SOMERSET CAPITAL MANAGEMENT LLP

31 December 2021

MI Somerset Global Emerging Markets Fund OEIC

Investment Adviser's Monthly Report

Edward Roberston
Founding Partner & Lead Manager

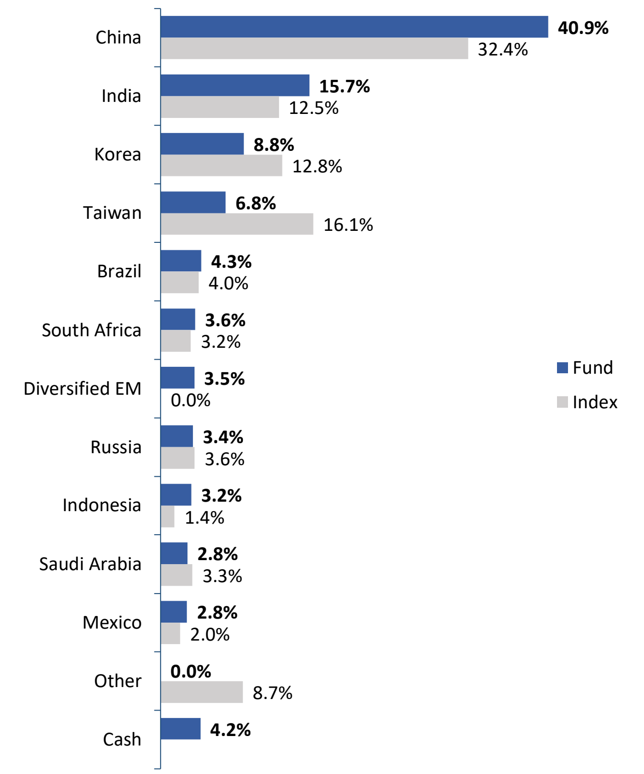
Fund Objectives

The Somerset Global EM Fund seeks to achieve capital appreciation by investing in a concentrated portfolio of <50 companies in emerging market countries. Lead Manager, Edward Robertson targets companies that can generate sustainable returns over multiple market cycles and are trading at a reasonable price. All companies must adhere to Somerset's independent criteria around environmental, social and governance risk and we actively engage with companies on material issues. Edward is supported by Somerset's team of fund managers and analysts based in London and Singapore.

Assets Under Management	
Somerset Capital Management LLP	$6,072 m
Global Emerging Markets Strategy	$4,431 m
Global Emerging Markets Fund OEIC	£324 m

Model Portfolio Data	Portfolio
P/E (Historical)	30.8x
Dividend Yield (%)	1.3%
Wgt Ave Mkt Cap ($m)	148,868
No. of Stocks	36
Price (Accumulation)	292.0
Price (Income)	253.8

Country Breakdown

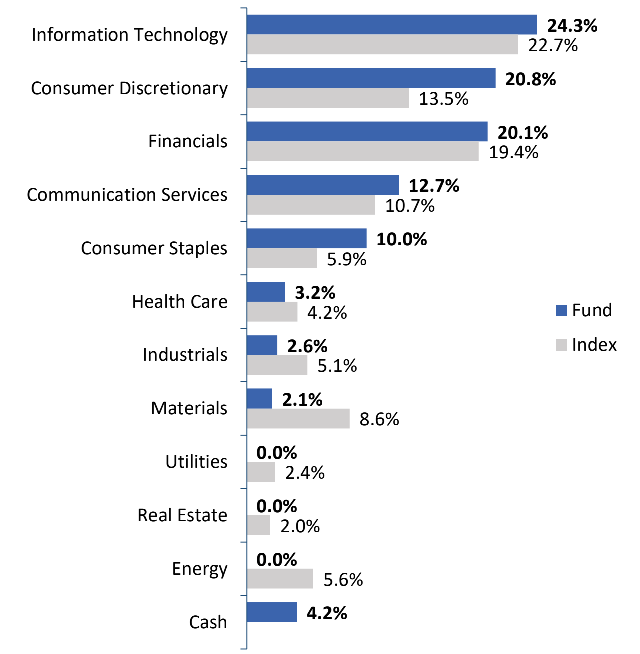


Acc GBP Performance Net (%)*	Fund	Index⁺	+/-
1 Month	0.63%	-0.49%	**+1.12%**
3 Months	-2.65%	-1.76%	**-0.89%**
2021	-10.10%	-1.64%	**-8.46%**
2020	12.69%	14.65%	**-1.97%**
2019	17.37%	13.86%	**+3.51%**
2018	-10.98%	-9.27%	**-1.71%**
2017	22.49%	25.40%	**-2.91%**
2016	33.82%	32.63%	**+1.19%**
2015	-10.00%	-9.99%	**-0.01%**
2014	2.53%	3.90%	**-1.37%**
2013	-2.93%	-4.41%	**+1.48%**
2012	13.23%	13.03%	**+0.20%**
2011	-14.60%	-17.82%	**+3.22%**
2010	29.04%	22.61%	**+6.43%**

