

MI Somerset Emerging Markets Dividend Growth Fund

- April 2023

LWM FUND SPOTLIGHT

MI SOMERSET EMERGING MARKETS DIVIDEND GROWTH FUND

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.

INCEPTION DATE

30th March 2010

FUND FACTSHEET

<https://www.trustnet.com/factsheets/O/ine9/mi-somerset-emerging-markets-dividend-growth/>

MANAGEMENT

Manager Name

Start Date

Mark Williams

1st November 2020

Kumar Pandit

1st November 2020

RATIO DATA (2-years)

Alpha	Beta	Max Drawdown	Max Gain	Max Loss	Negative Periods	Positive Periods	Tracking Error
-0.72	1.09	-27.89	10.13	-14.53	57	47	9.03

OTHER DATA

Benchmark	MSCI Emerging Markets
Fund Size	£83.14 million
Fees	1.26% (A Share Class)

BULL POINTS (PRO)

- Focus on quality.
- Even with performance in 2022, team have outperformed the index since taking over.
- Concentrated portfolio. Each stock has to earn its place so they don't have to take risk.
- Total return mindset with downside protection an important aspect of the proposition.
- Boutique specialist fund manager.
- Current yield 1.65% payable half yearly.
- Patient investors will only invest when the valuation is right.

BEAR POINTS (CONS)

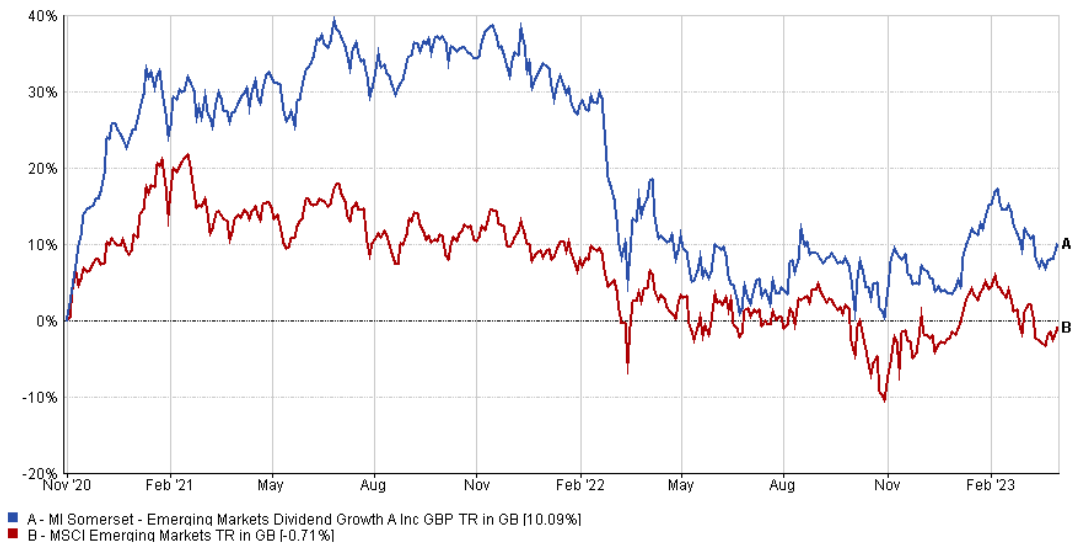
- Short track record with new team.
- Poor performance in 2022.
- Small team.
- Focus on income and growth rather than income.

