

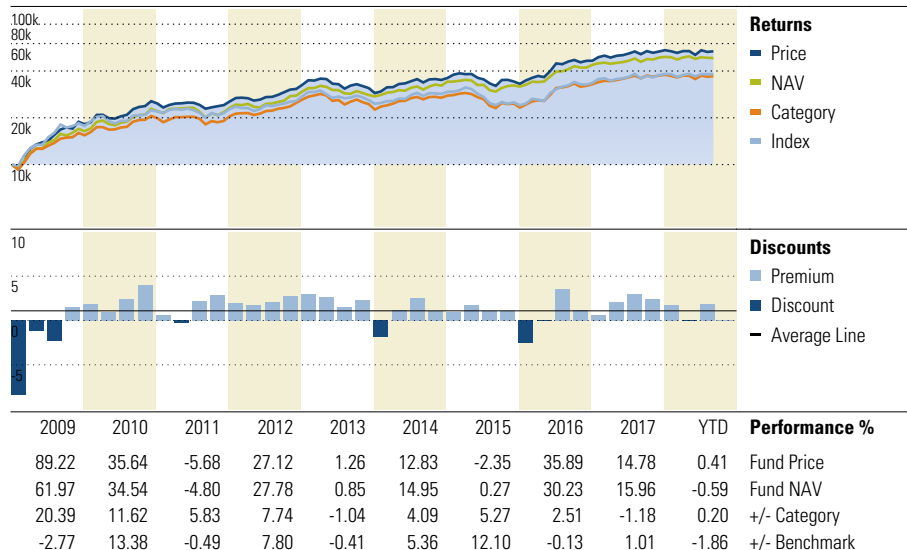
Schroder Oriental Income Ord SOI

Morningstar Rating™
★★★★★

Morningstar Analyst Rating
Silver 5/15/18 14:32 UTC-0500

Morningstar Benchmark MSCI AC Asia Pacific ex Japan
Morningstar Category™ Asia-Pacific ex-Japan Equity

Last Closing Price GBP	237.00
Last Closing NAV GBP	235.00
Discount/Premium %	+0.85
Latest Published NAV	234.34
Latest Published NAV Date	18/10/2018
Traded Currency	GBX
Yield	4.09
Dividend Frequency	Quarterly
Total Assets £ Mil	655.1
Net Assets £ Mil	595.8
Market Cap £ Mil	602.6
Net Gearing %	8
Avg Daily Shares Traded Mil (3 month)	0.19
Inception Date	28/07/2005



Morningstar Analyst: Lena Tsymbaluk, Analyst

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Executive Summary

People: The fund benefits from a seasoned manager in Matthew Dobbs, supported by 40 dedicated equity analysts across the Pacific region.

Parent: This company is strongly focused on asset management with particular strength in equities.

Board: The board consists of four nonexecutive directors, and they all bring investment rather than industry experience.

Process: Stock selection is at the heart of the investment approach. The manager relies heavily on the in-house research teams.

Performance: Since Dobbs took charge, the fund has outperformed its Morningstar Category by a healthy margin.

Fees: The fund’s performance fee with an absolute hurdle rate means a fee can be applied even if the fund underperforms its index.

Role in Portfolio

Supporting Player. This fund is suitable for investors seeking Asia-Pacific exposure (excluding Japan) to diversify a broader portfolio. Its income bias gives it added appeal for investors wanting income from their assets.

Morningstar Opinion

09 Nov 2017 | For income-seeking investors in Asian markets, we think Schroder Oriental Income is among the key offerings.

The fund benefits from seasoned investor Matthew Dobbs, who has been running money since 1985 and became a manager on this fund in July 2005. Dobbs has spent his entire career at the firm, which means he has a strong working relationship and understanding of the analysts, knowing their strengths and weaknesses. Dobbs himself specialises in global small caps and Asian equities; on the latter, he is supported by a team of 40 equity analysts across the Pacific region.

