

SHINING A LIGHT ON THE..... MI Somerset Emerging Markets Discovery Fund

AT A GLANCE

Investment Objective	
The Fund seeks to outperform the MSCI Emerging Markets SMID Index (with net dividends reinvested) over a 5 year period by investing at least 80% (but usually significantly more) in an actively managed portfolio of smaller and mid cap emerging and frontier market securities. There is no guarantee that this return will be achieved and investors should note that capital is at risk.	

Inception Date	30 October 2019
Fund Factsheet Link	https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F000014ACN

Management	
Manager Name	Start Date
Mark Asquith	30 October 2019

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	4.57%
Large	29.93%
Medium	46.86%
Small	14.66%
Micro	3.98%

Top 10 Holdings		
Total number of holdings	38	
Assets in Top 10 Holdings	40.70%	
Name	Sector	% of Assets
Lyxor MSCI India ETF Acc EUR	-	7.35%
NCsoft Corp	Communication Services	4.53%
China Overseas Property Holdings Ltd	Real Estate	4.11%
Abdullah Al Othaim Markets Co	Consumer Cyclical	3.89%
B2W - Companhia Digital	Consumer Cyclical	3.74%
Bim Birlesik Magazalar AS	Consumer Defensive	3.71%
Sunny Friend Environmental Technology Co	Industrials	3.57%
Nien Made Enterprise Co Ltd	Consumer Cyclical	3.35%
Bolsa Mexicana de Valores SAB de CV C...	Financial Services	3.29%
Mahanagar Gas Ltd	Utility	3.17%

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

FUND PERFORMANCE

Performance from 30 October 2019 to 31 May 2020:

	2019	2020
MI Somerset Emerging Markets Discovery Fund	0.89%	-11.71%
iShares MSCI EM ETF	5.04%	-11.27%

Performance since launch.

	Since launch
MI Somerset Emerging Markets Discovery Fund	-10.93%
iShares MSCI EM ETF	-6.80%

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 update has been written at the time of the Coronavirus Pandemic of 2020, which has impacted the global financial markets in a way that has never been seen before.

We spoke to Mark shortly before the launch of the fund. Mark has managed the Small Cap Strategy since 2010 and since launch he has not only outperformed the smaller cap index but also the broader EM Index.

This strategy has about a 38% overlap in holdings with the Smaller Cap Strategy and looks to hold between 35 and 45 stocks.

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.

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 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 are 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.

In terms of recent events, going into this year they felt the market had attractive valuations, but this has just got better with the recent market correction and over \$80 billion has come out of emerging markets. These markets are now sat at their cheapest relative value to the US since 2001. Some economies have fared worse; Brazil saw \$20 billion taken out and its market is down -43.07%.

LATAM tends to perform better coming out of corrections like this; in 2008-2010 it outperformed the index by 27%, and in 2002 -2004 by 44%. The weakness in the dollar will also benefit the region. As the fund is more skewed towards LATAM they believe this is a great opportunity moving forward.

In summary, Mark has demonstrated his ability to outperform the broader emerging markets index. However, this is a new fund and has limited track record. Investors may be happy to invest based on previous success or prefer to wait for a track record to build. Mark believes there are opportunities and certainly the broader emerging market index has not recovered as strongly as say the US.

The source of information in this note has been provided by Somerset and is correct as at June 2020. 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.