

## Quarterly Update

# Q1 2021

### GENESIS & GEMF UPDATE

#### Genesis

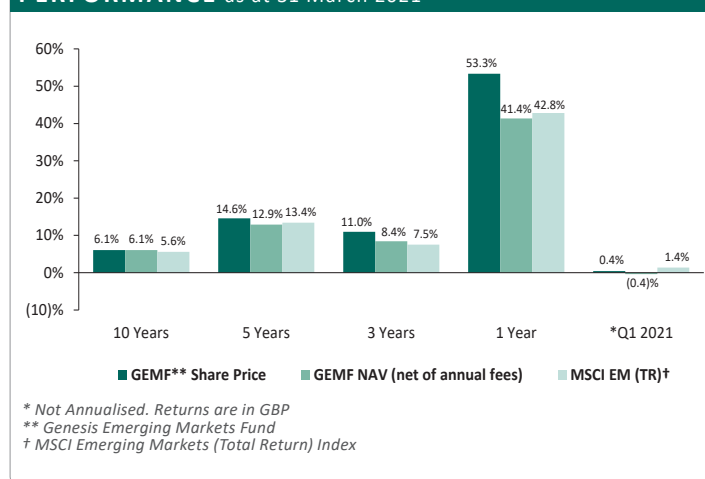
Ziqi Deng, Portfolio Manager, joined the Genesis Investment Team on the 3<sup>rd</sup> March 2021.

Ziqi joins Genesis after seven years at Matthews International Capital Management LLC, where he managed their China A-share fund and co-managed the Matthews Pacific Tiger and Asia Innovators strategies. Prior to that he was a Senior Consultant at Booz Allen Hamilton in Beijing. Ziqi holds a Bachelor's in Industrial Engineering from Tsinghua University and an MBA from the University of Chicago Booth School of Business. Ziqi's initial investment responsibilities include China and South Korea.

#### GEMF

Potential tender offer for up to 25% of issued shares should the NAV total return over the 5 years ending 30<sup>th</sup> June 2021 not exceed the MSCI EM (TR) Index.

### PERFORMANCE as at 31 March 2021



### PORTFOLIO ACTIVITY

Market volatility led to selective trading opportunities throughout the quarter, with consumer holdings leading purchase activity. The position in Heineken was increased from 2% to 3% around the time of the annual results announcement. Despite the impact of the pandemic on revenues and profits, underlying brand health and operations performance was strong. Renewed conviction prompted an addition to Kimberly-Clark, funded through its Mexican counterpart, Megacable, while online food delivery service, Delivery Hero, was also added to after a share price dip at the end of February. A secondary offering in Crompton (India) enabled the portfolio to increase the position. Vinamilk was a notable consumer name reduced, partly due to concerns over the premiumisation trend in Vietnam.

There was plenty of trading activity in China, also largely in consumer holdings. The interim payment of the dissent process for 58.com was received, totalling 100bps and representing 100% of the tender offer price from last year. Profits were taken from baijiu duo Wuliangye and Jiangsu Yanghe at the start of the year prior to share price weakness and there were also sales in China Mengniu and Sunny Optical. In the internet space, Alibaba, was scaled up by 50bps, Tencent's impressive gaming pipeline saw its position added to and a holding in online entertainment platform Kuaishou was procured through its IPO. TAL Education was added to after regulatory concerns caused a large share price drop, while By-Health, Gree and WH Group were all topped up as valuations looked attractive against expensive consumer peers.

India also saw plenty of activity. Among financials, a new position was initiated in ICICI Bank. Funding came from exiting its lower quality counterpart, Axis Bank, and trimming Kotak Mahindra Bank. Indian insurance saw small additions, via ICICI Prudential and SBI Life, but there were notable reductions in IT services. The majority of the position in Cognizant was sold as conviction in the momentum of the business has reduced, and Tata Consultancy Service was also trimmed on valuation grounds.

Elsewhere, the position in South African based Remgro continued to be built upon, while in South Korea, Samsung Electronics and SK Hynix were trimmed after valuations became stretched and half of the position in Samsung Fire and Marine was sold.

### PORTFOLIO PERFORMANCE

The MSCI EM Index gained 1.4% in the first quarter but the period can be split into two quite distinct halves. In a continuation of the 2020 trend, by mid-February the index had gained 11%, dominated by China, South Korea and Taiwan. But since then markets have largely been in reverse, notwithstanding a late surge at the end of the quarter. China, and internet names in particular, were weak for most of March and China ended the quarter in negative territory (-1%) after gaining 18% over the first seven weeks of 2021. South Korea (+1%) also ended the quarter behind the overall index but Taiwan (+10%) proved to be more resilient than its North Asian peers. Elsewhere, India and Russia each climbed 4% and South Africa gained 11% while markets in the Gulf all outperformed. Similar to last year, Latin American and South East Asian markets featured among the laggards but Turkey was the weakest market in the index in Q1 (-21%) following further autocratic-like behaviour from President Erdogan who sacked the hawkish central bank governor just four months into his tenure.

