

SHINING A LIGHT ON THE.....
MI Somerset Emerging Markets Dividend Growth Fund

AT A GLANCE

Investment Objective	
The Fund seeks to achieve capital appreciation and income growth by mainly investing in an actively managed portfolio of dividend-paying emerging market securities. The portfolio will consist principally of quoted equity securities, issued by companies established or operating in emerging market countries, principally in Asia, Eastern Europe, the Middle East, Africa and Latin America. The Fund may also invest at the Manager's discretion in other transferable securities, money market instruments, cash and near cash, depositary receipts, derivative instruments and forward transactions, deposits and shares in other collective investment schemes.	

Inception Date	30 March 2010
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snaps hot/snapshot.aspx?id=F00000H58I

Management	
Manager Name	Start Date
Edward Lam	30 March 2010
Edward Robertson	30 March 2010

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	29.21%
Large	32.46%
Medium	27.27%
Small	10.96%
Micro	0.10%

Top 10 Holdings		
Total number of holdings	49	
Assets in Top 10 Holdings	43.23%	
Name	Sector	% of Assets
SK Hynix Inc	Technology	7.05%
OTP Bank Plc	Financial Services	5.43%
Win Semiconductors Corp	Technology	4.56%
Samsung Electronics Co Ltd	Technology	4.45%
Porto Seguro SA	Financial Services	4.40%
Sberbank of Russia PJSC ADR	Financial Services	3.72%
HCL Technologies	Technology	3.71%
HSBC Holdings PLC	Financial Services	3.60%
X5 Retail Group NV GDR	Consumer Defensive	3.34%
Coca-Cola HBC AG	Consumer Defensive	2.98%

Volatility Measurements	
3-Yr Std Dev (volatility)	12.22%
3-Yr Mean Return (average)	10.26%

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FUND PERFORMANCE

Performance from 1st January 2013 to 30 April 2018:

	2013	2014	2015	2016	2017	2018
MI Somerset Emerging Markets Dividend Growth Fund	-2.93%	8.72%	-6.17%	26.83%	21.78%	-1.67%
iShares MSCI EM ETF	-5.82%	2.62%	-11.15%	33.56%	24.43%	-1.44%

Performance over 12 months, 3 years, 5 years and since launch:

	1 year	3 years	5 years	Since launch
MI Somerset Emerging Markets Dividend Growth Fund	10.73%	31.45%	41.31%	85.38%
iShares MSCI EM ETF	13.22%	30.86%	38.03%	42.89%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

UPDATE....

This is a fund we have followed with interest for some time. The lead manager is Edward Lam and he came across from Lloyd George with other members of the emerging market team. This is important because the team have been together for several years and this is really where the fund differs from others in the market.

The partnership structure of the company means everyone feels part of it and is rewarded accordingly. Recruitment also takes time and tends to be people who they have known for several years and understand the philosophy of the company.

In terms of the fund nothing has changed from when they managed assets at Lloyd George. The philosophy and process is the same; high conviction, independent thinking, long term, bottom up focus (companies rather than countries) but with a top down (country) overlay, especially in terms of currency.

Edward explained that the fund has an emphasis on downside protection and this drives the focus on the types of companies they are looking to invest in. The process of selecting investments doesn't add value on its own as most fund managers will claim to do roughly the same thing. Where Edward feels they add value is having the right team, culture and a different perspective.

As an example, in 2014 oil was \$100 a barrel and they spoke to a lot of oil companies asking what the downside risk would be if oil went to \$50. At the time they didn't think this would happen but they wanted to understand how companies would adjust if this happened. Only one company took the question seriously and it was this company that they invested in, in 2016. This was the first oil stock the fund had held.

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Another example was OTP Bank which had assets in the Ukraine and Russia. The analysis scenario looked at what would happen if there were problems with these parts of the business. Once they had analysed this they invested. Russia shortly after invaded the Ukraine but because they had been through the scenario analysis they held onto the investment which played out as expected.

This is a dividend growth fund, but they are not fixated on dividends. The two elements of this approach are that companies that are focused on dividends tend to have more sustainable earnings and a management culture which rewards shareholders.

In terms of performance the fund will tend to underperform in a fast-rising market like 2016 and 2017, but tends to perform better in a slower growth or falling market.

In terms of the market Edward continues to be very positive but more around the fact that austerity seems to be a dirty word with governments rapidly reversing policies. This reversal will naturally benefit emerging markets as demand for products and services grows. We talked about tariffs and sanctions and Edward explain that where one company suffers another benefits, so it is just finding out who the beneficiaries are.

In terms of companies they want to be finding companies of the future; for example, they have been looking at shipping companies for 18 months and have just started to allocate a small investment to this area. Win Semiconductors is an investment they like. They produce high performance cellular power amplifiers, and this is an area of strong growth but a company largely under the radar for many investors. The managers don't mind being contrarian as this helps long term performance.

In terms of risks to the market companies like Tesla and Uber are market risks. Tesla develops new products which devalue their old products at a rapid pace, and Uber is about price, and if they can't compete on this they have nothing to offer. A collapse in these companies could bring the market down as others follow. But the focus is on strong companies and avoiding the noise!

I spoke about the risk of a small team and this is a risk if members of the team decided to leave, but Edward explained the structure and people are key to this and keeping people together is as important as the investments themselves.

In summary, since launch the fund has nearly doubled the return on the benchmark. Over the short term the performance has slipped slightly. Certainly, as an alternative in the emerging market space this might be a fund to consider either as a blend with another fund or a stand alone offering.

The source of information in this note has been provided by Somerset and is correct as at May 2018. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. We would also recommend that you receive advice before following up on any decision.