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First State Stewart Asia
– Scottish Oriental Smaller Companies Trust plc
Client Update
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FIRST STATE STEWART ASIA – SCOTTISH ORIENTAL SMALLER COMPANIES TRUST PLC

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If you are in any doubt as to the suitability of our funds for your investment needs, please seek investment advice.

This is the seventh semi-annual update on the Scottish Oriental Smaller Companies Trust plc ("The Trust" or "Scottish Oriental"). Our aim is to provide a general update on some of our current thoughts and views, insights about existing holdings, and changes to the portfolio over the period.

Portfolio activity

Scottish Oriental is managed by the First State Stewart Asia team, an independent investment management team within First State Investments. The team manages a range of Asia Pacific equity strategies on behalf of institutional and wholesale clients globally, with offices in Hong Kong, Singapore and Edinburgh.

The Trust aims to achieve long-term capital growth by investing mainly in smaller listed companies across the Asia region; that is companies with market capitalisations of below US$3 billion, or the equivalent thereof, at the time of first investment.

We are conviction-based, bottom-up stock selectors with a strong emphasis on high quality proprietary research. Our investment approach adopts an absolute return mind-set and is inherently conservative, focusing on capital preservation as well as capital growth. By focusing on the potential downside (not just the upside) when making any investment decision, the risk to long-term client returns is significantly reduced. We are long-term investors and prefer to invest in quality companies that we can hold on to for many years.

The most significant source of investment ideas for the portfolio comes through country and company visits. As a team, we conduct more than a thousand direct company meetings throughout the year, seeking to identify a small sub-set of quality companies that meet our investment criteria. We place a clear emphasis on frequent visits to countries in the Asia region and on meeting the management of those companies in which the Trust is invested, or might invest.

While cultural, political, economic and sectoral influences play an important part in the decision-making process, the availability of attractively-priced, good quality companies with solid long-term growth prospects is the major determinant of Scottish Oriental's investment policy. Our country weightings bear no relationship to regional stock market indices and we do not consider ourselves obliged to hold investments in any individual market, sector or company. As a result, our asset allocation on a country and industry level is a residual of our stock selection process.

Portfolio construction

Having talked in the past about consolidating Scottish Oriental's portfolio to a more focused list, we are happy to report that this has been achieved during 2018. As at the year-end there were 58 companies in the portfolio with a few sell orders in illiquid stocks that should reduce this further. This compares to 78 companies three years ago.

The top ten holdings represent 31% of the portfolio and the top 20 represent 52% as compared to 27% and 46% three years ago. The largest stock weighting is 4.1% (**SKF India**) compared to 3.0% (Marico) three years ago.

We believe that this higher concentration is beneficial. By definition we would expect the prospects for the top holding in Scottish Oriental to be better than the 50th largest holding. We would like to have an even more concentrated portfolio. So what is stopping this from happening? Quite simply, valuations are still too expensive for our liking. When we can buy our favourite companies on valuations that make us rub our hands with glee – that will be the time to have even larger positions and an even more focused list of stocks. Needless to say we will always ensure enough diversification to maintain an acceptable risk profile for the portfolio as a whole.

The impact of such high valuations can be demonstrated with reference to Marico, Scottish Oriental's largest holding three years ago. It exemplifies what we look for in a company. It has a quality, aligned management team running the business for the long-term. Its franchise is strong with leading market positions for its brands of coconut oil, hair oils, edible oils and their "value added oat" product category. These brands allow Marico to generate very high and sustainable returns on capital. The company is highly cash generative and it pays out a high proportion of its profits as dividends whilst maintaining its net cash balance sheet. It continues to grow steadily and is now adopting an almost venture capital approach to new product areas, making several relatively small bets hoping that one or two turn into large businesses in the future. There is no such thing as a perfect company but Marico is pretty close.

Yet Marico is no longer in Scottish Oriental's portfolio. On 20x earnings Marico would probably be a 6% or even a 7% position. We would be happy to own it on 30x earnings. 40x earnings is expensive but we would perhaps still have a toehold. But at 50x earnings there is too much valuation risk for us to stomach as the potential for significant capital loss is high. Such valuation risk is what is stopping us having larger positions in our favourite companies, or in Marico's case, any position at all.

