

LONG TERM OBJECTIVE

The Coronation Global Emerging Markets Equity Strategy provides access to what we consider to be the best investment opportunities in Global Emerging Markets. It aims to deliver capital growth through a focused equity portfolio of securities of companies based in emerging markets or that derive a significant portion of their business from emerging economies. The objective is to outperform the MSCI Emerging Markets Index over 5 years and longer periods.

INVESTMENT APPROACH

Coronation is a long-term, valuation-driven investment house, focused on bottom-up stock picking. Our aim is to identify mispriced assets trading at discounts to their long-term business value (fair value) through extensive proprietary research. In calculating fair values, through our fundamental research, we focus on through-the-cycle normalised earnings and/or free cash flows using a long-term time horizon. The Portfolio is constructed on a clean slate basis based on the relative risk-adjusted upside to fair value of each underlying security and their expected Internal Rate of Return (IRR). The Portfolio is constructed with no reference to a benchmark. We do not equate risk with tracking error, or divergence from a benchmark, but rather with a permanent loss of capital.

STRATEGY RETURNS GROSS OF FEES

Period	Strategy	Benchmark	Active Return
Since Inception (cumulative)	195.3%	83.6%	111.7%
Since Inception p.a.	8.7%	4.8%	3.9%
Latest 10 years p.a.	7.0%	4.4%	2.6%
Latest 7 years p.a.	6.0%	6.4%	(0.4)%
Latest 5 years p.a.	14.4%	13.0%	1.4%
Latest 3 years p.a.	15.1%	11.3%	3.8%
Latest 1 year	38.8%	40.9%	(2.1)%
Year to date	3.5%	7.4%	(3.9)%
Month	(0.3)%	0.2%	(0.5)%

For a side-by-side comparison of gross and net performance, please refer to <http://www.coronation.com/us/strategy-performance>
Active return calculated as strategy return less benchmark return. Figures may differ due to rounding.

SECTOR EXPOSURE

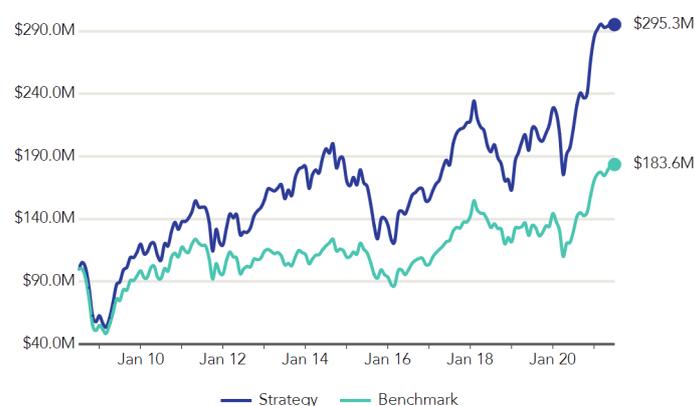
Sector	% Strategy
Consumer Discretionary	37.4%
Consumer Staples	23.1%
Financials	12.9%
Communication Services	12.5%
Information Technology	9.9%
Materials	1.8%
Industrials	1.7%
Cash	0.7%

GENERAL INFORMATION

Inception Date	14 July 2008
Strategy Size *	\$6.30 billion
Strategy Status	Open
Mandate Benchmark	MSCI Daily TR Net Emerging Markets USD (NDUEEGF Index)
Redemption Terms	An anti-dilution levy will be charged
Base Currency	USD

*Strategy assets under management as at the most recent quarter end.

GROWTH OF US\$100M INVESTMENT



Benchmark: MSCI Daily TR Net Emerging Markets USD (NDUEEGF Index)

The performance shown is gross of fees.

