SOMERSET CAPITAL MANAGEMENT LLP

31 July 2022

Somerset Global Emerging Markets Fund LLC

Investment Adviser's Provisional Monthly Report

Edward Roberston
Founding Partner & Lead Manager

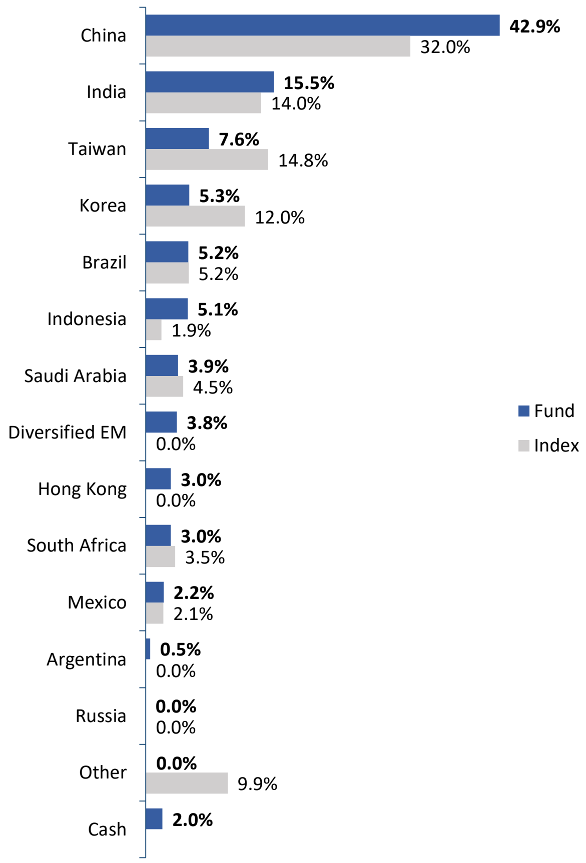
Fund Objectives

The Somerset Global EM Fund seeks to achieve capital appreciation by investing in a concentrated portfolio of <50 companies in emerging market countries. Lead Manager, Edward Robertson targets companies that can generate sustainable returns over multiple market cycles and are trading at a reasonable price. All companies must adhere to Somerset's independent criteria around environmental, social and governance risk and we actively engage with companies on material issues. Edward is supported by Somerset's team of fund managers and analysts based in London, Singapore and Shanghai.

Assets Under Management	
Somerset Capital Management LLP	$4,082 m
Global Emerging Markets Strategy	$3,402 m
Global Emerging Markets Fund LLC	$221 m

Fund Data†	
P/E (Historical)	30.0x
Dividend Yield (%)	1.05%
Wgt Ave Mkt Cap ($m)	75,272
No. of Stocks	47

Country Breakdown†

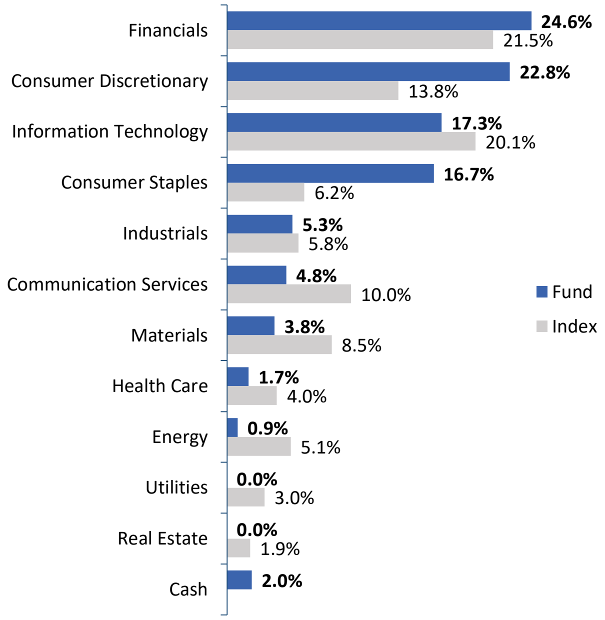


Fund Performance USD (%) Net	Fund	Index⁺	+/-
1 Month	-0.38%	-0.25%	**-0.13%**
3 Months	-5.31%	-6.46%	**+1.15%**
YTD	-22.06%	-17.83%	**-4.23%**
Since ER Lead Manager*	32.96%	35.96%	**-3.00%**
2021	-10.51%	-2.54%	**-7.97%**
2020	15.92%	18.31%	**-2.38%**
2019	21.24%	18.44%	**+2.80%**
2018	-15.97%	-14.58%	**-1.39%**
2017	33.29%	37.28%	**-3.99%**
2016	12.34%	11.19%	**+1.15%**
2015	-13.32%	-14.92%	**+1.60%**
2014	-2.56%	-2.19%	**-0.38%**
2013	-0.19%	-2.60%	**+2.41%**
2012	19.31%	18.22%	**+1.09%**
2011	-13.96%	-18.42%	**+4.46%**
2010	24.58%	18.88%	**+5.71%**