What lies beneath

We often talk about Scottish Oriental's largest positions but rarely about its smallest positions. As at the year-end there were 19 stocks in the portfolio with a position size of less than 1%. It could be argued that these are stocks where we have low conviction. But they all have a purpose in the portfolio. For six of these 19 stocks we are either currently building up the position or are in the process of exiting. That leaves 13 holdings of less than 1% where we are ostensibly happy with the current weighting. Of these, five are new positions which were bought during 2018 (**JNBY Design**, **Oberoi Realty**, **Li Ning**, **PVR**, and **Max's Group**). It is very rare that we initiate a holding in a stock above 1%. We tend to start with a toehold position – if a company is relatively new to us we want to follow it for a period whilst we increase our conviction. Being on the shareholder register often gives us better access to management which allows us to understand it even better. If a company is not new to us then it is likely that the catalyst for us to initiate a position will be a fall in the share price making its valuations more attractive. When this happens we tend to nibble rather than go "all-in" immediately.

Sometimes we don't get past a toehold. We believe if an investment case is promising then it is reasonable to take a small position. Sometimes after further due diligence we can change our minds. This was the case with Indonesian convenience store operator **Sumber Alfaria (Alfamart)**. Despite only initiating our position earlier in 2018 we exited the stock in the second half of the year. Having engaged with management on related party transactions once Scottish Oriental was on the shareholder register we were not satisfied with the answers we received. Strong share price performance as we built up the position made the likely risk-reward less attractive and the decision to sell easier.

A further five stocks are listed in less developed markets (**Pakistan's Pak Suzuki Motors** and **Indus Motors**, Sri Lanka's **Hemas Holdings** and **Hatton National Bank**, and Vietnam's **FPT**). It is less likely that we will have large holdings in such companies given the higher risks inherent in the countries they operate in and the liquidity and stage of development of their capital markets. Whilst there may be a large opportunity we do not wish to take large risks.

This leaves three companies. The Trust retains a small investment in **Suprajit Engineering**, India's largest manufacturer of mechanical automotive cables. The holding was bigger but strong share price performance saw it trimmed to a de minimis position. We would love to own more but at cheaper valuations which we are now getting closer to. Should the stock have continued to rise after we reduced

the holding we would have been left with little choice but to exit this quality company. We also have a small position in South Korean image solution provider **Vieworks**. This is an investment that we are monitoring following the disappointment of a product recall. The opportunity is large but the company needs to prove itself again before we would increase the Trust's position. Finally we have a small position in Philippines' cement producer **Cemex Holdings**. This has clearly been a mistake as we were

too early "catching a falling knife". We have added to Scottish Oriental's holding but it does not warrant a larger position given the commoditised nature of its product. If we are honest with ourselves we were initially attracted partly by the large discount to the initial public offering price but the margin of safety we perceived was illusory.

Market capitalisation constraints

At the recent annual general meeting, at our request, Scottish Oriental's board sought to increase flexibility for us to invest in companies with higher market capitalisations. We were grateful to receive this increased flexibility with the definition of smaller companies revised upwards from a market capitalisation of US$1.5bn to US$3bn. We also now have the ability, in moderation, to target companies with market capitalisations of up to US$5bn, compared to the prior ceiling of US$3bn.

Whilst no immediate changes have resulted, the benefits are twofold. Firstly as China and India's economies continue to develop and capital markets continue to broaden we have become increasingly aware that the market capitalisation of "small" companies can actually be quite large in these markets. It would be unfortunate to deny ourselves access to potentially some of the best opportunities because of an arbitrary cut-off. Also, referencing back to the example of Marico above, the trade instruction to exit Marico ended "Painful to let it go. Have never not owned Marico." It was doubly painful to sell Marico as it was unlikely that the share price would fall by enough for Marico to ever qualify for Scottish Oriental to hold again. Such considerations should not be a factor in sell decisions but it can impact our thinking.

