

# MI Somerset Emerging Markets Dividend Growth Fund

## – September 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

30<sup>th</sup> March 2010

##### FUND FACTSHEET

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

##### MANAGEMENT

###### Manager Name

###### Start Date

Mark Williams

1<sup>st</sup> November 2020

Kumar Pandit

1<sup>st</sup> November 2020

##### RATIO DATA (3-years)

Alpha	Beta	Max Drawdown	Max Gain	Max Loss	Negative Periods	Positive Periods	Tracking Error
2.28	1.09	-28.19	26.18	-14.59	79	77	8.95

##### OTHER DATA

###### Benchmark

MSCI Emerging Markets

###### Fund Size

£79.7 million

###### Fees

1.24% (A Share Class)

##### BULL POINTS (PRO)

- Focus on quality.
- Total return mindset with downside protection an important aspect of the proposition.
- Boutique specialist fund manager.
- Current yield 1.50% payable half yearly.
- Patient investors will only invest when the valuation is right.

##### BEAR POINTS (CONS)

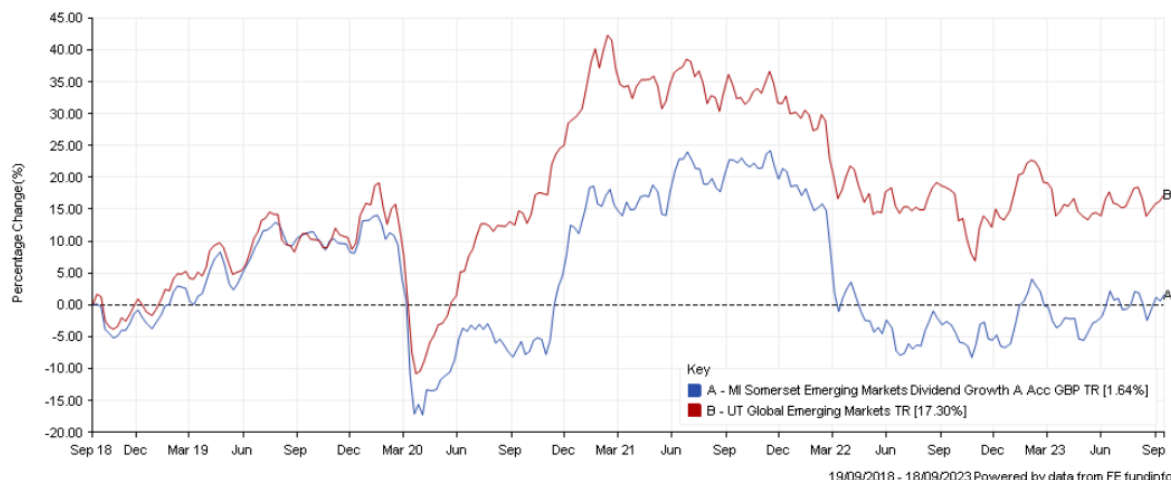
- Short track record with new team.
- Poor performance in 2022.
- Focus on income and growth rather than income.

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### FUND PERFORMANCE

Performance Chart in (GBX)



Cumulative Performance (GBX)

	3 Months	6 Months	1 Year	3 Years	5 Years
Fund	-1.37%	5.14%	5.39%	6.98%	2.01%
Sector	0.01%	2.59%	-0.59%	1.56%	17.30%
Relative to Sector	-1.39%	2.49%	6.02%	5.34%	-13.03%
Rank in Sector	44 / 71	9 / 69	9 / 68	19 / 55	46 / 48
Fund Quartile	3	1	1	2	4

Performance by Calendar Year in (GBX)

	YTD	2022	2021	2020	2019
Fund	8.68%	-22.02%	6.61%	0.01%	17.23%
Sector	2.22%	-12.45%	0.17%	13.96%	16.81%
Relative to Sector	6.32%	-10.93%	6.42%	-12.25%	0.36%
Rank in Sector	5 / 69	60 / 63	11 / 57	49 / 54	22 / 48
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	9.53%	-25.61%	28.39%	-12.01%	4.69%
Sector	0.40%	-17.10%	27.64%	-2.40%	7.41%
Relative to Sector	9.10%	-10.26%	0.58%	-9.84%	-2.54%
Rank in Sector	3 / 66	55 / 60	31 / 54	44 / 51	37 / 47
Fund Quartile	1	4	3	4	4

Fund Price Movement (GBX)

12 Month High	171.93 (Pence)	12 Month Low	147.55 (Pence)
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Annualised Ratios Over 36 Months

