

SOMERSET CAPITAL MANAGEMENT LLP

Somerset Emerging Markets Dividend Growth Fund OEIC

30 June 2014

Investment Adviser's Monthly Report

Assets Under Management	
Somerset Capital Management LLP:	\$5,229 million
Dividend Growth Fund OEIC:	£716 million

Acc Performance in GBP (net)*

	<u>Fund</u>	<u>MSCI EM</u>	<u>+/-</u>
June	-1.00%	0.66%	-1.66%
Last 3 Months	5.73%	3.97%	+1.76%
YTD	4.66%	2.81%	+1.86%
2013	-3.19%	-4.51%	+1.32%
2012	15.82%	12.89%	+2.93%
2011	-5.98%	-17.99%	+12.01%
2010	12.45%	12.17%	+0.28%
Since Inception	24.08%	1.95%	+22.13%

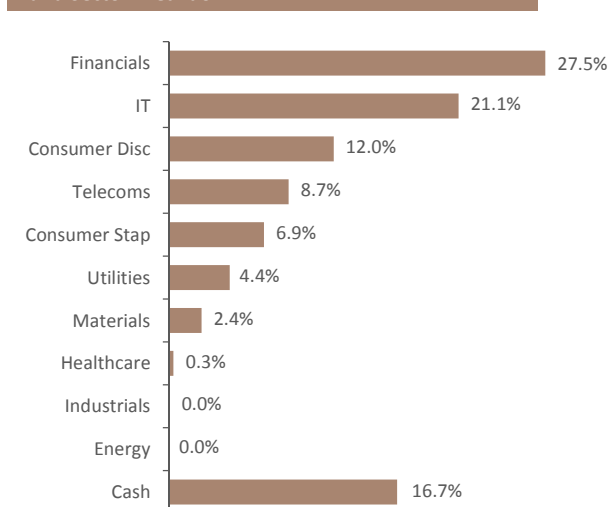
Fund Principals

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	28.7%
\$5bn - \$20bn	47.7%
\$20bn - \$50bn	11.6%
\$50 bn+	12.0%

Fund Sector Breakdown



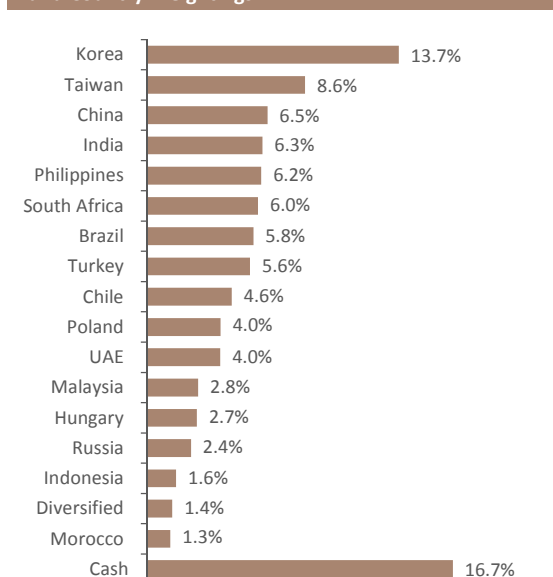
Portfolio Data *

	<u>Fund</u>	<u>MSCI EM</u>
Estimated Dividend Yield	2.4%	2.7%
P/E (Historical)	16.5	12.9
Wgt Ave Market Cap (\$m)	24,051	22,221
Number of Stocks	42	
Price Accumulation	124.08	
Price Income	111.74	

Top Ten Holdings

	<u>Country</u>	<u>NAV</u>
AAC Technologies Holdings	China	3.8%
Samsung Electronics Co.	Korea	3.7%
Taiwan Semiconductor	Taiwan	3.6%
Sanlam Ltd	South Africa	3.5%
Axis Bank Ltd	India	3.4%
KT&G Corporation	Korea	3.2%
Powszechny Zaklad ubezpiecze	Poland	3.1%
Pou Chen	Taiwan	2.8%
Metro Bank	Philippines	2.8%
China Mobile	China	2.7%

Fund Country Weightings



* Source: Bloomberg. The Fund inception date is 30th March 2010.

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

This document has been prepared for professional clients only; not for retail clients. The value of an investment and any income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Investment in emerging markets can involve greater risk than is customarily associated with more mature markets which means greater price movements, both positive and negative, can be expected. Investment in the Fund carries risks, which are more fully described in the prospectus. The Fund is only suitable for sophisticated investors. Please read the Prospectus before making an investment decision. This document is issued by Somerset Capital Management LLP which is authorised and regulated by the Financial Conduct Authority. The contents of this document are not intended to constitute, and should not be construed as, investment advice. If you have any doubt as to whether this product is suitable for you or have questions concerning your tax position, and you wish to obtain personal advice then please contact a financial advisor or where applicable a tax specialist. Investors in the UK are reminded that they will not benefit from the UK investors compensation scheme.

