

Genesis Emerging Markets Fund

Exciting long-term opportunities

Genesis Emerging Markets Fund (GSS) was launched in 1989 and is one of the first funds listed in the UK focused on this asset class. Its objective is to deliver capital growth over the long term through investing in high-quality companies listed in, or with substantial exposure to, emerging markets. Unconstrained by index considerations, the portfolio reflects the highest-conviction investment ideas from a team of emerging markets specialists. The fund has a solid long-term track record of outperforming the MSCI Emerging Markets Index and, over the past 10 years, has delivered an annualised NAV total return of 8%. Investor appetite for the asset class is currently subdued; however, the manager has a long-term investment horizon and is finding exciting opportunities.

Long-term track record of outperformance



Source: Refinitiv, Edison Investment Research

The market opportunity

Although global growth is slowing, emerging markets remain the engine of global growth and the International Monetary Fund (IMF) forecasts GDP growth to be more than double that of advanced economies over the five years to 2024. Secular trends, including rising disposable income, growing working-age population and urbanisation, underpin multi-decade growth prospects.

Why consider investing in GSS?

- Managed by a well-resourced and stable team of 10 experienced emerging markets equity portfolio managers, who have successfully navigated the fund through multiple investment cycles.
- Genesis is an owner-managed firm dedicated to this asset class, with c \$20bn under management. GSS is its only vehicle available to the retail investor.
- The board is committed to promoting the fund and narrowing the discount.

Scope for discount to narrow further

GSS trades on a 10.5% discount to its cum-income NAV, which is narrower than its three-year average of 12.2%. The board recently introduced several measures to broaden the appeal of the fund, including a further tender offer if the fund's NAV total return over five years to June 2021 does not exceed that of its benchmark. Combined with continued solid performance and the potential for improved sentiment towards emerging markets, there is scope for the discount to narrow.

Investment companies
Emerging markets equity

16 October 2019

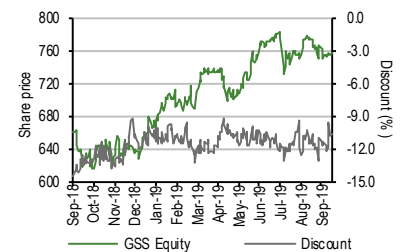
Price 757.0p
Market cap £919.5m
AUM £1,017.9m

NAV* 846.8p
Discount to NAV 10.5%

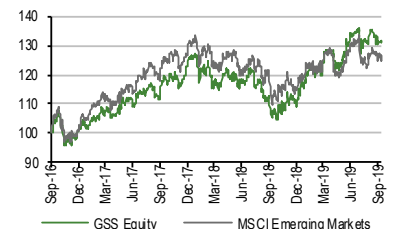
*Including income. At 14 October 2019.

Yield 1.9%
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 783.0p 615.0p
NAV** high/low 892.2p 705.8p

**Including income.

Gearing

Gross* 0.0%
Net cash* 1.6%

*As at 30 September 2019.

