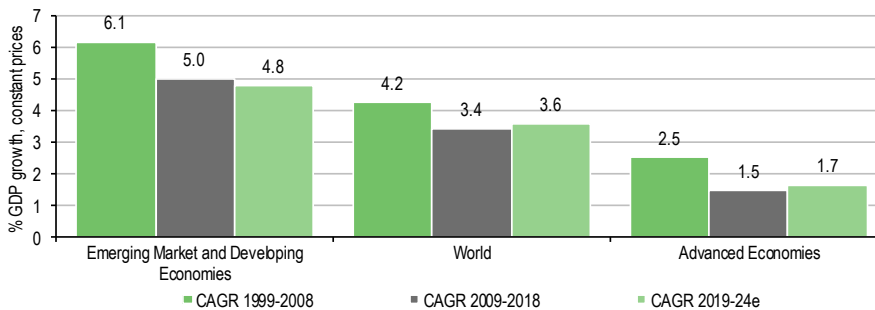


# Genesis Emerging Markets Fund

Long-established emerging markets expertise

Genesis Emerging Markets Fund (GSS) was launched in 1989 and was one of the first emerging markets funds to be listed in the UK. It aims to deliver long-term capital growth through investing in emerging and frontier markets. The investment approach is bottom-up and patient, involving proprietary and bespoke research to build in-depth knowledge of companies, sectors and countries. Unconstrained by benchmark considerations, the diversified portfolio is meaningfully differentiated from the index and consists of the manager's highest-conviction stocks.

## Superior GDP growth for emerging and developing economies



Source: IMF World Economic Outlook (April 2019), Edison Investment Research

## The market opportunity

As shown in the chart above, emerging and developing economies have a significantly faster GDP growth outlook compared to that of advanced economies and the world. Emerging markets have multi-decade positive secular trends, which support rapid growth of income and the middle class. These trends underpin very attractive investment opportunities for the long-term investor. Despite these prospects, emerging markets equities are trading at a meaningful 17% discount to world equities on a forward P/E basis, a gap that may narrow over time.

## Why consider investing in GSS?

- Managed by a stable team of 10 experienced emerging markets specialists, each with in-depth expertise in their respective areas of responsibility.
- The manager, Genesis, is a well-resourced firm dedicated to emerging markets equities and GSS is the single fund available to retail investors.
- GSS has a proactive board, with a keen focus on discount management and returns for shareholders.
- Strong long-term performance track record. Annualised NAV total return of 10.8% over the past 10 years.

## Potential 2021 tender offer for 25% of issued shares

GSS's current discount to cum-income NAV of 9.3% is narrower than its three-year average of 12.4%. The discount is a key focus for the board, which has committed to a tender offer for 25% of issued shares in June 2021 should the fund's performance lag the benchmark over the preceding five years.

Investment companies  
Global Emerging Markets

9 May 2019

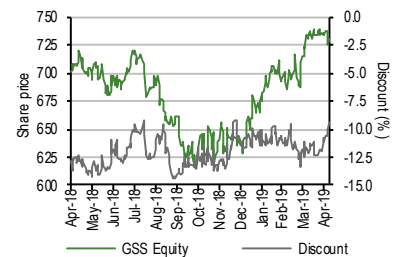
**Price** 730.0p  
**Market cap** £886.7m  
**AUM** £977.6m

NAV\* 804.8p  
Discount to NAV 9.3%

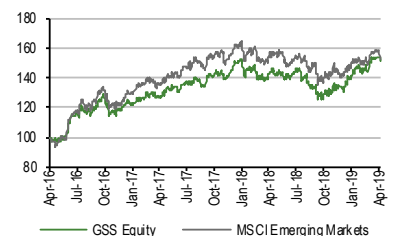
\*Including income. As at 8 May 2019.

Yield 2.0%  
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 739.0p 615.0p  
NAV\*\* high/low 841.8p 705.8p

\*\*Including income.

## Gearing

Net cash\* 1.7%

\*As at 31 March 2019.

## Analysts

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[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, 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.

