Results analysis: Schroder Asian Total Return

Good stock selection has driven another year of outperformance for ATR...

Update
18 March 2024

- Schroder Asian Total Return (ATR) has released its financial results for the year ending 31/12/2023. Over the year, the trust saw its NAV increase by 8.8% on a total return basis, which compares to the benchmark return of just 1.3% over the same period. The AIC sector average delivered a total return of -0.5%.
- Performance over the year has been primarily driven by stock selection, with the managers extracting positive attribution from 10 of the 12 countries in the index. Firstly, the managers' decision to avoid many Chinese companies has contributed to an underweight allocation, which delivered good relative returns as the country struggled in challenging conditions. Secondly, the decision to allocate to a number of technology stocks, particularly in Taiwan, led to strong returns following positive sentiment over the proliferation of AI.
- Stock selection in India, such as underweights to traditional manufacturing, was a small relative detractor, but still contributed significant absolute returns. This was more than offset with performance elsewhere and leading to significant outperformance of the benchmark and peers in the year, furthering the long-term cumulative returns.
- The trust announced a 4.5% increase in the dividend to 11.5p which indicates a prospective yield of c. 2.5% based on the current share price (as at 13/03/2024). The dividend was supported by revenue reserves which remain significant.
- The discount at year end was 4.6%, slightly narrower than the level at the beginning of the period of 5.8%. The board have been very active with the goal of keeping the discount narrower than 5% by undertaking significant share buy backs. In total, over 7.5% of the share capital at the beginning of the year has been bought back over the course of 2023.
- Gearing has ranged between 4.6% and 10.3%, with an average level for the year of 7.9%.
- Chair Sarah MacAulay commented on the trust's strong performance in a challenging period by saying "our unconstrained approach to investing in Asia has not only delivered good returns but also provided a degree of capital protection in difficult market conditions"

Analysts:
Ryan Lightfoot-Aminoff
Ryan@keplerpartners.com

Kepler View

Schroder Asian Total Return (ATR) is a unique offering in the AIC Asia Pacific sector. Managers Robin Parbrook and King Fuei Lee take a benchmark agnostic approach to building a portfolio of companies in the region. They have demonstrated repeatedly their high-quality stock selection capabilities which has provided significant alpha generation, as well as having the use of hedging strategies to help lessen some of the volatility that can be present in the Asian region.

We believe the 2023 results represent a return to form for the managers. Whilst the region has seen a number of challenging headwinds over the past few years, Robin and King Fuei have demonstrated the strengths of their experience and the quality of the process to deliver a year of highly impressive returns. Much of this has come from stock selection in China, including the decision to avoid the big e-commerce names such as Alibaba and JD.com. Conversely, the names they did hold, such as Shenzhou International, performed well and delivered significant alpha.

Stock selection alpha has been prevalent throughout the portfolio. Of the 12 markets the managers invest in, ten have delivered positive attribution. This includes generating positive returns from markets that have otherwise fallen. Their holdings in technology companies, mostly based in Taiwan also rose significantly following increased demand from the proliferation of AI. Whilst this has not been a specific focus of the managers, it has been a positive tailwind to performance and, in our opinion, demonstrates the success of the process.

Despite the excellent performance, the shares have traded at a persistent discount throughout the year. The board has been very active in trying to mitigate this through extensive buy backs, with the goal of keeping the discount within 5% of NAV. This goal was achieved at the end of the period, though the discount has since widened, albeit the level is considerably narrower than the average of the peer group. As such, we believe the current discount represents an attractive entry point for long-term investors.

On a broad level, the managers believe that many companies in the region are in good shape, with robust balance sheets and strong cash positions. Not only do they think this allows them a good foundation from which to continue to deliver growth, but it also supports the dividend outlook for the region which we believe can be a strong contributor to total returns.

The portfolio continues to have an underweight allocation to China, and is overweight more developed Asia Pacific countries such as Taiwan and Australia. The managers have considerable resources and experience to support their top-down overlay, which we believe can help mitigate the worst of the risks in the region on the portfolio. As such, we believe ATR may appeal to investors who maintain a cautious outlook on China, but still wish to capture many of the exciting growth trends that are present in Asia.

Click here to read the FY 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.