

LONG TERM OBJECTIVE

The Coronation Global Frontiers Strategy aims to maximise the long-term risk-adjusted returns from investments across global frontier markets through capital growth of the underlying stocks selected. It is a flexible portfolio primarily invested in listed equities. The Strategy may hold cash and interest bearing assets where appropriate.

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. 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)	26.4%	10.0%	16.4%
Since Inception p.a.	2.9%	1.2%	1.7%
Latest 5 years p.a.	0.3%	1.4%	(1.1)%
Latest 1 year	(16.0)%	1.7%	(17.7)%
Year to date	(16.0)%	1.7%	(17.7)%
Month	1.2%	0.3%	0.9%

Since launch no fees have been charged.

SECTOR EXPOSURE

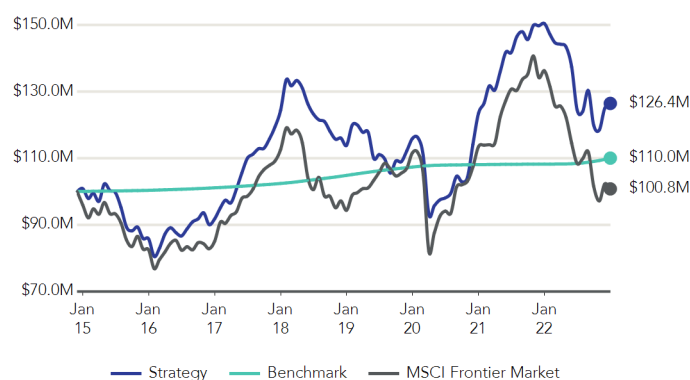
Sector	% Strategy
Financials	25.9%
Technology	18.5%
Basic Materials	14.1%
Consumer Goods	12.9%
Industrials	8.2%
Telecommunications	6.3%
Consumer Services	5.1%
Specialist Securities	4.2%
Oil & Gas	3.7%
Health Care	3.5%
Interest Bearing	(2.4)%

GENERAL INFORMATION

Inception Date	01 December 2014
Strategy Size *	\$32.2 million
Strategy Status	Open
Target	Secured Overnight Financing Rate (SOFRINDEX Index) + 3.5% per annum
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: Secured Overnight Financing Rate (SOFRINDEX Index) from 01 December 2021. Previously ICE LIBOR USD 3 Month (US0003M Index).

The performance shown is gross of fees.

GEOGRAPHIC EXPOSURE

Country	% Strategy
Vietnam	26.3%
Egypt	14.5%
Philippines	10.7%
Kazakhstan	8.9%
Zimbabwe	6.7%
Uruguay	5.7%
Slovenia	5.0%
Canada	4.8%
Georgia	4.1%
Bangladesh	3.6%
South Africa	2.7%
Kenya	2.4%
Other	7.0%
Interest Bearing	(2.4)%

PORTFOLIO MANAGER



Peter Leger - BScEng, BCom (Hons), CFA

Peter is head of Global Frontier Markets and manager across all strategies within the investment unit. He joined Coronation in 2005 and has more than 24 years' experience in African financial markets as both a portfolio manager and research analyst.

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The Prospectus and a Summary of Investor Rights can be sourced on the following link: <https://www.coronation.com/en/institutional/strategy-information/literature/>.

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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.

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REVIEW FOR THE QUARTER**Strategy Performance**

We are pleased with the performance of the Strategy in a year that was tough for financial markets globally. While a negative return is always disappointing, we are encouraged that the Strategy's return of -16.0% for the year was not only better than the MSCI Frontier Markets Index (FM), which was down -26.3%, and the MSCI Frontier Emerging Markets Index (FEM), which was down -18.2%, but also better than the MSCI Emerging Markets Net Index (EM), which was down -20.1% and the MSCI World Index (as a measure of developed markets [DM]) which was down -18.1%. Since inception more than eight years ago, the Strategy has returned +3.0% p.a. compared to negative returns from both FM (-0.2% p.a.) and FEM (-2.0% p.a.) over the same period. The Strategy also outperformed the EM index, which returned +1.8% p.a. over this period.

Most markets were negative in 2022, with Vietnam (-35.1%), Kenya (-29.8%), Morocco (-29.0%), Egypt (-22.5%), and the Philippines (-16.9%) all declining. Kuwait (+5.2%) was one of only a handful of markets delivering positive returns. By far the highest return in our investment universe came from Turkey, which returned 108.3% in 2022 in US dollars.