TOP 10 HOLDINGS

Holding	% Strategy
JD.COM INC ADR (CHN)	7.1%
NASPERS LIMITED (ZAF)	6.8%
ALIBABA GROUP HOLDING-SP ADR (CHN)	4.4%
TAIWAN SEMICONDUCTOR SP-ADR (TWN)	3.9%
SAMSUNG ELECTRONICS CO LTD (KOR)	3.8%
NAVER CORP (KOR)	3.4%
MAGNIT (RUS)	3.4%
HOUSING DEV FINANCE CORP (IND)	3.3%
WULIANGYE YIBIN CO LTD - A (CHN)	2.6%
TENCENT MUSIC ENTERTAINMENT GROUP ADR USD (CHN)	2.5%

GEOGRAPHIC EXPOSURE

Country	% Strategy	Country	% Strategy
China	33.6%	United States	2.3%
Russian Federation	9.8%	Mexico	2.2%
South Africa	9.5%	Argentina	2.2%
South Korea	8.9%	Netherlands	1.9%
India	6.0%	Hong Kong	1.3%
Brazil	6.0%	Turkey	0.9%
Taiwan	5.2%	Indonesia	0.5%
Germany	3.0%	Egypt	0.4%
France	3.0%	Cash	0.7%
United Kingdom	2.7%		

PORTFOLIO MANAGERS



Gavin Joubert - BBusSc, CA (SA), CFA

Head of Global Emerging Markets, Gavin has 22 years' experience as an investment analyst and portfolio manager. He joined Coronation in 1999 and manages assets within the Global Emerging Markets Equity Strategy.



Suhail Suleman - BBusSc, CFA

Suhail is a portfolio manager, managing various strategies within the Global Emerging Markets investment unit and part of the Optimum Growth unit trust fund. He joined Coronation in 2007 and has 19 years' investment experience.

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The volatility of the Benchmark represented in the growth chart above may be materially different from that of the Strategy. In addition, the holdings in the accounts comprising the Strategy may differ significantly from the securities that comprise the Benchmark. The Benchmark has not been selected to represent an appropriate benchmark to compare the Strategy's performance, but rather is disclosed to allow for comparison of the Strategy's performance to that of a well-known and widely recognized Benchmark. Material facts in relation to the Benchmark are available here: <https://www.msci.com/emergingmarkets>.

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REVIEW FOR THE QUARTER

The Coronation Global Emerging Markets Strategy returned 0.8% in the second quarter, lagging the 5.1% return of the benchmark MSCI Emerging Markets (Net) Total Return Index by 4.3%. This underperformance has reversed the positive start to the year, and the Strategy now lags the benchmark over the last year by just over 2%. Although this short-term underperformance is disappointing, we believe some drivers are shorter-term in nature and driven by stock-specific moves, which are discussed below. Over more meaningful long-term periods, the Strategy is still well ahead of its benchmark, by 3.8% p.a. over three years, by 1.4% p.a. over five years, 2.6% p.a. over 10 years and by 3.9% p.a. since inception, just shy of 13 years ago.

The biggest positive contributor to relative performance (alpha) in the quarter was Sendas Distribuidora SA (Sendas). We spoke about Sendas in our last quarterly commentary, when it had been freshly spun out of its previous holding company CBD, with shareholders receiving an equal number of Sendas shares to their CBD shareholding. This was done to better realise value by separating the cash and carry operation of CBD (which became Sendas) from the supermarket, hypermarket and convenience store formats, which remain part of CBD. The cash and carry business was run separately from the other formats, so there were no real gains from having everything under the same roof other than saving a few central costs, which were dwarfed by the poor rating applied to the company as a whole. This transaction has proven to be a spectacular success, with the individual shares Sendas and CBD now (as at 30 June) trading at a combined share price of R\$124 compared to a share price for CBD of R\$71 at the beginning of the year and R\$79 just before the spinoff at the beginning of March. The biggest pickup was in the much-maligned CBD, which has almost doubled in value since the separation (in local currency terms). As a result, we sold out of CBD completely as it reached our assessment of fair value. The Sendas position we retained returned 32% in the quarter, contributing 54 basis points (bps) to relative performance.

