

**SHINING A LIGHT ON THE.....
Scottish Oriental**

AT A GLANCE

Investment Objective

To achieve long-term capital growth through mainly smaller Asian, ex Japan & Australasia quoted companies with a market capitalisation less than US\$1,500m.

Fund Factsheet Link

<http://tools.morningstar.co.uk/t92wz0sj7c/cefrreport/default.aspx?id=E0GBR04AN0&SecurityToken=E0GBR04AN0%5D21%5D0%5DCEEXG%24XLON&ClientFund=0&LanguageId=en-GB&CurrencyId=GBP&UniversId=CEEXG%24XLON&BaseCurrencyId=GBP>

Investment Style Details

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	0.00%
Large	11.60%
Medium	55.80%
Small	29.11%
Micro	3.49%

Top 10 Holdings

Top 10 Holdings		
Total number of holdings		69
Assets in Top 10 Holdings		27.47%
Name	Sector	% of Assets
Towngas China Co Ltd	Utilities	3.13%
Jubilant Foodworks Ltd	Consumer Cyclical	2.99%
Concepcion Industrial Corp	Technology	2.89%
China Banking Corp	Financial Services	2.75%
SKF India Ltd	Industrials	2.69%
Blue Star Ltd	Consumer Cyclical	2.69%
Vitasoy International Holdings Ltd	Consumer Defensive	2.63%
Manila Water Co Inc	Utilities	2.60%
Tong Ren Tang Technologies Co Ltd H	Healthcare	2.59%
PT Mitra Adiperkasa Tbk	Consumer Cyclical	2.52%

Volatility Measurements

Volatility Measurements	
3-Yr Std Dev (volatility)	15.20%
3-Yr Mean Return (average)	8.63%

LWM Consultants Ltd

FUND PERFORMANCE

Performance from 1st January 2012 to 31st October 2017:

	2012	2013	2014	2015	2016	2017
Scottish Oriental	45.14%	5.16%	5.98%	-8.35%	25.30%	14.82%
iShares MSCI AC Far East ex Japan	14.03%	-1.21%	6.63%	-7.98%	24.94%	24.88%

Performance over 12 months, 3 years, 5 years and 10 years:

	1 year	3 years	5 years	10 years
Scottish Oriental	6.17%	28.19%	64.52%	283.37%
iShares MSCI AC Far East ex Japan	17.82%	44.94%	60.77%	59.76%

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.

UPDATE....

The Investment Trust is managed by First State, with the key managers on the trust being Vinay Agarwal and Wee-Li Hee. In terms of performance, the fund has struggled over the last 5 years; it has tracked the index over 5 years, and over 50% below the index over short periods. This would normally be a sign not to invest in a fund, so why might an investor consider it?

The fund is run with an absolute return mindset; in practice this means that the team aims to deliver positive returns over the medium to long term by investing in quality companies. They are looking for simple businesses with predictable and sustainable forward earnings. Much of their time is spent meeting companies and studying how they allocate capital, how the management interacts and what the barriers to entry are.

In terms of performance they focus on the small and mid-cap companies. The fund does better in down markets but will lag in 'up' markets, especially where the focus is on large-cap companies. In their view many of these companies are overvalued, especially the tech sector. Not being part of this has hurt the performance of the trust.

The management are finding that valuations are expensive, and it has meant selling some stocks which are overpriced, and it is becoming harder to find new opportunities. Having said that, holding industrials and materials particularly in India and Thailand has helped and the fund is currently positioned towards South East Asia, Greater China and Indian Subcontinent.

One indication as to why investors might consider now is the time to invest, is that the trust is going through a period of change. The holdings have reduced from 77, with the aim to bring this down further to around 60. The top ten is around 25% of the holdings, and the aim is to increase this to 35 or 40% depending on valuations and opportunities.

LWM Consultants Ltd

When funds go through a period of transition it is often a reflection of change perhaps following sustained underperformance. The challenge is that during these periods the performance can dip further until the restructuring is complete. The team explained that there has been a high turnover in the fund by replacing stocks, and trimming holdings. The top ten today only holds 2 from last year. The only remaining holdings are Towngas China and Tong Ren Tang Technologies.

Recent changes include new purchases in Fairwood Holdings (Hong Kong restaurant group), Healthcare Global Enterprises (cancer hospitals in India), Jubilant Foodworks (Domino Pizza franchise in India), Lafarge Malaysia (largest cement company in Asia) and Indus Motors (largest car company in Pakistan).

They have sold out of Luthai Textile, Sunny Optical (expensive), Pacific Basin (cyclical revaluation), Hexaware Technologies (no longer conviction in the management), Marico (too expensive but one of the longest holdings in the fund), TCS (large cap and expensive) and iFast Corp Ltd (governance issues).

The team went into more detail of the companies they like. They don't like companies which rely on debt, but those which can generate cash for growth. They like to understand how a business started, to visit the offices and study the culture of the business (things like cars, separate management lifts etc) and talking to suppliers. History tells a lot about a business in their eyes.

The trust itself has paid down the debt; they have cash at the moment as the market is expensive and they cannot find opportunities.

One other point investors should be aware of, is that this is not a true small cap fund. The managers will hold stocks as they grow, so has about 55% weighted to mid-cap companies and just over 10% to large cap.

In summary, the fund has had a long period of underperformance, but it is being restructured, and once the fund is repositioned then there is a good chance that things could reverse. It is also worth adding that as an investment trust it has a discount to the market of about 10%, which effectively means that if the restructuring works then the discount will narrow and accelerate potential returns.

It is a risk because the counter argument is that if they haven't got it right for 5 years will these changes make any difference because the management team hasn't changed? The options for investors are perhaps threefold; for those already holding the trust it may be worth waiting for 12 months, for new investors they could hold back from investing for 12 months, or equally for new and existing investors they may see it as a buying opportunity now.

The source of information in this note has been provided by First State and is correct as at November 2017. 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. We would also recommend that you receive advice before following up on any decision.