

SOMERSET CAPITAL MANAGEMENT LLP

MI Somerset Global Emerging Markets Fund OEIC

30 November 2019

Investment Adviser's Monthly Report

Assets Under Management

Somerset Capital Management LLP:	\$6,659 m
Global Emerging Markets Strategy:	\$3,512 m
Global Emerging Markets Fund OEIC:	£293.5 m

Acc Performance in GBP (net)*

	<u>Fund</u>	<u>MSCI EM</u>	<u>+/-</u>
This Month	0.80%	-0.10%	+0.90%
Last 6 Months	3.40%	3.17%	+0.23%
YTD	12.56%	8.52%	+4.04%
1Yr Annualised	11.63%	5.82%	+5.81%
3Yr Annualised	7.92%	7.75%	+0.17%
5Yr Annualised	6.86%	7.14%	-0.28%
10Yr Annualised	6.92%	5.82%	+1.10%
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%

Portfolio Data

	<u>Fund</u>	<u>MSCI EM</u>
Dividend Yield	2.0%	2.8%
P/E (hist)	25.2x	14.0x
Wgt Ave Mkt Cap (\$mn)	67,603	91,262
Number of Stocks	39	
Price (Accumulation)	276.5	
Price (Income)	241.3	

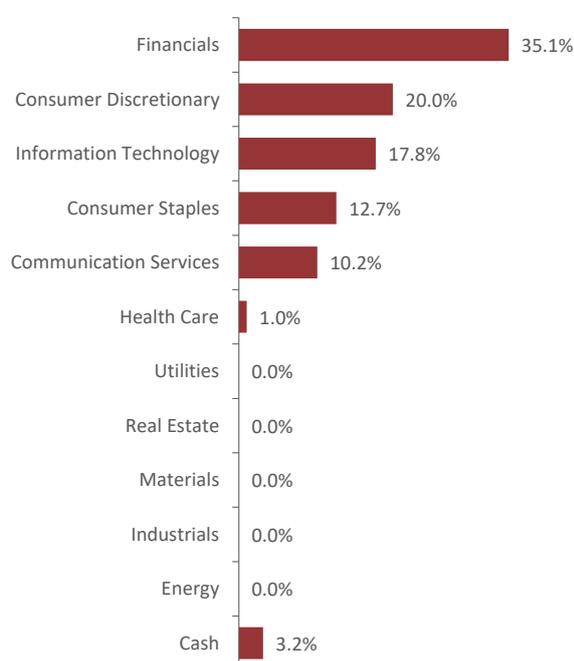
Top Ten Holdings

	<u>Country</u>	<u>% NAV</u>
ICICI Bank LTD	India	6.2%
Tencent Holdings Ltd	China	5.0%
Taiwan Semiconductor Manufacturing	Taiwan	4.7%
Samsung Electronics Co.	Korea	4.5%
Midea Group Co-A	China	4.3%
China Mengniu Dairy Co Ltd	China	4.1%
AIA Group LTD	China	4.0%
Itau Uniban-PREF	Brazil	3.6%
LIC Housing Finance	India	3.3%
Sands China Ltd	China	3.3%

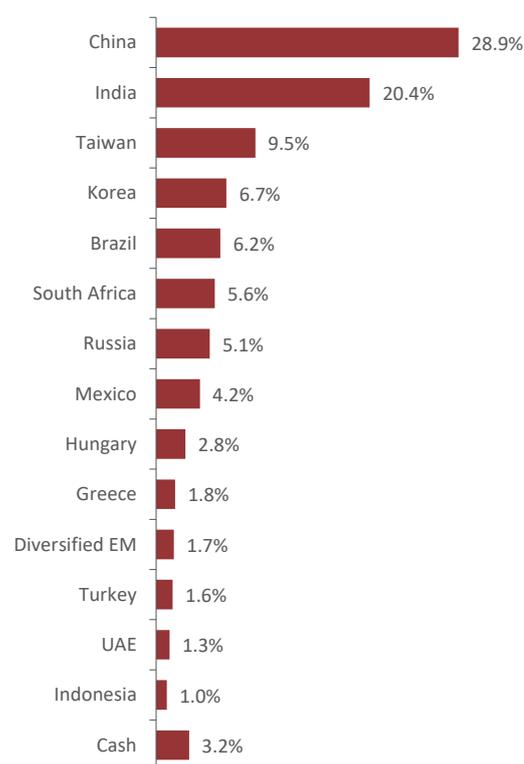
Fund Principles

Lead Manager, Edward Robertson, runs a c. 40-45 stock conviction-driven portfolio, following a bottom up, research-intensive process where long term quality and value are paramount. He is backed up by a team of fourteen managers and analysts, based in London and Singapore.

Sector Breakdown



Fund Country Weightings



* 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.

Yandex governance update

This month Yandex announced a new governance structure designed to protect what the government sees as Russia's strategic interest in the company. A new structure was expected in response to pressure from the government but its benign nature, fully preserving the company's operational independence and not materially infringing the rights of minority investors, was a pleasant surprise.

