



# 2020

ANNUAL REPORT



Somers is a financial services investment company with high quality assets and minimal leverage.

SHAREHOLDERS' FUNDS

**US\$422.1**

MILLION

GROSS ASSETS

**US\$500.9**

MILLION

ASSETS UNDER MANAGEMENT  
INDIRECTLY MANAGING OVER

**US\$19.9**

BILLION

SOMERS HAS A CONCENTRATED PORTFOLIO WITH INTERESTS PRINCIPALLY  
IN AUSTRALIA, BERMUDA AND THE UK



## WHY SOMERS LIMITED?



Somers aims to identify attractive long-term investments in the financial services sector which drives total shareholder return.

### **SOMERS' OBJECTIVE IS:**

To maximise shareholder return by identifying and investing in compelling long-term investments worldwide, where the underlying value is not reflected in the market price.

### **SOMERS OFFERS SHAREHOLDERS:**

- A high conviction portfolio focused on the financial services sector.
- Extensive knowledge and expertise.
- Opportunity to currently buy Somers shares on the market at a discount to NAV.
- We apply progressive themes, like technological disruption, in our selection process to identify companies that are adapting well to change, and those that may be vulnerable.
- Key areas of focus for Somers are wealth and fund management, banking, asset financing, and embracing disruptive opportunities.

### **FINANCE SECTOR:**

- An investment in Somers offers diversified exposure to the financial service sector, including traditional bank and wealth management companies alongside disruptive financial companies. The financial services sector offers interesting investment opportunities, given the increasing use of technology in a sector which is key to the financial system and global GDP.

### **SOMERS' INVESTMENT MANAGER:**

- ICM Limited has been Somers' investment manager since inception in 2012, and prides itself in identifying compelling investment opportunities, and working pro-actively with investee companies to improve the economic value of identified investments.

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### FINANCIAL CALENDAR

#### Year End

September 30

#### Annual General Meeting

February 3, 2021

#### Half Year

March 31

#### Dividends Payable

February and July

### NATURE OF THE COMPANY

Somers Limited is a Bermuda exempted company incorporated with limited liability whose shares are traded on the Bermuda Stock Exchange. The business activities of Somers consists of investing the funds of its shareholders in accordance with its investment objective and policy, with the aim of generating a return for shareholders with an acceptable level of risk. Somers has a low level of debt which it uses to improve shareholder returns.

Somers has contracted with an external investment manager, ICM Limited (the "Investment Manager" or "ICM") to manage its investments. Somers has a board of non-executive directors who oversee and monitor the activities of the Investment Manager and the other service providers and ensures that the investment policy is adhered to.



# CORPORATE STRUCTURE

Investment holdings as at December 11, 2020



BANKING / ASSET FINANCING			ASSET MANAGEMENT
 <b>62.4%</b> <b>Resimac Group Limited</b> <b>Non-bank Lender</b> Australian and New Zealand mortgage securitisation business Loan portfolio in excess of A\$15 billion	 <b>100.0%</b> <b>Bermuda Commercial Bank Limited</b> <b>Banking</b> Licensed bank in Bermuda with total assets of US\$510 million Focus on commercial banking and private banking / wealth management	 <b>64.6%</b> <b>PCF Group plc</b> <b>Banking</b> A London Stock Exchange listed bank Focus on retail and business banking	 <b>62.5%</b> <b>Waverton Investment Management Limited</b> <b>Wealth Management</b> UK Private wealth management business Assets under Management of £6.5 billion
PROPERTY	BROKERAGE SERVICES	FINANCIAL SERVICES	LEGAL SERVICES
 <b>57.0%</b> <b>West Hamilton Holdings Limited</b> <b>Property Investment</b> Bermuda Property Holding and Management company	 <b>36.2%</b> <b>AK Jensen Group Limited</b> <b>Hedge Fund Platform</b> Hedge fund platform and prime brokerage services	 <b>29.4%</b> <b>Thorn Group Limited</b> <b>Financial Services</b> Australian financial services organisation offering consumer and commercial options for leasing products and financing solutions	 <b>9.7%</b> <b>MJ Hudson Group Limited</b> <b>Asset Management Consultancy</b> Services to the Alternative Asset Management industry

MANAGED BY ICM

## CHAIRMAN'S STATEMENT



2020 has been a challenging year for our investee companies as they navigated the far-reaching impact of the coronavirus ("Covid-19") and other macro-economic factors such as Brexit. Despite the extreme shock to markets in Q2 and Q3, asset prices rebounded in the second half of 2020 and this has enabled Somers

to report an excellent year with an increase in the net asset value to \$19.78 per share (2019: \$17.10) and a profit of \$69.0 million (2019: loss of \$9.7 million). This is an excellent financial achievement against the backdrop of Covid-19 and confirms that our investee companies are well run and well placed in their respective markets.

Our investee companies have responded to the pandemic and their business models have shown strong resilience, but it is important to note that the global impact of Covid-19 has been significant. It has inflicted huge damage to the global economy and disrupted all aspects of life. The response by Governments and Central Banks to support economies and businesses has been enormous (larger than the GFC) including the cutting of interest rates to near zero or negative. Such actions whilst necessary impact financial services companies, and coupled with increased digital consumption as more people work from home, has caused all our investee companies to focus on what their optimum business models should look like moving forward.

Somers' Investment Manager, ICM, reacted to Covid-19 by focusing on its employees and those of its investee companies and investee company boards. The immediate

focus was to ensure that the investee companies had sufficient funding to meet short term implications from Covid-19, in conjunction with taking advantage of any opportunities that arose from the consequences of the pandemic. The impact of Covid-19 on Somers' portfolio is set out in the Investment Manager's report on page 21 of this report.

Against this backdrop it is pleasing to report that our major investments have continued to perform well in 2020. Our largest investee company, Resimac Group Limited ("Resimac"), produced very strong results during the year enabling it to materially increase its dividend. We anticipate that Resimac should continue to grow in the current financial year as conditions remain positive for non-bank lenders in Australia. Waverton Investment Management Limited ("Waverton") continues to report excellent investment management performance and strength in the equity markets should benefit its financial results. Whilst PCF Group plc's ("PCF") market, asset financing in the UK has been negatively impacted by Covid-19, PCF's strong model with prudent credit underwriting should see it emerge from the pandemic in a good position.

In August 2020, Somers announced that it had terminated the agreement to sell Bermuda Commercial Bank Limited ("BCB") to Permanent Capital Holdings Limited ("Permanent Capital"). Post the year end Somers announced that it had agreed the sale of BCB to Provident Holdings Limited. The sale remains subject to Government and Regulatory approvals and we are hopeful that it will be completed in the first half of the current financial year. Whilst the delay in selling BCB has been frustrating, upon completion it will release capital which will enable Somers to reduce its debt and make new investments.

**Whilst the global uncertainty in 2020 remains elevated, we have strong belief that our investee companies have the ability to successfully weather the current economic conditions and continue to produce strong financial results.**



In previous years I have referenced the negative impact that foreign currency movements have had on Somers' annual results with a large percentage of its assets in non-US Dollar denominated currencies. I am pleased to report that during 2020, both Sterling and the Australian Dollar strengthened against the US Dollar, by 5.0% and 6.1% respectively and this has positively impacted the valuations of a number of our larger investments.

During 2020, we did not realise any significant assets but post the year end received the final tranche of £1.25 million of the consideration of the sale of Stockdale Securities Limited which we sold in early 2019. During the year MJ Hudson Group plc successfully completed its £30 million listing on AIM in London and we made a number of smaller investments in listed companies in the financial services sector in Australia, Canada and the UK. We also acquired an additional \$3 million in AKJ Tokens as AKJ Group Limited continued to develop their crypto hedge fund trading platform.

The level of borrowings at Somers has increased during the year. Whilst bank debt has decreased in line with loan facility repayments, overall debt has increased as the Company's major shareholders have funded new investment opportunities. However, given the quality, diverse nature and size of Somers' asset base, an external gearing level of 18% as at September 30, 2020 remains relatively low. During the current year the Company's intention is to rebalance its debt profile through additional but lower cost bank borrowings to be used to repay the Company's higher cost related party borrowings.

Whilst the Company remains fully invested, the increase in income that Somers has received from its investee companies in 2020 should continue and therefore the Company is well positioned to support its existing investments and make new investments.

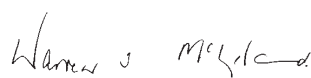
Somers' share price continues to trade at a significant discount to the underlying strong performance in the underlying investments and an attractive dividend yield of greater than 3%. The Board continues to believe that Somers' share price does not fairly reflect the underlying value of the Company. As such we have continued to buy back shares, and during the year acquired 7,138 shares at an average price of \$13.78 per share. These shares were cancelled prior to year-end.

The Board has resolved to pay a final dividend per share of \$0.34 (2019: \$0.30). The total dividend payment for the year was \$0.55 a share, an increase of \$0.04 per share compared to 2019.

It is without doubt the most challenging time in the global economy since the GFC. Whilst recent news in relation to an effective Covid-19 vaccine has been positive, until there are effective treatments for Covid-19, both therapeutic and/or a vaccination and lower cost testing, a complete global recovery will be difficult. Borders are likely to remain closed in a number of countries and the onset of a second wave in Europe and the US is likely to prolong the recovery. The long-term impact of increasing Government debt and negative interest rates will not be known for some time. Somers is looking to the future cautiously but with optimism that once we emerge from the pandemic our investee companies will be well placed to prosper and there will be opportunities for both them and Somers.

Somers has now been in operation for over eight years, and it is a propitious time to reassess our strategy and refresh our governance structure to ensure we remain fit for purpose in achieving our ambitious growth plans. As such, I believe it is the right time for me to retire as Chairman, and consequently I will not be standing for re-election at the 2020 AGM. I am delighted that Peter Durhager has agreed to become Chairman.

It has been a privilege, indeed an honour to chair Somers since its incorporation. I shall remain heavily committed to Somers through my involvement as Chairman of our largest investment, Resimac Group Limited and also as Chairman of Thorn Group Australia Limited, a smaller but increasingly important investee company. I look forward to continue contributing to the future of Somers through both of these companies.



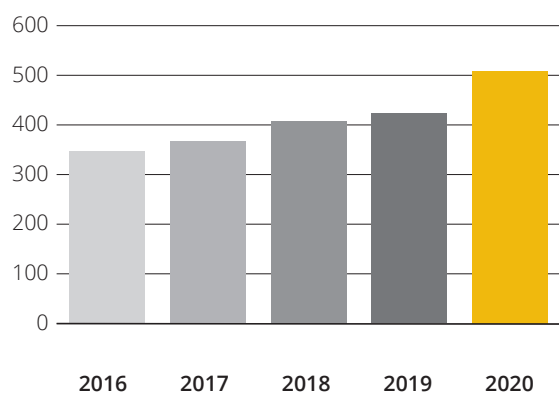
**Warren McLeland**

Chairman

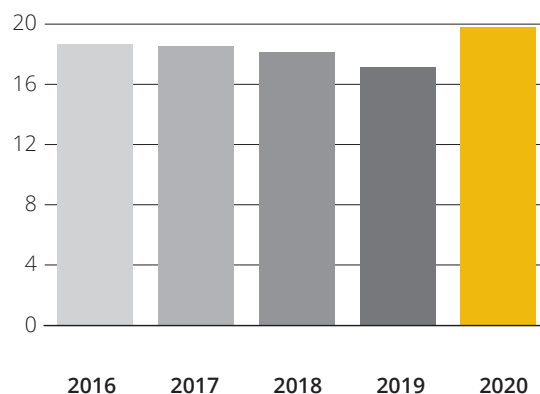
December 11, 2020

# FINANCIAL HIGHLIGHTS

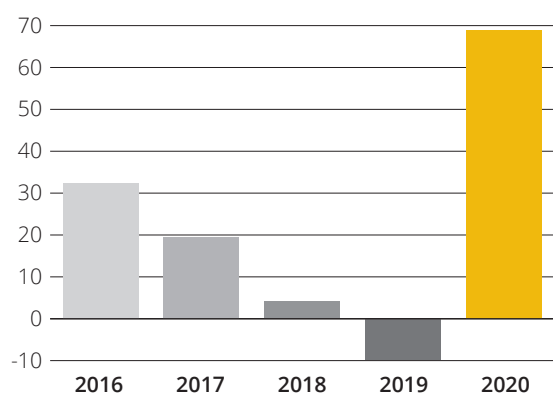
**TOTAL ASSETS** – USD Million



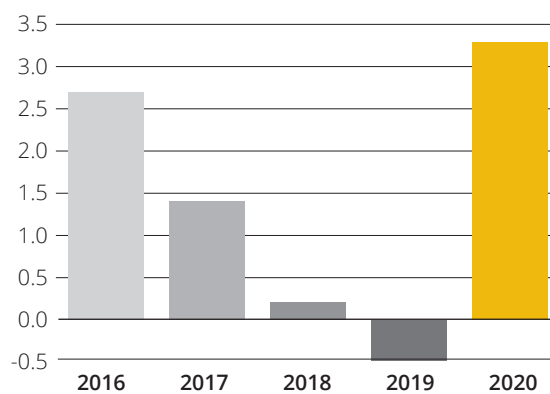
**NAV** per Common Share (diluted) – USD



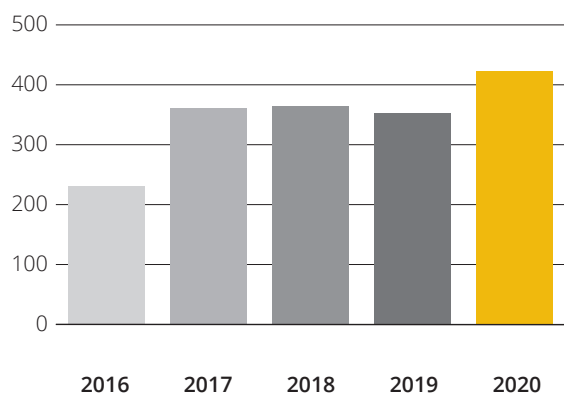
**NET INCOME** excluding Foreign Exchange – USD Million  
September 2016 to September 2020



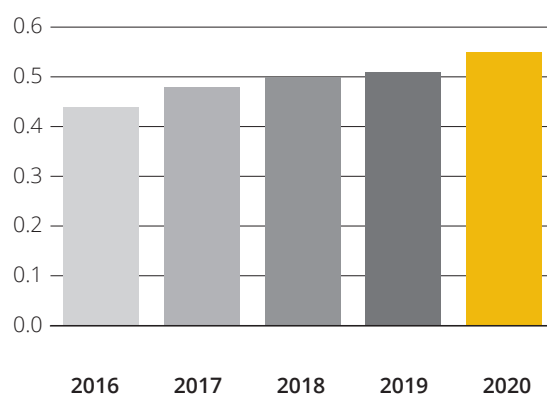
**EARNINGS** per Share (diluted) – USD  
September 2016 to September 2020



**TOTAL EQUITY** – USD Million



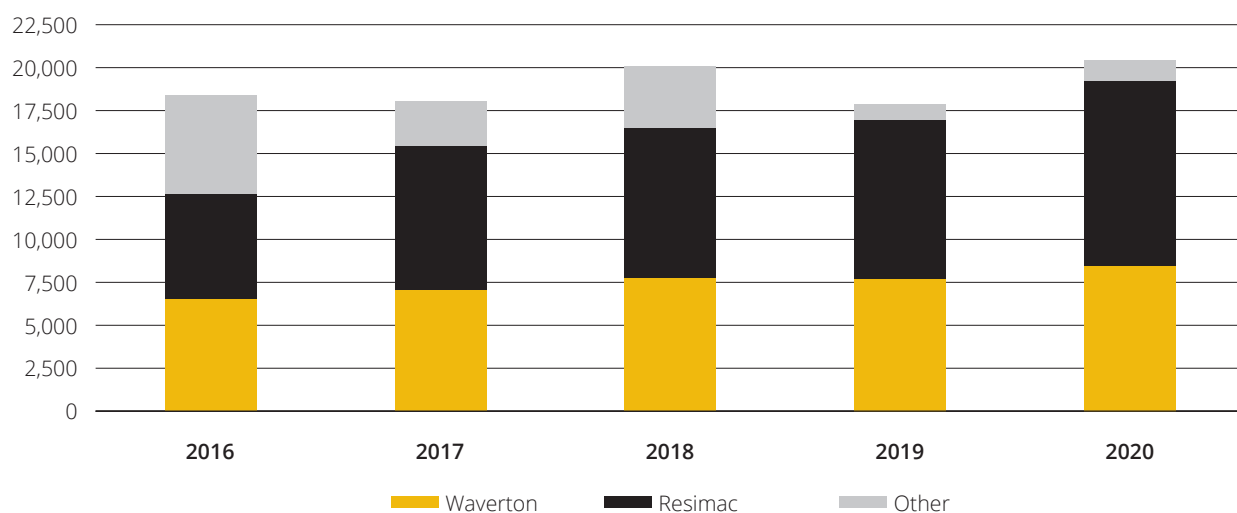
**DIVIDEND** per Common Share (diluted) – USD





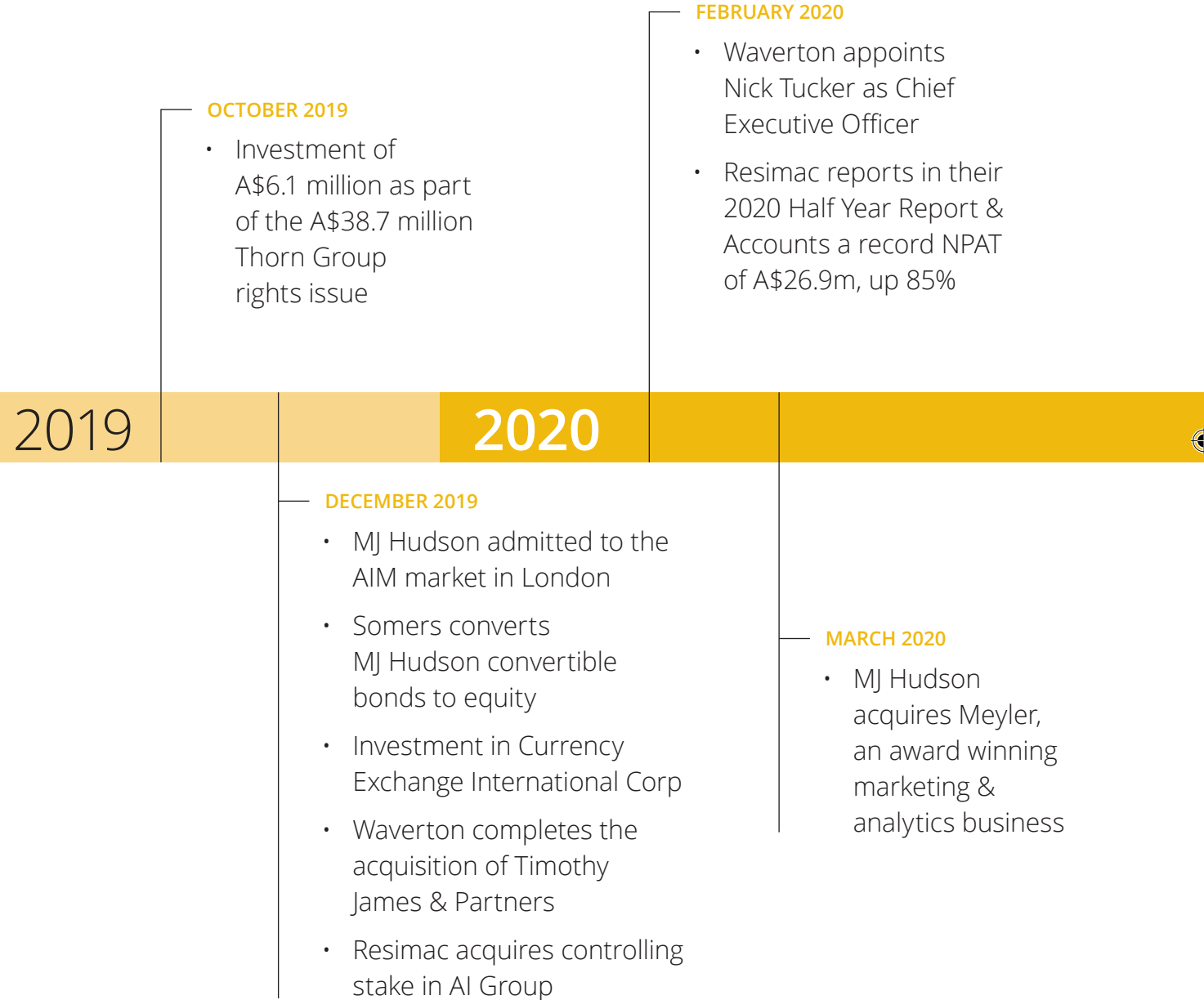
Year ended September 30, 2020	2020	2019
NAV per Share	\$19.78	\$17.10
Share Price	\$13.75	\$15.00
Discount to NAV	30.49%	12.30%
Shares in Issuance (excluding shares held in treasury)	21.34m	20.67m
Total return per ordinary share	18.87%	-3.05%
Ordinary dividend per share	55.0c	51.0c
<b>Total assets</b>	<b>\$508.60m</b>	<b>\$423.13m</b>

#### SOMERS GROUP AuM – Subsidiaries (US\$m)

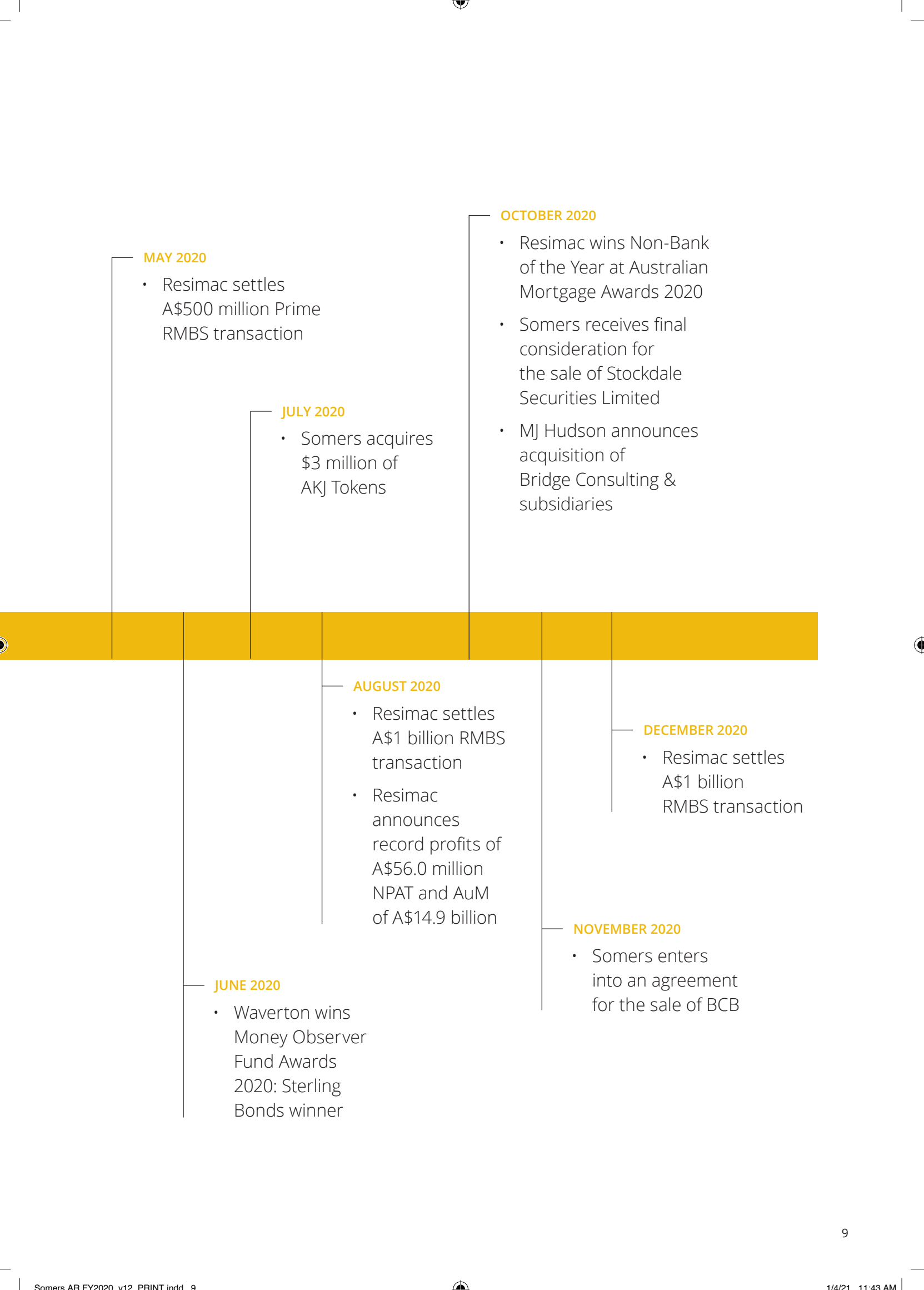


Somers investee companies generally reported excellent results in 2020.

