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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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Schroders

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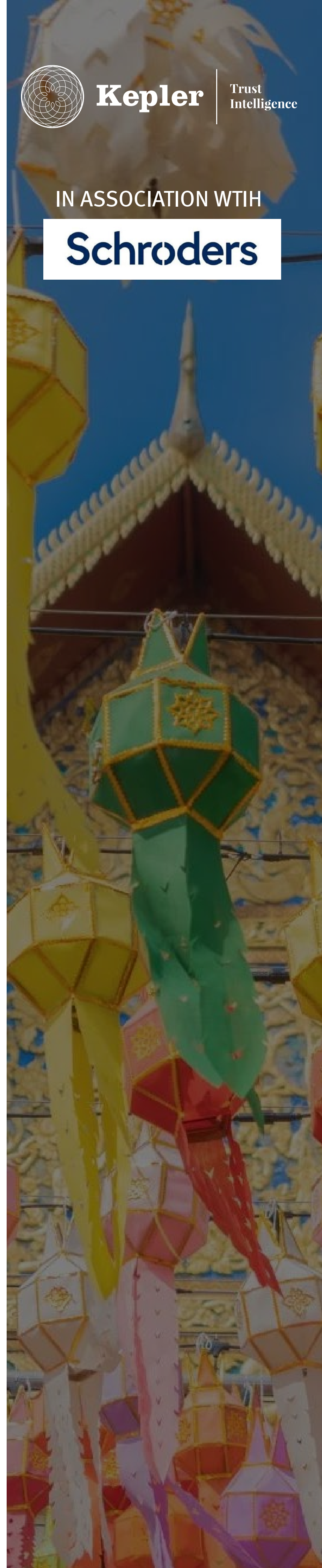
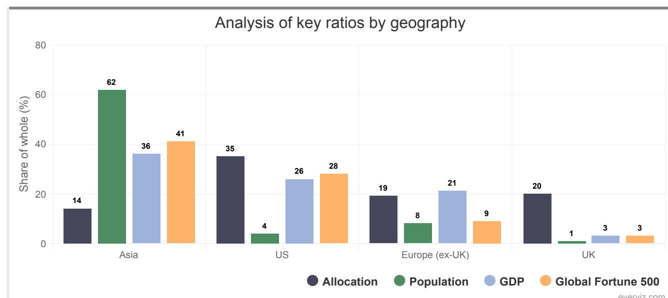


As the saying goes, a picture is worth a thousand words and the graph below reveals a striking disconnect between the current portfolio allocations of UK investors and the fundamental drivers of returns.

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.

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 difficult due to access limitations, higher costs and lower transparency.

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.

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.

One such example is **Schroder AsiaPacific (SDP)**, which is managed by Richard Sennitt and Abbas Barkhordar, who collectively bring nearly 50 years of expertise in Asian and Emerging Market equities.

The managers are supported by over 40 analysts across six offices and the team conduct over 2,600 meetings and contacts with Asian companies each year. This allows them to identify the most attractive investment opportunities through extensive due diligence on the entire economic, political and corporate ecosystem.

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.

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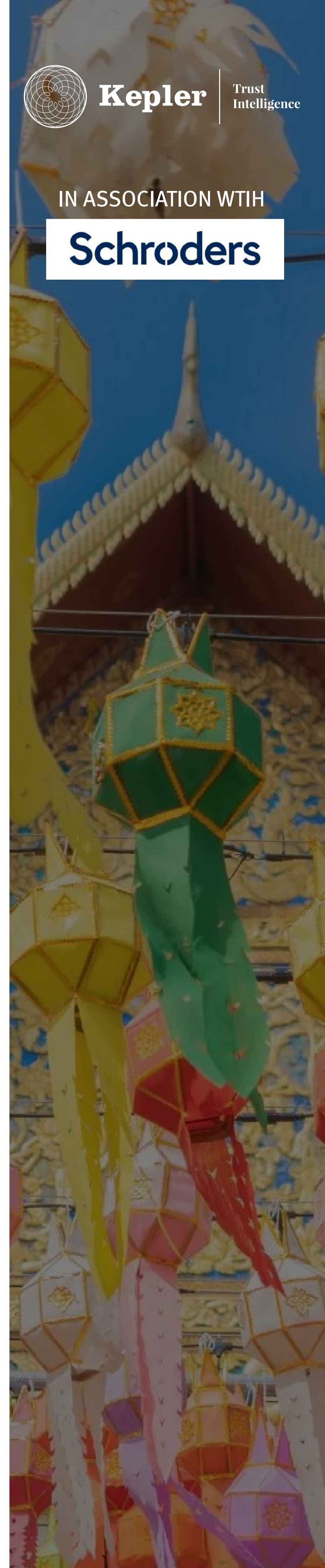

