

SOMERSET CAPITAL MANAGEMENT LLP

MI Somerset Emerging Markets Dividend Growth Fund OEIC

31 August 2017

Investment Adviser's Monthly Report

| Assets Under Management | |
|----------------------------------|-----------|
| Somerset Capital Management LLP: | \$8,927 m |
| Dividend Growth Fund OEIC: | £1,538 m |

Acc Performance in GBP (net)†

| | <u>Fund</u> | <u>MSCI EM</u> | <u>+/-</u> |
|------------------------|-------------|----------------|------------|
| August | 3.77% | 4.59% | -0.82% |
| Last 3 Months | 8.46% | 9.62% | -1.16% |
| YTD | 22.22% | 23.02% | -0.80% |
| 2016 | 26.83% | 32.63% | -5.80% |
| 2015 | -6.39% | -9.99% | +3.60% |
| 2014 | 8.41% | 3.90% | +4.51% |
| 2013 | -3.19% | -4.41% | +1.22% |
| 2012 | 15.82% | 13.03% | +2.79% |
| 2011 | -5.98% | -17.82% | +11.84% |
| 2010 | 12.45% | 11.83% | +0.62% |
| Since Inception | 86.50% | 51.52% | +34.98% |

Fund Principles

The Dividend Growth fund invests in companies which demonstrate prospects for long term cash flow and dividend growth. We aim for a portfolio of stocks whose dividend is above that of the comparable universe. Lead manager Edward Lam structures a concentrated portfolio of around 40 quality conviction ideas. Stock selection is driven by a bottom up, fundamental process, and aided by a team of managers and analysts in London and Singapore.

Market Cap Range

| | |
|-----------------|-------|
| < \$5 bn | 23.5% |
| \$5bn - \$20bn | 50.4% |
| \$20bn - \$50bn | 13.4% |
| \$50 bn+ | 12.7% |

Fund Sector Weightings

| | |
|---------------|-------|
| Financials | 31.0% |
| Consumer Stap | 21.3% |
| IT | 18.4% |
| Consumer Disc | 7.4% |
| Telecoms | 6.0% |
| Energy | 5.0% |
| Utilities | 4.5% |
| Real Estate | 0.7% |
| Industrials | 0.5% |
| Materials | 0.0% |
| Healthcare | 0.0% |
| Cash | 5.2% |

Portfolio Data

| | <u>Fund</u> | <u>MSCI EM**</u> |
|---------------------------|-------------|------------------|
| Estimated Dividend Yield | 2.2% | 2.3% |
| P/E (Historical) | 21.1x | 15.6x |
| Wgt Ave Market Cap (\$m)* | 33,504 | 56,045 |
| Number of Stocks | 50 | |
| Price Accumulation | 186.50 | |
| Price Income | 156.68 | |

* MSCI value calculated using free float adjusted

Top Ten Holdings

| | <u>Country</u> | <u>NAV</u> |
|-------------------------------|----------------|------------|
| SK Hynix Inc | Korea | 5.6% |
| Otp Bank Plc | Hungary | 5.5% |
| Samsung Electronics Co. | Korea | 3.9% |
| Porto Seguro Sa | Brazil | 3.6% |
| MOL Hungarian Oil and Gas PLC | Hungary | 3.5% |
| HCL Technologies | India | 3.4% |
| Turk Telekom | Turkey | 3.3% |
| X 5 Retail-Gdr | Russia | 3.3% |
| Samsung Fire and Marine INS | Korea | 3.2% |
| HSBC Holdings PLC (HK) | Diversified | 3.1% |

Fund Country Weightings

| | |
|--------------|-------|
| Korea | 18.8% |
| India | 9.5% |
| Hungary | 8.9% |
| Taiwan | 8.4% |
| Turkey | 6.5% |
| Diversified | 6.4% |
| Russia | 6.3% |
| Poland | 5.4% |
| Brazil | 5.4% |
| Chile | 4.9% |
| South Africa | 3.9% |
| Indonesia | 3.3% |
| UAE | 2.8% |
| Philippines | 1.8% |
| China | 1.0% |
| Hong Kong | 0.7% |
| Nigeria | 0.7% |
| Cash | 5.2% |

† Source: Matland Institutional Service Ltd and MSCI. The Fund inception date is 30th March 2010. **Figures are calculated by MSCI using a different methodology and therefore are not comparable with SCM figures.

The Index is the MSCI Emerging Markets Index with net dividends reinvested. Other important information:

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The men the American public admire most extravagantly are the most daring liars; the men they detest most violently are those who try to tell them the truth.

- H.L. Mencken

The following investigation proves how impossible it is to solve the value problem if one insists on a viewpoint that illuminates the question exclusively within the framework of a single firm

- F. Schmidt, (R. Mattessich, Two hundred years of accounting history)

Corruptio unius est generatio alterius [The corruption of one thing is the generation of another]

- Anon.

I have recently tried to add Sberbank to accounts under my charge. Some accounts have allowed it, others have not. This may be something to do with U.S. foreign policy. Nevertheless there is a general, separate point to be made about this stock: no matter what the merits are for this stock on a stand alone, bottom up point of view, (such as the dominant position it has in its commercial banking market and its cheap valuation), the investment does not make any sense as a stock pick if one does not have a strong view of the macro-economic environment (something I have gone through elsewhere so will not repeat here). In my experience, whilst it is still important, active managers tend to consistently overemphasise the importance of bottom up stock picking for 3 three reasons: it is easier to articulate a consistent process for stock picking than for macro (and therefore via Whorfian determinism easier to pick stocks); there is some tradition of good active managers being stock pickers (which whether true or not is self-reinforcing); and for managers operating in an asset class like smaller companies or emerging markets, there is seductive reasoning (such as the inefficiency of the asset class) as to why stock-picking should work over and above other methods.

In truth, it has been a rather long time since Samsung Electronics or even Jollibee has been 'undiscovered'. But these stocks are periodically 'unloved' or rather 'underloved', and it is the wider context in every sense that helps us decide when. In the case of Sberbank there is probably nothing particular to the stock that is not widely known amongst the investment community. What is generally missed is the bank in the context of its own history and in the context of the external environment and conditions.

Something similar is true of small companies investing. When I put together a marketing slide almost ten years ago (2008) to explain why smaller companies investing was such a good idea, of course inefficiency, scalability and (controversially at the time) potential insulation from waves of capital flows, were on it amongst other things. The timing was right because of the particular circumstances (low relative valuations and rising breadth of liquidity). Now the situation is the opposite, which lays bare the truth noted by some of the wiser investors I know: there is little magic to smaller companies investing when stripped of survivorship bias.

I am currently in Seoul, waiting for day break – just a little while longer.

Edward Lam, Lead Manager

| Fees | |
|--|--|
| 1.0% AMC | |
| 0.4% Dilution Levy Applicable (paid to the Fund) | |

| Share Class Information | | | Contact | |
|-------------------------|---------------------|---------------|------------------------------------|-----------------------|
| | <u>Accumulation</u> | <u>Income</u> | <u>Dealing</u> | |
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