



# Scottish Oriental Smaller Companies Trust

# Agenda

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- Performance update**
- Analysis of contributors & detractors**
- Portfolio activity**
- Earnings and estimates for portfolio holdings**
- Peer fund comparison**
- Stage of lockdown across countries**
- Shares Repurchased**
- Summary**

# Key features

as at 15 June 2020

|   |                 |
|---|-----------------|
| <b>Sector</b>                               | Asia ex Japan   |
| <b>Ticker</b>                               | SOST.L / SST:LN |
| <b>Market capitalisation</b>                | £238m           |
| <b>Net assets</b>                           | £270m           |
| <b>NAV Per Share</b>                        | 939.0p          |
| <b>Share Price</b>                          | 800.0p          |
| <b>Premium (discount)</b>                   | (14.8%)         |
| <b>12 month average premium (discount)*</b> | (13.1%)         |

# Performance Update

| YTD June 15 <sup>th</sup> (GBP) |        |
|---------------------------------|--------|
| Scottish Oriental NAV           | -15.7% |
| Scottish Oriental share price   | -18.3% |
| Large Cap Market Performance    |        |
| MSCI Asia Pac Ex Japan          | -6.3%  |
| MSCI China                      | 1.3%   |
| MSCI Taiwan                     | -1.9%  |
| MSCI Thailand                   | -14.6% |
| MSCI Malaysia                   | -5.0%  |
| MSCI Korea                      | -6.7%  |
| MSCI Hong Kong                  | -10.0% |
| MSCI Singapore                  | -17.5% |
| MSCI Philippines                | -15.1% |
| MSCI India                      | -17.6% |
| MSCI Indonesia                  | -23.3% |
| Small Cap Market Performance    |        |
| MSCI China Small Cap            | -2.9%  |
| MSCI Asia Pac Ex Japan          | -6.6%  |
| MSCI India Small Cap            | -23.0% |
| MSCI Philippines Small Cap      | -30.5% |
| MSCI Indonesia Small Cap        | -38.5% |
| Peer Fund Performance           |        |
| Aberdeen Asia Focus NAV         | -11.4% |
| Aberdeen Asia Focus Share Price | -15.4% |

Performance has been disappointing.

**Significant exposure to Philippines, India and Indonesia (65% of portfolio) has hurt performance.** Markets including China, South Korea, Taiwan and Malaysia have performed well. The Trust has relatively low exposure to these markets.

Small-caps in the Trust's key markets have performed poorly compared to large caps. **Small-caps in India, Philippines and Indonesia have declined by 23% - 39% YTD.** The Trust's holdings have performed substantially better.

# Contribution Analysis

| Key contributors        | Key detractors                |
|-------------------------|-------------------------------|
| Sinbon Electronics      | SKF India                     |
| Tata Consumer Products  | Blue Star Limited             |
| Colgate Palmolive India | Mahindra Lifespace Developers |
| Universal Robina Corp   | PT Mitra Adiperkasa           |
| Nissin Foods Corp       | Sarimelati Kencana            |
| ACC Limited             | Oberoi Realty Limited         |
| Ace Hardware Indonesia  | Max's Group                   |
| Hero Supermarket Tbk    | Mahindra CIE Automotive       |

- Several key contributors are consumer staples brands (Vitasoy, Tata Consumer, Colgate Palmolive, Universal Robina) and retailers (Hero Supermarket).
- Several key detractors are consumer discretionary businesses (Mitra Adiperkasa, Sarimelati Kencana, Blue Star) and suppliers to discretionary companies (auto-component manufacturers such as SKF India, Mahindra CIE).
- We have used the share price weakness to add to the detractors.

# Detractors & Liquidity

February 29th – May 22<sup>nd</sup> (US\$ Million)

| Company                 | Change in Share Price | Change in Market Cap | Total Value Traded | Total Value Traded as % of Mkt. Cap Change | Trailing Valuations |
|-------------------------|-----------------------|----------------------|--------------------|--|---------------------|
| SKF India               | -25%                  | 367.1                | 48                 | 13%  | 23x P/E             |
| Blue Star Limited       | -42%                  | 485.0                | 47                 | 10%  | 0.7x EV/Sales       |
| Mahindra Lifespaces     | -50%                  | 133.3                | 8                  | 6%   | 0.5x P/Book         |
| Mitra Adiperkasa        | -17%                  | 134.8                | 63                 | 47%  | 10x P/E             |
| Sarimelati Kencana      | -15%                  | 40.0                 | 3                  | 6%   | 0.6x EV/Sales       |
| Obero Realty            | -38%                  | 1157.3               | 200                | 17%  | 1.2x P/Book         |
| Max's Group             | -36%                  | 63.6                 | 8                  | 13%  | 6x P/E              |
| Mahindra CIE Automotive | -36%                  | 267.1                | 14                 | 5%   | 0.7x P/Book         |

- Several detractors have declined on very low liquidity.
- Sarimelati Kencana's market cap has declined by \$40m having traded only \$3m during this period.
- Mahindra Lifespaces' market cap has declined by \$133m having traded only \$8m during this period.
- Max's Group's market cap has declined by \$64m having traded only \$8m during this period.
- Mahindra CIE Automotive's market cap has declined by \$267m having traded only \$14m during this period.
- We have used the opportunity to add to several of these holdings as their valuations are attractive.

# Portfolio Activity

## New Purchases - 11 holdings

| Holding               | Current Size | Description  |
|-----------------------|--------------|--|
| ACC                   | 2.0%         | It is the subsidiary of Ambuja Cement, and is one of the leading cement companies in India. Its valuation at the time of purchase of \$50 - 60 EV/ton were very attractive compared to replacement cost of \$120 EV/ton. Its management is focused on improving its profitability.   |
| Universal Robina      | 1.8%         | It is one of the Philippines' leading FMCG companies with leading market share in snacks, candies, chocolate and coffee. It is owned by the Gokongwei family and new CEO, Irwin Lee, is making changes to improve its market position further. It was purchased at attractive valuations of 2x EV/Sales and 19x forward P/E.   |
| Ambuja Cement         | 1.6%         | Ambuja is the 2nd largest cement company in India, majority owned by Lafarge Holcim. Its new CEO is focused on improving efficiency and profitability. It was purchased at attractive valuations of \$60 - 70 EV/ton, compared to replacement cost of \$120 EV/ton.  |
| Bosch India           | 1.2%         | Bosch is the largest auto-component supplier in India, and the only listed subsidiary of Robert Bosch. Its long term prospects are strong, driven by new technologies being injected by its parent into the listed company and the under-penetrated auto market in India. Its share price has fallen by 51% over the last year, due to the severe down-cycle in the Indian automotive industry. Its valuation of 18x trailing P/E is attractive. |
| Metropolis Healthcare | 1.1%         | Metropolis is among the leading diagnostic chains in India. It is leading the fragmented industry's consolidation. This consolidation process is likely to accelerate as many unorganized competitors will not be able to survive the disruption led by Covid-19.  |
| Eicher Motors         | 1.1%         | It is the leading premium motorcycle brand in India, with its Royal Enfield brand. Its long term potential to grow volumes in India is significant. Its share price has fallen 60% over the last year due to the automotive down-cycle in India. Its valuations of 17x trailing P/E are attractive.  |
| Castrol India         | 1.1%         | Castrol is the leading lubricant brand in India, majority owned by British Petroleum. It has taken several initiatives such as partnerships with fuel stations, new product launches to improve its long term growth. Its valuations are attractive at 12x trailing P/E, with a 5.5% dividend yield.   |
| United Breweries      | 0.5%         | It is the dominant beer company in India with 55% market share, majority owned by Heineken. Per capita beer consumption in India is exceptionally low at 4 liters, compared to over 30 liters in China and over 75 liters in US). Its share price has fallen by 36% over the last year, due to the expected decline in short-term consumption. Its valuation of 25x trailing P/E is attractive, given the significant growth potential.          |
| Voltas                | 0.5%         | It is the leading air-conditioning brand in India. It is majority owned by the Tata group. Air-conditioner penetration in India is only 5%. It has also recently introduced a range of consumer durable products through its partnership with Arcelik.   |
| Poya International    | 0.4%         | Poya is among the leading retailers in Taiwan, with a focus on discount format stores. Its growth potential has improved significantly due to the introduction of a new hardware retail format (Poya Home).  |
| Escorts               | 0.3%         | Escorts is among the leading tractor manufacturers in India. A new joint venture with Kubota is likely to enhance its growth potential globally. Its valuation of 11x trailing P/E was attractive at the time of the purchase. Share price rose 45% subsequently, so the position was trimmed.   |
| <b>Total</b>          | <b>11.6%</b> |  |