Top 10 Holdings	Country	NAV %
Taiwan Semiconductor Manufacturing Company	Taiwan	6.8%
Samsung Electronics Co.	Korea	5.6%
Infosys LTD	India	5.6%
ICICI Bank LTD	India	5.1%
Tencent Holdings Ltd	China	5.1%
AIA Group LTD	China	3.8%
China Mengniu Dairy Co	China	3.8%
Yum China Holdings Inc	China	3.6%
Midea Group Co-A	China	3.6%
Heineken NV	Diversified EM	3.5%

Model Portfolio Market Cap Breakdown	Fund
< $10bn	10.5%
$10-$20bn	10.6%
$20-$50bn	13.2%
> $50bn	63.1%

Sector Breakdown



* Source: Maitland Institutional Services Limited & MSCI. The Fund inception date is 17th November 2008. Characteristics and market cap ranges are for the model portfolio. ⁺ The Index is the MSCI Emerging Markets Index with Net Dividends Reinvested. Index data is sourced directly from MSCI.

The Fund experienced its worst annual relative performance last year for over a decade as a result of the Chinese regulatory overhaul and a change in market leadership to value from growth. Although the outlook remains uncertain for 2022, we believe both detractors are transitory and as a result we see significant potential for strong performance over the next 12 months and beyond.

We have gone through difficult times in the past and experience tells us that the best course of action is to stick to our process and focus on our key strength as fundamental bottom-up stockpickers. Periods of underperformance often herald strong periods of outperformance – the Fund posted strong 3, 5 and 7 year relative returns (+7%, +9%, +12% in USD) following 2009, which remains the most difficult 12 month period in our history. Looking at the portfolio as it stands today, we expect a similar pattern to emerge in the coming years. While challenging, 2021 provided us with ample opportunities to add to companies we like, those with competitive advantages and strong long-term return profiles.

It is worth first discussing China, the Fund's largest exposure. We believe our current position size is warranted given the market correction, reasonable valuations and just how out of favour it has become with investors (at some point, the risk is that the market rallies). Just to recap China remains the largest opportunity set in emerging markets with many of the characteristics we look for in companies.

Global EM Universe Country Comparison

Region	# Stocks GEM Investable Universe	# Stocks SCM Focus List*
China	530	119
India	97	20
EMEA	138	29
Korea & Taiwan	93	23
ASEAN	43	8
LatAm	84	12

Source: Bloomberg, 31st December 2021
Investable universe includes all EM equities with market cap > $3bn and ADTV > $10m
**EM stocks in the investable universe with 3 Yr ROE > 12%, Net Debt/Equity < 50% and FCF Yield > 2%*

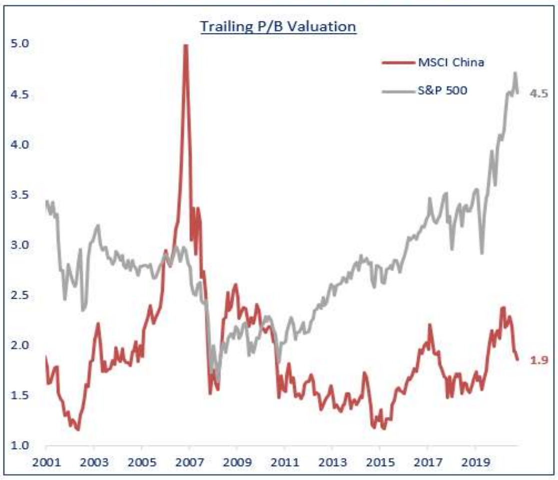
The market drawdown has made for a very difficult year for investors, but we don't think the regulatory overhaul across a range of sectors means that China is no longer investable, nor do we think the economy has lost its dynamism. Actually, we think the economy will see elevated growth in domestic consumption, consumer earnings power and spending over the next decade – areas like premiumisation, electrification, electric vehicles and renewable energy are powerful investment themes. Although the large platform companies have had to rein in their growth and open up more to competition, we don't think this is the end of entrepreneurship in the technology sector (regulators in all countries are having to deal with the social consequences and data privacy issues of social media).

More defensive parts of the China portfolio (like dairy producer China Mengniu and AIA) held up relatively well, although Yum China's fast-food business has been affected by Covid restrictions on movement. Investors are waiting to see the pace of the profit recovery in the platform companies, which make up a significant part of the China portfolio and saw a large drawdown in the middle of the year.

