For professional clients only

The Scottish Oriental Smaller Companies Trust plc

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In this letter, we review six monthly performance to the end of 2021, highlight recent portfolio activity, and detail how the portfolio is positioned. We are excited about the prospects of Scottish Oriental's portfolio, with exposure to some of the highest quality smaller companies in Asia.

How we invest

Scottish Oriental is managed by the FSSA team, an autonomous investment management team within First Sentier Investors (formerly known as 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$5 billion, or the equivalent thereof, at the time of first investment.

We are conviction-based, bottom-up stock selectors who place 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.

Investor Note

February 2022

Risk Factors

This document is a financial promotion for The Scottish Oriental Smaller Companies Trust Plc for professional clients only in the UK and Switzerland and elsewhere where lawful. Investing involves certain risks including:

- **The value of investments** and any income from them may go down as well as up and are not guaranteed. Investors may get back significantly less than the original amount invested.
- **Emerging market risk**: emerging markets may not provide the same level of investor protection as a developed market; they may involve a higher risk than investing in developed markets.
- **Currency risk**: changes in exchange rates will affect the value of assets which are denominated in other currencies.
- **Smaller companies risk**: investments in smaller companies may be riskier and more difficult to buy and sell than investments in larger companies.
- **Leverage risk**: the Trust may be leveraged due to: i) borrowings; or ii) the use of derivatives to hedge currency exposure.

The amount of leverage employed is disclosed on the Trust's website from time to time. Higher leverage increases the potential risk of loss. Investment trust share prices may not fully reflect Net Asset Value.

Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell. Reference to the names of any company is merely to explain the investment strategy and should not be construed as investment advice or a recommendation to invest in any of those companies.

For a full description of the terms of investment and the risks please see the Investor Disclosure Statement.

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

Investment Performance

There was a notable divergence in stock market performance across our investment universe during the second half of 2021. Having underperformed North Asian markets earlier in the year India and Indonesia delivered strong performance during this period. As vaccination rates have risen both countries have gradually re-opened their economies. Indonesia's economy is also expected to benefit from the recent increase in commodity prices, with a significant share of the country's population employed in sectors such as palm oil and coal production. China and South Korea were among the weakest performers during this period. The increasing regulatory intervention across business sectors in China ranging from pharmaceuticals to e-commerce, as well as a slowdown in the large property sector, have had an impact on the economic outlook for companies.

Scottish Oriental's exposure to companies listed in India and Indonesia aided its performance over the last six months. Its holdings in these two markets, as well as in Taiwan, were the key contributors to performance. The key detractors during the period were the holdings in Hong Kong, South Korea and Singapore.

Annual Performance to December 2021 (GBP)

Time Period	1 yr to Dec 21	1 yr to Dec 20	1 yr to Dec 19	1 yr to Dec 18	1 yr to Dec 17
NAV %*	15.0	3.5	2.0	-7.6	15.0
Asia Index** %	-3.6	21.5	13.9	-8.8	29.8
Small Cap Index*** %	22.4	22.7	3.4	-13.6	22.3
Share price %	20.0	-0.7	4.3	-7.5	16.9

* Capital only return.
**MSCI AC Asia (ex Japan) Index
*** MSCI AC Asia (ex Japan) Small Cap Index

Time Period	6 months	1 year	3 years	5 years	10 years
NAV	7.3%	15.0%	21.4%	29.0%	149.4%
MSCI AC Asia (ex-Japan) Small Cap Index %	3.0%	22.4%	55.3%	64.1%	163.7%
Share price %	5.1%	20.0%	24.4%	34.5%	149.9%

What Helped

At a stock level, six of the ten top contributing holdings during the period were Indian companies. **Mphasis Limited** grew its earnings strongly, as it benefited from higher spending on digital and cloud services by its global clients. **KEI Industries** has been gaining market share consistently from lower quality and smaller cable and wire manufacturers. Its net working capital requirements are also gradually reducing as the share of its retail business rises. This is expected to improve the return on capital employed (ROCE) of the business. Residential real estate buyers are shifting rapidly from local developers with weak balance sheets to reputed brands such as **Oberoi Realty** and **Mahindra Lifespaces**. Sales at both companies' new project launches have been strong during the period. **Blue Star's** initiatives to reposition its air conditioner product portfolio to more affordable levels is driving solid growth. The company has also mitigated the impact of rising commodity prices by cutting costs aggressively. **Godrej Industries** benefited from the strong share price performance of its key subsidiary, Godrej Properties, and its largest associate company, Godrej Consumer Products.

