MARKET INSIGHT

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Redmayne Bentley

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# Continued Momentum


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# CONTINUED MOMENTUM

ALASTAIR POWER | INVESTMENT RESEARCH MANAGER

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**Equity markets continued their strong run of performance through the second half of the third quarter with both the FTSE 100 and S&P 500 recording record highs. The artificial intelligence (AI) tailwind to global equity markets remains, with US technology company Oracle experiencing a 36% one-day increase in its share price on the announcement of a further US$300bn in AI-related computing deals. In the UK, strong performance continued within the banking and defence sectors, with Rolls Royce having nearly doubled its share price in the current calendar year. Banking shares experienced a small wobble in late August over speculation of a potential increase in the banking levy. Corporate activity remained, with the notable completion of Primary Health Properties' takeover of Assura and the announcement of Anglo American's deal to merge with Teck Resources and create a US$53bn copper mining giant.**

Strong performance has been generated within Asian equity markets through 2025, with the Korean Kospi rising 41.5% and China CSI 300 index gaining 14.9% in local currency terms for the year-to-date. Key Chinese technology names of Alibaba and Tencent have seen their share prices rise 83.4% and 54.3% respectively, through 2025 to the time of writing on renewed interest in Asian markets and improved corporate performance. Drivers behind performance within the Korean market will be explored in the Insight Article and Invesco Asia Dragon Trust within the Stock Focus article.

Government bond markets were more cautious, with the UK 30-year gilt yield reaching 5.6%, a level last reached in 1998, given concerns over the UK's fiscal position. Long-dated bonds have seen similar moves higher in both the US, although to a lesser extent, and within Europe where the 30-year benchmark bond yield has risen by 68 basis points through the current calendar year to 3.27%. More recent developments include the passing of a vote of no confidence in France and the downfall of yet another French Prime Minister.

Within corporate bond markets, investor sentiment is more positive with the additional yield required for lending to corporates over governments continuing to trade at historically tight levels within both high and low-grade indices. Drivers behind such tight levels continue to be both fundamental and technical with strong earnings performance within the financial sectors and continued buying of corporate bonds by investors, given the attractive yields on offer.

Looking forward, central bank activity remains closely watched, with the Bank of England meeting in mid-September and markets expecting a 25-basis point decrease in US interest rates at the upcoming Federal Reserve meeting given softer labour market data. The much-anticipated Autumn Budget was delayed to late November, extending the period of speculation around further tax increases and likely causing further volatility in long-dated gilt yields.

# STOCK FOCUS

## INVESCO ASIA DRAGON TRUST

RUTH HARRIS | INVESTMENT RESEARCH ANALYST

As the political temperature heats up in the US and Europe, with increasingly divided governments facing fiscal, political, and demographic pressures, Asian markets have seen renewed interest from investors. To the end of August, the MSCI AC Asia Pacific ex Japan Index has returned 9.64% so far in 2025 compared to just 5.47% from the MSCI World Index. This follows multiple years of underperformance as investors flocked to the US, with many looking to benefit from enthusiasm around the technology sector, especially companies positioned to benefit from the rise of AI. While the weakening of the US dollar has had a profound drag on sterling returns this year, there are also signs of fundamental strength in Asian markets which may be attractive to new investors.

Invesco Asia Dragon Trust (previously Invesco Asia) is an investment company benefitting from increased investor interest, both in its asset class and as a consequence of its merger with Aberdeen's Asia Dragon Trust earlier this year. The trust invests in companies across Asia (excluding Japan), looking to identify undervalued businesses. It takes an unconstrained approach, meaning portfolio managers Fiona Yang and Ian Hargreaves have the freedom to flexibly invest in the opportunities they find most attractive across sectors and countries in the region. This diversification is evident in the trust's top holdings, with positions in Taiwan Semiconductor Manufacturing (a Taiwanese semiconductor producer), Tencent (a Chinese multinational multimedia conglomerate), Samsung Electronics (an electronics manufacturer based in South Korea), and HDFC Bank (an Indian banking and financial services company). The portfolio managers look for companies where short term issues have led to a fall in the share price despite strong fundamentals, and aim to sell when the share price recovers to what they consider to be fair value. They look to diversify holdings to manage risk exposures, as well as selecting companies with strong balance sheets and low levels of debt, with the aim of creating a more resilient portfolio of companies.

