

Genesis Emerging Markets Fund

Initiation of coverage

Emerging markets specialist, unloved asset class

Investment companies

Genesis Emerging Markets Fund (GSS) was launched in July 1989, making it one of the first emerging markets funds to be listed in the UK. It seeks to generate long-term capital growth, primarily through investing in emerging and frontier markets equities. With few constraints relative to the benchmark MSCI Emerging Markets index, the investment approach is bottom-up and focused on high-quality companies that trade on reasonable valuations. The manager believes income convergence with developed economies, and a rapidly growing middle-class, creates compelling long-term opportunities for the asset class. In the nearer term, the manager is finding attractive entry points for investments following a c 20% correction of the benchmark index since January 2018. The board has recently increased its efforts to promote GSS, including a resumption of distributions, while a tender offer was successfully completed in August 2018. The fund's 13.5% discount to cum-income NAV is at the lower end of the peer group range, suggesting there is scope to narrow over time.

30 October 2018

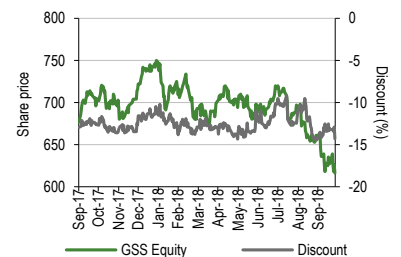
Price 615.0p
Market cap £747.0m
AUM £840.3m

NAV* 710.7p
Discount to NAV 13.5%

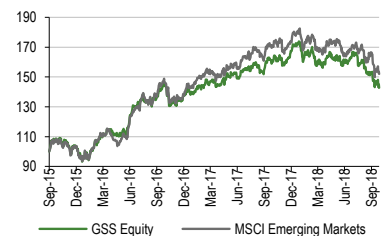
*Including income. As at 29 October 2018.

Yield 2.4%
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 750.0p 616.0p
NAV** high/low 844.2p 706.5p

**Including income.

Gearing

Net cash* 2.8%

*As at 30 September 2018.

Analysts

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

| 12 months ending | Share price (%) | NAV (%) | MSCI Emerging Markets (%) | MSCI World (%) | FTSE All-Share (%) |
|------------------|-----------------|---------|---------------------------|----------------|--------------------|
| 30/09/14 | 1.0 | 5.0 | 4.5 | 12.7 | 6.1 |
| 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 |

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

Investment strategy: Quality and long-term approach

GSS is managed by a well-resourced and experienced team of 10 emerging markets specialists, undertaking detailed proprietary research to find quality companies that can sustain excess returns on capital over a long-term horizon. The stock selection is benchmark agnostic and the portfolio of around 130 high conviction investments is well diversified across countries and sectors.

Market outlook: Correction could present opportunity

Following a two-year rally starting in January 2016, the MSCI emerging markets index peaked in January 2018. Most major stock markets have retreated or consolidated since, however, emerging markets have been among the weakest, falling nearly 20% from the peak, reflecting fears over the fragility of some countries (such as Turkey and Argentina), and an escalating trade dispute between China and the US. The correction and increased volatility, however, is presenting opportunities and may favour fundamentally focused investors.

Valuation: Scope for discount to narrow

GSS currently trades at a 13.5% discount to cum-income NAV, which is wider than its three-year average of 12.4%. The sell-off of emerging markets equities this year has afflicted the whole peer group, suggesting the asset class is unloved. A recovery in sentiment for the asset class and the success of the board's measures to promote GSS could support a narrowing of the discount over time.

Exhibit 1: Company at a glance

Investment objective and fund background

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 which are listed on stock exchanges in developed countries. Performance is benchmarked against the MSCI Emerging Markets Index.

Recent developments

- 1 October 2018: Annual report to 30 June 2018: NAV TR +6.8% versus benchmark TR +6.8%. Share price TR +8.4%.
- 17 August 2018: Announcement of fully allotted tender offer price of 746.03p per share.
- 19 July 2018: Announcement of tender offer for up to 10% of share capital.
- 14 February 2018: Interim report to 31 December 2017. NAV TR +10.4% versus benchmark TR +11.5%. Share price TR +12.3%.

Forthcoming

| | |
|-----------------|---------------|
| AGM | November 2018 |
| Interim results | February 2019 |
| Year end | 30 June |
| Dividend paid | December |

Capital structure

| | |
|-----------------|----------|
| Ongoing charges | 1.10% |
| Net cash | 2.8% |
| Annual mgmt fee | 0.95% pa |
| Performance fee | None |

Fund details

| | |
|---------|---|
| Group | Genesis Asset Managers |
| Manager | Team managed |
| Address | 1st Flr, Les Echelons Court, Les Echelons, South Esplanade, St. Peter Port, Guernsey, GY1 6JB |
| Phone | +44 (0)20 7201 7200 |
| Website | https://www.genesisemf.com |