## Complete Sell – 8 holdings

| Holding                           | Size        | Rationale  |
|-----------------------------------|-------------|--|
| <b>Raffles Medical</b>            | <b>2.6%</b> | Our engagement with the company led to lower conviction in their capital allocation. Its Singapore operations are likely to face headwinds of lower medical tourism due to travel restrictions. Its valuations of 25x forward P/E are expensive.   |
| <b>Taiwan Familymart</b>          | <b>1.5%</b> | It was sold due to lower conviction in the management team's ability to generate long-term growth and generate high returns on capital, following recent meetings.   |
| <b>Gujarat Gas</b>                | <b>1.1%</b> | It was sold due to expensive valuations. There are also risks of an increase in competition, and a shift towards alternative sources of fuel among customers. It was used as a source of cash for stocks which have fallen.  |
| <b>Tong Ren Tang Technologies</b> | <b>1.0%</b> | It was sold due to lower conviction in the management team's ability to generate long-term growth, following recent meetings.  |
| <b>Nien Made</b>                  | <b>1.0%</b> | The company's blinds and curtain sales are closely linked to new housing demand in United States, its key market. Given the significant disruption to incomes, discretionary demand for its products are likely to fall significantly. During the global financial crisis, Nien Made's sales fell by more than 30%. Its portfolio is now more discretionary, than it was a decade ago. |
| <b>Suprajit Engineering</b>       | <b>0.7%</b> | Suprajit Engineering was sold due to the risks arising from the downturn in the automotive cycle in India and globally, which could impact its profitability significantly.  |
| <b>IIFL Wealth Management</b>     | <b>0.5%</b> | IIFL wealth was sold following increasing risks to its profitability, given the risk of a significant decline in its AUM, and potential for fixed costs related to preserving key talent.  |
| <b>Healthcare Global</b>          | <b>0.4%</b> | It was sold due to lower conviction in the management team's capital allocation policies and attitude to risk.   |
| <b>Total</b>                      | <b>8.8%</b> |  |

# Portfolio Activity

## Significant Additions – 13 holdings

| Holding                        | Addition    | Rationale   |
|--------------------------------|-------------|---|
| <b>Nissin Food</b>             | <b>1.5%</b> | Recent meetings suggested that the company's initiatives are likely to lead to stronger growth in the years ahead.                          |
| <b>Uni-President China</b>     | <b>1.1%</b> | Our recent discussions with its competitors suggested an improvement in Uni-President's competitive position and growth potential.          |
| <b>Century Pacific Foods</b>   | <b>1.0%</b> | Recent meetings suggested that the company's initiatives are likely to lead to stronger growth in the years ahead.                          |
| <b>Mitra Adiperkasa</b>        | <b>1.0%</b> | We added following significant weakness in the share price.   |
| <b>Indian Hotels</b>           | <b>0.6%</b> | We added following significant weakness in the share price.   |
| <b>Mahindra CIE Automotive</b> | <b>0.5%</b> | We added following significant weakness in the share price.   |
| <b>Max's Philippines</b>       | <b>0.5%</b> | We added following significant weakness in the share price.   |
| <b>Sinbon Electronics</b>      | <b>0.5%</b> | Recent meetings suggested that the company continues to develop new products which are likely to lead to steady growth in the coming years. |
| <b>Godrej Industries</b>       | <b>0.4%</b> | We added following significant weakness in the share price.   |
| <b>Nexteer Automotive</b>      | <b>0.3%</b> | We added following significant weakness in the share price.   |
| <b>Oberoi Realty</b>           | <b>0.3%</b> | We added following significant weakness in the share price.   |
| <b>Sarimelati Kencana</b>      | <b>0.3%</b> | We added following significant weakness in the share price.   |
| <b>Selamat Sempurna</b>        | <b>0.3%</b> | We added following weakness in the share price.   |
| <b>Total</b>                   | <b>8.3%</b> |   |

## Significant Reductions – 6 holdings

| Holding                | Reduction   | Rationale   |
|------------------------|-------------|---|
| <b>Haw Par</b>         | <b>1.8%</b> | Recent meetings suggested significant risks to its Tiger Balm business, which is dependent on duty free stores at airports for a significant portion of its sales. Its largest investment holding, UOB Limited, is also likely to face risks of higher credit costs and lower Net Interest Margins. |
| <b>Vitasoy</b>         | <b>1.5%</b> | We reduced due to expensive valuations.   |
| <b>Voltronic Power</b> | <b>1.2%</b> | We reduced due to expensive valuations.   |
| <b>JNBY</b>            | <b>1.1%</b> | We reduced due to significant risks of lower demand for discretionary fashion products in China.  |
| <b>51 Job</b>          | <b>0.7%</b> | Recent meetings indicated significant risks to growth as hiring reduces across companies. Competitive intensity led by its largest competitor, Zhaopin, is also increasing.   |
| <b>BASF India</b>      | <b>0.3%</b> | We reduced due to expensive valuations.   |
| <b>Total</b>           | <b>6.6%</b> |   |

# Portfolio Activity

| New Purchases                 |                         |                    |  |
|-------------------------------|-------------------------|--------------------|--|
| Name                          | 5Y Average Pre-Tax ROCE | Market Cap (US\$m) | 6 month avg. daily traded value (US\$'000) |
| Ambuja Cement                 | 17.5%                   | 4,944              | 11,511                                     |
| ACC Limited                   | 17.8%                   | 3,157              | 18,711                                     |
| Bosch Limited                 | 20.9%                   | 3,681              | 4,245                                      |
| Universal Robina Corporation  | 22.8%                   | 5,438              | 3,652                                      |
| Escorts Limited               | 21.9%                   | 1,426              | 33,355                                     |
| Metropolis Healthcare         | 67.1%                   | 905                | 3,429                                      |
| Eicher Motors                 | 40.7%                   | 5,489              | 44,909                                     |
| Castrol India                 | 362.1%                  | 1,499              | 3,399                                      |
| United Breweries              | 19.5%                   | 3,289              | 8,685                                      |
| Poya International            | 35.2%                   | 1,852              | 3,391                                      |
| Voltas                        | 20.3%                   | 2,057              | 14,211                                     |
| Median                        | 22.0%                   | 3,157              | 8,685                                      |
| Complete Sell                 |                         |                    |  |
| Name                          | 5Y Average Pre-Tax ROCE | Market Cap (US\$m) | 6 month avg. daily traded value (US\$'000) |
| Raffles Medical               | 11.8%                   | 1,152              | 1,472                                      |
| Taiwan Familymart             | 13.7%                   | 1,790              | 410  |
| Gujarat Gas                   | 14.2%                   | 2,153              | 3,951                                      |
| Tong Ren Tang Technologies    | 16.5%                   | 963                | 1,961                                      |
| Nien Made Enterprises         | 19.9%                   | 2,467              | 6,911                                      |
| Suprajit Engineering          | 13.2%                   | 207                | 309  |
| IIFL Wealth Management        | 11.8%                   | 977                | 681  |
| Healthcare Global Enterprises | 5.7%                    | 120                | 321  |
| Median                        | 13.5%                   | 1,065              | 1,077                                      |

