

## SHINING A LIGHT ON..... SCOTTISH ORIENTAL SMALLER COMPANIES TRUST (SOSCT)

### At a glance

The SOSCT is an investment trust focusing on Asian Smaller Company equities. The trust has been on our radar for some time because it is managed by the very successful First State investment team.

The trust has a focus on smaller companies which have historically shown an ability to outperform larger companies over the long term. In more developed regions smaller cap investing can carry less risk where the focus is on quality and well-established businesses. In emerging markets and Asia uncovering these companies can be tricky.

The trust will not appeal to all investors as it is likely to carry more risk than a fund focusing on larger companies. It is also worth noting that smaller companies haven't performed as strongly in the last couple of years (therefore investors may have lost money in the short term).

In this update we aim to understand more about the fund and the management team.

### Who are the team behind the fund?

The fund is managed by Wee-Li who took on the management in 2013. However, shortly after taking on the management of the fund she went on maternity leave and has only been fully managing the fund for about 12 months. Prior to that she doesn't appear to have managed any mainstream funds so her track record is weak.

There was information that Angus Tulloch co-managed the fund and he did step in whilst Wee-Li was on maternity leave but he hasn't managed the fund since 2002.

Although Wee-Li's performance is weak, over the long term First State have delivered strong performance in Asian equities and therefore the support and drive to succeed is certainly there.

### Fund highlights?

Wee-Li started by outlining that the fund tends to perform at its best during down markets (83% of the time), and across all market conditions 60% of the time. The difficulty with this is that it is hard to judge what is good and what is not. The performance has been mixed and this could be because there has been an unsettled management structure over the last couple of years.

Another area which Wee-Li didn't really cover was the split of the fund. It appears that the fund holds about 60% plus in smaller companies and 30% plus in mid and large-cap companies. So this is not a pure small cap fund. It also reflects a long term hold strategy. Some holdings have been in the fund for 5 years plus which again would indicate some hangover in holdings from the previous manager. Although the holdings might be small cap when they go into the fund they grow into mid and large cap over time.

Turning to holdings the main geographical areas are India (21%), Singapore (17%), China (16%) and Taiwan (13%). From a sector viewpoint Consumer Staples makes up 19% of the fund, and Consumer Discretionary 19%. The fund also holds for example, some industrials but these are mainly logistic firms like Singapore Post and financials (small personal loan firms and property).

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In India many of the businesses are connected with the Tata Group so although they are independent there is a connection with one main company. I'm not sure if this adds to the risk or not but it is a consideration.

We talked about some of the holdings:

1. Amore Pacific Group – this has been held in the trust for nine years. This is a Korean cosmetic company with an innovative and creative management team who are contributing to the global cosmetic trade.
2. Marico – is an Indian company making Coconut oil for hair which is seen as fashionable. They have recently met the management team and they believe this to be a quality company
3. Raffles Medical – another well-run company running hospital and medical clinics in Singapore

New additions include China Banking Group and Godrej Industries.

We talked about valuations and they felt that small cap was still expensive and it is harder to find good quality companies at the right price.

This fund is all about stock picking and if the stocks are harder to find this will hold back performance. However, over the long term smaller companies do have the ability to outperform larger companies and at a time when Asia is out of favour now may be a time to consider investing.

The challenge is around the performance track record and there is no easy answer. First State have an excellent track record in Asia and it would seem strange if they could not repeat. However, as the manager is new into the role some may prefer a wait strategy. Also as this is not a pure small cap strategy investors may consider seeking alternative options.

In summary over the long term this fund has an excellent track record. However, the short term it has been poor. This might reflect an unsettled management period but the new manager doesn't appear to have a track which might deter investors. On the flip side First State has an excellent Asian equity team and you cannot imagine they would allow this to fail. One additional consideration and that is that this is not a pure small cap fund.

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## Past Performance

Performance is from 2010 to 31 October 2015. And over 1 year, 3 years and 5 years' vs the iShares MSCI AC Far East ex-Japan Sm Cp.

	2010	2011	2012	2013	2014	2015
Scottish Oriental Smaller Companies Trust	52.15%	-12.92%	45.14%	5.16%	5.98%	-7.21%
iShares MSCI AC Far East ex-Japan Sm Cp	30.05%	-23.61%	12.84%	5.48%	0.77%	-2.40%

	1 Year	3 Years	5 Years	Since taking on tenure ship (1 April 2013)
Scottish Oriental Smaller Companies Trust	-9.79%	15.77%	40.91%	-13.44%
iShares MSCI AC Far East ex-Japan Sm Cp	-3.47%	11.37%	-2.06%	-9.17%

*You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.*

*The source of information in this note has been provided by First State and is correct as at November 2015. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.*