### Recent developments

- 18 February 2019: interim report to 31 December 2018. NAV TR -7.7% versus benchmark TR -4.9%. Share price TR -6.6%.
- 23 November 2018: announcement of the final dividend sterling equivalent of 14.76p per share.
- 1 October 2018: annual report to 30 June 2018: NAV TR +6.8% versus benchmark TR +6.8%. Share price TR +8.4%.

### Forthcoming

AGM	November 2019
Annual results	October 2019
Year end	30 June
Dividend paid	December

### Capital structure

Ongoing charges	1.10%
Net cash	1.7%
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	<a href="https://www.genesisemf.com">https://www.genesisemf.com</a>

### Launch date

July 1989

### Company life

Indefinite

### Phone

+44 (0)20 7201 7200

### Continuation vote

No

### Loan facilities

£150m

### Website

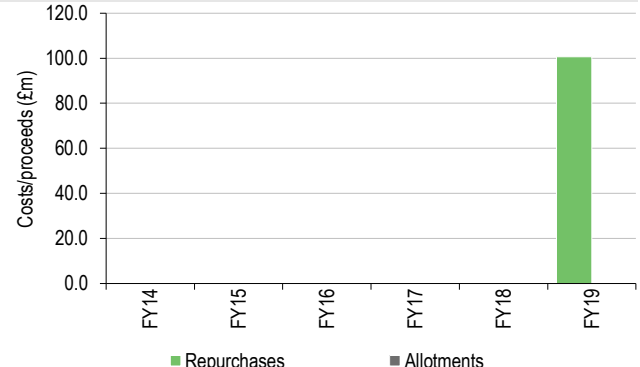
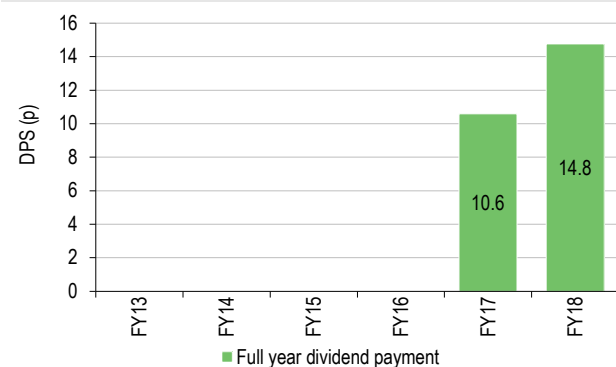
<https://www.genesisemf.com>

### Dividend policy and history (financial years)

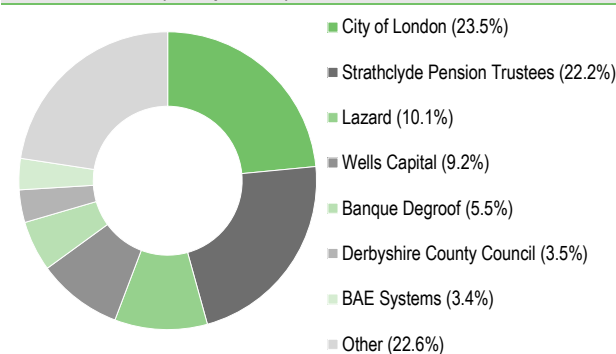
GSS's principal objective is to achieve capital growth, and the board will review the appropriateness of dividend payments on an annual basis.

### Share buyback policy and history (financial years)

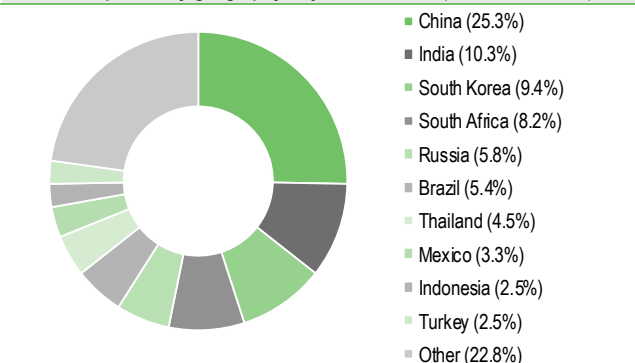
In July 2018, the company conducted its first tender offer for 10% of issued capital. A further tender offer will take place in June 2021 if NAV lags the benchmark performance in the preceding five years.