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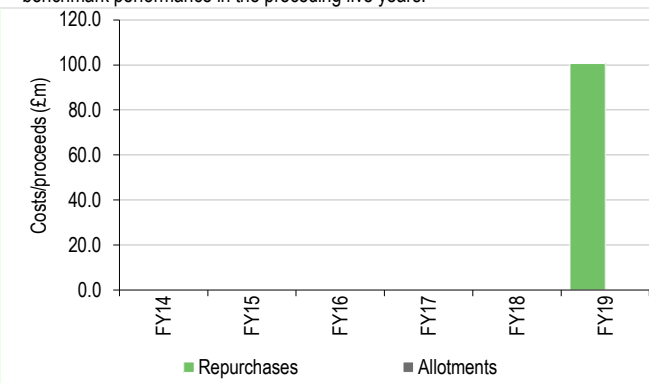
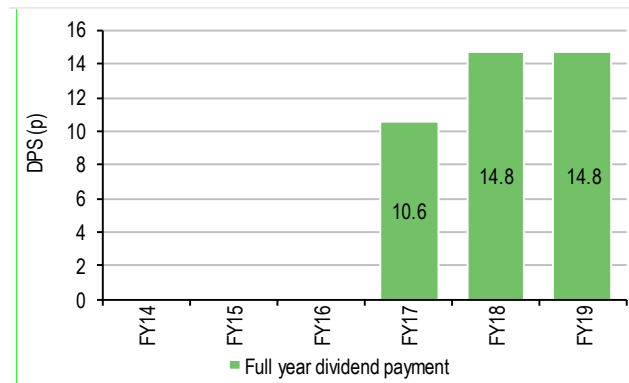
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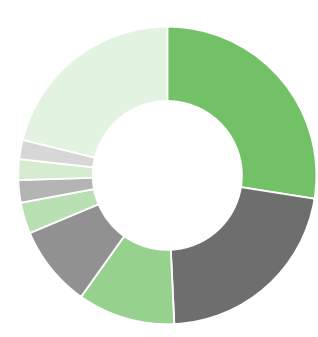
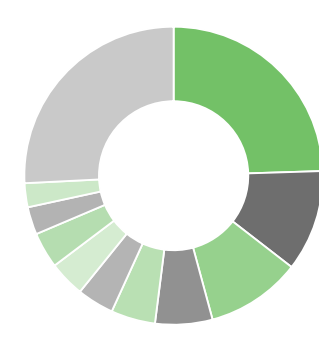
Genesis Emerging Markets Fund is a research client of Edison Investment Research Limited

Exhibit 1: Company at a glance

Investment objective and fund background				Recent developments	
Launched in July 1989, GSS was one of the first emerging markets 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. This may include companies that have a significant amount of their revenues in emerging markets but are listed on stock exchanges in developed countries. Performance is benchmarked against the MSCI Emerging Markets Index.				<ul style="list-style-type: none"> 30 September 2019: annual report to 30 June 2019. NAV TR +9.0% versus benchmark TR +5.4%. Share price TR +11.0%. 21 June 2019: announced the retirement of John Llewellyn as non-executive director with immediate effect and the appointment of Simon Colson with effect from 1 July 2019. 18 February 2019: interim report to 31 December 2018. NAV TR -7.7% versus benchmark TR -4.9%. Share price TR -6.6%. 	
Forthcoming		Capital structure		Fund details	
AGM	November 2019	Ongoing charges	1.06% (end-September 2019)	Group	Genesis Investment Management, LLP
Annual results	October 2020	Net cash	1.6%	Manager	Team managed
Year end	30 June	Annual mgmt fee	0.90% pa	Address	1st Flr, Les Echelons Court, Les Echelons, South Esplanade, St. Peter Port, Guernsey, GY1 6JB
Dividend paid	December	Performance fee	None	Phone	+44 (0)20 7201 7200
Launch date	July 1989	Company life	Indefinite	Website	https://www.genesisemf.com
Continuation vote	No	Loan facilities	£150m		

Dividend policy and history (financial years)		Share buyback 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.		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 (at 30 September 2019)		Portfolio exposure by geography, adjusted for cash (at 30 September 2019)	
 <ul style="list-style-type: none"> City of London (28.1%) Strathclyde Pension Trustees (22.2%) Lazard (10.8%) Wells Capital (9.1%) 1607 Capital Partners (3.5%) Banque Degroof (2.5%) Rathbone (2.3%) BAE Systems (2.1%) Other (21.6%) 		 <ul style="list-style-type: none"> China (24.5%) India (11.0%) South Korea (10.3%) Russia (6.2%) South Africa (4.8%) Mexico (4.0%) Brazil (3.9%) Thailand (3.9%) Taiwan (3.0%) Indonesia (2.6%) Other (25.8%) 	