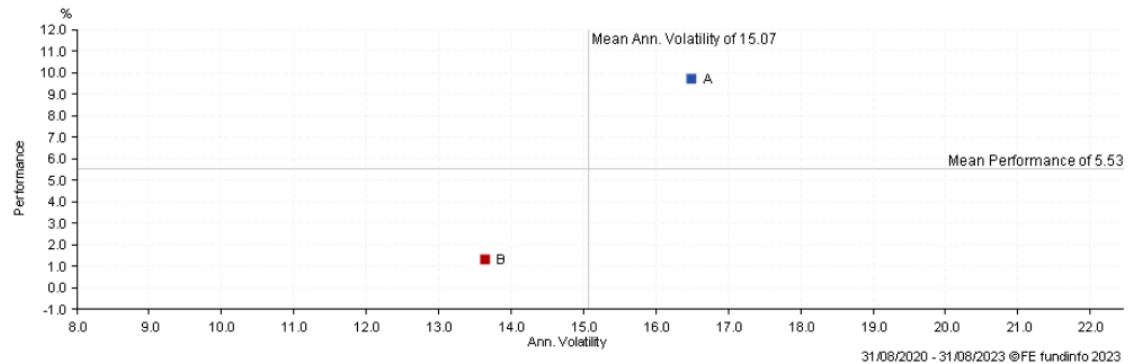
	Alpha	Beta	Sharpe	r <sup>2</sup>	Volatility
Fund	2.83	1.09	0.00	0.73	16.49
Fund Quartile	2	2	2	4	4

*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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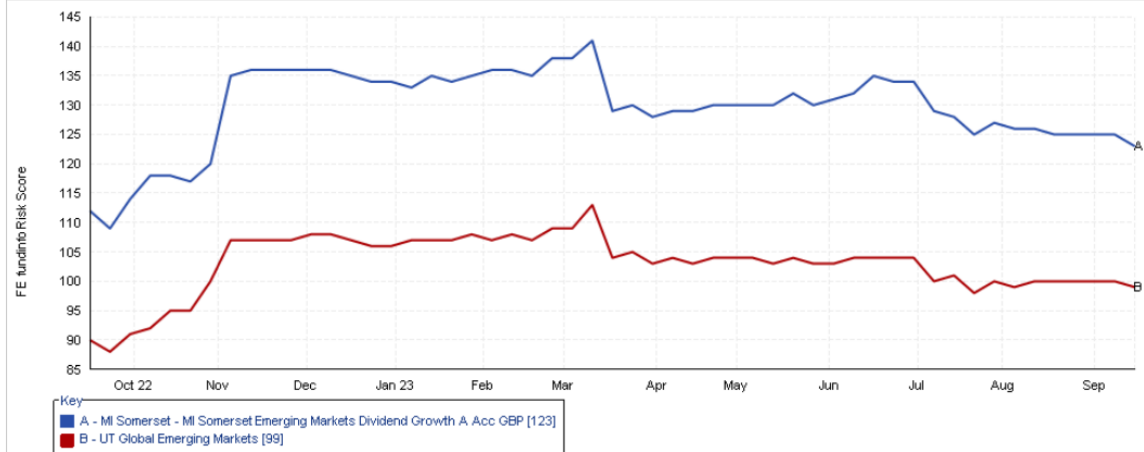
## VOLATILITY / RISK SCORE

Pricing Spread: Bid-Bid • Currency: Pounds Sterling



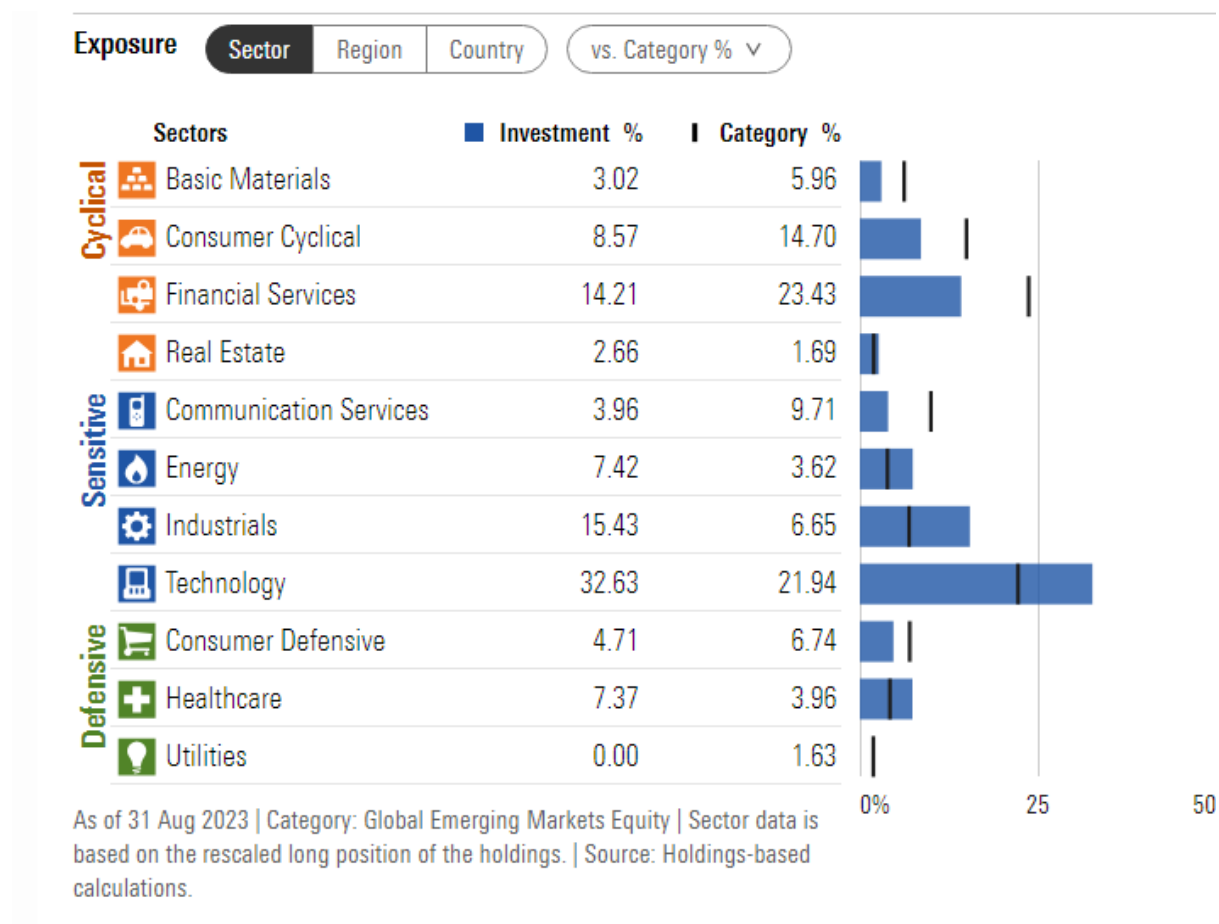
Key	Name	Performance	Annualised Volatility
■ A	MI Somerset - Emerging Markets Dividend Growth A Acc GBP in GB	9.72	16.49
■ B	MSCI Emerging Markets TR in GB	1.33	13.64