KEY HIGHLIGHTS







## GEOGRAPHICAL INVESTMENT EXPOSURE

(% of Total Investments)

### BERMUDA

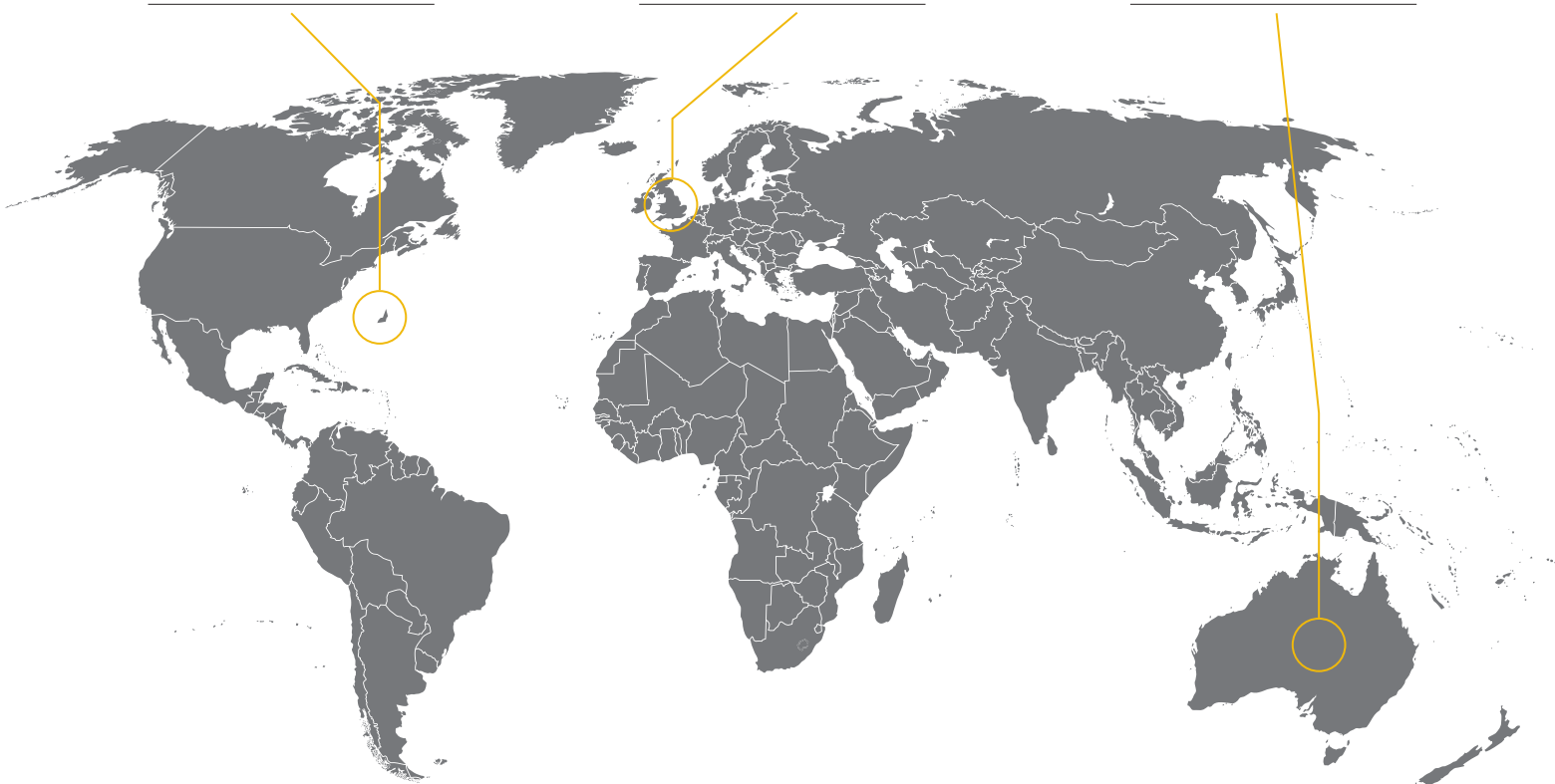
Fair Value	\$95.8m
% Total Investments	19.1%

### UNITED KINGDOM

Fair Value	\$108.7m
% Total Investments	21.7%

### AUSTRALIA

Fair Value	\$285.1m
% Total Investments	56.9%



Somers' investments generally have strong fundamentals and their growth strategies should provide positive results in 2021.



# ABOUT THE COMPANY



## HIGHLIGHTS

Despite the volatility experienced in 2020, our investments have produced strong underlying financial performances.

This year has been dominated by the Covid-19 pandemic which has had a huge impact on all markets. Whilst we remain in the middle of the pandemic with some countries suffering subsequent waves of infection, we believe that our investments have demonstrated their strong business models and are well placed to prosper when the world starts to return to normal.

We completed 2020 with \$19.9 billion AuM and total assets of \$508.6 million, and maintained an attractive dividend yield of 4.0%.

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## FINANCIAL REVIEW

Somers' financial highlights for the year ended September 30, 2020, are set out on page 6 and the results for the year are set out in the attached accounts.

Notwithstanding the global impact of Covid-19, the growth in the value of Somers' holding in Resimac along with favourable exchange rates resulted in a positive set of financial results for Somers. The Company recorded annual net income of \$69.0 million (2019: net loss of \$9.7 million) and shareholders' equity has grown to \$422.1 million (2019: \$353.6 million). Earnings per share (on both a basic and fully diluted basis) were \$3.29 compared with basic and fully diluted loss per share of \$0.48 in 2019. NAV per share ended the year at \$19.78 from \$17.10 a year ago. The annualised total return on shareholders' equity (including dividends) was 18.6%

### INCOME

#### Gains on Investments

Somers recorded a \$61.0 million gain on its investment portfolio for 2020 (2019: \$4.3 million). This gain comprised of realised and unrealised gains of \$1.6 million and \$59.4 million respectively (2019: \$1.0 and \$3.3 million respectively). Investment gains and losses result from changes in the valuations of the Company's investments. The 2020 gain was driven principally by valuation increases at Resimac but there was also more modest gains at other entities including The Market Herald, Dealnet and AssetCo.

Resimac is Somers' largest investment, and over the year its share value increased by 54% from A\$0.92 per share to A\$1.42 per share. Resimac's gain follows stellar results at the company. Net interest income increased by 60% to A\$188.6 million and total mortgage settlements increased by 30% to A\$4.7 billion, while their normalised profit after tax was up 79% to A\$56.0 million for their financial year ended June 30, 2020.

The Market Herald's valuation increased following improved operating results while AssetCo's share price has risen following the favourable settlement of its litigation case. Offsetting this was a valuation decrease at BCB and PCF's share price also reduced over the year. Somers adjusted the discount on BCB's book value to align BCB's carrying valuation to its expected sales price. Despite a solid financial performance by PCF in 2020, its share price reduced over the year in line with the banking industry as a whole as a result of the Covid-19 pandemic.

Subsequent to year end, as at the date of this review, most of PCF's 2020 share price decrease has reversed.

#### Net Interest Income

Interest income totalled \$0.4 million (2019: \$0.4 million), with \$0.1 million (2019: \$0.3 million) generated from convertible loan notes and \$0.3 million (2019: \$0.1 million) generated from lending to portfolio companies. Somers earns interest income from loans it provides to its portfolio companies and its holding of convertible debt securities. With Somers' lending portfolio at modest levels, interest income remains correspondingly low.

Interest expense was \$3.9 million in 2020 compared to \$2.9 million a year earlier. With interest rates remaining at similar levels to the prior year, the increased expense resulted almost entirely from an increase in average borrowing levels. The new borrowings were used to fund a number of investment opportunities and if, as expected, Somers uses a portion of the proceeds from the sale of BCB to reduce its debt then we would anticipate a corresponding decrease in interest expense in 2021.

#### Dividend Income

Somers received distributions of \$8.5 million during the year compared to \$7.5 million in 2019. Of the dividends received, \$5.1 million was received from Resimac and \$2.4 million was received from Waverton, both of whom are generating positive levels of earnings and cash flow.

#### Foreign Exchange Movements

Net foreign exchange gains were \$14.6 million for the year (2019: loss of \$15.6 million). \$275 million of Somers' net assets are denominated in Australian Dollars and a further \$74 million are denominated in Sterling, and during the year these currencies appreciated against the US Dollar by 6.1% and 5.0% respectively. These gains were primarily unrealised. Currency risk is an integral consideration when making investments into non-US Dollar denominated assets and the Investment Manager monitors currency movements on an ongoing basis. Foreign currency policy is discussed with the Board on a regular basis and asset allocation or currency risk strategies may be altered as a result. There is no regular hedging of foreign currency as the Company is a long term investor and currency fluctuations are expected to equal out over time. The Company may however



engage in currency hedging to limit Somers' exposure to currency fluctuations, but did not engage in currency hedging throughout 2020 and there were no open currency hedges at year end.

The net assets of the Company by currency and the sensitivity for further currency movements are shown in note 17 of the audited financial statements.

#### EXPENSES

Somers' cost base is actively managed and monitored on an ongoing basis and there is a focus on linking the cost base to revenue streams.

Normal operating expenses, which exclude investment management fees, totalled \$1.5 million for the year, a similar level to the \$1.4 million recorded for 2019, with the small year on year increase attributable to increased external investment advisory fees.

Investment management fees consist of a fixed annual percentage fee charge and a performance fee which is paid where agreed performance targets are achieved. The annual investment management fees increased this year to \$3.2 million from \$2.0 million in 2019. This increase resulted from both an increase in the percentage fee level and an increase in the size of the portfolio. The investment management fees are based on a fixed percentage of portfolio assets, and during the year the fee rate was increased from 0.50% to 0.75% of the portfolio asset value. Somers operates a highly regulated investment portfolio which requires above average management from ICM and the current year fee rate increase follows a continual increase in the complexity of Somers' investments over the last few years, particularly where Somers holds a significant or majority stake in its investee companies. Regulation across all jurisdictions has increased significantly and this has placed additional burden and workload on the Investment Manager through increased accounting, regulatory and compliance reporting requirements.

Under the terms of its investment manager agreement a performance fee is also payable to ICM if the growth in Somers' equity exceeds a hurdle rate equal to the higher of 8% or 4% plus the UK Retail Price Index inflation. The fee is payable at a rate of 15% on the amount by which the growth in the Company's equity exceeds the hurdle rate and such a fee was last paid in 2014. Following the strong performance of the portfolio in 2020, Somers has, in accordance with the investment manager agreement, accrued a performance fee of \$7.2 million for the year ended September 30, 2020, and this is expected to be paid to ICM in early 2021.

#### ASSETS

Total assets ended the year at \$508.6 million from \$423.1 million a year earlier, with the increase in Somers' balance sheet resulting almost entirely from valuation gains on Somers' holding in Resimac.

##### Financial Investments

The investment portfolio was \$500.9 million at year end (2019: \$410.3 million) with equity investments (\$494.8 million) accounting for 98.8% of this total. The remaining 1.2% (\$6.1 million) consisted of other financial investments.

Within investments, Resimac at \$258.9 million (2019: \$157.9 million), Waverton at \$71.9 million (2019: \$68.8 million) BCB at \$66.4 million (2019: \$82.9 million) and PCF at \$32.0 million (2019: \$43.5 million) together represent 85.7% of total investments. It is anticipated that this concentration will continue to reduce as new capital flows, an increased but limited level of leverage, and net positive cash flows from existing investments allow for new investment opportunities. A table setting out the Company's core investments is provided on page 16, and individual company details are provided in the Summary of Core Investments section of this report.

**Somers' share price ended the year at \$13.75 down from \$15.00 at September 30, 2019 while its closing NAV per share increased to \$19.78 (2019: \$17.10).**

## FINANCIAL REVIEW (continued)

Total investment purchases in 2020 were \$26.4 million (2019: \$34.7 million) and total 2020 disposals were \$14.7 million (2019: \$13.6 million). Somers is a mid to long term investor with a strategy of supporting its core investments. The Company is building a portfolio of financial services companies and the trading of investments within this portfolio is generally kept to a minimum. The investment activity in 2020 was funded primarily from disposal proceeds and shareholders' loans, with the two majority shareholders providing \$8.9 million of new loan facilities during the year. Investments during the year included the following:

- Investment of £7.8 million in MJ Hudson shares through the conversion of convertible bonds upon their listing on AIM;
- Investment of A\$7.0 million in Thorn Group including A\$6.1 million through their rights issue; and
- Investment of \$3.0 million in AKJ Tokens issued by the AK Jensen Group.

### Loans and Receivables

As part of its investment strategy, Somers will occasionally provide lending facilities to companies within its investment portfolio. These facilities are typically used by the companies for growth or investment purposes and at September 30, 2020, such loan balances were \$2.1 million, a similar level to the prior year (2019: \$1.5 million).

### BORROWINGS

External borrowings will only be undertaken where the Directors and the Investment Manager consider the prevailing interest rates to be favourable and that the terms and conditions attaching to such borrowings are acceptable, having regard to Somers' investment objectives.

Somers' borrowings increased to \$76.0 million at September 30, 2020, from \$67.9 million a year earlier. However, as a result of the strong growth in shareholders equity, the gearing level reduced to 18.0% (2019: 19.2%). Borrowings consisted of bank loans of \$41.9 million (2019: \$42.7 million), and non-bank loans of \$34.1 million (2019: \$25.2 million). The bank loans consisted of a £27.0 million loan from The Bank of N.T. Butterfield & Son Limited and a \$7.0 million loan from BCB. The non-bank loans were provided by UIL Limited and Permanent Investments Limited.

The additional shareholders' loans were utilised primarily to fund investment activity.

### SHAREHOLDERS' EQUITY

Shareholders' equity increased to \$422.1 million at September 30, 2020 from \$353.6 million a year earlier following the excellent 2020 investment portfolio performance. During the year, shareholders invested \$10.2 million of the \$10.6 million dividends paid since September 2019 under the dividend reinvestment plan, and Somers bought back 7,138 shares at a cost of \$0.1 million. The net result from these actions was an increase in the number of issued shares to 21,341,482 as at September 30, 2020 (2019: 20,671,621).

#### INVESTMENT OF

# A\$7.0

MILLION  
in Thorn Group.

#### INVESTMENT OF

# C\$3.6

MILLION  
in Currency Exchange  
International Corp.

#### CONVERSION OF

# £7.8

MILLION  
MJ Hudson  
convertible bonds  
to equity upon their  
listing on AIM.

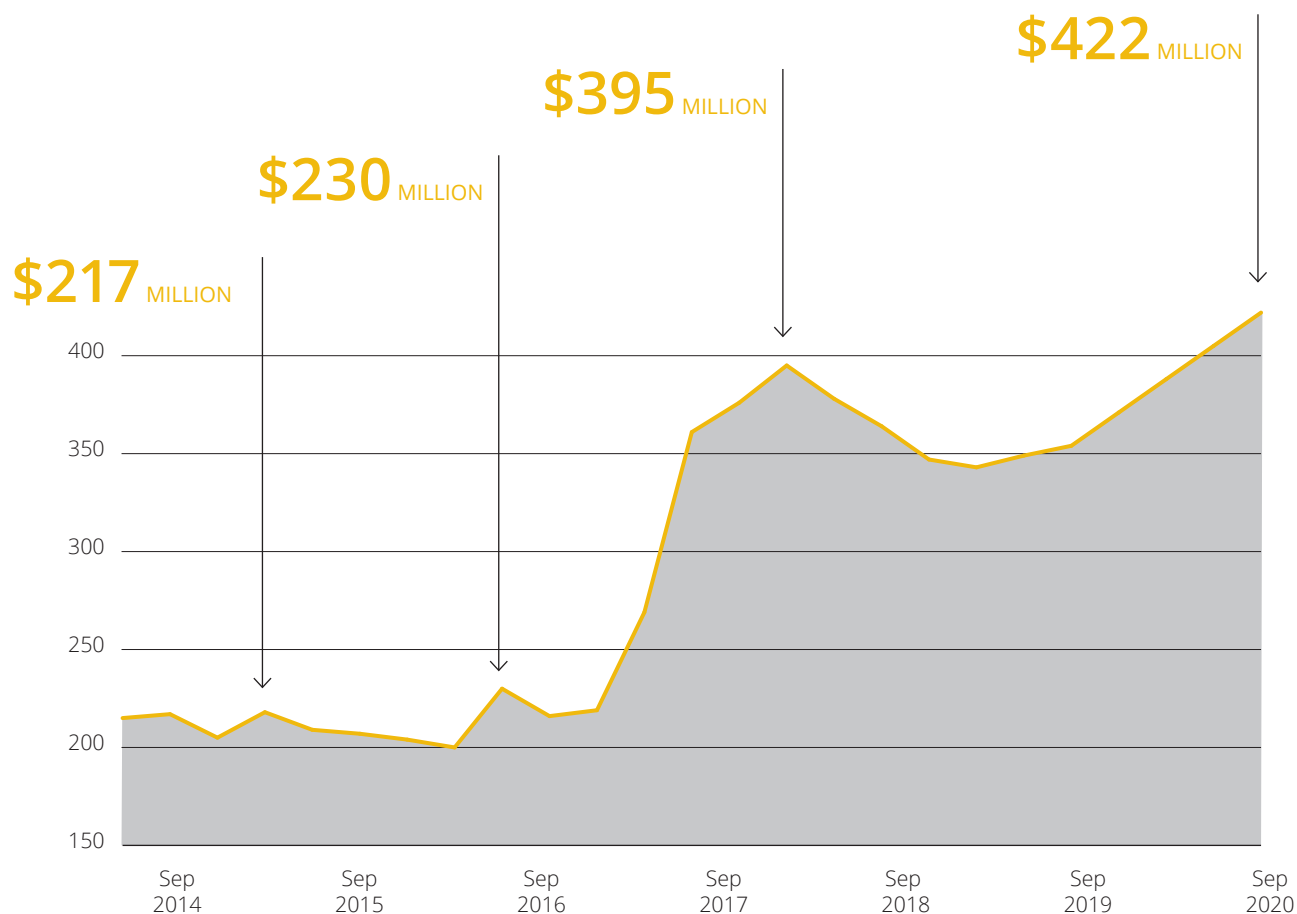
#### INVESTMENT OF

# \$3.0

MILLION  
in AKJ Tokens  
issued by the  
AK Jensen Group.

## SHAREHOLDERS' FUNDS

SHAREHOLDERS' FUNDS – USD Million

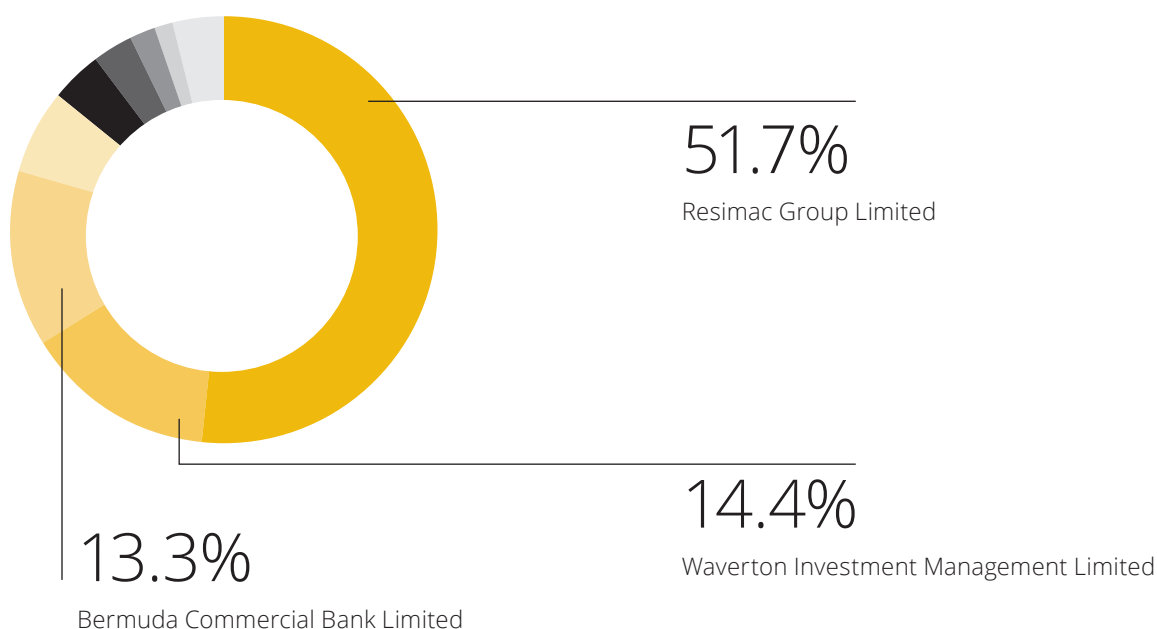


Somers is optimistic for the future as our investee companies are well placed to prosper.

## SUMMARY OF CORE INVESTMENTS

### CORE INVESTMENTS

Somers' investments are predominantly based in Australia, Bermuda and the UK, with these three jurisdictions together accounting for 97.8% of total investments. In total, the Company's core holdings account for 96.2% of total investments at September 30, 2020.



	Company	Country	Fair Value (\$)	% of Total Investments
1	Resimac Limited	Australia	258,940,007	51.7%
2	Waverton Investment Management Group Limited	UK	71,891,980	14.4%
3	Bermuda Commercial Bank Limited	Bermuda	66,400,000	13.3%
4	PCF Group plc	UK	31,955,429	6.4%
5	West Hamilton Holdings Limited	Bermuda	19,329,811	3.9%
6	Thorn Group Limited	Australia	15,282,471	3.1%
7	AK Jensen Group Limited	Bermuda	10,072,370	2.0%
8	MJH Group Holdings Limited	Jersey	8,119,426	1.6%
	Significant investments		481,991,495	96.2%
	Other investments		18,903,341	3.8%
	<b>Total investments</b>		<b>500,894,835</b>	<b>100.0%</b>



Details of our Somers' core investments are provided below. Details of Somers' subsidiary companies are provided in note 4 to the accounts.

## RESIMAC GROUP LIMITED ("RESIMAC")



[www.resimac.com.au](http://www.resimac.com.au)

### VALUATION

**\$258.9** MILLION

Resimac is a residential mortgage lender and multi-channel distribution business specialising in prime and specialist mortgage lending. It operates in targeted market segments and asset classes in Australia and New Zealand. Its primary activities are as a mortgage manager and in originating, servicing and securitising mortgage assets. As at June 30, 2020, principally funded loans and advances to customers increased by 21% to A\$12.4 billion and the non-principally funded portfolio was A\$2.5 billion giving total AuM of A\$14.9 billion. Resimac generated a normalised net profit after tax for the year ended June 30, 2020 of A\$55.7 million. Total interest income for the year was A\$459.3 million, a 3.1% increase from 2019. Net interest income increased by 60% to A\$188.6 million and, as a result of Covid-19, provisioning loan impairment expense increased to A\$36.7 million. During the year, Resimac issued A\$2.5 billion of term duration funding through three RMBS transactions.

### NET PROFIT AFTER TAX

**A\$55.7**  
MILLION

### NET INTEREST INCOME

**A\$188.6**  
MILLION

## WAVERTON INVESTMENT MANAGEMENT LIMITED ("WAVERTON")



[www.waverton.co.uk](http://www.waverton.co.uk)

### VALUATION

**\$71.9** MILLION

Waverton is an award winning London-based specialist investment manager which focuses on discretionary portfolio management for private clients, charities and institutions as well as offering a suite of in-house managed investment funds. Somers, in conjunction with Waverton's management and staff, acquired Waverton from Credit Suisse AG in 2013 for a total cash consideration of £50 million. In December 2019 Waverton acquired the UK based IFA, Timothy James & Partners ("TJP"). Waverton reported AuM as at September 30, 2020 of £6.5 billion, an increase of £0.2 billion from the prior year which was driven by net new assets while the acquisition of TJP contributed to the increase in assets under influence to £9.2 billion. For the 12 months ended September 30, 2020, Waverton earned revenue of £47.2 million (2019: £39.9 million), EBITDA of £7.7 million (2019: £6.6 million), and operating profit before tax of £6.1 million (2019: £5.3 million). During the year Waverton paid Somers dividends totalling £1.9 million.

### REVENUE

**£47.2**  
MILLION

### EBITDA

**£7.7**  
MILLION

## SUMMARY OF CORE INVESTMENTS (continued)

### BERMUDA COMMERCIAL BANK LIMITED ("BCB")



[www.bcb.bm](http://www.bcb.bm)

#### VALUATION

**\$66.4** MILLION

BCB is one of Bermuda's four licensed banks and the only bank dedicated solely to the needs of commercial, corporate and high net-worth clients. BCB offers banking solutions, corporate administration, global custody and brokerage, estate planning and trust administration. BCB reported a loss of \$12 million in 2020, mainly as a result of unrealised losses and expected credit losses ("ECL") allowances in its investment portfolio caused by Covid-19 market volatility. Total assets were \$508 million and customer deposits were \$409 million. As at September 30, 2020, BCB's Tier 1 and total capital ratios were 28.4% and 28.4% respectively, significantly exceeding the prescribed regulatory limits and confirming BCB's strong and liquid balance sheet. Post the year end, Somers agreed to sell BCB to Provident Holdings Ltd. subject to regulatory and Government approvals.