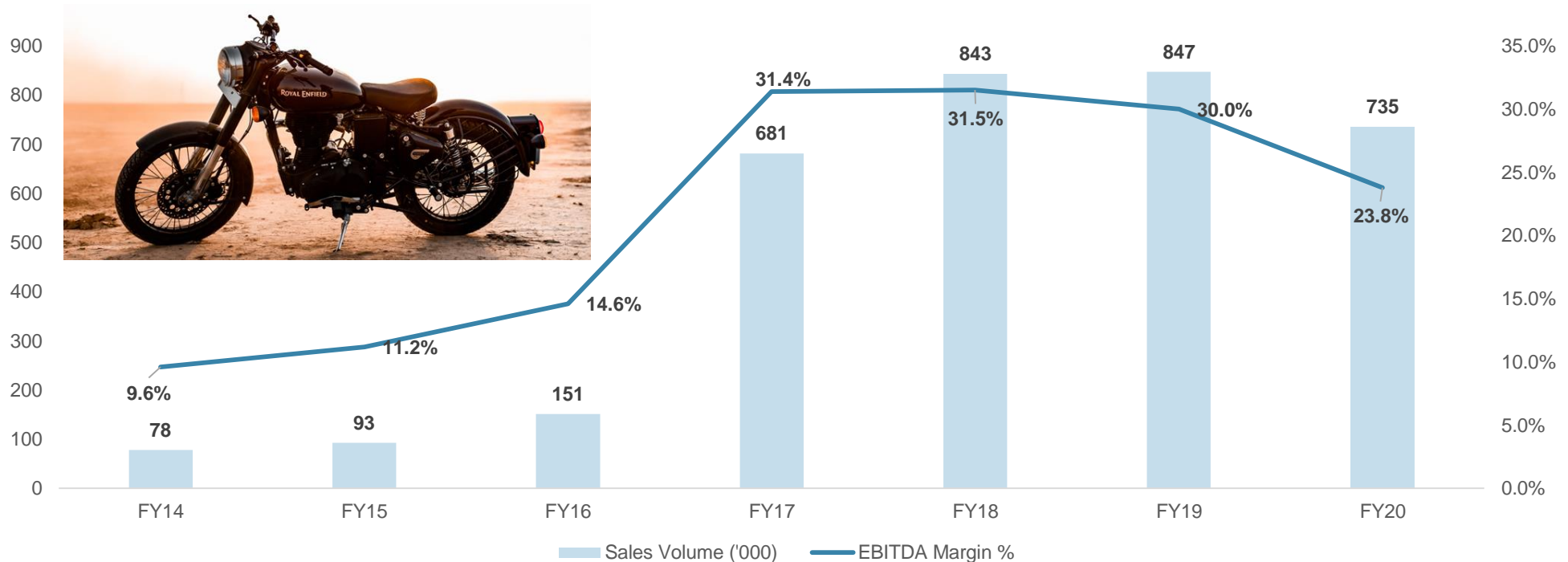
|                   | May '16 | May '17 | May'18 | May '19 | May '20 |
|-------------------|---------|---------|--------|---------|---------|
| Top 10 Holdings % | 26.1%   | 25.4%   | 31.1%  | 30.9%   | 33.5%   |
| Top 20 Holdings % | 45.2%   | 44.6%   | 51.1%  | 50.7%   | 54.9%   |

**New holdings purchased have significantly higher Return on Capital Employed (ROCE), larger market capitalizations and higher liquidity than holdings which have been sold from the portfolio.**

**The portfolio has also become more consolidated among the highest conviction holdings.**

# New Holdings

## Eicher Motors: \$6.0 Billion Market Cap



Royal Enfield is the oldest motorcycle brand in the world, produced since 1901. It is only 6% of industry volumes, but is almost a monopoly in its category.

The brand is one of the strongest in India across all consumer categories – this gives substantial pricing power.

Sales grew by 11x over FY14 – FY18. Internal issues as well as regulatory changes and cyclical downturn led to a decline in volumes over FY18 – FY20. EBITDA margins increased from 10% to 32%, have fallen to 24% now.

New professional CEO appointed. He is improving the distribution reach, product portfolio, introducing lower pricing and building an export franchise.

Share price fell 65% from the peak. Valuations normalized from 40x forward P/E to 20x forward P/E. Cash is 20% of market cap.

# New Holdings

## Universal Robina Corp: \$5.9 Billion Market Cap



| Category       | Market Share | Market Position |
|----------------|--------------|-----------------|
| Snacks         | 36%          | #1              |
| Candies        | 26%          | #1              |
| Chocolates     | 21%          | #1              |
| Instant Coffee | 23%          | #2              |
| RTD Tea        | 85%          | #1              |
| Biscuits       | 16%          | #3              |

Consumer staples business in Philippines owned by the Gokengwei family. It has leading market positions across several categories in the domestic market.

Two acquisitions in Australia and New Zealand had integration issues and led to management's attention being diverted.

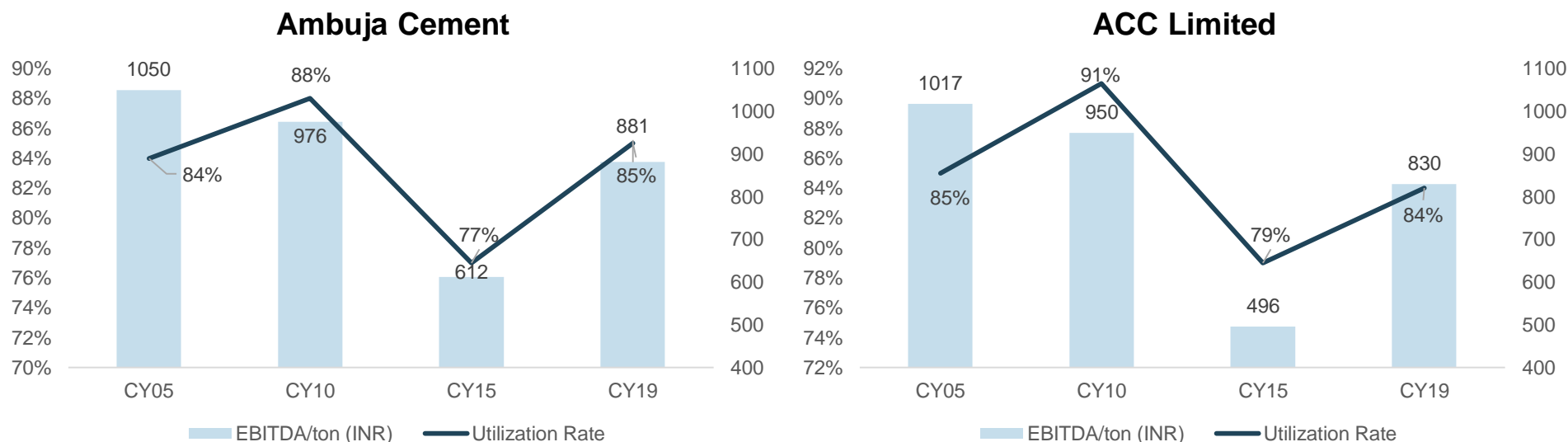
New CEO (Irwin Lee – Procter & Gamble) has introduced several changes. New product introduction is being accelerated, advertising investments behind brands is being increased significantly, supply chain is being streamlined and incentive structure of top management is being improved.