Scottish Oriental's holdings below 1% with no active trades

	Net Assets (%) 31/12/18	Country	Sector
JNBY Design	0.5	China	Consumer Discretionary
Oberoi Realty	0.5	India	Real Estate
Pak Suzuki Motors	0.6	Pakistan	Consumer Discretionary
Li Ning	0.7	China	Consumer Discretionary
PVR	0.7	India	Consumer Discretionary
Suprajit Engineering	0.7	India	Consumer Discretionary
Hemas Holdings	0.7	Sri Lanka	Industrials
FPT	0.8	Vietnam	Information Technology
Max's Group	0.9	Philippines	Consumer Discretionary
Hatton National Bank	0.9	Sri Lanka	Financials
Indus Motors	0.9	Pakistan	Consumer Discretionary
Cemex Holdings	0.9	Philippines	Materials
Vieworks	1.0	South Korea	Health Care

Source: First State Investments as at 31 December 2018.

The larger ceiling removes some of the perils of behavioural psychology from investing. This should improve the chance that we will make a sell decision without delay for successful investments when it is right to do so. Should Marico's market capitalisation fall below US$5bn again, it may well be worth a toehold and we would love to welcome this company back to Scottish Oriental's portfolio should its long-term outlook remain unchanged.

The intention is very much for Scottish Oriental to remain a smaller companies investment trust and the weighted average market capitalisation of the current portfolio is below US$1.5bn.

Cash levels

For some time now we have talked of our desire for Scottish Oriental to be fully invested and yet we have not achieved this objective. The weakness in markets has given us opportunity to add to our favourite holdings at more reasonable prices and also initiate positions in some companies that were on our shopping list. Meanwhile we have felt compelled to sell or reduce positions in a number of companies in the portfolio, leaving Scottish Oriental with a higher cash level than it had six months ago.

Despite market weakness, Scottish Oriental's portfolio still trades at a median price earnings ratio of 17x for the current year. To put this in perspective, our data shows the average over the Trust's history has been 13x with a low of 7x and a high of 20x. It has not helped that we have seen some earnings disappointments of late with forecasts revised down. Therefore not all of the market weakness has flowed through to cheaper valuations.

We are retaining our robust valuation methodologies and will be patient, preserving some dry powder should we be provided with even better buying opportunities. History suggests that the stock market generally provides such opportunities for patient investors.

Recent notable changes to the Scottish Oriental portfolio

Portfolio turnover has steadied during this period with a total of six new holdings purchased and six completely sold. There remain 58 stocks in the portfolio with a few sell orders outstanding for illiquid stocks, which should reduce the number of holdings to a level we are more comfortable with.

Country weightings (%)	31 Dec 2018	30 Jun 2018
China	8.0	8.7
Hong Kong	6.3	5.8
Taiwan	10.7	12.2
Greater China	**25.0**	**26.7**
Bangladesh	1.8 1	.6
India	29.6	28.1
Pakistan	1.5	1.7
Sri Lanka	4.0	4.7
Indian subcontinent	**37.0**	**36.1**
Indonesia	8.6	8.0
Malaysia	1.0	2.0
Philippines	9.0	9.4
Singapore	5.8	5.2
Thailand	2.9	2.1
Vietnam	1.8	1.7
South East Asia	**29.0**	**28.4**
South Korea	1.0	1.9
Cash	8.0	7.0
Total	**100.0**	**100.0**

Source: First State Investments as at 31 December 2018.

Greater China:

Scottish Oriental's exposure to Greater China fell during the period. The biggest driver of this was a reduction of our weightings in four of our Taiwanese holdings (**Sinbon Electronics**, **Taiwan Familymart**, **Voltronic Power** and **Wistron NeWeb**). All of these proved to be relatively robust and given increasing opportunities elsewhere it seemed prudent to take profits. In Hong Kong, we also took profits from **Vitasoy** although the weighting in the portfolio rose as a result of its strong share price performance.

