# Results analysis: Schroder Oriental Income

**SOI's tech exposure has produced stellar absolute and relative returns...**

Update
24 October 2024

- **Schroder Oriental Income (SOI) has released its final results for the year ending 31/08/2024. Over the period, the trust saw its NAV increase by 18.2% on a total return basis, which is over twice the return of 8.6% for the MSCI AC Pacific ex Japan Index, the trust's formal benchmark. The AIC Asia Pacific Equity Income sector delivered a weighted average return of 12.9% over the same period.**

- **The trust benefitted from an improvement in market backdrop as the Federal Reserve began to cut interest rates in the US. This led to improved investor confidence which has supported markets around the globe, including Asia.**

- **The strong performance in both absolute and relative terms has also been driven by the trust's significant allocation to Taiwan. This includes holdings in the technology sector which have benefitted from the ongoing proliferation of the AI theme. The trust's relatively high exposure to financials, particularly in Singapore and Australia, also supported performance.**

- **In contrast, China struggled in the year to 31/08/2024 with the manager's underweight allocation proving beneficial. In the post-results period, China has seen a market recovery based on stimulus hopes. The manager's overweight to Hong Kong, in lieu of China, has benefitted from this.**

- **SOI pays quarterly dividends, which totaled 12p per share for the 2024 financial year. This was a 1.7% increase on the 11.8p in the previous year and marks 19 consecutive years of growth. The dividend was slightly above earnings of 11.29p per share meaning a small amount of reserves were utilised to support the dividend growth. Based on the closing share price of 23/10/2024, this equates to a historic yield of 4.4%.**

- **Despite the strong performance, the trust's discount widened to 7.1% at the year end, from 4.5% the previous year. The board has been active with share buybacks in the year, totalling c. 11.4m over the period, equivalent to c. 4.4% of the share capital at the beginning of the year. Buy backs have continued in the post-results period.**

- **Gearing remains at 4.4%. The £100m multi-currency facility was renewed in July 2024 for another year.**


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- **The trust's outgoing chair, Paul Meader discussed how Asia has benefitted Richard's stock selection approach, saying "The region remains fertile territory for a disciplined stock picker [and] remains as relevant for investors today as it did at inception."**

## Kepler View

**Schroder Oriental Income's (SOI)** full year results describe another year of impressive performance. Manager Richard Sennitt has presided over a period of strong absolute returns, but more impressive still has been the performance versus the benchmark, where Richard has produced returns more than double its comparator. Once again, this has been largely driven by stock selection, which we believe is particularly impressive when considering how this has been generated.

Richard's overweight to technology stocks, particularly in Taiwan has provided positive attribution, despite the sector not being a typical feature of income portfolios. Furthermore, the decision to be underweight in China has supported relative performance following the country's struggles. Despite this, Richard has managed to generate positive stock selection from the holdings he does have in the country, as well as in Hong Kong which is an overweight allocation. We believe this alpha generation not only demonstrates the potential for long-term outperformance, but also reinforces the trust as a way of providing a differentiated income stream as part of a wider portfolio.

In his outlook, Richard acknowledges that the fortunes of China weigh heavily on the market. The country remains challenged, with weak consumer sentiment driven by issues in the property market. However, a range of stimulus measures announced after the results have buoyed sentiment, albeit with volatility. Richard began narrowing his China underweight in the year through some new holdings, though remains overweight Hong Kong to balance risks. Despite enduring a challenging year from a broader market point of view, Richard's stock selection in Hong Kong was positive over the year which provides further evidence of the strength of the approach, in our opinion.

The publication of the results also saw the declaration of an increased final dividend of 6p per share. This means the annual dividend will be 1.7% higher than the previous year, marking the 19th consecutive year of growth. This total dividend for the year was slightly above earnings, meaning a small amount of reserves were used to support it. However, we believe this shows the board's commitment to maintaining the impressive dividend growth track record. The trust continues to have sizeable reserves, equivalent to 1.2x this year's dividend, and therefore we believe the outlook for growth in the dividend remains positive.

Despite the strong year of performance, the shares of SOI were trading at a wider discount at the end of the period than at the start. This has widened more since, with a current discount of c. 10.3%, despite the recovery in optimism for the region after the series of stimulus measures were announced in China. The board has been active with share buybacks to try and narrow this discount, with c. 4.4% bought back in the year to 31/08/2024, and more since. Not only have these been accretive to NAV, but it could also be seen as a vote of confidence in the trust's value. As such, we believe the current discount could prove an attractive entry point for long-term investors.

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