Market shares in domestic business have increased over the last year. There is significant long term potential in the core domestic business, improving margins in overseas operations, and growing the joint-ventures with Vitasoy and Nissin Foods.

Valuations of 1.8x EV/Sales and 19x forward P/E at the time of purchase were attractive.

# New Holdings

## Ambuja Cement (\$5 Billion Market Cap) & ACC Limited (\$3 Billion Market Cap)



Leading cement companies in India owned by Lafarge-Holcim. ACC is 51% owned by Ambuja Cement.

New CEO (Neeraj Akhoury) appointed as the India head for Lafarge-Holcim (new position). He is CEO of Ambuja Cement and on the Board of ACC. His focus is to drive integration between the two companies and deliver synergies.

Significant potential for profitability improvement. EBITDA/ton is still lower than what it was 10 - 15 years ago.

Counter-cyclical capital allocation has led to higher Return on Capital Employed than its peers. They are now expanding as utilization rates are high.

Valuations of \$50 - \$65 EV/ton for ACC and Ambuja were the cheapest in 15 years, compared to replacement cost of \$110/ton and recent transactions of \$100 - 150/ton. Cash is 10% - 15% of market cap.

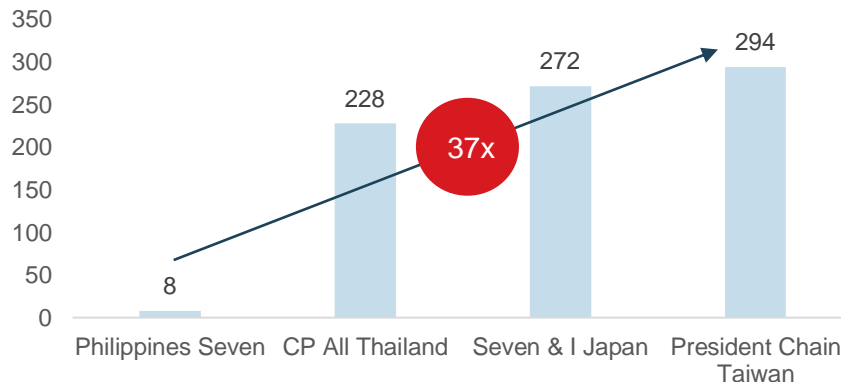
# Significant Additions

## Philippine Seven Corp: \$2.0 Billion Market Cap



61% share of CVS in Philippines

US\$ Sales per Capita



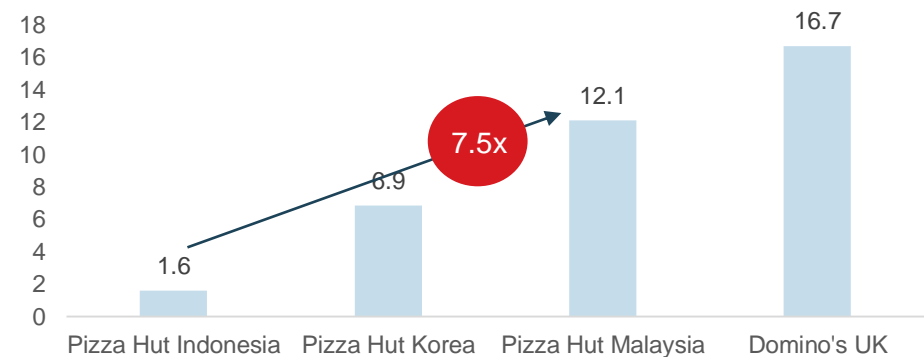
41x CY19 P/E, 1.5x EV/Sales

## Sarimelati Kencana: \$190 Million Market Cap



80% share of pizza market in Indonesia

Stores per Million People



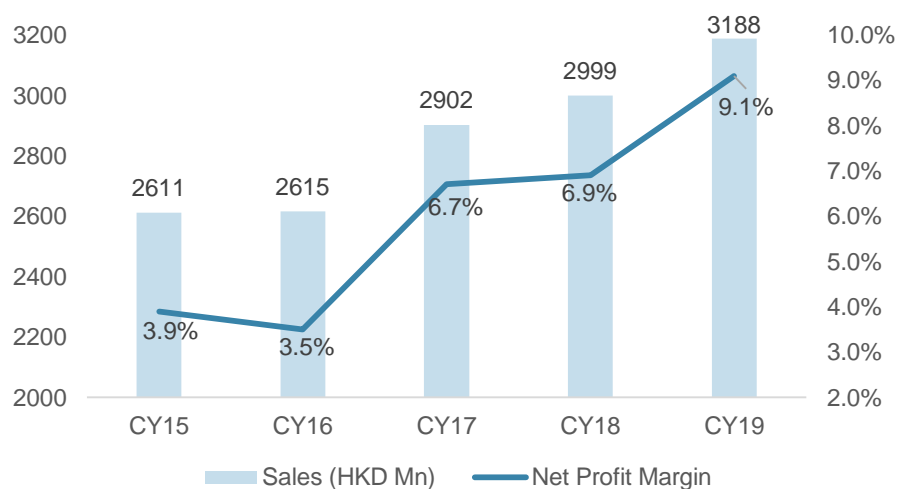
12x CY19 P/E, 0.6x EV/Sales

# Significant Additions

## Nissin Food: \$850 Million Market Cap

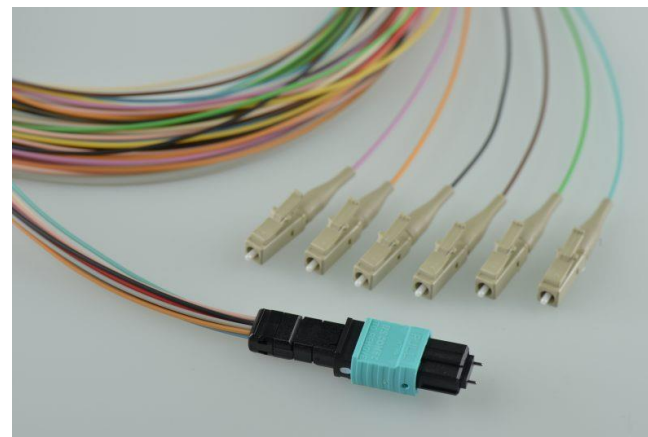


### Leading premium noodle brand in Hong Kong and China

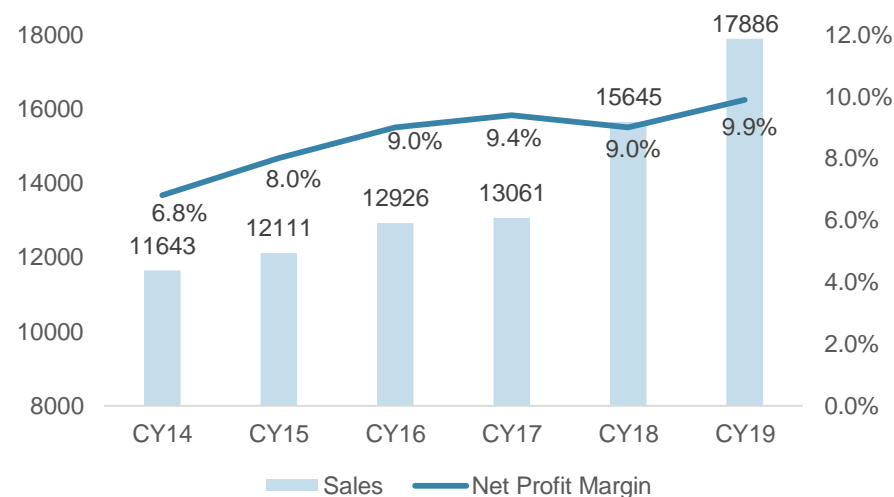


**1.5x EV/Sales, 20x CY19 P/E**

## Sinbon Electronics: \$1.2 Billion Market Cap



### Cable Supplier to Amazon, GE, Nio, etc.



**15x CY19 P/E, 4% dividend yield**

# Earnings Update

| Company                        | Description  |
|--------------------------------|--|
| <b>Consumer Staples</b>        |  |
| <b>Century Pacific Foods</b>   | <ul style="list-style-type: none"> <li>- Sales grew by 24% y/y, driven by 31% y/y growth in the branded foods business. The growth was strong across product categories, helped by pantry stocking from customers. Due to the higher share of branded products in the product mix, gross margins improved and PAT increased by 33% y/y.</li> <li>- Its management continues to witness strong demand across its product categories. It is focused on gaining further market share in emerging segments such as milk, while maintaining its dominant position in canned foods.</li> </ul>   |
| <b>Colgate Palmolive India</b> | <ul style="list-style-type: none"> <li>- Volumes declined 8% y/y due to supply chain disruptions. Based on this, revenues declined by 7%. However, there was an improvement in its market shares. Gross margin was maintained, but operating profit declined 15% yoy due to higher employee expenses and sustained advertising &amp; promotion expenses. The company continues to invest in brand building.</li> <li>- The new CEO is increasing focus on new launches across categories, including the Palmolive brand too, as well as new products such as hand sanitizers.</li> </ul>   |
| <b>Nissin Foods</b>            | <ul style="list-style-type: none"> <li>- Sales grew by 16% in China and 11% in Hong Kong. The company benefited from pantry stocking, despite a decline in some channels such as school canteens. It also benefited from price increases in its China business. The operating leverage from strong volume growth and higher prices led to a significant improvement in margins. Its operating profit in China grew by 23% y/y and in Hong Kong grew by 32% y/y.</li> <li>- Its management continues to witness strong product demand. It is also launching new product categories and expanding its distribution presence in China, which is likely to drive steady growth in the coming years.</li> </ul>   |
| <b>Tata Consumer Products</b>  | <ul style="list-style-type: none"> <li>- Revenues grew 35% y/y due to pantry stocking and the additional revenues from its merger with Tata Chemicals' consumer products business.</li> <li>- Operating profit grew by 63% y/y as margins improved in its Indian and European operations. This was driven by lower commodity prices and the benefit of operating leverage from volume growth. PAT grew by 27% y/y.</li> <li>- The new CEO's immediate priority is to integrate the merged Tata Chemicals business. They are looking at entering new adjacent product categories to drive higher growth in the medium term.</li> </ul>  |
| <b>Uni-President China</b>     | <ul style="list-style-type: none"> <li>- The company achieved 8% sales growth, driven by higher noodle demand. However, demand for its beverage products declined due to lower out of home consumption. The company also took price hikes. This led to 11% growth in its PAT.</li> <li>- They are launching new premium instant noodle products as consumers continue to shift towards higher quality brands such as Uni-President.</li> </ul>   |
| <b>Universal Robina</b>        | <ul style="list-style-type: none"> <li>- Sales grew by 3% y/y in Philippines. Demand for some of their discretionary products such as candies was hurt. However, they gained market share in other categories such as instant coffee and instant noodles. It witnessed a decline in sales for its International business, led by foreign exchange fluctuations. The company has continued to maintain strong cost control, which led to operating profit in its domestic business improving by 18% y/y.</li> <li>- The company is focused on increasing its exposure towards modern trade channels, where growth should improve. It has also signed partnerships with the likes of DHL to introduce home delivery of products. These initiatives should lead to steady growth amidst the current period of disruption in Philippines.</li> </ul> |

