



# 2021

ANNUAL REPORT



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

SHAREHOLDERS' FUNDS

**US\$617.8**

MILLION

GROSS ASSETS

**US\$715.4**

MILLION

ASSETS UNDER MANAGEMENT  
INDIRECTLY MANAGING OVER

**US\$22.9**

BILLION

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

## 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 in the financial services sector.

### 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 proactively 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 2, 2022

#### **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 ("BSX"). The business activities of Somers consist 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 10, 2021



| BANKING / ASSET FINANCING   |   |  |   | PROPERTY  |
|---|---|--|---|---|
| <br><b>64.4%</b><br>PCF Group plc<br>Banking<br>A London Stock Exchange listed bank<br>Focus on retail and business banking                                 | <br><b>62.2%</b><br>Resimac Group Limited<br>Non-bank Lender<br>Australian and New Zealand mortgage securitisation business<br>Loan portfolio of over A\$16 billion                                 | <br><b>47.3%</b><br>Thorn Group Limited<br>Asset Financing<br>Australian diversified financial services organisation providing alternative financing solutions to consumers & commercial | <br><b>19.9%</b><br>Terra Firma Capital Corporation<br>Real Estate Financing<br>Provides customised debt & equity solutions to the real estate industry in Canada & US  | <br><b>57.1%</b><br>West Hamilton Holdings Limited<br>Property Management & Investment<br>Bermuda Property Holding and Management company |
| WEALTH MANAGEMENT   | BROKERAGE SERVICES  | FINANCIAL MEDIA  | SPECIALIST SERVICES   |   |
| <br><b>62.2%</b><br>Waverton Investment Management<br>Wealth Management<br>UK Private wealth management business<br>Assets under Influence of £11.8 billion | <br><b>15.2%</b><br>Aura Group<br>Wealth and Funds Management<br>A financial services business based in Asia Pacific providing wealth, funds management and corporate advisory solutions to clients | <br><b>34.3%</b><br>AK Jensen<br>Hedge Fund Platform<br>A global brokerage business which provides hedge fund services to both traditional hedge funds and digital asset funds           | <br><b>22.0%</b><br>The Market Herald<br>Financial Media<br>An Australian & Canadian multi-platform business and finance news organisation focused on stock market news | <br><b>9.6%</b><br>MJ Hudson Group<br>Fund Manager Adviser<br>UK services specialist to the Alternative Asset Management industry         |

MANAGED BY ICM

## CHAIRMAN'S STATEMENT



I am delighted to be able to write my first Chairman's statement, having been appointed Chairman in February 2021 following the retirement of Warren McLeland.

Like most people I had hoped that the Covid-19 pandemic would have been behind us by now, but unfortunately it continues to impact all of us.

It is therefore pleasing to report a record set of annual results for Somers which is testament to the strength of our investee companies. As a result of Covid-19, our investee companies have had to evaluate their business models and how they operate both now and in the future. For many this has meant looking at the products they offer, the type of customer they wish to target, and how technology can improve the productivity and profitability of their businesses. Governments and Central Banks continue to provide support to economies and businesses, but it is clear that the level of support is starting to decrease as we emerge from the pandemic, and this reduction in liquidity is likely to lead to an increase in interest rates and market volatility in the coming years.

Global asset prices have rebounded significantly since the market low in March 2020 which has been assisted by significant liquidity in the financial system, and combined with the strength of the business models of our investee companies, this has enabled Somers to report a record year with a 40.0% increase in the Company's net asset value ("NAV") to \$27.70 per share (2020: \$19.78) and a profit of \$197.8 million (2020: \$69.0 million). This is a strong return for shareholders and is further evidence of the underlying strength of our investments.

Overall our major investments have continued to perform well in 2021. Our largest investee company, Resimac Group Limited ("Resimac"), produced very encouraging results during the year with profit after tax increasing by 87%, which enabled Resimac to increase its dividend by 113%. Resimac continues to increase its Assets under Management ("AuM") which are now over A\$16 billion, and the company's share price increased by 44% during the year. Conditions continue to remain positive in Australia for non-bank lenders, and Resimac's results have been underpinned by a strong housing market in the current low interest rate environment. Waverton Investment Management Limited ("Waverton") continues to report excellent investment management performance with increased AuM through a combination of new assets and strength in the equity markets. Recent acquisitions should also benefit Waverton's financial results in the coming years. PCF Group plc's ("PCF") shares were suspended during the year as a result of issues with their regulatory filings and their financial policies and procedures. Following recent announcements from the company we are hopeful that the share suspension will be lifted early in 2022 as the company moves ahead with its remediation efforts. A detailed look at Somers' portfolio is set out from page 16 of this report.

In previous years Somers has suffered negative impacts from foreign currency movements on its annual results, given a large percentage of its assets are denominated in non-US Dollar currencies such as the Australian Dollar and Sterling. Foreign currency movements were favourable in 2020 and again during 2021, with both the Australian Dollar and Sterling strengthening against the US Dollar, by 0.7% and 4.2% respectively. These positive currency movements contributed to the valuation increases of our investments.

**Somers reported a record year with profit of \$197.8 million. This is a strong return for shareholders and is further evidence of the underlying strength of our investments.**

Somers was pleased to announce in July 2021 that it had completed the sale of Bermuda Commercial Bank Limited (“BCB”) to Provident Holdings Limited. The transaction was prolonged as a result of Covid-19, but the sale of BCB has enabled Somers to reduce its debt, pay a special one-off dividend to shareholders in September 2021, and make new investments.

The sale of BCB was the sole significant asset realisation during 2021, while we made a number of investments in both existing and new investee companies. Somers increased its holding in Thorn Group Limited (“Thorn”) to 47.3% through an on-market offer, and acquired a 15% stake in Aura Group Holdings (“Aura Group”), a Singapore based wealth and investment management platform. In addition we made a number of smaller investments in listed companies in the financial services sector in Australia, Canada and the UK including WT Financial Limited, BNK Banking Corporation, Terra Firma Capital Corp (“Terra Firma Capital”) and AssetCo plc (“AssetCo”).

The level of borrowings at Somers has increased during the year. Long term bank debt has decreased in line with loan facility repayments, but 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 12.5% as at September 30, 2021 is low and within the Company’s risk parameters. Somers regularly evaluates its treasury needs including how best 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 Somers remains fully invested, the increase in income that Somers has received from its investee companies in 2021 should continue and therefore the Company is well positioned to support its existing investments and make new investments.

Somers’ share price increased to \$19.00 at our year-end but continues to trade at a significant discount of 31.4% to its NAV per share. This is despite the 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 61,305 shares at an average price of \$22.33 per share. These shares were cancelled prior to year-end.

During the year and following the sale of BCB, Somers paid a special one-off dividend of \$0.24 per share. The Board has resolved to pay a final dividend per share of \$0.38 (2020: \$0.34). Excluding the special dividend the total dividend payment for the year was therefore \$0.62 a share (2020: \$0.55 per share). Since Somers major shareholders acquired a majority shareholding in BCB in 2010, shareholders in BCB who became shareholders in Somers in 2012 will have received income, including the final dividend, of \$5.38 per share which combined with significant share price appreciation over the last decade has, we believe, represented an attractive return.

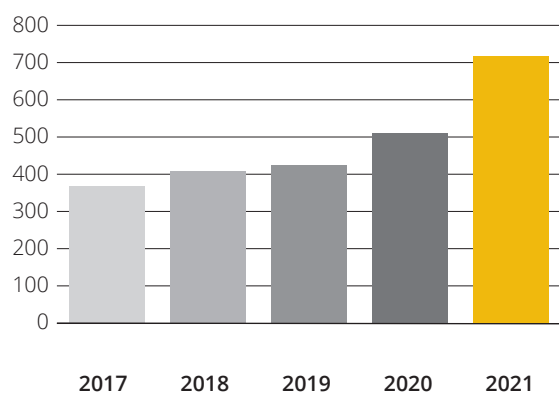
The significant advances in technology in the form of vaccines and therapeutics mean that we have more tools to fight Covid-19. Whilst this has been a difficult period, the significant action taken by Central Banks and Governments has led to a record increase in asset prices. Somers has undoubtedly benefitted from this, but it shouldn’t overshadow the fact that we are invested in a number of companies that have excellent prospects and we would expect them to continue to grow as we move forward. Whilst the risk of Covid variants remains and 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 our investee companies are well placed to prosper and there will be interesting opportunities for both them and Somers.



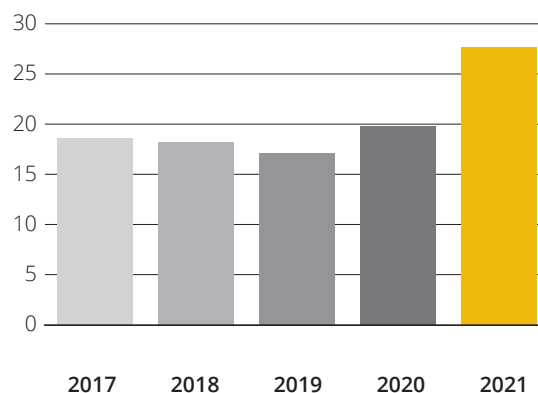
**Peter Durhager**  
Chairman  
December 10, 2021

# FINANCIAL HIGHLIGHTS

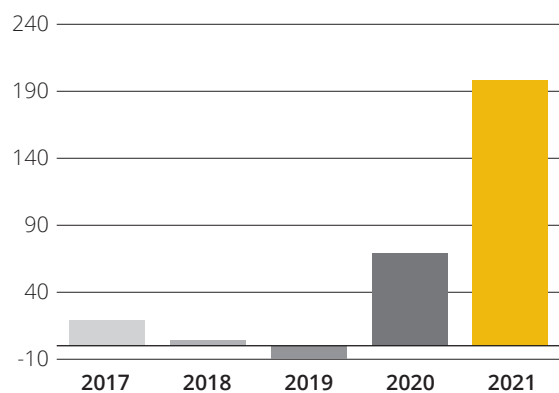
**TOTAL ASSETS** – USD Million



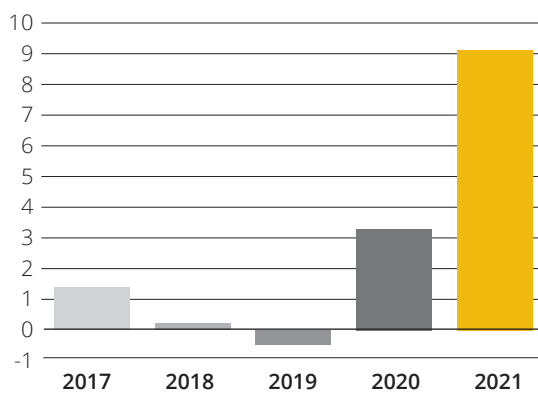
**NAV** per Common Share (diluted) – USD



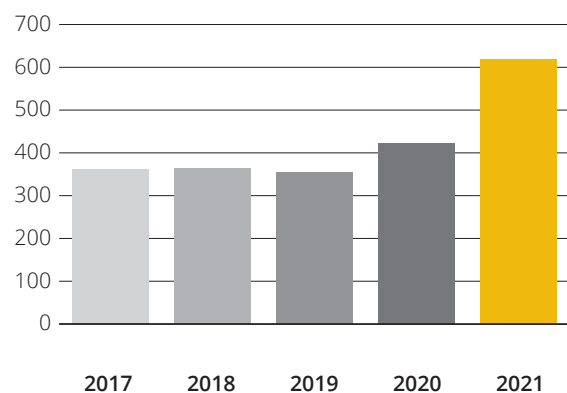
**NET INCOME** excluding Foreign Exchange – USD Million  
September 2017 to September 2021



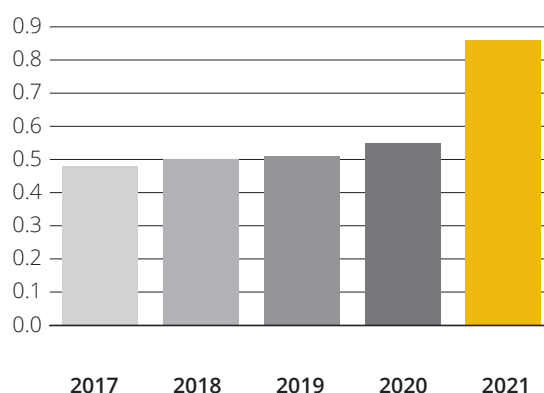
**EARNINGS** per Share (diluted) – USD  
September 2017 to September 2021



**TOTAL EQUITY** – USD Million



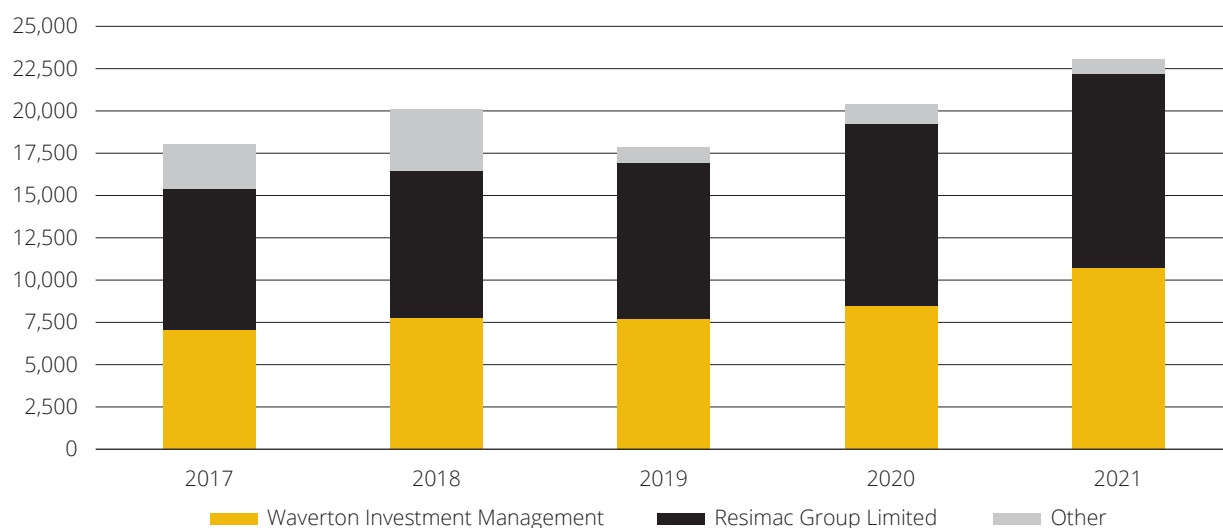
**DIVIDEND** per Common Share (diluted) – USD





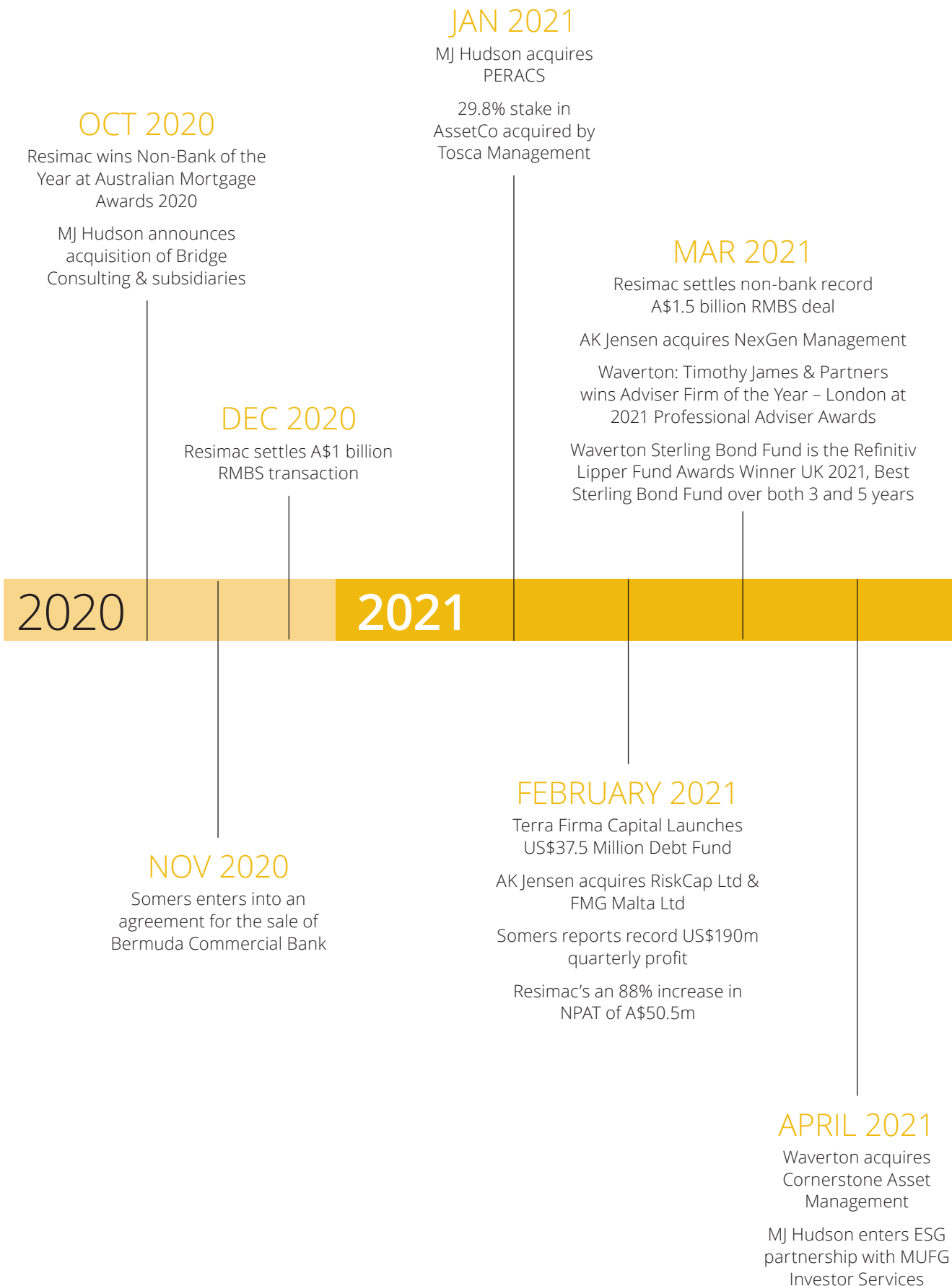
| Year ended September 30, 2021                          | 2021             | 2020             |
|--|------------------|------------------|
| NAV per Share  | \$27.70          | \$19.78          |
| Share Price  | \$19.00          | \$13.75          |
| Discount to NAV  | 31.41%           | 30.49%           |
| Shares in Issuance (excluding shares held in treasury) | 22.30m           | 21.34m           |
| Total return per ordinary share                        | 44.52%           | 18.87%           |
| Ordinary dividend per share                            | 82.0c            | 55.0c            |
| <b>Total assets</b>                                    | <b>\$715.42m</b> | <b>\$508.60m</b> |

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



Somers investee companies generally reported excellent results in 2021.