Launch date July 1989

Company life Indefinite

Phone

+44 (0)20 7201 7200

Continuation vote No

Loan facilities £150m

Website

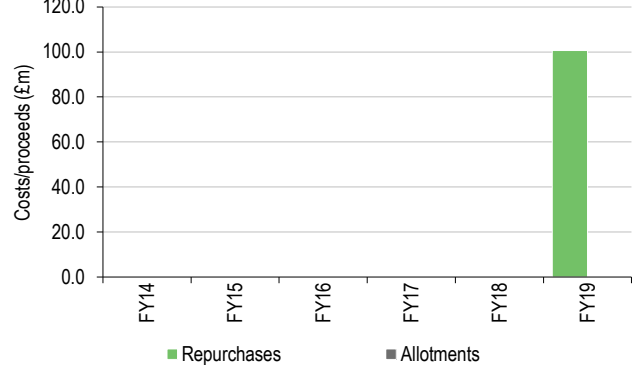
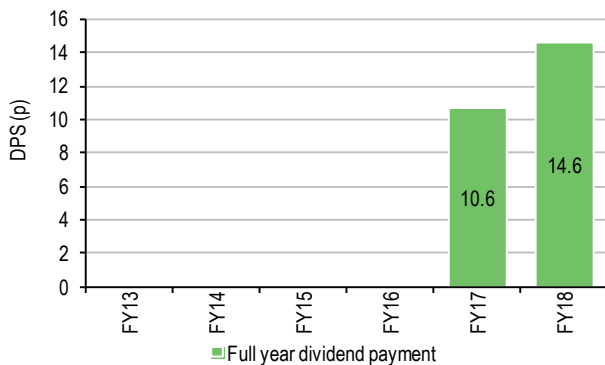
<https://www.genesisemf.com>

Dividend policy and history (financial years)

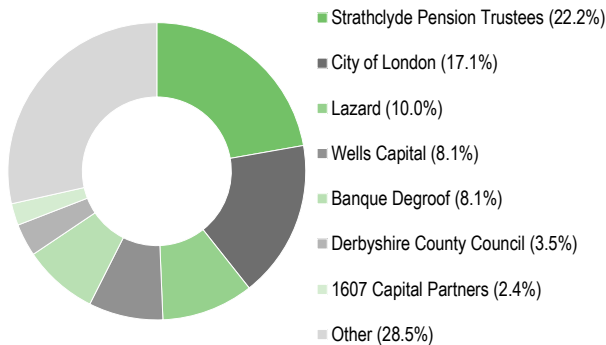
GSS's principle objective is to achieve capital growth, and the board will review the appropriateness of dividend payments on an annual basis.

Share buyback policy and history (financial years)

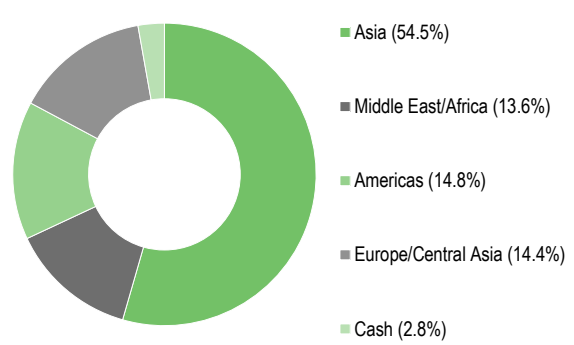
New shares issuance is permitted, up to 10% of issued share capital in any 12-month period. In 2018, the company conducted its first tender offer for 10% of issued capital.



Shareholder base (as at 3 October 2018)



Portfolio exposure by geography (as at 30 September 2018)



Top 10 holdings (as at 30 September 2018)

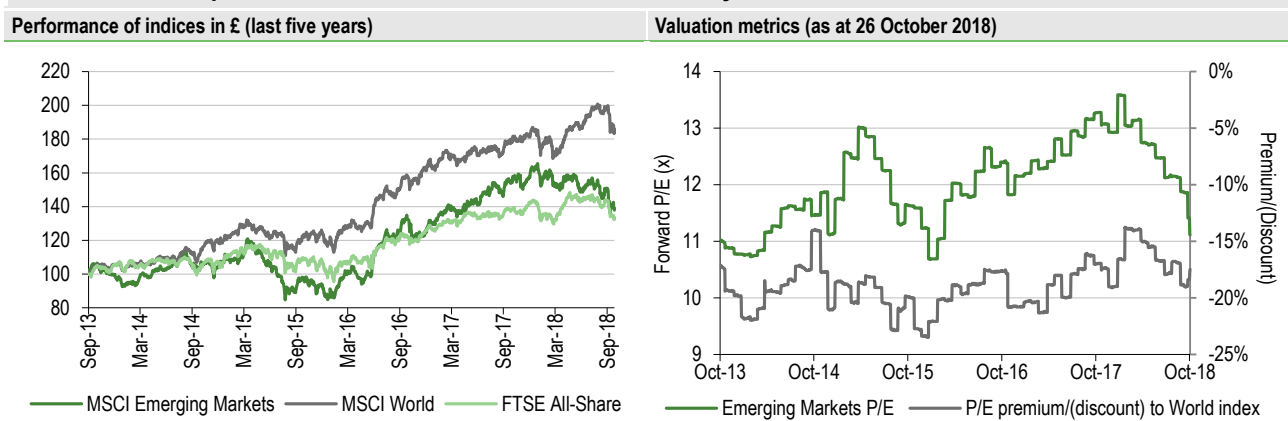
| Company | Country | Sector | Portfolio weight % | |
|----------------------|--------------|------------|--------------------|--------------------|
| | | | 30 September 2018 | 30 September 2017* |
| Naspers | South Africa | IT | 4.6 | 2.8 |
| Taiwan Semiconductor | Taiwan | IT | 3.4 | 3.6 |
| Alia Group | China | Financials | 3.3 | 2.4 |
| Samsung Electronics | South Korea | IT | 3.2 | 4.4 |
| Alibaba | China | IT | 2.8 | 2.5 |
| 58.com | China | IT | 2.5 | N/A |
| Sberbank | Russia | Financials | 2.5 | 2.0 |
| Vinamilk | Vietnam | Consumer | 2.0 | N/A |
| Wuliangye Yibin | China | Consumer | 2.0 | N/A |
| Bank Central Asia | Indonesia | Financials | 1.9 | 1.3 |
| Top 10 | | | 28.2 | 26.0 |

Source: Genesis Emerging Markets Fund, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in September 2017 top 10.