#### TOTAL ASSETS

**\$508.2**  
MILLION

#### TIER 1 RATIO

**28.4%**

### PCF GROUP PLC ("PCF")



[www.pcfbank.co.uk](http://www.pcfbank.co.uk)

#### VALUATION

**\$32.0** MILLION

PCF is the AIM-quoted parent of the specialist bank, PCF Bank Limited which was granted a deposit taking license in 2017. PCF was established in 1994 and has two main lending divisions: Consumer Finance which provides finance for motor vehicles to consumers; and, Business Finance which provides finance for vehicles, plant and equipment to small and medium sized businesses. PCF has commenced lending bridge finance to property development projects and this area of the business experienced pleasing growth in 2020. Consumer Finance and Business Finance have been impacted by Covid-19 and this has caused the growth in PCF's loan portfolio to slow in 2020. For the year ended September 30, 2020, PCF reported net interest income of £26.6 million and profit before tax of £3.9 million, which was reduced from 2019 due to Covid-19 related loan costs and increased regulatory and infrastructure costs associated with being a regulated bank. The return on equity was 5.4% and PCF reported a total loan portfolio of £433.7 million, an increase of £95.2 million from the prior year. As at September 30, 2020 PCF had deposits of £342.0 million (2019: £267 million).

#### PROFIT BEFORE TAX

**£3.9**  
MILLION

#### TOTAL LOAN PORTFOLIO

**£433.7**  
MILLION

**WEST HAMILTON HOLDINGS LIMITED**  
**("WEST HAMILTON")**



[www.westhamilton.bm](http://www.westhamilton.bm)

**VALUATION**

**\$19.3** MILLION

West Hamilton is a Bermuda Stock Exchange listed property investment and management company, with property assets in the west of Hamilton, Bermuda. The Belvedere Residences, West Hamilton's mixed-use building, which was completed in September 2016, remains fully occupied with all commercial space let on long term leases, 7 apartments let on leases and two apartments sold. The 308 space car park facility is 100% occupied with a significant waiting list. The Belvedere Building is approximately 85% occupied which is positive given the weak commercial market in Bermuda and the impact of Covid-19 on commercial property in general. For the year ended September 30, 2020, West Hamilton reported strong results with revenue of \$3.1 million and operating income for the year of \$1.9 million. Total assets amounted to \$45.3 million (2019: \$47.1 million). Total liabilities were \$11.4 million (2019: \$12.3 million) and net debt was \$10.8 million (2019: \$11.7 million).

**REVENUE**

**\$3.1**  
MILLION

**OPERATING INCOME**

**\$1.9**  
MILLION

**THORN GROUP LIMITED**  
**("THORN")**



[www.thorn.com.au](http://www.thorn.com.au)

**VALUATION**

**\$15.3** MILLION

Thorn is an Australian asset financing company whose shares are listed on the ASX. Thorn has two distinct divisions, Radio Rentals which provides leasing services to the consumer, and Business Finance which provides equipment financing to small and medium sized businesses ("SMEs"). Radio Rentals historically provided TVs, PCs, furniture either on a Rent or Rent to Buy basis via 65 Radio Rentals stores, but as a result of Covid-19 the decision was taken in June 2020 to close all the stores and pivot to an online offering. Business Finance leases business equipment via white label partners and brokers to SMEs and is funded by a warehouse facility and mezzanine debt. For the six months ended September 30, 2020, Thorn reported revenue of A\$57.8 million and a loss of A\$1.1 million which includes annualised cost savings of \$40 million and an increase in Covid-19 provisioning of A\$11.4 million. Thorn's total equity as at September 30, 2020 was A\$105.8 million and has cash on hand of approximately A\$50 million.

**REVENUE**

**A\$57.8**  
MILLION

**TOTAL EQUITY**

**A\$105.8**  
MILLION

**AK JENSEN GROUP LIMITED**  
("AKJ")



[www.akj.com](http://www.akj.com)

**VALUATION**

**\$10.1** MILLION

AKJ is a hybrid business which provides brokerage and software solutions to its clients as well as providing hedge fund services. AKJ provides a hedge fund platform to hedge fund managers enabling them to set up a hedge fund at low cost, trade through AKJ's proprietary technology platform, and operate under the AKJ regulatory framework. This is attractive to new hedge fund managers who are often unable to incorporate a hedge fund due to the associated costs and regulatory burden. During the year, AKJ launched a front-to-back, tier-one solution for digital asset hedge fund managers and, to aid this development, Somers acquired an additional \$3 million of AKJ tokens. Despite the Covid-19 delay, AKJ is looking to close the first stage of its private token offering in 2021 with a second stage offering in 2022. For the year ended December 31, 2019, AKJ reported revenue of \$8.9 million. As at September 30, 2020 AKJ had 13 hedge funds operating on its hedge fund platform and held assets of \$321 million. They also had \$10 million of AUM on their crypto platform and had sold tokens worth \$8.4 million.

**ASSETS HELD**

**\$331.0**  
MILLION

**REVENUE OF**

**\$8.9**  
MILLION

**MJ HUDSON GROUP LIMITED**  
("MJ HUDSON")



[www.mjudson.com](http://www.mjudson.com)

**VALUATION**

**\$8.1** MILLION

MJ Hudson is a financial services infrastructure platform business. Its focus is to capitalise on the shift in the asset management industry from mainstream investments to alternative investments. It was founded in 2010 as a law firm for the alternative asset management and investment industry and today combines an international corporate law firm with investment advisory, business outsourcing and data and analytics. In December 2019, MJ Hudson completed its £30 million IPO on AIM in London. For the year ended June 30, 2020, MJ Hudson reported revenue of £20.3 million and underlying EBITDA of £4.2 million (before one-off IPO and acquisition costs). During the year MJ Hudson acquired two complementary businesses, Anglo Saxon Trust Limited, a company and trust administration business based in Jersey and Meyler LLC, a marketing services and analytics business based in New York and Vancouver.

**REVENUE**

**£20.3**  
MILLION

**UNDERLYING EBITDA**

**£4.2**  
MILLION



# INVESTMENT MANAGER'S REPORT



ICM is the Investment Manager of Somers.

## OVERVIEW

2020 has been dominated by the Covid-19 pandemic and its impact on the global economy and all markets. Whilst stock markets have rebounded off their lows, supported by significant central bank and government liquidity and resultant low interest rates, the global economy is still to fully recover. With a large portion of the world experiencing a second wave of Covid-19 infections and with vaccines not likely to be available in significant volumes until the first half of 2021, a full recovery in the global economy is not expected until late 2021 and into 2022.

However, against this backdrop it is encouraging to highlight the strong underlying performance of Somers' investee companies in 2020. In particular our largest investment, Resimac, produced stellar results in 2019/20 and their recent trading update indicates that 2020/21 is going to be an even stronger year. Other investee companies such as Waverton and PCF, whilst impacted by Covid-19, have been able to continue to produce positive

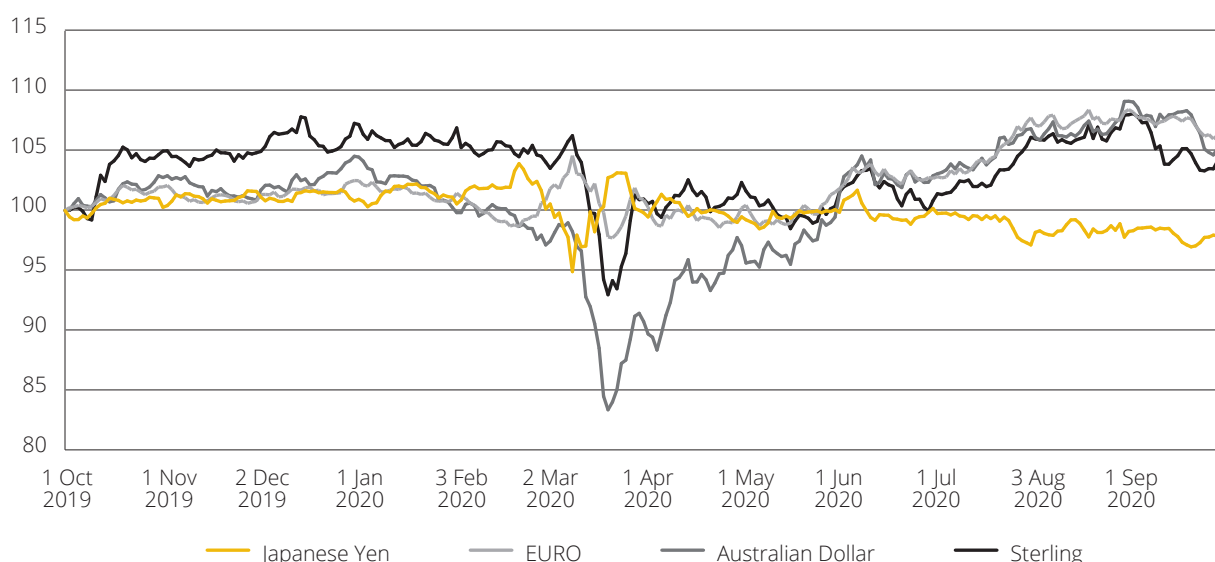
investment results and demonstrate that their business models have significant resilience in times of stress.

Unlike in previous years, Somers benefitted in 2020 from its unhedged foreign currency positions. Both Sterling and the Australian Dollar (which together represent 80.2% of the value of Somers' investments as at September 30, 2020) strengthened against the US Dollar. The value of Sterling was positively impacted by the UK General Election in late 2019 and by the belief that the prospect of a no deal Brexit has reduced, increasing by 5.0% against the US Dollar during the year. Somers has a significant percentage of its assets denominated in the Australian Dollar, including Resimac and Thorn. With the Australian Government being successful in its battle against Covid-19, and the increasing chances of a global economy rebound in 2021 which should benefit the Australian economy through its natural resources, the Australian Dollar increased by 6.1% against the US Dollar.

Somers reported a record profit of \$69.0 million for the twelve months to September 30, 2020, principally due to the increased valuation at Resimac and foreign currency strength as outlined. This was offset by decreased valuations at BCB and PCF. Each of the Company's core investments is reviewed in more detail later in this report.

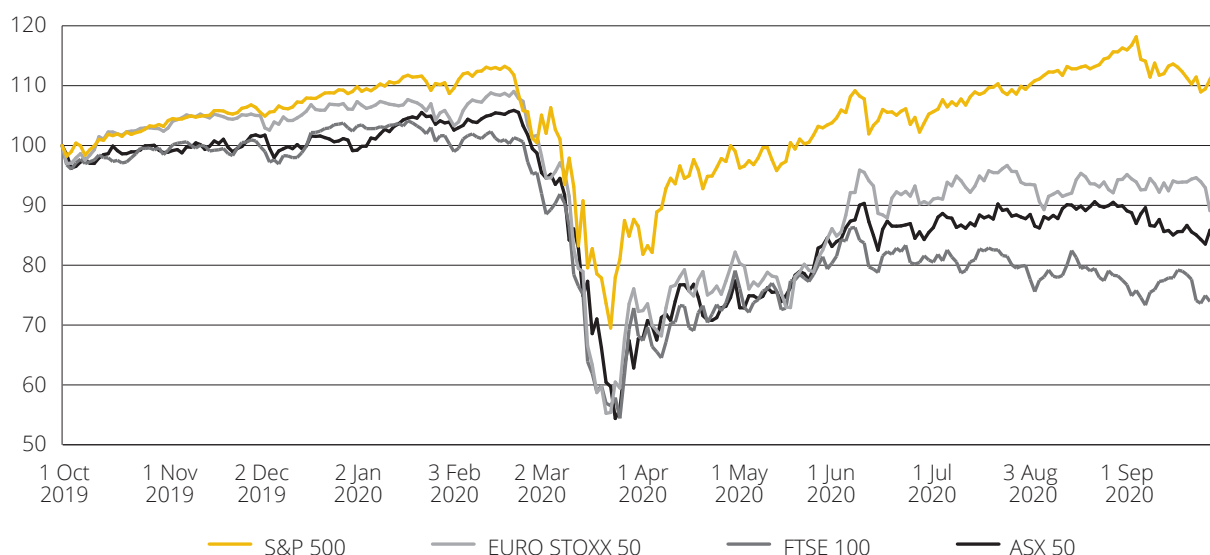
One of the main responses by central banks to the Covid-19 pandemic was to significantly reduce interest rates. In 2019 the US Federal Reserve stopped increasing

## CURRENCY MOVEMENTS VS US DOLLAR – October 2019 to September 2020



## INVESTMENT MANAGER'S REPORT (continued)

### INDICES MOVEMENTS – October 2019 to September 2020



interest rates and in fact had started to cut them before taking a pause at the end of the year. However, in March 2020 it cut interest rates by 100 bps to combat the impact of Covid-19. Whilst nominal interest rates in the US have remained positive that is not the case in the majority of major countries in the world. A significant amount of sovereign bonds across the globe now carry negative yields, and central banks continue to provide additional liquidity to the market. The future movements of currencies and interest rates continue to factor heavily in Somers' investment decisions. Somers does not currently hedge its investments, although ICM continually evaluates this risk. There is likely to be a period of uncertainty into 2021, until the Covid-19 vaccines are widely available and while geopolitical events such as Brexit continue to unfold. This is likely to lead to volatility in the markets, but with the significant amount of liquidity in the global financial system we anticipate that financial markets should perform well in 2021 and beyond.

The year to September 30, 2020 contained a lower than normal level of corporate transactions. At the start of the year, Somers invested A\$6.1 million as part of the Thorn rights issue and during the year Somers made a number of small investments in listed companies in Canada and Australia. Somers also acquired \$3 million of AKJ Tokens to fund AK Jensen ("AKJ") as they built out a digital asset hedge fund trading platform. Post the year end, Somers received the final tranche from the sale of Stockdale Securities, and during the year Somers

realised a number of smaller listed investments. In December 2019, MJ Hudson successfully listed on AIM raising £30 million to repay debt and to provide funding for future acquisitions.

Somers' shares continue to trade at a significant discount to its NAV. The share price as at September 30, 2020 was \$13.75 which is a discount of 30.5% to the year-end NAV of \$19.78. The significant discount is one of the reasons Somers continues to buy back shares, and during the year the Company bought back 7,138 shares for a total cost of \$0.1 million.

### CORE INVESTMENTS

Somers has a small number of concentrated investments which are essentially focused on the financial services sector with over 96% of the portfolio in this sector. Within geographic allocations, Australia accounts for 56.9% of the portfolio (2019: 41.5%), the UK accounts for 21.7% of the portfolio (2019: 28.4%), while Bermuda is 19.1% (2019: 26.8%).

As at September 30, 2020, Somers eight largest investments accounted for 96.2% of the portfolio (2019: 97.9%). An overview of each of these companies can be found in the Summary of Core Investments section on page 16.



**Resimac** is Somers' largest investment, accounting for 51.7% of Somers' portfolio (2019: 38.5%). Its shares are listed on the Australian Securities Exchange ("ASX") and Somers owns approximately 62.4% of Resimac, with the balance owned by institutional and retail investors.

The company generated normalised net profit after tax for the year ended June 30, 2020 of A\$56.0 million. Interest income increased to A\$459.3 million and net interest income increased by 60% to A\$188.6 million. Total mortgage settlement flows across Resimac's combined distribution channels (i.e. both principally funded and non-principally funded) increased by an impressive 30% to A\$4.7 billion (2019: A\$3.6 billion). Through increased revenue growth and a focus on automation and cost control, the company's cost to income ratio decreased by almost 20% to 37.9%. As at June 30, 2020, total assets under management had increased by 11% to A\$14.9 million. During the year Resimac issued A\$2.5 billion of residential mortgage backed securitisations ("RMBS") and post the year end issued a further A\$1 billion of non-conforming RMBS.

The year ended June 30, 2020 was an excellent year for Resimac, made all the more impressive against the backdrop of Covid-19. All of the key financial metrics for Resimac were positive and show significant growth year on year. The increase in profit was driven by record settlements, AuM growth and higher interest margins, which also included an increased provision against loan losses from the impact of the pandemic. Resimac continues to benefit from the demand for residential mortgages from the non-bank sector and Resimac's unique position as a non-bank lender is attractive to customers, with many seeing the company as an alternative to Australia's major banks. In recent months Resimac has benefited from an unusual situation where the Bank Bill Swap Rate ("BBSW", the rate that banks in Australia lend to each other) continues to reset below the Reserve Bank of Australia's ("RBA") Cash Rate. This is due to the RBA's quantitative easing policy and more accommodating repo terms to encourage liquidity in the system. Historically the BBSW was set above the Cash Rate so the current situation is increasing Resimac's margins. Whilst this is unlikely to be the case long term,

Resimac is expected to continue to benefit from this advantageous condition into 2021.

Resimac appears well placed to navigate the pandemic with strong portfolio performance and industry low arrears. The portfolio is diversified both geographically and by borrower industry and employment sectors. Resimac recently released a trading update stating that they expect normalised net profit after tax for the first half of the year to be in the range of A\$48 million to A\$53 million, and as at the end of October 2020 only 4% of customers were in Covid-19 related payment deferrals compared to 10% at June 30, 2020. Post the year end Resimac won the Non-Bank of the Year award at the Australian Mortgage Awards 2020.

Historically due to the relatively illiquid nature of Resimac's shares, Somers had valued Resimac at fair value. More recently there has been increased liquidity in Resimac's shares and under IFRS accounting guidance Somers is now required to value Resimac based on its listed share price which as at September 30, 2020 was A\$1.42 per share. The share price has appreciated over the year and Somers investment in Resimac was valued at A\$361.3 million at year end (2019: A\$233.9 million). More information on Resimac can be found on page 17.



**WAVERTON**  
INVESTMENT MANAGEMENT

**Waverton's** AuM was approximately £6.5 billion at September 30, 2020 (2019: £6.3 billion). The increase in AuM during the year was driven by £150 million of net new assets. Assets under influence were £9.2 billion at September 30, 2020. This figure enhanced by additional assets following the acquisition in December 2019 of TimothyJames & Partners ("TJP"), a specialist independent financial adviser. In February 2020, Waverton announced the appointment of Nick Tucker, the former Head of UBS Domestic Wealth Management in the UK, as its new CEO.

Waverton's investment performance continues to be excellent, and against its peers Waverton continues to rank in the top quartile over the last twelve months, three-year, five-year and ten-year periods respectively. Over the last few years Waverton has made significant investment both in terms of its people but also its infrastructure. This has positioned the business for

## INVESTMENT MANAGER'S REPORT (continued)

growth and has ensured that Waverton can meet the increasing regulatory burden that has been placed on the asset management industry in the UK. However, the next stage of Waverton's evolution is to grow its AuM, particularly in the core private client business along with other divisions such as charities and advisor solutions. The acquisition of TJP is intended to add another string to Waverton's bow and improve the potential for cross selling across the group.

Waverton has changed its year end from September to December but for the 12 months ended September 30, 2020, Waverton reported unaudited revenue of £47.2 million (2019: £39.9 million) and a profit before tax of £6.1 million (2019: £5.3 million). Given the volatility of markets, and in particular the underperformance of the FTSE in 2020 as a result of Covid-19 and Brexit, the financial results achieved by Waverton are solid.

Somers' investment in Waverton has been valued based on peer comparisons using an EV/EBITDA valuation methodology. Over the course of the year, Waverton's maintainable EBITDA improved to £9.9 million (2019: £7.8 million). The increase in maintainable EBITDA was primarily driven by increased AuM resulting from net new assets. This was against the backdrop of the FTSE which was down approximately 15% in the 12 months to September 30, 2020 due to continued Brexit uncertainty and the significant shock to markets in March 2020 from Covid-19 and the resultant UK national lockdown. The increase in maintainable EBITDA was offset by a reduction in Waverton's peer multiple from 12.0x in 2019 to 9.2x. The net result was a small decrease in the value of Somers' investment in Waverton to £55.7 million (2019: £56.0 million). More information on Waverton can be found on page 17.



**BCB** is one of Bermuda's four licensed banks and accounts for 13.3% of the portfolio at the year-end (2019: 20.2%). During the year Somers announced that it had terminated its agreement to sell BCB to Permanent Capital Holdings Limited ("Permanent Capital") because it had received a number of unsolicited offers for BCB, which the Board of Somers determined were superior to the agreement with Permanent Capital. Post the

year end, on November 19, 2020, it was announced that Somers had agreed to sell BCB to the investment company Provident Holdings Ltd. The transaction requires Government and regulatory approvals and we hope that the transaction will complete in the first quarter of 2021. Somers will provide more details to shareholders in terms of the use of proceeds and the value of the transaction upon completion.

BCB successfully implemented its business continuity plan in 2020 to keep the bank's employees safe during the pandemic and ensured that it met all its regulatory requirements. The bank reported a loss of \$12 million for the year ended September 30, 2020 principally due to unrealised losses, and ECL allowances on its investment portfolio arising from the market dip caused by Covid-19. Post the year end, BCB's book volume has almost returned to pre-Covid-19 levels. The cut in interest rates reduced the bank's income but management were able to reduce operating costs by over 12% year on year. BCB continued to have a strong and liquid balance sheet with a capital ratio of 28.4% as at September 30, 2020. Because of its strong capital ratio, BCB has additional capacity to deploy further assets into capital efficient and higher yielding assets, and many of the bank's bonds continue to rebound from the March lows which should help underpin the bank's capital position and financial results going forward. Total assets as at September 30, 2020 were \$508 million and 48% of the bank's balance sheet is in cash and cash equivalents.

The Somers valuation of \$66.4 million (2019: \$82.9 million) is a 21% discount to the bank's book value as at September 30, 2020 and is consistent with the price agreed for the sale of BCB. More information on BCB can be found on page 18.



**PCF** continued to grow in its loan book by 30% in 2020 but the pace decreased from 2019 (55%) as a result of Covid-19. In the first half of 2020, a number of PCF's business and consumer customers requested relief from their payment schedules. With the economy opening up the majority of these customers have returned to their normal payment schedules but the overall market remains weak and this has had an impact on PCF's performance and its loan provisioning. Loan forbearance



as at September 30, 2020 was 12% of the company's portfolio compared to a peak of 30%.

PCF reported that the used motor vehicle finance market proved resilient in 2020 and demand picked up later in the year once the UK economy re-opened. New business originations in the business asset divisions has been noticeably affected by the pandemic as companies delay investment decisions or use cheaper funding sources e.g. Government schemes. PCF's move to diversify its balance sheet by moving into different asset classes such as bridging finance produced positive results in 2020.

PCF entered the pandemic with a strong balance sheet and in a strong financial position. PCF has access to the retail deposit market, wholesale debt markets and Bank of England funding mechanisms. PCF's borrowings remain predominantly in retail deposits, with little other wholesale borrowings other than the Term Funding Scheme. The retail deposit market, to date, has not shown any signs of stress and continues to be accessible for new and maturing savings products.

For the year ended September 30, 2020, PCF reported profit before tax of £3.9 million (2019: £8.0 million) on a net interest margin of 6.9%. New business originations (for 'own portfolio') decreased by 2.2% by £270 million with 85.0% of the originations being in the company's prime credit grades. The lending portfolio grew to approximately £433.7 million compared to £339 million as at September 30, 2019, an increase of 28.0%.

As at September 30, 2020 Somers direct investment in PCF was valued at \$32.0 million (BCB's holding was valued at \$4.9 million). PCF's share price decreased during the year from 26p as at September 30, 2019 to 18p as at September 30, 2020. Somers has agreed as part of its sale of BCB that it will acquire the 21 million PCF shares owned by BCB. More information on PCF can be found on page 18.



**West Hamilton** is a Bermuda Stock Exchange listed property investment and management company with property assets in Bermuda and in which Somers has a 57.0% equity interest.

2020 was a positive year for West Hamilton with strong occupancy in its property assets. Given the economic

environment in Bermuda and the impact on commercial property from Covid-19, the company has paused any future developments until there is more clarity on the Bermudian economy.

The Belvedere Residences remains fully occupied and the car park facility remains 100% occupied with a significant waiting list, and the Belvedere Building is approximately 85% occupied. The location of West Hamilton's assets ensures that an older building such as the Belvedere Building, can fill vacant space reasonably quickly. With an increase in popularity in city living we anticipate that the Belvedere Residences will continue to be an attractive asset.

For the year ended September 30, 2012, West Hamilton reported revenue of \$3.1 million (2019: \$3.2 million) and operating profit of \$1.9 million (2019: \$1.7 million). Shareholders' equity was \$33.9 million (2019: \$34.8 million restated) and the book value per share was \$11.65.

Somers' investment in West Hamilton has been valued using the fair value of West Hamilton's identifiable assets and as such Somers' investment in West Hamilton is valued at \$19.8 million as at September 30, 2020. More information on West Hamilton can be found on page 19.



**Thorn** is an Australian asset financing company whose shares are listed on the ASX. 2020 has been an eventful year for Thorn, as the new Board and management team have worked extremely hard to turn round the business and position it for growth. During the year, Peter Lirantzis, who has experience in transformations in the financial services sector, was appointed CEO. Importantly, the company finally settled its A\$26 million class action in December 2019.

As a result of Covid-19, Thorn made a number of key strategic decisions. The company's focus is now on three strategic pillars, to digitalise Radio Rentals, revitalise business finance and develop a sustainable funding structure. Thorn took the decision to permanently close the entire Radio Rentals store network, reduce headcount by over 300 people and reduce costs through the saving on property leases for retail stores and warehouses. Radio Rentals' upgraded online offering was re-launched in June 2020. Business Finance was significantly impacted

## INVESTMENT MANAGER'S REPORT (continued)

by Covid-19 and this has led to a tightening of credit and a challenge with the warehouse funding facility. There has been a focus on cash with head office costs substantially reduced and the company continuing to collect on its Radio Rentals book.