Top 10 Holdings†	Country	NAV %
ICICI Bank LTD	India	6.0%
Taiwan Semiconductor Manufacturing Company	Taiwan	5.9%
Budweiser Brewing Co APAC Ltd	China	4.4%
Al Rajhi Bank	Saudi Arabia	3.9%
Infosys LTD	India	3.9%
Heineken NV	Diversified EM	3.8%
JD.com Inc	China	3.8%
Meituan - Class B	China	3.6%
AIA Group LTD	China	3.5%
Samsung Electronics Co.	Korea	3.4%

Market Cap Breakdown†	Fund
< $10bn	6.4%
$10-$20bn	16.9%
$20-$50bn	13.2%
> $50bn	61.5%

Sector Breakdown†



* Edward Robertson took over as Lead Manager of the GEM Strategy from Jacob Rees-Mogg in Q4 2009. Edward had been the Joint Lead Manager since the Strategy's launch in 1998. ⁺ The Index is the MSCI Emerging Markets Index with Net Dividends Reinvested. † As of 1st August 2022 owing to cash outlier at month end.

Our recent commentaries have focused on macroeconomics and geopolitics, including our increasingly optimistic view on Chinese equities. Given we spend the vast majority of our time and resources on the bottom-up, this month we thought we would dedicate more time to analysing how our companies are dealing with the numerous challenges facing investors and management teams at the moment.

We are into Q2 reporting season where high commodity prices, weakening demand and supply chain issues have tested our companies' ability to trade in extreme circumstances. On the whole we have been reassured by their resilience which reaffirms our cautiously optimistic view at the moment, especially given where valuations are. Below is a selection of commentaries about the challenges faced. Whilst the market trades mainly off emotion, it is the underlying strength and resilience of businesses that matters in the long run. Every committed growth and value investor knows the truism: *"In the short run, the stock market is a voting machine. Yet, in the long run, it is a weighing machine."* This is worth keeping in mind amidst the global pessimism that has descended on markets.

Semiconductor Update – Scott Oh, Senior Analyst Tech

While Q2 earnings have remained mostly resilient in the technology hardware sector, the results so far confirmed what markets had already started to price in – weakening demand in smartphones and PC markets due to China lockdowns, inflation and geopolitical impacts. Global supply chain issues remain very much fragmented (rather than uniform) and we are yet to see a clear end in sight. However, the severity seems to be decreasing partly due to weakening consumer related demand and better supply. The following comments from key tech companies this quarter illustrates this view.

In response to global supply chain issues since Covid-19, **Samsung** have taken strategic measures since the end of 2021 to procure key components from main suppliers, helping to maintain a stable supply of products in 1H22. However, given recent slowdowns caused by China lockdowns and the Ukraine conflict, Samsung expects inventory to normalize to more balanced levels in 2H22, especially for its set businesses (mobile / PC / TV) while it expects to maintain a flexible inventory policy for its component businesses (memory / display).

TSMC noted that due to softening demand and supply chain issues in smartphones, PC and IoT, they had already started taking action to reduce excess inventory. This should normalize over the next few quarters. While TSMC still maintained its view of c.50% 5G penetration in 2022, the company also commented that they didn't see too much inventory build in the high-end smartphone segment. Overall, even with certain customers' inventory adjustments, TSMC expects its utilization rate to remain healthy and gross margins to remain intact in 2022.

We're building a position in **Unimicron**, which as part of the TSMC supply chain reflects our view that logic (high performance computing) will hold up better than other areas. Unimicron is the largest supplier of ABF, which is a packaging material used in the manufacture of semiconductor chips. It continues to grow its capacity allowing for future growth, at a time when ABF is in structural undersupply and likely to remain so until 2025. Unimicron's improving product quality and customer mix has enabled it to achieve higher than average gross profit margins, which it continues to expand, and its increasing penetration of advanced packaging techniques in logic semiconductors should make it less vulnerable if there should there be any slowdown in a broader technology cyclical downturn.

China Update – Jamie Xiong, Senior Analyst China & Lilian Tai, Senior Analyst China

Consumer companies in China have shown signs of recovery following the easing of lockdowns in June and we have seen production and supply chain disruption moderate after the government allowed production to resume in late April. Companies with integrated supply chains and nationwide production bases have outperformed. Raw material pricing pressure remains but many companies are now showing the ability to pass-through these costs.

Yum China surprised the market with a net profit of USD 83mil in Q2 2022 despite earlier guidance of potential losses amid Covid-19 lockdowns. They also reported better than expected operating margins of 6.4% in Q2 22 (8.1% in Q1) amid weak same store sales growth of -16%. In April, only 10% of their stores in Shanghai were able to operate and they achieved 40-50% of pre-lockdown sales. In May, sales were back to pre-lockdown levels with less than half of Shanghai stores in operations. Overall performance was better than expected driven by excellent cost control measures including reduced marketing spending during lockdowns and increasing the proportion of variable rental expenses. Looking forward, although the economic backdrop remains uncertain, the company has executed well in challenging times.

