

# PFS SOMERSET GLOBAL EMERGING MARKETS FUND

OEIC Fact Sheet - Professional Client Use Only

31 December 2011

## Fund Managers



### Edward Robertson

Founding partner and Global Emerging Markets fund manager since 1999.



### Mark Asquith

Partner and Global Emerging Markets fund manager since 2007.



### Jacob Rees-Mogg

Founding partner and Global Emerging Markets fund manager since 1993.

## Fund Performance in GBP (B Shares)

	<u>Fund</u>	<u>Index</u>	<u>Outperformance</u>
<b>December 2011</b>	<b>1.30%</b>	<b>0.09%</b>	<b>+1.21%</b>
<b>3 Months (Trailing)</b>	<b>6.39%</b>	<b>5.36%</b>	<b>+1.03%</b>
<b>6 Months (Trailing)</b>	<b>-11.43%</b>	<b>-16.22%</b>	<b>+4.79%</b>
<b>2011</b>	<b>-14.59%</b>	<b>-17.99%</b>	<b>+3.40%</b>
<b>2010</b>	<b>29.04%</b>	<b>23.12%</b>	<b>+5.92%</b>
<b>2009</b>	<b>36.82%</b>	<b>61.12%</b>	<b>-24.30%</b>
<b>2008</b>	<b>10.08%</b>	<b>8.85%</b>	<b>+1.23%</b>
<b>Since Inception</b>	<b>65.98%</b>	<b>77.09%</b>	<b>-11.11%</b>

## Fund Objective

Somerset Capital Management is a specialist Global Emerging Market Fund Manager. We manage long only, conviction driven, bottom up, concentrated portfolios. Our aim is to build a portfolio of top quality stocks and to hold them for the long term.

## Fund Facts

<b>No of Stocks</b>	38
<b>Structure</b>	OEIC
<b>Fund Size</b>	£8.6million
<b>Type of Shares</b>	Accumulation or Income
<b>Launch Date</b>	17th November 2008
<b>Index</b>	MSCI Emerging Markets
<b>IMA Sector</b>	Global Emerging Markets
<b>Fund Yield</b>	2.2%

## Investment Perspective

*'What we anticipate seldom occurs;  
What we least expect generally happens.'*

### Benjamin Disraeli

After two reasonably good years in 2009 and 2010, emerging markets dropped by 18% in dollar terms this year partly on the risks of a breakup of the Eurozone but also on their own efforts to tighten liquidity. With such headwinds, emerging market currencies, fixed-interest and equities were all shunned by investors; in fact, after the GEM euphoria post the Chinese and Federal Reserve reflation efforts, much money which had chased its way into emerging markets then found itself in retreat; our markets suffered substantial outflows this year to the tune of \$34.3bn, equivalent to 5.1% of assets under management. This was a bad year for equities.

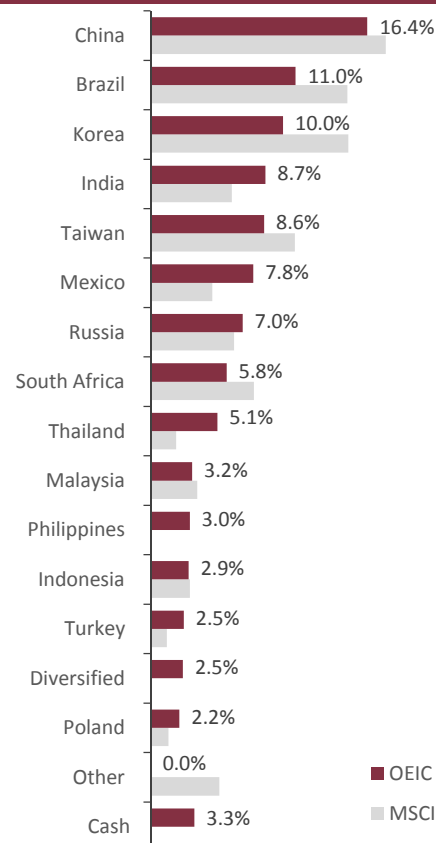
And so to this year; leaving Europe aside, where we can assume events will continue to keep markets under pressure for the foreseeable future, global emerging markets look down but not out. How will they fare and most particularly how will China fare? The country, because of its size and importance in the overall development of global emerging markets, remains at the centre of people's attention. We continue to feel that, while China's problems are building up, it still has the ability to control its "managed slowdown", which is what we have now and affecting particularly property and the banks. As mentioned before, the authorities in China will continue to bear down on the property market; any gentle loosening, perhaps later this year, should be welcomed; more aggressive loosening should not be taken well by the market. An outwardly smooth leadership transition should be expected but behind the scenes, it is equally as important that it continues to rebalance its economy. Recession in Europe will not make such policy making easy. On this much else depends, notably resource rich countries like Brazil, Russia, South Africa and Indonesia.