In the last quarter of the year (Q4-22), the Strategy returned +5.5%, compared to FM which was down -0.8%, FEM which returned +9.2% and EM which was up +9.7%. Over the past three months, Egypt (+17.3%) and the Philippines (+17.5%) were strong, and Turkey was up by a very impressive +72.1%. Vietnam was under pressure in the past quarter, declining -10.2%.

The currencies of several frontier markets were under pressure in 2022. Most notably the Egyptian pound lost 37% of its value in 2022. The country did two devaluations during the year. The first devaluation of 14% was in Q1-22, while the second devaluation (by 21%) took place in Q4-22. While a big step in the right direction, the country did not embrace a fully floating currency and pressure on the currency persisted. In the last week of December there was another coordinated effort to normalise forex markets, with a 3% interest rate hike (bringing the total rate hikes for the year to 8%) and lifting of import controls. In the first week of January, we saw banks offering certificates of deposits yielding 25% and a further currency devaluation. The move in the currency impacted the performance of the Strategy during the year, but these actions resulted in a stabilisation in the parallel market and shares in Egypt now look very attractive, particularly for a US dollar investor.

Contributors and detractors

Given the strong performance in Turkey, it is not surprising that Turkish companies were some of the largest contributors to performance in 2022. Coca Cola Icecek added 1.2% and Turkish food retailer, BIM, added 0.8% to performance. Bank of Georgia (+1.2%) and Kazakhstan's leading payments company, Kaspi (+0.9%), were also meaningful contributors. The sell-off following the Russian invasion of Ukraine gave us an opportunity to increase our exposure to these two companies. Both shares have more than doubled off their lows reached in March 2022. Kaspi was also the largest contributor to performance in Q4-22, up 26% in the quarter and adding 2.0% to performance.

Our Vietnamese exposure was the largest detractor to performance in 2022, with the Vietnamese electronics and food retailer, Mobile World, detracting -4.2% from performance. The sell-off in the Vietnamese stock market started in April 2022, with the government's clamp down on corporate bond issuances. Mobile World is not directly exposed to the corporate bond issues but selling in the stock market has been indiscriminate. Mobile World was also the largest detractor in Q4-22 as the share remained under pressure, declining 30% over the past three months. Mobile World is a quality business that should grow strongly for many years. On a forward PE multiple of 13 times, we believe that the valuation is incredibly attractive.

During the past quarter, we sold the Turkish businesses in the Strategy after the exceptional performance over the past year. In contrast, we view the sell-off in Vietnam as an excellent buying opportunity and we increased the Strategy's exposure to that market, mainly by increasing our holdings of VEIL (a Vietnamese-focused closed end fund) and the Diamond ETF.

During 2022 we increased the Strategy's exposure to resource companies.

Resource exposure in the Strategy

Over the past year, we have increased our exposure to commodity stocks from about 8% to 15%. These resource businesses include base and precious metal miners and several energy companies.

Poor economics

Commodity companies or resource businesses suffer from notoriously poor economics. We typically value commodity companies at a discount to the fair market multiple we would apply to the average business in an economy. These businesses are price takers, seldom controlling enough of global supply to influence end markets. Construction of a mine typically involves massive amounts of

