

Coronation is king of global equity

CORONATION GLOBAL EMERGING MARKETS FUND

◆ **Raging Bull Award for the Best Offshore Global Equity Fund – the top-performing fund on straight performance in ProfileData's offshore global equity general sector over three years to December 31, 2011**

The Raging Bull Award for the top-performing global equity fund available to South Africans went to a fund that invests in high-quality consumer shares earning their revenue in emerging markets.

The Coronation Global Emerging Markets Fund, domiciled in Ireland, was the top performer over three years to the end of last year among the 10 foreign currency global equity funds registered with the Financial Services Board as funds that can be marketed to South Africans.

The United States-dollar denominated fund achieved an average annual return of 16.6 percent in rand terms over the past three years, outperforming its benchmark, the Emerging Markets index, by 1.5 percentage points and the benchmark for global equity funds, the MSCI World Index, by close to 10 percentage points.

Suhail Suleman, who co-manages the fund with Gavin Joubert and Mark Butler, says the fund has had a strong consumer share focus since its launch in July 2008.

It has had a preference for the shares of emerging market retailers, soft-drink bottlers, beer brewers and dominant high-quality consumer goods brands.

Suleman says share valuations (share prices relative to company profits) in emerging markets were elevated when the fund launched because of a peak in commodity prices.

But the credit crisis of 2008 saw equity markets fall off dramatically and valuations fall to very low levels.

Investors sold shares down based on their expectations of a global recession and its effect on commodity prices and emerging market growth.

While there was cause for concern, the extent of the sell-off far exceeded that justified by the change in economic climate, Suleman says.

He says quality businesses with profit streams that would only be mildly affected by a recession were sold off just as heavily as cyclical businesses, whose profits often



Suhail Suleman, co-manager of the Coronation Global Emerging Markets Fund, at the Raging Bull Awards in Cape Town.

evaporate when economies slow down.

Suleman says he and the fund's co-managers have consistently bought into quality businesses that have attractive valuations on a five-year view.

The fund has generally avoided exposure to companies producing basic materials, construction companies, small banks, and information technology companies with little intellectual capital, Suleman says.

The largest companies in the MSCI Emerging Market index are mostly lower-quality shares such as commodity businesses and state-owned banks where lending criteria are not always economically sound, he says.

Overall, the fund has benefited from its holdings in food retailers in Russia and China, fashion retailers in Brazil, soft-drink bottlers in Eastern Europe, Turkey and Latin America, and telecom operators in China, Suleman says.

South African-listed Naspers, which has a large exposure to China, Africa and Russia, has also contributed positively to the fund's performance.

At least 80 percent of the fund is in "pure" emerging market businesses, while 20 percent of the fund can be in companies

listed on developed market stock exchanges but which earn at least 40 percent of their profits from emerging markets, Suleman says.

He says that because emerging market share prices have risen sharply in recent years, it is sometimes cheaper to buy developed market shares with exposure to emerging markets than to buy a share listed in an emerging market country.

In emerging markets, strong macro-economic factors underpin consumer-facing companies. These factors include urbanisation, rising wealth, increased spending and improved education, Suleman says.

He says the fund has a large exposure to China but it has not been very far out of line with the weighting of Chinese shares in the MSCI Emerging Market index.

Suleman says Coronation likes China because it aims to improve the living standards of its people at a rate that is unmatched in recorded history.

Consumption of most basic goods is still at very low levels by international standards and there is ample room for companies to grow profits at a high rate for many years to come.

Investments in Chinese shares also do not pose the same currency risk as other emerging market shares as the currency is commonly viewed as undervalued, which has allowed the country to build up foreign reserves larger than the economic output of all but a handful of countries.

Suleman says the current account deficits in Turkey and Brazil, for example, mean you could make money in these countries in local terms but the currency could fall 20 percent quite fast, much like what happened last year.

Over the past six months, the top 10 holdings of the Global Emerging Markets Fund has changed substantially.

Suleman says Russia has been particularly hard hit by global risk aversion and concerns over its political environment. As a result, the fund has increased its exposure to Russian shares, such as the X5 Retail Group.

Suleman says almost every country will be affected by the crisis in Europe, but a manager who understands the drivers of each share's earnings can find investment opportunities in the mismatches in the movement of share prices and the change in companies' economic worth.

– Laura du Preez