Stock selection is at the heart of the investment approach. A key strength is the network of analysts in the region whose focus is on identifying companies able to grow shareholder value in the long term. The analysts focus on company strategy and assess its competitive position and growth prospects; they will evaluate its ability to meet strategic goals and based on this, will rank stocks from one (strong buy) to four (strong sell), providing Dobbs with a base from which to work.

There is no minimum yield requirement applied to every stock, but portfolio construction is done with reference to an overall yield requirement. When constructing the portfolio, Dobbs focuses on stocks which have strong income and capital growth potential. Many of the stocks will already have attractive yields, but the portfolio manager

also looks to exploit opportunities in stocks which are set to benefit from improving capital efficiency, rising returns and increasing shareholder distributions. The portfolio will typically consist of 70 to 80 of the best ideas in the region.

The process has seen a number of market cycles, and over the long term Dobbs has delivered excellent results for his shareholders. Since the fund’s inception in July 2005 through Sept. 30, 2017, the fund has returned 12.25% annualised, outperforming its MSCI AC Pacific ex Japan Index and the Asia-Pacific ex-Japan Equity Morningstar Category average peer by 1.7 and 2.1 percentage points, respectively. Dobbs has also used risk well here. Despite gearing being a steady feature in the fund, he has still managed to keep risk muted without compromising on returns.

The caveat at this fund is expenses. The management fee is low, but the performance fee erodes this competitive advantage. The performance fee has an absolute hurdle rate, which means it is applied irrespective of performance relative to an index. This can be costly for investors. We would prefer a performance fee structure linked to outperformance of an appropriate benchmark.

Nevertheless, given the seasoned manager in Matthew Dobbs, wide resources, and solid process that has led to excellent long-term track record the fund maintains its Morningstar Analyst Rating of Silver.



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People

Manager	Matthew Dobbs
Manager Start	28/07/2005
Avg. Manager Tenure	13.2 Years
Other Funds Managed	—

This fund has been managed by Matthew Dobbs since July 2005. He is supported by an alternate manager Richard Sennitt and an extensive team of local portfolio managers and analysts. Dobbs has more than three decades of investing experience and has spent his entire career at Schroders. He joined the firm in 1981 as an investment analyst and became a portfolio manager four years later. He joined the global small-cap team in 1996 and started running Asian small-cap portfolios from that date. In 2000, he was appointed head of global small-cap equities, and he's also part of the Asian specialist team. Dobbs

oversees four regional teams together with Sennitt, with whom he comanages his global funds. In addition to this offering, Dobbs runs a number of other funds, some of which are global small-cap funds and others are higher up the cap scale and focused on Asia ex-Japan. He is supported by 40 dedicated equity analysts across the Pacific region covering larger-cap stocks. The analysts are located in Schroders' offices in Hong Kong, Singapore, Seoul, Shanghai, Sydney, and Taipei, and also in Mumbai at Schroders' joint venture with Axis Asset Management.

Parent

Fund Advisor	Schroder Investment Management Ltd
Domicile	GUE
Website	www.schroders.com/uksoif/home

Schroders has benefited from stable ownership since it was founded more than 200 years ago, and the Schroder family still holds nearly half of the company's listed shares. Schroders' standout expertise is in equities, where the fund manager lineup, longevity at the firm, and succession planning are notable strong points in several areas. This is particularly the case in Asian, European, US small cap, Japanese, and Australian equities. The UK equity desk, however, has weakened since Richard Buxton's departure in 2013. In the past, some domestic UK equity funds were allowed to get too big, and this was to the detriment of investors. On a more positive note, given

the firm's scale, with assets under management of GBP 405 billion at March 31, 2017, fund launches are selective and generally in areas where investment head count is being increased. Pockets of fixed income see positive Morningstar Analyst Ratings, but there has generally been more stability in equities, where remuneration for fund managers is related to outperformance over three- and five-year periods. A greater weight is placed on the three-year period. We feel this helps align the fund managers' interests with those of investors. The group's capabilities extend to multi-asset and alternatives, with acquisitions starting to focus on the latter.

