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Business

# Despite its unpopularity this trust offers much more than just a bargain price. So keep investing

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TRUST BARGAINS

## Asia Pacific equities may have fallen out of favour recently but the long-term prospects for the region remain highly attractive

Read Questor's rules of investment before you follow our tips: telegraph.co.uk/go/questorrules; telegraph.co.uk/questor

Unloved investment trusts that trade at a deep discount to net asset value are considered by many investors to be stunning buying opportunities. After all, they offer the chance to buy assets for less than their market value.

Their discounts can narrow over time, and in some cases become premiums to net asset value, thereby generating capital gains for investors even if the market values of their underlying holdings fail to rise.

While this strategy can be highly successful, it often takes an extended period to come to fruition. Indeed, many investment trusts that trade at large discounts to net asset value remain unpopular for several years. Investors should therefore always ensure that any trust they purchase offers much more than just a cheap price tag.

This column's advice to buy the Schroder AsiaPacific investment trust in May 2017 centred on it trading at an 11.5pc discount to net asset value. While its discount narrowed in subsequent years, culminating in a brief flirtation with a premium as global stock markets surged during 2021, ultimately it has remained unloved among investors.

In fact, its discount has averaged a rather disappointing 9pc during the past five years and has even been as wide as 18pc. It currently trades at a 10pc discount to net asset value.

Despite its seemingly perennial unpopularity among investors, the trust has generated a commendable return since our tip. It is up 32pc and has outperformed the FTSE 100 by 27 percentage points since May 2017. Its annualised return of 9.2pc over the past decade is 2.2 percentage points greater than that of the MSCI All Countries Asia excluding Japan index, which is its benchmark.

Clearly, Asia Pacific equities have fallen out of favour over recent months as the prospects for the global economy have deteriorated. Factors such as rising US interest rates, Russia's invasion of Ukraine and its potential implications for Taiwan's future, and China's zero-Covid policy have weighed on asset valuations across the region.

In Questor's view, this provides a buying opportunity for long-term investors. The Asia Pacific region offers stunning long-term growth potential as trends such as urbanisation, rising household incomes and a growing demand for consumer products play out. While advanced economies such as Britain, America and the eurozone are forecast to deliver GDP growth of 1.2pc this year and 1.4pc next year, according to the IMF, it expects emerging and developing Asian economies such as South Korea, Taiwan and India to post annual growth in excess of 5pc a year.

The region is also likely to benefit from China's decision to end its zero-Covid policy. Although the trust has a large underweight position to mainland China, with 19pc exposure versus 38pc for the benchmark, about 16pc of its assets are listed in Hong Kong compared with 7pc for the reference index. In addition, it has exposure to Taiwan (16pc), India (14pc) and South Korea (13pc) alongside a variety of other emerging economies.

The trust takes a bottom-up approach to asset allocation. This means it does not determine its geographical exposure based on the economic prospects of specific countries. Rather, it simply aims to unearth the highest quality companies across the region and purchase them when they trade at attractive prices.

Although it is not strictly a growth or value-focused trust, it nevertheless leans towards large-cap companies with strong earnings growth prospects. Its 31pc exposure to the information technology sector, versus 22pc for the benchmark, suggests it is well placed to benefit from an improving economic outlook that is catalysed by trends such as digitisation and the "Internet of Things".

Clearly, the trust's volatility could prove to be relatively high in the short term as an uncertain political and economic outlook play out across the region. We are also realistic about the prospect of a narrowing of its discount while investors are downbeat about the near-term outlook for risk assets.

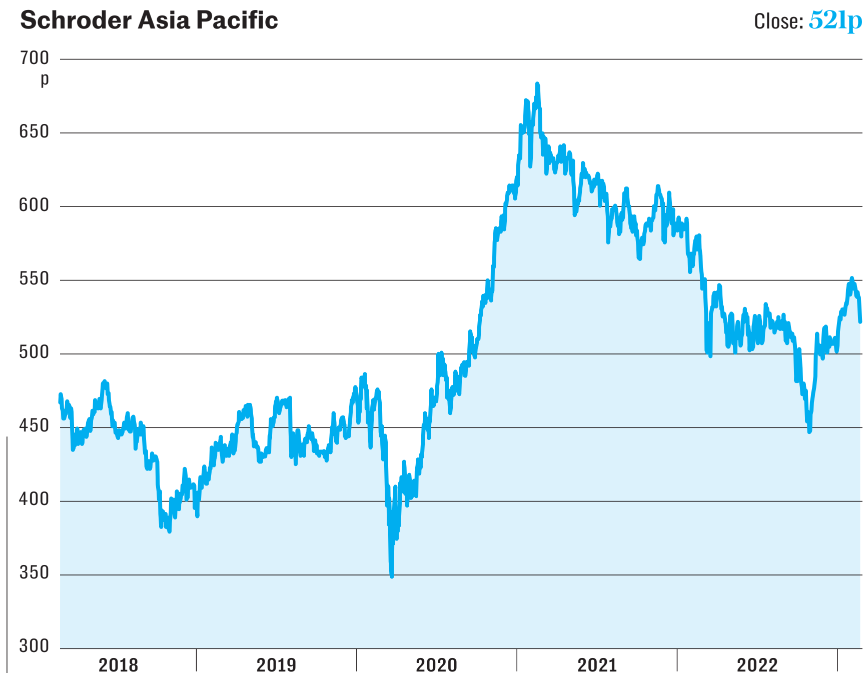
But with an excellent long-term track record of outperformance versus its benchmark and stunning growth prospects from multiple emerging economies across the Asia Pacific region, the trust offers further elevated capital return potential in the coming years. Keep buying.

**Questor says:** buy
**Ticker:** SDP
**Share price at close:** 521p

**Schroder AsiaPacific fund**

**BUY**

The trust has outperformed the FTSE 100 by 27 percentage points since May 2017




**Key numbers**

- **Market value:** £835m
- **Year of listing:** 1995
- **Discount:** 10pc
- **Average discount over past year:** 10pc
- **Yield (Sept 2022):** 2.3pc
- **Most recent year's dividend:** 12p
- **Gearing:** 0.2pc
- **Annual charge (Sept 2022):** 0.84pc

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