As a consequence of all of these actions, Thorn reported revenue of A\$58.7 million and a loss after tax of A\$1.1 million for the six months ended September 30, 2020. This included an increase in Covid-19 provisions of A\$11.4 million to A\$37.3 million, and a reduction in the loan books of both Radio Rentals and Business Finance. Thorn reported cash at bank of A\$60.7 million and total equity of A\$114.4 million.

The company is still in the early stages of a turnaround but its strong cash position enabled it, post the year end, to declare a special dividend in which Somers partially participated via the dividend reinvestment scheme, and increased its holding in Thorn to 29.4%. As at the year end, Somers investment in Thorn was valued at A\$15.3 million. More information on Thorn can be found on page 19.



**AKJ** is a hybrid business which provides brokerage and software solutions to its clients as well as providing hedge fund services. During the year, and to complement its traditional hedge fund offering, AKJ set up AKJ Crypto which is a front-to-back, tier-one solution for digital asset hedge fund managers. It is also offering participation in the platform security token, AKJ Token.

AKJ currently has 13 hedge funds operating on its traditional hedge fund platform with total assets of \$321 million. During the year the crypto platform launched and there are now 3 hedge funds trading on the platform, including the AKJ fund of funds which was set up to test the platform and to make investments in hedge funds on the platform. Total assets on the crypto platform is \$10 million. The fund of funds has produced a strong investment performance since inception, mirroring the increase in value of digital assets such as Bitcoin and Ethereum. Somers acquired a further \$3 million of AKJ Tokens in 2020 to enable AKJ to complete the development of its infrastructure and launch AKJ Crypto. AKJ Crypto is now fully operational

and 16 hedge funds have signed. Covid-19 and increased regulatory requirements have delayed the completion of the first stage of its private token offering, which is now anticipated to complete in 2021 with a larger 2nd stage offering in 2022. Post the year end AKJ Crypto was spun off into a standalone business under a new holding company, AKJT Holdings Limited.

For the year ended December 31, 2019, AKJ reported revenue of \$8.9 million. Somers values its investment in AKJ at \$3.9 million based on peer comparisons using an EV/Revenue multiple and values its AKJ Tokens at \$6.1 million (similar to the original cost of the investment). More information on AKJ can be found on page 20.



**MJ Hudson** is a financial services infrastructure platform business. In December 2019, it completed its £30 million AIM IPO.

Despite the short-term impact of Covid-19, the growth in the alternative asset management industry is expected to continue to outpace the traditional asset management industry. As such MJ Hudson is well placed to benefit given its multi-service offering. Additional macro trends of increased outsourcing, increasing regulatory requirements and the importance of ESG investing are set to benefit MJ Hudson moving forward. During the year MJ Hudson acquired two complementary businesses, Anglo Saxon Trust Limited, a company and trust administration business based in Jersey, and Meyler LLC, a marketing services and analytics business based in New York and Vancouver. Post the year end the company announced the acquisition of Bridge Consulting, a funds service provider based in Ireland. It is anticipated that MJ Hudson will continue to be acquisitive to further complement its current service offering. Somers has a 9.7% interest in MJ Hudson.

For the year ended June 30, 2020, MJ Hudson reported underlying revenue of £20.3 million (2019: £16.7 million) and underlying profit before tax of £1.1 million (2019: loss of £0.2 million). As at June 30, 2020 MJ Hudson had cash on the balance sheet of £13.3 million to provide the capital to make further acquisitions. In line with the UK market, MJ Hudson's share price has fallen in 2020 from £0.55 at IPO to £0.38 as at September 30, 2020. Somers

values its investment in MJ Hudson at \$8.1 million. More information on MJ Hudson can be found on page 20.

#### **OTHER INVESTMENTS**

Somers has a number of other smaller investments which are a mixture of both unlisted and listed holdings. The total value of these investments as at September 30, 2020, was \$18.9 million (2019: \$8.5 million).

#### **GEARING AND BANK DEBT**

Somers' bank debt increased during 2020 in order to fund Somers' investment activity. However, given the size of Somers' asset base and the nature of its investments, gearing as a percentage still remains reasonable and in fact the gearing percentage decreased over the year. As at September 30, 2020, gearing stood at 18.0% (2019: 19.2%). This reflects an increase in total debt from \$67.9 million to \$76.0 million together with an increase in shareholders' equity to \$422.1 million from \$353.6 million. Somers expects to use a portion of the proceeds from the sale of BCB to reduce its debt, and thus the gearing level is expected to decrease in 2021.

The total debt figure as at September 30, 2020, of \$76.0 million, relates primarily to a \$34.9 million loan from The Bank of N.T. Butterfield & Son Limited. There is one additional bank facility of \$7.0 million with BCB and \$34.1 million of shareholder debt.

#### **REVENUE RETURNS**

The majority of Somers' returns are expected to be capital in nature but in addition we monitor Somers on a revenue return specific basis. Revenue returns include, but are not limited to, dividend and interest income less operating expenses, finance costs and taxation insofar as they are not allocated to capital. Revenue income was \$3.0 million for the year (2019: \$2.8 million) with the year on year increase attributable to increased dividend income from our investee companies. Management fees were \$3.2 million (2019: \$2.0 million) and Somers has, in accordance with its investment manager agreement, accrued a performance fee of \$7.2 million for the year (2019: no performance fee accrued).

Somers reported a profit for the year of \$69.0 million (2019: loss of \$9.7 million). The resultant earnings per share was \$3.29. Somers has declared a final dividend of \$0.34 per share bringing the total dividend for the year to \$0.55 per share.

## ICM'S INVESTMENT PHILOSOPHY

ICM is a value investor and generally operates focused portfolios with narrow investment remits. ICM has a number of dedicated research teams who have deep knowledge in their specific sectors, which improves the ability to source and make investments. ICM has approximately \$2.2 billion of assets directly under management and \$19.9 billion indirectly under management.

ICM looks to exploit market and pricing opportunities and concentrates on absolute performance. The investments are not market index driven and ICM is unlikely to participate in either an IPO or an auction unless there is compelling value.

Somers seeks to leverage ICM's investment abilities to both identify and make investments across all parts of the financial services sector, including FinTech and PayTech opportunities. New investments usually offer a mix of compelling value, scalability and optionality at the time of investment. There is no desire to establish a "portfolio of must have investments", rather the investment portfolio comprises a series of bottom up decisions.

Somers incorporates environmental, social and governance ("ESG") factors into our investment process in four key ways:

- Visit – We engage with the investee companies and visit businesses on location to further develop a comprehensive and long-term perspective.
- Investigate – Insights gained during these meetings are combined with in depth internal research. This enables us to gauge how ESG issues may impact an investment.
- Recognise – Given our long-term focus, we integrate the investee company's ESG profile into our investment decisions.
- Participate – We continually connect with investee companies' management teams through ongoing meetings as well as influencing best outcomes on key issues.

ICM has extensive sector knowledge and understanding of investments in the financial services sector and will remain focused on the undoubted opportunities in this sector. Somers will look to actively engage with each investee company through ICM.

Neither Somers nor ICM has the management team to step in and manage investee companies. Furthermore, Somers is not a private equity investor. Somers does not

seek to exit, or establish short term returns. Somers is a long term investor looking for long term performance.

Somers encourages investee companies to:

- Remain independent – the business must stand on its own two feet
- Have their own strategic plan and ambition statements – without a road map the business will under achieve
- Be agile and exploit business opportunities created by disruptive technology
- Address and mitigate their business risks
- Have their own DNA and character
- Seek internal and group synergies, but remain independent

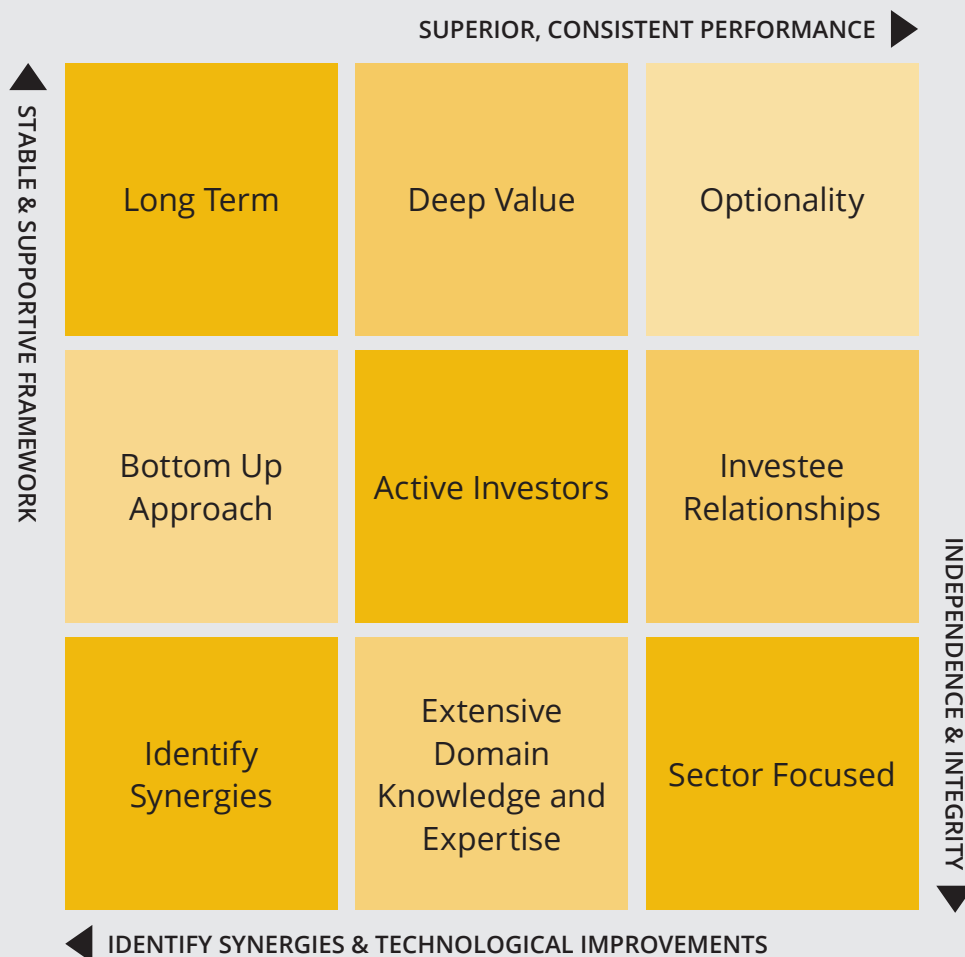
Somers encourages its investee companies to create synergies, to collaborate on both commercial and revenue opportunities, and to identify and action gradual cost savings within the wider Group. Somers looks to optimise each investee company by seeking a sharing of knowledge and experience, with a view to achieving more than they could independently. Areas of collaboration include all aspects of IT, treasury, regulation, risk and compliance. By establishing a like-minded, open and constructive dialogue with investee companies, the opportunities to thrive and grow are maximised. Both ICM and Somers are acutely aware of the benefits of technology that are available to agile companies, including in the areas of FinTech, PayTech, automation and outsourcing opportunities, and investee companies are encouraged to embrace these opportunities.

Somers will seek to provide a stable, consistent, and supportive framework in which businesses can thrive. Somers will use its knowledge, acumen, financial support, contacts and relationships to help build the investee businesses and optimise strategy. Somers will generally use its balance sheet to support investee companies and work with them to seize opportunities available to each business.

Somers' guiding principle is that investee companies must maintain their business independence through pro-active and supportive boards of directors, capable management teams and use the abilities and opportunities within the whole Somers Group to optimise the long-term value of their respective companies for the benefit of all shareholders.



We seek out and make  
compelling investments



# MACRO TRENDS AFFECTING FINANCIAL SERVICES

## DIGITISATION AND AUTOMATION



- Financial institutions continue to be disrupted by fintechs, digitalisation, automation and artificial intelligence, both internally (replacement of staff, digitisation of business processes and workflows) and externally (move to robo-advice or underwriting, automated data driven decision making, smart contracts, etc)
- Decreasing customer loyalty, especially in younger demographic groups, promotes the commoditisation of finance and requires new approaches to customer / user experience, with a focus on reducing friction and lead times and improving transparency and instant engagement
- Significant move towards e-commerce and mobile in an environment of demonetisation, smartphone penetration and screen-time of 4+ hours a day in developed nations, emerging nations

## FINTECH



- Fintechs are expanding rapidly as consumers demand cheaper, efficient service with more choice. Multiple value chains continually being aggregated across banking, wealth management and insurance
- Millennial engagement and the drive to maintain relevance against other daily-user platforms have driven growth in new platforms focused on social, mobile, hyperlocal, and predictive personalisation
- Evolution of payments and the recent advent of blockchain / distributed ledger and cryptocurrency will change the financial services landscape long term
- Industry facing increasing threats from challenger firms working on technology enabled products which disintermediate traditional distribution and go direct to customer, such as online and P2P lending

## REGULATORY AND COMPLIANCE



- Financial institutions and in particular banks are stronger than they were pre-crisis due to increased capital requirements but will have more constrained lending policies
- Increased global focus on regulation following the 2008 financial crisis e.g. MiFID II, GDPR, Basel III shaping technology driven customer interaction, particularly around consent, KYC, identity and AML
- Stronger regulation of established institutions, contrasted by incentives and policies encouraging smaller, newer companies to compete and grow e.g. relaxing fintech capital and licencing requirements

## CYBERSECURITY



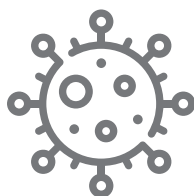
- Sophistication and frequency of cyber-attacks in the spotlight, with companies spending larger parts of total budget on protection from wide scale privacy and data breaches. Digital enablement has necessitated a move to the cloud
- Reputational risk becoming as important as financial risk in an era of increased transparency and decreased trust. Companies are unable to control dissemination of content, customer backlash in social and online communities, with social sentiment often mirroring share price
- Increase in enforcement of material financial and civil penalties related to cyber-crime and inadequate protection of consumer data, additional concerns over voice, facial and other biometric protocols

## MONETARY POLICY



- Adapting to and operating in a prolonged period of negative real interest rates, quantitative easing, low inflation and record stock markets, and asset valuations coping with increased global government debt
- Encouraging financial institutions and investors to chase higher yielding assets thereby causing asset prices to increase and heightening risks
- As Central Banks around the world return to quantitative easing to drive growth, consideration is needed regarding the long term risk to the global economy

## COVID-19 DISRUPTION



- Disruptions to both production and demand causing increased volatility
- Several leading indicators suggested heightened risk of recession prior to pandemic
- US-China tensions continue to rise, in part due to Covid-19
- Significant risk to US and other countries of additional or extended shutdowns from increasing cases or “subsequent waves”

## GEO-POLITICAL TENSIONS



- Increased political tensions driven by an increasing level of nationalism e.g. Brexit, and a move away from the recent era of globalisation
- Trade war between the US and China is having a long-term impact on the global economy and international supply chains
- Investment decisions must now take into account global uncertainty, and in particular the impact that geo-political issues has on markets such as foreign exchange

# SOMERS' STRATEGY

## SOMERS' STRATEGY

Somers is an investment holding company whose shares are listed on the Bermuda Stock Exchange. Somers' core investment markets are Australia, Bermuda and the UK.

Somers' primary objective is to deliver superior shareholder total returns through both capital appreciation and dividend payments, which in turn can be expected to be reflected in the growth of the share price. To achieve this, Somers seeks to invest in undervalued companies within the financial services sector and has the flexibility to make investments in a range of financial related sectors and markets. Somers will identify and invest in opportunities where the underlying value is not reflected in the market or purchase price. The perceived undervaluation may arise from a variety of factors including the limited number of potential buyers, the paucity of lending to smaller financial service companies, and an abundant supply of financial service companies for sale as financial institutions continue to deleverage in response to the global credit crisis. Somers may hold investments in unlisted securities when the attractiveness of the investment justifies the risk and lower liquidity associated with unlisted investments.

Key areas of focus for Somers are wealth and fund management, banking, and asset financing. Fund and asset management businesses are attractive owing to several factors, including their annuity style income, lower capital requirements, solid returns, the projected sector growth and the wider group's experience in this area. Somers remains interested in areas such as FinTech and Automation and how these opportunities can add value to our investments. There are dramatic changes in the global financial ecosystem whether it be payments, artificial intelligence or block chain technology. Somers continues to review how best to unlock value in this area; whether through new investments or our existing investee companies making use of new technology.

Somers aims to maximise value for shareholders by holding a reasonably concentrated portfolio of investments and maintaining a prudent level of gearing. These investments can be either in the unlisted or listed arena. Besides looking for 'bolt-on' opportunities, Somers hopes to extract synergistic benefits from the investee companies on both costs and revenue, as

companies are encouraged to collaborate with each other and share resources, such as technology platforms, where appropriate.

Somers, through its Investment Manager, ICM, seeks to engage with and work with investee companies to achieve operational synergies and to leverage a group approach to meet various compliance, regulatory and risk requirements. Somers engages with the management of investee companies to stimulate new and better ways of processing tasks, and to mitigate risk both at the investee level, and at a Somers level. In addition, Somers also works with investee companies in cyber security, and Somers views cyber risk as one of the key risks facing companies in the financial services sector.

Somers does not expect to trade its core investments. It aims to be supportive of its investee companies, maintain regular dialogue with their management and, where appropriate, provide additional capital to ensure that the companies can develop and grow.

## BUSINESS MODEL

The business model the Board has adopted to achieve its objective is to appoint an external investment manager to whom it has contractually delegated the management of the portfolio. Somers has appointed ICM to manage the portfolio in accordance with the Board's strategy of generating capital growth and income return. The ICM investment team responsible for the management of the portfolio is detailed in the Investment Management Team section of this report. Other administrative functions such as company secretarial, legal and custody are contracted to external services providers who may be associates of either Somers or ICM Limited. The Somers' Board oversee and monitor the activities of ICM and other service providers on behalf of shareholders and ensure that the investment objectives are adhered to.

ICM actively monitors and manages all investments from point of origination. Portfolio companies are managed through a monthly management information system which is supported by ICM's valuation team, and benefit from Somers' Board oversight. Proposed investments are assessed individually, and all significant new investments require approval from the Somers' Board. Overall investment targets are subject to periodic

reviews, and the investment portfolio is reviewed to monitor exposure to specific geographies, economic sectors and asset classes.

#### **BORROWING**

Portfolio investments are generally funded through a mixture of shareholders' funds and debt to maximise returns to shareholders. Leverage generally increases the returns but has greater potential risk than equity funding. External borrowings will only be undertaken if the Directors and the Investment Manager consider that the terms and conditions attached to such borrowings are acceptable, having regard to the investment objective and policy of Somers. Somers will be indirectly exposed to borrowings to the extent that entities within the investment portfolio are themselves leveraged. Borrowings will generally be drawn down in US Dollars, Sterling or any currency for which there is a corresponding asset within the Company's portfolio.

#### **DIVIDENDS**

Dividends form a key component of the total return to shareholders, and the level of potential dividend payable and income from the investment portfolio is reviewed by the Board. As a Bermuda company, Somers can distribute both capital and income returns as dividends, and the Board has the flexibility to pay dividends from capital reserves.

It is Somers' intention to pay regular, semi-annual dividends to shareholders with the split between the interim and final dividend weighted towards the final dividend. The Board's objective is to maintain or increase the total annual dividend while strengthening Somers' financial position. Dividends will generally be increased in line with long term trends in earnings per share growth, while sufficient profits will also be retained to support anticipated business growth and to fund further investments.

Dividends are determined considering historic and anticipated profits, cash flow and financial conditions. The Board will consider net debt levels and debt service obligations of Somers, and any other factors that the Board may deem relevant. All dividend payments will be conditional on meeting the applicable restrictions on the payments of dividends under the Bermuda Companies Act.

Somers' primary objective is to deliver superior shareholder total returns through both capital appreciation and dividend payments.

**Somers' primary objective is to deliver superior shareholder total returns through both capital appreciation and dividend payments.**



## INVESTMENT MANAGER AND TEAM

The Directors are responsible for Somers' investment policy and have overall responsibility for Somers' day to day activities. Somers has, however, entered into an Investment Management Agreement with ICM, under which ICM provides investment management services to Somers including investment analysis, portfolio monitoring, research and corporate finance.

ICM is a Bermuda based fund manager and corporate finance adviser. Other ICM clients include UIL Limited and Utilico Emerging Markets Trust plc, both listed on the London Stock Exchange; Zeta Resources Limited, listed on the Australian Securities Exchange; and our unlisted funds include Allectus Capital Limited; Pentagon Global Diversified Bond Fund and Pentagon High Conviction Bond Fund.

ICM focuses on identifying investments at valuations that do not reflect their true long-term value. ICM's investment approach is to have a deep understanding of the business fundamentals of each investment and its environment versus its intrinsic value.

The Directors believe that ICM has performed consistently since their appointment by Somers. As such, it is the view of the Directors that it is in the best interests of the shareholders to continue with the current appointment of ICM under the terms agreed.

### ICM MANAGES SOME

**\$2.2** BILLION

DIRECTLY AND HAS INDIRECT INVOLVEMENT IN OVER \$19.9 BILLION IN A RANGE OF MANDATES.

ICM HAS OVER 65 STAFF BASED IN OFFICES IN BERMUDA, CAPE TOWN, DUBLIN, HONG KONG, LONDON, SINGAPORE, SYDNEY, VANCOUVER AND WELLINGTON.



**Alasdair Younie** joined the ICM Group in 2010. He is a Director of ICM and is based in Bermuda. Alasdair has extensive experience in financial markets and corporate finance and is responsible for the day to day running of the Somers Group. Alasdair qualified as a chartered accountant with PricewaterhouseCoopers and subsequently worked for six years in the corporate finance division of Arbutnot Securities Limited in London. Alasdair is a non-executive director of Allectus Capital Limited, Bermuda Commercial Bank Limited, One Communications Limited and West Hamilton Holdings Limited. Alasdair graduated from Bristol University and is a Member of the Institute of Chartered Accountants in England and Wales.



**Greg Reid** joined the ICM Group in 2014, and is a Director of ICM Capital Research Limited, based in Ireland. His responsibilities include management of finance and risk at the Somers Group. Prior to joining ICM, Greg was the Chief Financial Officer of Bermuda Commercial Bank Limited, and previously the Controller with a Bermuda based provider of accounting services to the hedge fund industry, and an auditor. Greg is a non-executive director of Own Solutions Limited, Newtel Limited and the Pentagon Global Diversified Bond Fund and is a member of the Institute of Chartered Accountants in Ireland. Greg holds an honours degree in Business Studies from the University of Limerick, Ireland.



**Duncan Saville** founded the ICM Group and has been employed by ICM and its predecessor companies since 1988. He is a chartered accountant and is an experienced non-executive director having previously been a director in multiple utility, investment and technology companies. He is a non-executive director of Allectus Capital Limited, Resimac Group Limited and West Hamilton Holdings Limited. He is a Fellow of the Institute of Chartered Accountants Australia and New Zealand, the Australian Institute of Company Directors and the Financial Services Institute of Australasia.



**Charles Jillings** joined the ICM Group in 1995, and established ICM Investment Research Limited in 1997 and ICM Investment Management Limited in 2015. He is a qualified chartered accountant and has extensive experience in corporate finance and asset management, with over thirty years of experience in international financial markets. He is an Executive Director of ICM Investment Management Limited, and he is responsible for the day to day running of UIL Limited and Utilico Emerging Markets Trust plc. Charles is currently a non-executive director of Allectus Capital Limited and Waverton Investment Management Limited. Charles graduated from the University of Cape Town with a B. Com.



**Ross Wilding** joined ICM in 2012 and is a Senior Analyst working for ICM Investment Management Limited, based in Epsom, UK. Prior to joining ICM, he worked as an investment analyst at wealth manager Optima Financial (now part of Ingenious). Ross is focused on the financial services sector worldwide with particular emphasis on the Somers Limited investments. Ross completed his MBA at the Kellogg School of Management, Chicago in 2012, and is a CFA Charterholder.



**Stephanie Saville** joined ICM in 2018 as an Equity Analyst, based in Sydney, Australia. She has over five years' investment experience, predominantly in public equity markets. Prior to joining ICM, Stephanie was a financial analyst at London based Odey Asset Management. Within ICM she specialises in financials, pharma and special situations. Stephanie graduated with a Bachelor of Commerce from Bond University, and a Master of Applied Finance from The University of Queensland in 2013. She is a CFA Charterholder.

## DIRECTORS

**WARREN MCLELAND, Chairman**



Warren McLeland is a Science and MBA graduate, former stockbroker and investment banker, with over thirty years' experience in domestic and international financial services. Mr McLeland acts as an adviser in funds management and business strategy to companies operating in the Asia Pacific region. He is Chairman of Resimac Group Limited and Thorn Group Limited.

**PETER DURHAGER**



Peter Durhager joined the Somers Board in September 2018. He is a non-executive director of Harrington Re and F&G Re, and he was formerly the President of RenaissanceRe Services Ltd. from March 2004 until December 2014, and the EVP & Chief Administrative Officer of RenaissanceRe Holdings Ltd. from June 2003 until December 2014. Mr Durhager was formerly the Chairman of Ascendant Group Limited, America's Cup Bermuda and the Bermuda Community Foundation. He founded and ran a number of financial and telecommunications businesses as well as working in the banking sector. Mr Durhager holds a bachelor's degree in Philosophy from Transylvania University in Lexington, Kentucky.