Other positive contributors included **Parade Technologies, Hero Supermarket Tbk Pt, Century Pacific Food** and **CTOS Digital. Parade Technologies** continues to deliver strong revenue and profit growth, as the company shifts its product mix in favour of premium variants of integrated circuits for display applications. It has also launched new products for data centre applications which could emerge as an important growth driver in the coming years. **Hero Supermarket** is expected to deliver a sharp improvement in its cash flows and return on capital employed (ROCE) after it decided to shut down its loss-making hypermarket format. It will now focus on its profitable pharmacy and Ikea formats. **Century Pacific Foods** has consistently delivered growth in its core canned food business in Philippines, while also entering new categories such as alternative meats, dairy products and pet foods. These are expected to contribute to the company's growth in the coming periods. We purchased a holding in **CTOS Digital**, the dominant credit bureau service provider in Malaysia, in its initial public offering (IPO). It is unusual for us to participate in IPOs as we like to assess the listed track record of companies in which we invest. In this instance, we gained confidence following repeated engagements with the company's management and majority shareholders for over a year before the IPO was launched. The company performed strongly after its listing, based on its dominant market position and attractive growth prospects.

What Hurt

The biggest detractors from performance were the Trust's holdings in Hong Kong and South Korea. **Vitasoy International** declined due to a temporary disruption to its fast growing business in China. The company suffered from a politically motivated backlash in China, after an unauthorized memo was published by a rogue employee in Hong Kong. The company has engaged proactively with Chinese authorities and increased investments in brand communications. Its soy milk and lemon tea products have regained their presence across major retail channels. The company has also strengthened its management team in China. These changes should help Vitasoy realize its growth potential in the attractive Chinese market in the coming years. **NHN KCP** declined as it increased investment in expanding its service offering, which led to lower profitability in the short term. We expect the company's growth and profitability to improve as its agreements to set up payment gateway services for large global clients operating in South Korea are executed. **Zinus Inc's** mattress business was impacted by a substantial increase in raw material and container shipping costs. The company has been raising its product prices to mitigate this impact. The increasing production of its new manufacturing facility in the United States of America should also help Zinus avoid high shipping costs and reduce inventory levels.

Haw Par's Tiger Balm business was affected by the disruption to global travel, as duty free stores at airports form a significant part of their global distribution network. As travel resumes, demand for its iconic products should grow. **Philippine Seven Corporation** and **Poya International** were affected by movement restrictions in Philippines and Taiwan respectively. They suffered substantially lower footfall at their retail stores. The management teams of both companies have reduced their operating costs significantly. Several small retailers in both markets have not been able to survive the disruption from COVID-19 and both companies are expected to emerge from this period with higher market share. **Solara Active Pharma's** profitability was hurt by higher raw material costs in its pharmaceutical active ingredient business. Management remain optimistic about the medium term outlook, with an aspiration to triple sales over five years. **Mahanagar Gas'** profitability was also impacted by higher gas costs, the company has a monopoly position in the large Mumbai market. Its management has been raising prices consistently to protect the company's profit spreads. **Colgate Palmolive India** also declined due to concerns related to higher raw material costs affecting its margins. The company has a dominant position in the Indian oral care industry, and a track record of improving its profitability across commodity price cycles. As its management raises prices and gradually introduces premium variants of its products, we expect the inflationary pressures to be mitigated. **Uni-President China** declined due to similar concerns. Its management has raised prices of its instant noodle products. Its new launches of premium products such as self-heating rice have also been growing at a fast rate. This should help the company manage the impact of rising costs on its profitability.

Recent notable changes to the Scottish Oriental portfolio

We are conviction-based, bottom-up stock selectors. As a team, we conduct over 800 meetings with Asian smaller companies each year. During the second half of 2021, we met several companies in each of Scottish Oriental's key markets. These discussions informed our decisions related to the portfolio's existing holdings, and we also gained conviction in new investment ideas. The country weightings below are a residual outcome of our bottom-up stock selection process. There are now 60 stocks held in the portfolio. Including the proceeds from the gearing facility, Scottish Oriental is nearly fully invested.