Top 10 holdings (at 30 September 2019)				
Company	Country	Sector	Portfolio weight %	
			End-September 2019	End-September 2018
Alibaba	China	Consumer Discretionary	3.8	2.8
Sberbank	Russia	Financials	3.7	2.5
Samsung Electronics	South Korea	IT	3.4	3.2
Taiwan Semiconductor	Taiwan	IT	2.9	3.4
AIA Group	China	Financials	2.8	3.3
New Oriental Education	China	Consumer Discretionary	2.3	N/A
Naver	South Korea	Communications services	2.2	N/A
58.com	China	Communications services	2.0	2.5
Tencent	China	Communications services	2.0	N/A
Vinamilk	Vietnam	Consumer Staples	1.9	2.0
Top 10			27.1	28.2

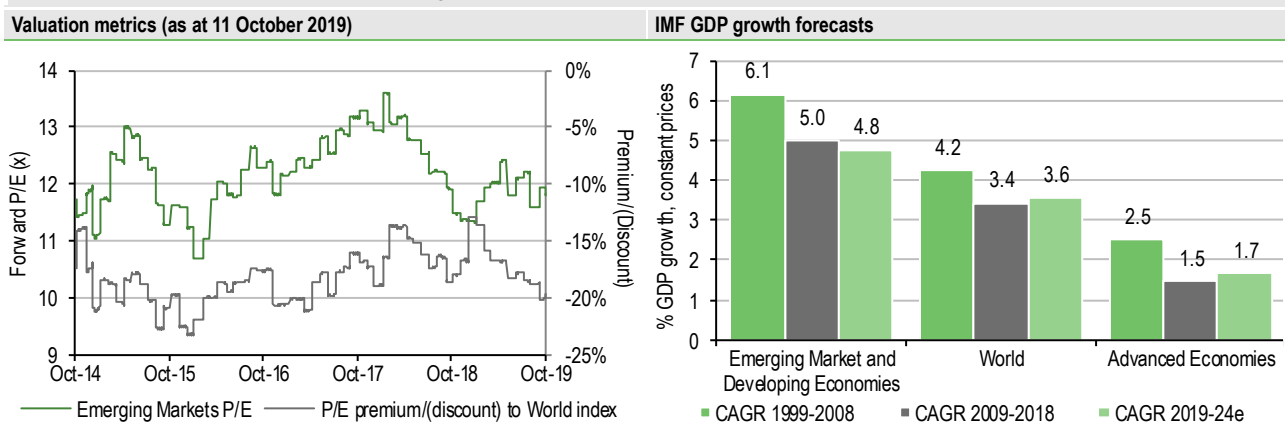
Source: Genesis Emerging Markets Fund, Edison Investment Research, Bloomberg, Morningstar. Note: N/A = not in top 10 in September 2018.

Market outlook: Attractive growth and valuation

The medium- and long-term outlook for emerging markets remains compelling, driven by secular trends, including a positive demographic profile, urbanisation and rising incomes. The IMF continues to expect emerging market and developing economies to deliver significant growth between 2019 and 2024, as shown in Exhibit 2 (RHS). The annualised GDP growth forecast of 4.8% is still more than double that of advanced economies. Furthermore, emerging markets equities appear attractively valued, trading at around a 20% discount relative to global equities (Exhibit 2 LHS).

The nearer-term outlook for emerging and global equities is more uncertain. Global growth is slowing and leading economic indicators across most major countries are trending downwards. Following a decade of unprecedentedly low interest rates and abundant liquidity, central banks started to unwind quantitative easing in late 2017 and 2018 and a cyclical slowdown was widely anticipated. However, geopolitical events and the ongoing US-China trade dispute, in particular, have amplified the magnitude of the slowdown and raised prospects of a global recession. Governments are responding to the deteriorating economic picture and some central banks, including the US Federal Reserve and the European Central Bank, have reversed their tightening stances and cut interest rates. In addition, as interest rates are already close to historic lows and many countries are fiscally constrained, the impact of policy measures may be limited. China, which accounts for around 32% of the MSCI Emerging Markets Index, has been one of the main engines of global growth over the past three decades. Now the second-largest economy in the world, its rate of growth is naturally moderating. However, the government's target annual GDP growth of 6.0% to 6.5% looks optimistic in the wake of US-imposed tariffs. Burdened by high levels of domestic debt, the Chinese government is challenged to manage slower growth, and stimulus measures are thus likely to be modest.