# KEY HIGHLIGHTS



## NOV 2021

MJ Hudson launches a new ESG digital solution, & FidesIQ, a new investment performance reporting tool

Aura Group: announces surpassing A\$1 billion in Funds Under Management & Advice milestone

Waverton retains five-star rating at the Financial Adviser Service Awards 2021

## JUL 2021

Thorn FY2021 results show NPAT of A\$8.4m

Somers completes the sale of Bermuda Commercial Bank

MJ Hudson acquires Saffery Champness Fund Services Limited

## MAY 2021

Resimac settles A\$1.0 billion RMBS deal

Somers acquires 15% stake in Aura Group

Somers 1H2021 results show record net income of US\$203.1m

## SEP 2021

The Market Herald: 2021 Annual Report shows revenue increasing by 91% to A\$23.0m

Resimac Group settlements surge to A\$4.8bn

Waverton announces the launch of Waverton Wealth

## JUN 2021

Resimac wins the Mutual/Specialty Lender Award by the Mortgage & Finance Association of Australia

MJ Hudson acquires Clarus Risk

AKJ Named Best Hedge Fund Platform for 5th Time by HFM European Services

## OCT 2021

Resimac Group publishes 2021 Annual Report, shows profit after tax of A\$107.8m, up 92.5%

## AUG 2021

Waverton posts strong results: revenue increased over 34%

Terra Firma Capital: Q2 2021 results shows revenues increased by 9.2% to US\$4.1m

Resimac Group's 2021 Full Year results: normalised NPAT increases to a record A\$104.0m, up 87% on FY20

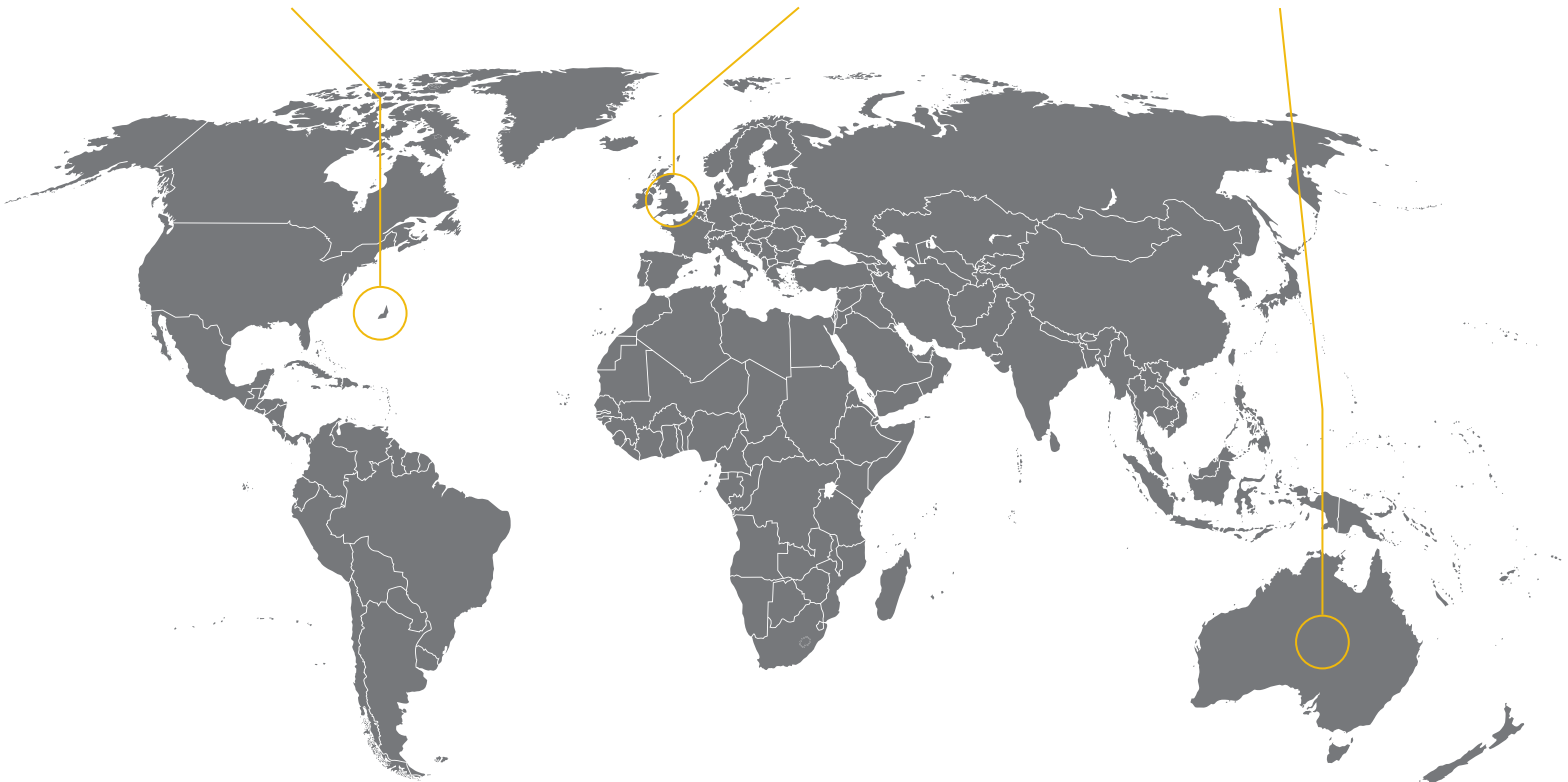
# GEOGRAPHICAL INVESTMENT EXPOSURE

(% of Total Investments)

|                     |         |
|---------------------|---------|
| BERMUDA             |         |
| Fair Value          | \$35.3m |
| % Total Investments | 5.3%    |

|                     |          |
|---------------------|----------|
| UNITED KINGDOM      |          |
| Fair Value          | \$162.0m |
| % Total Investments | 24.5%    |

|                     |          |
|---------------------|----------|
| AUSTRALIA           |          |
| Fair Value          | \$439.3m |
| % Total Investments | 66.5%    |



Global asset prices have rebounded significantly since the market low in March 2020. Overall our major investments have continued to perform well in 2021.

# ABOUT THE COMPANY



## HIGHLIGHTS

### Somers had an excellent financial year, recording our highest ever profit and shareholders' equity.

The Covid-19 pandemic continues to impact the global economy and despite vaccinations we continue to see increased infections and the emergence of new variants. However, we believe our investments have proven their ability to adjust to the challenges brought by Covid-19 and are well positioned to continue to prosper in what is likely to become a more volatile market environment.

We completed 2021 with \$22.9 billion AuM and total assets of \$715.4 million, and maintained an attractive dividend yield of 4.5%.

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## FINANCIAL REVIEW

Somers' financial highlights for the year ended September 30, 2021, are set out on page 6 and the results for the year are set out in the attached accounts.

Somers had an excellent financial year recording our highest ever profit and shareholders' equity. Global markets performed strongly over the year, and this was reflected in the increased valuations of a number of our investments and in particular with our largest investment Resimac, whose share price increased materially. Somers recorded annual net income of \$197.8 million (2020: \$69.0 million) and shareholders' equity has grown to \$617.8 million (2020: \$422.1 million). Earnings per share (on both a basic and fully diluted basis) were \$9.12 (2020: \$3.29). NAV per share ended the year at \$27.70 from \$19.78 a year ago. The annualised total return on shareholders' equity (including dividends) was 18.6%.

### INCOME

#### Gains on Investments

Somers recorded a \$201.4 million gain on its investment portfolio for 2021 (2020: \$61.0 million). This gain comprised both realised and unrealised gains of \$8.2 million and \$193.2 million respectively (2020: \$1.6 million and \$59.4 million respectively). Investment gains and losses result from changes in the valuations of Somers' investments. The 2021 gain was driven principally by valuation increases at Resimac and Waverton, but there were also more modest gains at other entities including The Market Herald ("TMH"), AssetCo and West Hamilton Holdings Limited ("West Hamilton").

Resimac is Somers' largest investment, and over the year its share price increased by 44% from A\$1.42 per share to A\$2.05. The market has rewarded Resimac's strong 2021 operational performance underpinned by an 11% increase in home loan AuM to \$13.8 billion as at June 30, 2021. Their net interest income increased by 29% to A\$242.7 million, total mortgage settlements remained a very healthy \$4.8 billion, while their normalised profit after tax was up 87% to A\$104.0 million for their financial year ended June 30, 2021.

The valuation of Waverton, Somers' second largest investment, also increased materially year on year following an increase in their AuM and assets under influence, and an improved market sentiment towards their sector. The assets growth was driven by a

combination of market performance and net new assets, while Waverton's acquisitions of Timothy James & Partners ("TJP") and Cornerstone Asset Management LLP ("Cornerstone") has contributed to the increase in assets under influence. Higher asset levels have fed through to increased EBITDA, a key input in Waverton's valuation.

Other 2021 valuation gains included TMH, AssetCo and West Hamilton. TMH's share price increased following improved operating results, while AssetCo's share price has risen following its change in strategy to become an asset and wealth management business. West Hamilton's increase resulted from an increase in the valuation of its property assets. Slightly offsetting this was a valuation decrease at PCF, where Somers has marked down the value of its PCF holding to reflect that its shares are currently suspended from trading.

#### Net Interest Income

Interest income totalled \$0.7 million (2020: \$0.4 million), with most of this year's income coming from Somers loan to Provident. During the September 2021 quarter, Somers completed the sale of BCB. The consideration for this sale was satisfied by a combination of cash and a loan facility of \$52.8 million provided by Somers. This loan carries a fixed interest rate of 5.625%. Somers had no other loans and receivables at year-end (2020: \$2.1 million), so our expectation is that interest income levels will be closely linked to the outstanding balance on this loan until its final repayment.

Interest expense was \$4.1 million in 2021 compared to \$3.9 million a year earlier. With interest rates remaining at similar levels to the prior year, the increased expense resulted from an increase in average borrowing levels. Borrowings are used by Somers to fund investment opportunities and with the gearing ratio at a modest level, borrowing levels should remain at broadly similar levels into 2022. Accordingly, interest expense is also anticipated to remain at 2021 levels through the current financial year.

#### Dividend Income

Somers received distributions of \$16.0 million during the year compared to \$8.5 million in 2020. Of the dividends received, \$12.0 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 \$4.0 million for the year (2020: \$14.6 million). \$435 million of Somers' net assets are denominated in Australian Dollars and a further \$127 million are denominated in Sterling, and during the year these currencies appreciated against the US Dollar by 0.7% and 4.2% respectively. These gains were primarily unrealised. Currency risk is an integral consideration when making investments into non-US Dollar denominated assets and ICM 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 Somers is a long-term investor and currency fluctuations are expected to equal out over time. Somers may however engage in currency hedging to limit its exposure to currency fluctuations, although it did not engage in currency hedging throughout 2021. There were no open currency hedges at year end.

The net assets of Somers by currency and the sensitivity for further currency movements are shown in note 18 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 \$1.8 million for the year (2020: \$1.5 million), with the year on year increase mainly attributable to additional loan facility 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 \$5.4 million (2020: \$3.2 million). This increase resulted from increases in both the percentage fee level and size of the portfolio. The investment management fees are based on a fixed percentage of portfolio assets, and last year the fee rate was increased from 0.50% to 0.75% of the portfolio asset value. As noted last year, Somers operates a highly regulated investment portfolio which requires above average management from ICM, and the 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 ICM 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 15% on the amount of growth by which Somers' equity exceeds the hurdle rate, subject to a cap of 2% of Somers' NAV. Following the record performance of the portfolio in 2021, Somers has, in accordance with the investment manager agreement, accrued a performance fee of \$13.0 million for the year ended September 30, 2021 (2020: \$7.2 million), and this is expected to be paid to ICM in early 2022.

### ASSETS

Following exceptional growth in Somers' investment portfolio, total assets ended the year at \$715.4 million from \$508.6 million a year earlier.

#### Financial Investments

The investment portfolio was \$660.7 million at year end (2020: \$500.9 million) with equity investments of \$652.0 million accounting for 98.7% of this total. The remaining 1.3% (\$8.7 million) consisted of other financial investments.

Resimac at \$376.3 million (2020: \$258.9 million), Waverton at \$117.2 million (2020: \$71.9 million) and PCF at \$37.5 million (2020: \$32.0 million) together represent 80.4% 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 on page 16 sets out Somers' Summary of Top 10 Investments, including individual company details.

Total investment purchases in 2021 were \$39.2 million (2020: \$26.4 million) and total 2021 disposals were \$81.5 million (2020: \$14.7 million). Somers is a 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 2021 was funded

## FINANCIAL REVIEW (continued)

primarily from disposal proceeds. Investments during the year included the following:

- Investment of A\$13.2 million in Thorn, primarily through an on-market offer;
- Investment of A\$7.3 million in Aura Group, a Singapore headquartered alternative investment and wealth management platform;
- Investment of £4.2m in PCF, including a £3.6 million purchase from BCB as part of the BCB sale transaction; and,
- Investment of C\$6.0 million in Terra Firma Capital, a Toronto based real estate finance company.

The main disposals during the year were the sale of our entire holding of BCB for \$72.8 million, and the disposal of £3.1 million of AssetCo shares.

### Loans and Receivables

In July 2021 Somers sold its holding in BCB and the consideration for this sale was satisfied by a combination of cash and a \$52.8 million loan provided by Somers. \$10.0 million is receivable in January 2022, with the remaining balance receivable in January 2024. This loan is secured by the share capital of BCB.

As part of its investment strategy, Somers will occasionally provide lending facilities to companies within its investment portfolio, and these facilities are typically used by the companies for growth or investment purposes. All such loans were repaid in full during the year bringing the balance of this loan portfolio to nil at year end (2020: \$2.1 million).

### BORROWINGS

External borrowings will only be undertaken where the Directors and ICM 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 \$77.1 million at September 30, 2021, from \$76.0 million a year earlier. However, as a result of the strong growth in shareholders equity, the gearing level reduced to 12.5% (2020: 18.0%). Borrowings consisted of bank loans of \$50.6 million (2020: \$41.9 million), and non-bank loans of \$26.5 million (2020: \$34.1 million). The bank loans consisted of a £32.0 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 Somers' significant shareholders, UIL Limited and Union Mutual Pension Fund Limited.

To support its investment activity, Somers also entered into an overdraft facility with BCB during the year and the balance on this facility was \$4.9 million at year end.

### SHAREHOLDERS' EQUITY

Shareholders' equity increased to \$617.8 million at September 30, 2021 from \$422.1 million a year earlier following the record 2021 investment portfolio performance. During the year, shareholders invested \$17.0 million of the \$17.8 million dividends paid since September 2020 under the dividend reinvestment plan, and Somers bought back 61,305 shares at a cost of \$1.4 million. The net result from these actions was an increase in the number of issued shares to 22,303,926 as at September 30, 2021 (2020: 21,341,482).

INVESTMENT OF

**A\$13.2**

MILLION  
in Thorn Group.

INVESTMENT OF

**A\$7.3**

MILLION  
in Aura Group.

INVESTMENT OF

**£4.2**

MILLION  
in PCF Group plc.

INVESTMENT OF

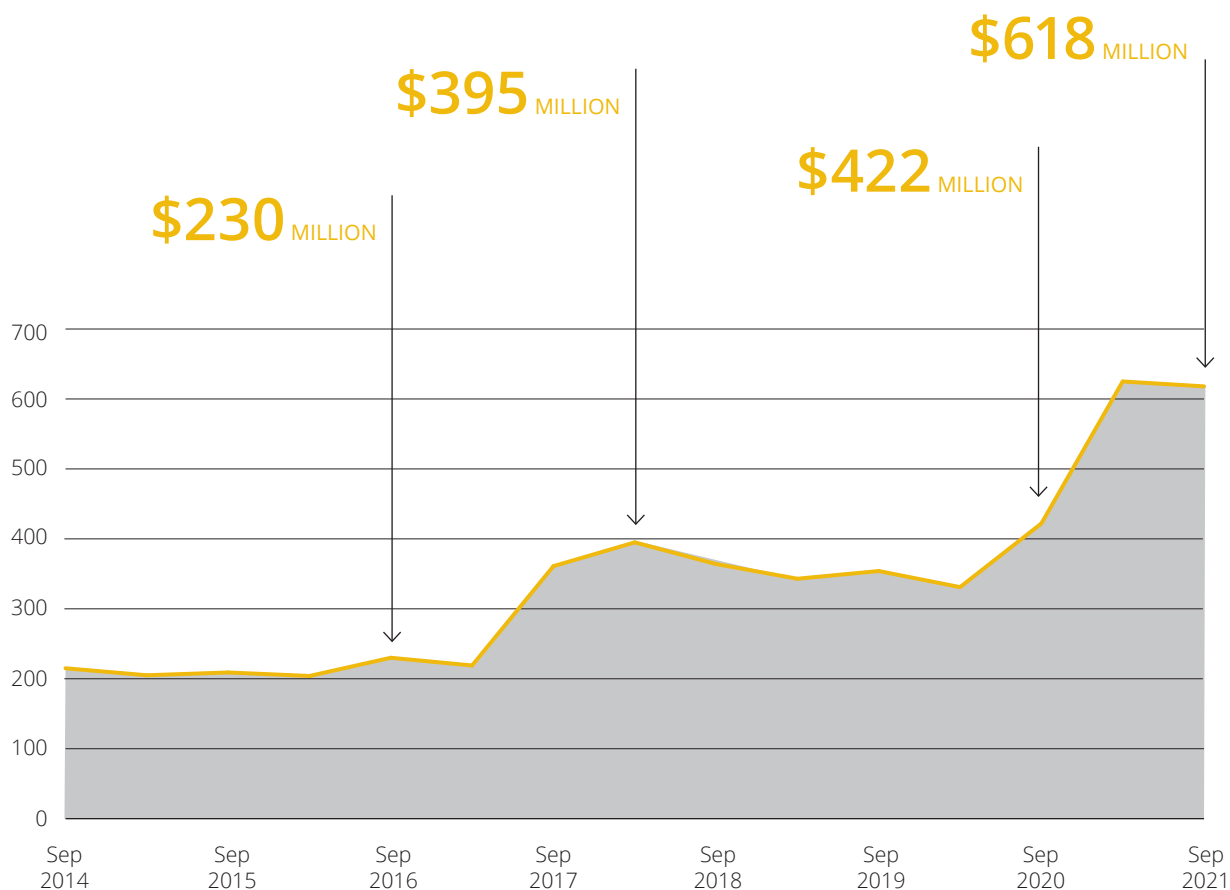
**\$6.0**

MILLION  
in Terra Firma  
Capital Corporation.



