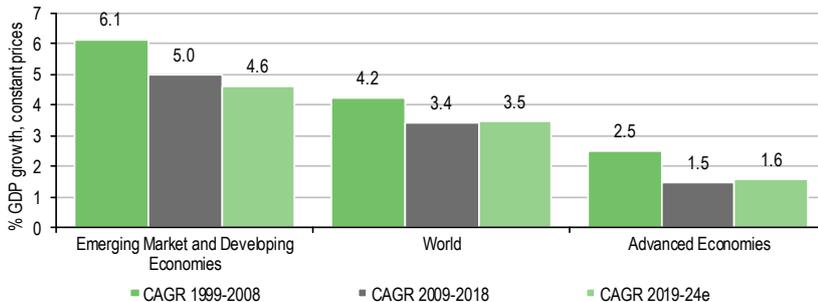


Genesis Emerging Markets Fund

Depressed sentiment belies bright outlook

Launched in 1989, Genesis Emerging Markets Fund (GSS) is one of the first UK-listed funds focused on investing in equities in emerging and developing countries. Its primary objective is to deliver long-term capital growth through a bottom-up approach to investing in high-quality companies with sustainable earnings growth. GSS has a solid performance track record, and has outperformed its benchmark over one, three, five and 10 years to end-February. Emerging markets equities have suffered a significant setback in response to the COVID-19 pandemic and the fund's discount to NAV is wider than average, which may present an opportunity for long-term investors.

GSS well-placed to benefit from the world's fastest-growing economies



Source: IMF WEO October 2019, Edison Investment Research

The market opportunity

Emerging markets are expected to grow at more than double the rate of advanced economies over the next five years (see chart above). This is underpinned by secular trends, which are unlikely to be derailed by the pandemic over the long run, including rising incomes, urbanisation and growing working populations. These trends should present multi-decade opportunities for the long-term investor.

Why consider investing in GSS?

- The manager, Genesis, is an owner-managed firm dedicated to this asset class and GSS is the only vehicle it makes available to the retail investor.
- A diverse, experienced, and well-resourced investment team employ a long-established, disciplined and bottom-up investment process.
- The proactive board is committed to promoting the interest of the fund's shareholders and to narrowing the discount over time.

Unusually deep discount may be an opportunity

GSS currently trades at an unusually deep 12.3% discount to its cum-income NAV, which is below its three-year average of 11.9%. Perceived as a riskier asset class, emerging markets equity funds have been heavily sold off in response to the COVID-19 pandemic. There is scope for share prices to recover, and the discount to narrow, should investor sentiment improve.

Investment companies
Emerging markets equity

1 April 2020

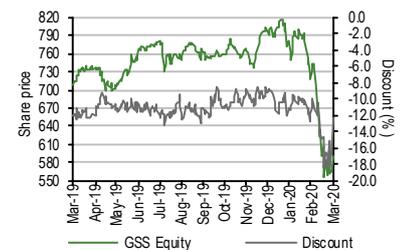
Price 592.0p
Market cap £719.1m
AUM £838.9m

NAV* 675.2p
Discount to NAV 12.3%

*Including income. As at 30 March 2020.

Yield 2.5%
Ordinary shares in issue 121.5m
Code GSS
Primary exchange LSE
AIC sector Global Emerging Markets
Benchmark MSCI Emerging Markets

Share price/discount performance



Three-year performance vs index



52-week high/low 818.0p 555.0p
NAV* high/low 914.0p 673.3p

*Including income.

Gearing

Gross* 0.0%
Net cash* 0.7%

*As at 29 February 2020.