Market outlook: Sharp correction reflects challenges

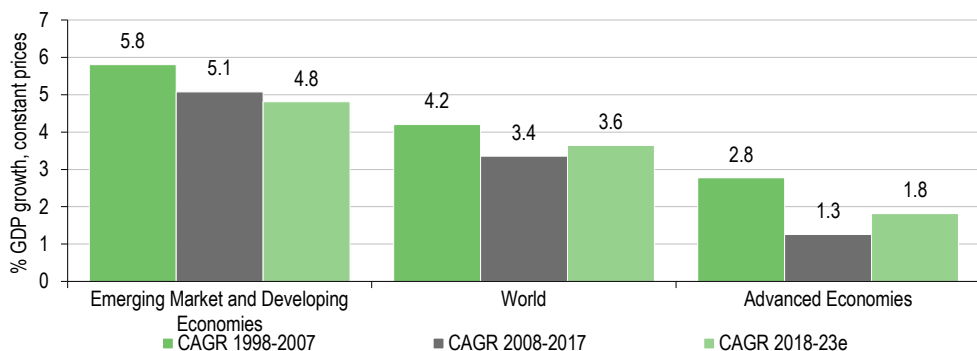
The MSCI emerging markets index enjoyed a strong rally from January 2016 to its peak in late-January 2018, driven by unprecedentedly easy monetary conditions and synchronous global growth. Since then, most major stock markets have retreated from their highs or consolidated, including emerging markets as a whole, and UK equities, as shown in Exhibit 2 (LHS). The MSCI World index, however, has continued to appreciate, overwhelmingly led by US equities, the only major market to continue to achieve new highs, fuelled by better-than-expected earnings growth, a strong currency, and fiscal stimulus from President Trump's tax reforms. Conversely, emerging markets have been among the weakest equity markets over the past few months. The economic fragilities of some constituent countries, such as Turkey and Argentina, and an escalating trade dispute between the US and China have raised the risk profile of the asset class as a whole. As indicated by a marked increase in the volatility index (the VIX) since late-January 2018, investors globally have also become more sensitive to risk. Since its January peak, the MSCI emerging markets index has fallen around 20%, and as shown in Exhibit 2 (RHS), it now trades at a 19% P/E discount to the MSCI world index. This has widened from around 14% at the beginning of February 2018, suggesting that at a reasonable amount of bad news has been reflected in the price emerging markets equities.

Exhibit 2: Market performance and valuation metrics over five years



Source: Thomson Datastream, Edison Investment Research, MSCI

Exhibit 3: GDP growth



Source: IMF World Economic Outlook (October 2018), Edison Investment Research

Long-term prospects for economic growth in emerging markets remain above the world average, and significantly stronger than in advanced economies. A contributing factor is that many emerging market countries have a favourable demographic profile, with young and growing populations, supporting multi-year urbanisation and rising income trends. Exhibit 3 shows the International

Monetary Fund's growth forecasts for the three regions, as presented in its World Economic Outlook (April 2018). Emerging and developing economies are expected to grow at an annual compound rate of 4.8% pa between 2018 and 2023, significantly higher than the 3.6% pa forecast for the world, and more than double the 1.8% pa forecast for advanced economies.

Fund profile: Established emerging markets specialist

Launched in July 1989, GSS is one of the first UK-listed funds investing in emerging markets equities. It is managed by Genesis Asset Managers (Genesis), also established in 1989, a firm solely focused on a single emerging markets strategy. Genesis is majority owned (59%) by Affiliated Managers Group Inc. (AMG), with the remainder owned by its partners. The partnership group essentially consists of the investment team members, meaning the business focus of the firm is entirely directed to managing a portfolio of emerging markets equities. Genesis has around US\$24bn assets under management and to protect the team's ability to generate performance, the strategy has been closed for new investments since late 2014. GSS (as a closed-ended vehicle) is the only way for new investors to access the strategy.

The fund's objective is to achieve long-term capital growth, primarily through investing in the equity markets of developing countries, although it also invests in companies listed in developed markets that have high exposure to emerging markets through revenues, earnings or assets.

The investment approach is fundamental, with few constraints in terms of benchmark or market capitalisation considerations. The manager seeks high-quality companies that trade at attractive valuations in which to invest, with a long-term horizon. The investment team is well-resourced, and comprises of ten experienced portfolio managers based in London (as shown in Exhibit 4). They each perform dual roles of portfolio manager and analyst, and have defined country and industry responsibilities. The team is non-hierarchical and has a long-standing culture of constructive challenge, sharing of insights, and it takes collective responsibility for the performance of the portfolio. The manager is benchmark agnostic in constructing the portfolio, and investments reflect the team's highest-conviction investment ideas. As a result, the performance of the fund may diverge significantly from the index. The team is further supported by one research analyst, a corporate governance specialist, three dealers and three portfolio analysts.

GSS benchmarks its performance against the MSCI Emerging Markets index. Gearing of up to 10% of NAV is permitted, but in practice has rarely been used. As at end-August 2018, the fund had a net cash position equating to 2.8% of net assets.