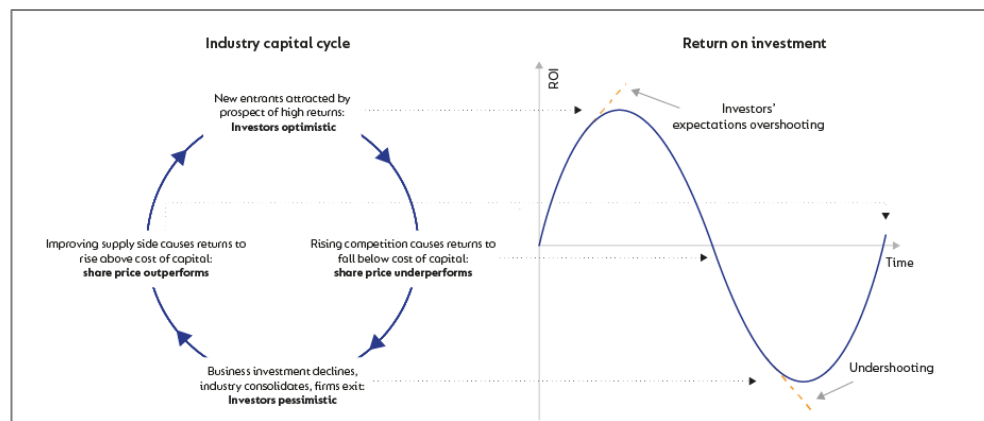
capital investment spread across several years, making them very capital intensive. Payback periods are often long. While it is true that some resources are easy to reach, oftentimes companies are attempting to extract minerals or oil from deep underground or under water. The engineering feats required to operate in these harshest of conditions are remarkable. Yet the risk of a disaster (oil spill, landslide, mine collapse) is ever present. In more recent years, community engagement and environmental considerations have rightly increased in importance for companies and governments. Speaking of governments, these cyclical businesses are often subject to more contractual risk than others as fiscal terms are regularly adjusted over time. Finally, as there is only a finite number of resources on earth, companies are continually looking to replenish their reserves. This is becoming harder and harder to do as many of the easier (geology or geography) deposits have already been discovered. Given the challenges, it makes sense to ask why bother investing in such businesses? The answer, as always, lies in valuation but, also in where we find ourselves in the cycle or, more specifically, the capital cycle.

The capital cycle

The capital cycle is not a new term, having been around for decades. However, in recent years it has been popularised by Marathon Asset Management and Edward Chancellor in the book *Capital Returns: Investing through the Capital Cycle: A Money Manager's Reports 2002-2015*. The book is a collection of investor letters from Marathon Asset Management, the London-based asset manager with more than 30 years investment experience in utilising a capital cycle investment approach. The capital cycle can be understood as analysing the flow of capital into and out of industries and how this impacts returns on investments. Instead of trying to predict demand, the capital cycle approach looks at changes in supply.

The diagram from the book (shown below) describes the various stages of the capital cycle and depicts how returns on investment change through the cycle. In essence, high returns attract capital to an industry which results (in the absence of meaningful barriers to entry) in an increase in capacity and supply. Over time, the increase in supply puts pressure on prices and thus returns. When returns fall below the cost of capital, capital exits, capacity is reduced and supply falls. The decline in supply increases prices and returns recover, starting the cycle off once again. It is this cycle that sparked the old commodity adage that the best cure for high prices is high prices. Understanding where an industry finds itself in the capital cycle is a useful tool in assessing that industry's investment prospects.

Figure 1: The Capital Cycle

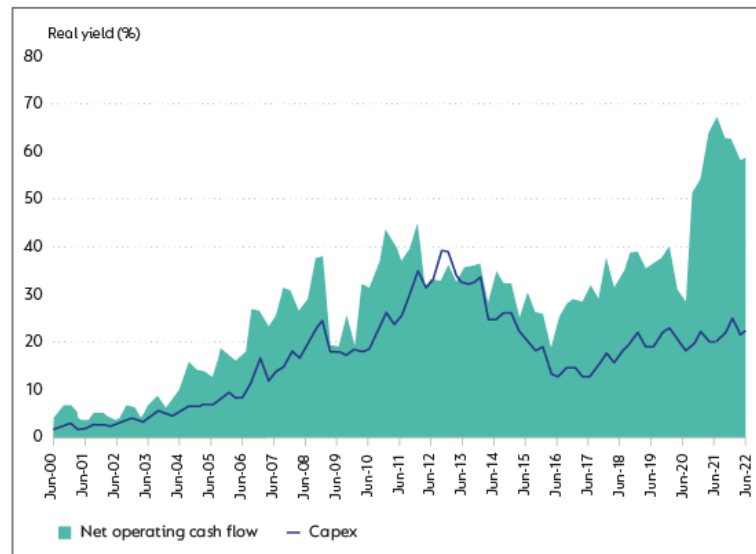


Source: Edward Chancellor, *Capital Returns: Investing through the Capital Cycle: A Money Manager's Reports 2002-2015*