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

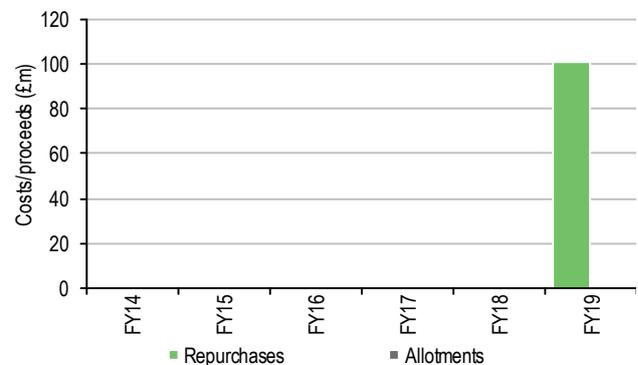
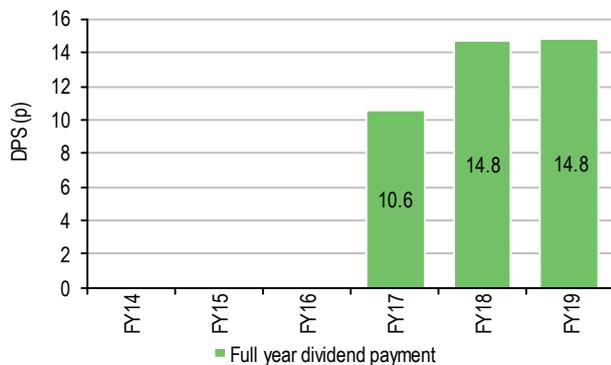
Investment objective and fund background		Recent developments			
Launched in July 1989. Genesis Emerging Markets Fund was one of the first emerging markets funds in the UK. The company seeks long-term capital appreciation through investment in companies operating in emerging and frontier markets or listed on the stock markets of such countries. Performance is benchmarked against the MSCI Emerging Markets Index.		<ul style="list-style-type: none"> 18 February 2020: interim report to 31 December 2019. NAV TR +4.5% versus benchmark TR +3.1%. Share price TR 6.6%. 4 November 2019: declared final dividend of 19 cents per share. 30 September 2019: annual report to 30 June 2019. NAV TR +9.0% versus benchmark TR +5.4%. Share price TR +11.0%. 			
Forthcoming		Capital structure		Fund details	
AGM	November 2020	Ongoing charges	1.07% (end-December 2019)	Group	Genesis Investment Management, LLP
Annual results	October 2020	Net cash	0.7%	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	www.genesisemf.com
Continuation vote	No	Loan facilities	£150m		

Dividend policy and history (financial years)

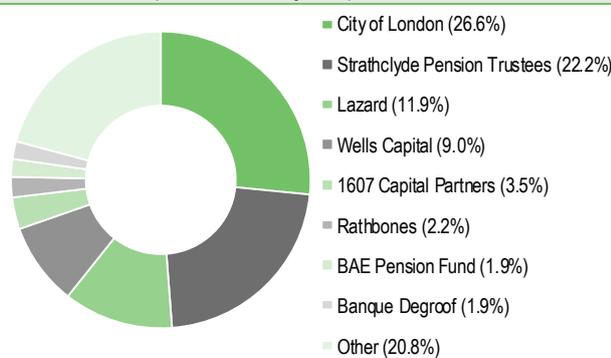
GSS's principal objective is to achieve capital growth, and the board will review the appropriateness of dividend payments on an annual basis.

Share buyback policy and history (financial years)

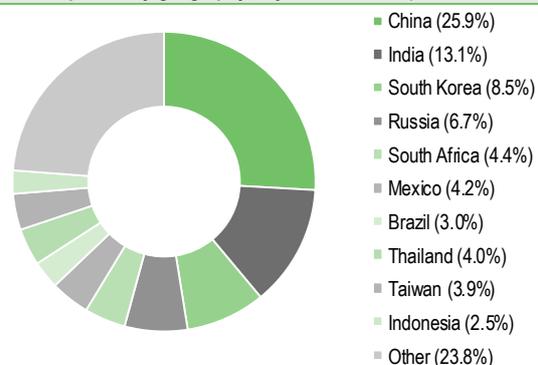
In August 2018, the company conducted its first tender offer for 10% of issued capital. A further tender offer will take place in June 2021 if NAV lags the benchmark performance in the preceding five years.