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FUND PERFORMANCE

Performance from 30th October 2020 – 31st March 2023

Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



30/10/2020 - 31/03/2023 Data from FE fundinfo 2023

Cumulative Performance (GBX)

	3 Months	6 Months	1 Year	3 Years	5 Years
Fund	-7.71%	3.48%	-2.99%	10.09%	-13.39%
Sector	-7.82%	6.75%	-2.33%	18.85%	7.98%
Relative to Sector	0.12%	-3.06%	-0.68%	-7.37%	-19.79%
Rank in Sector *	29 / 72	64 / 72	33 / 69	49 / 56	47 / 48
Fund Quartile *	2	4	2	4	4

Performance by Calendar Year in (GBX)

	YTD	2022	2021	2020	2019
Fund	0.41%	-21.75%	6.70%	0.24%	17.22%
Sector	-1.51%	-12.45%	0.17%	13.96%	16.81%
Relative to Sector	1.95%	-10.61%	6.52%	-12.04%	0.35%
Rank in Sector *	13 / 72	63 / 66	11 / 59	51 / 56	24 / 50
Fund Quartile *	1	4	1	4	2

Discrete Annual Performance to Last Quarter End (GBX)

	0-12m	12m-24m	24m-36m	36m-48m	48m-60m
Fund	-5.19%	-8.53%	36.63%	-18.70%	-7.58%
Sector	-4.28%	-8.39%	46.87%	-14.40%	-0.71%
Relative to Sector	-0.96%	-0.15%	-6.97%	-5.02%	-6.92%
Rank in Sector *	39 / 67	35 / 61	48 / 56	39 / 50	46 / 48
Fund Quartile *	3	3	4	4	4

Fund Price Movement (GBX)

12 Month High	130.81 (Pence)	12 Month Low	109.63 (Pence)
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Annualised Ratios Over 36 Months

	Alpha	Beta	Sharpe	r ²	Volatility
Fund	-2.48	1.02	0.13	0.71	17.19
Fund Quartile *	4	3	4	4	4

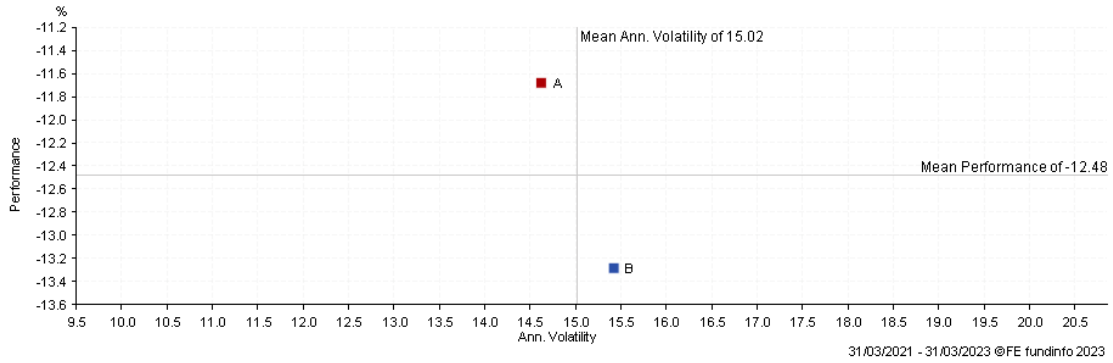
*Ranks & quartiles shown are for the primary share class, MI Somerset Emerging Markets Dividend Growth A Acc GBP

Please 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.