Where we are today

The commodity industry is an extensive one, covering a multitude of hard and soft products. A deep dive into each of them is far beyond the scope of this commentary. However, there is a broad trend impacting the general space. Simplistically, it's getting harder, costing more, and taking longer to bring new mines online. Companies are moving into more challenging geology and geographies as they look for new resources to extract. Obtaining environmental and regulatory approval to build new mines is taking longer to receive if approval is received at all. Financing for certain carbon intensive commodities is becoming more difficult to source and more expensive once sourced. These factors have increased the capital cost of bringing new supply into the market, which has resulted in less projects being approved, and less capacity being added. Shareholder demands, coupled with painful lessons learnt in the past cycle, have also contributed to management teams changing their capital allocation priorities. Buybacks rather than capex spending have become far more common. The Bernstein chart below shows how capex for the mining industry (and by implication capacity) has not increased meaningfully over the past five years, despite the industry having enjoyed significantly higher levels of cash flow.

Figure 2: Net Cash Flow in Excess of Capex – A 2016 lesson learned



Source: Bloomberg, Company reports, Bernstein analysis and estimates

Copper is a great example of this dynamic. According to Bernstein, from 1986 to 2016 mined supply increased from almost 9mt to just over 20mt. This is a +134% increase, or 2.9% p.a. CAGR over 30 years. From 2016 to 2021, copper-mined supply increased a mere 1mt, or +7%. This is a 1.4% p.a. CAGR, i.e. the annual growth rate in supply halved. The next decade is expected to be even worse for supply with Bernstein forecasting a decline in mined supply of -2.9% p.a. from 2021 to 2031. A reduction in supply should prove supportive for longer-term prices, assuming demand remains steady.

The bulk of the Strategy exposure is to platinum group metals (PGMs) and energy. These markets bear more attractive characteristics than the average commodity company and are worth touching on briefly.

PGMs

The medium-term outlook for PGMs prices is favourable. Demand should be robust as vehicle manufacturers will have to increase PGM loadings in vehicles to achieve emission targets. Supply is unlikely to grow much as companies are reluctant to make big capital investments in deep mines and with Russia being a major producer of PGMs, there is the potential for supply disruptions given the geopolitical situation.

Zimplats is the largest position in the Coronation Africa Frontiers Strategy and the second largest position in the Coronation Global Frontiers Strategy. This is a world-class PGM mine, low on the cost curve with a 40-year life of mine. The mine is becoming a global leader in producing green ounces: the mine is shallow and mechanised, which means that Zimplats has a very good safety record, and the company is investing in solar power and a SO₂ abatement plant that will make Zimplats world class in terms of emission standards. In addition, the company is involved in numerous social projects.

The valuation really excites us. The company trades on a forward PE of just 4 times, has a double-digit dividend yield, and has 20% of its market cap in cash. Within a few years, the earnings should be substantially higher as the company is in the process of expanding capacity by 30%.

Oil

Despite all the positive developments to move the world away from oil, the energy transition will be a gradual process and for the foreseeable future the world will still be heavily reliant on fossil fuels. It is very possible that we could see oil supply struggling to keep up with demand for oil over the coming years, which would be very supportive for oil prices. Since 2016, the total global capital expenditure on oil production and exploration has been only about half of what it was in the period between 2011 – 2014. One reason was the drop in the oil price in 2015, secondly the focus on the energy transition has meant that oil companies are allocating less to oil and more to the development of other forms of energy. The number of major oil discoveries have reduced sharply over the past 50 years and with the underinvestment in exploration, it is unlikely that this trend will reverse.

We believe Africa Oil is a unique company that provides exposure to oil and oil exploration at an extremely attractive valuation. Africa Oil owns a 6% stake in the Venus oil discovery offshore Namibia. With estimates ranging from 3bn to 10bn barrels, this is a globally significant discovery. Their partner (TotalEnergies) will drill appraisal wells in 2023 to fully assess the size of this discovery. This asset alone has the potential to be worth more than Africa Oil's whole market cap. What makes this even more attractive, is that investors essentially get this for free. At the current share price, you are only paying for the company's producing assets in Nigeria which should generate the company's whole market cap in cash over the next four years. In addition, the company has assets in Kenya and South Africa, offering further upside.

Conclusion

After a tough year, valuations across Frontier Markets are compelling. The forward price earnings multiple of 11 times and dividend yield of 4.6% of the Strategy as a whole are attractive compared to the various indices we track, particularly considering that the businesses we own have superior growth prospects. We remain incredibly excited about the portfolio holdings and the business prospects going forward. Thank you for the continued support and we wish you a prosperous 2023.