Shareholder base (as at 28 February 2020)



Portfolio exposure by geography, adjusted for cash (as at 29 Feb 2020)



Top 10 holdings (at 29 February 2020)

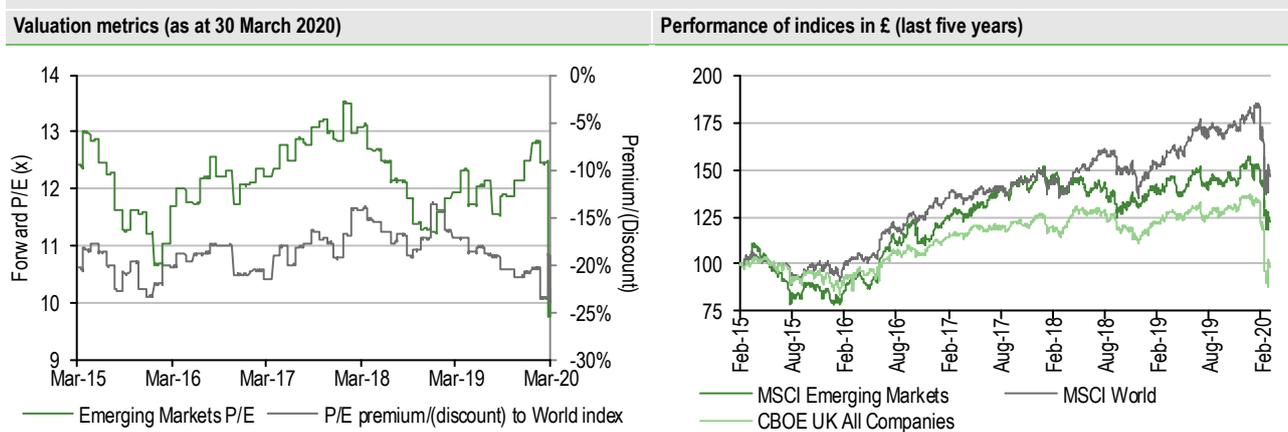
Company	Country	Sector	Portfolio weight %	
			End-February 2020	End-February 2019
Alibaba Group	China	Consumer Discretionary	4.3	3.7
Sberbank	Russia	Financials	3.9	3.0
TSMC	Taiwan	IT	3.9	2.3
Samsung Electronics	South Korea	IT	3.0	3.0
Tencent*	China	Communications Services	2.8	N/A
AIA	China	Financials	2.3	3.6
New Oriental Education	China	Consumer Discretionary	2.1	2.0
58.com	China	Communications Services	2.0	2.7
Wuliangye Yibin	China	Consumer Staples	2.0	2.5
HDFC	India	Financials	2.0	1.3
Top 10			28.4	28.2

Source: Genesis Emerging Markets Fund, Edison Investment Research, Bloomberg, Morningstar. Note: N/A = not in top 10 in February 2019 but GSS had exposure to Tencent through Naspers at end-February 2019.

Market outlook: Uncertain near-term, positive long-term

The 11-year equity bull market has been brought to an abrupt end by the spread of the COVID-19 pandemic. As shown in Exhibit 2 (RHS), since its outbreak at the beginning of 2020, most major markets have experienced sharp falls, with few safe havens. Valuations of equity markets have retreated, in many cases to levels not seen since the global financial crisis in 2008. Over the short term, the direction of markets is likely to continue to be driven by developments related to the disease, and by government measures. However, stock markets have a history of survival and full recovery from major systemic shocks, and the long-term outlook for emerging markets continues to be positive. As shown in Exhibit 2 (LHS), emerging markets equities, as a perceived riskier asset class, have sold off sharply, and currently trade on a forward P/E multiple of c 10x, representing a discount to global equities of c 24%. Yet, as shown in the chart on the front page, over an extended period of time, emerging markets and developing economies have grown at a significantly faster pace than advanced economies. This is underpinned by multi-decade secular growth trends, including rising incomes, urbanisation and growing working-age populations.