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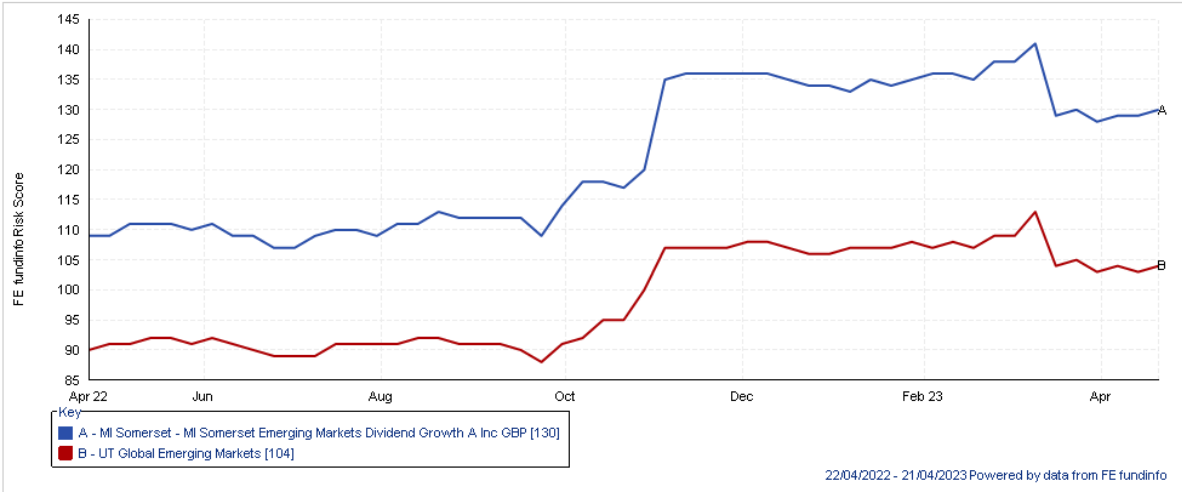
VOLATILITY / RISK SCORE

Pricing Spread: Bid-Bid • Currency: Pounds Sterling



Key	Name	Performance	Annualised Volatility
A	MSCI Emerging Markets TR in GB	-11.68	14.62
B	MI Somerset - Emerging Markets Dividend Growth A Inc GBP TR in GB	-13.28	15.42

FE fundinfo Risk Score Chart Over 1 Year



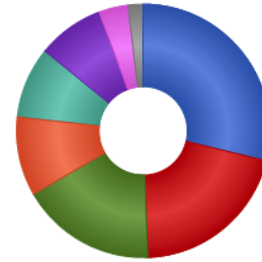
22/04/2022 - 21/04/2023 Powered by data from FE fundinfo

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SECTOR WEIGHTINGS

Sector Weightings as at March 31, 2023

Rank	Change	Name	%
1	►	TELECOM, MEDIA & TECHNOLOGY	28.80
2	►	FINANCIALS	20.60
3	►	CONSUMER PRODUCTS	17.26
4	►	INDUSTRIALS	10.07
5	▲	BASIC MATERIALS	9.13
6	▼	HEALTH CARE	8.48
7	▲	MONEY MARKET	3.74
8	▼	REAL ESTATE	1.91



▼ Faller ▲ Riser ► No Change ■ New Entry

REGION WEIGHTINGS

Exposure

Sector

Region

Country

vs. Category ▼

Country	■ Investment %	■ Category %
China	34.61	29.98
Taiwan	17.93	15.22
Brazil	11.87	6.04
South Korea	10.12	10.84
India	6.52	13.15
Hong Kong	4.83	2.10
United States	2.96	0.86
United Kingdom	2.55	0.54
Turkey	1.33	0.40
Thailand	1.32	1.98

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Investment as of 28 Feb 2023 | Category: Global Emerging Markets Equity as of 31 Mar 2023 | Country data is based on the rescaled long position of the equity holdings | Source: Holdings-based calculations.

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TOP TEN HOLDINGS

Top 10 Holdings as at March 31, 2023

Rank	Change	Name	%	Sector Ranking*
1	▶	TAIWAN SEMICONDUCTOR MANUFACTURING CO. LTD.	4.73	n/a
2	▶	PETRO RIO SA	3.67	n/a
3	▲	PARK SYSTEMS CORP	3.62	n/a
4	▼	SUNRESIN NEW MATERIALS CO LTD	3.33	n/a
5	▲	HONG KONG EXCHANGES AND CLEARING LIMITED	3.22	n/a
6	■	UNIVERSAL VISION BIOTECHNOLOGY CO	3.18	n/a
7	▲	SHENZHEN KEDALI INDUSTRY CO LTD	3.06	n/a
8	▼	WUXI APPTec CO LTD	3.05	n/a
9	▼	ASPEED TECHNOLOGY INC	2.90	n/a
10	▶	COPA HOLDINGS SA	2.87	n/a
Total			33.63	

* This is the holding ranking within the fund sector composite portfolio (calculated from all available concurrent full portfolios of funds within the sector).