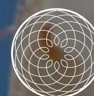

Firstly, open-ended funds are not publicly traded (unlike investment trusts), meaning that the size of the investable fund will rise and shrink with the purchase and sale of units in the fund. This means that open-ended funds will typically hold a sizeable proportion of cash in reserve to meet redemption 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.

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

Schroder AsiaPacific (SDP)

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Launched: 1995

Manager: Schroder Investment Management

Ongoing charges: 0.9%

Investment policy: The trust aims to achieve capital growth through investing in companies located in the continent of Asia (excluding the Middle East and Japan), together with the Far Eastern countries bordering the Pacific Ocean.

Benchmark Index: MSCI All Countries Asia ex-Japan Index

Schroder AsiaPacific (SDP) aims to deliver capital growth for shareholders by investing in companies across Asia and seeks to achieve growth in excess of the benchmark index. The managers are bottom-up stock pickers looking for 'quality growth at the right price'.

The trust is one of the largest and most liquid funds in its peer group and is well-diversified both by country and sector. The trust has a notable underweight to China, which is partly offset by its overweight to Hong Kong, although the managers have been cautiously increasing their exposure where they see valuation opportunities.

In the ten-year period to 28/02/2025, SDP has delivered an annualised share price return of 8.2%, putting it well ahead of the 6.5% return from its benchmark index. There are no guarantees that this will be repeated in the future, however, the managers believe that the trust is well-positioned to capitalise on the growth drivers across the region.

1) What is the investment trust's goal?

SDP's goal is to deliver capital growth for shareholders by investing in equities across Asia and the Pacific.

2) What kind of stocks do the managers like?

Managers Richard Sennitt and Abbas Barkhordar are bottom-up stock pickers, looking for quality companies at attractive valuations. They favour companies with durable earnings growth, robust balance sheets, efficient capital allocation and strong corporate governance, where the company's competitive position underpins the potential for superior returns.

Key themes include technology leadership and innovation, the rise of Asian consumers and the expansion of the services sector across the region. One area of focus is semiconductor manufacturers in South Korea and Taiwan, including the largest global producer of semiconductor chips, TSMC. They also hold regional banks exposed to increasing credit penetration in markets such as India and South-East Asia.

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

The portfolio is diversified by sector and country without any major bias towards growth or value investment styles. The managers aim to exploit the inefficiencies in Asian markets by focusing on company fundamentals and taking a long-term view of the durability of a company's returns and competitive advantages.

The portfolio is constructed from the bottom up, with Richard and Abbas focusing on company-specific factors first and foremost, meaning that sector and country allocations are an output of this. However, the managers will regularly review their country weightings with input from the wider Schroders team.

The quality of management team is a key focus, alongside a programme of regular engagement with companies. As mentioned earlier, the managers are supported by an extensive team of Asian equity specialists who conduct more than 2,600 meetings and contacts a year.

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

The managers will typically hold a portfolio of around 60-80 companies.

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

The board's policy is to pay out substantially all of the revenue received each year, meaning that the trust typically generates a modest income. At the time of writing, SDP is trading on a dividend yield of just over 2%.

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

The investment trust's ongoing charge is 0.9%.

7) Does the investment trust have performance fees?

No, there is no performance fee.

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

SDP's managers aim to achieve growth in excess of the MSCI All Countries Asia excluding Japan Index in sterling terms over the longer term.

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

While the trust can utilise gearing of up to 20% of net assets, the managers have historically used only a modest amount of gearing, which has typically been under 3% in the last five years. 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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