Country weightings (%)	30-Jun-21	31-Dec-21
China	10.2	12.7
Hong Kong	5.4	4.7
Taiwan	8	8.1
Greater China	**23.6**	**25.6**
Bangladesh	1.3	1.4
India	41.8	39.2
Pakistan	1.3	1.2
Sri Lanka	0	0
Indian subcontinent	**44.4**	**41.8**
Indonesia	16.9	22.5
Malaysia	0.9	0.9
Philippines	11.8	9.0
Singapore	2.9	2.7
Thailand	1.5	2
Vietnam	2.2	2.2
South East Asia	**36.2**	**39.3**
South Korea	3.1	2.7
Gearing	-9.0	-8.9
Cash	1.7	-0.5
Total	**100.0**	**100.0**

Source: First Sentier Investors as at 31 December 2021.

Greater China

Scottish Oriental's exposure to Greater China increased over the period. We added two new holdings in China and one in Taiwan. **Autobio Diagnostics** is a leading in-vitro diagnostics (IVD) reagent and machine manufacturer in China. The industry is dominated by multinational companies. However, domestic manufacturers have been gaining market share in recent years, as they built a comprehensive product portfolio of quality products and offer cheaper prices. Autobio has built a leading position by consistently improving the quality of its reagent products. It is gaining market share in its existing categories, while also entering new segments. We believe the company has an opportunity to grow substantially larger in the coming years. **Sinoseal Holding** is one of the largest mechanical seal manufacturers in China. Its products are mission-critical industrial consumables, whose failure can lead to shutdowns of its customers' plants. The company has built a reputation of reliable product quality and after-sales service. It has also been gaining market share due to its lower cost base compared to foreign competitors. It has the opportunity to capture a larger share of the industry's profit pool as its customers increasingly prefer domestic suppliers, and Sinoseal continues to expand its product portfolio. **Sporton International** is the market leader in the niche electromagnetic testing and certification industry globally. The introduction of fifth generation broadband cellular technology (known as 5G) is leading to improved prospects for Sporton's revenue growth and profitability. As various electronic applications upgrade to new technology standards, the company should grow at a steady rate. Its market leading position allows Sporton to earn high margins and returns on capital employed (ROCE).

We added to our existing holding in **Hisense Home Appliances** as its share price weakened due to concerns about lower air-conditioning demand as new home sales declined in China in recent periods. Our engagement with the company suggested that they can mitigate the impact of slowing industry growth by gaining more market share in its central air-conditioning business from smaller competitors. Hisense has also acquired an automotive air-conditioning company in Japan. Its management aims to improve the acquired entity's profitability substantially. It is very attractively valued at eight times estimated price to earnings, along with a dividend yield of 4%.

We continued to build our position in the Taiwanese retail chain **Poya International** following weakness in its share price as movement restrictions in Taiwan led to reduced customer footfall at its stores. Its management has cut its operating expenses and expanded its online offering. It has also launched a new format focused on home improvement products which could add to its growth potential over the medium term. We also added to our position in **Vitasoy International**, after the disruption to its business in China led to a decline in its share price. Our engagement with its management suggested that they are taking several steps to strengthen their business in China. The company's products have returned to retail shelves and customer response is gradually improving as the company grows its investments in educating its Chinese customers about its products.

They have also strengthened their management in China by appointing a new CEO, as well as senior management resources in areas such as technology, marketing and communications. We believe these changes should allow the company to capitalize on the large market opportunity available in the country.

We trimmed the Trust's holding in **Parade Technologies** and **Voltronic Power Technology** after strong performance of their share prices led to expensive valuations. We have retained a position in both companies due to their attractive prospects over the long term.