Board of Directors

Tender Offer	No
Buyback Authorization	No

The board of Schroder Oriental Income consists of four nonexecutive directors, namely Robert Sinclair, Fergus Dunlop, Paul Meader, and Peter Rigg. Christopher Sherwell retired from the board in December 2016 following 11 years of service. In line with the board's succession planning, one of the longer-serving directors will retire at the 2017 annual general meeting, and the board has commenced the search for a new director to be appointed later this year. All four directors bring

investment management experience rather than industry careers. All directors are shareholders in the fund, which we like to see, as we believe it aligns their interests with those of their shareholders. The board meets at least four times a year, although communication is far more frequent with the manager. Sinclair is the chairman of the board and brings over 40 years of experience in finance and accountancy.

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Process: Investment Approach

Investment Objective: To provide total return through investments in equities and equity related investments in companies, which are based in or derive a significant proportion of revenues from the Asia Pacific region.

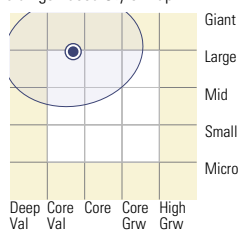
Hedging Policy NULL
Tactical Use of Cash No

Stock selection is at the heart of the investment approach. A key strength is the network of analysts, whose focus is on identifying companies able to grow shareholder value in the long term. Although the in-house analysts are the primary source of stock ideas, the manager also generates ideas through his own research and draws on a number of other sources, including a proprietary quantitative screen, sell-side analysts, other investment professionals within Schroders, and his own contacts in the market. They focus on a company's strategy and assess both its competitive position and growth prospects. Their evaluations include historic and prospective earnings growth, quality of earnings, competitive position, barriers to entry, and focus on shareholder

value. Based on these factors, they compile cash flow and earnings estimates to evaluate a company's ability to meet its strategic goals. Following this research, analysts generate a recommendation for each stock, on a rating scale of 1 (strong buy) to 4 (strong sell). Dobbs likes to see earnings growth potential and sustainable returns in his companies. The fund does not have a specific yield target; rather, it aims for a progressive annual dividend. Dobbs expects stocks to contribute to the portfolio's yield, but he will not disregard non-dividend-payers if he believes they have potential to do so. The portfolio will typically consist of 70 to 80 of the best ideas in the region.

Process: Portfolio Positioning

Morningstar Holdings Based Style Map



The fund's country and sector exposures are substantially different from its benchmark, the MSCI AC Asia-Pacific ex Japan Index, and category peers, which reflects the unconstrained nature of the fund. Positions are a result of the search for yield in the first instance, though. As of Sept. 30, 2017, the main country exposures remained in Hong Kong, Australia, Taiwan, and Singapore. Direct exposure to China and Korea remains constrained by the lack of solid dividend-paying stock

opportunities. Thailand remained the principal overweighting in emerging ASEAN. At the sector level, the fund's main overweightings included real estate, telecoms, telecoms, and materials, and the underweighting was technology because of the fund's lack of exposure to Chinese Internet names as they don't pay dividends. Dobbs also has a bias to smaller-cap names relative to peers in this fund; given his expertise lies in that area, that's likely to remain.

World Regions	Assets %
Greater Europe	9.74
United Kingdom	9.74
Europe-Developed	0.00
Europe-Emerging	0.00
Africa/Middle East	0.00
Americas	0.00
North America	0.00
Latin America	0.00
Greater Asia	90.27
Japan	2.86
Australasia	16.59
Asia-Developed	47.85
Asia-Emerging	22.98
Not Classified	0.00

Asset Allocation	% Assets	Long	Short	Net
Cash	0.0	—	0.0	
Equity	98.0	—	98.0	
Bond	0.0	—	0.0	
Other	2.0	—	2.0	