Exhibit 2: Valuation metrics over five years and economic forecasts



Source: Refinitiv, Edison Investment Research.

Fund profile: Unconstrained by benchmark

Launched in July 1989, GSS is one of the first UK-listed funds focused on emerging market equities. It aims to generate long-term capital growth through following a long-established, disciplined and bottom-up approach to investing in high-quality companies at attractive valuations. The manager is not constrained by its benchmark, the MSCI Emerging Markets Index, and is able to invest in companies that have substantial exposure to emerging markets and developing economies but are listed elsewhere, such as in frontier markets and developed markets. As a result, the fund is typically very different from the index, and divergences in performance can be expected.

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

The fund manager: Genesis team

The manager's view: Confident longer-term outlook

Equity markets have been very volatile during Q120; however, the manager steadfastly focuses on long-term fundamentals and is confident of a positive outlook. The team explains that significant parts of the portfolio, including some smaller-cap and frontier market countries, have compelling return prospects that are yet to be appreciated by the market. The team sees considerable value on offer in emerging markets equities, and its proprietary list of companies has a median forecast five-year annualised internal rate of return (IRR) of around 11% in US dollar terms. The manager also believes the environment may become more conducive to Genesis's investment style, following an unusually extended period between 2014 and 2019 of large-cap stock outperformance against the MSCI Emerging Markets Index. The manager notes that GSS's diversified portfolio typically performs well when small- and mid-cap stocks are in favour, and says that, in a historical context, this period of small-cap underperformance is exceptional.

Asset allocation

Investment process: Disciplined and bottom-up

Genesis's investment process involves a detailed, bottom-up approach to get to know companies, often over a long period of time, prior to purchase. The investment team consists of 10 portfolio managers (PMs) with between six and 30 years of experience, and two analysts. They are well-resourced to support extensive research, which involves the PMs visiting over 1,000 companies per year, as well as use of third-party sources, including commissioning proprietary studies from industry and academic experts. Each PM has a well-defined country and sector responsibility, and typically has primary responsibility for 10–15 stocks in the portfolio. This allows them to know their companies, industries and managements very well, which enables constructive challenge within the team. Genesis looks for firms that have an enduring competitive advantage, enabling them to sustain excess returns on capital. Environmental, social and governance (ESG) assessments are an important part of the investment process, as is valuation discipline; the team looks for companies that are intrinsically undervalued based on its assessment of a five-year US dollar IRR. Each company under the team's coverage is assigned a quality rating, which influences whether the stock can enter the portfolio, and at what position size. The expected return, level of conviction and correlation with other holdings are also considered as part of the portfolio construction process. The portfolio construction team (PCT) has oversight of the integrity of the investment process, shape and risk of the overall portfolio, and can challenge PMs on the appropriateness of an investment. The PCT consists of three PMs and a risk officer, who is not a member of the investment team.

Current portfolio positioning

Exhibit 3 shows the portfolio's sector exposure as at end-February 2020, which reflects the team's bottom-up stock selection. The largest weight is to the consumer sector at 36.2%, which represents a significant 15.1pp overweight compared to the MSCI Emerging Markets Index. This reflects one of the manager's key investment themes of middle-class income convergence towards that of developed markets, which it believes to represent a multi-decade investment opportunity. Although the portfolio appears to be roughly neutral in the financials sector, GSS's holdings are very different from those of the index. Genesis favours banks in early-stage economies, which are typically simple businesses that are attractive because of their long-run market penetration opportunities. The portfolio has no holdings in Chinese state-owned banks, which are dominant in the index. Furthermore, GSS is significantly underweight state-owned enterprises, which typically perform poorly against Genesis's quality and governance criteria.

