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Schroder Oriental Income Fund Ltd
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Schroder Oriental Income (SOI)

22/05/2025

Results analysis from Kepler Trust Intelligence

Schroder Oriental Income (SOI) has released its interim results for the six months ending 28/02/2025. Over the period, the trust saw a NAV total return of 2.5%, compared to a return of 10.4% for the trust's benchmark, the MSCI AC Pacific ex Japan Index.

Relative performance was affected by manager Richard Sennitt's underweight to China, although he narrowed this by adding to some of the country's highest-quality names in the weakness. The manager also initiated an off-benchmark position in Indian company Power Grid in the period.

To offset the China risk, Richard is overweight Hong Kong which was a positive, as was stock selection in Taiwanese tech, plus an overweight to both Singapore and financials.

Long-term returns remain strong, with a five-year return more than double that of the index to the end of the period. Since then, the region has been hit by tariff-induced volatility although SOI has delivered positive absolute returns since.

Revenue was down slightly versus last year, albeit just by 1.3%. SOI typically pays an increased final dividend each year which, should it be raised again, will lead to the AIC's dividend hero status. The trust has substantial reserves which the board has indicated could be used to support this.

Gearing remains stable across the period and contributed a small net positive to performance.

New chairman, Nick Winsor, reflected on navigating the region's challenges, stating: "Our strategy of investing in income producing companies with strong balance sheets that can successfully navigate these challenges has never felt more relevant."

Kepler View

Schroder Oriental Income (SOI) has a strong long-term track record of cumulative outperformance of the benchmark. Despite this, the short-term period covered by these results was more challenging. However, considering the rally in SOI's key underweight, China and growth outperforming value, we believe the positive absolute return should be viewed favourably. This is especially true when considering the strong share price returns led to the discount narrowing. Furthermore, performance post period end has been strong, with SOI having navigated the volatility post-Liberation day well.

The board has indicated it wishes to extend the dividend growth track record to 20 years, and therefore achieve the AIC's 'dividend hero' status. Should it do so, it will be the first Asian focussed trust to achieve the feat. The trust has sizeable reserves to help support this.

The changes amongst peers is also interesting, in our view. Several peers have adopted some form of enhanced dividend strategy, leaving SOI as a rare 'natural' income payer. As such, the trust's portfolio profile may diverge from peers going forward due to the valuation-discipline required. We believe the trust could therefore offer important portfolio diversification benefits in the future.

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