[Click here for full portfolio holdings as at 31/03/2023](#)

▼ Faller ▲ Riser ▶ No Change ■ New Entry



FACTOR PROFILE

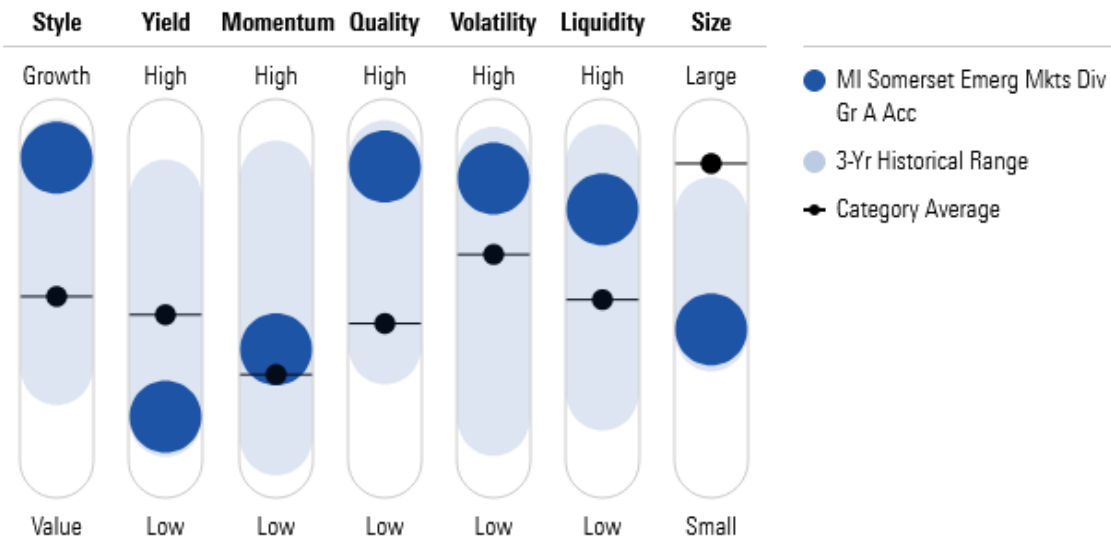
Factor Profile

1-Yr

3-Yr

5-Yr

vs. Category ▼



Investment as of 28 Feb 2023 | Category: Global Emerging Markets Equity as of 31 Jan 2023

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STYLE MEASURES (MARKET CAP)

Style Measures

Measures

Market Cap

Avg Market Cap

7.69 Bil

Category Avg Market Cap

48.62 Bil

Index Avg Market Cap

35.21 Bil

Size	Investment %	Cat. Average %	Index %
Giant	29.76	61.93	55.31
Large	31.88	20.08	33.75
Mid	23.90	11.30	10.03
Small	10.67	0.94	0.40
Micro	1.32	0.03	0.00

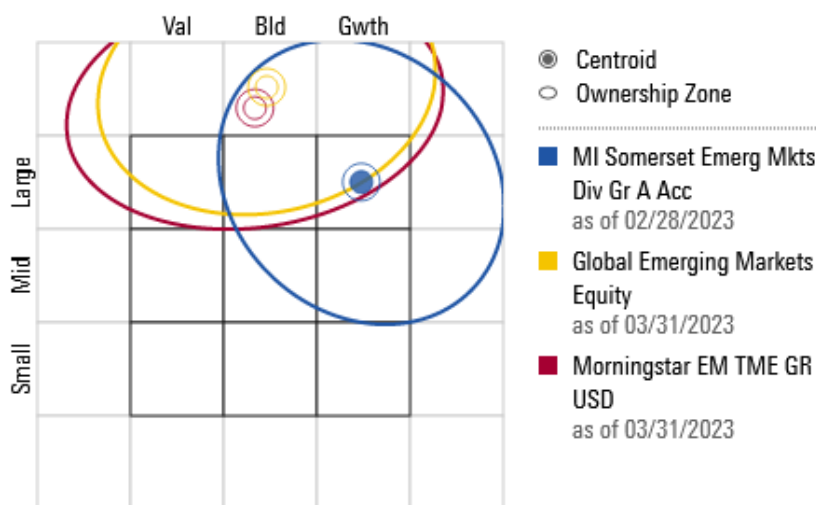
GBP | Investment as of 28 Feb 2023 | Category: Global Emerging Markets Equity as of 31 Mar 2023 | Index: Morningstar EM TME GR USD as of 31 Mar 2023 | Data is based on the long position of the equity holdings.