Over the past 12 months, the portfolio has reduced its weighting to the consumer sector (-3.6pp, largely reflecting profit-taking from Chinese internet companies, which have been strong contributors to GSS's performance). These included 58.com, New Oriental Education and Tencent. Stock selection has also been positive in the information technology sector, where the manager trimmed profitable positions in Korean companies Samsung Electronics and Naver. The latter's share price surged following its announcement to spin-off its payments business, and did so again when it announced the merger between its Japanese messaging service, Line, and Yahoo Japan. The manager also trimmed Brazilian software company Totvs, following strong performance. Hong Kong-listed insurer AIA was reduced, reflecting the manager's concerns for the company's earnings outlook on light of the city's ongoing political unrest.

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

	Portfolio end-February 2020	Portfolio end-February 2019	Change (pp)	Index weight	Active weight vs index (pp)	Portfolio weight/index weight (x)
Consumer	36.2	39.8	(3.6)	21.1	15.1	1.7
Financials	23.8	25.1	(1.3)	23.3	0.3	1.0
Communication Services	13.5	10.8	2.7	11.9	1.7	1.1
Information Technology	12.4	10.9	1.5	16.4	(4.0)	0.8
Health Care	6.8	5.5	1.3	3.2	3.6	2.1
Materials	2.7	3.3	(0.5)	6.9	(4.2)	0.4
Industrials	2.4	0.3	2.1	5.1	(2.8)	0.5
Investment Companies	0.9	1.0	(0.2)	0.0	0.9	N/A
Energy	0.4	0.3	0.1	6.6	(6.3)	0.1
Real Estate	0.3	1.4	(1.0)	3.0	(2.6)	0.1
Utilities	0.0	0.0	0.0	2.5	(2.5)	0.0
Cash	0.7	1.8	(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.

Proceeds have been used to add to positions that have been unjustifiably weak, such as Indian IT companies TCS and Infosys, and banks in Latin America, Credicorp (Peru) and Bancolombia (Colombia). A number of new positions have also been introduced to the portfolio. These include Chinese sportswear manufacturer and retailer Anta Sports. This company has been on Genesis's radar for some time, and a sharp fall in its share price brought the stock within the manager's valuation range. Genesis believes that sportswear remains an underpenetrated market in China, with the potential for 15–20% revenue growth over the next few years. It finds the company to be well-managed and favours its vertically integrated model, which in the team's view, brings greater control and business resilience compared with companies that rely on third-party manufacturers and distributors. Also in China, the manager purchased pharmaceutical company CSPC Pharmaceutical, and property company Greentown Services (Greentown). Genesis is positive about CSPC's cash-generative portfolio of patent-protected drugs, and believes it has a strong pipeline of innovative drugs. It has a positive view that this pipeline of potentially higher-margin drugs can help increase the company's long-term profitability, becoming a greater proportion of the company's revenues relative to its generic and bulk products. Greentown provides property management services for residential and commercial real estate nationwide. The manager believes the company has a strong brand and high service quality, which differentiates it from many competitors. In its view, there is growing demand for property management services in China's real estate sector, and industry trends are favouring larger, more reputable companies, such as Greentown, which is well positioned to gain market share over time.

Performance: Solid track record

As shown in Exhibits 5 and 6, GSS has a solid performance track record; its NAV total return has meaningfully outperformed its benchmark over one, three, five and 10 years. It has lagged over shorter time periods when equity markets globally have been extremely volatile. Genesis is focused on the long-term investment horizon, and is not influenced by shorter-term fluctuations in performance.