Exhibit 4 : Investment team and research responsibilities

| Portfolio manager/analyst | Countries/regions | Industries | Years with Genesis | Years investment experience |
|---------------------------|--------------------------------------|---|--------------------|-----------------------------|
| Arindam Bhattacharjee | India, Brazil, Taiwan, Middle East | Pharmaceuticals, IT hardware | 9 | 27 |
| Andrew Elder | Brazil, South Africa, Turkey | Beverages | 16 | 25 |
| Rufus Frazier | China, Taiwan, Russia, CEE | Banks, insurance, utilities | 4 | 13 |
| Xing Hu | China | Gaming, IT hardware | N/A | 7 |
| Richard Mather | Africa, South Korea, CEE | Autos, food & beverage | 5 | 5 |
| Sebastian Peters | India, Indonesia, Mexico, Russia | IT software & services, media | 2 | 8 |
| Karen Roydon | China, South Korea, Malaysia | Retailing, internet, real estate | 12 | 16 |
| Mario Solari | Latin America, Philippines, Thailand | Commodities, healthcare, telecoms | 4 | 14 |
| Catherine Vlasto | Southeast Asia, North Africa | Banks | 23 | 30 |
| Yiyong Yang | China, Turkey | Cement, steel, telecoms, transportation | 13 | 15 |

Source: Genesis Emerging Markets Fund

The fund manager: Team of ten specialists

The manager's view: Compelling long-term opportunity

The manager believes the environment for emerging market equities has become more challenging. Several years of accelerating global GDP growth, and particularly strong earnings momentum in 2017, may be difficult to sustain. Headwinds include rising interest rates and tightening monetary conditions globally, as well as escalating trade tensions between the US and China. The team, however, focuses less on cyclical factors, and retains a rigorous approach to investing in quality companies at attractive prices, that should do well over the long-term. The recent increased volatility of emerging market equities has resulted in many cases of sharp share price corrections. This is providing the team with interesting investment opportunities, often in companies they have identified as attractive, but that were previously rejected on valuation grounds.

The manager continues to find the long-term case for investing in emerging markets to be compelling. The rise in income and growth of its middle-class is viewed as a multi-generation secular trend. Although some emerging countries are classified by the World Bank as upper middle-income, including South Korea and Taiwan, GSS is more focused on earlier stage countries, particularly those with large and growing populations. Indonesia, the Philippines, Nigeria, Egypt, Vietnam, Bangladesh and Pakistan all have populations around 100m or above, and per capita GDP in most of these countries is well below US\$3,000 (compared to nearly US\$40,000 and US\$50,000 in the UK and US respectively). Incomes are rising as these economies develop, and over time, should converge with that of developed countries, creating exciting long-term investment opportunities.

The manager observes that emerging market equities, and earlier stage markets especially, are less-price efficient than developed markets, meaning valuations can overshoot on the downside when perception is negative, and on the upside when consensus is positive. This allows stock-pickers to add considerable value relative to funds that follow the index more closely. The manager believes it is in an advantageous position to understand the newer areas of growth due to its long-standing investment in on-the-ground research, and the depth and breadth of the team's experience in these markets.

The team also believes that a gradual improvement in corporate governance can lift emerging markets' valuations, which have been persistently lower than developed markets, currently at 19% discount to world equities on a forward P/E multiple terms. In their view, foreign participation, over time, has been a good influence for corporate governance standards and shareholders' interests. Although they see a likelihood of setbacks from time-to-time, the overall trend is considered positive, with emerging markets continuing to open up. For example, over the past few years, foreign access to China's A-shares has become much less restrictive, and foreign investor limits have been raised in Vietnam.

Asset allocation

Investment process: Bottom-up, focused on quality

The investment process emphasises proprietary bottom-up research. GSS is well-resourced, and the managers have the capacity for this in-depth approach. The portfolio has around 130 holdings, and each manager has responsibility for around 10-15 stocks. Each stock has a portfolio manager, and a designated back-up manager. In addition to company visits, the team may also engage with suppliers, competitors and customers, as well as industry experts, to build a more insightful picture of a company's strengths and weaknesses. The analysis involves a detailed and common valuation

model, where the yardstick is the five-year annualised expected return, expressed in US dollars, to allow the team to compare all stocks under coverage. Prior to the purchase of a stock, a mandatory written investment case is circulated among portfolio managers, to encourage challenge and knowledge sharing.

Companies are assessed for quality and given a rating to indicate a business' ability to generate sustainable excess returns on capital, and the resilience of its intrinsic value in US dollar terms. Environmental, social and governance (ESG) considerations are integrated into this assessment, which ranks a company's quality on a scale from A to C. The highest rank is A, and these companies tend to have very high and sustainable barriers to entry (for example Dutch brewer Heineken, and Hong Kong-listed insurance company AIA). C-ranked companies in the portfolio may include good businesses that are operating in a less stable environment (for example Garanti Bank, which operates in Turkey where geopolitical risk is high), or stocks that present compelling valuation after an unjustifiable correction. The rankings influence a stock's weighting in the portfolio, with high-quality companies (As and Bs) typically having larger position sizes. Other factors are also considered, including the liquidity of a stock, and also the portfolio manager's familiarity with the company (thus newly listed companies are likely to be a smaller holding). The portfolio is most heavily represented by A and B companies, and typically, will hold less than 25% in C companies. Because the manager looks to invest in companies that can return good capital growth, but also focuses on entry-points that offer a discount to a stock's intrinsic value, GSS tends to have both growth and value characteristics.

The average holding period of investments has consistently been around five years. Many stocks have been held for longer and the manager is comfortable buying relatively illiquid stocks, building positions gradually. Smaller capitalisation stocks with strong investment cases can offer particularly attractive long-term returns, and liquidity tends to improve as the merits of these undiscovered stocks become better appreciated.

Risk is managed a number of ways. The investment process ensures the portfolio is diversified and, as at end-August 2018, was invested across 35 countries and 10 sectors. The maximum permitted exposure to any single country or sector is 25%. Risk is also mitigated through the portfolio's focus on quality companies at reasonable valuations, and the team's in-depth knowledge of the holdings. A portfolio coordination team (PCT), consisting of three team members, ensure the integrity of the investment process and monitor the portfolio with regard to its exposure and risk profiles.

