

History doesn't repeat but it often rhymes



This is the second in a short series of articles about the Scottish Oriental Smaller companies Trust plc, having briefly covered the history of the company we turn our attention to what investors can expect from an investment in the company's shares.

The investment objective of The Scottish Oriental Smaller Companies Trust plc is "to achieve long-term capital growth by investing mainly in smaller Asian quoted companies".

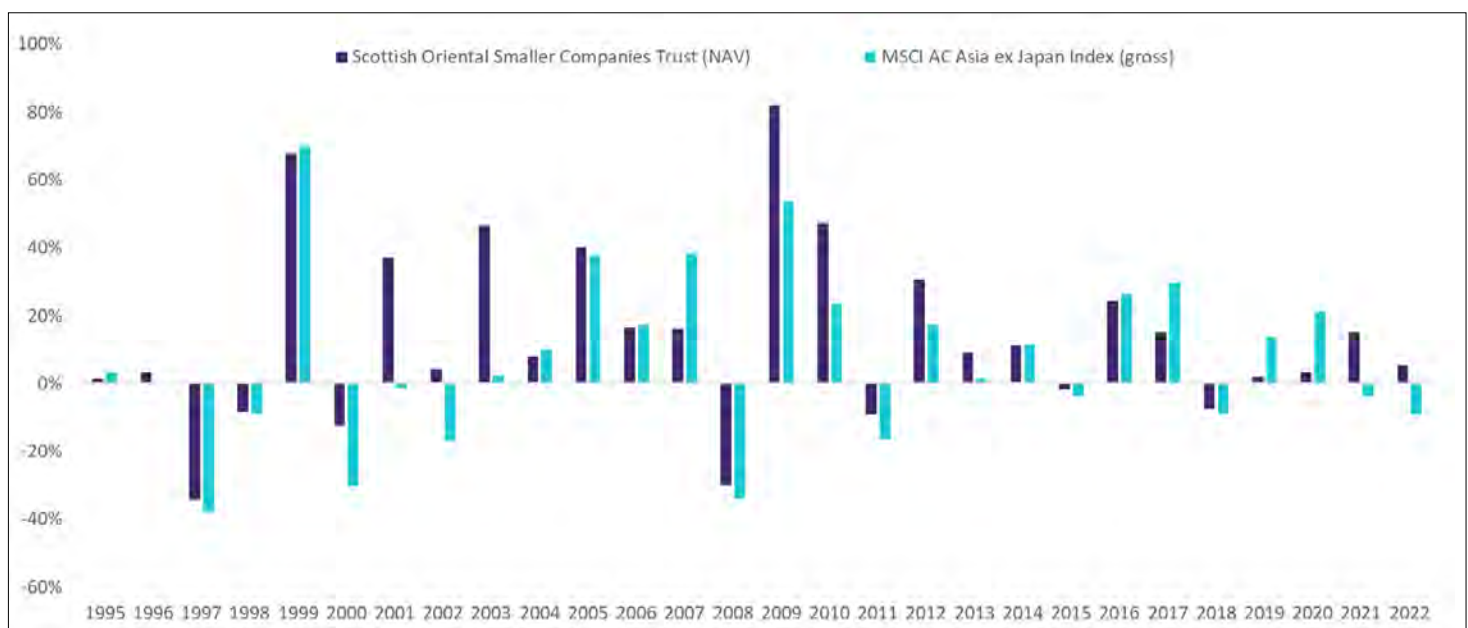
Behind this, admittedly rather dry, objective is a distinct and well defined investment philosophy and process which has evolved since the formation of our team in 1988.

A central aspect of our investment philosophy is the focus on risk management. Scottish Oriental's long-term returns are predicated upon preserving capital during downturns, not on chasing upside during periods of euphoria. As the calendar year returns below show, the Trust did not keep pace with the market's returns during the dot-com bubble in 1999, the years before the global financial crisis or the recent period before Covid-19. In each

of these periods, we found market participants becoming fascinated with the shiny objects of the time – whether this was the technology companies in the late 1990s, highly leveraged real estate and infrastructure developers in 2007 or loss-making businesses touting an eventual "path to profitability" in recent years. The Portfolio Manager's Review at the global financial crisis in 2007 highlighted this challenge.

"In its pursuit of capital preservation as well as growth, the Trust's Board and its Investment Manager have always accepted that it is sometimes necessary to forego short term gains. In the past such an approach has led to long term outperformance of the benchmark and, more important, exceptional capital returns."

The following chart demonstrates that in the 27 years that the trust has existed it has only fallen further than the market over two calendar years. It is this combination of steady returns and capital preservation which has compounded to outperforming the market in the longer term.