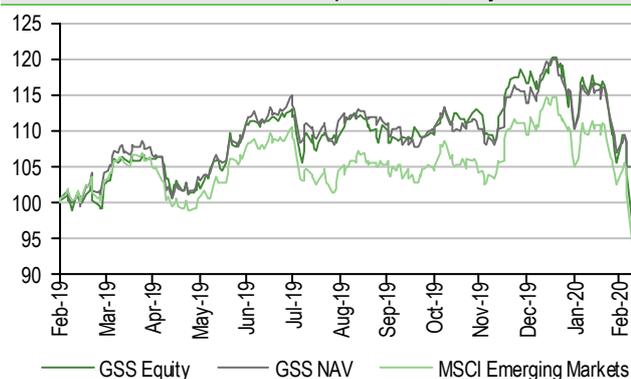
Exhibit 4: Five-year discrete performance data

12 months ending	Share price (%)	Total NAV return (%)	MSCI Emerging Markets (%)	MSCI World (%)	CBOE UK All Companies (%)
29/02/16	(15.6)	(11.9)	(14.8)	(0.7)	(7.3)
28/02/17	38.7	38.4	45.5	36.6	22.8
28/02/18	16.0	16.1	18.3	6.6	4.4
28/02/19	0.0	(3.8)	(6.3)	4.6	1.7
29/02/20	5.6	6.9	2.6	9.6	(1.4)

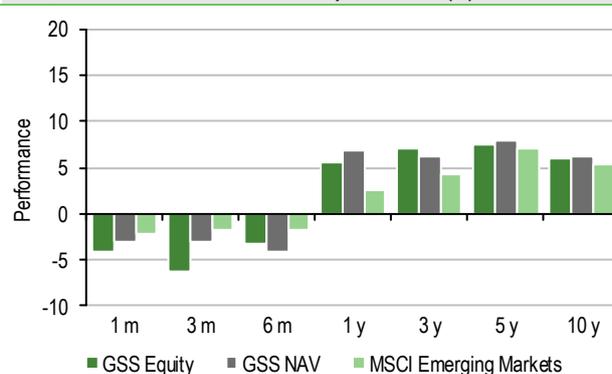
Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

Exhibit 5: Investment company performance to 29 February 2020

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



Price, NAV and benchmark total return performance (%)



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

Exhibit 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	(1.9)	(4.7)	(1.5)	3.0	7.8	1.7	4.9
NAV relative to MSCI Emerging Markets	(0.8)	(1.3)	(2.4)	4.2	5.0	3.3	8.7
Price relative to MSCI World	1.4	(1.3)	0.4	(3.6)	0.3	(13.4)	(39.3)
NAV relative to MSCI World	2.6	2.1	(0.5)	(2.4)	(2.3)	(12.1)	(37.1)
Price relative to CBOE UK All Companies	5.2	2.9	2.4	7.1	17.1	20.4	(8.3)
NAV relative to CBOE UK All Companies	6.4	6.6	1.5	8.5	14.1	22.3	(4.9)