In China, we initiated two new positions although both have been held in the portfolio before. The first was JNBY Design, one of the leading branded apparel retailers in China. As we wrote quite recently, management come across as focused on building a strong design capability by attracting good designers and creating customer engagement across online and offline platforms. The company also has a long runway for growth, as it aims to replicate the success of its JNBY brand across its portfolio of five other brands. When we first bought this company earlier in 2018 the share price quickly shot up and we sold, but subsequent market turbulence has afforded us the opportunity to buy it back again.

We also bought Chinese sportswear brand **Li Ning**. It has been a lot longer since Li Ning was held by Scottish Oriental. Having flourished with the exposure of the Beijing Olympics the company then lost its way. But in 2014, its founder Mr Li Ning was re-appointed as CEO. Since then the company has increased investments in its brand building and has made changes to improve the efficiency of its supply chain. We are now seeing improved working capital and profitability as a result of these changes.

Despite these two new holdings Scottish Oriental's exposure to China fell over the period. This was predominantly because of weak performance by the Trust's Chinese holdings and also a reduction in the weighting in noodle and beverage manufacturer **Uni-President China**. A price war is brewing and given this, a reduced position size was prudent.

Indian Subcontinent:

Scottish Oriental's exposure to the Indian subcontinent again inched up over the period predominantly because the Trust's Indian holdings outperformed the broader portfolio. The only transactions outside India were additions to both of Scottish Oriental's Pakistan auto manufacturers **Pak Suzuki Motors** and **Indus Motors**. Both companies were weak in the period and we have unfortunately been too early with our purchases so far. However their track records speak for themselves and we have every faith that their respective management teams will handle the current crisis as well as they have handled previous crises and growth will resume. If we are right then valuations are compelling.

Within India there were three new investments made during the period. Founded 30 years ago by Ajay Bijli, **PVR** is India's leading cinema operator with more than 700 screens. The type of modern multiplex format that PVR operates currently receives a small share of customer footfall but this is changing rapidly given the better experience. PVR dominates this segment and as a result gets attractive rental terms and has scale at a level that allows it to minimise operating expenses. It has the potential to become a much larger business as the industry shifts from single-screen cinemas to multiplexes.

Oberoi Realty is the largest developer of premium residential property in India. It is led by Vikas Oberoi who owns a 68% stake in the company. The real estate sector in India is highly fragmented, with numerous local developers, many of whom having a reputation for poor business practices. Oberoi has built a reputation for delivering projects on time and to high quality. After tough regulations were introduced in 2016, Oberoi has been gaining market share from the weaker local developers who are finding it difficult to comply with these stringent rules. Management has also adopted a counter-cyclical approach towards building its land-bank. It has a strong balance sheet which will allow Oberoi the opportunity to buy land at attractive prices from struggling local developers. This should help it to continue gaining market share and maintain its profitability.

Zensar Technologies is an information technology services provider, founded by the Goenka family in the 1960's. While the family still owns a majority stake, its management has been led by professionals from an early stage. Sandeep Kishore was appointed CEO in 2016. He has led significant changes to the management and operations of the company. Leaders of underperforming teams were replaced by external hires from large companies such as Infosys and HCL Technologies. Unprofitable clients and businesses were cut. Management invested in scaling up the fast growing digital services business, which now contributes almost 50% of sales. These initiatives are now driving faster revenue growth and higher profitability.

Apart from these new holdings we also added to four existing holdings, taking advantage of weaker share prices. The investment cases for air-conditioning and commercial refrigeration company **Blue Star** and city gas distributor **Gujarat Gas** remain unchanged. Whereas for both property developer **Mahindra Lifespaces** and department store group **Shoppers Stop**, meetings with the respective CEOs made us even more confident of growth prospects.

In terms of sales, we exited courier company **Blue Dart Express**. We could not get over our concerns regarding governance and increasing competition. This was an unsuccessful investment for Scottish Oriental this time (having been highly profitable the first) and while it was clearly a mistake we don't believe the developments were foreseeable. However, it is a reminder of the dangers of less liquid stocks as it took a long time to sell with the average price achieved somewhat below the price we originally started selling at. We also sold diagnostic and testing services provider **Dr Lal Pathlabs**. The company was expensively valued when we bought it and we had failed to build up a full position as a result. It became more expensive so we took the profits for Scottish Oriental and hopefully will be able to revisit it if the stock market gives us an opportunity. We also exited industrial gas company **Linde India** with this trade completed in early 2019. Its parent company announced its intention to privatise the company but the privatisation price is yet to be determined. We felt that the price reflected in the market more than represented fair value so we were happy with the opportunity to take profits. We made one significant trim for the Trust also, reducing its stake in IT outsourcer **Mphasis** on expensive valuations.