*"Investment opportunities in Asia are diverse, with investors facing remarkably different market conditions and drivers depending on the country in question."*





The trust is seeing increased interest from investors following the merger of two smaller trusts, Invesco Asia and Asia Dragon, earlier this year. Asia Dragon, which was previously managed by Aberdeen Investments, was suffering from persistent underperformance, returning -11.7% in the three-year period to the end of 2024. Shareholders agreed to transfer assets to Invesco Asia, resulting in a much larger combined trust managing £863.3m as of the end of July 2025. While Invesco Asia was the smaller of the two merged trusts, it has a 30-year track record with excellent long-term performance, cumulative share price returns of 147.9% over the last ten years compared to 83.8% from its benchmark index. Prior to the merger Invesco Asia operated on a much smaller scale, which can cause liquidity problems for investors looking to buy and sell shares. Invesco Asia Dragon now benefits from improved liquidity and visibility in the market, with the hopes of becoming the go-to Asia Pacific investment trust. It has also been able to pass on some savings from its improved scale to shareholders through a lower ongoing charges ratio (OCR), which is expected to annualise to 0.70% in coming years. This is significantly lower than both Invesco Asia and Asia Dragon's previous charges, which were 1.03% and 0.86%, respectively.

For investors seeking an income, Invesco Asia Dragon offers an enhanced dividend policy with payments made quarterly in January, April, July, and October. The enhanced dividend policy means that the trust pays out 4% of the Net Asset Value (NAV) per year from a combination of portfolio income and capital, providing an attractive yield for shareholders. However, the downside of this policy is there is no guarantee that dividends will grow each year. If markets fall, the trust's NAV will be lower leading to a smaller dividend payment.

