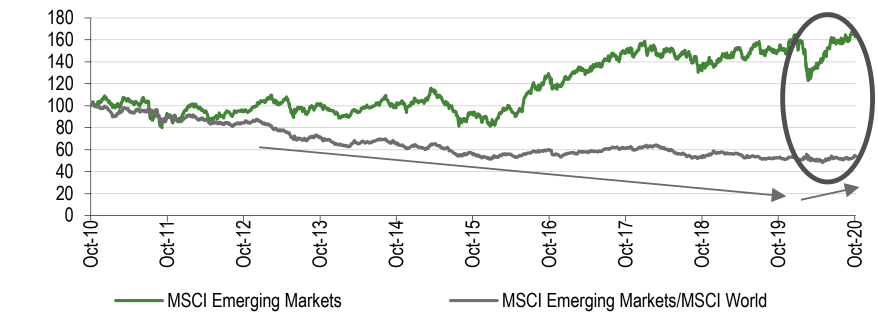
Genesis Emerging Markets Fund

EM – high potential amid new investment themes

Investment companies
Emerging markets equity

Genesis Emerging Markets Fund (GSS) remains broadly diversified across a range of sectors and countries and is well positioned to take advantage of a further broad-based recovery in emerging markets (EM). In addition, the management team is always on the hunt for refreshing investment themes. EM equities are climbing rapidly back to pre-COVID-19 heights, to the level seen in the 11-year equity bull market, before it corrected sharply in response to the coronavirus pandemic. Stock markets have a history of survival and full recovery from major systemic shocks, and the long-term outlook for EM remains positive.

Absolute and relative EM's performance (%)



Source: Refinitiv, Edison Investment Research at 31 October 2020.

Deep research turned into investment insights

The chart above illustrates that EM might have bottomed out and so might present a good entry point for investors. GSS's portfolio of 101 holdings (at 31 October 2020) is diversified geographically and by sectors, with thematic exposures, including digital wallets, which is a theme introduced in this report. Karen Roydon, a GSS portfolio manager, who spoke to us recently, highlights that not all digital wallets are created equal. While GSS expects the theme to grow further within the portfolio and contribute positively to the fund's future performance, the team studies industry participants carefully, to distinguish between potential winners and losers.

Why consider investing in GSS?

- The manager, Genesis, is an owner-managed dedicated EM firm and GSS is its only product available to retail investors.
- The diverse team of portfolio managers employs a bottom-up investment process, finding long-term investments including cutting-edge themes, such as digital wallets.
- Timely entry point into this diversified EM fund: as the relative performance of EM to DM has been improving, following a challenging few years.
- The proactive board is committed to promoting the interests of the fund's shareholders and to narrowing the discount over time.
- GSS currently trades at an 9.1% discount to its cum-income NAV, which is narrower than its three-year average of 11.8%. Since our April update, GSS's discount has moved up in the ranking of the EM peer group of eight from the widest in April 2020 to the fifth narrowest (at 27 November 2020).

30 November 2020

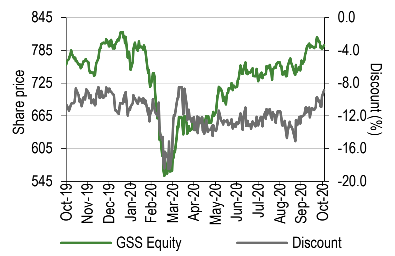
Price	**853.0p**
Market cap	**£1036.1m**
AUM	**£1140.3m**

NAV*	938.6p
Discount to NAV	9.1%

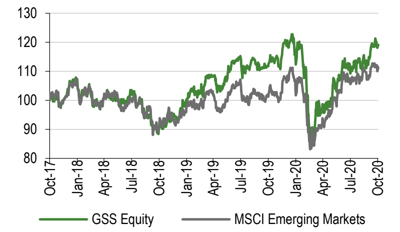
*Including income. As at 26 November 2020.

Yield	1.5%
Ordinary shares in issue	121.5m
Code	GSS
Primary exchange	LSE
AIC sector	Global Emerging Markets
Benchmark	MSCI Emerging Markets

Share price/discount performance



Three-year performance vs index



52-week high/low	853.0p	555.0p
NAV* high/low	938.6p	670.8p

*Including income.

Gearing

Gross*	0.0%
Net cash*	0.7%

*As at 31 October 2020.

Analysts

Victoria Chernykh	+44 (0)20 3077 5700
Sarah Godfrey	+44 (0)20 3681 2519

investmenttrusts@edisongroup.com

Edison profile page

Genesis Emerging Markets Fund is a research client of Edison Investment Research Limited

Exhibit 1: Company at a glance

Investment objective and fund background

Launched in July 1989, Genesis Emerging Markets Fund was one of the first EM funds in the UK. The company seeks long-term capital appreciation through investment in companies operating in emerging and frontier markets or listed on the stock markets of such countries. Performance is benchmarked against the MSCI Emerging Markets Index.