**CHARLES JILLINGS**



Charles Jillings joined the ICM Group in 1995, and established ICM Investment Research Limited in 1997 and ICM Investment Management Limited in 2015, where he is an Executive Director of these companies and he is responsible for the day to day running of UIL Limited and Utilico Emerging Markets Trust plc. He is a qualified chartered accountant and has extensive experience in corporate finance and asset management with over thirty years of experience in international financial markets. Mr Jillings is a director of Allectus Capital Limited and Waverton Investment Management Limited. Mr Jillings graduated from University of Cape Town with a B. Com.

DAVID MORGAN



David Morgan has over thirty five years of experience in international banking, building his career at Standard Chartered Bank in Europe, North America and the Far East. Since leaving Standard Chartered in 2003, he has been involved in a wide range of business advisory and non-executive roles. Mr Morgan is currently deputy chairman of Bermuda Commercial Bank Limited, and a non-executive director of Waverton Investment Management Limited and PCF Group plc.

ALASDAIR YOUNIE



Alasdair Younie joined the ICM Group in 2010. He is a Director of ICM and is based in Bermuda. Alasdair has extensive experience in financial markets and corporate finance and is responsible for the day to day running of the Somers Group. Mr Younie qualified as a chartered accountant with PricewaterhouseCoopers and subsequently worked for six years in the corporate finance division of Arbuthnot Securities Limited in London. He is a non-executive director of Bermuda Commercial Bank Limited, One Communications Limited and West Hamilton Holdings Limited. Mr Younie graduated from Bristol University and is a Member of the Institute of Chartered Accountants in England and Wales.

#### DIRECTORS AND OFFICERS INTEREST IN SOMERS' SHARE CAPITAL

At September 30, 2020, the Directors of Somers and their related interests had interests in aggregate totalling 149,382 common shares representing approximately 0.7% of Somers' issued share capital.

## BOARD RESPONSIBILITIES AND GOVERNANCE

Details of how Somers is governed and managed are provided in this section. Roles, organisation and composition of the Somers' Board are explained along with information on risk management and organisational oversight. Somers endeavours to comply with established best practice in the field of corporate governance, and the Company's processes, controls and governance framework are being continually reviewed and updated towards this goal.

### ROLE OF THE BOARD

Somers' Board of Directors is responsible for overall stewardship of Somers, including corporate strategy, corporate governance, setting the Company's risk appetite, risk and controls assessment, overall investment policy and gearing limits.

The Directors have a duty to take into consideration the likely consequences of any decision in the long term; the need to foster Somers' business relationships with its Investment Manager and advisers; the impact of the Company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and, the need to act fairly to all shareholders of Somers. The Directors are responsible for the proper conduct of the Somers' affairs by directing and supervising its affairs within a framework of effective controls which enable risk to be assessed and managed. In addition, the Directors are responsible for ensuring that the Company's policies and operations are in the best interests of Somers as a whole, and that all stakeholders are properly considered.

A schedule of matters reserved for decision by the Board and detailing the responsibilities of the Board has been established. The main responsibilities include: setting the Somers' objectives, policies and standards; considering any major acquisitions or disposals of portfolio companies; ensuring that Somers' obligations to shareholders and others are understood and complied with; approving accounting policies and dividend policy; managing the capital structure including the buy-back policy; setting long term objectives and strategy; assessing and managing risk; reviewing investment performance; monitoring the net borrowing position and consideration of the appropriate use of gearing; undertaking audit committee responsibilities; reviewing Directors' remuneration; undertaking nomination

responsibilities; and, assessing the Investment Manager on an ongoing basis. The Board is responsible for public documents, such as the annual report and financial statements and seeks to ensure that shareholders are provided with sufficient information to understand the risk/reward balance to which they are exposed by owning Somers' shares, through the financial information given in the annual and quarterly financial report disclosures.

Matters delegated by the Board to ICM include: implementation of the Board approved strategy, day to day operation of the business including management of the internal control framework, and the formulation and execution of risk management policies and procedures. ICM periodically reports to the Board on risk management, financial and operational performance and progress in delivering Somers' strategic objectives. Additionally, the ICM investment management team report on the acquisition, management and disposal of investments.

The Directors monitor performance by regularly considering a number of performance indicators to assess Somers' success in achieving its investment objectives. These include share price and NAV performance, net cash flow, ROE reports at Somers and underlying investment level, risk management and adherence to investment guidelines issues. Additionally, the Directors receive regular updates on the performance of Somers' individual investments.

### BOARD MEETINGS

The Board meets at least four times a year, and between these scheduled meetings there is regular contact between Directors, the Investment Manager and the Company Secretary, including strategy meetings, financial meetings and Board update calls. The Directors are kept fully informed of investment and financial controls and other matters that are relevant to the business of Somers that should be brought to the attention of the Directors. The Directors may request any agenda item to be added that they consider appropriate for Board discussion. In addition, each Director is required to inform the Board of any potential or actual conflict of interest prior to Board discussion. The Directors also have access, where necessary in the furtherance of their duties, to independent professional advice at the expense of Somers.



In the financial year ended September 30, 2020, the Board met each quarter to review the activities of Somers for that period and held a meeting devoted solely to strategic issues. Additional meetings were held to consider limited objectives including the approval of the quarterly results. All Directors received notice of the meetings, the agenda and supporting documents, and were able to comment on the matters to be raised at the proposed meeting. In addition to the formal quarterly, strategy, and ad-hoc meetings, the Board also receives detailed updates from the Investment Manager via update calls.

#### **BOARD CHANGES**

Somers seeks to maintain the right sized board commensurate with the business activity of Somers. The current Board has an appropriate breadth of experience relevant to Somers and includes a balance of skills, experience and age. Applicants are assessed on their range of skills, expertise and industry knowledge, business and other experience.

#### **BOARD COMMITTEES**

As Somers is managed by ICM and therefore has no executive employees, the roles typically delegated to sub committees are fulfilled by the Board as a whole. However, this status is regularly reviewed by the Board and action will be taken to remedy any significant failings or weaknesses identified from the review of the effectiveness of the internal control and governance systems.

##### **Audit Committee**

There is no separate audit committee and the Board as a whole fulfils the function of an audit committee in relation to, amongst other things, monitoring the internal controls and risk management systems of Somers and its service providers, reviewing the financial statements of Somers, monitoring the independence of the external auditor and the effectiveness of the audit process, and reviewing the findings of the external auditor. The Board considers that given its size (five directors), the size of Somers and the low number of transactions, it would not currently be appropriate to establish a separate audit committee.

##### **Remuneration Committee**

The Board as a whole fulfils the remuneration committee function in relation to the setting and periodic review of the fees of the Directors and the Chairman. The Board considers that, given the size and nature of Somers, it would not be appropriate to establish a separate remuneration committee.

##### **Nomination Committee**

The Board as a whole will consider new Board appointments and fulfils the function of a nomination committee. It considers the size and structure of the Board, including the balance of expertise and skills brought by individual Directors. The Board recognises the importance of diversity and the value of refreshing of, and succession planning for, company boards. As such, these matters are discussed by the Board at least annually. The Board also seeks to have Directors in different jurisdictions who understand the key influences on businesses in their area, whether they are economic, political, regulatory or other issues. The Board's policy on diversity, including gender, is to take this into account during the recruitment process. Any new appointment is considered on the basis of the skills and experience that the individual would bring to the Board, regardless of gender or other forms of diversity, and therefore no targets have been set against which to report. As at the date of this report, the Board consists of five men. The Board is of the view that length of service does not necessarily compromise the independence or contribution of directors of an investment company, where continuity and experience can add significantly to the strength of the Board. No limit on the overall length of service of any of the Company's Directors, including the Chairman, has been imposed. The Board reviews succession planning at least annually.

The Board considers that, given its size, and the size and nature of Somers, it would not be appropriate to establish a separate nomination committee.

#### **REGULATORY AND COMPETITIVE ENVIRONMENT**

Somers is obliged to comply with Bermuda law, the Listing Rules of the BSX and International Financial Reporting Standards ("IFRS"). Somers is exempt from taxation, except insofar as it is withheld from income

## BOARD RESPONSIBILITIES AND GOVERNANCE (continued)

received and capital gains taxes in some jurisdictions. Under Bermuda law, Somers may not distribute income or capital reserves by way of a dividend unless, after distribution of the dividend, Somers would be able to pay its liabilities as they become due, and the realisable value of the Somers' assets would be greater than the aggregate of its liabilities, its issued share capital, and its share premium account. It is registered with the IRS in the USA under the Foreign Account Tax Compliance Act. The accounting policies of Somers are detailed in note 2 to the financial statements on page 61.

### GOING CONCERN AND COMPANY VIABILITY

The financial statements have been prepared on a going concern basis. The Directors consider this is the appropriate basis as they have a reasonable expectation that Somers has adequate resources to continue in operational existence for the foreseeable future, being taken as 12 months after the signing of the balance sheet. In making this assessment, the Board has considered each of Somers' principal risks and uncertainties. Somers has \$319 million of Level 1 equity shares in listed companies which, in most circumstances, could likely be sold to meet funding requirements, if required. All key operations required by Somers are outsourced to third party providers, and alternative providers could be engaged at relatively short notice if necessary. The Directors considered the impact of Covid-19 and performed an assessment of the Company's operational risk and resources including its ability to meet its liabilities as they fall due. The Directors also considered the revenue forecast for the forthcoming year, expected cash flows from investments, future dividend payments and significant areas of possible liquidity risk, and have satisfied themselves that no material exposures exist.

### INVESTMENT MANAGEMENT ARRANGEMENTS

The Investment Manager is ICM, and details of the Investment Management Team are found on pages 34 and 35 of this report. Under an investment adviser agreement dated December 2014, Somers has agreed to pay ICM an annual fee for its management services equal to 0.75% of the gross asset value of Somers' qualifying financial investments, payable quarterly in arrears. The investment management agreement may be terminated

by Somers, by giving ICM not less than six month's written notice of termination, or by ICM giving Somers not less than three months written notice of termination, or such lesser period of notice as Somers and ICM agree.

Included within the terms of the revised investment management agreement is a performance fee payable to ICM if the growth in Somers' shareholders' equity exceeds a hurdle rate equal to the higher of 8% or 4% plus the UK Retail Price Index inflation. The fee arrangement is payable at a rate of 15% on the amount by which the growth in Somers' shareholders' equity exceeds the hurdle rate. The growth in Somers' shareholders' equity exceeded the hurdle rate in 2020, and therefore a \$7.2 million performance fee is payable for the year. The Board continually reviews the policies and performance of the Investment Manager. The Board's philosophy and the Investment Manager's approach are that the portfolio should consist of investments thought attractive irrespective of their inclusion or weighting in any index. Over the long term, the Board expects the combination of Somers' and the Investment Manager's approach to generate a positive return for shareholders. The Board is satisfied with the terms of appointment of ICM.

### COMPANY SECRETARY

The Board has direct access to the advice and services of the Company Secretary, BCB Charter Corporate Services Limited, a related party to Somers. The Company Secretary assists the Board, with advice from Somers' lawyers and financial advisers, in ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible to the Board for ensuring timely delivery of information and reports and that the statutory obligations of Somers are met. The Company Secretary is responsible for advising the Board on all governance matters.

### ADMINISTRATION

The provision of accounting and administration services to Somers has been delegated to ICM. ICM's responsibilities include assisting in the day to day management of Somers' business, ensuring the financial risks of Somers are properly managed, and oversight of

all financial and Bermuda stock exchange reporting. This role also includes ensuring compliance with the required standards of good corporate governance. ICM, in conjunction with the Company Secretary, also organises, prepares agendas, and ensures accurate minutes are kept of board and other corporate meetings.

Somers is a Bermuda incorporated investment company with an external investment manager and all Somers' day to day management and administrative functions are outsourced to third parties. As a result, Somers has no executive directors, employees or internal operations. Somers has therefore not reported further in respect of the role of the chief executive, executive directors' remuneration, the need for an internal audit function, and nomination of a senior independent director.

#### **INTERNAL AUDIT**

Due to the nature of Somers being an externally managed investment company with no executive employees, the Company does not have its own internal audit function. The Board has concluded that there is no current need for such a function, based on the satisfactory operation of controls within the Company's service providers.

#### **EXTERNAL AUDITOR AND AUDIT TENURE**

KPMG Audit Limited ("KPMG") has been the auditor of Somers since 2014, following a competitive tender process. The audit partner is Neil Patterson. The Board has considered the independence of the auditor and the objectivity of the audit process and is satisfied that KPMG has fulfilled its obligations to shareholders as independent auditor to Somers.

It is Somers' policy not to seek substantial non-audit services from its auditor, unless they relate to a review of the interim or quarterly reports or reporting on financial information in circulars or prospectuses, as the Board considers the auditor is best placed to provide these services. If the provision of significant non-audit services were to be considered, the Board would consider whether the particular skills of the audit firm made it a suitable supplier of those services and that there was no threat to the objectivity and independence of the audit. No non-audit fees were paid to KPMG for the year ended September 30, 2020 (2019: \$nil).

The partner and manager of the audit team at KPMG presented their audit plan to the Board and subsequently reported on the nature, scope and results of their audit at the meeting when the draft annual financial report was considered. Members of the Board meet in camera with the external auditor at least annually.

The audit plan and timetable were presented by and agreed with KPMG in advance of the financial year end. Items of audit focus were discussed, agreed and given particular attention during the audit process. KPMG reported to the Board on these items, their independence and other matters. This report was considered by the Board and discussed with KPMG and ICM prior to approval of the annual financial report.

The Directors of Somers have confirmed that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

#### **CUSTODY OF ASSETS**

Somers' listed investments are held in custody by JPMorgan and Bermuda Commercial Bank and the Company's unlisted investments are held in custody by Bermuda Commercial Bank. Operational matters with these custodians are carried out on Somers' behalf by ICM.

#### **VALUATION OF UNLISTED INVESTMENTS**

A significant portion of Somers' investment portfolio consists of unlisted investments, and the Board has ultimate responsibility for the valuation of these investments. Please refer to the Overview of the Investment Valuation Process on page 48 for details on Somers' valuation approach for unlisted investments.

#### **ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY**

Somers Board believes that it is in the shareholders' interests to reference ESG factors when selecting and retaining investments, and has asked the Investment Manager to take these into account when investing.

## BOARD RESPONSIBILITIES AND GOVERNANCE (continued)

In conjunction with assessing the financial, macro and political drivers when making and monitoring an investment, the Investment Manager therefore embeds ESG opportunities and risks into their investment process. ESG factors are built into their bottom up in-depth analysis, however the Investment Manager does not decide whether to make an investment decision purely on ESG grounds alone.

ESG factors help to enhance the investment team's understanding of a company, as these factors affect a company's business model and its long-term ability to generate sustainable returns. The integration of ESG factors therefore has broadened the Investment Manager's understanding of an investment and enables the investment team to fully question a company's investment potential from several perspectives.

The Investment Manager has integrated ESG practices into their fundamental analysis and monitor these on an ongoing basis throughout the investment period to ensure that there are no material changes. Where necessary, the Investment Manager will question and challenge a portfolio company's management team directly to ensure that the investee companies are fully onboarding ESG considerations. In particular, the Investment Manager recognises that governance factors are fundamental to an investment.

As part of ensuring a solid corporate governance framework is enforced within an investment opportunity, the Investment Manager will seek to exercise all voting rights attached to shares held by Somers. The Investment Manager reviews all resolutions and will vote accordingly, and the Board periodically receives a report on instances where the Investment Manager has voted against the recommendation of an investee company's management on any resolution.

The concept of responsible investing has always been one of the founding pillars of Somers' investment process, therefore taking into consideration ESG risks and opportunities is not a new phenomenon.

### SHAREHOLDER RELATIONS

Shareholder communications are a high priority for the Board and every effort is made to enable shareholders to understand the strategy, developments and financial performance of Somers. A financial announcement detailing the performance of Somers is released to the BSX on a quarterly basis and is available for viewing on the Company's website ([www.somers.limited](http://www.somers.limited)). Members of the Board and the Investment Manager's team make themselves available at all reasonable times to meet with principal shareholders, and feedback from these meetings is provided at the quarterly Board meetings.

In addition, the Board is kept fully apprised of all market commentary on Somers by the Investment Manager and other professional advisers. Through this process the Board seeks to monitor the views of shareholders and ensure that Somers' communication programme is effective.

Members of the Board and the Investment Manager are expected to be available during each Annual General Meeting to answer any questions that attending shareholders may have.

### DIRECTORS' INTERESTS

The Directors' interests in the ordinary share capital of Somers are disclosed in the Directors' section on page 37 of this report. The Directors have declared any potential conflicts of interest to Somers. There are no agreements between the Company and its Directors concerning compensation for loss of office. Potential conflicts of interest are reviewed regularly by the Board. The Directors have undertaken to advise the Company Secretary and/or Chairman as soon as they become aware of any potential conflicts of interest.

#### **DIRECTORS' AND OFFICERS' LIABILITY**

Somers maintains Directors' and Officers' Liability Insurance which provides appropriate cover for any legal action brought against its Directors.

#### **RESPONSIBILITY OF THE DIRECTORS IN RESPECT OF THE ANNUAL FINANCIAL REPORT**

The Directors have confirmed to the best of their knowledge:

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the annual report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face. The Directors consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.



## RISK MANAGEMENT

Somers' primary objective is to deliver superior shareholder total returns through both capital growth and income generation. Our business model involves taking risk in return for reward. Our global financial services sector mandate offers opportunities for financial returns but exposes us to market, geopolitical and economic risks.

Effective risk management is a cornerstone in the successful delivery of our strategy. It is an essential part of our business and a key element of good corporate governance.

### THE BOARD

The Board has responsibility for setting the overall strategic direction of Somers. As part of this process, the Board seeks to achieve an appropriate balance between taking risk and generating returns for our shareholders. The evaluation of strategic choices and new opportunities requires a detailed risk assessment to ensure we operate within our risk tolerance and limits.

We seek to achieve this by the:

- Effective and efficient continuity of operations
- Safeguarding of our assets
- Preservation and enhancement of our reputation
- Reliability of internal and external reporting
- Compliance with applicable laws and regulations
- Identifying and managing risks
- Monitoring investee companies

The Board meets four times a year to consider the quarterly risk review report prepared by ICM. This report identifies the risks facing the Company and the likelihood and potential impact of each risk, together with the controls established for mitigation. The Board reviews financial reports, valuation reports and performance metrics. The effectiveness of Somers' system of internal controls, including financial, operational, compliance and risk management systems, is reviewed as part of this quarterly review process and no significant failings or weaknesses occurred during the year ended September 30, 2020, or subsequently up to the date of this annual report.

The external environment remains challenging. The Covid-19 pandemic has taken its toll and continues to take its toll. Not many countries have re-opened their borders to travel and most have ongoing local shutdown responses to Covid-19 flareups, thereby limiting full recovery. Most nations have seen borrowings balloon over 100% of gross domestic product, interest rates trend to zero or negative, and unemployment has jumped by 5% to 10%. Given this outlook the Board remains cautious. However, notwithstanding the economic impact of Covid-19, most of Somers' investee companies have continued to deliver resilient operational and financial metrics, including making increased dividend payments this year and, as such, the Board considers that Somers' risk profile has remained broadly stable. In making this determination, the Board also considered the continuing development of internal controls, risk processes and the composition of the investment portfolio. The Board also considered the macro-economic environment and evolving risks such as global trade friction, populism, currency and cyber security.

### ICM LIMITED

The Board has delegated responsibility for day to day risk management to ICM subject to the overall policies, supervision, review and control of the Board. ICM reviews investment risk in the context of individual investee companies, overall portfolio composition, and acquisitions and disposal decisions.

ICM monitors the operational and regulatory risks in the business and the related risk management controls. ICM also has responsibility for ensuring day to day compliance with the required standards of good corporate governance as well as oversight of all financial, regulatory and stock exchange reporting and management information.

ICM maintains Somers' risk register, which details the Company's significant risks and their owners, associated mitigating actions, and any internal risk indicators. The risk register is updated on a continuous basis and a summary risk review report is presented to the Board each quarter.

## RISK APPETITE

Somers has established a risk appetite statement that documents the types and amounts of risk Somers is willing to accept in order to achieve its strategic and business objectives. An enterprise will not prosper without taking on risks and our risk appetite framework allows us to identify and quantify these risks and link them to Somers' business objectives and strategy in a structured way.

The risk appetite statement provides investment guidance under the following headings:

- Investment return and type
- Investment level
- Diversification
- Geographic focus
- Sector expertise
- Compliance and regulation
- Investment expertise

The risk appetites statement also provides guidance on gearing, the valuation of investments, currency hedging and investment levels of authority.

## PRINCIPAL RISKS

Most of Somers' principal risks are market-related and similar to those of other investment companies which invest globally in various different currencies. The Board carefully considers Somers' principal risks at its quarterly meetings and seeks to mitigate these risks through continual and regular review, policy setting, compliance with and enforcement of contractual obligations and active communication with ICM.

### Covid-19

The Board has identified the emergence and spread of Covid-19 as a risk facing the Company and its investee companies. The Board has reviewed the business continuity plans of each of the Company's principal service providers in relation to the steps being taken to combat the spread of the virus and will continue to monitor developments as they occur. The Chairman's Statement and the Investment Manager's Report provide further discussion in relation to Covid-19 and its effects on markets and the Company's portfolio.

### Brexit

Somers' business model and strategy are not time limited and, as a global investor, are unlikely to be adversely impacted as a direct result of Brexit. The Board have been updated on our investee companies' Brexit readiness plans, and those UK investments we do hold in our investment portfolio have limited operations between the UK and the EU. However, as our UK investments are Sterling denominated, any rise or fall in Sterling will lead, respectively, to a rise or fall in the value of Somers' UK investments.

For risk management purposes, Somers categorises risk within two broad categories – investment risk and business operational risk.

## INVESTMENT RISK

In absolute terms, investment risk is the risk of incurring any loss in the portfolio in pursuit of investment returns. In relative terms, the investment risk of incurring losses greater than, or of earning gains less than those of a benchmark index or an alternative investment.

Somers and its investments are materially affected by a variety of risks and uncertainties in the global financial markets and economic conditions throughout the world.

Somers monitors the following significant investment risks pertaining to: Covid-19; foreign currency; concentration; interest rate; leverage; liquidity; geographic and political; acquisition due diligence; disposal; conflict of interest; tax; investee company business; and economic environment.

Many of these factors are outside Somers' control and may affect the level and volatility of securities prices, the amount of distributions received, and the liquidity and value of investments in the portfolio. Somers may be unable to mitigate its exposure to these conditions as efforts to manage its exposure may or may not be effective. In addition, while adverse market conditions provide opportunities to make investments in undervalued companies, such conditions also increase the risk of default or decreased operational performance which would adversely affect the profitability and valuation of these entities, and consequently, the profitability, net asset value and share price of Somers. Please refer to note 17 of the audited financial statements for a more detailed discussion of the above principal risks and uncertainties.

## RISK MANAGEMENT (continued)

A primary objective of Somers is to acquire attractive investments at the optimal price and to then to support these investments in delivering on their business plans. The investment process employed by ICM combines an assessment of economic and market conditions in the relevant countries where we invest. Fundamental analysis forms the basis of Somers' investment selection process, with an emphasis on sound balance sheets, positive cash flow potential, the ability to pay and sustain dividends and understanding market conditions.

Somers' results are reported in US Dollars, whilst several of its assets are priced in foreign currencies, particularly Sterling and Australian Dollars. The impact of adverse movements in exchange rates can significantly affect the returns in US Dollars of both capital and income. Such factors are out of the control of the Board and ICM, and may create distortions in the reported returns to shareholders. Somers did not enter into any currency hedges this year but where we borrow for investment purposes we endeavour to ensure the borrowing currency matches the associated investment.

In addition, the ordinary shares of Somers may trade at a discount to their NAV. The Board monitors the price of Somers' shares in relation to their NAV and the premium/discount at which they trade. The Board may buy back shares if there is a significant overhang of stock in the market, having regard to the percentage of shares in public hands.

The Board regularly reviews strategy in relation to a range of issues including the concentration of the portfolio, the allocation of assets between geographic regions and sectors and borrowing levels. Periodically the Board also holds a separate meeting devoted to strategy.

Somers increased its leverage levels during the year, but our overall debt to net assets ratio remains modest at 18.0% as at September 30, 2020. Whilst this leverage should enhance total return where the return on Somers' underlying securities is rising and exceeds the cost of borrowing, it will have the opposite effect where the underlying return is falling. The Board reviews the leverage levels at each quarterly Board meeting.

A breach of Somers' loan covenants might lead to funding being summarily withdrawn. ICM monitors compliance with the banking covenants when drawdowns are made

and at the end of each quarter. The Board reviews compliance with the banking covenants at each quarterly Board meeting.

A review of economic and market conditions is included in the Investment Manager's Report section of this Report.

### BUSINESS OPERATIONAL RISK

Business operational risk refers to the risk of loss that may arise from running an investment holding company and, in essence, encompasses everything except investment risk. It captures the risks arising from inadequate or failed internal processes, people and systems, and from external events. Somers monitors the following business operational risks: Covid-19; regulatory and compliance risk; capital risk; cyber risks; key personnel risk at our service providers; valuation of portfolio investments and in particular unquoted investments; credit risk; counterparty exposure; reputation risk; and disruptive technology.

Somers also monitors the risk of failure in execution, delivery or process (such as data entry errors), internal or external fraud (such as insider trading or forgery) and business disruption and system failures (such as telecommunications outages).