The question arises why the government chose to accept such a light-touch compromise in this instance, given that historically disputes between the state and private entities in Russia have tended to end poorly for the latter (with asset expropriations, crippling tax demands or similar). The likely reason for the less aggressive approach in Yandex's case was reluctance to damage the country's pre-eminent innovation-driven business. Unlike, for example, natural resource companies, whose key assets are tangible and can be seized without much affecting their value, Yandex is ultimately dependent on its ability to recruit and retain skilled personnel. Any solution perceived as nationalising the company or attacking its independence would have risked undermining this. Unfortunately, it is therefore probably not wise to interpret this favourable development as signalling a new, more enlightened attitude on the part of the Russian state towards private commercial interests or international investors. Investing in Russia, especially where the government is involved, requires as much caution as ever.

The reason for the change is that Arkady Volozh, the founder, despite having an economic interest of only 10%, has a 49% voting interest through B-class super-voting shares and controls the company. However, under the company's articles, should ownership of Arkady's shares pass to anyone else (for example, if he were to die), his shares would convert into ordinary A-class shares. In those circumstances the majority of votes would then be held by international investors rather than a Russian party. Given Yandex's strategic importance as Russia's leading technology company, with access to large amounts of data on Russian citizens, this possibility was not acceptable to the Russian government without safeguards.

The solution involves the formation of a new 11-member Public Interest Foundation, comprising five appointees from leading Russian universities, three from other non-governmental institutions and three from Yandex management. This foundation will hold a priority share in the company which will a) allow it to block the acquisition of stakes greater than 10% in Yandex and b) give it the right to appoint two designated directors to Yandex's board. The two designated directors, together with Arkady, will form a new public interest committee of the board, which will have to approve any transfer of material intellectual property rights or data pertaining to Russian citizens outside the company. Arkady's shares will be transferred to a family trust and will retain their super-voting status; should he die, the trust will vote the shares in line with the board's recommendations and will be prevented from selling any shares for two years after his death. The company has stressed that there was extensive consultation with the interested government parties in devising the new structure and that it now regards the matter as closed. The changes require 75% approval from (A-class) minority investors with a 50% quorum via an EGM scheduled for 20th December this year. We plan to vote in favour.

Mexico visit and the situation in Chile

Last month we visited Mexico and returned with an overall positive view. 2019 has been a transitional year for Mexico as AMLO took an axe to government and state budgets creating uncertainty leading to lower spending from both the private and public sector. However, whilst there is an air of caution the positive news is that inflation has reduced to 3%, the labour market is tight, and retail sales are growing at a reasonable clip of c.3%+. In light of this Banorte, which we hold in the fund, is focusing on growing consumer loans but within its own client base through increased cross-selling. This shift in mix will help Banorte to offset the reduction in policy rate and maintain net interest margins, whilst growing the portfolio. We are in the process of evaluating new ideas in the country as well as in the rest of the region.

Investors have long associated Chile with stability, not only from an economic sense but from a political sense too, making the civil unrest last month even more surprising. Since the street protests began the IPSA is down 20% in USD terms (43% from peak to trough), the CLP has depreciated by 15%, whilst the CDS has climbed 50% and trades at a greater spread than its EM Latin American peers.

The trigger for the street scenes more frequently associated with Caracas or Buenos Aires than Santiago, was a dispute over a relatively innocuous local transport fare hike (30 pesos and 10 pesos for peak-time metro and bus fares respectively – a 4 US cent increase). There followed a series of unwise responses by the Pinera administration¹, culminating in the deployment of the armed forces to quell street protests totalling an estimated 1 million Chileans.

The temperature has thankfully cooled in recent weeks, in part due to the desperate policy promises made by the government to placate the protestors. Unlike the governments in Caracas or Buenos Aires, the Pinera administration has a much better starting point to be able to fund these promises. Of note, the 16% increase in the monthly minimum wage, a rise in minimum pensions, subsidies covering household medicine expenditure not covered by the basic healthcare plan, reversal of electricity tariff hikes, a tax increase of 5 percentage points (to 40%) for high earners and a commitment to constitutional reform. We don't currently hold any Chilean listed entities within the GEM fund, but with the market now trading at 15x 2019e earnings – around a 27% discount to the average for this decade – we are re-evaluating the opportunity set.

Edward Robertson, Lead Manager

¹ When confronted with the statistic that the cost of the monthly spend on transportation in Santiago at 14% of a minimum salary, a level higher than other Latin American countries, the Minister of Transport comments that people should wake up earlier to pay the off-peak fare, appear particularly unsympathetic.

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Contact Information and Disclaimer

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.

Fees
0.75% AMC
0.3% Dilution Levy Applicable (paid to the Fund)

Share Class Information (Institutional B Class)			Contact	
	<u>Accumulation</u>	<u>Income</u>	<u>Dealing</u>	
GBP SEDOLs	B3KL3W6	B4XX519	Telephone	0345 026 4282
GBP ISINs	GB00B3KL3W60	GB00B4XX5197	Fax	0845 299 1178
USD SEDOLs	B3Z0942	B3VTJX2	<u>Somerset Capital Management</u>	
USD ISINs	GB00B3Z09429	GB00B3VTJX23	Oliver Crawley	oliver@somersetcm.com
EUR SEDOLs	B9XQL37		Telephone	+44 (0) 20 7259 1300
EUR ISINs	GB00B9XQL371		Fax	+44 (0) 20 7259 0514

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