Another factor concerning investors is relations between the world's two superpowers, where tension has escalated throughout 2021, with the US and China trading blows on a number of geo-political and economic issues. We think, behind the scenes, whilst both sides maintain their red lines, neither think it is in their interest to see a complete breakdown in cooperation.

Chinese equities experience regular drawdowns, many of similar magnitudes to what we have seen this year, and for reasons not dissimilar. However, we believe pessimism is now extreme – China is currently at a 60% discount to the S&P on a P/B basis – the largest discount in 10 years – and many managers have capitulated. We have been selectively buying into companies with strong long-term growth profiles at deeply discounted valuations in areas such as domestic consumption.

China at most attractive level vs US in 10 years…



…Most managers have capitulated

Source: Bloomberg, Financial Times

The pace of the recovery in China in 2022 depends on three criteria; we need to see a belief that the regulatory overhaul is mostly complete (we believe so), a pickup in economic activity (we are seeing the government starting to ease) and a relaxation of the zero-Covid policy (unlikely before the Winter Olympics).

Elsewhere, although new economy companies have fallen from favour, and in some cases greatly, we still find the growth opportunity compelling given the changes that are happening in and around new technologies. Our most recent webinar on the subject[1] highlights companies we invest in that benefit from these changes, including – new 5G applications, data growing exponentially, silicon nationalism and industrial automation. Silicon nationalism is not lost on anyone, evidenced by the large investments the likes of Samsung and TSMC are now making in the US and Europe.

It has been a tough year for the Fund but our focus remains on owning the better companies. Occasionally we make mistakes in stock selection, but our preference for growth – some of which is new economy growth at a higher clip and some which is more moderate – remains the cornerstone of our investment philosophy. Not only do we have to weigh up the merits of a company at the stock level, but there is also the risk that might come at the country level. For macro-economic mismanagement, Turkey has been the poster child once again this year. Even when we find a great company in the country, it is hard to compete with a government so intent on self-harming.

Another decision around geopolitics comes on Russia, whose involvement in brinkmanship over Ukraine presents a dilemma for the West and investors. The consequences from invading Ukraine would initially be harmful to the economy, but Russia cannot easily be brushed aside. The country's resilience comes from its natural wealth, sheer size and, as supplier of energy to Europe, geopolitical importance. The outcome is likely to be more jaw-jaw than war-war but portfolio position sizes should be managed accordingly, until after forthcoming talks between Russia and the United States.

Alongside geopolitical concerns in emerging markets, higher interest rates (discount rates) for faster growing companies are a conundrum for investors – especially now as the pandemic has irrevocably changed the way people interact and consume – and uncertainty increases for our markets and currencies with quickening inflation (is it transitory?). Countries with natural wealth and current account surpluses are in a better position. Although the deficits of yesteryear – remember the 1997 Asian crisis – are not found today, the likes of China, South Korea, Taiwan and the Middle Eastern states (we recently built up a position in Al Rajhi Bank in Saudi Arabia) are relatively better protected than the likes of Brazil, Turkey, South Africa and to a degree India. Our large weighting in a country backed by the wealth of its vast domestic savings (China) offers something of a buffer, in the EM context, against economic volatility which could come with interest rates rising faster than expected. Although markets like Brazil look cheap in currency adjusted terms (we paired our exposure over the last six months), the opportunity to re-enter will be when we get more clarity on the likely election outcome. We stick with integrated healthcare provider Hapvida, a beneficiary of growing scale advantages, as its merger with the next largest operator has just been approved.

The Fund retains our exposure to those fast-growing companies where we think change will be long lasting. We also see value in areas that are experiencing an economic slowdown but with long-term prospects which are undimmed – China, particularly the consumer, stands out here. The backdrop to the US bull market that has extended over a long period of time will be tested in 2022 as monetary policy has to normalise. In the context of the US, that has global ramifications, given its position as the world's reserve currency. But value in equity markets lies outside the US, particularly in emerging markets, which is currently at a 63% discount to the S&P on a P/B basis – the highest discount for 10 years.

Edward Robertson, Lead Manager

[1] https://drive.google.com/file/d/1AdrN8woDLuXZnoavYpf70EWHrzjwNh8F/view?usp=sharing

Fees	
0.75% AMC	

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Share Class Information (Institutional B Class)		
	Accumulation	**Income**
GBP Sedol	B3KL3W6	B4XX519
GBP ISIN	GB00B3KL3W60	GB00B4XX5197
USD Sedol	B3Z0942	B3VTJX2
USD ISIN	GB00B3Z09429	GB00B3VTJX23
EUR Sedol	B9XQL37	
EUR ISIN	GB00B9XQL371	

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