Loss by the Investment Manager of key staff could affect investment returns and the quality of the management team is a crucial factor in delivering good performance. There are training and development programs in place for employees of the Investment Manager, and the recruitment and remuneration packages have been developed in order to retain key staff. Any material changes to the management team are considered by the Board at its next meeting.

The consequences of risks may be financial, reputational or regulatory. Business operational risks do not typically generate positive returns; therefore, the management of these risks entails minimising them to the extent practicable and subject to reasonable costs.

Operational risks arise from all of Somers' activities, and Somers' objective is to manage operational risk so as to balance the limiting of financial losses and damage to its reputation, with achieving its investment objective of generating returns to investors.

The Board reviews operational issues at each Board meeting and receives reports on the operation of internal controls, regulatory and compliance issues and the risk of cybercrime. The cybersecurity risk for Somers itself is not considered to be high, but in the investee companies it is high, as it is with most organisations. However, the Board regularly seeks assurances from ICM and other service providers on the preventative steps that they are taking to mitigate this risk. Although there has been no change in overall risk in the year, the risk of cybercrime continues to be of significant concern as the nature of the risk continues to change. Somers' assets are considered to be relatively secure, so the risk is primarily of a reputational nature.

#### **INTERNAL FINANCIAL AND NON-FINANCIAL CONTROLS**

The Directors are responsible for ensuring that Somers maintains a sound system of internal financial and non-financial controls ("internal controls") to safeguard shareholders' investments and Somers' assets.

Somers' system of internal control is designed to manage and monitor rather than eliminate risk of failure to achieve Somers' investment objective and/or adhere to Somers' investment policy and/or investment limits. The system can therefore only provide reasonable and not absolute assurance against material misstatement or loss. ICM and Somers' custodians maintain their own systems of internal controls and the Board receive regular reports from ICM on the internal control environment.

The Board meets regularly, at least four times a year. It reviews financial reports and performance against relevant stock market criteria and Somers' peer group, amongst other things. The effectiveness of Somers' system of internal controls, including financial, operational, IT, compliance and risk management systems are reviewed at the quarterly meetings. The Board confirms that the necessary actions are taken to remedy any significant failings or weaknesses identified from its review. No significant failings or weaknesses occurred during the current year or subsequently up to the date of this annual financial report.

#### **OUTLOOK AND FUTURE TRENDS**

The main trends and factors likely to affect the future development, performance and position of Somers' business can be found in the Investment Manager's Report section of this Report.

# OVERVIEW OF THE INVESTMENT VALUATION PROCESS

In preparing the Somers' quarterly and annual financial accounts, the most important accounting judgements and estimates relate to the carrying value of our unlisted investments which are stated at fair value. At September 30, 2020, 34% of Somers' investment portfolio consisted of level 3 investments that were valued using inputs that were not based on observable market data. Given the importance of this area to the integrity of our financial reporting, the Board and ICM carefully review the valuation policies and processes and the individual valuation methodologies at each reporting date. However, the valuation of unlisted securities is inherently subjective, as they are made on the basis of assumptions which may not prove to be accurate. As detailed in note 19, small changes to inputs may result in material changes to the carrying value of our investments.

## VALUATION PROCESS

The valuation of the unlisted investments is the responsibility of the Somers Board, with valuation support and analysis provided by the valuation team at ICM. The investment portfolio is valued at fair value, and this is achieved by valuing each investment using an appropriate valuation technique and applying a consistent valuation approach for all investments.

The concept of fair value is key to the valuation process and is defined as "the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date" (International Private Equity and Venture Capital ("IPEV") guidelines, December 2018).

Maximum use is made of market based information, and the valuation methodologies used are those generally used by market participants. Valuations are compliant with IFRS fair value guidelines, and guidelines issued by the IPEV valuation board which set out recommended practice for fair valuing of unlisted investments within the IFRS framework. The valuation of unlisted investments requires the exercise of judgment, and every effort is made to ensure that this judgment is applied objectively and is not used to overstate or understate the valuation result.

The Board reviews the unlisted valuations each quarter in conjunction with Somers' external financial reporting process. The Board receives a detailed report from ICM's valuation team recommending a proposed valuation for each of Somers' investments. The report includes details of all material valuations, explanations for movements above agreed thresholds and confirmation of the valuation process adopted. Representatives of ICM and its valuation team are in attendance at these meetings to answer any questions the Board may have on the valuation process and the choice of valuation techniques and inputs. The Board reviews and challenges the assumptions behind the unlisted asset valuations.

## VALUATION METHODOLOGIES

The valuation of our unlisted investments is normally determined by using one of the following valuation methodologies, and depending on the investment and relevance of the approach, any or all of these valuation methods could be used.

We would note that the application of valuation policies has wide inputs, wide approaches and therefore wide outcomes. Somers' policy is to adopt market metrics where it can such as enterprise value ("EV")/earnings before interest, tax, depreciation and amortisation ('EBITDA') and then discount for illiquidity. While the directors are comfortable with this policy and are not recommending any change, they are aware that many other investment companies adopt similar metrics and then apply a premium for control. Interestingly, if Somers were to exit several of its controlling positions, it would fully expect to realise a premium.

### Earnings Multiples

This is Somers' most commonly used valuation methodology and is used where the investment is profitable, and where a set of comparable listed companies with similar characteristics to our holding can be determined. As several investments are not traded on an active market, the valuations are then adjusted by a liquidity discount with the discount varying depending on the nature of the underlying investment entity and its sector, and whether restrictions exist on our ability to sell the asset in an orderly fashion. In certain instances, Somers may use a revenue multiple approach if this is deemed more appropriate.



It is Somers' policy to use reported earnings adjusted for non-recurring items, which are typically sourced from the investee companies' management accounts or audited financial reports. In certain cases, current maintainable earnings provide a more reliable indicator of the company's performance, and in these instances an estimate of maintainable earnings is used in the valuation calculation.

Multiples are derived from comparable listed companies in the same business sector. Adjustments are made for relative performance versus the comparables and other company specific factors including size, product offering and growth rates.

#### Discounted Cash Flow

This methodology may be used for valuing investments with long term stable cash flows and uses maintainable earnings discounted at appropriate rates to reflect the value of the business. Generally, the latest historical accounts are used unless reliable forecast results for the current year are available. Earnings are adjusted where appropriate for exceptional or non-recurring items.

#### Net Assets

This valuation technique derives the value of an investment by reference to the value of its net assets. This technique is used for investments whose value derives mainly from the underlying fair value of their assets rather than their earnings, such as property holding companies and investment businesses. In addition, we may also use this valuation approach for investments that are not making an adequate return on assets, and for which a greater value can be realised by liquidating the business and selling its assets.

#### Recent Investments

For an initial or recent transaction, Somers may value its investment using the recent transaction price for a limited period following the transaction, where the transaction price continues to be representative of fair value.

#### Imminent Investment Realisation

Where realisation of an investment or a flotation of an investment is imminent and the pricing of the relevant transaction has been substantially agreed, a discount to the expected realisation proceeds or flotation value valuation technique is used. Judgement is applied as to the likely eventual exit proceeds and certainty of completion. This technique is only utilised where a sale or flotation process is materially complete, and the remaining risks are estimated to be small.

Please also refer to note 19 of the audited financial statements for more details on Somers' unlisted investments and the valuation methodologies adopted.

#### VALUATION IMPACT OF COVID-19

The approach to valuations as at September 30, 2020 was substantially consistent with Somers' normal process and valuation policy and the investment portfolio was valued on a fair value basis, in line with IPEV guidance. However, the Covid-19 pandemic has created a significant degree of uncertainty and the valuation methodology for unlisted investments has been enhanced to address this issue. A broader range of inputs and approaches to determine fair value was considered and, where appropriate, adjustments have been made to valuations based on the anticipated severity of the Covid-19 impact on the individual business. It needs to be emphasised that this is a very unusual event, which is still evolving, and therefore there remains an elevated degree of uncertainty in the valuations generated as at September 30, 2020. Somers' valuation approach is consistent with the IPEV special valuation guidance, issued in March 2020, addressing the valuation approach during the Covid-19 pandemic.

## FIVE YEAR SUMMARY 2016-2020

(expressed in United States Dollars)

	2020 \$	2019 \$	2018 \$	2017 \$	2016 \$
<b>Income and Expense Items</b>					
Net interest (expense) income	(3,590,020)	(2,473,832)	(631,388)	(236,441)	384,736
Dividend income	8,476,941	7,451,888	7,588,559	4,147,891	3,399,044
Gains on investments	60,989,530	4,336,647	10,893,179	15,227,092	34,832,011
Other income (losses)	14,992,647	(15,614,561)	(9,912,317)	3,281,818	(4,154,241)
Total income	80,869,098	(6,299,858)	7,938,033	22,420,360	34,461,550
Total expenses	11,821,592	3,421,285	3,703,016	2,863,038	1,893,335
Net income (loss) before tax	69,047,506	(9,721,143)	4,235,017	19,557,322	32,568,215
Income tax expense	(5,260)	–	(51,821)	(130,790)	(278,121)
<b>Net income (loss)</b>	<b>69,042,246</b>	<b>(9,721,143)</b>	<b>4,183,196</b>	<b>19,426,532</b>	<b>32,290,094</b>

### Balance Sheet

Financial investments	500,894,835	410,268,426	402,973,991	360,969,899	332,038,271
Other assets	7,709,575	12,864,817	4,366,226	7,172,058	14,886,105
Total assets	508,604,410	423,133,243	407,340,217	368,141,957	346,924,376
Total liabilities	86,469,185	69,570,070	43,230,069	6,898,242	116,526,005
<b>Total equity</b>	<b>422,135,225</b>	<b>353,563,173</b>	<b>364,110,148</b>	<b>361,243,715</b>	<b>230,398,371</b>

### Per Common Share

NAV per share	19.78	17.10	18.15	18.55	18.66
Share price	13.75	15.00	16.00	14.00	13.75
Dividend paid	0.55	0.51	0.50	0.48	0.44

# FINANCIAL STATEMENTS



TOTAL EQUITY AT  
30 SEPTEMBER WAS

**\$422.1**

MILLION  
(2019: \$353.6 MILLION)

ASSETS DIRECTLY AND  
INDIRECTLY MANAGED

**\$19.9**

BILLION  
(2019: \$17.8 BILLION)

FINAL DIVIDEND  
PER SHARE OF

**\$0.34**

(2019: \$0.30)

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Total dividend payment for 2020 was \$0.55 a share, an increase of \$0.04 per share compared to 2019.



# INDEPENDENT AUDITOR'S REPORT



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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Somers Limited

### Report on the audit of the consolidated financial statements

#### Opinion

We have audited the consolidated financial statements of Somers Limited (the "Company"), which comprise the consolidated statement of financial position as at September 30, 2020, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Valuation of unquoted financial investments

As presented in the Significant Accounting Policies in Note 2, and in Notes 3 and 19 to the consolidated financial statements, the Company holds investments in unquoted equity securities at September 30, 2020 with an estimated fair value of US\$168.9 million, representing 33.2% of total assets, where quoted prices do not exist. Such unquoted equity investments are carried at their estimated fair values based upon management's judgment using the principles of the International Private Equity and Venture Capital Association ("IPEV") valuation guidelines.

The valuation of the unquoted equity securities held in the Company's investment portfolio is a key driver of its net asset value and total return to shareholders and results for the year. The valuation of these investments is complex and requires the application of judgment by the Investment Manager.



The fair values are based upon the market approach which estimates the enterprise value of each investee using a comparable public company multiple of revenues or earnings before interest, tax, depreciation and amortization ("EBITDA"), or using information from recent comparable transactions observable in the marketplace, or the underlying net asset value.

### **The risk**

The significance of the unquoted investments to the Company's consolidated financial statements, combined with the complexity and judgment required in estimating their fair values means this was an area of focus during our audit.

### **Our response to the risk**

We performed the following key audit procedures:

- Obtained the Investment Manager's valuation models for valuing the unquoted equity investments;
- Challenged the Investment Manager on the methodologies followed and key assumptions used in determining the valuations in the context of the IPEV valuation guidelines;
- Using our own valuation specialists, we assessed the methodologies and assumptions used by the Investment Manager;
- Tested the key inputs used in the valuation models by obtaining the underlying financial information, including audited financial statements, management accounts, budgets and forecasts for revenues and EBITDA, which are often the key inputs used in the valuation models by the Investment Manager and compared this information to that used in the models;
- Independently sourced revenue and EBITDA multiples for comparable public companies used by the Investment Manager, considered whether those companies are comparable to the investee in each case and compared them to the multiples used in the valuations;
- Where a recent transaction was used, we obtained an understanding of the transaction and whether it was considered an arm's length transaction and was comparable for the purposes of the valuation;
- Performed media searches and other procedures to determine whether there was any contradictory evidence for any of the inputs used;
- Using our own valuation specialists, we assessed the adjustments made to the fair value estimates for control premiums and illiquidity discounts, where applicable
- Tested the mathematical accuracy of the valuation models.

### **Other information**

The other information is included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

# INDEPENDENT AUDITOR'S REPORT (continued)



In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's responsibilities for the audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.





We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The Engagement Partner on the audit resulting in this independent auditor's report is Neil Patterson.

*KPMG Audit Limited*

Chartered Professional Accountants  
Hamilton, Bermuda  
December 11, 2020

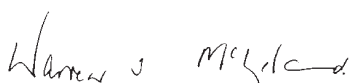
# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2020 (Expressed in United States Dollars)

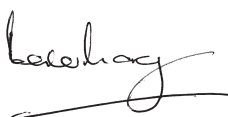
Notes		2020 \$	2019 \$
	<b>ASSETS</b>		
16	Cash and cash equivalents	3,765,431	2,909,692
7	Other assets	1,781,033	8,304,627
16	Interest receivable	53,675	147,545
6, 16	Loans and receivables	2,109,436	1,502,953
3, 16	Financial investments	500,894,835	410,268,426
	<b>Total assets</b>	<b>508,604,410</b>	<b>423,133,243</b>
	<b>LIABILITIES</b>		
	Interest payable	569,898	295,295
8, 16	Other liabilities	9,862,254	1,334,166
9, 16	Interest bearing loans and borrowings	76,037,033	67,940,609
	<b>Total liabilities</b>	<b>86,469,185</b>	<b>69,570,070</b>
	<b>NET ASSETS</b>	<b>422,135,225</b>	<b>353,563,173</b>
	<b>EQUITY</b>		
10	Capital stock	2,134	2,067
10	Contributed surplus)	314,196,939	304,140,391
10	Treasury shares	-	(11,595)
	Accumulated other comprehensive loss	(296,001)	(382,279)
	Retained earnings	108,232,153	49,814,589
	<b>TOTAL EQUITY</b>	<b>422,135,225</b>	<b>353,563,173</b>

See accompanying notes.

Signed on behalf of the Board:



**Warren McLeland**  
Chairman



**David Morgan**  
Director

# CONSOLIDATED STATEMENT OF INCOME

For the Year Ended September 30, 2020 (Expressed in United States Dollars)

Notes	2020 \$	2019 \$
<b>INCOME</b>		
13, 16 Interest income	359,368	448,464
16 Interest expense	(3,949,388)	(2,922,296)
<b>Net interest expense</b>	<b>(3,590,020)</b>	<b>(2,473,832)</b>
Net foreign exchange gains/(losses)	14,571,458	(15,567,086)
16 Dividend income	8,476,941	7,451,888
14, 16 Gains on investments	60,989,530	4,336,647
Other income	314,180	6,080
Impairment reversal/(losses) on loans and receivables	107,009	(53,555)
<b>Total income</b>	<b>80,869,098</b>	<b>(6,299,858)</b>
<b>EXPENSES</b>		
16 Investment management fees	10,367,023	1,989,869
16 Legal and professional fees	755,405	542,163
Audit and accounting fees	244,873	297,445
16 Directors' fees	167,500	172,500
16 General and administrative expenses	286,791	419,308
<b>Total expenses</b>	<b>11,821,592</b>	<b>3,421,285</b>
<b>Net income/(loss) before tax</b>	<b>69,047,506</b>	<b>(9,721,143)</b>
15 Income tax expense (Note 15)	(5,260)	-
<b>NET INCOME/(LOSS) AFTER TAX</b>	<b>69,042,246</b>	<b>(9,721,143)</b>

See accompanying notes.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended September 30, 2020 (Expressed in United States Dollars)

	2020 \$	2019 \$
<b>Net income/(loss) for the year</b>	<b>69,042,246</b>	<b>(9,721,143)</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>		
Exchange differences on translation of foreign operations	86,278	(102,411)
<b>Other comprehensive income/(loss)</b>	<b>86,278</b>	<b>(102,411)</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>	<b>69,128,524</b>	<b>(9,823,554)</b>

*See accompanying notes.*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended September 30, 2020 (Expressed in United States Dollars)

Notes		Capital Stock \$	Contributed Surplus \$	Treasury Stock \$	Accumulated Other Comprehensive Loss \$	Retained Earnings \$	Total \$
	<b>September 30, 2018</b>	2,006	294,748,410	–	(258,733)	69,618,465	364,110,148
	Opening equity adjustment on adoption of IFRS 9	–	–	–	(21,135)	21,135	–
	Net loss for the period	–	–	–	–	(9,721,143)	(9,721,143)
	Other comprehensive loss	–	–	–	(102,411)	–	(102,411)
10	Issue of share capital	63	9,620,423	–	–	–	9,620,486
10	Net purchase of treasury stock	–	–	(240,039)	–	–	(240,039)
10	Cancellation of treasury stock	(2)	(228,442)	228,444	–	–	–
12	Dividends	–	–	–	–	(10,103,868)	(10,103,868)
	<b>September 30, 2019</b>	<b>2,067</b>	<b>304,140,391</b>	<b>(11,595)</b>	<b>(382,279)</b>	<b>49,814,589</b>	<b>353,563,173</b>
	Net income for the period	–	–	–	–	69,042,246	69,042,246
	Other comprehensive income	–	–	–	86,278	–	86,278
10	Issue of share capital	68	10,166,512	–	–	–	10,166,580
10	Net purchase of treasury stock	–	–	(98,370)	–	–	(98,370)
10	Cancellation of treasury stock	(1)	(109,964)	109,965	–	–	–
12	Dividends	–	–	–	–	(10,624,682)	(10,624,682)
	<b>September 30, 2020</b>	<b>2,134</b>	<b>314,196,939</b>	<b>–</b>	<b>(296,001)</b>	<b>108,232,153</b>	<b>422,135,225</b>

See accompanying notes.



# CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2020 (Expressed in United States Dollars)

	2020 \$	2019 \$
<b>OPERATING ACTIVITIES</b>		
Net income/(loss)	69,042,246	(9,721,143)
Adjustments to reconcile net income/(loss) to cash flows provided by/(used in) operating activities:		
Gains on investments	(60,989,530)	(4,336,647)
Foreign exchange (gains)/losses on investments	(17,852,794)	18,098,983
Interest income	(359,368)	(448,464)
Interest expense	3,949,388	2,922,296
Decrease/(increase) in other assets	6,523,594	(5,881,632)
Increase/(decrease) in other liabilities	8,528,088	(289,929)
<b>Net cash provided by/(used in) operating activities</b>	<b>8,841,624</b>	<b>343,464</b>
<b>INVESTING ACTIVITIES</b>		
Net (increase)/decrease in loans and receivables	(606,483)	166,259
Proceeds from sale of financial investments	4,487,079	13,559,813
Purchases of financial investments	(16,184,886)	(34,718,994)
Interest received	453,238	387,021
<b>Net cash used in investing activities</b>	<b>(11,851,052)</b>	<b>(20,605,901)</b>
<b>FINANCING ACTIVITIES</b>		
Net increase in interest bearing loans and borrowings	8,096,424	26,402,663
Net purchase of treasury stock	(98,370)	(240,039)
Dividends paid (excludes dividends satisfied by issue of shares)	(458,102)	(483,382)
Interest paid	(3,674,785)	(2,695,030)
<b>Net cash provided by financing activities</b>	<b>3,865,167</b>	<b>22,984,212</b>
<b>Net increase in cash and cash equivalents</b>	<b>855,739</b>	<b>2,721,775</b>
Cash and cash equivalents, beginning of year	2,909,692	187,917
<b>Cash and cash equivalents, end of year</b>	<b>3,765,431</b>	<b>2,909,692</b>
<b>Non-cash investing and financing activities:</b>		
Issuance of shares under dividend reinvestment plan	10,166,580	9,620,486
Conversion of MJ Hudson convertible bonds	10,257,287	-

See accompanying notes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 (Expressed in United States Dollars)

## 1. DESCRIPTION OF BUSINESS

Somers Limited ("Somers"/"Company") is a Bermuda exempted investment company listed on the Bermuda Stock Exchange with investments in the financial services sector. Somers is engaged in a single segment of business, focusing on maximising shareholder returns by identifying and investing in companies where the assessed underlying value is not reflected in the market price. The Company's registered office is at 34 Bermudiana Road, Hamilton HM 11, Bermuda.

The investment activities of Somers are managed by ICM Limited ("ICM").

As at September 30, 2020, the significant shareholders (the "Major Shareholders") in the Company, who held, in aggregate 93.78% (2019: 93.60%) of Somers' issued share capital, are as follows:

- Union Mutual Pension Fund Limited ("Union Mutual") holds 49.35% (2019: 0%) – incorporated in Bermuda;
- UIL Limited ("UIL") holds 44.43% (2019: 44.35%) – incorporated in Bermuda;
- Permanent Mutual Limited ("Permanent Mutual") holds 0% (2019: 3.11%) – incorporated in Bermuda; and
- Permanent Investments Limited ("Permanent") holds 0% (2019: 46.14%) – incorporated in Bermuda.

The Company is deemed to meet the definition of an investment entity per IFRS 10 as it continues to meet the following requirements:

- The Company has obtained funds for the purpose of providing investors with investment management services.
- The Company's business purpose, which was communicated directly to investors, is investing solely for returns from capital appreciation and investment income.
- The performance of its investments is measured and evaluated on a fair value basis.

Therefore, in accordance with IFRS 10, subsidiaries held as part of the Company's investment portfolio are not consolidated but are accounted for as investments and carried at fair value through profit or loss.

These consolidated financial statements were authorised for issue in accordance with a resolution of the directors on December 11, 2020.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis, except for financial instruments that

have been measured at fair value. The consolidated financial statements are prepared on a going concern basis. In this regard, together with several other factors, Somers has assessed the impact of the Covid-19 pandemic (as declared by the World Health Organisation as a pandemic in 2020) on its business operations and ability to meet regulatory requirements. The assessment was based on information available at the end of the 2020 financial year and has considered the impact on certain key financial aspects based on multiple economic scenarios. The consolidated financial statements are presented in United States Dollars, which is the Company's functional and presentational currency. All values are rounded to the nearest dollar, except when otherwise indicated.

### Statement of Compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The Company has consistently applied the significant accounting policies to all periods presented in these consolidated financial statements.

### Presentation of Consolidated Financial Statements

The Company presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding the maturity or settlement of the financial assets and liabilities within 12 months after the reporting date (current), and more than 12 months after the reporting date (non-current), is presented in note 17.

### Basis of Consolidation

Subsidiaries and associated undertakings held as part of the investment portfolio are carried at fair value through profit or loss and accounted for in accordance with IFRS 9 Financial Instruments: Recognition and Measurement.

Those subsidiaries and associated undertaking that are not held for investment, or which provide services to Somers, are consolidated where Somers has control. The consolidated financial statements include the financial statements of its operating subsidiaries; Somers UK (Holdings) Limited, Somers Pte. Ltd and Somers Treasury Pty Ltd. All intercompany balances and transactions are eliminated on consolidation. Details of the subsidiaries and associates are included in notes 4 and 5 to the consolidated financial statements.

### Standards and interpretations adopted during the year

#### IFRS 16 Leases

The adoption of IFRS 16 had no significant impact on the Company's financial statements. The Company does not have contracts which include leases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2020 (Expressed in United States Dollars)

## **Significant Accounting Judgments, Estimates, and Assumptions**

The preparation of consolidated financial statements in conformity with IFRS requires management to make certain significant estimates, judgments, and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Estimates, judgments, and assumptions are continually evaluated, and are based on historical experience, and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. The estimates, judgments, and assumptions, that have a significant risk of causing material adjustments to the consolidated financial statements within the next financial year, are discussed below:

### ***Covid-19 pandemic***

The Covid-19 pandemic situation is uncertain and evolving, and management continues to monitor the anticipated impacts on the business as circumstances change.

### ***Fair Value of Financial Instruments***

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined, in compliance with IFRS 13, using a variety of valuation techniques that include the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish their fair values.

The judgments include valuation assumptions and model inputs such as revenue, EBITDA, estimated future cash flows, multiples of comparable companies, volatility and discount rates. The estimates and judgments used in the valuation of financial instruments are described in more detail in note 19.

### ***Impairment Losses on financial assets held at amortised cost***

The Company reviews its individually significant loans and receivables to assess impairment at least on an annual basis. Management judgment is required in the estimation of the amount and expected credit losses and timing of future cash flows when determining impairment loss. These estimates are based on assumptions about several factors and actual results may differ from current estimates resulting in future changes to the allowance.

## **Foreign Currency Translation**

The consolidated financial statements are presented in United States Dollars. The Company and each of its subsidiaries determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Bermuda Dollar balances and transactions are translated into United States Dollars at par. Monetary assets and liabilities in other currencies are translated into United States Dollars at the rates of exchange prevailing at the reporting date and non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into United States Dollars at historic rates or the rates of exchange prevailing at the dates of the transactions.

