

Quarterly Update

Q2 2020

GENESIS & GEMF UPDATE

Genesis

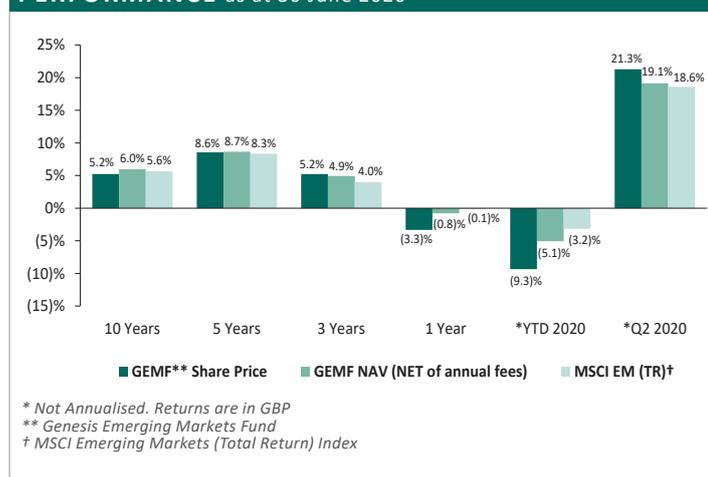
Arindam Bhattacharjee has been appointed as a Managing Partner, effective June and joined Catherine Vlasto in leading the partnership. Arindam, who has been a Partner and Portfolio Manager since 2008, has since taken over Andrew Elder's responsibilities. Andrew remains a Partner and continues his leadership responsibilities as the Chair of the Genesis Operating Board.

In response to the pandemic all our employees continue to work remotely whilst our office in London remains shut. The health and safety of our employees remains paramount and we continue to monitor the evolving situation closely. All of our employees are fully equipped to work from home and we continue to hold meetings virtually as scheduled, both internally and externally. We remain confident that we can continue to operate and service our clients without disruption during this period.

GEMF

Potential tender offer of up to 25% of issued shares in 2021.

PERFORMANCE as at 30 June 2020



PORTFOLIO ACTIVITY

China dominated purchases this quarter accounting for over half of all buying activity with Country Garden Services, introduced in April, the most notable. A position in TAL Education was also established whilst Chinese internet giants Alibaba and Tencent were added to following upgrades to intrinsic value. Sunny Optical, Anta, China Mengniu and CSPC Pharmaceutical were all topped up and a small position was initiated in the hotpot restaurant chain Haidilao. On the sell side 3SBio was trimmed as it rallied throughout May and the residual position in Momo was eliminated. The position in 58.com, China's largest online marketplace for classifieds, was substantially reduced after a privatisation offer was finalised and its share price climbed close to the offer price.

There was also a variety of activity across financials. The higher-quality Indian holdings, HDFC Bank and Kotak Mahindra Bank, were added to while the position in their lower quality counterpart Axis Bank was reduced. In Indonesia, Bank Central Asia was increased as its lower quality Bank Mandiri exited the portfolio. BTG Pactual (Brazil) was also trimmed after its share price rocketed throughout the quarter. Overall bank exposure was scaled back as the sale of Commercial International Bank (Egypt) alone accounted for 100bps and the bulk of Attijariwafa (Morocco) was sold.

In other activity, the portfolio's Mexican holdings also saw upgrades as the switch between América Móvil and Kimberly Clark continued throughout the quarter and TSMC (Taiwan) was added to before climbing 10% into June. Conviction in Delivery Hero increased as concerns surrounding their Korean acquisition were addressed, and after declining 20% since its sale in February, the holding was re-established at the start of this quarter. On the sell side, profits were taken from the pharmaceuticals duo Hikma (Jordan) and Sun Pharmaceuticals (India) which had rallied hard earlier in the quarter. South Korea's top internet and mobile platform, Naver, was reduced after an impressive quarter that brought the twelve-month gain to 130%, and consumer holding GS Retail (also South Korea) exited the portfolio. A total of 10 holdings were sold this quarter, including Central Pattana (Thailand) and Coca-Cola İçecek (Turkey), each after more than 14 years in the portfolio.

PORTFOLIO PERFORMANCE

The turmoil of the first quarter following the impact of the COVID-19 pandemic was mostly left behind as emerging markets rebounded in the second quarter. The MSCI EM Index climbed 18.6%, one of its biggest quarterly rises since the two quarters that immediately followed the 2008 global financial crisis. South Africa led the way (+28%), and many of the larger Asian markets were close behind – South Korea, Taiwan and India all rose between 20-22%. Russia (+19%) and Brazil (+23%) also fared well although the latter was the worst performing MSCI EM country in Q1. China lagged the overall index, up 16%, but it had performed far better than other EMs in the first quarter and was one of only two markets in the index to end H1 in positive territory (+11%). The portfolio outperformed by 0.5% in Q2, closing the period up 19.1%.

Chinese baijiu distiller Wuliangye (+51%) was a standout performer as consumer staples continued to rebound strongly, along with its counterpart Jiangsu Yanghe (+30%), Mexican tortilla manufacturer Gruma (+40%), South African foodservice distributor Bidcorp (+38%) and Vietnamese dairy company Vinamilk (+28%). Digital businesses reaped the rewards of people staying at home in lockdown as Naver (South Korea) gained 60% and Yandex (Russia) 47% while Opera's share price rose 68% with its digital content platform, Opera News, now having >200 million users in Africa and Southeast Asia, a 28% increase year-on-year. Nigerian holdings in the portfolio also performed well. Nestlé added 70%, Nigerian Breweries 39% and Guaranty Trust Bank 23% although all of their share prices had been decimated in Q1. Brazilian bank Banco BTG Pactual more than doubled its share price in the second quarter (+118%) as it recouped its loss in March and cement producer Semen Indonesia gained 45%. Underperformers included Hong Kong-listed stocks AIA (+5%) and WH Group (-4%) who struggled as China implemented the new national security law on Hong Kong and US/China tensions resurfaced. Caribbean telco LiLAC fell 8% and several financials also featured, including Credicorp (Peru, -1%), BB Seguridade (Brazil +4%) and Kotak Mahindra Bank (India +6%).