Top 10 Holdings 30/06/2018	% Assets
Taiwan Semiconductor Manufacturing	5.51
HSBC Holdings PLC	4.23
Samsung Electronics Co Ltd Particip	4.09
Fortune Real Estate Investment Trus	3.93
BHP Billiton PLC	3.30
China Petroleum & Chemical Corp H S	2.81
Midea Group Co Ltd A Shares Wts 19/	2.73
Swire Pacific Ltd Class A	2.62
National Australia Bank Ltd	2.36
Hon Hai Precision Industry Co Ltd	2.24

Sector Weightings	% Equity
Cyclical	58.1
Basic Materials	9.3
Consumer Cyclical	5.6
Financial Services	25.3
Real Estate	17.8
Sensitive	38.3
Communication Services	10.4
Energy	3.7
Industrials	6.1
Technology	18.1
Defensive	3.7
Consumer Defensive	1.8
Healthcare	0.0
Utilities	1.8

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NAV Performance Analysis

Data as of 30-09-2018

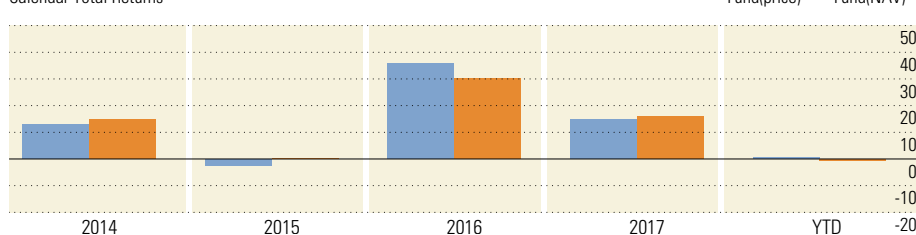
Trailing Returns Price	Total		+/-	
	Rtn %	Bmark	Bmark	In Cat
3 month	5.51	2.35		
6 Month	2.41	-1.58		
1 Year	4.46	-1.94		
3 Year Ann.	18.65	2.16		
5 Year Ann.	10.69	3.55		

Trailing Returns NAV	Total		+/-		%Rnk In Cat
	Rtn %	Bmark	Bmark	In Cat	
3 month	2.15	-1.01	0.84	57	
6 Month	3.87	-0.12	0.35	73	
1 Year	6.11	-0.29	1.81	33	
3 Year Ann.	17.91	1.43	1.48	22	
5 Year Ann.	11.17	4.03	2.22	15	

Since the fund's inception in July 2005 through Sept. 30, 2017, the fund has returned 12.25% annualised, outperforming its MSCI AC Pacific ex Japan Index and the Asia-Pacific ex-Japan Equity Income category average peer by 1.7 and 2.1 percentage points, respectively. In 2015, the fund was ahead of both the index and peers, with the overweighting to Hong Kong and stock selection in Singapore the key positive contributors. In

2016, the fund was again ahead of both comparators, benefiting from the underweighting to China and stock selection in Singapore. Thus far in 2017 (to Sept. 30), the fund is behind the index and peers, mainly driven by the lack of exposure to rallying Chinese Internet names and some stock selection issues within real estate and consumer discretionary.

Calendar Total Returns



Discount / Premium

Data as of 19-10-2018

Discount / Premium %	6 Mo	1Yr	3Yr
High	+5.18	+5.18	+5.18
Average	+1.22	+1.54	+0.99
Low	-2.07	-2.07	-5.25
Z-Statistic	1.58	1.52	1.41

The board maintains an active discount policy and aims to keep the discount below 5%. Historically, it has bought back shares when the discount has

widened to double digits, and we've seen them issue shares when the fund has traded at a premium.