Recent developments

- 2 November 2020: AGM and the payment of the final dividend of 17 cents per share (12.95p) proposed.
- 6 October 2020: annual report to 30 June 2020. NAV TR -0.8% versus benchmark TR -0.1%. Share price TR -3.3%.
- 10 June 2020: declared final dividend of 17 cents per share (12.95p).
- 13 May 2020 the company announced the appointment of Jefferies International Limited as corporate broker and financial adviser to the company jointly with J.P. Morgan Cazenove with immediate effect.

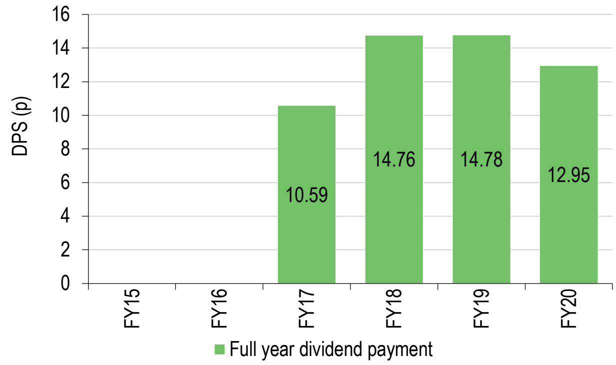
Forthcoming		Capital structure		Fund details	
AGM	November 2021	Ongoing charges	1.07% (end-June 2020)	Group	Genesis Investment Management LLP
Interim results	February 2021	Net cash	0.7%	Manager	Team managed
Year end	30 June	Annual mgmt fee	0.90% pa	Address	1st Floor, Les Echelons Court, Les Echelons, South Esplanade, St. Peter Port, Guernsey, GY1 6JB
Dividend paid	December	Performance fee	None		
Launch date	July 1989	Company life	Indefinite	Phone	+44 (0)20 7201 7200
Continuation vote	No	Loan facilities	£150m	Website	www.genesisemf.com

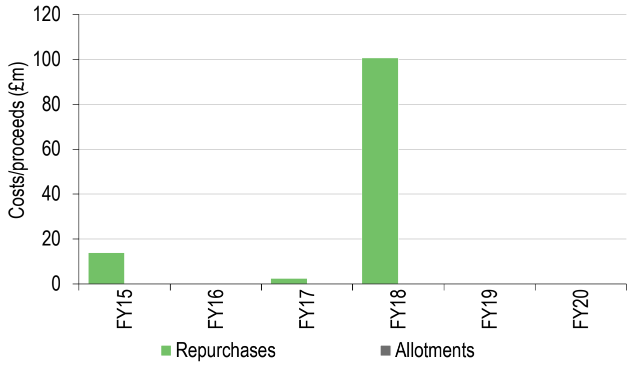
Dividend policy and history (financial years)

GSS's principal objective is to achieve capital growth, and the board will review the appropriateness of dividend payments on an annual basis.

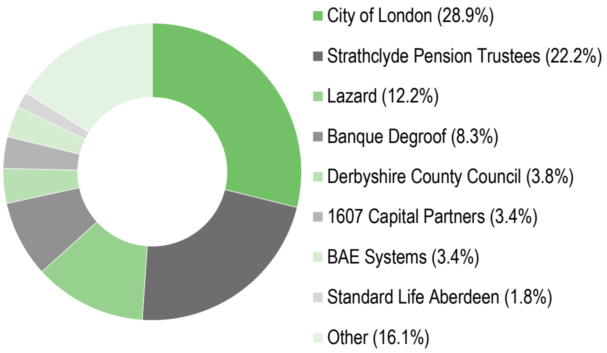
Share buyback policy and history (financial years)

In August 2018, the company conducted its first tender offer for 10% of issued capital. A further tender offer will take place in June 2021 if NAV lags the benchmark performance in the preceding five years.

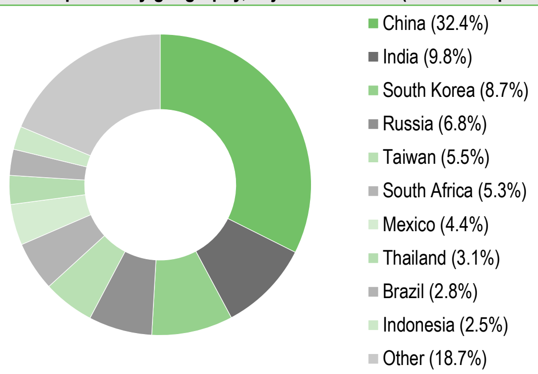




Shareholder base (as at 1 October 2020)



Portfolio exposure by geography, adjusted for cash (as at 30 Sept 2020)



Top 10 holdings (at 30 September 2020)