**Note: Indonesian companies have not reported 1<sup>st</sup> Quarter 2020 results. These are expected in 3<sup>rd</sup>/4<sup>th</sup> week of June 2020.**

# Earnings Update

| Company  | Description  |
|--|--|
| <b>Consumer Discretionary &amp; Suppliers to Discretionary Companies</b> |  |
| <b>Blue Star</b>   | <ul style="list-style-type: none"> <li>- Revenue declined by 19% y/y. This was caused by the impact of Covid-19 related shutdowns. However, the company gained market share in the room air-conditioner category. Due to high operating leverage, operating profit declined by 66% y/y. Net debt reduced this quarter due to better working capital.</li> <li>- In the near term, demand will remain quite low, although there are some green shoots in terms of 60% of sales coming from Tier 3, 4, and 5 cities which have started coming out of lockdowns. Blue Star has higher market share in these smaller cities. Long term demand is expected to be strong, as penetration is only 5%.</li> </ul>  |
| <b>Concepcion Industrial</b>   | <ul style="list-style-type: none"> <li>- The company's sales declined by 18% y/y, impacted by the lockdown in Philippines. However, the company maintained its market share in air-conditioners, and improved its market share in the refrigerator category. Due to the negative impact of operating leverage, its operating profit declined by 53% y/y.</li> <li>- Its management is focused on stringent cost control measures to improve its profitability amidst a period of weaker consumer demand. It is also likely to gain market share as several of its smaller competitors struggle to compete in the current environment, given their weaker balance sheets.</li> </ul>  |
| <b>SKF India</b>   | <ul style="list-style-type: none"> <li>- Revenues declined by 19% y/y. This was due to lower demand across their industrial and automotive segments. Operating profit declined by 44%, due to lower utilization levels at their factories and a short-term increase in imported product content which is likely to decline in the coming periods. The company also declared a large special dividend equivalent to 9% of the current market capitalization.</li> <li>- SKF India has been introducing new products and initiating performance based contracts with key customers. These will help the company continue gaining market share from its peers. The one-off factors such as the increase in imported product content is likely to be mitigated in the coming periods.</li> </ul> |
| <b>Mahindra CIE Automotive</b>   | <ul style="list-style-type: none"> <li>- Revenues declined by 23% y/y led by a 33% decline in revenues in European business and a 5% decline in India business revenues. This was attributed to plant shutdowns across markets. The company is gaining market share as smaller competitors are struggling. Operating profit declined by 37% y/y due to operating leverage. Margins in India improved but there was a deterioration in profitability in Europe.</li> <li>- Per our recent meeting with the CEO, they are focusing on controlling costs by improving productivity and controlling working capital.</li> </ul>  |
| <b>Sinbon Electronics</b>  | <ul style="list-style-type: none"> <li>- Sales grew by 12% y/y. In the medical segment, demand increased for cables for ventilators and some other equipment. Orders from large customers such as Amazon were also strong. PAT grew by 23% y/y due to operating leverage from higher volume growth, and an improvement in its product mix.</li> <li>- The company continues to expect 13% - 15% sales growth in the coming year, as they have entered new product categories and gained new customers as well. This is likely to sustain its profitability as well.</li> </ul>   |
| <b>Information Technology</b>  |  |
| <b>Mphasis Limited</b>   | <ul style="list-style-type: none"> <li>- Revenue grew by 10% y/y, as 95% of the company's employees transitioned immediately to a work from home system by the end of March quarter. Operating profit improved by 20% y/y due to higher utilization levels. The management is using different cost control and automation measures to sustain its margins going forward.</li> <li>- Mphasis' low exposure to severely impacted verticals such as travel, manufacturing, oil &amp; gas and retail should lead to steady demand for its services. The company continues to acquire new customers, as evidenced US\$200mn of new projects received in the quarter.</li> </ul>   |
| <b>Cement</b>  |  |
| <b>Ambuja Cement</b>   | <ul style="list-style-type: none"> <li>- Volumes declined 10% y/y. This decline was due to the lockdown implemented in March. Average selling prices were steady. EBITDA grew 44% compared to the previous year, resulting in an EBITDA/ton of INR 1047. Cost efficiencies and lower raw material costs aided profitability.</li> <li>- The recent change in CEO, to Mr. Neeraj Akhoury (former CEO of ACC), has driven a higher focus on increasing efficiency and improving margins. This improvement in profitability is expected to continue in the coming periods.</li> </ul>   |
| <b>ACC Limited</b>   | <ul style="list-style-type: none"> <li>- Volumes declined 12.5% y/y. The decline in volumes was attributed to the lockdown implemented in India in March. Prices improved marginally. Despite this dip in volumes, profitability improved. EBITDA grew 10% y/y, due to the strong cost control by the company and lower raw material costs. Cash flows improved too, led by tighter working capital management.</li> <li>- There is increased focus on realizing synergies between ACC and Ambuja. This should aid ACC's profitability in the future.</li> </ul>   |