## SHAREHOLDERS' FUNDS

SHAREHOLDERS' FUNDS – USD Million

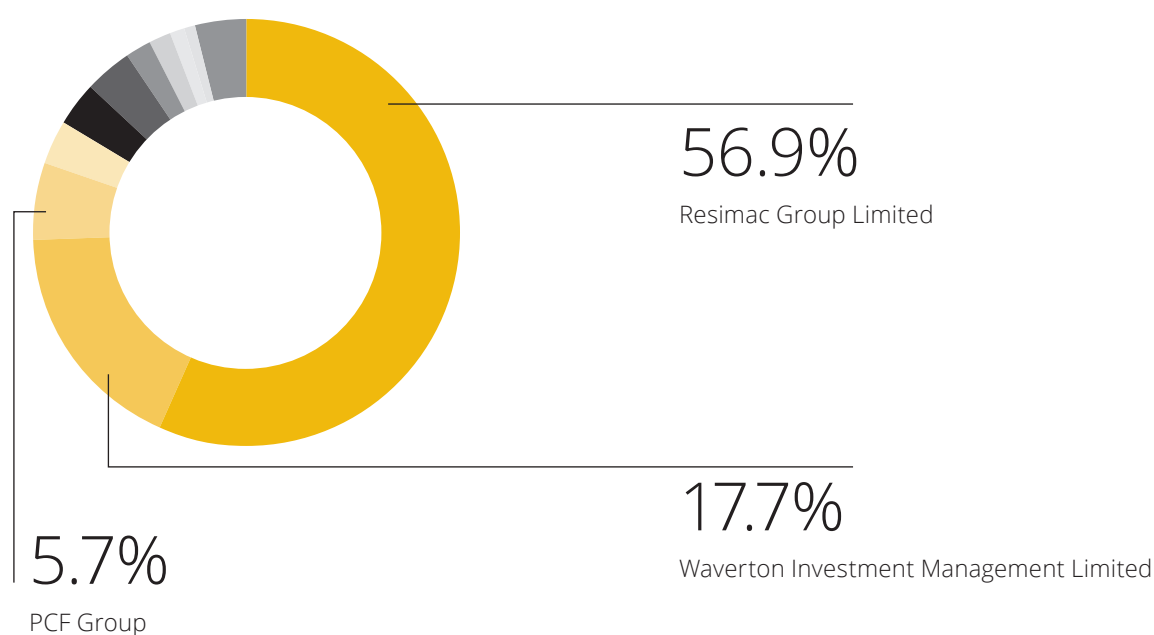


Somers' share price ended the year at \$19.00 (2020: \$13.75), while its closing NAV per share increased to \$27.70 (2020: \$19.78).

## TOP TEN INVESTMENTS

### CORE INVESTMENTS

Somers' investments are predominantly based in Australia, Bermuda and the UK, with these three jurisdictions together accounting for 96.4% of total investments. In total, the Company's core holdings account for 96.3% of total investments at September 30, 2021.



|    | Company                                | Country   | Fair Value (\$)    | % of Total Investments |
|----|--|-----------|--------------------|------------------------|
| 1  | Resimac Group Limited                  | Australia | 376,273,645        | 56.9%                  |
| 2  | Waverton Investment Management Limited | UK        | 117,186,160        | 17.7%                  |
| 3  | PCF Group plc                          | UK        | 37,540,110         | 5.7%                   |
| 4  | The Market Herald                      | Australia | 22,820,004         | 3.5%                   |
| 5  | West Hamilton Holdings Limited         | Bermuda   | 22,764,642         | 3.4%                   |
| 6  | Thorn Group Limited                    | Australia | 22,617,168         | 3.4%                   |
| 7  | AK Jensen Group Limited                | Bermuda   | 12,289,070         | 1.9%                   |
| 8  | MJH Group Holdings Limited             | Jersey    | 11,133,390         | 1.7%                   |
| 9  | AssetCo plc                            | UK        | 7,198,124          | 1.1%                   |
| 10 | Aura Group Holdings Pte Ltd            | Singapore | 6,378,813          | 1.0%                   |
|    | Top 10 investments                     |           | 636,201,126        | 96.3%                  |
|    | Other investments                      |           | 24,532,615         | 3.7%                   |
|    | <b>Total investments</b>               |           | <b>660,733,741</b> | <b>100.0%</b>          |

## SUMMARY OF CORE INVESTMENTS

Details of our Somers' top 10 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

**\$376.3** MILLION

Resimac is a residential mortgage lender and multi-channel distribution business specialising in prime and specialist mortgage lending. Resimac is one of Australia and New Zealand's premier non-bank lenders and recognised as Non-Bank of the Year at the 2020 Australian Mortgage Awards. 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, 2021, principally funded loans and advances to customers increased by 11.3% to A\$13.9 billion and the non-principally funded portfolio was A\$1.9 billion giving total AuM of A\$15.8 billion. Resimac generated a normalised net profit after tax for the year ended June 30, 2021 of A\$104.0 million. Total interest income for the year was A\$467.6 million, a 1.8% increase from 2020. Net interest income increased by 28.6% to A\$242.7 million and, provisioning loan impairment expense decreased to A\$2.7 million. During the year, Resimac issued A\$5.8 billion of Australian and NZ Prime and Specialist RMBS.

NET PROFIT  
AFTER TAX

**A\$104.0**  
MILLION

NET INTEREST  
INCOME

**A\$242.7**  
MILLION

### WAVERTON INVESTMENT MANAGEMENT LIMITED ("WAVERTON")



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

VALUATION

**\$117.2** 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. Over the past two years Waverton has acquired two businesses in the wealth planning sector. In 2019 Waverton acquired TJP which is an IFA, and in the current year Cornerstone, which offers wealth management and financial planning advice with £500m of AuM and which has now been branded Waverton Wealth. Waverton reported AuM as at September 30, 2021 of £7.9 billion, an increase of £1.4 billion from the prior year which was driven by a combination of market performance and net new assets. The acquisitions of TJP and Cornerstone contributed to the increase in assets under influence to £11.8 billion. For the 9 months ended September 30, 2021, Waverton earned revenue of £43.5 million, EBITDA of £10.9 million, and operating profit before tax of £7.3 million. During the year Waverton paid Somers dividends totalling £1.7 million.

REVENUE

**£43.5**  
MILLION

EBITDA

**£10.9**  
MILLION

## SUMMARY OF CORE INVESTMENTS (continued)

### PCF GROUP PLC ("PCF")



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

#### VALUATION

**\$37.5** 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 also provides bridge finance to property development projects. PCF's CEO resigned in May 2021 following the suspension of the company's shares on AIM due to issues with PCF's financial controls and reporting procedures. This has led to a restatement of the company's 2020 financial statements and significant costs associated with a number of remediation projects. Whilst the business continues to perform, the company is constrained by capital and therefore has limited ability to grow its portfolio.

More information on PCF can be found on page 25 of this report.

#### RETAILS DEPOSITS

**£341.8**  
MILLION

#### LOAN BOOK

**£427.3**  
MILLION

### THE MARKET HERALD ("TMH")



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

#### VALUATION

**\$22.8** MILLION

TMH is an Australian Securities Exchange ("ASX") listed company which operates a digital business news and investor relations platform across three offers: Australia's fastest growing business digital news masthead 'The Market Herald'; the largest digital business communities in Australia and Canada which reaches 3 million investors on platform, and further 2.7 million investors off platform; and, the Advisir platform which is a strategic communications and media consultancy that allows listed companies, wealth and luxury brands to engage with affluent consumers, serves over 400 listed clients and reaches over 3 million investors a month. TMH experienced a year of high growth achieving the best ever performance since the company's IPO in 2016. In the year ended 30 June 2021, revenue increased by 91% to A\$23.0 million (2020: A\$12.0 million) and profit before tax was A\$13.1 million representing an increase of 1,711% from previous year (2020: \$0.7 million). Cash and cash equivalents on the Balance Sheet as at 30 June 2021 was A\$13.2 million and the company also added customer contracts of A\$13.5 million, an increase of 25% from the previous year (2020: A\$10.8 million).

#### REVENUE

**A\$23.0**  
MILLION

#### PROFIT BEFORE TAX

**A\$13.1**  
MILLION

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



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

**VALUATION**

**\$22.8** MILLION

West Hamilton is a BSX 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, seven 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 80% occupied which is positive given the impact on commercial property as a result of Covid-19 and the increased emphasis on working from home. The company has received planning permission for a second mixed use building next to the Belvedere Residences which would contain 10 apartments and a penthouse commercial space. If permission is received construction would commence in 2022. For the year ended September 30, 2021, West Hamilton reported strong results with revenue of \$3.1 million and operating income for the year of \$2.0 million. Total assets amounted to \$50.4 million (2020: \$45.3 million). Total liabilities were \$10.5 million (2020: \$11.4 million) and net debt was \$10.1 million (2020: \$10.8 million).

**REVENUE**

**\$3.1**  
MILLION

**OPERATING INCOME**

**\$2.0**  
MILLION

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



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

**VALUATION**

**\$22.6** 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 through 65 Radio Rentals stores, but as a result of Covid-19 the decision was taken in 2020 to close all the stores and pivot to an online offering. Business Finance provides commercial finance via white label partners and brokers to SMEs, which is funded by a warehouse facility and mezzanine debt. During the year Somers launched an on-market offer for Thorn at A\$0.21 per share, the result of which increased Somers' shareholding to 47.3%. For the year ended March 31, 2021, Thorn reported revenue of A\$104.1 million (2020: A\$204.3 million) and a profit before tax of A\$8.4 million (2020: loss of A\$81.1 million). Thorn's total equity as at March 31, 2021 was A\$103.8 million (which includes cash in the warehouse).

**REVENUE**

**A\$104.1**  
MILLION

**PROFIT BEFORE TAX**

**A\$8.4**  
MILLION

## SUMMARY OF CORE INVESTMENTS (continued)

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



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

#### VALUATION

**\$12.3** MILLION

AKJ is a global brokerage business which provides hedge fund services to both traditional hedge funds and digital asset funds. AKJ's platform allows fund managers 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. AKJ also offers a front-to-back, tier-one solution for digital asset hedge fund managers which, given the increased interest in digital assets, has experienced strong growth over the last 12 months. Despite increased regulatory requirements AKJ is looking to list its AKJ Token in the first half of 2022 which will provide liquidity and a market price for the AKJ Token. During the year the company completed the acquisitions of FMH Malta Ltd and RiskCap Ltd. For the year ended December 31, 2020, AKJ reported revenue of \$8.8 million and AKJ Token sales of \$2.4 million. As at September 30, 2021 AKJ had 27 funds operating on its platform, held assets of \$934.3 million, and sold AKJ Tokens worth \$6.7 million.

#### ASSETS HELD

**\$934.3**  
MILLION

#### REVENUE OF

**\$8.8**  
MILLION

### MJ HUDSON GROUP LIMITED ("MJ HUDSON")



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

#### VALUATION

**\$11.1** MILLION

MJ Hudson is a financial services infrastructure platform business which is listed on AIM. MJ Hudson helps fund managers and investors operate more efficiently and invest more successfully. Its services include: law; investment advisory; ESG; investor relations and marketing; fund performance analytics; custodian bank benchmarking; AIFM and Manco; fund administration; corporate and private client services; regulatory solutions; and, middle and back office support. Its focus is to capitalise on the shift in the asset management industry from mainstream investments to alternative investments. Over the last 12 months, MJ Hudson acquired a number of businesses including: Saffery Champness Fund Services Limited, a Guernsey based fund administration business; FinTech risk specialist Clarus Risk Limited, to widen its data and analytics offering; the Bridge Group, a funds service provider based in Dublin; and, the PERACS Group, which offers data and analytics services. For the year ended June 30, 2021, MJ Hudson reported revenue of £25.5 million (2020: £20.3 million) and EBITDA of £5.6 million (2020: £3.8 million).

#### REVENUE

**£25.5**  
MILLION

#### UNDERLYING EBITDA

**£5.6**  
MILLION

## ASSETCO



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

### VALUATION

**\$7.2** MILLION

AssetCo is primarily involved in acquiring, managing, and operating asset and wealth management activities and interests, together with other related services. In January 2021, the former CEO of Aberdeen Asset Management, Martin Gilbert and certain associates acquired a 29.8% stake in AssetCo. In 2021 AssetCo has acquired a number of businesses including: Saracen Fund Managers Limited; the acquisition of a 63% majority equity interest in Rize ETF, Europe's first specialist thematic ETF issuer; and, the acquisition of a 30% equity interest in Parmenion Capital Partners LLP, a FCA registered, B2B fund investment and advisory platform for the wealth and IFA sector with £9 billion of AUM. For the six months ended March 31, 2021, AssetCo reported profit before tax of £22.3 million.

NET ASSETS  
**£31.1**  
MILLION

PROFIT BEFORE TAX  
**£22.3**  
MILLION

## AURA GROUP ("AURA")



[www.aura.co](http://www.aura.co)

### VALUATION

**\$6.4** MILLION

Aura Group is a financial services business providing tailored wealth, funds management and corporate advisory solutions to clients. It was founded in Australia in 2009 and its head office today is in Singapore with over 80 people across a number of offices across the Asia Pacific region including Sydney, Melbourne, Brisbane and Ho Cho Minh City. Aura collectively manages and advises over A\$1 billion in both closed and open ended funds across a range of asset classes such as credit, private equity and venture capital, equities and real assets. The company's wealth management division advises families and family offices in areas such as legacy planning, investing, wealth protection and philanthropic endeavours. In April 2021, Somers acquired approximately 15% of Aura for a total consideration of \$5.6 million. For the nine months ended September 30, 2021, Aura reported core revenue of A\$9.6 million, core EBITDA of A\$0.3 million and funds under management and administration of A\$1.6 billion.

REVENUE  
**A\$9.6**  
MILLION

FUNDS UNDER  
MANAGEMENT AND  
ADMINISTRATION  
**A\$1.6**  
BILLION

# INVESTMENT MANAGER'S REPORT



ICM is the Investment Manager of Somers.

## OVERVIEW

Somers reported a record profit of \$197.8 million for the twelve months to September 30, 2021, principally due to the increased valuation at Resimac. However, a number of Somers' other investments

delivered strong returns contributing to Somers' NAV total return for the year of 44.2%.

Somers investee companies have benefitted from increased asset prices, and importantly this has been underpinned by strong operating performances. Resimac, Somers' largest investment, increased its profit during the year by over 90% which was reflected in a 44% increase in Resimac's share price during the year. Whilst there is increased competition in the mortgage market in Australia, we would anticipate that Resimac will continue to produce solid results over the short to medium term. Waverton has continued its strong investment performance and having invested in its people and infrastructure over the last few years, we are now seeing this investment reflected in stronger financial results as AuM increases are driving increased profitability. We have high hopes for number of our other smaller investments in the coming year and believe the portfolio is well positioned. Each of Somers' top 10 investments is reviewed in more detail later in this report.

## GLOBAL OUTLOOK

Since the Covid-19 market bottom in March 2020, there has been an unprecedented increase in the value of global stock markets. This has been driven by Central Bank and Government liquidity and the resultant near zero, or in some countries negative interest rates. With several vaccines now available and the expected production of antiviral treatments in 2022, the global consumer is now able to release some of its pent-up demand. The world is starting to live with the fact that Covid-19 is likely to remain for years to come, but importantly we now have the tools to deal with Covid-19 going forward. However,

significant challenges remain and if the pandemic is left unhindered it will escalate quickly and mutations such as the recently discovered Omicron variant remain a major concern.

In 2022 we anticipate that Central Banks will commence the process to normalise their monetary policy by removing the emergency liquidity measures and looking to raise interest rates. Whilst any increases in interest rates are likely to be over an extended period of time, the combination of the reduction in liquidity and increased interest rates may lead to increased stock market volatility and lower rates of return that has been experienced over the last 18 months.

Companies are now being impacted by supply chain issues which has made forecasting results, even for short periods such as a quarter in advance, challenging. This makes it difficult to be definitive about the future direction of the global economy. ICM has therefore focused on its long-term investment performance, and on ensuring that Somers' investments are able to deal with both current challenges along with the opportunities that will emerge as we move forward in what will be a different world over the next decade.