Company	Country	Sector	Portfolio weight %	
			End-September 2020	End-September 2019
Alibaba Group	China	Consumer discretionary	5.9	3.8
Taiwan Semiconductor	Taiwan	Information technology	5.5	2.9
Tencent	China	Communication services	4.2	2.0
Sberbank	Russia	Financials	3.3	3.7
Samsung Electronics	South Korea	Information technology	3.1	3.4
Wuliangye Yibin	China	Consumer staples	2.4	1.8
AIA Group	China	Financials	2.2	2.8
Naspers	South Africa	Consumer discretionary	2.1	1.9
Yandex	Russia	Communication services	2.0	1.1
New Oriental Education	China	Consumer discretionary	2.0	2.3
Top 10 (% of portfolio)			**32.7**	**25.8**

Source: Genesis Emerging Markets Fund, Edison Investment Research, Bloomberg, Morningstar

Market outlook: Emerging markets still undervalued

After selling off sharply in March, EM equities have strongly recovered to a level that almost evens out their five-year performance versus the global market (Exhibit 3, (Datastream global index is used for global markets). Nevertheless, EM equities currently trade on close to an 18% discount to global equities (Exhibit 2). Although the forward P/E multiple has expanded to 16x from 10x in April 2020, it is still below the world P/E of 18x. Emerging markets and developing economies have grown at a significantly faster pace than advanced economies and this accelerated growth is set to continue. In its October 2020 update, the International Monetary Fund (IMF) forecast emerging markets' GDP to contract 3.3% in 2020 and grow 6.0% in 2021, ahead of the world's contraction of 4.4% and growth of 5.2%, respectively. Higher numbers in emerging markets are underpinned by multi-decade secular growth trends, including rising incomes, urbanisation and growing working-age populations.

Exhibit 2: Valuation metrics over five years

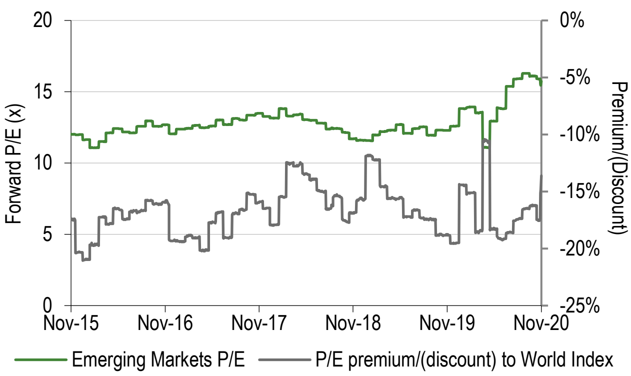
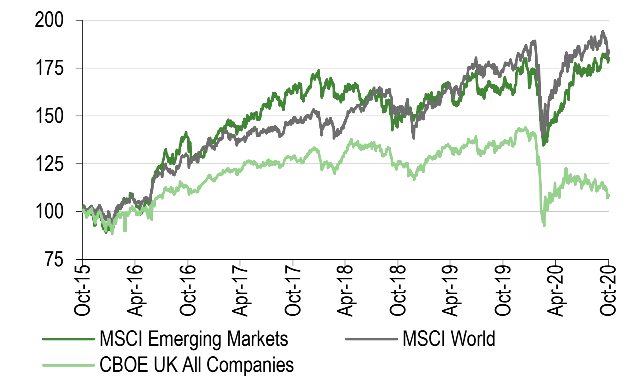


Exhibit 3: Equity market performance



Source: Refinitiv, Edison Investment Research at 31 October 2020. Datastream indexes used. Performance of indices in £ (last five years).

Fund profile: Unconstrained approach

Launched in July 1989, GSS was one of the first UK-listed funds focused on EM equities. With a market cap of £1036.1m (at 27 November 2020), it is also one of the largest investment trusts within the EM peer group of eight funds. It aims to generate long-term capital growth through following a long-established, disciplined and bottom-up approach to investing in high-quality companies at attractive valuations. The manager is not constrained by its benchmark, the MSCI Emerging Markets Index, and invests in the team's highest-conviction EM ideas, listed across emerging, frontier markets and developed markets (DM). Consequently, the fund's portfolio typically diverges from the index and can have a different performance pattern as a result.

GSS is managed by Genesis Investment Management (Genesis), a specialist EM boutique with over $20bn in assets under management. This is the firm's only asset class and all its resources are deployed towards managing EM equities, which is a differentiating feature of GSS. The firm has a partnership structure whereby the key members are also shareholders; this has contributed towards attracting and retaining a stable team of investment professionals. Genesis's client base mainly consists of sophisticated blue-chip, long-term institutional investors. GSS is its only vehicle available to the retail investor.

The fund manager: Genesis team

The manager's view: Broad-based EM recovery to continue

The managers expect the continuing recovery of emerging markets in Q420 and 2021 to be broad based. Schematically, they divide the countries into two camps: those that handled the virus crisis well, and those that did poorly. While Korea, Taiwan, China and Vietnam – the countries with stronger pre-existing macroeconomic positions - came out strongly. India, Brazil and Peru are in a weaker position. The team believes that Turkey and South Africa in particular will struggle, given their weak debt dynamics and challenging political environments.

