Results analysis: Schroder Asian Total Return

ATR has outperformed yet again, though the discount has widened...

Update
11 September 2024

- **Schroder Asian Total Return (ATR) has released its half year results for the period ending 30/06/2024. The trust saw a NAV increase of 10.1% on a total return basis, which compares to a return of 9.5% to the benchmark, the MSCI AC Asia ex-Japan Index. The AIC Asia Pacific sector average delivered a total return of 10.8%.**

- **The outperformance over the six months was predominantly driven by the managers' holdings in technology companies. This included top holding TSMC which benefitted from the expected increase in demand through the proliferation of AI, as well as other holdings in Taiwan and Korea which are both overweight countries. The managers' underweight allocation to China, particularly to consumer focussed and electric vehicle companies was also a positive.**

- **This was somewhat offset by the managers' holdings in financial companies in India as well as the Philippines and Indonesia, although the managers still delivered positive attribution from stock selection overall. This has further contributed to ATR's considerable long-term outperformance relative to its benchmark, which it leads over one, three and five years.**

- **Robin and King Fuei use econometric models to influence their positioning and risk approach, including the level of market exposure. Whilst these models were slightly positive at the beginning of the period, they have since indicated a more cautious outlook. As such, gearing has been reduced to 5.0% from 7.8%, and the managers have implemented options strategies to provide some capital preservation.**

- **The managers remain overweight Taiwan and Korea due to their tech exposure, though have been trimming top holding TSMC, following its strong performance. In contrast, the managers remain underweight China and Hong Kong, due to ongoing concerns over the property sector depressing consumer sentiment.**

- **ATR's share price has failed to keep up with the strong NAV returns, rising only 7.5% in the period. This has caused the discount to widen from 4.6% to 7.0% over the six-month period.**

Analysts:

Ryan Lightfoot-Aminoff
Ryan@keplerpartners.com

- **Commenting on the results, Chair Sarah MacAulay reflected on the ongoing performance attribution and that "stock selection will continue to be the critical factor in adding value to the portfolio and securing long term relative outperformance".**

Kepler View

Schroder Asian Total Return (ATR) is managed by Robin Parbrook and King Fuei Lee and offers unique Asian exposure due to the managers' benchmark agnostic approach and the use of hedging strategies to provide downside protection. The half-year results covering the first six months of 2024 have again reported on a period of strong performance. Not only have the managers produced attractive double-digit absolute returns, but also modest outperformance of the benchmark as a result of good stock selection, primarily from their overweight allocation to technology names. Top holding TSMC has contributed to this, though the managers have, in our opinion, shown discipline by taking profits on the holding. The technology allocation, taken primarily through holdings in Korea and Taiwan continues to be a moderate overweight.

The managers have also added some protection to the portfolio, taking indication from their hedging models which turned more cautious as the period went on due to some earnings downgrades. This sentiment has been reflected in a reduction in gearing, and the addition of some call options on the VIX, an index of market volatility, which should offer protection in the event of market volatility. We believe this capability is a standout feature of the trust and means investors could see ATR as a 'sleep at night' portfolio, for those who appreciate the long-term growth potential of the Asian region but have concerns over short-term volatility.

The current positioning may also appeal to more risk-aware investors, in our opinion. Robin and King Fuei continue to be underweight China because of their concerns over ongoing weak consumer sentiment. In exchange, the managers are overweight more developed economies in the region, such as Australia and Singapore, which we believe adds an element of defensiveness to the portfolio. Furthermore, they are slightly underweight India given higher valuations which we believe further demonstrates the managers' portfolio discipline. In turn, they are overweight the ASEAN region, including Indonesia and the Philippines which have similar positive traits as India, such as strong GDP growth and demographics, but are trading at more attractive valuations.

Despite the strong NAV performance in the period, the shares did not keep up with returns, leading to the discount widening to 7.0%. The board aims to keep the discount no wider than 5.0% in normal market conditions and as such, has been buying back shares. Nearly 1.8m shares, or just over 1.8% of the share count at the beginning of the period, were bought back in the six months covered by the results, with a further c. 431k bought back since, the most recent being 30/08/2024. Over the past five years, ATR's shares have traded close to NAV, and even at a premium for sustained periods. As such, the current level is wide versus the trust's long-term history which we believe could be seen as an attractive entry point for long-term investors. Furthermore, the ongoing share buybacks should be supportive in narrowing the discount, as well as being accretive to NAV.

Click here to read the HY report on RNS

Click here to read our latest research on ATR

Click here to add ATR to your watchlist

Disclaimer

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street , London W1S 2GF with registered number OC334771.