South East Asia:

There was little overall change to Scottish Oriental's South East Asian weighting. We are in the process of buying one illiquid stock in Indonesia but will hold off naming it for now given the slow speed at which the order is progressing. Elsewhere in Indonesia we added to auto components manufacturer **Astra Otoparts**, which remains cheaply valued in our opinion. And as mentioned earlier, we exited **Alfamart** after a brief holding period.

In Malaysia we also exited cement producer **Lafarge Malaysia**. This has been one of Scottish Oriental's worst investments in some time and with it we have lost significant amounts of the Trust's capital. We thought the company was attractively valued based upon its assets when we initiated the position but the competitive situation deteriorated rapidly and Lafarge Malaysia has been taking on debt while it burns through cash. As a result, Scottish Oriental's interests were not necessarily aligned with either the parent company or the banks and this was not a good position to be in. We took the difficult decision to sell at a substantial loss. Whilst it is impossible to invest without making occasional mistakes, ones of this magnitude are not acceptable and we apologise.

In the Philippines we completely sold utility **Manila Water** having reduced the position on falling returns for the company and its more leveraged balance sheet in the previous period. We built up a larger position in casual dining restaurant operator **Max's Group**, which was initially purchased last period and added to air conditioner and refrigerator manufacturer **Concepcion Industrial** on share price weakness.

South Korea:

We completely exited cosmetics company **Amorepacific Group**. This has been a spectacular investment for Scottish Oriental with the share price appreciating by more than ten times in the period the Trust owned the stock. The company was at the vanguard of the "Korean wave" with its products proving particularly popular in China. However Chinese consumers are changing and there is much less loyalty to cosmetics brands than there used to be. This combined with numerous new Korean brands and up-and-coming Chinese brands, which Chinese consumers are now more than happy to use, appears to have changed the competitive outlook permanently.

Scottish Oriental investment performance

We invest with a long-term, that is, a three-to-five year mind-set, if not longer, and we hope to be measured over a similar time period. However, we are aware that the long-term is made up of several short- and medium-terms and sometimes it can be helpful to look at what has driven recent performance.

Cumulative Performance to end Dec 18 (% in GBP)

	3mth	6 mth	1 year	3 years	5 years	10 years
NAV	0.5	-6.2	-8.6	28.0	36.1	339.0
NAV – total return	0.6	-5.6	-7.7	32.3	43.9	398.5
Asia Index*	-6.4	-6.6	-8.8	49.3	60.7	203.5
Small Cap Index**	-6.2	-9.2	-13.6	23.4	37.6	206.6
Share Price	2.7	-4.1	-8.6	30.6	23.2	360.1
Share Price – total return	3.9	-2.9	-7.5	35.5	31.6	430.1

Annual Performance to end Dec 18 (% in GBP)

	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014
NAV Return	-8.6	13.9	22.9	-3.3	9.6
NAV – Total Return***	-7.7	15.2	25.5	-1.7	11.1
MSCI AC Asia ex Japan	-8.8	29.8	26.2	-3.6	11.7
MSCI AC Asia ex Japan Small Cap	-13.6	22.3	16.8	2.3	8.9
Share Price Return	-8.6	15.6	23.7	-9.8	4.5
Share Price – Total Return	-7.5	16.9	25.9	-7.8	5.5

Source: First State Investments. As at 31 December 2018.