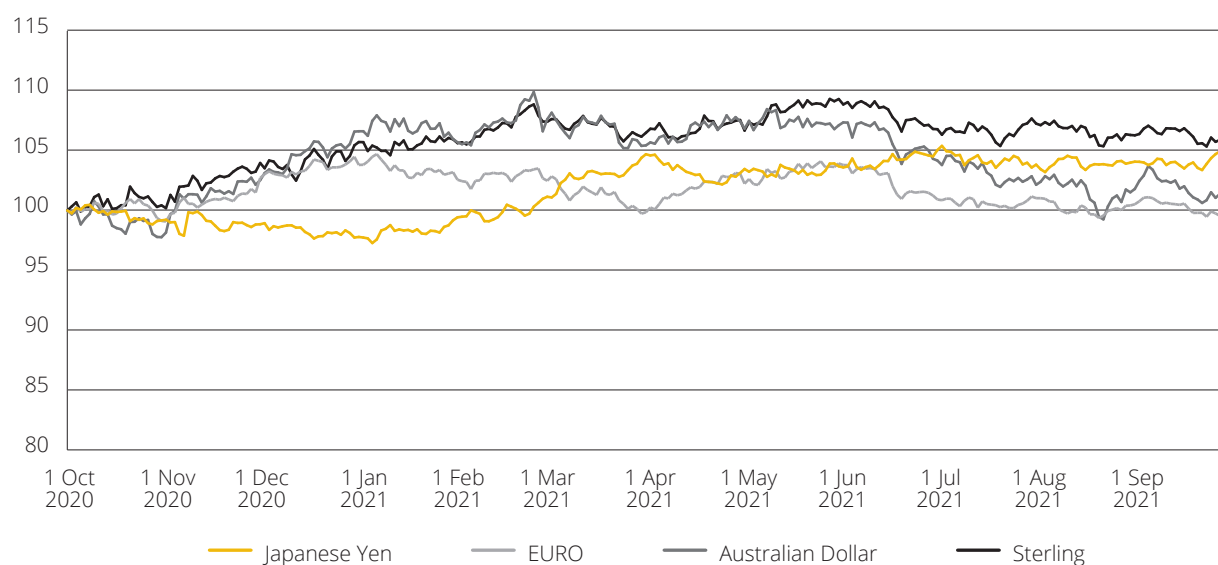
ICM is firmly of the view that Covid-19 has accelerated the shift to working from home and the digitalisation of all aspects of our lives. This shift will undoubtedly offer investment opportunities in the financial services sector, and we see significant capital flowing to fintech opportunities. We have made a point to our investee companies that they need to embrace the shift to digitisation and automation and if they are not able to, they will fall behind their competitors. We remain confident in our investee companies' ability to adapt to the changing world, and to deliver growth.

## INVESTMENT APPROACH

ICM is a long-term investor who manages Somers with a strategy focused on making investments in companies in the financial services sector. By using our dedicated analysts we are able to utilise our knowledge across many jurisdictions to evaluate and optimise investment opportunities, and undertake corporate finance led transactions.



## CURRENCY MOVEMENTS VS US DOLLAR – October 2020 to September 2021



ICM is focused on individual stock selection, remaining fully invested and focusing on investments whose valuations do not reflect their true long-term value, whilst importantly being a supportive shareholder to its investee companies. ICM is a relentless bottom-up investor, drawing on in-depth knowledge and capability. Further details on ICM's investment approach are set out on page 30 of this report.

### FOREIGN EXCHANGE

Somers does not hedge its investments, and in 2021 it benefitted from this approach. Both Sterling and the Australian Dollar (which together represent 93% of the value of Somers' investments as at September 30, 2021) strengthened marginally against the US Dollar. The value of Sterling was positively impacted by an agreement over the terms of Brexit and the avoidance of a 'no-deal' Brexit, and it increased by 4.2% against the US Dollar during the year. Somers has a significant percentage of its assets denominated in the Australian Dollar, including Resimac, TMH and Thorn. With the Australian Government initially being successful in its battle against Covid-19, the AUD strengthened materially in the first half of the

year. It weakened in the second half due to increased Covid-19 cases, and statements from the Reserve Bank of Australia's ("RBA") that interest rates will remain low for an extended period. However, the strength of the Australian economy through its natural resources did drive the value of the Australian Dollar up by 0.7% against the US Dollar during the year.

### TOP 10 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 66.5% of the portfolio (2020: 56.9%), the UK accounts for 24.5% of the portfolio (2020: 21.7%), while Bermuda is 5.3% (2020: 19.1%) with the Bermuda percentage reducing following the sale of BCB.

As at September 30, 2021, Somers' ten largest investments accounted for 96.3% of the portfolio (2020: 96.2%). An overview of each of these companies can be found in the Summary of Top 10 Investments section on page 16 of this report.

## INVESTMENT MANAGER'S REPORT (continued)



**Resimac** is Somers' largest investment, accounting for 56.9% of Somers' portfolio (2020: 51.7%). Its shares are listed on the ASX and Somers owns approximately 62.2% 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, 2021 of A\$104.0 million. Interest income increased to A\$467.6 million and net interest income increased by 29% to A\$242.7 million. Total dividends for the year increased by 113% to 6.4c. Total mortgage settlement flows across Resimac's combined distribution channels (i.e. both principally funded and non-principally funded) increased by 3% to A\$4.8 billion (2020: A\$4.7 billion). Through increased revenue growth and a focus on automation and cost control, the company's cost to income ratio decreased by 580 bps to 32.1%. As at June 30, 2021, total assets under management had increased by 6% to A\$15.8 billion. During the year Resimac issued A\$5.8 billion of residential mortgage backed securitisations ("RMBS").

The year ended June 30, 2021 was a record year for Resimac with normalised profit after tax increasing by 87% from the prior year. A robust Australian housing market with low interest rates has driven solid settlement flow for Resimac. Resimac's strong underwriting process in combination with Australia's success in dealing with Covid-19 has reduced Resimac's loan loss provisions. There remains strong demand in Australia 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. During the year Resimac continued to benefit from the Bank Bill Swap Rate ("BBSW") resetting below the 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 has increased Resimac's interest margins. Whilst this is unlikely to be the case long term, Resimac is expected to continue to benefit from this into 2022.

The Australian mortgage market is very competitive, and margins are being squeezed due to low mortgage interest

rates. As a result, Resimac is looking to offer additional products such as asset finance through Resimac Asset Finance, which was rebranded following the acquisition of IA Group in February 2021. 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 line or higher than the prior year, and they expect settlements in the first half of the year of A\$3.3 billion.

Resimac's share price appreciated materially during the year and Somers investment in Resimac was valued at A\$521.7 million at year end (2020: A\$361.3 million). More information on Resimac can be found on page 17 of this report.



WAVERTON  
INVESTMENT MANAGEMENT

**Waverton's** AuM was approximately £7.9 billion at September 30, 2021 (2020: £6.5 billion) and assets under influence were £11.8 billion. Stock markets have been strong this year and Waverton has been successful in attracting £550 million of net new assets across a number of their divisions. During the year Waverton completed the acquisition of Cornerstone, a Scottish IFA business, which has subsequently been branded Waverton Wealth as Waverton focuses on its integrated wealth management offering.

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 and its infrastructure. As a result of the investment in infrastructure Waverton is now highly operationally geared, such that new assets drive a higher level of profitability than in the past. This is why the company is now starting to produce strong financial results which have led to a material increase in the valuation this year. For the nine months ended September 30, 2021, Waverton reported unaudited revenue of £43.5 million, EBITDA of £10.9 million and a profit before tax of £7.3 million.

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 £13.4 million

(2020: £9.9 million). The increase in maintainable EBITDA was driven by increased AuM resulting from strong equity markets and net new assets. Over the last 12 months the FTSE increased by over 20% due to continued Bank of England liquidity and recovery of the UK economy from Covid-19. Waverton's peer multiple increased from 9.2x in 2020 to 11.5x in 2021 as listed asset management businesses in the UK increased in value. The net result was a material increase in the value of Somers' investment in Waverton to £87.1 million (2020: £55.7 million). More information on Waverton can be found on page 17 of this report.



PCF has had a difficult 12 months and its shares have been suspended from trading on AIM since May 2021. The company's shares were suspended following an announcement on May 19, 2021 that PCF was undertaking a review of its financial controls and reporting procedures. This was followed shortly by the announcement of the resignation of Scott Maybury as PCF's CEO and the appointment of Garry Stran as Interim CEO.

PCF engaged PricewaterhouseCoopers ("PwC") to undertake a review of the company's processes and procedures. The results of the review identified weaknesses in the company's regulatory reporting and an overstatement of Tier 1 and Total Capital Ratios. As a result the PCF Board commenced work on a remediation plan, strengthened the senior executive team with new members, invested in training and systems and made a commitment to change the culture in the company.

Post the year end PCF announced that following a subsequent review of impairment levels it was determined by the group that the historical expectations in respect of the collectability of defaulted receivables required revision resulting in an additional impairment charge of £6 million which will be applied to the results for the year ended September 30, 2020. The new revised reduction to the preliminary result for profit before impairment of goodwill and tax was now approximately £7 million and the statutory loss before tax for that period to approximately £5 million. PCF's report and accounts for the year ended September 30, 2020 still remains outstanding, but following the completion of the review of the accounting records and the PwC review they are expected to be published in 1 to 2 months.

During the year and as part of the sale of BCB, Somers acquired 21 million shares in PCF at a price of 17.25p per share, thereby increasing its holding to 64.4% of PCF's issued share capital. Given the continued suspension in PCF's shares the value of Somers holding in PCF has been marked down to £27.9 million. More information on PCF can be found on page 18 of this report.



**The Market Herald** ("TMH") is an ASX listed company which operates a digital business news and investor relations platform across three offers: Australia's fastest growing business digital news masthead 'The Market Herald'; the largest digital business communities in Australia and Canada which reaches 3 million investors on platform, and further 2.7 million investors off platform; and, the Advisir platform which is a strategic communications and media consultancy that allows listed companies, wealth and luxury brands to engage with affluent consumers, serves over 400 listed clients and reaches over 3 million investors a month.

Somers is interested in 42.2 million TMH shares representing 22.0% of TMH's issued share capital. During the year TMH's share price increased by over 170% to A\$0.75 per share. This was driven by a significant improvement in its financial performance driven by its businesses in both Australia and Canada.

For the year ended June 30, 2021, TMH reported another year of high growth achieving its best-ever performance with revenue increasing by 91% to A\$23.0 million (2020: A\$12.0 million). Profit before tax was A\$13.1 million which represented an increase of 1,711% over the prior year (2020: A\$0.7 million). TMH announced an 80% increase in cash receipts from customers to A\$21.9 million compared to the prior year (2020: A\$12.1 million). Cash and cash equivalents as at June 30, 2021 were A\$13.2 million, representing an increase A\$10.8 million from 2020. TMH added customer contracts of A\$13.5 million, an increase of 25% from the previous year (2020: A\$10.8 million).

Somers investment in TMH as at September 30, 2021 was valued at A\$31.6 million and more information on TMH can be found on page 18 of this report.

## INVESTMENT MANAGER'S REPORT (continued)



**West Hamilton** is a Bermuda Stock Exchange listed property investment and management company with property assets in Bermuda and in which Somers has a 57.1% equity interest.

2021 was another positive year for West Hamilton with strong occupancy in its property assets leading to positive financial results. Like many places in the world property prices have increased in Bermuda since the start of the pandemic and West Hamilton has assets which are in an attractive part of Hamilton, Bermuda. Whilst the economic environment in Bermuda remains depressed, the strength of international business has underpinned demand for the company's products. As such, West Hamilton, has recently received planning permission for a new mixed-use building similar to the existing Belvedere Residences. It is anticipated that subject to building approvals, the development will commence in early 2022 and complete towards the end of 2023.

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 80% 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 and this is why the company is moving ahead with further development.

For the year ended September 30, 2021, West Hamilton reported revenue of \$3.1 million (2020: \$3.1 million) and operating profit of \$2.0 million (2020: \$1.9 million). Shareholders' equity was \$39.9 million (2020: \$34.0 million restated) and the book value per share was \$13.72.

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 \$22.8 million as at September 30, 2021. More information on West Hamilton can be found on page 19 of this report.



**Thorn** is an Australian asset financing company whose shares are listed on the ASX. Despite the impact of Covid-19, 2021 was a positive year for Thorn as the turnaround strategy that had commenced by the new Board and management team started to bear fruit in 2021. Thorn continued to implement and invest in its new business strategy, including transforming its traditional retail bricks and mortar consumer model into a digital "pure play" operation and re-entering the business finance segment with a "digital first" business model.

The last financial year was marked by the permanent closure of all Radio Rentals stores, the launch of a new digital Radio Rentals operating model, the discontinuation of equipment finance originations, improvement of the internal collections capability and processes, reduced head office costs, establishing remote working protocols and dealing with a range of risks and regulatory issues. These actions enabled Thorn to improve its cash balance and capital requirements such that the company declared a fully franked final dividend of \$0.01 per ordinary share.

Thorn reported revenue of A\$30.0 million (2020: A\$58.7 million) and profit after tax of A\$13.3 million (2020: loss of A\$1.1 million). As at September 30, 2021, Thorn's net tangible asset per share was A\$0.31, free cash was A\$72.9 million and cash in the warehouse was A\$18.7 million. Free cash has increased as a result of the collection of the existing receivables books and the reduction in originations.

In July 2021, Somers launched an on-market offer to acquire all the shares that it did not own in Thorn at a price of A\$0.21 per share. At the close of the offer period, Somers had acquired an additional 44 million Thorn shares and had increased its holding to 47.3% of the company.

Post the year end Thorn announced that it had disposed of the assets of its Radio Rentals business to Credit Corp Group Limited for an estimated net consideration of approximately A\$45 million. The transaction will enable Thorn to continue its focus on becoming a competitive specialist financier dedicated to business finance and providing a suite of technically enabled real funding

alternatives for everyday Australian SMEs. Thorn Business Finance will continue to operate under the Thorn name.

As at the year end, Somers investment in Thorn was valued at A\$31.4 million. More information on Thorn can be found on page 19.



**AKJ** is a global brokerage business which provides hedge fund services to both traditional hedge funds and digital asset funds. AKJ's platform allows fund managers to set up a hedge fund at low cost, trade through AKJ's proprietary technology platform, and operate under the AKJ regulatory framework. As reported last year, AKJ now offers a front-to-back, tier-one solution for digital asset hedge fund managers which, given the increased interest in digital assets, has experienced strong growth over the last 12 months.

AKJ currently has 27 funds on its platform of which 14 are traditional and 13 are digital asset funds. As at September 30, 2021 AKJ had AuM of \$481.9 million and a further \$452.5 million of assets in its ecosystem through the prime brokerage services that it offers. In addition, there are a further 21 funds, both traditional and digital asset, that are in the process of being onboarded onto the platform. Digital assets have increased from \$11.6 million at the start of the year to \$115.4 million as at September 30, 2021. In 2021, AKJ sold \$6.7 million AKJ Tokens and the AKJ Fund of Funds continued to record a stellar investment performance and returned 169.8% for the nine months to September 30, 2021.

During the year, AKJ completed the acquisitions of FMH Malta Ltd and RiskCap Ltd. These acquisitions have positively contributed to the company's financial performance but importantly have expanded AKJ's offering in the digital asset sector and broadened its risk framework. It is anticipated that in 2022 AKJ will look to list the AKJ Token, thereby providing liquidity to the token holders including Somers.

During the year AKJ repaid its \$2 million loan and Somers acquired an additional 300 thousand AKJ shares bringing its holding in AKJ to 34.3%. For the nine months ended September 30, 2021, AKJ reported unaudited revenue

(excluding revenue generated from the sale of AKJ Tokens) of \$9.0 million. Somers values its investment in AKJ and AKJT Holdings at a combined \$3.6 million based on peer comparisons using an EV/Revenue multiple, and values its AKJ Tokens at €7.5 million (similar to the original cost of the investment). More information on AKJ can be found on page 20 of this report.



**MJ Hudson** is a financial services support provider, capitalising on the investment management industry's shift to investing in alternatives and the outsourcing of non-core services. Their platform business helps fund managers and investors operate more efficiently and invest more successfully in both the traditional and alternative assets sector. MJ Hudson's services include law, investment advisory, ESG and sustainability, IR and marketing, fund performance analytics, custodian bank benchmarking, AIFM and Manco, Fund administration, corporate and private client services, regulatory solutions and middle and back office support. The group now has offices across Europe and North America with over 200 people advising over 1,000 clients who have assets worth over \$1 trillion. MJ Hudson has expertise in all asset classes, including equities, fixed income, private equity, venture capital, hedge funds, real estate, infrastructure, energy and credit. They are making a significant investment in technology in order to improve efficiencies, create new products and services and accelerate revenue growth.

During the year MJ Hudson acquired three businesses: Dublin-based fund administrator Bridge Consulting for €12 million, fund performance specialist PERACS for €6 million, and risk reporting firm Clarus for £3.5 million. MJ Hudson expects to grow both organically and from bolt-on acquisitions. The former reflects long-term secular tailwinds (growth in alternative assets, increased regulation, and shift to outsourcing), as well as rebounds in new fund launches in 2022. The latter illustrated by completion of another acquisition post-year end; a £2.8 million deal for Saffery Champness's Guernsey fund administration business, which adds seven staff and £418 million Assets under Administration.

## INVESTMENT MANAGER'S REPORT (continued)

For the year ended June 30, 2021, MJ Hudson reported underlying revenue of £25.5 million (2020: £20.3 million), EBITDA of £5.6 million (2020: £3.8 million) and profit before tax of £2.4 million (2020: £1.1 million). As at June 30, 2021 MJ Hudson had net cash on the balance sheet of £10.0 million to provide funding to make further acquisitions. Even though MJ Hudson has delivered on its IPO strategy, its share price has not moved in lockstep with the growth of the business. As at September 30, 2021 the share price was £0.50 (versus an IPO price of £0.55) and Somers 9.7% interest was valued at \$11.1 million. More information on MJ Hudson can be found on page 20 of this report.



**AssetCo** is primarily involved in acquiring, managing, and operating asset and wealth management activities and interests, together with other related services.

In January 2021, the former CEO of Aberdeen Asset Management, Martin Gilbert and certain associates acquired a 29.8% stake in AssetCo. In 2021 AssetCo acquired a number of businesses including: Saracen Fund Managers Limited; the acquisition of a 63% majority equity interest in Rize ETF, Europe's first specialist thematic ETF issuer; and the acquisition of a 30% equity interest in Parmenion Capital Partners LLP, a FCA registered, B2B fund investment and advisory platform for the wealth and IFA sector with £9 billion of AUM.