Indian Subcontinent

Exposure to the Indian subcontinent was pared back during the period. The performance of businesses across economic sectors rebounded sharply after successive waves of the COVID-19 disruption. Following strong share price performance, some companies became expensively valued. We sold out of three such positions, including IT outsourcing services provider **Mphasis Limited**, bearings manufacturer **SKF India** and branded herbal product manufacturer **Emami Limited**. We also reduced the Trust's holdings in the cable and wire manufacturer **KEI Industries**, automotive component manufacturer **Mahindra CIE Automotive**, residential real estate developers **Mahindra Lifespaces** and **Oberoi Realty**, diagnostic company **Metropolis Healthcare** and the branded beer manufacturer **United Breweries**. All of these reductions were driven by strong share price performance. Despite selling nearly one-fifth of our Indian portfolio holdings at the start of the period (by the number of shares held), the overall exposure to India did not decline materially owing to the strong share price performance of the Indian holdings.

We also initiated two new positions in India during the period. **Computer Age Management Services (CAMS)** is India's largest registrar and transfer agent of mutual funds with a dominant market share of 70%. Its outsourced back-office services allow its asset management clients to focus on their core business and reduce costs. The company has significant growth potential, as households increase their investments in financial assets. The company's management is also building new businesses such as Account Aggregation and an insurance repository. The company's asset light business model also drives very high returns on capital employed. **Radico Khaitan** is a branded spirits manufacturer. It has built leading consumer brands in categories such as whiskey, gin and vodka. It is likely to benefit from the consolidation of the industry in favour of higher quality companies. Radico's management is focused on increasing the share of premium products in its portfolio, which is expected to drive a continuing improvement in the company's profitability. We also added to our holdings in **Colgate Palmolive India**, **Solara Active Pharma Sciences** and **Mahanagar Gas** following weakness in their share prices. Our engagement with their management teams gave us confidence in their ability to mitigate the impact of rising costs on their profitability in the coming periods.

South East Asia

Scottish Oriental's South East Asian weighting increased over the period, mainly due to additions in Indonesia. We initiated a holding in **PT Avia Avian**, the market leader in Indonesia's decorative paint industry. Its management has established the largest distribution network in the industry, which has helped Avian Paint gain market share from its competitors who are dependent on third-party distributors. We expect Avian Paint to lead the industry's consolidation in the coming years. Its vertical integration also allows it to earn high levels of profitability and returns on capital employed. We also added to existing positions in **Selamat Sempurna** and **Arwana Citramulia**. Our engagement with the management team of **Selamat Sempurna** suggesting an improving outlook for the company's growth. Increasing investments across the mining and infrastructure sectors in Indonesia are driving an acceleration in demand for Selamat's filters and radiators. The company is also expected to gain market share from smaller competitors who have been struggling to survive COVID-19 disruption, it is reasonably valued at 13 times estimated price to earnings, along with a 5% dividend yield. We continued to build our position in **Arwana Citramulia**. Our discussions with its management indicated that their focus on increasing the share of premium tiles in Arwana's portfolio by substituting more expensive imported products is likely to continue improving its profitability. We find it attractively valued at 11 times estimated price to earnings, along with a 3% dividend yield.

In Philippines, we added to our position in **Philippine Seven Corporation**, following weakness in its share price. Prolonged movement restrictions have impacted customer footfall at the company's 7-Eleven convenience stores. The company has changed its product mix to increase the share of essential products in its stores, introduced new services such as ATMs and partnered with e-commerce and delivery platforms. As footfall gradually normalizes, these initiatives should improve the company's profitability. We sold the holding in branded consumer food and beverage company, **Universal Robina Corporation**, due to increasing risks to its profitability following a sharp increase in raw material costs. We believe that the company may not be able to raise prices adequately to cover these cost increases, due to intense competition across various categories in which it operates. This could lead to a decline in the company's profitability. We trimmed our position in **Century Pacific Food**, following strong share price performance.

In Vietnam, we initiated a holding in **Mobile World Corporation**, the largest retailer in Vietnam with over 4,000 stores selling electronics, home appliances and groceries. The company's electronics and white goods retail businesses are dominant in their respective segments and generate significant cash flows which are likely to be used in building the leading brand in the fragmented grocery retail market. The company has also entered the pharmacy segment which could be another area of growth.

In Malaysia, we initiated a holding in **CTOS Digital** by participating in its initial public offering. CTOS is the leading credit bureau service provider in Malaysia with over 70% market share. Its new management team has led several changes to its business over the last five years. This should lead to strong growth in the years ahead. However, we sold out of the position after a significant appreciation in the share price, resulting in very expensive valuations of 18 times estimated price to sales and 50 times estimated price to earnings.