Risk & Return

Data as of 30-09-2018


Morningstar Rating	Return	Risk	Rating
3 Year	Above Avg	Below Avg	★★★★★
5 Year	Above Avg	Below Avg	★★★★★
10 Year	High	High	★★★★★
Overall	High	Above Avg	★★★★★

Dobbs has used risk well and rewarded his shareholders amply for the risk that he's taken. Indeed, the fund's three, five and 10-year Morningstar Risk rating is below average, yet the risk-adjusted returns significantly exceed those of the category over the same period. The level of gearing has been well managed and kept in single digits when in use in the past few years. The fund is

well diversified, which reduces concentration risk; it comprises approximately 70-80 stocks with the top 10 holdings accounting for only around 30% at Sept. 30, 2017. The fund's income focus means it can behave quite differently from both its peers and benchmark as it tends to give the fund a lower relative beta, helping to damp its volatility.

Volatility Ratios	3 Yr NAV	5 Yr NAV	Risk vs Index	3 Year	5 Year
Standard Deviation	9.92	11.01	Alpha NAV	3.58	4.08
Mean	1.43	0.94	Beta NAV	0.74	0.75
Sharpe Ratio	1.00	0.52	R-Squared NAV	73.27	77.83
Sortino Ratio	2.08	0.80	Treynor Ratio NAV	16.24	8.27

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Fees

Management Fee %	0.75
Ongoing Charge ex Perf Fee %	0.86

The fee comprises an annual management fee and a performance fee. The management fee charged on net assets of the fund above GBP 250 million is 0.70% per year (0.75% per year is charged up to that amount). The performance fee of 10% is taken if, over a 12-month period, the fund's net asset value exceeds a hurdle rate of 107% over that year, on an absolute basis. The NAV must also be higher than 100p or the highest adjusted NAV. That ensures that any underperformance is made good before the performance fee can accrue. The total amount of any perform-

ance fee payable is capped at 1% of net assets in any one year. As of September 2017, the ongoing charge was 0.89% (excluding the performance fee). The management fee is low, but the performance fee erodes this competitive edge. The performance fee has an absolute hurdle rate, which means it is applied irrespective of performance relative to an index. This can be costly for investors. We would prefer a performance fee structure linked to outperformance of an appropriate benchmark.

Gearing

Total Assets £ Mil	655.1
Net Assets £ Mil	595.8

Matthew Dobbs has the ability to gear the fund up to 25% through a short-term loan. Since mid-2009, overall gearing has been kept at single digits, and Dobbs has even been holding cash at times to offset the overall level of gearing. As of Feb. 28, 2017, the company had in place a multi-currency revolving credit facility of GBP 75 mil-

lion. This was an increase from the previous facility size of GBP 50 million to enable gearing to remain at a similar level to prior periods, given the growth in the company's overall assets. Average gearing during the six months ended Feb. 28, 2017 was 2.7%.

Dividends

Dividend History	2016	2017	YTD
Dividend	0.09	0.09	0.05
Special Dividend	0.00	0.00	0.00
Total	0.09	0.09	0.05

The fund aims to provide progressive dividend growth, and it has delivered on its promises since the fund's launch in 2005. The manager can boost the fund's income by writing covered calls; however, that has not been a regular feature at this fund. The board has also built up the revenue reserves such that the dividend is covered, at

its current level, for more than 12 months. The company paid the first interim dividend for the year ended Aug. 31, 2017 of 1.60 pence per share (2016: 1.50 pence per share) on Feb. 8, 2017 and the second interim dividend of 1.70 pence per share (2016: 1.60 pence per share) on April 28, 2017.

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Morningstar Analyst Rating

	2016	2017	2018
Gold			
Silver			
Bronze			
Neutral			
Negative			
Under Review			
Not Rateable			

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The Morningstar Analyst Rating™ for Funds

The Morningstar Analyst Rating™ for Funds is a forward-looking analysis of a fund. The Analyst Rating does not express a view on a given asset class or peer group; rather, it seeks to evaluate each fund within the context of its objective, an appropriate benchmark, and peer group.

The date shown next to the Morningstar Analyst Rating is the date on which Morningstar Manager Research Analyst assigned or reaffirmed the current rating for the fund based on the analyst's latest review and research report for the fund.