### Shareholder base (at 8 April 2019)



### Portfolio exposure by geography, adjusted for cash (at 31 March 2019)



### Top 10 holdings (at 31 March 2019)

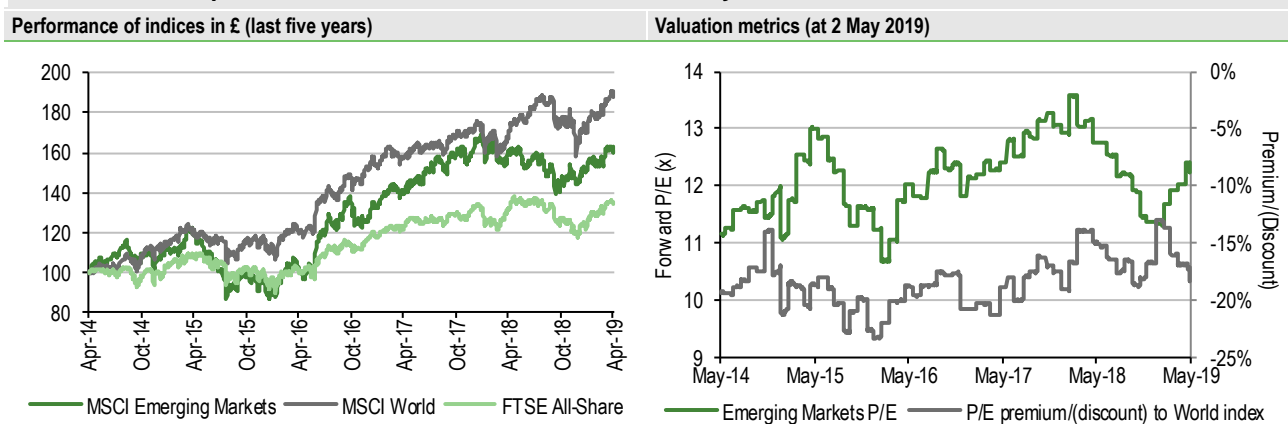
Company	Country	Sector	Portfolio weight %	
			End-March 2019	End-March 2018
Naspers	South Africa	Consumer	4.9	4.6
Alibaba	China	Consumer	3.6	2.6
Alia Group	China	Financials	3.5	2.8
Wuliangye Yibin*	China	Consumer	3.3	N/A
Sberbank	Russia	Financials	3.2	2.4
Samsung Electronics	South Korea	IT	3.1	4.3
58.com	China	Communication services	2.5	1.5
Jiangsu Yanghe Brewery	China	Consumer	2.3	1.4
Taiwan Semiconductor	Taiwan	IT	2.3	4.0
New Oriental Education*	China	Consumer	2.2	N/A
<b>Top 10</b>			<b>30.9</b>	<b>29.0</b>

Source: Genesis Emerging Markets Fund, Edison Investment Research, Bloomberg, Morningstar. Note: \*New additions to portfolio since March 2018.

## Market outlook: Emerging markets relatively attractive

The MSCI Emerging Markets index appreciated c 7.5% in sterling terms in Q119 following an extremely weak final quarter of 2018, which reflected a rapidly deteriorating outlook for global growth, much exacerbated by geopolitical factors. These included the ongoing US-China trade dispute, stalemate over the US budget, which led to a government shutdown, and uncertainty over Brexit outcomes. Since the start of 2019, fears for sharp slowdowns in major economies have receded, led by the US where the Federal Reserve has signalled that interest rate rises are on hold for the time being. Investors are also more optimistic that recent Chinese government policies to stimulate the economy are taking effect and that talks to resolve the US-China trade dispute may succeed. Emerging market equities appear relatively attractively valued, trading on a forward P/E multiple of 12x, representing a 17% discount to global equities.

