

SHINING A LIGHT ON THE..... MI Somerset Emerging Markets Small Cap Fund

AT A GLANCE

Investment Objective	
<p>The Fund seeks capital appreciation by investing in an actively managed portfolio composed 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 and whose market capitalisation does not exceed US\$ 2.5 billion at the time of the investment. The Fund may also invest in other investment funds in order to gain exposure to specific markets or the expertise of specific managers. The Fund generally seeks to maintain a diversified portfolio in order to reduce its dependence on specific companies or industry sectors.</p>	

Inception Date	2 November 2010
Fund Factsheet Link	https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F0000MD18&tab=3

Management	
Manager Name	Start Date
Mark Asquith	2 November 2010

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	0.00%
Large	0.00%
Medium	28.40%
Small	42.18%
Micro	29.41%

Top 10 Holdings		
Total number of holdings	41	
Assets in Top 10 Holdings	35.35%	
Name	Sector	% of Assets
Sunny Friend Environmental Technology Co	Industrials	4.62%
Qualitas Controladora SAB de CV	Financial Services	4.05%
Jse Ltd	Financial Services	4.02%
Metair Investments Ltd	Consumer Cyclical	3.55%
BK Brasil Operacao E Assessoria A Res...	Consumer Cyclical	3.39%
MY E.G.Services Bhd	Technology	3.22%
City Union Bank Ltd	Financial Services	3.20%
Sung Kwang Bend Co Ltd	Industrials	3.19%
Herfy Food Services Co	Consumer Cyclical	3.08%
EZ TEC Empreendimentos e Participacaoe...	Real Estate	3.03%

Volatility Measurements	
3-Yr Std Dev (volatility)	12.54%
3-Yr Mean Return (average)	5.61%

FUND PERFORMANCE

Performance from 1 January 2013 to 30 September 2019:

	2013	2014	2015	2016	2017	2018	2019
MI Somerset Emerging Markets Small Cap	0.24%	11.46%	-10.46%	35.34%	20.88%	-11.44%	8.62%
iShares MSCI EM ETF	-5.82%	2.62%	-11.15%	33.56%	24.43%	-9.25%	7.80%

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

	1 year	3 years	5 years	Since launch
MI Somerset Emerging Markets Small Cap	9.20%	15.39%	43.06%	54.95%
iShares MSCI EM ETF	2.91%	22.40%	43.48%	36.83%

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....

The meeting with the fund manager was to discuss the launch of the Emerging Market Discovery Fund which is a small and mid-cap strategy. Mark has managed the Small Cap Strategy since 2010, and since launch has not only outperformed the smaller cap index but also the broader EM index. Smaller cap has struggled in recent years, but he believes the small cap fund is perfectly positioned for a rebound.

The new strategy will have about a 38% overlap in holdings but will enable Mark to go up the spectrum in term of company size. It will follow the same strategy of a focused portfolio of around 40 holdings with a holding period of 3 to 5 years.

There are four fundamental risks that they focus on. Business, in this case they are looking for those businesses with a sustainable competitive advantage to support profitable growth. Financial, low leverage and a history of good capital management to grow equity over several cycles. Governance, alignment of interests between minority investors, owners and other stakeholders. Valuation, taking a longer-term view than the market.

The portfolio is made up of compounders where the valuation might be depressed for some reason. And rebounders where the business risk is elevated for some reason. The fund is focused on risk, and although the perception of risk rests with emerging markets it has been able to achieve stronger returns against both the broader emerging markets index and emerging markets smaller companies index, with not only lower volatility but less drawdown. This was demonstrated well in Q4 of 2018 where the broader market was down significantly, and this strategy was basically flat.

Where this fund might appeal is two-fold. Firstly, the exposure it has to emerging markets. Most EM funds favour Asia and have a smaller exposure to LATAM/EMEA. This fund is the reverse with about a two third exposure to LATAM/EMEA. For smaller companies Mark believes this to be an advantage where smaller companies have the ability to grow especially in countries like Brazil, Turkey, South Africa and Egypt. Not only are you getting access to good companies but also these companies at depressed valuations.

Many of these companies have low levels of debt, especially compared to Western counterparts, and some of the family businesses are great companies to own. What this all means is that as a blend with another EM fund you are unlikely to have much crossover in holdings, which makes this an interesting option to consider.

The second point is that small cap in emerging markets has been out of favour and many funds have dropped out the index. There is just a handful of companies fishing in this part of the market. This means that they are able to find hidden gems which people are basically not even looking for. This really supports the first point that as a diversified blend this might be one to consider.

It does have a lean towards financials, but it is not all financials. BK Brasil (Burger King in Brazil) with a low market penetration, running very differently from other global stores and at an early stage of growth. In terms of financials banks make up less than half of the weighting; JSE and Sanlam are focused on the next stage of consumer development. Other examples include Abdullah Al Othaim which is a supermarket chain in Saudi Arabia and BIM Birlesik which is a discount store in Turkey.

In conclusion, Mark has performed well with the small cap fund he manages demonstrating lower volatility and downside capture which you would not expect to see in this type of strategy. This supports his focus on careful stewardship of money. The new fund is effectively the same as the small cap but broadening the opportunity set. Where it has the ability to blend with other strategies is higher focus to LATAM/EMEA, and this with a different range of holdings means that those wanting exposure to Emerging Markets don't have to follow the crowd. This will provide something different. There are other smaller company and it will be worth looking at those before making any decisions.

The source of information in this note has been provided by Somerset and is correct as at October 2019. 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.