Current portfolio positioning

As shown in Exhibit 5, GSS's largest exposures are to the consumer (35.1%) and financials (28.6%) sectors, which are long-held, structural overweight positions. This reflects the manager's view that one of the compelling drivers of emerging markets equities is rising income, and growth of a large middle-class. The portfolio is 19.5pp overweight to the consumer sector, and has a significant exposure to 'baijiu' liquor companies in China, including Jiangsu Yanghe Brewery (JYB). JYB is the country's largest baijiu producer and an industry consolidator. Its products span a broad range of retail prices, with premium brands commanding prices of around US\$200 per bottle. Barriers to entry are high as many of the sought after qualities are unique, including the location where the grains are produced, the recipe, and the characteristics of the underground 'pit' in which the spirit is aged. JYB's range of products include premium leading brands, standing to benefit as rising incomes allow middle-class consumers to upgrade to more prestigious labels. Modest capital expenditure needs, net cash and the ability to expand already generous margins support a free cash flow yield of over 5%, which the manager believes can continue to increase. GSS also recently purchased Colgate-Palmolive. Although US-listed, emerging markets countries account for over half of its revenue, and most of its expected growth. The company has strong market positions with around 70% share in Latin America, 50% in India and 30% in China. Following a period of

underperformance, the stock's valuation came back a level the manager considered attractive, with a free cash flow yield of over 5%.

Financials is the second largest exposure in the portfolio, and is 5.4pp overweight relative to the benchmark. However, while the benchmark's sector constituents are dominated by large cap banks (with several mega-caps in China), GSS's holdings are focused on smaller banks in early-stage economies. In these markets, banks' businesses are predominantly local, and relatively insulated from global competition, benefiting from low cost 'sticky' deposits, healthy margins and balance sheets. Leading banks in these markets often have high barriers to entry (including customer loyalty and limited access to capital for challengers) and are well-placed to benefit from improving financial penetration. Credit growth can outstrip GDP growth for many years. The portfolio's holdings include Bank Central Asia (Indonesia), Kotak Mahindra Bank (India) and recently purchased HDFC, one of India's largest mortgage finance companies. GSS also holds Sberbank in Russia and Garanti Bank in Turkey. These latter two banks are considered to have good quality franchises, however the stocks have been heavily sold-off recently, partly reflecting escalating geopolitical tensions with the US, and investor concerns over the countries' economic stability.

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

| | Portfolio end-September 2018 | Portfolio end-September 2017 | Change (pp) | Index weight | Active weight vs index (pp) | Trust weight/index weight (x) |
|----------------------|------------------------------|------------------------------|-------------|--------------|-----------------------------|-------------------------------|
| Consumer | 35.1 | 31.1 | 4.1 | 15.6 | 19.5 | 2.3 |
| Financials | 28.6 | 27.1 | 1.5 | 23.2 | 5.4 | 1.2 |
| IT | 18.1 | 16.1 | 2.1 | 26.9 | (8.8) | 0.7 |
| Healthcare | 5.0 | 6.2 | (1.3) | 3.0 | 1.9 | 1.6 |
| Real Estate | 2.8 | 2.6 | 0.2 | 2.8 | 0.1 | 1.0 |
| Materials | 2.5 | 4.4 | (1.8) | 7.9 | (5.4) | 0.3 |
| Telecoms | 2.4 | 4.1 | (1.7) | 4.5 | (2.1) | 0.5 |
| Industrials | 1.1 | 1.5 | (0.5) | 5.4 | (4.4) | 0.2 |
| Investment Companies | 0.9 | 1.1 | (0.2) | 0.0 | 0.9 | N/A |
| Energy | 0.6 | 3.7 | (3.1) | 8.2 | (7.6) | 0.1 |
| Utilities | 0.0 | 0.2 | (0.2) | 2.4 | (2.4) | 0.0 |
| Cash | 2.8 | 1.9 | 0.8 | 0.0 | | |
| | 100.0 | 100.0 | | 100.0 | | |

Source: Genesis Emerging Markets Fund, Edison Investment Research

The portfolio is most underweight information technology (IT), where the manager often struggles to find attractive stocks. This sector is dominated by China internet stocks and technology hardware manufacturers, which are very large cap, and widely-owned names. The manager finds many of the internet stocks to be unattractive on valuation grounds, while it has turned cautious on the industry cycle for the hardware manufacturers. Exhibits 6 and 7 show the portfolio's geographical exposures. GSS's 18.5pp underweight to Asia is fairly evenly reallocated to the other regions, and the manager expects this to be a typical stance, in part due the commitment to a diversified portfolio. Asia's weight in the MSCI Emerging Markets index is 74.6%, and China alone accounts for 31.0%, followed by the two relatively developed countries of South Korea and Taiwan. These countries are natural underweight positions for the manager, which tends to find the most interesting investment opportunities in less mature markets, outside of the state-owned enterprises (SOEs), and in companies that are less well-researched.

Exhibit 6: Portfolio top 10 country exposure (% unless stated)

| | Portfolio end-September 2018 | Portfolio end-September 2017 | Change (pp) | Index weight | Active weight vs index (pp) | Trust weight/index weight (x) |
|--------------|------------------------------|------------------------------|-------------|--------------|-----------------------------|-------------------------------|
| China | 19.5 | 17.1 | 2.4 | 31.0 | (11.5) | 0.6 |
| India | 10.9 | 10.7 | 0.2 | 8.5 | 2.4 | 1.3 |
| South Korea | 9.7 | 10.3 | (0.6) | 14.9 | (5.2) | 0.7 |
| South Africa | 8.0 | 9.0 | (1.0) | 6.1 | 1.9 | 1.3 |
| Brazil | 5.9 | 6.2 | (0.3) | 6.2 | (0.3) | 1.0 |
| Russia | 4.8 | 6.7 | (1.9) | 3.7 | 1.1 | 1.3 |
| Thailand | 4.6 | 4.6 | 0.0 | 2.5 | 2.1 | 1.8 |
| Mexico | 4.1 | 3.3 | 0.8 | 3.2 | 0.9 | 1.3 |
| Taiwan | 3.4 | 4.1 | (0.7) | 12.3 | (8.9) | 0.3 |
| Turkey | 2.7 | 3.0 | (0.3) | 0.6 | 2.1 | 4.5 |
| Other | 23.6 | 23.1 | 0.5 | 11.0 | 12.6 | 2.1 |
| Cash | 2.8 | 1.9 | 0.9 | 0.0 | | |
| | 100.0 | 100.0 | | 100.0 | | |