**Exhibit 2: Market performance and valuation metrics over five years**



Source: Refinitiv, Edison Investment Research, MSCI

## Fund profile: High conviction, differentiated from index

GSS was launched in July 1989 and was one of the first UK-listed funds that focused on emerging markets equities. The manager, Genesis Asset Managers (Genesis), has c US\$20bn in assets under management and, as a firm dedicated to emerging markets, all its resources are directed towards the management of emerging markets equities portfolios. GSS is the single fund available to the retail investor. The partners (which include most of the portfolio managers) own 41% of Genesis and Affiliated Managers Group (AMG) owns 59%. This ownership structure has resulted in a stable team, able to attract and retain experienced investment professionals.

The fund's objective is to deliver long-term capital growth, primarily through investing in emerging and frontier market securities, however, the manager can also invest in companies listed in developed markets that have high exposure to emerging markets through revenues, earnings or assets. The investment approach is fundamental and unconstrained by the benchmark (the MSCI Emerging Markets index), with a long-term horizon. The portfolio represents the investment team's highest conviction ideas and overlap with the MSCI emerging markets benchmark is typically less than 25%.

## The fund manager: Team of 10 specialists

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### The manager's view: Compelling asset class and position

The manager believes the investment prospects for emerging markets are compelling over the long run, driven by a number of multi-decade secular factors. These include favourable demographics, which help underpin superior GDP growth. The World Bank forecasts population growth in low- and middle-income countries between 2015 to 2035 of 0.8% pa, whereas it expects a decline of 0.1% pa for high-income countries. Genesis also expects rapid growth in the middle class across emerging economies and income levels to converge with those in developed countries, creating exciting long-term investment opportunities. Emerging markets, and earlier-stage economies in particular, are characterised by significant pricing inefficiencies and the manager believes GSS is uniquely well placed to capture these opportunities. The portfolio managers are a diverse group of experienced investors, with a significant stake in Genesis, and therefore an aligned interest to deliver performance for GSS shareholders. They believe the collaborative team approach and investment process, which has been tried and tested over 30 years, has been a great success. Genesis's significant research budget supports proprietary research and custom analytics and the portfolio managers do not depend on the sell-side for research.

## Asset allocation

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### Investment process: In-depth research, disciplined approach

The investment process is focused on bottom-up research and rigorous fundamental analysis. The team consists of 10 experienced portfolio managers, each with defined country and sector responsibilities and the capacity to gain in-depth knowledge of their companies and sectors, effectively becoming experts in their respective fields. Companies are ranked by quality, indicating their ability to generate sustainable, above average, long-term returns on capital, and the resilience of their intrinsic value in US dollar terms. Environmental, social and governance assessments are an integral part of this process, which ranks companies from A to C. The highest ranking is A, and these companies tend to have very high and sustainable barriers to entry. C-rated companies include good businesses that may be operating in/have exposure to less stable environments (for example a strong domestic franchise in an economically fragile country, and companies that present a strong valuation opportunity). These rankings help determine position sizes, with A and B category companies held in larger size. Typically, fewer than 25% of the portfolio's holdings are category C companies. Position size is also influenced by liquidity considerations, however, an illiquid stock can be seen as an opportunity, not an impediment for investment, and the manager has a patient approach to accumulating positions in smaller stocks. Portfolio construction is team based and Genesis's culture of collaboration and constructive challenge is an important element of its success. A portfolio coordination team is responsible for ensuring the integrity of the investment process and that the portfolio is well diversified across countries and sectors, as well as monitoring exposures and risk profiles.

### Current portfolio positioning

The portfolio reflects several key long-term investment themes. As shown in Exhibit 3, the largest sector exposure is to the consumer sectors at 40.3%. The manager believes that the rise in incomes and growth of the middle class in emerging markets will be a multi-generation secular trend, and it favours strong, quality consumer franchises that are well-placed beneficiaries of this trend. Over the 12 months to end-March 2019, exposure to the consumer sectors increased by 5.5pp, mostly in China. During H218, investors' fears for a rapid slowdown in the Chinese economy