Stock Style

Map

Weight

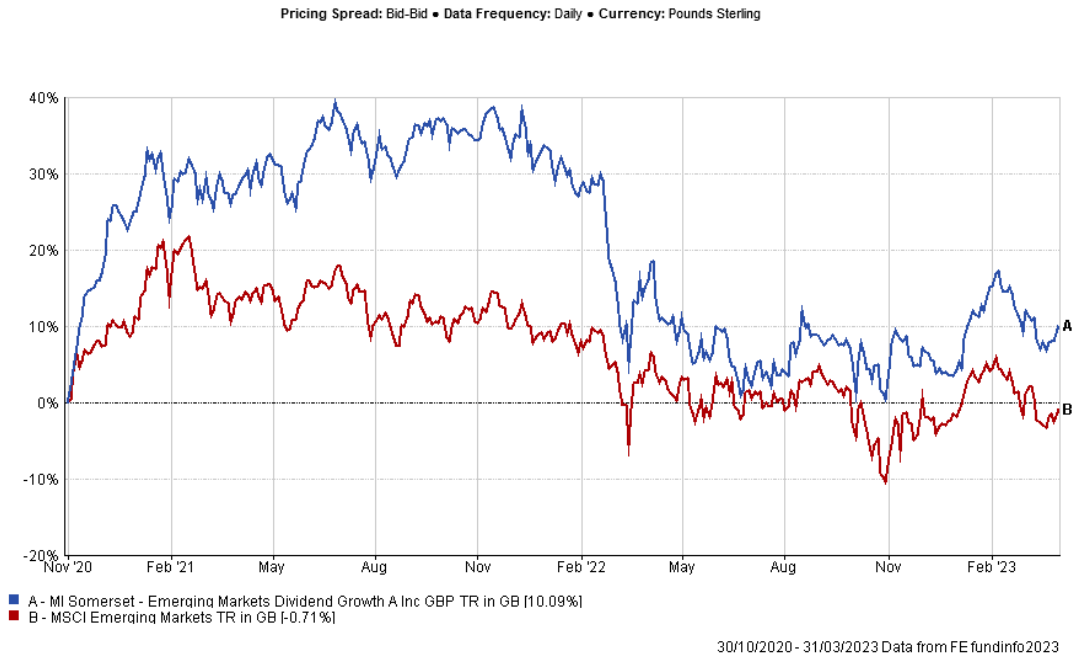
Historical



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LWM FUND ANALYSIS

This was our first meeting with the new team. Mark Williams joined Somerset from Liontrust in October 2020, and became co-manager of the strategy with Kumar Pandit in November 2020. Since the change the fund has outperformed the index.



As we can see the performance was strong at the start and then they had a poor 2022, and this has started to recover in 2023. It is worth reflecting on this before we look at the strategy. At the end of 2021 they had around about 9% exposure to Russia. They took this down to 3.5% at the start of 2022 and had started to add back to that on valuations. One of the main holdings was Tinkoff, a Russian Digital Bank.

Tinkoff was founded by Oleg Tinkov and the business was built without ties to the Russian Government. It screened well in terms of valuations and governance. Once Russia invaded Ukraine the holdings were effectively written down to zero. It is worth adding that Tinkov was forced to sell his stake in the company and has renounced his Russian Citizenship.