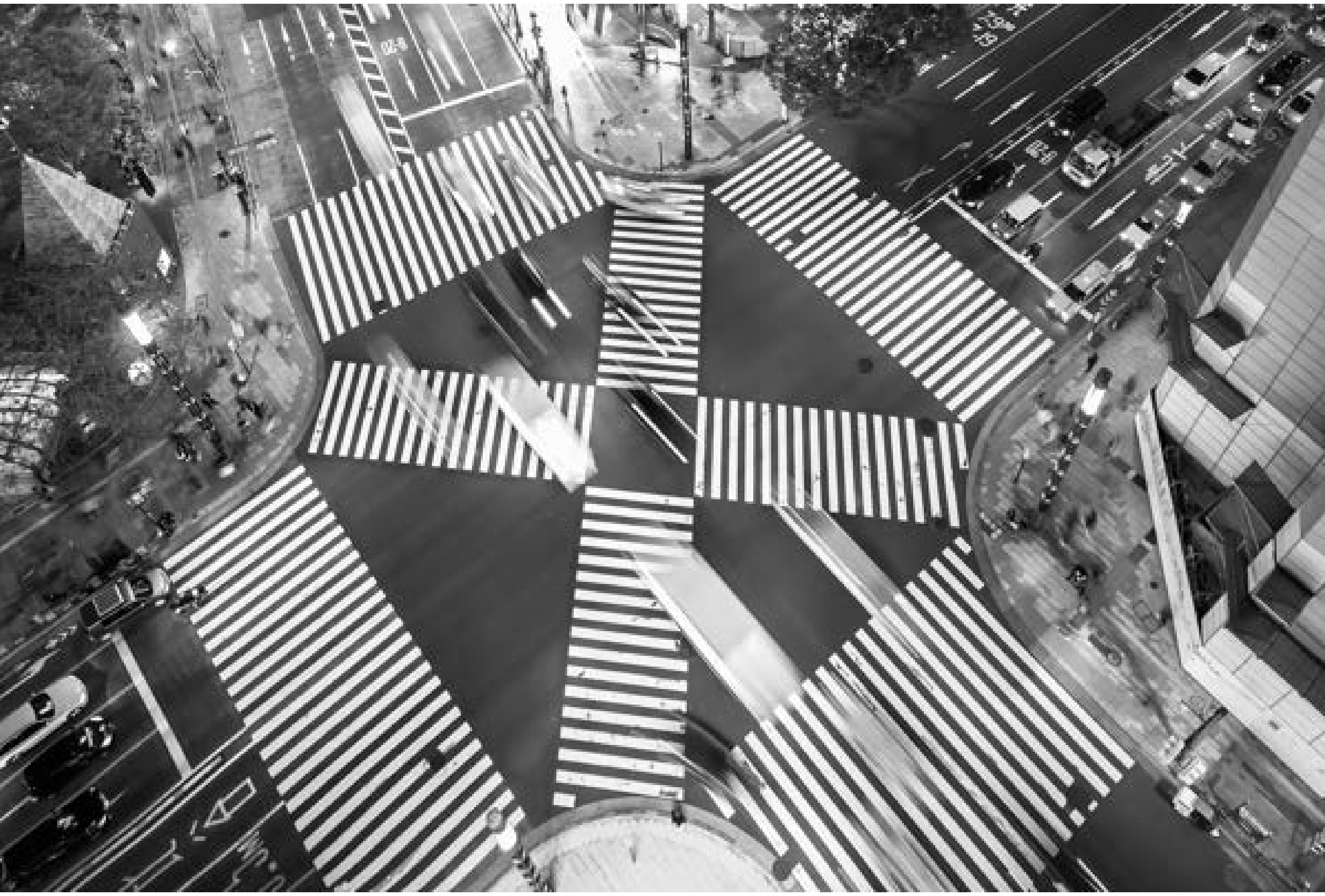
There remain significant risks to investing in many Asian companies, including governance concerns, political issues, and volatile currencies. However, as noted by the portfolio managers, there are also increasing risks to investing in developed markets with concerns around growth, inflation, and fiscal sustainability paired with lofty valuations in the US equity market. Investment opportunities in Asia are diverse, with investors facing remarkably different market conditions and drivers depending on the country in question. In such an environment, it can be beneficial to use an investment manager with significant experience in the region. Invesco Asia Dragon Trust may continue to benefit from these trends, while demonstrating the potential upside of consolidation in the investment trust space. ■

*Please note that this communication is for information only and does not constitute a recommendation to buy or sell the shares of the investments mentioned. Investments and income arising from them can fall as well as rise in value. Past performance and forecasts are not reliable indicators of future results and performance. The information and views were correct at time of publishing but may have changed at point of reading.*

# INSIGHT

## GOVERNANCE IN THE SPOTLIGHT: ASIA'S PUSH TO UNLOCK INVESTMENT

THOMAS HYDE | INVESTMENT RESEARCH ANALYST



Corporate governance is often overshadowed by high-profile acquisitions or headline-catching scandals, leaving the internal mechanisms that shape how companies are controlled largely unnoticed. Recognising the consequences of poor corporate governance on public companies, and its importance in driving shareholder value, several Asian economies are introducing reforms that strengthen oversight and improve transparency. This article examines corporate governance reforms in two of Asia's major economies, aimed at unlocking capital markets and attracting foreign investors.