and the ongoing US-China trade dispute led to a significant de-rating in its equities, allowing the manager to take advantage of depressed share prices to add to existing positions and make new purchases. These included online classified listings business, 58.com. Its main business segments are blue-collar jobs and secondary property market listings and 58.com is the largest player in the industry, with the highest margins. The manager believes the online classifieds business model is one where the 'winner takes all' and considers the company well placed to defend and further consolidate its leading position. A strong growth profile is supported by the manager's expectation for a doubling in margins, towards those of global comparable companies, alongside significant volume growth. The manager notes that secondary property transactions in China account for 1.5% of housing stock pa, compared to 4–5% pa in developed markets. New positions included New Oriental Education, China's leading provider of private tutoring and education services. Its largest business is K-12 tutoring (exam preparation for children aged 12 to 18) and the company plans to increase K-12 student enrolments by over 35% pa over the next two years. Demand for private tutoring in China is very strong and despite the rapid rate of growth, enrolment and margins have remained at high levels, and student retention has increased.

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

	Portfolio end-March 2019	Portfolio end-March 2018*	Change (pp)	Index weight	Active weight vs index (pp)	Portfolio weight/index weight (x)
Consumer	40.3	34.8	5.5	19.8	20.5	2.0
Financials	25.1	28.2	(3.1)	24.2	0.9	1.0
IT	11.2	11.6	(0.4)	14.6	(3.4)	0.8
Communications services	10.5	7.3	3.2	12.3	(1.8)	0.9
Healthcare	5.4	5.2	0.2	2.6	2.8	2.0
Materials	3.5	2.6	0.9	7.4	(3.9)	0.5
Real Estate	1.0	2.8	(1.8)	3.2	(2.2)	0.3
Investment Companies	1.0	0.9	0.1	0.0	1.0	N/A
Energy	0.3	2.9	(2.6)	8.1	(7.8)	0.0
Industrials	0.0	1.3	(1.3)	5.4	(5.4)	0.0
Utilities	0.0	0.2	(0.2)	2.5	(2.5)	0.0
Cash	1.7	2.2	(0.5)	0.0		
<b>Total</b>	<b>100.0</b>	<b>100.0</b>		<b>100.0</b>		

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

Investing in banks in early-stage economies is also a key investment theme. The portfolio has a 25.1% exposure to financials; however, this is predominantly in early-stage economies. GSS looks for simple, well-run businesses that can benefit from long-run rising penetration opportunities and holdings include BCA (Indonesia) and Kotak Mahindra (India). Over the past year, the exposure to banks has reduced by 2.6pp (contributing to a 3.1pp overall decline in financials exposure), mainly reflecting profit-taking opportunities, prompted by the strong share price performances of portfolio holdings in this sector.

Holdings in companies with good governance and low exposure to state-owned enterprises (SOEs) are consistent portfolio characteristics. The manager often finds SOEs have multiple priorities (for example, national service) and poor alignment of interest with minority shareholders. This is one of the reasons the portfolio holds no Chinese banks and is underweight SOEs by 13pp relative to the index.

A differentiating factor of the fund is its exposure to small-cap and frontier market companies, which are not represented in the benchmark. The manager often finds compelling and mispriced investments in these market segments. These companies are generally less well researched, if at all, and Genesis's large resources, focused on emerging markets, are an advantage to help it uncover opportunities in small-caps and frontier markets. GSS is overweight these two segments combined by c 16pp relative to the benchmark.

## Performance: Strong long-term outperformance

As shown in Exhibits 4 and 6, GSS's NAV total returns have outperformed the MSCI Emerging Markets index over one and 10 years to end-April 2019 but have lagged over three and five years. Over 10 years, the fund has delivered an annualised NAV total return of 10.8% versus 9.3% for the index. Relative weakness over three- and five-years partly reflects the outperformance of larger capitalisation stocks during the 2014 to 2018 period, and the relative underperformance of small- and mid-cap equities, where GSS typically finds better investments.