Exhibit 2: Valuation metrics over five years and economic forecasts



Source: Refinitiv, IMF, Edison Investment Research

Fund profile: Emerging markets specialist

Launched in July 1989, GSS is one of the first UK-listed funds focused on emerging markets equities. Its objective is to deliver long-term capital appreciation through following a disciplined, bottom-up approach to investing in high-quality companies at attractive prices listed in, or with substantial exposure to, emerging markets. These may include companies listed in countries that are not in the benchmark MSCI Emerging Markets Index. The manager is unconstrained by index considerations and the portfolio can invest in countries and companies outside of the MSCI Emerging Markets Index. As at end-September 2019, GSS held over 110 stocks, diversified across

33 countries, with holdings in frontier markets and small caps representing 6% and 12% of holdings respectively. Therefore, the fund is typically significantly differentiated from the benchmark and, at end-September 2019, its active share was 76%.

The manager, Genesis Investment Management, LLP (Genesis), is an emerging markets equities boutique, and all its resources are directed towards this asset class. The firm has c US\$20bn under management, most of which is accounted for by high-quality institutions with very long-term investment horizons that have been clients of Genesis for some time. GSS is the only Genesis fund available to the retail investor. The partners (nine of 10 portfolio managers, two of whom are also managing partners, and the managing director) own 41% of Genesis and Affiliated Managers Group owns 59%. This ownership structure has contributed towards a stable team of investment professionals, incentivised to deliver returns for shareholders over the long run.

The fund manager: Genesis team

The manager's view: Huge opportunity from rising incomes

One of the key reasons for the manager's optimism for emerging markets' long-term prospects is rising disposable income. As consumers start to shift spending from basic needs to buying discretionary items, they can participate in 'premiumisation'. Premiumisation is a powerful investment theme for Genesis, and the team believes companies that have strong brands and can capture aspirational demand often have higher margins and can generate predictable and sustainable cash flows. Emerging markets are fertile ground for these companies as the manager observes that they are home to 85% of the world's millennials (aged c 20–35), who are core to brand growth. China and India together are home to over 400 million millennials, more than the combined working populations of the US and Western Europe. Genesis argues that building brand equity is often a very lengthy process, but once established, can present an enduring competitive 'moat' for a company, underpinning sustained supernormal returns. Around 15% of the GSS portfolio is invested in such companies, including Chinese liquor company Wuliangye, global luxury brands conglomerate Richemont and Dutch brewer Heineken. These investments focus on domestic multi-year secular trends. However, the manager finds investing in quality companies at attractive prices one of its constant challenges, however the current weak sentiment towards emerging markets is offering some exciting long-term opportunities.

Asset allocation

Investment process: Disciplined, bottom up, patient

The GSS investment process is bottom up and benchmark agnostic. The investment team of 10 portfolio managers (PMs) are highly experienced, each with between six to 30 years' investment experience. The team is well resourced, able to support a process that involves around 1,000 company and stakeholder meetings per year (the PMs are on-the-ground in their markets one out of every four weeks), and in-depth fundamental analysis. Each PM typically has primary responsibility for around 10–15 stocks held in the portfolio, enabling them to know their stocks very well. Companies are assessed for and given a quality rating based on a number of factors. These include the quality of their competitive advantage and ability to sustain excess returns on capital. Environmental, social and governance criteria are included in the analysis of quality and are a core part of the analysts' ongoing engagement with managements. Valuation is also key and the team looks for businesses that are intrinsically undervalued based on its assessment of a five-year US dollar internal rate of return. Prior to the purchase of a new holding, its investment case and

valuation are shared among the team with constructive challenge seen as a part of the Genesis culture.

