global GDP, population and leading companies.

Fig.1: Asia Dominates By Population, GDP, And Global Businesses



Sources: portfolio allocations of UK-managed equities by region (The Investment Association Annual Survey, October 2024), population (World Population Review), GDP in current prices (IMF, March 2025) and Global Fortune 500 companies (Fortune, 2024)

Asia is already a dominant global force and its influence is likely to increase further as capital flows shift from external investment to domestic mobilisation. According to the Brookings Institution, Asia could account for two-thirds of the global middle class by 2030, fuelling demand for consumer goods and services.

These macroeconomic tailwinds have the potential to underpin strong returns, with Schroders forecasting a 10% annual return for emerging markets over the next decade, significantly outpacing projections for the US (6.6%) and Europe (5.9%). One thing seems clear: growth-seeking investors may wish to revisit their current allocations to Asian equities.

What do Asian stock markets look like?

In investment terms, 'Asia' typically includes the Asia-Pacific region which encompasses Southeast and East Asia, plus Oceania. At the country level, this includes China, India, Japan, South Korea, Taiwan, Indonesia, Thailand, Singapore, Vietnam and Australia.

In terms of the size of stock markets, Japan, China and Hong Kong lead the region, followed by India, South Korea and Taiwan. Smaller but still globally significant markets include Singapore, Thailand and Malaysia.

Funds have different mandates, with many excluding Japan entirely in the Asia Pacific ex-Japan sector, while others include non-Asian companies with significant revenues generated in the region. There are also single-country funds focused on markets such as China, India and Japan.

There's a wide variation in sectors across the region, with technology expertise in Taiwan and Korea, commodities in Australia, financial services in India and Singapore, electronics and automotives in Japan, and manufacturing in Vietnam and China.

Why invest in Asia?

In short, Asia offers a compelling growth story, thanks to robust economic growth, positive demographics, world-leading businesses and a strong track record of innovation.

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Strong economic growth

One of the key reasons to invest in Asia is the pace of economic growth. Asia's economy is projected to grow at a significantly faster rate than the G7 economies, with the IMF forecasting annual GDP growth of 4.2% over the next five years, double the 2.1% forecast for the US and considerably higher than the 1.5% forecast for the EU. Added to this, countries such as India, Vietnam and the Philippines are forecast to have even higher GDP growth of 6% or more.

This rising affluence is creating a powerful consumer base: Brookings estimates that 700 million new middle-class consumers will emerge across Asia in the next five years. This shift is expected to drive sustained demand in sectors such as technology, healthcare, consumer goods and financial services.

Large labour force

Asia also benefits from favourable demographics, with a large and growing working-age population. According to McKinsey, the region could account for 55% of the global workforce by 2040.

With major investment in education, countries such as China and India produce over six million STEM graduates per year (compared to less than a million in the US), which provides a ready supply of skilled talent.

A hotbed of innovation

Asia is also a global hub for innovation, accounting for more than 75% of AI patents globally in 2022, according to research by Stanford University. Innovation is thriving across a wide range of sectors from digital services to clean energy.

South Korea, Japan, Taiwan and China in particular boast world-leading companies in artificial intelligence, semiconductors and renewable energy, providing exposure to some of the key mega-trends driving global equities.

As a result, China, Taiwan, South Korea and Japan now account for three-quarters of global semiconductor fabrication, according to Bernstein, with TSMC partnering with companies such as NVIDIA to manufacture its cutting-edge chips.

Opportunity for diversification

Investing in Asia offers valuable diversification benefits, thanks to the heterogeneity across the region. The region spans advanced economies such as Singapore and Australia, alongside high-growth emerging markets in Thailand, Indonesia and the Philippines.

The region benefits from a range of idiosyncratic growth drivers, from export-oriented powerhouses such as Taiwan and South Korea to consumer-led economies in ASEAN countries. Ongoing geopolitical tensions, including the "China +1" manufacturing strategy, have further benefitted countries such as India and Vietnam as an alternative to Chinese supply chains.

Structural reforms

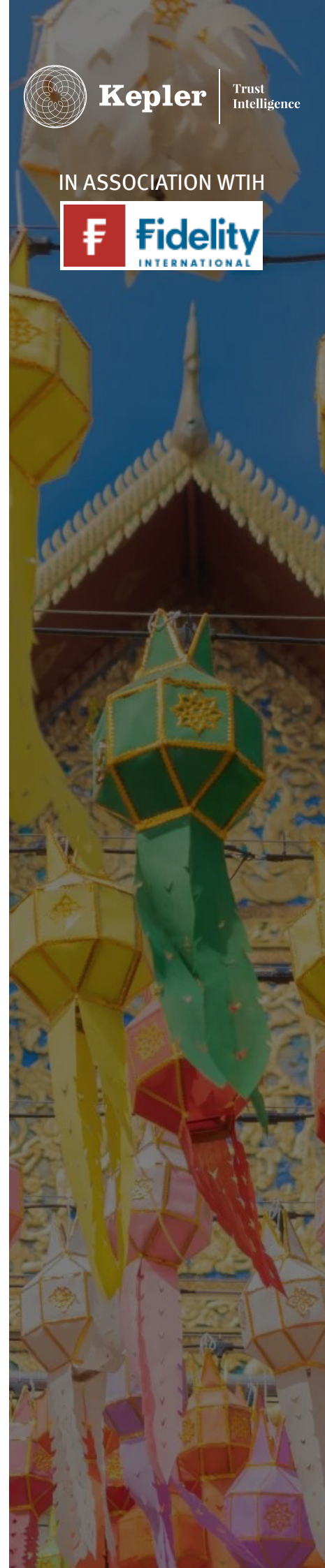
The region has also reaped the rewards of comprehensive structural reforms, including investment in infrastructure, liberalisation of markets, reform of state-owned enterprises and measures to attract foreign capital.