The Five (5) Pillars

Morningstar has identified five key areas that we believe are crucial to predicting the future success of funds: People, Parent, Process, Performance, and Price. Each pillar is evaluated when assessing a fund as well as the interaction between the pillars, which we believe is crucial to understanding a fund's overall merit.

People

The overall quality of a fund's investment team is a significant key to its ability to deliver superior performance relative to its benchmark and/or peers. Evaluating a fund's investment team requires that analysts assess several relevant items including how key decisions are made.

Parent

We believe the parent organization is of utmost importance in evaluating funds. The fund's management set the tone for key elements of our evaluation, including capacity management, risk management, recruitment and retention of talent, and incentive pay. Beyond these operational areas, we prefer firms that have a culture of stewardship and put investors first to those that are too heavily weighted to salesmanship.

Process

We look for funds with a performance objective and investment process (for both security selection and portfolio construction) that is sensible, clearly defined, and repeatable. In addition, the portfolio should be constructed in a manner that is consistent with the investment process and performance objective.

Performance

We do not believe past performance is necessarily predictive of future results, and this factor accordingly receives a relatively small weighting in our evaluation process. In particular, we strive not to anchor on short-term performance. However, we do believe that the evaluation of long-term return and risk patterns is vital to determining if a fund is delivering to our expectations.

Price

To reflect actual investor experience, price is evaluated within the context of the relevant market or cross-border region—for example, the United States, Australia, Canada, or Europe. In recognition of differences in scale and distribution costs in various markets, the level at which a fund is penalised for high fees or rewarded for low fees can vary with region. In Europe, for example, funds are penalised if they land in the most expensive quintile of their Morningstar category and are rewarded if they land in the cheapest quintile. The assessment is made using annual expense ratios, but in the case of funds with performance fees, expenses are evaluated excluding any performance fees and then the structure of the performance fee is evaluated separately.

Morningstar Analyst Ratings

Morningstar Analyst Ratings are assigned on a five-tier scale running from Gold to Negative. The top three ratings, Gold, Silver, and Bronze, all indicate that our analysts think highly of a fund; the difference between them corresponds to differences in the level of analyst conviction in a fund's ability to outperform its benchmark and peers through time, within the context of the level of risk taken.

Gold

Represents funds that our analyst has the highest-conviction in for that given investment mandate. By giving a fund a Gold rating, we are expressing an expectation that it will outperform its relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five

years). To earn a Gold rating, a fund must distinguish itself across the five pillars that are the basis for our analysis.

Silver

Represents funds our analyst has high-conviction in, but not in all of the five pillars. With those fundamental strengths, we expect these funds will outperform their relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years).

Bronze

Represents funds that have advantages that clearly outweigh any disadvantages across the pillars, giving analyst the conviction to award them a positive rating. We expect these funds to beat their relevant performance benchmark and/or peer group within the context of the level of risk taken over a full market cycle (or at least five years).

Neutral

Represents funds in which our analysts don't have a strong positive or negative conviction. In our judgment, these funds are not likely to deliver standout returns, but they aren't likely to seriously underperform their relevant performance benchmark and/or peer group either.

Negative

Represents funds that possess at least one flaw that our analysts believe is likely to significantly hamper future performance, such as high fees or an unstable management team. Because of these faults, we believe these funds are inferior to most competitors and will likely underperform their relevant performance benchmark and/or peer group, within the context of the level of risk taken, over a full market cycle.

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This designation means that a change that occurred with the fund or at the fund company requires further review to determine the impact on the rating.

Not Ratable

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Morningstar Star Rating

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Equity-Related Data Points

The Report lists the fund's top ten holdings as of the dated noted. For each underlying holding, a series of data points is provided including, where applicable, that security's Economic Moat as of the date noted.

Economic Moat

The concept of an economic moat plays a vital role in our equity analyst's qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of its fair value estimate. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a *narrow moat* are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. *Wide-moat* companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, *no-moat* companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

For more information about methodology in analysing stocks, please go to

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