There were a few other material positive contributors during the quarter. First of these was Momo.com, the leading Taiwanese e-commerce retailer, which almost doubled and contributed 0.4% to alpha. Additionally, the 18% return from global brewer Heineken contributed 0.3% to alpha, whilst the 40% return from Brazilian education stock YDUQS contributed 0.2% to alpha.

The largest negative impact on relative performance came from the decline in the combined Naspers/Prosus position. We hold these stocks in preference to holding Chinese internet firm Tencent as they trade at a significant discount to their look-through value. The Strategy holds a large (average 9.5% position in the quarter) position in Naspers & Prosus, and the 12.3% aggregate negative return from these positions had a 1.5% negative impact on relative performance. This was partially offset by not owning Tencent directly as it is the second-largest stock in the benchmark (over 5% weight at quarter-end). With Tencent returning -3.9% in the quarter, this zero Tencent weight contributed a positive 0.5% to relative performance. The correct way to look at the overall impact is to combine the two, and in this case, the combined impact was therefore -1%. This was a direct reversal of the situation that occurred in the first quarter and was caused by the discount to which Naspers and Prosus trade relative to Tencent widening once more. Prosus, which was originally spun out of Naspers to narrow the discount, has announced a scheme to purchase Naspers shares by means of a tender offer. This tender offer is aimed at addressing the discount. Coronation is currently engaged in discussions with Naspers and Prosus in this regard.

The second-largest detractor was the Chinese after school tuition (AST) provider New Oriental Education (EDU). We added to the existing EDU position late in the last quarter after a 25% share price decline so that it had reached a 2.5% position by March quarter-end. Unfortunately, the regulatory news that led to the original share price decline continued to develop negatively, and the share declined substantially further during the latest quarter, costing the Strategy 1.4%. EDU is now 55% below the levels it traded at in mid-March. What initially started as a crackdown on payment practices and lax business registration, which we expected to benefit EDU at the expense of less scrupulous operators, morphed into a full-blown review of the tuition industry. There has been much speculation in the press on what this will look like, with the country's president opining that schools should shoulder the majority of the burden in educating children, rather than children relying on AST. There has also been an indication that younger children (K-9 years) should not experience so much pressure so early in their school career as there is already enough pressure later on when the school-leaving "gaokao" exam is taken. The range of outcomes for AST providers is being speculated to include total bans for younger students, a ban on the marketing of AST services and restrictions on offering classes during weekends and/or school holidays. With this range of outcomes, it is not surprising that the share price of EDU and other players have reacted so negatively. It is impossible to know the final outcome with any degree of certainty; however, we have spent a lot of time talking to industry experts and ultimately assessing what each potential regulatory change could do to the earnings power of the listed players and compared this to their current share prices. Each business is slightly different. Some are more online-focused (rather than offline / face to face), and some are more exposed to K-9 versus years 10 through to 12. Each also has a different cost structure and the flexibility to adjust this cost structure varies between them. Overall, we believe that EDU's share price already reflects a fairly dire outcome. The risk/reward is attractive in our view and thus we have kept the position around 2.3% of the Strategy. However, we are cognisant of the overall exposure to the sector given the wide range of potential outcomes, and we, therefore, sold out completely from TAL, one of EDU's competitors. TAL, which has higher K-9 exposure, was trading at a higher starting rating, with a lower upside to fair value, and therefore we believed it had more potential to derate significantly in a worst-case outcome.