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Japan's efforts are well-known but South Korea is now pursuing similar goals with its "Corporate Value-Up" initiative. Indonesia, Malaysia and Thailand are also exploring governance reforms to attract international investors.



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How difficult is it to invest in Asia?

Retail investors often face barriers when trying to access Asian equities directly. Many mainstream UK investment platforms offer limited access

beyond developed markets such as Japan or South Korea, and trading costs can be high due to foreign exchange and transaction fees.

American Depositary Receipts (ADRs) offer partial access to Asian equities via US or UK exchanges. These allow investors to buy shares in major Asian companies (such as TSMC) but availability is often limited to large-cap stocks and may come with lower liquidity and reduced transparency.

The other challenge is a lack of research and limited financial information on Asian equities. Financial reporting requirements tend to be considerably less onerous than in the UK and US, and documents are often not available in English.

In short, investing directly in Asian equities can be particularly difficult for ordinary people due to access limitations, higher costs and lower transparency.

Fidelity Asian Values (FAS) is one example of an investment trust which offers a solution to these challenges. Backed by one of the world's largest investment managers, FAS provides carefully managed exposure to the continent, under the stewardship of a highly resourced and experienced team, with 'boots on the ground' across Asia including offices in Hong Kong, Shanghai and Singapore.

A key advantage of this expertise and active approach, according to our analysts, is the managers' willingness to be contrarian when building their portfolio – which can look and perform very differently to the underlying index.

Writing in May 2025, our analysts highlighted the managers' contrarian positioning – with an overweight towards China and underweight toward India which supported strong returns as sentiment toward the former improved and the strength of India's stock market performance began to wane in the second half of 2024.

Their active positioning also helped FAS to capture much of the stimulus led rally that occurred at the end of 2024 and in the early stages of 2025. You can learn more about this trust via the case study below, or view our latest research on the trust by clicking [here](#).

Why invest in Asia with investment trusts?

Investment trusts offer a practical solution by providing access to a diversified portfolio of Asian equities managed by experienced professionals. Rather than buying individual shares, investors gain

exposure to a basket of assets which reduces company-specific risk.

There are currently 12 Asian investment trusts listed on the London Stock Exchange, split across the AIC Asia Pacific, Asia Pacific Equity Income and Asia Pacific Smaller Companies sectors.

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Asia is a vast, diverse and complex investment universe, spanning 50-odd countries with very different macroeconomic and political backdrops. Asian markets are also inefficient, which provides a fertile hunting ground for active managers who can balance the upside potential with downside risk.



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Asian investment trusts vs open-ended funds

It's fair to say that some of the benefits mentioned above, whether a diversified portfolio or manager expertise, also apply to open-ended funds but investment trusts have some unique attributes which may help them deliver superior returns compared to their open-ended peers.

Firstly, open-ended funds are not publicly traded (unlike investment trusts), meaning that the size of the investable fund will rise and shrink with the purchase and sale of units in the fund. This means that open-ended funds will typically hold a sizeable proportion of cash in reserve to meet redemption requests, which can create a 'drag' on returns. This also limits their ability to invest in less liquid stocks which can be a constraint in smaller stock markets in Asia.

Investment trusts do not have this problem as publicly traded companies, as the buying and selling of shares in the investment trust does not affect the size of the investable fund. As trusts are not required to retain cash for redemptions, this can boost returns for investors and allow longer-term investment in smaller or less liquid companies.

Another factor is gearing, whereby the trust can borrow money with the goal of enhancing returns (although it can also increase losses). Trusts are typically able to borrow up to a certain percentage, for example, 20% of the assets under management, whereas open-ended funds are not able to deploy gearing.

The team at FAS use gearing actively, ramping up their exposure to markets when they are seeing stocks at attractive valuations and reducing it when opportunities are thinner on the ground.

Our analysts say that gearing was used to good effect in 2024, when the managers saw an opportunity to build exposure to China at valuations which, in their view, were not pricing in any form of recovery – and this subsequently contributed positively to returns.