Income and expense items in other currencies are translated into United States Dollars at the rates prevailing at the dates of the transactions. Realised and changes in unrealised gains and losses on investments denominated in foreign currencies and foreign currency positions are reported under net foreign exchange gains or losses in the consolidated statement of income.

Where subsidiaries are consolidated, the assets and liabilities of foreign operations are translated into US Dollars at the rate of exchange on the reporting date, and their statements of income and comprehensive income are translated at the weighted average exchange rates for the period. Exchange differences arising on translation of foreign consolidated subsidiaries are recognised in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of income as part of the gain or loss on sale.

## **Cash and Cash Equivalents**

Cash and cash equivalents in the consolidated statement of cash flows consist of cash and term deposits which are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value and have original maturities of three months or less.

## **Financial Instruments**

### ***Recognition and initial measurement***

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the entity becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

***Classification and subsequent measurement – Policy effective from 1 October 2019***

***Financial assets***

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost, as described above, are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

***Financial assets at FVTPL***

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

***Financial assets at amortised cost***

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by any impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets are not reclassified subsequent to their initial recognition unless the entity changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at amortised cost are classified as other financial assets. This includes cash and cash equivalents, due from brokers, interest receivable, dividend receivable and other assets.

***Financial liabilities***

Financial liabilities are classified at amortised cost and subsequent to initial recognition, are measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost are classified as other financial liabilities. This includes amounts due to broker, interest payable, dividends payable, accrued expenses and other liabilities.

**Derecognition of Financial Assets and Financial Liabilities**

***Financial Assets***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred substantially all the risks and rewards of the asset.

***Financial Liabilities***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

**Determination of Fair Value**

The fair values of financial instruments traded in active markets at the reporting date are determined based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deductions for transaction costs. For all other financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques.

An analysis of fair values of financial instruments and further details as to how they are measured is provided in note 19.

**Impairment of Financial Assets**

The Company recognises loss allowances for Expected Credit Losses (ECLs) on financial assets measured at amortised cost.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are measured at an amount equal to lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2020 (Expressed in United States Dollars)

## **Presentation**

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive).

## **Measurement of ECLs**

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

## **Recognition of Income**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

## **Interest Income**

Interest income is recognised in the consolidated statement of income for all interest-bearing instruments on the accrual basis, using the effective interest rate method.

## **Dividend Income**

Dividend income is recognised when the Company's right to receive the payment is established.

## **Expenses**

Expenses are recognised in the consolidated statement of income on the accrual basis. Interest expense is calculated using the effective interest rate method.

## **Dividends on Common Shares**

Dividends on common shares are recognised as a liability and are deducted from equity in the period in which they are declared.

## **Earnings Per Share**

Basic earnings per share (EPS), is calculated by dividing net income attributable to shareholders by the weighted average number of common shares outstanding during the period. The

diluted EPS calculation assumes that stock warrants are only exercised and converted when the exercise price is below the average market price of the Company's shares. It also assumes that the Company will use any proceeds to purchase its common shares at their average market price during the period. Consequently, there is no imputed income on the proceeds and the number of weighted average shares are only increased by the difference between the number of warrants exercised, outstanding warrants, and the number of shares purchased by the Company.

## **Treasury Stock**

The Company's own equity acquired by Somers or by any of its subsidiaries (treasury stock) is recognised at cost and deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of the Company's own equity instruments is recognised directly in equity.

No gain or loss is recognised in net income on the purchase, sale, issue or cancellation of the Company's own equity instruments.

## **New Standards, Interpretations, and Amendments to Published Standards Relevant to the Company**

At the date of authorisation of these financial statements, the following standards affecting the company were in issue, but are not yet effective:

- Amendment to the conceptual framework (Amendments to IFRS 3) – effective 1 January 2020
- Definition of material (Amendments to IAS 1 and IAS 8) – effective 1 January 2020
- Presentation of liabilities (Amendments to IAS 1) – effective 1 January 2022

The Company has chosen not to early adopt these new and revised standards. Based on management's initial assessment, these standards are not expected to have a material impact on the Company.

## **3. FINANCIAL INVESTMENTS**

The following table is an analysis of the investment portfolio disclosing fair value balances by category:

	2020 \$	2019 \$
<b>Financial assets at fair value through profit or loss</b>		
Equity investments	494,752,335	397,280,598
Debt securities	–	9,660,828
Other financial investments	6,142,500	3,327,000
<b>Total financial investments</b>	<b>500,894,835</b>	<b>410,268,426</b>

Other financial investments consist of contractual rights to receive financial assets from other entities.

The following table is an analysis of the investment portfolio disclosing fair value balances and fair value movements of the investments:

	2020 \$	2019 \$
<b>Financial assets at fair value through profit or loss</b>		
Fair value at beginning of year	410,268,426	400,284,601
Purchase of investments	26,442,173	34,718,994
Proceeds from disposal of investments	(14,744,366)	(13,559,813)
Reclassification from available-for-sale	-	2,689,390
Net fair value movement in the year (including foreign exchange gains and losses)	78,928,602	(13,864,746)
<b>Fair value at end of year</b>	<b>500,894,835</b>	<b>410,268,426</b>
<b>Available-for-sale financial assets</b>		
Fair value at beginning of year	-	2,689,390
Reclassification to FVTPL	-	(2,689,390)
<b>Fair value at end of year</b>	<b>-</b>	<b>-</b>
<b>Total financial investments</b>	<b>500,894,835</b>	<b>410,268,426</b>

#### 4. SUBSIDIARY UNDERTAKINGS

The following were consolidated subsidiary undertakings of the Company at September 30, 2020 and September 30, 2019.

	Country of operation, registration and incorporation	Holdings and voting rights % 2020	2019
Somers AM Pty Ltd	Australia	100%	100%
Somers Treasury Pty Ltd	Australia	100%	100%
Somers Pte. Ltd	Singapore	100%	100%
Somers UK (Holdings) Limited	United Kingdom	100%	100%

In accordance with IFRS 10, subsidiaries held as part of the Company's investment portfolio are not consolidated but are accounted for as investments and carried at fair value through profit or loss.

Details of these underlying investments are as follows:

	Country of registration, incorporation and operations	Number of ordinary shares held	Percentage of ordinary shares held
Resimac Group Limited ("Resimac")	Australia	254,468,487	62.41%
Bermuda Commercial Bank Limited ("BCB")	Bermuda	7,003,318	100.00%
West Hamilton Holdings Limited ("West Hamilton")	Bermuda	1,659,390	57.03%
Waverton Investment Management Group Limited ("Waverton")	UK	10,750,000	62.50%
PCF Group plc ("PCF")	UK	137,439,157	54.92% <sup>(1)</sup>

(1) BCB holds an additional 21,010,723 (8.40%) ordinary shares in PCF for an aggregate group holding of 158,449,880 (63.32%) shares.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2020 (Expressed in United States Dollars)

## 5. ASSOCIATE UNDERTAKINGS

The associate undertakings are held as part of the investment portfolio and consequently are carried at fair value through profit or loss. The Company had the following associate undertakings at September 30, 2020:

	AK Jensen Group Limited ("AKJ")	Incol Limited ("Incol")	Thorn Group Limited ("Thorn")	The Market Herald ("TMH")
Country of registration, incorporation and operations	Bermuda	Ireland	Australia	Australia
Number of ordinary shares held	19,580,471	100,000	94,783,829	42,532,103
Percentage of ordinary shares held	36.21%	23.81%	29.40%	22.41%

Transactions with associate undertakings are disclosed in note 16.

## 6. LOANS AND RECEIVABLES

Loans and receivables at September 30 were as follows:

	2020 \$	2019 \$
Loans to associates	2,000,000	1,400,000
Loans to investment portfolio companies	109,436	102,953
<b>Total</b>	<b>2,109,436</b>	<b>1,502,953</b>

## 7. OTHER ASSETS

Other assets at September 30 were as follows:

	2020 \$	2019 \$
Prepayments and other receivables	175,450	5,805,796
Contingent consideration	1,605,583	2,179,601
Amounts receivable from brokers	–	319,230
<b>Total</b>	<b>1,781,033</b>	<b>8,304,627</b>

Contingent consideration consists of the expected additional consideration to be received from the disposal of an investment in Stockdale Securities Limited.

## 8. OTHER LIABILITIES

Other liabilities at September 30 were as follows:

	2020 \$	2019 \$
Accounts payable	504,730	504,519
Accrued performance fees (Note 16)	7,207,671	–
Accrued liabilities	2,149,853	829,647
<b>Total</b>	<b>9,862,254</b>	<b>1,334,166</b>

## 9. INTEREST BEARING LOANS AND BORROWINGS

Interest bearing loans and borrowings at September 30 were as follows:

	2020 \$	2019 \$
USD Loan facility from BCB	7,000,000	5,500,000
GBP Loan facility from BNTB	34,875,900	37,198,425
<b>Total bank borrowings</b>	<b>41,875,900</b>	<b>42,698,425</b>
USD 6% loan facility from UIL	5,225,000	3,400,000
GBP 6% loan facility from UIL	10,824,446	8,675,534
AUD 6% loan facility from UIL	5,355,868	4,093,806
CAD 10% loan facility from UIL	601,007	–
USD 6% loan facility from Permanent	4,950,000	2,750,000
GBP 6% loan facility from Permanent	2,378,013	1,635,495
AUD 6% loan facility from Permanent	4,826,799	4,687,349
<b>Total</b>	<b>76,037,033</b>	<b>67,940,609</b>

### Bermuda Commercial Bank Limited Loan

This \$7 million loan facility from BCB carries an interest rate of the BCB base rate (5.25% as at September 30, 2020) plus 0.45%. The facility is subject to annual principal repayments of \$1.0 million commencing March 31, 2021 with a final repayment date of March at 31, 2025. In order to secure the loan the Company has pledged 30,000,000 ordinary shares in Resimac Group Limited with a carrying value at 30 September 2020 of \$30,527,160.

### The Bank of N.T. Butterfield & Son Limited (“BNTB”) Loan

This loan facility from BNTB carries an interest rate of three-month GBP LIBOR plus 4.0%. The facility is secured against certain securities within the Company’s investment portfolio. A £3 million principal repayment was made in October 2020. The facility was revised in November 2020 and is subject to £10.5 million principal repayments up to December 31, 2021, followed by bi-annual principal repayments of £2.5 million. At 30 September 2020, £27 million was drawn down on this facility. In order to secure the loans, the Company has pledged 8,772,000 ordinary shares in Waverton Investment Management Group Limited with a carrying value at 30 September 2020 of \$45,416,153 and 81,646,090 ordinary shares in Resimac Group Limited with a carrying value at 30 September 2020 of \$83,080,775.

### Loan Facilities from UIL

The USD unsecured facility from UIL carries a fixed interest rate of 6%. The GBP unsecured facility from UIL carries a fixed interest rate of 6%. The AUD unsecured facility from UIL carries a fixed interest rate of 6%. The CAD unsecured facility from UIL carries a fixed interest rate of 10%. Each facility is repayable upon UIL giving Somers not less than 12 months’ notice. At year end, balances of USD 5,225,000, GBP 8,380,000, AUD 7,474,000 and CAD 800,000 (2019: USD 3,400,000, GBP 7,055,000 and AUD 6,064,000) were drawn down on these facilities.

### Loan Facilities from Permanent

The USD unsecured facility from Permanent carries a fixed interest rate of 6%. The GBP unsecured facility from Permanent carries a fixed interest rate of 6%. The AUD unsecured facility from Permanent carries a fixed interest rate of 6%. Each facility is repayable upon Permanent giving Somers not less than 12 months’ notice. At year end balances of USD 4,950,000, GBP 1,840,995 and AUD 6,735,695 (2019: USD 2,750,000, GBP 1,330,000 and AUD 6,943,192) were drawn down on these facilities.

### Compliance with Loan Covenants

Under the terms of its BCB and BNTB loan facilities, Somers is required to comply with principal lending covenants in respect of the ratio of borrowings to equity, the ratio of cash income to interest expense, and minimum net assets levels. Somers was in compliance during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2020 (Expressed in United States Dollars)

## 10. EQUITY

All shares are common shares with a par value of \$0.0001 each.

	Authorised Shares	Par Value \$	Issued & Fully Paid Shares	Par Value \$	Contributed Surplus \$
Balance at September 30, 2018	120,000,000	12,000	20,058,261	2,006	294,748,410
Issuance of 628,540 shares under dividend reinvestment plan	–	–	628,540	63	9,620,423
Cancellation of treasury stock	–	–	(15,180)	(2)	(228,442)
Balance at September 30, 2019	120,000,000	12,000	20,671,621	2,067	304,140,391
Issuance of 677,772 shares under dividend reinvestment plan	–	–	677,772	68	10,166,512
Cancellation of treasury stock	–	–	(7,911)	(1)	(109,964)
Balance at September 30, 2020	120,000,000	12,000	21,341,482	2,134	314,196,939

## Treasury Stock

	2020		2019	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Balance at beginning of year	773	11,595	–	–
Purchase of treasury stock	7,138	98,370	15,953	240,039
Cancellation of treasury stock	(7,911)	(109,965)	(15,180)	(228,444)
<b>Balance at end of year</b>	<b>–</b>	<b>–</b>	<b>773</b>	<b>11,595</b>

## Regulatory Capital

Certain of Somers' unconsolidated subsidiaries have external regulatory capital requirements. BCB has complied with all minimum capital requirements prescribed by its Bermuda regulator, the Bermuda Monetary Authority, for the current year. PCF has complied with all minimum capital requirements prescribed by its dual regulators in the UK, the Prudential Regulation Authority and the Financial Conduct Authority, for the current year. Waverton's lead regulator in the UK is the Financial Conduct Authority and Waverton has complied with its capital requirements during the year. With the exception of BCB, PCF and Waverton the other subsidiaries are not subject to external regulatory capital requirements.

## Capital Management

The Company's capital levels are regularly reviewed by the Board of Directors in light of changes in economic conditions and the risk characteristics of the Company's activities. To maintain or adjust the capital structure, the Company may adjust the amount of dividend payments to shareholders, return capital to shareholders, or issue new capital securities. There were no changes in the Company's approach to capital management during the year.

## Dividend Reinvestment Plan

The Company operates a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares are issued under the plan based on the Company's average share price on the Bermuda Stock Exchange for a predetermined period prior to the dividend payment date.

## 11. EARNINGS PER SHARE

	Net Earnings \$	Weighted Average Shares	Earnings per Share \$
<b>2020</b>			
<b>Basic Earnings Per Share</b>			
Net profit	69,042,246	20,974,169	3.29
<b>Diluted Earnings Per Share</b>			
Net profit	69,042,246	20,974,169	3.29
<b>2019</b>			
<b>Basic Loss Per Share</b>			
Net loss	(9,721,143)	20,335,916	(0.48)
<b>Diluted Loss Per Share</b>			
Net loss	(9,721,143)	20,335,916	(0.48)

## 12. DIVIDENDS

The Company declared and paid dividends as follows:

	2020 \$	2019 \$
Final dividend for the year ended September 30, 2019 of 30 cents (2018: 29 cents) per common share. Paid February 2020.	6,201,002	5,816,680
Interim dividend for the year ended September 30, 2020 of 21 cents (2019: 21 cents) per common share. Paid July 2020.	4,423,680	4,287,188
<b>Total</b>	<b>10,624,682</b>	<b>10,103,868</b>

Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended September 30, 2020 and 2019 were as follows:

	2020 \$	2019 \$
Paid in cash	458,102	483,382
Satisfied by issue of shares	10,166,580	9,620,486
<b>Total</b>	<b>10,624,682</b>	<b>10,103,868</b>

On December 9, 2020 the Directors declared a final dividend in respect of the year ended September 30, 2020 of \$0.34 per share which will be paid on February 8, 2021 to all shareholders of record as at close of business on January 15, 2021.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2020 (Expressed in United States Dollars)

## 13. INTEREST INCOME

The Company earned interest income as follows:

	2020 \$	2019 \$
Loans and receivables	247,766	135,919
Financial assets at fair value through profit or loss	111,602	312,545
<b>Total</b>	<b>359,368</b>	<b>448,464</b>

## 14. GAINS ON INVESTMENTS

The Company recorded the following net gains on investments:

	2020 \$	2019 \$
<b>Financial assets at fair value through profit or loss</b>		
Unrealised gains on investments	59,358,673	3,330,089
Realised gains on sale of investments	1,630,857	1,006,558
<b>Total gains on investments</b>	<b>60,989,530</b>	<b>4,336,647</b>

## 15. INCOME TAX

Somers and its Bermuda domiciled subsidiaries are not subject to income tax on their net income for the period. Somers' subsidiaries domiciled in other jurisdictions are subject to the tax laws of those jurisdictions. The Company records income taxes based on the tax rates applicable in the relevant jurisdiction.

The income tax expense for the year was as follows:

	2020 \$	2019 \$
Overseas taxation	5,260	–
<b>Total</b>	<b>5,260</b>	<b>–</b>

## 16. RELATED-PARTY DISCLOSURES

As at September 30, 2020, the Major Shareholders held, in aggregate, 93.78% (2019: 93.60%) of Somers' common shares. Details of the Major Shareholders are disclosed in note 1.

The following are considered related parties of the Company: the Major Shareholders, Somers Isles Private Trust Company Limited ("SIPTCL") (which controls 100% of Union Mutual, ICM, General Provincial Company Limited and 72.5% of UIL's ordinary shares), Mr Duncan Saville (who owns 100% of SIPTCL), entities controlled by these entities and individuals, ICM (the investment manager of Somers) and the board of directors of ICM, the subsidiaries of the Company set out under note 4, the associates of the Company set out under note 5, and the Board of Directors.

The following transactions were carried out during the year ended September 30, 2020, between the Company and its related parties:

### **Bermuda Commercial Bank Limited**

Somers uses BCB for banking services and these services are provided under the same terms as an unrelated party would receive. For the year ended September 30, 2020, Somers paid BCB fees of approximately \$39,155 (2019: \$88,725) for banking services.

At September 30, 2020, Somers had deposits with BCB amounting to \$236,633 (2019: \$322,022).

As detailed in note 9 the Company has a \$7 million (2019: \$5.5 million) loan facility from BCB which carries an interest rate of the BCB US\$ base rate plus 0.45%. Somers incurred interest expense of \$405,465 (2019: \$390,584) on this loan during the year.

### **Resimac Group Limited**

Somers received AUD 7,627,396 (2019: AUD 6,296,645) of dividends during the year from Resimac.

### **Waverton Investment Management Group Limited**

Somers received GBP 1,881,250 (2019: GBP 1,881,250) of dividends during the year from Waverton.

### **PCF Group plc**

Somers received GBP 543,677 (2019: GBP 407,757) of dividends during the year from PCF.

### **West Hamilton Holdings Limited**

Somers received \$248,909 (2019: \$165,939) dividends during the year from West Hamilton.

### **AK Jensen Group Limited**

Somers provided a \$2,000,000 loan facility to AK Jensen in January 2019. The loan carries a fixed interest rate of 10% and is repayable on April 30, 2021. At year end, \$2,000,000 was drawn down on this facility. Somers earned interest and fees of \$189,843 (2019: \$149,000) during the year of which \$50,411 (2019: \$37,556) was receivable at year end.

### **Incol Limited**

Somers has a loan receivable from Incol of €42,000 (2019: €42,000). The loan is unsecured and carries no interest and has been fully impaired since 2019.

### **UIL Limited**

Somers has entered into a number of loan facilities with UIL. At year end balances of USD 5,225,000, GBP 8,380,000, AUD 7,474,000 and CAD 800,000 (2019: USD 3,400,000, GBP 7,055,000 and AUD 6,064,000) were drawn down on these facilities. Somers incurred interest expense of \$1,363,742 (2019: \$517,533) on these loans during the year, of which \$354,804 (2019: \$198,692) was payable at year end.

### **Permanent Investments Limited**

Somers has entered into a number of loan facilities with Permanent. At year end balances of USD 4,950,000, GBP 1,840,995 and AUD 6,735,695 (2019: USD 2,750,000, GBP 1,330,000 and AUD 6,943,192) were drawn down on these facilities. Somers incurred interest expense of \$595,744 (2019: \$282,913) on these loans during the year, of which \$178,930 (2019: \$96,601) was payable at year end.

### **General Provincial Company Limited**

Somers has provided General Provincial Company Limited with an indemnity to the maximum amount of \$7,000,000. A fee of A\$200,000 was received by Somers for the provision of this indemnity.

### **ICM Limited and the Board of Directors of ICM Limited**

ICM Limited is the investment manager to Somers and joint investment manager to UIL and the investment adviser to BCB. The Directors of ICM are Duncan Saville, Charles Jillings and Alasdair Younie. Charles Jillings and Alasdair Younie are also directors of Somers.

In December 2019, Somers entered into a revised investment manager agreement with ICM. This revised agreement replaced an agreement entered into in December 2014 and remains in force until terminated by Somers, by giving ICM not less than six months' written notice of termination, or by ICM giving Somers not less than three months' written notice of termination, or such lesser period of notice as Somers and ICM agree.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2020 (Expressed in United States Dollars)

Somers has agreed to pay ICM an annual fee for its investment management services equal to 0.75% (2019: 0.50%) (payable quarterly in arrears) of the gross asset value of qualifying investments within Somers' financial investment portfolio. For the year ended September 30, 2020, this fee amounted to \$3,159,352 (2019: \$2,001,151), of which \$1,767,386 (2019: \$500,000) remained payable at year end. Included within the terms of the revised investment manager agreement is a performance fee payable to ICM if the growth in the Company's equity exceeds a hurdle rate equal to the higher of 8% or 4% plus the UK Retail Price Index inflation ("Hurdle Rate"). The fee arrangement is payable at a rate of 15% on the amount by which the growth in the Company's equity exceeds the Hurdle Rate. Somers agreed to pay a performance fees of \$7,207,671 for the year ended September 30, 2020 (2019: \$nil).

ICM provided administration and other professional services to Somers for which Somers paid fees of \$62,500 (2019: \$50,000) and this is included in "Audit and accounting fees" in the Consolidated Statement of Income.

## The Board of Directors

Directors had the following beneficial interest in the Company's issued share capital:

	2020	2019
Charles Jillings	91,345	88,318
Warren McLeland	51,287	49,587
David Morgan	6,750	6,750

The Company's directors' fees for the year ended September 30, 2020, amounted to \$167,500 (2019: \$172,500).

Charles Jillings was a director of Waverton during the year ended September 30, 2020 and received directors' fees of \$46,393 in the year (2019: \$51,038). Alasdair Younie was a director of West Hamilton and BCB during the year ended September 30, 2020 and received directors' fees of \$15,000 and \$38,800, respectively, in the year (2019: \$7,300 and \$40,000). Warren McLeland was a Chairman of Resimac during the year ended September 30, 2020 and received directors' fees of \$68,807 in the year (2019: \$52,715). David Morgan was a director of BCB, Waverton and PCF during the year ended September 30, 2020 and received directors' fees of \$44,367, \$50,610 and \$53,774, respectively (2019: \$50,000, \$51,038 and \$52,227). Morwill Ltd, a company related to Mr Morgan, also received fees for providing services to Somers of \$103,385 for the year (2019: \$109,466).

## Other

In addition, the following transactions were carried out during the year between the Company's subsidiaries and related parties:

### *Bermuda Commercial Bank Limited*

BCB provides banking services and enters into transactions with related parties of Somers under the same terms as an unrelated party would receive. Outstanding balances and/or transactions with related parties of Somers were as follows:

### *Loans and advances to customers*

At September 30, 2020, BCB had total loans and advances receivable from related parties of Somers amounting to \$11,362,373 (2019: \$12,676,596), of which \$3,000,000 (2019: \$3,000,000) was unsecured and \$8,362,373 (2019: \$9,676,596) was secured by the related parties' cash and portfolio assets custodied by BCB. The undrawn portion of credit facilities with related parties of Somers at September 30, 2020 totalled \$nil (2019: \$nil).

For the year ended September 30, 2020, BCB earned net interest and fees of \$1,045,801 (2019: \$1,374,902) for banking services provided to related parties of Somers.

### *Deposit Liabilities*

At September 30, 2020, BCB had deposit balances placed by Somers' related parties amounting to \$7,027,627 (2019: \$7,915,593).

### *Investment Adviser Agreement with ICM*

BCB has entered into an investment adviser agreement with ICM and has agreed to pay ICM an annual fee for its advisory services equal to 0.50% of the value of BCB's investment portfolio. For the year ended September 30, 2020, such fees amounted to \$728,098 (2019: \$539,835) of which \$190,266 remained payable at year end (2019: \$155,768). In addition, pursuant to a consultancy agreement, a fee of \$100,000 (2019: \$100,000) was paid to ICM for its consultancy services, of which \$25,000 remained payable at year end (2019: \$25,000).

In addition, depending upon the performance of its investment portfolio, BCB may determine that the Investment Adviser should receive performance fees on account of the services provided. During the year ended September 30, 2020, BCB incurred a performance fee of \$nil (2019: \$nil).

### *Ultimate Parent Undertaking*

In the opinion of the Directors, the Company's ultimate parent undertaking is Somers Isles Private Trust Company Limited, a company incorporated in Bermuda.

## 17. RISK MANAGEMENT

The Company's investment objective is to maximise shareholders' returns by identifying and investing in investments when management believes the underlying value is not reflected in the market price.