In relative terms 140bps was added in China largely through the performance of the A-share distillers mentioned above but also from the omission of the SOE banks in the index which fell 2% in aggregate. Value was also added in Russia (80bps) through being overweight in a strong market and from the frontier duo Nigeria and Vietnam. Performance was lost in Taiwan (40bps) due to being underweight in a market that performed well and in India (30bps) from a few underperforming financial holdings. By sector, over 150bps was gained from each of consumer staples and financials with some value lost in health care and consumer discretionary.

NEW HOLDINGS



Country Garden is one of the largest property management service providers in China, managing projects in over 300 cities across 31 provinces. The market is highly fragmented but there is a clear trend that leading companies are gaining market share. Currently the value property managers provide is disproportional to the level of their fees, which should result in longer term tariffs seeing pricing power.



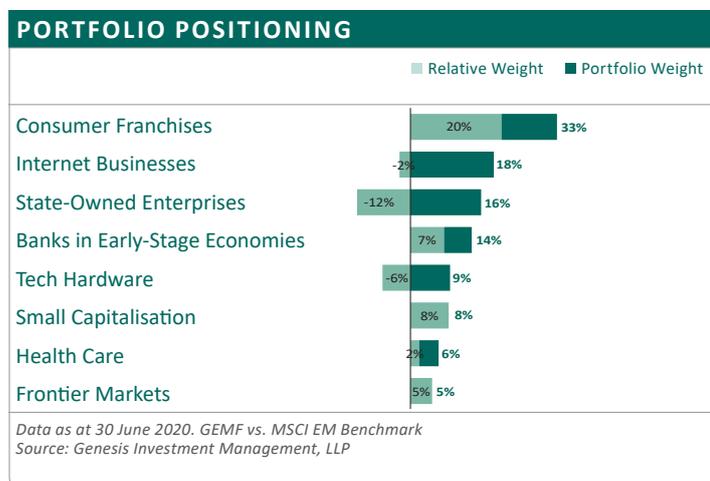
Haidilao is a hot pot restaurant chain that was founded in 1994 in Jianyang, Sichuan Province. As of 2019, it has 768 stores globally with over 100,000 employees. Haidilao is known in China for its very high service standards and a corporate culture that encourages loyalty, strong work ethics and a genuine desire to serve customers. Haidilao has a top-quality management team led by the founder, Zhang Yong, and with superior unit economics, Haidilao can be very profitable while more than doubling its store base in the next 5 years.



TAL Education is the market share leader in both offline and online after-school tutoring for primary school and high school students in China. It has two main brands Peiyou and Xueersi.com: Peiyou operates offline small classes along with supplementary online classes whereas Xueersi.com is solely online focused. TAL Education has a strong culture of cultivating excellent content and teachers, with the highest retention rate among peers. It is a leader in a rapidly expanding market with online education expected to grow significantly over the next five years.

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PORTFOLIO CHARACTERISTICS

Diversified portfolio of attractively-priced, high quality businesses. Portfolio overlap with the MSCI EM Index is less than 30%.

	PORTFOLIO	BENCHMARK
Top 20 Stocks Represent	48.0%	35.6%
Number of Stocks	96	1,385
Countries Represented	30	26
Average Holding Period	5 years	n/a

2019 VALUATION

RoE	20.0%	16.4%
P/Book	2.7x	1.7x
P/E	18.7x	15.3x

AUM US\$17.6 billion as at 30 June 2020
Based on GEMF and MSCI EM Index. Valuation ratios are weighted average
Sources: GEMF and MSCI EM valuation ratios data from FactSet

PORTFOLIO: TOP 20 HOLDINGS

COMPANY	COUNTRY	SECTOR	COMPANY	COUNTRY	SECTOR		
1 Alibaba	China	Consumer Discretionary	4.8%	11 Yandex	Russia	Communication Services	1.9%
2 Taiwan Semiconductor	Taiwan	IT	4.3%	12 Jiangsu Yanghe Brewery	China	Consumer Staples	1.9%
3 Tencent	China	Communication Services	4.1%	13 Bangkok Dusit	Thailand	Health Care	1.8%
4 Sberbank	Russia	Financials	3.5%	14 Bid Corp	South Africa	Consumer Staples	1.8%
5 Samsung Electronics	South Korea	IT	3.0%	15 Richemont	Switzerland	Consumer Discretionary	1.7%
6 Wuliangye Yibin	China	Consumer Staples	2.5%	16 Infosys	India	IT	1.7%
7 Naspers	South Africa	Consumer Discretionary	2.3%	17 Naver	South Korea	Communication Services	1.7%
8 AIA Group	China	Financials	2.2%	18 Vinamilk	Vietnam	Consumer Staples	1.7%
9 New Oriental Education	China	Consumer Discretionary	2.1%	19 OTP Bank	Hungary	Financials	1.6%
10 Heineken	Netherlands	Consumer Staples	2.0%	20 HDFC Bank	India	Financials	1.5%
Total							48.0%

Based on GEMF, as at 30 June 2020
Source: Genesis Investment Management, LLP

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