Lastly, investment trusts can use capital reserves to pay dividends (if required), which can provide income for investors in a sector which tends to be more growth-focused.

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Case Study

Fidelity Asian Values (FAS)

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Launched: 1996

Manager: Fidelity International

Ongoing charges: 0.95%

Investment policy: The trust aims to achieve long-term capital growth principally from the stock markets of the Asian region, excluding Japan.

Benchmark Index: MSCI All Countries Asia ex Japan Small Cap Index

Fidelity Asian Values (FAS) aims to generate outperformance by investing primarily in smaller companies across Asia. The portfolio is managed with a bottom-up, value-oriented approach, focusing on opportunities over a two to three-year investment horizon. The managers' contrarian mindset often results in a portfolio that diverges meaningfully from both the benchmark and its peer group.

This differentiated approach has supported strong long-term performance. FAS has delivered a 10-year share price total return of 150% (as at 16/06/2025), placing it at the top of the AIC Asia Pacific Smaller Companies sector. While past performance is not indicative of future results, the managers believe the trust remains well positioned to benefit from structural growth drivers across Asia.

Despite headwinds related to tariffs and geopolitical tensions, FAS currently trades on the narrowest discount to NAV in its peer group, reflecting the ongoing investor confidence in the strategy.

1) What is the investment trust's goal?

The trust's goal is to deliver long-term capital growth for shareholders by investing in smaller companies across Asia and the Pacific.

2) What kind of stocks do the managers like?

Managers Nitin Bajaj and Ajinkya Dhavale are bottom-up stock pickers, seeking high quality businesses run by good management teams at attractive valuations that offer a margin of safety. They favour companies with well-established, durable business models, robust cash flows, solid balance sheets and high standards of corporate governance.

The portfolio reflects the search for the best opportunities in the under-researched small cap segment across the Asian investment universe. The

managers are not restricted by sector or country in this search and the portfolio has maintained exposure to unique businesses that are not yet appreciated by the wider market, as well as unloved stocks in durable businesses that have a clear, long-term growth trajectory.

3) Are investment decisions driven by a particular investment style?

The portfolio is tilted towards value and smaller companies, which are typically less well researched and create greater scope for valuation anomalies. The portfolio is constructed from the bottom up, with Nitin and Ajinkya focusing on company-specific factors and fundamental drivers first and foremost, meaning that sector and country allocations are an output of this.

The managers are supported by one of the largest on-the-ground research teams in the region, which includes a dedicated Asia small cap research team that regularly conducts meetings with company management teams, supporting both due diligence and ongoing engagement.

The portfolio is well diversified by sector and geography, with notable allocations to China and Indonesia currently based on attractive valuation opportunities. While investor sentiment towards China has been lacklustre over recent years, the managers believe the country's skilled labour force and technological leadership remain key competitive strengths that are overlooked. Indonesia offers well-managed, high-quality companies and a positive backdrop thanks to a young population and conservative fiscal policies.

4) How many stocks does the investment trust typically hold?

The managers will typically hold a portfolio of around 100-200 companies.

5) What is the investment trust's dividend policy?

The primary aim is to achieve capital growth and the trust does not have an explicit dividend policy. However, the trust's portfolio of high-quality businesses typically generates strong cash flows and often pays dividends to shareholders. As a result, dividends can contribute to total returns, with the trust currently trading on a dividend yield of just under 3% (as at 16/06/2025).

6) What are the investment trust's ongoing charges?

The trust's ongoing charge is 0.95%.

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7) Does the investment trust have performance fees?

The trust has a variable management fee arrangement which comprises a base management fee of 0.70% of net assets per annum and a +/- 0.20% variable fee based on the NAV performance relative to the benchmark index (calculated daily on a three year rolling performance basis).

This fee increases or decreases by 0.033% for each percentage point of the three-year NAV outperformance or underperformance over the benchmark index up to a maximum of +0.20% or a minimum of -0.20%. The maximum fee is 0.90% of net assets but if the trust underperforms against the benchmark index, the overall fee could fall to as low as 0.50% of net assets.

This performance-related component is designed to increase the alignment of interests between the managers and shareholders and reduce the fee burden if the trust underperforms.

8) How much attention do the managers pay to the index, and to what extent are absolute returns important?

FAS's managers are consistently in the search for the best investment opportunities in the region that are aligned with their long-standing investment framework. They are focused on managing absolute risk in the portfolio so as to safeguard client capital in a manner such that over the long term, the trust can deliver robust absolute returns, and in delivering such a performance, naturally outperform the index.

9) Does the investment trust use gearing and if so, is it structural or opportunity-led?

The trust can utilise gearing facilities to generate long-term alpha. This is done via contracts for difference (CFDs) to enhance exposure to their highest conviction holdings, which acts as a gearing mechanism without recourse to traditional borrowing facilities, and to take short positions.

Gearing is opportunity-led, with the managers aiming to utilise gearing to capitalise on bottom-up valuation opportunities rather than a call on broader market direction.

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