Post the year end AssetCo announced that it had submitted an indicative non-binding securities exchange proposal for the entire issued and to be issued share capital of River and Mercantile Group ("RMG") that is not already owned by AssetCo. The offer is for the remaining RMG asset management business post the sale of RMG's Solutions business, and any offer made would be conditional on the completion of the sale of the solutions business. AssetCo already owns 5.6% of RMG.

For the six months ended March 31, 2021, AssetCo reported profit before tax of £22.3 million. During the year Somers sold 0.73 million AssetCo shares and as at September 30, 2021 was interested in 4.1% of AssetCo which was valued at \$7.2 million. More information on AssetCo can be found on page 21 of this report.

## AURAGROUP

**Aura Group** ("Aura") is a financial services business providing tailored wealth, funds management and corporate advisory solutions to clients. It was founded in Australia in 2009 and its head office is now in Singapore with over 80 employees across several offices around the Asia Pacific region including Sydney, Melbourne, Manila and Ho Cho Minh City. As at September 30, 2021 Aura has funds under management and administration of A\$1.6 billion, which is a 21% increase on the prior year. Funds include private equity and venture capital, credit, real assets and multi-asset strategies. Aura has a stake in a technology platform, a small accounting practice and product distribution networks in Japan and Korea.

Somers acquired 15.2% of Aura for A\$7.3 million in April 2021. The investment in Aura was an opportunity for Somers to participate in the rapid growth of the asset management sector in the Asia Pac region and to be part of a strong and experienced management team. Asset management platforms in Asia Pac are undergoing rapid growth due pension funds looking to invest in alternative assets in South East Asia, the increase in technology companies in the region attracting investors, and the increase in wealth in the middle classes.

For the nine months ended September 30, 2021, Aura reported unaudited core revenue of A\$9.6 million and core EBITDA of \$0.3 million. Annualised recurring revenue was A\$8.8 million which was a 36% increase from the prior year and the company has minimal debt. Funds under management were A\$670 million which was a record high. Somers valued its investment in Aura at A\$8.8 million and more information on Aura can be found on page 21 of this report.

## 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, 2021, was \$24.5 million (2020: \$18.9 million).

## PORTOLIO ACTIVITY

During the year to September 30, 2021 Somers invested \$39.2 million and realised \$83.6 million including loan repayments from investee companies.

The year to September 30, 2021 contained one significant asset realisation which was the sale of BCB for \$72.8 million in July 2021. This was a transaction which had been delayed by over 12 months due to Covid-19 and the requirement for regulatory approvals. \$52.8 million of the total consideration is subject to a 3 1/2 year vendor loan with a step up in the interest rate after 18 months. \$10 million of the loan is due to be paid in January 2022.

In terms of investments Somers acquired A\$9.3 million of shares in Thorn as part of an on-market offer which increased Somers holding in Thorn to 47.3%. Somers also acquired a 15% holding in Aura for A\$7.3 million. In addition, Somers made a number of small investments in both listed and unlisted companies in Australia, Canada and the UK.

## GEARING AND BANK DEBT

Somers' borrowings increased marginally to \$77.1 million (2020: \$76.0 million). However, with the increase in the value of Somers' assets, gearing as a percentage reduced materially from 18.5% to 12%. The total debt figure as at September 30, 2021, of \$77.1 million, relates primarily to a \$43.1 million loan from The Bank of N.T. Butterfield & Son Limited. There are additional facilities with BCB including a loan facility of \$7.0 million and a \$4.9 overdraft facility. In addition, there is \$26.5 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 \$9.5 million for the year (2020: \$3.0 million) with the year on year increase attributable to increased dividend income from our investee companies. Management fees were \$5.4 million (2020: \$3.2 million) and Somers has, in accordance with its investment manager agreement, accrued a performance fee of \$13.0 million for the year (2020: \$7.2 million).

Somers reported a profit for the year of \$197.8 million (2020: \$69.0 million). The resultant earnings per share was \$9.12 (2020: \$3.29). Somers has declared a final dividend of \$0.38 per share bringing the total dividend for the year to \$0.86 per share (including a special one-off dividend of \$0.24 following the sale of BCB).

## SHARE PRICE PERFORMANCE

Somers' shares continue to trade at a significant discount to its NAV. The share price as at September 30, 2021 was \$19.00 which is a discount of 31.4% to the year-end NAV of \$27.70. The significant discount is one of the reasons Somers continues to buy back shares, and during the year the Company bought back 61,305 shares for a total cost of \$1.4 million.

## COVID-19

For most of the year the Board had suspended all travel and physical meetings but towards the end of the year the Board was able to meet in person. It is anticipated that in 2022 there will be a return to more regular in person meetings.

Certain ICM offices are open whereas others remain closed depending on the geographic Covid-19 regulations, but it is hoped that in 2022 more offices will be open. ICM has benefitted from having offices in the key time zones of the Americas, Europe and Asia, and from its existing cloud-based infrastructure platform. ICM has developed a process and approach to ensure information is gathered and acted upon in an efficient and timely manner.

## ICM'S INVESTMENT PHILOSOPHY

ICM is a long-term, value investor and generally operates focused portfolios with narrow investment remits. ICM has several dedicated research teams who have deep knowledge in their specific sectors, which improves the ability to source and make investments.

ICM looks to exploit market and pricing opportunities and concentrates on absolute performance. The investments are not market index driven and the investment portfolio comprises a series of bottom-up decisions. ICM typically does not participate in either an IPO or an auction unless there is compelling value. ICM also looks for disruption and the opportunities it can unlock in both existing and new business models in areas such as block chain through to digital finance, and through technological shifts in all business sectors.

Somers will look to actively engage with each investee company through ICM, and 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.

When reviewing investment opportunities, ICM will look to understand the material ESG factors as part of the investment process. ICM incorporates environmental, social and governance ("ESG") factors into our investment process in three key ways:

- **Understanding:** in-depth analysis of the key issues that face potential and current holdings, as well as a deep understanding of the industry in which they operate.
- **Integration:** incorporate the output of the 'Understanding' component detailed above into the full company analysis to ensure a clear and complete picture of the investment opportunity is obtained.
- **Engagement:** engage with investee companies on the key issues on a regular basis, both virtually and on location, where possible, to discuss and identify any gaps in their ESG policy to further develop and improve their ESG disclosure and implementation.

Somers is a long term investor looking for long term performance, and does not seek to exit or establish short term returns. Neither Somers nor ICM has the management team to step in and manage investee companies, therefore Somers encourages investee companies to:

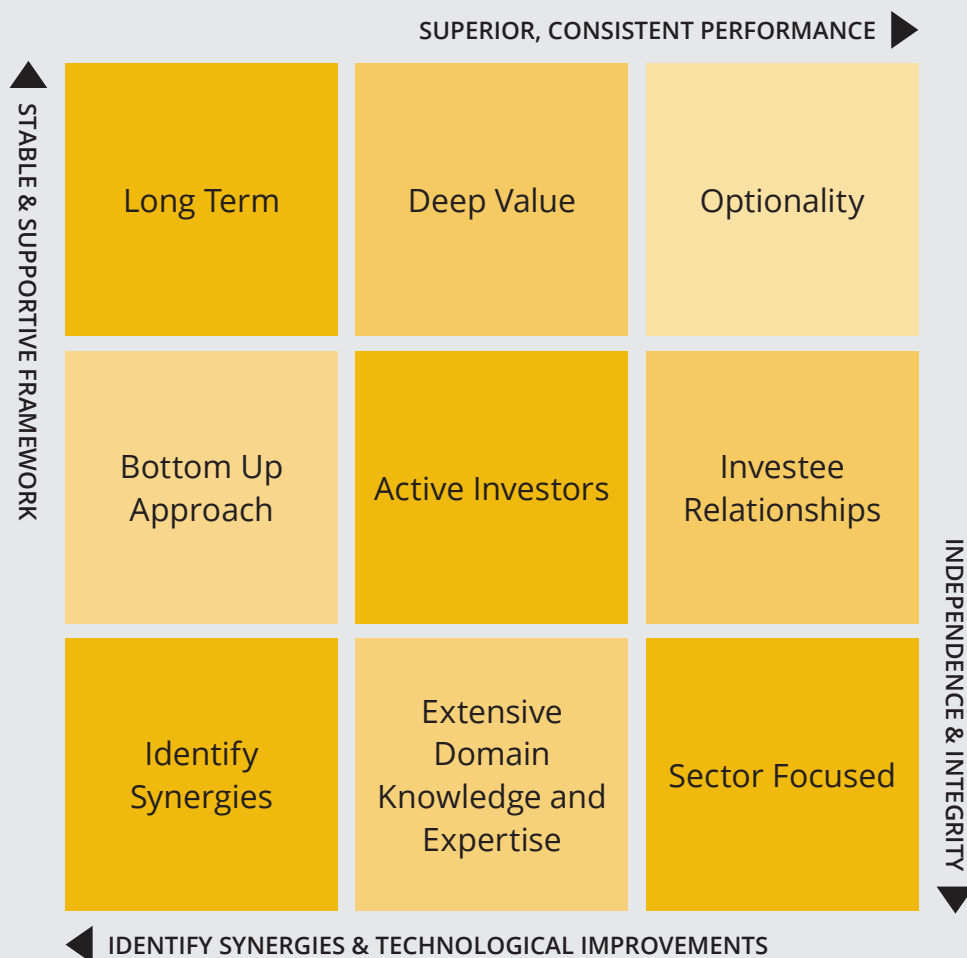
- remain independent
- have their own strategic plan and ambition statements
- be agile and exploit business opportunities created by disruptive technology
- address and mitigate their business risks
- have their own DNA and character
- seek internal and group synergies

Somers looks to optimise each investee company by seeking a sharing of knowledge and experience, with areas of collaboration including 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, and encourage investee companies to embrace technology benefits that are available to agile companies, including the areas of fintech, paytech, automation and outsourcing.

Somers will seek to provide a stable, consistent, and supportive framework in which businesses can thrive, using 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.



We seek out and make compelling investments



# MACRO TRENDS AFFECTING FINANCIAL SERVICES

## DIGITISATION AND AUTOMATION



- Companies 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 and emerging nations

## FINTECH



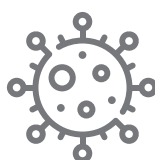
- Fintechs are expanding rapidly as consumers demand cheaper, efficient service with more choice. Multiple value chains continually being aggregated across banking, wealth management and insurance
- Millennial engagement and the drive to maintain relevance against other daily-user platforms have driven growth in new platforms focused on social, mobile, hyperlocal, and predictive personalisation
- Evolution of payments and the 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

## 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 and inflation
- Countries having to learn to operate with additional or extended shutdowns from increasing cases or subsequent waves in Covid-19 cases
- Roll out of vaccination programs helping countries to 'manage' living with the Covid-19

## GEO-POLITICAL TENSIONS



- Increased political tensions and populism are leading to a rising level of nationalism and protectionism, and a move away from the recent era of globalisation
- Trade tensions between the US and China is having a long-term impact on the global economy and international supply chains which have been exacerbated by Covid-19
- Investment decisions must now consider global uncertainty, and in particular the impact that geo-political issues have on markets such as foreign exchange

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE



- Climate change is now an accepted reality with significant direct and indirect effects on people and the global economy. Governments and intergovernmental organisations have initiatives in place targeting reductions in the impact of man-made emissions on climate change
- Changing work dynamics include an increased focus on diversity of labour, development of the platform economy, continued investment in AI, and disruption of business processes and procedures due to ongoing impacts from Covid-19
- The rise of social media and information exchange have elevated the importance of transparency. Opaque business practices face growing scrutiny
- Effective governance remains fundamental to long-term investment performance. Corporates with strong governance are consistently demonstrating their ability to navigate economic uncertainty

## 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

## REGULATORY AND COMPLIANCE



- Financial institutions and in particular banks are stronger than they were due to increased capital requirements but 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

# SOMERS' STRATEGY

## SOMERS' STRATEGY

Somers is an investment holding company whose shares are listed on the BSX. 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 oversees and monitors the activities of ICM and other service providers on behalf of shareholders, and ensures 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.

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

The Board believes that it is in the shareholders' interests to consider ESG factors when selecting and retaining investments, and has asked ICM to take this into account when investing. ICM employs a disciplined investment process that seeks to both uncover opportunities and evaluate potential risks, while striving for the best possible return outcomes. This is covered in detail in the Board Responsibilities and Governance section, on page 40.

**Somers will identify and invest in opportunities where the underlying value is not reflected in the market or purchase price.**

## 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

**\$2.8** BILLION

DIRECTLY AND HAS INDIRECT INVOLVEMENT IN OVER \$22.9 BILLION IN A RANGE OF MANDATES.

ICM HAS OVER 70 STAFF BASED IN OFFICES IN BERMUDA, CAPE TOWN, DUBLIN, HONG KONG, LONDON, SINGAPORE, SEOUL, 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 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 he 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, infrastructure, investment and technology companies. He is a non-executive director of Allectus Capital Limited and Resimac Group 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. Charles is a Director of ICM Limited and ICM Investment Management Limited, 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. Charles is a director of Allectus Capital Limited and Waverton Investment Management Limited, and he graduated from 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 Analyst and she is based in Epsom, UK. Prior to joining ICM, Stephanie was a financial analyst at London based Odey Asset Management. Within ICM she specialises in financials 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

**PETER DURHAGER, Chairman**



Peter Durhager joined the Somers Board in September 2018. He is the Executive Director of the Allan & Gill Gray Foundation and a non-executive director of Harrington Re and F&G Re, and he was formerly the President of RenaissanceRe Services Ltd. And EVP & Chief Administrative Officer of RenaissanceRe Holdings Ltd. 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. Charles is a Director of ICM Limited and ICM Investment Management Limited, 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 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 Limited 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 Allectus Capital 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, 2021, the Directors of Somers and their related interests had interests in aggregate totalling 111,486 common shares representing approximately 0.5% of Somers' issued share capital.

Somers investee companies have benefitted from increased asset prices, and importantly this has been underpinned by strong operating performances.

# 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 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. Additionally, over the past year, a major focus of the Board has been on the impact of Covid-19 on Somers and its portfolio companies and the provision of any required support.

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 regularly 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 its investments, 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 their attention. 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 a 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, 2021, 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. As a result of Covid-19 most Board meetings this year were held via video conference, and while this has worked well, the Directors look forward to being able to meet regularly in person when appropriate to do so.

#### **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.

At the AGM in February 2021, Mr Warren McLeland retired from the Board of Somers. Mr McLeland was a member of the Board for the last 8 years and made a very valuable contribution over that period. Mr McLeland will remain actively involved with Somers through his roles as Chairman of both Resimac and Thorn.

#### **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**

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 (four 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 based on 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 four 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

## BOARD RESPONSIBILITIES AND GOVERNANCE (continued)

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 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 63.

### 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 \$426 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 36 and 37 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 2021, and therefore a \$13.0 million performance fee is payable for the year. The Board continually reviews the policies and performance of the ICM. The Board's philosophy and the ICM'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 ICM'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. 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 BSX 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 director is Bron Turner. 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. Somers incurred non-audit fees of \$52,500 with KPMG for the year ended September 30, 2021 in connection with agreed upon procedures provided on the sale of a significant portfolio investment. No non-audit fees were paid to KPMG in the prior year.

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 virtually or in person 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, Bermuda Commercial Bank and The Bank of N.T. Butterfield & Son 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.

## BOARD RESPONSIBILITIES AND GOVERNANCE (continued)

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

When reviewing any investment opportunity, ICM looks at relevant and material ESG opportunities and risks which can meaningfully affect investment performance. The consideration of ESG issues forms part of the integrated research analysis, decision-making and ongoing monitoring.

The concept of responsible investing has always been a core component of the investment process, and ICM looks to determine conclusions based on objective, ascertainable facts and do not consider sentiments or interest groups.

Each investment is considered on its own merits, and intention and actions are important considerations. ESG factors help to enhance ICM's understanding of a company, as these factors affect the company's business model and its long-term ability to generate sustainable returns. ESG considerations provide a way to identify and review the long-term drivers of an investment that are not found within the financial accounts.

Investments are regularly reviewed, and ICM meets to discuss key issues ranging from high level macro developments to detailed company specific points, to ensure a high awareness of how the current portfolio and potential new investments are performing.

Where possible ICM aims to visit investment opportunities to access an in-person opportunity to ask management teams what they perceive to be the key operational, social, and environmental issues, as well as a chance to see assets operating first-hand. Given ICM is a long-term investor, engagement with management teams is and will remain paramount to the investment approach. Where necessary, ICM will question and challenge a portfolio company's management team directly to ensure a full understanding of any challenges and opportunities.

ICM recognises governance factors are fundamental to an investment, and as part of ensuring a solid corporate governance framework is enforced, ICM works actively with investee companies to incorporate stronger ESG principles and to vote in a considered manner to drive positive change. ICM will seek to exercise all voting rights attached to shares held by Somers. ICM reviews all resolutions and will vote accordingly, and the Board periodically receives a report on instances where ICM has voted against the recommendation of an investee company's management on any resolution.

ICM is a signatory to the United Nations-supported Principles for Responsible Investment, which is an international network of investors working together to implement its six aspirational principles; and is also a member of the Asian Corporate Governance Association which is focused on the implementation of effective corporate governance in Asia. ICM believes that good stewardship is essential and the principles these various bodies espouse aligns with its philosophy to protect and increase the value of its investments.

### GREENHOUSE GAS EMISSIONS

All of Somers' activities are outsourced to third parties. Somers therefore has no greenhouse gas emissions to report from its operations. In addition, Somers considers itself to be a low energy user and therefore does not disclose energy and carbon information.

## SHAREHOLDER RELATIONS

Shareholder communications are a high priority for the Board and every effort is made to enable shareholders 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 ICM 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 ICM 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 39 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 Somers, 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, the position of Somers, 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 Somers' 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:

- 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, 2021, or subsequently up to the date of this annual report.