Source: Genesis Emerging Markets Fund, Edison Investment Research

Exhibit 7: Portfolio regional exposure* (% unless stated)

| | Portfolio end-September 2018 | Portfolio end-September 2017 | Change (pp) | Index weight | Active weight vs index (pp) | Trust weight/index weight (x) |
|---------------------|------------------------------|------------------------------|-------------|--------------|-----------------------------|-------------------------------|
| Asia | 56.1 | 52.6 | 3.5 | 74.6 | (18.5) | 0.8 |
| Middle East/Africa | 14.0 | 16.4 | (2.4) | 7.8 | 6.1 | 1.8 |
| Americas | 15.2 | 14.4 | 0.8 | 11.3 | 3.9 | 1.3 |
| Europe/Central Asia | 14.8 | 16.6 | (1.9) | 6.3 | 8.5 | 2.3 |
| | 100.0 | 100.0 | | 100.0 | | |

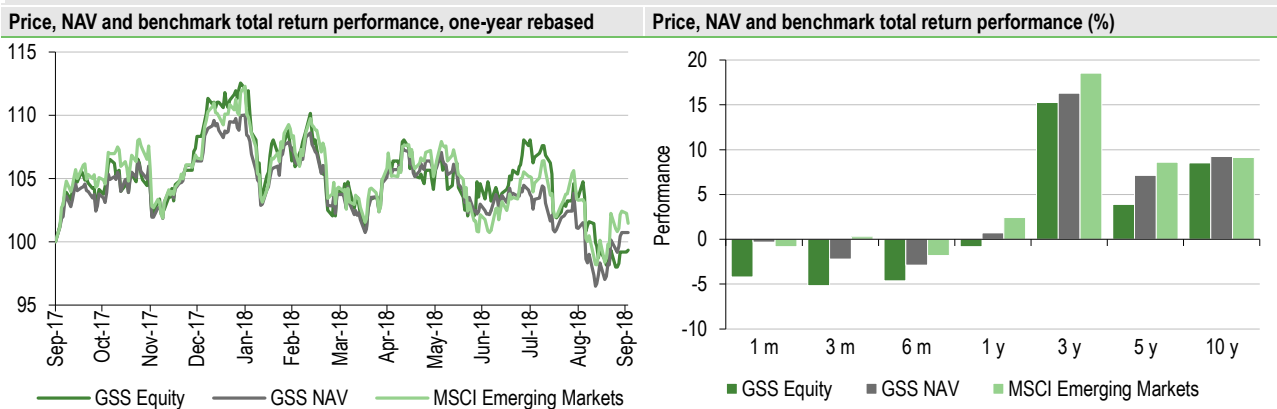
Source: Genesis Emerging Markets Fund, Edison Investment Research. Note: *Adjusted for cash.

GSS is consistently and meaningfully underweight SOEs, currently by around 16pp relative to the benchmark, representing one of the largest 'bets' in the portfolio. The manager believes SOEs often have dual mandates, both economic and political, that may result in investment and operating decisions that do not benefit the minority shareholders. For example, the team finds China Mobile's capital expenditure to be very aggressive, despite having a relatively mature business, and ascribe it to the company's significant investment in 5G telecommunications technology. The Chinese government has made it their political priority to be the global leader in this field. GSS is also underweight the energy and materials sectors, where SOEs are prevalent.

GSS' exposure to non-index frontier markets was around 6% as at end-August 2018, including Vinamilk, the largest dairy company in Vietnam; and Dangote Cement, the largest cement producer in Nigeria. As at end-August 2018, the portfolio overlapped with the constituents of MSCI Emerging Market index benchmark by less than 25%.

Performance: Relatively weak over five years

As shown in Exhibits 8 (RHS) and 9, GSS's NAV total return has directionally mirrored the MSCI emerging markets index. Given its differentiated, benchmark agnostic approach, and long-term focus, performance can diverge from the benchmark, particularly over short- and medium-term periods. Over 10 years, GSS has outperformed the benchmark index; however, the magnitude has been weighed down by the weakness of the three- and five-year periods, which lagged by 5.6% and 6.6% respectively.

Exhibit 8: Investment trust performance to 30 September 2018


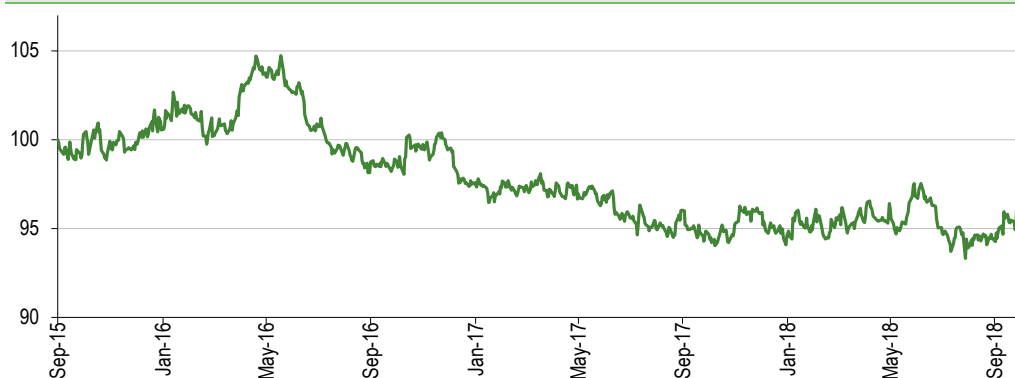
Source: Thomson Datastream, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