* MSCI AC Asia (ex Japan) Index

** MSCI Asia (ex Japan) Small Cap Index

*** Cum Income Total NAV Return from Morningstar

Six month performance:

We were surprised at how well Asian stock markets held up in the first half of 2018. The second half of 2018 was poorer with performance in sterling again flattered by the depreciating pound. October was the weakest month as concerns regarding the US-China trade war heightened and evidence of a slowdown in the Chinese economy impacted global sentiment. Scottish Oriental modestly outperformed the main Asian index and more comprehensively outperformed the smaller companies' index over the second half of the year.

Pakistan was the worst performing Asian market. If anything the election of Imran Khan as Prime Minister, which many hoped would see things improve, has just made the difficulties facing the nation clear, given his openness. China was also very weak over the period amid the impact of the trade war and indications of slowing growth. By contrast South East Asian markets were relatively strong with Indonesia, Malaysia, the Philippines and Thailand all producing positive sterling returns. India was also relatively robust although smaller companies continued to underperform there.

For Scottish Oriental the biggest contributor to relative performance was its geographical positioning with a relatively low weighting in China and a relatively high weighting in South East Asia – these positions being the residual of bottom-up stock picking rather than a targeted outcome.

What helped:

At a stock level, three of the ten best contributing stocks were Taiwanese and three were Indian. Looking at the Indian companies first, bearings manufacturer **SKF India** reported good results with improved margins and accelerating growth. Industrial gas company **Linde India** rose sharply on a privatisation offer from its controlling shareholder. **Heidelbergcement India** saw its margins expand benefitting from its cost leadership.

For the Taiwanese holdings, at networking equipment manufacturer **Wistron NeWeb**, management's strategy of improving its product mix has seen margins recover and a resumption in growth. Convenience store operator **Taiwan Familymart** saw better growth thanks to good fresh food sales and accelerating store expansion. Losses from new initiatives are under control so profit growth is expected to be decent this year. Its investment in China is also growing strongly. Cable and connector manufacturer **Sinbon Electronics** also produced solid results during the period.

The company that added the most to Scottish Oriental's performance over the period was soymilk and other non-alcoholic beverage producer **Vitasoy**. Vitasoy continues to perform strongly and produced outstanding results with particularly impressive growth in the mainland Chinese market. Also strong was **Delta Electronics (Thailand)**, a producer of power supplies and associated components which received a privatisation offer from its parent. We are not convinced this offer fully values the company but it at least offered support to its share price when markets were falling. **Raffles Medical**, which operates medical clinics and a hospital in Singapore again had relatively dull results. However optimism abounded as the opening of its first Chinese hospital approaches, given the growth opportunity this should provide. Rounding up the top ten contributing stocks was Indonesian filtration systems provider **Selamat Sempurna** which continued its track record of growth.

What hurt:

Negatives for this period were largely stock specific. The biggest single detractor from performance was Philippines' air conditioner and refrigerator manufacturer **Concepcion Industrial** where earnings declined. Weak consumer sentiment and typhoons led to a fall in its air conditioner sales. Currency depreciation also led to lower profitability. However the Philippines' air-conditioner market remains among the least penetrated globally. Concepcion Industrial continues to gain market share and has increased prices to improve its profitability. We have used the opportunity of its recent decline to increase the Trust's holding in the company. Also weak in the Philippines was **Cemex Holdings** which reported lower profitability due to higher fuel costs and the depreciation of the currency. Its upcoming capacity expansion is expected to lead to higher interest and depreciation costs, and lower free cash flow in the short-term.

The second largest detractor from performance was **Uni-President China**. As mentioned earlier competitors have become aggressive on pricing which has impacted the company's prospects somewhat, as well as its share price. We had taken profits from this company previously but with 20:20 hindsight we should have taken more. Chinese gas distributor **Towngas China** was also weak. Concerns have surfaced again about a regulatory cap being placed on the connection fee charged by natural gas distributors in China. As with Uni-President China we had taken profits earlier in the year but should have taken more. However the competitive situation for Towngas China is unchanged and we did modestly add to the Trust's position on the cheaper valuations that prevailed.