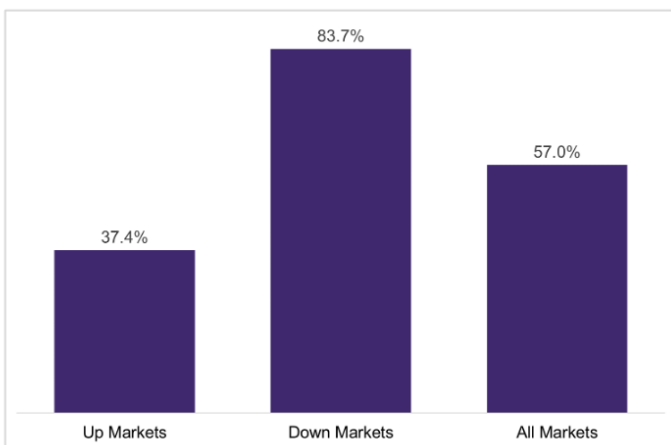
Data shown in GBP. Since inception calculated from 29 March 1995. These figures refer to the past. Past performance is not a reliable indicator of future results. The benchmark shown is the MSCI AC Asia (ex Japan) Index on an income reinvested gross of tax basis.

Sources: i) Trust Administrator for Trust performance; ii) Lipper for index performance

To borrow a quote from the economist JK Galbraith, it is sometime said that stock market forecasters only really exist to lend credibility to astrologers. Our belief is that we do not possess any particular ability to predict the future better than our peers. We are however keen students of history, and with over 30 years of experience of meeting company management teams. This experience helps us to understand how management might be expected to act under periods of operational stress, whether they are skilled at capital allocation and will act as prudent stewards of our clients' capital. A clear understanding of management teams' history of execution, particularly in the challenging conditions, often presented by emerging markets, gives us the confidence to back executives of our favourite companies to preserve capital when markets fall.

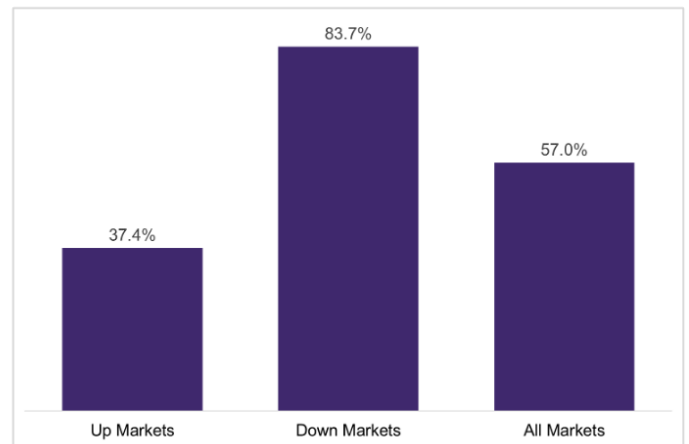
The portfolio's conservative positioning helped to preserve capital in the inevitable downturns as well as the periods of recovery following them. Since inception, the Trust's performance exceeded that of the index in 78% of down market periods compared to 43% of up market periods. We have also observed a consistently similar result during the last five years. In the most recent financial year, Scottish Oriental's net asset value increased by 10% compared with a decline of 0.9% for the MSCI AC Asia ex Japan Small Cap Index, and a decline of 7.1% for the MSCI Asia ex Japan Index. These outcomes reflect the consistency in the Trust's investment philosophy and process over the years.

Periods of outperformance since inception



Data shown in GBP to 31 December 2022. These figures refer to the past. Past performance is not a reliable indicator of future results. Sources: First Sentier Investors. Months outperformance (gross TR) vs MSCI AC Asia ex Japan Index. Since inception calculated from 29 March 1995.

Periods of outperformance since inception



On the ground, our companies are witnessing strong demand as Asian economies emerge from the disruptive period of the last three years. Their strong pricing power allows them to protect their profitability through inflationary periods, whilst their weaker peers struggle. On this basis we hope that, our portfolio companies, the market leaders in their respective categories, are likely to emerge with higher market shares in the coming years. The following table illustrates that the portfolio has become more concentrated among its highest conviction holdings in recent years. Its Return on Equity and earnings per share growth have also improved. Yet, its valuations are more attractive than they have been in recent years. We are excited about the prospects for the Company's portfolio.

As of December 31st	2017	2018	2019	2020	2021	2022
Weight of top 10 holdings %	27.5%	31.1%	30.8%	29.1%	34.2%	39.3%
Weight of top 20 holdings %	46.8%	51.7%	52.7%	50.2%	56.1%	62.3%
Median current year return on equity	15.1%	13.3%	17.0%	15.9%	16.5%	15.2%
Median 2-year forecast annualized earnings per share growth	10.6%	10.7%	8.6%	12.6%	18.5%	14.7%
Median forward price to earnings ratio	21.0x	16.4x	16.8x	21.3x	20.6x	18.4x

These figures refer to the past. Past performance is not a reliable indicator of future results. For investors based in countries with currencies other than USD, the return may increase or decrease as a result of currency fluctuations.



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