FE fundinfo Risk Score Chart Over 1 Year



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## SECTOR WEIGHTINGS



## REGION WEIGHTINGS

Country	Investment %	Category %
China	31.64	27.71
Taiwan	18.27	14.76
Brazil	12.33	7.05
South Korea	12.12	11.17
India	8.04	14.60
Hong Kong	4.66	1.80
United States	2.88	1.01
United Kingdom	2.72	0.54
Argentina	0.00	0.00
Australia	0.00	0.00

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As of 31 Aug 2023 | Category: Global Emerging Markets Equity | Country data is based on the rescaled long position of the holdings | Source: Holdings-based calculations.

# MI Somerset Emerging Markets Dividend Growth Fund

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### TOP TEN HOLDINGS

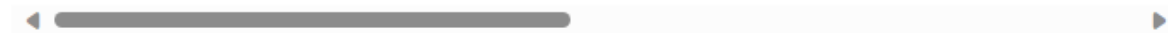
#### Holdings

Equity ▾

Equity Holdings	Bond Holdings	Other Holdings	% Assets in Top 10 Holdings
38	0	1	36

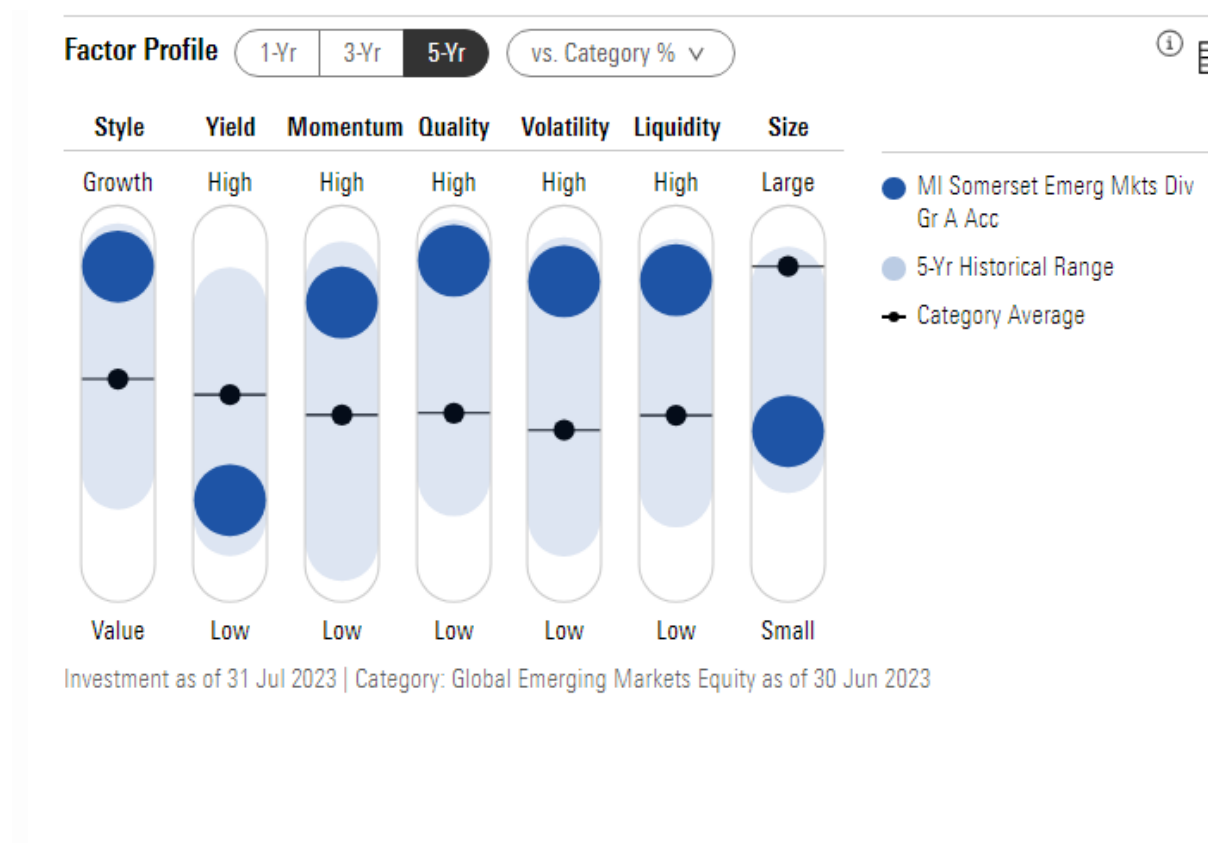
Reported Turnover %	Active Share <sup>①</sup>	Women Directors %	Women Executives %
-130.21 As of 09/30/10	88.88	16	9