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

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

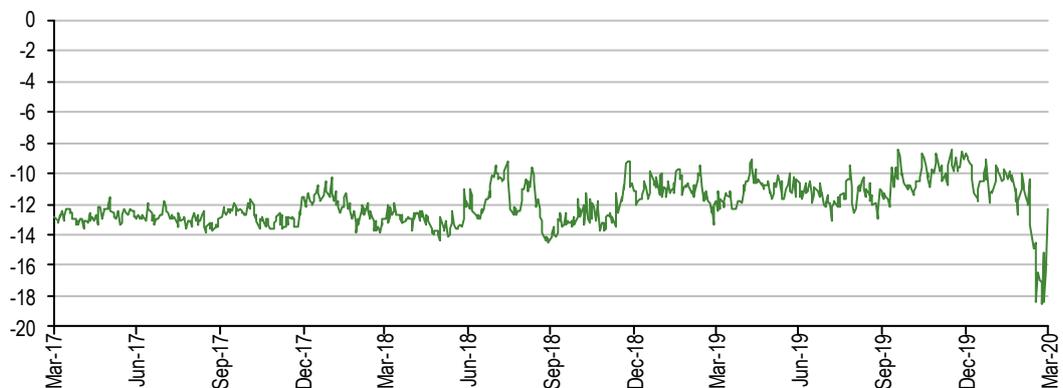


Source: Refinitiv, Edison Investment Research

Discount: Scope to return towards average levels

As at 1 April 2020, GSS is trading at a 12.3% discount to cum-income NAV, which is wider than the three-year average of 11.9%. As shown in Exhibit 8, this has narrowed considerably from the recent extreme discount levels in response to the COVID-19 pandemic. We observe that discounts among peers remain generally wider since the disease's outbreak. The board is proactive in its discount management, and since 2017 has introduced a number of measures to broaden the appeal of the fund under more normal market conditions, including the introduction of a dividend, a reduction in fees, and more active promotion of GSS. A tender offer for 10% of the fund's shares was completed in August 2018, and a potential further tender offer of 25% of shares will take place in 2021 if the NAV performance over the five years to June 2021 is behind the index. There is considerable scope for the discount to narrow towards the three-year average should GSS continue to deliver solid performance, and investor confidence improve.

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

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

Dividend policy and record

The fund's primary objective is to deliver long-term capital growth. However, the board recognises shareholders' desire for income, and in 2017 introduced an annual dividend. Dividends are declared in US dollars and paid in sterling using the exchange rate prevailing on the payment date. In FY19, GSS paid participating preference shareholders a dividend of 19 cents per share (14.8p), unchanged from FY18 in US dollar terms.

Peer group comparison

Exhibit 9 shows the AIC Global Emerging Markets sector peer group for funds with market capitalisations over £100m. The funds within the sector are diverse, including funds specialising in frontier markets, income and infrastructure; therefore, direct comparisons should be treated with caution. GSS is the third largest fund in this group. Its NAV total return performance ranks fourth over one, three and five years, and third over 10 years. GSS does not have an income focus, and ranks fourth for dividend yield. The trust's ongoing charge ranks fourth, and it does not charge a performance fee. It has one of the widest discounts to cum-fair NAV; however, since the outbreak of COVID-19, discounts have generally widened across the peer group.

Exhibit 9: AIC Global Emerging Markets sector selected peer group as at 31 March 2020*

% 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	719.1	(14.5)	(6.2)	14.4	34.2	(14.3)	1.1	No	100	2.5
Aberdeen Emerging Markets	212.1	(14.7)	(8.6)	14.5	22.9	(14.1)	1.1	No	100	0.0
BlackRock Frontiers	201.2	(33.7)	(33.1)	(11.1)		(2.4)	1.4	Yes	112	7.0
Fundsmith Emerging Equities Trust	249.4	(12.9)	(4.2)	5.9		(13.6)	1.4	No	100	0.0
JPMorgan Emerging Markets	982.7	(10.7)	6.5	34.0	69.4	(8.1)	1.0	No	101	1.7
JPMorgan Global Emerging Mkts Income	293.7	(16.6)	(7.9)	11.2		(6.6)	1.3	No	109	5.2
Templeton Emerging Markets	1,593.1	(11.9)	0.3	23.2	32.3	(10.3)	1.0	No	100	2.4
Utilico Emerging Markets	368.0	(25.6)	(18.4)	0.1	65.2	(10.7)	1.1	Yes	108	4.6
Average (8 trusts)	577.4	(17.6)	(8.9)	11.5	44.8	(10.0)	1.2		104	2.9
GSS rank in peer group	3	4	4	4	3	8	4		5	4

Source: Morningstar, Edison Investment Research. Note: *Performance as at 31 March 2020. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

The board consists of six independent non-executive directors and is chaired by Hélène Ploix (appointed in November 2012 and assumed her current role in October 2015). Russell Edey is the senior independent director (appointed in January 2015). The other directors and dates of appointment are Saffet Karpat (October 2011), Sujit Banerji (October 2013), Katherine Tsang (July 2017) and Simon Colson (July 2019).

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