# Changes to Earnings Estimates

| Name                             | Position Size | Change in FY20 EPS Estimate | YTD Change in Share Price |
|----------------------------------|---------------|-----------------------------|---------------------------|
| Philippine Seven                 | 3.7%          | -15%                        | -9%                       |
| Century Pacific                  | 3.6%          | 5%                          | -1%                       |
| Godrej Industries                | 3.5%          | -14%                        | -10%                      |
| Colgate Palmolive India          | 3.3%          | -13%                        | -9%                       |
| Uni-President China              | 3.1%          | -2%                         | -4%                       |
| Selamat Sempurna                 | 3.0%          | -12%                        | -27%                      |
| Mitra Adiperkasa                 | 2.9%          | -36%                        | -28%                      |
| SKF India                        | 2.9%          | -43%                        | -33%                      |
| Nissin Foods                     | 2.8%          | -3%                         | 0%                        |
| Mphasis                          | 2.7%          | -10%                        | -9%                       |
| Sarimelati Kencana               | 2.6%          | -28%                        | -20%                      |
| Concepcion Industrial            | 2.5%          | -30%                        | -27%                      |
| Vitasoy International            | 2.2%          | -25%                        | 4%                        |
| Blue Star Limited                | 2.1%          | -44%                        | -42%                      |
| ACC Limited                      | 2.0%          | -12%                        | -14%                      |
| Oberoi Realty                    | 2.0%          | -29%                        | -33%                      |
| Sinbon Electronics               | 1.9%          | 0%                          | 21%                       |
| Delta Brac Housing Finance       | 1.9%          | -10%                        | -7%                       |
| Universal Robina Corp.           | 1.9%          | -10%                        | -8%                       |
| Max's Group                      | 1.9%          | -35%                        | -53%                      |
| Mahindra CIE Automotive          | 1.9%          | -31%                        | -43%                      |
| Tata Consumer Products           | 1.8%          | -8%                         | 15%                       |
| Fairwood Holdings                | 1.8%          | -15%                        | -16%                      |
| Hero Supermarket                 | 1.7%          | -6%                         | 5%                        |
| HeidelbergCement India           | 1.7%          | -9%                         | -4%                       |
| Ambuja Cement                    | 1.6%          | -13%                        | -3%                       |
| Haw Par Cop                      | 1.4%          | -24%                        | -18%                      |
| FPT Corp                         | 1.2%          | -11%                        | -8%                       |
| Refrigeration & Engg. Corp (REE) | 1.2%          | -10%                        | -15%                      |
| Voltronic Power                  | 1.0%          | 2%                          | 18%                       |
| <b>Weighted Average</b>          |               | <b>-11%</b>                 | <b>-15%</b>               |

**Weighted average EPS estimate for top 30 holdings (68% of total portfolio) has been cut by 11% year-to-date. The year-to-date weighted average decline in share prices for the top 30 holdings is 15%.**