Holdings	% Portfolio Weight	First Bought	Market Value GBP as of 31 Aug 2023
PRIIO SA	4.87	30 Apr 2022	3,492,670
Taiwan Semiconductor Manufacturing Co Ltd	4.65	31 Aug 2016	3,332,603
Park Systems Corp	4.06	31 Jul 2021	2,908,884
SK Hynix Inc	3.83	31 Jan 2014	2,740,775
BLS International Services Ltd	3.81	30 Apr 2023	2,733,065
Kaspi.kz JSC GDR	3.33	31 Jul 2022	2,385,428
Locaweb Servicos de Internet SA Ordinary Shares	3.03	31 Jan 2021	2,174,517
Sunresin New Materials Co Ltd Xi'an Class A	3.00	31 Dec 2021	2,148,809
BYD Co Ltd Class H	2.95	31 Dec 2022	2,114,639
Zhejiang Sanhua Intelligent Controls Co Ltd Class A	2.95	31 Oct 2021	2,111,614



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## FACTOR PROFILE



## STYLE MEASURES (MARKET CAP)

### Style Measures

Measures

**Market Cap**

#### Market Cap

**Avg Market Cap**  
7.93 Bil

**Category Avg Market Cap**  
48.54 Bil

**Index Avg Market Cap**  
34.93 Bil

Size	Investment %	Cat. Average %	Index %
Giant	31.90	61.48	55.72
Large	31.85	21.29	33.27
Mid	25.44	9.76	9.63
Small	8.59	0.83	0.30
Micro	0.00	0.01	0.00

GBP | As of 31 Aug 2023 | Category: Global Emerging Markets Equity | Index: MSCI EM NR USD | Data is based on the long position of the equity holdings.

# MI Somerset Emerging Markets Dividend Growth Fund

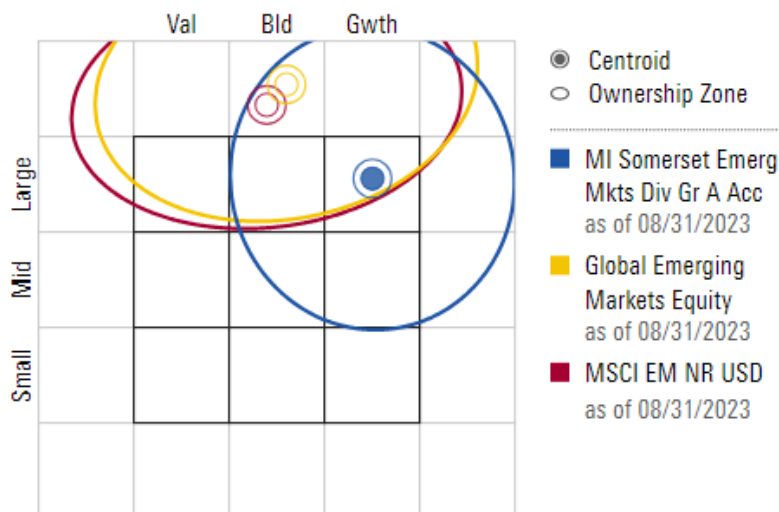
## – September 2023

### Stock Style

Map

Weight

Historical



### Measures

Value & Growth Measures	Investment	Cat. Average	Index
Price/Earnings	16.27	13.29	13.10
Price/Book	2.70	1.72	1.44
Price/Sales	2.06	1.49	1.17
Price/Cash Flow	10.05	7.24	6.84
Dividend Yield %	2.21	3.24	3.50
Long-Term Earnings %	16.12	11.38	10.43
Historical Earnings %	26.62	11.52	14.38
Sales Growth %	22.82	11.50	13.40
Cash-Flow Growth %	38.81	6.81	12.98
Book-Value Growth %	18.29	9.29	9.11

As of 31 Aug 2023 | Category: Global Emerging Markets Equity | Index: MSCI EM NR USD | Data is based on the long position of the equity holdings.