Data as at 30 June 2014

Source: SCM, Bloomberg and MSCI Barra

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It is not down in any map; true places never are.

- H. Melville, Moby Dick

Aside from the disintegration of Iraq one of the biggest stories for followers of the emerging market MSCI index in the last month was the decision of the MSCI not to redraw the boundaries to include Chinese 'A' shares in the MSCI EM index. For those that are not familiar, Chinese equities have historically been divided into 'A' Shares (traded on the local Shanghai and Shenzhen exchanges and previously restricted to foreigners), 'B' Shares (a now defunct category of shares tradable on the Shanghai and Shenzhen exchanges but open to foreigners), 'H' Shares (listed in Hong Kong) and S-Chips (listed in Singapore). Though foreigners are now able to buy 'A' shares, the process of registration remains substantially more onerous than, for example, registering in the UAE, which is not in itself easy but has only just been introduced to the MSCI EM index. Based on the MSCI's own logic of assessment their decision is sound. The pertinent question is what effect if any this might have had on the Somerset EM Dividend Growth scope of operations. The simple answer is none. If the MSCI had decided to include Chinese A shares in its EM index, the Chinese weighting of the index might rise to 30%. If the MSCI simultaneously decided to promote Chinese A shares and remove South Korea and Taiwan from the EM index (something that has been threatened for almost a decade) our back of the envelope calculation suggests the MSCI EM index might end up with more than 40% weighted to China. Not only does this disturb the natural balance of the index, but we have never run a fund that has been tied to arbitrary index weightings: since inception we have had close to 0% in energy and materials which constitute 30% of the index; we built positions in the UAE when these were still considered frontier markets; and we have also occasionally found value in developed market companies with substantial emerging and frontier exposure. More generally it is also worth noting returns don't generally accrue to indices weighted by GDP or market cap; feedback suggest investors have looked to us for a broad international growth exposure, not simply an EM index allocation; and we won't suddenly lose our ability to pick good stocks in Korea and Taiwan, which I have personally followed for nearly a decade simply because an index provider flicks a switch on their classification. Interestingly on the subject of Korea and Taiwan the MSCI has actually removed these countries from their 'review list', which puts back an upgrade of status probably for several years. Why? Though we have no particular interest in this, it appears that the lobby groups or more index sensitive asset managers have won their argument for now. What the argument is, is unknown. (One wonders whether the methodology might be FIFA approved).

I have just given a presentation to a seminar in New Zealand entitled "Dividend Investing Myths". (For interested clients, electronic copies can be made available). To give a brief review, it flags a number of ways in which the expectations of investors about dividend investing are wrong, why this may be so and what to do about it. For example there is the idea that dividend investing is naturally defensive, but unfortunately there is nothing in the presence of dividends or yields themselves that prevents bad performance. It is notable on this front that in the last 12 to 18 months dividend strategies in emerging markets have tended to underperform a market that has fallen in sterling terms. It remains important to research the underlying company and to pick stocks on good valuations. True dividend investing should be about the prospective and potential dividend growth (dividend discovery) and not the legacy yield available on the typical dividend roadmap.

Finally, on Iraq it is worth thinking back to the late 1950s and early 1960s (those that remember) to reflect on how borders can change. Most people typically assume the national units of construction that are present are the only ones readily available; or at least we find it hard to think of the possibilities. A cursory glance at any world map through time can give one a flavour for the potential. It does not feature on Iraq's Wikipedia page, but in 1960-1961, Iraq was very close to joining the United Arab Republic of Nasserist Egypt, Ba'athist Syria and federated Yemen.

SOMERSET CAPITAL MANAGEMENT LLP

Monthly Commentary cont.

30 June 2014

Under Saddam Hussein Sunnis and Ba'athist developed an association. Part of the strength of ISIS lies in these historical legacies as well as Maliki's mismanagement of the Iraqi state. The ISIS republic might not be on any map, but neither futures nor utopias are.

Edward Lam, Lead Fund Manager



Palestine/Israel, 1946-2000



"South Africa", 1885



Sultanate of Oman, c. 1850



United Arab Republic, 1958-1961



Scotland, 2015?

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

Share Class Information		
	<u>Accumulation</u>	<u>Income</u>
GBP SEDOLS	B4Q0711	B4QKMK5
GBP ISINs	GB00B4Q07115	GB00B4QKMK51
EUR SEDOLS	B3R0FQ4	B56S7H8
EUR ISINs	GB00B3R0FQ48	GB00B56S7H80
USD SEDOLS	B4PV5H7	B4P9CN6
USD ISINs	GB00B4PV5H71	GB00B4P9CN62

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