Additionally, towards the end of the year as political risk increased in Brazil, there was a sell-off in domestic stocks. These again were high quality companies caught up with the general fear around what was happening in the country.

The main lesson is being valuation focused worked, but the political risk is something that they have learnt from. So achieving the balance between risk and reward.

The strategy looks to achieve total returns through quality, growth, and income. They see quality as good capital allocation, earnings and cash flow growth, high and sustainable returns, and deep and durable competitive moats.

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In terms of growth, each company is expected to grow earnings over the longer-term, and earnings growth should lead to dividend growth and capital appreciation.

All companies either pay dividends or are expected to in their investment horizon. Dividends are expected to rise in line with earnings over the longer term. It is important to note that the dividend is relatively low although it does look to provide a dividend above that of the index.

All of this reflects the value and growth measures:

Style Measures

Measures

Market Cap

Value & Growth Measures	Investment	Cat. Average	Index
Price/Earnings	13.84	12.34	11.98
Price/Book	2.40	1.63	1.43
Price/Sales	2.47	1.28	1.10
Price/Cash Flow	8.00	6.57	5.43
Dividend Yield %	2.00	3.11	3.68
Long-Term Earnings %	16.97	13.01	10.74
Historical Earnings %	21.64	13.67	20.58
Sales Growth %	23.24	11.16	11.96
Cash-Flow Growth %	42.56	5.06	7.15
Book-Value Growth %	20.26	9.12	8.01

Investment as of 28 Feb 2023 | Category: Global Emerging Markets Equity as of 31 Mar 2023 | Index: Morningstar EM TME GR USD as of 31 Mar 2023 | Data is based on the long position of the equity holdings.

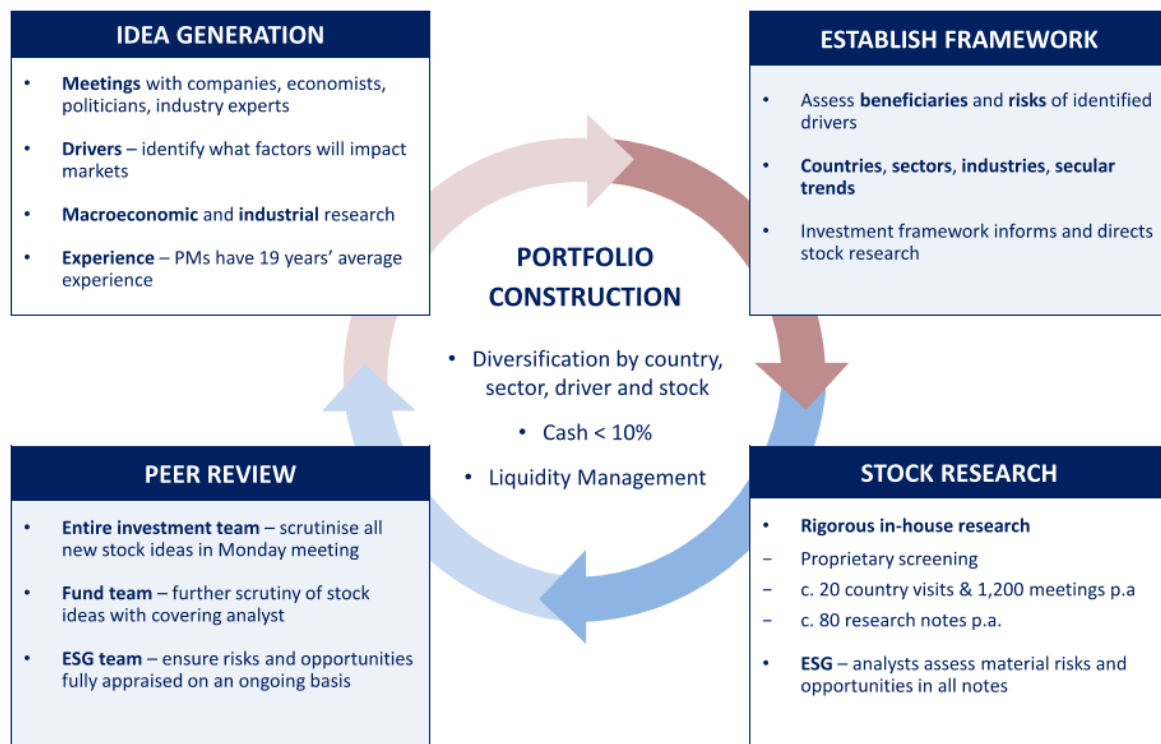
Fundamentally this is a bottom-up driven strategy. However, they cannot ignore macro factors. As we discussed this is perhaps a learning lesson with what has happened with Russia and more recently Brazil.