## EXTERNAL RISK ENVIRONMENT

The external environment remains challenging. Covid-19 continues to be the dominant consideration for all

aspects of life. From government policy through to business practices and economic activity, it has impacted every continent and every community and this cannot be over emphasised. It has exposed the stresses and weaknesses in our economies, politics and social fabric; from disrupted health services, education, business and social activities. Governments continue to struggle to keep up with a rapidly changing situation and deciding on the optimal medical, economic and social solutions to tackle the pandemic. The vulnerable have borne and continue to bear the greatest burden directly and indirectly from Covid-19. However, it does feel as though we are approaching a possible escape in Western Europe and North America where the health services seem to be coping with the current pressures arising from the Delta variant infections. We expect that the current pause in economic activity globally in response to the rising Delta variant will give way to rising gross domestic product again. Markets remain vulnerable to future waves of infection and their impact on employment and economic activity. While the West is successfully vaccinating its way out of Covid lockdowns, it remains a fact that newer variants are proving more difficult to contain as they emerge. With the majority of the world's population unvaccinated it is almost certain that further new variants will continue to appear. The pandemic has seen both an immediate demand and supply shock which has impacted most stakeholders in all economies. As we move through the policy responses, we are seeing ongoing "aftershocks", especially in supply chains. We expect this to continue. Economic and stock market volatility is expected to remain high. The policy response has been to seek to break community transmission of Covid-19, ranging from lockdowns, to testing, through to vaccination programmes. Economically there have been two parts to the Covid-19 response: central banks have dramatically increased the supply of capital while reducing the cost of capital; and governments have introduced significant support schemes for businesses especially around continued employment and social welfare support. At the same time there is also an accelerating expectation that businesses address questions around their approach to ESG outcomes.

With the longer-term outcome of these responses difficult to accurately assess, the Board remains cautious. While we anticipate that government and central bank policies will remain supportive, we also expect volatility



to remain high as differentiated recoveries become clearer. However, as with last year, most of Somers' investee companies have continued to deliver resilient operational and financial metrics, including making increased dividend payments 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 the ongoing risk from cyberattacks on businesses and governments.

#### 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. This includes consideration of external developments, emerging risks, and the monitoring of key metrics as indicators of potential changes in the Company's risk profile. 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 appetite 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. There have been no significant changes to the principal risks during the year.

#### COVID-19

The Covid-19 pandemic, which emerged during Somers' previous financial year, gave rise to significant challenges for businesses worldwide and the Board took these into account as part of its assessment of risks to Somers and its investee companies. The Board has reviewed the business continuity plans of each of Somers' 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 Somers' portfolio.

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

## RISK MANAGEMENT (continued)

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: Covid-19; foreign currency; concentration; interest coverage; leverage; liquidity; geographic and political; acquisition; due diligence; disposal; conflict of interest; tax; market price; 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 18 of the audited financial statements for a more detailed discussion of the above principal risks and uncertainties.

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. In addition, ESG factors are considered when selecting and retaining investments.

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 borrowing levels increased slightly during the year, but, on account of the growth in shareholders' equity, our overall debt to net assets ratio reduced and remains at a modest 12.5% as at September 30, 2021. 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 new significant investment risk item, market price risk, has been added this year. The price of Somers' listed investments has risen significantly in recent periods and there is a risk that any market pullback will impact these prices. Inflation expectations/fears have also increased and this is clearly evident in bond yields. ICM have sought to mitigate this risk by the active management of investments and exit strategies including monthly portfolio monitoring to identify and address portfolio issues promptly.

The concentration of the investment portfolio has also increased year on year following a 44% increase in Resimac's share price over the last twelve months. While the Board are delighted with this performance and the

underlying growth in Resimac's business, shareholders should note that Resimac now accounts for 56.9% of the total portfolio, up from 51.7% last year. The concentration of the portfolio exposes Somers' NAV to higher volatility and is reviewed by the Board at each quarterly meeting with detailed updates on Resimac provided by ICM.

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 of key staff by ICM 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 ICM, 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 to limit financial losses and damage to its reputation, with achieving its investment objective of generating returns for shareholders.

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, 2021, 31% 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 20, 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 Company's valuation policy is reviewed at least annually, with the most recent update in December 2021.

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 valuation methodology 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 20 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, 2021 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. Covid-19 is an unusual event, and while we have more clarity on the pandemic compared to last year, it is still evolving, and therefore there remains an elevated degree of uncertainty in the valuations generated as at September 30, 2021. 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 2017-2021

(expressed in United States Dollars)

|                                 | 2021<br>\$         | 2020<br>\$        | 2019<br>\$         | 2018<br>\$       | 2017<br>\$        |
|---------------------------------|--------------------|-------------------|--------------------|------------------|-------------------|
| <b>Income and Expense Items</b> |                    |                   |                    |                  |                   |
| Net interest expense            | (3,449,740)        | (3,590,020)       | (2,473,832)        | (631,388)        | (236,441)         |
| Dividend income                 | 15,978,018         | 8,476,941         | 7,451,888          | 7,588,559        | 4,147,891         |
| Gains on investments            | 201,407,592        | 60,989,530        | 4,336,647          | 10,893,179       | 15,227,092        |
| Other income (losses)           | 4,014,871          | 14,992,647        | (15,614,561)       | (9,912,317)      | 3,281,818         |
| Total income                    | 217,950,741        | 80,869,098        | (6,299,858)        | 7,938,033        | 22,420,360        |
| Total expenses                  | 20,150,072         | 11,821,592        | 3,421,285          | 3,703,016        | 2,863,038         |
| Net income (loss) before tax    | 197,800,669        | 69,047,506        | (9,721,143)        | 4,235,017        | 19,557,322        |
| Income tax expense              | (30,195)           | (5,260)           | –                  | (51,821)         | (130,790)         |
| <b>Net income (loss)</b>        | <b>197,770,474</b> | <b>69,042,246</b> | <b>(9,721,143)</b> | <b>4,183,196</b> | <b>19,426,532</b> |

### Balance Sheet

|                       |                    |                    |                    |                    |                    |
|-----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Financial investments | 660,733,741        | 500,894,835        | 410,268,426        | 402,973,991        | 360,969,899        |
| Other assets          | 54,689,107         | 7,709,575          | 12,864,817         | 4,366,226          | 7,172,058          |
| Total assets          | 715,422,848        | 508,604,410        | 423,133,243        | 407,340,217        | 368,141,957        |
| Total liabilities     | 97,589,716         | 86,469,185         | 69,570,070         | 43,230,069         | 6,898,242          |
| <b>Total equity</b>   | <b>617,833,132</b> | <b>422,135,225</b> | <b>353,563,173</b> | <b>364,110,148</b> | <b>361,243,715</b> |

### Per Common Share

|               |       |       |       |       |       |
|---------------|-------|-------|-------|-------|-------|
| NAV per share | 27.70 | 19.78 | 17.10 | 18.15 | 18.55 |
| Share price   | 19.00 | 13.75 | 15.00 | 16.00 | 14.00 |
| Dividend paid | 0.86  | 0.55  | 0.51  | 0.50  | 0.48  |

# FINANCIAL STATEMENTS



TOTAL EQUITY AT  
30 SEPTEMBER WAS

**\$617.8**

MILLION  
(2020: \$422.1 MILLION)

ASSETS DIRECTLY AND  
INDIRECTLY MANAGED

**\$22.9**

BILLION  
(2020: \$19.9 BILLION)

FINAL DIVIDEND  
PER SHARE OF

**\$0.38**

(2020: \$0.34)

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## IN THIS SECTION:

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Total dividend payment for 2021 was \$0.86 a share, an increase of \$0.21 per share compared to 2020.

# 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, 2021, 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, 2021, 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 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 20 to the consolidated financial statements, the Company holds investments in unquoted equity securities at September 30, 2021 with an estimated fair value of US\$204.1 million, representing 28.5% 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**

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

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 Bron Turner.

*KPMG Audit Limited*

Chartered Professional Accountants  
Hamilton, Bermuda  
December 10, 2021

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2021 (Expressed in United States Dollars)

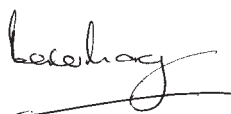
| Notes                                       | 2021<br>\$         | 2020<br>\$         |
|---|--------------------|--------------------|
| <b>ASSETS</b>                               |                    |                    |
| 18 Cash and cash equivalents                | 793,653            | 3,765,431          |
| 7, 18 Other assets                          | 572,949            | 1,781,033          |
| 18 Interest receivable                      | 541,667            | 53,675             |
| 6, 18 Loans and receivables                 | 52,780,838         | 2,109,436          |
| 3, 18 Financial investments                 | 660,733,741        | 500,894,835        |
| <b>Total assets</b>                         | <b>715,422,848</b> | <b>508,604,410</b> |
| <b>LIABILITIES</b>                          |                    |                    |
| 10, 18 Bank overdraft                       | 4,845,370          | -                  |
| 18 Interest payable                         | 477,686            | 569,898            |
| 8, 18 Other liabilities                     | 15,136,660         | 9,862,254          |
| 9, 18 Interest bearing loans and borrowings | 77,130,000         | 76,037,033         |
| <b>Total liabilities</b>                    | <b>97,589,716</b>  | <b>86,469,185</b>  |
| <b>NET ASSETS</b>                           | <b>617,833,132</b> | <b>422,135,225</b> |
| <b>EQUITY</b>                               |                    |                    |
| 11 Capital stock                            | 2,231              | 2,134              |
| 11 Contributed surplus                      | 329,841,112        | 314,196,939        |
| Accumulated other comprehensive loss        | (229,551)          | (296,001)          |
| Retained earnings                           | 288,219,340        | 108,232,153        |
| <b>TOTAL EQUITY</b>                         | <b>617,833,132</b> | <b>422,135,225</b> |

See accompanying notes.

Signed on behalf of the Board:



**Peter Durhager**  
Chairman



**David Morgan**  
Director

# CONSOLIDATED STATEMENT OF INCOME

For the Year Ended September 30, 2021 (Expressed in United States Dollars)

| Notes  | 2021<br>\$         | 2020<br>\$         |
|--|--------------------|--------------------|
| <b>INCOME</b>                                |                    |                    |
| 14, 18 Interest income                       | 673,416            | 359,368            |
| 18 Interest expense                          | (4,123,156)        | (3,949,388)        |
| <b>Net interest expense</b>                  | <b>(3,449,740)</b> | <b>(3,590,020)</b> |
| Net foreign exchange gains                   | 3,964,534          | 14,571,458         |
| 17 Dividend income                           | 15,978,018         | 8,476,941          |
| 15, 18 Gains on investments                  | 201,407,592        | 60,989,530         |
| Other income                                 | -                  | 314,180            |
| Impairment reversal on loans and receivables | 50,337             | 107,009            |
| <b>Total income</b>                          | <b>217,950,741</b> | <b>80,869,098</b>  |
| <b>EXPENSES</b>                              |                    |                    |
| 17 Investment management fees                | 18,368,803         | 10,367,023         |
| Legal and professional fees                  | 641,297            | 755,405            |
| Audit and accounting fees                    | 260,525            | 244,873            |
| 17 Directors' fees                           | 150,333            | 167,500            |
| General and administrative expenses          | 729,114            | 286,791            |
| <b>Total expenses</b>                        | <b>20,150,072</b>  | <b>11,821,592</b>  |
| <b>Net income before tax</b>                 | <b>197,800,669</b> | <b>69,047,506</b>  |
| 16 Income tax expense                        | (30,195)           | (5,260)            |
| <b>NET INCOME AFTER TAX</b>                  | <b>197,770,474</b> | <b>69,042,246</b>  |

See accompanying notes.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended September 30, 2021 (Expressed in United States Dollars)

|   | 2021<br>\$         | 2020<br>\$ |
|---|--------------------|------------|
| <b>Net income for the year</b>                            | <b>197,770,474</b> | 69,042,246 |
| <b>OTHER COMPREHENSIVE INCOME</b>                         |                    |            |
| Exchange differences on translation of foreign operations | 66,450             | 86,278     |
| <b>Other comprehensive income</b>                         | <b>66,450</b>      | 86,278     |
| <b>TOTAL COMPREHENSIVE INCOME</b>                         | <b>197,836,924</b> | 69,128,524 |

*See accompanying notes.*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended September 30, 2021 (Expressed in United States Dollars)

| Notes                             | Capital<br>Stock<br>\$ | Contributed<br>Surplus<br>\$ | Treasury<br>Stock<br>\$ | Accumulated<br>Other<br>Comprehensive<br>Loss<br>\$ | Retained<br>Earnings<br>\$ | Total<br>\$        |
|-----------------------------------|------------------------|------------------------------|-------------------------|---|----------------------------|--------------------|
| <b>September 30, 2019</b>         | 2,067                  | 304,140,391                  | (11,595)                | (382,279)   | 49,814,589                 | 353,563,173        |
| Net income for the period         | -                      | -                            | -                       | -   | 69,042,246                 | 69,042,246         |
| Other comprehensive income        | -                      | -                            | -                       | 86,278  | -                          | 86,278             |
| 11 Issue of share capital         | 68                     | 10,166,512                   | -                       | -   | -                          | 10,166,580         |
| 11 Net purchase of treasury stock | -                      | -                            | (98,370)                | -   | -                          | (98,370)           |
| 11 Cancellation of treasury stock | (1)                    | (109,964)                    | 109,965                 | -   | -                          | -                  |
| 13 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> |
| Net income for the period         | -                      | -                            | -                       | -   | 197,770,474                | 197,770,474        |
| Other comprehensive income        | -                      | -                            | -                       | 66,450  | -                          | 66,450             |
| 11 Issue of share capital         | 103                    | 17,012,952                   | -                       | -   | -                          | 17,013,055         |
| 11 Net purchase of treasury stock | -                      | -                            | (1,368,785)             | -   | -                          | (1,368,785)        |
| 11 Cancellation of treasury stock | (6)                    | (1,368,779)                  | 1,368,785               | -   | -                          | -                  |
| 13 Dividends                      | -                      | -                            | -                       | -   | (17,783,287)               | (17,783,287)       |
| <b>September 30, 2021</b>         | <b>2,231</b>           | <b>329,841,112</b>           | <b>-</b>                | <b>(229,551)</b>                                    | <b>288,219,340</b>         | <b>617,833,132</b> |

See accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2021 (Expressed in United States Dollars)

|  | 2021<br>\$         | 2020<br>\$          |
|--|--------------------|---------------------|
| <b>OPERATING ACTIVITIES</b>  |                    |                     |
| Net income   | 197,770,474        | 69,042,246          |
| Adjustments to reconcile net income to cash flows<br>provided by operating activities: |                    |                     |
| Gains on investments   | (201,407,592)      | (60,989,530)        |
| Foreign exchange gains on investments  | (5,705,713)        | (17,852,794)        |
| Interest income  | (673,416)          | (359,368)           |
| Interest expense   | 4,123,156          | 3,949,388           |
| Decrease in other assets   | 1,208,084          | 6,523,594           |
| <b>Net cash provided by operating activities</b>                                       | <b>589,399</b>     | <b>8,841,624</b>    |
| <b>INVESTING ACTIVITIES</b>  |                    |                     |
| Net decrease/(increase) in loans and receivables                                       | 2,109,436          | (606,483)           |
| Proceeds from sale of financial investments  | 28,688,429         | 4,487,079           |
| Capital distribution from investee   | 4,540,439          | -                   |
| Purchases of financial investments   | (38,668,857)       | (16,184,886)        |
| Interest received  | 185,424            | 453,238             |
| <b>Net cash used in investing activities</b>   | <b>(3,145,129)</b> | <b>(11,851,052)</b> |
| <b>FINANCING ACTIVITIES</b>  |                    |                     |
| Net increase in interest bearing loans and borrowings                                  | 1,092,967          | 8,096,424           |
| Net purchase of treasury stock   | (1,368,785)        | (98,370)            |
| Dividends paid (excludes dividends satisfied by issue of shares)                       | (770,232)          | (458,102)           |
| Interest paid  | (4,215,368)        | (3,674,785)         |
| <b>Net cash (used in)/provided by financing activities</b>                             | <b>(5,261,418)</b> | <b>3,865,167</b>    |
| <b>Net (decrease)/increase in cash and cash equivalents</b>                            | <b>(7,817,148)</b> | <b>855,739</b>      |
| Cash and cash equivalents, beginning of year   | 3,765,431          | 2,909,692           |
| <b>Cash and cash equivalents, end of year</b>  | <b>(4,051,717)</b> | <b>3,765,431</b>    |
| <b>Non-cash investing and financing activities:</b>                                    |                    |                     |
| Issuance of shares under dividend reinvestment plan                                    | 17,013,055         | 10,166,580          |
| Conversion of MJ Hudson convertible bonds  | -                  | 10,257,287          |
| Non-cash proceeds from sale of financial investments                                   | 52,780,838         | -                   |

See accompanying notes.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 (Expressed in United States Dollars)

## 1. DESCRIPTION OF BUSINESS

Somers Limited ("Somers" or "the 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, 2021, the significant shareholders (the "Major Shareholders") in the Company, who held, in aggregate 94.24% (2020: 93.78%) of Somers' issued share capital, are as follows:

- Union Mutual Pension Fund Limited ("Union Mutual") holds 49.59% (2020: 49.35%) – incorporated in Bermuda;
- UIL Limited ("UIL") holds 44.65% (2020: 44.43%) – 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 10, 2021.

## 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 2021 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 18.

### 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 associate undertakings 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.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2021 (Expressed in United States Dollars)

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 20.

## **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 comprise cash balances. Bank overdrafts are included as a component of cash and cash equivalents for the purpose of the cash flow statement only.

## **Financial Instruments**

### **Recognition and initial measurement**

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**

#### **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, interest receivable, dividend receivable, loans and receivables 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 bank overdraft, interest payable, dividends payable, accrued expenses, other liabilities and interest-bearing loans and borrowings.