Budweiser APAC delivered better than expected topline growth as dine-in operations largely resumed and a recovery in South Korea drove strong EBITDA growth YoY. The company continues to benefit from premiumisation trends with prices growing 1.7% YoY in Q2 2022 and margins will further benefit in late 2022 and 2023 as raw material prices are expected to ease – aluminium corrected more than 30% in the quarter. Overall, the company has demonstrated good cost control by navigating their marketing spending to regions unaffected by Covid-19. Premium brand volume grew at double digits YoY driven by new city penetration. We expect the worst to be over this quarter and going forward, volume recovery as well as falling raw material prices will drive earnings growth.

Wuliangye (premium baijiu manufacturer) has been resilient as high-end liquor performance has benefitted from demand from catering. Wuliangye reported largely flat 1H22 end-sales but profit growth should be higher given the buffer from distributor demand, stable pricing and the company's premiumisation strategy – management's focus is on enhancing brand value under the current environment over volume growth.

We remain constructive on our new energy supply chain portfolio companies, we saw **BYD** deliver price hikes driving net profit per car significantly higher towards RMB6K/car versus RMB5K/car in the prior quarter. **CATL** expect an inflection in gross margins in the coming quarters having reached pricing agreements with their key clients (such as Tesla).

India Update – Dhawal Mehta, Senior Analyst India

ICICI Bank reported loan growth of +21% suggesting a recovery in demand. Net interest margins (NIMs) have remained at a healthy c.4% and are set to improve as interest rates rise. Reported ROA of 2% is the highest ever return reported by the company and asset quality is also at its highest ever level as provision costs have nose-dived.

Infosys is displaying no signs (yet) of any slowdown in demand with +21.4% YoY growth in revenues this quarter. Management commentary was equally positive with the company raising the sales guidance for the year from 13-15% to 14-16%. Growth was widespread across verticals and geographies, led by Digital Services up +37% YoY (now accounting for c.61% of sales). Pressure on margins continue with Q2 recording the lowest EBIT margin (c.20%) in recent times, mostly due to higher employee costs as the company has looked to mitigate high attrition (now easing off) and broaden the employee base. Importantly, the company has maintained its margin guidance of 21-23% for the fiscal year (the 7% INR depreciation will help).

Other portfolio names have displayed resilience despite rising raw material costs. For example, **Bajaj Auto** delivered record gross profit/vehicle and EBITDA/vehicle meanwhile another portfolio holding, **Hindustan Unilever**, displayed the highest quarterly volume growth in two years and there are early signs we may see margin inflect towards the end of the year.

Edward Robertson, Lead Manager

Fund Contributions/ Redemptions in month		
Contributions	US $	441,600
Redemptions	US $	-33,303,584

Stocks PURCHASED during month

Stock	Country
Unimicron Technology Corp	Taiwan

Stocks SOLD during month

Stock	Country
Mr Price Group	South Africa

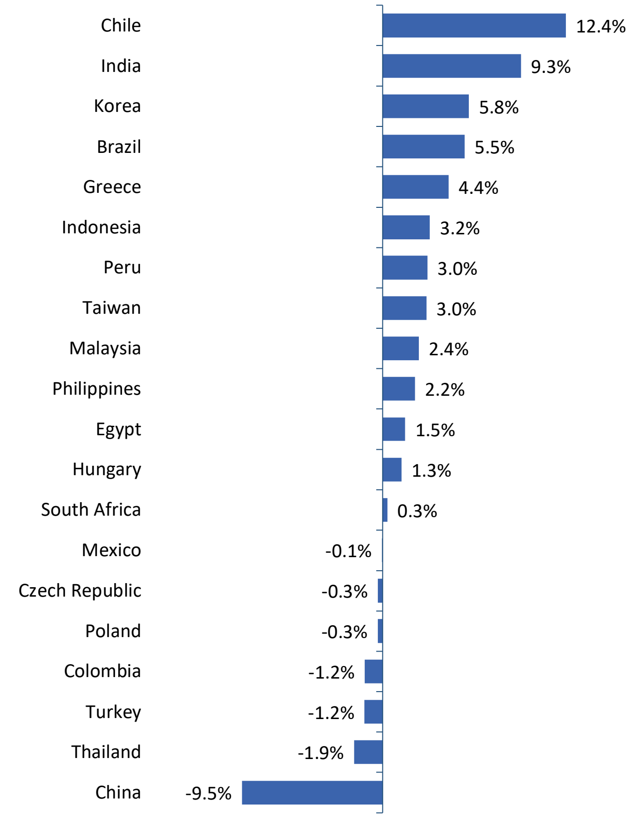
Top 5 Performers during month

Stock	IRR
Bajaj Finance Ltd	33.7%
Hindustan Unilever	17.7%
LIC Housing Finance	17.5%
ICICI Bank LTD	15.3%
Globant	14.8%

Bottom 5 Performers during month

Stock	IRR
Wuliangye Yibin Co Ltd	-13.1%
Tencent Holdings Ltd	-14.0%
Zhejiang Supor Cookware Co Ltd	-17.7%
Alibaba Group Holding Ltd	-20.9%
Beijing Oriental Yuhong (HK-C)	-22.8%

MSCI EM Index Performance by Country



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