

Elephants Can't Gallop



Initially coined by Rudyard Kipling, the adage that “Elephants can't gallop” was adopted by famous UK small cap investor Jim Slater in the early 1990's, when he observed that “for management to double the value of a £10bn company takes many years of hard work, whereas to double the value of a smaller company is an easier task”.

The managers of Scottish Oriental Smaller Companies Trust would agree that the scale of the opportunity of investing in smaller companies is exceptionally attractive. The challenges of picking the right smaller companies are different from their larger peers, and the trust has a track record of almost three decades of dealing with these challenges successfully.

Scottish Oriental Smaller Companies Trust plc was initially listed in 1995, raising £23.7 million with a

mandate to invest in smaller Asian companies. Over the following 27 years, the Company has navigated dramatic changes in its operating environment. The large markets of the time, such as Malaysia, Singapore and Hong Kong, have been eclipsed by the emergence of China and India. Scottish Oriental has evolved with market dynamics; the definition of what constitutes a smaller company has also evolved to reflect the impact of inflation, from US\$ 500 million in 1995 to US\$ 5 billion today. The NAV of the trust has increased to £337m.

Over its entire history, Scottish Oriental has been managed by four different lead portfolio managers. Through all of these changes, the Trust has been anchored by the investment philosophy set out in the first Annual Report. Its key tenets, shown below, still hold true today.

THE SCOTTISH ORIENTAL SMALLER COMPANIES TRUST PLC



Manager's Review

INVESTMENT PHILOSOPHY

- We aim to maximise the rate of return with due regard to risk. Risk is contained by focusing on soundly managed and financially strong companies, and by ensuring that the portfolio is well diversified geographically and sectorally at all times.
- Whilst, cultural, political, economic and sectoral influences play an important part in the decision-making process, the availability of reasonably-priced companies with solid long-term growth prospects is the major determinant of investment policy.
- Our country weightings bear no relationship to regional stock market indices. Regardless of index significance, we do not consider ourselves obliged to hold investments in any individual market.
- Although considerable attention is paid to "value", we are primarily "growth" investors. As most regional companies are family controlled, value on its own (ie. unless associated with assets per share, sales, cash flow and/or earnings growth) is generally ignored by the market.
- Existing holdings are scrutinised constantly to ensure that our corporate performance expectations are likely to be met, and that market conditions are not excessive. Where otherwise, disposals are made.
- Strong emphasis is placed on frequent visits to countries of the region and on meeting the management of those companies in which we are invested, or might invest.

Growth in initial investment

Growth in an initial investment of £1,000 at launch

Scottish Oriental Net Asset Value

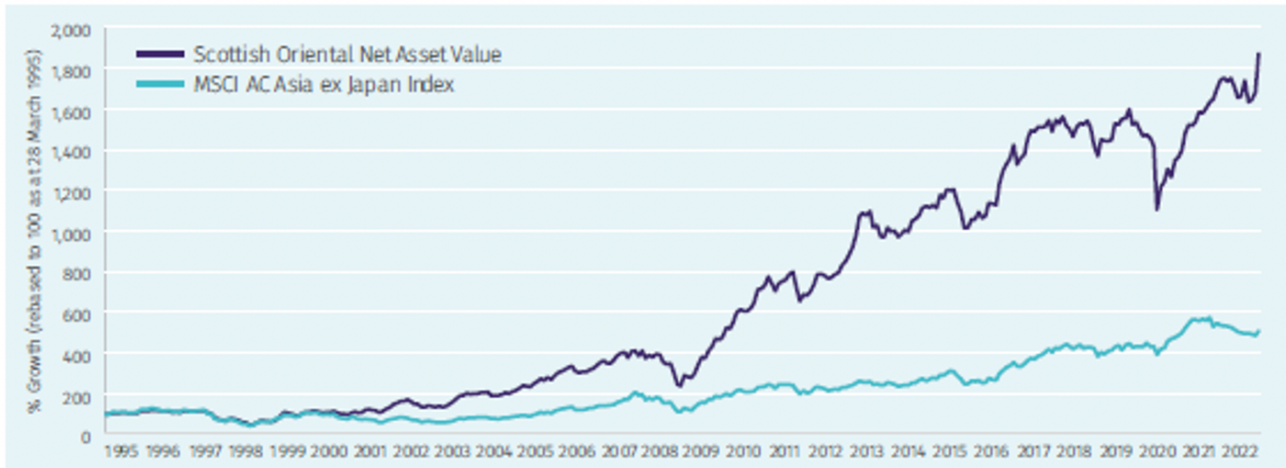
MSCI AC Asia ex Japan Index¹

As at 31
December
2022

£18,448

£4,775

1 The MSCI AC Asia ex Japan Index is used as a comparison as the MSCI AC Asia ex Japan Small-Cap Index was not available at the time of Scottish Oriental's inception.



This investment philosophy has held the Trust in good stead. An investment of £1,000 made at the inception of Scottish Oriental would have returned a net asset value of £18,448 today, compared with £4,775 if the same sum had been invested in the MSCI AC Asia ex Japan Index¹.

The Trust is no stranger to operating in uncertain economic environments. At the time of its inception in 1995, there were fears of rising interest rates, substantial currency depreciation in Asian economies and worries about the fallout from the collapse of Barings Bank. Bottom-up investors like us also faced challenges of smaller companies in Asia having short listed track records and the regulations protecting minority shareholders being at their early stages of evolution. Despite all of these risks, being a shareholder of Scottish Oriental since inception would have been a rewarding experience.

While the characters are different today, the story has many similarities. The lockdowns in China and the worries about rising inflation, interest rates and weakening currencies create a comparable investing environment. The market leading businesses in which Scottish Oriental invests have faced several crises during this period and have emerged stronger from each of them.

The universe of smaller companies in Asia is much larger, their listed track records are longer and the regulations protecting minority shareholders are also well established. Bottom-up stock pickers like us have a more favourable hunting ground than we have had in the past.

This is reflected in the Trust's portfolio, which is more consolidated among its highest conviction holdings than it has been historically. The earnings growth expected for the portfolio is high as companies recover from the Covid-19 disruption, while returns on equity (ROE) is also strong. Despite the higher growth and ROEs, the portfolio's valuations are cheaper than in past years. With this portfolio of market leading businesses poised to emerge as the large companies of the future, we are excited about the Trust's prospects in the coming years.

If you would like to hear more about Scottish Oriental and the management team, Sree Agarwal, the deputy portfolio manager is presenting an AJ Bell Webinar on March 21st at 18.00 UK time, [click here](#) for more details and to register.

¹ The MSCI AC Asia ex Japan Index is used as a comparison as the MSCI AC Asia ex Japan Small-Cap Index was not available at the time of Scottish Oriental's inception.



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