The third worst detractor from Scottish Oriental's performance was **Pak Suzuki Motors**. It is seen as being most vulnerable to the opening up of the auto industry and its share price more than halved during the period as a result. We do not believe Suzuki will be complacent here. Staying in the Indian subcontinent **Mahindra Lifespaces'** results appeared fine to us but the market did not enjoy them. Here we did not mind the share price falling as we were happy with the opportunity to significantly add to the Trust's holding. Also in India, cancer specialist centre group **Healthcare Global Enterprise**, performed poorly. Its profits were impacted by higher depreciation and interest charges as it launched two new hospitals. As utilisation of these hospitals increases in the coming periods, profitability should improve.

Also weak were Taiwanese analogue integrated circuit designer **Silergy** on what we believe was a temporary bump in the form of lower margins, and Sri Lankan telecommunications provider **Dialog Axiata** on heightened competition concerns which periodically crop up in the sector. Finally **AmorePacific Corp** was weak because of the increased competition we highlighted earlier.

One year performance:

Similarly to the Trust's six month performance, Scottish Oriental modestly outperformed the main Asian index and more comprehensively outperformed the smaller companies' index over 2018 with performance in sterling also flattered by the depreciating pound.

With the exception of Thailand, which eked out a 0.6% return in sterling, all Asian stock markets fell. Despite this Scottish Oriental's investments in Bangladesh, China, Hong Kong, Indonesia, Singapore, Taiwan and Thailand produced positive returns. However Scottish Oriental's Investments in Malaysia, Pakistan the Philippines, South Korea, Sri Lanka and Vietnam were much less successful, all producing double-digit sterling losses. The Philippines was the most costly of these given that almost 10% of the Trust's funds are invested here.

What helped:

At a stock level, only three of the top ten contributing holdings over the last year have been discussed above under six month performance. These are **Vitasoy**, **Taiwan Familymart** and **Selamat Sempurna**.

However six of the remaining seven top ten contributing stocks were also top ten contributors for the first half of the year and were discussed in our last client note covering this period. These are **Uni- President China**, **Mphasis**, **Sitronix**, **Mitra Adiperkasa**, **Jyothy Laboratories** and **Haw Par**.

The final top ten contributor for the year was **Alfamart**, where we locked in a reasonable gain after a short holding period.

What hurt:

At a stock level, six of the bottom ten contributing stocks over the last year have been discussed above under six month performance. These are **Concepcion Industrial**, **Cemex Holdings**, **Pak Suzuki Motors**, **Healthcare Global Enterprise**, **Amorepacific Group** and **Silergy**.

The other four of the bottom ten contributing stocks were also bottom ten contributors for the first half of the year and were discussed in our last client note covering this period. These are Minth, Lafarge Malaysia, Blue Dart Express and Blue Star.

Outlook and conclusion

Over the last six months the combination of tightening monetary conditions and the US-China trade war have taken their toll on stock markets. Global growth has most likely peaked and we have seen a steady decline in earnings expectations for Asian corporates. Despite these negatives it is worth highlighting that earnings and economies are still growing – it is merely expectations that have been cut to more realistic levels.

Last time we commented that the outlook was cloudier than it had been six months earlier but counterintuitively we were perhaps slightly more optimistic. The reason for this being that uncertainty would likely bring opportunity for us as investors and for the companies Scottish Oriental invests in. This stance is unchanged. Although we can offer little in terms of speculation as to how 2019 will unfold, we remain broadly positive about the prospects for Scottish Oriental's companies. Our main concern remains the valuations that equity markets are trading on. As a rule, paying too much for investments leads to reduced returns. Therefore we will be patient in investing the Trust's cash balance to ensure we give ourselves the best chance of making acceptable returns for shareholders.

The positioning of Scottish Oriental's portfolio is broadly unchanged with significant investments in India, Indonesia and the Philippines as well as holdings in companies based in several other countries with large domestic markets and attractive demographics. We feel the portfolio is well-positioned to flourish over the long-run and withstand any headwinds, whatever the cause.

We trust this update has given you a better understanding of the companies that Scottish Oriental invests in. We would welcome feedback on whether it has been helpful as well as what you would be interested in reading about in the future.

Find out more

For further institutional enquiries contact institutionalenquiries@firststate.co.uk

For wholesale enquiries contact enquiries@firststate.co.uk