We talked about the number of holdings and they explained that this enables them to be selective. They don't have to take undue risk because the universe of available stocks is vast. We discussed Samsung. They do not hold this but they did add that a lot has changed. There is more board independence and they have started to pay a dividend. Another example is Alibaba and again they do not hold this, citing both governance and political risks.

In China, if you assume 20% of companies are well run and without political risk, that still gives you a vast universe of stocks to look at. They do hold TSMC and this is their top-holding. The holding is less than the index because they feel it is a great company and it fits all their quality scores. They don't need to be overweight TSMC because there are other great companies they can select from.

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Process: Top-Down & Bottom-Up Fundamental Research



This is not a sustainable strategy but this chart shows some of the key quality screens.

These to them are sensible measures. If these are right, then companies are naturally going to be more profitable and then the valuations should rise.

They do actively engage with companies around governance, capital allocation and they do proxy voting.

Downside protection is important to the team. They feel this must be a concentrated portfolio due to the size of the team. They really get to know the businesses they invest in. Knowing the companies is not just about the management but also about looking at supply chains and competitors and travelling to factories or shops. Essentially, if you know the business well it lessens the risks.

The other aspect is valuation. Although the price to earnings is slightly higher than the index, they see this as really important. They feel they can be patient in buying good companies. Emerging markets is such that you often get a second chance, so they don't have to overpay

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for something. They are happy to wait 2 to 5 years because ultimately, if you overpay, it lessens the protection you are looking to build in.

And the other aspect of downside protection is the quality of the businesses, as can be shown within the value and growth measures.

Ultimately it all comes down to if they like a business, how will it fit into the fund? Although they are not macro driven, India has become expensive and so they have reduced some of the exposure. They are therefore active to take profits and seek out opportunities when they arise.

BUYS	
Stock	Rationale
Anta Sports <i>China</i>	<ul style="list-style-type: none"> Anta is well placed to benefit from an increase in discretionary spending, being China's largest sportswear seller and operating a wide range of brands. Share price weakness during 2022 gave what we saw as an attractive entry point with 26x PE compared to a ten-year average of nearer 40x and ROE approaching 25%.
COPH <i>China</i>	<ul style="list-style-type: none"> COPH is amongst the ten largest property management firms in China, with a strong competitive advantage owing to its attractive characteristics. Financial risk is low given its under-levered balance sheet and robust cash generation.
Milkyway Chemical <i>China</i>	<ul style="list-style-type: none"> Largest private chemical logistics company in China that will benefit from an increasing usage of outsourcing logistics. Milkyway has licensing barriers in storage which are hard to challenge with high switching costs, which creates a tight supply/demand dynamic that provides pricing power. The competitive dynamic also applies to potential consolidation, where Milkyway is the key (and often only) buyer in this industry and can execute in a value accretive way.

