

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

AT A GLANCE

Investment Objective
To achieve long-term capital growth through mainly smaller Asian, ex Japan & Australasia quoted companies with a market capitalisation of 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	
Equity Style	
Market Capitalisation	% of Equity
Giant	0.00%
Large	6.47%
Medium	56.11%
Small	33.01%
Micro	4.40%

Top 10 Holdings		
Total number of holdings	68	
Assets in Top 10 Holdings	28.48%	
Name	Sector	% of Assets
Towngas China Co Ltd	Utilities	3.54%
SKF India Ltd	Industrials	3.40%
Concepcion Industrial Corp	Technology	3.15%
Sinbon Electronics Co Ltd	Technology	3.05%
Blue Star Ltd	Consumer Cyclical	3.02%
China Banking Corp	Financial Services	2.67%
Uni-President China Holdings	Consumer Defensive	2.46%
Haw Par Corp Ltd	Healthcare	2.43%
HealthCare Global Enterprises Ltd	Healthcare	2.39%
Manila Water Co Inc	Utilities	2.37%

Volatility Measurements	
3-Yr Std Dev (volatility)	15.03%
3-Yr Mean Return (average)	7.84%

LWM Consultants Ltd

FUND PERFORMANCE

Performance from 1st January 2012 to 31st January 2018:

	2012	2013	2014	2015	2016	2017	2018
Scottish Oriental	45.14%	5.16%	5.98%	-8.35%	25.30%	16.89%	-1.42%
iShares MSCI AC Far East ex Japan	16.26%	0.54%	8.54%	-5.92%	27.34%	28.84%	2.21%

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

	1 year	3 years	5 years	10 years
Scottish Oriental	14.28%	25.42%	35.86%	283.37%
iShares MSCI AC Far East ex Japan	26.17%	51.27%	67.21%	151.46%

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 fund has had five years of underperformance, and we are aware that there appears to be a strain between the management of the trusts. It seems this struggle has resulted in Vinay Agarwal (who joined the trust in 2016), and Scott McNab (who joined in 2015) becoming the lead managers. Wee-Li Hee who joined in 2014 seems to have taken a back seat as has Martin Lau. This power struggle is perhaps part of the reason for the underperformance but even with the new management team it doesn't seem to be changing.

In this update with Vinay and Scott we wanted to understand their approach to investing, their views of the market and how the fund is positioned. They started by explaining that they approach investing with an absolute return mind-set. They are looking for quality businesses and are not prepared to go down the quality curve at any cost.

They are looking for simple businesses which are predictable and sustainable. They are also looking for businesses which have high barriers to entry. They believe that this focus on quality means that the fund will naturally do better in down markets.

They feel the portfolio is unattractive in terms of valuations and is one of the most expensive they have seen. This reflects their view of the market that valuations are expensive, and they have started to reduce down some of the positionings to take some of the profit.

They acknowledge that performance has been poor, and they explained that this is due to poor stock selection in South East Asia and Sri Lanka. They have missed out by not holding technology stocks, and again highlighted that the fund performs best in down markets and will underperform in up markets. When we looked at the last review the reasons for underperformance were the same, and it does appear that poor stock selection is a continued theme.

LWM Consultants Ltd

They also feel the market is over priced and that the trust itself is expensive. If this is the case, then it does seem hard to see how they will turn around five years of poor performance. However, the struggle in management may have had a part to play in this. The holdings have reduced from 77 to 68 and with the changes they are putting through this will reduce to 56 over the coming weeks. They feel that most of the changes they needed to make to change the underperformance have taken place.

The holdings they now have are ones that they can see holding for the next 5 to 10 years. The top-10 is still below the target of 40% but they expect this to grow. The cash on the trust is growing reflecting the selling down of holdings and an expensive market.

Some of the holdings they have sold include Godrej Properties, Kansai Nerolac, Delfi Limited, Hana Tour and Texwinca. They have now sold over 40 companies over the last 18 months; reasons for sales include mistakes, expensive valuations, and challenged franchises. Some of the new holdings include Cemex Holdings, Nien Made Enterprise, Silergy and Dr Lal Pathlabs.

The changes have taken longer than they expected because it has been difficult to sell out of the less liquid companies.

We discussed the rise in interest rates and they believe this will have minimal impact on the companies they hold as they don't like companies with debt, and have minimal exposure to financials (for example banks, insurance companies etc) and real estate.

In summary, the main concerns are that for a while there have been disagreements with the management of the trust. This seems to have been settled and it now seems clearer as to who the two lead managers are. Although the managers point to three years of underperformance it is more like five years. They seem to point to a mixture of factors including poor stock selection and being in the wrong place as to why the trust has underperformed. The restructuring of the trust is all but complete and we should have started to see some upturn in performance, but 2018 hasn't started well. The team are very negative about the market saying it is expensive and the trust itself is overpriced. It therefore seems difficult to see how they think they can turn things around.

It is also difficult to find a reason to suggest this would be a good investment; we guess the main reasons for considering it is that the battle for the management of the trust seems to have been resolved, the trust has a more concentrated portfolio and it has cash ready to deploy should the markets correct. If this all comes together then it may well be a good investment.

The source of information in this note has been provided by First State and is correct as at February 2018. 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.