### **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 20.

### **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 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.

#### **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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2021 (Expressed in United States Dollars)

## 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 assumed 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:

- Presentation of liabilities (Amendments to IAS 1) – effective for annual periods beginning on or after 1 January 2023
- Annual Improvements to IFRS Standards 2018-2020 – effective for annual periods beginning on or after 1 January 2022
- Reference to Conceptual Framework (Amendments to IFRS 3) – effective for annual periods beginning on or after 1 January 2022
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) – effective for annual periods beginning on or after 1 January 2023
- Definition of Accounting Estimates (Amendments to IAS 8) – effective for annual periods beginning on or after 1 January 2023
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9 and IFRS 7) – effective for annual periods beginning on or after 1 January 2021

## 3. FINANCIAL INVESTMENTS

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

|  | 2021<br>\$         | 2020<br>\$         |
|--|--------------------|--------------------|
| <b>Financial assets at fair value through profit or loss</b> |                    |                    |
| Equity investments   | 652,055,491        | 494,752,335        |
| Other financial investments                                  | 8,678,250          | 6,142,500          |
| <b>Total financial investments</b>                           | <b>660,733,741</b> | <b>500,894,835</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:

|   | 2021<br>\$         | 2020<br>\$         |
|---|--------------------|--------------------|
| <b>Financial assets at fair value through profit or loss</b>                      |                    |                    |
| Fair value at beginning of year   | 500,894,835        | 410,268,426        |
| Purchase of investments   | 39,218,310         | 26,442,173         |
| Proceeds from disposal of investments   | (81,469,267)       | (14,744,366)       |
| Capital distribution from investee  | (5,089,892)        | -                  |
| Net fair value movement in the year (including foreign exchange gains and losses) | 207,179,755        | 78,928,602         |
| <b>Fair value at end of year</b>  | <b>660,733,741</b> | <b>500,894,835</b> |

#### 4. SUBSIDIARY UNDERTAKINGS

The following were consolidated subsidiary undertakings of the Company at September 30, 2021 and September 30, 2020.

|                              | Country of operation, registration and incorporation | Holdings and voting rights % |      |
|------------------------------|--|------------------------------|------|
|                              |  | 2021                         | 2020 |
| 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                    | 62.25%                             |
| West Hamilton Holdings Limited ("West Hamilton")          | Bermuda   | 1,659,390                      | 57.06%                             |
| Waverton Investment Management Group Limited ("Waverton") | UK  | 10,750,000                     | 62.23%                             |
| PCF Group plc ("PCF")                                     | UK  | 161,669,880                    | 64.41%                             |

#### 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, 2021:

|   | The Market Herald ("TMH") | Thorn Group Limited ("Thorn") | AK Jensen Group Limited ("AKJ") | AKJT Holdings Limited ("AKJT") | Incol Limited ("Incol") | Dfinitive Capital Limited ("Dfinitive") |
|---|---------------------------|-------------------------------|---------------------------------|--------------------------------|-------------------------|---|
| Country of registration, incorporation and operations | Australia                 | Australia                     | Bermuda                         | Malta                          | Ireland                 | Ireland                                 |
| Number of ordinary shares held                        | 42,183,103                | 160,800,606                   | 19,880,471                      | 10,034                         | 171,143                 | 93,750                                  |
| Percentage of ordinary shares held                    | 22.00%                    | 47.31%                        | 34.27%                          | 23.22%                         | 33.61%                  | 38.46%                                  |

Transactions with associate undertakings are disclosed in note 17.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2021 (Expressed in United States Dollars)

## 6. LOANS AND RECEIVABLES

Loans and receivables at September 30 were as follows:

|   | 2021              | 2020      |
|---|-------------------|-----------|
|   | \$                | \$        |
| Loans to associates                     | -                 | 2,000,000 |
| Loans to investment portfolio companies | -                 | 109,436   |
| Other loans                             | <b>52,780,838</b> | -         |
| <b>Total</b>                            | <b>52,780,838</b> | 2,109,436 |

Other loans consist of a loan to Provident Holdings Ltd ("Provident") of \$52,780,838. Somers sold its holding in BCB to Provident in July 2021 for a total consideration of \$72,780,838 which was satisfied by a combination of cash and a loan facility provided by Somers to Provident. This loan carries a fixed interest rate of 5.625%. \$10,000,000 is receivable on January 20, 2022, with the remaining balance receivable on January 20, 2024. This loan is secured by 7,003,318 ordinary shares in BCB. The loan is still performing, as no contractual breaches have occurred, and the credit risk has not increased significantly since initial recognition.

## 7. OTHER ASSETS

Other assets at September 30 were as follows:

|                                   | 2021           | 2020      |
|-----------------------------------|----------------|-----------|
|                                   | \$             | \$        |
| Prepayments and other receivables | <b>127,572</b> | 175,450   |
| Contingent consideration          | -              | 1,605,583 |
| Amounts receivable from brokers   | <b>445,377</b> | -         |
| <b>Total</b>                      | <b>572,949</b> | 1,781,033 |

Contingent consideration consisted of the expected additional consideration to be received from the disposal of an investment in Stockdale Securities Limited. This was received in the year.

## 8. OTHER LIABILITIES

Other liabilities at September 30 were as follows:

|                                    | 2021              | 2020      |
|------------------------------------|-------------------|-----------|
|                                    | \$                | \$        |
| Accounts payable                   | <b>638,594</b>    | 504,730   |
| Accrued performance fees (Note 17) | <b>12,971,764</b> | 7,207,671 |
| Accrued liabilities                | <b>1,526,302</b>  | 2,149,853 |
| <b>Total</b>                       | <b>15,136,660</b> | 9,862,254 |

## 9. INTEREST BEARING LOANS AND BORROWINGS

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

|                                    | 2021<br>\$        | 2020<br>\$        |
|------------------------------------|-------------------|-------------------|
| USD loan facility from BCB         | 7,000,000         | 7,000,000         |
| AUD loan facility from Bell Potter | 554,399           | –                 |
| GBP loan facility from BNTB        | 43,075,200        | 34,875,900        |
| <b>Total commercial borrowings</b> | <b>50,629,599</b> | <b>41,875,900</b> |
| USD loan facility from UIL         | 9,025,000         | 5,225,000         |
| GBP loan facility from UIL         | 2,968,151         | 10,824,446        |
| AUD loan facility from UIL         | 612,600           | 5,355,868         |
| CAD loan facility from UIL         | –                 | 601,007           |
| USD loan facility from UMPF        | 11,242,036        | –                 |
| AUD loan facility from UMPF        | 2,652,614         | –                 |
| USD loan facility from Permanent   | –                 | 4,950,000         |
| GBP loan facility from Permanent   | –                 | 2,378,013         |
| AUD loan facility from Permanent   | –                 | 4,826,799         |
| <b>Total</b>                       | <b>77,130,000</b> | <b>76,037,033</b> |

### Bermuda Commercial Bank Limited (“BCB”) Loan

This \$7 million loan facility from BCB carries an interest rate of the BCB base rate (3% as at September 30, 2021) plus 2.7%. The facility increased by \$1.0 million in October 2020 and is subject to annual principal repayments of \$1.0 million commencing March 31, 2021, with a final repayment date of March 31, 2025. In order to secure the loan the Company has pledged 10,346,000 ordinary shares in Resimac Group Limited with a carrying value at September 30, 2021 of \$15,298,401.

### 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%. As or when the GBP LIBOR Rate ceases to be available, the interest rate shall be the Alternative Rate plus 4%. The facility was revised in February 2021 and is subject to bi-annual principal repayments of GBP 2.5 million. At September 30, 2021, GBP 32 million was drawn down on this facility. In order to secure the loans, the Company has pledged 10,750,000 ordinary shares in Waverton Investment Management Group Limited with a carrying value at September 30, 2021 of \$117,186,160 and 79,000,000 ordinary shares in Resimac Group Limited with a carrying value at September 30, 2021 of \$116,814,535.

### Loan Facilities from UIL

The USD, GBP and AUD unsecured facilities from UIL carry a fixed interest rate of 6%. Each facility is repayable upon UIL giving Somers not less than 12 months’ notice. At year end, balances of \$9,025,000, GBP 2,205,000 and AUD 849,300 (2020: \$5,225,000, GBP 8,380,000, AUD 7,474,000 and CAD 800,000) were drawn down on these facilities.

### Loan Facilities from Permanent Investments Limited (“Permanent”)

The USD, GBP and AUD unsecured facilities from Permanent carried a fixed interest rate of 6%. Each facility was repayable upon Permanent giving Somers not less than 12 months’ notice. The GBP facility was repaid during the year. The USD and AUD facilities with balances of \$12,342,036 and AUD 6,612,547 were assigned to Union Mutual in June 2021. (2020: \$4,950,000, GBP 1,840,995 and AUD 6,735,695) was drawn down on these facilities.

### Loan Facilities from Union Mutual

The USD and AUD unsecured facilities from Union Mutual carry a fixed interest rate of 6%. Each facility is repayable upon Union Mutual giving Somers not less than 12 months’ notice. At year end, balances of \$11,242,036 and AUD 3,677,547 (2020: nil) were drawn down on these facilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2021 (Expressed in United States Dollars)

## 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.

## 10. BANK OVERDRAFT

This \$4.9 million overdraft facility from BCB carries an interest rate of the BCB base rate (3% as at September 30, 2021) plus 3%. The overdraft facility matures on January 31, 2022. In order to secure the facility, the Company has pledged 7,300,000 ordinary shares in Resimac Group Limited with a carrying value at September 30, 2021 of \$10,794,255.

## 11. EQUITY

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

|  | Authorised<br>Shares | Par Value<br>\$ | Issued &<br>Fully Paid<br>Shares | Par Value<br>\$ | Contributed<br>Surplus<br>\$ |
|--|----------------------|-----------------|----------------------------------|-----------------|------------------------------|
| 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<br>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                  |
| Issuance of 1,023,749 shares under dividend<br>reinvestment plan | -                    | -               | 1,023,749                        | 103             | 17,012,952                   |
| Cancellation of treasury stock                                   | -                    | -               | (61,305)                         | (6)             | (1,368,779)                  |
| Balance at September 30, 2021                                    | 120,000,000          | 12,000          | 22,303,926                       | 2,231           | 329,841,112                  |

## Treasury Stock

|                                | 2021                |              | 2020                |              |
|--------------------------------|---------------------|--------------|---------------------|--------------|
|                                | Number of<br>Shares | Amount<br>\$ | Number of<br>Shares | Amount<br>\$ |
| Balance at beginning of year   | -                   | -            | 773                 | 11,595       |
| Purchase of treasury stock     | 61,305              | 1,368,785    | 7,138               | 98,370       |
| Cancellation of treasury stock | (61,305)            | (1,368,785)  | (7,911)             | (109,965)    |
| <b>Balance at end of year</b>  | -                   | -            | -                   | -            |

## Regulatory Capital

Certain of Somers' unconsolidated subsidiaries have external regulatory capital requirements. 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 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.

## 12. EARNINGS PER SHARE

|                                   | Net<br>Earnings<br>\$ | Weighted<br>Average<br>Shares | Earnings<br>per Share<br>\$ |
|-----------------------------------|-----------------------|-------------------------------|-----------------------------|
| <b>2021</b>                       |                       |                               |                             |
| <b>Basic Earnings Per Share</b>   |                       |                               |                             |
| Net income                        | 197,770,474           | 21,688,313                    | 9.12                        |
| <b>Diluted Earnings Per Share</b> |                       |                               |                             |
| Net income                        | 197,770,474           | 21,688,313                    | 9.12                        |
| <b>2020</b>                       |                       |                               |                             |
| <b>Basic Earnings Per Share</b>   |                       |                               |                             |
| Net income                        | 69,042,246            | 20,974,169                    | 3.29                        |
| <b>Diluted Earnings Per Share</b> |                       |                               |                             |
| Net income                        | 69,042,246            | 20,974,169                    | 3.29                        |

## 13. DIVIDENDS

The Company declared and paid dividends as follows:

|   | 2021<br>\$        | 2020<br>\$        |
|---|-------------------|-------------------|
| Final dividend for the year ended September 30, 2020 of 34 cents (2019: 30 cents) per common share. Paid February 2021. | 7,255,628         | 6,201,002         |
| Interim dividend for the year ended September 30, 2021 of 24 cents (2020: 21 cents) per common share. Paid July 2021.   | 5,228,430         | 4,423,680         |
| Special dividend of 24 cents per common share. Paid September 2021.   | 5,299,229         | –                 |
| <b>Total</b>  | <b>17,783,287</b> | <b>10,626,702</b> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2021 (Expressed in United States Dollars)

Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended September 30, 2021 and 2020 were as follows:

|                              | 2021<br>\$        | 2020<br>\$        |
|------------------------------|-------------------|-------------------|
| Paid in cash                 | 770,232           | 460,122           |
| Satisfied by issue of shares | 17,013,055        | 10,166,580        |
| <b>Total</b>                 | <b>17,783,287</b> | <b>10,626,702</b> |

Following the completion of the sale of BCB the Board resolved to pay a special dividend of \$0.24 per share, with a payment date of September 13, 2021.

On December 10, 2021 the Directors declared a final dividend in respect of the year ended September 30, 2021 of \$0.38 per share which will be paid on February 7, 2022 to all shareholders of record as at close of business on January 14, 2022.

## 14. INTEREST INCOME

The Company earned interest income as follows:

|   | 2021<br>\$     | 2020<br>\$     |
|---|----------------|----------------|
| Loans and receivables                                 | 673,416        | 247,766        |
| Financial assets at fair value through profit or loss | -              | 111,602        |
| <b>Total</b>  | <b>673,416</b> | <b>359,368</b> |

## 15. GAINS ON INVESTMENTS

The Company recorded the following net gains on investments:

|  | 2021<br>\$         | 2020<br>\$        |
|--|--------------------|-------------------|
| <b>Financial assets at fair value through profit or loss</b> |                    |                   |
| Unrealised gains on investments                              | 193,187,433        | 59,358,673        |
| Realised gains on sale of investments                        | 8,220,159          | 1,630,857         |
| <b>Total gains on investments</b>                            | <b>201,407,592</b> | <b>60,989,530</b> |

## 16. 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:

|                   | 2021<br>\$    | 2020<br>\$   |
|-------------------|---------------|--------------|
| Overseas taxation | 30,195        | 5,260        |
| <b>Total</b>      | <b>30,195</b> | <b>5,260</b> |

## 17. RELATED-PARTY DISCLOSURES

As at September 30, 2021, the Major Shareholders held, in aggregate, 94.24% (2020: 93.78%) 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 74.19% 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, 2021, between the Company and its related parties:

### Bermuda Commercial Bank Limited

Somers Limited sold its holding in BCB on July 20, 2021 and BCB ceased to be a related party of the Company from this date. Somers uses BCB for banking services and these services are provided under the same terms as an unrelated party would receive. For the period October 1, 2020 to July 20, 2021, Somers paid BCB fees of approximately \$46,162 (2020: \$39,155) for banking services.

BCB provides lending facilities to Somers and during the period October 1, 2020 to July 20, 2021 Somers incurred an interest expense of \$330,060 (2020: \$405,465) on these loans.

Somers acquired securities in PCF from BCB at their fair value of GBP 3,624,350.

### Resimac Group Limited

Somers received \$12,023,465 (AUD 16,285,983) (2020: \$5,099,346 (AUD 7,627,396)) of dividends during the year from Resimac.

### Waverton Investment Management Group Limited

Somers received \$2,385,124 (GBP 1,720,000) (2020: \$2,379,453 (GBP 1,881,250)) of dividends during the year from Waverton.

### PCF Group plc

Somers received nil (2020: \$676,823 (GBP 543,677)) of dividends during the year from PCF.

### West Hamilton Holdings Limited

Somers received \$531,005 (2020: \$248,909) of dividends during the year from West Hamilton.

### Thorn Group Limited

Somers received \$855,623 (AUD 1,164,112) (2020: nil) of dividends and an \$5,089,892 (AUD 7,108,787) (2020: nil) capital distribution during the year from Thorn Group Limited.

### AK Jensen Group Limited

Somers provided a \$2,000,000 loan facility to AK Jensen in January 2019. The loan carried a fixed interest rate of 10% and was repaid during the year. Somers earned interest and fees of \$130,351 (2020: \$189,843) during the year of which nil (2020: \$50,411) was receivable at year end.

### Incol Limited

Somers had a loan receivable from Incol of \$49,249 (EUR 42,000) at September 30, 2020. This loan was converted to Incol equity during the year.

### UIL Limited

Somers has entered into a number of loan facilities with UIL. At year end a balance of \$12,605,751 (\$9,025,000, GBP 2,205,000 and AUD 849,300) (2020: \$22,006,321 (\$5,225,000, GBP 8,380,000, AUD 7,474,000 and CAD 800,000)) was drawn down on these facilities. Somers incurred interest expense of \$720,009 (2020: \$1,363,742) on these loans during the year, of which \$234,993 (2020: \$354,804) was payable at year end.

### Permanent Investments Limited

Somers entered a number of loan facilities with Permanent. At September 30, 2020, \$12,154,812 (\$4,950,000, GBP 1,840,995 and AUD 6,735,695) was drawn down on these facilities. The GBP facility was repaid during the year. The USD and AUD facilities with a balance of \$17,298,140 were assigned to Union Mutual in June 2021. Somers incurred interest expense of \$566,002 (2020: \$595,744) on these loans during the year.

### Union Mutual Pension Fund Limited

Somers has entered into a number of loan facilities with Union Mutual. At year end a balance of \$13,894,651 (\$11,242,036 and AUD 3,677,547) (2020: nil) was drawn down on these facilities. Somers incurred interest expense of \$277,229 (2020: nil) on these loans during the year, of which \$242,693 (2020: nil) was payable at year end.

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

ICM Limited is the investment manager to Somers and joint investment manager to UIL. 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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2021 (Expressed in United States Dollars)

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.

Somers has agreed to pay ICM an annual fee for its investment management services equal to 0.75% (2020: 0.75%) of the gross asset value of qualifying investments within Somers' financial investment portfolio. For the year ended September 30, 2021, this fee amounted to \$5,397,039 (2020: \$3,159,352), of which \$1,238,876 (2020: \$1,767,386) 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, subject to a cap of 2% of Somers' net asset value. The performance fee for the year ended September 30, 2021 was \$12,971,764 (2020: \$7,207,671).