Since the Duma elections of early December, Russia Inc, (néé Putin) has been on the back foot. Unfortunately the opposition is not well organised; the voice on the street is calling for reform (particularly anti-graft) not revolution. In a managed democracy (Russia) and a managed economy (China) it is impossible to deliver positive results the whole time, and without the proper institutions to allow for change, difficulties arise. Just as problems have been allowed to fester for too long in Europe, decades in some instances, so these countries, at some point, will have a reckoning (not for the first time either).

With much of Europe heading into recession sentiment in emerging markets looks set to stay muted. The rush to drop interest rates and unwind other less orthodox tightening measures began in the fourth quarter; the economies which were early into the tightening cycle, like China, have seen credit start to grow again and inflation beginning to fall to acceptable levels; India and Turkey however remain noticeably behind the curve and are battling inflation, excessive credit growth, and in Turkey's case, an over extended current account deficit. The Central Bank of Turkey has proved itself the most hapless of institutions; having let the 'good times' go on too long, it is now forced to tighten just when its export markets are at their weakest.

*(continued overleaf)*

## Geographical Breakdown (%)



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## Dealing Summary

Settlement	T+4	
Min Retail	£1,000	
Min Institutional	£20,000	
Valuation Point	12:00hrs (noon)	
Dealing Number	0845 026 4282	
Dealing Fax	0845 299 1178	
ACD	Phoenix Fund Services	
Fees	<i>Inst</i>	<i>Retail</i>
Initial	0.0%	5.0%
Annual	1.0%	1.5%
Price (Acc.)	165.98p	164.38p

## Fund Codes

Citicode	DTN1
SEDOL ACC Retail	B3F27B1
SEDOL ACC Inst	B3KL3W6
SEDOL INC Retail	B4XX4Z6
SEDOL INC Inst	B4XX519
Lipper ID	65140716

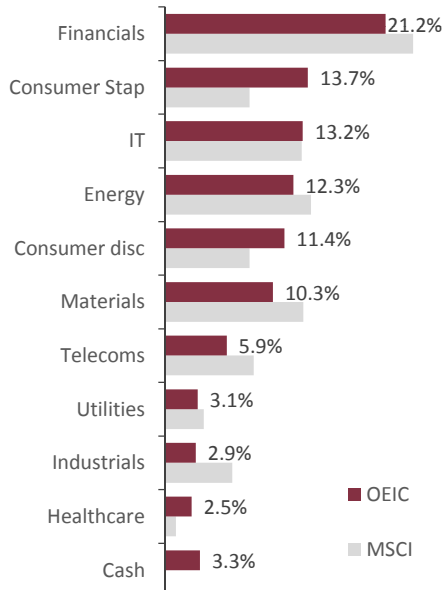
## Investment Perspective continued....