Portfolio construction is team based and Genesis's long-standing culture of collaboration with individual accountability is an important part of its success. Stock weights are influenced by three stock-specific factors (the level of conviction, expected returns and the quality of a company) and two portfolio-level factors (correlation of holdings and investibility). Less-liquid stocks can present an investment opportunity and the manager has a patient approach to accumulating positions in smaller stocks. The portfolio coordination team (PCT) provides oversight of the integrity of the investment process and reviews the shape and risk of the overall portfolio. This PCT team is composed of three PMs and an independent investment risk officer.

Current portfolio positioning

Exhibit 3 shows the GSS portfolio's exposure by sector at end-September 2019. The largest sector is consumer at 37.5% of the portfolio (discretionary and staples combined), representing a significant 16.6pp overweight relative to the MSCI Emerging Markets Index. This reflects the manager's belief that growing consumption is one of the most powerful investment themes for emerging markets, underpinned by income convergence with more developed markets, urbanisation and a growing working-age population. The manager has added to the consumer exposure recently through the purchase of **Gruma** (Mexico), the world's leading tortilla and corn flour producer. The company produces and sells its products globally and its brands include Mission Foods, Maseca and Guerrero. Around 60% of its sales are to the US, where it is the market leader, and it is the largest supplier to Taco Bell. Following in-depth research on the company, the manager believes Gruma has an entrenched market position and the ability to expand revenues and margins. The team's valuation analysis suggests the company is generating an 8% free cash flow yield and has been trading on a reasonable low teens P/E multiple.

Exhibit 3: Portfolio sector exposure vs benchmark (% unless stated)

	Portfolio end-September 2019	Portfolio end-September 2018*	Change (pp)	Index weight	Active weight vs index (pp)	Portfolio weight/index weight (x)
Consumer	36.0	36.7	(0.7)	20.0	16.1	1.8
Financials	23.0	28.6	(5.7)	24.7	(1.7)	0.9
Communication Services	14.6	8.2	6.5	11.6	3.1	1.3
Information Technology	12.0	10.6	1.4	15.1	(3.1)	0.8
Health Care	6.1	5.0	1.1	2.6	3.5	2.4
Materials	3.7	2.5	1.1	7.3	(3.7)	0.5
Industrials	1.1	1.2	(0.1)	5.4	(4.3)	0.2
Investment Companies	0.8	0.9	(0.1)	0.0	0.8	N/A
Real Estate	0.7	2.8	(2.1)	2.9	(2.2)	0.2
Energy	0.3	0.6	(0.3)	7.7	(7.3)	0.0
Utilities	0.0	0.0	0.0	2.8	(2.8)	0.0
Cash	1.6	2.8	(1.1)	0.0		
Total	100.0	100.0		100.0		

Source: Genesis Emerging Markets Fund, MSCI, Edison Investment Research. Note: Numbers subject to rounding. *Pro forma (adjusted for MSCI sector reclassifications of September 2018).

GSS has also recently purchased a position in **Tencent**, one of the leading internet companies in China. The company is the world's largest online gaming company by revenue and is China's leading social media platform provider. The manager believes Tencent has enormous potential to further monetise its businesses, noting the firm's dominance of internet traffic, with nearly 50% of mobile user time in China spent on its platforms. In addition to advertising revenue, in the manager's view, Tencent also has excellent prospects to generate returns from its other business segments, including mobile payments, and its portfolio of over 700 investments, some of which may realise value through listing. The purchase was funded from the reduction in **Naspers** (South Africa), Tencent's largest shareholder with a 31% stake. The manager says Tencent is the main driver of Naspers' share price; however, Tencent trades at a significant valuation premium, which

has resulted in its preference for holding Naspers. Ahead of the switch, Naspers' share price outperformed Tencent's by a significant margin, making it more attractive to own Tencent directly. More recently the portfolio has invested in **Prosus**, which was spun-off by Naspers in September 2019. Prosus consists of Naspers' internet interests outside of South Africa, including Tencent, mail.ru and Delivery Hero.

