

## Quarterly Update

# Q3 2020

### GENESIS & GEMF UPDATE

#### Genesis

The Genesis office will be accessible to staff from 5th October. While working from home is recommended, this option will offer flexibility to our staff to balance health and wellbeing, which remains our priority. This continues to be subject to evolving government advice on travel, office working and general COVID-19 guidance which we monitor closely.

#### GEMF

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

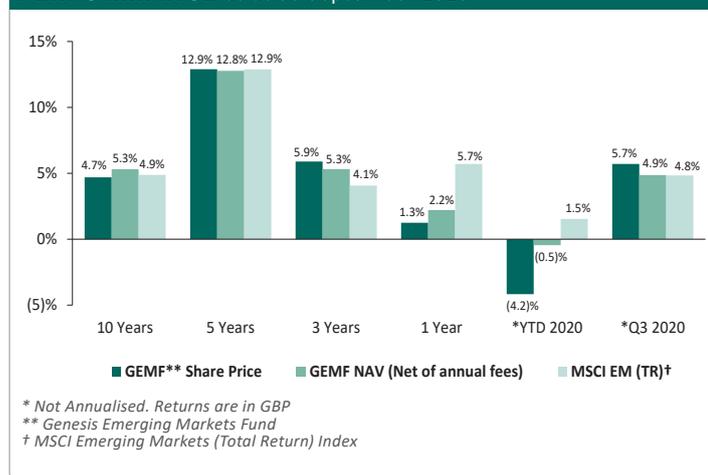
### PORTFOLIO PERFORMANCE

The momentum from a more positive (or less negative) emerging market outlook continued into July and much of August. Despite rather petering out in September, the MSCI EM Index still climbed 4.8% in Q3. The cumulative gain in the last two quarters is 24%, although following a desperate Q1 the index remains just in positive territory this year, up 1.5%. The three East Asian markets that dominate the index were to the fore again. Taiwan (+12%), South Korea and China (both +8%) continued their great run, in stark contrast to all other emerging markets in 2020. India continued to rebound from an awful Q1 with a 10% gain whilst Mexico remained just in positive territory, but elsewhere there was little joy. Brazil (-8%), Russia (-9%) and Indonesia (-11%) all gave back some of their Q2 gains, as did Thailand (-18%), which is yet to see signs of recovery in its crucial tourism and export sectors. The portfolio gained 4.9% in Q3, marginally outperforming the benchmark by 0.1%.

The two largest holdings were comfortably the standout contributors this quarter. Alibaba gained 30%, while TSMC rose 35% as it is expected to be a beneficiary of Intel's decision to outsource production of some of its next-generation chips. Unfortunately, despite these impressive absolute returns, there was a relative loss as the cumulative weight of these companies in the index is over 14%. The portfolio's three largest China A-share holdings, the baijiu duo of Wuliangye and Jiangsu Yanghe plus digital advertiser Focus Media, gained 30% in aggregate. Elsewhere, more tech companies impressed, including Infosys (India, +36%) and Yandex (Russia, +25%), while a number of smaller Chinese positions did well, including Country Garden Services (+32%) and hot pot chain Haidilao (+63%). Notable underperformers were largely concentrated in the weak South Asian markets of Indonesia (BCA and Semen Indonesia both -13%) and Thailand, with convenience store operator CP ALL retreating by 17% and hospital chain Bangkok Dusit by 20% as medical tourism continued to be affected. The pan-CEE bank, OTP (Hungary, -17%), also struggled as it upped provisioning in connection with the ongoing pandemic.

Despite the underweight position in China, 105bps was added in relative terms as the portfolio holdings outperformed the country benchmark by 5%. It was a similar story in Taiwan, as TSMC heavily outperformed its counterparts. Great performance from Yandex and the absence of any of the weak energy names in Russia added a further 75bps. Approximately 30bps was lost in each of Thailand, Indonesia and Hungary due to the overweight positions, while the return of COVID-19 restrictions impacted the share price of food service provider Bidcorp and led to similar sized losses in South Africa. By sector, 120bps was gained from communication services, while having no investments in the weak energy sector was also beneficial, but most of this was given back in the consumer discretionary sector, chiefly from the strong performance of the Chinese internet companies.

### PERFORMANCE as at 30 September 2020



### PORTFOLIO ACTIVITY

Buying activity this quarter was centred around new holdings, with nine being introduced to the portfolio. Chinese residential air conditioner manufacturer, Gree Electric, was repurchased and was the largest single addition plus a small position was initiated in South Korean video game publisher Nexon. In Brazil, Boa Vista and Lojas Quero-Quero were acquired through their respective IPOs and a meaningful position in Mexican food retailer, Walmex, was established towards the end of the quarter. Two Indian insurance companies, SBI Life and ICICI Pru, were introduced, while online recruiter Headhunter joined the portfolio's Russian holdings and Safaricom (Kenya) was also repurchased.