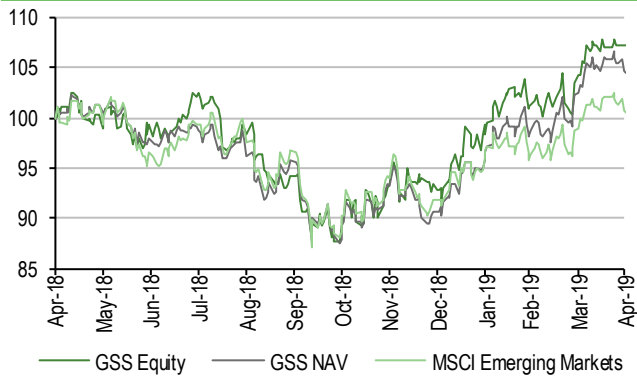
**Exhibit 4: Five-year discrete performance data**

12 months ending	Share price (%)	NAV (%)	MSCI Emerging Markets (%)	MSCI World (%)	FTSE All-Share (%)
30/04/15	9.5	10.6	18.9	18.7	7.5
30/04/16	(9.5)	(8.2)	(13.5)	1.1	(5.7)
30/04/17	26.9	28.5	35.4	30.6	20.1
30/04/18	12.8	12.6	14.7	6.9	8.2
30/04/19	7.2	4.7	0.7	13.1	2.6

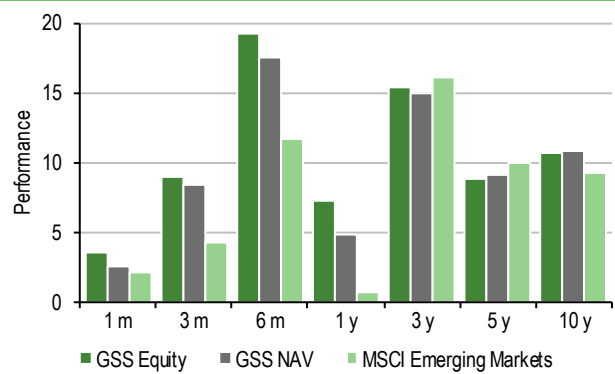
Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

**Exhibit 5: Investment trust performance to 30 April 2019**

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 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	1.4	4.5	6.8	6.4	(2.0)	(5.5)	13.7
NAV relative to MSCI Emerging Markets	0.4	4.1	5.2	4.0	(3.1)	(4.2)	15.0
Price relative to MSCI World	(0.0)	(0.3)	11.4	(5.3)	(2.9)	(19.8)	(23.3)
NAV relative to MSCI World	(1.1)	(0.7)	9.8	(7.4)	(4.0)	(18.7)	(22.5)
Price relative to FTSE All-Share	0.8	1.0	12.1	4.4	15.0	12.4	2.9
NAV relative to FTSE All-Share	(0.2)	0.5	10.4	2.1	13.7	13.9	4.1

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

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

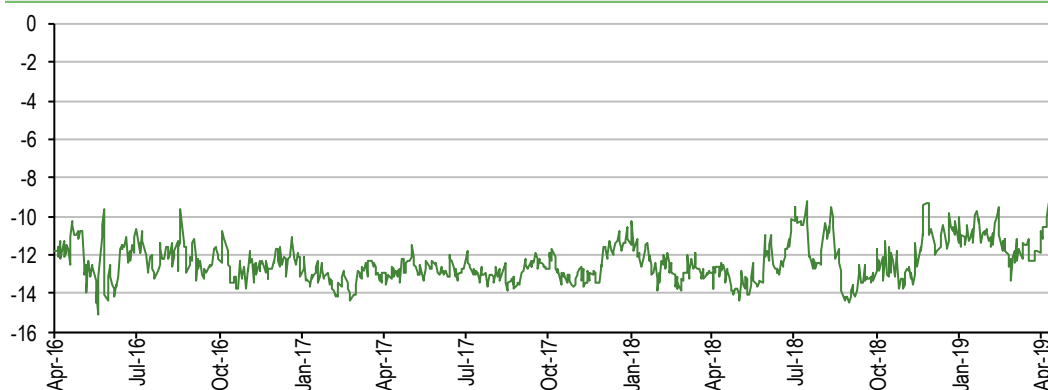


Source: Refinitiv, Edison Investment Research

## Discount: Recent measures may support narrowing

GSS is trading at a 9.3% discount to cum-income NAV, which is narrower than its one, three- and five-year averages of 12.0%, 12.4% and 11.3% respectively, but wider than the 10-year average of 9.0%. The board has a proactive approach to managing the discount and has recently implemented a number of measures to improve and broaden the appeal of the fund. These include a reduction in management fees from 1.25% pa to 0.95% pa; a new dividend policy, with the intention to pay a regular dividend; a tender offer for up to 10% of the fund's shares, completed in August 2018; a potential further tender offer of 25% of the fund's shares in 2021 if the NAV performance over the five years to June 2021 is behind the index; and increased promotion of GSS.