Exhibit 9: 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 | (3.4) | (5.4) | (2.9) | (3.2) | (8.0) | (19.9) | (5.2) |
| NAV relative to MSCI Emerging Markets | 0.5 | (2.5) | (1.1) | (1.7) | (5.6) | (6.6) | 1.1 |
| Price relative to MSCI World | (4.5) | (10.9) | (17.2) | (13.8) | (11.4) | (39.2) | (31.0) |
| NAV relative to MSCI World | (0.6) | (8.1) | (15.7) | (12.5) | (9.0) | (29.1) | (26.4) |
| Price relative to FTSE All-Share | (4.9) | (4.4) | (11.9) | (6.3) | 10.7 | (15.7) | (4.9) |
| NAV relative to FTSE All-Share | (1.0) | (1.4) | (10.3) | (4.8) | 13.6 | (1.7) | 1.4 |

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-September 2018. Geometric calculation.

Relative weakness over the past five years has had two distinct periods. Weak performance in the early part of this period can be attributed to a relatively small number of the portfolio's holdings, particularly in the energy and materials sectors, where the manager's commodity price assumptions were not conservative enough. The latter half of the period was one of high levels of liquidity and momentum across equity markets, exacerbated by large inflows of passive investment funds, which tend to indiscriminately buy the largest stocks without regard for fundamentals. The MSCI Emerging Markets index rally of 2016 to 2018 was led by a relatively narrow number of large-cap names, particularly within IT sector. This environment does not favour managers with a bottom-up, and valuation discipline approach. Over this period, GSS was (and remains) meaningfully underweight the IT sector, which accounts for nearly 30% of the index. This stance is consistent with the commitment to hold a diversified portfolio, and to focus on less well-researched quality stocks that are under-appreciated by the market, which should reward investors over the long-term.

Exhibit 10: NAV total return performance relative to benchmark over three years


Source: Thomson Datastream, Edison Investment Research

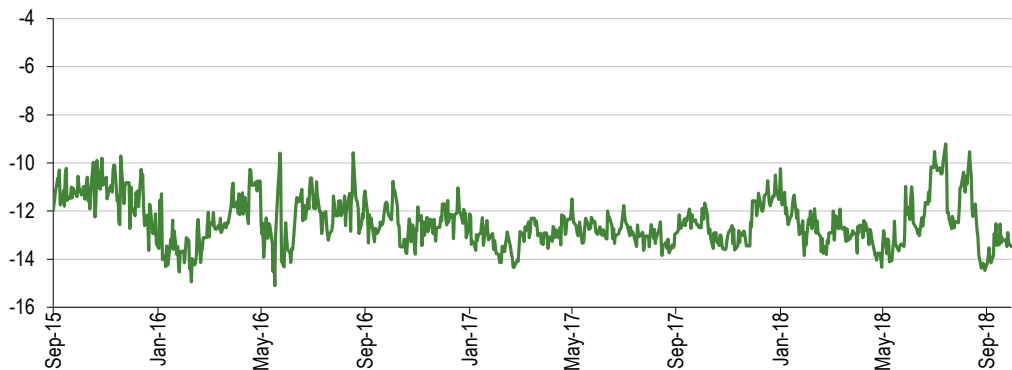
Discount: Board efforts to address discount

GSS trades at a 13.5% discount to cum-income NAV, which is wider than its three-year average of 12.4%. The sell-off in emerging market equities during the year has afflicted all funds investing in this asset class (see Exhibit 11) and the discounts across the peer group have widened, suggesting it is unloved by investors. While GSS' performance is similar to the peer group averages over one and three years, its discount is among the widest, and although the board does not have a formal discount management policy, it has taken measures recently to address this issue:

- Reduction in management fees in mid-2017 from 1.25% to 0.95%.
- Payment of a dividend in December 2017 for the first time in many years, and a proposed dividend for December 2018.
- Tender offer for 10% of the fund's shares, completed in August 2018.
- Announcement of a further potential tender offer of 25% of the fund's shares in 2021 if performance over the five years to June 2021 is not ahead of the index.
- Increased promotion of GSS, including engagement of Edison Group.

Improved sentiment towards emerging markets equities, coupled with the board's recent measures could help support the narrowing of the fund's discount over time.

Exhibit 11: Share price discount to NAV (including income) over three years (%)



Source: Thomson Datastream, 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. It has two classes of shares: founder shares and participating preference shares, which represent the principle share class. Founder shares are not redeemable and confer no rights upon the holders other than at general meetings, on a poll, each holder is entitled to one vote. There are 1,000 founder shares in issue. Participating preference shares rank ahead of founder shares in a winding up, and are classed as equity as they have the right to receive any surplus assets available for distribution. Participating preference shares confer the right to dividends and one vote each at general meetings. The tender offer on 19 July 2018 for up to 10% of the participating preference shares in issue was fully taken-up, and resulted in the repurchase and cancellation of 13.5m shares at 746.03p per share. There are currently 121.5 m participating preference shares in issue. Gearing of up to 10% of NAV is permitted, but in practice has rarely been used. As at end-August 2018, the fund had a net cash position equating to 2.8% of net assets.

Following a review by the board, effective from 1 July 2017, the management fee payable to Genesis Asset Managers was reduced to 0.95% of NAV pa (previously 1.25% pa). The same

review also resulted in an amendment to allocate 80% of the fund's annual management fee (and certain other costs) to the capital account, compared with the previous 100% allocation to the revenue account. This proportion reflects the board's assessment of the long-term balance between capital and revenue returns. Ongoing charges for FY18 were 1.1%, down from 1.4% in FY17.