# MI Somerset Emerging Markets Dividend Growth Fund – September 2023

## LWM FUND ANALYSIS

The team have been running this strategy since November 2020, and have outperformed the index comfortably during this period.

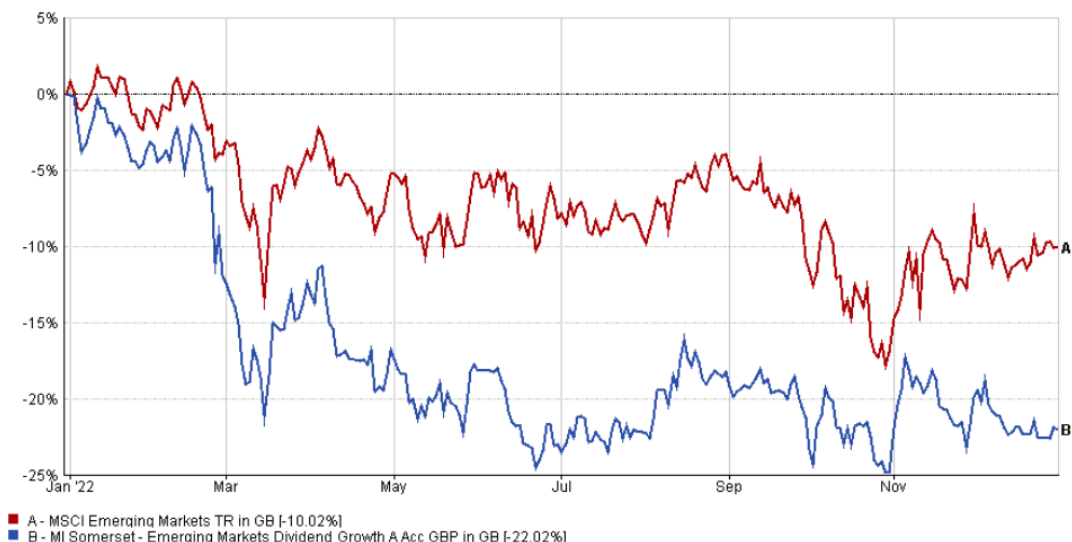
Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



30/10/2020 - 31/08/2023 Data from FE fundinfo2023

This reflects a challenging 2022 as shown below.

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



31/12/2021 - 30/12/2022 Data from FE fundinfo2023

Before we dive into the strategy it is worth highlighting that although this is a dividend growth strategy, dividends are not the primary aim. This then begs the question as to where it sits. To get to this point it is worth understanding that dividends are part of the quality screen that they run. Companies that pay dividends tend to be more aligned with minority shareholders.



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Having said that, they do look for companies that pay sustainable dividends. So they expect dividends to grow.

We feel therefore that this strategy can have a place both in an income and growth portfolio. The income acts as a buffer and forms part of the overall return, so this could sit well within a growth portfolio. Equally, blended with a higher paying dividend strategy this might act as a counterbalance.

There are three elements to returns – quality and growth at attractive valuations.

### Quality

- We look for companies with:
  - Good capital allocation;
  - Deep and durable competitive moats;
  - High and sustainable returns;
  - Earnings growth; resulting in
  - Free cashflow growth, leading to dividends (minority shareholder alignment)

### Growth

- Seek companies growing earnings faster than the region for many years.
- Earnings growth should lead to dividend growth and capital appreciation.