Equity markets had been very volatile during Q120 and diverged into two groups during Q220. Genesis believes that this division has driven the aggregate market performance year-to-date. North-Asian countries which handled COVID-19 well, and where the markets also have heavy exposure to technology and healthcare stocks, have significantly outperformed. The team is confident that GSS's diversified portfolio is strongly positioned amid the continuing geographical divergence in performance, as the world continues to recover from the pandemic and expects it to do well overall.

The manager sees the broad-based recovery as continuing into 2021, suggesting that the market overreacted into the negative with countries that were hit more harshly by lockdowns. Whilst the fiscal position in most emerging markets has deteriorated, the team sees widening fiscal deficits in a number of countries, including India, Brazil, Indonesia and Peru. As a consequence, economies of these countries will be strained, but the team sees widening fiscal deficits as being less drastic than widely believed. Contrary to the market's current consensus, Genesis believes that these economies will improve visibly within the short to medium term.

Asset allocation

Investment process: Team-based, disciplined and bottom-up

Genesis's investment process involves a detailed, bottom-up approach to get to know companies, often over a long period of time, prior to investment. The investment team consists of 10 portfolio managers (PMs) with between six and 30 years of experience, and two analysts. Each PM has a well-defined country and sector responsibility, and typically has primary responsibility for 10–15 stocks in the portfolio. This allows them to know their companies, industries and managements very well, generating strong investment insights and enabling constructive challenge within the team.

Genesis looks for firms that have an enduring competitive advantage, with a strong and aligned management team and opportunity to deploy capital to grow their businesses. All these factors are believed to enable these businesses to sustain excess returns on capital (ROC).

The team looks for stocks that are intrinsically undervalued based on its assessment of a five-year US dollar internal rate of return. Environmental, social and governance assessments are an important part of the investment process. Each company under the team's coverage is assigned a quality rating, which is one of the five factors for the team to decide on a position's size. The expected return, level of conviction, liquidity and correlation with other holdings are also considered as part of the portfolio construction process. The resulting portfolio primarily consists of companies with strong fundamentals and growth features.

Each PM recommends companies to include in the portfolio and is responsible for their own investment decisions. Genesis emphasises that diversity in the team's views is crucial, as a robust challenge process helps to reduce individual bias. The portfolio construction team (PCT) overseas of the integrity of the investment process, the shape and risk of the overall portfolio and can challenge PMs on the appropriateness of an investment, enhancing the quality of decision making. The PCT consists of three PMs and a risk officer, who is not a member of the investment team.

Current portfolio positioning

The portfolio of 101 holdings (at 31 October 2020) retains its quality bias. Portfolio companies have high ROC, mostly operate within private sectors, often have smaller-cap and / or frontier markets' exposure. The long-term overlaying themes, such as consumer and financial penetration are seen across the portfolio.

Exhibit 4 shows the GSS portfolio's sector exposure as at end-September 2020, which reflects the team's bottom-up stock selection, resulting in a more diversified portfolio relative to the index. The largest weight remains in the consumer staples sector at 22.3%, which represents the largest sector overweight of 16.2pp relative to the MSCI Emerging Markets Index. This reflects one of the manager's key investment themes of middle class income convergence towards that of DM, which it believes to represent a multi-decade investment opportunity.

Exhibit 4: Portfolio sector exposure vs benchmark (% unless stated)

	Portfolio end-September 2020	Portfolio end-September 2019	Change (pp)	Index weight	Active weight vs index (pp)	Portfolio weight/ index weight (x)
Consumer staples	22.3	22.6	(0.3)	6.1	16.2	3.7
Consumer discretionary	19.7	13.4	6.3	20.2	(0.5)	1.0
Financials	17.8	23.0	(5.2)	17.1	0.7	1.0
Information technology	14.0	12.0	2.0	18.5	(4.5)	0.8
Communication services	13.9	14.6	(0.7)	12.7	1.2	1.1
Healthcare	5.7	6.1	(0.4)	4.3	1.4	1.3
Industrials	2.7	1.1	1.6	4.4	(1.6)	0.6
Materials	1.9	3.7	(1.7)	6.9	(5.0)	0.3
Investment companies	0.7	0.8	(0.1)	0.0	0.7	N/A
Real estate	0.0	0.7	(0.7)	2.4	(2.4)	0.0
Energy	0.0	0.3	(0.3)	5.4	(5.4)	0.0
Utilities	0.0	0.0	0.0	2.0	(2.0)	0.0
Cash	1.2	1.6	(0.4)	-		
Total	**100.0**	**100.0**		**100.0**		

Source: Genesis Emerging Markets Fund, MSCI, Edison Investment Research. Note: Numbers subject to rounding.