In Thailand, we added to our existing position in **TISCO Financial**, a leading financial services group. Its management is focused on improving its return on assets, instead of aggressively growing its loan portfolio. As automotive demand in the country gradually normalizes, TISCO should also be able grow its loan book steadily. It is attractively valued at 11 times estimated price to earnings and 1.8 times price to book, along with dividend yield of over 6%.

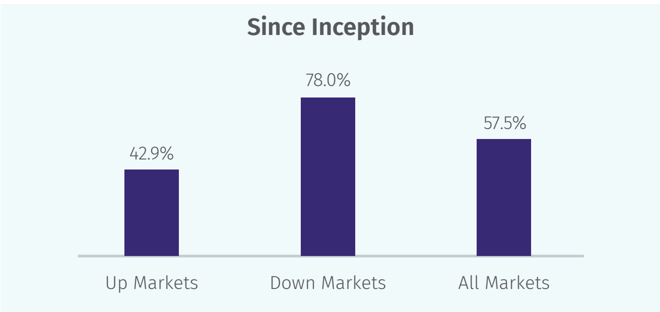
Top 10 holdings

Stock name	% of net assets
Godrej Industries	4.7%
Colgate-Palmolive India	4.6%
Mitra Adiperkasa	3.8%
Selamat Sempurna	3.7%
Blue Star	3.4%
Uni-President China	3.2%
Mahindra CIE Automotive	3.1%
Philippine Seven	2.8%
Hero Supermarket	2.8%
Century Pacific Food	2.8%
Total	**34.9%**

Source: First Sentier Investors as at 31 December 2021.

Outlook

We are beginning to see the first signs of rationality in markets, after a period of excess driven by endless liquidity. During that period, we watched from the side lines as companies with poorly defined business models were valued at exorbitant multiples. Initial public offerings (IPOs) were lapped up by investors with fancy buzzwords replacing tangible profits and cash flow. It was not a surprise to us that Scottish Oriental's performance did not keep up with that of the market during this period of exuberance. Our investment process is focused on capital preservation, with as much emphasis placed on assessing the potential downside of any investment as its upside. This is reflected in the Trust's long term investment performance. Since inception, Scottish Oriental's performance has exceeded that of its benchmark index during 78% of down-market periods, compared with 43% of up-market periods. We believe that this focus on capital preservation will hold the Trust in good stead in future.



Source: First Sentier Investors as at 31 December 2021.

Scottish Oriental's portfolio remains focused on companies in India, Indonesia and Philippines, where we continue to find quality franchises with strong management teams and many years of growth ahead of them. In our view, these are large companies of the future, currently hidden in small market capitalizations. Companies in Indonesia and Philippines have been particularly affected by the prolonged recovery from the COVID-19 disruption over the last two years. Our recent engagements with companies in both markets suggest that movement restrictions are reducing and consumer demand is gradually normalising. Our portfolio holdings are market leaders in their respective categories. Through their history, they have faced several periods of disruption and have emerged stronger in each instance. We are convinced that there will be a similar outcome on this occasion. Management teams have used this period to strengthen their competitive position and cut costs, which should pay dividends when consumer demand improves. The valuations of our portfolio companies in both markets appear compelling to us.

We are excited about the outlook for Scottish Oriental's portfolio. The return on equity of the portfolio's investments has improved in recent years, while the median net debt to equity remains 0%. On the lower earnings base resulting from the impact of the COVID-19, the earnings per share growth of the portfolio is expected to improve sharply in the coming years. The Trust's holdings are attractively valued with the higher return on equity and expected growth in earnings per share only reflected through a modest premium on the estimated price to earnings ratio, compared to recent history.

	2016	2018	2020	2021
Weight of top 10 holdings %	26.2%	31.1%	29.1%	**34.9%**
Weight of top 20 holdings %	45.7%	51.7%	50.2%	**56.1%**
Median current year return on equity	12.2%	14.4%	15.9%	**16.6%**
Median 2-year forecast annualized earnings per share growth	10.5%	10.7%	12.6%	**18.5%**
Median forward price to earnings ratio	18.0x	16.4x	21.3x	**20.6x**

Source: First Sentier Investors as at 31 December 2021.