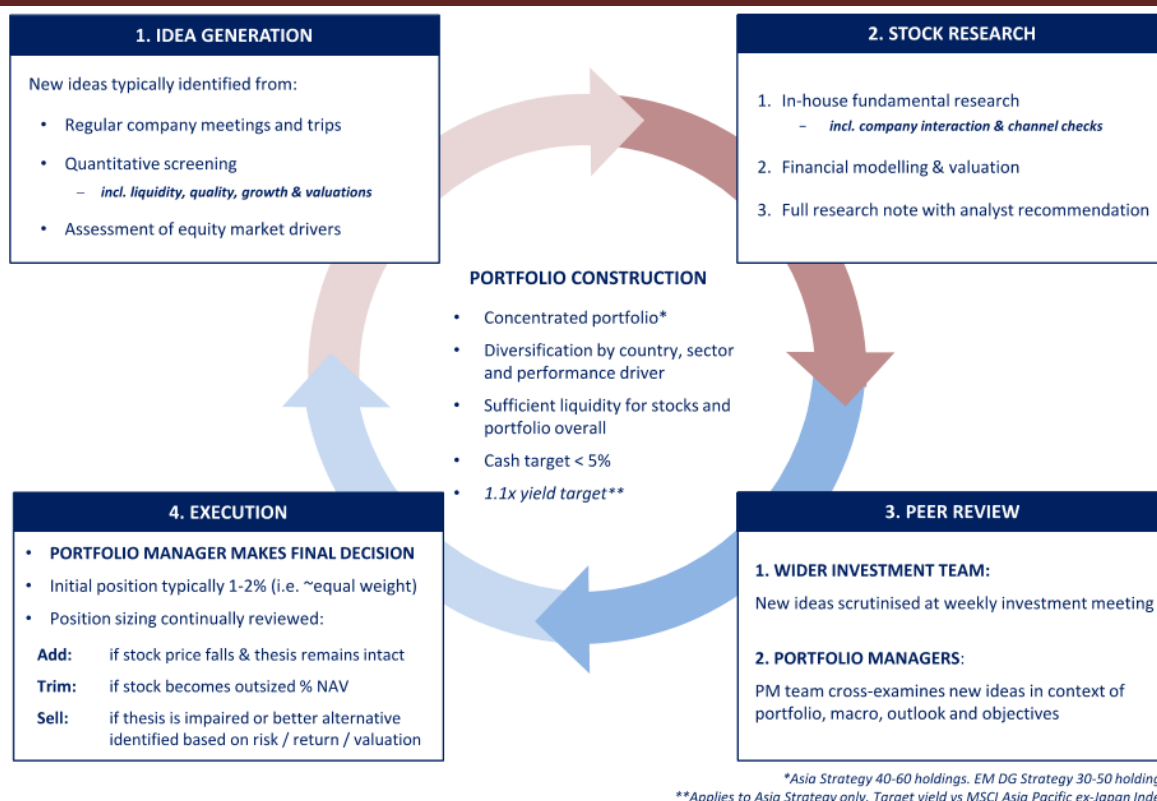
### Value

- We are disciplined on valuation. We don't want to overpay for growth.

The investment process is detailed below:

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We discussed China. Every company within the fund is there on their own merit. They see good opportunities in China, and yet valuations get cheaper. Much of this is driven by unrealistic expectations. Much of the world responded in the same way as China when they came out of lockdown, it is just that China came out much later. There has not been the same level of spending simply because China didn't provide the same level of handouts.

Around the edges the data is not as bad as the market is saying. Savings have grown by 50% because consumers could not spend. They have been cautious in spending but that should be expected coming out of COVID. GDP is expected to be around 4.50% to 5.00%. This has come down from the mega highs, but this was always expected. Finally, the economic environment is different to other economies with lower interest rates and inflation.

So, they have taken advantage of this, and the table below shows the current holdings they have.

China & HK	36.0	Anta Sports	Cons Disc	2.6
		BYD	Cons Disc	3.0
		China Meidong	Cons Disc	0.8
		COPH	Real Estate	2.6
		CSPC Pharmaceutical	Health Care	1.7
		Hong Kong Exchanges	Financials	2.8
		Kweichow Moutai	Cons Stap	2.5
		Milkyway Chemical	Industrials	1.8
		Shenzhen Kedali	Cons Disc	2.6
		Sieyuan Electric	Industrials	2.1
		Sunresin New Materials	Materials	3.0
		Techtronic Industries	Industrials	1.8
		Tencent Holdings	Comms	2.9
		WuXi AppTec	Health Care	2.9
		Zhejiang Sanhua	Industrials	2.9

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They have slightly reduced the weighting to India, which reflects a stock specific issue, and have slightly increased their weighting to Brazil. The market got cheaper after the election and has continued to get cheaper, providing some interesting opportunities. It is not just about cheap valuations, but they can also see an improving monetary policy cycle.

<b>Brazil</b>	12.2	Locaweb	IT	3.0
		Lojas Renner	Cons Disc	2.2
		PRIQ	Energy	4.9
		Sendas Distribuidora	Cons Stap	2.1

Taiwan is another area they have added to. This reflects a laser eye business surgery business. With AI and semi-conductors Taiwan offers great opportunities for investors.

<b>Taiwan</b>	18.1	ASPEED Technology	IT	2.9
		Chialease	Financials	2.4
		eMemory Technology	IT	2.6
		Taiwan Semiconductor	IT	4.7
		Unimicron Technology	IT	2.9
		Universal Vision	Health Care	2.7

Other investment areas include UAE, Georgia, Panama, Nigeria, Korea, and Kazakhstan.