Although both the consumer discretionary and information technology sectors remain underweight by 0.5pp and 4.5pp, respectively, relative to the index, their weights within the portfolio have increased materially over the last 12 months, growing by 6.3pp and 2.0pp: the two largest increases across the portfolio. These increases were primarily driven by the rapid market recovery over the spring and summer, with the two sectors outpacing the market.

The portfolio's sector split illustrates exposure to the 'digital wallets' theme, which is embedded, to a larger or smaller extent, within the four of the top five sectors by weight in the portfolio. These are, principally, communications services and to some extent, the consumer discretionary, financials and information technology sectors, which have the fifth (13.9%), second (19.7%), third (17.8%) and fourth (14.0%) largest weights, respectively. As digital wallets are more widely adopted across developing economies, the team expects growing portfolio exposure to this theme in the future.

Over the past 12 months the changes in the geographic weights of the portfolio (Exhibit 5) were mainly driven by market movements. The performing 'champions' of the second and third quarters of 2020, China and Taiwan, saw their weighting increase the most within the portfolio, by 8.3pp and 2.6pp, respectively.

Exhibit 5: Portfolio geographical exposure vs benchmark (% unless stated)

Country	Portfolio end-September 2020	Portfolio end-September 2019	Change (pp)	Index weight	Active weight vs index (pp)
China	32.4	24.1	8.3	41.9	(9.5)
India	9.8	10.8	(1.0)	8.2	1.6
South Korea	8.7	10.1	(1.4)	12.1	(3.4)
Russia	6.8	6.1	0.7	3.0	3.8
Taiwan	5.5	2.9	2.6	12.8	(7.3)
South Africa	5.3	4.7	0.6	3.5	1.8
Mexico	4.4	4.0	0.4	1.6	2.8
Thailand	3.1	3.8	(0.7)	1.8	1.3
Brazil	2.8	3.9	(1.1)	4.6	(1.8)
Indonesia	2.5	2.6	(0.1)	1.2	1.3
Other	17.5	25.4	(7.9)	9.3	8.2
Cash	1.2	1.6	(0.4)	0.0	

Source: Genesis Emerging Markets Fund, MSCI, Edison Investment Research as at end-September 2020. Note: Numbers subject to rounding.

Following Chinese consumer companies' strong performance, the managers took profits from Alibaba, Wuliangye Yibin and New Oriental Education. Stock selection has also been positive in the information technology sector, where the managers further trimmed profitable positions in Korean companies Samsung Electronics and Naver.

Proceeds have been used to add to a number of higher-quality positions from the consumer sector, including Bidcorp (South Africa), Richemont and Heineken. For the latter two, EM consumers are the source of the majority of sales, but these companies are listed in Europe and so are not represented in the MSCI EM Index. A few bank holdings were topped up, notably Credicorp (Peru) and OTP Bank (Hungary), while TSMC (Taiwan) and Kangwon Land (South Korea) were also added to. The team introduced new positions in Mexican toll road operator Pinfra and Russian fintech TCS Group.

Within the digital wallets theme the managers initiated a position in Opera, a browser and online advertising company, added to Safaricom and reintroduced Delivery Hero to the portfolio as concerns surrounding its Korean acquisition were addressed. Opera's digital content platform, Opera News, now has over 200 million users in Africa and South East Asia, a 28% increase year-on-year.

Performance: Solid long-term track record

GSS retains its solid long-term performance track record, as shown in Exhibits 7 and 8. Its NAV total return outperformed its benchmark over three and 10 years. During the last 12 months it has lagged, amid extremely volatile post COVID-19 equity markets, where performance was driven by a handful of large index constituents, principally in China, Taiwan and South Korea, where the fund is underweight. Genesis is benchmark-aware, but the portfolio is much more diversified than the index by both sector and geography. The firm remains focused on the long-term investment horizon and is not influenced by shorter-term fluctuations in performance.

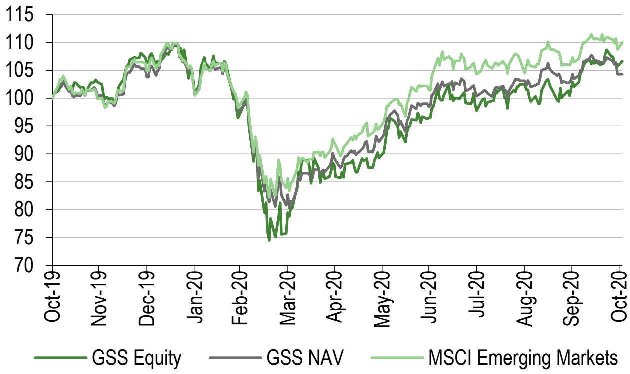
Exhibit 6: Five-year discrete performance data

12 months ending	Share price (%)	Total NAV return (%)	MSCI Emerging Markets (%)	MSCI World (%)	CBOE UK All Companies (%)
31/10/16	34.5	36.6	38.7	28.8	12.8
31/10/17	12.4	11.8	16.7	13.5	13.6
31/10/18	(9.3)	(9.1)	(8.7)	5.7	(1.6)
31/10/19	23.1	20.7	10.9	11.9	6.9
31/10/20	5.7	4.3	8.7	5.0	(20.2)