GSS also added to its position in Chinese online gaming company **NetEase**. Although the company's market position in China is a distant second to Tencent, the manager believes its assets are underappreciated by the market, which persistently ascribes low P/E multiples to internet gaming companies. The Genesis team has a more constructive view of NetEase and believes its games are valuable franchises, generating sustainable cash flows over the long term. For example, Fantasy Westward Journey was launched in 2001 and it remains the firm's most valuable game franchise today. Furthermore, the manager says the company's revenues are well diversified across multiple titles and that NetEase's model to 'incubate' game developers should help it retain its strong market position.

The US-China trade dispute is taking a toll on global trade and sentiment is very poor for trade-related stocks. Genesis has used this as an opportunity to purchase Dubai-listed **DP World**, the fourth largest container port operator in the world. The team believes the company has an attractive portfolio of 78 ports across 40 countries (80% of the ports are in emerging markets) and argues that concerns over global trade prospects have been overdone, citing the long-term trend of containerisation growth of 1.5x to 3x GDP growth. At the time of purchase, DP World's share price implied the company's worth at just above its book value, which the manager believed to present an attractive entry point for investment.

The most significant sector reduction over the year to end-September 2019 was in financials. Recent sales included **Garanti Bank** (Turkey), where the manager views the medium-term outlook to be challenging; **Shinhan Bank** (Korea) on signs of a negative credit cycle emerging in that country; and **BTG Pactual** (Brazil), where the share price had more than doubled since the beginning of the year, prompting profit taking.

Performance: Solid track record

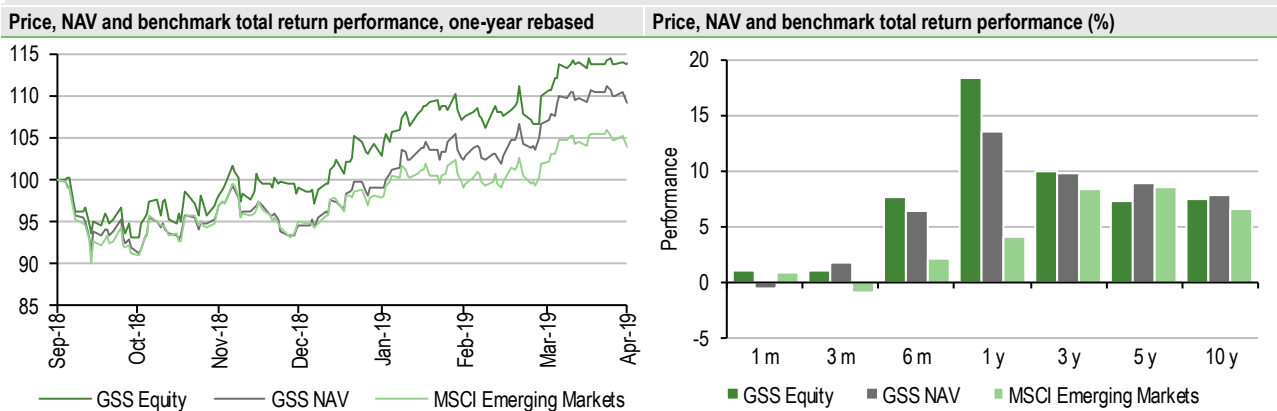
As shown in Exhibits 5 and 6, GSS's NAV total return has outperformed the MSCI Emerging Markets Index over one, three, five and 10 years. Over the past 10 years, the fund has delivered an annualised return of 7.8%. Performance over shorter periods has also been generally positive and the fund has outperformed over three and six months.

Exhibit 4: Five-year discrete performance data

12 months ending	Share price (%)	Total NAV return (%)	MSCI Emerging Markets (%)	MSCI World (%)	FTSE All-Share (%)
30/09/15	(21.8)	(14.6)	(13.3)	2.1	(2.3)
30/09/16	36.3	35.0	36.7	30.6	16.8
30/09/17	13.3	15.7	19.0	15.0	11.9
30/09/18	(0.8)	0.7	2.4	15.1	5.9
30/09/19	18.3	13.5	4.1	8.4	2.7