The Fund lost 0.4% in the period, underperforming by 1.8%. As noted above, Taiwan is the one large market that has remained strong this year and the underweight position in the portfolio has cost 70bps in relative performance. 40bps of performance was lost in India where the portfolio's financials holdings dragged, notably Kotak Mahindra Bank (-13%), and a similar amount was lost in Indonesia where the share prices of the two cement companies in the portfolio, Semen Indonesia and Indocement, each retreated by 19%. An aggregate 40bps was also lost from the outperforming Gulf markets where the portfolio has minimal exposure. But 110bps of relative performance was gained in China and Korea combined, mainly through a few strongly performing stocks such as Country Garden Services +49%, CSPC Pharmaceutical +17%, Amorepacific +19% and Naver +23%, and having avoided some of the racier names which have corrected the most, such as the Korean biologics, electric vehicle companies, and Pinduoduo. The gains in China were made despite the share prices of education providers New Oriental and TAL each falling by 25% and Jiangsu Yanghe's by 31%. Elsewhere, further value was added from Richemont (+6%), LiLAC (+16%) and Russia where three holdings initiated last year featured: Tinkoff +75%, Ozon +34% and Headhunter +11%.

In sector terms, the sources of underperformance were clear. Firstly, the portfolio has a higher exposure to banks in early-stage markets which have underperformed, particularly those in Latin America such as Bancolombia (-22%) and Credicorp (-18%) in Peru, while banks in the index in China and Korea have been strong (+11% and +13% respectively). Overall, financials cost 110bps. Secondly, the portfolio had limited exposure to the strongest sector over the quarter, materials (+8%), which cost 85bps of performance. In addition, the portfolio's large exposure to consumer also hurt during the period. The index of consumer stocks fell 4% on average, and although some value was added through stock selection, the overweighting still cost the portfolio 45bps.

### NEW HOLDINGS



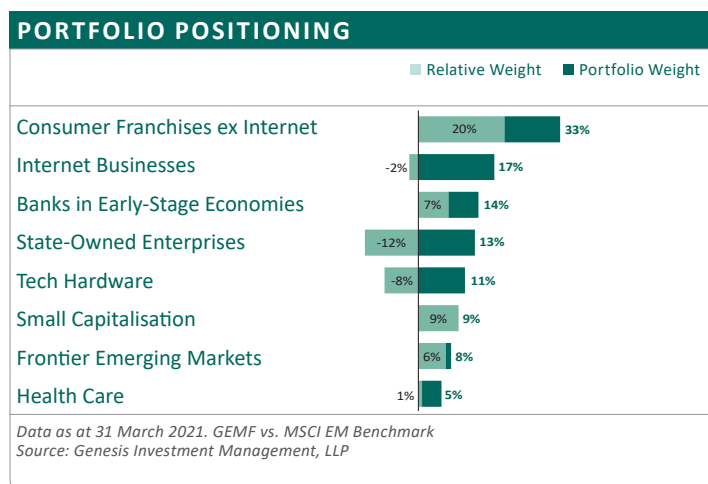
Kuaishou is a video-based online entertainment platform of short video and livestreaming hosts and is the main competitor to DouYu (China's TikTok). It has a large marketplace enabling it to build accurate algorithms that match users and content creators and is currently growing content through game livestreaming, longer content formats and developing niche content verticals. Kuaishou is currently under-monetised in advertising revenue vs competitors, which is rapidly growing, and are well placed to benefit from eCommerce livestreaming's long growth runway.



ICICI Bank is one of the leading, and oldest, private sector banks in India. It has a well-diversified loan book and an impressive array of broader financial services subsidiaries including general insurance, life insurance, asset management and broking. ICICI Bank has been the pioneer in many technology initiatives and continues to strengthen its offerings. New management has clearly articulated an approach, vision and ethos for the bank, which is already proving successful. Operating in an under-penetrated market, dominated by public sector banks that are less efficient, provides a long runway for growth.

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### PORTFOLIO CHARACTERISTICS

Diversified portfolio of attractively-priced, high quality businesses. Portfolio overlap with the MSCI EM Index is 29%.

	PORTFOLIO	BENCHMARK
Top 20 Stocks Represent	49.3%	36.0%
Number of Stocks	100	1,392
Countries Represented	28	27
Average Holding Period	5 years	n/a
<b>VALUATION (CURRENT YEAR)</b>		
RoE	18.2%	15.0%
P/Book	3.2x	2.1x
P/E	20.9x	14.8x

AUM US\$21.6 billion as at 31 March 2021  
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 Taiwan Semiconductor	Taiwan	IT	6.2%	11 Richemont	Switzerland Consumer Discretionary	1.9%
2 Tencent	China	Communication Services	4.4%	12 Infosys	India IT	1.9%
3 Alibaba	China	Consumer Discretionary	4.3%	13 HDFC Bank	India Financials	1.7%
4 Sberbank	Russia	Financials	3.5%	14 Yandex	Russia Communication Services	1.7%
5 Samsung Electronics	South Korea	IT	3.2%	15 Bidcorp	South Africa Consumer Staples	1.5%
6 Heineken	Netherlands	Consumer Staples	3.1%	16 OTP Bank	Hungary Financials	1.5%
7 Naspers	South Africa	Consumer Discretionary	2.3%	17 Gree Electric	China Consumer Discretionary	1.4%
8 AIA Group	China	Financials	2.3%	18 Anta Sports Products	China Consumer Discretionary	1.4%
9 Country Garden Services	China	Industrials	2.2%	19 China Mengniu Dairy	China Consumer Staples	1.4%
10 Wuliangye Yibin	China	Consumer Staples	2.1%	20 Naver	South Korea Communication Services	1.3%
<b>Total</b>						<b>49.3%</b>

Based on GEMF, as at 31 March 2021  
Source: Genesis Investment Management, LLP

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