ICM provided administration and other professional services to Somers for which Somers paid fees of \$100,000 (2020: \$62,500) 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:

|                  | 2021   | 2020   |
|------------------|--------|--------|
| Charles Jillings | 95,926 | 91,345 |
| Peter Durhager   | 7,706  | -      |
| David Morgan     | 7,089  | 6,750  |
| Alasdair Younie  | 765    | -      |

Warren McLeland, who retired as a Director on February 3, 2021, was beneficially interested in 51,287 shares as at September 30, 2020.

The Company's directors' fees for the year ended September 30, 2021, amounted to \$150,333 (2020: \$167,500).

Charles Jillings was a director of Waverton during the year ended September 30, 2021 and received directors' fees of \$53,844 in the year (2020: \$46,393). Alasdair Younie was a director of West Hamilton during the year ended September 30, 2021 and received directors' fees of \$15,000 in the year (2020: \$15,000). David Morgan was a director of Waverton and PCF during the

year ended September 30, 2021 and received directors' fees of \$63,940 and \$57,209, respectively (2020: \$50,610 and \$53,774). Morwill Ltd, a company related to Mr Morgan, also received fees for providing services to Somers of \$106,629 for the year (2020: \$103,385).

## 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*

For the period of October 1, 2020 to July 20, 2021, BCB earned net interest and fees of \$760,197 (2020: \$1,045,801) for banking services provided to related parties of Somers.

### *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 period of October 1, 2020 to July 20, 2021, such fees amounted to \$657,969 (2020: \$728,098). In addition, pursuant to a consultancy agreement, a fee of \$75,000 (2020: \$100,000) was paid to ICM for its consultancy services.

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. The prorated performance fee paid to the Investment Adviser for the pre-acquisition period was \$1,280,000 (2020: 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.

## 18. 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 ordinarily 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 Australian Dollars, Sterling, Euros, 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 Australian Dollars, Sterling, Euros, Canadian Dollars, New Zealand 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, 2021 (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:

| 2021               |                        |                             |                            |                                   |                         |                    |
|--------------------|------------------------|-----------------------------|----------------------------|-----------------------------------|-------------------------|--------------------|
|                    | Financial Assets<br>\$ | Financial Liabilities<br>\$ | Net Financial Assets<br>\$ | % of Company Net Financial Assets | Hedging Contracts<br>\$ | Net Exposure<br>\$ |
| Australian Dollar  | 439,334,023            | (3,946,853)                 | 435,387,170                | 70.9%                             | -                       | 435,387,170        |
| Sterling           | 173,177,831            | (46,113,123)                | 127,064,708                | 20.7%                             | -                       | 127,064,708        |
| Euro               | 10,057,523             | -                           | 10,057,523                 | 1.6%                              | -                       | 10,057,523         |
| Canadian Dollar    | 8,469,300              | -                           | 8,469,300                  | 1.4%                              | -                       | 8,469,300          |
| New Zealand Dollar | 4,139,204              | -                           | 4,139,204                  | 0.7%                              | -                       | 4,139,204          |
| Singapore Dollar   | 10,811                 | (7,794)                     | 3,017                      | 0.0%                              | -                       | 3,017              |
| <b>Total</b>       | <b>635,188,692</b>     | <b>(50,067,770)</b>         | <b>585,120,922</b>         | <b>95.3%</b>                      | <b>-</b>                | <b>585,120,922</b> |

| 2020               |                        |                             |                            |                                   |                         |                    |
|--------------------|------------------------|-----------------------------|----------------------------|-----------------------------------|-------------------------|--------------------|
|                    | Financial Assets<br>\$ | Financial Liabilities<br>\$ | Net Financial Assets<br>\$ | % of Company Net Financial Assets | Hedging Contracts<br>\$ | Net Exposure<br>\$ |
| 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            |
| <b>Total</b>       | <b>410,409,701</b>     | <b>(59,395,357)</b>         | <b>351,014,344</b>         | <b>83.2%</b>                      | <b>-</b>                | <b>351,014,344</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

| 2021                    |                         |               |             |                       |                          |                        |
|-------------------------|-------------------------|---------------|-------------|-----------------------|--------------------------|------------------------|
|                         | Australian Dollar<br>\$ | Sterling<br>£ | Euro<br>€   | Canadian Dollar<br>\$ | New Zealand Dollar<br>\$ | Singapore Dollar<br>\$ |
| Net income for the year | (43,538,717)            | (12,706,471)  | (1,005,752) | (846,930)             | (413,920)                | (302)                  |
| NAV per share – Basic   | (1.95)                  | (0.57)        | (0.05)      | (0.04)                | (0.02)                   | (0.00)                 |

| 2020                    |                         |               |           |                       |                          |                        |
|-------------------------|-------------------------|---------------|-----------|-----------------------|--------------------------|------------------------|
|                         | Australian Dollar<br>\$ | Sterling<br>£ | Euro<br>€ | Canadian Dollar<br>\$ | New Zealand Dollar<br>\$ | Singapore Dollar<br>\$ |
| 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)                 |

### 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 \$54,920,570 (2020: \$41,875,900) of variable rate bank loans. Apart from its bank loans, the Company had no floating rate debt obligations at September 30, 2021 (2020: 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.

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, 2021, the Company had bank loans and overdrafts of \$54,920,570 (2020: \$41,875,900), and loans of \$27,054,800 (2020: \$34,161,133) with other entities.

The majority of the Company's 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.

|                                     | 2021<br>\$          | 2020<br>\$          |
|-------------------------------------|---------------------|---------------------|
| <b>Fixed rate instruments</b>       |                     |                     |
| Financial assets                    | 52,780,838          | 2,109,436           |
| Financial liabilities               | (27,054,800)        | (34,161,133)        |
|                                     | <b>25,726,038</b>   | <b>(32,051,697)</b> |
| <b>Variable rate instruments</b>    |                     |                     |
| Financial assets                    | -                   | -                   |
| Financial liabilities               | (54,920,570)        | (41,875,900)        |
|                                     | <b>(54,920,570)</b> | <b>(41,875,900)</b> |
| Total interest rate sensitivity gap | <b>(29,194,532)</b> | <b>(73,927,597)</b> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2021 (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 \$549,206 (2020: \$418,759). A decrease of 100 basis points would have increased net interest income by \$549,206 (2020: \$418,759).

As described above, a change in interest rates may impact the fair value of the Company's fixed rate debt instruments. At September 30, 2021 the Company had no fixed rate debt instruments within its financial investments portfolio (2020: nil) 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.

## **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 20.

The Company also has direct exposure to assets that are publicly traded on various equity markets. These represent 69.11% (2020: 66.29%) of the Company's portfolio value as at September 30, 2021.

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

The Company's financial instruments 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:

|                                | 2021                       |                            |                           | Total<br>\$       |
|--------------------------------|----------------------------|----------------------------|---------------------------|-------------------|
|                                | Less than<br>1 month<br>\$ | 3 months –<br>1 year<br>\$ | More than<br>1 year<br>\$ |                   |
| <b>Financial asset by type</b> |                            |                            |                           |                   |
| Cash and cash equivalents      | 793,653                    | -                          | -                         | 793,653           |
| Other assets                   | 572,949                    | -                          | -                         | 572,949           |
| Interest receivable            | 541,667                    | -                          | -                         | 541,667           |
| Loans and receivables          | -                          | 10,000,000                 | 42,780,838                | 52,780,838        |
| <b>Total</b>                   | <b>1,908,269</b>           | <b>10,000,000</b>          | <b>42,780,838</b>         | <b>54,689,107</b> |

|                                       |                   |                  |                   |                   |
|---------------------------------------|-------------------|------------------|-------------------|-------------------|
| <b>Financial liability by type</b>    |                   |                  |                   |                   |
| Bank overdraft                        | -                 | 4,845,370        | -                 | 4,845,370         |
| Interest payable                      | 477,686           | -                | -                 | 477,686           |
| Other liabilities                     | 15,136,660        | -                | -                 | 15,136,660        |
| Interest bearing loans and borrowings | 554,399           | 7,730,500        | 68,845,101        | 77,130,000        |
| <b>Total</b>                          | <b>16,168,745</b> | <b>7,730,500</b> | <b>68,845,101</b> | <b>92,744,346</b> |

|                                | 2020                       |                            |                           | Total<br>\$      |
|--------------------------------|----------------------------|----------------------------|---------------------------|------------------|
|                                | Less than<br>1 month<br>\$ | 3 months –<br>1 year<br>\$ | More than<br>1 year<br>\$ |                  |
| <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        |
| <b>Total</b>                   | <b>5,709,575</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>4,875,100</b> | <b>67,286,833</b> | <b>86,469,185</b> |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2021 (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.

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:

|                           | 2021              | 2020             |
|---------------------------|-------------------|------------------|
|                           | \$                | \$               |
| Cash and cash equivalents | 793,653           | 3,765,431        |
| Interest receivable       | 541,667           | 53,675           |
| Loans and receivables     | 52,780,838        | 2,109,436        |
| <b>Total</b>              | <b>54,116,158</b> | <b>5,928,542</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 20.

## (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.

## 19. 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.

## 20. 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 September 30, 2021. 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. Covid-19 created a higher level of uncertainty over the valuation of unlisted investments and our valuation methodologies were enhanced last year to address this issue. Since then, the impact of Covid-19 on the businesses within our investment portfolio has become considerably clearer and better understood, and this has enabled us to revert to a more standard valuation approach at September 30, 2021. For each unlisted holding valued over 1% of the total investment portfolio, the significant valuation inputs have been sensitised by a percentage deemed to reflect the relative degree of estimation uncertainty.

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

#### **Waverton**

Valuation inputs: Maintainable enterprise value ("EV")/EBITDA multiple of 11.5 times (2020: 9.2). Unlisted discount applied of 10% (2020: 10%).

Valuation Methodology: After applying a 10% discount the valuation is \$195.6 million (GBP 145.3 million) (2020: \$115.1 million (GBP 89.1 million)). Somers holds a 59.93% diluted equity interest in Waverton and, as at September 30, 2021, carried this investment at \$117.2 million (GBP 87.1 million) (2020: \$71.9 million (GBP 55.7 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, 2021, assessed that the valuation uncertainty associated with Covid-19 was of a low risk level.

Sensitivities: Should the EBITDA of Waverton move by GBP 1.0 million the gain or loss in valuation would be \$8.3 million (GBP 6.2 million). Should the peer group multiple ascribed to Waverton's EBITDA be reduced/increased by 1.0 the change in valuation would be \$9.7 million (GBP 7.2 million).

#### **PCF Group Limited**

PCF's shares were suspended during the year as a result of issues with their regulatory filings and their financial policies and procedures. As such Somers' holding of PCF shares could not be valued at their listed price. PCF's shares remain suspended pending completion of an assessment of PCF's financial control framework, reporting processes, governance structures and its suitability to be a listed company as well as the publication of

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2021 (Expressed in United States Dollars)

PCF's 2020 annual report and accounts and its interim results to March 31, 2021.

On October 21, 2021 PCF announced that following a review into their financial controls and reporting processes and a subsequent review of impairment levels it was determined by PCF that the historical expectations in respect of the collectability of certain receivables required revision resulting in an additional impairment charge of GBP 6 million which will be applied to their results for the year ended September 30, 2020. Along with other adjustments (principally from their financial controls review and the increased cost of the full year 2020 audit), PCF's new revised reduction to their preliminary result for profit before impairment of goodwill and tax for the year ended September 30, 2020 will now be approximately GBP 7 million. PCF still has headroom above its regulatory capital requirements, including Pillar 2 buffers.

PCF also announced that despite the extent of improvements that they are implementing to their financial control framework, their core competencies within their customer-facing business remain strong and PCF continues to maintain its long-established relationships with customers and intermediaries. They continue to receive levels of inflows in respect of their deposit taking activity in line with their business and liquidity plan and continues to manage their loan originations at a reduced year on year level, as well as manage their capital and liquidity position in a conservative and prudent manner taking account of the position of PCF and the wider macro-economic situation in the UK.

Somers holds a 64.4% controlling position in PCF and, as at September 30, 2021, carried this investment at \$37.5 million (GBP 27.9 million). This carrying valuation represents a 25% discount to the last traded price (bid) pre the share suspension. In arriving at this value, the Directors considered the information announced by PCF, Somers controlling position in PCF, the expected imminent completion of the assessment of PCF's financial control framework, reporting processes and governance structures and the expected lifting of the share suspension upon completion of their outlined steps. The Directors considered expected timeframes to fully remediate the issues identified at PCF, the impact of such remediation on future profitability and the impact on the company's ability to write new business. The Directors also considered expectations on PCF's book value level and referenced this to price to book value multiples for comparable listed peers.

PCF had not finalized their audited accounts for the year ended September 30, 2020 at the date of this report. The Directors therefore were not privy to the content of PCF's September 30, 2020 independent auditor's report or the final form or content of their audit opinion. Accordingly, the Director were

not able to utilise this report, including its opinions on the fair presentation of PCF's financial statements and its ability to continue as a going concern, in arriving at their valuation of PCF. The unavailability of this information increased the subjectivity of this valuation process.

The unique nature of the issues currently impacting PCF, including the items mentioned above, increase the subjectivity of its valuation process and the year end valuation of PCF required a high degree of judgement and estimation by the Directors in the determination of fair value. The impact of recent events on future earnings is difficult to predict and the valuation assumptions made by the Directors may not prove to be accurate. It is therefore likely that uncertainty is greater and, accordingly a wider range of sensitivities has been applied.

Sensitivities: Should the valuation ascribed to PCF increase/decline by: 10% the gain/loss in Somers' carrying value would be \$3.8 million (GBP 2.8 million); 20% the gain/loss would be \$7.5 million (GBP 5.6 million); or 40% the gain/loss would be \$15.1 million (GBP 11.2 million).

## **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 57.06% equity interest in West Hamilton and, as at September 30, 2021, carried this investment at \$22.8 million (2020: \$19.3 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.

## **AKJ Token Securities**

Valuation inputs: Recent transaction price for the same security

Valuation Methodology: Somers holds 75 million AKJ token securities issued by AK Jensen and, as at September 30, 2021,

carried this investment at EUR 7.5 million (2020: EUR 5.2 million). Trades occurred in these tokens at a transaction price of EUR 0.10 per token shortly before the measurement date and Somers used this recent transaction price for valuing its holding as at September 30, 2021 as it considered that these transaction prices continued to represent fair value at this date.

Sensitivities: The nature of these assets and the volatility experienced in the fair values of crypto assets is such that the Directors do not consider it possible to predict a reasonably possible shift in these assets' values over a period of 12 months. Accordingly, a reliable sensitivity analysis showing how profit or loss would be impacted by a reasonably possible shift in the value of crypto assets is not considered feasible. Nevertheless, the Directors note that a 10% increase/decline in the value of these securities would result in a gain/loss in valuation of \$0.9 million (EUR 0.8 million) which would be recognised in profit or loss. Similarly, a 50% increase/decline in the value of these securities would result in a gain/loss in valuation of \$4.4 million (EUR 3.8 million).

#### **Other**

Valuation Methodology: Somers has a further eleven unlisted investment holdings with values ranging from nil to \$6.4 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 eleven holdings was \$17.9 million at September 30, 2021 (2020: nine holdings with a value of \$11.2 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 \$1.8 million or 0.3%.

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

|  | 2021               |                   |                    | Total<br>\$        |
|--|--------------------|-------------------|--------------------|--------------------|
|  | Level 1<br>\$      | Level 2<br>\$     | Level 3<br>\$      |                    |
| <b>Financial assets at fair value through profit or loss</b> |                    |                   |                    |                    |
| Equity investments   | 426,169,953        | 30,451,415        | 195,434,123        | 652,055,491        |
| Other financial investments                                  | -                  | -                 | 8,678,250          | 8,678,250          |
| <b>Total</b>   | <b>426,169,953</b> | <b>30,451,415</b> | <b>204,112,373</b> | <b>660,733,741</b> |

|  | 2020               |                   |                    | Total<br>\$        |
|--|--------------------|-------------------|--------------------|--------------------|
|  | Level 1<br>\$      | Level 2<br>\$     | Level 3<br>\$      |                    |
| <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> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2021 (Expressed in United States Dollars)

Movement in Level 3 financial instruments measured at fair value:

|  | Equity<br>Investments<br>\$ | Debt<br>Securities<br>\$ | Other<br>Financial<br>Investments<br>\$ | Total<br>\$         |
|--|-----------------------------|--------------------------|---|---------------------|
| <b>Financial assets at fair value through profit or loss</b> |                             |                          |   |                     |
| At September 30, 2019  | 340,841,984                 | 9,660,828                | 3,327,000                               | 353,829,812         |
| 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>  |
| Total gains recorded   | <b>57,177,806</b>           | <b>-</b>                 | <b>2,535,750</b>                        | <b>59,713,556</b>   |
| Purchases  | <b>10,604,158</b>           | <b>-</b>                 | <b>-</b>                                | <b>10,604,158</b>   |
| Disposals  | <b>(72,780,838)</b>         | <b>-</b>                 | <b>-</b>                                | <b>(72,780,838)</b> |
| Transfer between levels                                      | <b>37,712,864</b>           | <b>-</b>                 | <b>-</b>                                | <b>37,712,864</b>   |
| <b>At September 30, 2021</b>                                 | <b>195,434,123</b>          | <b>-</b>                 | <b>8,678,250</b>                        | <b>204,112,373</b>  |

During the year ended September 30, 2021 investments with a fair value of \$37.7 million were transferred from Level 1 to Level 3 because of decreases in the level of trading in these listed securities. Investments with a fair value of \$7.2 million were transferred from Level 2 to Level 1 because of increases in the level of trading in these listed securities. There were no other transfers between fair value levels for the year ended September 30, 2021.

There were no Level 3 financial liabilities held during the years ended September 30, 2021 and September 30, 2020.

## 21. SUBSEQUENT EVENTS

### Final Dividend

On December 10, 2021, the Board of Directors resolved to pay a final dividend for the year ended September 30, 2021, in the amount of \$0.38 per share to shareholders of record at January 14, 2022, payable on February 7, 2022.

# COMPANY INFORMATION

**Company Number: 46441**

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

## **DIRECTORS**

Peter Durhager (Chairman)  
Charles Jillings  
David Morgan  
Alasdair Younie

## **SECRETARY**

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## **LEGAL ADVISER TO THE COMPANY**

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