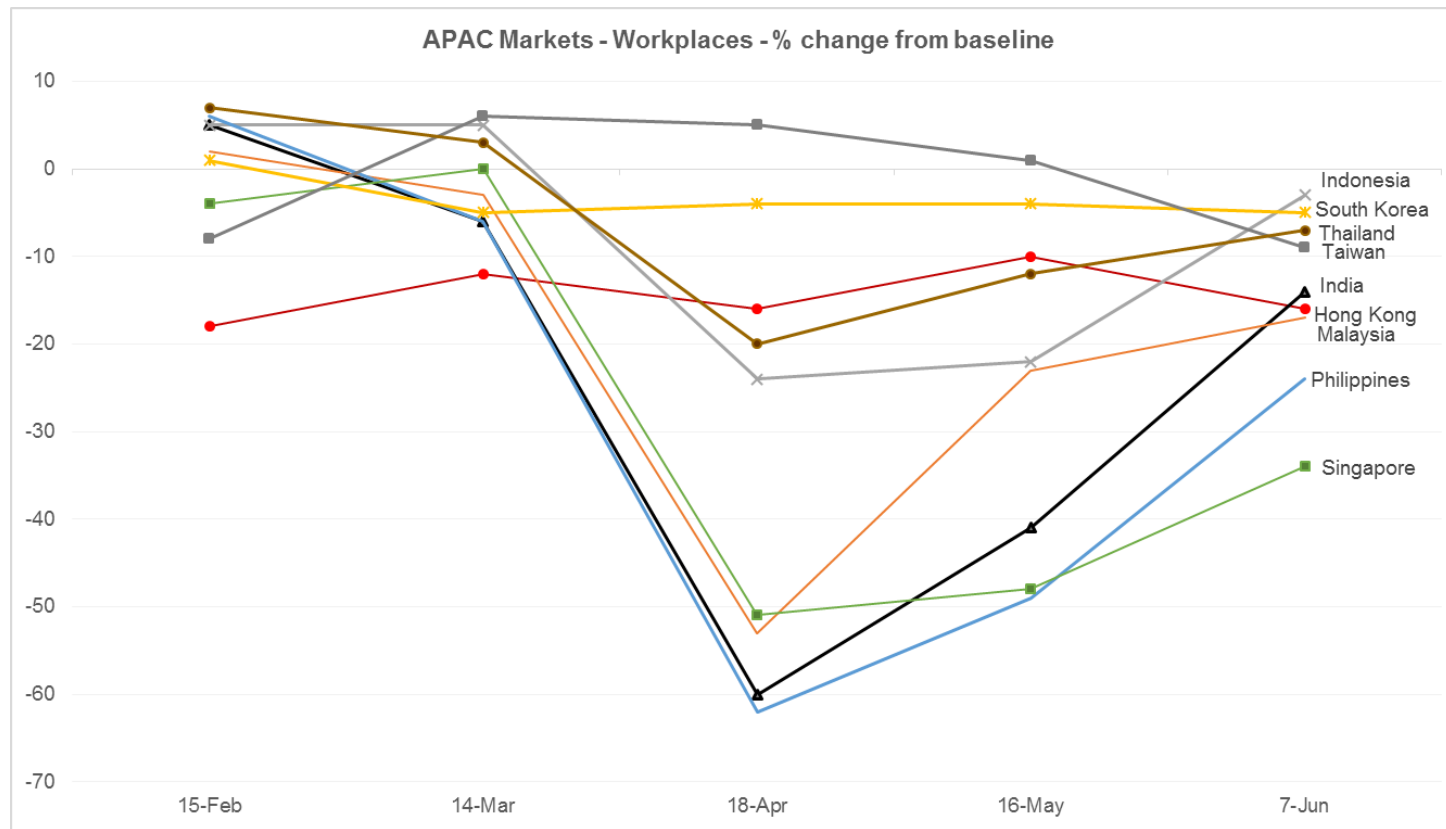
# Peer Fund Comparison

| Year to Date (GBP)                  |        |
|-------------------------------------|--------|
| Change in Net Asset Value           |        |
| Scottish Oriental Smaller Companies | -15.7% |
| Aberdeen Asia Focus                 | -11.4% |
| Change in Share Price               |        |
| Scottish Oriental Smaller Companies | -18.3% |
| Aberdeen Asia Focus                 | -15.4% |
| Net Gearing (as on 30th April)      |        |
| Scottish Oriental Smaller Companies | -7.8%  |
| Aberdeen Asia Focus                 | 13.2%  |

| Country Allocation (as of April 30 2020) |                     |                   |
|--|---------------------|-------------------|
|  | Aberdeen Asia Focus | Scottish Oriental |
| India                                    | 13.1%               | 35.8%             |
| Thailand                                 | 12.8%               | 0.0%              |
| Hong Kong                                | 9.9%                | 8.3%              |
| Malaysia                                 | 8.9%                | 0.5%              |
| Singapore                                | 8.5%                | 1.4%              |
| Indonesia                                | 7.3%                | 15.2%             |
| Taiwan                                   | 7.3%                | 3.3%              |
| Philippines                              | 6.6%                | 13.6%             |
| Korea                                    | 4.1%                | 0.0%              |
| Vietnam                                  | 3.5%                | 2.5%              |
| New Zealand                              | 3.2%                | NA                |
| Sri Lanka                                | 3.2%                | 1.0%              |
| United Kingdom                           | 2.7%                | NA                |
| China                                    | 2.0%                | 6.9%              |
| Denmark                                  | 2.0%                | NA                |
| Myanmar                                  | 1.5%                | 0.0%              |
| Pakistan                                 | 0.2%                | 1.6%              |
| Bangladesh                               | 0.00%               | 2.2%              |

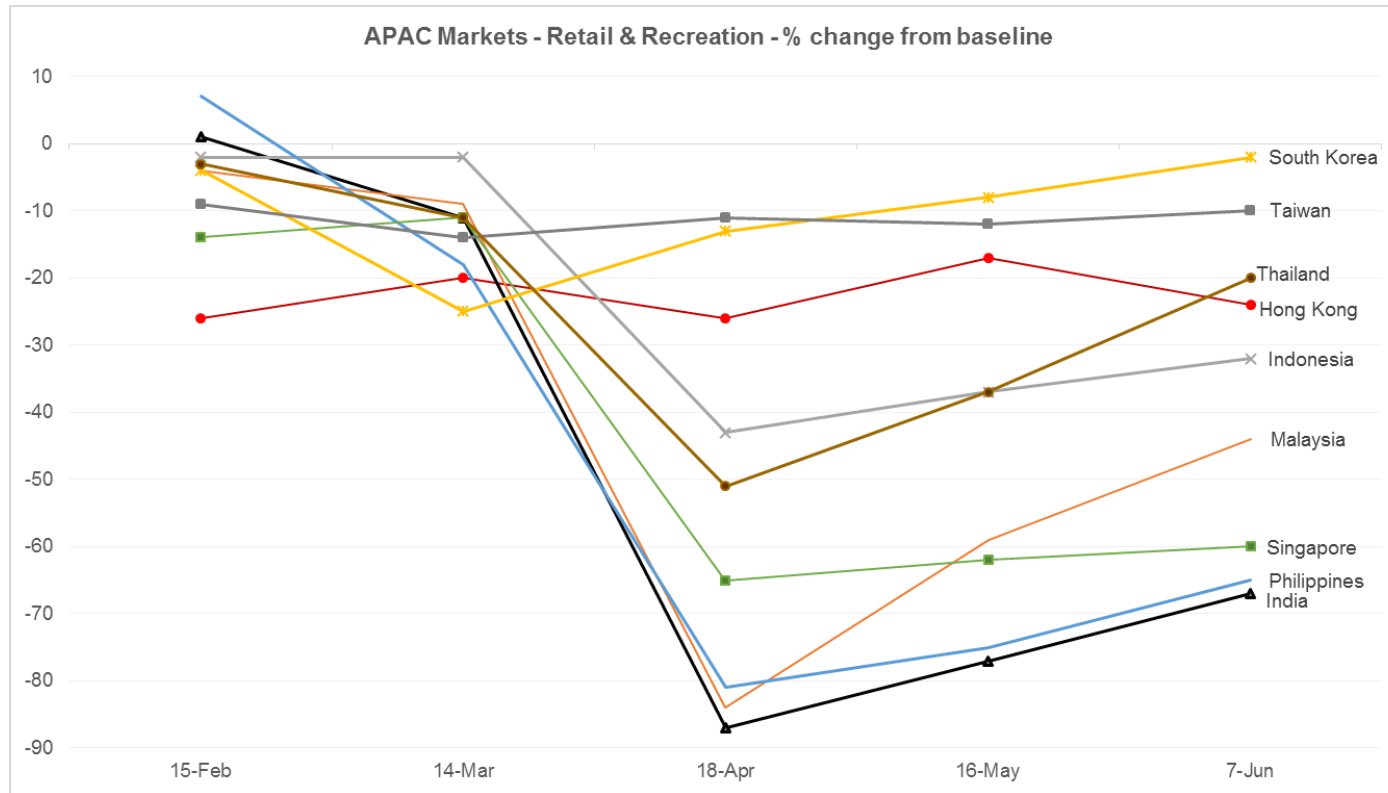
Scottish Oriental's performance has been weaker than Aberdeen's during the recent period. Key reasons are:

- **Geographical allocation:** Scottish Oriental's higher allocation to India, Indonesia and Philippines and lower allocation to Thailand and Malaysia has detracted from performance on a relative basis.
- **Net gearing:** Aberdeen has a net gearing level of 13.2%, which has gradually increased from 9.9% at the end of 2019. This compares against a net cash position of 7.8% for Scottish Oriental. The increase in net gearing has contributed to Aberdeen's performance during the recent rebound in markets.



- Workplace activity is reaching levels close to normalcy across several countries.
- Taiwan and South Korea were the earliest to reach the current stage of higher activity.
- In recent weeks, workplace mobility levels in Indonesia, Thailand and India have improved significantly.
- The lockdown remains most severe in Philippines and Singapore – workplace mobility is 25% - 35% lower than normal.

