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Results analysis: Schroder Oriental Income

SOI has become the first Asia-focused investment trust to achieve the AIC's Dividend Hero status.

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- **Schroder Oriental Income (SOI) has released its annual report for the 12-month period ending 31/08/2026 in which the trust announced a final dividend of 5.8p per share, meaning a total of 12.8p for the year, 5% above last year's, meaning the trust has now achieved 20 years of consecutive dividend growth and earned the AIC's Dividend Hero accolade, making it the first Asia-focused trust to achieve this status**
- **During the period, the trust delivered a NAV total return of 51.7%, notably ahead of its benchmark, the MSCI AC Pacific ex Japan Index, which returned 43.9%. Share price returns were even stronger, with a total return of 56.9%.**
- **Performance was largely driven by stock selection across several markets, including a number of positive contributors from technology firms in Taiwan, as well as Samsung Electronics in Korea. However, the decisions to not hold Tencent and Alibaba were the first and fifth biggest contributors respectively, meaning both stock selection and the underweight allocation to China were notably positive contributing factors.**
- **Stock selection in the region's more developed markets, such as Australia and Singapore, also contributed positively, which was aided by the value factor being in favour. These positives more than offset the headwind from an underweight allocation in Korea, largely due to a zero weight in market leader SK Hynix.**
- **Whilst technology stocks were a strong contributor to absolute returns, manager Richard Sennitt has been taking profits from his top holdings meaning the sector has moved from an overweight position to the largest underweight. The manager maintains overweight allocations in financials despite selective profit-taking, plus consumer staples and real estate.**
- **On a country level, the combined underweight to Hong Kong and China has narrowed over the year, as the manager has added to positions in Hong Kong, whilst profit-taking in technology names has led to both Korea and Taiwan becoming sizeable underweights.**
- **The underlying revenue increased marginally in the year to 11.76p per share, meaning a small amount of revenue reserves was used to ensure the year's dividend growth. At year end, revenue reserves were equivalent to 105% of the year's dividend payout.**
- **As a result of the excellent share price performance in the period, the discount narrowed in the year from 5% to 2.1%. There were limited share buybacks in the period of c. 7.6m shares, equivalent to c. 3.3% of the weighted number of shares in issue in the year.**
- **Gearing remained modest, and fell slightly over the course of the year from 3.9% to 2.7%, largely as a result of the market rally.**
- **Due to strong relative returns, a performance fee was earned in the year, with the amount hitting the 0.55% cap. The performance fee has now been retired, with this being the last year where it could be earned.**
- **Chairman Nick Winsor was forward-looking in his comments, noting, "The long-term outlook for the Asia Pacific region and the opportunities it presents for income-focused investors remains compelling," whilst also commenting on the manager's "disciplined investment approach" which "provides a strong foundation for the Company's future success".**

Kepler View

It's not often that a trust delivers returns of over 50%, outperforming its benchmark by nearly eight percentage points in its annual numbers, and yet the focus is elsewhere. Yet that perhaps speaks to the importance manager Richard Sennitt has placed on dividend growth during his tenure at Schroder Oriental Income (SOI), leading to the trust having achieved the landmark distinction of becoming the first Asia-focused trust with the AIC's Dividend Hero status, having delivered 20 consecutive years of dividend growth. To put that

achievement into perspective, the track record began closer to the fall of the Berlin Wall than it is to the present day.

We believe the manager's dividend growth approach will be familiar to equity income investors in more traditional markets such as Europe and the UK, and whilst the Asian yields are slightly lower than these peers, the improving dividend culture and stronger economic development mean the dividend growth potential is far superior. In addition, SOI's approach is now unique amongst peers, many of which have adopted enhanced dividend strategies, meaning the trust is now a standout option for investors looking for a traditional equity income approach for Asia.

The benefits of such an approach have been demonstrated in these results, with the value factor being a positive tailwind to performance in the year. However, it is stock selection that has again been the primary driver of performance. This has not only generated alpha on stocks Richard has identified, including from the region's all-important technology firms, but also from those not owned, most notably through Tencent and Alibaba. Richard has long been cautious on his allocation to China and this has again been supportive to performance, which we believe is a good demonstration of his investment discipline.

Despite this, Richard has continued to be active with his portfolio positioning. The shift from an overweight position in technology at the beginning of the year to it being the largest underweight by year end is bold, in our view, demonstrating conviction and pragmatism, something cemented by the volatility in the sector post period end. This view is reinforced by the significant narrowing of the combined China and Hong Kong underweight in the year, despite it being a significant driver of relative performance, as the manager has continued to seek opportunities and tilted the portfolio to where the next leg of returns should come from. As such, we believe SOI continues to be one of the most compelling strategies for accessing the ongoing potential from Asian equities.

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