The Company seeks to meet its investment objective by investing in a portfolio of listed and unlisted companies. Derivative instruments may be used for purposes of hedging the underlying portfolio of investments that are denominated in foreign currencies. The Company has the power to enter into short and long-term borrowings. In pursuing its objectives, the Company is exposed to financial risks. These financial risks are principally related to the market (currency movements, interest rate changes and security price movements), liquidity and credit and counterparty risk. The Board of Directors is responsible for the Company's risk management. The Directors' policies and processes for managing the financial risks are set out in (a) to (e) below.

### (a) Market Risk

The fair value of the financial securities held in the Company's portfolio fluctuate with changes in market prices. Market risk embodies currency risk, interest rate risk and price risk. Prices are affected by movements in currencies and interest rates and by other financial issues, including the market perception of future risks. The Company's investments may be materially affected by economic conditions in the global financial markets and those markets where Somers has material exposures. Capital and credit markets have experienced significant volatility and disruption over recent periods. Uncertainty created by market and economic conditions and a tightening of credit could lead to declines in valuations of financial securities without regard to the underlying financial condition of the issuer.

The Board sets policies for managing these risks within the Company's objectives and meets regularly to review full, timely and relevant information on investment performance and financial results. The Investment Manager assesses exposure to market risks when making each investment decision and monitors ongoing market risk within the portfolio. The Investment Manager consults with the Board of Directors on a quarterly basis, or more frequently as required.

The Company's other assets and liabilities may be denominated in currencies other than US Dollars and may also be exposed to exchange rate risks. The Investment Manager and the Board regularly monitor these risks.

The Company does not normally hold significant cash balances. Borrowings are limited to amounts and currencies commensurate with the portfolio's exposure to those

currencies, thereby limiting the Company's exposure to future changes in exchange rates.

Borrowings may be short or long term, in US Dollars and foreign currencies, and enable the Company to take a long-term view of the countries and markets in which it is invested without having to be concerned about short term volatility. Income earned in foreign currencies is converted to US Dollars on receipt. The Board regularly monitors the effects on net revenue of interest earned on deposits and paid on borrowings.

### *Currency exposure*

Currency risk arises from the possibility that fluctuations in foreign currency exchange rates will affect the value of certain of the Company's assets and liabilities. The Company's functional currency is the US Dollar. As a result, foreign currency assets and liabilities are translated to US Dollars.

The Company maintains investments in Sterling, Australian Dollars, Canadian Dollars, and other currencies, and may invest in financial instruments and enter into transactions denominated in currencies other than US Dollars.

When valuing investments that are denominated in currencies other than the functional currency, the Company is required to convert the values of such investments into its functional currency based on prevailing exchange rates as at the end of the applicable accounting period. Changes in exchange rates between the functional currency and other currencies could lead to significant changes in its Net Asset Values that the Company reports from time to time and could subject such Net Asset Values to favourable or unfavourable fluctuations. Among the factors that may affect currency values are trade balances, levels of short-term interest rates, differences in relative values of similar assets in different currencies, long term opportunities for investment and capital appreciation and political developments.

The Company may engage in currency hedging to limit the Company's exposure to currency fluctuations. Currency hedging by the Company may be by means of spot and forward foreign exchange contracts or options on such contracts or by using such other derivative instruments as may be available and having the same or similar effect.

The Company's underlying investments are denominated in Sterling, Australian Dollars, Euros, New Zealand Dollars, Singapore Dollars, Canadian Dollars and US Dollars. The Investment Manager considers currency risk when making investments into non-US Dollar denominated assets and monitors currency movements on an ongoing basis. The Investment Manager discusses its foreign currency policies with the Board of Directors on a regular basis and may choose to alter its asset allocation or currency risk strategies as a result.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2020 (Expressed in United States Dollars)

At the reporting date the carrying value of the Company's financial assets and financial liabilities held in individual foreign currencies and the net exposure to foreign currencies were as follows:

2020						
	Financial Assets \$	Financial Liabilities \$	Net Financial Assets \$	% of Company Net Financial Assets	Hedging Contracts \$	Net Exposure \$
Australian Dollar	285,206,629	(10,360,246)	274,846,383	65.1%	-	274,846,383
Sterling	122,057,453	(48,399,555)	73,657,898	17.4%	-	73,657,898
Canadian Dollar	1,827,661	(635,483)	1,192,178	0.3%	-	1,192,178
New Zealand Dollar	1,079,057	-	1,079,057	0.3%	-	1,079,057
Singapore Dollar	238,901	(73)	238,828	0.1%	-	238,828
Euro	-	-	-	-	-	-
<b>Total</b>	<b>410,409,701</b>	<b>(59,395,357)</b>	<b>351,014,344</b>	<b>83.1%</b>	<b>-</b>	<b>351,014,344</b>

2019						
	Financial Assets \$	Financial Liabilities \$	Net Financial Assets \$	% of Company Net Financial Assets	Hedging Contracts \$	Net Exposure \$
Australian Dollar	178,857,914	(8,832,307)	170,025,607	48.1%	-	170,025,607
Sterling	130,664,685	(47,710,262)	82,954,423	23.5%	-	82,954,423
Canadian Dollar	356,064	-	356,064	0.1%	-	356,064
New Zealand Dollar	1,177,661	-	1,177,661	0.3%	-	1,177,661
Singapore Dollar	318,665	(72)	318,593	0.1%	-	318,593
Euro	150,596	(103,460)	47,136	0.0%	-	47,136
<b>Total</b>	<b>311,525,585</b>	<b>(56,646,101)</b>	<b>254,879,484</b>	<b>72.1%</b>	<b>-</b>	<b>254,879,484</b>

Based on the financial assets and liabilities held, and the exchange rates at each reporting date, a strengthening or weakening of the US Dollar against each of these currencies by 10% would have had the following approximate effect on annualised income before tax and on the Net Asset Value (NAV) per share:

## Strengthening of US Dollar

2020						
	Australian Dollar \$	Sterling £	Canadian Dollar \$	New Zealand Dollar \$	Singapore Dollar \$	Euro €
Net income for the year	(27,484,638)	(7,365,790)	(119,218)	(107,906)	(23,883)	-
NAV per share – Basic	(1.29)	(0.35)	(0.01)	(0.01)	(0.00)	-
2019						
	Australian Dollar \$	Sterling £	New Zealand Dollar \$	Canadian Dollar \$	Singapore Dollar \$	Euro €
Net income for the year	(17,002,561)	(8,295,442)	(35,606)	(117,766)	(31,859)	(4,714)
NAV per share – Basic	(0.82)	(0.40)	(0.00)	(0.01)	(0.00)	(0.00)

### Weakening of US Dollar

The relevant weakening of the reporting currency against the above currencies would have resulted in an approximate equal but opposite effect on net income and NAV per share by amounts shown above, on the basis that all other variables remain constant.

These analyses are broadly representative of the Company's activities during the current year as a whole, although the level of the Company's exposure to currencies fluctuates throughout the year in accordance with the investment and risk management processes.

### Interest rate exposure

The Company's exposure to changes in interest rates relates primarily to its holding of convertible debt securities within its financial investments portfolio and its \$41,875,900 (2019: \$42,698,425) of variable rate bank loans. Apart from its bank loans, the Company had no floating rate debt obligations at September 30, 2020 (2019: \$nil). The Company has incurred, and expects to continue to incur, indebtedness, to leverage certain investments. Due to the foregoing, the Company is, and believes that it will continue to be, exposed to risks associated with movements in prevailing interest rates. An increase in interest rates could make it more difficult or expensive to obtain debt financing, could negatively impact the values of fixed income investments, and could decrease the returns that investments generate or cause them to generate losses.

At September 30, 2020 the Company held no convertible debt securities (2019: fair value of \$9,660,828).

The Company is, and believes that it will continue to be, subject to additional risks associated with changes in prevailing interest rates due to the fact that its capital is invested in underlying portfolio companies whose capital structures may have a significant degree of indebtedness. Investments in leveraged companies are inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. A leveraged company's income and net assets also tend to increase or decrease at a greater rate than would be the case if leverage was absent. As a result, the risk of loss associated with an investment in a leveraged company is generally greater than for those companies with comparably less debt.

External borrowings will only be undertaken if the Directors and the Investment Manager consider the prevailing interest rates to be favourable and that the terms and conditions attaching to such borrowings are acceptable, having regard to the investment objectives of the Company. As at September 30, 2020, the Company had bank loans and overdrafts of \$41,875,900 (2019: \$42,698,425), and loans of \$34,161,133 (2019: \$25,242,184) with other entities.

The majority of the Company's remaining assets are non-interest bearing or the assets that do have interest rate exposure are at fixed rates. Excess cash held by the Company may be invested in short term fixed deposit accounts that are rolled over on a regular basis. As a result, it is not significantly exposed to interest rate risk on its other assets and liabilities.

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table classifies the financial assets and liabilities by fixed and variable rate instruments.

	2020 \$	2019 \$
<b>Fixed rate instruments</b>		
Financial assets	2,109,436	7,036,603
Financial liabilities	(34,161,133)	(25,242,184)
	(32,051,697)	(18,205,581)
<b>Variable rate instruments</b>		
Financial assets	-	-
Financial liabilities	(41,875,900)	(42,698,425)
	(41,875,900)	(42,698,425)
Total interest rate sensitivity gap	(73,927,597)	(60,904,006)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2020 (Expressed in United States Dollars)

An increase in 100 basis points in interest rates as at the reporting date would have decreased net interest income by \$418,759 (2019: \$426,984). A decrease of 100 basis points would have increased net interest income by \$418,759 (2019: \$426,984).

As described above, a change in interest rates may impact the fair value of the Company's fixed rate debt instruments. At September 30, 2020 the Company had no fixed rate debt instruments within its financial investments portfolio (2019: \$9,660,828) and therefore an increase in 100 basis points in interest rates as at the reporting date would have no impact on gains on investments and NAV per share (2019: reduced gains on investments by \$134,000 and NAV per share by \$0.01 respectively).

## **Exposure to other price risk**

Other price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in that market. As many of the Company's financial instruments are carried at fair value with fair value changes recognised in the consolidated statement of income, such changes in market conditions will affect net gains/(losses) on investments and the Company's net asset value.

The valuation of unquoted investments depends upon a combination of market factors and the performance of the underlying assets. The Investment Manager monitors price risk and consults with the Board of Directors on a quarterly basis, or more frequently as the case may be. The impact on valuations of the Company's larger unquoted investments from changing certain unobservable inputs used in the Company's valuations,

where the value is estimated by the Directors and Investment Manager, is presented in note 19.

The Company also has direct exposure to assets that are publicly traded on various equity markets. These represent 66.29% (2019: 13.76%) of the Company's portfolio value as at September 30, 2020.

## **(b) Liquidity Risk Exposure**

The Company's financial instruments primarily include investments in unlisted equity investments that are not publicly traded and therefore may be illiquid. As a result, the Company may not be able to liquidate some of its investments in these instruments at an amount close to their fair value, or in a timely manner, should such liquidation be necessary to meet liquidity requirements.

The risk of the Company having insufficient liquidity is not considered by the Board to be significant, given the increased but still relatively low level of leverage, the absence of outstanding undrawn commitments and other obligations and the amount of quoted investments held in the Company's portfolio.

The Company's exposure to liquidity risk is actively managed and monitored on an ongoing basis by the Investment Manager and by the Board. The Investment Manager frequently reviews upcoming capital requirements as well as potential exit and other monetisation events. Allocations to new investments take into consideration the near term capital needs within the Company's broader investment portfolio. Where the Investment Manager believes there may be upcoming liquidity requirements, it will take necessary action to ensure that adequate funds are made available.

The contractual maturities of financial assets and financial liabilities, based on the earliest date on which payment can be required, are as follows:

2020					
	Less than 1 month \$	1 – 3 months \$	3 months – 1 year \$	More than 1 year \$	Total \$
<b>Financial asset by type</b>					
Cash and cash equivalents	3,765,431	–	–	–	3,765,431
Other assets	1,781,033	–	–	–	1,781,033
Interest receivable	53,675	–	–	–	53,675
Loans and receivables	109,436	–	2,000,000	–	2,109,436
Financial investments	–	–	–	–	–
<b>Total</b>	<b>5,709,575</b>	<b>–</b>	<b>2,000,000</b>	<b>–</b>	<b>7,709,575</b>
<b>Financial liability by type</b>					
Interest payable	569,898	–	–	–	569,898
Other liabilities	9,862,254	–	–	–	9,862,254
Interest bearing loans and borrowings	3,875,100	–	4,875,100	67,286,833	76,037,033
<b>Total</b>	<b>14,307,252</b>	<b>–</b>	<b>4,875,100</b>	<b>67,286,833</b>	<b>86,469,185</b>
2019					
	Less than 1 month \$	1 – 3 months \$	3 months – 1 year \$	More than 1 year \$	Total \$
<b>Financial asset by type</b>					
Cash and cash equivalents	2,909,692	–	–	–	2,909,692
Other assets	6,275,622	–	–	2,029,005	8,304,627
Interest receivable	147,545	–	–	–	147,545
Loans and receivables	102,953	–	–	1,400,000	1,502,953
Financial investments	–	–	–	6,763,350	6,763,350
<b>Total</b>	<b>9,435,812</b>	<b>–</b>	<b>–</b>	<b>10,192,355</b>	<b>19,628,167</b>
<b>Financial liability by type</b>					
Interest payable	295,295	–	–	–	295,295
Other liabilities	1,334,166	–	–	–	1,334,166
Interest bearing loans and borrowings	3,996,525	–	14,526,700	49,417,384	67,940,609
<b>Total</b>	<b>5,625,986</b>	<b>–</b>	<b>14,526,700</b>	<b>49,417,384</b>	<b>69,570,070</b>

Assets and liabilities with no contractual maturity are not included in this table.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2020 (Expressed in United States Dollars)

## (c) Credit Risk and Counterparty Exposure

The Company is exposed to potential failure by counterparties to deliver securities for which the Company has paid, or to pay for securities which the Company has delivered. The Company's overall credit risk is managed by the Board of Directors. The Board approves all counterparties used in such transactions, which must be settled on a basis of delivery against payment (except where local market conditions do not permit). Cash and deposits are held with reputable banks including BCB, a subsidiary of the Company.

The Company is exposed to the risk of non-payment of loans and debt securities provided to investee companies. Generally, no collateral is received from the underlying companies. It is believed that the risk of default is low, and the capital repayments and interest payments will be made in accordance with the agreed terms and conditions. No terms and conditions have been renegotiated in the current year.

The Company's principal custodians are BCB and JPMorgan Chase. The Company has an ongoing contract with BCB for the provision of custody services and also uses JPMorgan Chase to specifically custody its listed investments. Details of securities held in custody on behalf of the Company are received and reconciled monthly.

To the extent that ICM carries out transactions (or causes transactions to be carried out by third parties) on the Company's behalf, the Company is exposed to counterparty risk. The Board manages this risk regularly through meetings with ICM.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

	2020 \$	2019 \$
Cash and cash equivalents	3,765,431	2,909,692
Interest receivable	53,675	147,545
Loans and receivables	2,109,436	1,502,953
Financial investments	–	9,660,828
<b>Total</b>	<b>5,928,542</b>	<b>14,221,018</b>

## (d) Fair Values of Financial Assets and Liabilities

The assets and liabilities of the Company are, in the opinion of the Directors, reflected in the consolidated statement of financial position at fair value. Borrowings under loan facilities do not have a value materially different from their capital repayment amounts. Borrowings in foreign currencies are converted into US Dollars at exchange rates ruling at each valuation date.

Unquoted investments are valued based on assumptions and methodologies that may not be supported by prices from available current market transactions or by observable market data. The Directors make use of recognised valuation techniques and may take account of recent arms' length transactions in the same or similar investments. Details of the valuation process for unquoted investments are set out in note 19.

## (e) Reliance on Investment Manager

The Company relies on the Investment Manager and its ability to evaluate investment opportunities and to provide oversight of the management of the Company's investee companies. The Investment Manager exercises a central role in the investment decision making process. Accordingly, the returns of the Company will depend on the performance of the Investment Manager.

## 18. SEGMENT INFORMATION

The Directors are of the opinion that the Company's activities comprise a single operating segment, which is identifying and investing in investments where the underlying value is not reflected in the market price.

## 19. FINANCIAL INSTRUMENTS

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1: quoted (unadjusted) prices in active markets for identical financial instruments;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

### Financial Instruments Recorded at Fair Value

#### *Financial Investments at Fair Value through Profit or Loss*

Financial assets at Fair Value through Profit or Loss that are valued in accordance with IFRS 13, using valuation techniques include unquoted equity and debt securities. The Company adopts valuation methodologies based on the International Private Equity and Venture Capital ("IPEV") valuation guidelines and the assets are valued using models that use both observable and unobservable data. The unobservable inputs to the models include assumptions regarding the future financial performance

of the investee, its risk profile, and economic assumptions regarding the industry, and geographical jurisdiction in which the investee operates.

#### **Valuation methodology**

The objective of using valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Company uses proprietary valuation models, which are compliant with IPEV guidelines and IFRS 13 and which are usually developed from recognised valuation techniques. Some or all of the significant inputs into these models may not be observable in the market and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows of the financial instrument being valued, determination of the probability of counterparty default and prepayments, peer group multiple and selection of appropriate discount rates.

Fair value estimates obtained from such models are adjusted for any other factors, such as controlling interest, illiquidity, historical and projected financial data, entity specific strengths and weaknesses, or model uncertainties, to the extent that the Company believes that a third party market participant would take them into account in pricing a transaction. Where appropriate, the Directors may also engage the services of a third party valuation firm to assist with valuing certain assets.

The Directors have satisfied themselves as to the methodologies used, the discount rates and key assumptions applied, and the estimated valuations at 30 September 2020. The Level 3 assets comprise a number of unlisted investments at various stages of development and each has been assessed based on its industry, location, and place in the business cycle. Where sensible, the Directors have taken into account observable data and events to underpin the valuations. Unlisted valuations which are based on observable data may be discounted to reflect the illiquid nature of the investment. These discounts have ranged between 10% and 30% depending on the nature and characteristics of each investment.

Level 3 inputs are sensitive to assumptions made when ascertaining fair value and the following section details the sensitivity of valuations to variations in key inputs. The level of change selected is considered to be reasonable, based on observation of market conditions and historic trends.

In assessing the level of reasonably possible outcomes, consideration was also given to the impact of Covid-19 on the valuations, the performance of the investee companies before the outbreak of Covid-19, the projected short-term impact on their ability to generate earnings and cash flow and also a longer-term view of their ability to recover and perform against their investment cases. The impact on the valuations has been varied and largely linked to their relevant sectors and this has been reflected in the level of sensitivities applied.

The key inputs and assumptions used in the valuation models are as follows:

#### **Waverton**

Valuation inputs: Maintainable enterprise value ("EV")/EBITDA multiple of 9.2 times (2019: 12.0). Unlisted discount applied of 10% (2019:10%).

Valuation Methodology: Waverton has been valued based on peer comparisons and in particular EV/EBITDA. Listed peer valuations average 9.2 times for 2020. After applying a 10% discount the valuation is £89.1 million (2019: £89.5 million). Somers holds a 62.5% equity interest in Waverton and, as at September 30, 2020, carried this investment at £55.7 million (2019: £56.0 million).

The Directors, having considered Waverton's industry (wealth management), the established nature of the business, and that the quoted multiples and earnings should reflect the economic impact of Covid-19 up to September 30, 2020, assessed that the valuation uncertainty associated with Covid-19 was of a low risk level.

Sensitivities: Should the EBITDA of Waverton move by £1.0 million the gain or loss in valuation would be £5.2 million. Should the peer group multiple ascribed to Waverton's EBITDA be reduced/increased by 1.0 the change in valuation would be £5.6 million.

#### **Bermuda Commercial Bank Limited**

Valuation inputs: Adjusted net book value of BCB's identifiable assets and liabilities.

Valuation Methodology: Sum-of-the-parts valuation. Somers has a 100% interest in BCB and this was valued at \$66.4 million (2019: \$82.9 million). As disclosed in note 20, subsequent to the year end, Somers reached an agreement for the sale of its holding in BCB and as such the Directors consider the valuation uncertainty associated with Covid-19 to be low.

Sensitivities: Should BCB's net assets increase/decline by \$5.0 million the gain/loss in valuation would be \$3.9 million.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2020 (Expressed in United States Dollars)

## West Hamilton

Valuation inputs: Fair value of West Hamilton's identifiable assets and liabilities

Valuation Methodology: Fair value of West Hamilton's properties held in Hamilton, Bermuda. Somers holds a 57.03% equity interest in West Hamilton and, as at September 30, 2020, carried this investment at \$19.3 million (2019: \$19.8 million). West Hamilton appointed an independent valuer to perform the property valuations and to provide his opinion as to the fair value of the properties and Somers has utilised these valuations for the purpose of valuing its holding in West Hamilton. The valuer included a Covid-19 Statement in his report whereby he draws attention to a material uncertainty surrounding the valuation of West Hamilton's investment properties due to the unprecedented set of circumstances caused by the Covid-19 pandemic. This is not intended by the valuer to suggest that his valuations cannot be relied upon but to indicate that less certainty, and a higher degree of caution, should be ascribed to the valuations than would normally be the case. Because of this increased uncertainty, additional sensitivities have been applied.

Sensitivities: Should West Hamilton's properties increase/decline by: \$5.0 million the gain/loss in valuation would be \$2.9 million; \$10.0 million the gain/loss in valuation would be \$5.7 million.

## Resimac

At September 30, 2020, the Resimac shares were deemed to trade in an active market and accordingly Resimac has been classified as Level 1 and valued based on its quoted share price. At September 30, 2019, the Resimac shares were deemed not to trade in an active market and Resimac had been classified as Level 3 and valued based on peer comparisons and in particular EV/Profit after tax.

## Other

Valuation Methodology: Somers has a further nine unlisted investment holdings with values ranging from \$nil to \$6.1 million. These were valued using a variety of methods, including; EV/Revenue multiple, fair value of the underlying net assets, and cost of recent investments; adjusted for events subsequent to acquisition that impact fair value. The total value of these nine holdings was \$11.2 million at September 30, 2020 (2019: twelve holdings with a value of \$24.4 million).

Sensitivities: Should the value of all these lower valued investments move by 10.0%, this would have an impact on the investment portfolio value of \$1.1 million or 0.2%.

The following table shows an analysis of financial investments recorded at fair value by level of the fair value hierarchy:

2020				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets at fair value through profit or loss</b>				
Equity investments	318,570,148	13,462,054	162,720,133	494,752,335
Other financial investments	-	-	6,142,500	6,142,500
<b>Total</b>	<b>318,570,148</b>	<b>13,462,054</b>	<b>168,862,633</b>	<b>500,894,835</b>
2019				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets at fair value through profit or loss</b>				
Equity investments	54,206,877	2,231,737	340,841,984	397,280,598
Debt securities	-	-	9,660,828	9,660,828
Other financial investments	-	-	3,327,000	3,327,000
<b>Total</b>	<b>54,206,877</b>	<b>2,231,737</b>	<b>353,829,812</b>	<b>410,268,426</b>

Movement in Level 3 financial instruments measured at fair value:

	Equity Investments \$	Debt Securities \$	Other Financial Investments \$	Total \$
<b>Financial assets at fair value through profit or loss</b>				
At September 30, 2018	337,071,726	3,910,200	–	340,981,926
Total gains recorded	10,689,989	2,568,978	327,000	13,585,967
Purchases	2,433,240	3,181,650	3,000,000	8,614,890
Disposals	(9,352,971)	–	–	(9,352,971)
<b>At September 30, 2019</b>	<b>340,841,984</b>	<b>9,660,828</b>	<b>3,327,000</b>	<b>353,829,812</b>
Total (losses)/gains recorded	(13,887,403)	1,330,079	(184,500)	(12,741,824)
Purchases	1,003	–	3,000,000	3,001,003
Disposals	–	(10,990,907)	–	(10,990,907)
Transfer between levels	(164,235,451)	–	–	(164,235,451)
<b>At September 30, 2020</b>	<b>162,720,133</b>	<b>–</b>	<b>6,142,500</b>	<b>168,862,633</b>

During the year ended 30 September 2020 investments with a fair value of \$160.0 million were transferred from Level 3 to Level 1 and investments with a fair value of \$4.2 million were transferred from Level 3 to Level 2 because of increases in the level of trading in these listed securities. Investments with a fair value of \$0.2 million were transferred from Level 1 to Level 2 because these listed securities were no longer regularly traded. There were no other transfers between fair value levels for the years ended September 30, 2020 and September 30, 2019.

There were no Level 3 financial liabilities held during the years ended September 30, 2020 and September 30, 2019.

## 20. SUBSEQUENT EVENTS

### Final Dividend

On December 9, 2020, the Board of Directors resolved to pay a final dividend for the year ended September 30, 2020 in the amount of \$0.34 per share to shareholders of record at January 15, 2021, payable on February 8, 2021.

### Sale of BCB

On November 19, 2020, Somers announced that it had entered into an agreement and plan of merger which will result in the sale of the entire issued share capital of BCB to the investment company Provident Holdings Ltd. Completion of the transaction is subject to a number of conditions including regulatory and Governmental approvals.

## COMPANY INFORMATION

**Company Number: 46441**

**[www.somers.limited](http://www.somers.limited)**

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David Morgan  
Alasdair Younie

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