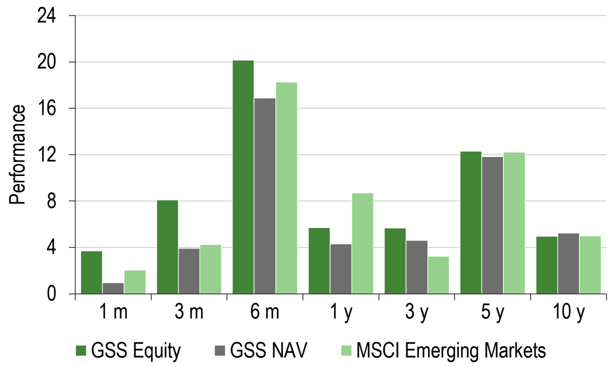
Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

Exhibit 7: Investment company performance to 31 October 2020

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



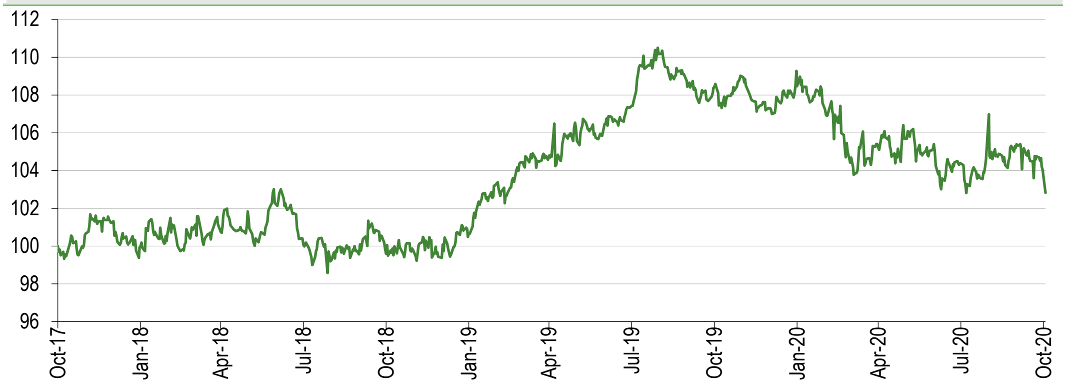
Source: Refinitiv, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

Exhibit 8: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI Emerging Markets	1.6	3.7	1.6	(2.8)	7.3	0.3	(0.2)
NAV relative to MSCI Emerging Markets	(1.1)	(0.3)	(1.2)	(4.0)	4.0	(1.8)	2.4
Price relative to MSCI World	7.0	6.6	9.1	0.7	(5.0)	(1.7)	(45.8)
NAV relative to MSCI World	4.1	2.4	6.2	(0.6)	(7.9)	(3.7)	(44.3)
Price relative to CBOE UK All Companies	8.1	12.7	23.9	32.5	40.6	65.9	6.5
NAV relative to CBOE UK All Companies	5.3	8.3	20.5	30.7	36.3	62.5	9.3

Source: Refinitiv, Edison Investment Research. Note: Data to end-October 2020. Geometric calculation.

Exhibit 9: NAV total return performance relative to benchmark over three years

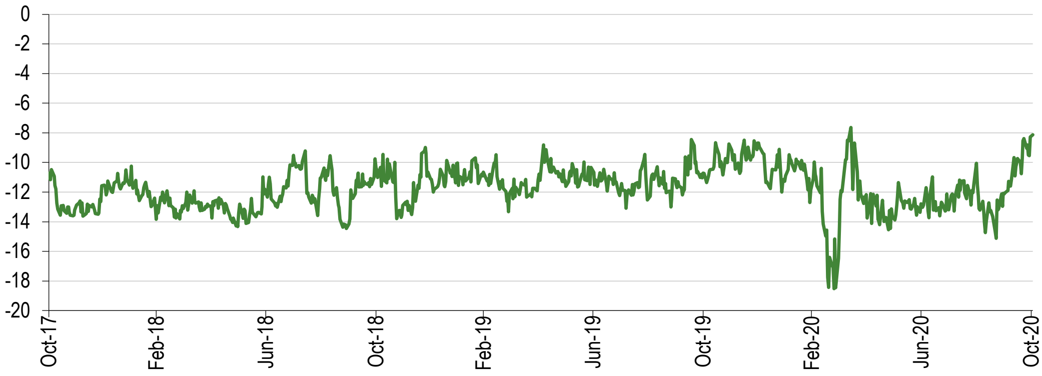


Source: Refinitiv, Edison Investment Research

Discount: Has been narrowing

GSS is trading at an 9.1% discount to cum-income NAV, which is narrower than the three-year average of 11.8%. As shown in Exhibit 10, this has narrowed considerably from the extreme discount levels seen earlier in the year in response to the COVID-19 pandemic. Over the past month the discount has accelerated its narrowing trend. The board is proactive in its discount management, and since 2017 has introduced a number of measures to broaden the appeal of the fund under more normal market conditions, including the introduction of a dividend, a reduction in fees, and more active promotion of GSS. A tender offer for 10% of the fund's shares was completed in August 2018, and a potential further tender offer of 25% of shares will take place in 2021 if the NAV performance over the five years to June 2021 is behind the index.