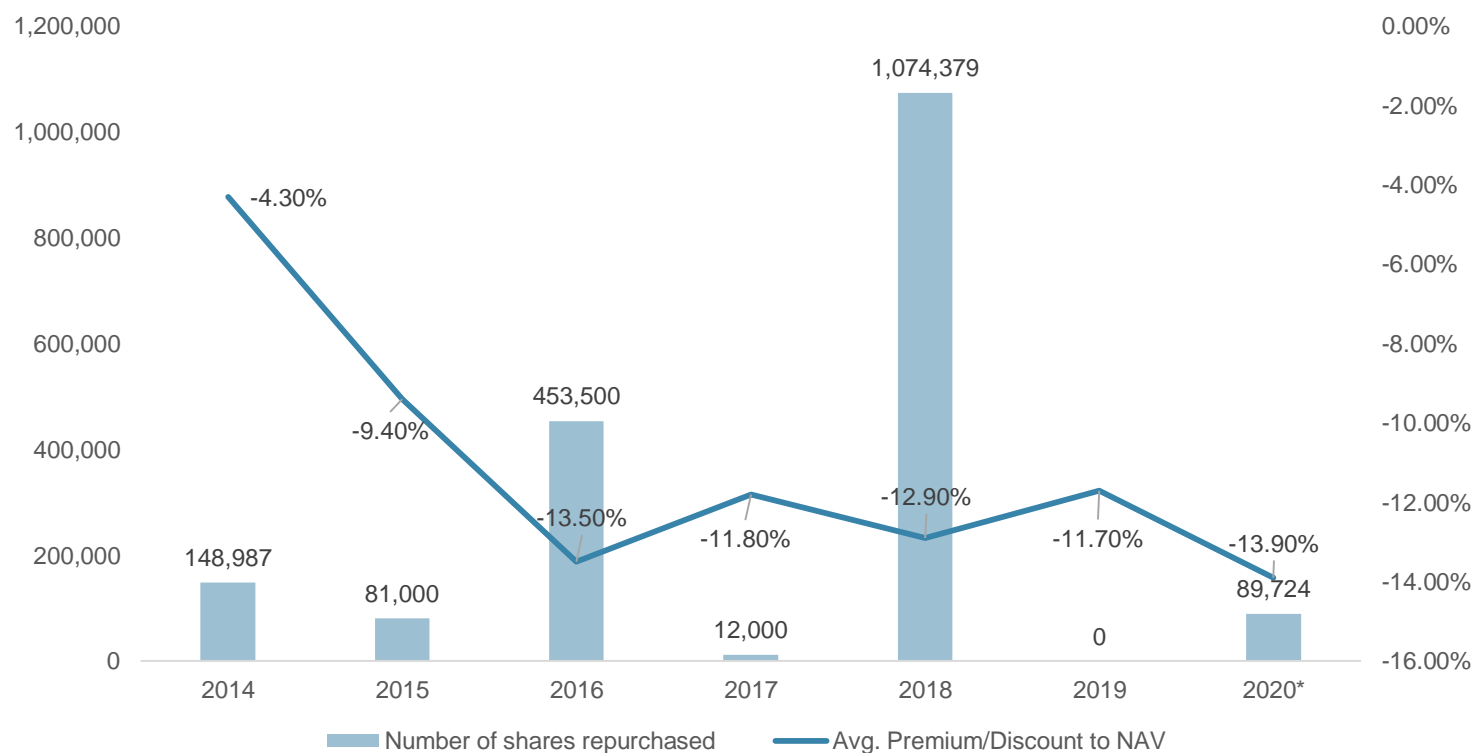
# Extent of lockdown (Google Mobility)



- There remains an aversion towards retail and recreational activity across countries.
- Recreational activity is 10% - 20% lower than normal levels in Hong Kong and Taiwan, where workplace activity has normalized.
- Thailand and Indonesia are witnessing recreational activity at 20% - 30% lower than normal levels, despite a near normal level of workplace mobility.
- India, Singapore and Philippines appear to be most averse towards discretionary mobility, which is 60% - 70% lower than normal levels.

# Shares Repurchased

|                              | 2014    | 2015   | 2016    | 2017   | 2018      | 2019   | 2020*  |
|------------------------------|---------|--------|---------|--------|-----------|--------|--------|
| Number of shares repurchased | 148,987 | 81,000 | 453,500 | 12,000 | 1,074,379 | 0      | 89,724 |
| Avg. Premium/Discount to NAV | -4.3%   | -9.4%  | -13.5%  | -11.8% | -12.9%    | -11.7% | -13.9% |



# Summary

- **Performance has been disappointing.** 68% of the portfolio is invested in India, Philippines and Indonesia, where small caps have declined by 23% - 39% year to date. Our portfolio companies have done substantially better.
- **Several detractors have declined significantly on low liquidity.** We have added to these holdings.
- **Portfolio activity:** Share price declines has given the opportunity to purchase market leading businesses at attractive prices. New purchases have significantly higher ROCE, market capitalizations and trading liquidity compared to holdings sold. The portfolio is more consolidated among the highest conviction ideas.
- **Update on portfolio holdings:** Recent earnings indicate relatively strong performance by consumer staples, information technology and cement companies. Earnings of discretionary businesses and their suppliers are likely to be adversely impacted in the short term.
- **Stage of lockdown across countries :** Markets which are at an advanced stage of opening-up have performed better.
- **Conclusion:** Companies in sectors and countries with higher near-term earnings certainty have been rewarded disproportionately, while those with strong long-term franchises and substantial long term growth opportunity but weak earnings over the short-term have been de-rated significantly.
- In our view, this does not change the intrinsic value of these businesses. The portfolio has shifted towards larger companies with higher Returns on Capital. We are confident about the portfolio's positioning.

## **Appendix**

# Relief and stimulus measures

| Country     | Stimulus (in \$ Bn) | % of GDP | Comments   |
|-------------|---------------------|----------|--|
| China       | 231                 | 1.7%     | Exemption of VAT across affected sectors, postponement of corporate income taxes for SME's, postponement of payment of social insurance payments, lower electricity rates. |
| India       | 40                  | 1.3%     | Direct transfers to poor households and migrants, equity infusion and a loan guarantee scheme for SME's. Several labor regulation reforms.                                 |
| Indonesia   | 18                  | 1.6%     | Stimulus for consumer spending and tourism industry, 30% reduction in corporate tax for 6 months, exemption of income taxes for low income manufacturing workers.          |
| Japan       | 1004                | 19.5%    | Subsidies to SME's, job re-training to workers, loans to exporters, child care subsidies.  |
| Malaysia    | 7                   | 1.8%     | Cash transfers to affected sectors, discount on electricity bills and service tax for certain sectors, monthly allowance for healthcare professionals                      |
| Philippines | 28.7                | 7.8%     | Emergency assistance to vulnerable groups, wage subsidies and credit guarantees for SME's, higher infrastructure investment.   |
| Singapore   | 38                  | 10.5%    | Wage subsidies to businesses, deferment of income tax payment, direct cash transfer to individuals, targeted support to affected sectors.                                  |
| South Korea | 10                  | 0.6%     | Subsidies to SME's, additional funds to medical institutions.  |
| Thailand    | 18                  | 3.3%     | Loans at reduced interest rates, relaxed debt payments for affected businesses.  |

- Relief and stimulus packages are focused on SME's, low-income populations and sectors most affected by the pandemic.
- There have also been interest rate reductions and other monetary stimulus measures such as credit guarantee schemes and lower reserve requirements for banks.
- Countries such as India have also used the disruption to introduce structural reforms in areas such as labor regulations.