Japan's corporate governance reform has been an exercise in patience. Before World War II, the Japanese economy was dominated by Zaibatsu: powerful, family-controlled conglomerates. Although dismantled post-war in an effort to democratise society, their legacy endured as Keiretsu. These looser networks of affiliated firms typically centred around a major bank that provided loans and encouraged cross-shareholding, where companies hold shares in one another, to protect against hostile takeovers. This structure thrived during Japan's post-war 'economic miracle', but its dominance was challenged following the collapse of the asset price bubble in the 1990s.

> *"...stewardship codes, originally introduced in the UK following the financial crisis, have been adopted by several Asian countries. Yet their practical implementation varies significantly."*

In the ensuing 'lost decade' of stagnation, Japanese businesses recognised they could no longer depend on cross-shareholding, as banks sold these shares to improve their financial position. Foreign investment became increasingly vital and, by 2009, overseas ownership of domestic shares had risen from 6.1% in 1990 to 19.5%. As the number of foreign shareholders grew, demands for minority rights grew louder. In response, the government introduced a Corporate Governance Code in 2015, which emphasised board independence, protection of minority shareholders, and a 'comply or explain' framework. This forced Japanese companies to focus attention on shareholder issues such as share price performance, financial reporting transparency, and overall corporate strategy – or give reasons to regulators for failing to do so. The Code has been revised and strengthened over time. Although progress has been slow, Japan's approach provides a template for its neighbours seeking to improve their own corporate governance frameworks.

One country looking to replicate Japan's success is South Korea. It has its own unique model of family-owned conglomerates, known as Chaebols, which emerged during the country's post-war industrialisation. These companies exercise considerable influence on the economy, yet their corporate governance record has been patchy. Some consistently trade persistently below book value (the net value of a company's assets), while others have been involved in scandals, including cases where directors accused of embezzlement were not only pardoned, but then re-hired by the very companies they allegedly defrauded. This poor record has contributed to what portfolio manager Jonathan Pines terms the 'Korea Discount', a phenomenon where South Korean equities are priced at significant discounts relative to their global peers.

Although South Korea has been slow to address these structural problems in equity markets, reform efforts are gaining momentum. In June, an amendment to the country's Commercial Act was proposed to ensure company directors fairly consider the interests of all shareholders when making business decisions. Further amendments are planned. One proposal targets treasury shares, repurchased stock that remains uncancelled, often used by directors to maintain control. The cancellation of these shares would reduce the company's overall share count, potentially improving share price. A mandatory offer law, designed to protect minority shareholders by ensuring they receive the same price as controlling shareholders in the event of a takeover, has also been proposed. These developments have encouraged investors. Year-to-date, the MSCI Korea Index is up over 40%. Although there is momentum, these proposals are yet to be made law.

Despite widespread adoption of Anglo-American corporate governance across Asian economies, their intended impact may be lost in translation. Researchers at the European Corporate Governance Institute and Singapore Management University, Goto and Dan, identified how corporate governance practices that look similar on paper serve distinct functions in practice – a term they call 'faux convergence' (Goto and Dan, 2024). For example, stewardship codes, originally introduced in the UK following the financial crisis, have been adopted by several Asian countries. Yet their practical implementation varies significantly. In Japan, they have encouraged companies to take greater risks. In contrast, Singapore and Hong Kong's adoption serves to 'signal compliance' with global governance norms rather than address domestic issues. On the surface, this creates the appearance of convergence but it misleads policymakers about the actual state of corporate governance around the world.

The corporate governance reforms discussed in this article merely scratch the surface of the region's development. While it is clear both countries are making progress, it is important to look beyond the headlines to understand the impact of these changes. Reform must remove entrenched interests and align incentives. In the words of the late Charlie Munger, legendary investor and longtime Vice Chairman of Berkshire Hathaway: "Show me the incentive and I'll show you the outcome." ■

*Source: Goto, G. and Puchniak, D.W (2024). Faux Convergence in Asian Corporate Governance: Unmasking the Illusion of Anglo-American Transplants. SSRN. Available at: https://ssrn.com/abstract=4993696 (Accessed: 18 September 2025).*

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