<b>Georgia</b>	2.7	Bank of Georgia	Financials	2.7
<b>UAE</b>	2.5	ADNOC Drilling	Energy	2.5
<b>Nigeria</b>	1.5	Guaranty Trust	Financials	1.5
<b>Panama</b>	2.9	Copa Holdings	Industrials	2.9
<b>Korea</b>	12.0	KB Financials	Financials	1.6
		LEENO	IT	2.5
		Park Systems	IT	4.1
		SK Hynix	IT	3.8
<b>Kazakhstan</b>	3.3	Kaspi.Kz	Financials	3.3

We discussed investing in the Middle East, especially Saudi. They explained there will always be concerns, whether it is rain forests in Brazil or Human Rights in China and the Middle East. For them it comes down to the companies. This is why they do so much work around the businesses they invest in to understand the industry they are positioned in, as well as the company. If the risk is too high, then they won't invest.

The focus on quality is where the managers believe, in the long run, they can drive returns for investors. Although the price to earnings is slightly higher than the index, measures such as cash flow, long term earnings, historical earnings, sales growth, and book value growth are significantly higher than the index.

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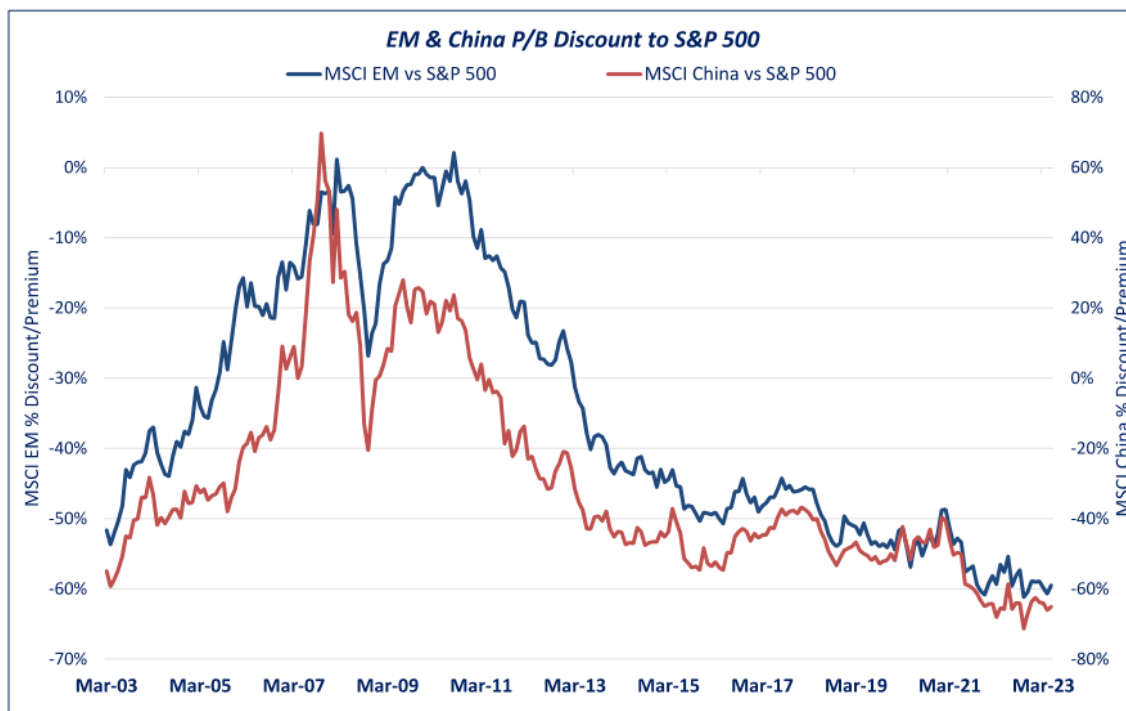
### Measures

Value & Growth Measures	Investment	Cat. Average	Index
Price/Earnings	16.27	13.29	13.1
Price/Book	2.70	1.72	1.4
Price/Sales	2.06	1.49	1.1
Price/Cash Flow	10.05	7.24	6.8
Dividend Yield %	2.21	3.24	3.5
Long-Term Earnings %	16.12	11.38	10.4
Historical Earnings %	26.62	11.52	14.3
Sales Growth %	22.82	11.50	13.4
Cash-Flow Growth %	38.81	6.81	12.9
Book-Value Growth %	18.29	9.29	9.1

As of 31 Aug 2023 | Category: Global Emerging Markets Equity | Index: MSCI EM NR USD | Data is based on the long position of the equity holdings.

They see opportunities within the holdings they have but also in terms of valuations for the region, as shown in the chart below. Both Emerging Markets (EM) and China are at a significant discount to the US.