Exhibit 10: Share price discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Investment theme – digital wallets in EM

GSS's long-established, bottom-up investment process can lead to certain investment themes emerging in the portfolio. One of the currently noticeable themes the team highlights is 'digital wallets'. Karen Roydon, a GSS portfolio manager, provided us with the background of how the theme was spotted and developed within the team. She explained why the PMs believe it will provide an interesting set of investment opportunities over time, as they continue to play a significant role in shaping the emerging markets business and investment landscape, going forward.

Roydon stresses that there will be winners and losers, determined not only by a specific company's business model, but its geographic location as well as economic and regulatory environments. The managers believe that their skills as experienced EM active managers, and their deep knowledge of the digital payments theme, will help them to pick winners within the sector and, equally important, avoid losers.

In essence, a digital wallet is a replacement for cash, and allows market participants to trade with each other without holding and exchanging cash. The team notes that digital wallets are still at a nascent stage in EM, but are developing rapidly, providing them with multiple investment opportunities.

Despite being in its infancy in EM, the digital wallets segment already has its recognised players, be it M-Pesa in Kenya, Naver Pay in South Korea, Alipay in China or Paytm in India. These companies have a lot to offer in terms of growth potential, but there are also risks associated with the sector, and Roydon stresses that various countries will see digital wallets adopted to different degrees.

Exhibit 11 lists GSS's current portfolio exposure (16.5%) to the theme. GSS team highlights that eight portfolio companies are heavily involved in digital payments, but also other holdings are increasingly exposed, as the nature of commerce shifts. The team expects the share of these businesses to grow further.

Exhibit 11: GSS's portfolio exposure to digital wallets as at 30 September 2020

Country	Company	% holding
China	Alibaba (c 15% of the company) 5.9% holding; Tencent (c 33%) 4.2%	10.1
South Korea	Naver	1.3
Kenya	Safaricom	0.4
Pan-Africa	Naspers; Opera	2.4
Russia	Yandex	2.0
Germany*	Delivery Hero	0.3
		16.5

Source: GSS, Edison Investment Research. Note. * The fund can invest in companies listed in DM, whose business is predominantly in EM.

One of the key determinants for digital wallets' further development is regulatory risk. Roydon mentions that regulators in general are in favour of the sector, particularly where the government can provide payments infrastructure at a typically low cost and aid financial inclusion. However, the regulators also recognise that the money should be kept safe, and they do not want companies to lose depositors' cash. So governments in most markets control, where wallets can hold the float. They also often forbid the wallets from earning interest on balances held in the wallets. Whether there is money sitting in the wallet depends on the company. For example, Safaricom has probably the most control over the payments' chain of any large scale digital wallet in emerging markets. Its customers top-up the balance with cash, and the money sits in the wallet. Safaricom owns the whole of its digital wallet infrastructure from end-to-end, including holding the deposits, but it is not allowed to earn interest on the cash balances held in the wallet. Any interest earned is paid to a charitable foundation, unless a customer sets up a dedicated interest bearing account linked to the wallet.

Although there is broad regulatory support for the development of cashless payment systems in most emerging markets, the extent of the support for digital wallets may depend on the strength of the banking lobby in any given country. While Brazil, which has well-developed banking infrastructure, with c 38% of household spending paid for by card, moves towards more accommodative regulation of digital wallets, China, where the top two players, Alipay and WeChat Pay, are hugely dominant, has been tightening it. As a latest development on this, the expected £35bn IPO of Ant Group, the payments and financial services spin-off from Alibaba (which includes Alipay), has been recently halted by the government on the grounds of 'major issues'. On the positive side for digital wallet users in China, the government is opening up the payments side of the business to more competition through the introduction of interoperable QR codes and a state-owned switching platform. Genesis points out that while these policies may reduce the profitability of wallet payments for Alibaba and Tencent (which owns WeChat Pay), there is still a long runway for growth in the Chinese digital wallets space, particularly through operators expanding the number of financial services they offer or the average balance of the financial product.

In addition to traditional payments, digital wallet operators can offer interest-bearing deposits and loans, potentially replicating large parts of the traditional banking system. However, with safety being regulators' priority, digital wallet players are unlikely to squeeze out banks entirely.

