Results analysis: Schroder AsiaPacific

SDP is trading at a wide discount despite long-term outperformance...

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- **Schroder AsiaPacific (SDP) has published its results for the financial year ending 30/09/2024. Over the period, the trust saw its NAV increase by 16.5% on a total return basis, slightly behind the 17.3% for the trust's benchmark, the MSCI AC Asia ex Japan Index. The AIC Asia Pacific sector delivered a weighted average return of 15.9% over the same period.**

- **Performance has largely been driven by stock selection. The holdings in Taiwan were the biggest positive contributors to relative performance, primarily through technology companies such as TSMC and MediaTek. Philippines was also a positive, with port operator ICTSI benefitting from recovering global trade. Indonesia's Bank Mandiri also benefitted from an improving macro backdrop in the country to contribute to SDP's relative performance.**

- **Stock selection in India was a drag to performance though. Whilst the market rallied strongly, the biggest beneficiaries were small and mid-caps, and not large caps where the managers focus on. The positions in China and Korea were detractors to performance, although underweight allocations to both countries led to positive allocation attribution.**

- **The managers have trimmed profits in some of their strongest performers and rotated elsewhere. However, they remain overweight key markets such as Singapore, Thailand and Taiwan. The managers have trimmed the position in TSMC on strong performance and have added to other technology names, such as E Ink and ASE Technology.**

- **The managers have slightly narrowed their long-standing underweight to China by adding to several high quality-stocks which have been sold down to attractive levels during the period. They remain highly selective though, and the country remains a notable underweight position. The managers continue to have a preference to companies in Hong Kong which helps balance the risk of the China underweight whilst continuing to focus on quality companies with consideration for minority shareholders.**

- **Whilst primarily focused on capital growth, the trust does pay an annual dividend. This has been increased to 12.5p per share and is fully covered by revenue. This equates to a yield of 2.3% based on the closing share price on 02/12/2024.**

- **The trust's share price underperformed in the period, leading to the discount widening from 11.5% at the beginning of the period to 12.4% at the end. The board bought back over 8.2m, shares in the year, or c. 5.4% of the weight average number of shares in the year. A further 3.4m have been bought back post results.**

- **Chairman James Williams believes the trust, "is well positioned to capitalise on the region's growth opportunities, while managing risks carefully," and that, "Asia Pacific remains an engine of global growth, with robust domestic consumption, technological innovation, and an increasingly affluent population."**

Kepler View

These annual results mark a period of strong absolute returns from Richard Sennitt and Abbas Barkhordar, managers of **Schroder AsiaPacific (SDP)**. Whilst relative performance was slightly below the index, Richard and Abbas's stock selection approach has still contributed to returns, and the outlook for the region has improved materially.

This stock selection boost has primarily come through technology, including key holdings such as TSMC and MediaTek. Whilst the sector has been a beneficiary of the excitement over the proliferation of AI and an improved inventory outlook, we believe it is unlikely that the world will be using less technology going forward, therefore the ongoing overweight to the sector could continue to benefit performance. The slight changes the managers have made to their holdings, including trimming profits from the best performers and rotating into other names, is a good example of portfolio management discipline in our opinion.

We believe this discipline is also evident in the trust's country exposure. The managers have slightly reduced their underweight to China, having identified some high-quality companies with leading market positions, though they remain highly selective. The managers continue to have a preference for Hong Kong though, which is exposed to similar themes albeit with fewer governance issues. Conversely, the managers are underweight India on valuation grounds, best demonstrated by price/earnings ratios being at their highest point since 2010. However, this positioning has been a detractor from performance in the past year, particularly due to the small and mid-cap bias of the rally, where the managers have a preference for large-caps.

Despite the strong absolute performance and the improving outlook for the Asian region, the trust's discount to NAV widened over the year. Whilst the year has seen modest underperformance, this hasn't affected the long-term returns of the trust though, with SDP over ten percentage points ahead of the benchmark over five years to 02/12/2024, largely as a result of good stock selection over a number of time periods. Despite this, the discount has widened further in the period post results, and now stands at 13.4%. To our mind, the current discount doesn't reflect the long-term success of the strategy, nor the potential upside of an improving macro backdrop for the broad Asian region and therefore, the current level could prove an attractive entry point for long-term investors, in our opinion.

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