SELLS	
Stock	Rationale
HCL Technologies <i>India</i>	<ul style="list-style-type: none"> We expect a slowing of traditional IT services demand and while HCL Tech does offer digital IT services, we are unconvinced that it's offering is as strong compared to its competitors. Valuation is elevated and we have returned 2.8 times our initial investment.
Hapvida <i>Brazil</i>	<ul style="list-style-type: none"> The practicalities of integrating Hapvida with Inter Medica have been unexpectedly problematic. Combining two different cultures, executing efficiency measures, and attaining synergies is difficult enough but this was compounded by the weak macro backdrop in Brazil. When factoring in these adjustments, the valuation was not offering a good margin of safety, even after the fall in the stock price.

The full list of holdings is detailed below. We mentioned they don't hold Samsung preferring companies such as SK Hynix who are the second largest memory chipmaker after Samsung, and third largest semiconductor company.

Another company is Angel One who are a digital securities company. They are one of the leading stock broking and wealth management companies in India.

It is important to stress this is not an exclusionary strategy and therefore can have exposure to fossil fuels.

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	Country	% NAV	Stock	Sector	% NAV
ASIA	China & HK	38.2	Anta Sports	Cons Disc	2.5
			Beijing Office	IT	2.6
			BYD	Cons Disc	2.7
			China Meidong	Cons Disc	2.4
			COPH	Real Estate	1.9
			CSPC Pharmaceutical	Health Care	2.3
			Hong Kong Exchanges	Financials	3.2
			Kweichow Moutai	Cons Stap	2.5
			Meituan	Cons Disc	0.1
			Milkyway Chemical	Industrials	1.7
			Shenzhen Kedali	Cons Disc	3.1
			Sunresin New Materials	Materials	3.3
			Techtronic Industries	Industrials	1.9
			Tencent Holdings	Comms	2.1
			WuXi AppTec	Health Care	3.1
			Zhejiang Sanhua	Industrials	2.7
			India	6.6	Angel One
	Housing Development	Financials			1.7
	IndiaMart InterMesh	Industrials			0.9
	Indian Energy Exchange	Financials			1.5
	Korea	9.9	KB Financials	Financials	1.6
			LEENO	IT	2.2
			Park Systems	IT	3.6
	Kazakhstan	2.6	SK Hynix	IT	2.5
			Kaspi.Kz	Financials	2.6
	Taiwan	18.0	ASPEED Technology	IT	2.9
			Chailease	Financials	2.7
			eMemory Technology	IT	2.7
			Taiwan Semiconductor	IT	4.7
			Unimicron Technology	IT	1.8
	Thailand	0.9	Universal Vision	Health Care	3.2
			Kasikorn Bank	Financials	0.9
	Total: 76.2				

	Country	% NAV	Stock	Sector	% NAV
LATAM	Brazil	9.6	Locaweb	IT	2.0
			Lojas Renner	Cons Disc	2.1
			Petro Rio	Energy	3.7
			Sendas Distribuidora	Cons Stap	1.8
Panama	2.9	Copa Holdings	Industrials	2.9	
Total: 12.5					

	Country	% NAV	Stock	Sector	% NAV
EMEA	Georgia	2.3	Bank of Georgia	Financials	2.3
	UAE	2.1	ADNOC Drilling	Energy	2.1
	Nigeria	1.5	Guaranty Trust	Financials	1.5
	Turkey	1.5	Logo Yazilim	IT	1.5
	Russia	0.0	HeadHunter Group	Industrials	0.0
Total: 7.5					

Cash	3.7
# of stocks	42
# of countries	13

Source: SCM. Rounded to 1 decimal place.

In summary, this is a really interesting strategy. Clearly the team have worked hard to develop this strategy since taking it on, and to outperform the index even with the drawdown in 2022 is impressive. No manager gets it right all the time but when we consider the holdings in Russia, they felt these were good quality and the valuations at a fair price. They have learnt from this and we can see that outperformance coming through in 2023.

Where it sits is difficult to judge. Perhaps it is an anchor to both growth and income portfolios. We would have to do more work on this aspect but otherwise most of what we discussed matches with the data we have pulled together.

The source of information in this note has been provided by Somerset and is correct as of April 2023. 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.

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