### EM Valuations at 20-Year Low Versus The US

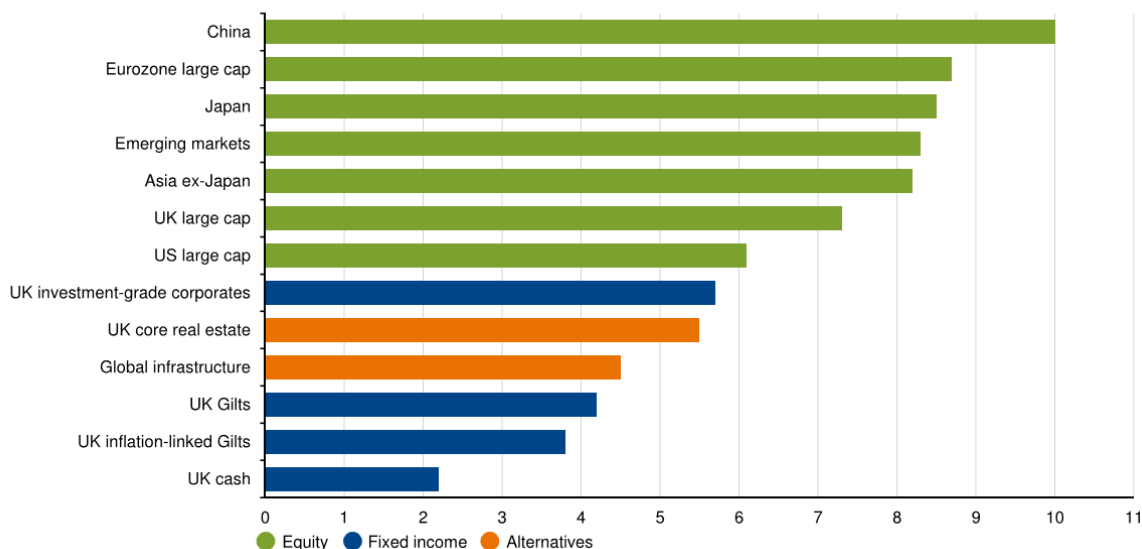


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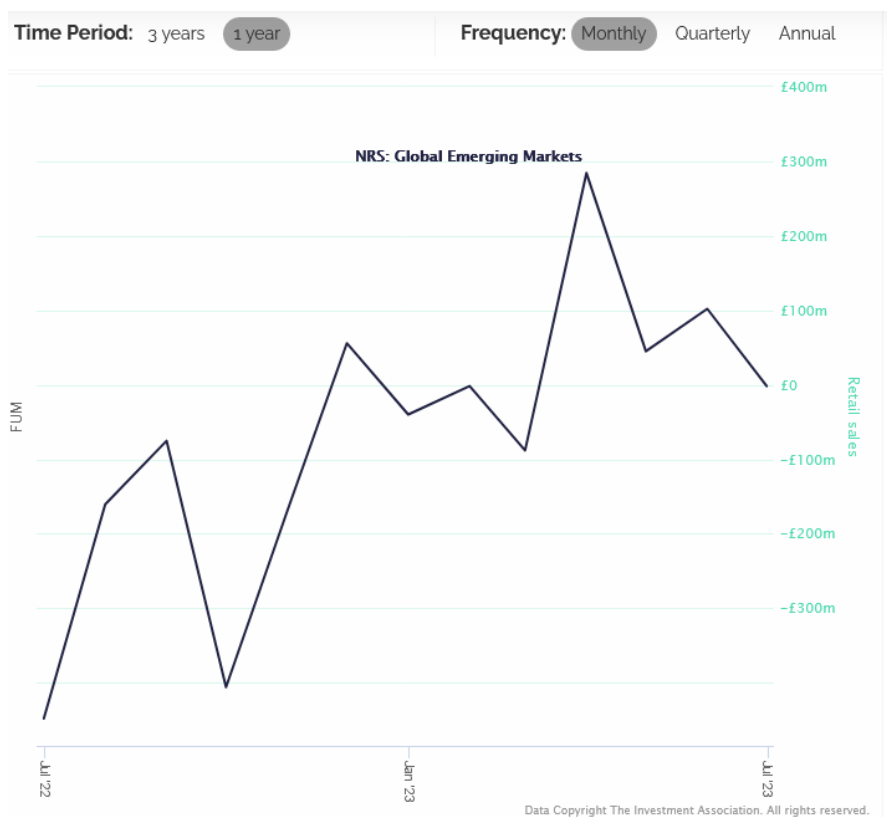
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The chart below shows long-term market expectations for returns. This supports the argument that long term returns are likely to come from regions such as China and Emerging Markets (EM) compared to the US.

**2023 Long-Term Capital Market Assumptions** expected returns in coming 10-15 years  
%, annualised return in GBP



The chart below shows the movement of flows into Emerging Markets (EM) over the past 12-months.



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In summary, we see this as a high quality Emerging Market strategy, where the team coming in have turned around the performance. Whilst quality as a style has been out of favour recently, longer term it tends to perform best. They do a lot of work to understand the companies they invest in as well as the sectors to avoid as much risk as they can. It is not just about the companies, but the region is trading at a significant discount to its average. A slight change in sentiment could drive a positive effect on the performance. We can see that where 12-months ago there were outflows this has stabilised which might be a sign that things are changing.

***The source of information in this note has been provided by Somerset and is correct as of September 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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