The next most significant negative contributor was Tencent Music Entertainment. This was also a stock that declined late in the previous quarter and returned a further -25% in the latest quarter. This position cost -0.9% of relative performance. Operationally TME is doing well, despite a challenging base in the first quarter of 2020 when China was mostly locked down, which was good for their

business. Revenue in the first quarter (Q1-21) was up 24% year on year, with operating profit up 12% and accompanied by great cash generation. The company even bought back roughly \$200m of stock, a rarity among Chinese businesses. The reason for the share price decline is antitrust related. Like most dominant firms in China, TME has attracted attention from Chinese regulators. The first issue relates to exclusive content, which in our view is manageable as only a small part of TME's business today is exclusive. The second is speculation that two previous acquisitions (Kuwo and Kugou) may not have been properly approved by the authorities prior to their acquisitions being consummated. The potential remedies ranged from a fine to a forced unwind of these deals. Our research suggests the "nuclear" option of a forced unwind has roughly been reflected in the halving of the share price since it peaked in March. The forced sale of Kuwo and/or Kugou would, of course, result in corresponding proceeds to TME and would still leave QQ Music (the original music app before the acquisitions) having around 35% market share, which is the approximate market share held by Spotify (the Global #1 and #1 in most countries) in most of its markets.

The last material detractor was JD.com (JD), which returned -5.5% in the quarter and cost the Strategy -0.5% alpha. JD is the second-largest e-commerce retailer in China, with 500m customers reported at the end of March compared to 387m in the comparable period a year ago, with management aiming to gain a further 100m in the year ahead. Customer growth has been driven by greater assortment and improvements in fulfilment. Their incredible logistics arm employs 200,000 people and has more than 1,000 warehouses, giving them almost complete geographical coverage of this massive country - all within their own control. More than 90% of orders are delivered either the same day or the next day. Customer loyalty is most evident when looking at purchase frequency and spend, which have increased four-fold and five-fold respectively since 2015.

JD has been effective in incubating new business units, with the most notable being JD Logistics (described above) and JD Health (an online health platform). Both have been separately listed successfully, with the holding company retaining 64% ownership in JD Logistics and 69% ownership in JD Health. This dynamic is important to consider when thinking about the *implied* valuation for the core retail business. The entire group has a market value of \$118bn but the market value of their listed stakes (\$50bn), together with the most recently reported net cash (\$19bn), means the market values the retail arm at only around \$50bn. The core retail business should generate \$135bn in revenue this year at a 4% EBIT margin. We believe this margin is well below normal, which could potentially be high single digits. If you apply a conservative 6% EBIT margin and the statutory 25% tax rate, the core retail business trades on less than 9x earnings for this year. Even at the current 4% margins, the multiple is only 12x earnings for a company growing topline at 20% p.a. This analysis ignores other balance sheet investments that they have, namely, JD Technology (fintech and cloud) and JD Property, which is increasingly housing their physical logistics assets off balance sheet by bringing in capital partners.