The team believes that the extent to which digital wallets can disrupt the banks' traditional payments business depends critically on the infrastructure on which digital wallet payments are run. Where banks own this infrastructure – which tends to be the case in countries where credit and debit card penetration is already considerable – they are likely to see more payments continuing to come through their networks, reducing the competitive threat from digital wallets. The opposite is true where banks' infrastructure is little developed or unsuitable for digital payments. For example, many emerging countries, such as India or Indonesia, have relatively low card penetration. Banks do not have much to lose there, but they would miss out on a potentially big growth opportunity within digital payments.

Capital structure and fees

GSS is a Guernsey-based, authorised, closed-end investment scheme. There are two classes of share: founder shares and participating preference shares, the principal share class. The latter have priority over founder shares in a wind-up and they are classed as equity, with the right to receive any surplus assets available for distribution. There are 121.5m participating preference shares in issue. There are 1,000 founder shares in issue, which are not redeemable and confer no rights upon the holders, except the entitlement to one vote at general meetings.

Genesis Investment Management is paid an annual management fee of 0.90%, reduced from 0.95% with effect from 1 July 2019. This is paid from both the capital and revenue accounts, split 80:20 to reflect the board's expected long-term balance of capital and revenue returns. At end-June 2020, the ongoing charges ratio was 1.07%, slightly reduced from 1.11% for the year ended June 2019, reflecting the fee reduction. There is no performance fee.

Dividend policy and record

The fund's primary objective is to deliver long-term capital growth. However, the board recognises shareholders' desire for income, and in 2017 introduced an annual dividend. Dividends are declared in US dollars and paid in sterling using the exchange rate prevailing on the record date. In respect of FY20, GSS has paid participating preference shareholders a dividend of 17 cents per share (12.95p), down from 19 cents per share (14.8p) in FY19, as income fell during the year caused largely by the reduction or cancellation of dividends by a number of holdings affected by COVID-19.

Peer group comparison

Exhibit 12 shows the AIC Global Emerging Markets sector peer group for funds with market capitalisations over £100m. GSS is in the top three largest funds. This diverse peer group includes funds specialising in frontier markets, income and infrastructure; therefore, direct comparisons should be treated with caution. GSS has moved up the rankings a bit since our last update on the fund in April 2020 over the medium term. NAV total return performance ranks forth over one, second over three and third over five and 10 years. In April it ranked fourth over one, three and five years, and third over 10 years. GSS does not have an income focus and ranks fifth for dividend yield. The trust's ongoing charge ranks fourth, and it does not charge a performance fee.

GSS's discount has narrowed to 9.1% since our April update on the company, and moved up in ranking to fifth place, from the bottom spot in April 2020. The outbreak of COVID-19 caused a general widening of discounts across the peer group, and four peers still trade on double-digit discounts to NAV.

Exhibit 12: AIC Global Emerging Markets sector selected peer group*

% unless stated	Market cap (£m)	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Genesis Emerging Markets Fund	1,036.1	12.0	22.9	93.2	83.8	(9.1)	1.1	No	100	1.5
Aberdeen Emerging Markets	301.1	15.9	14.8	81.3	59.2	(12.2)	1.1	No	100	0.0
BlackRock Frontiers	271.4	(5.7)	(11.9)	32.9	N/A	(4.1)	1.4	Yes	105	4.6
Fundsmith Emerging Equities Trust	339.5	11.0	15.6	52.7	N/A	(8.3)	1.4	No	100	0.0
JPMorgan Emerging Markets	1,487.5	21.5	39.4	122.0	128.0	(4.5)	0.9	No	98	1.1
JPMorgan Global Emerging Mkts Income	404.2	9.2	19.2	87.4	98.4	(5.5)	1.2	No	106	3.8
Templeton Emerging Markets	2,196.8	17.8	22.2	136.4	76.3	(10.1)	1.0	No	100	2.0
Utilico Emerging Markets	430.9	(11.9)	(7.3)	34.5	65.8	(9.8)	1.1	Yes	107	3.9
Average (eight trusts)	**808.4**	**8.7**	**14.4**	**80.1**	**85.2**	**(8.0)**	**1.1**		**102**	**2.1**
GSS rank in peer group	**3**	**4**	**2**	**3**	**3**	**5**	**4**		**4**	**5**

Source: Morningstar, Edison Investment Research. Note: *Performance as at 27 November 2020. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

The board consists of six independent non-executive directors and is chaired by Hélène Ploix (appointed in November 2012 and assumed her current role in October 2015). Russell Edey is the senior independent director (appointed in January 2015). The other directors and dates of appointment are Sujit Banerji (October 2013), Katherine Tsang (July 2017), Simon Colson (July 2019) and Torsten Koster (July 2020).

On 19 June 2020 the company announced the appointment of Torsten Koster as an independent non-executive director of the fund with effect from 1 July 2020. His appointment was formally approved by shareholders at the annual general meeting (AGM) on 2 November 2020. Having served for nine years, Saffet Karpat retired from his position as a non-executive director of the fund after the 2020 AGM.

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia