UK STEWARDSHIP CODE DISCLOSURE STATEMENT

Somerset Capital Management LLP ('Somerset') is an asset management firm based in London and Singapore which was established in 2007. Somerset is structured as a partnership, majority owned by members of staff. The firm manages long-only emerging market equity strategies for investors globally. Somerset invests in some emerging market companies which are listed in the UK and also invests on behalf of a number of UK institutional and retail investors.

As long-term investors with a focus on reducing risk to minimise instances of capital loss, sustainability and stewardship are a core component of both our philosophy and investment process. Details of our approach to sustainable investment, which includes our approach to active ownership, can be found in our **Sustainable Investment Policy**.

Somerset's primary objective is to act in the best interest of our clients including delivering superior, long-term returns to our clients and their beneficiaries. The UK Stewardship Code aims to support institutional investors in achieving this objective by setting out seven principles of good practice on engagement and conflicts of interest, applicable to firms on a "comply or explain" basis. To this end, Somerset fully supports the Code and complies with all of its principles.

The seven principles of the UK Stewardship Code state that institutional investors should:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities
2. Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed
3. Monitor their investee companies
4. Establish clear guidelines on when and how they will escalate their stewardship activities
5. Be willing to act collectively with other investors where appropriate
6. Have a clear policy on voting and disclosure of voting activity
7. Report periodically on their stewardship and voting activities

Somerset applies these principles as follows:

PRINCIPLE 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Somerset is a private, owner-managed partnership dedicated to fundamental research, long term investing and client alignment.

Our primary objective is to deliver superior, long-term returns to our investors and their beneficiaries. As a result, the focus of our research process is to uncover risks which may jeopardise the potential for our investments to generate profits sustainably.

It is by ensuring that our investments are not excessively exposed to these risks collectively that we are able to get comfortable with their suitability for our portfolios.

Our team's depth of experience investing in emerging markets informs us that non-financial factors associated with governance, the environment and society can have a material impact on a company's ability to remain competitive. This is particularly the case when adopting a longer-term view as we do at Somerset Capital. As a result, in assessing the value of an investment it is as important for us to consider factors of this nature as it is to consider more traditional, financial factors.

Corporate governance has such a specific and evident bearing on the sustainability of a company that we include it as a fundamental stock risk.

We believe that the following areas encompass many of the more discrete non-financial factors associated with the environment and society which can have an equally material impact on investment returns:

- *The environmental impact of production*
- *The treatment of human labour*
- *Product responsibility and safety*

Instead of evaluating these issues as standalone risks as we do corporate governance, we consider them a subset of broader business risk on the basis that they tend to affect the core economics of a company's business returns as well as its reputation.

We do not expect these topics to encompass all relevant social and environmental issues. We do however think they provide a more refined and prescriptive framework than the more widely adopted but looser 'ESG' perspective. What is important for our team is having the tools to take a targeted, repeatable approach to their research, at the same time as encouraging development of thought appropriate to each individual investment case.

If a sustainability issue is deemed highly material to core business profitability we will typically start a formal engagement process. The engagement process generally involves:

1. Formal declaration of our concern to the company
2. An indication of how we think it impacts business profitability
3. Confirmation of our desire to work with the company (or relevant third party)

At initiation of the engagement we set out the objectives of the process and the key indicators of progress. The timeline for each engagement depends on the severity of the issue in question but we are prepared to take a multi-year view if appropriate. If a company refuses to address the risk in question, the stock would be considered for divestment if the risk is deemed highly material. We record interactions with companies on sustainability issues in our sustainability database. We are continually looking to improve this research framework and our methods of engagement.

The process with which we discharge our stewardship responsibilities is detailed at length in our **Sustainable Investment Policy**.

PRINCIPLE 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

As a fiduciary, Somerset stands in a position of trust and confidence with respect to its clients. Accordingly, the Firm has a duty to place the interests of its clients before its own interests and that of its Employees. Employees must avoid any situation in which personal interests conflict with their duties to the Firm and its clients. When faced with a conflict of interest, all Employees are required to exercise the business judgment of responsible people, uninfluenced by considerations other than the best interests of the Firm's clients.

Where the Firm is unable to manage any conflict of interest such that it has reasonable confidence that risks of damage to the interests of a client will be prevented, then the Firm will disclose the general nature and sources of such conflict of interest to the client before undertaking further business for the client.

Senior management is responsible for ensuring that the Firm identifies and manages its conflicts of interest. In managing the Firm's conflicts of interest, senior management will:

1. Ensure that all staff are aware of the critical importance of the Conflicts of Interest Policy in carrying out the Firm's business and the need to report any perceived conflict of interest promptly;
2. Review any actual or potential conflict of interest as soon as it is identified and take appropriate steps to manage the conflict as necessary in order to prevent any risks to the interests of a client;
3. Communicate to all relevant staff the procedures to be followed in order to manage the conflict of interest; and
4. Document the conflict of interest and any measures undertaken.

Somerset's Executive Committee receive written reports on conflicts of interest arising and the steps taken to resolve them, at least annually.

The list of conflicts of interest which Somerset has identified e.g. gifts and inducements, personal account dealing and outside affiliations, and the procedures the Firm operates to prevent these from negatively affecting the Firm's clients, can be found in our **Conflicts of Interest Policy**.

PRINCIPLE 3: Institutional investors should monitor their investee companies.

As long-term investors with concentrated portfolios and low turnover, the monitoring of investee companies through data, public filings, calls and meetings is the primary responsibility of our investment team along with identifying new investment opportunities.

Initially, stocks within our wider EM universe are screened on the basis of market cap and liquidity to provide an active universe. This active universe is screened further on the basis of quantitative metrics relating to profitability, returns, debt and valuation etc. to generate stock ideas for further analysis. Both the portfolio managers and analysts will carry out independent due diligence on stocks including researching the corporate history and public filings. The focus is on reducing fundamental stock risks.

Issues broadly relating to society and the environment are specifically considered in our analysis of broader business risk on the basis that they tend to affect the core economics of a company's business returns as well as its reputation.

Our due diligence is supported by direct interaction with companies through visits, meetings and/or calls with management. An in-house financial model is populated and stress-tested to determine a fair valuation range for the stock. The portfolio manager or analyst then writes a full initiation report which will be presented to the investment team.

Investment cases are heavily scrutinized by the team resulting in follow-up work and further discussion to explore and address concerns. It is then at the respective portfolio manager's discretion whether or not a stock is bought for a portfolio. Decisions will be made by the portfolio manager subject to continual portfolio and macroeconomic risk management.

Managers will generally sell a stock for the following reasons:

- The stock has exceeded our calculation of fair value meaning the equity valuation is no longer justifiable
- The analyst team has identified an intolerable increase in fundamental risk
- Macroeconomic risks including currency risk, political risk and/or liquidity risk

Full update notes are generally written on existing holdings at least annually.

Please refer to our **Sustainable Investment Policy** for a detailed breakdown of our investment process as it relates to the monitoring of financial and non-financial risks.

PRINCIPLE 4: Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

We assess all prospective and existing investments according to a series of financial and non-financial criteria to assess their suitability for our portfolios. We will formally engage with investee companies in instances where we believe issues could have a material impact on core business profitability, including relating to corporate governance, the environmental impact of production, the treatment of human labour and product responsibility and safety. Specific issues of concern to the team are wide-ranging and include but are not limited to board composition, director appointments, management remuneration, dividend policy and strategic decision-making.

Our engagement process generally involves:

- Formal declaration of our concern to the company
- An indication of how we think it impacts business profitability
- Confirmation of our desire to work with the company (or relevant third party)

At initiation of the engagement we set out the objectives of the process and the key indicators of progress. The timeline for each engagement depends on the severity of the issue in question but we are prepared to take a multi-year view if appropriate. If a company refuses to address the risk in question, the stock would be considered for divestment if the risk is deemed highly material.

The analyst who covers a particular company is generally responsible for raising concerns to the wider investment team and recommending formal engagement with the company. However, the engagement process will be approved by the respective portfolio managers who will then oversee the engagement process.

In addition to the ongoing monitoring of sustainability issues within a company by the analyst team and fund managers, the investment team conducts dedicated periodic reviews of sustainability issues in the portfolio. These act as a check of the original assessment of sustainability risk and also allow future engagements to be prioritised.

Additional colour on when and how we engage with companies can be found in our **Sustainable Investment Policy**.

PRINCIPLE 5: Institutional investors should be willing to act collectively with other investors where appropriate.

Somerset continues to believe collective action can be helpful in engaging with companies and driving improvement in business practices. This is particularly the case in instances when solo engagement has been unsuccessful. We have communicated and collaborated with other shareholders when we have believed such an approach will materially benefit our clients. However, the extent of this action depends on the size of our investment, the size and nature of the investments of the other interested parties and whether such collective action would have more chance of achieving a positive outcome than action by Somerset alone.

In engaging and collaborating with other shareholders, as a signatory of the Principles for Responsible Investment, Somerset in part looks to utilise the PRI's Collaboration Platform.

In the event that other investors would like to contact us regarding potential collaboration, please contact Anthony Linehan (Partner) on anthony@somersetcm.com

PRINCIPLE 6: Institutional investors should have a clear policy on voting and disclosure of voting activity.

Active ownership through proxy voting is one important way for us to engage with management teams and influence improvements in business practices. In emerging markets where governments and single family promoters often own controlling stakes, it is also necessary to interact with management teams before and after formal votes to express our views and build relationships with key decision makers within companies. As long-term active managers, this is one of the ways in which we can deliver value to our investors over and above passive investment products with blunt voting mechanisms. Where permitted by our clients, we decide how to vote all proxies ourselves rather than rely on third parties. That said, we do consult ISS (Institutional Shareholder Services, Inc.) as the world's leading proxy advisory firm.

Somerset maintains a comprehensive **Proxy Voting Policy** to ensure we are carrying out our investment responsibilities in the best interest of our investors and their beneficiaries. How we vote in each case is recorded and made available for distribution on request.

PRINCIPLE 7: Institutional investors should report periodically on their stewardship and voting activities.

Somerset is willing to provide information on its stewardship and voting activities to existing and, to the extent it respects client confidentiality, prospective investors on request. This can include the details and frequency of the interactions we have with companies, how we have voted proxies and whether this is in line with recommendations from both company management and ISS.

The frequency and format of such reporting is agreed between Somerset and the respective client. Such reporting already forms part of our standard reporting schedule for a number of institutional clients.

Our latest Responsible Investment Transparency Report is publically available on the UN PRI website (https://www.unpri.org/signatories).

Updated to: 20th August 2019