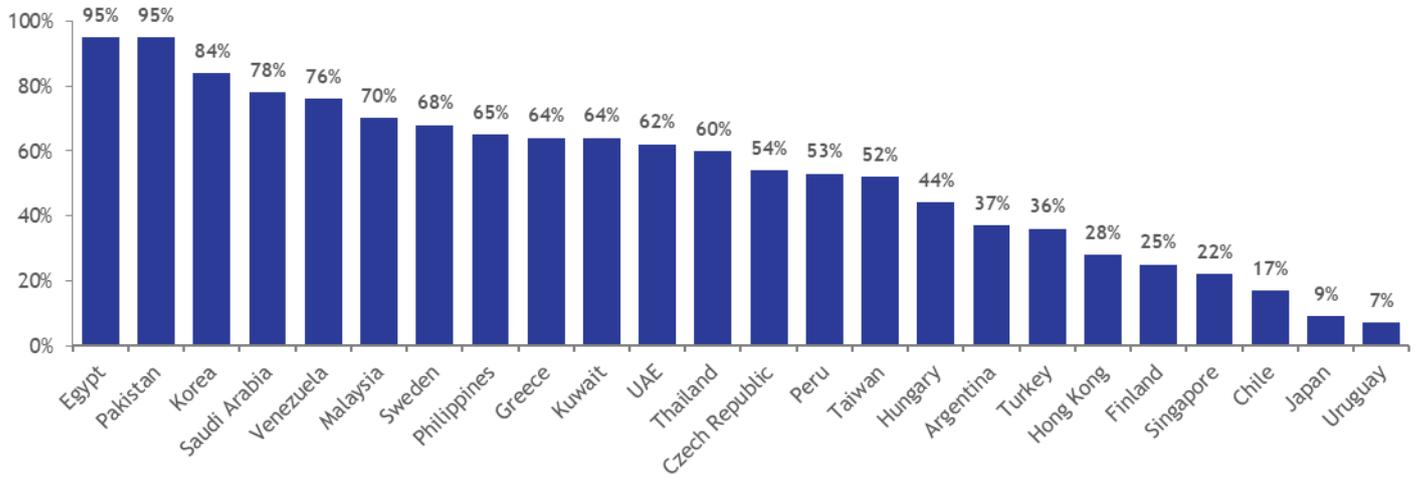
A final point worth considering is that the increased scrutiny of the technology sector in China could *potentially* benefit JD's retail business. They have historically been hurt by "pick one" tactics, whereby a brand that sells on multiple platforms is penalised on Alibaba's platforms. These tactics have resulted in JD having an inferior assortment for some key categories, such as fashion and beauty products. With the banning of these tactics by the regulators, merchants have been free to sell all products on all platforms, which should further improve the customer value proposition. The share is down around 25% from its peak in mid-February this year and offers around 100% upside to fair value, in our view. This is extremely attractive in both absolute and relative terms, and JD is thus a 7.1% position in the Strategy.

There were two new buys in the quarter, Delivery Hero (1.5% of the Strategy) and Anglo American (1.0% of the Strategy). Anglo American (AGL) was purchased for both valuation and diversification reasons. The strategy has little commodity exposure at a time where demand is generally more than supply and prices are rising as a result of this mismatch. Unlike the 2007 period, where miners were trading at high ratings (multiples) on unsustainably high earnings, ratings today are generally quite reasonable, even if spot commodity prices are at the higher end of their normal range. In the case of AGL, the company trades at around 6.5x 12-month forward earnings and offers a 7% dividend yield. Importantly, it trades at less than 11x earnings if its key commodities were to return to our assessment of normal prices. In previous commodity booms (most notoriously in the run-up to 2007), miners blew all their profits on massive expansion projects that ultimately caused prices to tank, or they bought each other out at astronomical valuations only to see share prices fall later in tandem with commodity prices. This time around, behavior has been more disciplined, so it is less likely this mistake will be repeated. From an ESG perspective, AGL has no direct oil exposure and have spun out their coal assets to shareholders, leaving shareholders with platinum group metals (PGMs), iron ore, diamonds and copper making up more than 90% of profits.

The other new buy, Delivery Hero (DH), is a food delivery business. While it is listed in Germany, it derives the majority of its revenue (>80%) from emerging markets. DH has the number one market position, accounting for 95% of its Gross Merchandise Value (GMV), the best measure of the value of transactions taking place on its platform. This is important as substantial network effects between restaurants, customers and delivery drivers come with a market-leading position. On-demand delivery of food, groceries and other goods is underpenetrated in emerging markets, and substantial tailwinds are driving further growth. People place orders with DH, and these are fulfilled either by their own delivery fleet or by the restaurant's delivery personnel. With the passage of time, more and more will be move their own delivery fleet, which will give DH higher commission and delivery fees. The business is already profitable in its mature markets and is improving profitability in its other markets. With its recent acquisition of Woowa, South Korea is now half the business by GMV, but profitability is quite depressed there currently due to a very strong offering from competitor, Coupang Eats. DH trades at an undemanding valuation of less than 1x Enterprise Value (market capitalisation plus net debt) to GMV.

Delivery Hero has >50% market share in the majority of its markets

Delivery Hero market share (2021)



Source: Bernstein and Apptopia analysis