Dividend policy and record

GSS's objective is to generate long-term capital growth, and historically it has paid dividends infrequently. In response to many shareholders' desire to receive an income distribution, the board declared its first dividend for many years in FY17 (14 US cents per share, paid in sterling as 10.6p, using the exchange rate prevailing on the payment date). The reallocation of expenses discussed above, should result in a higher level of income available for future distributions.

In FY18, the board reviewed its dividend policy and proposed to pay out substantially all of the fund's revenue earnings. For FY18, a dividend of 19 US cents per share has been proposed, representing an increase of 36% over the previous year. If approved by shareholders, this will be paid on 21 December 2018 in sterling at the prevailing exchange rate on that date. This distribution represents 82% of GSS's revenue earnings in 2017. The fund continues to be managed on a total return basis, and not with an objective to achieve a certain level of income, therefore, the level of the annual dividend may vary from year to year.

Peer group comparison

GSS is a member of the AIC Global Emerging Markets sector, and Exhibit 12 shows a selected peer group of funds with a market capitalisation over £100m, against which measure GSS is the third largest. GSS's NAV total return is close to the peer group average over one, three and 10 years, ranking sixth, seventh and fourth respectively. The five-year performance trails the peer group, ranking seventh (out of seven funds), possibly reflecting the fund's differentiated investment portfolio relative to peers as well as the benchmark, which results in a divergent performance. Following the recent reduction in the management fee, the fund's ongoing charges are now more competitive than the peer group average. By dividend yield, GSS ranks fifth. However, the peer group also includes funds with an income focus, or that are permitted to pay dividends from capital reserves. GSS is focused on long-term capital appreciation, and is only permitted to distribute from income reserves. Its discount to cum-fair NAV is towards the wider end of the peer group range, ranking sixth.

Exhibit 12: AIC Global Emerging Markets sector selected peer group as at 30 October 2018*

| % 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 | 830.0 | (13.3) | 31.3 | 17.6 | 190.6 | (13.3) | 1.1 | No | 100 | 2.4 |
| Aberdeen Emerging Markets | 232.5 | (14.0) | 34.1 | 23.6 | 138.6 | (14.8) | 1.1 | No | 100 | 3.9 |
| BlackRock Frontiers | 272.2 | (11.2) | 32.6 | 40.0 | | 0.8 | 1.8 | Yes | 114 | 4.0 |
| Fundsmith Emerging Equities Trust | 290.3 | (3.9) | 19.7 | | | (0.8) | 1.9 | No | 100 | 0.0 |
| JPMorgan Emerging Markets | 945.7 | (7.6) | 43.5 | 38.4 | 246.7 | (11.6) | 1.1 | No | 101 | 1.6 |
| JPMorgan Global Emerging Markets | 342.1 | (7.5) | 42.7 | 21.6 | | (4.5) | 1.3 | No | 112 | 4.3 |
| Templeton Emerging Markets | 1,681.8 | (14.6) | 60.2 | 22.0 | 238.7 | (12.1) | 1.1 | No | 102 | 2.3 |
| Utilico Emerging Markets | 451.8 | (7.1) | 37.3 | 33.1 | 260.2 | (14.4) | 1.1 | Yes | 100 | 3.7 |
| Average (8 trusts) | 630.8 | (9.9) | 37.7 | 28.0 | 215.0 | (8.8) | 1.3 | | 104 | 2.8 |
| GSS rank in peer group | 3 | 6 | 7 | 7 | 4 | 6 | 5 | | 5 | 5 |

Source: Morningstar, Edison Investment Research. Note: *Performance as at 29 October 2018. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

Following the appointment of a new non-executive director in July 2017, the board consists of six non-executive directors; all are independent of the manager:

- Helene Ploix was appointed in November 2012 assumed the role of chairman in October 2015. She is a partner and former chairman of Paris-based private equity firm, Pechel Industries. Her previous roles include executive director at the IMF, World Bank, and a Member of the investments committee of the UN Joint Staff Pension Fund. She is currently a non-executive director of Ferring (Switzerland) and Sogama Credit Associatif (France).
- Russell Edey serves as the senior independent director and was appointed in January 2015. He spent 35 years at NM Rothschild & Sons, where he was head of corporate finance and subsequently non-executive deputy chairman. He is currently chairman of Avocet Mining, and is a non-executive director of Blackrock World Mining Trust.
- John Llewellyn (appointed October 2009) was at Lehman Brothers between 1995 to 2008 as global chief economist and then senior economic policy advisor. Previously he spent 17 years at the OECD in Paris, including as head of the Secretary General's private office (Chief of Staff).
- Saffet Karpat (appointed October 2011) is a consultant on strategy to organisations based in Turkey. He is also a board member of Eczacibasi group, a Turkish conglomerate with businesses in construction materials, consumer goods, mining and medical services. Previously, he worked for Proctor and Gamble for 30 years in various financial and senior roles across a number of emerging markets, including as general manager of the Central and Eastern Europe and Middle East and Africa division.
- Sujit Banerji (appointed October 2013) is an independent advisor on corporate strategy to a number of companies globally. Previously he was at Citigroup for 33 years with various roles including as head of strategy and institutional M&A for Europe, Middle East and Africa.
- Katherine Tsang (appointed July 2017 spent 22 years with Standard Chartered Bank, latterly in the role of chairperson of Greater China, before retiring in 2014. Following her retirement, Tsang founded Max Giant Capital, an asset management group focusing on direct investments in the financial industry in Asia, particularly in China. She is currently an independent non-executive director of Gap Inc., and of China CITIC Bank International. She also serves as a member of the advisory council for China of the City of London, and is an honorary board member of Shanghai Jiao Tong University.

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