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

Exhibit 5: Investment company performance to 30 September 2019



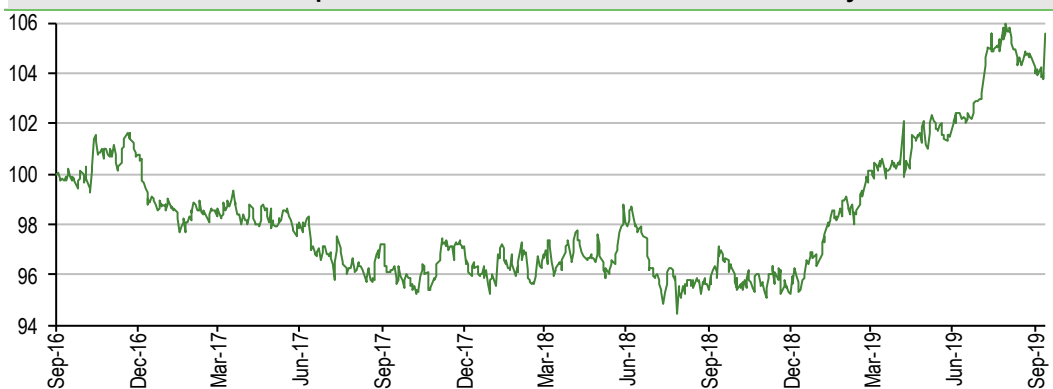
Source: Refinitiv, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

Exhibit 6: 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	0.3	1.9	5.3	13.6	4.8	(5.7)	9.9
NAV relative to MSCI Emerging Markets	(1.3)	2.8	4.2	9.0	4.3	1.4	12.9
Price relative to MSCI World	0.1	(2.9)	(3.0)	9.1	(7.3)	(26.0)	(36.8)
NAV relative to MSCI World	(1.5)	(2.1)	(4.1)	4.7	(7.8)	(20.4)	(35.0)
Price relative to FTSE All-Share	(1.8)	(0.3)	2.9	15.2	9.3	2.1	(7.0)
NAV relative to FTSE All-Share	(3.4)	0.5	1.7	10.5	8.7	9.8	(4.4)

Source: Refinitiv, Edison Investment Research. Note: Data to end-30 September 2019. Geometric calculation.

Exhibit 7: NAV total return performance relative to benchmark over three years

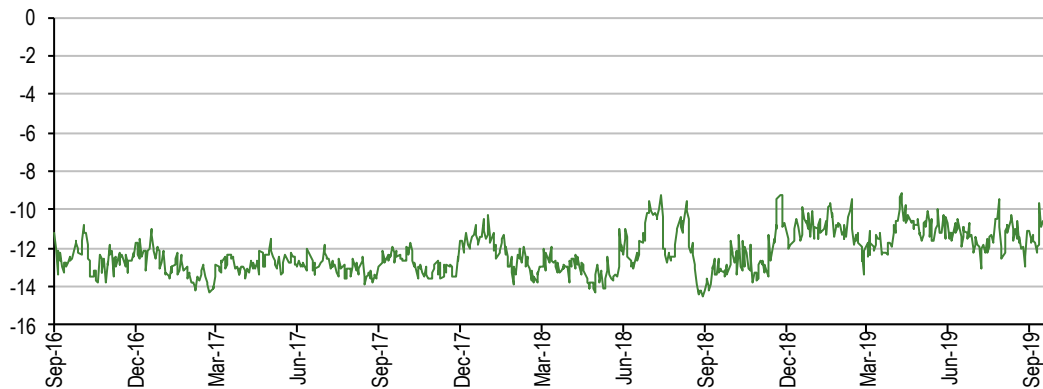


Source: Refinitiv, Edison Investment Research

Discount: Proactive board may help discount narrow

GSS trades at an 10.5% discount to cum-income NAV, which is lower than its three-year average of 12.2%. The board monitors the discount and actively considers measures, which may help it to narrow, including the tender offer conducted in August 2018 and increased marketing activity to promote the fund to a broader potential investor base. The board has also announced its intention to offer a further tender offer for up to 25% of the fund's shares in June 2021 if GSS's NAV total return over five years to that date does not exceed its benchmark NAV total return, which may help the discount to narrow.