Valuations are supportive even with growth expectations reined in this year. Earnings expectations started 2011 at close to 16% and ended the year at 9.5%; expectations for next year are 10%. Emerging markets are trading at 9.1x forward earnings for the end of 2011; this is a 33% discount to its long term average and a 17% discount to developed markets. After the shocks of 2011 there is still now in inbuilt bearishness into equities, and with many investors waiting in cash, the possibility for a turnaround in equity markets, even a prolonged rally, is growing. Imagine, for instance, the Europeans are able to stabilise their situation (Italy's massive pending refinancing requirements are an initial test of that) and US data continues to improve. What then? Leaving aside the possibility of more quantitative easing in the US, it is not hard to imagine investors returning to equities. Not all markets offer the same opportunities, note Turkey and India above; but certain equities, some with growth and cyclical characteristics, are in good value territory. Our additions last year concentrated on value as it presented itself; for example **Lukoil**, **First Pacific** and **Beijing Enterprises**. After the falls of the third quarter we saw further opportunity with some heavily sold down counters like **Parkson Retail** and **Maruti Suzuki**. In the second half of the year, given the volatility, we frequently looked to take advantage of low prices.

Of note this year our sells included **EDC**, **Petronet** and **Huabao**. Both the utilities (**EDC** and **Petronet**) had reached rich valuations at around 14x forward earnings. For **Petronet**, LNG usage growth in India looks promising but is discounted at current levels. For **Huabao** we held on for too long to our profit, and annoyingly, as the market sold off as consolidation in the sector stalled, we were left with little profit on the table from our investment 18 months ago. The company's reconstituted tobacco leaf strategy, the main focus now for management, needs more clarity.

*(continued overleaf)*

## Sector Breakdown (%)



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The Investment Manager is Somerset Capital Management LLP, which is authorised and regulated by the Financial Services Authority. Registered Office: 28 Ely Place, London EC1N 6TD. All sources are Somerset Capital Management unless otherwise stated.

## Top Ten Holdings

Stock	Country	% NAV
Taiwan Semiconductor	Taiwan	3.7%
Tiger Brands	South Africa	3.3%
PTT E&P (F)	Thailand	3.3%
Genting Berhad	Malaysia	3.2%
SABESP	Brazil	3.1%
CNOOC Ltd	China	3.1%
Lukoil	Russia	3.0%
Rosneft Oil Company	Russia	3.0%
First Pacific CO	Philippines	3.0%
Beijing Enterprises	China	2.9%
<b>Total</b>		<b>31.5%</b>

## For Further and Daily Dealing Information

For further information on our investment process, The Fund or to arrange a meeting with the Somerset Capital investment team please contact Oliver Crawley. To place an order please contact Phoenix Fund Services on the number below.

### Somerset Capital Management

**Oliver Crawley**  
**Tel 020 7499 1815**  
**oliver@somersetcm.com**

### To place an order

**Phoenix Fund Services**  
**Tel 0845 026 4282**  
**Fax 0845 299 1178**

### Other important information:

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. Investment in emerging markets can involve greater risk than is customarily associated with more mature markets which means greater price movements, both positive and negative, can be expected. Please read the Prospectus before making an investment. The market capitalisation data refers to the weightings in Somerset Capital's model portfolio - these may differ from the weightings in the Fund. All sources: Somerset Capital Management LLP unless otherwise stated.

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## The Portfolio (commentary cont.)

We are pleased with the progress last year with portfolio companies **Tiger Brands**, **MTN**, **Anadolu Efes**, **Cielo**, **Femsa**, **Bank Pekao**, **Semen Gresik**, **First Pacific**, **Ports Design** and **Beijing Enterprises**. **Beijing Enterprises** is now benefitting from price rises in the Chinese domestic gas market which we expect to be passed through onto residential households gradually. Both **Tiger Brands** and **MTN** continue to make great use of their African footprint. **Tiger Brands**, we expect to make a number of further bolt-on acquisitions this year. Although different businesses both **Semen Gresik** and **Bank Pekao** continue to strengthen their franchises. **Bank Pekao**, one of Poland's most conservative lenders will gain market share as developed market banks are forced to withdraw; **Semen Gresik** is the only Indonesian cement producer bringing on meaningful capacity this year. **Cielo's** card processing business has stabilised over the year with competition now more rational.

Emerging markets fell more than double developed markets in 2011; this is the wrong type of decoupling! But the precipitous falls of this year were because of mistakes made, and blind eyes turned, in the formation and evolution of the Eurozone. If they can hold a steady path politically and economically, at these reasonable valuations, emerging markets look attractive.

*Lead Manager, Edward Robertson*