**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 classes of share: founder shares and participating preference shares, which represent the principal share class. 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. 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, a tender offer for up to 10% of the participating preference shares in issue was fully taken up, resulting in the repurchase and cancellation of 13.5m shares at 746.03p per share. There are 121.5m participating preference shares in issue. Gearing of up to 10% of NAV is permitted. As at end-March 2019, the fund had a net cash position of 1.7%.

Following a review by the board, effective from 1 July 2017, the annual management fee payable to Genesis was reduced to 0.95% of NAV (previously 1.25%). At the same time, 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 expectations of the balance between capital and revenue returns over the long term. Ongoing charges for FY18 were 1.1%, down from 1.4% in FY17.

## Dividend policy and record

GSS's primary objective is to generate long-term capital growth. However, in recognition of shareholders' desire for income, the board recently revised its dividend policy, with the intention to pay out substantially all of the fund's revenue earnings. It declared its first dividend for many years



in FY17 (14 US cents per share, paid as 10.6p using the exchange rate prevailing on the payment date) and for FY18 declared 19 US cents (paid as 14.8p), representing a 36% increase over the previous year. The fund continues to be managed on a total return basis, without an income objective, therefore the level of the annual dividend may vary from year to year.

## Peer group comparison

Exhibit 9 shows the AIC Global Emerging Markets sector funds with market capitalisations over £100m and more than one years' performance record. Within this group, there is a wide variety of investment mandates (including income, frontier and specialist infrastructure), which means direct comparisons may not be relevant. GSS is the third-largest fund in the group. Its NAV total return ranks fifth over one year and five years, fourth over three years, and third over 10 years. The fund's ongoing charge is lower than the peer group average and no performance fee is payable. Income generation is not the primary aim of GSS and, unsurprisingly, its dividend yield is moderately below the group average, ranking fifth. The fund's discount to cum-fair NAV ranks seventh widest.

**Exhibit 9: AIC Global Emerging Markets sector selected peer group as at 9 May 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	985.2	1.0	50.5	50.3	171.2	(9.3)	1.1	No	100	2.0
Aberdeen Emerging Markets	266.6	(2.8)	47.3	51.5	101.5	(12.1)	1.0	No	100	3.6
BlackRock Frontiers	324.9	(11.0)	33.8	35.7		1.2	2.0	Yes	121	4.3
Fundsmith Emerging Equities Trust	324.3	(1.4)	25.5			1.0	1.8	No	100	0.0
JPMorgan Emerging Markets	1,173.3	7.2	67.0	80.3	179.0	(6.9)	1.0	No	100	1.3
JPMorgan Global Emerging Markets	403.6	5.1	57.3	47.7		0.9	1.3	No	108	3.7
Templeton Emerging Markets	1,910.8	1.9	70.8	50.4	142.8	(9.2)	1.1	No	103	2.0
Utilico Emerging Markets	509.0	4.5	37.2	51.0	172.9	(10.7)	1.1	Yes	111	3.3
<b>Average (8 trusts)</b>	<b>737.2</b>	<b>0.6</b>	<b>48.7</b>	<b>52.4</b>	<b>153.5</b>	<b>(5.6)</b>	<b>1.3</b>		<b>105</b>	<b>2.5</b>
<b>GSS rank in peer group</b>	<b>3</b>	<b>5</b>	<b>4</b>	<b>5</b>	<b>3</b>	<b>6</b>	<b>5</b>		<b>5</b>	<b>5</b>

Source: Morningstar, Edison Investment Research. Note: \*Performance as at 8 May 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. Chairman H el ene Ploix 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. The other members of the board are John Llewellyn (appointed October 2009), Saffet Karpat (appointed October 2011), Sujit Banerji (appointed October 2013), and Katherine Tsang (appointed July 2017).



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## New Zealand

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