Exhibit 8: Share price discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

GSS is a Guernsey-based authorised closed-ended investment scheme, listed on the London Stock Exchange and a member of the FTSE 250 Index. There are two share classes. Participating preference shares represent the principal share class; there are currently 121.5m shares in issue. There are also 1,000 founder shares in issue, which are not redeemable and confer no rights on the holders, except the entitlement to one vote at general meetings. Participating preference shares 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. In July 2018, the board conducted a tender offer for up to 10% of the participating preference shares. This was fully taken up, resulting in the repurchase and cancellation of 13.5m shares at 746.03p per share. Gearing is permitted up to 10% of NAV; however, this capability has not been employed and, at end-September 2019, GSS had net cash of 1.6%.

Genesis Investment Management is paid an annual management fee of 0.90% of NAV, reduced from 0.95% with effect from 1 July 2019. In July 2017, the board changed the allocation of the management fee (and certain other costs) from 100% to the revenue account to an 80:20 split between the capital and revenue accounts. This proportion reflects the board's expected long-term balance of capital and revenue returns. The fund's ongoing charges ratio for FY19 was 1.11%, marginally higher than 1.10% for FY18. 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 revised GSS's policy, with the intention to pay an annual dividend. Dividends are declared in US dollars and paid in sterling using the exchange rate prevailing on the payment date. For FY19 the board has declared a dividend of 19 cents per share, unchanged from FY18 (which was paid as 14.8p).

Peer group comparison

Exhibit 9 shows a subset of the funds in the AIC Global Emerging Markets sector, with market capitalisations over £100m. The sector contains a diverse range of funds, including those specialising in frontier markets, income and infrastructure, therefore, direct comparisons may not be relevant. GSS is the third-largest fund in the group. Its NAV total returns rank third over one and 10

years, and fifth over three and five years. Its ongoing charges ranks fourth and dividend yield ranks fifth. The fund's discount to cum-fair NAV is one of the widest among peers, ranking sixth.

Exhibit 9: AIC Global Emerging Markets sector selected peer group as at 11 October 2019*

% 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	1,021.7	21.9	18.0	46.9	91.6	(11.8)	1.1	No	100	1.9
Aberdeen Emerging Markets	262.5	16.7	14.8	47.4	66.9	(14.4)	1.0	No	100	0.3
BlackRock Frontiers	311.7	9.3	8.1	30.1		(2.4)	1.4	Yes	80	4.5
Fundsmith Emerging Equities Trust	313.0	20.7	10.9	30.5		(9.4)	1.5	No	100	0.0
JPMorgan Emerging Markets	1,198.9	27.6	31.0	80.0	130.6	(8.4)	1.0	No	101	1.4
JPMorgan Global Emerging Markets Inc	386.4	17.7	20.1	45.3		(4.4)	1.3	No	110	3.8
Templeton Emerging Markets	1,914.7	19.1	26.6	47.6	84.7	(10.2)	1.0	No	101	2.0
Utilico Emerging Markets	539.4	22.3	22.0	52.7	163.5	(11.9)	1.1	Yes	114	3.0
Average (8 trusts)	743.5	19.4	18.9	47.5	107.5	(9.1)	1.2		101	2.1
GSS rank in peer group	3	3	5	5	3	6	4		5	5

Source: Morningstar, Edison Investment Research. Note: *Performance as at 11 October 2019. 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, who was appointed in November 2012 and assumed her current role in October 2015. Russell Edey serves as the senior independent director and was appointed in January 2015. John Llewellyn recently retired from the board in June 2019 following nearly 10 years of service. With effect from 1 July 2019, Simon Colson was appointed as independent non-executive director. Colson has over 30 years' experience in financial markets. His previous roles included being managing director at Deutsche Bank London, in charge of closed-ended fund origination and distribution, and non-executive director of The Association of Investment Companies. The other members of the board and their dates of appointment are Saffet Karpat (October 2011), Sujit Banerji (October 2013) and Katherine Tsang (July 2017).

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