The above purchases were largely funded through sales in baijiu duo Wuliangye and Jiangsu Yanghe, with their positions reduced by a third, and Indian IT holdings Cognizant, Infosys and Tata Consultancy following share price strength. Elsewhere, a quarter of the position in Naver (South Korea) was sold as its stellar performance continued and Yandex (Russia) was trimmed as its share price climbed throughout August. The portfolio's sole UAE holding, DP World, was eliminated at a 29% premium as the company was taken private in July, Sun Pharmaceutical (India) was sold in August and Nigerian cement producer Dangote exited the portfolio this month, totalling five holdings sold this quarter.

### NEW HOLDINGS



Gree is the largest residential air conditioner (AC) manufacturer in China (and globally), with a household appliance and industrial segment which represents 30% of revenue. The AC market has a track record of stable and high profitability with low AC units per household in China providing a long growth runway. In 2019 a private investment firm purchased a 15% interest, making it the largest shareholder, effectively turning Gree into a private company rather an SOE. This change in control should allow for future capital allocations to be more value accretive.



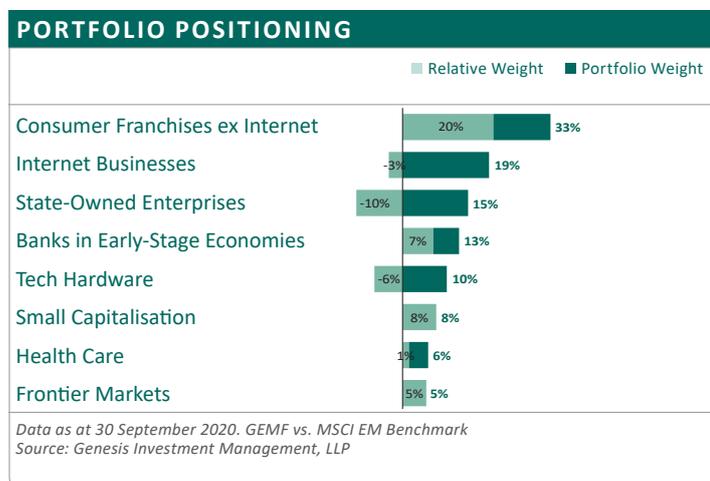
Safaricom is the leading mobile network operator in Kenya with a 65% market share. The market is 100% penetrated in terms of SIM cards (although many Kenyans have multiple SIMs) offering steady voice and SMS revenue, and significant growth in data over the coming years. In 2007 it launched M-Pesa, a mobile banking SMS-based service which has evolved into a full-service payments system. M-Pesa is used frequently by most Kenyan adults presenting numerous growth opportunities as the country develops.



Walmex is Mexico's largest food retailer with a ~50% market share of modern grocery retail. Its store operations, systems, supplier negotiation/scale and approach to the online market are vastly ahead of its peers and it has consistently outperformed competitors. 70% owned by Walmart, Walmex has unlimited access to its expertise which should put the company in a strong position to capitalise on opportunities such as advertising, insurance, and consumer finance over time.

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### PORTFOLIO CHARACTERISTICS

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

	PORTFOLIO	BENCHMARK
Top 20 Stocks Represent	48.8%	38.0%
Number of Stocks	100	1,387
Countries Represented	29	26
Average Holding Period	5 years	n/a
<b>VALUATION (TRAILING)</b>		
RoE	18.0%	15.1%
P/Book	2.8x	1.7x
P/E	25.0x	18.6x

AUM US\$19.0 billion as at 30 September 2020  
Based on GEMF and MSCI EM Index. Valuation ratios are weighted average  
Sources: Trailing GEMF and MSCI EM valuation ratios data from FactSet

### PORTFOLIO: TOP 20 HOLDINGS

COMPANY	COUNTRY	SECTOR	COMPANY	COUNTRY	SECTOR
1 Alibaba	China	Consumer Discretionary	11 Heineken	Netherlands	Consumer Staples
2 Taiwan Semiconductor	Taiwan	IT	12 Infosys	India	IT
3 Tencent	China	Communication Services	13 Vinamilk	Vietnam	Consumer Staples
4 Sberbank	Russia	Financials	14 Richemont	Switzerland	Consumer Discretionary
5 Samsung Electronics	South Korea	IT	15 China Mengniu Dairy	China	Consumer Staples
6 Wuliangye Yibin	China	Consumer Staples	16 Bid Corp	South Africa	Consumer Staples
7 AIA Group	China	Financials	17 Focus Media	China	Communication Services
8 Naspers	South Africa	Consumer Discretionary	18 Bangkok Dusit	Thailand	Health Care
9 Yandex	Russia	Communication Services	19 HDFC Bank	India	Financials
10 New Oriental Education	China	Consumer Discretionary	20 Gruma	Mexico	Consumer Staples
<b>Total</b>					<b>48.8%</b>

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

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